

**GAO**

Testimony

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U.S. Senate

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# STABILIZING AND REBUILDING IRAQ

## Actions Needed to Address Inadequate Accountability over U.S. Efforts and Investments

Statement of David M. Walker  
Comptroller General of the United States



# Report Documentation Page

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Highlights of [GAO-08-568T](#), a testimony before the Committee on Appropriations, U.S. Senate

## Why GAO Did This Study

Since 2001, Congress has appropriated nearly \$700 billion for the global war on terrorism. The majority of these funds have supported U.S. efforts in Iraq. Congressional oversight is crucial to improve performance, ensure accountability, and protect U.S. programs from fraud, waste, and abuse. Since 2003, GAO has issued nearly 130 Iraq-related reports and testimonies.

This testimony addresses (1) factors contributing to poor contracting outcomes and accountability, (2) long-standing issues in the Department of Defense's (DOD) management and oversight of contractors supporting deployed forces, and (3) efforts to improve the capacity of the Iraqi government. GAO reviewed U.S. agency documents and interviewed officials from State, DOD, and other agencies; the United Nations (UN); and the Iraqi government. We also made multiple trips to Iraq.

## What GAO Recommends

To improve accountability and minimize opportunities for fraud, waste, and abuse, GAO has previously recommended that DOD adopt sound business processes and improve management and oversight of contractors. GAO has recommended that U.S. agencies work with the Iraqi government to develop strategic plans for key sectors. DOD and State have taken actions to address some, but not all, of GAO's recommendations.

To view the full product, click on [GAO-08-568T](#). For more information, contact Joseph A. Christoff at (202) 512-8979 or [christoffj@gao.gov](mailto:christoffj@gao.gov).

# STABILIZING AND REBUILDING IRAQ

## Actions Needed to Address Inadequate Accountability over U.S. Efforts and Investments

### What GAO Found

U.S. efforts in Iraq have relied extensively on contractors to undertake reconstruction projects and provide support to U.S. forces. However, a lack of well-defined requirements, poor business arrangements, and inadequate oversight and accountability have negatively affected reconstruction and support efforts. For example, in a July 2007 report, GAO found that DOD completed negotiation for task orders on an oil contract more than 6 months after the work commenced and most costs were incurred. DOD paid nearly all of the \$221 million in costs questioned by auditors. Also in July 2007, GAO found that unclear DOD guidance, inadequate staff, and insufficient technology resulted in poor accountability over more than 190,000 weapons provided to Iraqi forces. DOD concurred with GAO's recommendation to determine what DOD accountability procedures apply or should apply to the program. However, as of March 2008, DOD had not made a determination.

The need to effectively manage and oversee contractors supporting deployed forces is equally important. DOD pays billions of dollars each year for contracted goods and services in locations such as Iraq and elsewhere. However, several long-standing and systemic problems continue to hinder DOD's management and oversight of contractors at deployed locations, including the failure to follow planning guidance, provide an adequate number of contract oversight personnel, systematically collect and distribute lessons learned, and provide predeployment training for military commanders and contract oversight personnel on the use and role of contractors. GAO's work has identified instances where poor oversight and management of contractors led to negative financial and operational impacts. GAO has made a number of recommendations aimed at strengthening DOD's management and oversight of contractor support at deployed locations, and the department has agreed to implement many of those recommendations. However, GAO has found that DOD has made limited progress in implementing some key recommendations.

The United States has made available nearly \$6 billion to rebuild Iraq's energy sector and \$300 million to develop its government ministries but lacks integrated strategic plans for both efforts. Building the capacity of the ministries is critical to ensure that Iraq can effectively govern, rebuild, and stabilize the country. Rebuilding Iraq's energy sector is necessary to ensure that Iraq can pay for these tasks and provide essential services to the Iraqi people. However, in the absence of a comprehensive and integrated strategic plan, U.S. efforts to build the capacity of the Iraqi government have been hindered by multiple U.S. agencies pursuing individual efforts without overarching direction. The creation of a plan for the energy sector is also essential for Iraq to meet energy production and export goals. GAO recommended that State work with Iraqi ministries to develop an integrated energy plan. State commented that the Iraqi government, not the U.S. government, should act on GAO's recommendations. Given the billions of dollars provided to rebuild Iraq's energy sector and the limited capacity of Iraqi ministries, GAO believes that its recommendations are still valid.

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Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss the challenges the United States must address to successfully improve performance and ensure accountability over U.S. efforts to stabilize and reconstruct Iraq. In my statement today, I will discuss (1) factors contributing to poor contracting outcomes and accountability, (2) long-standing issues in the Department of Defense's (DOD) management and oversight of contractors supporting deployed forces, and (3) efforts to improve the capacity of the Iraqi government.

Between fiscal years 2001 to 2008, Congress appropriated nearly \$700 billion for the global war on terrorism.<sup>1</sup> The majority of this amount has been provided to DOD for military operations in support of Operation Iraqi Freedom, including the cost of equipping, maintaining, and supporting our deployed forces. About \$45 billion was provided for reconstruction efforts, including rebuilding Iraq's oil and electricity sectors, improving its security forces, and enhancing Iraq's capacity to govern. Prudence with taxpayer funds and growing long-range fiscal challenges demand that the United States maximize its return on the billions of dollars invested in Iraq. Further, strengthening Iraq's fragile government institutions, which have thus far failed to adequately deter corruption, stimulate employment, or deliver essential services, is critical to establishing a peaceful, stable, and secure Iraq.

My statement today is based upon GAO's extensive work spanning several years. Since 2003, we have issued nearly 130 Iraq-related reports and testimonies.<sup>2</sup> Our work in Iraq largely has been performed under my authority as Comptroller General to conduct evaluations on my own initiative since it is a matter of broad interest to the entire Congress. We performed this work in accordance with generally accepted government auditing standards.

I am pleased to appear with the DOD Inspector General and the Special Inspector General for Iraq Reconstruction. As you know, GAO and the inspectors general have different, but complementary, roles and

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<sup>1</sup>This figure includes military appropriations for Operation Noble Eagle, Operation Enduring Freedom, and Operation Iraqi Freedom, as well as stabilization and reconstruction appropriations for Iraq and Afghanistan.

<sup>2</sup>To see GAO reports on Iraq, click on <http://GAO.gov/docsearch/featured/oif.html>.

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responsibilities. GAO's broad audit authority allows it to support Congress through strategic analyses of issues that cut across multiple federal agencies and sources of funding, while the inspectors general focus primarily on preventing and exposing fraud, waste, and abuse in individual federal agency programs. The abilities of the inspectors general to provide in-country oversight of specific projects and reconstruction challenges have enabled GAO to focus on national, sector, and interagency issues. We and the other accountability organizations coordinate our oversight efforts to avoid duplication and leverage our resources.

