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BEFORE THE

U.S. SENATE COMMITTEE ON APPROPRIATIONS

"THE EFFECTIVENESS OF U.S. EFFORTS TO COMBAT CORRUPTION, WASTE, FRAUD AND ABUSE IN IRAQ"

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Introduction

Chairman Byrd, Ranking Member Cochran, and members of the Committee, thank you for this opportunity to appear before you today to discuss important issues facing the United States' continuing support for the relief and reconstruction efforts in Iraq. The central issue that I will address is the effectiveness of U.S. efforts to combat fraud, waste, abuse, and corruption in Iraq. The efficacy of these efforts is essential to ensuring that the investment of billions in taxpayer dollars in relief and reconstruction activities in Iraq is protected and preserved.[1]

The Office of the Special Inspector General (SIGIR) began as the Coalition Provisional Authority Inspector General, starting work soon after my appointment in January 2004. SIGIR, which was formed in October 2004, reports to the Congress and jointly to the Secretaries of State and Defense. It is our mission to keep the Congress, the Administration, and the American people transparently informed about the results of our oversight, which have been both positive and negative, and to provide recommendations for improvement and lessons learned. During its short lifespan, SIGIR has issued 216 audit and inspection reports that address myriad programs and projects related to U.S. reconstruction efforts in Iraq. Our investigative work has identified a number of instances of egregious fraud that have led to five convictions to date, several trials that will begin this week, and pending indictments stemming from active cases.

Our audit and inspection reports document a number of challenging situations that we have examined and investigated in Iraq. As a preliminary matter, it is important to note that the reconstruction program in Iraq is unlike any other in history in that it has been carried out virtually under fire. Thus, it is fundamentally different from reconstruction in a stable environment and our findings should be viewed in that light.

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[1] See Appendix I for a definition of fraud, waste, and abuse developed by GAO, SIGIR, and the Inspectors General of the Departments of Defense and State.

The security challenges in Iraq, however, do not supersede the applicable rule governing the use of taxpayer dollars, and, in fact, the difficult environment increases the need for comprehensive on-the-ground oversight. Thus, SIGIR has been and remains committed to maintaining a robust operational presence in Iraq to provide effective oversight and real-time review. Our collective reporting to date reveals a simple axiom: effective quality assurance programs carried out by the government and complemented by effective quality control programs performed by contractors will yield successful programs and projects. Where good quality assurance and quality control programs have been applied in Iraq, success has been achieved. SIGIR's inspection reports document that the majority of the projects we have visited have met contract expectations and are being used per their original intentions. However, of the 50 construction project assessments that were deemed a success, eight had inadequate design submissions, four had some form of inadequate construction, and two lacked sufficient attention to sustainability issues. Despite these findings, the overall rate of success is notable given the high security risks that have afflicted the program in Iraq.

Since SIGIR's inception, an essential element of our approach to oversight has been to rapidly identify problem areas and work with management to develop improvement plans. I instruct my auditors to produce audits that provide solutions to any findings and to be transparent with management throughout the audit process. This approach has worked. Most of SIGIR's published audits have provided recommendations with which management concurred and agreed to implement. This approach has promoted positive change in the program through the application of lessons learned along the way.

While the fraud we have found in Iraq has been egregious, it has also been limited in scope relative to the overall investment of taxpayer dollars in Iraq. However, SIGIR reporting has found that waste, while difficult to quantify in gross numbers, has been present in a wide variety of U.S.-funded Iraq reconstruction projects and programs. The problem of waste has diminished since the inception of the program as managers have applied lessons learned (e.g., moving from expensive design-build cost-plus contracts to direct, fixed-price contracts).

Regarding the preservation of the U.S. investment in Iraq, SIGIR has found weaknesses in plans and processes governing the transfer of U.S.-funded projects and assets to the Government of Iraq (GOI). We raised a red flag on this issue (in an audit released last July), noting that much of the U.S. reconstruction investment is at risk unless these issues are effectively addressed by the GOI.

Our investigative work and capacity are increasing, particularly with regard to using forensic capabilities to review allegations of contract fraud like double billing. We also are strengthening investigative coordination through expanded participation in various Iraq fraud task forces.

As our previous audits have noted, the U.S. support for GOI for anticorruption programs has been relatively limited and less effective than necessary. The GOI continues to face a plethora of problems arising from corruption within its governmental institutions, a

reality that the GOI has begun to face publicly as evidenced in its three-day anticorruption conference in early January 2008. Taking seriously the fight against corruption—a burden shared by the GOI and the US Mission in Iraq—is an essential element to the ultimate success of the fledgling Iraqi democracy. Success on this front is key to preserving the U.S. investment in Iraq's relief and reconstruction.

I returned two days ago from Iraq. It was my 19th trip over the past four years. During my 15-day stay, I had informative dialogues with a number of Iraqi officials about the past and present U.S. reconstruction programs. I met with former Prime Ministers Jaafri and Allawi, the current Deputy Prime Minister, Dr. Barham Salih, the Chair of the Baghdad Services Committee, Dr. Ahmed Chalabi, the President of the Board of Supreme Audit—Dr. Abdul Basit, and the new Commissioner of the Commission on Integrity. Judge Rahim al-Ugaili.

My discussions with Dr. Basit and Judge Rahim focused on the current state of corruption in the GOI. Dr. Basit acknowledged that corruption within a number of ministries continues to restrict their progress. Judge Rahim, who has been in his new position for just under two months, concurred that Iraq and, specifically, his Commission must improve its collective anticorruption investigative capacity through training, better coordination with U.S. investigators, and expanded use of technical tools and expertise. Prime Minister Maliki has designated 2008 as the Year of Reconstruction and Anticorruption. While this is a signal and welcome recognition within the Iraqi government of the importance of addressing this continuing problem, it is essential, as Dr. Basit related to me, that the GOI substantiate its welcome rhetoric with robust rule of laws actions.

I also met with Ambassador Crocker, General Petraeus, and the leaders of the primary U.S. reconstruction management offices, collectively finding continued progress toward improving processes for managing the U.S. investment in Iraq.

SIGIR Background

My testimony is based on the audit reports that SIGIR has issued, in accord with Generally Accepted Audit Standards, and the SIGIR inspections and investigations, which have been completed in accord with standards established by the President's Council on Integrity and Efficiency (PCIE). Our continuing oversight work is summarized every three months in SIGIR's comprehensive Quarterly Reports—of note, we are the only IG required to produce quarterly reports to the Congress. We have also produced three lessons learned reports—on personnel, contracting, and program oversight—which have led to improvements through legislative and regulatory reforms. We are at work on a fourth cumulative lessons learned report scheduled for release this summer.

By maintaining a significant oversight presence on the ground in Iraq, SIGIR is uniquely and robustly positioned to review U.S. reconstruction programs through its cross-jurisdictional mandate authority and capacity derived from four years of institutional

experience. We conduct, supervise, and coordinate audits and investigations of the treatment, handling, and expenditure of amounts made available for the reconstruction of Iraq. We do so in order to ensure the independent and objective leadership of oversight; to promote economy, efficiency, and effectiveness; and to prevent and detect waste, fraud, and abuse in Iraq programs.

The Congress has assigned SIGIR the responsibility for conducting audits and investigations relating to expenditures from a set of accounts specified in law, including the Iraq Relief and Reconstruction Fund, the Iraq Security Forces Fund, the Commander's Emergency Response Program, the Economic Support Fund, and a variety of smaller funds. In addition, Congress has assigned SIGIR the duty to provide reporting on amounts appropriated or otherwise made available "for assistance for the reconstruction of Iraq . . . under any other provision of law."[2]

We regularly coordinate our work with other audit and investigative agencies with whom we share overlapping jurisdiction through a variety of mechanisms, including the Iraq Inspectors General Council, which I formed four years ago, and through joint audits with our sister agencies. Because of our unique mandate, SIGIR can take a multi-agency approach to the problems of Iraq reconstruction, comparing, for example, the Department of State's Provincial Reconstruction Teams and the Department of Defense's Commander's Emergency Response Program. These programs at times have similar goals but have also upon occasion used conflicting practices and procedures. SIGIR closely coordinates its work with the Government Accountability Office.

