

TUESDAY, JUNE 20, 2006

DEMOCRATS SEEK OVERSIGHT OF IRAQI RECONSTRUCTION CONTRACTS

All seven Democrats on the Senate Homeland Security and Governmental Affairs Committee Tuesday pressed Chairman Susan Collins to hold hearings on the billions of dollars in Iraqi reconstruction funds that have been squandered due to waste, fraud, abuse, and mismanagement.

Auditors and investigators have issued repeated reports of waste and mismanagement over the past three years. Last year, the Special Inspector General for Iraqi Reconstruction (SIGIR) concluded that the Coalition Provisional Authority (CPA) could not track over \$8 billion it had transferred to Iraqi ministries and that CPA officials left millions of dollars in cash unsecured in their offices. Numerous SIGIR reports have documented a range of procurement problems, including excessive reliance on sole source contracts, instances of outright contractor fraud, insufficient ability to trace the disposition of funds, repeated instances of unsupported contractor costs, and widespread deficiencies in contract oversight.

“Waste, mismanagement and corruption undermine America’s mission in Iraq,” the Senators said in their letter. “And in some instances, the failure of contractors to fulfill their obligations has jeopardized the health, welfare and safety of American troops and civilian personnel...”

“As the Committee responsible for the oversight of federal contracting, it is our duty to understand what has gone wrong with the process for awarding and managing contracts, to identify deficiencies, and to ensure appropriate remedies are enacted.”

The letter came on the heels of an unsuccessful Senate vote to create a special committee to investigate Iraqi contracting mismanagement, similar to a commission established under President Harry Truman to investigate waste, fraud, and abuse during World War II. The Truman commission saved taxpayers billions of dollars. All Senators who signed the letter to Collins also voted in favor of the amendment.

Senators Joe Lieberman, D-Conn., and Frank Lautenberg, D-N.J., have previously requested Chairman Collins conduct oversight of Iraqi reconstruction contracts – particularly Halliburton contracts. The Chairman refused their requests.

In addition to Lieberman and Lautenberg, other Senators signing onto the letter include Carl Levin, D-Mich., Daniel Akaka, D-Hi., Tom Carper, D-Del., Mark Dayton, D-Minn., and Mark Pryor, D-Ark.

A copy of the letter appears below:

June 20, 2006

The Honorable Susan M. Collins

Chairman

Committee on Homeland Security & Governmental Affairs

United States Senate

Washington, DC 20510

Dear Chairman Collins:

We are requesting that the Committee on Homeland Security and Governmental Affairs hold hearings on waste, fraud, and abuse associated with contracts related to Iraqi reconstruction and support of U.S. military operations in Iraq.

We are deeply concerned over the repeated reports of the misuse of funds under the Iraqi contracts. As you noted at the nomination hearing of Ambassador Robert Portman as Director of the Office of Management and Budget, the Special Inspector General for Iraq Reconstruction (SIGIR) has found excessive reliance on sole source contracts, instances of outright contractor fraud, and an insufficient ability to trace the disposition of the funds. The SIGIR also has identified repeated instances of unsupported contractor costs and significant deficiencies in contract administration processes and controls.

Waste, mismanagement, and corruption undermine America's mission in Iraq. The latest reports from the SIGIR are replete with examples of reconstruction projects that are behind schedule – or even incapable of completion – due in large part to poor contract planning and oversight. And in some instances, the failure of contractors to fulfill their obligations has jeopardized the health, welfare, and safety of American troops and civilian personnel.

As the Committee responsible for the oversight of federal contracting, it is our duty to understand what has gone wrong with the process for awarding and managing contracts, to identify deficiencies, and to ensure appropriate remedies are enacted. For example, the no-bid “Restore Iraqi Oil” contract awarded to Halliburton's subsidiary KBR continues to raise troubling questions. The Defense Contract Audit Agency (DCAA) identified approximately \$263 million as “potentially excessive or unjustified” costs charged by KBR under this contract. Yet the Department of Defense (DOD), without clear justification, elected to pay \$253 million – over 96% – of the disputed costs, despite a determination by the auditors that the charges were inflated and not properly supported by documentation. The settlement with KBR stands in sharp contrast to the outcome under thousands of other military contracts, where audits resulted in DOD paying, on average, only 25% of disputed costs in 2004 and 44% in 2005. DOD's decision is even more disturbing given that auditors, through last June, had identified more than \$1.4 billion in questioned and unsupported costs submitted by Halliburton and its subsidiaries under various contracts.

