

STATEMENT OF
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BEFORE THE
SUBCOMMITTEE ON STATE, FOREIGN OPERATIONS,
AND RELATED PROGRAMS
COMMITTEE ON APPROPRIATIONS
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PROGRAM IN IRAQ: AN EXAMINATION OF THE DIPLOMATIC SURGE”
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Chairwoman Lowey, Ranking Member Wolf, and Members of the Subcommittee, thank you for inviting me to testify today on behalf of the Office of the Special Inspector General for Iraq Reconstruction (SIGIR).

Today, SIGIR is releasing its 15th Quarterly Report, and I am pleased to present it to you at this hearing. The report contains a detailed review of SIGIR's continuing work overseeing the approximately \$45 billion appropriated by Congress for Iraq's relief and reconstruction. Of that amount, about 74 percent is obligated, and 60 percent has been expended. Since 2003, the United States, Iraq, and international donors have provided or pledged more than \$100 billion for Iraq's recovery.

SIGIR has now produced more than 100 audits and more than 100 inspections on Iraq reconstruction since beginning its oversight in late January 2004. In this presentation, I will review notable audits and inspections and information we gathered and analyzed this quarter from U.S. government agencies and other sources.

Our quarterly report presents (1) an overview of SIGIR's work; (2) details on the four major U.S. funding streams for the reconstruction program with updates of Iraq's major economic indices, and reviews progress in various U.S. development programs; (3) summarizes our audit and inspection reports issued this quarter; and (4) an overview of other-agency work on Iraq completed this quarter.

Summary

Permit me to begin by summarizing a few broad areas of interest discussed in the report:

Funding

As IRRF infrastructure programs move toward completion, new U.S. aid to Iraq is weighted toward support for Iraq's security forces. To date, the Congress has appropriated \$13.94 billion to the Iraq Security Forces Fund (ISFF), of which \$7.23 billion has been expended. SIGIR currently has oversight of FY 2006 appropriations to this fund. SIGIR plans to issue audits and inspections of the ISFF in 2008.

Two other funds provide significant U.S. aid to Iraq: the Commander's Emergency Response Program (CERP), managed by DoD, with total appropriations of \$2.3 billion, and the Economic Support Fund (ESF), managed by the DoS, with total appropriations of \$3.27 billion. SIGIR now has oversight of FY 2006 appropriations to both of these funds.

Provincial Support

SIGIR's third audit report on the Provincial Reconstruction Team (PRT) program finds PRTs are making incremental progress developing Iraq's capacity to govern and manage reconstruction effectively. Iraq's complex and overlapping sectarian, political, and ethnic conflicts, as well as the difficult security situation, continue to hinder progress in promoting economic development, rule of law, and political reconciliation.

Security

This quarter, the average number of reported daily attacks on Coalition personnel dropped to its lowest levels since June 2006, and the average number of attacks on Iraq's civilians also declined. Even so, the security situation still hampers reconstruction efforts and stymies Iraq's economic recovery.

Electricity Production Breaks Records

Thanks in part to new U.S.-financed electrical projects, a drop in attacks on infrastructure, and improved maintenance by the Ministry of Electricity, Iraq's electrical output this quarter reached its highest levels since the 2003 invasion, averaging over 4500 MW per day.

Iraqi Anticorruption Efforts

Corruption is a "second insurgency" that continues to undermine Iraq's fledgling democracy. Four major challenges exist: limited transparency, lack of political support and funding from the GOI, weak rule of law, and lack of capacity to carry out the mission.

CERP Inspections Show Success

SIGIR completed its first inspections of projects funded by the Commander's Emergency Response Program and found that the quality and outcome of the projects examined was good at the four sites inspected.

Concerns about the Mosul Dam

A SIGIR inspection this quarter uncovered problems with U.S. efforts to help Iraq enhance its grouting operations at the Mosul Dam on the Tigris River. Although the U.S. assistance project has yet to yield significant improvements, the Embassy has developed an approach that will effectively augment Iraqi mitigation measures at the dam.

\$1.2 Billion Police Training Program Needs Better Oversight

An interim SIGIR audit report on DynCorp's \$1.2 billion to support Iraq's police training program identified serious shortcomings that existed in the program, which was overseen by the Department of State's Bureau of International Narcotics and Law Enforcement (INL). INL has informed SIGIR that it is taking steps to rectify these problems.

IFMIS Suspended

A two-year effort to develop and implement a new automated financial management system for Iraq (IFMIS) has been halted. This affects the Government of Iraq's budget execution and inhibits transparency into budgeting activities across Iraqi agencies. SIGIR reviewed the problems facing the effort, and recommended a way forward.

