

March 11, 2008



Expected Release
10:30 a.m.

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Inspector General Department of Defense

before the
Senate Appropriations Committee

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. To date, \$655 billion has been appropriated to the Department of Defense in support of the men and women of our Armed Forces in Southwest Asia and the fight against terrorism, of which \$492 billion has been appropriated to support 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 the defense programs and the funds appropriated to the Department at home and around the world, to include Southwest Asia. 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 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 Southwest Asia. We also work in close partnership with other oversight organizations, such as the Government Accountability Office (GAO), the Special Inspector General for

¹ Congressional Research Service report, “The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11,” dated February 8, 2008. The numbers listed are DoD funds.

Iraq Reconstruction (SIGIR), the Department of State, and the U.S. Agency for International Development. 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 OIG 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 against corruption, fraud, waste, and abuse. Conditions where internal controls are severely lacking or proper oversight is minimal create opportunities for corruption, fraud, waste, and abuse. Additionally, individuals must be held accountable for violating laws and regulations and mismanagement of DoD resources.

OIG Strategy

To accomplish our oversight mission, we have adopted a strategy that is based on maintaining the right size presence in-theater but which also recognizes that much of our work can be done out of Iraq. 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.

In Theater Presence

We have adopted an expeditionary workforce model to support efforts throughout all of Southwest Asia. We have core staff forward deployed at all times. The core contingent is comprised of individuals serving between 6 and 12 month deployments. Expeditionary team members will deploy for as long as needed to complete the task, but no longer. The actual number of auditors, investigators, and inspectors in Southwest Asia and Iraq fluctuates on a daily basis depending on requirements.

We are increasing our presence in Southwest Asia and currently have 279 personnel dedicated to Southwest Asia operations and are deployable as mission requirements dictate. Currently we have 22 people deployed to Southwest Asia. Utilizing both domestic and in theater assets we have 28 ongoing Iraq related audits and inspections and 102 ongoing Iraq related investigations.

Coordination

We have jointly established and chair an interagency Southwest Asia Joint Planning Group (JPG) that meets quarterly and provides oversight of fraud, waste, abuse, and criminal activities in the Southwest Asia region. The JPG provides unity of effort of the organizations engaged in this effort, including the Military Inspectors General and Auditors General, the General Accountability Office, the Department of State and the U.S. Agency for International Development Inspectors General, the SIGIR, and the Combatant Commands Inspectors General. The mission of the JPG is to better coordinate and integrate oversight activities in the region. The Southwest Asia JPG leads the coordination and oversight required to identify and recommend improved mission support to military units conducting operations.

Details on Munitions Accountability

One example of the expeditionary model is the ongoing work regarding munitions control and accountability. In December 2005, our office received a Hotline complaint and other allegations that a senior U.S. Army officer received illegal gratuities from a DoD Contractor. This evolved into extensive and ongoing DoD criminal investigations, involving millions of dollars in bribes and a large number of U.S. military officers, non-commissioned officers, and civilian personnel.

In December 2006, and January 2007, we began to receive allegations from the Turkish National Police and the Turkish Ministry of Defense that weapons and

explosives that were shipped to the Iraqi Security Forces (ISF) were crossing the border and finding their way into the hands of insurgents, terrorists, and criminals in Turkey. In response, we sent two special agents to Turkey in January 2007, to follow-up on the allegations. Around this time, we were also beginning to find some weapons that the U.S. had supplied to the ISF, in the hands and control of insurgent groups and U.S. security contractors in Iraq.

Additional concerns regarding the accountability and control of U.S. provided weapons and ammunition to ISF were also identified by SIGIR and GAO. In October of 2006, SIGIR identified materiel management control weaknesses regarding the accountability of weapons and the registration of weapons' serial numbers. In July 2007, GAO reported that DoD and Multi National Forces-Iraq could not fully account for weapons reported as previously issued to the Iraqi forces.

With this information, we briefed the Secretary of Defense; the Chairman, Joint Chiefs of Staff; and the senior Defense team. Those briefings resulted in the Secretary and Chairman requesting that we send an assessment team into Iraq to review accountability and control of munitions being supplied by the U.S. to ISF. In addition, the Secretary of the Army was asked to do an assessment of contracting in Southwest Asia. The Secretary of Defense and the Chairman requested they be kept fully informed and also that we keep Congress fully informed. We briefed the Chairmen and Ranking Members of our primary oversight committees to include the Chairman and Ranking Member of the Senate Appropriations Subcommittee on Defense (Senators Inouye and Stevens). The general request from Congress was to get on-the-ground post-haste, see if the barn door had a crack, and if so, nail it shut.

