

Statement of  
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Office of the Special Inspector General for Iraq Reconstruction (SIGIR)  
before the  
Commission on Wartime Contracting in Iraq and Afghanistan  
at a hearing on  
“Implementing Improvements to Defense Wartime Contracting”  
April 25, 2011

Co-Chairmen Thibault and Shays, Commissioners, thank you for inviting me to present SIGIR’s views on “Implementing Improvements to Defense Wartime Contracting.”

I appreciate the important work the Commission is doing to remedy weaknesses in U.S. contracting for overseas contingency operations. I am pleased that the Commission has recognized that the lessons from Iraq must be absorbed and applied, if that difficult reconstruction experience is to be put to instructive use.

Your invitation to speak identified several specific areas of discussion you wished me to address, which I will take up in the order provided.

**I. Improving Wartime Contracting Practices**

You asked me to offer recommendations on how the United States could improve the Defense wartime contracting function.

Through our audits, inspections, lessons learned reports, and testimonies, SIGIR has developed an extensive evidentiary database that demonstrably supports the case for the continuing and comprehensive reform of contracting practices in stabilization and reconstruction operations (SRO). SIGIR has generated a number of recommendations addressing targeted contracting reform. Some have been adopted, while others await action; but more action is needed. In an age when ever-tightening budgets collide with ever-expanding needs, achieving economy and efficiency in deploying assets to conflict zones is essential to protecting the taxpayers’ interests while achieving success in a stabilization operation.

In July 2006, SIGIR produced a Lessons Learned report entitled “Lessons in Contracting and Procurement.” This effort arose from our audits and inspections that found widespread weaknesses in Iraq contracting. After an extended study of procurement practices from the pre-war period through mid-2006, SIGIR convened a day-long forum during which a wide spectrum of experts reviewed the evidence and developed a series of recommendations, as follows:

- Include contracting and procurement personnel in all planning stages for post-conflict reconstruction operations.
- Clearly define, properly allocate, and effectively communicate essential contracting and procurement roles and responsibilities to all participating agencies.
- Avoid using sole-source and limited-competition contracting actions, except where unavoidable. These exceptional contracting actions should be used as necessary, but the emphasis must always be on full transparency in contracting and procurement.
- Establish a single set of simple contracting regulations and procedures that provide uniform direction to all contracting personnel in contingency environments.
- 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.
- Ensure sufficient data collection and integration before developing contract or task order requirements.
- Designate a single unified contracting entity to coordinate all contracting activity in theater.

In early February 2009, at the Commission's first hearing, we released "Hard Lessons: The Iraq Reconstruction Experience," which laid out an analytical history of the entire rebuilding program through 2008. It included extensive additional reporting on contracting. The recommendations enumerated in "Hard Lessons" and relevant to today's hearing include the following:

- The U.S. government must develop new wartime contracting rules that allow for greater flexibility.
- The U.S. government must strengthen its capacity to manage the contractors that carry out reconstruction work in contingency relief and reconstruction operations.
- Security is necessary for large-scale reconstruction to succeed.
- Uninterrupted oversight is essential to ensuring taxpayer value in contingency operations.
- An integrated management structure is necessary to ensure effective interagency reconstruction efforts.
- Outsourcing management to contractors should be limited because it complicates lines of authority in contingency reconstruction operations.

Last month, I testified before the House Oversight and Government Reform Committee's Subcommittee on National Security, Homeland Defense and Foreign Operations regarding current contracting practices at the State Department. At that hearing, I proposed that the State Department identify to the Congress how it will manage the significant contracts and programs it will inherit from Defense this year during the 2011 transition. Specifically, I suggested that State should certify to the Congress that it has the resources and personnel in place to manage the

activities governed by each program and contract. This measure would promote two crucial goals essential to effective contract management: *transparency* and *accountability*. Indeed, these goals are, in truth, the underlying principles that support the very purpose of implementing contracting regulations.

In preparing for this hearing, SIGIR evaluated its audit and inspection work to look for additional steps the Commission might consider to improve contingency contracting. In so doing, we identified four recurring needs which must be met as a prerequisite to improving SRO contracting:

- The need to better understand, plan for, and adapt to the inevitable and widely-varied security challenges that will arise when implementing reconstruction programs in fragile or failing states.
- The need to develop an integrated management office that possesses clear authority over and responsibility for program and project planning, management, and accountability.
- The need to better anticipate staffing needs, improve personnel quality, and promote longer assignments in-theater.
- The need to work closely with host governments to secure their support for U.S. reconstruction programs and projects before they begin.

### *Security*

The U.S. government failed to anticipate fully or plan effectively for working in the unstable security environment that existed when reconstruction began in Iraq in 2003. Security threats severely restricted rebuilding efforts throughout the Iraq effort, causing construction costs to soar and progress to be painfully slow. Since the inception of the rebuilding program, U.S. agencies have spent billions of dollars on security, diverting funds intended for relief and reconstruction purposes. We found that security costs used up anywhere from 12 to 53 percent of total project dollars.

Iraq's poor security environment manifested itself in numerous destructive ways, including the sabotage of oil pipelines and the destruction of electrical transmission power lines. This "infrastructure insecurity" frequently vexed U.S. efforts to invest in improving the capacities of Iraq's oil and electricity industries. We reported that the damage caused by this "infrastructure insecurity" required upwards of \$560 million in reparatory expenditures. Further, SIGIR found frequent instances in which the threat of violence prevented U.S. officials from performing quality-assurance functions (that is, visiting sites to ensure work was being done).

It is not clear why the government chose to continue pursuing projects in 2005-2006 in the middle of an erupting civil war. A more prudent choice would have been to suspend large scale reconstruction operations (and their concomitant taxpayer costs) until stability was achieved.

### *Organizational Structure and Processes*

Throughout the Iraq reconstruction program, poor interagency coordination and ad hoc organizational changes contributed to project delays, increased costs, and debilitating program constrictions. State, Defense, and the U.S. Agency for International Development (USAID) used

their discrete management structures to govern their respective parts of Iraq rebuilding programs. These varied systems, however, were not well-tuned to contend with the myriad SRO challenges that unfolded nor were they well-integrated to execute a coherent reconstruction strategy. These shortfalls were exacerbated by the ad hoc organizational nature of the reconstruction program's management system. Indeed, given its improvised nature and short personnel tours, the Iraq rebuilding enterprise might better be characterized as eight one-year programs rather than an eight-year reconstruction effort.

In April 2006 SIGIR reported that, although the United States had spent more than \$104.1 million on programs to secure Iraqi oil and electrical infrastructure, the program was ineffective at improving security for several reasons. First, three organizations had overlapping responsibilities for program implementation, and none was clearly in charge. Second, changes to the program's structure during implementation resulted in altered priorities, prompting, in turn, chaotic project terminations. Finally, contract management of this enormous investment was inconsistent, at best, causing poor outcomes.

In a more recent but related problem, multiple U.S. agencies have been implementing programs in ministerial capacity development, economic expansion, and asset transfer, but have done so in a "stove-piped" fashion, with ineffective program synchronization and weak inter-agency integration. These findings, old and new, underscore a crucial point from Iraq: as long as the United States manages SROs in a dis-integrated fashion, programs will fail to meet goals, projects will languish, and waste will be significant.

SIGIR directly addressed this "dis-integration" issue in its March 2007 Lessons Learned Report entitled "Lessons in Program and Project Management." The relevant recommendations from that report include:

- The Congress should consider a "Goldwater Nichols"-like reform measure to promote better integration among DoD, USAID, and DoS, particularly with respect to post-conflict contingency operations
- The U.S. government should clarify the authorities of the multiple agencies involved in post-conflict operations to avoid ambiguity over who is in charge

### ***Personnel***

Personnel problems were among the first that SIGIR identified once it got on the ground in Iraq in early 2004. Our second audit addressed the Coalition Provisional Authority's personnel problems, finding that they did not have an accurate count of staff on hand, did not follow their own personnel regulations, and could neither accurately identify nor sufficiently meet the mission's personnel needs.

Our work and that of others have demonstrated that the U.S. government did not come prepared to manage the enormous reconstruction workload it undertook in Iraq in 2003. Specifically, it did not have the personnel in numbers or quality to carry out effective contract and program management. For example, SIGIR's review of a \$1.8 billion USAID contract found that the

agency lacked sufficient staff to oversee construction progress, so they had to contract with the U.S. Army Corps of Engineers (USACE) to do the job. But USACE itself was understaffed and could not conduct adequate inspections of contractor construction. We found that both organizations were staffed at only about half of their required numbers. This paucity in quality-assurance staff contributed to the significant waste that occurred in Iraq.

### ***Host Government Buy-In***

SIGIR audits repeatedly revealed that insufficient Iraqi participation in project selection led to a poor asset transfer processes. If a host nation participates and “buys in” to reconstruction projects from their inception, projects are more likely to be successfully transferred and maintained. Conferring closely from the outset is a crucial *sine qua non* to program and project success.

Our work demonstrates that, from the start of the rebuilding program, U.S. agencies too often made decisions regarding programs and projects without adequately ascertaining Iraqi needs or obtaining a clear-cut buy-in from Iraqi officials. The Financial Information System project provides a stark example. Early in the reconstruction program, the Coalition Provisional Authority decided that the Iraqi ministries needed a modern financial management information system. U.S. planners failed, however, to identify what the Iraqi ministries actually wanted from such a system or what their existing capabilities were. The program consequently suffered slow progress and was eventually stopped after the project leader was kidnapped. The “IFMS program,” as it was called, was eventually suspended largely because of a lack of support from Government of Iraq (GOI) officials. In January 2008, USAID officials and the GOI reached an agreement to resume implementation of the system, but it failed to become operational and the current Iraqi government is no longer interested in implementing it. The tens of millions invested have been lost.

## **II. Implementation of SIGIR Recommendations**

You asked us to provide “an assessment of the effectiveness of implemented recommendations” and our “recommendations for removing obstacles and barriers to long-lasting solutions.”

While we steadily monitor and report on the implementation of our recommendations, we are now conducting an in-depth series of audits on the status of recommendations made in all previous SIGIR audits. This quarter, we are issuing a report on USAID’s progress in implementing SIGIR recommendations. We found that USAID has taken or is planning to take appropriate final actions on all SIGIR recommendations with which it concurred. We currently are auditing recommendations directed to the Departments of State and Defense and will issue reports on each no later than October 2011.

