RECORD VERSION

STATEMENT BY

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IRAQ RECONSTRUCTION: RELIANCE ON PRIVATE MILITARY CONTRACTORS AND STATUS REPORT

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Thank you for this opportunity to report to you on the United States Army's involvement in Iraq reconstruction and troop support, particularly with regard to U.S. Army contracts for reconstruction and troop support activities. It is my privilege to represent U.S. Army leadership as well as the dedicated military and civilian members of the contracting workforce who have been at the forefront in the rebuilding of Iraq. Our work and our success to date would be impossible without the tremendous support the Army receives from you, the Members of the Committee on Oversight and Government Reform. We thank you for your wisdom, advice, and guidance.

The U.S. Army contracting workforce has two very important missions in Iraq: to support reconstruction contracting and to provide support for the troops. Contracting to support reconstruction is carried out by the Joint Contracting Command – Iraq/Afghanistan (JCC-I/A) under the acquisition authority of the U.S. Army. JCC-I/A also provides support to the Multi-National Security Transition Command – Iraq (MNSTC-I) in training and equipping Iraqi Forces and to the U.S. Government's mission in Afghanistan. Support to U.S. and Coalition forces is provided under the Logistics Civil Augmentation Program (LOGCAP-III) contract under the auspices of the U.S. Army Material Command (AMC).

The mission in Iraq is one of constant change. Under the reconstruction, JCC-I/A has moved over time from large design/build contracts to firm fixed price contracts with Iraqi firms in an effort to reduce security costs and to provide economic opportunity to the Iraqi people. Support to Iraqi Forces has increased as we have worked to hand over the fight for freedom and the battle against the insurgency to the Iraqi Government. The LOGCAP contract is also changing as we move away from one contractor as currently exists under LOGCAP-III to multiple contractors under LOGCAP-IV.

Regardless of the contract vehicle, however, one thing has and will remain constant over time: our commitment to ensuring that all contractors who support the military and reconstruction efforts in Iraq comply with the terms and conditions of their contracts. There is no flexibility or negotiation or compromise in this commitment. We will use all appropriate provisions available to us under the Federal Acquisition Regulations to hold contractors accountable.

The last time I testified before this Committee, I was asked about a letter from the Secretary of the Army dated July 14, 2006. The letter from the Secretary was sent in response to allegations that there was a subcontractual relationship between Kellogg, Brown and Root Services, Inc. (KBRS), ESS Worldwide Services (ESS), Regency Hotel & Hospital Company (Regency), and Blackwater Security Services (Blackwater). The Secretary's letter stated that, based on information provided by KBRS to the U.S. Army, KBRS had never directly hired a private security contractor in support of the execution of a statement of work under any LOGCAP-III Task Order. Additionally, the letter stated, "KBR has queried ESS and they are unaware of any services under the LOGCAP contract that were provided by Blackwater USA." I was asked if that letter was accurate. I responded that Secretary Harvey's letter was correct, but that I would again look into the matter.

Following the hearing, AMC's major subordinate command, the U.S. Army Sustainment Command, continued to pursue information on this important matter. As a result of extensive research, and U.S. Army correspondence with ESS/Compass Group and KBRS, ESS recently confirmed to KBRS and the U.S. Army that they obtained security services. ESS built and operated dining facilities (DFAC) both as a direct contractor to the U.S. Government and as a subcontractor to KBRS and other companies. On January 30, 2007, we learned that ESS engaged Blackwater through Regency Hotel and that ESS employed private security primarily to protect its management employees traveling in Iraq and to transport currency to pay vendors and employees. Based on information

we received from KBRS, we understand that these security costs, which were not itemized in the contracts or invoices, were factored into ESS' labor costs under its DFAC service contracts with KBRS under LOGCAP III.

The U.S. Army is continuing to investigate this matter and we are committed to providing full disclosure of the results of our investigations to the Committee. If KBRS violated the terms and conditions of the LOGCAP-III contract and knowingly or unknowingly incurred costs for private security subcontractors under the LOGCAP-III contract, the U.S. Army will take appropriate steps under the terms of the contract to recoup any funds paid for those services.

The last time I testified before this Committee, I also listed a few reconstruction accomplishments of Defense Department implementing agencies. Today, I can add to that list. Of the $13.5 billion in Iraq Relief and Reconstruction funds apportioned to the Department of Defense, $10.462 billion or 77.4% has been disbursed. In addition, twelve hospitals serving over 6000 patients a day have been refurbished, water treatment capacity now serves an estimated 2.2 million Iraqis, electrical generation projects have added 1,420 megawatts to the power grid, crude oil production capacity has increased though extenuating circumstances have kept production from reaching full potential, and 839 schools providing classrooms for over 350,000 students have been constructed or rehabilitated. I would also like to add that according to the Special Inspector General for Iraq Reconstruction (SIGIR) over 80% of the projects in Iraq have met contract specifications.

In conclusion, we are proud of the dedication, commitment and hard work of our contracting workforce in supporting our troops and rebuilding Iraq.