The enactment of the FY 2008 National Defense Authorization Act (NDAA) in late January 2008 provided SIGIR with new responsibilities. Specifically, the NDAA give SIGIR expanded oversight of funds in the Iraq Security Forces Fund, the Commander's Emergency Response Program, and the Economic Support Fund. Section 842 of the NDAA directs SIGIR to develop a comprehensive audit plan for a series of audits of Federal agency contracts, subcontracts, and task and delivery orders for the performance of security and reconstruction functions in Iraq. This will require a level of effort beyond SIGIR's already extensive focus on contract audits of reconstruction activities. The legislation requires SIGIR to play a significant leadership role in planning and coordinating these audits with other relevant inspector general organizations, including the DoD IG, the DoS IG, and USAID IG.

Along with the work required under our new mandate, SIGIR continues its ongoing emphasis on detailed reconstruction contract review. Specifically, we continue work on our extant mandate to complete a final forensic audit report on all amounts appropriated or otherwise made available for the reconstruction of Iraq. To fulfill this requirement, SIGIR is executing a series of focused contract audits of large Iraq reconstruction contracts and will culminate this work with capping reports. Our focused financial audits have examined overall IRRF contract administration and oversight, contract outcomes, and have included assessments of vulnerabilities to fraud, waste, and abuse. Future

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[2] Sec. 3001(m)(2)(B) of Public Law 108-106 as amended by Sec. 1221, National Defense Authorization Act for FY 2008 (Public Law 110-181).

contract audit coverage will be expanded to include contracts across additional reconstruction funding appropriations, years of funding, programs, and include construction as well as non-construction contracts.

Audits

Over its four-year existence, SIGIR's Audit Directorate has issued 108 audit reports that provide 315 recommendations. These recommendations cover a wide range of issues that have contributed to improvements in agency operations in Iraq reconstruction. SIGIR audits have been directly responsible for $58 million in savings and $40 million that has been put to better use. SIGIR has challenged $7.5 million in payments. The vast majority of our recommendations have been agreed to by the agencies to whom they were addressed, with many corrective actions underway or completed.

Inspections

As of January 2008, the SIGIR Inspections Directorate has issued 108 project assessment reports that cover reconstruction project sites in Iraq valued at over $1.265 billion. To date, SIGIR has conducted 84 construction assessments and 24 sustainment assessments. The assessments have yielded a variety of results, ranging from noting well-constructed projects to finding projects with serious deficiencies.

The projects with deficiencies are largely the result of insufficient government oversight and inadequate contractor performance. Of the 84 construction assessments, 34 had significant deficiencies preventing the project from meeting its original objectives. These deficiencies resulted from inadequate design, construction, quality control, government quality assurance, and planning for sustainment.

Investigations

SIGIR's investigative work has produced 14 indictments, 14 arrests, 5 convictions, 9 individuals pending trial (several of whom go on trial this week), and over $17 million in fines, forfeitures, and restitution. We currently have 50 ongoing investigations into fraud, waste and abuse involving funds for the reconstruction of Iraq. From its inception, SIGIR has had a strong investigative presence in Iraq. Currently, we are expanding our capability throughout the continental United States, to areas where much of the information and many potential subjects are currently located.

SIGIR Investigations continues to work with a wide range of U.S. agency partners in its pursuit of allegations of fraud, waste, and abuse in Iraq relief, reconstruction, and infrastructure building. SIGIR's investigative partners include: U.S. Army Criminal Investigation Command, Major Procurement Fraud Unit (CID-MPFU); Defense Criminal Investigative Service (DCIS); Federal Bureau of Investigation (FBI); U.S. Agency for International Development, Office of Inspector General (USAID OIG); and U.S. Department of State, Office of Inspector General (DoS OIG). Our partnerships with other Federal law enforcement agencies have enhanced interagency cooperation and

maximized our investigative resources through investigative case coordination and deconfliction.

SIGIR supports the ongoing national initiatives and task forces, such as the Defense Finance and Accounting Service invoice review project in Rome, New York. DCIS initiated the project to detect fraud involved with payments made by the U.S. Army to support the war effort in Iraq. Next week, two SIGIR agents will deploy to Rome, New York, to work with the task force in furtherance of this investigative effort.

SIGIR continues to participate in the National Procurement Fraud Task Force (NPFTF) and the International Working Committee (IWC), a subcommittee of the NPFTF. In October 2006, the Department of Justice (DoJ) Criminal Division created the NPFTF to promote the early detection, prevention, and prosecution of procurement fraud associated with increased contracting activity for national security and other government programs. The IWC links DoJ and Federal law enforcement agencies and provides a venue to address prosecutorial issues resulting from fraud investigations conducted in an international war zone.

While SIGIR agents in Iraq concentrate on American targets and work with our investigative partners and the DoJ, our special agents also continue to develop close relationships with Iraq's Commission on Integrity (CoI, formerly known as the Commission on Public Integrity) and the Board of Supreme Audit (BSA). My agents and I met with the head of the CoI during my recent visit to Iraq, and I am pleased to report that the close relationship that we previously had with the CoI will be continued under the CoI's new leadership. Thus, our agents in Iraq will be able to continue to assist Iraqi authorities in their investigations of Iraqi contractors who engaged in fraud potentially involving U.S. dollars.

A key component of SIGIR's investigative program has been the strategic development of investigative task forces that enable synergistic collaboration among law enforcement agencies pursuing Iraq fraud cases. SIGIR formed the first Iraq fraud task force in spring 2005. This initiative, the Special Investigative Task Force on Iraq Reconstruction (SPITFIRE), combined the efforts of SIGIR with investigative assets from the Internal Revenue Service, the Department of Homeland Security's Office of Immigration and Customs Enforcement, the Federal Bureau of Investigation, and the Department of State's Office of Inspector General. SPITFIRE succeeded in effectively pursuing the investigation of the Bloom-Stein conspiracy, the first major fraud prosecution in Iraq. SIGIR investigators developed allegations uncovered during a SIGIR audit, which revealed an egregious criminal conspiracy in Hilla, Iraq, involving tens of millions of dollars in fraudulent contracts, bribes, and kickbacks. Nine individuals (military, civilian, and contractors) were indicted, four convicted and five are pending trial; several others will go on trial start this week.

SIGIR is not limiting its efforts just to addressing contractor misconduct through the criminal and civil justice system. We also refer cases to the U.S. Army Legal Services Agency, Procurement Fraud Branch, for adjudication under the administrative suspension and debarment process. Since December 2005, SIGIR and its partner agencies have

worked closely with the Army's Procurement Fraud Branch to suspend and debar contractors for fraud or corruption within the Army, including those involving Iraq reconstruction or Army support contracts in Iraq.

In June 2003, the Department of Defense designated the Department of the Army as the executive agent for contracting support to the Coalition Provisional Authority. As a result, the Army's suspension and debarment authority leads the effort to ensure the integrity of contractors performing these contracts. The goal of this program is to ensure that these contracts are awarded to, and performed by, contractors who are honest and ethical and who have the ability to successfully perform this important work. The Procurement Fraud Branch has also taken a leading role within the Army and at joint contracting organizations to train contracting officers to aid in the prevention and early detection of contractor fraud in Iraq reconstruction and support contracts. As reflected in SIGIR's last Quarterly Report to the United States Congress, the Army Procurement Fraud Branch reported that it had suspended 32 individuals or companies, proposed 30 for debarment, and debarred 20 based on allegations of fraud and misconduct connected to Iraq reconstruction and contractor fraud.

