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United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General

Middle East Regional Office

Interim Report on Role, Staffing, and Effectiveness of the Regional Embassy Office in Hillah, Iraq

Report Number MERO-IQO-09-04, April 2009

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**United States Department of State
and the Broadcasting Board of Governors**

Office of Inspector General

PREFACE

This report was prepared by the Office of Inspector General (OIG) pursuant to the Inspector General Act of 1978, as amended, and Section 209 of the Foreign Service Act of 1980, as amended. It is one of a series of audit, inspection, investigative, and special reports prepared by OIG periodically as part of its responsibility to promote effective management, accountability and positive change in the Department of State and the Broadcasting Board of Governors.

This report is the result of an assessment of the strengths and weaknesses of the office, post, or function under review. It is based on interviews with employees and officials of relevant agencies and institutions, direct observation, and a review of applicable documents.

The recommendations therein have been developed on the basis of the best knowledge available to the OIG and, as appropriate, have been discussed in draft with those responsible for implementation. It is my hope that these recommendations will result in more effective, efficient, and/or economical operations.

I express my appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in black ink, appearing to read "H. W. Geisel".

Harold W. Geisel
Acting Inspector General

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INTRODUCTION

The Administration is currently conducting a policy review for Iraq. As part of the Office of Inspector General's (OIG) ongoing examination of the role, staffing, and effectiveness of Regional Embassy Offices (REO) in Iraq (09MERO3003), OIG's Middle East Regional Office (MERO) is issuing this interim report on the REO in Hillah, Babil Province, to provide information and assist the Administration, Congress, and the Department of State in these important deliberations.

According to Embassy Baghdad, the Department of State (Department) spends more than \$75 million annually, and employs nearly 700 people to secure, operate, and maintain the REO in Hillah (Babil province). Based on an analysis supplied by the Embassy, OIG calculates it costs the Department \$6.5 million a month to operate REO Hillah. The closure of the REO by May 2009 could result in a cost savings of more than \$32 million in fiscal year 2009.

In light of the costs involved, the Embassy has stated it is issuing "stop work orders" on all non-life safety capital projects at REO Hillah, as it has done at REO Basra. OIG strongly encourages continuation of such efforts. OIG further recommends the Department consider relocating Provincial Reconstruction Team (PRT) Babil and other U.S. Government employees to the U.S. Army's Patrol Base Hillah situated on an Iraqi Army base, curtailing or transferring security and support staff to other locations within Iraq, and decommissioning and returning the Hillah hotel property to the Iraqi Government.

BACKGROUND

REO Hillah was established in June 2004 on the site of the former regional headquarters of the Coalition Provisional Authority for south-central Iraq. The REO comprises of a hotel (now used primarily as office space), dining facility, hard-covered containerized housing units, gymnasium, conference facility, helicopter landing zone, fuel depot, maintenance shops, and weapons firing range. KBR is the primary contractor for life support services, operations and maintenance, and capital improvements. Blackwater USA (now the U.S. Training Center),¹ with Regional Security Office oversight, is responsible for static perimeter security and personal protective services. The U.S. Army Forward Operating Base (FOB) South Fork is adjacent to the REO compound.

REO Hillah mainly served as the headquarters and logistical platform for the PRTs operating in Babil, Karbala, Najaf, and Qadisiyah. However, in early 2008 three of the PRTs — Karbala, Najaf, and Qadisiyah — deployed to their respective provinces, leaving only PRT Babil at the REO. See Appendix II for map.

Embassy Baghdad calculates an annual security cost of \$55 million to support approximately 300 Blackwater (U.S. Training Center) personal security specialists and a perimeter guard force. The annual life support costs for approximately 350 KBR and locally employed Iraqi staff are estimated at \$20 million. See Appendix III for information on the actual number of personnel assigned to REO Hillah.

¹ The entity formerly known as Erik Prince Investments is now called Xe. Its subsidiary, Blackwater Lodge and Training Center, held the second Worldwide Personal Protective Services (WPPS II) contract. Blackwater Lodge and Training Center has changed its name to the U.S. Training Center.