Review of Major Audits and Inspections

DynCorp's Civilian Police Training Contract with the State Department

This quarter, SIGIR issued an interim "focused financial review" of DynCorp's \$1.2 billion contract to support Iraq's civilian police training program. The report identifies serious shortcomings in the financial controls and program management of the contract, which is the responsibility of the Bureau of International Narcotics and Law Enforcement (INL) of the Department of State (DoS).

INL currently has several initiatives underway to remedy the problems SIGIR identified, including reconciling invoices and validating records. SIGIR's findings underscore the risks of fraud, waste, and abuse associated with weak contract oversight. SIGIR continues work on focused financial reviews of other large IRRF contracts.

KBR Audit

Last quarter, SIGIR performance audit of KBR's "life-support" contract task orders supporting both DoD and DoS missions in Iraq found a number of contract management weaknesses that needed to be addressed. This quarter, our update found that the agencies have made major improvements in contract oversight, including implementing a quality assurance program and tightening accountability for fuel, dining,

and billeting services. KBR has also made significant improvements in its operations. These improvements will save taxpayer dollars.

At the same time SIGIR's report this quarter made a series of additional recommendations for improved management practices involving (1) fuel issue/receipt, fuel reimbursements, and resolving discrepancies regarding deliveries; (2) reimbursements to and from others; and (3) future contracting for Embassy support.

IRRF Contract Closeout and Unliquidated Obligations

SIGIR completed two other audits of the IRRF this quarter: on contract closeout procedures and on unliquidated obligations. The unliquidated obligations audit found that, with respect to more than \$2 billion in unexpended IRRF dollars, DoD, DoS, and USAID should improve the use of the remaining funds by better documenting results and expediting the de-obligation of funds for use on other projects. The Congress has permitted IRRF funds obligated under existing contracts to be de-obligated for other uses.

SIGIR's audit of contract closeout practices looked at whether agencies have developed effective procedures for this critical stage of their IRRF contracts. SIGIR found that the agencies generally have good procedures for addressing the large number of outstanding contracting actions and for bringing them to a close. Estimates for the time required to close out the large reconstruction contracts range up to 15 years. DoD may face future closeout problems because the department has not yet determined who will be responsible for the huge and complicated design-build contracts when the temporary organizations established to manage these contracts cease to exist. Plans to transition the closeout workload of these temporary organizations to other organizations have not been fully worked out. We recommended that transition plans address closing out these large contracts.

Provincial Support

The Provincial Reconstruction Team program (PRT) is the most important governance capacity-building program that the United States now manages in Iraq. The program has evolved and expanded considerably since its inception two years ago. Today, it is an essential element in the U.S. civil-military stabilization and rehabilitation effort.

Over the past year, SIGIR released three audit reports on the PRT program. The first, issued in October 2006, found weak coordination of personnel and security requirements between DoD and DoS. Last quarter's update reported significant progress in civil-military integration. This quarter's report contains a more comprehensive look at the expanding PRT program. In many locations, the PRT Program in Iraq is making incremental progress in developing the nation's provincial and local government capacity to effectively govern and manage its own reconstruction, despite continuing political and ethnic conflicts, as well as the difficult security situation.

However, Iraq's complex and overlapping sectarian, political, and ethnic conflicts, as well as the difficult security situation, continue to hinder progress in promoting economic development, rule of law, and political reconciliation. Officials told SIGIR that a key obstacle to developing governance capacity was the lack of a Provincial

Powers Law to define the rights and responsibilities of government offices and hold provincial officials accountable for their actions. These conditions varied across sections of the country and individual provinces.

Further, despite the best efforts of PRT civilian and military officials who are working under dangerous and austere conditions to accelerate the Iraqi transition to self-reliance, resolving these problems will likely be a slow process. It will likely require years of steady engagement and the pace of progress will depend heavily on the security environment and political settlements at the national level.

The Commander's Emergency Response Program (CERP)

CERP now serves as a major source of funding for DoD-managed reconstruction projects. Streamlined contracting has made the CERP an agile and useful tool for field commanders seeking to meet locally-identified needs.

Although the CERP was originally designed to provide field commanders with flexible funding to execute local projects rapidly, the program now also supports more elaborate reconstruction projects. For example, CERP projects include dredging the Port of Umm Qasr (estimated at more than \$30 million) and building a bridge in Baghdad (estimated at more than \$7 million). As the IRRF program closes out, the CERP increasingly has served as a vehicle for finishing IRRF programs and projects.

