

Senate Democratic Policy Committee Hearing

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

Statement of Senator Harry Reid

February 14, 2005

I want to thank Senator Dorgan and the Democratic Policy Committee for holding this hearing, and for the testimony of our witnesses today. I believe this matter of contracting abuses, and how we handle the overall reconstruction of Iraq, is tied closely to our chances for success in Iraq.

Of course, there have been vocal disagreements about the President’s policies in Iraq, the missing weapons of mass destruction, and the bases for war.

But now that our troops are mired in a dangerous effort to defeat the insurgency and are also trying to help rebuild the country, Americans of all political persuasions simply want the United States to succeed and our troops to be as safe as possible.

I have been critical of the President for failing to lay out a real and understandable plan for success. And I will continue to press the President to level with the American people and to lay out a plan to deal with the many challenges that lie ahead: defeating the insurgents, training Iraqi security forces, getting Iraqi moderates and Sunnis involved in the new government, enlisting the help of more allies, and getting the reconstruction back on track.

I am especially perplexed and disturbed by what has happened with the reconstruction and the contracting. We are close to 24 months into this conflict with Iraq, and the Administration still can’t seem to get it right.

A December 2004 report by the Center for Strategic and International Studies found that upwards of 30 percent of the reconstruction money is being lost to corruption, fraud, and mismanagement.

More than a year ago, the Administration urgently requested \$18.4 billion in emergency funding for reconstruction efforts in Iraq. The Congress delivered, but the Administration hasn’t. Thus far, only 20% of the money has been spent. Meanwhile, U.S. taxpayers and the Iraqis wait for the Administration to roll-out a real plan — a plan to involve Iraqis in small-scale, high visibility projects that can deliver real impact to Iraqi economy.

While we wait for a real reconstruction plan, the contracting and accounting abuses continue to mount.

Just recently, the Special Inspector General for Iraq released an audit showing the Coalition Provisional Authority has lost track of nearly \$9 billion in Iraqi oil funds.

And unfortunately, as we will hear today, there are many more examples of CPA mismanagement. Let me cite just a few:

- The CPA covered the payroll of one Iraqi Ministry that claimed it employed 8,206 security guards, but really only employed 600.
- The State Department found that in 2003, American diplomats pressured Halliburton to keep using a Kuwaiti subcontractor to handle fuel sales. The subcontractor charged more than twice the cost of available alternatives, leading to \$61 million in overbilling.
- A company called Custer Battles allegedly billed the CPA \$157,000 for a helicopter pad that cost \$95,000. The same company also repainted forklifts that were abandoned by Baghdad Airways, and then charged the CPA thousands of dollars, claiming these same forklifts were leased.

The fraud, waste and abuse we have seen in the contracting process reinforces my view that we had a plan to win the war, but we had no plan to win the peace. No plan for post-conflict reconstruction. Trouble was all but guaranteed in this environment.

But the subject matter of this hearing should not be viewed in isolation, as merely accounting and business irregularities.

How we conduct business in Iraq, how we undertake the reconstruction, and how successful we are at helping to rebuild the country is directly tied to our overall success, and directly tied to the security of our soldiers and the threats they face.

I will never forget what General Myers and General Abizaid have told the Congress on more than one occasion. I am paraphrasing, but they indicated “that we have overwhelming firepower in Iraq; that we would continue to win every firefight with the enemy, every battle, and every incursion, but that the war in Iraq would be won by non-military means.” This was a rather startling statement from two senior military officers.

When pressed, the Generals explained that defeating a counterinsurgency requires the complete arsenal of American power: military power, economic power, diplomatic power and political power.

When, for example, the unemployment rate among young Iraqi men still stands at over 50%, when Iraqis have to stand in line for hours for a single gallon of gasoline, when water and electricity are only sporadically available, you begin to have the conditions that allow insurgencies to thrive.

Many ordinary Iraqis — the “fence sitters” as some call them — are prone to either join those fighting U.S. forces or at least give aid and support to the insurgents, as the quality of their own life degrades.

The Commander of the First Cavalry in Baghdad has said that when his troops were given the resources to work on reconstruction projects — on sewer systems and power lines — the number of threats against his troops went down.

So, when we talk about an absence of contracting controls, badly qualified contractors, poor management by inexperienced officials, over-billing and profiteering, corruption, and a failure to deliver basic services to the Iraqis — not only is this wrong and in some cases possibly criminal, but it also contributes to the poor security position we find ourselves in today, and it makes achieving success even harder. We have to do better.

So I appreciate very much the leadership of Senator Dorgan and his staff for convening this important hearing. With billions of dollars and the security of our forces at stake, we have to get this contracting and reconstruction right. We owe it to our troops, the U.S. taxpayers, and the Iraqi people.