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EMBASSY BAGHDAD ACTIONS

In November 2008, the Ambassador approved a recommendation from Embassy Baghdad's Office of Provincial Affairs (OPA) to create an inter-agency team to develop a plan for closing REO Hillah by October 2009, and to relocate PRT Babil to an Iraqi army base with U.S. forces. The action memo to the Ambassador noted that basing PRT Babil at Patrol Base Hillah (on the Iraqi Army base) would dramatically lower the PRT's security profile and eliminate associated REO maintenance costs. Further, closing REO Hillah would eliminate the need for future high-cost projects, such as the planned leasing of additional land for a larger helicopter landing zone, and electrical and plumbing upgrades to the hotel. This plan was to be completed by February 28, 2009.

The inter-agency team convened on January 8, 2009, to discuss developing a plan to close REO Hillah. On February 17, 2009, in comments on a draft of this report, senior Embassy Baghdad officials informed the OIG team they were looking at all factors regarding REOs and PRTs. However, embassy officials further noted that the fluid situation in Iraq would delay development of a plan to close REO Hillah and relocate the PRT to Patrol Base Hillah until later this spring, after the Administration completed its policy review. These officials also urged OIG to consider the impact of the REO's closure on the approximately 50 other U.S. Government employees who reside there.

GOVERNMENT OF IRAQ POSITION

The Tourism Board of the Iraq Ministry of State Tourism and Antiquities Affairs claims to be very eager to repossess the hotel at REO Hillah and be compensated for rent and associated damages. An Embassy Baghdad official noted that returning the one major hotel in Hillah to the Iraqi Government could contribute to developing tourism, one of Babil Province's strategic goals, in an area that includes historic Babylon and Borsippa. Further, dismantling the security perimeter and equipment, and returning the REO compound to Iraqi control would be tangible evidence of PRT Babil's success and a return to normalcy.

TRANSFER OF REO PERSONNEL TO PATROL BASE HILLAH

The U.S. Army's 1st Squadron, 10th Cavalry Regiment (1-10 CAV) plans to relocate its Military Transition Teams currently at FOB South Fork onto Patrol Base Hillah, which is within an Iraqi army base, and is approximately 3 miles from the REO compound. The 1-10 CAV senior staff officers informed the OIG team they, with their chain of command, will support the relocation of PRT Babil to their area on the military base. According to these officers, the commanding Iraqi brigadier general also supports PRT Babil relocation and the expansion of Patrol Base Hillah. An Embassy Baghdad official noted that co-locating the PRT with the U.S. Army would enhance the PRT's mobility, strengthen coordination with U.S. forces, and increase its ability to interact with Iraqi officials like other PRTs. Adding an Iraqi face to PRT operations would also be strategically beneficial.

U.S. military and REO officials, as well as PRT members, told the OIG team they have frequently discussed the logistics of relocating REO personnel to Patrol Base Hillah. These officials stated that once a firm decision has been made to close REO Hillah, they can transfer all personnel and equipment within 2 months. The Department would be required to reimburse the U.S. military for life support costs; however, OIG reasons these costs would be a fraction of the current \$20 million annual life support costs at REO Hillah.

STATUS OF PRT BABIL'S MISSION

OPA has developed a PRT “maturity model” to systematically assess and describe the evolution and maturation of provincial government and private sector leadership behavior. The model measures maturity against the core PRT objectives of governance, political development, rule-of-law, political reconciliation, and economic development. There are five levels of progress toward maturity, from “beginning” to “self-reliance.” The model also describes PRT “drawdown criteria” that include protracted sustainability (third level of progress) in four of five categories.²

According to an OPA assessment for a period ending on November 30, 2008, Babil Province’s government and private sector leadership maturity has reached the protracted sustainability level in four of the five maturity measurement categories; governance is at the developing level. This assessment suggests that Babil Province is well on its way to self-reliance, and that PRT Babil is progressing towards accomplishment of its goals and objectives. Consequently, the Department should consider downsizing or even closing PRT Babil in the near future. This action would further reduce Department expenditures by reducing or eliminating transfer and support costs to move the PRT to Patrol Base Hillah.

