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ONE HUNDRED EIGHTH CONGRESS

# Congress of the United States

## House of Representatives

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September 30, 2003

The Honorable Joshua Bolten  
Director  
Office of Management and Budget  
725 17<sup>th</sup> Street, NW  
Washington, DC 20503

Dear Mr. Bolten:

For the past six months, I have been investigating the activities of Halliburton and Bechtel in Iraq. This has been difficult because of the failure of the White House and federal agencies to respond to my inquiries. In fact, although I have written to the Office of Management and Budget, Secretary Rumsfeld, the Secretary of the Army, the U.S. Agency for International Development (USAID), the Export-Import Bank, and the Army Corps of Engineers, only the Corps has responded consistently to my inquiries. As a result, basic facts are not being shared with me or others in Congress about the process by which contracts are being awarded, the scope of specific contract terms, the details of task orders, and the payments being made to Halliburton and Bechtel.

Despite the Administration's refusal to provide information, a picture is now beginning to emerge of waste and gold-plating that is enriching Halliburton and Bechtel while costing the U.S. taxpayer millions and imperiling the goal of Iraqi reconstruction. The problem is this: too much money appears to be going to Halliburton and Bechtel for too little work and too few opportunities for Iraqis. Already, these two companies have contracts worth \$3.14 billion from the conflict in Iraq and the reconstruction efforts.<sup>1</sup>

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<sup>1</sup> A Halliburton subsidiary, KBR, has received task orders worth \$1.22 billion under an oil infrastructure contract with the Corps of Engineers, U.S. Army Corps of Engineers, *Frequently Asked Questions: Engineer Support to Operation Iraqi Freedom* (Sept. 18, 2003) (<http://www.hq.usace.army.mil/cepa/iraq/faq.htm>), and \$1 billion under a logistical support contract with the Army. U.S. Army Field Support Command, *Index to Contract Actions: LOGCAP; Brown & Root Services (BRS) — DAAA09-02-D-0007* (Sept. 2003). Bechtel has received task orders worth \$920.5 million under a reconstruction contract with USAID. U.S. Agency for International Development, *Procurement Plan* (updated Sept. 17, 2003).

The information that I have been receiving is anecdotal. But it is reliable, comes from a variety of different sources, and all points to the same conclusion. For example:

- Members of the Iraqi Governing Council told my staff that the costs to the American taxpayer of many reconstruction projects could be reduced by 90% if the projects were awarded to local Iraqi companies rather than to large government contractors like Halliburton or Bechtel.
- The general in charge of northern Iraq, Major General David Petraeus, told a congressional delegation that included my staff that U.S. engineers estimated that it would cost \$15 million to bring a cement plant in northern Iraq back to Western production standards. Because this estimate far exceeded the funds available to General Petraeus, he gave the project to local Iraqis, who were able to get the cement plant running again for just \$80,000.
- A journalist for the *Santa Monica Daily Press*, a newspaper in my district, told my staff that she attended a meeting in Baghdad where a Bechtel executive interviewed Iraqi contractors seeking jobs rebuilding the Baghdad airport. The Bechtel executive informed the Iraqis that they could not participate in rebuilding their country's airport unless they got three different types of insurance: indemnification insurance, bid securities insurance, and performance insurance. When one Iraqi contractor asked how to obtain such insurance, which Iraqis never had to obtain before and which was not available in Iraq, he was told, "Don't worry, there will be American insurance companies coming in to sell you insurance."

Individual line items in the Administration's request for an additional \$20 billion to rebuild Iraq raise similar questions. Item after item reads like a government contractor's wish list. Rather than seeking funding for low-cost solutions based on inexpensive local Iraqi labor, the Administration appears to be requesting huge dollar amounts for complex projects that will be awarded to well-connected U.S. contractors operating at expensive premiums.

The question we need to confront is whether the Administration is putting the interests of companies like Halliburton and Bechtel over the interests of the American taxpayer and the Iraqi people. When inordinately expensive reconstruction projects are awarded to high-cost federal contractors with close political ties to the White House, the Administration can create a lose-lose situation: not only do U.S. taxpayers vastly overpay for reconstruction services, but Iraqis are denied urgently needed employment opportunities.

