# ACCOUNTABILITY LAPSES IN MULTIPLE FUNDS FOR IRAQ

## HEARING

BEFORE THE

## COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

## HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

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# ACCOUNTABILITY LAPSES IN MULTIPLE FUNDS FOR IRAQ

**THURSDAY, MAY 22, 2008**

HOUSE OF REPRESENTATIVES,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
*Washington, DC.*

The committee met, pursuant to notice, at 10 a.m., in room 2154, Rayburn House Office Building, Hon. Henry A. Waxman (chairman of the committee) presiding.

Present: Representatives Waxman, Davis of Virginia, Cummings, Kucinich, Tierney, Clay, Watson, Lynch, Higgins, Yarmuth, McCollum, Sarbanes, Platts, Duncan, and Issa.

Staff present: Phil Barnett, staff director; Kristin Amerling, chief counsel; Karen Lightfoot, communications director and senior policy advisor; David Rapallo, chief investigative counsel; Theodore Chuang, deputy chief investigative counsel; Steve Glickman, counsel; Mark Stephenson, professional staff member; Jen Berenholz, deputy clerk; Caren Auchman and Ella Hoffman, press assistants; Leneal Scott, information systems manager; Larry Halloran, minority staff director; Jennifer Safavian, minority chief counsel for oversight and investigations; Keith Ausbrook, minority general counsel; Mason Alinger, minority legislative director; John Brosnan, minority senior procurement counsel; A. Brooke Bennett, minority counsel; Emile Monette and Benjamin Chance, minority professional staff members; Nick Palarino, minority senior investigator and policy advisor; Patrick Lyden, minority parliamentarian and member services coordinator; Brian McNicoll, minority communications director; and John Ohly, minority staff assistant.

Chairman WAXMAN. The committee will please come to order.

As many of us know, there are strong and fundamental disagreements in Congress and throughout the country about President Bush's Iraq policy, but despite these differences there is unanimous agreement in at least one area: Our Government should do all it can to eliminate any waste, fraud and abuse in the hundreds of billions of taxpayers' dollars that are being spent on the war.

Normal accounting standards aren't always possible in war zones, and we have kept that in mind during our committee's work. But some actions, like our Government's decision to hand out $12 billion in cash at the beginning of the war, defy logic. As we learned in our hearings last year, nearly $9 billion of that money was distributed with no accounting standards at all.

Today's hearing will give us a new status report on how the Defense Department is safeguarding taxpayers' dollars. We are very

fortunate to have the Department's Deputy Inspector General here to brief us on a new report.

The Defense Department has made over 180,000 payments to contractors from offices in Iraq, Kuwait and Egypt. These payments are for everything from bottled water to vehicles to transportation services.

The Inspector General reviewed approximately $8.2 billion in Defense spending and estimated that the Department failed to properly account for $7.8 billion. That means the Defense Department had a stunning 95 percent failure rate in following basic accounting standards.

The Inspector General concluded that $1.4 billion of these payments didn't even meet the most minimal requirements necessary, leaving U.S. taxpayers vulnerable to waste and fraud. In fact, the Inspector General has already referred 28 cases involving millions of dollars to criminal investigators.

Few Americans may be aware of this, but the Defense Department has paid $135 million to Britain, South Korea, Poland and other countries to conduct their operations in Iraq. When the Inspector General tried to find out what this money was used for, they couldn't find any answers. Investigators reviewed 22 different voucher files, but not one single payment made to these foreign countries had documents explaining how the money was spent.

The Inspector General also found that the Pentagon gave away $1.8 billion in Iraqi assets with absolutely no accountability. Investigators examined 53 payment vouchers and couldn't find even one that adequately explained where the money went.

In one remarkable instance, a $320 million payment in cash was handed over with little more than a signature in exchange.

These new findings are on top of the Inspector General's sobering November 2007 report which concluded that the Defense Department couldn't properly account for over $5 billion in taxpayer funds spent in support of the Iraqi security forces. That analysis reported that thousands of weapons are unaccounted for, including assault rifles, machine guns and rocket-propelled grenade launchers, and millions of dollars have been squandered on construction projects that don't exist.

Taken together, the Inspector General found that the Defense Department did not properly account for almost $15 billion. American taxpayers are picking up the tab for Iraqi ministries, Coalition governments, United States and foreign contractors, Iraqi security forces and Blackwater and other U.S. security companies. We are even giving hundreds of millions of dollars to local Iraqi tribal leaders in order to get them to stop fighting, and much of this is spent without the minimum safeguards needed to protect taxpayers.

Our troops seems to be the only ones who are held to demanding standards. In fact, they often have to overcome mindless obstacles just to get what they are owed.

Soldiers wounded in battle have received letters demanding that they return signing bonuses because they didn't complete their terms. In some cases, the Pentagon even wanted interest.

Guard forces and Reservists have waited months, even years, to get reimbursed for travel and meal expenses.

Sergeants have had to buy their own body armor. They have had to armor their own Humvees, buy their own medical supplies and even purchase their own global positioning devices.

And, when the brigade of National Guard and Reserve troops that served the longest tour of duty in Iraq came home, they had to fight the Pentagon bureaucracy to get the education benefits they had earned.

There is something very wrong when our wounded troops have to fill out forms in triplicate for meal money while billions of dollars in cash are handed out in Iraq with no accountability.

The Inspector General has done important work, and this new report deserves an official response from the Defense Department. The Department has known about this audit for more than a year and has known about this hearing for several weeks, but the Department refused to testify voluntarily today. I think that is a regrettable decision, but it will not keep our committee from giving this matter the careful scrutiny it deserves.

I want to thank the Inspector General and his staff, and I look forward to hearing today's testimony.

Mr. Davis.

[The prepared statement of Chairman Henry A. Waxman follows:]

**Opening Statement of Rep. Henry A. Waxman**
**Chairman, Committee on Oversight and Government Reform**
**Accountability Lapses in Multiple Funds for Iraq**
**May 22, 2008**

Good morning. As many of us know, there are strong and fundamental disagreements in Congress about President Bush's Iraq policy.

But despite these differences, there is unanimous agreement in at least one area: our government should do all it can to eliminate any waste, fraud, and abuse in the hundreds of billions of taxpayer dollars that are being spent on the war.

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Taken together, the Inspector General found that the Defense Department did not properly account for almost $15 billion. American taxpayers are picking up the tab for Iraqi ministries, Coalition governments, U.S. and foreign contractors, Iraqi security forces, and Blackwater and other U.S. security companies. We are even giving hundreds of millions of dollars to local Iraqi tribal leaders in order to get them to stop fighting.

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The Inspector General has done important work and this new report deserves an official response from the Defense Department. The Department has known about this audit for more than a year and has known about this hearing for several weeks. But the Department refused to testify voluntarily today.

I think that's a regrettable decision, but it will not keep our Committee from giving this matter the careful scrutiny it deserves.

I want to thank the Inspector General and his staff and I look forward to hearing today's testimony.

Mr. DAVIS OF VIRGINIA. Thank you, Mr. Chairman, for calling this hearing to examine the complex range of vulnerabilities and management challenges raised by our extensive security and reconstruction activities in Iraq. We are pleased the committee is continuing this line of oversight which began when I sat in your chair.

During the 108th and 109th Congresses, the full committee and our subcommittees held a total of 19 hearings focused on complex logistical support and reconstruction contracts. In those sessions, we tried to transcend the charged rhetoric and easy generalities that can swirl around this topic and focus instead on the hard realities of using last century business systems in a war zone on the other side of the world. I hope today's hearing follows that constructive path.

It is worth the committee's sustained attention because the bad news is inadequate DOD payment processes didn't start with the Iraq War and they are unlikely to disappear when the war is over.

I would just note that the DOD IG has done similar audits and obtained similar results for vendor payment activities outside the Iraq War.

In one report issued in 2002, the DOD IG stated serious internal control weaknesses have been reported over the years in the DOD payment process and system. Since the formation of DFAS in the early 1990's, its processes and procedures have been the subject of significant attention from the oversight community in general.

For example, while investigation disbursements by DFAS Oakland, CA, the DOD IG found that the accounts payable data bases used to validate vendor systems and payments were incomplete, inaccurate and virtually unauditable. The auditors identified at least $2.4 million in duplicate payments in the limited sample that it reviewed. That was a 1995 report.

While reviewing vendor payments at DFAS Denver, the DOD IG found that approximately 176,000 of the 306,000 vendor payments made over the course of the 3-month period in 1999 lacked the required supporting documentation and information.

In 2001, the DOD IG reviewed vendor payments at DFAS Omaha for vendor payments on a $25.5 million multi-year maintenance contract. The auditors found $2.9 in erroneous obligations to the contract, $530,000 in duplicative payments of the contract and over $700,000 of unnecessary upward adjustments of obligations on the contract. That was in March 2001, and that was just a very small sample.

The DOD IG, which will testify today, as I said, it has suffered from longstanding and serious internal control weaknesses, but spending in Iraq presents unique challenges and provides undeniable opportunities for worthwhile oversight.

Few people operating in an active combat zone would refer to the documentation requirements of the financial management process as mission critical work. Similarly, no one would deny the imperative to tell American taxpayers how their money is being spent. So we have to balance these two truths and approach this issue with unclouded vision.

We need to know what has gotten better, what is still being fixed and what is still broken, and we need to refine our understanding of the differences between audit report findings that take an un-

flattering snapshot of a complex process and the real meaning of those findings to the long-term integrity of systems handling huge disbursements of taxpayer dollars.

Without question, many processed used with relative success in peacetime operations here fall far short of expectations when deployed in an active combat zone. In Iraq, a highly unstable environment and consequent security overhead greatly compound the scope of resulting cost, performance and oversight issues.

The underlying causes: inadequate planning, a lack of sustained, high-level leadership, mismatches between requirements and resources and an insufficient number of trained financial management personnel.

The last factor, not enough trained and experienced acquisition professionals, is by no means unique to Iraq, and we should not let a focus on the war blind us to the Government-wide need for veteran finance officials to watch over large and growing expenditures.

Today, we are going to hear from the Department of Defense Deputy Inspector General for Audit, Ms. Mary Ugone. She brings an important perspective informed by a substantial body of audit and review work.

The picture painted by that work is not pretty. A volatile environment, poor security and an arcane, ill-suited regulatory structure have produced a succession of transactions plagued by missing documentation and other lax fiscal controls.

The IG findings remind us the truth of a war zone is gritty enough. There is no need to embellish, inflate or spin it. Thoughtful oversight will steer clear of hyperbolic discussions and oversimplification of complex processes in the search for meaningful reforms.

I look forward to her testimony and to a frank and constructive discussion.

Thank you.

[The prepared statement of Hon. Tom Davis follows:]

HENRY A. WAXMAN, CALIFORNIA
CHAIRMAN

TOM DAVIS, VIRGINIA
RANKING MINORITY MEMBER

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# Statement of Rep. Tom Davis
# Ranking Republican Member
# Committee on Oversight and Government Reform
# *Accountability Lapses in Multiple Funds for Iraq*
# May 22, 2008

Thank you, Mr. Chairman, for calling this hearing to examine the complex range of vulnerabilities and management challenges raised by our extensive security and reconstruction activities in Iraq. We are pleased the Committee is continuing this line of oversight, begun when I sat in your chair. During the 108th and 109th Congresses, the full committee and our subcommittees held a total of 19 hearings focused on complex logistical support and reconstruction contracts. In those sessions, we tried to transcend the charged rhetoric and easy generalities that can swirl around this topic and focus instead on the hard realities of using last-century business systems in a war zone on the other side of the world. I hope today's hearing follows that constructive path.

It's worth the Committee's sustained attention because the bad news is: Inadequate DOD payment processes didn't start with the Iraq war, and they're unlikely to disappear when the war is over. The DOD payment system is an aging, leaky aggregation of legacy systems that don't always provide every possible assurance taxpayers' money is being well-spent. The Department of Defense Inspector General's office, which will testify on new audit findings today, reminded us in 2002 that DOD vendor payments here at home and abroad already suffered from longstanding and serious internal control weaknesses.

But spending in Iraq presents unique challenges and provides undeniable opportunities for worthwhile oversight. Few people operating in an active combat zone would refer to the documentation requirements of the financial management process as "mission critical" work. Similarly, no one should deny the imperative to tell American taxpayers how their money is being spent. So we need to balance these two truths and approach this issue with unclouded vision. We need to know what's gotten better, what's still being fixed and what's still broken. And we need to refine our understanding of the difference between audit report findings that take an unflattering snapshot of a complex process and the real meaning of those findings to the long-term integrity of systems handling huge disbursements of taxpayer dollars.

Without question, many processes used with relative success in peacetime operations here fall far short of expectations when deployed in an active combat zone. In Iraq, a highly unstable environment and consequent security overhead greatly compounded the scope of resulting cost, performance and oversight issues. The underlying causes: inadequate planning, a lack of sustained, high-level leadership, mismatches between requirements and resources, and an insufficient number of trained financial management personnel.

That last factor – not enough trained and experienced acquisition professionals – is by no means unique to Iraq and we should not let a focus on the war blind us to the government-wide need for veteran finance officials to watch over large, and growing, expenditures.

Today we will hear from the Department of Defense Deputy Inspector General for Audit, Ms. Mary Ugone. She brings an important perspective informed by a substantial body of audit and review work. The picture painted by that work is not pretty. A volatile environment, poor security, and an arcane, ill-suited regulatory structure, have produced a succession of transactions plagued by missing documentation and other lax fiscal controls. The IG findings remind us the truth of a war zone is gritty enough. There is no need to embellish, inflate or spin it. Thoughtful oversight will steer clear of hyperbolic exaggeration and oversimplification of complex processes in the search for meaningful reforms.

We look forward to her testimony and to a frank, constructive discussion.

Chairman WAXMAN. Thank you very much, Mr. Davis.

It is the practice of the committee to have opening statements from the chairman and the ranking member. We don't have a great number of Members here, so if Members want to make a brief opening statement, I will recognize them at this point.

Mr. Kucinich.