² When a province reaches the “sustainable” performance level (third of the five progressive levels) in four of the five categories (governance, political development, reconciliation, and rule-of-law), and “developing” (second of five progressive levels) in the remaining category (economic development), it triggers an assessment of the continued need for PRT support. The level of economic development is set lower because economic progress is more strongly influenced by national and international, rather than provincial, trends and conditions.

CAPITAL IMPROVEMENT PROJECTS

For fiscal year 2009, the Department has 10 ongoing or planned capital improvement projects at REO Hillah valued at \$3.8 million. As of January 2009, \$2.3 million had not yet been spent. OIG suggests there could be additional cost savings in canceling projects not yet started and terminating those projects underway, if permitted by contract. OIG notes that Embassy Baghdad, in a similarly uncertain environment and facing decisions on capital improvement spending at REO Basra, proactively issued “stop work orders” for all non-safety capital projects. The Embassy informed OIG it is issuing similar “stop work orders” for projects at REO Hillah. At REO Hillah, these capital improvement projects are:

- Three projects valued at \$1.4 million, not yet started, to replace containerized housing units, extend the helicopter landing zone, and renovate the “Morale, Welfare, and Recreation” room at the REO.
- Four projects, 15 percent completed with \$235,000 not yet spent, to install T-walls, fill in a water canal, modify guard towers, and maintain power generation.
- Three projects, 25 to 73 percent completed with \$643,000 not yet spent, for electrical generation, shooting range construction, and construction for vehicle protection.

CONCLUSION AND RECOMMENDATIONS

With an annual operating cost of more than \$75 million, REO Hillah is an expensive way to support a single PRT. To their credit, officials at Embassy Baghdad and REO Hillah recognize this fact and have recommended developing a plan to close the REO by October 2009. OIG agrees that REO Hillah should be closed, but recommends the Department consider accelerating the timeframe for closure, if foreign policy permits. The OIG team has confirmed that space exists for PRT Babil at Patrol Base Hillah, and personnel and equipment could be transferred within 2 months. OIG appreciates that the situation in Iraq is fluid. Embassy Baghdad has many issues to address with the anticipated U.S. military drawdown and the recent transfer to the new embassy compound. Nonetheless, closure of REO Hillah will mean significant cost savings for the Department and would further U.S. policy goals of normalizing relations with the Iraqi Government.

Based on the current status of the Administration's policy review for Iraq, and factoring in the high cost of operating REO Hillah, OIG concludes the Embassy should consider closing REO Hillah within the next 2 to 4 months based on the estimates provided to the Embassy. OIG has the following specific recommendations:

Recommendation 1: Continue the stoppage or curtailment of all capital improvement projects at REO Hillah.

Recommendation 2: Relocate PRT Babil and other U.S. Government employees to the U.S. Army's Patrol Base Hillah.

Recommendation 3: Curtail or transfer REO Hillah security and support staff to other locations in Iraq.

Recommendation 4: Decommission and return the Hillah hotel property to the Iraqi Government.

EMBASSY BAGHDAD COMMENTS AND OIG RESPONSE

In commenting on a draft of this report, Embassy Baghdad stated that the report was issued prematurely and did not take into account the current circumstances and uncertainties in Iraq. Accelerating the closure and relocation process would undermine an existing process that is moving forward at a measured pace. (The Embassy's comments are reprinted in their entirety in Appendix IV.) Embassy Baghdad officials also provided oral comments to the OIG team, which have been incorporated into this report as appropriate.

Embassy Baghdad stated its working group found several issues and uncertainties that will need to be addressed before closure/relocation of REO Hillah could occur. First, the land to be used for the PRT is owned by the Iraqi Ministry of Defense. Before any PRT move, the exterior walls would need to be extended to encompass the PRT space, the land would need to be leveled, and a canal would need to be moved. There is also a rumor that the Iraqi army brigade at the base has been tapped to move to the Iranian border for operations there. Second, the Embassy disagreed with the 2-month timeframe for the PRT relocation, and stated its original October 2009 timeline is more realistic. Third, policy considerations argue for not disrupting PRT Babil's operations at this critical time following the January provincial elections. Closing and relocating now would distract both the PRT and its supporting military unit, and impede progress on the PRT's central mission. Finally, the Embassy stated, as part of OPA's ongoing review of the PRT program, it is examining the strategic importance of all Iraqi provinces using a cost-benefit analysis to determine where to accelerate closures of some PRTs to focus resources on areas of greatest strategic need.