The only way to address these issues is through greater transparency in the Administration's dealings with Halliburton, Bechtel, and other large campaign contributors operating in Iraq. Perhaps there is a good reason why the Administration is choosing what seems to be the most expensive option for rebuilding Iraq, but none has been provided. In fact,

virtually no information of any kind is being provided about how taxpayer dollars are currently being spent in Iraq. Greater accountability to Congress and the public is urgently needed.

The remainder of this letter explains these concerns in more detail.

### **Evidence of Waste of Taxpayer Dollars in Iraq Contracts**

The failure of the Administration to respond to congressional requests has made it impossible for members of Congress to have a full understanding of how the Administration is spending taxpayer dollars in Iraq. Thus, I have had to rely on other sources of evidence, such as anecdotal evidence and meetings with Iraqi officials and other knowledgeable sources, to investigate how the Administration is using federal reconstruction funds in Iraq. The results of this investigation are not encouraging. If the accounts I have heard are accurate, the American taxpayer is being dramatically overcharged while Iraqis capable of doing reconstruction work remain unemployed.

Recently, my staff had the opportunity to discuss reconstruction efforts with two members of the Iraqi Governing Council: Judge Wael Abdul Latif, the governor of Basra, and Ms. Songul Chapouk, a civil engineer.<sup>2</sup> These council members said that Iraqi firms could do work now being contracted out to international corporations more quickly and at less expense by relying more on Iraqi workers. In fact, they stated that Iraqis could do much of the reconstruction work at one-tenth of the cost that large contractors are charging coalition nations.

According to Judge Abdul Latif, for example, non-Iraqi contractors charged approximately \$25 million to refurbish 20 police stations in Basra by providing new doors, windows, paint, and furniture. Judge Abdul Latif contends that a qualified Iraqi company could have done the work for about \$5 million and that the remainder would have been enough to restore every government building in Basra.

The two members of the Governing Council described other instances of apparent overpayment. Councilwoman Chapouk, for example, described an instance in which the Coalition Provisional Authority (CPA) renovated ten houses in Baghdad for members of the Council at a cost of \$700,000. Ms. Chapouk believes Iraqi firms could have built ten houses from scratch at that price and employed more Iraqis in the process.

Ironically, the council members' estimates that Western companies are overcharging by a factor of ten finds corroboration in the justification that the CPA sent to Congress in support of

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<sup>2</sup> Interview of Councilwoman Sondul Chapouk and Judge Wael Abdul Latif (Sept. 23, 2003).

the \$20 billion reconstruction supplemental. According to the CPA's own estimates, when work is done by Iraqi companies:

Cost of construction is 1/10<sup>th</sup> of US standard per sq. ft. in general construction, 1/5<sup>th</sup> in specialized medical construction, and 8/10<sup>th</sup> in specialty construction.<sup>3</sup>

U.S. military commanders have made similar observations. In late August, members and staff of the Government Reform Committee traveled to Iraq as part of a fact-finding delegation. During the delegation's visit to Mosul in the north of Iraq, Maj. Gen. David Petraeus, the commander of the U.S. Army's 101<sup>st</sup> Airborne Division, described his efforts to restore the operations of a cement plant within his area of responsibility. He asked engineers working for a Forward Engineering Support Team (FEST) of the Army Corps of Engineers to estimate the costs of repairing the plant. These teams often consult with private contractors like Halliburton and Bechtel in developing cost estimates for U.S.-financed reconstruction projects.<sup>4</sup> As the Army confirmed last week:

The FEST team ... calculated the total cost to bring the factory to total production capacity and western production standards at \$15,139,972. ... The majority of the costs associated with the project are for several large-dollar equipment upgrades, electrical supplies and a large number of individual repair parts.<sup>5</sup>

This estimate far exceeded the seized assets available at the time to General Petraeus to pay for local reconstruction projects. As a result, the general sought bids from Iraqi companies and awarded the work to a local company, which brought the cement plant back to operation for approximately \$80,000. The Iraqi company did not build the state-of-the-art cement plant proposed by the FEST engineers, but it did succeed in returning the plant to a condition that

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<sup>3</sup> Coalition Provisional Authority, *Request to Rehabilitate and Reconstruct Iraq*, 45–46 (Sept. 2003) (hereinafter "CPA Request").

