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**BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON FOREIGN AFFAIRS**

“IRAQ: IS RECONSTRUCTION FAILING?”

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Introduction

Chairman Lantos, Ranking Member Ros-Lehtinen, and members of the Committee, thank you for this opportunity to report to you on the continuing work of the Office of the Special Inspector General for Iraq Reconstruction.

This hearing poses the question, “Is Reconstruction Failing?” The short answer is “no”. Much has been accomplished in the reconstruction and rehabilitation of countless facilities throughout Iraq, and in assisting Iraqis at all levels to take charge, whether in neighborhood or provincial councils or in the national ministries in Baghdad. Permit me to pay tribute to the dedicated Americans, Iraqis, and other Coalition partners who have strived in incomparably dangerous conditions to advance Iraq's economic and political recovery.

Although there have been notable accomplishments achieved through the use of the Iraq Relief and Reconstruction Fund, there have also been significant shortfalls within the U.S. reconstruction effort in Iraq. Identifying those challenges is the first step toward applying the lessons learned from Iraq so that the applicable U.S. governmental systems can be effectively reformed and structurally improved.

The challenges to the relief and reconstruction program, documented in SIGIR’s 86 audits, 90 inspections and 13 quarterly reports, stemmed from:

- executing a reconstruction program in an unstable security environment;
- poor interagency planning and coordination, especially in the effort’s early stages;
- inconsistent and poorly managed contracting practices;
- weak program and project oversight, especially with respect to quality assurance and quality control programs; and
- insufficient systems for human capital management.

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These factors have challenged all that the U.S. program has sought to accomplish on the reconstruction front in Iraq. Over the past three years, SIGIR has reported on these challenges, and, through real time auditing and consultative advice, we have sought to advance remedies on the ground in Iraq. Additionally, SIGIR's work has resulted in extensive case studies of the challenges in human capital management, contracting and procurement, and program and project management. We have documented these challenges in three lessons learned reports and provided a series of recommendations for improvement. These recommendations have generated reform measures within the Congress that have begun to remedy some of the systemic problems SIGIR has identified.

On-The-Ground Update

I have just returned from my 16th trip to Iraq, where I spent ten days meeting with the current leadership of the reconstruction program. I also focused my efforts during my visit on furthering the next phase of SIGIR's oversight mission.

As we execute our oversight regime, SIGIR continues to work closely with all United States Government agencies in Iraq. While in Iraq, I met with the U.S. Chief of Mission, Ambassador Crocker, the Multi-National Forces – Iraq (MNF-I) Commanding General, General Petraeus, and other officers of the Departments of State and Defense and the United States Agency for International Development (USAID). I also met with the Commander of the U.S. Army Corps of Engineers, Gulf Region Division, and the USAID Mission Director for Iraq. I had the opportunity to see the head of the Economic Transition Office, Ambassador Tim Carney, who outlined important developments in the budget execution initiative which is of great importance to the recovery of Iraq, and about which I testified before a subcommittee of this Committee in March.

SIGIR's latest quarterly report, issued three weeks ago and covering the first three months of 2007 – the beginning of the "surge" – highlighted a number of important aspects of the reconstruction program. First, the U.S. program has moved beyond the large-scale reconstruction programs that were funded by the Iraq Relief and Reconstruction Fund (IRRF). Over 85% of the IRRF is now spent and most projects funded by it are complete.

The Corps of Engineers' Gulf Region Division continues to manage the relatively small number of remaining IRRF construction projects, valued at \$4 billion, most of which are in the electrical sector. GRD expects to complete virtually all of them over the next year. The last of the IRRF money is being deobligated and reobligated by the Joint Contracting Command – Iraq/Afghanistan to facilitate completion of selected projects.

As the U.S. program moves beyond the IRRF, the US effort will increasingly focus on targeted support to specific programs aimed at furthering capacity development within the Iraqi system. Most notable among these programs is the Provincial Reconstruction Team (PRT) initiative, which began just over a year ago. The PRTs' primary mission is to build governance capacity at the local level. In January, it was announced that the

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number of PRTs would be doubled in conjunction with the military “surge” in Baghdad. The PRTs are designed to assist local governments in stabilization and reconstruction efforts. SIGIR’s October review of the PRT program, which found problems in the areas of resources, staffing, and security, helped engender focused attention on these important issues that has helped enhance their operating capability.

SIGIR will update its October PRT report this quarter, and next quarter, will provide a detailed review of the expanded PRT program, including an assessment of the 10 new “embedded” PRTs (EPRTs). These EPRTs are mobile units with a core civilian staff and embedded within military brigades, which gives them organic security, reduces costs, and allows them to operate in difficult environments.