This quarter, SIGIR completed the first inspections of CERP-funded projects and found that the quality and outcome of the four projects reviewed was very good. SIGIR will issue its third CERP audit by the end of this year.

DoS recently implemented a CERP-like program called the Quick Response Fund (QRF), using ESF funds, to be drawn on by PRT team leaders.

Security

The average number of reported daily attacks on Coalition personnel dropped this quarter to its lowest level since June 2006; the average number of attacks on Iraq's civilians also declined. In addition, security conditions notably improved in two of Iraq's most violent provinces—Anbar and Diyala.

Notwithstanding this important progress on the security front facilitated by the surge, the overall security situation still hampers recovery and reconstruction efforts. Attacks on infrastructure continue to adversely affect the availability of essential services.

As SIGIR has previously reported, insurgent attacks on reconstruction worksites slow the pace of infrastructure rehabilitation and limit the capacity of project managers to conduct quality control checks. The security situation also affects SIGIR's oversight operations. For example, increased insurgent activity in the Mosul area this past August delayed SIGIR's assessment team visits to three sites and prevented SIGIR's team from visiting one of the sites selected for inspection.

Anticorruption

Corruption is a “second insurgency” that continues to exert a corrosive force on Iraq’s fledgling democracy. Iraq’s three primary anticorruption agencies have seen a significant increase in their caseloads this year.

The GOI has made limited progress this year, including the creation of the Joint Anti-Corruption Council, a GOI entity charged with coordinating anticorruption efforts. But the corruption problem remains daunting.

In January 2007, the Chief of Mission created the Office of Accountability and Transparency (OAT), in response to a recommendation in SIGIR’s October 2006 anticorruption audit. The OAT took charge of enhancing U.S. efforts to bolster Iraqi anticorruption efforts and made good progress during the first quarter of 2007, securing the appointment of a senior consultant for the IGs and for the BSA. However, the initial director of the OAT departed soon after arriving, as did his successor, and an acting director is now in place. This leadership turnover has hampered the OAT’s development.

An integrated anticorruption strategy should coordinate the Economic Section’s anticorruption plans, the MNF-I’s rule-of-law programs, OAT’s operations, the Rule of Law Coordinator’s initiatives, and the Embassy’s other rule-of-law-related projects carried out by USAID, but such a strategy does not exist.

Electricity Output Breaks Records

This quarter, average electricity production reached its highest level since 2003, setting a post-war quarterly record, of 4,550 MW per day.

DoS attributes the improvement to:

- efficiencies arising from U.S.-and Iraq-funded operations and maintenance programs;
- the activation of new generation capacity; and
- the reduction in attacks on power-lines and repair teams, especially in the Baghdad area, due to the surge of U.S. forces in Iraq

A SIGIR inspection of the Qudas Power Plant this quarter found that the \$238 million dollar project’s two main objectives (turbine restoration and plant capacity expansion) had been achieved. Moreover, SIGIR found that U.S. government efforts to support sustained operations at the plant were effective, and that the GOI had demonstrated active intent to assume the long-term responsibility for sustaining operations. The Qudas plant, a key part of the electrical reconstruction program, is one of the more successful electric projects SIGIR has visited.

Mosul Dam: A Serious Concern

Saddam’s government completed the Mosul dam in 1984. It is constructed atop soluble soils subject to erosion; the movement of these soils creates cavities beneath the dam and its banks that must be filled, or grouted. The Iraqi Ministry of Water and Resources has implemented risk-reduction measures, including a grouting program, over the past 25 years.

This quarter, SIGIR completed an inspection of a \$27 million U.S.-funded effort to improve the grouting system. SIGIR found that the project has not achieved its objectives.

The Ministry continues its earlier grouting operations at the dam. The Embassy's Iraq Transition Assistance Office (ITAO) is finalizing a detailed "Post-Delivery Support Plan" that will help the Ministry with the equipment and materials required to improve the current grouting operations.

Reassessing IFMIS

SIGIR issued an interim audit report noting that after spending about \$38 million, the United States is reassessing its support of project to develop a new Iraq Financial Management Information System (IFMIS). Begun in 2004, this project was intended to provide an automated financial management system for the GOI. Inadequate planning, coordination problems with the GOI and security issues have plagued the project since its inception and all work on the project has been suspended. SIGIR has recommended that any further U.S. investment be contingent on GOI commitment to the project as well as a full, independent assessment of the proposed system.

