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Gordon S. Heddell
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on

"The effectiveness of U.S. efforts to combat corruption,
waste, fraud, and abuse in Iraq"

Mr. Chairman, Senator Cochran, and distinguished members of this committee, thank you for the opportunity to appear before you this morning and address corruption, fraud, waste, and abuse in Iraq. This testimony will cover the accomplishments of the Department of Defense Office of the Inspector General (DoD IG) and the other DoD organizations that have the mission to combat illegal and improper expenditures and to improve accountability of DoD resources that support operations in Iraq. Since February 2003, the U.S. has obligated an estimated \$435 billion in support of Operation Iraqi Freedom¹. The U.S. military presence in Iraq is aimed at providing a secure environment which will enable the Iraqi people to establish a stable government that upholds the rule of law and good governance. Corruption undermines the efforts of both the Iraqi people to establish effective institutions of government and undermines the United States ability to support this effort.

As this committee knows, the DoD IG has the primary responsibility within the Department of Defense for providing oversight of defense programs and funds appropriated to the Department at home and around the world, to include Southwest Asia (SWA). In this role, the DoD IG office oversees, integrates, and attempts to ensure there are no gaps in the stewardship of DoD resources. We spearhead the DoD oversight community in auditing, investigating, and inspecting accountability processes and internal controls, in areas such as acquisition, contracting, logistics, and financial management. Collectively, the community has dedicated over 470 auditors and over 190 investigators that have reviewed a wide range of issues pertaining to SWA. We also work in close partnership with other oversight organizations, such as the Government Accountability Office (GAO), the Special Inspector General for Iraq Reconstruction (SIGIR), the Department of State, and the U.S. Agency for International Development (USAID). In addition, we provided the core staff for the Coalition Provisional Authority IG, and later assisted the stand-up of the SIGIR. Since 2003 the DoD IG has provided 141 full or part-time personnel in support of both organizations.

Adequate management controls and oversight to verify that proper safeguards are in place and working as intended are essential in the fight controls are severely lacking or proper oversight is minimal create

¹ Source: Defense Finance and Accounting Service, *Cost of the Global War on Terror Monthly Report as of May 2008*.

opportunities for corruption, fraud, waste, and abuse. Additionally, individuals must be held accountable for violating laws and regulations and for mismanagement of DoD resources.

OIG Strategy

To accomplish its oversight mission, the DoD IG has adopted a strategy that is based on maintaining the optimal presence in theater, but which also recognizes that much of our work can be done away from the war zones. This strategy minimizes disruption to the warfighter ensuring they can meet their primary mission to fight and win the war, facilitates timely reviews and reporting of results in theater, as well as ensures the safety of personnel. An important part of our oversight effort is to improve inter-service and interagency coordination and collaboration to minimize duplication of effort and ensure that we have only the staff needed in theater to accomplish the mission.

The DoD IG has adopted an expeditionary workforce model to support efforts throughout all of SWA. The DoD IG has core staff forward deployed at all times. The core contingent is composed of individuals serving between 6 and 12 month deployments. Expeditionary team members deploy on temporary duty orders for as long as needed to complete reviews. The actual number of auditors, investigators, and inspectors in SWA fluctuates on a daily basis depending on the requirements. In June 2008, the DoD IG had 46 personnel in theater supporting OIF/OEF.

To provide a more effective and efficient oversight role, the DoD IG has established field offices in strategic SWA locations and continues key placement of DoD IG personnel in SWA. Our SWA field offices have been extremely active in supporting the personnel deployed into theater as well as their own assignments being performed.

In Iraq, our full time staff are working a joint audit with the Multi-National Force-Iraq Inspector General on Equipment Status for deployed forces. The auditors in Iraq also provide support to DoD IG teams based in the continental United States performing oversight related to Iraq such as the Munitions Assessment Team – II, management of contractor issues within SWA, and the validation of contracted construction projects.

In Afghanistan, our full time staff have been working two audits as well as providing support to our other teams coming into the country to perform other oversight work in areas such as Afghanistan Security Forces Funds, Controls over Army Cash and Other Monetary Assets, Contractor Common Access Cards in SWA, and Medical Equipment.

The following is a discussion of our SWA field offices.

Iraq Field Offices

In coordination with the Commanding General, Multi-National Force-Iraq and the U.S. Central Command, the DoD IG established field offices in Iraq at Camp Victory and the International Zone. The Iraq offices are staffed with up to five auditors at a time. In addition, the DoD IG has assigned auditors in Iraq to provide the Defense Criminal Investigative Service (DCIS) support for ongoing criminal investigations pertaining to contract fraud. The DCIS has established a permanent presence in Iraq. Two special agents are currently assigned to Iraq. An additional special agent has been temporarily deployed to support a special cell investigating issues relating to weapons accountability.

Afghanistan Field Office

In coordination with the U.S. Central Command, the DoD IG established a field office in Afghanistan at Bagram Air Base. The DoD IG Afghanistan Field Office is staffed by three full time auditors, who, along with expeditionary teams conduct projects in Afghanistan. One Special Agent was deployed to Afghanistan in April 2008. Two additional special agents will be deployed to Afghanistan in August of 2008. These agents will work alongside partner agencies, such as the U.S. Army Criminal Investigation Command and the Federal Bureau of Investigation to investigate fraud, waste, and abuse impacting theater operations.

Qatar Field Office

The DoD IG established a field office in Qatar collocated with the U.S. Central Command Air Forces on Al Udeid Air Base, Qatar. The Qatar office provides administrative operations support to the

DoD IG SWA field offices. The Qatar office can also conduct audits as required in Iraq, Afghanistan, or throughout the U.S. Central Command area of responsibility. Additionally, the Qatar office staff facilitates, and may augment, other teams that require temporary travel in theater to conduct specific reviews.