I would like to note that several of my colleagues in the accountability community and I have developed a definition of waste. As we see it, waste occurs when taxpayers do not receive reasonable value for their money in connection with any government-funded activity due to inappropriate acts or omissions by officials with control over or access to government resources. Most waste does not involve a violation of law, but it does involve mismanagement resulting from poor leadership or guidance; inappropriate actions or omissions, including the use of poor business arrangements; or inadequate oversight, often caused by having too-few skilled people. Our reports and testimonies have provided specific examples where such issues resulted in higher costs, schedule delays, and unmet goals. I highlight some of these in my testimony. Nevertheless, estimating or quantifying the financial impact of fraudulent, wasteful, or abusive practices is not always feasible or practicable. However, the inability to do so should not detract from the need to improve management and accountability over our efforts in Iraq.

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## Summary

The United States is entering its fifth year of efforts to rebuild and stabilize Iraq, but these efforts have neither consistently achieved their desired outcomes nor done so in an economic and efficient manner. While the specific facts and circumstances differed, a lack of well-defined requirements, poor business arrangements, and inadequate oversight and accountability have affected reconstruction, stabilization, and support efforts alike. Two GAO reports issued in July 2007 illustrate some of these problems. In one report, we found that DOD completed negotiations for task orders on an oil contract more than 6 months after the work commenced. As a result, the contractor incurred almost all of its costs at the time of negotiations, which influenced DOD's decision to pay nearly all of the \$221 million in costs questioned by the Defense Contract Audit Agency (DCAA). In a second report, we found that unclear DOD guidance, inadequate staff, and insufficient technology resulted in poor accountability over 190,000 weapons provided to the Iraqi security forces.

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DOD concurred with our recommendation to identify accountability procedures for the program to train and equip the Iraqi security forces. However, as of March 2008, DOD had not developed the necessary procedures.

Several long-standing and systemic problems continue to hinder DOD's management and oversight of contractors at deployed locations, including the failure to follow planning guidance, provide adequate numbers of contract oversight personnel, systematically collect and distribute lessons learned, and ensure predeployment training for military commanders and contract oversight personnel on the use and role of contractors. The scale of contractor support DOD relies on today in locations such as Iraq and elsewhere amounts to billions of dollars worth of goods and services each year, underscoring the need to effectively manage and oversee contractor efforts. The magnitude of this support demands that DOD ensure that military personnel have the guidance, resources, and training to effectively monitor contractor performance at deployed locations. However, our work has identified instances where poor oversight and management of contractors led to negative financial and operational impacts. We have made a number of recommendations aimed at strengthening DOD's management and oversight of contractor support at deployed locations, and the department has agreed to implement many of those recommendations. However, we have found that DOD has made limited progress implementing some key recommendations.

The United States has made available nearly \$6 billion to rebuild Iraq's energy sector and \$300 million to develop its government ministries but lacks integrated strategic plans for both efforts. Building the capacity of the ministries is critical to ensure that Iraq can effectively assume responsibility for delivering government services and sustain the effort to rebuild and stabilize the country. Rebuilding Iraq's energy sector is necessary to ensure that Iraq can pay for these tasks and provide essential services to the Iraqi people. However, in the absence of a comprehensive and integrated strategic plan, U.S. efforts to build the capacity of the Iraqi government have been hindered by multiple U.S. agencies pursuing individual efforts without overarching direction. The creation of a comprehensive and integrated strategic plan for the energy sector is also essential for Iraq to identify the most pressing needs and address challenges affecting future development prospects. We recommended that the State Department work with Iraqi ministries to develop an integrated energy plan. State commented that the Iraqi government, not the U.S. government, should act on our recommendations. Given the billions of

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dollars provided to rebuild Iraq's energy sector and the limited capacity of Iraqi ministries, I believe that our recommendations to State are still valid.

DOD and State have taken action to implement some, but not all, of our recommendations, increasing the risk that past mistakes or lapses in accountability will be repeated and undermining efforts to enable Iraq to assume greater responsibility for rebuilding its nation. In doing so, DOD and State miss opportunities to improve outcomes and enhance accountability.

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## Background

Several entities and U.S. agencies have played important roles in U.S. efforts to rebuild and stabilize Iraq. From May 2003 through June 2004, the Coalition Provisional Authority (CPA)<sup>3</sup> was responsible for overseeing, directing, and coordinating rebuilding efforts. After its dissolution, the Secretary of State assumed responsibilities for the supervision and general direction of reconstruction efforts in Iraq. DOD, including the U.S. Army Corps of Engineers, and United States Agency for International Development (USAID) have had responsibility for managing and overseeing specific reconstruction projects.

Contractors have largely carried out reconstruction efforts in Iraq. For example, in early 2004, the CPA, through various military organizations, awarded seven contracts to help provide overall direction, coordination, and oversight of 12 large design-build contractors. In turn, these 12 design-build contractors were responsible for the design and execution of construction activities in various sectors such as electricity, oil, and public works and water.

In addition, DOD has made extensive use of contractors to support its deployed forces. The scale of contractor support DOD relies on today in locations such Iraq and elsewhere amounts to billions of dollars worth of goods and services each year, underscoring the need to effectively manage and oversee contractor efforts. Contractors provide interpretation, intelligence analysis, and security services, as well as weapon systems maintenance and base operations support. The significance of such contracts is illustrated by the fact that the Army reported obligations of

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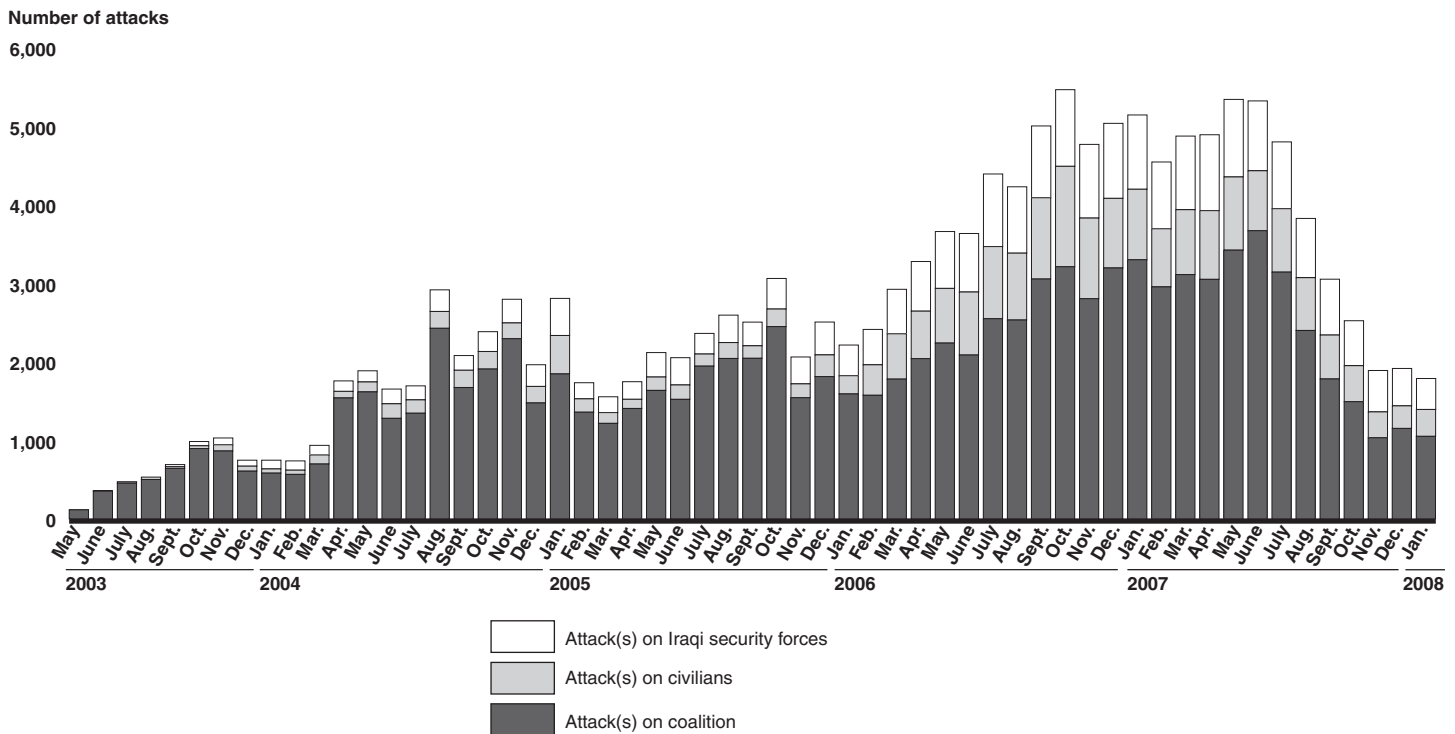
<sup>3</sup>Established in May 2003 and led by the United States and the United Kingdom, the CPA was the United Nations-recognized coalition authority responsible for the temporary governance of Iraq.