Mr. KUCINICH. Thank you very much, Mr. Chairman. I want to thank you and Ranking Member Davis for your ongoing interest in providing accountability for the funds that are used in Iraq.

One of the things that disturbs me about the approach that the administration has taken, Mr. Chairman, is that it has treated the money of the people of Iraq as free money, as though we don't have responsibility for the money that we take custody of that belongs to the people of Iraq.

I think that those in the administration who have had custody of that money, who have, through their instance, created systems for distributing the money, need to be held accountable as though they were handling the money of the taxpayers of the United States of America. This hearing, I hope, proceeds in that spirit.

Because it is Iraq money and since we have a higher responsibility, we can't act as though, well, that is just Iraqi money and somehow anything goes. Actually, when you look at it in terms of the work of particularly Coalition Provisional Authority, anything has gone. Billions have gone out the door, and we can't trace it. There are a lot of questions there.

Mr. Chairman, thank you for holding this hearing. I will be rejoining the hearing shortly. I have people in my office I have to meet with, but thank you.

Chairman WAXMAN. Thank you, Mr. Kucinich.

Mr. Issa.

Mr. ISSA. Thank you, Mr. Chairman.

I will be brief. I would like to put my entire statement in for the record.

I appreciate your holding this hearing. I think it is incredibly important that we, on a bipartisan basis, continue to operate an oversight role.

To that end, I would like to comment briefly that if in fact the majority doesn't begin the process of briefing us until the 20th, if we have at 9:39 this morning the majority opinion coming out, giving us 21 minutes before the start to begin to review an 11-page document, then in fact we, as a committee, are part of the problem. Although our guests are important as part of the solution today, I would hope that we could prevent this from happening so deliberately again in the future.

Also, to that end, I hope today that we won't allow our anti-war versus pro-war images to taint the legitimate need for bipartisan oversight as to mistakes, fraud and lost money. I break them down into those three categories for a reason and hope that our witnesses will be able to give us statistical clarity on what, in fact, is the level of mistakes being made as a percentage now and in past conflicts, what level of fraud do we believe has occurred and what level of fraud have we taken steps to enforce criminal violations against and, last but not least, the total loss through all causes so

that we can understand as a statistical percentage of the dollars and the number of transactions.

I would hope that this committee would look to the statistical reality of a number of occurrences as we do in the business world and not simply to dollars which, in a multi-trillion dollar economy, always manage to end up being large figures.

So, Mr. Chairman, I will put my entire statement in for the record, and I hope that my comments will lead to our staffs being able to work for better notification sooner in the future.

I yield back.

Chairman WAXMAN. Ms. Watson, do you wish to make an opening statement?

Ms. WATSON. Thank you so much, Mr. Chairman, for holding today's hearing on the accountability of funds used to support this war in Iraq.

I remember being told by the President that the cost of this war would be revenues from the oil that was produced and drilled out in Iraq. That appeared to be untrue. Today, we are talking about taxpayers' U.S. dollars, taxpayers' money.

As you know, Mr. Chairman, we have been working diligently to provide oversight of funds that may have been inappropriately used while the occupation of Iraq has dragged on. Over the course of the last 15 months, we have had several hearings that were aimed at addressing the poor accountability methods of the Coalition Provisional Authority, contractors and subcontractors in Iraq.

Right here, I have a staff person who was in Iraq, and we saw these contractors given millions and millions of American dollars, and the goods and the services that were supposed to be produced for our fighting forces never got to them. I have a witness here in this chamber today.

The hearings opened our eyes to the potential waste of almost $50 billion in unauthorized security costs, overpriced workers, compensation insurance, inefficiencies and cost overruns associated with the construction of the U.S. Embassy in Baghdad, the largest in the world for a rather small, what is it, 58 million people population. The largest in the world, costing a billion dollars, and this example is only to name a few of the problems.

Also, last October, this committee held a hearing on the state of corruption in the Iraqi government that showed there are severe problems with accountability in their government. The reason why I bring this up is because if the United States wants to be an example of democracy and accountability in Iraq, we must demonstrate the need to abide by the Rule of Law.

So I look forward to hearing the testimony of today's panel on our current situation, describing as to why there are deficiencies in the reporting of the Multi-National Security Transition Command's ability to deliver weapons, supplies and equipment to support the war in Iraq.

I thank you, Mr. Chairman, for the opportunity to address the committee, and I yield back the remainder of my time.

Chairman WAXMAN. Thank you very much, Ms. Watson.

Mr. Duncan.

Mr. DUNCAN. Thank you very much, Mr. Chairman. I don't have a formal written statement, but I will briefly say this.

This is my 20th year in the Congress, and I followed the Congress very closely for more than 20 years prior to that. In all that time, we have seen mind-boggling amounts of waste in almost every Federal department and agency.

But in all those years, never has any department or agency ever come close to the gigantic waste, fraud and abuse that has gone on in Iraq, and fiscal conservatives should be the ones most horrified by what has happened there. There has been nothing fiscally conservative about the war in Iraq.

It is really shameful, and it is extremely unfair to the taxpayers of this country.

Thank you.

Chairman WAXMAN. Thank you very much, Mr. Duncan.

Mr. Higgins.

Mr. HIGGINS. Yes, thank you, Mr. Chairman. I applaud your leadership on this issue today and historically.

I think this issue of accountability and oversight is very, very important. We are talking about millions and billions of dollars in an effort that doesn't appear to be making much progress.

The congressional role historically in oversight, particularly to support war efforts, has been critical as a fundamental component in changing the direction in terms of our policy. So I think this hearing is obviously very important. I look forward to the testimony of the Inspector General.

I applaud you again, Mr. Chairman, for your leadership, and I yield back.

Chairman WAXMAN. Thank you very much.

Mr. Sarbanes.

Mr. SARBANES. Thank you, Mr. Chairman, for holding this hearing which is one in a series that you have held to shed light on the tremendous war profiteering—that is really the only word or phrase to use to describe it—that has gone on in Iraq with the various contractors that have been in that space over the last 5 to 6 years.

I want to say that I still am captive to this image that I mentioned in a hearing we had last week of the days right after the occupation when U.S. forces stood by and watched as tremendous looting went on of ministries and other sites in Iraq. It appears that the U.S. Government, the Department of Defense and other agencies stood by and watched while the looting of our treasury went on, on the part of many of these contractors.

What I can't understand is did they not see it, did they see it and not care or did they see and have some sort of interest in having it occur? Hopefully, these hearings will help us get to the bottom of that.

Thank you.

Chairman WAXMAN. Thank you very much, Mr. Sarbanes.

We are pleased to welcome our witnesses today: Mary Ugone, Deputy Inspector General for Auditing, U.S. Department of Defense, Office of the Inspector General; Patricia Marsh, Assistant Inspector General, Defense Financial Auditing Service Directorate, U.S. Department of Defense, Office of the Inspector General; and Daniel Blair, Deputy Assistant Inspector General, Defense Finan-

cial Auditing Service Directorate, U.S. Department of Defense, Office of the Inspector General.

We are pleased to welcome you to our hearing today.

It is the practice of this committee that all witnesses testify under oath, so if you would please stand and raise your right hands.

[Witnesses sworn.]

Chairman WAXMAN. The record will indicate that each of the witnesses have answered in the affirmative.

Ms. Ugone, I want to recognize you now. We have your prepared statements, and we are looking forward to your testimony.

**STATEMENT OF MARY L. UGONE, DEPUTY INSPECTOR GENERAL FOR AUDITING, U.S. DEPARTMENT OF DEFENSE, OFFICE OF THE INSPECTOR GENERAL, ACCOMPANIED BY PATRICIA MARSH, ASSISTANT INSPECTOR GENERAL, DEFENSE FINANCIAL AUDITING SERVICE DIRECTORATE, U.S. DEPARTMENT OF DEFENSE, OFFICE OF THE INSPECTOR GENERAL; AND DANIEL BLAIR, DEPUTY ASSISTANT INSPECTOR GENERAL, DEFENSE FINANCIAL AUDITING SERVICE DIRECTORATE, U.S. DEPARTMENT OF DEFENSE, OFFICE OF THE INSPECTOR GENERAL**

Ms. UGONE. It is an honor to be here before you. Thank you.

Chairman Waxman, Congressman Davis and distinguished members of the committee, we appreciate the opportunity to appear before you today to discuss controls over commercial payments made in Iraq, Kuwait and Egypt, accounting for the Commander's Emergency Response Program [CERP] funds, provided to Coalition partners and Iraqi seized and vested asset payments and also to discuss the management of the Iraq Security Forces Fund.

Our audit of controls over payments was initiated in May 2006, in response to a Defense Criminal Investigative Service [DCIS], assessment that there had been limited review of the completeness, accuracy and propriety of these payment vouchers.

This concern centered on the potential existence of fraud, waste and abuse related to over $10.7 billion in payment vouchers related to U.S. Army disbursement of which we estimate that $8.2 billion pertain to commercial payments. The remaining $2.5 billion are noncommercial payments.

We identified the need for improved processes and guidance used by the Army and Defense Finance and Accounting Service to review commercial payment information in a contingency operation. Based on our review of 702 vouchers, we estimated that the Army made $1.4 billion in commercial payments that did not have essential supporting information needed to determine whether the payment was proper. We identified information as essential because it was needed to ensure that entitlement to a commercial payment matched the goods or services provided.

Another $6.3 billion in estimated commercial payments did meet essential criteria but did not comply with other requirements.

Essential criteria include receiving reports, invoices, certifying official signature and payee signatures. For example, a voucher for payment for $11.1 million was missing both the receiving report

and invoice. Without a receiving report and invoice, we don't know what we paid for.

As a result of our audit, on May 16, 2008, the Office of the Under Secretary of Defense-Comptroller-Chief Financial Officer notified us that the financial management regulation was revised to incorporate guidance on commercial payment vouchers and supporting documents in contingency operations.

CERP-funded projects are performed by both United States and Coalition forces. We reviewed a sample of 22 payment vouchers totaling $134.8 million for CERP payments to Coalition partners. None of them had sufficient supporting documentation to provide reasonable assurance that these funds were used for their intended purposes.

The sample of 53 payment vouchers for seized and vested assets valued at $1.8 billion did not have supporting documentation that accounted for how the funds were to be used as prescribed by existing guidance. We suggested that a spending plan should be attached to serve as documentation that accounted for how the funds were to be used.

During this audit, we referred 28 vouchers totaling $35.1 million to DCIS for potential followup.

With respect to the Iraq Security Forces Fund, the scope of review of $5.2 billion in funds used to provide equipment, services, construction and other support to the Iraq security forces, our November 2007 audit report concluded that the Multi-National Security Transition Command-Iraq could not always demonstrate proper accountability of purchases using these funds or that delivery of services, equipment and construction were properly made to the Iraq security forces.

We judgmentally sampled 317 transactions valued at $2.7 billion of which $2 billion did not have adequate supporting documentation needed to ensure that funds were properly managed. For example, about 91.5 of the $1.1 billion in sample transactions for equipment purchases did not have adequate supporting documentation of information such as receiving reports or recorded vehicle identification numbers or serial numbers.

For construction projects, documentation was not adequate to support whether 93 percent of the $400 million in sampled projects were completed or that progress was accurately recorded.

In April 2008, the Command released its Logistics Accountability Standard Operating Procedures as a result of our audit.

In May 2005, DCIS launched a proactive project to analyze the payment vouchers at the Defense Finance and Accounting Service Rome, New York in an attempt to identify potentially fraudulent activity related to the war effort in Iraq and Afghanistan. Work is ongoing to expand the review of payment records for anomalies.

This concludes my oral testimony. I will be happy to answer any questions that you may have. Thank you.

[The prepared statement of Ms. Ugone follows:]

May 22, 2008

Expected Release
10:00 a.m.

Mary L. Ugone

Deputy Inspector General for Audit
Department of Defense

before the

Committee on Oversight and Government Reform
United States House of Representatives

on

"Accountability over Several Funds to Support the Iraq War, Including the Iraq Security Forces Fund, the Commander's Emergency Response Program, and the Seized and Vested Assets of the Iraqi People"

Chairman Waxman, Congressman Davis, and distinguished members of the Committee on Oversight and Government Reform, we appreciate the opportunity to appear before you and discuss the Army's internal controls over commercial payments made in Iraq and other locations, accounting for the Commander Emergency Response Fund and seized and vested asset payments made to representatives of foreign governments, and management of the Iraq Security Forces Fund. Today, we will discuss the importance of internal controls. Specifically, we will detail two audits "Internal Controls over Payments Made in Iraq, Kuwait, and Egypt" and "Management of the Iraq Security Forces Fund in Southwest Asia – Phase III." We will also provide information on the efforts of the Defense Criminal Investigative Service as they relate to financial crimes. These audits and criminal investigations will help to highlight the importance of internal controls as they relate to financial payments and the services or products received in return.

## Importance of Internal Controls.

The internal control system is a major part of managing any organization – including DoD. These controls are the plans, methods, and procedures used to meet the mission and serve as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Internal control is not one event, but a

series of actions and activities that occur throughout an organization on an ongoing basis. People are what make internal control work. The responsibility for maintaining good internal controls rests with all managers.

Ineffective internal controls include such things as missing documentation, missing signatures from certifying officials, receiving officials, and payees; and missing voucher information. Ineffective internal controls could create an environment where duplicative payments, fraudulent activity, or improper use of funds takes place and is not identified and corrected in the normal course of business. A lack of internal controls can result in either no audit trail or in a complex audit trail, which hinders the search for supporting documents. Ineffective internal controls can result in missing or inadequate documentation. Also, ineffective internal controls can result in unreliable accounts payable and expense amounts reported on DoD financial statements.

We identified material internal control weaknesses related to out-of-country payments made in support of the Global War on Terror and for the Iraq Security Forces Fund as defined by DoD Instruction 5010.40, "Managers' Internal Control Program Procedures". The Army's internal controls did not ensure proper support for the commercial payments and that funds were used as intended. Multi-

National Security Transition Command – Iraq did not have adequate procedures in place to provide reasonable assurance that equipment, construction, and services procured through the Iraq Security Forces Funds were provided to the Iraq Security Forces.

