It has been two years since my appointment as Inspector General for the Coalition Provisional Authority (CPA-IG). Shortly after that appointment, I embarked on my first trip to Iraq to assess how to establish effective oversight of the CPA’s programs and operations.

After stepping off the plane in Baghdad in February 2004, I quickly recognized the scope of the enormously complex and significant mission that confronted us and the lethal, chaotic environment in which we would have to do our work. I told my staff that our overarching goal would be to provide oversight that promoted economy, efficiency, and effectiveness and prevent fraud, waste, and abuse.

By the time the CPA-IG was fully operational in Baghdad, only a few months remained before CPA’s tenure expired. The end of the CPA in June 2004 signaled the potential end of the CPA-IG, but the publication of our July 2004 Report caused the Congress to conclude that there was a need for continuing oversight in Iraq. Billions of dollars and the future of Iraq reconstruction were at stake. And the Congress responded by re-designating the CPA-IG as the Special Inspector General for Iraq Reconstruction (SIGIR) and assigning it the important mission of overseeing the Iraq Relief and Reconstruction Fund.

Now, nearly two years since the inception of our unique oversight organization, I am pleased to submit SIGIR’s eighth Quarterly Report to Congress and to the Secretaries of State and Defense. With the issuance of this Report, SIGIR has completed 40 final audit reports and 29 detailed assessments and inspections that collectively provide an important perspective on U.S. progress in Iraq.

President Bush correctly observed in December 2005 that “in all three aspects of our strategy—democracy and security and reconstruction—we're learning from our experiences [in Iraq], and we're fixing what hasn't worked.” SIGIR has played an important role in contributing to both the “learning” and the “fixes.” When SIGIR auditors and inspectors identify a need for changes in reconstruction practices, procedures, or policies, they provide immediate guidance to reconstruction management about necessary action. Our Reports document that reconstruction managers tend to concur with SIGIR recommendations, and they have usually taken immediate steps to implement money-saving modifications. This process amounts to “real-time” auditing—oversight that remains independent but is designed to effect rapid improvement.

Throughout 2005, SIGIR played an important role in identifying key issues confronting and impeding the U.S. reconstruction effort in Iraq. For example, SIGIR inquiries signaled deficiencies in the information management systems for reconstruction projects, and SIGIR pressed for measures, now underway, to ameliorate this serious shortfall. SIGIR illuminated the need for securing concrete policies that will ensure that reconstruction projects are sustainable when they are finally turned over
to Iraq. This prompted a new emphasis on the need to provide additional funding for capacity-building operations and maintenance programs. The need for more funding has reached a critical point; there is a compelling basis to increase support for sustainability. SIGIR pointed out problems with the contractor award-fee processes, and those problems were fixed before our Report was issued. And we identified and brought attention to the "reconstruction gap" that exists between initial reconstruction expectations and current reconstruction outcomes.

The recent arrests of four individuals charged with criminal fraud committed in Iraq underscores the axiom that oversight works well when it works hard. And oversight would have worked even better if SIGIR had been in Iraq from the beginning. By the time I was appointed Inspector General in January 2004, the recently arrested perpetrators were already months into their criminal scheme. We had to play catch-up to track them down and bring them to justice.

SIGIR continues to support national capabilities for stabilization and reconstruction by documenting the Iraq reconstruction experience in an analytic report of lessons learned. A key lesson of the SIGIR experience is that oversight works best when it is up-front, highly visible, and forward-leaning. Recently, the Congress again extended our mandate, and as we complete our first two years in Iraq and move into a year of transition, SIGIR will continue to execute its important mission while always remembering those who have sacrificed so much for the successes achieved so far in Iraq. At the same time, we want the relatively few who believe they will never be called to account for their misdeeds to know that SIGIR is on the case, and we will be seeing them soon.

Submitted January 30, 2006

Stuart W. Bowen, Jr.
SIGIR SUMMARY OF PERFORMANCE
February 1, 2004 – January 31, 2006

AUDIT
Reports issued 40
Recommendations issued 107

INSPECTIONS
Special Assessments issued 29
Limited preliminary assessments issued 60
Satellite imagery reports issued 53

INVESTIGATIONS
Investigations initiated 91
Investigations closed 34
Open investigations 57
Arrests 4
Value of assets seized/recovered $6,669,904

HOTLINE CONTACTS
Fax 12
Telephone 53
Walk-in 108
E-mail 233
Standard mail 21
Referrals 23
Total Hotline Contacts 450

NON-AUDIT PRODUCTS
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OVERVIEW
2006: A YEAR OF TRANSITION IN IRAQ RECONSTRUCTION
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   The Reconstruction Gap
   Sustainability
   Cost-to-complete Estimates
   Anticorruption Efforts in Iraq
   Information Systems Management
   The Human Toll
During the past quarter, the Special Inspector General for Iraq Reconstruction (SIGIR) continued to advance aggressive oversight of the use of U.S. funds in Iraq’s reconstruction. In executing its responsibilities, SIGIR promotes the efficiency and effectiveness of the U.S. reconstruction program and ensures that taxpayer dollars are spent wisely. Moreover, SIGIR’s role in Iraq’s reconstruction aims to help secure the overall success of the U.S. effort and thereby honor the sacrifices of the soldiers and contractors killed or wounded.

SIGIR’s most notable achievements during the past quarter were the arrests of four U.S. citizens for bribery, fraud, and theft involving Iraq reconstruction funds on contracts valued at more than $13 million. These arrests signal that the United States is unequivocally committed to fighting corruption and promoting accountability on all fronts in Iraq.

SIGIR’s Audit and Inspections divisions continued to focus oversight on the reconstruction gap, the cost to complete reconstruction projects, the sustainability of completed projects, the effort to fight corruption in Iraq, and the persistent need to develop an effective reconstruction project database. Future audits and inspections will provide further reporting on these and other issues.

With the issuance of this Quarterly Report, SIGIR introduces the review of a new issue—transition.

2006 will be a year of transition for the U.S. reconstruction program in Iraq. The successful December 2005 elections launched Iraq into a new phase of its history. The first government elected under Iraq’s new constitution is now forming and will soon assume responsibility for managing Iraq’s economy and infrastructure. These developments will fundamentally alter the nature of the U.S./Iraq relationship on many levels, including reconstruction.

By the end of FY 2006, the United States expects to have fully obligated the Iraq Relief and Reconstruction Fund (IRRF)\(^1\). IRRF dollars represent only a portion of the amount estimated by the World Bank and United Nations (UN) to be necessary to restore Iraq’s infrastructure, and the IRRF has provided a substantial down payment on what will be a lengthy restoration process. The progress made thus far with U.S. reconstruction funds has supplied the new Iraqi government with a significant start toward establishing an effective infrastructure and eventual prosperity.

As more and more IRRF projects are
completed, the U.S. agencies and elements that currently manage and implement the overall U.S. reconstruction effort—including the Iraq Reconstruction Management Office (IRMO) and the U.S. Army Corps of Engineers Gulf Region Division Project and Contracting Office (GRD-PCO)—will implement transition strategies to ensure that completed projects and related assets are turned over to the appropriate Iraqi officials who have the training and budgetary resources necessary to sustain them. As the transition process gains momentum, the U.S. reconstruction presence in Iraq will begin to shift toward foreign assistance programs managed by the Department of State (DoS) and the U.S. Agency for International Development (USAID).

Regarding the reconstruction transition, SIGIR has several concerns:

- Do all of the U.S. reconstruction implementing agencies in Iraq have strategic plans in place for transitioning their respective parts of the reconstruction program?
- Are there sufficient resources to support capacity development for national and local government officials, operations and maintenance, infrastructure security, development of strategic cities, and private sector development?
- Have Iraqi officials sufficiently budgeted and planned for the essential maintenance of the new, U.S.-provided infrastructure?
- Is the United States prepared to sustain the reconstruction presence required to complete planned projects that may take another three or four years to complete?

SIGIR has learned that an IRMO transition team is reviewing the critical issue of funding sustainment in the near term. Additionally, the Department of Defense (DoD) and DoS have begun transition planning for their respective areas of responsibility. This quarter, USAID presented a plan for transitioning U.S. assistance from the infrastructure-focused IRRF reconstruction effort to a more traditional technical assistance strategy. Thus, there are significant signs that transition planning is being implemented. But the importance of this issue compels SIGIR to announce a new audit.

Are there sufficient resources to support capacity development for national and local government officials, operations and maintenance, infrastructure security, development of strategic cities, and private sector development?
SIGIR OBSERVATIONS

CONTINUING CHALLENGES

that will review all reconstruction transition planning. SIGIR continues to follow a number of critical issues raised in earlier Quarterly Reports:

• the “reconstruction gap”
• sustainability
• cost-to-complete estimates
• anticorruption efforts in Iraq
• information systems management

The Reconstruction Gap

The SIGIR October 2005 Quarterly Report initially examined the “reconstruction gap”—the difference between what was originally planned for reconstruction in the various sectors and what will actually be delivered. This is not an alarm bell but merely an observation of a current reality: changing conditions in Iraq, including deteriorating security conditions and evolving political and economic priorities required IRRF reprogramming that altered sector funding levels and projected outcomes.

This quarter, SIGIR conducted an audit of the reconstruction gap that found that the U.S. government will not complete the number of projects anticipated by the IRRF program allocations in the November 2003 legislation. In two key sectors, the audit found these notable shortfalls:

• Of the 136 projects originally planned in the Water sector, only 49 (36%) will be completed. Most of the projects planned in sewerage, irrigation and drainage, major irrigation, and dams have been terminated. DoS reports that Iraq’s water treatment capacity will be increased only by 2.25 million cubic meters per day.
• Of the 425 projects originally planned by CPS in the Electricity sector, only 300 (70.5%) will be completed. Of the 3,400 additional megawatts planned for the Generation sub-sector, only 2,200 megawatts will be delivered.

These shortfalls are substantially attributable to the autumn 2004 IRRF reprogramming, which reduced the allocations to the Water sector from $4.3 billion to $2.1 billion (down 51.2%). The Electricity sector dropped from $5.560 billion to $4.309 billion (down 22.5%). Allocations to certain other sectors concomitantly increased: the Private Sector Development sector grew by 420%, and the Justice, Public Safety, Infrastructure, and Civil Society sector rose by 70%.

A number of factors combined to make these program changes necessary, the most significant being the rise of the insurgency. A new strategy that was more responsive to the new security and political situation in Iraq resulted in the reallocation of $5.6 billion in IRRF funding. Additionally, administrative costs of the U.S. agencies using the IRRF produced approximately $425 million in program changes. Another $350 million is now budgeted for new sustainment activities that were not included in original planning. Finally, the following factors have also contributed to the reconstruction gap:

• inadequate or non-existent cost estimates for many projects in the original November 2003 plan
SIGIR OBSERVATIONS

- increased costs of materials, particularly in the Oil and Gas sector, aggravated by smuggling of subsidized construction materials across Iraq’s borders
- high costs of contractor security
- high costs of project delays caused by intimidation and violence
- evolving reconstruction priorities to fit the Multi-National Force-Iraq campaign plan and political requirements
- lack of oversight of reconstruction projects as they developed

Security has been a significant cost-driver. In July 2004, DoS reallocated $1.8 billion to training and equipping Iraqi security forces and associated expenditures. Security costs for contractors have risen on average from an initial 10-12% to more than 25%, adding greatly to the costs of major construction projects. The need for this increase in security spending is demonstrated most clearly by the number of contractors kidnapped, wounded, and killed since March 2003. Intimidation of workers continues to delay projects, and the insecure environment has driven away critically needed foreign technicians in the essential services sectors.

Sustainability
SIGIR has repeatedly emphasized the importance of ensuring the sustainability of U.S. reconstruction efforts in Iraq and commended the early efforts by IRMO, PCO, and USAID officials to include sustainability costs in project budget planning. But SIGIR continues to be concerned about the realization of sustainment goals. SIGIR believes that more resources must be allocated to sustainability. Sustainability is defined as the ability of a program to deliver its intended benefits for an extended period of time after major financial, managerial, and technical assistance from an external donor is terminated.

As SIGIR reported in an October 24, 2005 audit: “There is a growing recognition that the Iraqi government is not yet prepared to take over the near- or long-term management and funding of infrastructure developed through the IRRF projects.” SIGIR notes that the key recommendations from the last Quarterly Report—including the creation of a Sustainment Coordinator—have been implemented. The coordinative function should continue to be a high priority for reconstruction managers in Iraq.

SIGIR audits conducted this quarter made these key sustainability recommendations:
- Create a single database of IRRF-related assets and provide it to the Iraqi government to support planning and budgeting.
- Coordinate plans and funding for the sustainment of Commander’s Emergency Response Program (CERP) construction projects with DoS, IRMO, GRD-PCO, and USAID.

SIGIR inspections have also provided insight into the sustainability of projects in Iraq.

Thirteen SIGIR inspections are included in this Report, and each includes a review of
the planning for sustainment. SIGIR plans to continue using inspections as a key tool to assess the sustainability of Iraq reconstruction projects.

**Cost-to-complete Estimates**

Nearly a year ago, SIGIR reported that the U.S. reconstruction program did not have reliable cost-to-complete estimates for its projects. Since that time, SIGIR auditors have continually pressed for accurate cost-to-complete data. DoS confronted the issue last spring: in March 2005, a DoS team went to Baghdad to press for cost-to-complete data from agencies implementing the IRRF. Its efforts met with limited success.

The cost to complete a project is defined as the total estimated cost of the project less the actual cost of work performed to date. The estimated cost of the project is the actual direct cost, plus indirect costs or allocable costs to the contract, plus the estimate of costs (direct and indirect) for authorized work remaining. The actual cost of work performed to date is the cost (direct and indirect) to date of completed work packages and the completed portion of work packages begun and not yet completed.

The failure to compile and report cost-to-complete information, as required by Public Law 108-106, has made it difficult for implementing agencies to exercise effective fiscal management of IRRF dollars. This has deprived SIGIR of the financial visibility it needs to execute its oversight responsibility. Without current and accurate cost-to-complete data, management cannot determine whether sufficient funds will be available to complete ongoing work, nor can it project the availability of funds for any new programs or projects.

During this quarter, SIGIR completed an audit to determine the adequacy of methodologies used to estimate and report the costs to complete IRRF-funded projects. The audit reviewed how cost-to-complete numbers were tracked in the Facilities and Transportation sector. SIGIR also followed up on a previous recommendation to IRMO to create a single set of unified cost-to-complete procedures. IRMO’s first cost-to-complete report (October 2005) showed serious underfunding in several reconstruction sectors. The cost-to-complete report for this quarter is overdue; therefore, no observations about progress can be made.