As a result, we assembled an interagency, multi-disciplinary Assessment Team on Munitions Accountability composed of twenty-two subject matter experts from the Office of Inspector General, U.S. Central Command, Army Audit Agency, Army Criminal Investigation Command (Army CID), Army Corps of Engineers,

Air National Guard (who happened to be an Assistant U.S. Attorney General from Justice), Department of State, and the Department of Justice Bureau of Alcohol, Tobacco, Firearms and Explosives.

The assessment team's objectives were to:

- Determine whether DoD currently has adequate accountability and control over U.S.-purchased munitions before formal turnover to the ISF. Specifically, this included munitions from the time of arrival at selected Iraq ports of entry until formal turnover to ISF; and to**
- Determine whether the ISF currently have adequate accountability and controls over U.S.-purchased munitions under their control. Specifically, this included munitions from the time of formal transfer to ISF through their subsequent issuance to selected Iraq military and police units.**

Prior to our arrival in Iraq, we examined two additional related areas that are very important to the ability of the U.S. and ISF to account for and control munitions. One is establishing an effective Foreign Military Sales (FMS) program to support ISF, and the other is assisting the ISF to build their logistics sustainment base, for both military and police. The team did a lot of work in CONUS before they departed.

To better understand the overall CENTCOM theater logistics operations, we spent several days in Kuwait evaluating accountability, control and onwards shipment of ammunition. We also looked at contract operations. The team also spent a week in Afghanistan looking at munitions accountability and control, contracting, and the Afghanistan National Security Forces logistics base.

The assessment team then spent five weeks in Iraq examining the current U.S. and ISF supply chain operations, including transportation, delivery, storage and

distribution. The assessment began at the port of entry, through all the supply nodes until the issuance of weapons and ammunition to Iraqi military and police units at the end of their pipe line.

While in Iraq, the assessment team conferred with the U.S. Ambassador and staff, and the respective Commanders and staff of the Multi-National Force-Iraq (General Petraeus), the Multi-National Corps-Iraq (Lieutenant General Odierno), and the Multi-National Security Transition Command-Iraq (MNSTC-I) (Lieutenant General Dubik). The team also met with the U.S. Joint Contracting Command-Iraq/Afghanistan, U.S. Army Corps of Engineers, Gulf Region Division (to include the Logistics Movement Coordination Center and U.S. Warehouse at Abu Ghraib), MNSTC-I's Security Assistance Office (which manages FMS in Iraq), and many other officials with the Coalition Forces and U.S. Embassy Baghdad.

In addition, the team conferred with numerous Government of Iraq officials from the Ministry of Defense, the Ministry of Interior, the Inspectors General of the ministries, and various Iraqi Army units and police forces.

Our preliminary finding is that DoD and ISF have a system currently in place for controlling and accounting for weapons and ammunition being supplied to the ISF; however, there still remains work to be done. Many weapons were lost early on due in large part to battle loss, police stations being overrun, desertion, disintegration of untrained units, some police and military personnel selling their weapons, and poor record keeping. We also have an ongoing investigation into pilferage of storage facilities.

The U.S. supply of munitions to Iraq is shifting to FMS. The U.S. needs to put FMS on a war-time footing while also continuing to assist the ISF in building their logistics sustainment base. Both of these actions are underway and will greatly enhance the control and accountability of munitions. As reported by CENTCOM, a great deal of progress has already been made. Continued improvements in these

two (2) critical areas will also greatly enhance the ISF's ability to conduct independent operations and in taking over more battle space.

Since the Assessment Team's return in late October 2007, we have briefed the Secretary of Defense; the Deputy Secretary of Defense; the Chairman, Joint Chiefs of Staff; and other senior leaders. Further, we briefed our primary oversight committees. We are drafting the report and upon completion will provide it to CENTCOM and other DoD organizations for review and official comment. The report is expected to be released in April 2008. This will complete Phase I.

The Assessment Team is planning a follow-up trip (Phase II) to Iraq in April 2008, to review the status of actions taken on the report's recommendations and to assess the current status of munitions accountability and control, the FMS program, the development of their logistics sustainment base for the ISF, and contract operations in general. We will also spend time working with the Iraq Ministries of Defense and Interior Inspectors General.

Details on Investigations

The Defense Criminal Investigative Service (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. Pursuant to the Inspector General Act of 1978, DCIS has broad criminal investigative jurisdiction regarding DoD programs and operations. However, effectively countering fraud in Southwest Asia requires the cooperative efforts of other DoD investigative agencies and Federal law enforcement partners as well as the audit community. Investigative jurisdiction for fraud offenses involving DoD, to include offenses pertaining to Southwest Asia, are established in DoD Instruction 5505.2, "Criminal Investigations of Fraud Offenses." The instruction establishes policies, responsibilities, and procedures for determining which of the DoD Criminal Investigative Organizations (DCIOs) – Defense Criminal Investigative Command

