

RECORD VERSION

STATEMENT BY

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**ARMY ACQUISITION EXECUTIVE (AAE) AND
SENIOR ARMY OVERSIGHT FOR THE LARGEST SEGMENT OF THE
IRAQ RELIEF AND RECONSTRUCTION FUND (IRRF)**

BEFORE THE

UNITED STATES SENATE

COMMITTEE ON ARMED SERVICES

SUBCOMMITTEE ON READINESS AND MANAGEMENT SUPPORT

ON IRAQ RECONSTRUCTION AND CONTRACTING

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INTRODUCTION

Mr. Chairman and distinguished members of the Subcommittee on Readiness and Management Support of the Senate Armed Services Committee, thank you for the opportunity to report to you on the status of Iraq reconstruction and contracting within the boundaries of our responsibilities for approximately \$13 billion of the FY2004 funding appropriated for Iraq under the Iraq Relief and reconstruction Fund (IRRF) appropriated funds. Today, it is my privilege to represent the Army leadership and the military and civilian members of the combined reconstruction program management and contracting workforce team. Allow me to echo the President's message last Tuesday to the Congress and to the nation that we have learned much from our experience in Iraq. Just as we have adjusted our military tactics, we have changed and refined our approach to reconstruction as the situation on the ground has warranted.

HISTORY – HOW DID WE GET HERE?

As you are aware, the Army is the Executive Agent for the Department of Defense's (DoD's) reconstruction and relief mission in Iraq as outlined in the IRRF. The requirements writer and interagency leader, first the Coalition Provisional Authority (CPA) and then the Department of State (DoS), has directed that the Army execute approximately \$13 billion of the \$18.4 billion for projects in Iraq. The following brief history of this monumental effort is provided to show in simple terms how we have arrived at this point.

At first, responsibility for providing humanitarian assistance and aiding in the reconstruction of post-war Iraq initially fell to the Office of Reconstruction and Humanitarian Assistance (ORHA), which was tied to both the DoD and the U.S. Agency of International Development (USAID). Later, the CPA was established and responsibility for the reconstruction was shifted to that organization as the Congress appropriated monies. The CPA, which existed from May 2003 to June

2004, was originally charged only with responsibility for the oversight and expenditure of the Development Fund for Iraq and the initial funds appropriated in April 2003 under the first emergency supplemental for Iraq. However, with the appropriation of the \$18.4 billion into the Iraq IRRF, under P.L. 108-106 in November 2003, the CPA's reconstruction mission expanded. The Army was asked to serve as Executive Agent in two separate actions for ORHA in May 2003 and, again, for CPA in June 2003; responsibilities that it readily accepted. In an effort to immediately support this Executive Agency responsibility, and as the Army's Senior Acquisition Executive, I initially designated a Head of Contracting Activity (HCA) for CPA, and an office was established to assist Ambassador J. Paul Bremer.

In January 2004, the Program Management Office (PMO) was established by, and within CPA, to provide programmatic and contracting support for the IRRF. It was at this same time that the Army was asked to expand its Executive Agency responsibilities to specifically include acquisition and program management support. In February 2004, I designated a one-star General Officer as the HCA for Iraq reconstruction, and the contracting mission was expanded in staffing and scope. In fact, during this initial reconstruction phase when there was less than optimal information on reconstruction requirements, the Army awarded \$5 billion in Indefinite Delivery-Indefinite Quantity Design-Build construction contracts to seven separate contractors. This took only 90 days with full and open competition and in full compliance with the Federal Acquisition Regulation (FAR). Furthermore, there were no contract protests. Normally, this process would have taken nearly 18 months.