**Anticorruption Efforts in Iraq**

SIGIR remains committed to intensifying U.S. efforts to promote an effective anticorruption system within the Iraqi government and commends the U.S. Mission’s efforts thus far to support anticorruption institutions in Iraq. In the October 2005 Quarterly Report, SIGIR urged the Ambassador to hold an anticorruption summit, which he did in November 2005. The summit resulted in a proposal for a joint U.S.-Iraqi Anticorruption Working Group and initial agreement on the need for more training for officials from the Board of Supreme Audit, the Commission on Public Integrity, and the Inspectors General of the Iraqi ministries.

The Embassy Anticorruption Working Group previously identified several major priorities, including:
promoting market reforms and reducing subsidies
• helping to reinforce the weak law enforcement structure
• creating a public education campaign on the corruption issue

In 2006, SIGIR will announce an audit to evaluate the progress of the U.S. anticorruption initiative.

Information Systems Management
Throughout 2005, SIGIR advised IRMO of the need for a single database for reconstruction projects in Iraq. Last quarter, IRMO mandated the creation of a consolidated database by December 2005, but this system has yet to become operational. As a result, it is difficult for SIGIR to assess the current progress of the overall project portfolio or to identify potential problems with individual projects. The reconstruction effort is too large and too important to be managed without access to accurate and complete data about the projects involved.

IRMO and the implementing agencies in Baghdad are trying to develop a common policy and process to facilitate the legal, financial, and logistical transfer of assets to the Iraqi government. Two interagency working groups in Baghdad are addressing the problem. SIGIR continues to develop the SIGIR Iraq Reconstruction Information System (SIRIS), but the difficulties in extracting data from U.S. government agencies in Iraq hinder SIGIR’s responsiveness.

The Human Toll
The lethal environment in Iraq continues to pose extraordinary challenges to reconstruction contractors. Since reconstruction began in March 2003, 467 death claims for contractors of all nationalities have been submitted under the Defense Base Act, according to the U.S. Department of Labor. The daily situation reports of the Gulf Region Division of the U.S. Army Corps of Engineers present the full range of dangers facing those who work on reconstruction projects in Iraq. The reports routinely list kidnappings, murders, attacks, bombings, armed vandalism, and threats. The January 13, 2006 report, for example, listed a car bombing, a gunshot through a car window, armed vandalism, a threat delivered by five armed and masked men on a jobsite, and six attacks on contractors.
Iraq Reconstruction Progress Report

INTRODUCTION
  Recent Progress

STATUS OF THE ELECTRICITY SECTOR
  IRRF-funded Activities in the Electricity Sector
  Outputs of IRRF-funded Projects
  Outcomes
  Challenges

STATUS OF THE OIL AND GAS SECTOR
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STATUS OF THE WATER SECTOR
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OTHER SECTORS
  Security and Justice
  Transportation and Communications
  Facilities and Services
  Reconstruction Management

SOURCES AND USES

CONTRACTS
INTRODUCTION

This section reviews and analyzes the U.S. reconstruction effort in Iraq to answer the question: “What is the current progress of U.S. programs in specific reconstruction sectors in Iraq?” The Special Inspector General for Iraq Reconstruction (SIGIR) applies three metrics to answer this important question:

- **Activities** measure the day-to-day actions that are within the direct control of implementing agencies and are managed at the contract or contractor level. This metric relies on current project data obtained from the U.S. Agency for International Development (USAID) and U.S. Army Corps of Engineers, Gulf Region Division, Project and Contracting Office (GRD-PCO).

- **Outputs** measure the direct results of completed projects and expended dollars; that is, the actual effects produced by the U.S. investment in Iraq’s reconstruction.

- **Outcomes** measure the broader benefits realized by Iraqis from investment in each reconstruction sector.

To date, the U.S. reconstruction effort has been managed primarily through the use of Activity metrics, including the number of project starts and completions and the total dollars obligated and expended. However, the reliability of the data driving these Activity metrics is questionable, as revealed by SIGIR reviews of the reconstruction program’s information systems.

Adding Output and Outcome metrics to the analytic mix will deepen and clarify SIGIR’s analyses of U.S. reconstruction performance in Iraq. These metrics link expenditures of U.S. funds to both specific restorations of essential services and overall improvements in the quality of life for Iraqis. This section reviews progress in each reconstruction sector, which will include a comparison of current Output and Outcome metrics to the original goals stated by the Coalition Provisional Authority (CPA) in 2003. Although these CPA numbers are obviously obsolete, they nevertheless provide discrete historical benchmarks for comparative measurement.

This section focuses on three essential service sectors—Electricity, Oil and Gas, and Water. In later Reports, SIGIR will expand the analytical effort to all reconstruction sectors. For information about the definitions of these and other sectors, see Appendix J.

Recent Progress
SIGIR’s initial analysis of reconstruction progress through Activities, Outputs, and Outcomes metrics leads to two critical conclusions:

1. Although completed reconstruction projects generally have delivered expected outputs—more capacity in megawatts, increases in barrels of oil per day, and millions of additional cubic meters of treated water per day—these outputs have not enabled Iraq to meet current demand. After 18 months of intense reconstruction
activity, many services have not returned to pre-war levels, particularly in the Electricity sector and the Oil and Gas sector.

2. Based on the pace of construction project starts and completions, and the rate of Iraq Relief and Reconstruction Fund (IRRF) expenditures, it is difficult to forecast with any confidence the end-date for U.S. government construction programs. With the untenable costs of an extended presence in Iraq, this becomes a critical concern and warrants further review. Figure 2-1 offers an overview of reconstruction progress.

Figure 2-1

**Overview of Reconstruction Progress**

*As of December 31, 2005*

**Sector shares of IRRF Funds**

% of $18.439 Billion

**Status of Projects by Sector**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of Projects</th>
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<tr>
<td>Electricity</td>
<td>207</td>
</tr>
<tr>
<td>Water &amp; Sanitation</td>
<td>174</td>
</tr>
<tr>
<td>Oil</td>
<td>33</td>
</tr>
<tr>
<td>Security</td>
<td>131</td>
</tr>
<tr>
<td>Facilities &amp; Services</td>
<td>11</td>
</tr>
<tr>
<td>Transportation &amp; Communication</td>
<td>5</td>
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</tbody>
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**Status of IRRF Funds**

$ Billions

- Appropriated: 18.439
- Obligated: 15.31
- Expended: 10.10

**Status of IRRF Projects**

- Completed: 10,869
- Planned (13,112)
- Ongoing: 1,716
- Not Started: 5,270
The SIGIR Electricity sector review examines projects intended to rebuild Iraq's infrastructure for the generation, transmission, and distribution of electricity. U.S. efforts to reconstruct the sector have focused largely on reconstructing and rehabilitating generation, transmission, and distribution networks, as well as system control and communications.

Figure 2-2 shows the locations of completed and ongoing projects in this sector.

**IRRF-funded Activities in the Electricity Sector**

Although 253 projects have been completed in this sector, 207 (34%) have yet to begin. There are several reasons for this apparent lag. First, the substantial funding re-allocations in this sector caused project delays and cancellations. Second, in design-build projects, the initial design and procurement work that precedes construction can take significant time. Third, many of these cancellations demonstrated that officials and contractors decided during the design process that a project may be too risky or costly to complete effectively.

The completion of projects in the Electricity sector (41%) lags behind other sectors. Last quarter, 15 projects were completed and 47 were started. GRD-PCO expects all of its projects, 425 out of 616 total sector projects, to be completed by January 2008. Figure 2-3 shows the status of projects in the Electricity sector.

Almost $2 billion of the funds designated for electricity reconstruction—42% of the cumulative allocated total—have been expended. Last quarter, $144 million were expended in the sector. Figure 2-4 shows the status of funds in the Electricity sector.

In 2003 and 2004, U.S. reconstruction efforts in the Electricity sector began with USACE Task Force-Restore Iraqi Electricity (RIE), which managed $1 billion in mostly Development Fund for Iraq (DFI) monies.
Initial projects focused on immediate needs. Construction and rehabilitation projects in the sector were later transferred to PCO, and USACE-GRD retained the construction management of projects. Thus, many projects in the sector were started under RIE contracts, while other projects were added later using IRRF dollars.

In 2004, according to PCO, the contracting approach began to shift from large, design-build, indefinite delivery-indefinite quantity (IDIQ) contracts to direct contracting methods, in an attempt to speed work and lower its costs. SIGIR currently has an audit underway to examine the efficiencies of design-build compared to direct contracting.

**MAJOR PROJECTS COMPLETED AND ONGOING**

The U.S. program has three major types of Electricity sector projects:

- *Generation facilities* produce the total megawatt capacity of power for the system.
Transmission networks then carry that power throughout the country. Distribution networks deliver the transmitted power to local areas and homes.

Most U.S. projects focus on the distribution system while a limited number are large-scale generation projects that feed that system.

Generation

Two of the largest power generation reconstruction projects will significantly affect the Baghdad area when completed. The Al-Doura power plant, estimated to be completed in February 2006, is expected to add 280 megawatts (MW) to the electric grid, which will serve more than 1.5 million people. Like many other power facilities in Iraq, Al-Doura was in great need of repair at the cessation of hostilities. U.S. officials chose to refurbish it rather than build a new plant. The second facility, the Baghdad South power plant, received two new power generators, adding 216 MW of power to the grid last quarter and serving the equivalent of 122,000 homes. Additionally, the installation of two gas turbine units at the Khor Al Zubayr power plant will supply 250 MW of power for 1.5 million residents in Basrah and can be distributed to the rest of Iraq as well. According to GRD-PCO, this project was completed in early January 2006.

Transmission

Two important initiatives for improving transmission capabilities are ongoing in this sector. The Project Partnership Agreement (PPA), signed on November 30, 2005, is intended to execute specific projects in partnership with the Iraqi Ministry of Electricity, which in turn awards contracts for these projects to Iraqi firms. According to GRD-PCO, the Ministry is reimbursed based on verification of work completed or milestones met by the contractor. The PPA is also expected to reduce overall costs, promote capacity development for the Ministry and contractors, and direct more work toward Iraqi firms.

Since 2004, the Direct Contracting Initiative (DCI) has shifted the emphasis from design-build contracting to a more standard firm fixed-price approach. This shift is designed to transfer risk from the U.S. agencies to the contractor and to position the U.S. government to limit cost increases and schedule delays. The downside, however, is that it takes the U.S. government longer to award contracts because of staffing constraints.

Distribution

Similar to the DCI, the Rapid Contracting Initiative (RCI) was initiated in late 2004 to focus on the direct contracting of small distribution projects by using fixed-price contracts that are fully competitive. This potentially can make
the contracting process better, faster, and less expensive than more traditional contracting strategies. Most of the projects not yet started in the Electricity sector will be executed as RCI projects to local Iraqi firms.

O&M/Sustainability

GRD-PCO has begun a host of projects aimed at addressing the operations and maintenance (O&M) and sustainability concerns in the Electricity sector. GRD-PCO has allotted just more than $120 million to the O&M Program and proposed $340 million in funding to the Sustainability Program, including:

- efforts to train workers and officials to maintain U.S. assets
- critical parts and inventory support
- long-term O&M support services

Even though these initiatives present a significant start toward addressing an important concern, a SIGIR audit estimates that total costs for sustainment and O&M in the Electricity sector for 2006-2007 will be approximately $720 million.

Monitoring and Control

The Supervisory Control and Data Acquisition (SCADA) system, signed on October 5, 2005, is designed to enable real-time control of the transmission system and to improve monitoring and the overall stability of the electricity system. SCADA can automatically isolate disruptions to a line or station, which should protect the rest of the grid and reduce the risk of larger, nationwide blackouts.

SECTOR FUNDING CUT

Initially, the Electricity sector was funded by $5.56 billion, from a total reconstruction appropriation of $18.4 billion. A series of reallocations that resulted in a 22% cut of sector funding, to $4.31 billion. Figure 2-5 shows the percentage of IRRF funds committed to the Electricity sector.
Outputs of IRRF-funded Projects

The primary output metrics for the Electricity sector are generation and transmission capacity, both measured in megawatts. Both areas have fallen short of the original reconstruction goals set by the CPA. Before U.S. operations in Iraq in 1991, Iraq’s electricity capacity (9,295 MW) was more than enough to meet the nation’s demand (5,100 MW). But the Persian Gulf War severely reduced capacity to 2,325 MW. By March 2003, capacity had increased to 4,500 MW. Today, demand is nearly double the total generation capacity.

Table 2-1 compares current electricity generation and transmission capacities with the original CPA goals.

Electricity sector output is still falling short of goals. Generation capacity is more than 2,000 MW below the goal stated in 2003. Because all parts of the grid must work together, this shortfall in generation means that the benefits of increased transmission and distribution capacity cannot be realized. A USAID audit found that this shortfall is partly caused by external factors, such as security and budget shifts.

Outcomes

Completed projects are meeting expected outputs in this sector, but the Iraqi populace is...

Table 2-2

<table>
<thead>
<tr>
<th>Outcome Metric</th>
<th>Pre-war Level</th>
<th>Stated Goal by CPA</th>
<th>End-state after Deferral</th>
<th>Current Status, as of 01/02/06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iraq Hours of Power/Day</td>
<td>4-8</td>
<td>NA</td>
<td>10-12</td>
<td>10.2</td>
</tr>
<tr>
<td>Baghdad Hours of Power/Day</td>
<td>16-24</td>
<td>NA</td>
<td>10-12</td>
<td>3.7</td>
</tr>
</tbody>
</table>

Notes:

- *Hours of power/day has reached higher levels during this reporting quarter. The data in the table is the most recent information available. It is difficult to assess the overall benefits provided nationwide in this sector. Iraqis living in Baghdad have only 10-12 hours of power per day—less than Baghdad received under Saddam Hussein’s regime when electricity was diverted from other parts of the country to power the capitol. Those living outside Baghdad, however, will likely have more hours of power than before the war. SIGIR interviews indicate that there was a strategic shift by the Iraqis to provide power more equitably throughout the country, instead of focusing on Baghdad as Saddam Hussein did. Sources: Pre-war level and End-state: DoS Briefing by U.S. Embassy-Baghdad, November 30, 2005. Current: DoS Iraq Weekly Status report, January 3, 2006. Table 2-2
not yet seeing the benefits of additional power. One important reason is that demand continues to grow faster than capacity can be brought online.