Reconstruction Program Vulnerable To Fraud, Waste, and Abuse

Systemic contracting and management problems, corruption, and the general lack of security in Iraq are major factors that have made reconstruction programs in Iraq vulnerable to fraud, waste and abuse. With the limited resources available, agencies often did not effectively administer or implement reconstruction contracts. This was particularly the case when it involved government oversight of the work performed and government review of invoices. Poor security exacerbated these problems by frequently making it too dangerous to provide oversight of reconstruction activities, to transport needed materials to construction sites, or to allow quality assurance personnel to visit sites. Our audits found pervasive weaknesses in program and contract management and our inspections uncovered many problems at construction sites. However, there have also been a number of successes in the program, and executive agencies have largely been responsive to our observations and recommendations, applying lesson learned along the way. As requested by the Committee, the following litany provides selected examples from our audits and inspections wherein we identified vulnerabilities to fraud, waste, and abuse.

1. **Police Academy, Hilla, Iraq (SIGIR Inspection PA 05-032 issued January 31, 2006).**

   At the direction of the Coalition Provisional Authority, the Joint Contracting Command-Iraq awarded a contract to SBIG Logistics and Technical Services, Inc. for the construction and support for an addition to the Al Hillah (Hilla) Police Academy. The total contract price was $23.6 million, of which $9.1 was specifically for the additional building. The SIGIR inspection identified numerous deficiencies with the construction project. Overall, the U.S. government did not implement a quality assurance program and it did not ensure the design requirements were met. Even

though the statement of work clearly required design submittals from the contractor for the major components of the police academy addition, the contractor did not provide them for review. In addition, SIGIR found significant cracks in the walls, inadequate backup power capability, poorly constructed sidewalks, a poorly designed wastewater system, evidence of roof leaks, and inadequate security systems. The contractor did not deliver or install the two back-up generators that were required by the contract. In addition, one other generator that was removed for overhaul was not returned. The two remaining generators that were on site were not capable of sustaining the academy in case of a power outage.

2. Border Posts (SIGIR Inspections PA 05-021 thru PA 05-024 issued January 31, 2006).

USACE awarded a contract valued at $36.5 million in March of 2004 to Parsons, Inc., to build border posts at Iraq's border crossings. The contractor did not prepare a properly designed facility and did not obtain written approval from USACE for the design before construction. Projects were not consistent with the original objective to complete and commission border denial posts. The border forts were not constructed with the perimeter security requirements. The jail facility, generator units, fuel tanks, and water system were not secured, and there were no physical restrictions preventing access to the walls of the border posts.

During the design phase the contractor proposed replacing steel-reinforced concrete columns and beams with structural steel I-beams. There was no record that USACE reviewed or approved the design changes. During construction, USACE personnel observed that the horizontal I-beams supporting the roof were deflecting under the weight of the roofing material, and that some of the I-beams were improperly installed. A retrofit to reinforce the installed undersized I-beams was required.

3. U.S. Agency for International Development's (USAID) Management of the Basrah Children's Hospital Project (SIGIR Audit 06-026 issued July 31 2006).

USAID was tasked with constructing a pediatric hospital with an estimated ceiling cost of $50 million. In August 2004, USAID awarded a contract to Bechtel National, Inc., to build the hospital. However, early decisions to increase the size of the facility, design flaws, contract delays, poor construction and site security ultimately increased the price to between $149.5 and $169.5 million. USAID was required by Public Law 108-106 to report on the progress of construction and its incurred costs to the Congress. However, USAID's accounting systems and management processes were inadequate and failed to identify either construction progress or accurate contract costs. To stay within the cost limits, USAID stopped reporting indirect costs that may have totaled $48 million that should have been assigned to the contract. Further, based on cost data obtained from USAID, SIGIR estimated the new completion price to be between $149.5 and $169.5 million. Compounding these problems was a lack of effective program management and oversight by USAID and the Department of State. SIGIR observed that at the time of the audit, there was one

contracting officer, one administrative contracting officer and one cognizant technical officer along with a few support staff who were responsible for management and oversight of $1.4 billion in construction activities including the Basrah Children's Hospital. Construction management was taken over by the U.S. Army Corps of Engineers (USACE). USACE says that completion of the hospital is now scheduled for mid-2008 with a planned opening of early 2009.

4. Baghdad Police College (SIGIR Inspections PA 06-078 and 06-079.2 issued January 29, 2007).

USACE awarded two task orders totaling $72.2 million to Parsons, Inc., to renovate portions and construct other portions of the Baghdad Police College. The contractor did not provide–and the government did not review—the required number of design drawings, USACE did not review the contractor's daily quality control reports and it also was unaware of significant construction deficiencies at the project site. SIGIR identified significant construction deficiencies, such as poor plumbing installation, expansion cracks, problems with the quality of the concrete, exposed rebar, and poor brickwork. Also, the construction and equipment installation were performed at a low level of workmanship by the contractor and did not comply with the international standards required in the contract. In addition, SIGIR found that the completed barracks buildings had significant plumbing failures and there were massive expansion cracks on the interior and exterior of the buildings that will leave the Iraqis with continual maintenance issues.

Finally, in an effort to complete the project, which was experiencing significant cost overruns and schedule slippages, 24 items were removed from the scope of work under the contract. During this inspection, SIGIR inspectors found indications of potential fraud and referred these matters to SIGIR Investigations for appropriate action.

On February 25, 2008, the SIGIR inspections staff initiated a follow-up assessment to determine the current status of the Baghdad Police College. During my recent trip to Iraq, I and my inspection team visited the Baghdad Police College as part of the new assessment. We found that, in addition to ongoing efforts to correct previous deficiencies (noted in our January 2007 report), the Multinational Security Transition Command-Iraq (MNSTC-I) is undertaking significant additional construction work. MNSTC-I estimates that current repair work will amount to $9 million and new construction contracts will amount to $42 million. Additional contracts to further expand training capabilities may add another $24 million to costs. The quality of the repair and construction work we observed on the initial return to the Baghdad Police College was decidedly better than the work that we previously reported on.

5. DynCorp International Task Order for the Iraqi Police Training Program Support (SIGIR Audit 06-029 issued January 30, 2007).

Under this task order issued in June 2004, the Department of State's Bureau for International Narcotics and Law (INL) contracted with DynCorp International for training services for international police liaison officers, training support equipment, and construction of a residential camp on the Adnan Palace grounds in Baghdad to house training personnel. The contract value was $188.7 million. Poor contract oversight resulted in millions of dollars being put at risk, and inadequate accounting of property acquired under the contract. Between July 2004 and June 2006, the Department of State paid about $43.8 million for manufacturing and temporary storage of a residential camp, including $4.2 million for unauthorized work associated with the camp. As of October 2007, INL has reached agreement for use of all the trailers for either the Embassy or a camp to be established at the Baghdad International Airport. In addition, the Department of State may have spent another $36.4 million for weapons and equipment, including armored vehicles, body armor, and communications equipment that cannot be accounted for.

6. Relief and Reconstruction Funded Work at the Mosul Dam (SIGIR Inspection PA 07-105 issued October 29, 2007).

The United States Army Corps of Engineers selected CH2Mhill/Parsons as the Sector Project and Contracting Office Contractor. It was responsible for engineering analysis and technical consulting, requirements management, quality assurance, contract administration, procurement, and logistics support. 21 contracts valued at $27 million were let to foreign companies. The SIGIR inspection found numerous problems at the site. There were no design drawings and specifications for large silos for holding concrete or for the construction of a grout-mixing plant. In addition, the foundation bolts of the stationary silos were so poorly installed that in 43 of 144 cases (30%), there were few, if any, bolt threads for the nuts to twist on. The government's quality assurance program did not adequately ensure correct delivery and construction of materials and equipment.

Further, many contractor invoices lacked supporting details for materials and equipment claimed. For example, one contractor's invoice claimed the delivery of 4 contract-specified submersible pumps with 54-m^3/hour and 20-meter lift capability, but the pumps actually delivered had only 36-m^3/hour and 17.5-meter lift capability. In addition, the contractor delivered two 30-m^3/hour concrete mixing plants instead of the two 30-m^3/hour grout mixing plants specifically required.