<sup>4</sup> See, e.g., Northwestern Division's Forward Engineering Support Team, *A Day in the Life of FEST—A Mosul Northwestern Division's Forward Engineering Support Team* (Aug. 21, 2003) (<http://euken.com/group/seaoc/mailarchive/2003c/msg01468.html>). Apart from providing information on pricing, private contractors have frequent contact with FEST teams conducting quality assurance and quality control (QAQC) on projects throughout Iraq. Telephone Briefing by Lt. Col. Joseph Schweitzer, U.S. Army Corps of Engineers (Sept. 30, 2003).

<sup>5</sup> Letter from Col. James F. Laufenburg, Chief of Staff, Headquarters, 101<sup>st</sup> Airborne Division (Air Assault), Mosul, Iraq, to Phil Barnett, Minority Chief Counsel, Committee on Government Reform (Sept. 26, 2003).

could provide the cement that General Petraeus needed for other reconstruction projects. As the Army subsequently explained:

MG Petraeus commented on this particular project during the Davis Congressional Delegation visit. He was making the point that estimates often received are very substantial, in that we assess to bring production facilities back to western standards and to maximize production. **The Iraqis, with some assistance from us, got the plant working again for a small amount of money.**<sup>6</sup>

Sometimes, the reconstruction process is structured so that low-cost Iraqi contractors are excluded from even bidding on projects. My staff recently met with Kelly Hayes-Raitt, a journalist for one of my local papers, the *Santa Monica Daily Press*. She recounted a meeting she attended between a Bechtel official and local Iraqi contractors at the Sheraton Hotel in Baghdad. A full account of her observations was printed in the *Santa Monica Daily Press*.<sup>7</sup>

The purpose of the meeting observed by Ms. Hayes-Raitt was to determine if local Iraqi companies could obtain subcontracts from Bechtel for rebuilding the Baghdad airport. She reported that team after team of Iraqi contractors was rejected for lack of insurance. According to Ms. Hayes-Raitt:

To get a job rebuilding their country, Iraqis are required by Bechtel to carry three types of insurance:

- \$2 million minimum indemnification insurance, which costs up to 10 percent of the contract's cost. It covers misfortunes such as equipment loss and injured workers.
- Bid securities insurance, where banks provide a guarantee that the company will not withdraw its bid. The Iraqi contractor bidding on the project must provide a cashier's or certified check for 10 percent of the projected amount of the project.
- Performance insurance [which] guarantees that the job is completed. It, too, can cost up to 10 percent of the projected cost of the contract.<sup>8</sup>

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<sup>6</sup> *Id.* (emphasis added).

<sup>7</sup> Kelly Hayes-Raitt, *America's Rebuilding of Iraq Shuts out Iraqis*, *Santa Monica Daily Press* (Aug. 19, 2003).

<sup>8</sup> *Id.*

According to Ms. Hayes-Raitt, the Iraqi contractors complained to the Bechtel executive that this insurance was not available in Iraq. The response from Bechtel was: “Don’t worry, there will be American insurance companies coming in to sell you insurance.”<sup>9</sup>

These examples raise important questions. The contracts with Halliburton and Bechtel are cost-plus contracts. This means that the bigger, the more complex, and the more expensive the project, the greater the profits for the companies. It also means that there is little incentive for Halliburton and Bechtel to reduce costs by subcontracting work to low-cost Iraqi contractors. It is easy to understand how this arrangement is lucrative for the companies involved. But what is unclear is how these arrangements protect the interests of the U.S. taxpayer or further the goal of putting Iraqis to work rebuilding their own country.