The number of hours of electricity service that Iraqis receive each day is a key measure of the benefits of the improved Electricity sector. Table 2-2 presents these metrics in relation to the pre-war levels, as of the end of this reporting period. Figure 2-6 shows the electricity load served in 2005.

Challenges
Progress in reconstructing the sector faces significant challenges, including security, high demand, and deteriorated infrastructure.

SECURITY ABSORBS MORE FUNDING THAN EXPECTED

One of the most important challenges facing the U.S.-led effort to develop the Electricity sector is insurgent attacks. Well-organized attacks on the electricity infrastructure have caused power outages, sometimes on a national level. These attacks were linked to the Oil and Gas sector by targeting the delivery of Iraq’s limited refined fuel stocks for use in electric generation. Attacks on infrastructure and personnel have also slowed reconstruction progress by forcing funds to be diverted from project development to increased security. In March 2005, two USAID electricity generation task orders were cancelled to shift $15 million to security.

This makes effective Iraqi assumption of security duties essential. It may take several years for the threat to diminish significantly.

RISING DEMAND

During summer 2005, generation capacity peaked at 5,375 MW but fell short of projected demand for that period. But even if all project goals were met, the Electricity sector still would not be able to meet the increasing demand. Iraq’s demand for power remains high (currently 7,000+ MW according to the Iraq Reconstruction and Management Office (IRMO)), which the Ministry of Electricity attributes to the creation of new jobs, industries, and factories as the economy begins to recover from the former regime. Additionally, an influx of new appliances and new customers has increased the grid’s exposure to consumer demand. The Government Accountability Office (GAO) also reported in July 2005 that electricity requirements are affected to some degree by illegal taps into the grid and by a lack of metering. According to the U.S. Institute of Peace, electricity subsidies have contributed to this spike in demand and have played a large role in electricity shortages around the country.

The consequences are still a major concern, particularly as demand increases in the winter and summer. The Department of State (DoS) Iraq Weekly Status report shows that the estimated demand for electricity outpaces what is generated: The load-served falls short of demand by almost 60,000 megawatt hours (MWh). GRD-PCO reports that the key
to addressing excess electricity demand and consolidating the long-term viability of the Iraqi power supply is to reform the process of charging consumers for usage.

DETERIORATED INFRASTRUCTURE

Compounding the problems associated with operating in a highly insecure environment, the electricity infrastructure was kept in significant disrepair throughout the 1990s and leading up to the March 2003 conflict. This disrepair extended throughout all three components of the Electricity sector—generation, transmission, and distribution—and was characterized by decades of constant operation without regular maintenance. GAO reports that spare parts were largely unattainable throughout the 1990s because of international sanctions following the Persian Gulf War, thus requiring extensive overhaul of antiquated equipment that is now difficult to procure. The effects of this degraded infrastructure were worsened by post-war looting and sabotage. Immediately after Operation Iraqi Freedom, Iraq’s ability to generate electricity dropped to less than 2,000 MW and all of the nation’s power stations were in poor condition from years of deferred maintenance.
This review of the Oil and Gas sector examines projects intended to rebuild Iraq’s oil and natural gas wells, pipelines, and refineries. Projects in the Oil and Gas sector contribute to crude oil production, processing, gas and oil separation plants, and distribution. U.S.-funded activities in the Oil and Gas sector have primarily been limited to the rehabilitation, repair, and expansion of existing facilities.\(^{24}\) Rehabilitated oil projects accounted for approximately 75% of oil production in Iraq, as of November 30, 2005.\(^{25}\) However, less than half of the allocated funds have been expended, and less than a quarter of the planned projects have been completed.

This section measures progress in the Oil and Gas sector by reviewing capacity, production, and exports. Capacity is the potential output in the Oil and Gas sector if production is at 100% efficiency. The U.S. reconstruction program has significantly increased the output potential of the Oil and Gas sector. GRD-PCO reports that Iraq has the capacity to produce 2.5 million barrels per day (MBPD) of crude oil, which is the same capacity it had before the war. Production is the actual per day output in the Oil and Gas sector. The rough average for crude production output during the quarter was 2.0 MBPD, according to DoS Iraq Weekly Status reports. Exports measure how much of Iraq’s oil production actually makes it to the foreign markets.

The potential for return on investment has been one of the key factors for project prioritization. GRD-PCO officials estimate that every dollar invested in the oil infrastructure is expected to yield a recurring annual return of five dollars. Efforts have focused on the reconstruction or refurbishment of facilities in the two primary areas of oil production: Kirkuk in...
the north and Basrah in the south.

Figure 2-7 shows the location of completed and ongoing projects.

**IRRF-funded Activities in the Oil and Gas Sector**

Of the 136 Oil and Gas projects, 67 are Engineering and Procurement (EP) projects, and 69 are Engineering, Procurement, and Construction (EPC) projects. Of the 69 EPC projects, 10 are reported to be administration projects, and 59 are construction projects. In this report, SIGIR includes supporting data for the 59 EPC projects shown in Figure 2-8.

Almost half of the 59 planned EPC projects have been initiated, and 22% have been completed, according to the Department of Defense (DoD) data. During the past quarter, two projects were completed, five were started, and one was slated to begin on December 31, 2005. Despite schedule delays and an apparent lag in the project completion rate, GRD-PCO expects that this rate will increase as long-term projects draw closer to completion. The pace of work on these projects should also increase significantly as the Iraqi role continues to expand. Figure 2-8 shows the status of projects in the Oil and Gas sector.
Despite progress in Iraq on many important ongoing projects, less than half of the sector’s allocated funds have been expended. Figure 2-9 shows the status of funding for the Oil and Gas sector.

**KEY PROJECTS COMPLETED AND UNDERWAY**

During this reporting period, several important oil projects made substantial progress. One of the most important, the *Al Fatah Pipeline River and Canal Crossing Project* in the Tameem governorate, is now roughly 72% complete, with an estimated termination date of March 1, 2006. This facility is a key transfer point in moving crude oil from northern fields to local refineries and then to export. When complete, the project is expected to provide at least an additional 300,000 barrels per day (BPD) through the Iraq-Turkey Pipeline for export via the port of Ceyhan. Al Fatah currently has working temporary lines installed, as well as an additional operating oil line under the river. Included in this Quarterly Report is a project assessment of *Al Fatah*. The assessment reports on the original planning and implementation of the project, as well as some of the challenges it initially faced.

The *Qarmat Ali* water injection system and treatment plant project in southern Iraq is another important initiative that made good progress during the quarter. As of the middle of December, the plant was 70% complete, and the next phase of work is slated to increase injection capacity to 100% of goal. The initiative aims to boost oil production by as much as 200,000 BPD. This project will improve oil extraction at more efficient rates and thus will boost production levels.

On October 6, 2005, repairs began on the *Al Basrah Oil Terminal (ABOT)*. Slated for completion on December 31, 2006, the ABOT Task Order was approximately 31% complete as of late December 2005. It comprises 13 individual projects, the first of which is currently 61% complete. The scope of the project is to refurbish three hydraulic control units for loading arms and to replace one damaged unit, giving the facility the capability to load four cargo ships at once.

The ABOT facility is an important project for improving Iraqi export capabilities in the south. GRD-PCO officials noted that the usefulness of the repaired ABOT will still be limited by inadequate on-shore pipeline and pumping capabilities. They also state that the primary benefit of ABOT is the implementation of a new metering system for exports that will help prevent theft and reduce corruption. This metering system also meets a key requirement for Iraqi debt management milestones.

**FUNDING FOR THE SECTOR REMAINS MOSTLY CONSTANT**

In November 2003, Congress allocated $1.89 billion for reconstruction projects in Iraq’s Oil and Gas sector. Most of these funds ($1.2 billion) were allocated to infrastructure reconstruction; the remainder (about $690 million) was used to purchase emergency supplies of refined petroleum products. As a result of
subsequent allocation changes—primarily from the IRRF Strategic Spending Review in 2004—funding for infrastructure development jumped to $1.697 billion, and funding for emergency refined stocks decreased to $26 million. The current allocation to the Oil and Gas sector is $1.72 billion.

In 2004, CPA estimated that $8 billion would be required to adequately meet the needs for reconstructing the Oil and Gas sector. U.S. officials have consistently maintained that the purpose of the reconstruction program is to get the reconstruction effort moving. It was always assumed that international donors and Iraqi oil exports would provide sufficient additional financing for the remainder of the effort. Figure 2-10 shows IRRF allocation for the sector.

**Outputs of IRRF-funded Projects**

There are at least two ways to measure progress in reconstructing the Oil and Gas sector, and output goals in this sector abound. One method is to focus on production capacity, which measures how many units of energy the country as a whole is capable of producing on a daily basis. The other is a simple measurement of current production per day. Table 2-3 focuses on current Iraqi production capacity goals. This information, from GRD-PCO, provides insight into how production capacity is progressing, but it does not offer a clear picture of current production. Table 2-4 focuses on actual production and U.S. reconstruction goals, using measurement information from U.S. Embassy-Baghdad. According to the report, rehabilitated oil projects accounted for approximately 75% of oil production, as of November 30, 2005.

**Petroleum Product Production Rates and Goals**

<table>
<thead>
<tr>
<th>Objective</th>
<th>Current</th>
<th>Iraqi Government End-state Goal (December 2006)</th>
<th>Remains To Be Achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude Oil Production Capacity (MBPD)</td>
<td>2.5</td>
<td>3.0</td>
<td>0.5</td>
</tr>
<tr>
<td>Crude Oil Exports (Actual)² (MBPD)</td>
<td>1.7</td>
<td>2.4</td>
<td>0.7</td>
</tr>
<tr>
<td>Natural Gas Production (MSCFD)³</td>
<td>600</td>
<td>800</td>
<td>200</td>
</tr>
<tr>
<td>Liquefied Petroleum Gas (LPG) Production (TPD)³</td>
<td>1,200</td>
<td>3,000</td>
<td>1,800</td>
</tr>
</tbody>
</table>

* PCO reports 1.7 MBPD in its Oil and Gas Sector History, but the average for the quarter according to figures in the DoS Iraq Weekly Status report is about 1.16 MBPD.
* MSCFD = million standard cubic feet per day
* TPD = tons per day
Source: GRD-PCO Sector History for the Oil and Gas sector, received on January 13, 2006.

**Table 2-3**
The unsurprising fact revealed in these tables is that production capacity has improved as the reconstruction effort has picked up momentum. The end-state goal is 3.0 MBPD in production capacity, which will exceed the pre-war production rate.

Although U.S.-funded projects are having a positive effect on output in the Oil and Gas sector, it remains difficult to meet the pre-war production level goals that CPA first set in October 2003. Security problems primarily account for the shortfall. The continued flat oil production rate is a point of particular concern because oil must fuel the engine of Iraq’s economic growth.

**Outcomes**

Oil exports account for more than 95% of Iraq’s national income. Iraq’s highest production peak was in December 1979, when the country produced 3.7 MBPD. Much of its infrastructure and production capacity never fully recovered from the damage suffered in the Iran-Iraq and Persian Gulf Wars.\(^\text{32}\) Iraq was producing approximately 2.5 MBPD from 1999 to 2001 and peaked at around 2.58 MBPD in January 2003.\(^\text{33}\) The current Ministry of Oil goal for oil production is 2.5 MBPD, and the maximum consumption target for each of the four refined petroleum products is a 15-day supply.\(^\text{34}\) As Figure 2-11 shows, crude oil production has hovered around 2.0 MBPD for most of this reporting period.\(^\text{35}\)

A variety of problems have hindered exports of oil, which have remained much lower than expected, declining to about 1.1 MBPD in December.\(^\text{36}\) For example, in late December 2005, threats against oil tanker operators and refinery workers at the Baiji refinery led many to refuse to work, effectively shutting down the facility. The good news for Iraq’s oil export industry, however, is that high oil prices continue. Oil exports in 2005 earned almost $23 billion—up from approximately $17 billion in

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### Actual Oil sector production vs. U.S. reconstruction goals as of November 30, 2005

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude Oil Production Capacity(^\text{a}) (MBPD)</td>
<td>2.6</td>
<td>0.6</td>
<td>3.0</td>
<td>6.0(^\text{b})</td>
<td>2.6</td>
</tr>
<tr>
<td>Crude Oil Production (MBPD)</td>
<td>2.6</td>
<td>0.6</td>
<td>2.8</td>
<td>6.0</td>
<td>U.S. Contribution: 1.3</td>
</tr>
<tr>
<td>Exported(^\text{a})</td>
<td>2.0</td>
<td>-</td>
<td>2.2</td>
<td>5.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Natural Gas Utilization (MSCFD)(^\text{c})</td>
<td>850</td>
<td>200</td>
<td>800</td>
<td>5,000</td>
<td>U.S. Contribution: 600</td>
</tr>
<tr>
<td>Liquefied Petroleum Gas(^\text{d}) Production (TPD)(^\text{e})</td>
<td>5,000</td>
<td>1,200</td>
<td>3000</td>
<td>6,000</td>
<td>U.S. Contribution: 1800</td>
</tr>
</tbody>
</table>

\(^{a}\)U.S. Embassy-Baghdad reports different capacity numbers than GRD-PCO, probably due to the date difference.

\(^{b}\)6.0 MBPD is also the crude production capacity goal set forth in the Iraqi National Development Strategy, June 30, 2005.

\(^{c}\)MSCFD = million standard cubic feet per day

\(^{d}\)Critical refined fuels are measured in a metric amount (as are these), or in days of supply. The text focuses on days of supply to use more stable numbers.

\(^{e}\)TPD = tons per day

\(^{1}\)According to the IRMO Senior Consultant to the Ministry of Oil, the methodology for determining the U.S. contribution to overall production levels was to subtract post-war production (about 600,000 BPD were attributed to Iraqi restoration efforts) from the production level as of November 30, 2005 (2.1 MBPD), thus resulting in a total U.S. contribution of 1.5 MBPD.


* TABLE 2-4
2004, as Figure 2-12 demonstrates. Reaching production targets for critical refined fuels has also been a problem. Only liquefied petroleum gas (LPG) reached its target; diesel, kerosene, and gasoline have all lagged behind. Figure 2-13 shows the stock levels for Iraq’s refined fuels. Many of these supplies are imported into Iraq, costing approximately $200-250 million per month while the government struggles to consolidate and sustain improved production and export levels. Fuel supplies are further strained when Iraq fails to pay exporters on time, which is likely to happen more often if the economy does not recover soon.