Kuwait Field Office

The DoD IG field office in Kuwait is staffed by two DCIS special agents who are focused on contract fraud and other potential criminal activities in Kuwait that impact SWA efforts.

New OIG Initiatives

GWOT, especially operations in SWA, continues to be a top priority of the DoD IG and its five operational components. Our Auditing, Investigations, Intelligence, Policy and Oversight, and Special Plans and Operations components have 238 ongoing or completed projects; 84 in Auditing, 124 in Investigations, 13 in Intelligence, 13 in Policy and Oversight, and 4 in Special Plans and Operations,. Those 238 projects provide oversight of various functions and activities such as contracts and contract fraud, readiness, logistics, funds management, accountability, theft, corruption, and intelligence efforts. DoD IG has completed or is conducting audit oversight efforts that cover approximately \$158.9 billion related to DoD efforts in SWA.

Establishment of the Special Plans and Operations Component

Our support to the Department of Defense involves a complex operational environment that includes changing requirements and the need for rapid and focused responses to challenging issues. As a result, we established a new Component, the Office for Special Plans and Operations (SPO) to augment the GWOT work being currently conducted by the DoD IG components. The new component is headed by the Principal Deputy Inspector General, who also serves as the Special Deputy Inspector General for SPO. The component focuses on the Global War on Terror and other high-value, high-visibility assessment missions as assigned. This office performs quick-assessment missions on critical, time-sensitive national security issues identified by the Secretary of Defense, Deputy Secretary of

Defense, Chairman of the Joint Chiefs of Staff, and other members of the senior DoD leadership, as well as members of Congress. The goal of SPO is to focus on issues of critical importance to management and in a relatively short time provides answers to questions regarding a specific issue such as “What is the status?” and “What is going on right now?”

SPO was established by realigning current OIG resources and is composed of twenty interdisciplinary staff, evenly divided between civilian and military personnel. SPO has completed one project and currently has two others ongoing. The Inspector General and the Principal Deputy Inspector General have both been actively involved in the work being performed by SPO. The completed and ongoing work within the SPO directorate is discussed later in the testimony.

Section 842

The Fiscal Year 2008 National Defense Authorization Act requires the DoD IG and the Special Inspectors General for Iraq Reconstruction and Afghanistan Reconstruction to develop comprehensive plans for a series of audits respective to their outlined areas of oversight responsibilities in Iraq and Afghanistan (Public Law 110-181, Section 842, “Investigation of Waste, Fraud, and Abuse in Wartime Contracts and Contracting Processes in Iraq and Afghanistan”).

In response to this statutory requirement, on June 18, 2008, the DoD IG, on behalf of the member Federal and DoD oversight agencies included in the plan, released the “Comprehensive Audit Plan for Southwest Asia.” The plan was facilitated by the DoD IG Joint Planning Group-SWA and includes the individual audit plans of my office and the Inspectors General the Department of State and USAID and SIGIR. It also includes the planned audit work of the Army Audit Agency, Air Force Audit Agency, and Defense Contract Audit Agency because their major contributions to improve the efficiency and effectiveness of support to the military.

The audits in the plan will help to identify abuses and defects in contracts, systems and processes that can be promptly remedied. Developing the plan has enabled us to expand and refocus our audit

efforts to support the war fighters. The plan will be updated on a periodic basis. Updates will include the Special Inspector General for Afghanistan Reconstruction plan.

The group identified areas or gaps in need of audit coverage. Examples of areas that require audit work are:

- maintenance service contracts,
- security service contracts,
- air transportation contracts,
- DoD financial systems used in Iraq and Afghanistan, and
- staffing and training of contract oversight personnel.

With the development of the Section 842 plan, our number of planned GWOT related audits increased 96 percent (from 27 planned projects in FY 2008 to 53 planned projects identified in response to Section 842). However, since issuing the comprehensive Section 842 plan, other external factors have caused us to defer nine Section 842 projects. External factors include performing statutory requirements (such as the continuation of reviews on Interagency Purchases) and Congressional requested projects (such as DoD and DoD Contractor Efforts to Prevent Sexual Assault/Harassment Involving Contractor Employees in OEF/OIF), and performing the necessary audit work to opine on DoD financial statements (such as the Defense Information Systems Agency General Fund and Working Capital Fund Balance Sheets as of September 30, 2007). We deferred five planned Section 842 projects to assign 50 DoD IG auditors to perform the audit field work necessary to opine on the Defense Information Systems Agency financial statement.

Lessons Learned and Initiatives

On July 18, 2008, the DoD IG issued a summary report entitled, “Challenges Impacting Operations Iraqi Freedom and Enduring Freedom Reported by Major Oversight Organizations Beginning FY 2003 through FY 2007.” The summary effort compiles 302 reports and testimonies given by the Defense Oversight Community and GAO. Our analysis identified that over the course of conducting Operations Enduring and Iraqi Freedom, DoD experienced, at times,

significant and recurring challenges in contract management; logistics; and financial management. These areas have been reported as challenges within DoD since the early 1990s so it is not surprising that DoD is experiencing these challenges in Iraq and Afghanistan.

We also have captured many of the initiatives that DoD has underway that we believe address the challenges DoD is experiencing in its Iraq and Afghanistan operations. These DoD initiatives include issuing updates to the FAR and DoD policies regarding the oversight of deployed contractors, increase in oversight of contractors performing logistical support work, deploying DFAS personnel to Iraq, Afghanistan, and Kuwait to support the deployed personnel in financial operations, and assessing which business operations can be removed from the dangerous areas in theater and be performed outside of the dangerous areas.

