

STATEMENT OF STUART W. BOWEN, JR.
SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION
BEFORE THE
U.S. SENATE COMMITTEE ON
HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
HEARING ON:
IRAQ RECONSTRUCTION:
LESSONS LEARNED IN CONTRACTING AND PROCUREMENT
WASHINGTON, D.C.
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Introduction:

Madam Chairman, Ranking Member Lieberman, and members of the Committee—thank you for this opportunity to address you today on important matters regarding the United States’ role in the reconstruction of Iraq.

The Congress has tasked my office, the Special Inspector General for Iraq Reconstruction (SIGIR), to provide oversight of this substantial and challenging endeavor. I am here today to provide you with the most current reporting on SIGIR’s oversight efforts in Iraq. I hope for a productive exchange of views and ideas in this hearing regarding Iraq reconstruction.

This is a significant week in the work of the office of SIGIR, one in which we have released two major reports concerning the reconstruction of Iraq. On Monday, we submitted our tenth Quarterly Report to the U.S. Congress. Today, this hearing provides the official release of our report, “Iraq Reconstruction: Lessons in Contracting and Procurement.”

Today, I will be pleased to address both reports, with an emphasis on the contracting lessons learned study, as you have requested.

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I was appointed as the Inspector General of the Coalition Provisional Authority in January 2004 and began oversight of the CPA programs and operations with about a dozen staff in Baghdad in March of that year. Our work began only a few months before the June 28 disestablishment of the CPA. The Office of the Special Inspector General was created in October 2004, only two months before the scheduled termination of the CPA Inspector General. This renewed and extended our mandate to promote economy, efficiency and effectiveness, and to prevent and detect waste, fraud and abuse in the administration of programs and operations supported by the Iraq Relief and Reconstruction Fund (IRRF).

SIGIR reports jointly to the Secretaries of State and Defense to keep them fully informed about problems and deficiencies in IRRF programs and operations, as well as the need for and progress of corrective action. Our reports are provided directly to the Congress and made available to the public.

In addition to the 10 Quarterly Reports we have provided to Congress, since our initial report in March 2004, we have issued 120 audit and inspection reports. Today, SIGIR criminal investigators are working on 82 cases. Their work has, thus far, resulted in five arrests and two convictions, and another 23 cases are awaiting prosecution.

We could have limited our work to the more traditional inspector general functions of audits, inspections and investigations. However, as the SIGIR is a temporary office, overseeing a finite set of programs and operations instead of continual ongoing government operations, we have chosen a different path.

The traditional approach to audits and inspections is for inspector general staff to conduct their inquiries, and then prepare and deliver their reports some months later. This method, while providing oversight, may often permit wasteful practices to continue for some time until managers receive recommendations for correction from the report of an inspector general.

We found that this approach was not appropriate for the programs and operations of Iraq reconstruction, which will span a relatively short period of time. Iraq reconstruction managers do not have the luxury of waiting months to receive recommendations on how they could be saving money. Nor can we afford to permit them to continue inefficient or wasteful practices.

Accordingly, the SIGIR approach is for our auditors and inspectors to provide on-the-spot guidance to management as soon as problems are discovered to begin corrective action. We call this our "real-time" method. As a result, most of our reports largely document how problems were detected, and corrected, through interactions between SIGIR and reconstruction managers.

Beyond our approach to audits and inspections, we believe that SIGIR should leave behind more than a large stack of retrospective reports of waste, fraud and abuse. We felt an obligation to take advantage of our role in Iraq reconstruction to derive the lessons of the experience and provide guidance to policymakers with future challenges. This was the conception of the SIGIR Lessons Learned Initiative.

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In February, we published our first such report, “Iraq Reconstruction: Lessons in Human Capital Management.” Today we release of our second report covering lessons in contracting and procurement. The third and final in this series, Lessons in Program and Project Management, will be published in the fall.

While these reports are not traditional work products of inspectors general, they should carry the authority you would expect of the work of an inspector general. I want to assure the committee that they have been produced through appropriately rigorous processes.

The Lessons Learned Initiative began in late 2004, when we began reaching out to people who served in Iraq and received information on the experiences and views of hundreds of individuals. From these, we distilled three categories of significant issues for Iraq reconstruction. These were, Human Capital Management, Contracting and Procurement, and Program and Project Management.