**FUEL SUBSIDIES**

Fuel subsidies kept prices abnormally low, thus encouraging unrestrained demand and a black market in smuggled fuel, which combined to further diminish the supplies of critical refined fuels. Direct and indirect subsidies also cost the Iraqi economy an estimated $8 billion per year, according to the U.S. Department of Energy. In late December 2005, the International Monetary Fund (IMF) approved a Stand-By Arrangement for Iraq, which provides $685 million to support the Iraqi economic program over the next 15 months. One critical aspect of this arrangement is that the Iraqi government must reduce fuel subsidies, price distortions, smuggling, and corruption. Measures taken by the Iraqi government to address the subsidy issue since late December 2005 should help mitigate high fuel demand, smuggling, and corruption concerns, but the subsequent riot in Kirkuk and the temporary upheaval in the Ministry of Oil suggest that the issue is not yet fully resolved.

For the most part, reconstruction levels for the Oil and Gas sector have not reached target levels since October 2004, and some industry experts question whether the sector has the capacity to do so in a sustainable manner. For instance, one recent commodities industry report suggests that investment dollars are being distributed too slowly and to the wrong projects. The October constitutional referendum and the December election of a new Iraqi government, however, indicate that Iraq is moving toward a greater degree of coherence, and therefore will be better prepared to execute reconstruction priorities going forward.
Challenges
Three challenges have been associated with slow project start and funding expenditure rates: security, sustainment, and the deteriorated infrastructure.

SECURITY

Security threats against the oil and gas infrastructure take many forms, ranging from the illicit acts of individual looters to the organized activities of complex crime syndicates. Although criminal threats such as these remain a serious concern for the integrity and security of Iraq’s oil infrastructure, no threat has been more debilitating than the incessant insurgent attacks. According to one study cited by the U.S. Department of Energy, there have been close to 300 attacks on Iraq’s energy infrastructure since June 2003. These attacks have cost Iraq billions of dollars in infrastructure repairs and lost revenues, as well as slowing the pace of reconstruction.

Insurgent attacks have clearly taken a heavy toll on the Oil and Gas sector in the north. For example, nearly continuous attacks on the Iraq-Turkey Pipeline have significantly reduced its capacity to generate sustained export revenues. Iraqi workers have also been targeted for attacks, especially when working at reconstruction sites. In early January 2006, for example, insurgents attacked a convoy of approximately 60 oil transport vehicles from the Baiji facility; about one-third of the vehicles were reportedly destroyed or disabled.

According to GRD-PCO, the economic importance attributed to developing the Oil and Gas sector serves as a potential “single point of failure” that will require diligent application of security and military forces to protect the oil and gas infrastructure from further attacks. The Iraqi military is currently meeting the threat through increased security and field activities, supplemented by coalition forces.

SUSTAINMENT

Sustainability continues to be an important factor in explaining the lack of significant progress in Oil and Gas sector reconstruction. In October 2005, a SIGIR audit found that sustainment among Iraqi workers remains a crucial requirement for the successful reconstruction of the sector. The audit estimated that approximately $178 million would be required for Oil and Gas sector sustainment in 2006-2007. The preparedness of Iraqi workers to operate and maintain modern technology in producing and refining oil is still as important in the reconstruction process as preventing insurgent attempts to destroy that equipment.

Crude re-injection continues to cause concern. Iraqis use this technique to return excess pumped crude oil back into the ground—mostly because they lack sufficient storage and export capacity to handle the volume of crude oil currently being pumped. Unfortunately, crude oil re-injection increases oil viscosity, making it more difficult and costly to extract
The viscosity problem has already occurred at Kirkuk, and may have permanently damaged the fields.  

Although outputs generated by U.S.-funded projects provide a significant improvement in this sector, oil production levels still have not reached the stated target. This is due in no small part to sustainment issues related to O&M and capacity development. O&M is a particular concern for southern export and pumping stations. U.S. agencies and officials recognize the importance of this issue: both GRD-PCO and IRMO are working on initiatives to mitigate the risks to project sustainment in the reconstruction process.

More than a year ago, PCO joined IRMO and other U.S. agencies to begin working toward sustainability of U.S.-built facilities through a process called Capacity Development (CD). CD is one of the basic tools used to transfer knowledge, skills, and abilities to Iraqi workers at various infrastructure facilities. As a result, U.S. activities have helped to provide 300,000 hours of Oil and Gas sector training, operational testing and commissioning, and spare parts.

**INFERIOR QUALITY OF INFRASTRUCTURE HARDWARE**

In the pre-war period, U.S. planning officials and energy experts underestimated the extent to which Iraq’s oil infrastructure was degraded, as is highlighted by the testimony of a Kellogg Brown and Root, Inc. (KBR) official:

> Once our engineers began work, they found that many oil facilities were in complete disrepair due to decades of neglect, as well as recent looting and sabotage. Many pipelines in the south were damaged during battles. Wellheads were rigged with explosives, some of which were triggered, causing greater damage and again creating significant risk for our employees…We found that the Iraqi oil equipment was old, neglected and often desperately in need of repair.

*Alfred V. Neffgen—Chief Operating Officer of the KBR Government Operations unit—testifying before Congress*

Most of the infrastructure consisted of antiquated technology that was no longer available, which forced contractors to overhaul entire structures. Post-conflict looting and sabotage aggravated the integrity of the sector’s infrastructure. Government assessments as of June 2003 stated that more than $900 million would be needed just to replace looted oil equipment, and this assumed a peace-time reconstruction environment.

The capacity of the current infrastructure raises an additional problem for the Oil and Gas sector. For example, the lack of significant storage capacity for fuel in Iraq has caused shutdowns, leading to delays, revenue losses, and workers employing harmful techniques, such as fuel re-injection. Also, field decline is a particular problem in the southern oil fields, which currently account for a large majority of Iraq’s oil production because insurgents have consistently targeted the northern oil pipelines.
This review examines U.S. reconstruction projects intended to increase Iraqi citizens’ access to clean water and sewerage services. Generally, U.S. efforts in this sector have focused on large-scale projects, but SIGIR notes a recent trend toward smaller projects that will yield quicker benefits. Over the past two years, more than half of the IRRF funding for the Water sector has been shifted to other sectors, reducing this sector’s allocation from $4.33 billion to the current $2.13 billion. Figure 2-14 shows the locations of completed and ongoing projects in the Water sector.

IRRF-funded Activities in the Water Sector
Of the projects planned for this sector, 61% have been completed. But the rate of completion of the ongoing projects appears to be slowing, and 16% of the planned projects have not yet started. The problem of the slowing completion rate in this sector could be offset by rapidly initiating projects that have not yet started and by accelerating work on ongoing projects. Figure 2-15 shows the status of projects in the Water sector.

Last quarter, $295 million was expended in the Water sector. However, SIGIR expects that the rate of expenditure should rapidly increase in the coming months as projects shift from the design phase to the build phase.\(^{50}\)

The $2.1 billion in U.S. funding in the Water sector primarily has funded large-scale projects. In 2003 and early 2004, USAID and PCO awarded five contracts that represented the majority of IRRF dollars obligated in this sector. The contracts went to a small number of firms, including a USAID contract to Bechtel...
for work across multiple sectors in April 2003. In January 2004, Bechtel was awarded a second, competitively bid, multi-sector reconstruction contract. And in March 2004, two different competitively bid PCO contracts were awarded for Water sector reconstruction. Both contracts went to joint ventures—one between Washington Group International and Black & Veatch, and another between Fluor and AMEC.51

During the past quarter, the U.S. government continued emphasizing smaller-scale, quick-impact projects. GRD-PCO’s Small Scale Potable Water Program has funded nearly 150 projects throughout Iraq, with an average value of $270,000 per project. The program used more than $40 million in funding to directly contract local Iraqi firms.52 USAID has funded 296 small-scale projects in the Water sector, with an average value of $47,000. The Commander’s Emergency Response Program (CERP) and Commanders Humanitarian Relief and Reconstruction Program (CHRRP) funding streams, in addition to the IRRF
allocations, have obligated $56 million and $74 million, respectively, toward Water sector projects. Figure 2-16 shows the status of Water sector funding.

KEY PROJECTS COMPLETED AND UNDERWAY

In November 2005, the Special Inspector General visited the Erbil Water Treatment Plant, a project that began in June 2004 and was 76% complete, as of late December 2005. The IG was impressed by the quality of work at the site but was concerned about cost overruns that occurred because of subcontractor shortfalls. The project was estimated to be complete by late April 2006, but an insurgent attack in December 2005 on a 16-truck convoy may cause a delay. Plans are underway to maintain the project timeline, and 12 of the trucks have been recovered.

SIGIR personnel previously completed several on-site water project inspections, including assessments of two water treatment plants in Baghdad, with mixed results. The results of those site visits are in the SIGIR July 30, 2005 Quarterly Report.

According to GRD-PCO, cost increases and schedule delays have caused the deferral of a number of Water sector projects. Design work is being completed for these projects, and will potentially be funded by Iraq or international donors at a later date. Although only 25 projects were completed this quarter, others made substantial progress during the last quarter. Two projects were recently completed at the Sweetwater Canal, a man-made canal that runs slightly west of Basrah. The projects will ensure water quality and reliability for many years.

More than two million residents of the Basrah area rely on the nearly 150-mile-long canal to supply water for cleaning, cooking, and bathing.

During the past quarter, the Nassriya Water Treatment Plant progressed from 45% to 53% of completion. The project, which began in August 2004 and will benefit 550,000 people, is estimated to be completed in June 2006. Sustainment efforts continue on Baghdad’s first major sewerage plant renovations in more than 12 years—Kerkh and Rustimiyah North and South—which were completed on June 20, 2005. These plants together serve 80% of Baghdad.

ORIGINAL FUNDING FOR SECTOR CUT IN HALF

The World Bank estimated in 2003 that $6.8 billion would be required to restore the sector in the short- and medium-term. U.S. funding has laid substantial groundwork for the long-term reconstruction effort that Iraq must execute to bring its water infrastructure up to modern standards.

CPA originally requested $3.71 billion to reconstruct the Water sector in Iraq. U.S. allocations exceeded this request in November 2003: Congress allocated $4.33 billion through the IRRF for the Water sector. In October 2004, allocations for the sector were reduced to $2.31 billion when funding was shifted to security, oil, and economic development. Water sector allocations continued to be shifted to other sectors and are now reduced to $2.13 billion. Figure 2-17 shows the current
level of funding in the Water sector—less than half of its original allocation.63

**Outputs of IRRF-funded Projects**

Although the United States has successfully met CPA goals for sewerage projects, water project outputs have fallen well short of the 2003 goals. GAO previously reported that better performance measures and indicators are needed in the Water sector to help evaluate U.S. reconstruction efforts.64

Table 2-5 compares the status of current water project outputs relative to CPA goals. A USAID audit published in June 2005 found that USAID Water sector projects were achieving their intended outputs.68 But if individual projects are achieving their intended outputs, then the shortfall revealed by this chart could be explained by the low project completion rate. IRMO should examine the possibility of accelerating project starts.

**Outcomes**

From 1991 to 2003, access to safe drinking water in Iraq decreased. Before 1991, 95% of urban Iraqis and 75% of rural Iraqis had access to clean water, according to a needs assessment conducted by the United Nations (UN) and World Bank. By 2003, these figures had declined to 60% in urban areas and 50% in rural areas. Sanitation services reported similar decreases during this time period. Before 1991, sanitation services reached 75% and 40% of urban and rural Iraqis, respectively. By 2003, nearly 80% of Baghdad had sanitation access, but power outages caused shutdowns and blockages so severe that sewage backed up into

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### Current Water Project Outputs vs. CPA Goals

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Water–People with Potable Water Availability</td>
<td>12.9 million</td>
<td>23.4 million</td>
<td>12.85 million</td>
<td>8.25 million added*</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2.75 million added*</td>
</tr>
<tr>
<td>Sewerage–People with Sewerage System Coverage</td>
<td>6.2 million</td>
<td>2.5 million65</td>
<td>5.6 million</td>
<td>5 million added*</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4.5 million added*</td>
</tr>
<tr>
<td>Water Treatment Capacity</td>
<td>3 million m³/day</td>
<td>10 million m³/day67</td>
<td>2.25 million m³/day</td>
<td>1.1 million m³/day</td>
</tr>
</tbody>
</table>

*Outputs include total added since war and include IRRF and other funding streams

Sources:

**TABLE 2-5**
In other urban areas, only 9% of the population had sewerage access, and there were no sewage pipes to rural areas of Iraq. The decreases in water and sewerage capability were in large part due to human and physical capital constraints (staff, funding, equipment, and spare parts).

In 2003, Operation Iraqi Freedom largely spared water and wastewater treatment plants, but water treatment facilities were only operating at 35% capacity and wastewater treatment facilities at 25%, according to USAID. Severe damage to the water distribution network had a significant impact on the Iraqi populace. In particular, Baghdad’s water network suffered severe bomb damage that led to illegal tapping of the water supply. Water problems were estimated to affect about 12.5 million people in Iraq.

Currently, the status of the Water sector in Iraq is improving, but it is still in poor condition. Only 32% of Iraqis have access to potable water, and only 19% have sewerage access. The goals originally established for this sector were to increase potable water access to 90% of the population and sewerage access to 15% of the urban population (16.9 million people).

Table 2-6 summarizes data on Iraqi access to water relative to the original goals stated by the CPA.

### Challenges

Three major issues confront the Water sector: sustainability, security, and program management.

### Sustainment

SIGIR continues to be concerned about the sustainability of Water sector projects. A recent GAO report underscores the problem. Of the $200 million in completed Water sector projects that GAO reviewed, more than a quarter were not operating at all or were operating at lower capacity than expected. Several reasons were cited for these shortfalls, including theft of key equipment, unreliable power supply, insufficient spare parts and chemicals, and a shortage of adequate Iraqi staff to sustain projects.

