

Testimony of

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“Transition in Iraq: Is the State Department Prepared to Take the Lead?”

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Chairman Towns and Ranking Member Issa, thank you for inviting me to address the ongoing transition in Iraq from one where a predominant role has been played by the Department of Defense to one where that role will be played by the Department of State.

At the outset, I should say that, as our lessons learned work has shown, previous organizational transitions in Iraq have been the occasions of significant waste; so it is appropriate you are giving attention to the question of how this transition is being handled. I also applaud the valuable work of the Commission on Wartime Contracting. I agree with its analysis on this issue and concur with its recommendations.

The leading transition issues that we at SIGIR are concerned about are shaped by the fact that the major reconstruction program, as we have known it, is ending, and the United States is now embarking on a more traditional foreign aid program to provide assistance to Iraq and to promote its democratic and economic development. The civilian agencies, led by the Department of State (State), will have the lead on these programs.

The leading challenge is the hard reality that our program will continue to be conducted in a dangerous environment. The U.S. military’s role as a provider of significant support for civilian agencies has been reduced; and the military’s remaining force-presence will gradually disappear as our troops execute their scheduled withdrawals from Iraqi territory over the next year. These challenges are set out starkly in the Commission’s July 2010 report.

The United States’ continuing assistance program, which could cost around \$1.5 billion annually for the foreseeable future, will be among the largest aid efforts the United States is now or has ever been engaged in – even though it is significantly smaller than the funding numbers we have seen for seven years in Iraq. The Department of State has responsibility for all continuing foreign assistance to Iraq, as well as for ensuring that previous reconstruction projects, and those ongoing, are properly transferred to Iraqi control and are sustained (so that past U.S. investment is not wasted). This is a large task, one that will require serious assessments and applications of the past lessons learned.

My office's previous reporting on State's management practices in large Iraq programs raises concerns about whether State will be able to effectively manage both the very significant life support and security tasks (many of which have been provided by the Department of Defense (Defense)) and the diverse ongoing assistance programs, without risking the loss of taxpayer dollars to waste.

I do not have in mind simply the potential losses that could arise from weak program, contract, or grant management, which SIGIR audits previously uncovered. It may prove wasteful to keep civilian employees in Iraq and fund assistance programs simply because, if security conditions prevent civilian travel, then oversight of assistance programs could become impossible.

We recognize that State is relatively new to large-scale program, contract, and grant management. The projects it has undertaken in Iraq – and the projects it will inherit from other agencies, as they leave – are many times greater than those it has traditionally managed. It takes time to nurture an organizational culture that respects the need for planning and to develop a workforce with appropriate skills. State needs to promptly address this issue. It does seem clear that a relatively modest adjustment of State's budget priorities could make an enormous difference in the quality of State's project, contract, and grant administration. That is, spend more on oversight.

State Needs to More Effectively Manage Programs, Contracts and Grants

SIGIR has looked at a variety of State's management of programs, contracts, and grants in Iraq and found weaknesses in several areas.

Program Management. It is important to recognize that State historically was a relatively limited player in the *direct management* of U.S. civilian foreign assistance programs. The U.S. Agency for International Development – structurally part of State, of course – has been the principal conduit for most forms of development assistance, while Defense has administered military assistance programs under the aegis of State.

In recent years, State's direct management role increased, particularly regarding democracy development issues such as anticorruption, development of political parties, police training, and counternarcotics matters. State's responsibilities in these areas became significant in Iraq.

Unfortunately, the support made available to manage these programs effectively did not increase correspondingly. As a result, some programs lacked sufficient oversight, were poorly coordinated with other agencies, and failed to receive the management attention necessary to best ensure that goals were met in the most efficient and effective manner. SIGIR reporting revealed instances wherein contracts and grants did not receive the required oversight necessary to ensure that funds were not vulnerable to waste or abuse or that costs were appropriately charged.

These problems could become more pronounced as State assumes the key management responsibility for all foreign assistance efforts in Iraq.

One such example of problems in managing large development programs was the State-led democracy-building program in Iraq. In 2008, SIGIR reported on problems in implementing the effort.¹ We found that the strategy did not clearly assign accountability for implementing the program's key components and failed to address how U.S. goals and objectives would be integrated with the Government of Iraq (GOI) and international organizations. We also concluded that there were insufficient means to measure progress on projects managed by a number of non-governmental organizations.

SIGIR found that State was not providing the level of oversight needed to ensure that its grantees meet set goals. An insufficient number of trained personnel coupled with insufficient travel budgets to enable more frequent oversight were major contributors to this problem. SIGIR's reviews raise questions about whether State will be in a position to efficiently prioritize, assess, and develop its future democracy-building efforts.