SIGIR began researching each process area, interviewing people with first-hand experience and policy perspectives. For the report on contracting and procurement, about 30 interviews were conducted with key contracting officials. As well, our research included:

- Audits of SIGIR and other oversight organizations,
- Studies by government, independent organizations and academia
- After-action reports and assessments, and
- Interviews conducted by the CPA historian.

A draft discussion white paper was provided to a 30-member expert panel, made up of senior executives and experts from the U.S. government, industry, and academia—many with first-hand experience in Iraq. This panel was convened for a day-long forum centered on the white paper, to evaluate findings and provide recommendations to increase the effectiveness of U.S.-led stabilization and reconstruction operations in Iraq and to inform future reconstruction efforts.

For the report on contracting and procurement, we conducted two forums last December. The first included senior officials from key U.S. government agencies and distinguished members from the academic and independent research communities. The result of the full-day session was a set of findings and recommendations.

A second forum included about 20 individuals from large contracting companies to smaller non-governmental organizations supporting the reconstruction mission in Iraq. Our intent was to gather the contractors’ perspective on the contracting process relating to Iraq reconstruction.

The forum discussions led SIGIR staff to perform additional research, including follow-up interviews. Staff then revised the paper, incorporating comments from the forum transcripts, information from follow-up interviews, and additional research.

The revised paper was released to key contributors and forum participants. About 110 people received the contracting paper for review and comments, to ensure that the paper was accurate

and complete, and accurately the comments of individuals. Responses from the contributors and participants were considered and incorporated into the next draft, which also included new interviews with senior DOD, State and USAID officials for comments on specific recommendations. The new draft, with more specific recommendations, was circulated to key organizations for review, including DOD, State, USAID, US Army Corps of Engineers and the Office of Management and Budget. This paper was also provided to key Iraq reconstruction organizational leaders. The majority of these individuals and agencies responded to the formal paper. Revisions were made based on their comments and the final report was prepared.

The report tracks the evolution of reconstruction contracting and procurement processes from the summer of 2002, before the creation of the Office of Reconstruction and Humanitarian Assistance (ORHA), through to the present. For example, we present a detailed chronology of events and decisions related to contracting, including the expansion of the DOD LOGCAP program beyond its original purpose, the minimal role for the State Department in initial planning, and how security considerations limited the coordination of inter-agency planning.

We examine the creation, deployment and disestablishment of ORHA, and the creation of the CPA. The report discusses the use of the Development Fund for Iraq (DFI) for CPA contracts, the first U.S. appropriated reconstruction funds, and the development of requirements for much more appropriated support. We report on how the management of entire effort came down to the creation of a wholly new organization, which was denied adequate support for months, and had to reach out to other government contracting offices for support. The creation of a strategy for acquisition management, which used a design-build approach giving contractors oversight over infrastructure sectors, is discussed in detail.

After the termination of the CPA in the summer of 2004, this report looks at the problems of the transition to State Department management, and how the contracting processes are slowed by security and information problems, and the continuing evolution of contracting methods. Special contracting programs, such as the Commanders Emergency Response Program (CERP) are examined, as well.

The key lessons we have distilled for contracting and procurement in Iraq provide insight for policy and planning, as well as for policies and processes.

Strategy and Planning Key Lessons:

- **Include contracting and procurement personnel in all planning stages for post-conflict reconstruction operations.** The pre-deployment interagency working groups for Iraq reconstruction did not adequately include contracting and procurement personnel.
- **Clearly define, properly allocate, and effectively communicate essential contracting and procurement roles and responsibilities to all participating agencies.** The failure to define contracting and procurement roles and responsibilities at the outset resulted in a subsequently fragmented system, foreclosing opportunities for collaboration and coordination on contracting and procurement.

- **Emphasize contracting methods that support smaller projects in the early phases of a contingency reconstruction effort.** The Commander's Emergency Response Program (CERP) and similar initiatives in Iraq proved the value of relatively small, rapidly executable projects that meet immediate local needs.
- **Generally avoid using sole-source and limited-competition contracting actions.** These exceptional contracting actions should be used as necessary, but the emphasis must always be on full transparency in contracting and procurement. The use of sole-source and limited competition contracting in Iraq should have virtually ceased after hostilities ended (and previously sole-sourced limited competition contracts should have been promptly re-bid).