In March 2005, USAID was allocated $25 million to support O&M and logistics for one year. With this money, USAID implemented the Water Sector Institutional Strengthening...
Project, which provides on-site job direction to more than 1,000 Iraqi workers. And in March 2005, PCO provided $10 million to a major contractor for a 12-month training initiative in capacity development. A major factor in sustainability, capacity development is defined in PCO’s area of work as “the strengthening of human and institutional capabilities to support a society in its development of a more secure and sustainable economy, government, and infrastructure.” PCO also began using a formal risk matrix to evaluate the potential risk of failure for strategic and high-cost projects after hand-over to Iraqis. GRD-PCO is also reworking its 2004 Capacity Development Plan for release soon. The main purpose of the plan is to lay out the basic roles and responsibilities for the sustainability of all agencies working in Iraq. The plan will also identify coordination and assessment mechanisms.

Most recently, DoS set aside $110 million for sustainment in the Water sector. Despite the increase in funding during the past few quarters, a SIGIR audit estimates that sustainment for the sector will cost $235 million for 2006-2007.

SECURITY

The security concerns endemic to all sectors have had a significant impact on the Water sector. Last quarter, a key water main in Baghdad was sabotaged, leaving more than two million residents without drinking water according to government sources. A month later, a mortar attack led to the temporary closure of one of the main water purification plants. The closure affected more than three million Iraqis and, combined with the previous incident, led to demonstrations in Baghdad. Entire projects or components of projects must be cancelled to offset these increased security costs. Projects that are not cancelled are often severely delayed. For example, work on a sewer repair project was suspended for more than 100 days in 2004 because of security concerns. Another project on a wastewater plant was delayed for two months in early 2005 because insurgent threats drove away civilian contractors.

PROGRAM MANAGEMENT

Program management issues have also had an impact on the effectiveness of U.S. efforts in the Water sector. Original CPA budget estimates assumed that operating conditions would be more benign. In general, PCO found that those estimates were 25-50% below actual costs. Funding shifts allowed for far less U.S. allocations, and underestimated costs and funding delays became an enormous issue for this sector. The management challenges do not stop there: Finalizing the terms of contracts and actually executing projects have been a problem. In 2005, a senior GAO official reported that “U.S. agency and contractor officials have cited difficulties in initially defining project scope, schedule, and cost, as well as concerns with project execution, as further impeding progress and increasing program costs.”
SIGIR groups the remaining IRRF funds into four categories:
- Security and Justice
- Transportation and Communications
- Facilities and Services
- Reconstruction Management

Summary information for these sectors is provided below. A more detailed update on these sectors will appear in a future SIGIR Quarterly Report.

**Security and Justice**

Activities in the Security and Justice sector are aimed primarily at increasing the safety and security of the Iraqi people, including both national security and internal policing. This SIGIR sector review includes projects that DoD categorizes as Security and Justice and projects that DoS categorizes as Security and Law Enforcement; Justice, Public Safety, and Civil Society; or Democracy projects. This sector review does not attempt to capture the indirect security costs that may be included as part of contracts in other sectors. Tables 2-7 and 2-8 present an overview of the Security and Justice sector.

**Security and Justice Sector Status of Funds, as of January 4, 2006**

<table>
<thead>
<tr>
<th></th>
<th>Allocated</th>
<th>Obligated</th>
<th>Expended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Security and Justice</td>
<td>$6.27</td>
<td>$5.89</td>
<td>$4.77</td>
</tr>
</tbody>
</table>

**Table 2-7**

**Security and Justice Sector Status of Projects, as of January 1, 2006**

<table>
<thead>
<tr>
<th>Subsector</th>
<th>Total Project Cost (Billions)</th>
<th>Not Started</th>
<th>Ongoing</th>
<th>Completed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Military Facilities</td>
<td>$0.9482</td>
<td>36</td>
<td>60</td>
<td>73</td>
</tr>
<tr>
<td>Democracy Building Activities</td>
<td>$0.6651</td>
<td>24</td>
<td>627</td>
<td>6885</td>
</tr>
<tr>
<td>Police Facilities/Training</td>
<td>$0.3170</td>
<td>35</td>
<td>90</td>
<td>287</td>
</tr>
<tr>
<td>Prisons/Courts</td>
<td>$0.2087</td>
<td>5</td>
<td>16</td>
<td>19</td>
</tr>
<tr>
<td>Border Enforcement</td>
<td>$0.1322</td>
<td>27</td>
<td>100</td>
<td>136</td>
</tr>
<tr>
<td>Fire Facilities</td>
<td>$0.0320</td>
<td>0</td>
<td>28</td>
<td>62</td>
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<tr>
<td>Points of Entry</td>
<td>$0.0255</td>
<td>1</td>
<td>4</td>
<td>8</td>
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<tr>
<td>Witness Protection</td>
<td>$0.0141</td>
<td>3</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Investigations of Crimes Against Humanity</td>
<td>$0.0038</td>
<td>3</td>
<td>0</td>
<td>29</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2.35</strong></td>
<td><strong>134</strong></td>
<td><strong>927</strong></td>
<td><strong>7,499</strong></td>
</tr>
</tbody>
</table>

**Table 2-8**
Transportation and Communications

Activities in the Transportation and Communications sector are generally intended to link Iraqi people and cities together. This sector includes projects that DoD categorizes as Transportation and Communications projects and projects that DoS categorizes as either Roads, Bridges, and Construction projects or Transportation and Communications projects. Tables 2-9 and 2-10 present an overview of the Transportation and Communications sector.

Facilities and Services

SIGIR uses analysis of the Facilities and Services sector to capture all other reconstruction activities funded by IRRF 2 dollars. This sector includes projects that DoD categorizes as Buildings, Health, and Education and projects that DoS categorizes as Health Care; Education; Refugees, Human Rights, and Governance; or Private Sector Development. Tables 2-11 and 2-12 present an overview of the Facilities and Services sector.

Reconstruction Management

The Reconstruction Management sector includes funds dedicated to the administration and management of the reconstruction enterprise. It does not attempt to capture overhead costs of individual projects.

### Transportation and Communications Sector Status of Projects, as of January 1, 2006

<table>
<thead>
<tr>
<th>Subsector</th>
<th>Total Project Cost (Billions)</th>
<th>Not Started</th>
<th>Ongoing</th>
<th>Completed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communications</td>
<td>$0.1386</td>
<td>0</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Roads and Bridges</td>
<td>$0.0832</td>
<td>21</td>
<td>38</td>
<td>276</td>
</tr>
<tr>
<td>Expressways</td>
<td>$0.0434</td>
<td>0</td>
<td>3</td>
<td>0</td>
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<tr>
<td>Railroad Stations</td>
<td>$0.0371</td>
<td>3</td>
<td>17</td>
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<tr>
<td>Airports</td>
<td>$0.0365</td>
<td>4</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Ports</td>
<td>$0.0256</td>
<td>3</td>
<td>4</td>
<td>17</td>
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<tr>
<td>Public Buildings Construction and Repair</td>
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<td>19</td>
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<tr>
<td>Misc. Facilities</td>
<td>$0.0036</td>
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<tr>
<td>Postal Facilities</td>
<td>$0.0016</td>
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<td><strong>Total</strong></td>
<td><strong>$0.37</strong></td>
<td><strong>31</strong></td>
<td><strong>94</strong></td>
<td><strong>1,788</strong></td>
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</table>

Table 2-9

### Transportation and Communications Sector Status of Funds, as of January 4, 2006 (Billions)

<table>
<thead>
<tr>
<th></th>
<th>Allocated</th>
<th>Obligated</th>
<th>Expended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation and Commun</td>
<td>$0.84</td>
<td>$0.66</td>
<td>$0.37</td>
</tr>
</tbody>
</table>

Table 2-10
## Facilities and Services Sector Status of Projects, as of January 1, 2006

<table>
<thead>
<tr>
<th>Subsector</th>
<th>Total Project Cost (Billion)</th>
<th>Not Started</th>
<th>Ongoing</th>
<th>Completed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vocational Training</td>
<td>$0.1313</td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Primary Health Care Centers/Clinics</td>
<td>$0.1017</td>
<td>1</td>
<td>141</td>
<td>1</td>
</tr>
<tr>
<td>Hospitals</td>
<td>$0.0933</td>
<td>3</td>
<td>17</td>
<td>5</td>
</tr>
<tr>
<td>Schools</td>
<td>$0.0607</td>
<td>2</td>
<td>15</td>
<td>784</td>
</tr>
<tr>
<td>Market-based Reforms</td>
<td>$0.0600</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Children's Hospital in Basrah</td>
<td>$0.0411</td>
<td>0</td>
<td>1</td>
<td>0</td>
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<tr>
<td>Agriculture</td>
<td>$0.0366</td>
<td>2</td>
<td>80</td>
<td>155</td>
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<tr>
<td>Institutional Reforms</td>
<td>$0.0318</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Public Buildings</td>
<td>$0.0214</td>
<td>2</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Education</td>
<td>$0.0214</td>
<td>0</td>
<td>89</td>
<td>897</td>
</tr>
<tr>
<td>Migration and Refugee Assistance</td>
<td>$0.0174</td>
<td>0</td>
<td>84</td>
<td>140</td>
</tr>
<tr>
<td>Business Skills Training</td>
<td>$0.0121</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Civic Programs</td>
<td>$0.0103</td>
<td>0</td>
<td>6</td>
<td>447</td>
</tr>
<tr>
<td>Misc. Facilities</td>
<td>$0.0086</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Health Care Equipment Procurement</td>
<td>$0.0020</td>
<td>0</td>
<td>41</td>
<td>595</td>
</tr>
<tr>
<td>Nationwide Hospital and Clinic Improvements</td>
<td>$0.0001</td>
<td>0</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$0.65</strong></td>
<td><strong>11</strong></td>
<td><strong>480</strong></td>
<td><strong>3,033</strong></td>
</tr>
</tbody>
</table>

Table 2-11

## Facilities and Services Sector Status of Funds, as of January 4, 2006 (Billion)

<table>
<thead>
<tr>
<th></th>
<th>Allocated</th>
<th>Obligated</th>
<th>Expended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facilities &amp; Services</td>
<td>$2.95</td>
<td>$2.72</td>
<td>$1.75</td>
</tr>
</tbody>
</table>

Table 2-12
SIGIR is required to report on the oversight of and accounting for funds expended in Iraq relief and reconstruction, as prescribed in P.L. 108-106, as amended. Three primary funding sources support reconstruction and relief activities: U.S. appropriated funds, Iraqi funds, and donor funds.

To date, U.S. appropriated funds total more than $30 billion, including:

• reconstruction and relief funding authorized in April 2003 (IRRF 1)
• reconstruction and relief funding authorized in November 2003 (IRRF 2)
• funding for urgent humanitarian and reconstruction efforts authorized in September 2004
• funding approved in May 2005 to support the Iraqi Ministry of Defense and Ministry of Interior security forces

Iraqi funds—comprising vested funds, seized funds, and the DFI—have been an important source for reconstruction efforts, particularly during the CPA’s tenure. As of December 31, 2005, these funds totaled $39.9 billion:

• Vested (frozen) funds amounted to $1.72 billion.
• Seized funds, including confiscated cash and property, totaled just under $1 billion.
• The DFI—drawn primarily from oil proceeds, the Oil for Food program, and repatriated funds—comprised 93% of the overall total of Iraqi funds.

Donor funds and humanitarian assistance totaled $17.8 billion, as of the end of 2005. Nearly 78% or $13.9 billion of this total was derived from donor pledges in bilateral support of loans and grants for Iraqi reconstruction. Most pledged donor funds have yet to be delivered.

For a detailed look at the sources and uses of funds for Iraq reconstruction, see Appendices C, D, E, and F.
SIGIR’s enabling legislation requires a reporting of contract data related to IRRF. No single U.S. government information system currently captures comprehensive project, contract, and financial information. To address this deficiency, SIGIR designed and built the SIGIR Iraq Reconstruction Information System (SIRIS) as a repository for all project, contract, and financial data on Iraq reconstruction. SIRIS is not intended as a financial management, contract management, or project management system. SIRIS is not a transaction-based system, but rather a ‘warehouse’ of Iraq reconstruction data from all of the organizations authorized to obligate IRRF monies. SIRIS houses project data reported by each executing agency, as well as contracting actions from either electronically scanned documents or manual data entry, using copies of the contract documents themselves.

Since the last Quarterly Report to Congress, SIGIR received 361 new contracting actions from Joint Contracting Command-Iraq contracting officers that obligated more than $119 million. These contracting actions comprise modifications to existing contracts, as well as new task orders issued and contracts awarded. More than $18 million in IRRF obligations were issued in 29 new contracting actions. The majority of the contracting actions were funded by the Iraq Security Forces Fund: 199 contracting actions were awarded using this fund type, obligating nearly $55 million. Additionally, SIGIR received 91 modifications to previously awarded contracts, which increased overall obligation amounts by almost $43 million.

To date, SIGIR has received 3,637 contracting actions, which have obligated $12.7 billion. Of those, 1,603 have been funded by the IRRF with total value exceeding $7.8 billion. More than $5.2 billion of that total was obligated.

For a complete list of all contracting actions received by SIGIR to date, see Appendix I.
SIGIR Oversight

**LEGISLATIVE UPDATE**
- Legislation
- Contractors on the Battlefield
- Policy Directives

**SIGIR AUDITS**
- Final Audit Products
- Draft Reports Issued
- Ongoing Audits
- Planned Audits
- Status of SIGIR Audit Recommendations

**SIGIR INSPECTIONS**
- Approach
- Planning
- Results
- On-site Project Assessment Program Approach
- SIGIR Project Assessments
- Ground Project Survey Program
- Aerial Project Survey Program
- SIGIR Imagery Analysis

**SIGIR INVESTIGATIONS**
- SIGIR Accomplishments: Multiple Arrests
- Seizures and Forfeitures
- Crime Trends
- Other SIGIR Partners

**SIGIR HOTLINE**
- Fourth Quarter Reporting
- New Cases
- Closed Cases
- Transferred/Referred Cases

**SIGIR LESSONS LEARNED INITIATIVE**
- Human Capital Report
- Contracting and Procurement Lessons Learned Initiative
- Program Administration and Project Management Initiative
- The Story of Iraq Reconstruction

**SIGIR WEB SITE**
- U.S. Programs to Assist Anticorruption Institutions in Iraq
The Inspector General Act of 1978 [Section 4(a)(2)], which applies to the Special Inspector General for Iraq Reconstruction (SIGIR), requires SIGIR to:

- review existing and proposed legislation and regulations relating to programs and operations of the office and to make recommendations in the semiannual reports... concerning the impact of such legislation or regulations on the economy and efficiency in the administration of programs and operations administered or financed by such establishment or the prevention and detection of fraud and abuse in such programs and operations.