OIG fully understands the nature of present-day Iraq and the uncertainties facing the Embassy. However, simply stated: time is money, and the existing embassy process with its measured pace for considering the closure and relocation of REO Hillah may not be appropriate. The current configuration of cost (\$75 million annually) and personnel (700 people, to secure, operate, and maintain REO Hillah) is not justifiable, especially since the PRT Babil's 37 members have nearly accomplished their reconstruction and governance mission.

OIG recognizes the possibility of disruptions in PRT Babil activity as part of relocation. Nonetheless, PRT personnel will still be able to carry out their central mission during this transition phase, and the disruption would be offset by the sig-

nificant tangible savings resulting from an earlier move. Each month the Embassy continues operating at REO Hillah costs the Department \$6.5 million. Therefore, OIG stands by its recommendation to accelerate the relocation of PRT Babil and the closure of REO Hillah, with the understanding that circumstances in Iraq may change.

The following staff members conducted the evaluation and contributed to this report: Herbert Brown, Patrick Dickriede, Kelly Herberger, Hugh Iwanicki, and Richard Pemberton. OIG appreciates the courtesies extended to the MERO staff by Embassy Baghdad.

ABBREVIATIONS

1-10 CAV	U.S. Army's 1st Squadron, 10th Cavalry Regiment
FOB	Forward Operating Base
Department	Department of State
MERO	Middle East Regional Office
OIG	Office of Inspector General
OPA	Office of Provincial Affairs (Embassy Baghdad)
PRT	Provincial Reconstruction Team
REO	Regional Embassy Office

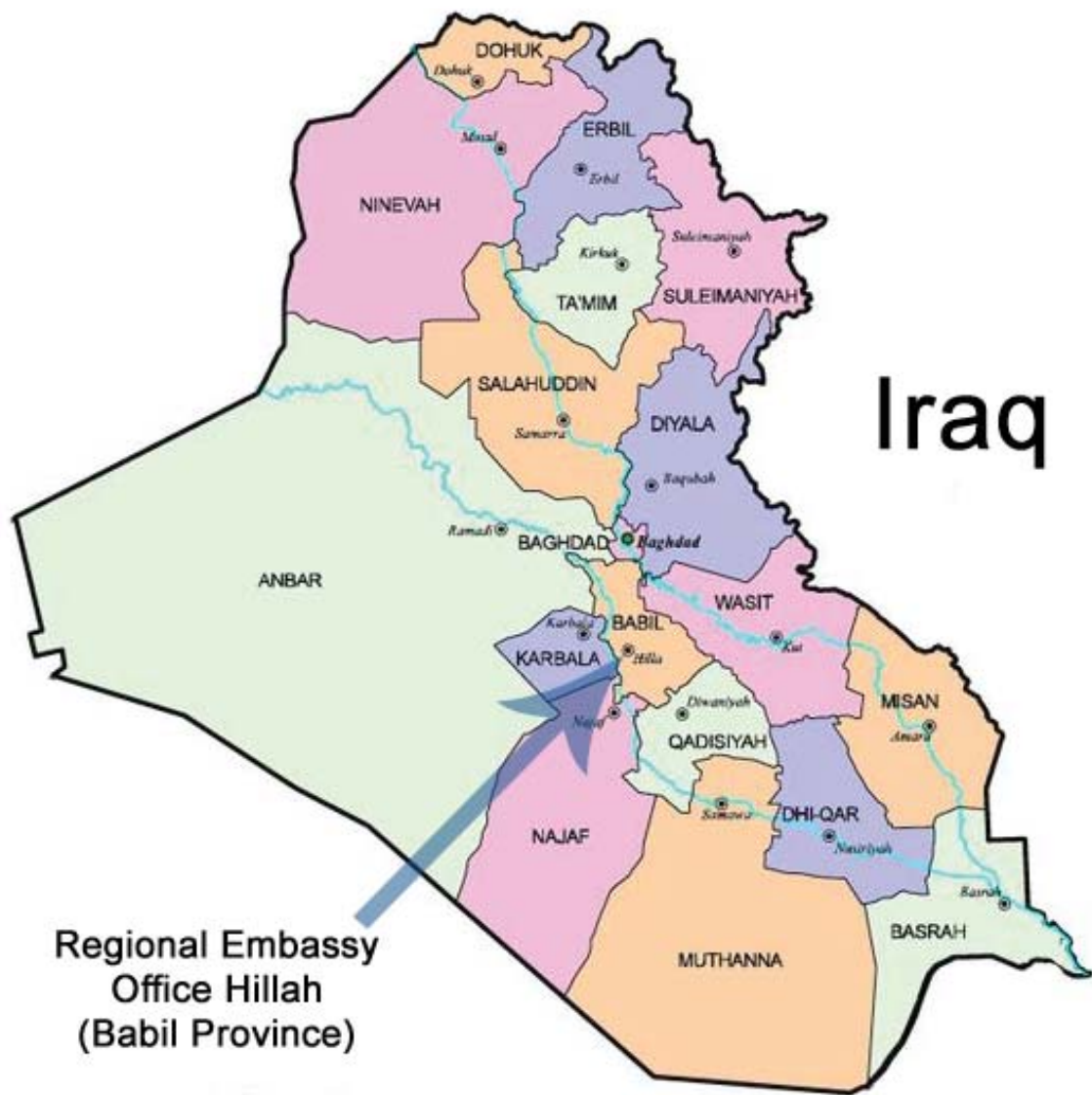
APPENDIX I - PURPOSE, SCOPE, AND METHODOLOGY