Another area of concern raised by SIGIR reporting has been State's anticorruption programs. SIGIR issued four reports on these between 2007 and 2008, finding that State had difficulty in effectively supporting and leading U.S. efforts in this area.² To illustrate, State was running its own programs but could not develop a listing of all anticorruption efforts the U.S. government was engaged in, and it was not effectively coordinating all activities. While we noted improvements over time and a positive shift toward supporting the larger U.N. anticorruption effort, the recognition and response to these problems was too long in coming, which raises questions about the capacity of the Department to quickly and effectively respond to identified management problems.

Contract Management. Difficulties in managing contracts have been most clearly demonstrated in the Department's deficiencies in managing its police training contracts. In January of this year, we reported that State's Bureau of International Narcotics and Law Enforcement Affairs (INL) continues to exhibit weak oversight of the DynCorp task orders in support of the Iraqi police training program.³

Because INL lacked sufficient resources and controls to adequately manage the task orders with DynCorp, SIGIR concluded that over \$2.5 billion in U.S. funds had been vulnerable to waste and fraud. Specifically, we found that the In-country Contracting Officer Representatives, who are critical to overseeing DynCorp's performance and expenditures under the current task order, did not perform adequate reviews and tests to ensure that: (1) the costs submitted by DynCorp on invoices were allowable under the contract/task order, supported by appropriate documentation, and correct; (2) U.S. government property managed by DynCorp was adequately controlled; (3) lease agreements negotiated on behalf of the U.S. government protected the U.S. government's

¹ *Opportunities to Enhance U.S. Democracy Building Strategy for Iraq*, SIGIR-09-001, October 22, 2008.

² *Status of U.S. Anticorruption Efforts in Iraq*, SIGIR-07-007, July 24, 2007; *U.S. Anticorruption Efforts in Iraq: Sustained Management Commitment is Key to Success*, SIGIR-08-008, January 24, 2008; *U.S. Anticorruption Efforts in Iraq: Progress Made In implementing Revised Management Plan*, SIGIR-08-016, May 24, 2008; *Anticorruption Efforts in Iraq: U.S. and Iraq Take Actions but Much Remains to be Done*, SIGIR-08-023, July 30, 2008.

³ *Long-Standing Weaknesses in Department of State's Oversight of DynCorp Contract for Support of the Iraqi Police Training Program*, SIGIR-10-008, January 25, 2010.

interests; and (4) the government received the services at the performance standards specified in the task order. These were not new problems.

In 2005, the Department of State Inspector General told INL that its staffing had not increased commensurate with its workload and that it needed to strengthen its oversight of the contracts for Iraq. In 2007, SIGIR, jointly with the State OIG, told INL that its poor oversight of the contract for Iraq had put millions of dollars at risk. In a hearing and in responses to audit reports, INL officials have repeatedly stated they recognized the problems and had begun initiatives to increase staff and improve management and oversight of the contract for Iraq.

But this year's review revealed that INL had not sufficiently followed through on those initiatives. As State begins to take full responsibility for the police training program from Defense in 2011 and continues to oversee contracts costing the American taxpayers hundreds of millions of dollars, it will be critical for it to have in place effective management and controls to ensure that U.S. funds are effectively and efficiently spent.

Grant Management. State's management of grants has not been immune to the problems confronting its management of programs and contracts. Here again, the lack of sufficient numbers of skilled personnel hurt the ability of the Department to ensure that grants are meeting their intended purpose and are being implemented in the most efficient and effective manner. Oversight requirements for grants differ somewhat from oversight requirements for contracts in that grants are used when it is anticipated that there will be no substantial involvement between the agency and the recipient during performance. Moreover, Federal oversight requirements of grants are less stringent than those for contracts.

These differences, however, do not relieve State from adequately overseeing its grantees. Unfortunately, we found that the Department did not meet the required level of oversight. In several reviews executed this year, SIGIR has looked at the Department's efforts to manage grants awarded by the Bureau of Democracy, Human Rights and Labor (DRL) to the International Republican Institute (IRI) and the National Democratic Institute (NDI). We found that the Department did not provide the level of oversight necessary to ensure that it was not paying for excessive charges and to know exactly what was being achieved. As a result, SIGIR has questioned some of the costs incurred by these organizations. Again, we can attribute some of these problems to an insufficient number of skilled personnel to oversee the grants. Because DRL does not have dedicated Grants Officers, it relies on the Department's Office of Acquisitions Management to award, amend, and manage its grants. However, each grants officer who had been in charge of these democracy grants was also responsible for managing up to 250 grants at the same time.⁴

⁴ *Department of State Grant Management: Limited Oversight of Costs and Impact of International Republican Institute and National Democratic Institute Democracy Grants*, SIGIR-10-012, January 26, 2010; *Improved Oversight Needed for State Department Grant to the International Republican Institute*, SIGIR-10-022, July 29, 2010. SIGIR will soon be releasing an audit of State's largest democracy grant to the National Democratic Institute.

State Needs to Determine How It Will Provide Life Support and Security for Its Employees and Contractors

As discussed by the Commission in its report, the U.S. Embassy in Iraq has been relying on the Defense Logistics Civil Augmentation Program (LOGCAP) contract to provide its employees necessary life support. The contract is a U.S. Department of the Army (Army) program that preplans for the use of private resources in support of worldwide contingency operations. In the event that U.S. forces deploy, contractor support is available to commanders on a cost-plus-award-fee basis.