Appendices A and B cross-reference the pages and content of this Report that relate to these specific reporting requirements.

**Legislation**

In November 2005, the 109th Congress took two noteworthy actions that affect SIGIR:

- Congress passed an amendment to the law extending the term of the mandate of SIGIR.
- Congress expressed in a conference report the intent that SIGIR has jurisdiction over Coalition Provisional Authority (CPA) programs and operations, regardless of the source of funds.

Foreign Operations appropriations legislation for FY 2006 [H.R. 3057, enacted as Public Law (P.L.) 109-102] contained a provision to amend the statute from which authorization for SIGIR is drawn (P.L. 108-106, as amended), extending the period of oversight by SIGIR of Iraq reconstruction. This provision modifies the termination of SIGIR. The termination is now based on Iraq Relief and Reconstruction Fund (IRRF) expenditures, instead of IRRF obligations. Obligated funds back up a legal and binding contract for goods or services to be provided. Expended funds are paid out for goods or services that have been delivered satisfactorily.

The termination language, as amended, reads:

**TERMINATION**—The Office of the Inspector General shall terminate on the date that is 10 months after the date, as determined by the Secretary of State and the Secretary of Defense, on which 80% of the amounts appropriated or otherwise made available to the Iraq Relief and Reconstruction Fund by Chapter 2 of Title II of this Act have been expended.

P.L. 108-106, Section 3001 (o), as amended

Before this provision was enacted, SIGIR was authorized to operate until 10 months after 80% of the IRRF has been obligated. Without this modification, the 80% threshold would have been reached by the end of October 2005, and it would have likely resulted in the termination of SIGIR as early as August 2006. As significant expenditures of the IRRF would have yet to be expended, the termination of SIGIR would have been premature. The legislative modification effectively extended SIGIR's tenure probably through FY 2007.
The approved Foreign Operations appropriations legislation did not include additional funds for the extended period of oversight, as proposed in the Senate version. The discussion of the agreement of House and Senate conferees was contained in the statement of the managers of the Conference Report that accompanied the Foreign Operations appropriations bill:1

The conference agreement includes a provision, similar to that proposed by the Senate, which addresses authorities and funding for SIGIR, amended to extend the period of oversight for the SIGIR without providing additional funds as proposed by the Senate.

The conferees understand that SIGIR has sufficient funds to carry out its activities through FY 2006, and they expect that any additional funds necessary to complete SIGIR’s work in FY 2007 will be included in the FY 2007 budget request for consideration in the FY 2007 appropriations process.

SIGIR has submitted a proposed budget for FY 2007 to the Office of Management and Budget (OMB).

The statement of the managers of the Conference Report also includes language to address a jurisdictional ambiguity stemming from the 2004 re-designation of CPA-IG as SIGIR:

The conferees endorse oversight of U.S. reconstruction efforts in Iraq and therefore support the work of the SIGIR. The conferees intend that programs and operations of the CPA that had been within the oversight jurisdiction of the CPA-IG remain within the jurisdiction of its successor, SIGIR.

This Conference Report language supports the continued work of SIGIR on matters involving oversight of all programs and operations of the CPA, regardless of the sources of funds utilized.

**Contractors on the Battlefield**

A House of Representatives bill that would establish certain requirements for contractors on the battlefield—particularly those not accompanying a military force—failed to win support in the Senate. Earlier in 2005, the Secretary of Defense issued regulations addressing the issue of contractors on the battlefield. However, the regulations issued by the Department of Defense (DoD) applied only to contractors accompanying a military force.

House and Senate conferees on this bill stated that it is important for DoD to address issues raised by the presence of contractors on the battlefield who are not accompanying a military force. This includes contractors and subcontractors at any tier under contract with any federal government agency, if the work to be performed is related to:

- private security
- reconstruction
- humanitarian assistance
• peacekeeping
• other activities in an area of combat operations or where there is the risk of hostile fire


The revised guidance should, at a minimum, address these issues:

• measures to ensure that security issues raised by contractors not accompanying the force are addressed in integrated planning by the combatant commanders

• measures to ensure visibility and accountability of employees of contractors not accompanying the force (including accounting for U.S. nationals, local nationals, and third-party nationals)

• measures to ensure the communication of relevant threat information to contractors not accompanying the force

• measures addressing force protection and weapons issuance matters for contractors not accompanying the force (including accounting for the number and qualifications of all personnel carrying weapons)

• measures to ensure that the data gathered in the implementation of this guidance is kept and maintained in a central location for a reasonable period of time

Policy Directives

During the past quarter, two major policy documents were issued to improve the United States’ ability to manage reconstruction and stabilization efforts. Both documents clarify efforts by the U.S. government to transform its national security institutions to meet new challenges and opportunities, such as those presented in the Iraq reconstruction program.

The first, National Security Presidential Directive 44 (NSPD-44), signed December 7, 2005, empowers the Secretary of State to improve coordination, planning, and implementation of reconstruction and stabilization assistance for “foreign states and regions at risk of, in, or in transition from conflict or civil strife.”

NSPD-44 institutionalizes an interagency office within the Department of State (DoS)—the Coordinator for Reconstruction and Stabilization (S/CRS)—and tasks that office to coordinate and lead integrated U.S. government reconstruction and stabilization efforts. NSPD-44 also requires S/CRS to harness the expertise of other federal departments and agencies and to encourage these federal entities to build global capacity through international partners.

NSPD-44 notes that operations can be conducted with or without U.S. military engagement. When the military is involved, the directive calls on the Secretary of State and the Secretary of Defense, when appropriate, to integrate contingency plans for stabilization and reconstruction with military contingency plans. NSPD-44 also creates the framework
for integration of planning responsibilities, especially between DoS and DoD.

The second policy document, DoD Directive 3000.05 (issued on November 28, 2005), establishes how DoD will address and develop functions for security, stabilization, reconstruction, and transition. It also commits DoD to supporting reconstruction and stabilization efforts as a core U.S. military mission—a mission to be given priority comparable to combat operations.

The DoD directive states that stability operations are conducted to help establish order that advances U.S. interests and values. The immediate goal often is to provide the local populace with security, restore essential services, and meet humanitarian needs. The long-term goal is to help develop indigenous capacity for securing essential services, a viable market economy, rule of law, democratic institutions, and a robust civil society. Appendix K reprints the complete text of this directive.

Although DoD recognizes that “many stability operations tasks are best performed by indigenous, foreign, or U.S. civilian professionals,” the directive notes that U.S. military forces “are to be prepared to perform all tasks necessary to establish or maintain order when civilians cannot do so.” The success of stability operations is linked with securing a lasting peace and facilitating a timely withdrawal of U.S. and foreign forces.

This directive is an effort to integrate military and civilian efforts. To that end, DoD will work closely with other government departments and agencies, international and non-governmental organizations, and the private sector. In particular, DoD will provide advice and assistance for other government departments and agencies for developing stability operations capabilities; it will also seek appropriate advice and assistance from these same sources.
During this reporting period, SIGIR auditors produced seven final reports. Table 3-1 lists information about these reports, as well as those completed from July 31, 2005, to January 30, 2006. The full text of all final audit reports can be found at the SIGIR Web site: http://www.sigir.mil/.

SIGIR performs audit work under generally accepted government auditing standards prescribed by the U.S. Comptroller General. For a list of all SIGIR audit work completed as of January 30, 2006, see Appendix G.

### Completed SIGIR Final Audit Products, since October 30, 2005

<table>
<thead>
<tr>
<th>Report Number</th>
<th>Report Title</th>
<th>Date Issued</th>
<th>Recommendations Total</th>
<th>Closed</th>
<th>In-process</th>
</tr>
</thead>
<tbody>
<tr>
<td>05-026</td>
<td>Fact Sheet on the Use of $50 Million Appropriation To Support the Management and Reporting of the Iraq Relief and Reconstruction Fund</td>
<td>01/27/2006</td>
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<tr>
<td>05-027</td>
<td>Methodologies for Reporting Cost-to-complete Estimates</td>
<td>01/27/2006</td>
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<tr>
<td>05-029</td>
<td>Challenges Faced in Carrying Out Iraq Relief and Reconstruction Fund Activities</td>
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<td>05-028</td>
<td>GRD-PCO Management of the Transfer of IRRF-funded Assets to the Iraqi Government</td>
<td>01/24/2006</td>
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<tr>
<td>05-024</td>
<td>Management of the Mansuria Electrical Reconstruction Project</td>
<td>01/23/2006</td>
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<td>05-025</td>
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<td>Management of Rapid Regional Response Program Contracts in South-Central Iraq</td>
<td>01/23/2006</td>
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</table>

**Table 3-1**

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## Final Audit Products

### Fact Sheet on the Use of $50 Million Appropriation To Support the Management and Reporting of the Iraq Relief and Reconstruction Fund

**SIGIR-05-026, JANUARY 27, 2006**

This fact sheet discusses the use of the $50 million appropriation earmarked to support the management and reporting of IRRF.

Congress authorized $50 million to meet reporting and monitoring requirements in
P.L. 108-106, as amended, the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, and to prepare and maintain public records required by the Act. These funds were to remain available until September 30, 2005. This correspondence addresses how the funds earmarked for the preparation, maintenance, monitoring, or reporting of the IRRF information required by the Act were used.

SIGIR determined that the $50 million was initially apportioned by the Office of Management and Budget (OMB) to DoD as “Operating Expenses of the Coalition Provisional Authority.” The Department of the Army obligated $26.2 million in FY 2004 under the sub-account “Reporting” and made disbursements of $9.2 million in FY 2004 and $9.7 million in FY 2005, with the remaining $7.3 million obligated for additional disbursements under the “Reporting” sub-account requirement.

When CPA was terminated, the Department of the Army transferred the remaining $23.8 million in “Reporting” funds back to OMB. OMB reapportioned the $23.8 million to DoS. DoS allocated the funds to the Near East Asia Bureau where $22.1 million paid for Iraq Reconstruction Management Office (IRMO) 3161 salary expenses, and the remaining $1.7 million was transferred to the DoS Office of Inspector General. DoS did not provide further documentation of how these expenses supported the preparation, maintenance, monitoring, or reporting of the IRRF information.

SIGIR does not question DoS’s authority to obligate and expend the $23.8 million. SIGIR does, however, question expending the remaining earmarked funds for salary expenses without being able to provide either the rationale or support for how these expenditures complied with the congressional intent for the appropriation. This fact sheet contains no recommendations.

Methodologies for Reporting Cost-to-complete Estimates
SIGIR-05-027, JANUARY 27, 2006

This report is one of a series of reports that addressed the reporting of cost-to-complete information for projects funded by IRRF.

Objective

The objective of this audit was to determine the adequacy of methodologies used to estimate and report the costs to complete projects funded with IRRF.

Methodology

SIGIR reviewed the cost-to-complete methodologies in the Gulf Region Division-Project and Contracting Office’s (GRD-PCO) Facilities and Transportation sector, specifically those used in the October 2005 Section 2207 Report. SIGIR also reviewed similar U.S. Agency for International Development (USAID) projects and conducted a follow-up on its previous recommendation to IRMO regarding the formalization and finalization of cost-to-complete procedures.
Findings

SIGIR found internal control weaknesses in the procedures used for developing and reviewing cost-to-complete data. IRMO and the reporting agencies did not develop and communicate effective guidance, maintain documentation supporting calculation of significant numbers in the reports, or adequately review reports before issuance.

SIGIR also found that GRD-PCO, Multi-National Security Transition Command-Iraq (MNSTC-I), and USAID failed to estimate and report reliable and transparent cost-to-complete information for the IRRF projects that SIGIR reviewed. This condition occurred because IRMO did not provide formal written guidance to the reporting agencies as SIGIR had previously recommended. The condition also occurred because the reporting agencies failed to:

- develop and communicate effective internal guidance
- identify and correct errors in the reports before issuance
- maintain adequate documented support for the calculation of reported estimates at completion
- adequately report project scope changes

MNSTC-I did not submit a report for the September 30, 2005 Project Assessment Report. GRD-PCO and USAID submitted reports with errors that were significant enough to undermine user confidence in the reporting.

Failure to effectively compile and report cost-to-complete information prevents important project visibility essential for program managers and Congress to make informed management decisions during IRRF program execution. Without current and accurate cost-to-complete data, the funds available for the completion of the IRRF program cannot be determined and the availability of funds for the initiation of new projects cannot be accurately projected.

Recommendations

SIGIR recommended that the Director, IRMO, require IRMO management to take these actions:

1. Formalize its cost-to-complete action plan by issuing a formal policy to finalize consistent procedures across all supporting IRRF organizations for the collection and compilation of cost-to-complete information.
2. In the next DoS Section 2207 Report, provide data to Congress on the adequacy of cost-to-complete in the other sectors.

SIGIR recommended that the Commanding General, GRD, require the GRD-PCO sector management to:

1. Finalize the draft of official written guidance covering the methodology, including roles and responsibilities, for generating cost-to-complete reports. The guidance should be issued as a policy directive and should cover all of the construction...
subsectors, as well as non-construction projects. The guidance should include a future costs projection element to assure full consideration of potential costs. The guidance should be consistent with the guidance provided by IRMO.

2. Ensure that the decision not to use computer modeling in the calculation of cost-to-complete is updated and reflected in all current and future guidance.

3. Develop a thorough review process to eliminate errors in the reporting spreadsheets. The review process should be written into the guidance.

4. Create and maintain a permanent central file to document the calculation of estimates at completion (EAC) by project. The requirement to create and maintain the central file should be written into the guidance.

5. Develop policies to define significant scope changes. For example, variances reflecting a 15% change in schedule, scope, or budget could be used as a metric to define “significant.” The changes should be reported in the quarter the changes occurred by adding supporting schedules to the cost-to-complete report. Require the supporting schedule to be sufficiently descriptive to inform users of differences between what is expected to be completed relative to what was planned.

SIGIR recommended that the Commanding General, MNSTC-I, require MNSTC-I management to:

1. Add the future cost projections component to guidance relating to the calculation of the EAC for construction projects. Develop guidance for non-construction projects, including the future cost projections component and the requirement to document calculation of the EACs. The guidance should be consistent with the guidance provided by IRMO.

2. Develop a thorough review process to eliminate errors in the reporting spreadsheets. The review process should be written into the guidance.