Our regular recommendation-monitoring process reveals that a number of positive steps have been taken in response to SIGIR findings by Defense agencies involved in Iraq reconstruction. Various improvements include the following:

- *Increased Emphasis on Contracting Oversight.* In March 2010, the Vice Chief of Staff of the Army issued a memorandum and order on the selection and training of contracting officer representatives. The Vice Chief expressed concern over the inadequate oversight of contracts in Iraq and Afghanistan and ordered Army units to identify and train

sufficient numbers of contracting officer representatives prior to deployment.

- *Defense Contingency Contracting Handbook*. In June 2010, a multi-agency team led by DoD's Director of Defense Procurement and Acquisition Policy released a handbook for contingency contracting officers. The handbook consolidates useful information for contingency contracting officers conducting operations in a joint campaign environment. It can be used with an attached DVD, which provides training modules for contingency contracting officers.
- *Defense Contingency Contracting Officer Representative Handbook*. Complementing its contracting officer's handbook, Defense issued a handbook for *contracting officer's representatives* in December 2010. This handbook is a user-friendly resource intended to provide quick references to contracting officer's representatives on contract support.
- *Defense legislation*. SIGIR's lessons learned contracting report concluded that the U.S. government was not sufficiently structured to provide the kind of contracting and procurement support needed in Operation Iraqi Freedom. The Congress has taken a number of steps to address this weakness. First, the John Warner National Defense Authorization Act for Fiscal Year 2007 stipulated that the Secretary of Defense must develop policies and procedures for defining contingency contracting requirements, ensure staffing for improved program management, and provide training for all contingency contracting personnel. Second, the Accountability in Government Contracting Act of 2007 strengthened the Federal acquisitions workforce by establishing a contingency contracting corps and providing specific guidance to encourage accountability and limit waste and abuse. Finally, the National Defense Authorization Act for 2008 required expanded contracting training for personnel outside the acquisitions workforce.
- *Commander's Emergency Response Program (CERP)*. U.S. Forces-Iraq (USF-I) and its predecessor organizations have updated the CERP guidance manual, *Money as a Weapons System*, more than 10 times to address recommendations made by various audit agencies, including SIGIR, to improve CERP management.

In addition, the following steps have been taken by other agencies in response to our prior work:

- *Emergency Acquisition Guidance* (issued by the Office of Management and Budget's (OMB) Office of Federal Procurement Policy in May 2007, updated by new guidance in January 2011). The current version recommends a number of new management and operational practices such as establishing "a cadre of contracting personnel to function as a rapid deployment force on short notice" and discusses the advantages and pitfalls of contracting for "additional acquisition professional support from the private sector." It includes a recommendation that agencies "develop emergency assessment plans to review the results from ... their emergency acquisitions." It also summarizes the acquisition flexibilities available in emergencies of various kinds. OMB cites SIGIR's "Lessons in Contracting and Procurement" and "Lessons in Program and Project Management" as bases for these new provisions.
- *The Reconstruction and Stabilization Civilian Management Act of 2008 (RSCMA)*, passed as part of the National Defense Authorization Act for 2009, placed responsibility for preparing the civilian side of contingency relief and reconstruction operations within

the Department of State (DoS) and directed the Secretary of State, in consultation with the Administrator of USAID, to develop an interagency strategy to respond to reconstruction and stabilization operations. It provided for a presidentially-appointed, senate-confirmed Coordinator for Reconstruction and Stabilization (though none was ever appointed), whose significant duties and responsibilities would include:

- coordinating with relevant agencies to develop interagency contingency plans and procedures to mobilize and deploy civilian personnel and conduct reconstruction and stabilization operations
- taking steps to ensure that training and education of civilian personnel to perform such reconstruction and stabilization activities is adequate

Unfortunately, it does not appear that State's Coordinator for Reconstruction and Stabilization (S/CRS) has been provided authoritative responsibility for overseas contingency operations nor does contract management appear to have any significant role in its plans. The sharp reductions in the budget for the "Civilian Stabilization Initiative" do not bode well for the future of this enterprise within State. Moreover, the Quadrennial Diplomacy and Development Review proposes to fundamentally alter the landscape and, with it, S/CRS's authority.

- *Longer Tours of Duty for Reconstruction Personnel.* In SIGIR's human capital management study, we found that there was insufficient systematic planning on personnel deployments and that "sudden and unplanned" staff departures and "continuous personnel turnover" severely burdened reconstruction managers. Longer tours of duty provide senior managers with increased stability and allow them to manage better personnel turnover and adjust programs accordingly. But even with 12-month tours now *de rigueur* in Iraq, there remains the reality of a perennial turnover of all personnel serving in Iraq. Lengthening tours beyond 12 months would promote greater stability and continuity.
- *Award Fee Process Reform.* A SIGIR audit in 2005<sup>1</sup> found that there were not adequate criteria or procedures in place to support award fees. The Joint Contracting Command/Iraq-Afghanistan reformed the process so that, among other things, only performance exceeding expectations would be rewarded, although subsequent reviews<sup>2</sup> found continuing issues.

### III. Update on SIGIR Reporting

You asked that we update the Commission on our work since our last appearance here.

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<sup>1</sup> "Award Fee Process for Contractors Involved in Iraq Reconstruction" (SIGIR 05-017, October 25, 2005); see also "Defense Acquisitions – DOD Has Paid Billions in Award and Incentive Fees Regardless of Acquisition Outcomes" (GAO-06-066, December 2005) and "Defense Contract Management – DOD's Lack of Adherence to Key Contracting Principles on Iraq Oil Contract Put Government at Risk" (GAO-07-839, July 2007).

<sup>2</sup> "Report on Use of Appropriate Award-Fee Conversion Scales Can Enhance Incentive for Contractor Performance" (SIGIR-08-009, January 24, 2008).

In the 3 reporting cycles since SIGIR's May 2010 testimony before the Commission, we have issued an additional 17 reports on myriad topics. *See Appendix for the list of audits.* Notable audit results since last May include the following:

- We issued a report on Defense's management of the Development Fund for Iraq. The Development Fund for Iraq was established in May 2003 by the Administrator of the Coalition Provisional Authority (CPA) and recognized by United Nations Security Council Resolution 1483. DFI funds were to be used in a transparent manner for the benefit of the people of Iraq. We found weaknesses in Defense's financial and management controls that left it unable to properly account for \$8.7 billion of the \$9.1 billion in DFI funds it received from the CPA in 2004. This situation occurred because most Defense organizations receiving DFI funds did not establish the required Department of the Treasury accounts and no Defense organization was designated as the executive agent for managing the use of DFI funds. The breakdown in controls left the funds vulnerable to inappropriate use and undetected loss.
- Our report on Multi-National Force-Iraq's (now USF-I) CERP-funded "Sons of Iraq" program found that approximately \$370 million was expended from FY 2007 to FY 2009. There was, however, a dearth of empirical data on what the program actually achieved.<sup>3</sup> USF-I maintains that the program was an important factor in reducing violence. But we found little quantifiable data from which so concrete a conclusion could be drawn. We also found weak financial controls over the millions in cash payments provided to the Sons of Iraq.
- We issued two reports on grants awarded by the Department of State for democracy-building activities in Iraq.<sup>4</sup> One grant, valued at \$50 million, suffered from weak oversight that left State vulnerable to paying excessive charges. Moreover, there was very little information on what the grant actually achieved. The second grant, also valued at \$50 million, showed better outcomes. We questioned some security costs on this grant, but found that the grantee maintained fairly comprehensive information on its activities and what was achieved.
- We issued a report on a USF-I program to develop an executive-level educational facility for the Iraq Security Forces known as the Iraq International Academy.<sup>5</sup> At the time of our review, approximately \$13.4 million had been spent on construction, and an additional \$12 million was planned to furnish and equip the facility. USF-I planned to turn the facility over to the GOI upon completion, but we found that the Iraqis had no plan to

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<sup>3</sup> *"Sons of Iraq Program: Results Are Uncertain and Financial Controls Were Weak"* (SIGIR 11-010, January 28, 2011).

<sup>4</sup> *"Improved Oversight Needed for State Department Grant to the International Republican Institute"* (SIGIR 10-022, July 29, 2010); *National Democratic Institute Grant's Security Costs and Impact Generally Supported, but Department of State Oversight Limited* (SIGIR 11-001, October 13, 2010).

<sup>5</sup> *"Iraqi Government Support for the Iraq International Academy"* (SIGIR 11-009, January 26, 2011).



operate the Academy after it opened. On our recommendation, USF-I is working with the GOI to obtain their commitment to support the sustainment of the Academy.

- We issued a report on a \$7.3 billion program to help the GOI train, staff, and equip Iraqi police forces.<sup>6</sup> The program was unprecedented in its magnitude and conducted in a hostile environment with ongoing combat operations. Despite these impediments, DoD reports that over 400,000 Iraqi police have received training and are on the force. But we found that the capabilities of these forces are unknown because no assessments of total force capability were made.

On the investigative front, since May 2010, SIGIR has opened 40 investigations, closed 43, and now has a current open caseload of 118. Since May, our investigations have led to 16 indictments and 19 convictions, with \$74.6 million in monetary results. *See Appendix for a list of convictions.* Investigative results since last May include the following:

- A State Department employee was indicted and convicted and another was indicted; both cases involved fraud.
- Twelve U.S. military personnel were convicted of criminal charges based on numerous investigations, as was a spouse of one of the military personnel. In one case, a Marine Corps officer pled guilty to defrauding the U.S. government of \$1.7 million. In another, an Army officer pled guilty to financial crimes involving \$440,000.
- Five Defense and USAID contractors were similarly charged and/or convicted for fraud. In one case, two high-level employees of a large USAID contractor pleaded guilty and the company agreed to pay \$69 million in criminal penalties and a civil settlement.

Since last May, the SIGIR Prosecutorial Initiative (SIGPRO) attorneys also continued to achieve successes:

- A third State Department employee was prosecuted and convicted of fraud in Iraq by a SIGPRO attorney.
- A SIGPRO attorney's work on two cases involving State set important legal precedents regarding the Wartime Suspension Act as applied to wrongs committed in Iraq and extraterritorial jurisdiction of violations of the federal conflict-of-interest statute.

#### **IV. Issues Affecting Future SROs**

You asked that we “[f]orecast key issues going forward, trends in wartime contracting, and project management that may put future contingency operations at risk.”

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<sup>6</sup> “*Iraqi Security Forces: Police Training Program Developed Sizeable Force, but Capabilities Are Unknown*” (SIGIR 11-003, October 25, 2010).

As the contingency reconstruction and relief work of the United States in Iraq winds down, there exists a “golden moment” for applying Iraq’s hard lessons to the Afghanistan SRO and to the reform of SRO contract management writ large.