over \$4.5 billion in fiscal year 2007 on its single-largest support contract, the Logistics Civil Augmentation Program (LOGCAP).

The collective effort of military, civilian, and contractor personnel in Iraq has been complicated by the country's security environment. The CPA's original reconstruction plan was premised on the assumption that a permissive security environment would enable the United States to restore Iraq's essential services to prewar levels. The CPA also assumed that the Iraqi government and the international community would help finance Iraq's development and that Iraqi oil revenues could help pay for reconstruction costs. None of these assumptions has materialized.

In February 2007, we reported that the security situation was continuing to deteriorate, impeding the management and execution of reconstruction efforts. As shown in figure 1, the security situation generally deteriorated through the summer of 2007, with the number of attacks increasing to about 180 per day in June 2007.

**Figure 1: Enemy-Initiated Attacks against the Coalition and Its Iraqi Partners**



Source: GAO analysis of DIA-reported Multi-National Force-Iraq data, January 2008.

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However, since then, the number of enemy-initiated attacks has decreased by about two-thirds, to the levels of early 2005. Specifically, the average number of daily attacks decreased from about 180 in June 2007 to about 60 in January 2008—a nearly 70 percent decrease—as the number of attacks against coalition forces in particular fell considerably. The number of attacks on Iraqi security forces and civilians also declined from June 2007 levels. While security has improved in Iraq, a permissive security environment has yet to be achieved.

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## Poor Contracting Outcomes and Accountability Hinder U.S. Efforts in Iraq

Our work over the past 5 years has shown that one or more of the elements essential for achieving good acquisition outcomes—well-defined requirements matched with adequate resources, sound business arrangements, and the capacity to properly manage and oversee contractor performance—were often missing during specific reconstruction efforts, in contracts to support deployed forces, and in our efforts to equip Iraqi security forces. The absence of these elements often contributed to unmet expectations, schedule delays, or higher-than-necessary costs, underscoring both the need to hold agencies and contractors accountable for outcomes, and the challenges of doing so. Such issues are not unique to Iraq but reflect some of the long-standing and systemic issues confronting DOD. They are, however, magnified in a contingency situation such as Iraq or Katrina. Further, we found that unclear DOD guidance resulted in poor accountability over 190,000 weapons provided to the Iraqi security forces.

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## Mismatch between Requirements and Resources

A prerequisite to good outcomes is a match between well-defined requirements and available resources. Shifts in overall priorities and funding, even those made for good reasons, invariably have a cascading effect on individual contracts, making it more difficult to manage individual projects to successful outcomes and complicating efforts to hold agencies and contractors accountable. After the State Department assumed responsibility for U.S. reconstruction efforts in 2004, it re-examined the priorities and programs initiated by the CPA, with the objective of reprioritizing funding to key, high-impact projects. State increased support for security, law enforcement efforts, and oil infrastructure enhancements. These reallocations, affecting billions of dollars of planned work, led to the cancellation of some projects in the electricity and water sector.

At the contract level, the lack of well-defined requirements resulted in schedule delays and the United States potentially paying more than

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necessary. For example, in September 2005, we reported that difficulties in defining the cost, schedule, and work to be performed on projects in Iraq's water and sanitation sector contributed to project delays and reduced scopes of work.<sup>4</sup> We found that agreement between the U.S. government and contractors on the final cost, schedule, and scope of 18 of the 24 task orders valued at \$873 million had been delayed. These delays occurred, in part, because Iraqi authorities, U.S. agencies, and contractors could not agree on scopes of work and construction details.

Previously, in July 2004, we reported that a disagreement between the LOGCAP contractor and the DCAA on how to bill for services to feed soldiers in Iraq involved at least \$88 million in questioned costs.<sup>5</sup> The disagreement regarded whether the government should be billed on the camp populations specified in the statement of work or on the actual head count. A clearer statement of work, coupled with better DOD oversight of the contract, could have prevented the disagreement and mitigated the government's risk of paying for more services than needed.

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## Business Arrangements that Increased Risk

To award contracts and begin reconstruction efforts quickly, DOD used business arrangements that often increased DOD's risk of paying higher costs than it might have otherwise. Such arrangements often allowed contractors to begin work before key contract terms and conditions, such as the scope of the work and its price, were fully defined. For example, in a September 2006 report, we found that DOD contracting officials were less likely to remove the costs questioned by auditors if the contractor had already incurred these costs before the contract action was definitized.<sup>6</sup> In contrast, in the few instances in which the government negotiated the terms before starting work, the portion of questioned costs removed from the proposal was substantial. For example, in three audits related to a logistics support contract, DCAA questioned \$204 million. Since the government and the contractor negotiated the terms prior to the onset of the work, the contractor had not incurred any costs at the time of

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<sup>4</sup>GAO, *Rebuilding Iraq: U.S. Water and Sanitation Efforts Need Improved Measures for Assessing Impact and Sustained Resources for Maintaining Facilities*, [GAO-05-872](#) (Washington, D.C.: Sept. 7, 2005).

<sup>5</sup>GAO, *Military Operations: DOD's Extensive Use of Logistics Support Contracts Requires Strengthened Oversight*, [GAO-04-854](#) (Washington, D.C.: July 19, 2004).

<sup>6</sup>GAO, *Iraq Contract Costs: DOD Consideration of Defense Contract Audit Agency's Findings*, [GAO-06-1132](#) (Washington, D.C.: Sept. 25, 2006).

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negotiations. DCAA calculated that \$120 million of the \$204 million in questioned costs were removed as a result of its findings.