(DCIS), the U.S. Army Criminal Investigation Command (Army CID), the Naval Criminal Investigative Service (NCIS), and the Air Force Office of Special Investigations (AFOSI) – are conducting investigations of fraud offenses under the United States Code and/or Uniform Code of Military Justice. DCIS has primary jurisdiction over matters involving most contract and procurement actions awarded by Defense Agencies, OSD 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 appropriate disposal of products no longer needed by DoD components. The Service-specific Military Criminal Investigative Organizations (Army CID, NCIS, and AFOSI) typically focus upon allegations involving contract and procurements that their respective military department awards. Significant non-DoD partners in Iraq include the SIGIR, which investigates fraud involving Iraq reconstruction programs; and the FBI, which has overarching authority to investigate violations of various Federal statutes relating to fraud and corruption. Other organizations, such as the U.S. Department of State, Office of the Inspector General; and the U.S. Agency for International Development, Office of the Inspector General, partner with DCIS and other agencies when alleged fraudulent activity impacts their respective departments.

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. In September 2006, DCIS 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. An additional special agent has been temporarily deployed to Iraq to support a special cell

investigating issues relating to weapons accountability. Two additional special agents will soon deploy to Afghanistan. These in-theater agents are the forward-deployed elements of the approximately 64 DCIS special agents in CONUS and OCONUS participating in Southwest Asia investigations.

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' presence in the region has identified corrupt business practices, loss of U.S. funds through contract fraud, and theft of critical military equipment destined for the ISF.

DCIS plays a significant and pivotal role in both 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 on October 10, 2006, to promote the prevention, early detection, and prosecution of procurement fraud nationwide and abroad. This multi-disciplinary and multi-agency (e.g., Federal Inspectors General, U.S. Attorneys, Federal law enforcement agencies such as the FBI) coalition 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 Southwest Asia. 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; the U.S. Army Criminal Investigation Command's Major Procurement Fraud Unit; the Office of the Inspector General, U.S. Department of State; the Office of the Inspector General, U.S. Agency for International Development; the Federal Bureau of Investigation (FBI); and the

SIGIR. The ICCTF created 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 Global War on Terror (GWOT). The JOC coordinates intelligence-gathering, de-conflicts case work and deployments, disseminates intelligence, and provides analytic and logistical support² for the ICCTF agencies to enhance criminal prosecutions and crime-prevention. The JOC is the vital link into the entire intelligence community and provides a repository from which to disseminate intelligence indicative of criminal activity. Case information and criminal intelligence are shared, and 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 \$10 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 utilization of data mining techniques. While the initiative is in its infancy, several questionable transactions have been identified and referred for 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.

To pursue investigative leads concerning weapons accountability in Iraq, DCIS is participating in a multi-agency Weapons Investigative Cell. Other

² Logistics support can include, but is not limited to, laboratory services, polygraphs, and specialized equipment (e.g., GPS phones).

participants include Army CID and the Bureau of Alcohol, Tobacco, Firearms and Explosives. The Weapons Investigative Cell is working with the International Zone Police Department and Government of Iraq officials to conduct weapons and munitions accountability investigations. In addition, the Weapons Investigative Cell is coordinating its activities with other affected U.S. and foreign agencies, and is attempting to determine if there is any evidence of weapons leaving Iraqi warehouses and being diverted or sold to unauthorized sources.

As previously mentioned, investigations conducted in Southwest Asia are cooperative efforts. A total of sixty-four DCIS special agents (CONUS and OCONUS) are 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 Southwest Asia is the Major Procurement Fraud Unit (MPFU), a component of Army CID. The MPFU conducts investigations into allegations of fraud associated with the Army's major acquisition programs. The MPFU is responsible for conducting Army-related investigations of allegations of fraud, defective pricing, corruption, kickbacks, antitrust violations and miscellaneous other incidents involving procurement fraud. Since June 2005, the MPFU has deployed 46 agents on rotational assignments to work in the region. The MPFU presently has 13 agents in offices in Iraq, Kuwait, and Afghanistan, and has initiated 146 investigations, of which 92 investigations are ongoing.

To date, DCIS has completed 25 investigations that are related to Southwest Asia. In addition, DCIS currently has 102 open investigations relating to the Iraqi theater. The majority of these investigations are being jointly investigated with one or more law enforcement partners. Of these 102 investigations, 16 are being conducted by agents deployed throughout Southwest Asia; the other 86 investigations are being conducted by special agents in the U.S. and Germany. DCIS attempts to transfer investigations developed in Southwest Asia to an appropriate CONUS venue as soon as practical so as to ensure we maximize the best

use of our in-theater investigative resources and to begin and facilitate prosecution efforts.