One hard lesson to which we have repeatedly drawn attention is the sustainment of the assets – both “hard” and “soft” – which the U.S. has provided Iraq. It has too often been the case that, even when a project has been completed in good order, the asset-transfer process has become a graveyard where failure and waste ultimately occurs. Asset-transfer weaknesses arose because of poor planning or performance by the United States, but more often than not these failures were generated by Iraqi neglect of the asset.

The key lesson here is the compelling need to match rebuilding efforts to the verifiable needs and capacities of the host population and to secure agreement before construction that the asset will be maintained. Oddly, there is no U.S. government program to review the fate of U.S. projects after they have been transferred to Iraq. Developing such an effort could yield real insight into the outcome and effect of our investment in Iraq and thereby provide important lessons that could improve future SROs and their asset transfer programs (e.g., in Afghanistan).

A silver lining to the great difficulties the United States experienced during the Iraq SRO is the focused attention now being given to the fragmented system that governs SRO management. An analogous precursor to the current problem arose about thirty years ago during the Grenada operation. Glaring weaknesses in campaign execution focused the minds of national leaders on the need for improved military department integration at the Pentagon. The ensuing reform efforts, embodied by the 1986 Goldwater-Nichols Act, revolutionized both military planning and campaign execution, yielding today the most efficient fighting force in history. This reform paradigm could serve as an apt guide to resolving the current urgent need for improved civilian-military integration in SROs.

Today’s system palpably does not ensure unity of command and unity of effort. The work of people like Secretary Gansler and this Commission substantiate an evidenced-based argument for more comprehensive reform that could yield a system capable of forestalling, in future SROs, the kind of profligate waste that occurred in Iraq.

## **V. Waste in Iraq**

You asked me to address the amount of waste we have found in Iraq. Over the past eight years, the Congress has provided \$58 billion for Iraq’s relief and reconstruction. About \$53 billion of that amount has been spent, equaling an average expenditure rate of approximately \$17 million per day since the program began. No other overseas rebuilding program in U.S. history reached that extraordinary spending rate.

Too much waste occurred in Iraq. Our audits have detailed this troubling reality. But precisely calculating actual total waste is difficult, if not impossible, to do. One reason for this is that some view what we would call waste as simply the opportunity costs incurred by changing policy choices. Nevertheless, we have accumulated a sufficient database through our work to render a reasonably prudent estimate of total waste. As I previously have said – and reiterate today – waste in Iraq reconstruction amounted to about ten percent of total spending or between

**\$5 and \$6 billion.** Applied to the eight year program, this is tantamount to about \$1.7 million in waste per day.

Numerous systemic shortfalls caused waste in Iraq. First, the failure to implement a risk-based approach to the reconstruction effort yielded a number of imprudent contracting decisions. Second, the rush to spend trumped the need to spend efficiently and effectively. Finally, projects were undertaken without sufficient staff to manage or oversee them, government cost estimates were frequently not performed, exorbitant prices were paid, the wrong contracting vehicles were used, and the Iraqis were not sufficiently consulted as to their needs and wants.

\$6 billion in waste is a disturbing figure, needless to say. But the number may in fact be much higher if the Iraqis do not sustain what we have provided. Their ability and willingness to maintain the U.S. investment will be the true measure of whether the U.S. and Iraq see long-term benefits from the investment. Because we cannot ascertain whether the GOI will, in fact, sustain what we have provided, there are aspects of waste that cannot be accurately measured until well after projects are completed: Is a complicated apparatus being maintained? How long did those who were trained stay in their jobs or even work in the same sector of the economy? These are matters that should be studied. In sum, it is crucial that we know whether the investment we provided produced extended improvements in the Iraqi system.

## **VI. Applying Contracting Lessons Learned**

You asked me to address the “areas where your concerns for Defense wartime contracting apply to State and USAID” and to discuss the “agencies’ common issues and risks.”

The contracting problems identified in Defense entities are even more aggravated within the civilian agencies. That is, the civilian agencies have weaker contracting systems and less robust operational management capabilities (at State, in particular, and to a lesser extent at USAID). Moreover, the civilian agencies have been less responsive in bolstering their weaker contracting systems. Our reviews of State’s activities, in particular, have revealed that the Department has struggled to manage its large programs in Iraq and their associated contracts (the largest contracts in the State’s history).

State must do more to build its acquisition workforce’s capacity and quality, if it is to play the lead role in future SROs. By contrast, USAID has a better capacity to manage and execute contracts and grants, unsurprising given that its development mission embraces these capacities. The weakness on the USAID side stem from the enormous extent to which its mission is now carried out by contractors, which leads to oversight and delegation problems.

## **VII. Criminal Investigation Trends**

You asked for our office’s trends on contract-fraud referrals and related prosecutions through the end of December 2010.

SIGIR’s Investigations Directorate continues to produce a steadily increasing number of criminal investigations, indictments, and convictions. *See Appendix for investigation trends and list of*

*cases.* This increase resulted from a range of initiatives we undertook over the past several years, which include:

- SIGPRO - SIGIR Prosecution Initiative
- FERRET - Forensic Evaluation, Research, Recovery, and Enforcement Team
- INTERCEPT – International Criminal Enforcement and Prosecution Team

The SIGIR Prosecutorial Initiative (SIGPRO) was developed and implemented to strengthen specific prosecutorial support for SIGIR investigations. In collaboration with senior Department of Justice (DOJ) officials, we hired three highly-experienced and well-respected former Assistant United States Attorneys and a paralegal, detailing them to DOJ's Criminal Division to work on our cases. Our SIGPRO attorneys carry individual caseloads, prosecute SIGIR cases, and assist other federal prosecutors on Iraq-related fraud cases. SIGPRO attorneys work closely with SIGIR investigators to ensure that cases are promptly pushed and this has increased our rate of prosecution.

SIGIR's Investigative Directorate developed the Forensic Evaluation, Research, Recovery, and Enforcement Team (FERRET) Program as part of our effort to meet the forensic review requirement placed upon SIGIR by the Congress. FERRET is a sophisticated, layered electronic data-exploitation approach to identify potential criminal activity involving individuals who had access to cash in Iraq. This program has led to the issuance of hundreds of subpoenas and the opening of more than 40 investigations.

We developed and implemented the International Criminal Enforcement and Prosecution Team (INTERCEPT), in coordination with the United States Department of Justice (DOJ) Office of International Affairs, to address investigative matters falling within SIGIR's subject matter jurisdiction, but involving extraterritorial activities and/or foreign nationals. We engaged with a variety of non-U.S. investigative and prosecutorial elements, securing their assistance to bring foreign defendants to justice within their judicial jurisdictions. INTERCEPT cases have resulted in successful prosecutions of individuals in South Korea, arrests in England, and arrest warrants issued in Iraq on a variety of charges, including fraud, extortion, and embezzlement.

## **VIII. Commission Recommendations for Reform**

You asked that me to “describe [our] perspective of the impact of the Commission’s second interim report recommendations on DoD inspectors general roles, responsibilities, and ongoing initiatives.”

As a preliminary matter, I strongly agree with virtually all of the Commission’s recommendations. Effective contracting reform is a prerequisite to future SRO success. Implementing your proposed reforms would help the United States Government better meet its obligation to the taxpayers to ensure that our nation’s limited resources will be well spent in overseas contingencies. I especially concur with the Commission’s proposal to create a permanent special inspector general for contingency operations (SIGOCO). The presence of a permanent oversight entity for contingencies makes eminent sense, because it would certainly improve the stewardship of U.S. funds in overseas contingency operations.

I view the Commission's proposal to create "[a] new, dual-hatted position at OMB and the NSC to provide oversight and strategic direction for contingency operations" as a meaningful step in the right direction, but one that would not sufficiently strengthen U.S. management capacities in SROs. The past eight years in Iraq demonstrated that high level "coordination" between agencies, and especially between and among State, USAID, and Defense, will not ensure the level of **integration** and **accountability** required to achieve success in these difficult missions. Moreover, the Interagency Management System within the NSC has not proven itself to be an enduring and effective model for managing SRO activities.

The most compelling SRO issue now before U.S. policymakers is not simply the contracting or oversight components of SROs, but how the SRO operations are to be planned and managed *in toto*. A little over a year ago, the Commission convened a hearing with representatives from Defense, State, and USAID, and was unable to get a clear answer to the simple question of who is in charge of the Afghanistan reconstruction operation. That salient and disturbing reality remains true today. The "whole of government" approach, ostensibly driven by the NSC and OMB, has been largely unsuccessful as an SRO management tool. Experts seem to be coming to agreement on this point, and thus the time is ripe for developing and implementing new reforms.

In re-thinking how to succeed in SROs, the goals remain the same: achieving unity of command and unity of effort. Clearly assigning the duty to plan and manage SROs seems the simplest step toward reaching these goals. Because SROs bear elements of defense, development, and diplomacy within them, they are ineluctably civilian-military enterprises. Despite this identity, SROs constitute a novel paradigm, concerning what is sometimes called the "Fourth D," which constitutes something beyond State, Defense, and USAID's traditional missions, something relatively new to the modern age, and something that is with us to stay. Assigning the "Fourth D's" mission to a particular existing agency would unsurprisingly bias the ensuing approach toward that agency's predilections. So what to do?

SIGIR has proposed the creation of the United States Office for Contingency Operations (USOCO), which would be clearly and unambiguously charged with planning, managing, and being held accountable for contingency relief and reconstruction operations. *See Appendix for a graphical précis on the USOCO concept.* Crucial to our belt-tightening age, USOCO would be a net money saver, covering its costs many times over through efficiencies achieved in its tighter and stronger SRO management system. Its structure would chiefly comprise a reorganization of existing elements that possess SRO responsibilities but are now scattered across government. Its Director would report to the Secretaries of Defense and State. USOCO would resolve the unity of command problem, secure unity of effort, and vastly improve the likelihood of success in SROs.

## **IX. Conclusion**

Permit me to conclude by quoting the epigraph from our first lessons learned report on Human Capital Management, issued in January 2006. It captures an essential truth that must be embraced; regardless of the path SRO reform may take:

Given the sheer complexity of post-conflict reconstruction efforts, developing a clear strategic plan of action at the outset is critical to success. Such a plan should articulate the U.S. interests at stake, define

U.S. objectives for reconstruction, and lay out the strategy for achieving these policy objectives, along with a clear division of labor delineating who is responsible for what aspects of the plan's implementation.

*Play to Win*

Center for Strategic and International Studies

January 2003

This CSIS report, issued less than two months before the incursion into Iraq, reveals a penetrating wisdom that was lost in the planning for and the execution of the Iraq reconstruction program.

The causes for the Iraq program's failures lie not in the motives of those involved in planning nor in the abilities of the U.S. personnel who deployed to serve. The chief cause stems from our system's weakly-integrated and insufficiently-resourced SRO structure.