We subsequently issued a report in July 2007 that focused on the U.S. Army Corps of Engineers' \$2.5 billion contract to Kellogg Brown & Root to restore Iraq's oil infrastructure and ensure an adequate fuel supply within Iraq.<sup>7</sup> DCAA reviewed the contract's 10 task orders and questioned \$221 million in contractor costs. While DOD considered DCAA's audit findings and performed additional analysis, the lack of timely negotiations contributed significantly to DOD's decision on how to address the questioned costs. In this case, all 10 task orders were negotiated more than 180 days after the work commenced and the contractor had incurred almost all its costs at the time of negotiations. These circumstances influenced DOD's decision to pay nearly all of the \$221 million in questioned costs.

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## Poor Management and Oversight of Contractor Performance

Managing contractors in an unstable contracting environment means greater attention to oversight, which relies on having a capable government workforce. Having personnel who are trained to conduct oversight and who are held accountable for their responsibilities is essential for effective oversight of contractors. If oversight is not conducted, not sufficient, or not well documented, DOD is at risk of being unable to identify and correct poor contractor performance. On multiple occasions, we and others have reported on deficiencies in DOD's oversight; for example:

- In December 2006, we reported that DOD did not have sufficient numbers of contractor oversight personnel at deployed locations, which limited its ability to obtain reasonable assurance that contractors were meeting contract requirements efficiently and effectively.<sup>8</sup>
- In October 2007, the report of the Commission on Army Acquisition and Program Management in Expeditionary Operations stated that the Army lacked the leadership and military and civilian personnel to provide

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<sup>7</sup>GAO, *Defense Contract Management: DOD's Lack of Adherence to Key Contracting Principles on Iraq Oil Contract Put Government Interests at Risk*, [GAO-07-839](#) (Washington, D.C.: July 31, 2007).

<sup>8</sup>GAO, *Military Operations: High-Level DOD Action Needed to Address Long-standing Problems with Management and Oversight of Contractors Supporting Deployed Forces*, [GAO-07-145](#) (Washington, D.C.: Dec. 18, 2006).

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sufficient contracting support to either expeditionary or peacetime missions. According to the Commission, Army contracting personnel experienced a 600-percent increase in their workload and were performing more complex tasks, while the number of Army civilians and military in the contracting workforce had remained stagnant or declined. As a result, the Commission found that the vital task of postaward contract management was rarely being done. It recommended that the Army increase the number of civilian and military personnel in its contracting workforce by 1,400 individuals.

- Our recent analysis of five types of vehicles presented to the Army as ready for acceptance from July 2006 through May 2007 found that 18 to 31 percent of the vehicles failed government inspection.<sup>9</sup> Some equipment presented to the Army failed inspection multiple times, sometimes for the same deficiency. Rework on equipment that failed inspections since May 2005 wasted \$4.2 million.

Such issues are not unique to Iraq but often reflect the long-standing and systemic issues DOD faces. Since 1992, we have identified DOD contract management to be high risk due to its vulnerabilities to fraud, waste, abuse, and mismanagement. In a report issued in July 2006, we concluded that, because awards to contractors were large and growing, DOD would continue to be vulnerable to contracting fraud, waste or misuse of taxpayer dollars, and abuse.<sup>10</sup>

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## Insufficient Accountability over U.S.-Funded Equipment Provided to Iraqi Security Forces

In July 2007, we reported that DOD could not fully account for Iraqi security forces' receipt of U.S.-provided equipment.<sup>11</sup> Three factors contributed to this lapse in accountability. First, DOD had not specified which DOD equipment accountability<sup>12</sup> procedures, if any, applied to the train-and-equip program for Iraq. Congress funded the train-and-equip

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<sup>9</sup>GAO, *Defense Logistics: The Army Needs to Implement an Effective Management and Oversight Plan for the Equipment Maintenance Contract in Kuwait*, [GAO-08-316R](#) (Washington, D.C.: Jan. 22, 2008).

<sup>10</sup>GAO, *Contract Management: DOD Vulnerabilities to Contracting Fraud, Waste, and Abuse*, [GAO-06-838R](#) (Washington, D.C.: July 7, 2006).

<sup>11</sup>GAO, *Stabilizing Iraq: DOD Cannot Ensure That U.S.-Funded Equipment Has Reached Iraqi Security Forces*, [GAO-07-711](#) (Washington, D.C.: July 31, 2007).

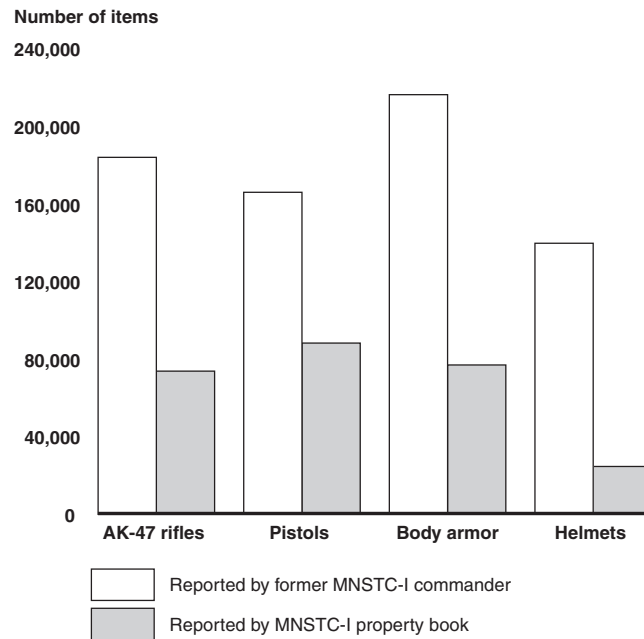
<sup>12</sup>DOD defines accountability as the obligation imposed by law, lawful order, or regulation accepted by an organization or person for keeping accurate records, to ensure control of property, documents, or funds, with or without physical possession.

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program for Iraq outside traditional security assistance programs, which, according to DOD officials, allowed DOD a large degree of flexibility in managing the program. These officials stated that, since the funding did not go through traditional security assistance programs, the DOD accountability requirements normally applicable to these programs did not apply. For example, under traditional security assistance programs, DOD regulations specify accountability procedures for storing, protecting, transporting, and registering small arms and other sensitive items transferred to foreign governments.

Second, DOD did not maintain a centralized record of all equipment distributed to the Iraqi security forces from June 2004 until December 2005. At that time, DOD established a consolidated property book system to track the issuance of equipment to the Iraqi security forces and was attempting to recover past records. Our analysis found a discrepancy of at least 190,000 weapons between data reported by the former Multinational Security Transition Command- Iraq (MNSTC-I) commander and the property books (see figure 2). Former DOD officials stated that this lapse was due to an insufficient number of staff and the lack of a fully operational network to distribute equipment, among other reasons.

**Figure 2: Discrepancies of MNSTC-I Reports of Selected Equipment Issued to Iraqi Security Forces, June 2004 through September 2005**



Source: GAO analysis of data reported by the former MNSTC-I commander and MNSTC-I property book records.

Third, since the beginning of the program, DOD has not consistently collected supporting documents that confirm when the equipment was received, the quantities of equipment delivered, or the Iraqi units receiving the equipment. Since June 2006, the command has placed greater emphasis on collecting this documentation. However, our review of the 2007 property books found continuing problems with missing and incomplete records. Further, the property books consist of extensive electronic spreadsheets, which are an inefficient data management tool given the large amount of data and limited personnel available to maintain the system.