The next phase of the Army's acquisition and program management responsibilities in Iraq occurred in June 2004, upon the stand-down of the CPA and the establishment of the U. S. Embassy for Iraq. The DoS assumed overall control of the reconstruction program through the Iraq Reconstruction Management Office (IRMO). IRMO was given the responsibility of managing all

assistance efforts in Iraq, to coordinate all U.S. efforts, to set the priorities and to set the requirements for all parts of the IRRF with the Army and USAID serving as the implementers of the State Department's priorities for the reconstruction. In preparation for this transition, the Project and Contracting Office (PCO) was established to replace the PMO and moved under my direct supervision. In Iraq, PCO was placed under IRMO and Chief of Mission authority. A Principal Deputy was added to my office to direct my office's efforts with the PCO as the Director of Iraq Reconstruction and Program Management. Additionally, my Deputy Assistant Secretary of the Army for Policy and Procurement improved oversight of the contracting mission by establishing the Office of the Deputy Assistant Secretary of the Army for Policy and Procurement – Iraq, or DASA (P&P)-Iraq. The PCO-Washington and the DASA (P&P)-Iraq offices are co-located and work together to bring full cooperative reach-back support to the program and contracting personnel on the ground in Iraq.

In October 2004, the U.S. Central Command designated the Army as the lead component for contracting for Operation Enduring Freedom in the Combined Joint Operations Area, Iraq and Afghanistan, and the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) was established. JCC-I/A provides contracting support under my authority as the Army Acquisition Executive to both the Iraq reconstruction effort and to our combatant commanders in Iraq and Afghanistan. The JCC-I/A is headed by a two-star General Officer who has been designated by me as HCA for Iraq and Afghanistan. This joint command has over 160 people in two theatres of war who are working in dangerous and difficult conditions.

Today, we are in another phase of the Army's mission to support the reconstruction. As the majority of our projects have moved from design to construction, we have responded to this development by asking the U.S. Army Corps of Engineers, Gulf Region Division (GRD), to expand its responsibilities for on-the-ground construction management. PCO has consolidated and

streamlined its organization in association with the GRD in order to increase efficiencies and continue efforts to reduce costs and complete the mission. As of December 4, 2005, the PCO Director in Iraq is the GRD commander. This three-stage evolution from the CPA and PMO, to the PCO, and currently to GRD/PCO and JCC-I/A is truly a good news story that demonstrates how effectively the Army can organizationally readjust and respond to the changing circumstances in a war-time environment and at the same time provide consistent policy guidance and oversight.

CURRENT PERFORMANCE

Together the GRD/PCO and the JCC-I/A are working as a team, with IRMO and the Department of State, in rebuilding Iraq. The GRD/PCO and JCC-I/A operate in full compliance with the Federal Acquisition Regulations and have many success stories that demonstrate our abilities to streamline and adapt acquisition processes to the complex and dynamic environment. As we enter into the third year of this 4 year program, more than 80 percent of the \$13 billion of the \$18.4B in reconstruction funding allocated to the Department of Defense has been obligated. (Attached to this statement is a chart titled *Iraq Reconstruction Program* that depicts the committed, obligated and disbursed dollars).

In total, JCC-I/A has completed over 7,500 contract actions for the reconstruction and critical non-construction material and services, and over 2,800 projects have been started by PCO. Over 2,000 projects have been completed, including nearly 800 schools where more than 300,000 students are being educated; 13 major oil projects to assist in increasing Iraqi oil production; and Army's electricity projects have added or re-habilitated over 1,400 additional megawatts in generation capacity to the national electrical grid. When all water projects are completed, roughly 3.6 million people will have safe drinking water. One hundred and seventy-six water treatment projects have been completed to date, and 90 more are underway. Approximately 3.6 million Iraqis will have

access to drinking water with the completion of these water projects. The majority of these projects were awarded directly to local contractors and local water authorities. We are currently renovating 16 hospitals, constructing a number of new primary health care facilities; restoring the country's railroad system; and constructing 500 kilometers of roadways. Lastly, the GRD/PCO spearheaded a joint effort of all U.S. government agencies to successfully reconstruct the badly damaged Port of Umm Qasr. By the latter part of 2004, \$3.5 billion in material and goods had moved through the port. (Attached is a map titled *Iraq Reconstruction Projects, December 2005, Completed Projects* that depicts the distribution of the completed reconstruction projects).

To facilitate the sustainable operations of our reconstruction projects, our contractors are required to transfer their technical knowledge and skills to Iraqi personnel through thousands of training hours and the provision of contract deliverables including operations and maintenance manuals preventative maintenance plans and databases that contain information on both subcontracting activities and efforts to develop the capacity needed to sustain the infrastructure being built. In the water sector alone, contractors have held more than 140,000 hours of training and capacity development to over 78,000 Iraqi ministry personnel ranging from the facility to the ministry level.

