

Senate Democratic Policy Committee Hearing

“An Oversight Hearing on Waste, Fraud and Abuse in U.S. Government Contracting in Iraq”

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Taxpayers for Common Sense

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We have heard much today about shortcomings in the fiscal oversight at the Coalition Provisional Authority (CPA). For an agency that was stitched together at the last minute and expected to perform a difficult job, this should not be a surprise. However, as the CPA settled into its role in Iraq, it had time to develop adequate safeguards and record-keeping procedures that would ensure good stewardship of taxpayer dollars.

Congress was proactive in creating an Inspector General (IG) position at the CPA to monitor progress toward increased accountability. The creation of an IG organization has borne dividends despite the administration’s disappointing lack of interest in oversight.

Since inception, the CPA-IG, now the Special Inspector General for Iraq Reconstruction (SIGIR), has completed 15 audits on CPA’s financial management, procurement practices and management controls, and initiated another eight. Additionally, the IG has managed 134 criminal investigations and several other initiatives on taxpayers’ behalf.¹ The sheer volume of casework handled by the IG should be sufficient to prove that stronger oversight is needed for this multi-billion dollar federal agency.

The rhetorical argument that the Coalition Provisional Authority is not a U.S. federal agency and therefore need not be subject to oversight and increased congressional scrutiny exists only to avoid further accountability and oversight. We believe this debate was settled when the President signed the Emergency Supplemental Appropriations Act for the Reconstruction of Iraq and Afghanistan on November 6, 2003. The Conference Report accompanying this legislation describes funding the CPA “in its capacity as an entity of the United States government,” and further states that any unused funds “shall be transferred back to this appropriations.”² American taxpayers’ money, managed by American contracting officers, is paying American contractors to rebuild the country of Iraq. As the keepers of the federal pocketbook, Congress has an obligation to conduct oversight of how this money is spent.

Arguing against better oversight also sets up the danger that we will forget that when our sons and daughters are in harm’s way is exactly when we need to be most concerned with the efficiency and accountability of the agencies involved in the war. A quick, efficient, and effective reconstruction process is an important part of protecting our troops and advancing our war effort.

Practically since its inception, the IG has been telling us that there were “inadequate financial controls” at CPA.³ This created an environment where waste, fraud and abuse were bound to occur. Failures cited by the IG included weaknesses in the cost reporting processes used by contractors, a lack of detailed cost data, and lack of cost schedule reporting systems. Additionally, the IG found that oversight of Development Fund for Iraq (DFI) funds suffered from “severe inefficiencies and poor management.” Despite the challenging environment in Iraq, the IG found that the CPA “provided less than adequate controls” to ensure that the \$8.8 billion in DFI funds paid to Iraqi government ministries were spent to achieve our overall policy goals.⁴ This money comprised of mostly Iraq oil revenue was spent with virtually no financial controls at all.

The IG report further concluded that CPA accounting over this money was either lax or didn’t exist, leaving the back and front door open to fraud, kickbacks and misappropriation of funds. In real terms, no one really knows what we got for nearly nine billion dollars in Iraqi reconstruction funds.

The DFI is one of, if not the most important, area to maintain transparency in contracting and accounting. It is supposed to be directed toward humanitarian needs in Iraq and toward infrastructure development. The DFI and its use is one of the prime areas being scrutinized by both Iraqis and the international community to ensure that this war was for legitimate aims and not about oil or making money. Yet, we established a system where the funds were, according to the IG, “susceptible to waste, fraud and abuse.”⁵ A United Nations sanctioned audit from last year similarly concluded that about half of the \$5 billion in Iraq reconstruction funds could not be accounted for because of poor financial controls.⁶

The latest IG report is far from our first indication that all is not right at the CPA. Audits and investigations of the CPA’s operations over the past year have found that poor oversight and a lack of accountability plague the everyday operations of the agency.

An IG audit conducted in late July identified many of the same problems discussed in the most recent January 30 audit. In that report, the IG noted that \$600 million in DFI funds that were available for disbursement as cash had been poorly accounted for. Records of the disbursement of the money were often incomplete. Furthermore, responsibility for the cash was poorly defined.⁷

Unfortunately, the IG has become the Cassandra of the Iraqi reconstruction process. The July audit pointed to a variety of problems in the specific instance of cash accounts that seem prophetic now, but went unanswered at the time. Just as before, muddled procedures and poor record keeping resulted in deficient transparency and uncertainty regarding how funds were spent.

The result was that officials and contractors had an opening to take advantage of the CPA’s poor internal operations. In October, the IG reported that one Iraqi official had embezzled \$500,000 from the DFI.⁸ Luckily, the money was reclaimed, but poor record keeping may well have kept similar incidents from coming to light.