Simply increasing funding to the relevant civilian agencies will not solve the problem. Moreover, in an age of budgetary constriction, this approach is not fiscally possible. As this Commission has very helpfully revealed through its hearings, current law has not provided sufficient clarity on who is in charge of contingency relief and reconstruction operations.

Drawing together the pieces of our flawed SRO management system -- now scattered across government -- and placing them within a single authority would produce the coherent planning, integrated operations, and enforceable accountability so desperately needed to remedy the current approach to SROs. One of the salutary effects of this reform would be that contingency contracting would have a single point of oversight and accountability. This would certainly promote greater transparency and efficiency regarding the use of taxpayer dollars appropriated for overseas contingency operations. I believe that USOCO would simply and clearly resolve the SRO management conundrum that currently daunts our approach to overseas contingency operations.

Members of the Commission, that concludes my statement. I again thank you for the opportunity to appear before you today and look forward to your questions.

## APPENDIX

## **SIGIR AUDITS SINCE MAY 2010**

- 1) SIGIR 10-018, *Most Iraq Economic Support Funds Have Been Obligated and Liquidated*, Jul. 21, 2010

This report addresses Economic Support Fund (ESF) allocations for Iraq. Since 2006, about \$4.5 billion have been allocated in ESF for use by the Department of State (DoS), U.S. Agency for International Development (USAID), the Department of Treasury, and the Department of Justice, among others, specifically for programs in Iraq. This review looked only at the U.S. Embassy's Iraq Transition Assistance Office (ITAO) and USAID's use of Iraq ESF funds because these two agencies received about 83% of the Iraq-allocated ESF funds. The review found that DoS and USAID have obligated the majority of funds allocated for ESF programs in Iraq and are in the process of obligating the remaining funds. The agencies also liquidated the majority of their obligations.

- 2) SIGIR 10-019, *Iraq Reconstruction Funds: Forensic Audits Identifying Fraud, Waste, and Abuse – Interim Report #4*, Jul. 26, 2010

The report discusses the results to date of the Special Inspector General for Iraq Reconstruction's (SIGIR) forensic audits of Department of Defense, Department of State, and U.S. Agency for International Development expenditures involving Iraq relief and reconstruction. This report discusses projects associated with the Development Fund for Iraq and the Commander's Emergency Response Program (CERP).

- 3) SIGIR 10-020, *Development Fund for Iraq: Department of Defense Needs To Improve Financial and Management Controls*, Jul. 27, 2010

The report discusses the Department of Defense's accountability for funds received from the Development Fund for Iraq. The review found that weaknesses in DoD's financial and management controls left it unable to properly account for \$8.7 billion of the \$9.1 billion in DFI funds it received for reconstruction activities in Iraq. This situation occurred because most DoD organizations receiving DFI funds did not establish the required Department of the Treasury accounts and no DoD organization was designated as the executive agent for managing the use of DFI funds. The breakdown in controls left the funds vulnerable to inappropriate uses and undetected loss.

- 4) SIGIR 10-021, *Plans To Preserve Iraq Reconstruction Program and Contract Records Need To Be Improved*, Jul. 30, 2010

The report examines U.S. government agency efforts to preserve Iraq reconstruction program and contract records. DoD, DoS, and USAID have records management policies and procedures, but have not fully implemented those procedures for preserving their Iraq reconstruction records. This situation leaves the U.S. government vulnerable to waste and theft as it may not have the necessary information to pursue potential cases of fraud and/or to perform audits of reconstruction activities. Additionally, the records have not been reviewed for historical significance, and important documents could be lost if action is not taken.

- 5) SIGIR 10-022, *Improved Oversight Needed for State Department Grant to the International Republican Institute*, Jul. 29, 2010



This report discusses State Department's Bureau of Democracy, Human Rights, and Labor (DRL), and Bureau of Administration, Office of Acquisitions Management oversight of DRL grants to the International Republican Institute. Weaknesses in DoS' oversight of IRI's compliance with federal and DoS grant requirements left DoS vulnerable to paying excessive charges and having insufficient information on exactly what was achieved. Existing DoS monitoring mechanisms did not detect questionable charges and allocations associated with certain security and indirect costs against the grant. DoS Grants Officers were not actively involved in overseeing the grant or grantee decision-making and required annual audits and progress reports provided only limited insight into grantee practices. Grants Officers were not consulted on the appropriateness of grantee practices though they were the only officials in the Department authorized to make such rulings. Additionally, the review found that while IRI has documented activities it sponsored to foster democratic goals and objectives in Iraq, but it has not uniformly assessed the extent to which it has succeeded in meeting the grant's goals and objectives as required by the grant agreement.

6) SIGIR 11-001, *National Democratic Institute Grant's Security Costs and Impact Generally Supported, but Department of State Oversight Limited*, Oct. 13, 2010

This report discusses the Department of State's Bureau of Democracy, Human Rights, and Labor (DRL), and Bureau of Administration, Office of Acquisition Management (AQM) oversight of DRL grants to the National Democratic Institute. The report found that security costs charged to the grant were generally reasonable, allowable, and allocable in accordance with federal regulations except for overhead costs. SIGIR also found that the grantee maintained comprehensive information on what activities it led to further democratic goals and objectives, and the grantee conducted several impact assessments on the extent to which progress was made meeting grant objectives.

7) SIGIR 11-002, *Guidance Needed for Use of Residual Iraqi Vested and Seized Asset Funds*, Oct. 15, 2010

This report addresses U.S. government agencies' accounting for the \$2.651 billion in vested and seized asset funds and planned uses for at least \$47.4 million in unobligated funds remaining in accounts within the U.S. government. The Department of Defense (DoD) has generally maintained an accurate accounting of the funds; however, there is a difference of \$10.7 million between the Army's and Department of the Treasury's accounting systems for seized assets. Neither the vested nor seized asset funds have been used since at least 2007 and DoD does not have plans to use the funds that remain in these accounts.

8) SIGIR 11-003, *Iraqi Security Forces: Police Training Program Developed Sizeable Force, but Capabilities Are Unknown*, Oct. 25, 2010

This report discusses the U. S. Department of Defense program to help train Iraqi police. Since 2003, the United States has spent about \$7.3 billion on a program to help the GOI train, staff, and equip Iraqi police forces to maintain domestic order and deny terrorists a safe haven in Iraq. The program was unprecedented in its magnitude and conducted in a hostile environment with ongoing combat operations. In addition, the existing Iraqi police forces in 2003 were in very poor condition, and a new Iraqi government was in development. Despite these impediments, DoD reports that over 400,000 Iraqi police have received training and are on the force. However, the capabilities of these forces are unknown because no assessments of total force capabilities were made.

9) SIGIR 11-004, *Iraqi Security Forces: Special Operations Force Program Is Achieving Goals, but Iraqi Support Remains Critical to Success*, Oct. 25, 2011

The report discusses the U.S. Forces-Iraq's oversight of its program to train, equip, and develop the Iraqi Special Operations Force (ISOF). SIGIR found that the USF-I program had achieved its goal of developing an ISOF capable of independently conducting operations and missions and to sustain its equipment and facilities. However, SIGIR could not fully account for the funds used in developing the ISOF, and the total cost of the program is unknown. SIGIR also found that the long-term success of the ISOF lies in the hands of the GOI. Two issues point out the challenges in post conflict stabilization operations. First, the extra-constitutional movement of the ISOF from the Ministry of Defense to the Office of the Prime Minister raises concerns about how the force will be used in the future. Second, uncertain GOI support as evidenced by the lack of a dedicated budget, poor logistical and recruiting support, and the irregular payment of specialty pay create concerns about the GOI's commitment to sustain the force.

10) SIGIR 11-005, *Iraq Reconstruction Funds: Forensic Audits Identifying Fraud, Waste, and Abuse – Interim Report #5*, Oct. 28, 2010

This report was the fifth in a series of reports that discuss the results to date of the Special Inspector General for Iraq Reconstruction's (SIGIR) forensic audits of Department of Defense, Department of State, and U.S. Agency for International Development expenditures involving Iraq relief and reconstruction. SIGIR continues to identify instances of questionable activity involving programs that afford easy access to cash with weak controls over expenditures. In the last quarter, we have opened four new criminal investigations bringing the total number of investigations resulting from this effort to 53.

This quarter, SIGIR completed its initial review of nearly 180,000 transactions involving the expenditure of funds appropriated for the reconstruction of Iraq by the Department of Defense (DoD), Department of State (DoS), and the U.S. Agency for International Development (USAID) from fiscal years 2003-2009. These transactions are valued at approximately \$40 billion.

11) SIGIR 11-006, *Forensic Audit Methodologies Used To Collect and Analyze Electronic Disbursements of Iraq Reconstruction Funds*, Oct. 28, 2010

SIGIR has been at the leading edge of government forensic auditing and we are frequently asked about our processes and procedures. The report provides technical information on some of the methodologies used by the Special Inspector General for Iraq Reconstruction's (SIGIR) to meet its mandate for a final forensic audit report on all funds deemed to be amounts appropriated or otherwise made available for Iraq relief and reconstruction activities.

12) SIGIR 11-007, *Iraq Relief and Reconstruction Fund 1: Report on Apportionments, Expenditures, and Canceled Funds*, Jan. 25, 2011

SIGIR has been issuing a series of reports that discuss the status of funds appropriated or otherwise made available for the reconstruction of Iraq. This report discusses the Iraq Relief and Reconstruction Fund 1. During fiscal years (FYs) 2003 and 2004, OMB apportioned virtually all of the \$2.48 billion appropriated for IRRF 1. OMB apportioned \$2.25 billion for new obligations with most going to 3 organizations—USAID received \$1.62 billion; DoD/U.S. Army received \$518 million; and DoS received \$101 million. P.L. 108-11 also specified that funds were to be used to fully reimburse accounts administered by DoS, Treasury, and USAID for related obligations incurred prior to enactment. OMB apportioned about \$239 million to meet these previously incurred obligations with \$212 million going to USAID, which subsequently

returned \$10 million of the funds to OMB. DoS received about \$25 million as reimbursement for its prior obligations. This report does not address the status of the funds that OMB provided for these previously incurred obligations.

13) SIGIR 11-008, *Interim Report: Action Needed To Address Missing Iraq Transaction Data*, Jan. 28, 2011

This interim report addresses the Special Inspector General for Iraq Reconstruction's (SIGIR) concerns over missing Iraq transaction data and it seeks the assistance of the Assistant Secretary of the Army in recovering the data. SIGIR discovered the missing data while conducting its forensic audit of funds appropriated for Iraq reconstruction. SIGIR estimates the amount of missing data to be about \$75 million.