### **The Supplemental Appropriations Request**

On September 7, the President requested an additional \$87 billion for Iraq. Of this amount, \$20.3 billion is directed primarily toward security and infrastructure. On September 17, the CPA provided Congress with a justification for this request. In general, the CPA justification leaves many aspects of the budget request unanswered. Individual line items in the request are illuminating, however. They confirm that the Administration continues to plan complex, expensive projects that will be performed by large government contractors. In fact, of the 115 discrete projects described by the CPA fewer than 25 mention any employment opportunities for Iraqis.

For example, the Administration seeks \$1 billion to build new power plants,<sup>10</sup> \$150 million to install a high-tech “Supervisory Control and Data Acquisition” system for managing the distribution of electricity,<sup>11</sup> \$57 million to build a “robust communications package of UHF, VHF, digital, mobile and FM capabilities” for an Iraqi ministry,<sup>12</sup> up to \$575 million to build a new oil refinery and develop new oil fields,<sup>13</sup> \$400 million to construct two maximum-security prisons with “inbuilt security features” at a cost of \$50,000 per prisoner,<sup>14</sup> and \$150 million to start construction of “a state-of-the-art” pediatric hospital in Basra.<sup>15</sup>

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<sup>9</sup> *Id.*

<sup>10</sup> CPA Request, *supra* note 3, at 21.

<sup>11</sup> *Id.* at 23.

<sup>12</sup> *Id.* at 10.

<sup>13</sup> *Id.* at 28–29.

<sup>14</sup> *Id.* at 19.

These may be worthwhile projects, but they envision constructing state-of-the-art Western facilities in Iraq. Such projects are expensive enough in developed countries like the United States. When the objective is to build them in a war-torn country with serious security and infrastructure problems, the costs will soar dramatically, forcing the U.S. taxpayer to pay large premiums to the contractors like Halliburton and Bechtel who are hired to carry them out.

### **Lack of Oversight and Transparency**

The concerns illustrated above are compounded by the apparently insufficient oversight of the companies receiving these contracts. Since the beginning of the U.S.-led reconstruction effort in Iraq, I have tried to gather basic information on the taxpayer-funded contracts to rebuild Iraq's oilfields and other parts of Iraq's infrastructure. Despite repeated requests to federal agencies, however, the Administration has been either slow or totally unwilling to provide details on these large private contracts. In fact, of the agencies I have written, only the Corps of Engineers has provided regular answers.

For example, after reports that USAID awarded contracts worth over a billion dollars with competition limited to a few hand-picked companies, I asked the Administrator of USAID in April for basic information about the contracting process. This included a request for copies of the contracts and information on the extent of competition required for each contract.<sup>16</sup> The agency provided an "interim response" on May 30 that provided none of the information requested.<sup>17</sup> Despite repeated followup requests for the information, the agency did not write again for another four months, and even then, the agency refused to provide copies of the contracts or information on source selection.<sup>18</sup>

The Administration also has been reluctant to disclose details about its sole-source oilfield contract with Halliburton subsidiary Kellogg Brown & Root. The Defense Department

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<sup>15</sup> *Id.* at 45.

<sup>16</sup> Letter from Rep. Henry A. Waxman to Andrew S. Natsios, Administrator, U.S. Agency for International Development (Apr. 28, 2003).

<sup>17</sup> Letter from J. Edward Fox, Assistant Administrator, Bureau for Legislative and Public Affairs, U.S. Agency for International Development, to Rep. Henry A. Waxman (May 30, 2003).

<sup>18</sup> Letter from J. Edward Fox, Assistant Administrator, Bureau for Legislative and Public Affairs, U.S. Agency for International Development, to Rep. Henry A. Waxman (Sept. 22, 2003).

entered into a no-bid contract with KBR on March 8, but did not disclose until April 8 that this secret contract had a potential value of up to \$7 billion.<sup>19</sup> After repeated suggestions that the contract was limited to fighting oil fires and carrying out related repairs, the Defense Department later revealed that the contract was much broader in scope and extended to operating oil facilities and distributing fuel.<sup>20</sup> Even today, despite a recommendation by the U.S. Army Corps of Engineers to open this contract and its task orders to public scrutiny, the Pentagon continues to classify them as national security secrets.<sup>21</sup>

The Administration has been similarly opaque about its new spending plan to repair the oilfields in Iraq. As indicated in my letter of September 12, the President's request for an additional \$2.1 billion to repair Iraq's oil infrastructure is more than 2.5 times larger than a detailed estimate projected less than two months ago by the Coalition Provisional Authority, Corps of Engineers, and the Iraqi Ministry of Oil.<sup>22</sup> But the Administration has not yet explained this disparity or how the Administration developed its request.