Contract file documentation showed that the contracting officer attempted to modify the delivered concrete mixing plants into grout mixing plants at the expense of the U.S. government, instead of enforcing the Federal Acquisition Regulation clause in the contract that requires the contractor to replace or repair them at no increase in price.

Approximately $19.4 million worth of equipment and materials delivered to the Mosul Dam for the implementation of the grouting operations did not provide benefit to the Ministry of Water Resources and may have been wasted. During this

inspection, SIGIR found indications of potential fraud and referred these matters to SIGIR investigations.

7. Department of State, Bureau of International Narcotics and Law Enforcement Affairs (INL), Management of DynCorp International, LLC, Contract for the Iraqi Police Training Program (SIGIR Audit 07-016 issued October 23, 2007).

INL awarded a contract to DynCorp International in February 2004, to provide housing, food, security, facilities, training support systems, and a cadre of law enforcement personnel to support the Iraqi civilian police-training program. As of August 23, 2007, INL had obligated about $1.4 billion and paid about $1.2 billion. INL's prior lack of management and financial controls created an environment vulnerable to waste and fraud and a situation whereby INL does not know specifically what it received for most of the $1.2 billion in expenditures. Although training has been conducted and equipment provided under the contract, INL officials report that (1) invoices and supporting documents submitted by DynCorp were in disarray, but are being organized; (2) INL had not validated the accuracy of the invoices it received prior to October 2006; INL personnel in Iraq and in Washington, D.C. are in the process of validating past invoices; and (4) INL lacks confidence that Department of State accounting records accurately capture the purpose for most disbursement. INL had taken action and continues to take action to improve its contract management in general and its management of the DynCorp contract in particular. According to INL officials, it will take three to five years to complete a 100 percent review and reconciliation of the invoices and a validation of the property records. To date, SIGIR's reviews of DynCorp contracts with INL have resulted in about $4.1 million in potential savings to the U.S. government. SIGIR plans to follow up its work on this contract later this year.

8. Outcome, Cost, and Oversight of Iraq Reconstruction Contract W914NS-04-D-0006 (SIGIR Audit 08-010 issued January 28, 2008).

In March 2004, USACE issued a contract to Parsons, Inc., with a ceiling price of $500 million to repair, renovate, or construct Iraqi ministry buildings and hospitals and to construct primary healthcare facilities. Of 11 task orders issued, only 3 were completed. The other 8 task orders were terminated for the convenience of the government with the work at most of the sites only partially completed. The projects were between 78 and 98 percent complete at the time.

USACE terminated these contracts because Parsons had poor control of its subcontractors, poorly managed and supervised the projects, and failed to control its costs. Parsons made infrequent trips to the project sites and as a result there was an overall lack of knowledge regarding conditions at the sites and in reporting construction progress. On the government side, SIGIR observed numerous management weaknesses, including high turnover of personnel, contracting office personnel with limited contact experience, a failure to enforce contract requirements

for monthly cost reports, and a failure to review contractor invoices before payment to assure that the work was performed.

9. U.S. Agency for International Development's (USAID) Efforts to Implement a Financial-Management Information System in Iraq (SIGIR Audit 08-007 issued January 25, 2008).

In 2003, USAID contracted with BearingPoint to develop and implement an Iraqi financial management information system. By October 2007, the system, which had achieved limited functionality, was shut down due to security issues and a lack of support by the Government of Iraq. At that point about $26 million had been expended for the system under broad-based contracts that included numerous other tasks related to economic and financial reforms for Iraq. Although deteriorating security conditions and competing demands for funds under the contracts no doubt adversely impacted the system's development, there was also a lack of clear direction based on user requirements. Neither the contracts nor BearingPoint's work plans provided that direction. As a result, information was not available to clearly assess progress on the system in relation to available benchmarks, making it difficult for USAID to assess BearingPoint's performance. In mid-January 2008, the Iraqi Minister of Finance and Acting Mission Director at USAID signed a Memorandum of Understanding to restart the system.

The Challenge In Quantifying Waste

I am often asked: "What is the total amount that has been wasted in the U.S. reconstruction effort in Iraq?" To answer the total waste question, SIGIR would have to audit and inspect many more programs, projects, and contracts than we are able. I have 22 auditors in Iraq, 6 inspectors, and 5 investigative staff. Thus, our oversight targets are necessarily judgmentally selective, developed through strategic planning that aims to provide the widest review possible. The foregoing litany of oversight reporting illustrates the scope of issues arising from our reviews of Iraq reconstruction contracts. This variety makes it impossible to calculate now what the precise total waste figure might be. But our collection of audits and inspections provide an episodic story of waste, as we have defined it with the GAO (see definition at Appendix I).

One episode of waste is evidenced by our audit of the Iraq Financial Management System. The system is not being used and it does not appear that the GOI wants to use it. Thus, if the system ultimately falls into permanent disuse, then the entire U.S. investment, amounting to tens of millions of dollars, could be counted as waste. Other contracts we reviewed have uncovered decisions to reduce, descope, or terminate work because of cost overruns, changing needs, or security conditions. While some of these causes may be unavoidable others entail factors that point to waste. Despite these difficulties, I have directed my auditing team to continue to identify waste to the extent practical. We intend to do that principally through the forensic audit process. The bottom line is that our reporting demonstrates that waste—rather than fraud—has been the chief problem in the Iraq reconstruction program. But both the waste and the fraud issues could

pale in comparison to the problem of ensuring that the GOI sustains the programs and projects funded by U.S. taxpayer dollars.

Government of Iraq (GOI) Acceptance And Sustainment Of U.S.-Funded Infrastructure Crucial To Ensuring U.S. Assistance Is Not Wasted

SIGIR audits have revealed that the U.S. investment is vulnerable to additional waste if construction projects are not properly maintained. To realize the maximum benefit of reconstruction investments, the assets must be effectively maintained and operated. However, the U.S. government and the GOI have yet to implement effective programs and plans to ensure proper asset transfer and maintenance. Planning for the effective management of these assets, from small health clinics to complex electrical generation plants, is critical for the economic and political recovery of Iraq and the security of U.S. interests in Iraq.

SIGIR oversight has identified deficiencies related to the transfer of U.S. funded assets to the control of the GOI. Our audits and inspections identified that the U.S. and Iraqi governments need to improve the asset transfer process, and the GOI must address its shortfalls in sustaining U.S. funded projects to ensure that reconstruction funds are not wasted. Overall, SIGIR determined that the inability of U.S. agencies to agree on one common asset transfer process, compounded by reluctance from Iraqi government officials at the national level to formally accept projects, has hindered the effective turnover of U.S. funded reconstruction projects.

U.S. Transfer Process Needs Improvement

SIGIR has issued five reports[3] on the transfer process, and we are currently working on a sixth. As explained in our July 2007 report, the asset transfer process is essential to both the United States and Iraq for two main reasons. First, it allows the GOI to recognize its ownership of the project. Asset recognition is the point at which the GOI officially agree that the project is complete, that all necessary project-specific documentation is in place, and that the U.S. government has provided the necessary training and orientation to the local Iraqi staff that will be responsible to manage, operate and maintain the new or refurbished facility. Second, it validates that the GOI is now responsible for project operation and maintenance and capital replacement. A formalized, unified asset transfer process allows the GOI to plan for and fund the operations and maintenance of U.S funded construction projects.

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[3] *GRD-PCO Management of the Transfer of IRRF-funded Assets to the Iraqi Government*, (SIGIR 05-028, January 24, 2006) ; *Multi-National Security Transition Command - Iraq Management of the Transfer of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government,* (SIGIR 06-006, April 29, 2006); *U.S. Agency for International Development Management of the Transfer of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government*, (SIGIR 06-007, April 29, 2006); *Transition of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government*, (SIGIR 06-017, July 28, 2006); *Transfering Iraq Relief and Reconstruction Fund Capital Projects to the Government of Iraq*, (SIGIR-07-004, July 25, 2007)

SIGIR's audits have made recommendations to USACE, MNSTC-I, and USAID to complete, in coordination with the asset transfer focal point organization in the Embassy, the development of a common policy facilitating the transfer of competed projects to the GOI. SIGIR follow up reviews recommended that the Embassy develop a single uniform process for asset recognition and transfer for all agencies. In July 2007, SIGIR again assessed the progress and recommended that the U.S. Ambassador to Iraq provide senior level support to finalize a Memorandum of Understanding (MOU) between the United States and Iraq on asset transfer.