Details on Audits

Our OIG 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 Army Audit Agency is focusing on the Commander's Emergency Response Program (CERP) 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 vehicle, 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 196 personnel conducting audits related to Iraq and Southwest Asia operations. In April 2008, approximately 25 people will be deployed in support of OIF/OEF with an additional 30 in reserve. We will also have about 16 additional personnel deployed in support of the Munitions Assessment Team, FMS

processes, and the progress being made to establish an effective Government of Iraq logistics process to support the ISF.

We have 24 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 as well as the execution of supplemental funds to train and equip the Iraq Security Forces. A complete list of completed reports, on-going projects, and planned projects is attached to this statement.

We plan to issue a final audit report on controls over payments in support of Iraqi operations, which amounted to \$10.7 billion for February 2003, to June 2006, and have already referred 28 vouchers totaling \$35.1 million to DCIS for potential investigation.

The following will be some key completed, ongoing, and planned audits.

Completed Audit Work

In our report D-2007-107, “Procurement Policy for Armored Vehicles,” issued June 27, 2007, we addressed inquiries made by Congresswoman Louise M. Slaughter. We identified the following:

- The Marine Corps Systems Command awarded sole-source contracts for body armor and armored vehicles even though officials knew other sources were available for competition.**
- Acquisition officials continued to award contracts for armored vehicles even though the contractor repeatedly failed to meet contractual delivery schedules for getting vehicles to the theater, and**

- **The government did not execute the liquidated damages clause of the contract to collect appropriate fees from the contractor.**

In November 2006, we reported on the Army’s small arms program including the availability, maintainability, and reliability of the small arms support for the warfighter. We found that the Army equipped its deployed forces in support of Operation Iraqi Freedom with the small arms necessary to meet Combatant Commanders requirements. However, to accomplish these requirements the deploying unit obtained some of the small arms from other sources, such as nondeployed units. As a result, the nondeployed units faced a potential shortage of small arms and may not have had the ability to adequately train and maintain equipment and personnel readiness at an acceptable level. We also determined that implementing and monitoring the Army Force Generation Program, as well as, developing an overarching Army training strategy will ensure that the unit’s readiness is not degraded. We agreed with the Army that outlining requirements and developing a plan for small arms distribution will avert future small arms shortages.

We also found that the Army generally had adequate controls for maintainability and reliability of small arms fielded to the warfighter. As a result of the Army’s proactive approach to maintenance and reliability, the warfighter is provided with reliable small arms capabilities to sustain operations in varying environments but we also agreed with the Army that following up on findings and recommendations made by the Soldier Weapons Assessment Team will address small arms maintainability risks identified. We determined that ongoing initiatives and management actions were responsive to our initial concerns and we agreed with the actions the Army took.

Another key report classified report, “Equipment Status of Deployed Forces within the U.S. Central Command,” issued January 25, 2007. We reported that

service members experienced shortages of force-protection equipment, such as up-armored vehicles, electronic countermeasure devices, crew-served weapons, and communications equipment. As a result, Service members were not always equipped to effectively complete their missions. Also, the Request for Forces process did not always ensure that Service members performing nontraditional missions, such as Provincial Reconstruction Teams (PRTs) and detainee operations (i.e. In Lieu Of units³), received the equipment necessary to perform their wartime mission. As a result, Service members performed missions without the proper equipment or postponed missions while waiting to receive equipment. As a result of this review, the Under Secretary of Defense for Personnel and Readiness issued interim policy on training and equipping In Lieu Of units. A follow-on audit on equipping units in Iraq in accordance with mission requirements is currently being conducted in conjunction with the Multi-National Forces-Iraq Inspector General.

Last week on March 6, we issued a report on a review of the use of supplemental funds for medical support of GWOT. We performed this review in response to Office of the Assistant Secretary of Defense (Health Affairs) concerns over the reporting and use of GWOT supplemental funding by the Military Health System (MHS). The Military Department Surgeons General did not consistently report obligations of GWOT supplemental funds by mission as required by the TRICARE Management Activity. Without accurate and consistent reporting of GWOT supplemental fund obligations, DoD has no assurance that the Military Health System used funds for the missions for which they were requested. Additionally, DoD cannot ensure that the amounts reported in the FY 2006 Defense Health Program Cost of War report are accurate and complete.

³ Service members who perform wartime missions that are not traditionally organized, trained, and equipped to perform are called “In Lieu Of” (ILO) forces.

Ongoing Audit Work

One of highest priority ongoing reviews is an assessment of the procurement, distribution, and use of body armor in DoD. This audit is being performed at the request of Congresswoman Louise M. Slaughter. The objective of the audit was to evaluate the procurement history and practices for body armor and the effect that the Army's decision to ban the use of personally purchased body armor has on the safety of Service members. The audit team is reviewing 35 contracts and 5 Federal Supply Schedule orders, valued at more than \$5.2 billion, awarded by the Army and Marine Corps between January 2004 and December 2006 for body armor components. The team will determine whether the contracts and orders for body armor components, such as the outer tactical vest, enhanced side ballistic inserts, small arms protective inserts, and deltoid and auxiliary protectors, were awarded in accordance with the Federal Acquisition Regulation.