As SIGIR reported in October 2007, LOGCAP is a *contingency contract* and thus is considered “a contract of last resort” for customers (because of the potential additional costs arising from its noncompetitive aspects). We noted that contingency contracts are primarily designed for areas where emerging requirements are the norm, rapid response is required, and/or conditions are such that normal sustainment contracts are not competitively available. We noted that, once conditions stabilize and a reasonable determination can be made as to the quantity and type of contract work that will be required to support a mission, customers should transition from contingency contracts to a more normal, cost-effective contract.

We recommended that, when security conditions in Iraq allow, the Department should consider transitioning from the Army’s LOGCAP contract for life support of the U.S. Embassy-Iraq mission to a State-managed life support contract. Such a change would allow for more competitive contracting in the longer term and may be desirable from the standpoint of cost effectiveness.

We believe that when security conditions permit, State should take the step we recommended. However, at this time, for the reasons that the Commission recommends, State and Defense should continue to employ the LOGCAP contract to support State in Iraq; if Congressional action is needed to facilitate this eventuality, it should be taken.

We have not analyzed the question of how State would acquire the range of security services the Commission believes may be necessary for Iraq, but our review of other aspects of State’s business practices raises concerns about capacity. In broad terms, State’s contract administration and enforcement efforts need strengthening. State should plan to expand its efforts by employing the most qualified contracting professionals in government for help on these acquisition projects, at least in the near term.

State Will Need to Address Project Transfer and Sustainment Issues

State Department officials have reiterated that the U.S. must maintain its focus on Iraq to ensure that the billions of reconstruction dollars spent in Iraq are not wasted. To that end, the Embassy is currently conducting a review of ongoing projects to determine if any are no longer needed and should be terminated. It is also determining what more should be done to ensure that the GOI is sustaining completed reconstruction efforts. Both are positive efforts aimed at avoiding waste which we strongly support.

State will be inheriting a multitude of construction and other projects planned and implemented by the U.S. military, particularly those funded by the Iraq Security Forces Fund and the Commander's Emergency Response Program. State will likely face a number of problems in ensuring that these projects are used and sustained and the U.S. investment not wasted. Over the years, a major issue confronting Defense and State has been how to ensure that the GOI maintains facilities we constructed, once direct U.S. financial support has ended. Unfortunately, this process of transferring ownership to the GOI has not gone well, as documented in four SIGIR reports,⁵ and there are no indications that it will improve in the future.

Particularly problematic for State will be the inherent difficulty in determining what projects Defense has completed and whether they have been turned over to the Government of Iraq. For example, SIGIR found a troublesome practice whereby Defense would "unilaterally" turn over facilities to whatever Iraqi official was available because their efforts to get the Government of Iraq to formally accept ownership of projects failed. To illustrate, at one point in 2007, a Defense component "unilaterally" transferred over 350 projects valued at more than \$1 billion. By their very nature, unilateral transfers put the U.S. investment at greater risk of not being maintained. It will now fall upon the Department of State to determine if projects such as these are being used and sustained or if they are being wasted. Further exacerbating State's problems will be the lack of reliable data showing what projects were built and their status.

Finally, State will continue to need to actively engage with the Government of Iraq to ensure that U.S.-funded reconstruction projects are used and sustained. Over the years, SIGIR has repeatedly found instances where Iraqi officials were either unaware of the existence of projects, or when told of their construction, voiced their sentiments that the projects were not wanted and might not even be used. In such cases, State will need to engage in a serious dialogue with the Government of Iraq to ensure that U.S. reconstruction funds have not been and are not being wasted.

Considerations for State and Congress

SIGIR offers the following considerations for State and Congress:

- State should sharpen its focus on improving its program controls and business practices, including on-the-ground program oversight and contract and grant management.
- State should conduct an inventory of what has been accomplished in Iraq's reconstruction thus far and act, as best as it can, to assure that our investments are not wasted by neglect in the asset-transfer phase or by subsequent neglect to sustain the Iraqi government.

⁵ U.S. Agency for International Development: *Management 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; *Transferring Iraq Relief and Reconstruction Fund Capital Projects to the Government of Iraq*, SIGIR-07-004, July 25, 2007; *Transferring Reconstruction Projects to the Government of Iraq: Some Progress Made but Further Improvements Needed to Avoid Waste*, SIGIR-08-017, May 28, 2008.

- The Congress should continue to focus attention on these questions and closely monitor the plans and actions of State and other civilian agencies. If resources for improved business practices are required, they are likely to prove to be a bargain compared with waste that may occur if State's program management and acquisition efforts continue to be under-resourced.

Mr. Chairman, Ranking Member Issa, and members of the Committee, thank you for your attention. I will be happy to try to answer any questions you may have.