Other Matters

Capacity Development

SIGIR continues to be concerned about the efforts of U.S. agencies to develop the capacities of the Iraqi government to operate at all levels—national, regional, and local. This effort would be more effective if a single agency were assigned to lead it and if it had an overarching, integrated strategic plan. SIGIR is planning an audit for 2008 that will update its previous reviews of the capacity-building effort.

SIGIR remains concerned about Iraq's capacity to sustain U.S. reconstruction projects. The DoS Coordinator for Economic Transition Initiatives, commendably, has made this issue a priority and is working with the GOI to improve budget planning to ensure sustainment of completed projects.

Budget execution—the expenditure of Iraqi funds by the various ministries and provinces—continues to be a focus of capacity development efforts. According to the latest U.S. Benchmark Assessment Report, issued on September 14, 2007, the \$10 billion capital budget of the GOI for 2007 has been allocated (but not obligated). We remain concerned, however, about how much of its capital budget the GOI will actually be able to execute, at least in the form of obligations, by the end of 2007.

Transitioning Financial Responsibility to the GOI

Iraq's national budget, rather than the budget of the United States or other donors, now funds the Iraqi government, except the Ministry of Defense and the Ministry of Interior, which still receive considerable, and increasing, U.S. assistance.

The GOI must budget to sustain security programs previously funded by the U.S. government. The need for this shift in responsibility was emphasized this quarter in letters sent to the Ministries of Defense and Interior by the Commander of the Multi-

National Security Transition Command-Iraq (MNSTC-I). In those letters, the MNSTC-I Commander notified both ministries that the Coalition would terminate U.S. funding for life-support contracts for Iraqi police and army training and operations facilities on September 30, 2007. MNSTC-I reports that the terminations occurred as planned.

The Human Toll

Security continues to be a significant concern for Iraq's citizens and for the U.S. military, diplomatic and reconstruction staff, and contractors. Reports on the security environment show a drop in attacks this quarter as a result of the U.S. troop surge.

Although the level of indirect fire against the International Zone in Baghdad fell to its lowest level in the past year, there was an increase in attacks on other U.S. facilities in Baghdad.

Although the overall security environment has improved recently, contractors, journalists, and Iraq's citizens continue to live and work in an environment that is, in many places, still quite dangerous:

- The Department of Labor (DoL) reported 72 new death claims this quarter for civilian contractors working on U.S.-funded projects in Iraq. Since Iraq reconstruction began, 1,073 death claims have been filed with the DoL. Reported deaths in this category were about 22% above the quarterly average.
- DoS reports that three U.S. civilians died in Iraq this quarter. Since the beginning of the U.S. reconstruction effort, 235 U.S. civilian workers have died in Iraq. Non-military U.S. citizen deaths reported this quarter were 78% below the quarterly average.
- Violence continues to force Iraqis to migrate. The UN High Commissioner for Refugees (UNHCR) estimates that one of every seven Iraqis has been displaced by the conflict in Iraq. Internal migration is limited by some provincial restrictions on admission of internally displaced persons, and external migration is typically limited by visa requirements. Those who migrate often possess skills and capital which could be put to good use in the reconstruction effort.

Investigations

Along with our audit and inspection work, SIGIR's investigative efforts made progress this quarter. We have 52 open investigations, 30 of which are being prosecuted by the Department of Justice. To date, SIGIR's cases have resulted in 13 arrests, 5 convictions, 5 imprisonments, 8 indictments, 29 suspensions and 17 debarments and over \$17 million in court-ordered restitutions, forfeitures, and recoveries.

Conclusion

Madam Chairman, SIGIR remains dedicated to providing Congress and the American people with the most comprehensive and accurate reporting on the use of taxpayer dollars for Iraq's relief and reconstruction. I am particularly grateful for the quiet bravery of the SIGIR auditors, investigators, and inspectors, who, along with their

military and civilian counterparts, continue to carry out their duties under dangerous conditions.

In early November I will return to Iraq for my 18th visit. That time will be spent with our brave and dedicated Baghdad-based staff, who have already served in Iraq for an average of 18 months each—and some of whom have been injured as a result of the dangerous conditions in Iraq—as well as with my colleagues in the civilian agencies and the military, with Iraqi government officials, as well as with others who are involved in the reconstruction effort.

Let me close by thanking the members of the subcommittee, on behalf of my colleagues, for your support of SIGIR's work. It is deeply appreciated. Madam Chairman, this completes my statement, and I look forward to responding to your questions.