In October 2004, DoS, GRD/PCO and JCC-I/A began shifting the acquisition strategy to make greater use of local Iraqi firms through direct contracting as the local contractor base matured and stabilized. Projects that have been directly contracted to Iraqi firms include electricity transmission and distribution, potable water, roads, and numerous others. Direct contracting has allowed certain projects to be completed faster, cheaper, safer, and more visible to Iraqis. In the Oil Sector, we have tailored the IRRF projects toward engineering and procurement where the state-owned operating companies are directly responsible for construction. To date, over 40 percent of all projects started, or 1,100 projects, have been through direct contracts with the Iraqis.

Stated differently, in dollar volume, we have obligated \$1.3 B to Iraqi companies. Iraqi employment under GRD/PCO reconstruction projects exceeds 50,000 people.

The success that we see on the ground in-theater by IRMO, the GRD/PCO and JCC-I/A is being achieved with a dedicated group of military, civilian and contractor personnel. Both offices operate long hours, seven days a week under extremely volatile conditions. On January 29, 2005, we lost two of our own, Barbara Heald and Navy Lieutenant Commander Keith Taylor, who were killed at their desks by a rocket attack on the U. S. Embassy compound in Baghdad. These are the heroes and the role models for all of us working this important mission supporting democracy.

ACCOUNTABILITY IN IRAQ RECONSTRUCTION

I also want to emphasize the following very important point. The reconstruction program in Iraq has been one of most audited efforts ever undertaken by our government. From the beginning, we welcome this “good government” look at our work. In addition to the Special Inspector General for Iraq Reconstruction (SIGIR), we also have been audited by the Government Accountability Office (GAO), the Defense Contracting Audit Agency (DCAA), the Department of Defense Inspector General (DODIG), the Department of State Inspector General (DOS IG), and the Army Audit Agency (AAA). Our policy throughout this mission has been to work side-by-side with all auditors in order to ensure the proper expenditure and oversight of U. S. taxpayer money allocated by the U. S. Congress. We have also found that they serve a valuable role in helping us execute our mission better and with greater care. As an example, auditors have given us recommendations, which we have worked hard to implement, on improving Cost-To-Complete estimates, improving the documentation of our award fee process for the Design-Build contractors, and

the establishment of a centrally coordinated approach to sustainment issues. In our opinion, the number of auditors both in theatre and in Washington, along with their associated cost, has not been lacking.

Let me also assure you that we work continuously to uphold all U. S. laws and regulations, and that contracts are awarded in complete conformance with the Federal Acquisition Regulations.

CONCLUSION

This historic effort continues to be a temporary program about to begin its third year. As we close year two, over 80% of the work is on contract and over 50% of the payments have been made on completed projects.

In addition to the Iraqi people, the winners in our successful Iraq reconstruction program are the Soldier, the centerpiece of the Army, and the civilians and contractors who have also made the ultimate sacrifice on the battlefield while undertaking this critical national priority. The scale, timeline, and intense security environment of this enormous undertaking are unprecedented. We have built a series of organizations and systems in response to an adaptive and cunning enemy. We have adjusted to the ideas and requirements of a new and evolving Iraqi democracy as they have been presented. We are working hard to understand and to meet the sustainment needs of the projects that have or will be completed; and we are fully engaged with the Department of State on Iraq's capacity building needs with regard to the reconstruction process.

While the challenges have been daunting at times, we have maintained a tremendous sense of urgency and intense operational tempo with regard to our reconstruction mission. We are proud of our accomplishments, and we want the people of this great nation and the Congress which represents them to know of this effort.

In summary, we are an Army at war, a full member of the Joint and Interagency Team, and we are fighting the Global War on Terror while bearing the enormous responsibilities associated with reconstruction. The Army is constantly working to improve the way we do business so that we can better support our soldiers, civilian volunteers, and contractor personnel in the field. Again, to echo President Bush, we benefit from responsible criticism that aims for success. With your continued support, we will succeed.