SIGIR is currently in the process of updating our previous asset transfer reports and we are seeing some improvements. Since we began our reviews of asset transfer, SIGIR has been consistent in emphasizing the need to standardize the process for transferring assets to the GOI. Most recently, the Embassy, specifically the Asset Transfer and Recognition Working Group, has drafted an Interagency Agreement to formalize the asset transfer process among all U.S. partners. However, our preliminary evaluation indicates that the agreement still allows each agency to use its own procedures, and covers only projects funded by the Iraq Relief and Reconstruction Fund (IRRF). We will be following up with the Embassy on these issues for further clarification.

SIGIR recommended last July that the Embassy execute an Asset Transfer MOU or Bilateral Agreement with the GOI. The working group drafted an MOU with the aim of achieving a consensus on each side's intentions with respect to the transfer of assets. Mission officials recently informed us that, although the MOU was delivered to the Deputy Prime Minister in November 2007, there has been no progress by the GOI regarding the pending MOU. Moreover, our current work suggests that the MOU, even if signed, may have only limited impact: it again relates only to IRRF, and the MOU stipulates that all agreements in the MOU are nonbinding. Embassy officials informed us that the most important aspect of the MOU is in the naming of an Iraqi point of contact to serve as a central point of contract within the Deputy Prime Minister's office on issues relating to asset transfer.

SIGIR Inspections and Audits Indicate Problems in GOI Sustainment of U.S. Funded Projects

SIGIR audits and inspections have demonstrated that the GOI has had some successes but has experienced notable difficulties in sustaining transferred U.S. assets. To illustrate, SIGIR's Inspections staff conducted 24 sustainment assessments and found that 12 had significant deficiencies.[4] SIGIR's inspections indicate that some projects now under Iraqi control are not being adequately maintained, posing threats to the condition and durability of the facilities and to the health and safety of those who work at them. Comprehensive Operations and Maintenance programs and effective training are key to improving prospects for sustainment.

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[4] However, the number of poorly sustained sites may be larger because several sites could not be visited due to security concerns. As a result, the assessment team relied upon a review of the contract and photos taken at the time the projects were completed. Thus, actual sustainment is not known.

Here are examples of what our inspections and audits found:

1. Erbil Maternity and Pediatric Hospital, Erbil, Iraq (SIGIR Inspection PA-06-94, April 19, 2007)

In January 2007 SIGIR inspectors assessed the condition of this $6.8 million project that had been turned over to the GOI. At that time, SIGIR determined that long-term sustainability and serviceability of hospital equipment had been reduced because of the absence of effective operations and maintenance and parts-management programs. To illustrate, the hospital sewer system has occasionally clogged, causing wastewater to back up through floor drains into some sections of the hospital where patients receive care. This may have occurred because of the improper disposal of medical waste materials. SIGIR observed large quantities of medical waste in the sewer system's traps, manholes, and septic tank. Some mechanical equipment installed during renovation was inoperable either because operations and maintenance practices had been ineffective or because hospital workers chose not to use the new equipment. For example, SIGIR observed that a new incinerator installed during renovation was not used because the people initially trained to operate the incinerator were no longer employed at the hospital. Also a sophisticated new oxygen generator and distribution system was used only as a back-up system while hospital staff continued to use oxygen tanks that were not properly protected and secured. One of three new boilers was not operating, possibly because of a fire, and it was being used for parts. Critical water purification equipment did not function because weekly maintenance checks to observe and drain moisture traps were not performed.

SIGIR recommended that U.S. reconstruction officials engage with the appropriate Iraqi government officials to ensure sustainment of this U.S. taxpayer investment. They responded that our recommendations exceeded the contract requirements and their purview to address.

2. Recruiting, Babel Volunteer Center, Hilla, Iraq (SIGIR Inspection PA-06-089, April 17, 2007)

In January 2007, we inspected the Al Hilla (Hilla) Recruitment and Training Center which cost $1.8 million to repair. Our inspectors identified numerous problems in its maintenance. For example, two bathroom floors had buckled, which caused damage to concrete and tiles. Because the tenants never evacuated the sewage holding tank, effluent backed up in the drain lines and leaked into the ground beneath the floors. The problem would have been mitigated if the sewage holding tank had been properly evacuated; however, force protection barriers and internal walls prevented pumping trucks from accessing the tanks.

Wiring appeared to have short-circuited and ignited an electrical box, which has been replaced. The SIGIR inspection noted that bathrooms were not clean, there

were no beds for the Iraqi soldiers stationed at the facility, and electrical wiring had been improperly pieced-together to either repair burned-out circuits or to add lighting. The wastewater holding tank was full and channeling raw sewage onto the adjacent property, which eventually drains into the Hilla River. At the time of the inspection, SIGIR determined that if maintenance continued at its current level, the useful life of the facility would be significantly shortened and health hazards would persist. Insufficient funding was identified as the cause of inadequate maintenance.

3. West Baghdad International Airport Special Forces Barracks, Baghdad, Iraq (SIGIR Inspection PA-07-100, April 24, 2007)

The Special Forces Barracks was a $5.2 million reconstruction project which SIGIR inspected in March 2007. The four-150 kilovolt (kV) electrical generators installed under the contract, valued at approximately $50,000 each, were not operational. SIGIR could not determine when or why the generators became inoperative, but observed that batteries were missing and the levels of engine oil were inadequate. Some bathroom floor drains in company barracks were plugged or drained very slowly, which caused flooding in the bathrooms. The roofs of at least three barracks leaked in several places where water accumulated around drain basins.

In this case, U.S. reconstruction managers were responsive to SIGIR recommendations and indicated they would work with the Iraqi government to develop the capacity necessary to sustain projects constructed with U.S. funds.

4. Doura Power Station, Units 5 and 6, Baghdad, Iraq (SIGIR Inspection PA-07-103, July 18, 2007)

In June 2007 SIGIR inspected the Doura Power Station which cost $90.8 million to construct and an additional $80 million to provide for operations and maintenance and training for the Ministry of Electricity. SIGIR determined that sustainable operations at full capacity after start-up of Units 5 and 6 could not be reasonably assured unless the Ministry of Electricity's operations and maintenance practices improved. To illustrate, SIGIR observed that the ministry improperly operated or insufficiently maintained equipment in environments where equipment failure was likely. For example, in April 2007, dust and oil film accumulated in critical parts, which caused the complete failure of Unit 5. Bypassing and intentionally overriding automatic controls caused a system imbalance and catastrophic failure of power plant equipment. Electricity was being illegally tapped directly from the power plant using *ad hoc* cable taps throughout the facility. SIGIR assessed, however, that a planned contract for operations and maintenance and to implement a local training program should result in the prevention of future similar type deficiencies. We will be assessing progress in the future.

5. Iraqi C-130 Base, Baghdad, Iraq (SIGIR Inspection PA-07-099, July 24, 2007)

This $30.8 million air base was inspected by SIGIR in May 2007. During the inspection, SIGIR observed that numerous generators were not functional. Moreover, SIGIR observed flaws in the sewage system. For example, the nearby storm-water collection pond and connected drainage ditch contained sewage. The holding tank design allows sewage removal only by pump. Therefore, it appeared that the waste-removal truck pumped the sewage from the collection tanks into the drainage ditch. SIGIR noted a number of documented malfunctions of the reverse osmosis (RO) system. Regular filter changes had not been performed, chlorine dosing did not meet requirements, and the RO system pressures were not within the recommended range. Additionally, filters, anti-scaling, testing kits, and other various maintenance items were not available on site.