Another review relates to the protection of the Forces. We are assessing procurement and delivery of joint service armor protected vehicles. The objective is to determine whether the Mine Resistant Ambush Protected (MRAP) vehicle program office is effectively procuring armored vehicles in accordance with the Federal Acquisition Regulation and DoD requirements. Specifically, we will review MRAP program administration to determine whether the program office is taking appropriate actions to accelerate vehicle delivery to users. An additional objective is to review the Services' requirements for MRAP and High Mobility Multipurpose Wheeled Vehicles.

We have two on-going audits related to Common Access Cards (CAC) issued to contractors. The first will determine whether controls over Common Access Cards (CACs) provided to contractors are in place and work as intended: specifically, 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 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 such as over compensating by providing a contractor daily expenses for basic life support items and by issuing an improper CAC providing these same life support items free. The team visited 67 sites, identified with the greatest number of contractor CACs, to test processes for the contractor CAC lifecycle. The audit team also obtained contractor CAC data from the Defense Manpower Data Center and tested a sample of the data to evaluate the reliability of controls over the issuance, periodic verification of continued need, revocation, and recovery of contractor CACs. The team anticipates issuing a draft report in April 2008. The second project will address specifically the controls over the contractor CACs in Southwest Asia was announced on January 24, 2008.

We also are looking at the management and controls over selected funds to ensure proper use of and/or the support of payments in the following reviews:

- **Internal Controls Over Out-Of-Country Payments.** The objective is to determine whether internal controls over out-of-country payments supporting GWOT provide reasonable assurance that payments are properly supported and recorded. DFAS Rome is the field accounting office for contingency disbursing in Iraq, Afghanistan, Kuwait, Saudi Arabia, and Egypt.
- **Funds appropriated for Afghanistan and Iraq processed through the Foreign Military Sales Trust Fund.** The overall objective is to determine whether the 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.

- **Operations and Maintenance Funds Used for GWOT Military Construction Contracts. The objective is to determine whether DoD components followed requirements for using operations and maintenance funds for GWOT military construction. Specifically, we will determine whether DoD followed proper procedures for administering, executing, and reporting the use of operations and maintenance funds on GWOT military construction contracts.**
- **Small arms ammunition fund management in support of GWOT. Specifically, we will determine whether financial management officials fully supported and properly incurred obligations and expenditures. We will also determine whether funds for small arms ammunition were accurately recorded in financial systems for reporting to the Office of the Secretary of Defense.**
- **Internal controls over the Army, General Fund, Cash and other monetary assets held in Southwest Asia. To accomplish this review, we will verify the existence of cash reported by disbursing officers to the U.S. Treasury; inspect physical controls over cash; confirm collection and payment documents to insure adequate internal controls over disbursing officer accountability documents; and determine the source and use of cash. We anticipate conducting site visits from April to June of 2008 in Iraq, Afghanistan, Kuwait, Saudi Arabia, and Egypt.**

Planned Audit Work

We have attached a list of our current planned audits for SWA including Iraq and Iraq-related. We have also modified our planning process to include the specifics required by the National Defense Authorization Act for FY 2008, January 28, 2008. Section 842 of the Act, “Investigation of waste, fraud, and abuse in wartime contracts and contracting processes in Iraq and Afghanistan,” requires the Inspector General of the Department of Defense to develop a comprehensive plan for a series of audits of contracts, subcontracts, and task and delivery orders for the support of coalition forces. The group developing this plan consists of the most experienced and senior executives in our audit organization.

To develop the plan the group is:

- reviewing completed and ongoing audits and inspections,**
- analyzing contract actions,**
- researching the appropriations and expenditures,**
- examining the contracting processes and systems,**
- obtaining information from Iraq and Afghanistan,**
- evaluating the related accounting and financial systems, and**
- studying contracting problems that occurred in prior wars.**

The group is identifying areas or gaps in need of audit coverage. Examples of areas that may 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.**

We want audits in the plan that will identify abuses and defects in contracts, systems and processes that can be promptly remedied. The plan will help us expand and refocus our audit efforts to support the war fighters. The plan will be coordinated through existing councils with the cognizant Inspectors General and Audit Chiefs.