## Improved Controls Needed for Payments Made in Iraq, Kuwait, and Egypt.

Our audit of controls over payments made in Iraq, Kuwait, and Egypt[1] was initiated in May 2006, in response to a Defense Criminal Investigative Service (DCIS) assessment that there had been limited review of the completeness, accuracy, and propriety of these payment vouchers. This concern centered on the potential existence of fraud, waste, and abuse related to over $10.7 billion in payment vouchers related to U.S. Army disbursements which are currently stored at the Defense Finance and Accounting Service (DFAS), Rome, NY.

We identified inadequate supporting documentation and information for payments made by Army contingency disbursing stations and the need for improved processes and guidance used by the Army and DFAS to review payment information. A substantial amount of U.S. and Iraqi funds have been spent to

[1] DoD IG Report No. D-2008-XXX, "Internal Controls Over Payments Made in Iraq, Kuwait, and Egypt," dated May 20, 2008.

safeguard and rebuild Iraq. To date, DoD has been appropriated $492 billion to support Operation Iraqi Freedom.[2] In addition, $2.8 billion from Seized and Vested Assets were to have been returned to Iraq to help rebuild its infrastructure and economy. It is imperative that the DoD maintains accountability and auditability of these funds so that we are assured that the funds were used for their intended purposes. Maintaining transparency over these financial and contracting transactions and operations are an important part of this accountability. Transparency is the visibility and controls of an accounting transaction from the very beginning of the process to the end when it is summarized in a management report or financial statement.

**What We Did.** The purpose of our audit was to determine whether Army's internal controls provided reasonable assurance that payments were supported and recorded. Internal controls addressed in the report included proper documentation, information, and approvals in accordance with regulations and laws, oversight of payments, and the adequacy of DoD policies and planning for operating in a contingency environment. Our audit of "Internal Controls Over Payments Made in Iraq, Kuwait, and Egypt" showed that planning and guidance was lacking for contingency operations. The scope of our review was 183,486 commercial and

[2] Source for these numbers is the Congressional Research Service report, "The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11," dated February 8, 2008. The numbers listed are DoD funds.

miscellaneous payments, totaling $10.7 billion, made by 7 Army contingency disbursing stations. We took a statistical sample of 789 payment vouchers totaling $3.5 billion that were paid April 2001 through June 2006. Approximately 99 percent of the dollar value of the vouchers reviewed was paid after January 2003. The sample was classified as follows:

**Table 1. Sample Payment Categories**

| Payment Type | Number of Vouchers | Value (in millions) |
|---|---|---|
| Contract and Vendor (Commercial) | 702 | $1,485.4 |
| Foreign Governments (CERP) | 22 | 134.8 |
| Seized and Vested Assets | 53 | 1,825.8 |
| Advance Iraqi Funds | 3 | 20.1 |
| Other Payments* | 9 | 0.2 |
| **Total** | **789** | **$3,466.2** |

* These payments were properly supported

**Review Criteria.** The audit team identified 53 requirements that should be met to support and process commercial payments. These requirements are contained in:

- Section 3325, title 31, United States Code;
- Prompt Payment Act as implemented in 5 Code of Federal Regulations;
- Federal Financial Management Improvement Act of 1996 through Federal system and accounting requirements;
- Federal Acquisition Regulation;

- Defense Federal Acquisition Regulation Supplement; and
- DoD Financial Management Regulation.

We reviewed all payment support documentation for compliance with these 53 requirements. We determined that 27 of them were the minimum necessary information to support a payment and mitigate the risk of making erroneous payments. These 27 essential criteria addressed requirements such as receiving reports and their content, invoices and their content, certifying official signatures, payee signatures, contract number, and vouchers and their content. We also determined that the remaining 26 required criteria were not essential information for determining entitlement to a commercial payment, but were still required for compliance with various statutes and regulations. These 26 criteria addressed requirements, such as method of payment, printed names and contact information on receiving reports, payment terms, contact information on invoices, and taxpayer identification numbers. Appendix E of the audit report contains a list of criteria that we believe were essential for determining whether payments were warranted for a properly provided good or service. The appendix also includes a list of criteria that we believe were not essential to support commercial and vendor payments but were still required for compliance with regulations.

Guidance, at the time of the audit, did not address requirements in a military contingency; the same requirements applied during contingency operations as any other time. On September 14, 2007, the Under Secretary of Defense (Comptroller)/Chief Financial Officer issued a memorandum, "Certified Commercial Payments in Contingency Operations," which contained a list of 11 types of documents and information that a certifying official will typically need to certify and make a payment; our 27 requirements essential for determining entitlement to payment complement the 11 types of information listed in the memorandum. On May 16, 2008, the office of the Under Secretary of Defense (Comptroller/Chief Financial Officer) notified us that the Financial Management Regulation, Volume 10, Chapter 8, was substantively revised with respect to guidance on commercial payment vouchers and supporting documents, to include those required in contingency operations.

**Contract and Vendor Payments.**

Based on our review of the 702 commercial payments, we estimated that the Army made $1.4 billion in contract and vendor payments that lacked minimum supporting documentation and information for proper payment. When payments were not properly supported, the Army lacked assurance that funds were used as intended. We also estimated $6.3 billion in commercial payments had the

minimum supporting documents and information for a proper payment but lacked support needed to comply with various laws and regulations.

| Table 2. Results: Commercial and Vendor Payments | | | | |
|---|---|---|---|---|
| | Statistical Sample Results | | Projected Results* | |
| Result | Number of Vouchers | Value (in millions) | Number of Vouchers | Value (in billions) |
| Not Properly Supported | 125 | $ 137.0 | 62,825 | $1.4 |
| Noncompliant | 537 | $1,341.5 | 86,502 | $6.3 |

* Results for these projections have been calculated at the 90-percent confidence level.

We found that the internal controls over commercial payments made by seven Army contingency disbursing stations were inadequate. This occurred because Army finance personnel did not ensure that payment voucher documentation was available and complete, and finance personnel were not adequately trained. In addition, Army and DFAS internal controls for commercial payments in contingency operations needed to be clearly defined. Further, inadequate audit trails for payments resulted in unreliable disbursement amounts reported in the Army management reports and DoD financial statements.

**Examples: Not Properly Supported Payments.** We believe that these criteria are required to preclude the likelihood of erroneous payments and ensure the goods and services were actually received and the respective payments were appropriate. The following examples came from our review of payment vouchers

against the 27 criteria that we believe were essential to support a proper commercial payment during a military contingency operation.

- **Quantity of Goods or Services.** Army finance personnel paid a $7.2 million voucher that did not contain all the required information on the supporting vendor invoice. The supporting vendor invoice attached to the voucher did not include the quantity of goods or services rendered. FAR 32.905 "Payment Documentation Process," and the DoD FMR, volume 10, chapter 1 require that a proper invoice for payment include the quantity of supplies delivered or services performed. The invoice quantity is necessary to ensure the goods or services for an entitlement match what was ordered and what was received.

- **Incomplete Invoice and Receiving Report.** Army finance personnel paid a $6.3 million voucher that did not contain all the required information on the supporting vendor invoice or receiving report. The supporting vendor invoice and receiving report attached to the voucher did not include the quantity of goods or services and the item description. FAR 32.905 "Payment Documentation Process," and the DoD FMR, volume 10, chapter 1 require that a proper invoice for payment and a receiving report include the description and quantity of supplies delivered or services performed. The invoice quantity is necessary to ensure the goods or

services for an entitlement match what was ordered and what was received. The receiving report quantity ensures the goods or services in an entitlement match what was ordered, invoiced and received. The invoice item description provides assurance that what was invoiced is the same as what was ordered and the receiving report description ensures that what was received is the same as what was ordered. Without these descriptions, an individual cannot determine what was paid for.

- **Invoice Contract Number.** Army finance personnel paid a $3.3 million voucher that did not contain all the required information on the supporting vendor invoice. The supporting vendor invoice attached to the voucher did not contain a contract number. FAR 32.905 "Payment Documentation Process," and the DoD FMR, volume 10, chapter 1 require that payments be supported by a proper invoice containing the correct contract number. The contract number links other supporting documents in a voucher to the payment and provides assurance that a contract exists.

- **Receiving Report.** Army finance personnel did not include documentation of the receipt of goods or services or the vendor invoices supporting the amount paid for two vouchers, one totaling $5.0 million and the other totaling $2.7 million. In both instances, we could not identify the goods and services rendered. According to the DoD FMR, volume 10, chapter 1

and FAR 32.905 "Payment Documentation Process," all invoice payments must be supported by a receiving report. In addition, FAR 32.905 states that payments should be based on receipt of a proper invoice. The DoD FMR, volume 10, chapter 8 states that vouchers should not be certified for payment before receipt of all supporting documents, including the receiving report. It also requires a copy of the invoice be provided to the accounting office and the disbursing office review supporting documents on a periodic basis to ensure that those documents are available for review and to provide a copy of the receiving report to the accounting office.

- **Certifying Officer Signature.** Army finance personnel paid vouchers that were not certified for payment. For example, one voucher did not contain a certifying officer signature and was used to make a contract payment for $1.1 million. Section 3325, title 31, U.S.C.; Treasury Financial Manual, volume 1, part 4, chapter 2000; and the DoD FMR, volume 5, chapter 11 state that disbursing officers should approve payment only for vouchers that have been signed by an authorized certifying officer. The certification process helps to ensure that payments are charged to the correct appropriation and are the correct amount. Payments made from uncertified vouchers should be reviewed for a potential loss of funds, for which the disbursing officer could be pecuniarily liable. The certifying officer

provides an important separation of duties function by ensuring that the goods or services received are correctly documented to entitle a payee to a disbursement of funds.

**Examples: Noncompliant Payments.** There were 26 criteria that we believe were not essential to support commercial and vendor payments but are still required to comply with various laws and regulations. The following examples came from our review of payment vouchers compared against the 26 criteria identified as necessary for compliance with law and regulation but not necessary to provide minimal payment support in a military contingency operation.

- **Method of Disbursement.** For 19 of the 702 vouchers in our sample, Army finance personnel did not identify the method of disbursement. One of these was for $8.1 million. Without the method of disbursement on the voucher, the audit trail for the payment becomes difficult to follow.

- **Contact Information on Receiving Report / Invoice.** Army finance personnel did not ensure that 394 of the 702 vouchers in our sample contained the approving official's contact information on the receiving report. In addition, Army finance personnel did not ensure that 359 of the 702 vouchers contained contact information on the vendor invoices. One voucher with a receiving report that did not have approving official contact

information was for $20.4 million. Without ready contact information it is more difficult for the certifying officer to contact the approving official to inquire about the receipt of goods or services. In the event of a defective invoice, missing contact information could cause unnecessary delays, resulting in lost discounts from vendors or noncompliance with prompt payment requirements.

- **Taxpayer Identification.** The taxpayer identification number was missing on 67 of the 702 vouchers in our sample. Without the taxpayer identification number, the Internal Revenue Service was not notified when payment was made to a U.S. contractor. This could lead to the potential loss of tax revenue.

**CERP Payments.**

Public law 108-375, "National Defense Authorization Act for FY 2005," October 28, 2004, authorized DoD military commanders to use CERP funds for humanitarian relief and reconstruction to assist the Iraqi people. CERP funded projects are performed by both U.S. and coalition forces. On July 27, 2005, the Under Secretary of Defense (Comptroller)/Chief Financial Officer issued a memorandum providing guidance on the use of CERP funds. However, the DoD guidance did not provide adequate procedures to ensure that funds paid to Coalition partners were properly supported and reconciled. DoD guidance did not

require that disbursing personnel obtain and retain documentation accounting for the use of CERP funds.

Twenty-two payment vouchers, totaling $134.8 million, were for CERP payments to Coalition Partners to initiate and execute a variety of non-construction and construction projects in their areas of responsibility. None of the 22 CERP payment vouchers contained sufficient supporting documentation to provide reasonable assurance that these funds were used for their intended purposes. For example, one payment voucher provided to Multi-National Division – Northeast (South Koreans) for $8 million contained only a Purchase Request and Commitment form and a memorandum acknowledging that foreign Coalition forces cannot be certified as paying agents for U.S. government funds. From this documentation, we could not verify that the funds provided to Coalition Partners were used for CERP purposes.

In addition, the Army had not performed any reconciliation of funds paid to Coalition Partners. The Army relied on the Coalition Partner's Comptroller to perform the reconciliation. To document CERP payments, the Army required the submission of project folders when projects were completed, but it did not require the reconciliation of payments. However, the Special Inspector General for Iraq

Reconstruction reported that many project files from Coalition Partners did not contain required supporting documentation and that Multi-National Corps – Iraq was unable to supply 29 percent of the requested project files.[3] As a result, DoD could not provide a complete audit trail for CERP payments because documentation was insufficient and reconciliations were not performed. During the course of the audit the Multi-National Division-Southeast – United Kingdom began reconciling funds advanced to them. We hope this trend will continue with other coalition forces.

**Seized and Vested Assets.**

Presidential memorandum, dated April 30, 2003, provided DoD the authority to use Seized and Vested Assets to assist the Iraqi people and support the reconstruction of Iraq. The memorandum further directed the DoD to prescribe procedures to ensure that all Seized and Vested Iraqi assets would be properly accounted for, audited, and used to assist the Iraqi people. The Under Secretary of Defense (Comptroller)/Chief Financial Officer issued guidance in May 2003; however, it did not address roles, responsibilities, or procedures on the use of Seized and Vested Assets. On July 31, 2003, the Under Secretary of Defense (Comptroller)/Chief Financial Officer provided more detailed guidance but $1.2 billion in Seized and Vested Assets had already been disbursed. In addition, the

[3] Office of the Special Inspector General for Iraq Reconstruction Audit Report: "Management of the Commander's Emergency Response Program in Iraq for Fiscal Year 2006" (Report No. SIGIR-07-006), dated April 26, 2007, page 6.

July 31, 2003, information omitted documentation that would demonstrate how the funds were to be used such as spending plans tied to budgets.