14) SIGIR 11-009, *Iraqi Government Support for the Iraq International Academy*, Jan. 26, 2011

This report is about Iraqi government support for a U.S. Forces–Iraq (USF-I) project to develop an executive-level educational facility for the Iraqi Security Forces and other branches of the Government of Iraq (GOI). When completed, the facility will also serve as a regional center of excellence for officials from other countries. The project, known as the Iraqi International Academy (IIA), is a \$26 million project funded by the Iraq Security Forces Fund (ISFF), and managed by that part of USF-I's Iraqi Training and Advisory Mission assigned to assist the Iraqi Ministry of Defense (ITAM-MOD). SIGIR is concerned about the lack of GOI commitment to maintain and sustain the academy upon completion and believes that further efforts to furnish and equip the IIA should be reconsidered. The Iraqi government has sufficient resources to furnish and equip the facility, and its commitment to the project is best shown by giving them this responsibility. The \$12 million in funding the U.S. has set aside for furnishings and equipment is better spent elsewhere.

15) SIGIR 11-010, *Sons of Iraq Program: Results Are Uncertain and Financial Controls Were Weak*, Jan. 28, 2011

The report discusses the Sons of Iraq program, a U.S. Forces–Iraq Commander's Emergency Response Program Insufficient quantifiable program data, coupled with the inability to segregate possible SOI effects from other factors, precluded SIGIR from drawing empirically reliable conclusions about the program's contribution to the reduction in violence in Iraq that began in the late summer of 2007. MNF-I officials and commanders we spoke with stated that they believe SOI was an important factor in reducing violence and provided a number of anecdotal examples in support of their opinions. However, it is not possible to draw more definitive conclusions about the program's effects. Specifically, there was no comprehensive plan for SOI with specific goals, metrics or milestones from which to measure the individual or collective impact of the effort. Additionally, there was no requirement for commanders to document what SOI groups achieved or for any other organization to assess overall program impact in areas such as reductions in insurgent attacks. Given the absence of detailed information on SOI effects and the reality of many other factors affecting the levels of violence in Iraq during the same time period, such as the influx of large numbers of additional U.S. forces during the Surge, SIGIR is unable to draw reliably supportable empirical conclusions about the full extent of SOI contributions in this area.

SIGIR also found the MNF-I exercised weak financial control over its cash payments to the SOI. SIGIR found that payments were often made directly to the SOI leader rather than to individual SOI members. In addition, in some files, the pay agent simply provided the same amount of money each month without determining how many SOI were actually working and for how many hours they ostensibly worked during the month. For example, for a four-month project estimated to cost \$331,200, the pay agent

simply automatically provided \$82,800 each month for a total of \$331,200. In the few instances where payments were made to individual SOI members, the payments were usually lower than estimated. For example, in one project file, 545 SOI members were on the official registry, but only 454 signed the pay roster and collected their salaries. This reduced actual costs 17% from an estimated \$62,884 to \$52,384. Furthermore, key financial control documentation including cash controls, receipts, and vouchers were usually missing from project files.

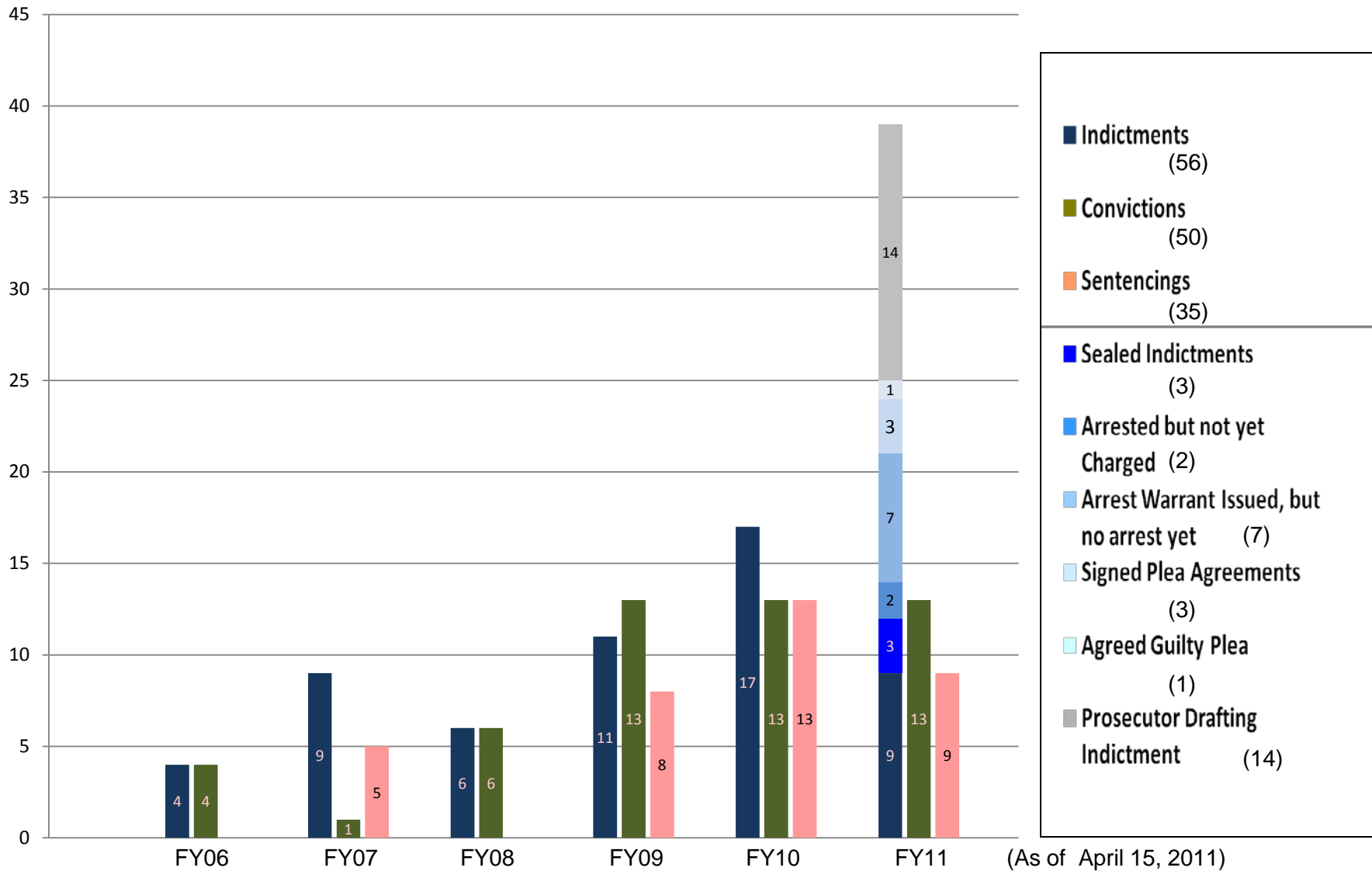
16) SIGIR 11-012, *Commander's Emergency Response Program Obligations Are Uncertain*, Jan 31, 2011

This letter addresses the Special Inspector General for Iraq Reconstruction's review of the Department of Defense's accounting for the obligation and expenditure of Commander's Emergency Response Program (CERP) funds allocated for Iraq, and how those funds were used

## SIGIR CONVICTIONS

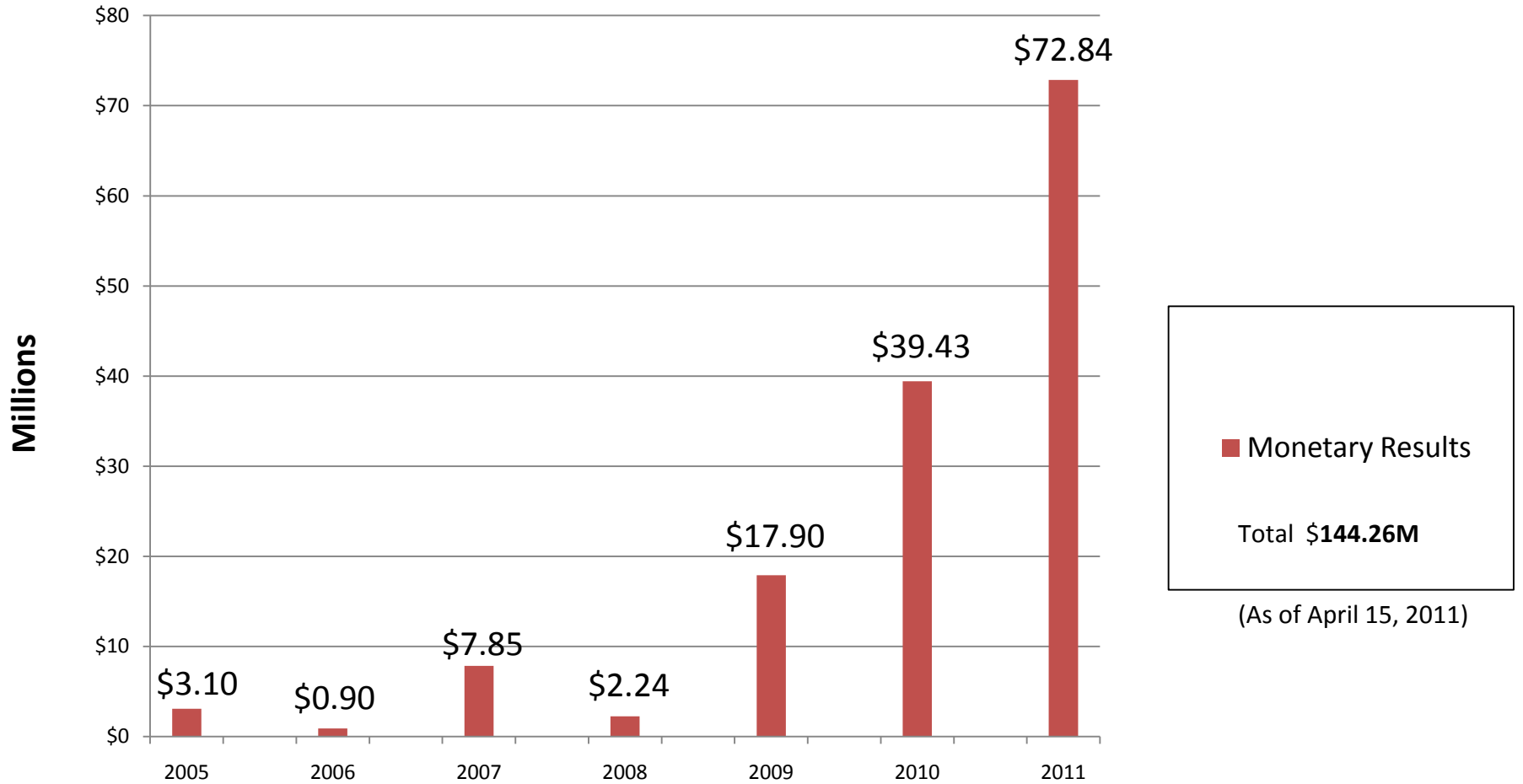
NAME	CHARGES	DATE OF CONVICTION	SENTENCE
Lt. Col. David Pfluger, USA	Conspiracy, accepting gratuities, and converting the property of another to his own use	3/25/2011	Pending
Eddie Pressley, former USA major	Bribery, conspiracy to commit bribery, honest services fraud, money laundering conspiracy, engaging in monetary transactions with criminal proceeds	3/1/2011	Pending
Eurica Pressley, former contractor and military spouse	Bribery, conspiracy to commit bribery, honest services fraud, money laundering conspiracy, engaging in monetary transactions with criminal proceeds	3/1/2011	Pending
Richard Razo, former DoD contractor and DoS employee	Wire fraud, wire fraud conspiracy	2/28/2011	Pending
Maj. Kevin Schrock, USA	Money laundering	2/8/2011	Pending
Osama Ayesh, former U.S. Embassy-Baghdad employee	Theft of public money, engaging in acts affecting a personal financial interest	2/2/2011	42 months in prison; 36 months supervised release; \$243,416 restitution; and \$5,000 fine
Salvatore Pepe	Conspiracy to defraud	11/5/2010	Pending
Precy Pellettieri	Conspiracy to defraud	11/5/2010	Pending
Maj. Roderick Sanchez, USA	Bribery	10/27/2010	5 years in prison; 3 years supervised release; and \$15,000 fine
Maj. Richard Harrington, USMC	Receiving illegal gratuities	10/18/2010	Pending
Lt. Col. Bruce Gillette, USAR	Acts affecting a personal financial interest	10/6/2010	1 year probation; \$2,000 fine; 160 hours community service; and inability to possess a firearm
Mariam Steinbuch, former USMC staff sergeant	Bribery	10/5/2010	5 years probation and \$25,000 restitution
Ismael Salinas	Kickbacks	10/1/2010	Pending
Dorothy Ellis	Conspiracy	9/2/2010	37 months in prison; 3 years probation; and \$360,000 restitution
Wajdi Birjas, former DoD contract employee	Bribery, money laundering	8/11/2010	Pending
Maj. Mark Fuller, USMC	Structuring financial transactions	8/4/2010	1 year and 1 day in prison; \$198,510 fine; and \$200 special assessment
Maj. Charles Sublett, USA	False statements	7/7/2010	21 months in prison; 2 years supervised release; and forfeit \$107,900 and 17,120,000 in Iraqi dinar
Capt. Faustino Gonzales, USA	Receipt of a gratuity by a public official	6/24/2010	15 months in prison; 1 year supervised release; \$10,000 fine; \$25,500 restitution; and \$100 special assessment
MSGT Terrance Walton, USMC	Bribery, graft, failure to obey a direct order	5/17/2010	Reprimand; reduction in rank from E-8 to E-3; \$65,000 fine; and 62 days confinement
Capt. Eric Schmidt, USMC	Wire fraud, filing a false federal tax form	5/17/2010	72 months in prison; 3 years probation; and \$2,150,613 restitution