3. Develop policies to define “significant” scope changes. For example, variances reflecting a 15% change in schedule, scope, or budget could be used as a metric to define significant. The changes should be reported in the quarter the changes occurred by adding supporting schedules to the cost-to-complete report. Require the supporting schedule to be sufficiently descriptive to inform users of differences between what is expected to be completed relative to what was planned. Identify all projects to be completed with funds other than IRRF by adding footnotes to the cost-to-complete report.

SIGIR recommended that USAID Mission Director-Iraq, require USAID management to:

1. Develop and distribute official written guidance covering the entire methodology, including roles and responsibilities, for generating cost-to-complete reports. The guidance should be issued as a policy directive. The guidance should cover both construction and non-construction proj-
ects, and should include a future costs projection component to assure full consideration of potential costs. This guidance should be consistent with guidance provided by IRMO.

2. Develop a thorough review process to eliminate errors in the reporting spreadsheets. The review process should be written into the guidance.

3. Create and maintain a permanent central file to document the calculation of estimates at completion by project. The requirement to create and maintain the central file should be written into the guidance.

4. Develop policies to define significant scope changes. For example, variances reflecting a 15% change in schedule, scope, or budget could be used as a metric to define significant. The changes should be reported in the quarter the changes occurred by adding supporting schedules to the cost-to-complete report. Require the supporting schedule to be sufficiently descriptive to inform users of differences between what is expected to be completed relative to what was planned.

Management Comments

*SIGIR did not receive written comments from IRMO. However, in discussions with IRMO, senior managers stated that they would develop formal policies and procedures for the participating agencies. They also said that the January 2006 Section 2207 Report would discuss the adequacy of cost-to-complete methodologies in the other sectors.*

GRD-PCO officials concurred with the recommendations and provided information on activities that have occurred since the preparation of the draft report. In addition, GRD-PCO officials stated that because of the number of scope changes to projects, rather than footnoting the automated cost-to-complete report, GRD-PCO will develop a supporting schedule summarizing the scope changes by quarter.

USAID concurred with SIGIR’s recommendations and provided technical corrections to the report.

MNSTC-I concurred with most of SIGIR’s recommendations but did not concur that it should provide cost-to-complete information for non-construction projects. MNSTC-I stated that it already reported cost-to-complete information in the quarterly Section 2207 Reports in the form of obligation and outlay data. However, SIGIR believes that this information does not provide decision-makers with the necessary transparency as to the actual cost to complete non-construction projects. For example, MNSTC-I sometimes uses non-IRRF funds to complete projects after IRRF funds are fully expended. Without information on actual program costs, decision-makers cannot determine where future investments should be made.

Challenges Faced in Carrying Out Iraq Relief and Reconstruction Fund Activities

SIGIR-05-029, JANUARY 26, 2006

This audit discusses the challenges faced by CPA and its successor, DoS, in carrying out program activities of IRRF.
Objectives

The objectives of this audit were to:

- determine the effectiveness of U.S. agencies in carrying out plans for Iraq reconstruction activities
- identify the reasons, if any, for changes in the plans

SIGIR reviewed IRRF-funded reconstruction projects to determine how they changed from the original CPA plans and, where possible, reasons for the changes.

Findings

SIGIR found that, although significant progress has been made in developing Iraq’s infrastructure, the United States will not complete all of the projects it originally planned to construct through its Iraq relief and reconstruction program. For example, only 49 of 136 projects in the Water Resources and Sanitation sector will be completed, and only about 300 of 425 planned projects in the Electric sector will be completed. The completion of planned projects has been affected by a number of factors, including:

- dramatically increased spending for security needs
- strategy changes as DoS has responded to the changing environment in Iraq
- needed increases in spending for sustainment
- the need to fund IRRF administrative expenses not considered in initial planning
- plans made without a clear understanding of actual situational conditions

Data are available on the impact of some, but not all, of these factors. For example, strategy changes have resulted in the reallocation of $5.6 billion in IRRF monies from their originally planned purposes; the unbudgeted administrative costs of the IRRF implementing agencies has resulted in $400.6 million in project changes; and the unbudgeted sustainment costs have resulted in approximately $425 million in project changes, with another $350 million currently budgeted for additional sustainment activities. However, other factors, such as unforeseen security costs and unexpected conditions at many planned job sites, affected the projects but are less measurable. Table 3-2 shows changes from the CPA’s original November 2003 IRRF allocations, its allocations as of October 2005, and some indication of how these factors have cumulatively impacted U.S. plans.

The Iraq reconstruction programs have shown tangible results; however, the large-scale program changes mean that their original goals will not be fully achieved in some sectors. As Table 3-2 shows, the Water Resources and Sanitation sector and the Electric sector incurred the largest reduction of funds. How this funding reduction affects the original plans for the sectors is not entirely certain, however, because the CPA established broad goals for each sector and did not link the individual projects to these goals. Moreover, there was a lack of detailed and accurate data on the
## IRAQ RELIEF AND RECONSTRUCTION FUNDING ALLOCATION CHANGES, NOVEMBER 2003 TO OCTOBER 2005 (IN MILLIONS)

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<th>Sectors</th>
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</table>

Source: SIGIR analysis of Office of Management and Budget and Department of State data.

* In September 2004, Private Sector Development received $352.3 million for Iraq Debt Forgiveness. Because debt forgiveness is not a program, it has been reported separately to provide a clearer picture of how sector programs changed.

* An additional $601.3 million was used to cover the FY2004 and 2005 operating expenses of the CPA and its successor, and the administrative costs of the implementing agencies. These costs are not identified and are spread across the sectors. Total FY2004 and 2005 administrative costs are actually $785.3 million.

**Table 3-2**
actual status of some sectors before the start of reconstruction activity.

For example, a recent Government Accountability Office (GAO) report on progress in the Water sector reported that the original CPA planners did not have good data on the number of Iraqis with access to clean water before the war. Similarly, Electric sector officials recently acknowledged that the CPA underestimated the decrepit state of Iraq’s electric infrastructure before the war. Responding to the GAO report, DoS acknowledged its lack of metrics, stating that it was in the process of refining its performance metrics in the Water sector and in all other sectors. Because DoS was still working on this issue at the time of this audit, SIGIR focused the review on information in the DoS and OMB Section 2207 Reports and on interviews with sector officials. For the two sectors with the largest change, Water and Electric, SIGIR identified these changes:

- **Water Resources and Sanitation**: About 60% of the originally planned Water sector projects were not implemented. Potable water projects and water pumping stations and generators retained the largest number of projects. Most of the projects were terminated in these subsectors: sewerage, irrigation and drainage, major irrigation, and dams. Nonetheless, DoS reports that Iraq’s water treatment capacity will be increased by 2.25 million cubic meters per day.
- **Electric**: CPA originally planned about 425 projects in the Electric sector and will complete approximately 300. The largest change will occur in the generation subsector, which will add only about 2,109 megawatts of additional power, rather than the originally planned 3,400 megawatts.

**Recommendations**

SIGIR made no recommendations because DoS is developing or refining metrics for all sectors in response to the GAO report on the Water Resources and Sanitation sector.

**GRD-PCO Management of the Transfer of IRRF-funded Assets to the Iraqi Government**

SIGIR-05-028, JANUARY 24, 2006

This report is one of a series that discusses the management by U.S. government organizations of the transfer of completed reconstruction projects to the Iraqi government. The Gulf Region Division (GRD) of the U.S. Army Corps of Engineers and the Project and Contracting Office (PCO) have managed the completion of 1,692 projects valued at approximately $1.4 billion through December 28, 2005, but the largest projects will not be finished until 2006-2007. Thousands of completed projects funded by IRRF and other programs will be transferred to the Iraqi government during 2006-2007. Combined, these projects represent the eventual transfer of billions of dollars of assets. A formal asset-transfer process is necessary to enable Iraq’s government to integrate the completed project assets into a nationwide infrastructure management plan, to adequately budget for sustaining the
transferred project assets, to account for the assets, and to leverage the project assets to obtain financing for additional projects from world markets.

Objective

The objective of this audit was to determine whether the U.S. government organizations responsible for managing IRRF projects have developed and approved policies and procedures for transferring the billions of dollars of assets purchased, renovated, and constructed with IRRF funds to the Iraqi government and its citizens.

SIGIR focused specifically on asset recognition and transfer policies and procedures used by two organizations managing IRRF projects—the GRD and PCO. On December 4, 2005, the responsibilities of GRD were consolidated with those of PCO. This report uses the term GRD-PCO for the consolidated entity. SIGIR will report on other U.S. government organizations in future reports.

Findings

SIGIR found that GRD-PCO recognized the need for formal asset recognition and transfer policies and procedures and is working, in coordination with IRMO and others, to resolve the issue. Current GRD-PCO policies and procedures were geared toward asset transfer to Iraqi government representatives at the local level and did not address the information needs of the Iraqi government and the Iraqi Ministries responsible for planning the integration and sustainment of completed projects.

Acknowledging the need to further address the asset recognition and transfer issue, PCO dispatched a team to Iraq in November 2005 to provide an in-depth assessment of the current contract close-out and asset-transfer processes. In addition, GRD-PCO participates in two multi-agency working groups—the Information Technology Working Group and the Asset Recognition and Transfer Team Working Group—which comprise representatives from principal U.S. government agencies charged with the relief and reconstruction effort in Iraq. These groups are working together to develop a common policy and process for facilitating the legal, financial, and logistical transfer of assets to the Iraqi government.

The Information Technology Working Group was formed to consolidate, into one database, all U.S. government-funded and U.S. government-managed Iraq relief and reconstruction project asset information across all infrastructure sectors and organizations. The name for this consolidated database is the Iraq Reconstruction Management System (IRMS). One of the intended goals for IRMS is the capability to turn over to the Iraqi government an archive of the U.S. government’s relief and reconstruction project information, which will help the Iraqi government in its budgeting for sustainment of transferred facilities and future master planning.

DoS, via the IRMO, established the Asset Recognition and Transfer Team Working Group, which includes representatives from GRD-PCO, IRMO, USAID, MNSTC-I, Multi-
National Force-Iraq (MNF-I), and others, to develop a common policy and process for the represented agencies to facilitate the legal, financial, and logistical transfer of assets to the Iraqi government.

**Recommendations**

SIGIR recommended that the Commanding General, GRD, direct GRD-PCO, in coordination with IRMO, to complete the development of a common policy and process facilitating the transfer of completed project assets to the Iraqi government. The process should, at a minimum, provide formal notification of the project asset transfer to the Iraqi Ministry of Planning, Ministry of Finance, and the appropriate operating ministry central headquarters (Electricity, Water, Oil, Health, Education, Transportation, Roads, Communications, Justice, Interior, and Defense). Notification should also include, at a minimum, relevant data, such as operation start date, asset cost, estimated short-term and long-term sustainability costs, terms of warranties, and the location of maintenance and systems manuals and instructions.

SIGIR also recommended that the transfer of all assets developed or funded by U.S. government programs should be governed by a common set of policies and procedures.

In the course of its review, SIGIR also noted that in addition to IRRF, Iraq reconstruction activities are also being funded by the Development Fund for Iraq (DFI), the Commander’s Emergency Response Program (CERP), and the Commanders Humanitarian Relief and Reconstruction Program (CHRRP), as well as various other U.S. government-administered funding sources. As with IRRF-funded projects, formal asset recognition and transfer policies and procedures are similarly needed for the transfer of additional billions of dollars worth of assets.

**Management Comments**

_The Commanding General, Gulf Region Division, U. S. Army Corps of Engineers concurred with the findings and recommendations, and the comments to all recommendations are fully responsive._

**Management of the Mansuria Electrical Reconstruction Project**

SIGIR-05-024, JANUARY 23, 2006

This audit evaluated the effectiveness of project management and the monitoring and controls over this project by USAID and IRMO. Specifically, SIGIR reviewed the approval, planning, monitoring, and cancellation of the Mansuria Project.

In November 2003, the U.S. Congress appropriated $18.4 billion for IRRF to support security, relief, rehabilitation, and reconstruction projects in post-war Iraq. One of the many projects to address reconstruction of the Iraq Electricity sector was the Natural Gas Development for Power Generation (the “Mansuria Project”).

The Mansuria Project resulted from a February 2004 task order issued by the Coalition Provisional Authority-Program Management
Office (CPA-PMO) in response to a request by the Iraqi Ministry of Electricity. The task order directed USAID to proceed with development and construction of electrical generation facilities in the Baghdad area. The approved estimated direct cost of the resulting Mansuria Project job order was $381.3 million. The project was subsequently cancelled; the final job order direct costs are currently estimated to be $62.7 million as of December 22, 2005.

Of the projected $62.7 million in Mansuria Project direct costs, USAID transferred to the Iraqi Ministry of Electricity approximately $47.9 million in combustion turbines, generators, transformers, and related items to support another project planned and funded by the Ministry. USAID also transferred $2.8 million in gas-line piping that could support future Ministry projects.

Although the Mansuria Project was cancelled, management actions to approve, plan, monitor, and cancel the project were generally appropriate and effective. Specifically, CPA-PMO properly issued a task order to USAID addressing a specific need identified by the Iraqi Ministry of Electricity to provide electrical production to the Baghdad area. SIGIR found that USAID had implemented sufficient management controls to plan, monitor, and control the resulting Mansuria Project. Further, IRMO and USAID actions to cancel the project were supported by appropriate documentation and approved by the Iraqi government. Consequently, this report contained no recommendations.

**Management of the Commander’s Emergency Response Program (CERP) for Fiscal Year 2005**

SIGIR-05-025, JANUARY 23, 2006

This audit discussed the management of $718 million allocated to the MNF-I for use in FY 2005 for CERP to support Operation Iraqi Freedom. CERP enables U.S. military commanders in Iraq to respond to the urgent humanitarian relief and reconstruction requirements of the local population by providing funds for repairs and condolence payments after combat operations, the provision of equipment, such as electrical generators to support critical infrastructure, and large-scale civic cleanup and construction activities to employ as many Iraqis as possible.

For FY 2005, MNF-I reported that it obligated $718 million for 7,678 CERP projects; 4,805 of these projects were completed by September 30, 2005. SIGIR reported in October 2005 that U.S. forces did not fully comply with regulations and guidance for maintaining controls over appropriated funds or for maintaining the documentation required to account for projects in FY 2004. SIGIR’s concerns over these conditions generated this audit, which addresses MNF-I’s management of the FY 2005 CERP.