A typical Seized and Vested Asset payment voucher contained only the certifying officer's appointment letter, a Purchase Request and Commitment form, and a brief description of the purpose of the payment. This documentation was inadequate because it did not provide the audit trail needed to validate the basis for the amount, who actually received the funds, or how the funds were to be used. For example, our sample included a $320 million cash payment to an Iraqi representative for Iraqi salary payments. The only supporting documentation in the payment voucher was two Purchase Request and Commitment Forms to obligate the funds. Information omitted from the voucher included the name of the Iraqi ministry to whom the funds were to be provided and documentation that accounted for how the funds were to be used, such as the number of Iraqi civil servants to be paid. This information could have been provided by attaching a spending plan or budget.

None of the 53 Seized and Vested Asset payment vouchers had spending plans attached or available. The Coalition Provisional Authority was to provide the Office of the Under Secretary of Defense (Comptroller) and the Army

Headquarters Budget Office with the spending plans. However, we were unable to obtain the spending plans or reconcile vouchers with Coalition Provisional Authority budgetary information. Without support for the accountability and use of Seized and Vested Assets there was no audit trail to verify the basis for the amount, who actually received the funds, or how the funds were used.

**Advanced Iraqi Funds.**

Our sample included three vouchers totaling $21.1 million in Seized and Vested Asset advances to the Corps. The Corps provided documentation to support the disbursement of $17.3 million of these advances. The remaining $3.9 million in seized and vested asset advances were not used on contracts. The Corps Finance Center attempted to return the $3.9 million of unused funds to the CPA by wire transfer. However, the funds were returned to a suspense account and remained there for 21 months until we identified them in September 2007. In addition, we identified that four additional advances, totaling $1.9 million, were also placed into the suspense account.

In January 2006 and October 2006, the Corps Finance Center placed $5.7 million in unused Seized and Vested Asset advance funds in a suspense account, where they remained unavailable to use for their intended purposes. The Corps

Finance Center had been unsuccessful in its attempts to resolve the $5.7 million of advanced Iraqi seized and vested asset funds. At the time of our review, the Corps Finance Center had not contacted the Office of the Under Secretary of Defense (Comptroller) to obtain direction on the disposition of the funds. As a result, the Corps had not made these funds available for other Iraqi projects or to offset against Iraqi debts with the U.S. Government.

As result of our draft report, a $1.5 million credit was applied to an open bill reducing the $10.7 million debt owed by the Government of Iraq to $9.2 million. The Corps also stated that the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer is preparing a memo allowing the Corps to liquidate delinquent accounts receivable from the Government of Iraq with the remaining $5.7 million in Iraqi seized assets.

**Management Actions.**

Since the beginning of the audit we have kept the Under Secretary of Defense (Comptroller)/Chief Financial Officer, Assistant Secretary of the Army (Financial Management and Comptroller), and the Director of DFAS informed of the audit findings. As a result, the financial management community has taken a number of actions to correct the planning and internal control deficiencies. For

example, on April 17, 2008, the Principal Deputy Under Secretary of Defense (Comptroller)/Chief Financial Officer took a major step to establish the "Contingency Operations Financial Management Task Force." The purpose of the Task Force is to review opportunities for improving financial management during contingency operations and make financial management policies and procedures to be used in Theater operations. We are an advisor on the Task Force. The Task Force held its first meeting on April 24 and 25. A number of issues were visited by the Task Force such as the lack of systems' integration, lack of transparency in accounting for transactions, and lack of integration of financial and procurement operations; with the focus on financial operations in a contingency environment.

In addition, the Under Secretary of Defense (Comptroller)/Chief Financial Officer, the Assistant Secretary of the Army (Financial Management and Comptroller), and the Director, DFAS have initiated several actions to address the internal control deficiencies related to commercial payments. The Army and DFAS are transferring disbursing operations for contract payments back to the U.S., and DFAS deployed vendor pay and military pay subject matter experts to Iraq and Kuwait. They are issuing guidance regarding the minimum acceptable level of supporting documentation for a commercial payment, as well as implementing a voucher support check list and metrics to measure compliance. They are also providing in-theater scanning technology to facilitate the review of

voucher support documentation. The Army and DFAS are also taking actions to improve the training of finance personnel. These actions should improve effectiveness and reduce the burden on units in Iraq and Kuwait.

**Referrals to DCIS.**

As a result of the review of out-of-country payments, we referred 28 vouchers totaling $35.1 million to DCIS for potential follow-up because of deficiencies in support documentation and information, the unusual nature of the transaction, or because DCIS was interested in those payees. As a result of the referrals to DCIS, 2 vouchers were included in a lead referral package developed by DCIS which later resulted in a case initiation, 8 vouchers were incorporated into ongoing DCIS investigations, 10 vouchers were referred to a DCIS field office for action and action deemed appropriate, 7 vouchers are under review by DCIS headquarters, and 1 voucher was referred to a DCIS field office for information. DCIS continues to examine the referrals to determine if additional investigations are warranted.

**Follow-on Audit.**

As follow-on to the audit of Iraqi, Kuwait, and Egypt payments, we are reviewing the Deployable Disbursing System (DDS), which is used for travel pay,

military pay, accounts payable, disbursing functions, collection processes, and reporting requirements. The DDS was developed for use in tactical and overseas operations and it replaced manual non-standard disbursing practices. DDS was initially deployed at Fort Jackson, South Carolina, in January 2004; was later deployed to Southwest Asia in August 2004 at Army contingency disbursing stations in Saudi Arabia, Iraq, Kuwait, and Egypt; and is also deployed in Germany, Belgium, Italy, Serbia (Kosovo), Japan, and Korea. The U.S. Marine Corps uses DDS at Camps Pendleton and Lejeune, as well as Okinawa and Southwest Asia. The DoD OIG initiated the "Audit of Internal Controls and Data Reliability in the Deployable Disbursing System" to determine whether the internal controls over transactions processed through DDS are adequate to ensure the reliability of the data processed. The audit includes financial information processed by disbursing stations supporting the GWOT and also the recording of related obligations.

## Management of the Iraq Security Forces Fund in Southwest Asia – Phase III

In May 2006, the OIG began a series of three audits evaluating: DoD's distribution and obligation of funds provided for the Iraq Security Forces Fund; and DoD's accountability and delivery of goods and services purchased for the Iraq Security Forces. These reviews were performed in response to language

contained in the Conference Report for the "Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006," June 15, 2006 (House Report 109-494).

Public Law 109-13, titled, "Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005", made available $5.7 billion to the Secretary of Defense for the Iraq Security Forces Fund. The purpose of these funds was to allow the Commander, Multi-National Security Transition Command – Iraq to provide assistance, with the concurrence of the Secretary of State, to the security forces of Iraq. The funds were to be used to provide equipment, supplies, services, training, facility and infrastructure repair, renovation, and construction.

Our phase III audit report, issued in November 2007,[4] concluded that Multi-National Security Transition Command – Iraq could not always demonstrate proper accountability of purchases using Iraq Security Forces Funds, or that delivery of services, equipment, and construction were properly made to the Iraq Security Forces. In addition to this audit, we also performed two additional audits of the Iraq Security Forces Fund. Our phase I audit report, issued in December

[4] DoD IG Report No. D-2008-026, "Management of the Iraq Security Forces Fund in Southwest Asia – Phase III," dated November 30, 2007.

2006,[5] concluded that DoD distributed and transferred the $5.7 billion provided to the Iraq Security Forces Fund in compliance with the provisions established in Public Law 109-13. Our phase II audit report, issued in February 2007,[6] concluded that the obligations incurred by the Multi-National Security Transition Command – Iraq were in compliance with intended purposes of the law. The remainder of this discussion will focus on the findings of our phase III audit report.

**What We Did.** Our overall audit objective was to determine whether Multi-National Security Transition Command – Iraq properly accounted for the goods and services purchased for ISF using ISFF and whether the delivery of goods and services was properly made to ISF. To achieve our objective, we judgmentally sampled 317 obligation transactions valued at $2.7 billion. The sample included the following:

**Table 3. Sample: Transaction Categories**

| Transaction Category | Number of Obligation Transactions | Value (in billions) |
|---|---|---|
| Transactions for Services | 112 | $1.2 |
| Transactions for Equipment | 154 | 1.1 |
| Transactions for Construction | 51 | 0.4 |
| **Total** | **317** | **$2.7** |

[5] DoD IG Report No. D-2007-030, "Management of the Iraq Security Forces Fund in Southwest Asia – Phase I," dated December 8, 2006.
[6] DoD IG Report No. D-2007-060, "Management of the Iraq Security Forces Fund in Southwest Asia – Phase II," dated February 12, 2007.

**Accountability of Purchases for Services, Equipment and Construction.**

We found that the Multi-National Security Transition Command – Iraq could not provide an adequate audit trail or proper documentation allowing us to track services, equipment, or construction from the purchase through the transfer to the Iraq Security Forces for approximately $2.0 billion out of our sampled obligation transactions valued at $2.7 billion.

Because the Multi-National Security Transition Command – Iraq did not have sufficient controls and procedures in place, did not maintain adequate oversight, and did not maintain accountable property records, they were unable to provide reasonable assurance that the Iraq Security Forces Fund achieved the intended results, that resources were used in a manner consistent with the mission, and that the resources were protected from waste and mismanagement.

**Examples: Lack of Documentation.** The following examples came from our review of available documentation used to support the purchase and transfer of services, equipment, or construction.

- **Transactions for Services.** Multi-National Security Transition Command – Iraq could not provide supporting documentation for

approximately 5 of 112 obligation transactions for services. One of the five obligation transactions not supported, equaled approximately 55 percent ($664 million) of the total value of the service obligations reviewed.

- **Transactions for Equipment.** Multi-National Security Transition Command – Iraq could not provide supporting documentation for the transfer of approximately 91.5 percent of the $1.1 billion in sampled obligation transactions for equipment purchases. For example, Multi-National Security Transition Command – Iraq could not account for 18 of 31 heavy tracked recovery vehicles purchased and valued at $10.2 million because upon receipt of those vehicles in Iraq, vehicles identification numbers were not recorded. In addition, hand receipts did not record a posting reference to trace back to the contract.

- **Transactions for Construction.** Multi-National Security Transition Command – Iraq did not provide adequate oversight of approximately 93 percent of the sampled construction projects to ensure completion and transference to the Iraq Security Forces.

**Prompt-Payment Discounts Not Realized.**

In our review of the Multi-National Security Transition Command – Iraq's payment of invoices, we identified that discounts earned by Multi-National Security Transition Command – Iraq for paying invoices within 7 days, were not deducted from the obligation amounts recorded in the Corps of Engineers Financial Management System. As a result, we identified approximately $1.8 million that could be deobligated and returned to the primary fund. As a result of our determination, Multi-National Security Transition Command – Iraq took on their own review of open obligations and identified an addition $831 million that should have been deobligated and transferred back to the primary fund.

**Management Actions.**

The Commander, Multi-National Security Transition Command –Iraq provided comments that fully addressed our recommendations. According to the Commander, Multi-National Security Transition Command-Iraq, Command has taken the following steps towards implementing our recommendations. Command has partnered with the Air Force Center for Environmental Excellence to develop a standard operating procedure to improve transfer and acceptance of real property; set up an accounting section to ensure accurate and timely oversight of accounting processes; and worked with the Defense Finance and Accounting Service personnel to improve financial reporting, accounts payable, and cost

accounting in the combat zone. In addition, the Commander, Multi-National Security Transition Command-Iraq developed a draft property accountability standard operating procedure for equipment distribution and accountability.

Since the issuance of our report, the Multi-National Security Transition Command-Iraq released last month, April 2008, Logistics Accountability Standard Operating Procedures, referencing our audit report and our identification of significant weaknesses in the accountability and management of Iraq Security Forces Fund procured purchases.

## Investigative Efforts.

In May 2005, DCIS launched a proactive project to analyze the payment vouchers at DFAS in an attempt to identify fraudulent activity related to the war effort in Iraq and Afghanistan and to support ongoing DCIS investigations. The Office of the Inspector General has been working in collaboration with the Army Audit Agency to identify the various U.S. Army and Department of Defense contract and payment databases to supplement the review of the payment records for anomalies. The Defense Contract Audit Agency has assigned an auditor to assist DCIS in the manual review of payment vouchers at DFAS. The Office of the Inspector General is also working in partnership with the Army Audit Agency

to derive a methodology to efficiently and effectively mine the payment vouchers and records through the use of data mining techniques.

Additionally, DCIS currently has 113 open investigations relating to Southwest Asia. The majority of these investigations are being jointly investigated with one or more law enforcement partners. Of these 113 investigations, 10 are being conducted by agents deployed throughout Southwest Asia; the other 103 investigations are being conducted by special agents in the U.S. and Germany. DCIS attempts to transfer investigations developed in Southwest Asia to an appropriate CONUS venue as soon as practical so as to ensure we maximize the best use of our in-theater investigative resources and to begin and facilitate prosecution efforts.

Of the 113 ongoing DCIS investigations, 44 investigations involve public corruption offenses (bribery, gratuities, kickbacks, and conflicts of interest); 51 investigations involve procurement fraud offenses (false claims and statements, undelivered products, defective products, cost/labor mischarging); 16 investigations involve theft and technology protection offenses (theft of funds, property, equipment, supplies; and export violations involving U.S. technology

and vehicles), and 2 miscellaneous investigations (terrorism-related and other offense).

As a result of closed and ongoing investigations in Southwest Asia, 24 Federal criminal indictments and 26 Federal criminal informations have been issued, and 3 hearings have been conducted under Article 32 of the Uniform Code of Military Justice (UCMJ). In total, 31 persons have been convicted of felony crimes, resulting in a total of approximately 36 years of confinement and 42 years of probation; 10 individuals and 4 companies were debarred from contracting with the U.S. Government; 12 companies and 16 individuals were suspended from contracting; and 2 contractors signed settlement agreements with the U.S. Government. A total of $11.1 million was paid to the U.S. in restitution; $386,125 was levied in fines and penalties; $1.76 million was forfeited; and $2.6 million was seized.