Details on Anticorruption Activities

We continue to play a key role in developing and promoting the establishment of effective oversight and security organizations in Afghanistan and Iraq. As we stated earlier, until recently, we provided two full-time IG advisors to the Multi-National Security Transition Command-Iraq (MNSTC-I) Transition Teams in Baghdad to assist the Offices of the Inspectors General for the Ministry of Defense, Joint Headquarters (JHQ), and the Ministry of Interior. Prior to reassigning these advisors back to Washington D.C., we facilitated the establishment of a new MNSTC-I billet for an “IG Integration Officer.” The billet was approved and filled in July 2007 and is making a difference. The IG DoD will continue to provide assistance and advice as required.

While in Iraq, with the munitions assessment team, we visited with the Inspector General for the Ministry of Defense and staff and the Deputy Inspector General, Ministry of Interior and were impressed with their progress. We also met with all Inspectors General from all ministries at a central meeting.

In July 2007, we initiated a project to document the lessons learned during our 3-year experience in assisting in establishing and developing a viable,

sustainable, effective IG system in Iraq. This project will capture the concepts, strategies, options, and practical applications establishing a Federal IG system may be appropriate in nation building missions and as an instrument to combat fraud, waste, abuse, and corruption in developing nations. The expected completion date for the lessons learned report is April 2008.

The OIG works with DoD agencies to prevent corruption, fraud, waste, and abuse by keeping all informed, to include Defense agencies and military commanders, of vulnerabilities detected within their systems; providing mission briefings which address the impact of fraud, waste, and abuse on DoD programs and operations; and by documenting deficiencies in DoD internal management controls when discovered during the course of an investigation.

Since the initiation of Operation Enduring Freedom and Operation Iraqi Freedom, we have acted in collaboration with the military services and the Defense Logistics Agency to pursue administrative remedies, such as suspensions and debarments from government contracting, against U.S. contractors and their personnel. We ensure investigations are coordinated with central points of contact, and we engage agency fraud counsels and suspension and debarment authorities to prevent repeat losses to DoD caused by unscrupulous contractor activities.

We are also a member of the U.S Department of Justice Asset Forfeiture Program. Our participation in this program results in seizure of fraud proceeds from criminals who have targeted DoD. The intent of the program is to deter criminal activity, punish offenders, and dismantle criminal organizations. Forfeitures related to fraud and corruption in Iraq are soon expected to exceed \$5.1 million in funds and property. It is anticipated that considerable additional funds and property will be seized in the future as ongoing cases are resolved.

Panel on Contracting Integrity

The John Warner National Defense Authorization Act of 2007 (Public Law 109-364) directed the DoD to convene a panel of senior leaders to conduct Department-wide reviews of progress to eliminate areas of vulnerability of the defense contracting system that allow fraud, waste, and abuse to occur. The panel was to review the report of the Comptroller General required by the National Defense Authorization Act of 2006 (Public Law 109-163) related to these areas of vulnerability, and to recommend changes in law, regulations, and policy deemed necessary.

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.

As part of the Senior Steering Group for GWOT, DoD OIG representatives will meet monthly, beginning in March, to discuss ways to improved finance, accounting and procurement in Iraq. The group will determine needed tasks and timeframes; identify lead organizations and resource requirements to complete the tasks; determine whether an expeditionary finance and accounting capability is needed and if so, what would it look like, how it would be staffed, and how it would be funded; and discuss any changes needed in guidance to ensure the tasks can be completed efficiently and effectively. While it is imperative that solutions are implemented quickly, the group's focus is to propose and implement solutions that most benefit the warfighter and make the best use of the taxpayer's funds.

Significant Accomplishments

Of the 102 ongoing DCIS investigations, 41 investigations involve public corruption offenses (bribery, gratuities, and conflicts of interest); 47 investigations involve procurement fraud offenses (false claims and statements, undelivered products, defective products, cost/labor mischarging); 13 investigations involve theft and technology protection offenses (theft of funds, property, equipment, supplies; and export violations involving U.S. technology and vehicles), and one terrorism-related case.

To date, DCIS' ongoing Iraq related investigations have identified 229 subjects consisting of 22 U.S. Government employees, 53 military personnel, 17 foreign nationals, 68 U.S. Government contractors, 23 U.S. Government sub-contractors, 6 dependents of military personnel, and 40 others with no known affiliation to the government.

As a result of closed and ongoing investigations in Southwest Asia, 18 Federal criminal indictments and 26 Federal criminal informations⁴ have been issued, and 3 hearings have been conducted under Article 32 of the Uniform Code of Military Justice. In total, 25 persons have been convicted of felony crimes, resulting in a total of approximately 34 years of confinement and 35 years of probation; 9 individuals and 3 companies were debarred from contracting with the U.S. Government; 12 companies and 13 individuals were suspended from contracting; and 2 contractors signed settlement agreements with the U.S. Government. A total of \$11.1 million was paid to the U.S. in restitution; \$365,725 was levied in fines and penalties; \$1.76 million was forfeited; and \$2.2 million was seized.