The Middle East Regional Office (MERO) in the Office of Inspector General (OIG) initiated this evaluation on December 3, 2008, to assess the continued operation of the Regional Embassy Office (REO) Hillah in support of U.S. Government organizations. OIG reviewed agencies' mission and program documents, analyzed REO Hillah's organizational structure and costs, and observed activities to evaluate the REO's performance, effectiveness, efficiency, and the need for its services. In addition, OIG acquired and reviewed program and support planning documents from REO Hillah and Embassy Baghdad's Office of Provincial Affairs (OPA), which has oversight of REOs and the Provincial Reconstruction Team (PRT) program. OIG also met with the following officials:

- At Embassy Baghdad, OIG held discussions with the director, deputy director, and chief of staff of OPA; the senior regional security officer and security officers in charge of security at REOs and PRTs; the chief of staff from the office of the deputy chief of mission; the financial management officer and the senior facilities manager from the Office of Management.
- At REO Hillah, OIG held discussions with the REO director, the team leader of PRT Babil, and the regional security officer responsible for managing security operations. In addition, OIG held a teleconference with the executive officer and the operations officer of the U.S. Army unit at Forward Operating Base South Fork, adjacent to REO Hillah.

OIG conducted this evaluation from December 2008 until February 2009. OIG did not use computer processed data to perform this evaluation. OIG conducted this evaluation in accordance with the quality standards on inspections and evaluations issued in January 2005 by the Council of Inspectors General on Integrity and Efficiency.

APPENDIX II - PROVINCIAL MAP OF IRAQ



APPENDIX III: REO HILLAH ACTUAL POSITIONS
SUMMARY AS OF JANUARY 19, 2009

Agency	Resident	Non-Resident	Section Total
KBR (formerly Kellogg, Brown, & Root)	140	208	348
Regional Security Office (including Blackwater, now U.S. Training Center)	299	4	303
1 st Squadron, 10 th Cavalry	200	30	230
Provincial Reconstruction Team Babil	30	7	37
U.S. Army Corps of Engineers	19	15	34
Regional Embassy Office	6	14	20
Other Agencies	20	0	20
Department of Defense- Civil Affairs	15	4	19
U.S. Agency for International Development	2	5	7
Signals/Technical Operations Center	6	0	6
International Narcotics and Law Enforcement Affairs/DynCorp	3	0	3
Army Post Office	3	0	3
TOTAL	743	287	1030