Other senior members of Congress have encountered similar frustrations in seeking basic information about how taxpayer funds are being spent in Iraq. For example, on July 29, 2003, the ranking members of the House Armed Services Committee and the House Budget Committee wrote to you requesting a breakdown of U.S. government expenditures in Iraq under the first supplemental appropriation of January 2003.<sup>23</sup> Despite several followup calls from committee staff, OMB never provided a response. In fact, OMB refused even to meet with committee staff to discuss the request as the ranking members asked in their letter. Similarly, Rep. David Obey, the ranking member on the House Appropriations Committee, accused civil administrator L. Paul Bremer of "stiffing" the committee by refusing to

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<sup>19</sup> Letter from Lt. Gen. Robert B. Flowers, U.S. Army Corps of Engineers, to Rep. Henry A. Waxman (Apr. 8, 2003).

<sup>20</sup> Letter from Lt. Gen. Robert B. Flowers, U.S. Army Corps of Engineers, to Rep. Henry A. Waxman (May 2, 2003).

<sup>21</sup> Meeting between Rep. Henry A. Waxman and Lt. Gen. Robert B. Flowers (June 11, 2003).

<sup>22</sup> See U.S. Army Corps of Engineers et al., *Restoration of Iraqi Oil Infrastructure Final Work Plan* (July 24, 2003); U.S. Army Corps of Engineers, *Iraqi Oil Infrastructure Restoration Strategic Plan: Rough Order of Magnitude (ROM)* (June 3, 2003).

<sup>23</sup> Letter from Rep. John M. Spratt, Jr., and Rep. Ike Skelton to Joshua Bolten, Office of Management and Budget (July 29, 2003).



provide a five-year cost estimate.<sup>24</sup> Even senior Republican Senator Pete V. Domenici publicly admonished the Secretary of Defense to “let Americans in on a totally transparent plan.”<sup>25</sup>

In fact, even members of the Iraqi Governing Council have the same concerns about this lack of transparency. During their recent visit to Washington, Judge Abdul Latif and Ms. Chapouk complained that members of the Governing Council receive little or no information about how the Coalition Provisional Authority is spending money on infrastructure projects.<sup>26</sup> Another prominent Iraqi, Dr. Isam al-Khafagi, resigned from the Iraq Reconstruction and Development Council and testified last week that he did so because “there was no role for the Iraqis to play under the Coalition Provisional Authority.”<sup>27</sup>

Not only has the Administration failed to respond to congressional and Governing Council inquiries, but there is growing evidence that the Administration’s own internal controls are inadequate to protect taxpayer interests. USAID is overseeing ten separate contracts worth more than \$1.5 billion.<sup>28</sup> On top of this, USAID has announced a planned infrastructure procurement worth an additional \$1.5 billion.<sup>29</sup> According to USAID, however, the agency

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<sup>24</sup> *Contentious Hill Grills Rumsfeld on Iraq*, Washington Post (Sept. 25, 2003).

<sup>25</sup> *Id.*

<sup>26</sup> Interview of Councilwoman Sondul Chapouk and Judge Wael Abdul Latif (Sept. 23, 2003).

<sup>27</sup> Testimony of Dr. Isam al-Khafagi, Senate Committee on Foreign Relations, *Hearing on Iraq Policy and Issues* (Sept. 24, 2003).