⁴ "Information" is a criminal charge brought by a prosecutor without using a Grand Jury to get an indictment. The "Information" is filed in court and serves to notify the court and the accused of the charges. The "Information" must be in writing and must be supported by evidence submitted by the prosecutor, usually in the form of affidavits. The name is derived from the prosecutor providing information to the court to justify a prosecution.

As a result of our audit work since FY 2003, we made 64 recommendations to improve financial management, logistics, contract administration, and accountability with DoD GWOT operations. Defense management took sufficient actions in implementing 48 of the 64 recommendations. As a result, our records show 48 recommendations closed, 16 remain open. Additionally, as a result of our findings and recommendations, we and the Department have identified over \$840 million in funds that could be put to better use. We anticipate additional potential monetary benefits or improved financial management in the ongoing audits of controls over payments made in support of DoD Iraq operations, and internal controls over cash and other monetary assets. We also are working in partnership with the Defense Finance and Accounting Service on establishing minimum accountability requirements for payments made in support of DoD Iraq operations.

Closing

Thanks to Congressional support, we are now dedicating more resources to provide oversight on munitions control and accountability, acquisition, corruption, waste, fraud, abuse, and expanding our footprint in all of Southwest Asia. We will continually evaluate the lessons learned and do our best to prevent the mistakes of the past. 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.

**DoD IG GWOT/SWA
Completed Projects**

	Projects Listing	Area	Date
Completed Projects			Report Issued
1	Contractor Support To The Joint Improvised Explosive Device Defeat Organization In Afghanistan (Report No. D-2008-056)	OEF	7-Mar-08
2	DoD Support to the NATO International Security Assistance Force (Report No. D-2008-039)	OEF	5-Feb-08
3	Distribution of Funds and the Validity of Obligations for the Management of the Afghanistan Security Forces Fund (Report No. D-2008-012)	OEF	5-Nov-07
4	Implementation of the Commanders' Emergency Response Program in Afghanistan (Report No. D-2007-064)	OEF	28-Feb-07
	Total Operation Enduring Freedom-Afghanistan	4	

DoD IG GWOT/SWA Completed Projects

	Projects Listing	Area	Date
5	Potable and Nonpotable Water in Iraq (Report No. D-2008-060)	OIF	5-Mar-08
6	Antideficiency Act Investigation of the Operation and Maintenance Appropriation Accounts 2142020 and 2152020 (D2005-D000FD-0300.000).	OIF	April 2007 to General Counsel
7	Inspection Process of the Army Reset Program for Equipment for Units Returning from Operation Iraqi Freedom (Report No. D-2008-024)	OIF	18-Jan-08
8	DoD Training for U.S. Ground Forces Supporting Operation Iraqi Freedom (Report No. D-2008-033)	OIF	28-Dec-07
9	Management of the Iraq Security Forces Fund - Phase III (Report No. D-2008-026)	OIF	30-Nov-07
10	United States Transportation Command Compliance with DoD Policy on the Use of Commercial Sealift (Report No. D-2007-105)	OIF	21-Jun-07
11	Management of the Iraq Security Forces Fund in Southwest Asia - Phase II (Report No. D-2007-060)	OIF	12-Feb-07
12	Management of the Iraq Security Forces Fund in Southwest Asia - Phase I (Report No. D-2007-030)	OIF	8-Dec-06
13	The Army Small Arms Program that Relates to Availability, Maintainability, and Reliability of the Small Arms Support for the Warfighter (Report No. D-2007-010)	OIF	2-Nov-06
14	Information Operations Activities in Southwest Asia (Report No. D-2007-001)	OIF	6-Oct-06
15	Contract Surveillance for Service Contracts (Report No. D-2006-010)	OIF	28-Oct-05
16	DoD Management of Navy Senior Enlisted Personnel Assignments in Support of Operation Iraqi Freedom (Report No. D-2005-024)	OIF	15-Dec-04
17	Defense Hotline Allegations Concerning C-130 Aircraft Use in the U.S. Central Command Area of Responsibility (Report No. D-2004-090)	OIF	17-Jun-04
18	Management of Marine Corps Enlisted Personnel Assignments in Support of Operation Iraqi Freedom (Report No. D-2004-086)	OIF	16-Jun-04
19	Contracts Awarded for the Coalition Provisional Authority by the Defense Contracting Command - Washington (Report No. D-2004-057)	OIF	18-Mar-04
20	Chemical/Biological Defense (CBD) Individual Protective Equipment in CENTCOM and EUCOM Areas (U) (Report No. D-2002-095)	OIF	30-May-02
	Total operation Iraqi Freedom-Iraq	16	