Ongoing Oversight Work

Investigations

The DCIS, the criminal investigative arm of the DoD Inspector General, has been engaged in investigating waste, fraud, abuse, and corruption pertaining to the Iraqi theater since the start of the war, and will continue to prioritize investigations involving the SWA theater. While the Inspector General Act of 1978 provides DCIS with broad criminal investigative jurisdiction regarding DoD programs and operations, effectively countering fraud in SWA requires the cooperative efforts of other DoD investigative agencies, Federal law enforcement partners, and the audit community.

DCIS has primary jurisdiction over matters involving most contract and procurement actions awarded by Defense Agencies, Office of the Secretary of Defense components, and field activities. Additionally, DCIS has jurisdiction over, “any allegations [involving DoD] that the IG DoD considers appropriate for investigation by DCIS.” This broad authority affords DCIS the ability to easily partner with other agencies in an effort to protect the integrity of the entire DoD procurement and acquisition process—from countering fraud impacting initial research and development, to investigating fraud during contract execution, to ensuring the appropriate

disposal of products no longer needed by DoD components. The Service-specific Military Criminal Investigative Organizations - the Army Criminal Investigation Command (USACIDC or Army CID), the Naval Criminal Investigative Service (NCIS), and the Air Force Office of Special Investigations (AFOSI) typically focus upon allegations involving the award of contract and procurement actions of their respective military department. Non-DoD law enforcement partners in Iraq include the FBI, which has overarching authority to investigate violations of various Federal statutes relating to fraud and corruption; U.S. Department of State, Office of the Inspector General; the SIGIR; and the USAID Office of the Inspector General.

DCIS protects America's warfighters by vigorously investigating alleged and suspected procurement fraud, corruption, and other breaches of public trust that impact critical DoD programs. Our investigations focus on matters such as bribery, theft, procurement fraud, illegal receipt of gratuities, bid-rigging, defective and substituted products, and conflicts of interest. DCIS' investigative activities in the region have identified corrupt business practices, loss of U.S. funds through contract fraud, and theft of critical military equipment. For example, DCIS is a participating agency in a task force operation, initiated in January 2004, which investigates matters pertaining to the LOGCAP III contract awarded to Kellogg Brown and Root (KBR) in December 2001. This is a 10-year contract, administered by the Army Containment Command in Rock Island Arsenal, Illinois, that incorporates various task orders for support of Operation Iraqi Freedom. The task force is comprised of DCIS, FBI, Army CID, Internal Revenue Service, Defense Contract Audit Agency, U.S. Attorney's Office for the Central District of Illinois, and the Department of Justice Criminal and Civil Divisions. The task force is organized into five major categories: kickbacks; food service; reutilization of Iraq oil or RIO; qui tams; and other allegations. The task force has processed approximately 50 separate matters for investigation and initiated approximately 30 investigations resulting in 9 criminal indictments, 6 criminal informations, and 10 convictions. The convictions have resulted in approximately 6 years confinement and 14 years probation.

DCIS works closely with other components of the IG DoD and our federal and military partners to oversee on-going operations in SWA relative to fraud and corruption. DCIS plays a significant and pivotal role with partner agencies in the National Procurement Fraud Task Force (NPFTF)

and the International Contract Corruption Task Force (ICCTF). Under the auspices of the Department of Justice, the NPFTF was created in October 2006 to promote the prevention, early detection, and prosecution of procurement fraud nationwide and abroad. This multi-disciplinary and multi-agency coalition comprised of agencies from the Federal Inspectors General, U.S. Attorneys Offices, and Federal law enforcement agencies such as the FBI, has been extremely effective in fostering and better coordinating procurement fraud investigations.

The ICCTF, an offshoot of the NPFTF, was formed in November 2006, to specifically target fraud and corruption involving SWA. The primary goal of the ICCTF is to combine the resources of multiple investigative agencies to effectively and efficiently investigate and prosecute cases of contract fraud and public corruption related to U.S. Government spending in Iraq, Kuwait, and Afghanistan. The participating agencies in the ICCTF are DCIS; Army CID's Major Procurement Fraud Unit; the FBI; the Department of State Office of the Inspector General, USAID Office of the Inspector General, and SIGIR. Formation of the ICCTF has resulted in unprecedented cooperation in detecting, investigating, and prosecuting corruption and contract fraud. The ICCTF established a Joint Operations Center (JOC) in furtherance of achieving maximum interagency cooperation.

The JOC, which is located in Washington, D.C., serves as the nerve center for the collection and sharing of intelligence regarding corruption and fraud relating to funding for the GWOT. The JOC coordinates intelligence-gathering, de-conflicts case work and deployments, disseminates intelligence, and provides analytical and logistical support, such as laboratory services, polygraphs, and specialized equipment. The JOC is the vital link into the intelligence community and provides a repository from which to disseminate intelligence indicators of criminal activity. Case information and criminal intelligence are shared without reservation, and statistical accomplishments are reported jointly. The agency heads meet regularly to collectively provide policy, direction, and oversight.

In addition to investigating allegations of fraud, waste, and abuse, DCIS launched a proactive project which will analyze over \$14 billion in payment vouchers related to U.S. Army purchases in Iraq. The vouchers are currently stored at the Defense Finance & Accounting Service (DFAS), Rome, NY. The project is being coordinated with DFAS, the DoD IG's Audit component, the Defense Contract Audit Agency, the U.S. Army Audit

Agency, and the FBI. The project will attempt to identify fraudulent activity related to the war effort in Iraq and Afghanistan through data mining techniques. To date, more than 90,000 payment vouchers, amounting to \$1.5 billion, have been scanned into a searchable database, representing 11 percent of the total 800,000 records that will be reviewed for fiscal completeness or propriety. The recent hiring of 60 temporary DFAS employees to scan documents will eliminate the accumulated historical records at DFAS-Rome, NY, while current documents are being scanned in theater. While the initiative is in its infancy, several questionable transactions have been identified and referred for preliminary review or further investigation. In addition to these analytical efforts to develop cases, the investigative team assigned to the project is also supporting ongoing investigations involving fraud and corruption in Iraq.