SIGIR inspectors worked with MNSTC-I management during this project and identified that a master plan was under development that would address the problems identified.

SIGIR's audits on Commander's Emergency Response Program (CERP) projects have identified further sustainment problems. SIGIR reviewed the CERP program in 2006, 2007, and 2008.[5] Overall, SIGIR found that despite some improvements, continuing challenges in planning for the transition of completed projects to the Iraqi people and in fostering long term sustainment of completed projects. We also found instances of lack of coordination between the CERP program and programs managed by the Provincial Reconstruction Teams. While PRT programs tended to try to induce Iraqis to devise and solve their own problems, CERP programs tended to quickly "fix" problems identified by local commanders. Occasionally, the two programs were acting at cross-purposes. In addition, the CERP program has gotten involved in much larger projects over time, such as complex water projects, and its managers lack many of the necessary resources to carry such projects forward.

Results of SIGIR Investigations

In our U.S. office, SIGIR investigators have historically worked from one central location in Arlington, Virginia; however, we recently expanded our investigative presence in the U.S. by opening offices in Florida, Texas, and Pennsylvania, with an additional office soon to be opened in Ohio. The agents assigned to these offices are conducting SIGIR's investigative work in their areas—where much of the records and witnesses are located, as well as providing SIGIR's investigative expertise to local task forces that are investigating allegations of fraud in U.S. funded programs and operations in Iraq.

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[5] *Commander's Emergency Response Program in Iraq Funds Many Large Scale Projects,*(SIGIR-08-006, January 25, 2008); *Management of the Commander's Emergency Response Program in Iraq for Fiscal Year 2006* (SIGIR-07-006, April 26, 2007); *Management of the Commander's Emergency Response Program for Fiscal Year 2005* (SIGIR-05-025, January 23, 2006)

Pursuing allegations of criminal fraud in Iraq has been a high priority for me ever since my appointment as Inspector General four years ago, and I remain committed to ensuring SIGIR continues its rigorous investigation program. SIGIR's robust oversight efforts to date have helped deter fraud, yet much work remains to be done.

SIGIR's investigative work to date has resulted in the following convictions and indictments—noting that criminal indictments are only charges and not evidence of guilt and a defendant is presumed innocent until and unless proven guilty:

- On February 2, 2006, Robert Stein, the former CPA Comptroller and Funding Officer in Hilla, Iraq, pleaded guilty to conspiracy, bribery, money laundering, possession of machine guns, and being a felon in possession of a firearm. Stein was the primary co-conspirator with Philip Bloom funneling numerous fraudulent contract payments to Bloom in exchange for kickbacks and bribes. Stein also admitted to facilitating the purchase and possession of at least 50 weapons, including machine guns, gun barrel silencers and grenade launchers with misappropriated CPA funds. On January 29, 2007, Stein was sentenced to nine years in prison and three years of supervised release. Additionally, he was ordered to pay $3.6 million in restitution and forfeit $3.6 million in assets.

- On March 9, 2006, Philip Bloom, a U.S. citizen, who resided in Romania and Iraq, pleaded guilty to conspiracy, bribery, and money laundering in connection with a scheme to defraud the CPA. Bloom admitted that from December 2003 through December 2005, he, along with Robert Stein and numerous public officials, including several high-ranking U.S. Army officers, conspired to rig bids for federally-funded contracts awarded by the CPA-South Central Region (CPA-SC) so that all of the contracts were awarded to Bloom. The total value of the contracts awarded to Bloom exceeded $8.6 million. Bloom admitted paying Stein and other public officials over $2 million from proceeds of the fraudulently awarded contracts and an additional at least $2 million in stolen money from the CPA. On February 16, 2007, Bloom was sentenced to 46 months in prison and two years of supervised release. Additionally, he was ordered to pay $3.6 million in restitution and forfeit $3.6 million in assets.

- On August 4, 2006, Faheem Mousa Salam, an employee of a government contractor in Iraq, pleaded guilty to a violation of the Foreign Corrupt Practices Act for offering a bribe to an Iraqi police official. Salam is a naturalized U.S. citizen employed by Titan Corporation and was living in Baghdad, Iraq. According to court filings, Salam offered a senior Iraqi police officer $60,000 for the official's assistance with facilitating the purchase by a police training organization of approximately 1,000 armored vests and a sophisticated map printer for approximately $1 million. On February 2, 2007, Salam was sentenced to three years in prison, two years of supervised release and 250 hours of community service.

- On August 25, 2006, Bruce D. Hopfengardner, a Lieutenant Colonel in the United States Army Reserve, pleaded guilty to conspiracy to commit wire fraud and money laundering in connection with the Bloom-Stein scheme. In his guilty plea,

Hopfengardner admitted that while serving as a special advisor to the CPA-SC, he used his official position to steer contracts to Philip H. Bloom, a U.S. citizen who owned and operated several companies in Iraq and Romania. In return, Bloom provided Hopfengardner with various items of value, including $144,500 in cash, over $70,000 worth of vehicles, a $2,000 computer and a $6,000 watch. Hopfengardner and his coconspirators laundered over $300,000 through various bank accounts in Iraq, Kuwait, Switzerland and the United States. Finally, Hopfengardner admitted that he stole $120,000 of funds designated for use in the reconstruction of Iraq from the CPA-SC and that he smuggled the stolen currency into the United States aboard commercial and military aircraft. On June 25, 2007, Hopfengardner was sentenced to 21 months in prison followed by 3 years supervised release, and ordered to forfeit $144,500.

- On February 7, 2007, U.S. Army Colonel Curtis G. Whiteford, U.S. Army Lt. Colonels Debra M. Harrison and Michael B. Wheeler and civilians Michael Morris and William Driver were indicted for various crimes related to the Bloom-Stein scheme in Hilla, Iraq. Whiteford, who was Stein's deputy in the comptroller's office, was charged with one count of conspiracy, one count of bribery and 11 counts of honest services wire fraud. Harrison, at one time the acting Comptroller at CPA-SC who oversaw the expenditure of CPA-SC funds for reconstruction projects, was charged with one count of conspiracy, one count of bribery, 11 counts of honest services wire fraud, four counts of interstate transport of stolen property, one count of bulk cash smuggling, four counts of money laundering and one count of preparing a false tax form. Wheeler, an advisor for CPA projects for the reconstruction of Iraq, was charged with one count of conspiracy, one count of bribery, 11 counts of honest services wire fraud, one count of interstate transport of stolen property and one count of bulk cash smuggling. Morris, who worked for Bloom, was charged with one count of conspiracy and 11 counts of wire fraud. Driver, who is Harrison's husband, was indicted on four counts of money laundering. The trial for Whiteford, Morris and Wheeler starts on March 11, 2008. The trial for Harrison and Driver has been postponed and a date has not yet been scheduled.

- On February 16, 2007, Steven Merkes, a former U.S. Air Force Master Sergeant working for the Department of Defense in Germany, pleaded guilty in U.S. District Court for accepting illegal bribes from Phillip Bloom. Merkes accepted the bribes in exchange for furnishing Bloom with sensitive contract information prior to awarding contracts to Bloom. Merkes was sentenced on February 16, 2007, to 12 months and one day in prison and ordered to pay restitution of $24,000.

- On July 23, 2007, U.S. Army Major John Cockerham, his wife Melissa Cockerham, and his sister Carolyn Blake, were arrested on a criminal complaint, and on August 22, 2007, they were charged with conspiracy to defraud the United States and to commit bribery, conspiracy to obstruct justice, and a money laundering conspiracy. Major Cockerham was also charged with three counts of bribery. According to the indictment, from late June 2004 through late December 2005, Major Cockerham was deployed to Camp Arifjan, Kuwait, serving as a contracting officer responsible for

soliciting and reviewing bids for Department of Defense (DoD) contracts in support of operations in the Middle East, including Operation Iraqi Freedom. The contracts were for various goods and services to DoD, including bottled water destined for soldiers serving in Kuwait and Iraq. Major Cockerham, Melissa Cockerham, Blake, an unidentified co-conspirator, and others allegedly accepted millions of dollars in bribe payments on John Cockerhams' behalf, in return for his awarding co-conspirator contractors and others DoD contracts, including those for bottled water, through a rigged bidding process. Cockerham allegedly guaranteed that a contractor would receive a contract in return for the payment of money. Cash bribes paid to the defendants and other co-conspirators allegedly totaled $9.6 million. The indictment also alleges that Melissa Cockerham and Carolyn Blake received millions of dollars from these contractors, and that the conspirators deposited the money in bank accounts and safe deposit boxes in Kuwait and Dubai.