Source: REO Hillah

APPENDIX IV: EMBASSY BAGHDAD COMMENTS

Embassy of the United States of America
Baghdad, Iraq



February 22, 2009

INFORMATION MEMORANDUM
UNCLASSIFIED

TO: Inspector General – Harry W. Geisel

THRU: Charge d’Affaires a.i – Patricia A. Butenis

FROM: OPA Director – Phyllis M. Powers

SUBJECT: Baghdad’s Comments on OIG/MERO Hillah Draft Report

Background

Embassy Baghdad has received the February draft report submitted by the OIG’s Middle East Regional Office (MERO) on the closure of Regional Embassy Office (REO) Hillah closure and relocation of PRT Babil. We understand the time sensitive nature of MERO’s inspection, and the great Congressional interest on this topic. In our view, however, this draft report was issued prematurely and did not take into account the current circumstances and uncertainties on the ground.

As the draft report notes, OPA, with approval of Ambassador Crocker, had formed and convened an inter-agency working group to develop a plan for closing REO Hillah and relocating PRT Babil to an Iraqi Army base with U.S. forces. Based on site surveys and consultation with a brigade engineer, the working group has determined that the closure and relocation could be accomplished by October 2009. At this time, the group is still awaiting pertinent information from which to prepare a more precise timetable for the closure and relocation.

Accelerating the closure and relocation process, as recommended in the MERO draft, may not be feasible given current uncertainties. Moreover, it would only undermine an existing process that is moving forward at a measured pace.

Key Themes

The Babil working group, comprising all stakeholders, formed in mid December in accordance with front office and OPA guidance. The group agreed on and put forth the same recommendations that OIG/MERO offered in their draft – except that our time table would have the REO closed and PRT moved by the end of fiscal year 2009.

Elements of the 1-10 CAV Brigade make up the U.S. military contingent at Patrol Base (PB) Hillah, and they are collocated with the HQ for the 31st Brigade of the Iraqi Army (IA). Representatives of the working group have traveled to PB Hillah for a site survey with a brigade engineer. Our working group found several issues and uncertainties that will need to be addressed before closure/relocation of the REO could occur.

First, the land to be used for the PRT is owned by the Iraqi Ministry of Defense and is outside the perimeter of the current base configuration. Before any PRT move, the exterior walls would need to be extended to encompass the PRT space, the land would need to be leveled, and a canal would need to be moved. There is also a rumor that the IA brigade there has been tapped to move to the Iranian border for operations there. We are in the process of running that rumor to ground, but if true, this could render moot any question of relocating the PRT to the proposed site.

Second, we disagree with the two-month timeframe for relocation that is cited in the draft report. The preparatory work alone – extending perimeter walls, leveling land and moving a canal – would take at least that long, and then additional time would be needed before any life support build up could begin. The brigade engineer with whom we consulted told us that life support construction would take approximately two months, not including the preparatory work for the building. Given the construction requirements that will need to be met, our original October 2009 time line is more realistic.

Third, policy considerations argue for not disrupting PRT Babil's operations at this critical time following the January provincial elections. As the MERO draft report notes, Babil province had achieved at least a low "sustainable" rating for a four out of the five of their lines of action in the OPA Maturity Model assessment of provincial capacity. The next Maturity Model reporting is due at the end of this month – i.e., the month that the provincial election results will be announced. The new provincial council will be seated in April, and it is important that the

PRT be able to engage immediately with the new provincial officials. Closing and relocating now, as called for by MERO's draft report, would distract both the PRT and its supporting military unit, and impede progress on the PRT's central mission.

Finally, as part of OPA's on-going review of the PRT program, we have established an interagency sub-working group to review the strategic importance of all Iraqi provinces. Their findings will enable us to make decisions based on a cost-benefit analysis of where we should continue to place resources and where we should accelerate closures of some PRTs in order to focus resources on where strategic need is greatest.

Drafted:
OPA/SDO:WYates
x 4064

Cleared:
OPA:LPlatt
MGMT:SPage;KAustin-Ferguson
RSO:MHipp

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