From May 2003 through October 2004, DCIS deployed teams of two to three agents to Baghdad. From October 2004 to present, the DCIS European Post of Duty and multiple CONUS DCIS offices have conducted a wide variety of investigations related to Iraq and the SWA theater. In September 2006, DCIS re-established a permanent presence in Iraq by deploying four special agents to the theater – two special agents are currently assigned to Iraq and two special agents are assigned to Kuwait. A special agent has been deployed to Iraq to lead a special cell investigating issues relating to weapons accountability with a second agent identified to report in September. One special agent is currently deployed to Afghanistan and will be replaced by two special agents in August/September 2008. These in-theater agents are the forward-deployed elements of the 85 DCIS special agents in CONUS and OCONUS participating in SWA investigations.

As of June 30, 2008, DCIS has 124 on-going investigations related to SWA; 12 are being investigated by agents in theater; and 112 are being investigated by DCIS offices in CONUS and Germany. DCIS attempts to transfer investigations developed in SWA to an appropriate CONUS venue as soon as practical to maximize the best use of in-theater investigative resources and to facilitate prosecution efforts.

As previously mentioned, investigations conducted in SWA are cooperative efforts. Of the 85 DCIS special agents working on SWA investigations, 78 special agents (CONUS and OCONUS) are jointly working the majority (97 percent) of these investigations in conjunction with

one or more law enforcement partner agencies. DCIS' primary partner in countering DoD-related fraud in SWA is the Army CID's Major Procurement Fraud Unit (MPFU). The MPFU conducts investigations into allegations of fraud associated with the Army's major acquisition programs. The hiring of an additional 43 special agents and 5 staff has provided DCIS the opportunity to plan for expanded operations in theater with our U.S. Army partners.

DCIS is currently investigating 286 subjects, both U.S. and foreign personnel. Thirty-two DCIS investigations have been adjudicated, resulting in 22 federal criminal indictments, 32 federal criminal informations, and 32 felony convictions. The adjudications have resulted in a total of 54 years confinement and 44 years probation. Ten individuals and four companies have been debarred from contracting with the U.S. Government, and twenty-eight persons have been suspended from contracting with the Government. The U.S. Government has accepted three settlement agreements, received \$13.5 million in restitution, levied \$374,125 in fines and penalties, received \$1.76 million in forfeitures, and seized another \$2.65 million in assets. Much more is anticipated as investigation ready for prosecution mount.

Investigations in a war zone are affected by countless challenges, such as the complexity of the fraud or corruption scheme, the prevalence of conspiracies, the multi-national and multi-cultural aspect of investigations involving foreign contractors, working with foreign governments and foreign security forces, operational tempo requirements and insurgent activity, translation and evaluation of foreign evidence, and precautionary transportation restrictions imposed by the U.S. Forces. Despite these challenges, DCIS aggressively pursues its important mission to investigate DoD-related criminal activity concerning fraud and public corruption and to devote substantial resources to projects and investigations designed to proactively identify potential fraud, waste, and abuse relating to SWA operations.

Audit

Our expeditionary model combined with our regional strategy in approaching our work in Iraq raises issues that often require solutions at the systemic level, as already illustrated by the munitions assessment team findings and recommendations. Further, we continue to evolve our comprehensive plan for audits of contracts, subcontracts, and task and

delivery orders in support of coalition forces in Iraq and Afghanistan. Given that the Army Audit Agency is focusing on the Commander's Emergency Response Program and contracts for basic life support activities and that SIGIR focus is on reconstruction contracts, we have begun and will to continue to conduct a series of audits and report on financial and contracting systems in Iraq that support Coalition Forces and Iraq operations including contracts for maintenance service, transportation, and fuel.

Additionally, we continue to focus on the training and equipping of the Iraqi military and police mission, acquisitions of key operational support assets such as body armor, fielding of mine resistant ambush protected vehicles, medical equipment, use of GWOT supplemental funds, controls over cash, monitoring of sensitive equipment, and out-of-country payments to name a few.

In November 2007, we realigned internal core mission assets to support SWA audit operations by establishing an expeditionary audit division comprised of about 30 people. This audit division is complemented by other work conducted by U.S. based teams. In total, we have 218 personnel conducting audits related to Iraq. In June 2008, we had 32 audit personnel deployed in support of OIF/OEF.

We have 38 on-going Iraq-related audit projects reviewing mission-critical support functions that directly impact the warfighter, such as: contract surveillance, contract payments, resetting of returning U.S. forces equipment, and acquisition of armored vehicles. Our audits also include oversight of cash and other monetary assets within Iraq and Afghanistan as well as the whether the funds processed through the foreign military trust fund are managed properly. A complete list of completed reports, on-going projects, and planned projects is attached to this statement.

The following are examples of significant completed and ongoing planned audits supporting DoD SWA operations.

Completed

Internal Controls Over Payments Made in Iraq, Kuwait and Egypt (D-2008-098). Contract and vendor payments 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. On May 20, 2008 we testified on this project before the Committee on Oversight and Government Reform United States House of Representatives.