The Congress approved \$1.48 billion for the Economic Support Fund as part of the FY2006 Supplemental. The appropriation was allocated along three tracks: security (\$923 million), economic (\$345 million), and political (\$208 million). The PRT and Provincial Reconstruction Development Committee programs received \$470 million from the security track – or about a third of the ESF appropriation – for program and project support. Additionally, \$277 million was allocated for infrastructure security support. One example of a project funded in this area is the strengthening of the Al Latifya Oil Storage Facility in Baghdad. USAID received \$155 million for its Local Governance Program and \$135 million for its Community Stabilization Program in Strategic Cities (Kirkuk, Mosul/Telafar, Fallujah, and Basra), both from the security track. State allocated \$105 million for further ministry capacity development. SIGIR will provide reporting on the FY2006 ESF funds in subsequent reports.

Our recent Quarterly Report underscored the current challenge in ensuring the sustainment – that is, the ongoing operation and maintenance – of IRRF projects that have already been transferred to the Iraqis. SIGIR’s latest series of inspection reports points to the continuing need to improve the asset transfer process so that Iraqi officials are prepared to sustain projects funded with billions of U.S. dollars. While the original IRRF contracts included a basic sustainment requirement, usually for 90 days, reconstruction managers soon realized that the Iraqis would need more assistance in this regard and thus reprogrammed funds to help ensure successful sustainment. SIGIR has assessed the asset-transfer process before, and our next quarterly report will contain an audit updating the progress within and continuing issues confronting the asset-transfer program.

Section Two of our latest Report contains updated reviews of the Commander’s Emergency Response Program (CERP) and the Economic Support Fund (ESF), both of which are important funding streams for continuing U.S. support to Iraq. Last year, the Congress expanded SIGIR’s mandate to include reporting on relief and reconstruction funds appropriated for FY2006, which include CERP and ESF allocations.

The Coalition Provisional Authority (CPA) initiated CERP in the summer of 2003 primarily using seized assets; some Development Fund for Iraq money (Iraqi funds under

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CPA management) was also used. The Congress first appropriated funds for CERP in 2004 and, over time, has provided a total of \$2.1 billion to the program.

SIGIR's April report included an audit of FY2006 CERP activity. The Congress appropriated \$923 million for FY2006 CERP – of which \$510 million was allocated to Iraq. Virtually all of the CERP funds appropriated to date have been obligated, mostly to Iraqi firms, and 83% of the projects have been completed. FY2006 funds have provided concrete benefits to the Iraqi people, including electrical generation equipment for a children's hospital, improvements to Baghdad's electrical grid, the construction of schools, and the construction of health care facilities.

SIGIR's audit of these CERP funds found that the Multi-National Corps-Iraq (MNC-I), which is responsible for CERP oversight, had improved controls over the CERP fund since SIGIR's FY2005 CERP review. Moreover, SIGIR confirmed that CERP funds were being used for the purposes authorized by the MNC-I Commander. But there were some concerns uncovered during the audit regarding file management and project coordination. The MNC-I concurred with SIGIR's recommendations and is implementing changes to address them.

Although substantial U.S. investment supporting Iraq's recovery continues, the phase wherein the U.S. bears the burden for financing Iraq's reconstruction has passed. The Iraqi government now must take responsibility for financing Iraq's national recovery. This means that the Government of Iraq (GOI) needs to execute more effectively its capital budget, which it failed to do in 2006, including effecting measures to ensure the proper operation and maintenance of the new infrastructure improvements provided through the U.S. reconstruction program.

Capital budget execution is a serious problem within the GOI. Of the \$34 billion 2006 budget, the U.S. Treasury Attaché reports that the GOI spent about \$22.8 billion or 67%. Moreover, only 22% of the 2006 capital budget was spent. The Ministry of Oil, a key ministry for revenue production, reportedly spent just \$90 million of its \$3.5 billion 2006 capital budget. We are told by Treasury that the best performer was the Ministry of Education, which spent its entire, though admittedly small, capital budget of \$15 million. The Ministry of Electricity spent a third of its capital budget in 2006, and the Ministry of Water spent just under half its allocation. By contrast, the GOI performed the simpler task of executing its budgets for salaries at a government-wide rate of 99%.

Best Use of Future Funding

In your letter, Mr. Chairman, you asked that I make recommendations for the best use of future funding. First, as a practical matter, this is a policy question that is better directed to the agencies managing this policy. But I believe that it is essential to provide more support for improving the operating capacity of Iraq's institutions and on improving Iraq's ability to execute its capital budget. I also believe that continuing support to the efforts to build local government capacity through the PRT program is vital.