In December 2006, a former Director of Operations in Kuwait and Iraq for a DoD subcontractor and a former employee of a DoD prime contractor were sentenced for their role in a kickback scheme involving two military dining subcontracts valued at $21.8 million. The investigation revealed that in return for a kickback, the prime contractor employee awarded a $14.4 million dining

subcontract to the subcontractor. The prime contractor employee later released bid information to the same subcontractor employee, allowing the subcontractor to secure the award for a six-month, $7.4 million, dining facility services subcontract at a palace in Baghdad. The subcontractor employee admitted to paying $133,860 in kickbacks to the prime contractor employee. The individuals were sentenced to a total of 63 months in prison and $513,990 in restitution.

## Closing.

We appreciate the DoD and Congressional support in our efforts to provide oversight on financial accountability, acquisition, corruption, waste, fraud, abuse. We are expanding our footprint in all of Southwest Asia. We will continue to keep our leadership and Congress fully and promptly informed. Again, thank you for the opportunity to appear before the committee today to address our ongoing oversight work regarding the Department of Defense to include our efforts in Southwest Asia.

Chairman WAXMAN. Thank you very much.

I assume that Ms. Marsh and Mr. Blair are here to help answer questions.

Ms. UGONE. Yes.

Chairman WAXMAN. OK. I would like to recognize myself first for a 5-minute round.

Ms. Ugone, I would like to start by asking your primary finding. You estimate that the Defense Department made $1.4 billion in commercial payments that lacked minimum documentation for a valid payment such as properly prepared receiving reports, invoices and certified vouchers. Perhaps we could talk about this by looking at an example.

On page 6 of your report, you mention a voucher for $11.1 million, and you provided us with a copy. I would like to put it up on the screen.

This says that there was a payment on May 24, 2005, to someone named David M. Dial of Irmo, South Carolina at a company called IAP. Is that right?

Ms. UGONE. Right.

Chairman WAXMAN. It is my understanding that IAP is the same company that had all the problems with delivering ice during Hurricane Katrina and the company that was in charge of maintenance at Walter Reed.

Your report says that when you examined IAP's voucher, "We could not identify the goods or services purchased."

What did you mean by that?

Ms. UGONE. We meant that there was no invoice at all that supported the request for payment, and there was no receiving report that showed that actually the services or goods were delivered. So there was nothing.

Actually, in essence, we were giving or providing a payment without any basis for the payment. That is what we mean. We don't know what we got.

Chairman WAXMAN. Well, how could someone hand out more than $11 million without even writing down what they were paying for? Isn't there someone at the Defense Department who is supposed to verify that they got paid, that they got what they paid for?

Ms. UGONE. Yes. I mean when you look at the entire set of regulatory requirements, there are 53 regulatory requirements which help ensure that the Department is paying what they should.

Chairman WAXMAN. Did they meet any of the 53 requirements?

Ms. UGONE. Well, that is where we get to the $7.7 billion. One of the things that we had thought in a contingency operation and what is a minimum essential requirement, 27 of the 53 we determined were minimum of which receiving reports and invoices are essential to determine what you paid for. That is where we were able to project an estimated $1.4 billion that didn't even meet the minimum essentials.

Chairman WAXMAN. Well, in this specific instance, how did the Defense Department even know that $11.1 million was the right amount for what they were buying?

Ms. UGONE. Well, they didn't.

Chairman WAXMAN. And you said there is no evidence that the requesting organization receives the goods or services purchased.

So are you saying that the Department couldn't provide any proof that they received anything for this $11 million?

Ms. UGONE. What I can say is we don't know what we paid for.

Chairman WAXMAN. Well, the obvious problem is the potential for abuse. You noted on page 14 of your report that these kinds of ineffective controls create an environment conducive to fraudulent activity.

In this case, how do we know that the taxpayer received $11 million in goods and services? I suppose the answer is we don't know.

Ms. UGONE. We don't know, not in this case.

Chairman WAXMAN. Have you come across cases that you feel warrant potential criminal investigation and was this one of them?

Ms. UGONE. I don't know if this is one of those that was referred, but I can tell you of the 28 we referred 2 resulted in cases being initiated, 8 were incorporated into ongoing investigations and the remaining are still being reviewed. I can get back with you as to whether or not this is one of those.

Chairman WAXMAN. We have appropriated billions of taxpayers' dollars for this war, and the American people deserve to know that the administration isn't squandering their money. I think everybody understands that if you have no record of what you are buying and no record of what you received, there is going to be a major problem there.

Let me ask you about some other examples of commercial payments.

Ms. WATSON. Mr. Chairman, would you yield for a second?

Chairman WAXMAN. I want to complete my questions here. Then I will yield time.

There are other examples of payments that don't describe what we bought or whether we even received anything for it. There is another voucher, this one for $5.7 million, and I want to put that one up on the screen. This one wasn't mentioned specifically in your report, but I wanted to ask you about it.

The payment is to Al Kasid Specialized Vehicles Trading Co., and it was made on August 13, 2004. The voucher doesn't provide any information that explains what goods or services the U.S. Government was buying. Is that correct?

Ms. UGONE. That is correct.

Chairman WAXMAN. Was there any invoice that provided this kind of description?

Ms. UGONE. I believe in this case also, and I would have to get back with you. I believe this instance also was where there was not an invoice as well.

Chairman WAXMAN. OK. I have some more questions. It is a vehicle trading company, and maybe they sold cars, but we don't know what they sold. That is, I think, a real problem.

Mr. Davis.

Mr. DAVIS OF VIRGINIA. Thank you, Mr. Chairman.

Thank you for your testimony and your work. We appreciate it.

Ms. UGONE. Thank you.

Mr. DAVIS OF VIRGINIA. One thing I found a little different in this report than others is you made an estimate that the Army made $1.4 billion in commercial payments that lacked the minimum documentations that would be needed for valid payment.

Ms. UGONE. Right.

Mr. DAVIS OF VIRGINIA. And the report further estimates the Army made another $6.3 billion in payments that did not comply with other criteria.

But, in looking at the universe of commercial and miscellaneous payments, there are 183,486 vouchers and you really looked at 702.

Ms. UGONE. That is correct.

Mr. DAVIS OF VIRGINIA. How can you extrapolate a sound number from that? These are estimates, are they not?

Ms. UGONE. These are based on statistical projections. We are at a 90 percent confidence level. What we ended up doing was using dollars stratum or dollars to be able to split out the vouchers.

So that is true. It is using our statistical projections to estimate at a 90 percent confidence level.

So, if you look at the actual $1.4 billion, there is a range. There is an upper range and a lower range. The $1.4 billion is the median of that estimation.

Mr. DAVIS OF VIRGINIA. Let me just say what I would have done, for what it is worth, which is to say something like we would expect that such errors were carried through the rest of the vouchers and put it in that vein because the number gets thrown around as an absolute and, of course, we are not dealing with absolutes. But there is one absolute here, and that is this stuff has been completely mismanaged, and this is ongoing and systemic.

How much of this is because we are in a war zone and how much of this is just systematic? Is there any way to guesstimate that, or is it a little of both?

Ms. UGONE. I think it is both. I think the financial management area has been a high risk every year. The Government Accountability Office has identified it as the high risk area. So I think that is recognized.

The other thing in a contingency environment, and we understood this when we looked at the 53 regulatory requirements, is what were absolutely essential that needed to be applied when we determined entitlement to a commercial payment.

Given the fact we were in a contingency operation, if we applied all 53 requirements, you would have $7.7 billion, in essence, where you had payments that had an error. But what we wanted to do was look at the minimum essentials which is why we focused on 27.

In the environment, one of the key areas in a war, in a contingency operation is you want to make sure that gaps in internal controls are mitigated because that is critical, because you are pressed. There is expediency, and you need to make sure that those gaps are mitigated. We believe that our criteria that we used would mitigate those gaps.

Mr. DAVIS OF VIRGINIA. It has been a high risk for some time, hasn't it?

Ms. UGONE. Yes.

Mr. DAVIS OF VIRGINIA. What has the Army done to mitigate those high risks? Have they gone out to outside experts and asked for help in terms of how they fix this?

Ms. UGONE. Well, actually, during the audit, they did. There were some actions taken.

One of the interesting things if you really look at a slice of the data, you would look. You would see that most of the commercial payments had occurred out of Kuwait, the disbursing stations.

And, last year in the middle of the summer, what happened was they actually moved the disbursing function back here to the United States to DFAS so where the disbursements for those commercial payments are now being made back here.

Mr. DAVIS OF VIRGINIA. Are they being done better here than in Kuwait?

Ms. UGONE. We haven't done that assessment yet.

Mr. DAVIS OF VIRGINIA. Because, in the past, DFAS has had some real problems as I alluded in my opening statement.

Ms. UGONE. Right.

Mr. DAVIS OF VIRGINIA. Having nothing to do with war, just how they function.

Ms. UGONE. But I think one of the things, one of the actions they were trying to do was try and move that function, the certifying official function for commercial payments back into DFAS rather than keep it in Kuwait which was already having some issues with relation to other functions like contracting.

Mr. DAVIS OF VIRGINIA. On the surface, that would seem to make some sense.

Ms. UGONE. Right. I think that was a good initiative.

Mr. DAVIS OF VIRGINIA. But we are still dealing with a long-term systematic problem, aren't we, here?

Ms. UGONE. Yes, we are.

Mr. DAVIS OF VIRGINIA. How did the results of this audit compare with similar work done at the DFAS Columbus, DFAS Denver or Omaha where the offices are not supporting Iraq war disbursements? I guess that is a better way to try and get it.

Ms. UGONE. This was a year-long effort as previously described, and there was a lot of dialog between.

We had two draft reports issued for discussion purposes. We had one formal draft. We had meetings and dialogs because one of the key differences is that we didn't apply all the regulatory and statutory requirements when we were making our assessment whereas when we did our typical audits in Columbus, we would look at every possible regulation and apply it. In this particular case, we wanted to take another approach.

Mr. DAVIS OF VIRGINIA. Just very quickly, I asked this before, but let me just ask you. This is a systematic high-risk problem. What is the Army doing about this, long term?

They might have, at least on this, moved it from Kuwait back to the United States. What are they doing long term to resolve this? Have they brought in some of the world's brightest consultants and controls people to do anything on this?

Ms. UGONE. I don't know if they have done that or not.

Mr. DAVIS OF VIRGINIA. You haven't seen it, though, in your work?

Ms. UGONE. No. At a much more macro level, I don't know what their initiatives have been. I know what their initiatives have been in response to this report.

Mr. DAVIS OF VIRGINIA. Thank you.

Chairman WAXMAN. Thank you, Mr. Davis.

Mr. Kucinich.

Mr. KUCINICH. Thank you very much.

Ms. Ugone, I would like to ask about findings in your report.

Ms. UGONE. OK.

Mr. KUCINICH. That the Pentagon made $135 million in payments to foreign governments from the Commander's Emergency Response Program [CERP], this whole idea is news to me.

When the Pentagon comes up here and briefs Congress about the CERP program, they talk about how it gives our local military commanders the flexibility to hire Iraqis for relatively small construction projects. They didn't say that they are spending more than $100 million of this money on payments to foreign governments.

I am certain the American people don't know that this is how their taxpayer dollars are being used, but your report says that the Defense Department has given $21 million to South Korea, $68 million to the United Kingdom and $45 million to Poland. My first question is why?

If these are members of the Coalition of the Willing, why are they paying them anything and why aren't they covering these costs themselves?

Ms. UGONE. We didn't look at that issue as to why the Department was doing this particular procedure.

Mr. KUCINICH. Why not?

Ms. UGONE. We focused on whether or not. The scope of our audit was to focus on whether or not the funds were being used for their intended purposes. So we looked at whether or not, when these payments were made to Coalition partners, whether we could find a way to reconcile what we gave and then what we got.

Mr. KUCINICH. Well, let's put aside the issue of who should pay. Your report concludes that the Defense Department basically has provided no information on how this money was spent. According to your report, all—all—of the 22 payments that you examined failed "to provide reasonable assurance" that they were "intended or used for their intended purposes."

Is that correct?

Ms. UGONE. That is correct.

Also in the report, I would just like to say that during the audit, one of the Coalition partners had initiated efforts to reconcile the funds that we provided to them.

Mr. KUCINICH. Well, wait a minute. Let's talk about an example. Your report cites a single $8 million payment to Poland on in September 2004.

Ms. UGONE. Right. Right.

Mr. KUCINICH. You provided the committee with a copy of that voucher. I would like to put it on the screen. Staff would put that voucher on a screen.

Now, in the middle of the page, under the description of articles or services, it says: Commander's Emergency Response Program, CERP, funds for the benefit of the Iraqi people. That is a pretty vague description of services, isn't it, to benefit the Iraqi people?

Ms. UGONE. Yes, it is.

Mr. KUCINICH. Well, then on the right side of the page, the amount listed is $8 million. Is that right?

Ms. UGONE. That is correct.

Mr. KUCINICH. Where did this money actually go? How do we know whether the Polish Army used these funds to benefit the Iraqi people?

Ms. UGONE. We don't.

Mr. KUCINICH. Now, Ms. Ugone, the Defense Department refused to be here today, but they did submit comments to your report, and here's what they said about this issue. They said, "All funds advanced to our Coalition partners are reconciled when the Coalition partner completes the assigned mission."

Is that an accurate statement?

Ms. UGONE. I am not aware of that comment. They didn't share that information.

Mr. KUCINICH. Is that statement accurate to your knowledge?

Ms. UGONE. I think what is supposed to happen is there should be some sort of reconciliation. I mean that is assuming that none of the construction projects have been completed during this time period. So that means that if there is no construction project files provided, I imagine they can't reconcile.

But the whole issue is these CERP funds are supposed to be for the same purpose as for U.S. forces, which is for construction projects as well as non-construction projects related to the Iraqi people. The only way to figure out whether or not those have been completed is to actually get project files or data from the Coalition partners. We don't have any data to show that.

Mr. KUCINICH. I understand that. That is why you said all the 22 payments you examine failed to provide reasonable assurance they were used for intended purposes.

I also understand that as a result of your investigation the Defense Department tried to go back and ask these foreign governments, get this, for evidence of how they spent their funds.

But, sitting here today, can you identify a single reconstruction project that was funded with this $135 million?