Management of the Iraq Security Forces Fund in Southwest Asia - Phase III (D-2008-026). The Multi-National Security Transition Command-Iraq was not able to demonstrate proper accountability for and management of the Iraq Security Forces Fund and could not always demonstrate that the delivery of services, equipment, and construction was properly made to the Iraq Security Forces. As a result, the Multi-National Security Transition Command-Iraq was unable to provide reasonable assurance that 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. On May 20, 2008 we testified on this project before the Committee on Oversight and Government Reform United States House of Representatives.

Potable and Nonpotable Water in Iraq (D-2008-060). We identified deficiencies in water operations and government oversight at three contractor-operated facilities and two military-operated facilities. Contractors provided bottled drinking water and bulk water to U.S. forces. Military water purification units only provided bulk water. From March 2004 to February 2006, the quality of water provided by contractors, through treatment or distribution at three of the sites we visited, was not maintained in accordance with field water sanitary standards as specified in Department of Army guidance. Although required, KBR did not maintain the quality of the water it distributed to point-of-use storage containers at Camp Ar Ramadi, Camp Q-West, and Camp Victory.

Additionally, at Camp Q-West, KBR improperly provided chlorinated wastewater from its Reverse Osmosis Water Purification Unit to personal hygiene facilities. Specifically, operators of the military water production sites we visited were not performing all required quality control tests nor did they maintain appropriate production, storage, and distribution records.

Because of corrective actions taken, contractor processes for providing potable and nonpotable water were adequate as of

November 2006 when internal quality control procedures and DoD oversight were in place to provide quality assurance for the processes of water production, production site storage, distribution, and storage at point-of-use facilities. However, military water purification units at LSA Anaconda and Camp Ali did not perform required quality control tests and did not maintain appropriate records of water produced, stored, and issued during the period reviewed. Therefore, water suppliers exposed U.S. forces to unmonitored and potentially unsafe water. Although there was no way to determine whether water provided by the contractors and military water purification units caused disease, contractors and military units responsible for water operations must always ensure that water provided to the forces meets all established standards and is safe to use.

Ongoing

Controls Over the Contractor Common Access Card Life Cycle in Southwest Asia. We have two on-going audits related to Common Access Cards (CAC) issued to contractors. The first CAC audit is being performed in the United States to determine whether controls over CACs provided to contractors are in place and work as intended. Specifically, we will determine whether DoD officials issue CACs to contractors, verify the continued need for contractors to possess CACs, and whether cards are being revoked or recovered from contractors in accordance with DoD policies and procedures. The team has visited 67 CAC-related sites in the United States.

The second audit on the Contractor CAC lifecycle was conducted in Iraq, Afghanistan, Kuwait and Qatar. The objective is to determine if CAC issued to contractors were done in accordance with policies and instructions as set forth by DoD and Federal Regulations. This audit also includes a review of the Contractor Verification System, the system set forth as the DoD way of implementing Homeland Security Presidential Directive -12. Prior to returning to the United States, the staff provided memorandums to the commanders in the field addressing issues we found present in SWA.

The importance of this series of reviews is to also ensure we are not providing contractors access to benefits that are not called for in specific contracts. For example, over compensating contractors by

providing them daily expenses for basic life support items and simultaneously issuing them an improper CAC providing the same life support items for free.

War Reserve Materiel. From April 28, 2008 through May 30, 2008, we deployed an 8 person team (6 auditors and 2 investigators) to Oman, Qatar, Bahrain, and Kuwait to examine whether Air Force contracting officials managed and administered the DynCorp International War Reserve Materiel contract (valued at over \$600 million) in accordance with Federal and DoD contracting policies. The War Reserve Materiel contract ensures U. S. Air Force Central Command readiness to support deployed forces by pre-positioning, maintaining, reconstituting, deploying and supporting war reserve materiel required to support U.S. Central Command operational plans and contingencies. The audit was initiated based on issues identified during a DCIS investigation. The team has visited U. S. Air Force Central Command headquarters, the Air Force contract oversight officials in Oman, the DynCorp program office in Oman, and two war reserve materiel storage facilities in Oman. Additionally, they visited war reserve materiel storage facilities in Qatar, Bahrain, and Kuwait. The team is continuing to focus on the administration and oversight of the contract by the Air Force.

Medical Equipment Used to Support Operations in Southwest Asia. From April 23, 2008 through May 24, 2008, we deployed a four person team to SWA to evaluate the internal controls over medical equipment used to support operations in SWA. Specifically, we are determining whether controls are in place for acquiring mission-essential medical equipment and whether the recording and reporting of medical equipment are accurate and complete. The scope of this audit not only includes the medical equipment necessary for our military and coalition forces, but also the medical equipment necessary for detainees. During deployment, our auditors made site visits to medical facilities in Baghdad, Balad, Mosul, Al Taqaddum Iraq; Bagram, Afghanistan; as well as to a detainee medical facility in Baghdad, Iraq. Additionally, we visited medical logistics sites in Baghdad and Balad, Iraq; Bagram, Afghanistan, and Qatar. The team continues to work issues related to the audit objectives, and inconsistencies noted during site visits in the procurement, inventory, and maintenance processes. Additionally, we will focus on the

incompatibility between the information systems used by the military departments to support the management of medical equipment and those processes.

Funds Appropriated for Afghanistan and Iraq Processed Through the Foreign Military Sales Trust Fund Funds appropriated for Afghanistan and Iraq processed through the Foreign Military Sales Trust Fund. The overall objective is to determine whether funds appropriated for the security, reconstruction, and assistance of Afghanistan and Iraq and processed through the Foreign Military Sales Trust Fund are being properly managed. Specifically, we will determine whether the transfer of appropriated funds from the Army's accounts into the Foreign Military Sales Trust Fund was properly authorized, accounted for, and used for the intended purpose. In addition, we will verify whether the appropriated funds are properly reported in DoD financial reports.