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SIGIR's work to date has identified numerous issues of concern and we have provided recommendations for improvement with which implementing agencies have generally concurred. Many of the recommendations have already been implemented resulting in improvements within the reconstruction program. As our lessons learned studies have elicited, agencies involved in future post-conflict relief and reconstruction endeavors should ensure that they have developed and coordinated sufficient execution and oversight capacity to ensure that quality projects result.

Contracting is one of those areas that must be systemically addressed. SIGIR audits criticized contract management within the reconstruction program, particularly in its early stages; but contract management improved during the course of the program through the consolidation and streamlining processes for contract monitoring implemented by the Joint Contracting Command-Iraq/Afghanistan. As noted in our lessons learned report, recruiting and retaining sufficient numbers of trained contracting officers is essential to the success of a contingency relief and reconstruction program.

SIGIR's reporting similarly has revealed that program and project oversight has been a challenge in Iraq. The Baghdad Police College, which SIGIR has visited numerous times, suffered from poor project oversight and thus shoddy construction occurred. But SIGIR's overall inspections regime reveal that egregious shortfalls such as the Baghdad Police College are the exception rather than the rule. Of the projects SIGIR has inspected, 70% have generally met contract standards. The SIGIR inspections program validates a self-evident formula: good quality assurance programs (by the government) together with good quality control programs (by the contractor) should produce good projects.

Sustainment of U.S. funded reconstruction projects and programs is a significant challenge for the Iraqis. The original design-build contracts provided only modest allocations for operations and maintenance training and for spare parts. There has been inadequate planning to ensure that the Iraqis would budget for the sustainment of these projects. The sustainment issue has garnered increasing attention and additional U.S. funding over the past two years, yielding improvements in the sustainment effort.

Awards fees are better managed today as a result of a SIGIR review in July 2005 that required managers to put in place tighter controls and properly implement a system that appropriately rewarded only good performance. SIGIR's October 2006 review of contractor overhead costs also prompted more careful scrutiny of administrative task orders. SIGIR's serial reviews of contracting in Iraq and the CERP program have produced improvements in the management practices in both of these important areas.

SIGIR continues to monitor U.S. efforts to bolster Iraq's anti-corruption institutions and will issue another audit on this issue in our next quarterly report. During my recent trip to Iraq, I received reports about the weakened capacity and alleged politicization of Iraq's three anti-corruption entities - the Board of Supreme Audit, the Commission on Public Integrity (CPI), and the Iraqi Inspectors Generals (IG). The independence of these three

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entities is threatened (most particularly, the CPI), their staffs lack sufficient training (most notably, the IGs), and they have thus far been unable sufficiently to coordinate their overlapping mandates. One encouraging note for the committee, however, is the May 16th signing of the Joint Anti-Corruption Council charter. This body will include the heads of each anti-corruption entity and the Iraqi Higher Juridical Council. It is hoped that the body will bolster coordination and advancement of anti-corruption and Rule of Law efforts which continue to be a critical precursor to success in Iraq.

Overview of upcoming audits, inspections, investigations.

I visited with each of SIGIR's auditors in Iraq during my recent visit and am pleased with the progress they are making on a wide variety of significant issues. I also worked with the Assistant Inspector General for Audits to update our audit plan for the remainder of SIGIR's existence. Over the next 15 months, SIGIR will execute a series of focused financial reviews aimed at achieving a reasonable financial accounting of how the IRRF was spent and what was achieved with it.

SIGIR currently has 20 auditors in Iraq who are engaged in the following audits; we expect to publish up to 12 of them over the next quarter:

- A review of LOGCAP Task Order 130 (looking at the performance of KBR's provision of life-support services (dining, fuel, housing, etc.) to the Department of State)
- The Status of Transferring IRRF Projects and Assets to the Government of Iraq
- A Review of Cost-to-Complete Reporting for Iraq Relief and Reconstruction U.S.-Funded Programs and Projects
- A Review of USG Support to Iraqi Anti-Corruption Efforts
- A Fact Sheet on the USG Reconstruction Agencies' Roles & Responsibilities
- An IRRF Financial Review of Unliquidated Obligations
- A Review of Spending of U.S. Government Funds under USAID's Bechtel Contract
- A Review of Close-Out Procedures for IRRF Contracts
- A Review Contracting in Iraq Reconstruction that Compares Design Build vs. Direct Contracting
- A Review of U.S. Sources & Uses of FY 2006 Funding for Iraq Relief and Reconstructions
- A Survey of the Department of State's IRRF Projects in Programs managed by DoS/INL
- A Review of the Effectiveness of U.S. Government Contracts to Enable Budgeting and Financial Management Capabilities within Iraqi Ministries