<sup>28</sup> This estimate is based on the contract ceiling costs for the following contracts: the capital construction contract to Bechtel (\$1.03 billion), the port administration contract to Stevedoring Services of America (\$21 million), the airport administration contract to Skylink Air and Logistic Support (\$17.5 million), the logistical support contract to the Air Force Contract Augmentation Program contractor RMS (\$101 million), the public health contract to Abt Associates, Inc. (\$43.8 million), the education contract to Creative Associates International (\$62.6 million), the economic recovery contract to BearingPoint, Inc. (\$80 million), the local governance contract to Research Triangle Institute (\$168 million), and the personnel support contract to International Resources Group (\$35 million). Over \$920 million of these amounts have been obligated to date. U.S. Agency for International Development, *USAID Procurement Plan* (Sept. 17, 2003).

<sup>29</sup> E-mail from Dorothy Rayburn, Bureau for Legislative and Public Affairs, USAID, to House Committee on Appropriations Staff (Sept. 9, 2003).

currently has only 14 direct-hire employees in Iraq to oversee these contracts.<sup>30</sup> It is hard to conceive how 14 USAID employees are able to ensure that \$3 billion worth of reconstruction funding will be delivered in the most efficient and effective manner possible. As GAO has reported, the agency “lacks a ‘surge capacity’ to respond to evolving foreign policy priorities and emerging crises.”<sup>31</sup>

USAID’s response to this problem is telling. To remedy its staffing shortfall, USAID has hired yet another contractor, Management Services International, to monitor the actions of other contractors receiving USAID funds.<sup>32</sup> It is certainly fair to ask whether hiring yet another contractor — at an additional cost to the taxpayer of \$15 million — is the best way to protect the interests of the taxpayer from overcharging by contractors.

### Questions

In light of the Administration’s latest supplemental funding request, it is essential that you respond to concerns of overspending and lack of oversight and transparency in reconstruction operations in Iraq. Specifically, I request that you provide the following information:

1. In its justification of the \$20 billion supplemental, the CPA identifies over 115 discrete projects. Yet fewer than 25 of these descriptions mention hiring Iraqis or otherwise using Iraqi resources for the reconstruction work. For each project identified by the CPA, please indicate whether the Administration anticipates that the contract for the work will be issued to a large government contractor like Halliburton or Bechtel or to local Iraqi companies.
2. The CPA justification indicates that much construction work can be done by local Iraqis for 10% of the cost that large government contractors would charge. For each project identified by the CPA, please provide an estimate of the costs to the taxpayer of using

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<sup>30</sup> U.S. Agency for International Development, *Talking Points: Staffing and Language Capability in Iraq and Afghanistan* (Sept. 23, 2003).

<sup>31</sup> U.S. General Accounting Office, *USAID Needs to Improve Its Workforce Planning and Operating Expense Accounting* (Sept. 23, 2003) (GAO-03-1171T).

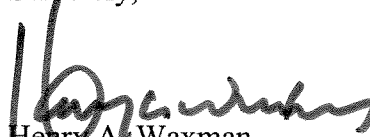
<sup>32</sup> U.S. Agency for International Development, *Fact Sheet: Iraq Monitoring and Evaluation Program* (Sept. 18, 2003) (online at [www.usaid.gov/press/factsheets/2003/fs030918.html](http://www.usaid.gov/press/factsheets/2003/fs030918.html)) (describing the contractor’s work as part of a “a transparent monitoring and evaluation system to ensure that contractors are meeting their goals and staying on schedule”).

larger government contractors and compare that cost to the costs of using local Iraqi companies.

3. Please outline the process by which OMB and the CPA will distribute any funding appropriated under the supplemental budget request to federal agencies and contractors for reconstruction efforts in Iraq.
4. Please explain who will have authority to obligate funds for specific projects in Iraq. Please discuss what role, if any, the Iraqi Governing Council will play in deciding what expenditures are appropriate.
5. Please detail any oversight mechanisms established by OMB and other federal agencies to oversee the work being performed by contractors in Iraq to ensure that the costs claimed by contractors are accurate and reasonable.

As a nation, we have a vital interest in a successful reconstruction operation in Iraq. But we also have a vital interest in keeping costs reasonable and providing job opportunities to Iraqis. These goals are not in conflict, but they cannot be achieved without a far greater commitment to transparency and accountability by this Administration.

Sincerely,



Henry A. Waxman  
Ranking Minority Member