Another investigation, conducted by KPMG, found that the Commander's Emergency Response Program — a program designed to allow U.S. military officers to quickly fund small reconstruction projects — maintained little documentation how taxpayer dollars were spent. The study found that there were 42 cases worth \$13 million where there were no contracts on file, and 128 cases worth \$31 million where there was no evidence of competitive bids. Additionally, there were 54 contracts worth \$7.2 million without spending vouchers and 142 cases totaling \$40 million where there was no proof that the work was done.⁹

Previous testimony today has already detailed for you how one “rogue” security contractor took advantage of the CPA's weak controls by inflating prices, fraudulently misrepresenting the work done in their contracts, and submitting false billing claims. Regrettably, this is hardly an isolated incident. As of January 11th of this year, the IG was investigating 11 cases of theft, 7 cases of bribery, kickbacks or gratuities, 6 cases of cost mischarging or product substitution, 6 cases of procurement fraud, 4 cases of public corruption, and a dozen other assorted allegations.¹⁰

There are significant consequences from failing to maintain a transparent and accountable contracting process in Iraq. Yes, we can't reliably account for \$8.8 billion of funds, but our problems go beyond the money. Poor management of the reconstruction process threatens to undermine both the trust of the American taxpayers and security of the Iraqi people. In one case some 8,206 guards were listed on a payroll but only 602 real individuals could be verified. At another ministry, payrolls listed 1,471 security guards when only 642 were actually working.¹¹

Iraqi citizens in particular are all too familiar with kleptocracy and misuse of government funds. They witnessed this first hand under Saddam Hussein's regime.

As the General Accounting office has pointed out, “Building internal control and accountability measures into the operations of the Iraqi ministries will be critical to safeguarding the billions of dollars in U.S. and international funds that will be provided for reconstruction.”¹² Since in large measure the CPA was the administrative pre-cursor to the interim Iraqi government and ministries, the lack of fiscal controls could have an unfortunate long-term impact. The example we have set for the new government agencies is one where a lack of accountability is the norm.

In its July 28, 2004 report, the IG recommended that the Comptroller be required to implement “a single set of existing accounting standards, standardize fund clearing requirements, develop adequate internal controls and oversight, and implement consistency between guidance and agent appointment letters.”¹³ Unfortunately, the January 2005 report found many of the same problems that led the IG to make many of these recommendations.

If there is any good news, it is that there is still time and opportunity to get our financial control house in order. As of January 30, 2005, less than 15% of the Iraqi Relief and

Reconstruction Funds has been expended.¹⁴ We can and we must establish clear financial controls over existing and new contracts, if we are going to reassure the American and Iraqi people that we are wisely and responsibly spending their precious resources rebuilding Iraq.

¹ Special Inspector General for Iraq Reconstruction, “Quarterly and Semmiannual Report of the Office of the Special Inspector General for Iraq Reconstruction.” January 30, 2005. Page 3.

² House Report 108-337 (Conference Report), P.L. 108-106, “The Emergency Supplemental Appropriations Act for the Reconstruction of Iraq and Afghanistan, 2004.” Page 17.

³ Coalition Provisional Authority Inspector General, “Quarterly and Semmiannual Report of the Office of the Inspector General, Coalition Provisional Authority.” July 30, 2004. Page 2.

⁴ Special Inspector General for Iraq Reconstruction, “Oversight of Funds to Iraq Ministries through the National Budget Process,” January 30, 2005. Page i. See also, Coalition Provisional Authority Inspector General, “Coalition Provisional Authority Comptroller Cash management Controls over the Development Fund for Iraq.” July 28, 2004. Page 4.

⁵ Coalition Provisional Authority Inspector General, “Coalition Provisional Authority Comptroller Cash management Controls over the Development Fund for Iraq.” July 28, 2004. Pages i-ii.

⁶ KPMG Bahrain, “Development Fund of Iraq-Report of Factual Findings in connection with Disbursements for the period from January 1, 2004 to 28 June 2004.” International Advisory and Monitoring Board for Iraq. September 2004.

⁷ Coalition Provisional Authority Inspector General, “Coalition Provisional Authority Comptroller Cash management Controls Over the Development Fund for Iraq.” July 28, 2004. Pages 4-8.

⁸ Special Inspector General for Iraq Reconstruction, “Quarterly and Semmiannual Report of the Office of the Special Inspector General for Iraq Reconstruction.” October 30, 2004. Page 32.

⁹ KPMG Bahrain, “Development Fund of Iraq-Report of Factual Findings in connection with Disbursements for the period from January 1, 2004 to 28 June 2004.” International Advisory and Monitoring Board for Iraq. September 2004. Pages 20-22.

¹⁰ Special Inspector General for Iraq Reconstruction, “Quarterly and Semmiannual Report of the Office of the Special Inspector General for Iraq Reconstruction.” January 30, 2005. Page 34.

¹¹ Special Inspector General for Iraq Reconstruction, “Oversight of Funds to Iraq Ministries through the National Budget Process,” January 30, 2005. Page 7.

¹² General Accounting Office. “Rebuilding Iraq: Resource, Security, Governance, Essential Services, and Oversight Issues GAO-04-902R”. June 2004. Page 25.

¹³ Coalition Provisional Authority Inspector General, “Coalition Provisional Authority Comptroller Cash management Controls Over the Development Fund for Iraq.” July 28, 2004. Page ii.

¹⁴ Special Inspector General for Iraq Reconstruction, “Quarterly and Semmiannual Report of the Office of the Special Inspector General for Iraq Reconstruction.” January 30, 2005. Page 1.