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- A Review of Spending of U.S. Government Funds under Parsons Corporation Iraq Reconstruction Contracts
- A Survey of a DynCorp Contract for the Iraqi Police Training Program Support and Equipment
- A Review of the Use of Sector Project and Contracting Office Contractors (SPCOCs) in Managing Relief and Reconstruction Projects
- A Review of Blackwater Contracts in Iraq Related to Support of Iraq Relief and Reconstruction
- An Assessment of the Status of the Provincial Reconstruction Teams in Iraq
- A Comparative Analysis of the Air Force Center for Environmental Excellence and Gulf Region Division of the U.S. Army Corps of Engineers in Contracting for and Management and Administration of Projects and Programs in Iraq

SIGIR has nine inspectors on the ground in Iraq who travel the country visiting and reporting on projects. In our April report, SIGIR produced its first series of sustainment inspections. These assessments reviewed projects that were transferred to Iraqi control at least six months before the SIGIR site visit. Although most of the sites we visited were operational, the reports raised concerns about the capacity of the Iraqis to effectively operate and maintain transferred projects.

We expect to complete up to seven more sustainment inspections this quarter. Our work plan for the following quarter anticipates a series of CERP project inspections. We are also visiting projects associated with one or more Provincial Reconstruction Teams. SIGIR expects to publish the following inspection reports this quarter:

- Project Phoenix – Restore Qudas Gas Turbine
- Iraqi Ministry of Defense Building
- Iraqi C-130 Base, BIAP Airport
- Al Rasheed Brigade Set
- Al Qana'at Water Pump Station, Sadr City
- Zegaton Pipeline/Canal Crossing mis-matched pipe connections
- Al Daura Power Plant

Some of these inspections will be co-inspections with personnel from the Office of the Inspector General in Iraq's Ministry of Defense. This will promote the capacity of this nascent IG office.

SIGIR has seven investigators on the ground in Iraq, and, during my recent trip, I received a detailed briefing from each of them on their respective cases as well as their collaborative efforts with other U.S. investigative agencies operating in Iraq. While I cannot discuss the specifics of those cases, I can assure you that we are making steady

and significant progress on a variety of cases involving fraud, kickbacks, bribery, and other crimes.

Lessons Learned

In keeping with its mandate to provide recommendations to the Congress for improving the reconstruction program, SIGIR has produced three Lessons Learned reports and is working on a lessons-learned capping report, which will be issued at the end of the year. Our Lessons Learned reports have addressed Human Capital Management, Contracting and Procurement, and Program and Project Management.

Recommendations from each include:

Human Capital

- Develop a “civilian reserve corps” that would serve as reconstruction and stabilization first responders and would include a quick-reaction human resources team that pre-identifies human resources requirements for potential relief and reconstruction contingency operations.
- Charge OMB with managing the development and implementation of a uniform set of human resources rules that would apply to all federal personnel deployed for contingency operations.

Contracting and Procurement

- Explore the creation of an enhanced Contingency Federal Acquisition Regulation.
- Pre-compete and pre-qualify a diverse pool of contractors with expertise in specialized reconstruction areas

Program & Project Management

- Consider a “Goldwater-Nichols” –like reform measure to promote better coordination and integration among Defense, USAID and State, particularly with respect to contingency operations.
- Ensure that program managers integrate local populations and practices at every level of the planning and execution process.

Full copies of the lesson learned reports and their 19 cumulative recommendations are available at www.sigir.mil.

The lessons learned capping report will draw upon these and other SIGIR reports, as well as accounts by various program managers, contractors, and sector advisors in its account of how the reconstruction funds were spent and how the evolving security and policy environment affected the outcome.

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This committee has asked what SIGIR would recommend on the best use of future funding. In addition to implementation of recommendations from our various audits and inspections, implementing recommendations from our Lessons Learned reports could help promote improved economy, efficiency, and effectiveness in the continuing Iraq program.

Conclusion

In preparation for our anticipated move into the new Embassy compound this fall, SIGIR is reducing its staff footprint in Baghdad from 55 to 30. SIGIR, which is a temporary agency, will conclude its mission at the end of next year. We continue to manage our work plan – and in particular our investigative work – in anticipation of eventually transferring the remaining mission to the appropriate departmental inspectors general.

Before the expiration of our mandate, SIGIR expects to issue a number of audit and inspection reports that focus on tracking IRRF funds and review key programs under ongoing funding streams such as ESF and CERP. We expect to issue five more quarterly reports, a capping lessons learned report, and a concluding letter report. SIGIR expects that our investigative work will yield significant results over the course of this year.

In closing, permit me to say that I remain proud of the courageous SIGIR auditors, inspectors, and investigators who continue to carry out our mission in Iraq with great dedication, notwithstanding the many challenges to our important work.