In our July 2007 report, we recommended that the Secretary of Defense (1) determine which DOD accountability procedures apply or should apply to the program, and (2) after defining the required accountability procedures, ensure that sufficient staff, functioning distribution networks, standard operating procedures, and proper technology are available to meet the new requirements. DOD concurred with our recommendations but, as of March 3, 2008, had not determined which accountability procedures apply to the program.

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## Long-standing Problems Hinder DOD's Management and Oversight of Contractors Supporting Deployed Forces

Several long-standing and systemic problems continue to hinder DOD's management and oversight of contractors at deployed locations, including the failure to follow planning guidance, an inadequate number of military and civilian contract oversight personnel, failure to systematically collect and distribute lessons learned, and the lack of comprehensive training for military commanders and contract oversight personnel. The recurring nature of these issues underscores the need for DOD leadership to ensure implementation of and compliance with existing guidance within the department. In prior reports, we made a number of recommendations aimed at strengthening DOD's management and oversight of contractor support at deployed locations, and the department has agreed to implement many of those recommendations. However, our prior work has found that DOD has made limited progress implementing some key recommendations. Our work on contracts to support deployed forces in Iraq has identified instances where poor oversight and management of contractors led to negative financial and operational impacts.

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## DOD Has Not Followed Long-standing Planning Guidance Regarding the Use of Contractors to Support Deployed Forces

Our work has shown that DOD has not followed long-standing planning guidance, particularly by not adequately factoring the use and role of contractors into its planning. For example, DOD guidance stresses the importance of fully integrating into logistics plans and orders the logistics functions performed by contractors along with those performed by military and government personnel. However, we noted in our 2003 report that the operations plan for the war in Iraq contained limited information on contractor support.<sup>13</sup> Similarly, DOD policy requires planning for contractor-provided services during crisis situations to provide a reasonable assurance of the continuation of services and to prepare a contingency plan for obtaining services from alternate sources if needed. Our review found that essential contractor services for deployed troops had not been identified and backup planning was not being done. Without firm plans, there is no assurance that the personnel needed to provide essential services will be available when needed.

In addition, we reported in 2004 that the Army did not follow its planning guidance when deciding to use the Army's LOGCAP contract.<sup>14</sup> Army

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<sup>13</sup>GAO, *Military Operations: Contractors Provide Vital Services to Deployed Forces but Are Not Adequately Addressed in DOD Plans*, [GAO-03-695](#) (Washington, D.C.: June 24, 2003).

<sup>14</sup>[GAO-04-854](#).

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guidance stresses the need for the clear identification of requirements and the development of a comprehensive statement of work early in the contingency planning process. Because this Army guidance was not followed, the plan to support the troops in Iraq was not comprehensive and was revised seven times in less than 1 year, generating a significant amount of rework that would have been avoided had the planning guidance been followed.

We have also found that DOD has not reviewed contractor support to identify the essential services provided and the department lacked visibility over the totality of contractor support to deployed forces. This information is essential in incorporating contractor support into planning efforts. For example, senior military commanders in Iraq stated that, when they began to develop a base consolidation plan for Iraq, they had no source to draw upon to determine how many contractors were on each installation.

DOD has taken some actions to address this challenge. For example, DOD is developing a database of contractors who deploy with U.S. forces. According to senior DOD officials familiar with the database, as of February 2008, the database had about 80,000 records. DOD is working with State to include new DOD contractors, including private security contractors, in the database. This effort responds to recommendations we made in 2003 and 2006 to enhance the department's visibility over contractors in locations such as Iraq and Afghanistan.<sup>15</sup> In addition, Joint Contracting Command Iraq/Afghanistan has created the Theater Business Clearance process that reviews and approves all contracts for work in Iraq or Afghanistan. Joint Contracting Command Iraq/Afghanistan officials stated that this has helped military commanders know ahead of time when contractors are coming to work on their bases and to ensure sufficient facilities are available for them. According to senior DOD officials, DOD is also developing a cadre of contracting planners to ensure that contractor support is included in combatant commanders' planning.

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<sup>15</sup> [GAO-07-145](#).

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## DOD Lacks Adequate Numbers of Trained Contract Oversight Personnel

Having the right people with the right skills to oversee contractor performance is crucial to ensuring that DOD receives the best value for the billions of dollars spent each year on contractor-provided services to support deployed forces. However, several reviews by GAO and other organizations have consistently found deficiencies in DOD's oversight of contractors due to an inadequate number of trained military and civilian personnel to carry out these duties.

Such concerns are not new, and we continue to find that poor oversight contributes to poor outcomes and wasted resources. For example, we reported in 2004 that DOD did not always have enough contract oversight personnel in place to manage and oversee its logistics support contracts such as LOGCAP and the Air Force Contract Augmentation Program (AFCAP). As a result, the Defense Contract Management Agency (DCMA) was unable to account for \$2 million worth of tools that had been purchased using the AFCAP contract. In 2006, a LOGCAP Program Office official stated that the office did not prepare to hire additional contract oversight personnel in anticipation of an increased use of LOGCAP services due to Operation Iraqi Freedom. According to the official, if adequate staffing had been in place early, the Army could have realized substantial savings through more effective reviews of the increasing volume of LOGCAP requirements.

In January 2008, we reported that the Army was inadequately staffed to conduct oversight of an equipment maintenance contract in Kuwait, a contract with cumulative obligations of more than \$500 million.<sup>16</sup> Vacant oversight personnel positions included a quality assurance specialist, a property administrator, and two quality assurance inspectors. According to Army officials, such shortfalls meant that surveillance was not being performed sufficiently, and the Army was less able to identify trends in contractor performance and begin corrective action. For example, a review of property accountability reports found that the contractor reported a total of \$2.4 million in government-furnished property; however, two of the eight property listings alone totaled more than \$2 million. Without adequate oversight of government property, the Army cannot be certain that duplicate supplies have not been ordered and that government property is not misplaced or misused.

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<sup>16</sup>[GAO-08-316R](#).

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DOD has taken some actions to address the challenge of a less-than-adequate number of contract oversight personnel. For example, in February 2007, the Deputy Assistant Secretary of the Army (Policy and Procurement) issued guidance that required, among other actions, contracting officers to ensure that a quality assurance surveillance plan be prepared and implemented for service contracts exceeding \$2,500. Joint Contracting Command Iraq/Afghanistan officials stated that they are in the process of adding about 39 personnel to provide additional contractor oversight. Similarly, DCMA has deployed 100 more personnel and plans to deploy another 150 to provide contract oversight and administration to both ongoing and future contracts in Iraq. DCMA is providing oversight for DOD's private security contracts and other theater-wide contracts. Additionally, senior DOD officials stated that the department has created a task force to address the recommendations of the October 2007 report by the Commission on Army Acquisition and Program Management in Expeditionary Operations.