# SIGIR Investigations Criminal Results



# SIGIR Monetary Results

(by fiscal year)







# SIGIR

SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

U.S. OFFICE FOR  
CONTINGENCY OPERATIONS

## REFORMING THE MANAGEMENT OF STABILIZATION AND RECONSTRUCTION OPERATIONS

Over the past seven years, SIGIR has developed an extensive catalog of lessons learned derived from more than 380 reports issued on the Iraq reconstruction effort. Of these lessons, the most significant is that the Iraq program's many shortfalls stemmed not so much from bad planning and poor execution, as from the lack of a coherent managerial entity capable of planning and executing stabilization and reconstruction operations (SRO). At the Iraq program's inception, no office had full responsibility for planning, executing, and overseeing reconstruction operations. The same was true for the Afghanistan program.

In February 2010, SIGIR produced a Lessons Learned report that addressed this issue, (*Applying Iraq's Hard Lessons to the Reform of Stabilization and Reconstruction Operations*) proposing the establishment of a new entity — the U.S. Office for Contingency Operations (USOCO) — that would be unambiguously charged with managing all aspects of U.S. stabilization and reconstruction operations.

### The System Must Be Changed

No single agency is devoted to SROs. Indeed, at least 26 different federal departments or agencies currently play some role in overseas contingency missions. USOCO would provide a more efficient and effective structure for tackling the extremely difficult duties inherent in SROs. It would not simply be another layer of management stacked upon the existing approach. Rather, USOCO would provide a money-saving and mission-improving reform for a system that now fails to assign planning, management, and accountability in a clear and coherent manner. Crucially, it would answer the still unanswerable question: **Who is in charge of SROs?**

### How USOCO Would Operate

Upon its authorization by the Congress, USOCO would become the locus for planning, funding, staffing, and executing overseas contingency relief and reconstruction operations. It would establish a nucleus around which a "whole of government" response to SROs could be organized. Supplanting the current fragmented federal process, USOCO would provide a consolidated entity whose sole mission would be ensuring that the United

States is ready to execute SROs. When that next overseas contingency operation begins, USOCO's on-the-ground management authority would become effective upon issuance of a presidential declaration and would terminate upon declaration of its conclusion.

During the life of an SRO, the USOCO Director would bear complete accountability for and authority over SRO planning, program priorities, contracting, total expenditures, and project outcomes. The Director would exercise control over reconstruction decision making, while coordinating closely with the military commander, the Chief of Mission, and USAID's Mission Director.

### Uninterrupted Oversight of SROs

The USOCO model anticipates the inclusion of an inspector general (IG) as an integral part of the organization. The IG would possess oversight authority regarding all SRO activities, ensuring uninterrupted transparency and accountability for U.S. taxpayer dollars expended during the operation.

### Recognizing the Need for More Comprehensive SRO Reform

When briefed on the USOCO concept, former National Security Advisor Lieutenant General Brent Scowcroft concluded that such an integrated management office would potentially solve the chronic problem of poorly managed SROs under the current "whole of government" approach. Former Ambassador to Iraq Ryan Crocker concurred, finding the concept worthy of implementation. The views of General Scowcroft and Ambassador Crocker are particularly noteworthy because of their significant experience in the contingency area and their first-hand knowledge of the difficulties involved in getting the interagency community to work together in what is fundamentally a civilian-military operation.

Modern history reveals that the United States should expect to be involved in more SROs. Integrating their planning, management, and oversight within a single office would ensure that the next time a stabilization and reconstruction operation begins, whether large or small, those deployed to execute the mission will have the capacity and resources necessary to achieve their crucially important mission.



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

# SIGIR



## HISTORICAL PRECEDENTS

### Economic Cooperation Administration (ECA)



Established in 1948 to administer the European Recovery Plan—better known as the Marshall Plan—the ECA provided \$13 billion (1948 dollars) in U.S. economic and technical assistance to 16 western European countries. The ECA focused on modernizing industrial and business practices, facilitating international trade, and countering communist influence. It reported to both the Secretary of State and the Secretary of Commerce. Today's U.S. Agency for International Development (USAID) is a lineal descendant of the ECA.

### Civil Operations and Revolutionary Development Support (CORDS)



Formed in 1967 to coordinate U.S. pacification programs in the Republic of (South) Vietnam, CORDS was a hybrid civilian-military organization headed by a civilian who reported to the commanding general of the U.S. Military Assistance Command-Vietnam. CORDS integrated all of the agencies involved in the pacification effort, including the Department of State (DoS), USAID, and elements of the Central Intelligence Agency.

## U.S. ASSISTANCE

### FOR STABILITY AND RECONSTRUCTION OPERATIONS

\$ Billions

OPERATION	DURATION	TOTAL OBLIGATIONS
Iraq	2003–present	51.5
Afghanistan	2001–present	30.8
Japan	1946–1952	17.2
Bosnia	1995–present	2.5
Kosovo	1999–present	1.3
Dominican Republic	1965–1967	1.3
Panama	1989–1995	0.7
Haiti	1994–1996	0.5
Lebanon	1982–1984	0.4
Somalia	1992–1994	0.3
Grenada	1983–1984	0.1
Cambodia	1992–1993	0.1

Note: Afghanistan funding data on total obligations is only current through the end of FY 2009. As of 9/30/2010, the United States had appropriated approximately \$56.10 billion for Afghanistan reconstruction programs since FY 2002. Iraq funding data is current as of 12/31/2010. Bosnia and Kosovo data is also current through the end of FY 2009. See next page for sources.

## NOTABLE AD HOC SRO OFFICES IN RECENT CONTINGENCY OPERATIONS

Office of Reconstruction and Humanitarian Assistance (Iraq) – DoD.

Coalition Provisional Authority (Iraq) – DoD.

Project Management Office (Iraq) – DoD.

Anti-Corruption Coordination Office (Iraq) – DoS.

Office of Provincial Affairs (Iraq) – DoS.

Iraq Reconstruction Management Office, Iraq Transition Assistance Office, Iraq Strategic Partnership Office – DoS.

Multi-National Security Transition Command- Iraq – DoD.

Office of Accountability and Transparency (Iraq) – DoS.

Office of the Special Representative for Afghanistan and Pakistan – DoS.

Pakistan and Afghanistan Support Office – DoS.

Combined Security Transition Command-Afghanistan – DoD.

## CONTEMPORARY ANALOGS

### Federal Emergency Management Agency (FEMA)



Established in 1979, FEMA was created as an independent agency in charge of domestic disaster relief and civil defense efforts. FEMA absorbed several existing organizations, including the Department of Defense (DoD) Defense Civil Preparedness Agency, the Federal Insurance Administration, the National Fire Prevention and Control Administration, the National Weather Service's Community Preparedness Program, and the General Services Administration's Federal Preparedness Agency. FEMA's existence as an independent agency came to an end in 2002 when it became part of the newly created Department of Homeland Security.

### Department of Homeland Security (DHS)



Created in response to the 9/11 terrorist attacks, DHS is charged with preparing for, preventing, and responding to domestic emergencies, particularly terrorism. The establishment of DHS consolidated a number of existing agencies with domestic security responsibilities, such as the Treasury Department's Customs and Secret Services, the Department of Transportation's Coast Guard and its Transportation Security Administration, the Department of Energy's Nuclear Incident Response Team, and FEMA.