Policy and Process Key Lessons:

- **Establish a single set of simple contracting regulations and procedures that provide uniform direction to all contracting personnel in contingency environments.** The contracting process in Iraq reconstruction suffered from the variety of regulations applied by diverse agencies, which caused inconsistencies and inefficiencies that inhibited management and oversight.
- **Develop deployable contracting and procurement systems before mobilizing for post-conflict efforts and test them to ensure that they can be effectively implemented in contingency situations.** Contracting entities in Iraq developed *ad hoc* operating systems and procedures, limiting efficiency and leading to inconsistent contracting documentation.
- **Designate a single unified contracting entity to coordinate all contracting activity in theater.** A unified contract review and approval point would help secure the maintenance of accurate information on all contracts, enhancing management and oversight.
- **Ensure sufficient data collection and integration before developing contract or task order requirements.** The lack of good requirements data slowed progress early in the reconstruction program.
- **Avoid using expensive design-build contracts to execute small scale projects.** While the use of large construction consortia may be appropriate for very extensive projects, most projects in Iraq were smaller and could have been executed through fixed-price direct contracting.
- **Use operational assessment teams and audit teams to evaluate and provide suggested improvements to post-conflict reconstruction contracting processes and systems.** Oversight entities should play a consultative role (along with their evaluative role), because the rapid pace of reconstruction contingency programs cannot easily accommodate the recommendations of long-term assessments or audits.

Our Study has resulted in six recommendations:

1. **Explore the creation of an enhanced Contingency Federal Acquisition Regulation (CFAR).** Although the existing FAR provides avenues for rapid contracting activity, the Iraq reconstruction experience suggests that the FAR lacks ease of use. Moreover, promoting greater uniformity through a single interagency CFAR could improve contracting and procurement practices in multi-agency contingency operations. An interagency working group led by DOD should explore developing a single set of simple and accessible contracting procedures for universal use in post-conflict reconstruction situations. Congress should take appropriate legislative action to implement the CFAR, once it is developed by the interagency working group.
2. **Pursue the institutionalization of special contracting programs.** In Iraq, smaller scale contracting programs, like the Commander's Emergency Response Program (CERP) and the Commanders Humanitarian Relief and Reconstruction Program (CHRRP), achieved great success. Congress should legislatively institutionalize such programs for easy implementation in future contingency operations.
3. **Include contracting staff at all phases of planning for contingency operations.** Contracting plays a central role in the execution of contingency operations, and thus it must be part of the pre-deployment planning process. Whether for stabilization or reconstruction operations, contracting officials help provide an accurate picture of the resources necessary to carry out the mission.
4. **Create a deployable reserve corps of contracting personnel who are trained to execute rapid relief and reconstruction contracting during contingency operations.** This contracting reserve corps could be coordinated by the DoS Office of the Coordinator for Reconstruction and Stabilization as part of its civilian ready reserve corps. An existing contingent of contracting professionals, trained in the use of the CFAR and other aspects of contingency contracting, could maximize contracting efficiency in a contingency environment.
5. **Develop and implement information systems for managing contracting and procurement in contingency operations.** The interagency working group that explores the CFAR should also review current contracting and procurement information systems and develop guidelines and processes for enhancing these existing systems or, if necessary, creating new ones to meet unique contingency operational needs.
6. **Pre-compete and pre-qualify a diverse pool of contractors with expertise in specialized reconstruction areas.** These contractors should receive initial reconstruction contracts during the start-up phase of a post-conflict reconstruction event.

As mentioned, the tenth SIGIR Quarterly Report to the U.S. Congress, which also meets the requirements of the Inspector General Act for semiannual reporting, was submitted on July 31. This report evaluates the reconstruction process as it reaches the mid-point of the Year of Transition. Most notably, the first permanent, democratically elected government of Iraq took office. In addition, the production of electricity, oil, and gas climbed above pre-war levels for the first time in over a year. But many challenges remain, most notably, reversing the deteriorating security situation. This report provides significantly more information than any of our previous submissions, including analyses of each of the seven infrastructure sectors.