Ms. UGONE. No, we cannot.

Mr. KUCINICH. Think about that. Think about what that means, Mr. Chairman, in terms of the credibility of this country and also how the people of Iraq are getting cheated as well as the people of the United States are being cheated.

I yield back.

Chairman WAXMAN. If the gentleman will yield to me the few seconds he has, it sounds like the Coalition of the Willing is the Coalition of the paid. They are willing to be paid.

Thank you.

Mr. Issa.

Mr. ISSA. Thank you, Mr. Chairman.

I would like to establish a couple of things sort of for the record and for my own understanding. All three of you are career professionals. Is that correct?

Ms. UGONE. Yes.

Mr. ISSA. The vast majority, if not all, of the people that were involved that you worked with on the ground in this audit were career professionals. Is that correct?

Ms. UGONE. Yes.

Mr. ISSA. OK. I ask that in following up on Mr. Davis' questions.

To the extent that we have not been able to make the system work, there is little or no hand of political appointees in this. This is, in fact, career people overseeing career people, trying to come up with problems that occur, in this case, related to a war zone where career people are trying to dispense money and account for it. Is that a fair statement?

Ms. UGONE. I think the military, the forward, if you take a look at the documentation we have, were also involved in trying to.

Mr. ISSA. But we call our career military personnel, career professionals.

Ms. UGONE. OK. OK.

Mr. ISSA. Somehow until you get to about four stars, you actually don't get to meet a politician most of the time.

So I am saying that because I want to understand. This is not about the hand of the Bush administration. This would not be substantially different in any other administration. These are arms of government doing their job and seeing mistakes or flaws or lack of accountability. Is that correct?

Does anyone disagree with that statement as best I phrased it?

Ms. UGONE. I don't disagree. We independently did this audit work.

Mr. ISSA. I appreciate that.

Now I want to concentrate, following up on Mr. Kucinich's questions because he and I do disagree on the conduct of the war in a sense.

The use of CERP funds to help fund the Sons of Iraq. OK. That program appears to be working by independent news communications.

Some of these funds, in fact, end up in the hands of what Mr. Waxman characterized as bought hearts and minds in some fashion, similar to that. Is that correct?

Ms. UGONE. We didn't look at the Sons of Iraq.

Mr. ISSA. Well, you looked at the same funds.

Ms. UGONE. We looked at the 22 payment vouchers that were made to Coalition partners. We don't know what it was used on, so we are not. I mean I can't address that particular question.

Mr. ISSA. OK. Mr. Chairman, I would like to have an excerpt from the House Armed Services Committee—this was staff questions and answers—inserted in the record at this time.

Chairman WAXMAN. Without objection, that will be the order.

[The information referred to follows:]

Committee: House Armed Services Committee
Staffer: Stephanie Sanok

**USE OF CERP TO PAY FOR SONS OF IRAQ**

Question:

What is the current rationale for using Commander's Emergency Response Program (CERP) funds to pay for the salaries of members of the Sons of Iraq (SOI - formerly Concerned Local Citizens, or CLCs)?

In particular, we note that the 9 May 07 OUSD(C) guidance on CERP - and especially section IV.A.(2), which appears to deem it improper to use CERP funds for "providing goods, services, or funds to national armies, national guard forces, border security forces, civil defense forces, infrastructure protection forces, highway patrol units, police, special police, or intelligence or other security forces" - does not specifically address SOI forces (understandably since their emergence occurred after last May). Yet, since the often-used explanation of SOI missions is intelligence- or security-related, what is the thought-process underlying DOD's decision that it would be appropriate to use CERP funds?

And if the response points to the guidance section II.B.(18), which allows for CERP funds to be used for "protective measures, such as fencing, lights, barrier, materials, berming over pipelines, guard towers, temporary civilian guards, etc. to enhance the durability and survivability of a critical infrastructure site (oil pipelines, electric lines, etc.)", please also include DOD's rationale for how SOI forces fit within that construct, provide a definition of "temporary civilians guards", and describe what critical infrastructure SOI members guard.

Answer:

The Sons of Iraq (SoI) (formerly Concerned Local Citizens groups, or CLCs) are integral to supporting bottom-up reconciliation efforts and improving security throughout Iraq, thus permitting economic development and reconstruction efforts in newly-stabilized areas. The SoI have proven themselves to be a fundamental part of the U.S. counterinsurgency strategy in Iraq.

The concept for CLCs originally developed in Al Anbar province as commanders on the ground worked with local leaders to hold security gains achieved through Coalition operations, while concurrently providing a source of employment. Accordingly, they represented an immediate and emergent counterinsurgency capability, filling a need for local security at the community level. Recognizing a best practice, commanders subsequently reproduced the concept throughout Al Anbar and expanded its use to other Iraqi provinces.

The SoI are groups of local citizens, with no rank or unit identification, loosely organized by a local sheikh under a short-term contract with the Coalition. It should be noted that these contracts are made directly with local tribal leaders, and not with individual SoI members. The SoI groups are concerned with protecting their own communities – similar to Neighborhood Watches – and do not conduct offensive operations. They are directed by and coordinated with

the local Coalition Force commander and local authorities but have no organic command and control structure. The infrastructure they protect includes roads, power, water, and oil infrastructure, as well as schools, markets, and meetings halls in or near their towns and villages, critical to local reconstruction efforts and economic prosperity. They directly benefit from the services provided by the critical infrastructure and protect it, often at great loss, when insurgents or terrorists target that infrastructure.

As you note in your correspondence, OSD Comptroller Commander's Emergency Response Program (CERP) Guidance, section II.B.(18), provides language permitting the use of CERP for "protective measures, such as fencing, lights, barrier, materials, berming over pipelines, guard towers, temporary civilian guards, etc. to enhance the durability and survivability of a critical infrastructure site (oil pipelines, electric lines, etc.)." These guards are considered temporary as they are hired on short term contracts by the Coalition and are not directly employed by the GoI. They are fulfilling a necessary security function that will ultimately transfer to the ISF as they develop the capability to increasingly assume full responsibility for Iraq's security throughout the country.

The "infrastructure defense forces" addressed in section IV.A.(2) of this guidance refer to formal security forces employed directly by the Government of Iraq (GoI), such as the Iraqi Security Forces (ISF) which are supported through the Iraqi Security Forces Fund (ISFF). This clause was intended to ensure that the United States does not provide monies to personnel already on foreign government payrolls. The Facility Protective Service (FPS) is another GoI formal infrastructure protection organization but is employed by the individual ministries. As the SoI are not formal security forces employed by the GoI or its ministries, do not conduct offensive operations, and have no organic command and control structure, they do not constitute infrastructure defense forces.

The requirement and the contracting processes associated with SoI are now more predictable, but the commander's intent is to transition the SoI program and its funding to the GoI as soon as is feasible. As the GoI absorbs SoI into existing programs through a mix of hiring actions into the ISF and implementation of jobs programs and other demobilization and reintegration programs, it is critical for Multi-National Force-Iraq (MNF-I) to continue to fund this effort. A disruption in funding would have a direct and immediate negative impact on overall security.

Mr. ISSA. I guess this may be beyond the level of your audit, but whether it is CIA around the world during the cold war or a war zone here where we are trying to fund sheiks and individuals in religious communities to get people to take another look at our role in Iraq as not an occupier but as somebody who wants to liberate and leave, if those funds are essentially walking around moneys, to use in American term, wouldn't it be rather hard to account for every dollar you give when you give a few hundred dollars to dozens or hundreds of people in order to essentially hold meetings and so on in the Iraqi economy?

Ms. UGONE. Yes, there are challenges. I agree with that, but I think there should be some semblance of accountability. No documentation is not acceptable from our perspective.

Mr. ISSA. I appreciate that.

In my opening statement, I talked in terms of statistics, and I see you have the statistics and you have extrapolated it, but if you extrapolated past wars, how do these compare?

Ms. UGONE. We haven't looked at it and applied this level of effort on past work. I mean this has been, for us also, a new approach as well.

Mr. ISSA. OK. So this is a first time. Would it be possible for the committee for you to answer for the record, essentially extrapolating some previous similar studies so that we could understand whether or not this war is costing us more or less in the terms of unaccounted for or poorly accounted for funds?

I don't think anyone on the dais wants to take an improvement and punish it because it isn't perfect. At the same time, if the trend line is in the wrong direction, then corrective action could be very appropriate. Would you agree?

Ms. UGONE. Well, what I can do related to the current, what we did look at was to see if it was getting better during this particular audit. We looked at the vouchers and, frankly, it wasn't getting better if you looked at the years. We looked at 2003 to 2006, and it wasn't getting better.

Mr. ISSA. I am running out of time.

Unfortunately, I can't account for differences in the rise and fall of combat during that time, but isn't it true that the Iraq economy is a cash economy? Isn't that fundamentally one of the problems?

Ms. UGONE. Well, it is true that there was a lot. It is cash. It is a cash economy, in fact.

But our 702 vouchers that we estimated, $1.4 billion, that was not cash. That was a commercial payment. The cash that we are talking about is the CERP for Coalition partners and the seized and vested assets.

Chairman WAXMAN. The gentleman's time is expired.

Mr. ISSA. Thank you, Mr. Chairman.

Chairman WAXMAN. Ms. Watson.

Ms. WATSON. Thank you so much, Mr. Chairman.

My questions will go to what is happening now under this administration and under this administration's war. I am not interested in past wars; now the wars that we are paying for here.

Over a year ago, in February 2007, this committee held a hearing with the Special Inspector General from Iraq Reconstruction, Stuart Bowen. At that hearing, Mr. Bowen testified that the Bush

administration disbursed over $8.8 billion in cash without assuring that the moneys were properly used or accounted for. He was sworn in, and it is on the record—$8.8 billion.

The administration for the Coalition Provisional Authority, Ambassador Paul Bremer also testified at that hearing, and he explained away this problem by making two arguments. First, he said these were not appropriated American funds. They were Iraqi funds, but we were told American dollars were used.

Second, he said it was unrealistic to expect modern financial controls in less than a year on failed state in the middle of a war. That is a quote. It is on the record.

So, Ms. Ugone, I think your report today demonstrates two things for me. First, it has now been more than 5 years since the war began, and we were told by the President that our mission was accomplished, and we are still having these problems. There is something wrong there.

Second, your report finds critical deficiencies in how the Defense Department is disbursing billions of U.S. taxpayers' dollars. So, now we are talking about American money.

Now I know you did examine some Iraqi assets, but let me ask about the U.S. funds. First, you examined a pool of roughly $3.2 billion in commercial payments, and I have your full statement. I have asked my staff, who is standing right here, to highlight those figures.

Your report found that internal controls over these payments were inadequate. These commercial payments are from U.S. appropriated funds. Is that right?

Ms. UGONE. Most, yes, the majority.

Ms. WATSON. OK. Is it explained and maybe separated in your full statement?

Ms. UGONE. We can provide that information separately.

Ms. WATSON. OK. I would like to have that.

Ms. UGONE. There are different appropriations like Operations and Maintenance-Army, and there will be different levels of appropriations. So we can get that detailed to you.

Ms. WATSON. Yes, and I will look through your full report.

Ms. UGONE. OK.

Ms. WATSON. You also found that $135 million in funds from the Commander's Emergency Response Program were given to foreign governments without "reasonable assurance that they were used for the intended purposes."

That was also U.S. dollars appropriated?

Ms. UGONE. Yes, the majority of it.

Ms. WATSON. OK. What was not? I hope you would clarify.

Ms. UGONE. I can clarify that and add the additional information on that to you separately.

Ms. WATSON. Very good. In your November report, you found that the Defense Department failed to exercise proper accountability over $5.2 billion in funds to support the Iraqi security forces. Those were also U.S. funds?

Ms. UGONE. Yes, that was the Iraqi, actually, the scope of our work on that particular, those $5.2 billion that was provided to MNSTC-I, Multi-National Security Transition Command-Iraq. We judgmentally sampled. I believe it was 317 transactions for $2.7

billion. So that is what we looked at as the scope of our review, $2.7 billion.

Ms. WATSON. OK. For these expenditures of U.S. tax dollars, you examined disbursements made through the year 2006. Is that right?

Ms. UGONE. We didn't look at disbursements on that particular audit. That was a little bit of a different scope on that.

We were looking at whether or not, that there was a proper, a way to tell that there was a proper transfer to the Iraq security forces, and we looked at documentation to support that. That is what we were looking at.

Ms. WATSON. So my time is up, but I will followup. I will look at your full report, and then we can address questions directly to you.

Thank you, Mr. Chairman.

Chairman WAXMAN. Thank you, Ms. Watson.

Mr. Platts, you have no questions.

Mr. Sarbanes.

Mr. SARBANES. Thank you, Mr. Chairman.

Ms. Ugone, I am going to ask about the genesis of the report that you are issuing today. You said in the report that you started the investigation at the request of the Defense Criminal Investigative Service, and I wanted to pursue that a little bit.

At the beginning of the report, you said that the service concluded there had only been a limited review of the payments that are the subject of this hearing and "there existed the potential for fraud, waste and abuse."

Is that correct?

Ms. UGONE. That is correct.

Mr. SARBANES. Then throughout the report, you make reference to this. On page 6, you say that an absence of supporting documentation makes the legitimacy of payments questionable. You say that missing voucher information could affect the legality of a vendor payment.

On page 14, you say, "ineffective internal controls could create an environment conducive to fraudulent activity or improper use of funds."

Is that right?

Ms. UGONE. That is correct.

Mr. SARBANES. Basically perpetrating fraud on the U.S. Government is a crime, correct? That can be pursued as a criminal violation, right?

Ms. UGONE. Well, identifying; I think the key here is potential fraudulent activity. Our referrals haven't been culminated in anything conclusive from the investigative side of the house, but we did have enough for 28 vouchers out of the 702 that were reviewed that we referred because of missing information, unusual nature of transaction or DCIS was already interested in the payee.

Mr. SARBANES. These are the kinds of things that immediately get flagged on a radar screen as being the kind of conduct and transactions and other things that could suggest that there is criminal activity behind them, potentially, correct?