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### DOD Does Not Systematically Collect and Distribute Lessons Learned

DOD does not systematically ensure that lessons learned regarding the use of contractors to support deployed forces are shared with military personnel at deployed locations. Although DOD has a policy requiring the collection and distribution of lessons learned to the maximum extent possible, we found in our previous work that, with regard to contractor support to deployed forces, no procedures were in place to ensure lessons learned were being collected and distributed. For example, the Army regulation that establishes policies, responsibilities, and procedures for the implementation of the LOGCAP program makes customers that receive services under the LOGCAP contract responsible for collecting lessons learned. However, we have repeatedly found that DOD is not systematically collecting and sharing lessons learned on the use of contractors to support the deployed forces. We have made several recommendations in the past that DOD implement a department-wide lessons learned program for contractor support to deployed forces. However, we have previously reported that DOD has not established any procedures to systematically do this. We also found a failure to share best practices and lessons learned between units as one redeploys and the other deploys to replace it. As a result, new units essentially start at ground zero, having to resolve a number of difficulties until they understand contractor roles and responsibilities.

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## DOD Does Not Adequately Train Military Commanders and Contract Oversight Personnel

DOD does not routinely incorporate information about contractor support for deployed forces in its predeployment training of military personnel, despite the long-standing recognition of the need to provide such information. Our work has shown the need for better predeployment training of military commanders since the mid-1990s. DOD policy states that personnel should receive timely and effective training to ensure they have the knowledge and tools necessary to accomplish their missions.

We have made several recommendations that DOD improve its contractor support-related training. In each instance, DOD concurred with our recommendation. However, our previous work has found limited evidence that improvements have been made in terms of how DOD trains military commanders and contract oversight personnel on the use of contractors to support forces prior to deployment. We have found that limited or no predeployment training on the use of contractor support has caused a variety of problems for military commanders in deployed locations.

- As we reported in 2006, several military commanders with limited or no predeployment training stated that they were not able to adequately plan for the use of those contractors.<sup>17</sup> According to the commanders, their predeployment training provided them with insufficient information on how much support contractors would be providing in Iraq. The commanders were therefore surprised by the substantial number of personnel they had to use to perform missions such as on-base escorts for third-country and host-country nationals, convoy security, and other force protection support to contractors.
- We have found instances in which limited or no predeployment training for military commanders on the use of contractor support to deployed forces resulted in confusion about their roles and responsibilities in managing contractors. In some cases, concerns rose over the potential for military commanders to direct contractors to perform work outside the scope of the contract, which they lack the authority to do. As Army guidance makes clear, this can result in modifications to the contract that would involve additional costs and, in some cases, be in violation of competition requirements. For example, in 2006, a contractor stated that he was instructed by a military commander to release equipment the contractor was maintaining even though this action was not within the scope of the contract. The issue ultimately had to be resolved by the

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<sup>17</sup>[GAO-07-145](#).

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contracting officer.

- In a 2005 report on the use of private security contractors in Iraq,<sup>18</sup> we found that commanders received no training or guidance on how to work with private security providers in Iraq. To highlight the lack of training and guidance, representatives from one unit stated they did not know private security providers were in their battle space until the providers called for assistance.<sup>19</sup>

We also found that contract oversight personnel such as contracting officers' representatives continue to receive limited or no predeployment training regarding their roles and responsibilities in monitoring contractor performance. Contracting officers' representatives are typically drawn from units receiving contractor-provided services and are not normally contracting specialists. However, DOD's acquisition regulations require that contracting officer's representatives be qualified through training and experience commensurate with their delegated responsibilities.

We have found that limited or no predeployment training of contract oversight personnel has caused a variety of problems in deployed locations.

- The lack of training can affect the quality of service that contractors are providing at deployed locations. In a December 2006 report, officials from a corps support group in Iraq stated that, until they were able to get a properly trained contracting officer's representative in place, they experienced numerous problems regarding the quality of food service LOGCAP provided.
- The lack of sufficient training also can lead to the inefficient use of military personnel. In the 2006 report, officials with a Stryker brigade stated that a lack of training hindered their ability to resolve staffing issues with a contractor conducting background screenings of third-country and host-country nationals. In this case, shortages of contractor-provided screeners forced the brigade to use its own intelligence personnel to

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<sup>18</sup>GAO, *Rebuilding Iraq: Actions Needed To Improve Use of Private Security Providers*, [GAO-05-737](#) (Washington, D.C.: July 28, 2005).

<sup>19</sup>In response to an incident in September 2007 in which 17 Iraqis died, the Department of State and DOD signed a memorandum of agreement in December 2007 outlining actions needed to improve oversight of private security contractors. GAO is currently reviewing U.S. agencies' use of private security contractors in Iraq.

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conduct screenings. As a result, those personnel were not available for their primary intelligence-gathering responsibilities.

DOD and its components have made some improvements in providing training to military commanders and contract oversight personnel on the use of contractors to support deployed forces prior to their deployment. In DOD's response to our 2006 report, the Director of Defense Procurement and Acquisition Policy stated that the Army is making changes to its logistics training programs that would incorporate contracting officers' representatives training into its basic and advanced training for its ordnance, transportation, and quartermaster corps.<sup>20</sup>

In addition, the Defense Acquisition University has updated its contingency contracting course to include a lesson on contractors accompanying the force. DCMA is adding personnel to assist in the training and managing of contracting officers' representatives. However, training of military commanders and contract oversight personnel remains a challenge. For example, the 2007 report of the Commission on Army Acquisition and Program Management in Expeditionary Operations found that combatant commands do not recognize the significance of contracts and contractors in expeditionary operations. The report concluded that the Army needs to educate and train commanders on the important operational role of contracting.

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## Lack of Adequate Strategic Planning Impedes U.S. Efforts to Develop Capacity in Iraqi Ministries and Improve Outcomes in Iraq's Energy Sector

U.S. efforts to increase the Iraqi government's capacity to invest in its own rebuilding are undermined by strategic planning shortfalls in two critical areas—developing the capacity of the Iraqi ministries to effectively execute their responsibilities and integrating oil and electricity development into a unified plan. In the energy sector, developing a comprehensive and integrated strategic plan is essential to meeting energy production and export goals, which in turn will help Iraq meet its future financial needs. In both cases, U.S. assistance in developing these plans will help ensure that future U.S. expenditures in rebuilding Iraq will result in long-term benefits.

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<sup>20</sup> [GAO-07-145](#).

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Department of State Has Not Developed a Comprehensive and Integrated Strategy to Develop Transparent and Accountable Iraqi Ministries

U.S. efforts to strengthen Iraqi ministries lack a strategic plan to integrate efforts, address challenges within the ministries, and set clear priorities.<sup>21</sup> Over the past 4 years, U.S. efforts to help build the capacity of the Iraqi national government have been characterized by multiple U.S. agencies leading individual efforts, without overarching direction from a lead entity that integrates their efforts, and shifting time frames and priorities in response to deteriorating security and the reorganization of the U.S. mission in Iraq. Consequently, U.S. efforts to date have not resulted in key Iraqi ministries having the capacity to effectively govern and assume increasing responsibility for operating, maintaining, and further investing in reconstruction projects.