- **The Year of Transition.** Closeout and transition highlight the halfway mark in this year of transition. At the end of June 2006, \$18.94 billion of IRRF 1 and 2 had been obligated, and \$14.85 billion had been expended. The U.S. government's authority to obligate IRRF money expires September 30, 2006, so any IRRF dollars not under contract by that date will revert to the U.S. Treasury. Contracting entities consequently are focused on rapidly obligating all remaining IRRF dollars.
- **Security Challenges Remain.** Repeated violence and the incessant danger that accompanies it continue to impede reconstruction efforts, slowing progress on projects, restricting the movement of personnel, and diverting dwindling resources from reconstruction. The lethal environment has greatly complicated the important work of the Provincial Reconstruction Teams to build capacity in the provincial governments.
- **Corruption in Iraq.** Corruption continues as a serious threat to Iraq's fledgling democracy. Iraqi officials estimate the cost of corruption at \$4 billion a year, and the Commission for Public Integrity has more than 1,400 criminal cases involving about \$5 billion. A poll conducted this quarter found that one-third of Iraqis reported that they have paid bribes for products or services this year, and that they mistrust police and the army. More resources and stronger support will be needed for Iraq's nascent anticorruption entities to battle corruption effectively. SIGIR sees some positive signs in the Prime Minister's recent supportive commitment for anticorruption and a World Bank-sponsored anticorruption workshop for Iraqis and international donors.
- **Leadership of Interagency Coordination.** Three years into the reconstruction effort, coordination among the implementing agencies of reconstruction in Iraq needs improvement. The Iraq Reconstruction Management Office (IRMO) has responsibility for setting priorities, coordinating among agencies, centralizing reporting, and managing ministry advisors, but has yet to bring all agencies together. It should be empowered to do so.
- **Capacity Building.** The fall of Saddam's regime ended four decades of a state-controlled economy. This has left inexperienced local officials to manage the delivery of provincial government services and created the need for programs to develop their capacities. The Provincial Reconstruction Team (PRT) program leads the effort to help local officials develop a sustained capacity to govern and promote security, rule of law, political

participation, and economic development. Currently, the PRT program faces serious challenges, including security threats, insufficient staffing, and limited resources. SIGIR has announced an audit of the PRT program.

- **Multilateralizing Reconstruction.** A significant development this quarter was the Iraqi government's request to the UN for help in negotiating a financial compact with the international donor community. Under the compact, Iraq would pledge to undertake reforms in exchange for political and economic support. The goal of the compact is to build a framework to transform Iraq's economy and integrate it into the regional and global economy. Success in negotiating the compact would energize the next phase of reconstruction.

1. **SIGIR Activities.**

- a. **Audits:** SIGIR issued 10 audits this quarter with 50 recommendations for program improvements. The audits focused on a broad range of issues, including health care projects, security, and anticorruption activities. One audit reviewed the Basrah Children's Hospital Project, which is behind schedule and over budget.
- b. **Inspections:** SIGIR completed 13 inspections this quarter and has now completed 56 project assessments, 96 limited on-site inspections, and 172 aerial assessments. SIGIR found that most projects visited this quarter showed high-quality workmanship and effective quality-control and quality-assurance programs.
- c. **Investigations:** SIGIR currently has 82 open investigations into alleged fraud, corruption, bribery, kickbacks, and gratuities. Currently, 25 cases are awaiting prosecution at the Department of Justice; two of those cases have resulted in convictions and are pending sentence, and another has agreed to a guilty plea. SIGIR recently entered into a partnership with the Federal Bureau of Investigation's Criminal Investigations Division to enhance investigative operations in Iraq and the United States.

Field work for this report occurred principally in Iraq, where nearly 50 SIGIR personnel operate daily in perilous conditions to provide oversight of the U.S. taxpayers' investment in Iraq.

SIGIR remains committed to meeting the expectations of the U.S. Congress, the Secretaries of State and Defense, and the American public with timely and helpful information on U.S. progress and performance in Iraq reconstruction.

I look forward to your questions.