Assignment and Training of Contracting Officer's Representatives at Joint Contracting Command-Iraq/Afghanistan. This audit is being accomplished by our auditors forward-deployed in Iraq. The DoD IG is determining whether personnel assigned to the Joint Contracting Command-Iraq/Afghanistan as Contracting Officer's Representatives have the training and expertise to perform their duties. There are approximately 825 Contracting Officer's Representatives performing contractual efforts within Iraq. The audit team will review the process for assigning Contracting Officer's Representatives to the Joint Contracting Command in Iraq. We will review their records to determine what training they completed and whether they had prior experience as Contracting Officer's Representatives. The team will conduct audit fieldwork within the Victory Base Complex and the International Zone in Iraq.

Afghanistan Security Forces Fund Phase III Air Force Real Property Accountability. The initial DoD IG Expeditionary Team was in Afghanistan from February 23 to June 28, 2008. The team is conducting the third phase of a multiphase audit in response to Public Law 109-234, which directed the Inspector General to provide oversight of the Afghanistan Security Forces Fund (ASFF). The objective is to determine whether organizations in SWA that the

U.S. Central Command assigned with the responsibility for managing the ASFF properly accounted for the goods and services purchased for the Afghanistan Security Forces (ASF) using the ASFF and whether the goods and services were properly delivered to the ASF. Based out of Camp Eggers and accompanied by staff from the Command, the team visited forward operating bases in Bagram, Gardez, Herat, Kandahar, Mazir-e-Sharif and Shindan, Afghanistan. We reviewed construction projects from three of the five Public Laws (109-13, 109-234, and 109-289) that appropriated about \$4.7 billion to the ASF Fund. We reviewed 44 contract sites totaling \$524.7 million. In addition, we reviewed the accountability of vehicles, communication equipment including computers and radios, and weapons. The senior U.S. military commanders were briefed on the preliminary findings and recommendations and we intend to issue the draft reports in the Fall.

Class III Fuel Procurement and Distribution in Southwest Asia.

The second DoD IG Expeditionary Team is scheduled to be in SWA from August 2008 to December 2008. The DoD IG is determining whether fuel used for ground operations in SWA to support Operations Iraqi Freedom and Enduring Freedom is procured and distributed efficiently and effectively. The audit team is reviewing 29 Defense Energy Supply Center contracts used to procure fuel in support of operations in SWA. The team will determine whether fuel is procured at fair and reasonable prices, whether fuel is distributed economically and efficiently to operational commands, and whether fuel supply points maintain accurate inventories. The team will conduct audit fieldwork in Kuwait, Afghanistan, Iraq and select forward operating locations.

Policy and Oversight

Beginning in November 2003, the DoD IG assigned Policy and Oversight inspectors and evaluators as advisors to Iraq—first to augment the Coalition Provisional Authority, then to support the SIGIR operation, then to facilitate the Embassy’s Iraqi Reconstruction Management Office mission, and since July 2005, to provide resources for the Multi-National Security Transition Command-Iraq (MNSTC-I) transition teams. The advisors detailed to MNSTC-I assisted the Iraqi Ministers of Defence and Interior to establish, coordinate and develop a viable, self-sustaining Inspector General

system—which was designed to help combat corruption, fraud, waste, and mismanagement. During this long-term effort, the advisors facilitated training for the respective IG staffs and mentored their leadership in the development of operating policies and procedures. In addition, the Inspections and Evaluations Directorate established a “Reach-Back” office to support the in-country advisors.

The following are examples of significant completed and ongoing planned audits supporting DoD SWA operations.

Completed

In addition to the deployment of advisors to Iraq, the Policy and Oversight component completed eight projects in support of the U.S. mission in SWA. Most of these projects were interagency engagements or included augmentees and subject matter experts external to the DoD IG organization. Overall, our partnerships with other departments and agencies served to promote U.S. security interests through improved coordination, planning, and implementation for reconstruction and stabilization assistance for OIF and OEF. The following project titles provide an overview of the scope and breadth of these completed assessments:

- Interagency DoD-DOS IG Assessment of Iraqi Police Training
- Combined Forces Command-Afghanistan Management Decision Model [for the Afghanistan National Army]
- Evaluation of Support to Mobilized Army National Guard and U.S. Army Reserve Units
- Interagency DoD/DoS Assessment of Afghan National Police
- Interagency [DoD, DOS, DOJ] Assessment of the Counternarcotics Program in Afghanistan
- Review of the Investigative Documentation Associated with the Death of Army Corporal Stephen W. Castner in Iraq
- Observations and Critique of the DoD Task Force on Mental Health
- DoD/VA Care Transition Process for Service Members Injured in OIF/OEF

- Review of an Army investigation into a shooting by U.S. Forces in Baghdad that injured a Reuter's cameraman and killed a Reuter's driver

Overall, these reports included over 110 recommendations to improve DoD strategies and program processes.

Ongoing Projects

Policy and Oversight has four ongoing projects related to DoD's activities in SWA and the global war on terrorism.

Assessment of the Section 1206 of the National Defense Authorization Act, Global Training and Equipment Program. Requested by the Joint Staff and Office of the Under Secretary of Defense for Policy, the purposes of this project are to examine management's compliance with the legislation and identify recommendations for program improvements. Section 1206 authorized DoD to obligate up to \$200 million in FY 2006 and \$300 million annually in FYs 2007 and 2008 to help partner nations combat terrorism or to cooperate with the U.S. military in stabilization or other military operations. As of FY 2007, 44 countries are participating in the Section 1206 program.