- On November 15, 2007, Terry Hall was arrested on a criminal complaint charging bribery. Subsequently, on November 20, 2007, a federal grand jury indicted Hall for soliciting bribes. The indictment alleged that Hall paid money and other things of value to a U.S. military contracting officer to influence the actions of the officer, including the award of more than $20 million in military contracts. Hall operated companies that had contracts with the U.S. military in Kuwait, including Freedom Consulting and Catering Co., U.S. Eagles Services Corp., and Total Government Allegiance. According to the indictment, those companies received more than $20 million worth of military contracts for providing, among other things, bottled water to the U.S. military in Kuwait.

Anticorruption: U.S. Programs And Iraqi Efforts

In our January 2008 Quarterly Report to the Congress, we noted that the prevailing view among Iraqis about corruption in their country is not an optimistic one. Iraqis recognize the complex pattern woven from Iraq's long list of challenges—from its limited personnel and government capacity, to the fractious nature of politics, and all of those persisting in a still dangerous security environment. Corruption in Iraq, and for that matter in any country in transition, is not a problem that can be solved by simply creating a commission or by passing a law. It will take many long years of sustained effort, combined with political will, before the people of Iraq are assured that they are the beneficiaries of the oil riches and the full economic potential of their country.

Today, corruption remains endemic in Iraq. Unless checked, it is doubtful that many U.S. funded reconstruction efforts will be able to achieve their intended purpose. Furthermore, as SIGIR pointed out in its most recent Quarterly Report to Congress, Iraq is facing a windfall in potential oil revenues in 2008—over $50 billion that is highly vulnerable to corruption.

The Nature of Corruption

I testified in October 2007[6] that corruption in Iraq is a **second insurgency** because it directly harms the country's economic viability. In very real terms, corruption stymies the construction and maintenance of Iraq's infrastructure, deprives people of goods and services, reduces confidence in public institutions, and potentially aids insurgent groups reportedly funded by graft derived from oil smuggling or embezzlement. Corruption discourages hope, devalues America's contributions to Iraq, and strengthens the appeal of our opponents.

Surveys of Iraq's citizens continue to reveal a common belief that corruption is pervasive within their national government. Transparency International conducts annual surveys within countries on individuals' perceptions of the degree of public sector corruption. Their scores range from 10 for highly clean to 0 for highly corrupt. Out of 180 countries, Transparency International ranks Iraq at 178 with a score of 1.5. This data, while not conclusive, provides a grim independent assessment of corruption in Iraq.

Effective anticorruption programs must include a broad range of approaches to address the issue. Activities to address corruption may include establishing specific government entities which attack existing corruption. In Iraq, this includes the Commission on Integrity, which is the primary agency charged with investigating accusations of official corruption and bringing alleged offenders to court. It is analogous to the FBI. The Board of Supreme Audit is Iraq's analogue to the U.S. Government Accountability Office, and Iraq's system of Inspectors General parallels U.S. agency IGs. Additionally, U.S. efforts address the broad spectrum of conditions facilitating corruption by identifying deficiencies in investigative techniques and improving local governance capacity.

U.S. Embassy Progress in Sustaining High Level Leadership and Comprehensive Approach

In January of this year, SIGIR issued its fourth review on U.S. support to Iraq's anticorruption efforts. SIGIR found that the U.S. Embassy in Iraq has taken action or has planned steps to address SIGIR's previous concerns. If effectively implemented, these actions would address all recommendations contained in earlier SIGIR reports.[7] Most notably, the Ambassador has identified actions to improve the oversight and coordination of the U.S. anticorruption effort and in December 2007 proposed to the Secretary of State a reorganization of personnel and assets to elevate the importance of anticorruption programs.

The Embassy has recognized the need to design and implement a comprehensive, integrated anticorruption strategy to assist the GOI and the Iraqi people in combating the corruption permeating government agencies, private business, and other institutions of Iraqi society. SIGIR supports these actions but notes that past efforts to revitalize and coordinate U.S. anticorruption efforts have been largely ineffective and suffered from a

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[6] Testimony of Stuart W. Bowen, Jr., Special Inspector General for Iraq Reconstruction, "Assessing the State of Iraqi Corruption", House Committee on Oversight and Government Reform

[7] *U.S. Anticorruption Efforts in Iraq: Sustained Management Commitment is a Key to Success,* (SIGIR-08-008, January 24, 2008)

lack of management follow through. The success of these new efforts will, therefore, depend in large part on sustained management commitment, particularly in terms of day-to-day leadership and senior-management oversight.

At this time, preliminary observations from our ongoing work indicate that the Embassy is moving forward on its December plan, albeit slowly. To illustrate, the new Anticorruption Coordinator's Office has been established and initially staffed with six positions. An Acting Anticorruption Coordinator has been temporarily assigned until the position can be filled by a senior level U.S. government official. The State Department informed us that a preliminary selection has been made for this is position with a formal announcement imminent.

The Anticorruption Working Group has convened several times and seven sub-groups have been established in order to better manage/achieve specific goals and objectives. The sub-groups have been assigned specific areas to coordinate such as: (1) implementing and monitoring anticorruption reforms, (2) establishing standards to evaluate U.S. government anticorruption assistance, and (3) maintaining and accurate inventory of U.S. anticorruption assistance programs to prevent duplication of efforts among U.S. civilian and military entities. Several sub-groups have met and actions are underway in several areas, many of which stem from recommendations in prior SIGIR reports.

Government of Iraq Anticorruption Efforts: Challenges and Progress

I would like to address some of the challenges that I raised in my October 4, 2007 testimony on corruption in Iraq[8] and the steps the GOI is taking to fight this corruption.

Security

Security concerns throughout Iraq severely limit the transparency of government although as SIGIR as reported in our January 2008 quarterly report, violence has decreased and there is continuing progress in the capacity and size of the Iraqi Security Forces. Nevertheless, violence, or threats of violence as well as political influence over many of Iraq's public institutions remain. To demonstrate the impact of such conditions, I previously testified that Commission on Integrity investigators have been forced to reveal the details of their cases to the ministries and officials they were investigating, placing witnesses and anticorruption officials in danger. At least 39 employees of the Commission have been murdered. Judges and judicial investigators have also been intimidated or killed.

Political Leadership and the Rule of Law

The absence of ability within the Iraqi judicial system to prosecute corruption cases effectively and fairly is a major obstacle to tackling the pervasive corruption in the

[8] SIGIR 07-015T October 4, 2007 "Assessing the State of Iraqi Corruption" Testimony presented to the House Oversight and Government Reform Committee

country. These weaknesses stem from many factors: from the shortage of reliable judges, courtrooms and detention facilities, to political interference and the resulting culture of impunity. Article 136(b) of Iraq's Criminal Code is a notorious structural obstacle impeding Iraq's anticorruption efforts. This provision allows any Iraqi minister to grant, by fiat, complete immunity from prosecution to any ministry employee accused of wrongdoing.

In addition, an order issued by the Prime Minister in the spring of 2007 requires Iraqi law enforcement authorities to obtain permission from the Prime Minister's office before investigating current or former ministers. Although an Embassy official informed us that the head of the Commission on Integrity stated that the 2007 order had not impeded his recent activities, we continue to believe that these actions are incompatible with a well-functioning anti-corruption program.