### National Counterterrorism Center (NCTC)



Established in 2004, the NCTC integrates and analyzes all intelligence pertaining to counterterrorism, except for information relating exclusively to domestic terrorism. It is staffed by more than 500 personnel from more than 16 agencies (approximately 60% of whom are detailed to NCTC) and reports to the ODNI. The NCTC colocates more than 30 intelligence, military, law enforcement, and homeland security networks under one roof to facilitate information sharing and makes its analyses available to approximately 75 other government agencies.

### Office of the Director of National Intelligence (ODNI)



The ODNI commenced operations in 2005. Its Director is the leader of the U.S. Intelligence Community and principal advisor to the President on intelligence matters. The Act envisions that the position of either Director or Deputy Director be held by an active-duty military officer or a person with substantial experience in military intelligence. However, ODNI has limited statutory authorities to manage the budgets and missions of the 15 or so separate intelligence entities grouped under it.

### U.S. African Command (AFRICOM)



Formed in 2007 as the Combatant Command responsible for 53 African countries, AFRICOM supports efforts to professionalize African militaries and build the capacities needed to counter transnational threats. Unique among the six regionally focused Combatant Commands, AFRICOM integrates personnel from federal civilian agencies. As of December 2010, AFRICOM had more than 30 personnel from 13 U.S. government departments and agencies serving in leadership, management, and staff positions.



## AGENCIES POTENTIALLY INCLUDED IN USOCO (IN WHOLE OR IN PART)



### Department of State's Office of the Coordinator for Reconstruction and Stabilization (S/CRS)

Established in 2004 to "lead, coordinate, and institutionalize U.S. government civilian capacity to prevent or prepare for post-conflict situations," S/CRS is charged with coordinating and institutionalizing the U.S. government civilian capacity to prepare for post-conflict situations and to help stabilize and reconstruct societies in transition from conflict or civil strife. It is staffed by representatives from agencies throughout the U.S. government, including the Departments of Justice, Homeland Security, Commerce, Agriculture, and Energy.



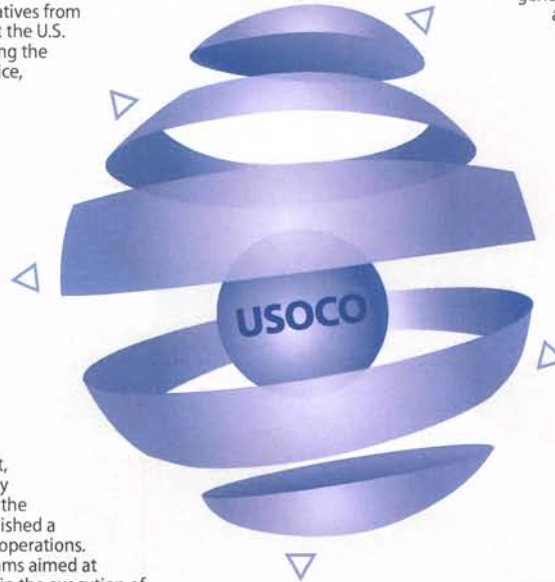
### USAID's Office of Transition Initiatives (OTI)

Created in 1994, OTI's mission focuses on providing short-term assistance to states transitioning from conflict or dictatorship to more representative forms of government. OTI's projects generally emphasize community stabilization activities and small-scale economic development programs. OTI is funded by a separate "Transition Initiatives" budget account with special authorities allowing for immediate spending on programs in transitional states. OTI has been active in Africa, Asia, the Middle East, and Latin America, and it currently manages substantial assistance programs in Afghanistan, Pakistan, Haiti, and Yemen.



### Civilian elements of Department of Defense Stability Operations Initiatives

Issued in 2005, DoD Directive 3000.05, Military Support for Stability, Security, Transition, and Reconstruction (SSTR) Operations (reissued in 2009 as DoD Instruction 3000.05), requires DoD to work closely with the relevant civilian agencies to create effective civilian-military teams for stability operations. As a result, DoD enlarged the office of the Deputy Assistant Secretary of Defense for Stability Operations Capabilities (who has the responsibility for implementing the Directive) and established a division within the Army (G-3/5/7) dedicated to stability operations. DoD also initiated numerous interagency training programs aimed at improving the military's ability to assist civilian agencies in the execution of stabilization and reconstruction operations.



### Department of Justice's International Criminal Investigative Training and Assistance Program (ICITAP)

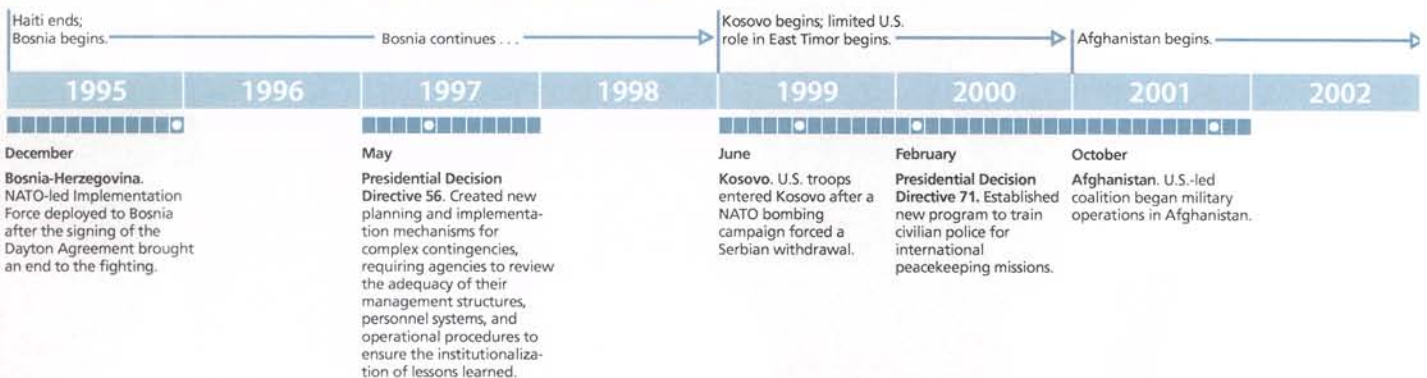
Formed in 1986, ICITAP works with foreign governments to develop professional and transparent law enforcement. Housed within the Department of Justice's Criminal Division, ICITAP is funded primarily by the Department of State via interagency agreements. Its larger programs are managed in the field by full-time U.S. law enforcement advisors. Most ICITAP advisors working with host-country police forces are U.S.-national contract employees. ICITAP currently has about 19 overseas field offices, including ones in Iraq, Afghanistan, Kosovo, and Mexico.



### Department of the Treasury's Office of Technical Assistance (OTA)

Established in 1990, OTA directs the Department's efforts to develop strong financial sectors and sound public financial management in countries where assistance is needed and there is a strong commitment to reform. OTA's resident advisors provide advice and training to Ministers of Finance, Central Bank Governors, and other foreign officials. OTA has worked in at least 50 countries, including Afghanistan and Iraq.

## SROs: 15 YEARS OF MISSIONS AND REFORM INITIATIVES

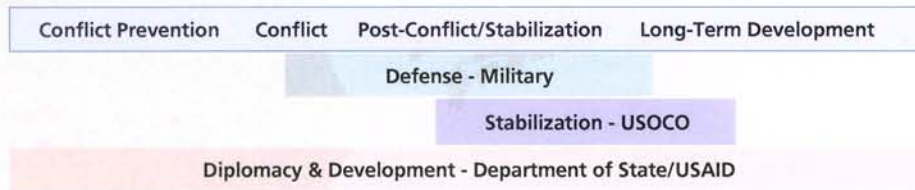


Sources: USAID, U.S. Overseas Loans and Grants (Greenbook), 2010, accessed 2/12/2010; DoS, Congressional Budget Justification for Foreign Operations, 2008, p. 418; DoS, Congressional Budget Justification for Foreign Operations, 2009, Country/Account Summary; DoS, Congressional Budget Justification for Foreign Operations, 2010, Country/Account Summary; SIGIR, Quarterly Report to the United States Congress, 1/2011; SIGAR, Quarterly Report to the United States Congress, 10/2009.

## CORE FUNCTIONAL REFORMS: HOW USOCO WOULD REFORM THE MANAGEMENT OF SROS

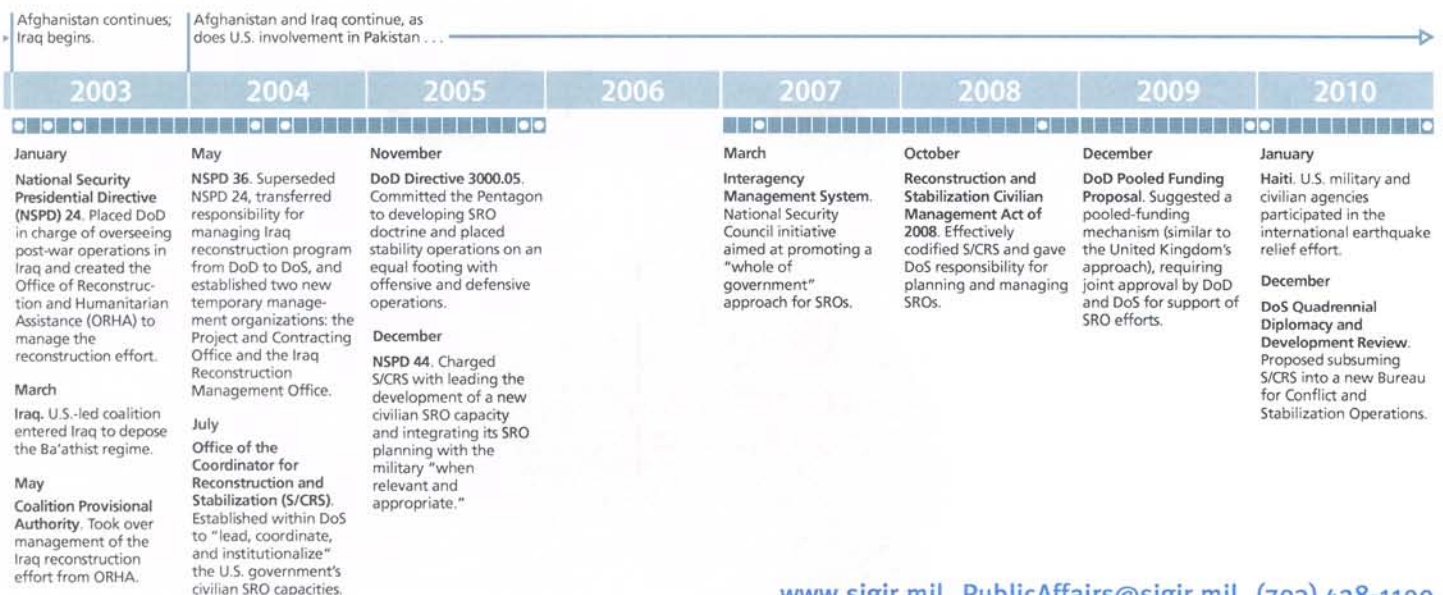
- **Draft doctrine.** USOCO would develop clear-cut SRO doctrine, with the National Security Council (NSC) defining the requirements and USOCO developing the implementing mechanisms in concert with the broader interagency community.
- **Integrate planning.** USOCO would work together with relevant agencies to develop integrated operational plans for SROs. The existence of a permanent organization would allow for retention of lessons learned and best practices.
- **Revise budgeting.** In conjunction with the NSC and the Office of Management and Budget (OMB), USOCO would develop realistic budget requirements for potential overseas contingency engagements.
- **Incentivize personnel.** USOCO would work with the relevant agencies to modify existing federal personnel regulations to provide stronger incentives aimed at encouraging federal civilian employees to accept temporary deployments in support of SROs.
- **Consolidate training.** USOCO would coordinate interagency training, bringing together civilian and military expertise.
- **Reform contracting.** USOCO would implement simple, accessible, and competed contingency contracting procedures for universal use in SROs, thereby improving contract management in theater and ensuring more accountable program management by government personnel.
- **Coordinate with contractors.** USOCO would provide contractors operating in a contingency environment with a single point of contact, simplifying reporting responsibilities and improving coordination.
- **Anticipate international involvement.** USOCO would develop curricula, programs, and system requirements that consciously recognize the reality of international participation in most contingency operations. USOCO would also structure management systems, planning paradigms, and preparatory exercises in anticipation of international involvement in SROs.
- **Integrate information technology.** USOCO would develop in concert with other agencies a single interoperable—or at least integrated—information technology system capable of tracking all relief and reconstruction projects in theater.
- **Ensure oversight.** USOCO would include an independent special inspector general who would provide effective oversight through audits and investigations of all funds used during SROs.