Examination of Allegations Involving Outreach Efforts by the DoD Public Affairs Office. The allegations were reported in the New York Times on April 20, 2008, and the review was requested by members of Congress. We are examining the allegations that the DoD Public Affairs Office gave special treatment to retired military personnel who provided media commentary on Global War on Terror policies and strategies. We are also investigating the allegation that these personnel were employed by Defense contractors and their special access to Pentagon leaders gave them a competitive advantage.

Review of Contracting Actions Relating to an Electrocution Fatality in Iraq. This review was requested by the Deputy Under Secretary of Defense for Acquisition and Technology, in response to a memo from Congressman Jason Altmire. The fatality occurred on January 2, 2008, when the soldier was taking a shower. Our review will examine the relevant facility management, contracting, and

maintenance actions prior and subsequent to the electrocution. We have also reviewed investigations conducted by service investigative agencies into electrocution deaths of other service members.

Evaluation DoD Management of Sexual Assault Complaints in Combat Areas. The objectives are to determine whether DoD policies and procedures are adequate to respond to sexual assault complaints involving U.S. contractors and to ensure complaints are properly processed and referred for investigation.

Special Plans and Operations

The SPO Component has completed one assessment and is currently working on two additional reviews. The two ongoing reviews will result in three separate reports. The following are descriptions of the completed and ongoing planned SPO work supporting DoD SWA operations.

Completed Project

Assessment Team on Munitions Accountability I (MAT I). From September 4, 2007 through October 22, 2007, the twenty-two person, interagency Assessment Team on Munitions Accountability deployed to Afghanistan, Kuwait, Qatar and Iraq to review the accountability and control of munitions being supplied by the U.S. to the Iraq Security Forces. While in Iraq, the team also reviewed the development of the Iraqi logistics sustainment base and the U.S.-managed Foreign Military Sales program.

This assessment was triggered, in part, by a Hotline complaint that a senior U.S. Army officer was receiving illegal gratuities and allegations from the Government of Turkey that munitions we had supplied the Iraq Security Forces were finding their way into the hands of terrorists, insurgents and criminals in Turkey. Subsequently, the Secretary of Defense and Congress requested that the DoD IG review the current state of arms and ammunition accountability and control in Iraq.

The team visited the Multinational Forces-Iraq, Multinational Security Transition Command-Iraq, Multinational Corps-Iraq, and elements of the Iraqi Ministry of Defense and the Iraqi Ministry of

Interior. Members visited Abu Ghraib warehouse, Taji National Depot, Baghdad International Airport, the Baghdad Police College, the Logistics Management Control Center and several Iraqi Army and police units and installations.

A key finding was that DoD and the Iraq Security Forces have a system in place for controlling and accounting for weapons and ammunition being supplied to the Iraq Security Forces; however, there still remains work to be done. As the team deployed, it out-briefed senior in-country leadership who initiated immediate corrective actions in response to the preliminary observations and recommendations. The team's report was signed by the Inspector General on July 3, 2008 and copies were provided to the Secretary, Deputy Secretary, Chairman of the Joint Chiefs, and Under Secretaries for Policy and AT&L. It included 45 recommendations, with which management concurred with 42 (91%) of those recommendations. Progress has been made implementing all in-country recommendations.

Ongoing Projects

Munitions Assessment Team II (MAT II). At the request of the Secretary of Defense, the Munitions Assessment Team returned to Iraq and Afghanistan from April 5 to May 25, 2008 to conduct a six-month follow-up. Specifically, the team reviewed the status of corrective actions initiated by management in response to MAT I's preliminary observations and recommendations in the areas of the current status of munitions accountability and control in Iraq and Afghanistan, the Foreign Military Sales program in Iraq and Afghanistan, and the development of the logistics sustainment bases, including the status of medical logistics capability for the security forces in Iraq and Afghanistan. The team out-briefed senior U.S. military commanders in both Iraq and Afghanistan upon its departure. The team continues to analyze the data collected and is preparing two draft reports covering approximately 50 observations and more than 100 recommendations.

Pakistan Assessment Team I. The Pakistan Assessment Team visited Pakistan from April 16-26, 2008 to assess certain DOD funded programs supporting the Government of Pakistan.

Congressional concern has been raised, reinforced by press reporting, that U.S. security assistance programs were not sufficiently well-focused to advance U.S. counter-terrorism interests in Pakistan and its Federal Administered Tribal Area (FATA) along the border with Afghanistan. In response to requests from the Secretary of Defense, U.S. Ambassador to Pakistan, Chairman, Joint Chief of Staff, USD(P), USD(C), and the Commander, U.S Central Command, the DOD IG deployed an assessment team to Pakistan. The team assessed a number of DoD funded and managed bilateral assistance programs that support Pakistan's security development. Specifically, this included Coalition Support Funds, the Section 1206 Global Train and Equip program, Section 1206-like Train and Equip program for the Frontier Corps, International Military Education and Training, Foreign Military Financing, Counterterrorism Fellowship Program, and Counternarcotics. The team also reviewed the organizational capabilities and structure of the Office of Defense Representative-Pakistan, which is the umbrella organization for most DoD elements in Pakistan. The Secretary, Deputy Secretary and Chairman of the Joint Chiefs have been briefed on the preliminary findings and recommendations. The report is in the final stage of drafting.

Intelligence

The Office of Intelligence has organized multiple, narrowly focused GWOT evaluation projects around one core objective. That core objective is to assess how the DoD intelligence community is supporting the warfighter in Operation Enduring Freedom and Operation Iraqi Freedom. The plan is dynamic and may be readily modified based on changing national priorities (including taskings from Congress) and the operations tempo in the respective areas of operation.