Capacity

Iraq's anticorruption agencies, as well as government ministries charged with managing Iraq's financial resources and providing necessary services to its people, face significant capacity and resource shortfalls. Enormous shortfalls exist in the areas of investigations, audit and management. Moreover, our review of efforts to implement a financial management information system discussed earlier in this testimony demonstrated the vulnerabilities of current conditions. In 2003, the Coalition Provisional Authority and the International Monetary Fund conducted assessments that found that the GOI financial structure provided limited ability to monitor Iraqi ministerial budgets and expenditures, leaving the ministries vulnerable to fraud, waste and abuse.

Government of Iraq Efforts

SIGIR continues to monitor GOI anticorruption efforts. The first Anticorruption Conference was held in Baghdad on January 3, 2008. Organized by Deputy Prime Minister Baram Saleh, the conference announced that 18 initiatives, recommended by the Prime Minister, would begin as part of a National Campaign for Fighting Administrative Corruption. These initiatives are broad and address a wide range of issues. To illustrate, the plan calls for the adoption of data systems to provide transparency over public fund management and the execution of projects and plans. Moreover, addressing laws and regulations is an integral component of the plan; drafting a law on administrative corruption and review existing laws and regulations affecting money laundering are included as steps that must be taken. The Conference announcement also provided completion dates for each of the 18 initiatives. No later than April 1, 2008, for example, the Ministry of Foreign Affairs must implement the United Nation's agreement in fighting administrative corruption which Iraq agreed to join. Moreover, to support its

anticorruption efforts, the GOI has created two groups: the Joint Anticorruption Council and the Council of Representation Committee on Integrity.

Corruption Efforts Must be Sustained

Just as it is critical that the Government of Iraq (GOI) develop effective sustainment measures for the "hard" construction projects, so must it develop effective sustainment plans for "soft" programs—corruption being foremost among them. Efforts to improve government processes, increase transparency, strengthen the civil service system, bolster training, and hold individuals accountable—are even more important. In the area of corruption fighting—ensuring that entities such as the Board of Supreme Audit remain independent, resourced and politically supported, are also critical. We recognize that this will not be an easy task. In Iraq, as in many countries in transition, corruption presents a very complex challenge.

SIGIR Lessons Learned and Recommendations

In concluding, SIGIR has identified the following lessons learned that relate to the issues we have discussed today.

Strategy and Planning

- 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.
- Emphasize contracting methods that support smaller projects in the early phases of a contingency reconstruction effort.
- Generally avoid using sole-source and limited competition contracting actions. These exceptional contracting actions can be used in exceptional cases, but the emphasis must always be on full transparency in contracting and procurement.

Policy and Process

- Establish a single set of simple contracting regulations and procedures that provide uniform direction to all contracting personnel in a contingency environment.
- 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.
- Definitize contracts as early in the process as possible. SIGIR Audit 06-019 found that there was a lack of clarity regarding regulatory requirements for definitization of task orders issued under contracts classified as Indefinite-Delivery/Indefinite Quantity (ID/IQ).

- Designate a single unified contracting entity to coordinate all contracting activity in theater. JCC-I/A has recently been designated the coordinating agency.
- Ensure sufficient data collection and integration before developing contract or task order requirements.
- Avoid using expensive design-build contracts that have unclear requirements and are awarded on a cost-plus basis, especially for simpler projects when standard structures are needed in large numbers over a wide geographical area such as for schools and clinics.
- Use operational assessment teams and audit teams to evaluate and provide suggested improvements to post-conflict reconstruction contracting processes and systems.

SIGIR, made the following recommendations in our Contracting Lessons Learned Report to improve contingency contracting:

- Explore the creation of an enhanced Contingency Federal Acquisition Regulation (CFAR). We observed that agencies have developed agency specific regulations implementing the government wide Federal Acquisition Regulation (FAR). For example, the Army notes that the Department of State, which has unique capabilities important to expeditionary situations, has developed FAR implementing procedures that differ from DoD's.
- Pursue the institutionalization of special contracting programs such as the CERP which we noted before have unique roles in post-conflict reconstruction.
- Include contracting and program management staff at all phases of planning for contingency operations.
- Create a deployable reserve corps of contracting personnel who are trained to execute rapid relief and reconstruction contracting during contingency operations.
- Develop and implement information systems for managing contracting and procurement in contingency operations.
- Pre-compete and pre-qualify a diverse pool of contractors with expertise in specialized reconstruction areas.

Options for Congress to Consider

The Senate, in S. 680, has taken a number of steps to improve post-conflict contracting.[9] Moreover, the Army has initiated its own review, with the Commission on Army Acquisition issuing an excellent report on the subject. We generally support the Commission report's recommendations and note that many of these recommendations are

[9] Statement of Stuart W. Bowen, Jr. before the United States Senate Committee on Homeland Security Subcommittees, "Improving Contracting and Government Oversight of Contractors Performing Work in Contingency Operations", January 24, 2008

tied directly to areas of concern that SIGIR identified. We look forward to seeing their implementation.

We suggest that the Congress consider requiring any civilian agencies contracting in a contingency environment, most notably DoS and USAID, conduct their own comprehensive studies of their contracting operations to identify deficiencies and corrective actions. Specifically, we suggest these studies address their contracting and program and project management requirements, the status of their efforts to hire, train and ensure the speedy deployment of contingency contracting staff, and polices and procedures to manage and oversee contracts and contractors.

Given the critical need for coordination and collaboration, we further suggest these studies also address how the agencies will work with their civilian, as well as military, counterparts in contingency operations. In this regard, I would also suggest that specific timeframes be established for identifying contracting and contract management problem areas and reporting to Congress their proposed solutions, including implementation plans with identified priorities of specific tasks and completion dates.

Lastly, I would suggest to the Committee and to other committees that have oversight of U.S. reconstruction funding in Iraq that they press the various agencies which come before them during the budget cycle about the agency's own plans to deal with the problems we have discovered in specific and systemic terms, and in both the medium and short terms.

Closing

Let me close by thanking you for the opportunity to testify before you today on these important matters. On behalf of all of my colleagues, who carry out the important mandate you have assigned SIGIR, I extend thanks for your support of our work by providing us the resources we need to get the job done. This completes my statement for the record, and I look forward to responding to your questions.

APPENDIX I

WHAT ARE FRAUD, WASTE AND ABUSE?

Definitions: Fraud, waste, and abuse generally relates to the U.S. taxpayers not receiving the full value of government funded activities. Fraud is an illegal action by a government or contractor officials for personal gain. Waste represents a transgression that is less than fraud and abuse and most waste does not involve a violation of law. Rather, waste relates primarily to conditions that could result in waste such as mismanagement, inappropriate actions or inadequate oversight. Waste involves the taxpayers as a whole not receiving reasonable value for money in connection with any government funded activities due to an inappropriate act or omission by players with control over or access to government resources (e.g., executive, judicial or legislative branch employees, contractors, grantees or other recipients.) Examples of waste in the acquisitions and contracting area include the following:

- Unreasonable, unrealistic, inadequate or frequently changing requirements.
- Proceeding with development or production of systems without achieving an adequate maturity of related technologies in situations where there is no compelling national security interest to do so.
- Failure to use competitive bidding in appropriate circumstances.
- Over-reliance on cost-plus contracting arrangements where reasonable alternatives are available.
- Payment of incentive and award fees in circumstances where the contractor's performance, in terms of cost, schedule and quality outcomes, does not justify such fees.
- Failure to engage in selected pre-contracting activities for contingent events (e.g., hurricanes, military conflicts)
- Congressional directions (e.g. earmarks), and agency spending actions where the action would not otherwise be taken based on an objective value and risk assessment and considering available resources.

Abuse of authority or position involves decisions made for personal financial gains or for immediate or close family member or business associate. Abuse does not necessarily involve fraud or violation of law.[10]

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[10] GAO Letter to Congressman Ike Skelton on behalf of GAO, and the Inspectors General of SIGIR, DOD-IG and DOS-IG. February 7, 2007.