## STABILIZATION: THE FOURTH “D”



## ADVANTAGES AND EFFICIENCIES ACHIEVED BY CREATING USOCO

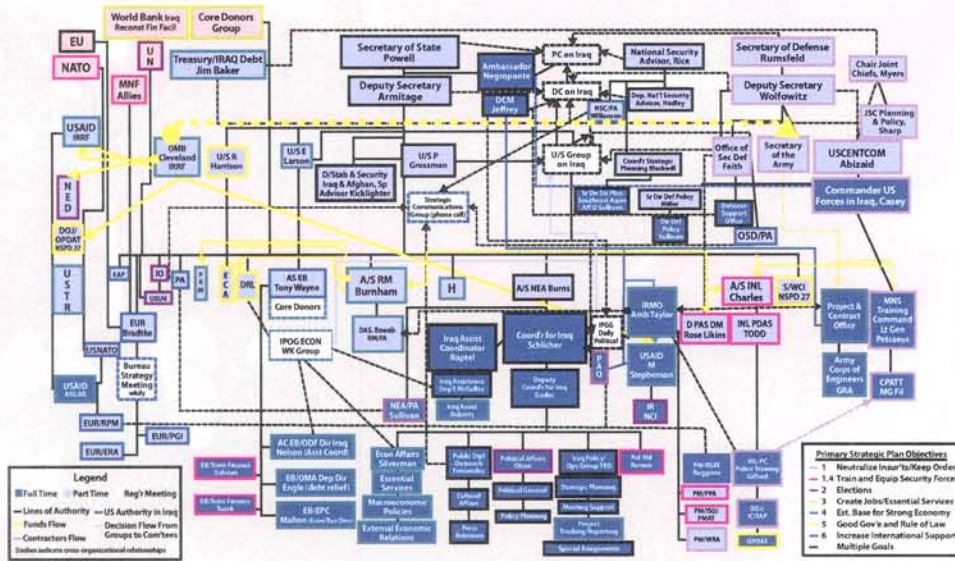
- **Accountability.** USOCO would be responsible for all stabilization and reconstruction projects.
- **Economy.** Consolidating numerous SRO offices into a single organization would eliminate redundancies and save money.
- **Specialization.** USOCO would exclusively execute SRO missions, freeing up DoD to focus on warfighting; DoS on diplomacy; and USAID on development.
- **Civilianization.** Led by a civilian, USOCO would reduce the perceived militarization of foreign assistance.
- **Institutionalization.** USOCO would act as the bureaucratic nexus for a series of much-needed interagency reforms.





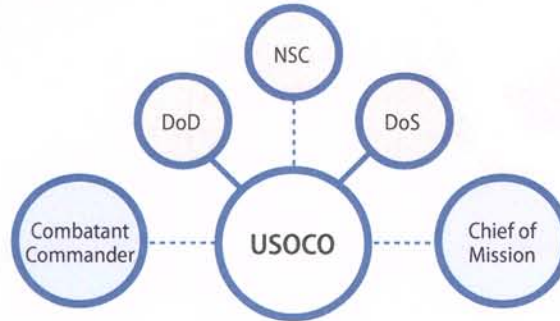
# BEFORE

## REASON FOR REFORM: U.S. ORGANIZATIONAL CHART, IRAQ, 2004

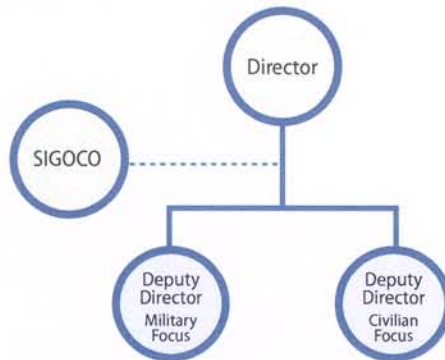


# AFTER

## USOCO: REPORTING LINES



## USOCO: ORGANIZATIONAL STRUCTURE



## WESTERN NATIONS' CIVILIAN-LED SRO OFFICES

SNAPSHOT, MARCH 2011

COUNTRY	STATUS	MISSION	FUNDING	SIZE	CIVILIAN RESERVE COMPONENT	REPRESENTATIVE OPERATIONS
<b>United Kingdom</b> Stabilisation Unit 	Interdepartmental agency that reports to a tripartite board consisting of senior officials from the Foreign Office, Ministry of Defence, and Department for International Development.	To coordinate and support interagency planning and operations in fragile and conflict-affected states. Does not deploy in response to natural disasters.	\$20 million, with access to project funds from an \$85 million interdepartmental "conflict pool."	54 permanent; about 70 detailees.	1,000+ from the private and NGO sectors. 200+ from more than 30 different UK government agencies.	Sudan, Haiti, Democratic Republic of the Congo, and Afghanistan Provincial Reconstruction Teams (PRTs).
<b>Canada</b> Stabilization and Reconstruction Task Force (START) 	Office within the Department of Foreign Affairs and International Trade.	To coordinate Canada's response to major complex crises, develop policies related to humanitarian affairs, stabilization, and reconstruction, and implement programs. Deploys to both conflict/immediate post-conflict environments and natural disasters.	\$18 million operating budget; administers \$146 million Global Peace and Security Fund (the size of the fund depends on the current crises).	63 permanent staff (75% of whom are deployable); about 15 detailees.	Maintains a standing capacity with the Royal Canadian Mounted Police to deploy up to 200 police, and can draw an additional 100 personnel from various government agencies.	Haiti, Afghanistan, Pakistan, Sudan, Democratic Republic of the Congo, Guatemala, and Colombia.
<b>Netherlands</b> Fragile States Unit (a.k.a. Peace-Building and Stabilization Unit) 	Office within the Ministry of Foreign Affairs (MFA).	To coordinate civilian-military strategies toward fragile states and assess the efficacy of development programs in such countries.	Access to a \$135 million Stability Fund (2008 budget). However, that fund is jointly managed by an interagency steering committee, with most monies dedicated to other foreign assistance initiatives. Also has access to a smaller fund of approximately \$47 million (2010).	24 full-time personnel from the MFA.	Draws deployable personnel from the MFA and from a roster of private-sector and NGO experts.	Afghanistan PRTs, Sudan, Burundi, and Kosovo.
<b>Denmark</b> Concerted Planning and Action Initiative (CPA) 	Chaired by the Danish Foreign Ministry. Consists of interagency Standing Civil Service Committee and deployable Steering Units.	To plan and prepare for international peace operations and ensure a concentrated Danish civilian effort in areas where Denmark's military is deployed during stabilization operations.	Project budget of about \$2.7 million (as of 2008).	Small permanent Standing Committee of approximately 10 members and Steering Units of various sizes.	80-100 experts available for short-term deployments and another 140 for long-term missions (as of 2008).	Contributed personnel to PRTs in Iraq and Afghanistan.
<b>Australia</b> Office of the Australian Civilian Corps 	Managed by AusAID in cooperation with other government agencies.	To deploy civilian reconstruction experts to natural disasters and post-conflict environments.	N/A.	Small permanent management within AusAID	Roster of 500 civilian experts (by 2014)	N/A.
<b>Germany</b> ZIF (Berlin Center for International Peace Operations) 	Unit within the German Federal Foreign Office.	To strengthen civilian capacities for international peace operations by training and recruiting civilian experts and preparing analyses of peacekeeping and stabilization operations.	N/A.	16 full-time personnel, 10 project managers, and 3 consultants.	Maintains a database of about 1,200 personnel, 400 of whom are available only for short-term missions.	Focuses on training and lessons learned; not operational.
<b>Sweden</b> The Folke Bernadotte Academy 	Government agency (under the Ministry for Foreign Affairs).	Focus on international conflict and crisis management through national cooperation and coordination, training and exercises, policy research and development, international recruitment, and conflict resolution.	\$38 million, with access to additional project funds.	Around 90 full time personnel in Sweden, and 90 personnel seconded to missions.	Maintains and trains a national personnel roster of 260 personnel, with high readiness to deploy for both long and short term missions.	Personnel represented in Afghanistan, Kosovo, Iraq, Democratic Republic of the Congo, Liberia, Georgia, Bosnia-Herzegovina, and the Palestinian territories.

Regarding U.S. relief and reconstruction plans, programs, and operations in Iraq, the Special Inspector General for Iraq Reconstruction provides independent and objective:

- oversight and review through comprehensive audits, inspections, and investigations
- advice and recommendations on policies to promote economy, efficiency, and effectiveness
- prevention, detection, and deterrence of fraud, waste, and abuse
- information and analysis to the Congress, the Secretary of State, the Secretary of Defense, and the American people