We have 5 on-going GWOT-related intelligence projects reviewing mission-critical functions that directly impact the warfighter, such as: intelligence collection activities, intelligence resources, and analytic and language training programs.

Interagency Oversight

The DoD IG is the lead oversight agency for accountability in DoD, and as such, is committed to maintaining an effective working relationship with other oversight organizations to minimize duplication of efforts and to provide more comprehensive coverage. Effective interagency coordination, collaboration, and partnerships within the oversight community are essential to providing comprehensive reviews of wartime expenditures to identify whether critical gaps exist, and then to recommend actions to fix those gaps.

Southwest Asia Joint Planning Group

The DoD IG has jointly established and chairs an interagency SWA Joint Planning Group that meets quarterly and provides oversight of fraud, waste, abuse, and criminal activities in the SWA region. The JPG provides a chance for collaboration and teamwork with the organizations engaged in this effort, including the military inspectors general and service auditors general, combatant commands inspectors general, the Defense Contract Audit Agency, the Defense Finance and Accounting Service, the Defense Contract Management Agency, the Inspectors General of State and the USAID, and the SIGIR. The mission of the JPG is to better coordinate and integrate oversight activities in the region. The SWA JPG leads the coordination and oversight required to identify and recommend improved mission support to military units conducting operations.

In conjunction with the SWA Joint Planning Group, the DoD IG also participates in the Afghanistan Working Group and the Iraq Inspectors General Council.

- The Afghanistan Working Group was established by the DoD IG, along with the Government Accountability Office, the Department of State Inspector General, and the USAID, established a working group on oversight activities in Afghanistan to minimize the impact on forward command operations, eradicate overlapping and duplicate oversight requests, and facilitate the exchange of oversight information. The DoD IG, as the Department of Defense representative of the group, also incorporates the ongoing and planned

Afghanistan-related oversight efforts of the Service Auditors General into the working group.

- The Iraq Inspectors General Council chaired by the SIGIR, was established to minimize the impact on forward command operations, deconflict overlapping and duplicate oversight requests, and facilitate the exchange of oversight information unique to Iraq.

GWOT Cost of War Senior Steering Group

The DoD IG is an invited observer to the GWOT Cost of War Senior Steering Group that DoD established on February 26, 2007, to improve and standardize cost of war reporting. Attending the meetings helps the DoD IG remain apprised of DoD efforts for cost of war reporting and furthers its oversight regarding financial aspects of GWOT to ensure timeliness and value to the DoD. DoD IG representatives attended the December 2007 and March 2008 meetings. In December 2007, the DoD IG was invited by the Under Secretary of Defense (Comptroller) to perform quick-look reviews of the execution of GWOT funding patterns. Our support efforts were included in the Comptroller overall focused analysis of execution of funding. According to Comptroller officials, Comptroller personnel now perform monthly analysis of DoD execution of funding and reports the results to the Comptroller. The monthly analysis provides timely awareness of funding trends and potential funding execution concerns to the attention of the Comptroller.

Panel on Contracting Integrity

The DoD IG participates in the Panel on Contracting Integrity which was established under Section 813 of the National Defense Authorization Act for FY 2007. The Panel is chaired by the Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics to conduct reviews of DoD progress in eliminating vulnerabilities in the Defense contracting systems that allow fraud, waste, and abuse and affect Operations Iraqi and Enduring Freedom. The DoD IG representative is a member of the overall Panel on Contracting Integrity, a member of the subcommittee on Adequate Pricing, and is Chairperson of the Procurement Fraud Indicators

subcommittee. The Procurement Fraud Indicators subcommittee is identifying what these indicators are and how they should best be addressed and used for the contracting/acquisition workforce.

Joint Investigative Partnerships

DCIS works jointly with other federal law enforcement agencies, participates in various working groups and has agents assigned to FBI Joint Terrorism Task Forces throughout the nation. Examples of partnerships between DCIS and other agencies include:

- Joint cases with the Federal Bureau of Investigation; Immigrations and Customs Enforcement; United States Secret Service; United States Marshals Service; Alcohol Tobacco and Firearms; United States Postal Inspection Service; and various IGs including National Aeronautics and Space Administration; General Services Administration; Health and Human Services; Veterans Affairs; Department of Transportation; Department of State; Housing and Urban Development; and the Military Criminal Investigative Organizations including the United States Army Criminal Investigation Command; Naval Criminal Investigative Service; and Air Force Office of Special Investigations
- Member of the National Procurement Fraud Task Force, created in October 2006 to promote the prevention, early detection and prosecution of procurement fraud
- Member of the International Contract Corruption Task Force with full time agent assigned to the Joint Operations Center
- Member of the Defense Enterprise Working Group
- Excellent working relationships with agencies in the SWA theater of operations

Closing

Thanks to Congressional support, we are dedicating more resources to provide oversight on munitions control and accountability, acquisition, corruption, waste, fraud, abuse, and expanding our footprint SWA. We will continually evaluate the lessons learned. We are providing effective and meaningful oversight that assists DoD to address its challenges in conducting operations, safeguarding and deterring taxpayer monies from

waste, fraud, and abuse, and most importantly, ensuring our brave military, civilian, coalition, contractors and the Iraqi and Afghanistan citizens supporting a free and sovereign democratic state are as safe as possible. We recognize there is a vast and important mission to support DoD's efforts and are proud to be part of this historic and important effort. This office is on firm footing to provide the necessary oversight. We look forward to working with this Committee. We will continue to keep Congress and our leadership fully and promptly informed.

Thank you for the opportunity to appear before the committee today to address our ongoing oversight work regarding Iraq.