DoD IG GWOT/SWA Completed Projects

	Projects Listing	Area	Date
21	Acquisition of the Pacific Mobile Emergency Radio System (FOUO) (Report No. D-2007-025)	GWOT	22-Nov-06
22	DoD Installation Disaster Preparedness and Consequence Management in the U.S. European Command (Report No. D-2004-082)	GWOT	24-May-04
23	Interagency Review of Foreign National Access to Export-Controlled Technology in the United States (Report No. D-2004-062)	GWOT	16-Apr-04
24	Export-Controlled Technology at Contractor, University, and Federally Funded Research and Development (Report No. D-2004-061)	GWOT	25-Mar-04
25	Management Structure of the Cooperative Threat Reduction Program (Report No. D-2004-050)	GWOT	5-Feb-04
26	Cooperative Threat Reduction Construction Projects (Report No. D-2004-039)	GWOT	18-Dec-03
27	Terrorism Information Awareness Program (Report No. D-2004-033)	GWOT	12-Dec-03
28	Force Protection in the Pacific Theater (Report No. D-2004-007)	GWOT	14-Oct-03
29	Decontamination Operation Preparedness of Continental U.S. Based Navy and Air Force Units (Report No. D-2004-003)	GWOT	8-Oct-03
30	Cooperative Threat Reduction Program: Solid Rocket Motor Disposition Facility Project (Report No. D-2003-131)	GWOT	11-Sep-03
31	Classified Report (Report No. D-2003-126)	GWOT	27-Aug-03
32	DoD Fire and Emergency Services Program (Report No. D-2003-121)	GWOT	12-Aug-03
33	Office of the Secretary of Defense Disaster Preparedness (Report No. D-2003-102)	GWOT	17-Jun-03
34	Interagency Review of Federal Export Enforcement Efforts (FOUO) (Report No. D-2003-069)	GWOT	18-Apr-03
35	Export Controls Over Biological Agents (Report No. D-2003-021)	GWOT	12-Nov-02
36	Facility Specific Controls Over Biological Agents (Report No. D-2003-014)	GWOT	25-Oct-02
37	Controls Over Biological Agents at Contractor Facilities (Report No. D-2003-012)	GWOT	21-Oct-02
38	Cooperative Threat Reduction Program Liquid Propellant Disposition Project (Report No. D-2002-154)	GWOT	30-Sep-02
39	Security: Controls Over Biological Agents (U) (Report No. D-2002-121)	GWOT	27-Jun-02
40	Summary Report on Homeland Defense, Chemical/Biological Defense (CBD), and Counterterrorism (U) (Report No. D-2002-102)	GWOT	11-Jun-02
41	DoD Medical Support to the Federal Response Plan (Report No. D-2002-087)	GWOT	10-May-02
42	Supplemental Funds Used for Medical Support for the Global War on Terror (Report No. D-2008-059)	OIF/OEF	6-Mar-08

**DoD IG GWOT/SWA
Completed Projects**

	Projects Listing	Area	Date
43	Conditional Acceptance and Production of Army Medium Tactical Vehicles in Support of the Global War on Terror (Report No. D-2008-038)	OIF/OEF	21-Dec-07
44	Supply Chain Management of Clothing, Individual Equipment, Tools, and Administrative Supplies (Report No. D-2008-029)	OIF/OEF	5-Dec-07
45	DoD Use of Global War on Terror Supplemental Funding Provided for Procurement and Research, Development, Test, and Evaluation (Report No. D-2008-027)	OIF/OEF	21-Nov-07
46	Procurement Policy for Armored Vehicles (Report No. D-2007-107)	OIF/OEF	27-Jun-07
47	Managing Prepositioned Munitions in the U.S. European Command (Report No. D-2007-090)	OIF/OEF	3-May-07
48	Equipment Status of Deployed Forces Within the U.S. Central Command (Report No. D-2007-049)	OIF/OEF	25-Jan-07
49	Contracts Awarded to Assist the Global War on Terrorism by the U.S. Army Corps of Engineers (Report No. D-2006-007)	OIF/OEF	14-Oct-05
50	DoD Patient Movement System (Report No. D-2005-095)	OIF/OEF	27-Jul-05
51	FY 2004 Emergency Supplemental Funding for the Defense Information Systems Agency (FOUO) (Report No. D-2005-053)	OIF/OEF	9-May-05
52	Emergency Supplemental Funding for the Defense Logistics Agency (FOUO) (Report No. D-2005-045)	OIF/OEF	29-Apr-05
53	Coalition Support Funds (Report No. D-2004-045)	OIF/OEF	16-Jan-04
54	DoD Involvement in Export Enforcement Activities (FOUO) (Report No. D-2003-070)	OIF/OEF	28-Mar-03
55	Summary Report on Homeland Defense, Chemical/Biological Defense, and Other Matters Related to Counter-Terrorist Military Operations (Report No. D-2003-028)	OIF/OEF	25-Nov-02
	Total GWOT/OIF/OEF-Projects	35	