Ms. UGONE. Right. Gaps in the controls create an environment that might be conducive for fraud, waste and abuse. That is really the key is your gaps, your critical gaps.

Mr. SARBANES. Can you give us a sense? You don't have to reveal any sensitive law enforcement information, but how do you expect these cases to proceed?

Ms. UGONE. Well, we already have data from DCIS in a general sense; 2 have resulted in cases being initiated, 8 have been incorporated into ongoing investigations, and I believe the other 18 are still undergoing review.

Mr. SARBANES. You had a finding. I mean one of the most significant findings is that the Defense Department has "material internal control weakness" over its payment system in Iraq.

I know this is accounting terminology and so forth, but one of the findings you included is particularly relevant, I thought. It said, "Our concern is more than an adequate audit trail."

It is not just about the audit trail.

"We are concerned there are significant gaps in internal controls over commercial payments made in a military contingency operation and that these gaps in internal controls can create," as you have been saying, situations where there is much higher vulnerability.

These aren't your words, I am paraphrasing, but much higher vulnerability to fraud, waste and abuse.

Ms. UGONE. Right. Correct.

Mr. SARBANES. So it is not just about the paperwork and collecting documentation in the audit.

Ms. UGONE. No.

Mr. SARBANES. It is about making sure that the taxpayer dollars that are behind these funds are being used for intended purposes, correct?

Ms. UGONE. Correct.

Mr. SARBANES. What is really inexplicable, and I think something that is hard for us to digest even though we have had so many hearings on this. Every time it is unbelievable, that the Defense Department is approving payments for $11 million, $5.7 million, $6.3 million without any information about what they are buying.

As far as I can tell, not just from this hearing but listening to other ones, the accounting principles that the Defense Department seem to be using in its interaction and transactions with all sorts of different players in this drama was essentially we will keep giving you money as long as you keep telling us that you are spending it. That was essentially the way the system seemed to operate.

What I would like for you to answer, and I am about to run out of time, is from your experience, what is the motivation for somebody to not want to know how money is being spent?

In other words, it could be neglect. It could be a breakdown in systems. But what I see here is really not wanting to know what is happening on the other side of the curtain. Let me just ask, are there ever instances where that turns out to be what was driving the lack of documentation?

Ms. UGONE. Well, we actually looked at it from a different perspective. One of the things that we have a recommendation in our

report is when you are in a contingency environment, going to maybe five or six different regulations to figure out what you need to do, you may not have as much time to be able to do that.

We recommended the Department to consolidate all the minimal essential information. So, if you had to actually look at the requirement, you could look on one sheet to figure out what you had to do to ensure a proper payment.

That is one of the challenges is there is regulatory and statutory requirements embedded in different places, and that was a challenge too. When we looked for it, we actually didn't find the 53 requirements in one place. They are rooted in many different regulations, and I think that is really one of the primary challenges is trying to figure out what is absolutely minimally essential, which is why we identified the 27 criteria.

Mr. SARBANES. Thank you.

Chairman WAXMAN. Thank you, Mr. Sarbanes.

Mr. Higgins.

Mr. HIGGINS. Thank you, Mr. Chairman.

Ms. Ugone, I would like to ask you about the $5.2 billion for Iraq security forces.

Ms. UGONE. OK.

Mr. HIGGINS. Providing assistance to help train and equip the Iraqi security forces has been one of the President's core strategies in Iraq. In a nationally televised address in June 2005, the President said, "Our strategy can be summed up this way: As Iraqis stand up, we will stand down."

To implement the President's goal, Congress appropriated $5.2 billion in 2005 to provide assistance to the Iraqi security forces including weapons, equipment, the construction of training and operating facilities.

Ms. Ugone, in November, your office issued a report about these funds, and your conclusions was quite astounding. This is what you said: "The Defense Department did not have sufficient controls and procedures in place, did not maintain adequate oversight and did not maintain accountable property records. As a result, the Defense Department was unable to provide reasonable assurance that funds appropriated for the Iraq security forces achieved the intended results, that resources were used in a manner consistent with the mission and that resources were protected from waste and mismanagement."

Ms. Ugone, this is supposed to be one of the President's core strategies in Iraq, training and equipping the Iraqi security forces so that young service members can come home. How can it be that something so critical, so fundamental to this effort can be so poorly administered?

Ms. UGONE. The issue when we looked at this area, we had spent 90 days forward, and we had looked at three major locations. We sent, deployed a team forward, and we looked at the port of entry on Umm Qasr and I think Taegu National Depot and the Abu Ghraib warehouse.

And, at that time, there have been changes since the time we reviewed the effort. As I mentioned in my testimony, in April 2008, MNSTC-I has recognized the need to put in standard operating procedures.

One of the key issues that we found was the fact that we could not trace from what we provided to the Iraqi security forces all the way back to the contract. There might instances. For example, for equipment, you could have a receiving report with vehicle identification numbers, but when you actually transfer the equipment to the Iraqi security forces, there was no listing of the vehicle identification numbers on the hand receipt.

So those are the examples we had, and it was primarily documentation that supported whether or not the transfers were properly made to the Iraqi security forces.

Mr. HIGGINS. Yes. I think perhaps this is an unfair question of you, but the Defense Department refused to testify today. The report issued by your office found a lack of accountability over tens of thousands of weapons including pistols, assault rifles, rocket-propelled grenade launchers and even machine guns. Isn't that right?

Ms. UGONE. See, one of the things is there is a separate review going on of the munitions assessment team effort, and I wanted to make sure that they were focused more on the accountability of weapons, munitions. But, yes, we looked at the documentation supporting not only equipment, construction and services. That is correct.

Mr. HIGGINS. In addition to the weapons, your report offers a litany of deficiencies with control over 91 percent of equipment transfers, fuel tankers and tractor-trailers worth $1.5 million, generators worth $7 million and heavy tracked recovery vehicles worth $10.2 million.

I don't know you lose a garbage truck in the middle of downtown Baghdad, but your report was not limited to equipment and supplies. You also report that 93 percent of construction projects you analyzed lacked adequate oversight and that millions of dollars were wasted as a result.

I won't ask for an answer to this question, but it seems to me that mismanagement is crippling our mission in Iraq and, unfortunately, our troops and taxpayers will suffer as a result.

I yield back, Mr. Chairman.

Chairman WAXMAN. Thank you very much, Mr. Higgins.

Mr. Clay is not here.

Mr. Yarmuth.

Mr. YARMUTH. Thank you, Mr. Chairman.

Ms. Ugone, on page 15 of your written testimony, you describe how the Defense Department spent $1.8 billion in seized and vested Iraqi assets without adequate accountability. As I understand, seized and vested assets are Iraqi funds that were confiscated in Iraq or they were frozen in the United States, and the United States began spending them in the war in Iraq sometime after it began in 2003. Is that correct?

Ms. UGONE. Well, actually, the majority I think was spent during the CPA time period, and I believe $7.5 million was expended in October 2004, after the CPA transitioned on.

Mr. YARMUTH. OK. Thank you.

Your report then says that you examined 53 different payment vouchers for a total of $1.8 billion, and they were all missing basic documentation to show how they were used. Here is what you said in your report: "There was no audit trail to verify the basis for the

amount, who actually received the funds or how the funds were used."

That is your testimony, correct?

Ms. UGONE. That is correct.

Mr. YARMUTH. Let me ask you about one example that was mentioned in your testimony. You provided with a copy of a receipt which I would like to have put on the screen.

At the very top, in handwriting, you can see that this is a single payment to the Iraqi Ministry of Finance. In the middle of the page, you can also see that the purpose of the funds is for Iraqi salaries. If you look in the middle on the right, you can see that the total amount is $320 million, and that is really all we know about the transaction. Is that correct?

Ms. UGONE. That is correct.

Mr. YARMUTH. There is one more detail. Under the quantity section, it says 1,000 employees or 1,000. We are assuming that is employees. It talks about salaries. So, if you read the document literally, it would indicate that 1,000 different Iraqi employees are being paid $320,000 each.

Now I know if you are talking about the chairman of Exxon, that is not a lot of money. It is probably about 1 percent of what he made last year, but it is more than a Member of Congress makes.

Is there any explanation for this? Are those just kind of random numbers? They are just putting numbers in there because they didn't know what it was or could that literally be true?

Ms. UGONE. We don't have any documentation to explain, to support this quantity, this amount.

Mr. YARMUTH. So we really don't know. Really, we don't know if it was actually spent for salaries. It could have been spent for guns to fight insurgents or anything else.

Ms. UGONE. We don't know what it was spent for.

Mr. YARMUTH. Let me ask you. This has been mentioned many times today already.

The Defense Department has refused to testify here, but in their written comments on your report, this is what they say: "We do not agree the audit trail documentation should include supporting budget details and spending plans that can be reconciled to payment vouchers. This is not a disbursing officer responsibility."

Do you agree that this is not the Defense Department's responsibility?

Ms. UGONE. We believe that the Defense Department should add something like spending plans to account how the funds would be used and, in fact, we have been notified that the financial management regulation is undergoing revision to incorporate guidance on seized and vested assets.

Mr. YARMUTH. Referring to that comment again, can you maybe give us a guess as to what the official Defense Department budget, whose responsibility they believe it is, if it is not a disbursing officer?

If they say it is not the disbursing officer, who else's responsibility could it be?

Ms. UGONE. I think part of it is the guidance. One of the issues that we took was when you look at the prescribed guidance, which was I believe in this regard an Executive order, it was specific

about accounting for these funds. So we looked at the comptroller promulgation of that Executive order and believe that it omitted items such as spending plans.

So what we had recommended and asked that the comptroller do was revise its guidance so that the disbursing officer would have that document available to be able to make those decisions.

Mr. YARMUTH. A final question, your report points out that on March 20, 2003, the President signed Executive Order 13290 directing that payments from seized and vested Iraqi assets be adequately accounted for and auditable, and you also point out that requirement was repeated in a Presidential memo issued on April 30, 2003.

Is it your conclusion today that the Defense Department failed to comply with the President's Executive order as outlined in those two documents?

Ms. UGONE. We do not believe that there is a way to account for how those Iraqi seized and vested funds were used. That is correct.

Mr. YARMUTH. Thank you very much. I yield back.

Chairman WAXMAN. Thank you, Mr. Yarmuth.

Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman. I want to thank you for holding this hearing. I also want to thank the ranking member and the panelists, quite frankly, for your help.

Ms. Ugone, I would like to talk to you about the $5.2 billion in U.S. taxpayer dollars that were targeted for Iraqi security forces.

I know there are several Members. My colleague, Mr. Platts, who was here earlier, and a number of us have spent a lot of time on the ground in Anbar Province, principally in the area of Fallujah and also in Ramadi.

Some months ago, the chairman asked us to inspect the progress of construction of a couple of Iraqi Army bases, one in Fallujah and one in Ramadi. Now we, myself and Congressman Platts and a few others, were able to inspect the base in Fallujah. However, we were unable to inspect the base in Ar Ramadi, and I think you know why.

On page 13 of your report, you state that the Defense Department was supposed to build, as we understood, a $34 million base for the new Iraqi Army in Al Anbar Province near Ramadi. You also found that the Defense Department paid a contractor, Ellis World Alliance Corp., $31.9 million out of the $34 million, about 93 percent of the contract, the problem being that the facility was never built.

Is that correct?

Ms. UGONE. That is correct.

Mr. LYNCH. OK. This example is just so egregious that we wanted to investigate further. In meetings with committee staff and the military service responsible for this contract, the Air Force said that the problem with this contract was that they never obtained the land rights necessary to construct the base.

Despite the critical deficiency, the Air Force issued a notice to proceed with mobilization to the contractor, and they let them continue for 9 months under this contract even though we didn't own the land and we couldn't build the base. Then 9 months later, they finally called a halt to the program.

The Air Force told us that "not a spade of dirt was turned on this project."

They said it was an embarrassment and that they now have a new policy that says you can't proceed with a construction project until you have title for the land.

Can you explain? I hate to put this onto you, but can you explain how a contract can go on for 9 months, incurring millions and millions of dollars in costs—this is American taxpayer dollars. This is not Iraqi money. This is our money—before even the basic question of who owns the land is resolved?

Ms. UGONE. I can't explain that.

Mr. LYNCH. OK. Now what bothers me worse here is we have been out to Ramadi a number of times, as I say, and apparently the meter is still running on this because they have the raw materials, the bricks.

I have a long history in construction, and they have all that material in warehouses. Of course, in Ramadi, you have to have everything heavily guarded. So now, basically, we are spending all the money that was supposed to build this base on protecting the raw materials.

If you understand what the security people are making over there, it is costing us more to guard the bricks and the steel and the building components in the warehouse than the stuff in the warehouse is worth, and that troubles me greatly. It is just bad management.

Is there anything you can help us with in terms of reversing this practice or making sure that this doesn't happen?

Ms. UGONE. I believe this was the one that we had referred to our Defense Criminal Investigative Service, and I can followup to see what has occurred since the referral.

Mr. LYNCH. This contractor is burning the moneys there. They are basically spending it down. We are getting nothing for the value. It is an embarrassment. I agree with that assessment. We would never tolerate that in our country, and this is something that is directly under our control.

Also, this Ellis World Alliance Corp., I don't know what we are getting for our $34 million. I couldn't see anything.

There has to be a cutoff. We have to be able to terminate this thing and stop the cost to the American taxpayer.

Ms. UGONE. We will followup and get back with you.

Mr. LYNCH. That will be great. Thank you.

I yield back, Mr. Chairman.

Chairman WAXMAN. Thank you very much, Mr. Lynch.

Ms. McCollum.

Ms. MCCOLLUM. Thank you, Mr. Chair. Thank you for having this hearing.

I want to followup on a line of questioning that I actually started with Ambassador Crocker in the Appropriations Committee.

Deputy Inspector General, your report concludes that the Defense Department made $135 million in payments to foreign governments under the Commander's Emergency Response Fund. Your conclusion in the report is that there was no audit showing where the funds went.

Last year, the Defense Department began using the CERP, the CERP funds for other purposes, bulk payments to local Iraqi tribal leaders so that their followers would stop fighting us. The Pentagon calls this the Sons of Iraq program.