David Norquist's testimony at his May 8, 2006, confirmation hearing to be Chief Financial Officer for the Department of Homeland Security also was a stark reminder that Congressional oversight is needed to ensure that federal agencies do not shirk their duty to confront waste, fraud, and abuse forcefully. As discussed at the hearing, when a U.N. monitoring board requested copies of the DCAA audits of the Restore Iraqi Oil contracts, DOD provided copies of the audits that struck every reference to every overcharge in every audit – 463 redactions in all that had been made at Halliburton's request. We still have no satisfactory explanation of why DOD decided to give a contractor implicated in an overcharging scheme the final say on what information to provide to the legal entity responsible for oversight of the Iraqi funds.

Unfortunately, auditors and investigators have uncovered extensive waste, fraud, and abuse involving numerous government entities and many contractors:

Last year, the SIGIR reported that the Coalition Provisional Authority (CPA) could not track over \$8 billion it had transferred to Iraqi ministries and that CPA officials left millions of dollars in cash unsecured in their offices.

Auditors in one region found that contract managers could not account for \$97 million disbursed from the Development Fund for Iraq.

An audit of programs designed to train guards to protect Iraq's oil and electrical infrastructure concluded that U.S. agencies could not provide reasonable assurance that \$147 million expended under these programs was used for its intended purpose.

In one case the SIGIR found that a company which was awarded a security management contract worth hundreds of millions of dollars could provide no assurance that it was providing the best possible safety for government and reconstruction personnel, as required by the contract, and could not even show that its employees authorized to carry weapons were trained to use those weapons.

As a result of federal investigations, a U.S. contractor and a CPA regional comptroller recently pleaded guilty in a case involving a bribery, fraud, conspiracy, and money-laundering scheme that defrauded the CPA of millions of dollars.

These are but a few examples that raise serious questions about the adequacy of planning and oversight by U.S. agencies of the contracts under their control. The SIGIR also has identified many other instances of insufficient documentation to substantiate fee payments; failure to account for millions of dollars in cash grants; active circumvention of grant requirements; violation of conflict-of-interest rules; needless expenditure of funds for duplicative projects; over-expenditure of interest penalty payments, and a general lack of oversight. We know about many of these abuses because the SIGIR has established and maintains a permanent office with a large staff in Iraq. It is quite likely, however, that a large amount of waste, fraud, and abuse has gone undetected. For example, it is our understanding that the DOD Inspector General has never had any staff based in Iraq. As the United States continues to spend billions of dollars on Iraqi reconstruction, we must ensure that better oversight is in place to prevent the loss of still greater sums.

Under your leadership, the Committee has conducted many hearings to expose waste, fraud, and abuse. Just recently, the Committee held two hearings on fraudulent and abusive spending practices associated with Hurricane Katrina relief and recovery. The Committee's Permanent Subcommittee on Investigation

is currently looking into one example of contractor abuse involving allegations that U.S. troops were exposed to contaminated water in Iraq. We ask that the Committee exercise similar oversight more broadly of the Iraqi reconstruction contracts to prevent further waste of precious tax payer dollars and to hold accountable those who misused Iraqi funds entrusted to U.S. government management.

During World War II, Senator Harry S Truman led the Special Committee to Investigate the National Defense Program which investigated waste and corruption in the war effort, saving as much as \$15 billion dollars. In that same tradition, we believe aggressive oversight by our Committee would result in a similar reduction of waste and mismanagement.

We look forward to working with you on this important initiative.

Sincerely,

Ranking Member Joe Lieberman

Senator Frank Lautenberg