The Iraqi ministries also face several challenges that pose a risk to their success and long-term sustainability.<sup>22</sup> First, our October 2007 report found that Iraqi ministries lack personnel with key skills, such as budgeting and procurement. Second, sectarian influence over ministry leadership and staff complicated efforts to build a professional and nonaligned civil service. Third, pervasive corruption in the Iraqi ministries impeded the effectiveness of U.S. efforts. Fourth, poor security limited U.S. advisors' access to their Iraqi counterparts, preventing ministry staff from attending planned training sessions and contributing to the exodus of skilled professionals to other countries.

While recognizing these challenges, U.S. efforts to help build the capacity of the Iraqi ministry suffered from the lack of coordination and shifting priorities. First, no single agency was in charge of leading U.S. ministry capacity development efforts. State, DOD, and USAID have led separate efforts at Iraqi ministries, investing about \$169 million in funds in 2005 and 2006 for these efforts. As of mid-2007, State and USAID were providing 169 capacity development advisors to 10 key civilian ministries; DOD was providing 215 to the Ministries of Defense and Interior. Although State took steps to improve coordination in early 2007, coordination between the agencies remains problematic. For example, although State, USAID, and DOD tried to develop a common set of metrics to measure ministry

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<sup>21</sup>To help Iraq develop the capability of its ministries, the United States has provided about \$300 million between fiscal years 2005 to 2007.

<sup>22</sup>GAO, *Stabilizing and Rebuilding Iraq: U.S. Ministry Capacity Development Efforts Need an Overall Integrated Strategy to Guide Efforts and Manage Risk*, [GAO-08-117](#) (Washington, D.C.: Oct. 1, 2007).

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capacity in 2005, the agencies have now developed separate sets of metrics.

Second, the focus of U.S. capacity development efforts had shifted from long-term institution-building projects, such as helping the Iraqi government develop its own capacity development strategy, to an immediate effort to help Iraqi ministries overcome their inability to spend their capital budgets and deliver essential services to the Iraqi people. However, as we reported in January 2008, it is unclear if Iraq is spending its \$10.1 billion capital budget since U.S. and Iraqi reports show widely disparate rates for Iraqi government spending in 2007.<sup>23</sup> Citing unofficial Ministry of Finance data, the administration's September 2007 Benchmark Assessment Report stated that the Iraqi ministries had spent 24 percent of their capital projects budgets, as of July 15, 2007. The report concluded that, compared with 2006, the government of Iraq was becoming more effective in spending its capital projects budget. However, the administration's report is not consistent with Iraq's official expenditure reports, which show that the central ministries had spent only 4.4 percent of their investment budget, as of August 2007. The lack of consistent and timely expenditure data limits transparency over Iraq's execution of \$10.1 billion 2007 budget for capital projects and reconstruction. The most recent expenditure data show a capital expenditure rate of 7 percent for the central ministries, as of November 2007.

The U.S. government is beginning to develop a comprehensive and integrated strategy for U.S. capacity development efforts in Iraq, although agencies have been implementing separate programs since 2003. GAO's previous analyses of U.S. multiagency national strategies demonstrate that such a strategy should integrate the efforts of the involved agencies with the priorities of the Iraqi government, and include a clear purpose and scope; a delineation of U.S. roles, responsibilities, and coordination with other donors, including the United Nations; desired goals and objectives; performance measures; and a description of benefits and costs. U.S. efforts to develop Iraqi ministry capacity have included some but not all of these components. For example, agencies are working to clarify roles and responsibilities. However, U.S. efforts lack clear ties to Iraqi-identified priorities at all ministries and information on how resources will be targeted to achieve the desired end-state.

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<sup>23</sup>GAO, *Iraq Reconstruction: Better Data Needed to Assess Iraq's Budget Execution*, [GAO-08-153](#) (Washington, D.C.: Jan. 15, 2008).

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In October 2007, we recommended that State, in consultation with the Iraqi government, complete a comprehensive and integrated strategy for U.S. capacity development efforts. State recognized the value of an integrated strategy but stated that it may hinder efforts to tailor capacity development efforts to the priorities of each ministry. GAO's recommendation does not preclude tailoring capacity development efforts to meet each ministry's unique needs. A strategy ensures that a U.S.-funded program has consistent overall goals, clear leadership and roles, and risks that are assessed.

Similarly, in January 2008, we recommended that to help ensure more accurate reporting of the government of Iraq's spending of its capital projects budget, the Secretary of the Treasury work with the government of Iraq to ensure the reporting of accurate and reliable expenditure data. The Department of the Treasury agreed with our recommendation to ensure accurate and reliable reporting of Iraqi expenditure data and is working to implement it.

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### Lack of Adequate Strategic Planning Impedes U.S. and Iraqi Efforts to Restore Iraq's Energy Sectors

Despite the United States' investment of about \$6 billion to rebuild Iraq's oil and electricity sectors, production in both sectors has consistently fallen below U.S. program goals of 3 million barrels per day and 6,000 megawatts of electrical peak generation capacity. As we reported in May 2007, it is difficult to identify the most pressing future funding needs, key rebuilding priorities, and existing vulnerabilities and risks within the sectors given the absence of an overarching strategic plan that comprehensively assesses the requirements of the energy sector as a whole.<sup>24</sup> While the Iraqi government has crafted a multiyear strategic plan for Iraq's electricity sector, no such plan exists for the oil sector. Given the highly interdependent nature of the oil and electricity sectors, such a plan would help identify the most pressing needs for the entire energy sector and help overcome the daunting challenges affecting future development prospects.