I ask this because the Pentagon now wants to ramp this program up to $370 million in fiscal year 2008. This is a huge ramp-up for a program that did not exist a year ago.

These funds are payments to foreign governments. They have no audit trail. They have no supporting documentation. They have no way to determine where the money actually went.

In fact, I asked Ambassador Crocker about this program. I asked him about my concerns of child soldiers with some of the media reports that I have read. I asked him about the Sons of Iraq providing a false sense of security because no one from the State Department of the Department of Defense could tell me what would happen if these payments stopped.

So I would like to ask you, has the IG's office done any work on this issue?

Ms. UGONE. No, we have not, not on the Sons of Iraq.

Ms. MCCOLLUM. What documentation would you expect to see in support of these types of payments? What kind of detail would you expect to have about the services provided, the type of employees being paid?

Ms. UGONE. Well, with respect to what we did look at, the 22 payment vouchers that were provided to Coalition partners, that was intended for either non-construction or construction efforts, for humanitarian purposes and other support purposes.

We would have expected to see, for construction, project files—project files that described what was, how the funds were being used, for what construction, what the status of the construction, what percentage of completion, some sort of mechanism to be able to reconcile how much.

We provided bulk funding, what that bulk funding went into, whether it was non-construction and construction. If it was construction, we would expect a detailed project file for reconciliation purposes and, for non-construction, some sort of support that indicated what that money was being used for.

Ms. MCCOLLUM. So, if it went for something like the Sons of Iraq program, where we are paying Sunni groups to not fight against U.S. soldiers, you would expect to see a detailed list of employees, what kind of equipment they were given, who is being paid what on what basis. You would expect to see those types of things in an audit?

Ms. UGONE. Well, I would expect to see some level of detail supporting the Sons of Iraq program, but since I am not familiar with it, it is hard to talk about it. But I can get back to you.

From the standpoint since I didn't look at it as part of the audit, I don't think it would be appropriate for me to say what it should include at this point, but I can take a look at that separately.

Ms. MCCOLLUM. I appreciate that.

Mr. Chair, I am so glad you are having this hearing. I would like to encourage this committee to do more examination about the issue of the Sons of Iraq. Many people think that this program has reduced the violence in Iraq. Others, including some in the national

Shiite government, are concerned that U.S. funds are being used to buy weapons and fund Sunni groups that will engage in civil war when the United States leaves.

I don't understand, Mr. Chair, why the United States has to spend $370 million on this program. If we think it helps reduce violence in Iraq, then the Iraqi government should be excited about the reduction and they should pay for it.

After all, we now know that the Iraqi government has $70 billion in reserves. They should be paying for their own security.

So, Mr. Chairman, due to the lack of accountability in the funds that you have pointed out here today and the rest of the construction issues, I would really encourage you and this committee to work with Chairman Obey and Ms. Lowey and myself to find out more about the Sons of Iraq program and if there is any kind of audit paper trail on that.

Thank you, Mr. Chair.

Chairman WAXMAN. Thank you very much, Ms. McCollum. We will certainly want to look into that with you.

Mr. Tierney.

Mr. TIERNEY. Thank you, Mr. Chairman.

I think we have covered this pretty extensively but, Ms. Ugone, I want to go in a different direction. I want to put on the record a little information about why we don't have any Defense Department witness before us here today.

The committee apparently sent a letter on May 9th to Defense Secretary Gates, requesting that he designate a witness for today's hearing.

After multiple conversations and meetings with Defense Department officials, we received a letter this week, refusing the committee's request. The letter cited as a reason for this decision the impending release of the IG's report and the desire to have a reasonable opportunity to digest the final version of the report.

Ms. Ugone, how long has your office been working on this report?

Ms. UGONE. A year, actually, the audit—no, it hasn't taken a year to get the report. We have been working on this audit for a year.

Mr. TIERNEY. And when did your office first make the Defense Department aware that your office was working on this audit?

Ms. UGONE. I believe we announced that in May 2006.

Mr. TIERNEY. Am I correct in saying that in May 2007, over a year ago, you gave the Defense Department an opportunity to try to locate additional documentation?

Ms. UGONE. Yes.

Mr. TIERNEY. To substitute the payments for which you found deficiencies?

Ms. UGONE. Yes. From May 2007, it has been about a year where we first identified some of these critical issues, and we have been working with the Department since then.

We have had two drafts for discussion purposes which is we write up our issues and provide it for discussion purposes. We had one formal draft, and we have many meetings, the most recent meeting being May 13, 2008.

Mr. TIERNEY. When was the first draft given to the Defense Department?

Ms. UGONE. The first discussion draft, I will have to get back with you. November 2007.

Mr. TIERNEY. Was there another one given on February 11, 2008?

Ms. UGONE. Yes.

Mr. TIERNEY. In the appendix of your report today, you reproduced written comments from the Department of Defense. Is that right?

Ms. UGONE. Yes. In fact, we not only incorporated their comments to the official draft version. We also incorporated comments they provided to us, I believe, on May 16, 2008.

Mr. TIERNEY. So the Office of the Assistant Secretary of the Army, Financial Management and Comptroller provided comments on March 24, 2008.

Ms. UGONE. That is correct.

Mr. TIERNEY. The Defense Finance and Accounting Service provided comments on March 25, 2008.

Ms. UGONE. That is correct.

Mr. TIERNEY. The Office of the Undersecretary of Defense for Acquisition, Technology and Logistics provided comments on April 25, 2008.

Ms. UGONE. That is correct.

Mr. TIERNEY. So it is accurate to say the Defense Department, well, let me ask you. Do you think it is accurate for them to say that they haven't had ample notice of this and an opportunity to review?

Ms. UGONE. What I can say is that they were fully aware of our issues and concerns, and we have been working with them for over a year.

Mr. TIERNEY. It appears to me that they have had ample knowledge over time. They have worked with you. They have filed written responses.

Mr. Chairman, if I might, this is not an uncommon problem, unfortunately, with the Defense Department being unwilling. It is clear to me why they are not here today. It has nothing to do with not getting notice, nothing with not being able to have an opportunity to respond. It has all to do with not wanting to be in front of the American public, trying to make answers as to what is going on.

I think we have subpoena power, and I would ask you and the ranking member at some point in time to consider using it where appropriate, so the Department of Defense wouldn't think that they can avoid the kind of public scrutiny that we are specifically set up to do here.

Mr. DAVIS OF VIRGINIA. Will the gentleman yield?

Mr. TIERNEY. Yes.

Mr. DAVIS OF VIRGINIA. I would be happy to work with our chairman on that.

The one thing that is most frustrating is that you can go back 15 years and you see this same kind of problem. We are talking about a war zone today, but these are systematic problems that the GAO has put on their high-risk list every year, and they keep coming back and coming back and coming back.

Mr. TIERNEY. Reclaiming my time, that is why I think at some time, under some administration, somewhere we have to call.

I think some of the people at the Department of Defense are probably not the ones most responsible for what is going on. So it is not a personality thing. It is a case of getting a system in place where we get the answers that we need to correct these deficiencies so that they don't continue to repeat themselves.

I thank the chairman, and I yield back the balance of my time.

Chairman WAXMAN. If I can just respond to the gentleman, I think you are making an excellent point. We need to hear from the Defense Department, and I hope this hearing today will be a call to them that they have some explaining to do.

The gentleman's time is expired.

Mr. Cummings.

Mr. CUMMINGS. Thank you very much.

Ms. Ugone and all the witnesses, it is good to see you this morning.

As I sat here, I could not help but think. I have just left my district, and I used to be a criminal lawyer in my before life. I actually saw people go to prison for stealing a $100 bike.

Here, we have a situation where something has gone awfully wrong. It is very interesting that as I listen to the ranking member say that this goes back 15 years, that concerns me.

You know the author Stephen Covey has a book, and it is my favorite book. It is entitled the Speed of Trust, and it talks about how when you trust someone, things go along. The relationship moves along at a greater speed than when you don't trust them.

There are two types of trust. Competency, that is that you trust that somebody is competent to do the job that they have been assigned to do. For example, I would not have my mechanic cut my hair if I had some. And, there is another kind of trust that goes to honesty and integrity.

As I have listened to your testimony and read through the documents, it seems to me that we may have both types of trust lacking here. Trust in competency, there is a lack of. It seems like somebody or a whole lot of people are incompetent. But there is also some dishonesty going on here too.

I am glad to know that cases are being referred to the criminal division. I am just hoping that they will be.

See, I don't buy this argument that something has been systematic because the guys in my neighborhood who I used to represent, they don't say that to them. They send them to prison for $100.

Here, we are talking about millions and billions of taxpayers' dollars, and we don't know where they have gone. Abracadabra—they disappear.

But, at the same time, there are three principles that concern me here. One, the United States of America and our citizens are hardworking taxpayers who are complaining every 2 weeks or every month when they get their checks that taxes are being taken out.

They deserve three basic things. One, they deserve to get what we bargained for. That is a basic principle.

Two, they deserve, in this instance, to have funds spent so that we can do those things that the Defense Department is supposed to do: to make sure that their lives are the best that they can be,

to make sure that they defend this country and do all those things that are supposed to be done.

And then there is a third one, and it is one that Ms. McCollum alluded to. That is we must be in a situation where we know that our funds are not doing harm to us. If our own funds in some way are being turned around as if someone took a gun and turned it around and pointed it right back at you, it makes absolutely no sense.

That is why I am taking my few minutes to say to you and ask that whatever the standard is that requires that folks or factual patterns be sent to the criminal division, I hope that they are because the American people support our troops. There may be differing views about the war, but they support our troops, and every Member of Congress supports our troops a million percent.

But I have to tell you, when somebody looks at C–SPAN and hears this kind of stuff, it has to make them very, very angry.

The guys in my neighborhood, in the inner city of Baltimore, when they hear about this, they will say, Cummings, I mean, when I get home tonight, I can hear them now, you mean to tell me them people got away with millions, man? What is up with that? What is that about?

I am hoping that somebody is brought to justice. Somebody needs to be brought to justice.

You can comment on what I have said if you like, but I thank you for what you are doing, and I see my time is up.

Chairman WAXMAN. Do you want to respond in any way?

Ms. UGONE. No comment.

Chairman WAXMAN. Mr. Cummings, you are the last questioner, and I think you have done an excellent job in summing up the situation.

To be told that this has been going on for a long time is no excuse for allowing it to continue, and to say we ought to look at past wars to see if there was money squandered is not going to make people feel any better if they see money being squandered in this war.

I want to thank you for the work you have done. This is a very important report that you have given us today, and it is a wake-up call that we have to see changes because the taxpayers' money cannot be squandered the way it has been.

We need accountability. That is the essence of government, so the people know that government belongs to them and not to the people running.

I want to see if Mr. Davis wants to make any further questions or comments.

Mr. DAVIS OF VIRGINIA. I guess the frustration every one of us has up here—you have it too—is what is the Army doing to fix this?

I know they moved. We talked about temporarily, on the Iraq side, moving some of the work from Kuwait back stateside, but the systematic problems in these areas.

Ms. UGONE. I think one of the areas that we really think and it is a work force issue which I believe that this committee as well as the Department has identified as a work force issue is training.

One of the areas that we have recommended the Army do is train the Army finance personnel in these matters as well because we understand in a contingency operation that we need to have essential information ready at hand, and people who perform those functions should be trained in how to apply the criteria quickly.

Mr. DAVIS OF VIRGINIA. This goes back to the comment, you go to war with the Army you have, I guess if you remember.

But, look, why was the Army financial system overburdened with additional tasks and influx of billions and billions of dollars that were being distributed to the Coalition?

What is the fix in this case and if you are just saying it is manpower or is getting competent people, system people in there with appropriate controls? Are the computer systems not working and interactive?

Ms. UGONE. Well, we are actually looking at that in some follow-on audits. One of the areas that we are going to look at is the Defense Finance and Accounting work force, and we are also going to be reviewing the Defense Contract Management Agency work force because that was also a challenge area in this environment. We plan to look at the deployable disbursing system which is supposed to be used and cited by the comptroller as a valuable additional to accounting for these funds in that environment.

So we are doing follow-on work to take a look at many of those issues.

Mr. DAVIS OF VIRGINIA. Every year, on the GAO watch list, this is there. It stays there.

This committee got some things off the list. We got the whole postal thing off the watch list. We passed a massive bill working with it, very difficult to do, and we took it off the watch list. Things come off the watch list.

If there is anything legislatively we need to do or if this is just a bureaucratic problem where the people can't seem to figure it out or get the resources, and I guess that is the ultimate question I would give you if you have any solutions.

You are going to go back here. I guarantee you will be back here next year and the year with example after example, and nothing seems to change except incrementally.

It is a huge frustration. If this were a few thousand dollars or a million dollars, but we are talking billions of dollars over time that they are taking out of hardworking people's paychecks or borrowing in the future. That is the frustration.

Ms. UGONE. If I could just comment, there is a lessons learned work group that is being sponsored by, I believe, the Principal Under Secretary of Defense Comptroller. It is the lessons learned with respect to not only disbursement but also to vendors. You know the contracting side of the house.

The lessons learned group is made up of members from my organization as well as acquisition technology, the logistics comptroller, DFAS and Army. That working group met in April, I believe twice. So that effort is underway to resolve some of the issues and lessons learned identified during this particular audit.

Mr. DAVIS OF VIRGINIA. Look, all of you are great people. You are working hard at this. You are doing your jobs well, and you are identifying this.

I think the problem goes up in division at the top in terms of do we really fix this. We have good people. We just need to deploy them right and give them the resources, but it doesn't seem to get done.

Thank you very much. It is very helpful to us, I think, in trying to focus our energies in the right way.

Mr. Chairman, I appreciate your holding this hearing.

Chairman WAXMAN. Thank you very much.

Ms. UGONE. Thank you very much.

Chairman WAXMAN. Thank you very much, Mr. Davis.

We appreciate the work you are doing.

Ms. UGONE. Thank you.

Chairman WAXMAN. That concludes our hearing, and we stand adjourned.

[Whereupon, at 11:45 a.m., the committee was adjourned.]

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