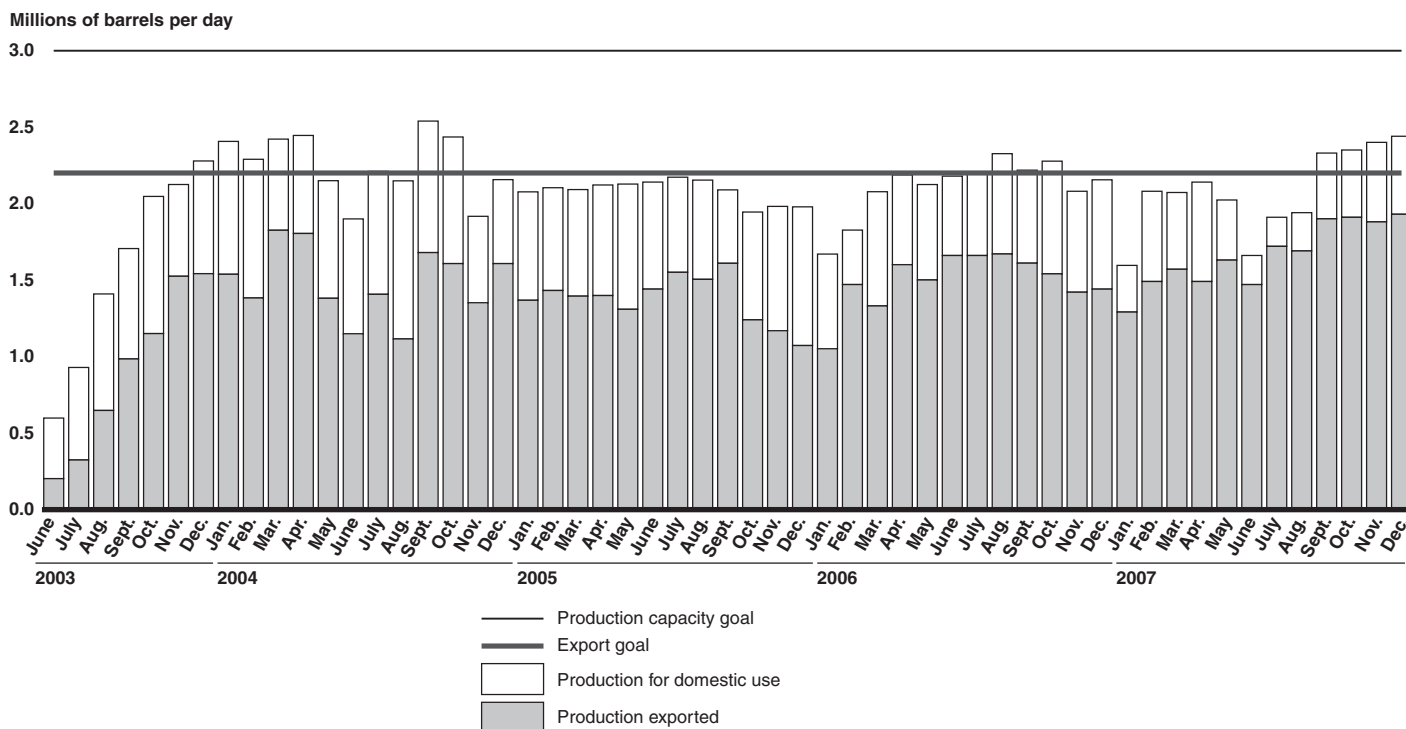
As shown in figure 3, Iraq's oil production and exports, despite recent improvements, continue to fall below U.S. goals. As of December 2007, Iraq produced about 2.5 million barrels of oil per day and exported nearly

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<sup>24</sup>GAO, *Rebuilding Iraq: Integrated Strategic Plan Needed to Help Restore Iraq's Oil and Electricity Sectors*, GAO-07-677 (Washington, D.C.: May 15, 2007).

2.0 million barrels per day, compared with the U.S. goals of 3.0 million barrels and 2.2 million barrels, respectively.<sup>25</sup>

**Figure 3: Oil Production, Exports, and U.S. Goals, June 2003 to December 2007**



Source: GAO analysis of Iraq Ministry of Oil data collected by State Department.

Note: Production capacity differs from actual production. Production capacity is the maximum amount of production a country can maintain over a period of time. Since Iraq has been trying to increase its production of crude oil, we use actual production as an indicator of Iraq's production capacity.

In addition, U.S. goals for electricity remain unmet. The problem is compounded by increasing demand that outstrips supply. As of February 2008, demand for electricity was twice as high as the supply. In addition, available power in Baghdad was 9 hours per day, compared with 17 hours per day in Basra. As we previously reported in May 2007, one of the challenges in developing the electricity sector was the U.S. government's decision to install natural gas turbine engines despite the absence of a

<sup>25</sup> According to State, revenues generated from Iraqi oil exports increased from \$31 billion in 2006 to \$41 billion in 2007 (*Iraq Weekly Status Report*, Feb. 6, 2008).

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natural gas distribution network. Of the 35 engines installed, 16 were using diesel or crude oil rather than natural gas. As a result, maintenance was three times as costly and electricity generated decreased by 50 percent.

Billions of dollars are still needed to rebuild, maintain, and secure Iraq's oil and electricity infrastructure, underscoring the need for sound strategic planning. The Ministry of Electricity's 2006-2015 Electricity Master Plan estimates that \$27 billion will be needed to reach its goal of providing reliable electricity across Iraq by 2015. According to DOD, investment in Iraq's oil sector is "woefully short" of the absolute minimum required to sustain current production, and additional foreign and private investment is needed. Moreover, U.S. officials and industry experts estimate that Iraq would need \$20 billion to \$30 billion over the next several years to reach and sustain a crude oil production capacity of 5 million barrels per day.

We recommended that the Secretary of State, in conjunction with relevant U.S. agencies and international donors, work with Iraqi ministries to develop an integrated energy strategy. State commented, however, that the Iraqi government, not the U.S. government, is responsible for taking action on GAO's recommendations. We believe that the recommendations are still valid given the billions of dollars made available for Iraq's energy sector, the limited capacity of the Iraqi ministries, and the U.S. government's influence in overseeing Iraq's rebuilding efforts.

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## Conclusion

U.S. efforts in Iraq are expansive: combating insurgents, training local security forces, shaping government institutions, reconstructing infrastructure, and enhancing public services. These efforts demonstrate a substantial commitment to most aspects of nation building. However, nation building is costly, particularly in the absence of a permissive security environment. Since 2001, Congress has appropriated about \$700 billion for military and diplomatic activities in support of the global war on terrorism; the majority of this amount has supported U.S. actions in Iraq. This large expenditure of resources and the enormous task at hand heightens the levels of risk and offers the potential for fraud, waste, abuse, and corruption.

But, as GAO's audits point out, these risks are further heightened when U.S. programs lack sound strategic planning, well-defined requirements, adequate oversight and accountability, and sufficient training for personnel. Future investments in Iraq will require decision makers not only to assess the outcomes achieved thus far but also the outcomes that could have been achieved with more efficient and effective use of

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appropriated dollars. It will also require decision makers to consider difficult trade-offs as the nation faces increasing fiscal challenges on the home front. Nonetheless, continuing oversight by Congress and the accountability organizations is needed to ensure that opportunities for waste, fraud, abuse, and corruption are minimized.

In prior reports, GAO recommended that, to improve accountability and minimize opportunities for fraud, waste, and abuse of U.S. funds, (1) DOD adopt sound business processes in its acquisition strategies, such as definitizing contracts in a timely fashion and strengthening accountability procedures; (2) DOD leadership ensure implementation of and compliance with existing guidance to improve its management and oversight of contractors supporting deployed forces; and (3) U.S. agencies work with Iraq to develop strategic plans for key sectors.

DOD and State have taken action to implement some, but not all, of our recommendations. Given the billions of dollars that the United States has spent in Iraq to help rebuild its infrastructure, improve security, support our forces, and improve the capacity of the ministries, I believe our recommendations, if fully implemented, would improve accountability and outcomes. Whether they are fully implemented, however, will depend on the leadership at each agency to set the appropriate tone, ensure that existing guidance is effectively implemented, take actions to prevent mistakes from being repeated, and seize opportunities to ensure that the efforts to help rebuild and stabilize Iraq achieve their intended results.

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Mr. Chairman, this concludes my statement. I would be pleased to answer questions that you or other Members have at this time.

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## GAO Contact and Staff Acknowledgments

For questions regarding this testimony please call Joseph A. Christoff, Director, International Affairs and Trade, on (202) 512-8979. Other key contributors to this statement include David Bruno, Carole Coffey, Lynn Cothorn, Howard Cott, Timothy DiNapoli, Matthew E. Helm, Bruce Kutnick, Tetsuo Miyabara, Judith McCloskey, Kathleen Monahan, and James Reynolds.

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