**Objectives**

The objectives of this audit were to determine whether MNF-I:

- implemented controls to effectively manage FY 2005 CERP projects, funds, and records
- coordinated CERP projects effectively,
where appropriate, with DoS and USAID to optimize available resources for the sustainment of projects and the reconstruction of Iraq

Findings

SIGIR reviewed program plans, guidance, project management data, and 207 project records (including a statistical sample at the 90% confidence level for 187 projects).

SIGIR found that MNF-I had made considerable progress to improve the management of CERP. This included the improved alignment of projects with MNF-I strategic objectives, centralized tracking of project status and management of project records, and coordination of CERP with other U.S. reconstruction programs. SIGIR found, however, that the project data MNF-I used to track the progress of projects and report the status of projects to higher headquarter units contained several errors, and MNF-I units still did not fully comply with requirements for project records.

In addition, SIGIR found that MNF-I lacked a consistent process to coordinate CERP projects with DoS and USAID when CERP was used in conjunction with other reconstruction programs in Iraq, and that it did not coordinate with DoS for the sustainment of large CERP construction projects.

During the course of this audit, SIGIR notified MNF-I of its concerns about errors in the project tracking tool. As a result, MNF-I initiated its own review of its FY 2005 project data. Also, in November 2005, MNF-I began transitioning to the IRMS as its project tracking tool, which should reduce the errors in the current project management data that SIGIR identified.

In addition, MNF-I and the U.S. Embassy-Iraq published a Joint Mission Statement on December 6, 2005, which stated that all political, military, and economic tools available to U.S. agencies in Iraq will be integrated in FY 2006 to maximize the effectiveness of U.S. efforts to rebuild Iraq.

Recommendations

SIGIR recommended that the Commanding General of MNF-I, direct his program managers and subordinate commands to take these actions:

• Conduct a thorough examination of all FY 2005 CERP funds and projects to account for project status reporting errors. In addition, if it is determined that funds were inappropriately obligated against the FY 2005 appropriation, MNF-I should initiate a de-obligation from FY 2005 funds and re-obligate projects with the appropriate funds.

• Conduct a quarterly review of CERP to ensure the data contained within its project tracking tool is valid and is as consistent as possible with the data for project obligations in the Army financial systems.

• Clarify and enforce existing guidance on the collection of required project records. MNF-I should conduct quarterly reviews of project records to improve the management of project files. MNF-I should also consider developing a plan to provide training for all
current and future MNF-I units on project documentation requirements and how to maintain and store these records. Methods for storing records in electronic formats should also be considered.

- Formalize the process of coordinating CERP projects with DoS and USAID where CERP is used in conjunction with other reconstruction programs, particularly those projects that are of strategic importance.
- Coordinate plans and funding for the sustainment of large CERP construction projects and projects that have strategic value with DoS.

Management Comments

On behalf of MNF-I, the Multi-National Corps-Iraq (MNC-I) concurred or partially concurred with four of five recommendations of the report. SIGIR generally agreed with the comments provided by MNC-I and, in some cases, changed its report accordingly. However, SIGIR also noted that MNC-I has apparently misunderstood parts of two of the recommendations and therefore SIGIR reaffirmed its position that coordination on sustainment of reconstruction projects is a key component of the overall success of the U.S. government in Iraq.

USAID also provided technical comments for this report. SIGIR agreed with the comments and changed the audit report accordingly. The comments received are fully responsive.

SIGIR plans to perform a follow-up audit later this year to determine the quality of CERP data contained within financial systems.

Management of Rapid Regional Response Program Contracts in South-Central Iraq
SIGIR-05-023, JANUARY 20, 2006

This audit report is the last in a series of reports SIGIR has produced addressing controls over cash, contract management, and grant management for CPA’s South-Central Region. The audit addresses the processes used for the authorization, award, execution, and oversight of contracts within the CPA South-Central Region.

During 2003-2004, the CPA used contracts to purchase products or services that helped carry out programs or projects that directly benefited the Iraqi people or assisted in the reconstruction and recovery of Iraq. Between October 2003 and June 2004, CPA South-Central Region used funds provided from the DFI through the Rapid Regional Response Program (RRRP) to award 907 contracts and 1,212 micro-purchases worth approximately $88.1 million.

Objective

The overall audit objective was to determine whether disbursing officers in selected locations in southern Iraq complied with applicable guidance and properly controlled and accounted for DFI cash assets and expenditures. During the audit, SIGIR observed deficiencies in contract award documentation and expanded the scope to determine whether CPA South-Central Region personnel properly managed contracts.
Findings

SIGIR found that South-Central Region personnel, under the direction of CPA, did not effectively manage 907 contracts and 1,212 micro-purchase contracts that were awarded through the RRRP, amounting to $88.1 million. As a result:

- 4 projects, using 20 contracts (2.2%) and several contract modifications, totaling approximately $9.1 million, apparently split requirements to keep the contract awards below the $500,000 approval threshold so as to circumvent the required reviews and reporting.
- 158 contracts (17.4%), totaling approximately $16.3 million, were either not competitively awarded or lacked documentation that showed a competitive process had taken place, and 26 contract files (3.0%), totaling approximately $2.6 million, did not contain a signed contract.
- 11 contracts (1.2%), totaling more than $5.6 million, were issued without proper authorization, and 38 contracts (4.2%), totaling approximately $7.0 million, were awarded after the transfer of responsibility for the DFI to the Iraqi government on June 28, 2004.
- 91 projects (10.7%), totaling approximately $11.6 million, were paid in full at the time of contract signing, and the completion of the project work was not verified; 11 contracts (1.2%) were overpaid by $571,823; approximately $515,000 was disbursed for CPA salaries and operations in violation of Program Review Board Guidance 06.2 (amended); approximately $47,000-$87,000 in cash was lost but not reported to the CPA Comptroller; and approximately $23 million was transferred to unauthorized personnel, but documentation showed only $6.3 million disbursed to contractors resulting in the loss of oversight of $16.7 million.
- 286 contract files (31.5%), totaling approximately $31 million, did not contain certificates of completion, yet $24 million had been disbursed for the projects. Other contract files were missing documentation for approximately $12.6 million in disbursements and consequently, it could not be determined whether contractors were properly paid for work actually performed.
- A property record book to document the property purchased with RRRP funds was not maintained; contract files for 160 vehicles, totaling approximately $3.3 million, did not document the receipt of the vehicles, and there was limited documentation in the contract files to identify whether the beneficiary actually received the vehicles; ammunition and weapons were purchased, but detailed records of deliveries and distribution were not maintained; and not all of the weapons could be located.
- 346 micro-purchase contracts (28.5%) exceeded the micro-purchase dollar limitation of $5,000 yet did not maintain the required documentation in the files for awards greater than $5,000; 387 micro-purchase contract files (31.9%) did not contain disbursement documentation; 786 files (64.9%) did not contain a vendor
SIGIR also identified material internal control weaknesses. U.S. government agents and coalition partners did not comply with applicable guidance and did not properly control and account for Iraqi cash assets. Further, SIGIR found indications of potential fraud and referred these matters to the SIGIR Assistant Inspector General for Investigations for action. Related investigations are continuing.

Based on the documentation examined, SIGIR concluded that CPA South-Central Region failed to adequately manage its RRRP contracts and micro-purchases.

**Recommendations**

Because CPA was dissolved on June 28, 2004, SIGIR is addressing the recommendations to two of the four successor organizations: the Joint Area Support Group-Central (JASG-C) and the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A). SIGIR recommended that:

- the U.S. Ambassador to Iraq recover the $571,823 that was overpaid on 11 contracts
- the Commanding General, JCC-I/A, establish adequate and required documentation to record the receipt and disposal of all purchased property
- the Commander, JASG-C, require paying agents to obtain proper contract approval documentation before making disbursements

SIGIR issued four previous reports addressing controls over cash, contract management, and grant management for the CPA South-Central Region. SIGIR made a total of 31 recommendations to management in those 4 reports. In response to the recommendations made in those four reports, management generally concurred, agreed to take the necessary actions to resolve the problems discussed, and initiated actions on the specific recommendations. Therefore, the recommendations made in those previous four reports that are applicable to this report will not be repeated.

**Management Comments**

Both the Commanding General, JCC-I/A and the Commander, JASG-C concurred with the findings and recommendations. Both Commands have actions underway to implement the recommendations, and the comments to all recommendations are fully responsive.

SIGIR did not receive comments from the Chief of Mission regarding the recommendation.

**Draft Reports Issued**

**The Evolution of the Iraq Reconstruction Management System**

DRAFT SIGIR-06-001, JANUARY 30, 2006

The overall objective of this audit is to determine whether information systems used by U.S. government organizations support the effective management of IRRF programs.

In May 2005, SIGIR initiated an audit to determine whether the information systems used by U.S. government organizations resulted
in the effective management of IRRF programs. The original audit report was delayed as a result of management improvement actions taken in September 2005 by the Director of IRMO, which:

- required that a unified IRRF reporting system be developed
- directed all agencies spending IRRF dollars to input and maintain current data in the system

This audit report is one of a series of reports addressing the ability of information technology (IT) and management systems to produce reliable and accurate information in support of IRRF.

**Prompt Payment Act: Analysis of Expenditures Made from the Iraq Relief and Reconstruction Fund**

DRAFT SIGIR-06-002, JANUARY 15, 2006

The objective of this audit is to determine whether expenditures by U.S. government organizations responsible for the management of IRRF were made in compliance with the Prompt Payment Act and other applicable policies and regulations.

**Ongoing Audits**

**Audit of Policies and Procedures for Data Quality Assurance in the Collecting and Reporting of IRRF**

SIGIR-2005-16

The objective of this audit is to determine whether policies, procedures, and internal controls established by U.S. government organizations ensure valid and reliable data for effective management of Iraq reconstruction projects. SIGIR is evaluating the general controls for assessing the integrity, confidentiality, and availability of computerized data in the Iraq Reconstruction Management System (IRMS). The review does not address controls over individual applications within IRMS.

**Survey of INL Funding for Iraq**

SIGIR 2005-18

In conjunction with the DoS Office of Inspector General, SIGIR initiated a survey of Bureau of International Narcotics and Law Enforcement Affairs (INL) funding for Iraq. The survey concentrates primarily on major INL programs to determine whether INL has implemented appropriate management and accounting controls to ensure that funds provided by Congress are properly expended in accordance with federal regulations. The survey will be performed at INL and other DoS facilities in Washington, D.C.

**Policies and Procedures Used for Iraq Relief and Reconstruction Fund Project Management**

D2005-DCPAAP-0005.2

The overall objective of this audit series is to determine whether policies, procedures, and internal controls established by U.S. government organizations result in the effective management of Iraq reconstruction projects. These audits will also determine whether those policies, procedures, and internal controls were
adequately coordinated among U.S. government organizations and resulted in sufficient consistency among those organizations for the effective management and timely completion of Iraq reconstruction projects.

The next audit in this series will assess the adequacy of the policies, procedures, and management controls of the IRMO.

**Review of Administrative Task Orders (ATOs)**
SIGIR 2005-19

The objectives of this audit are to determine:

- To what extent did ATOs accomplish their intended purpose—to capture the design-build contractors’ fixed administrative costs for the total indefinite delivery order? Contract audits will also determine whether those information systems were adequately reliable and sufficiently coordinated among those organizations to ensure accurate, complete, and timely reporting to senior government officials and Congress on the use of IRRF funds.
- To what extent did the de-scoping of projects impact the necessity for certain administrative costs included in the ATO?
- To what extent did increased or decreased periods of contract/task order performance impact the value of ATO cost, and to what extent did ATOs vary from one design-build contractor to another?

**Survey of the Program, Contract, and Financial Management Systems and Reporting for the Iraq Relief and Reconstruction Fund (IRRF)**
SIGIR-2005-24

The overall objective of this audit series is to determine whether the U.S. government organizations responsible for the management of the Iraq Relief and Reconstruction Fund (IRRF) have developed and approved adequate policies and procedures to support the transfer of assets purchased, renovated, and constructed with IRRF monies to the Iraqi government and its citizens and whether those policies and procedures have been implemented.

- Multi-National Security Transition Command, Project Number SIGIR 2005-20
- U. S. Agency for International Development, Project Number SIGIR 2005-22

**Audit of Parsons Delaware, Inc., Contract Number W914NS-04-D-0006, for the Primary Health Care Clinics Construction Projects**
SIGIR-2005-26

The overall objectives of this audit are to determine whether the contractor is in compliance with the terms of the contract or task orders and whether the government representatives are complying with general legislative and regulatory guidance concerning contract administration and financial management and to evaluate the effectiveness of monitoring and controls that are in place by administrative contract officers.
The objectives of this survey are to obtain sufficient information on the program, contract, and financial management processes, systems, and transaction-level data maintained in order to have an understanding of the management information available. SIGIR will also obtain information on the official reporting requirements from each of the U.S. government agencies that administer IRRF.

SIGIR will use the results of this survey to develop specific audit plans to evaluate the effectiveness of controls and the accuracy and timeliness of reconciliations of the budget authorities, fund allocations, disbursements, and contract actions that comprise the majority of IRRF monies. Each audit will be announced with specific objectives.

**Analysis of Risk in Contracting Methods Used for Iraq Reconstruction Projects**
SIGIR-2005-25

The overall objective of this audit is to obtain sufficient information on the procurement processes, contract management, and financial management relating to design-build and direct contracting to conduct a risk assessment of each alternative approach.

**Follow-up to the South-Central DFI Cash Control and Contracts Review**
SIGIR-6002

This review is a follow-up on actions taken by the U.S. government to implement recommendations for improvements to management controls over cash and Development Fund for Iraq (DFI) contracts.

**Reconstruction Transition to Iraq Government Management**
SIGIR-6003

The questions SIGIR will ask in this review are:
- Do each of the U.S. reconstruction management offices in Iraq have strategic plans in place for transitioning their respective parts of the reconstruction program?
- Are there sufficient resources to operate and maintain new U.S.-provided plants and equipment?
- Have Iraqi officials sufficiently planned and budgeted for the essential maintenance of the new U.S.-provided infrastructure?
- How will the pace of reconstruction and project completion affect transition?

**Review of the Task Force Shield Program**
SIGIR-6004

This review will determine if program managers of Task Force Shield, which was created to provide infrastructure security, efficiently and effectively used funds to meet the intended goals of the program.

**Review of the Use of Definitization of Contracts Supporting the Reconstruction in Iraq**
SIGIR-6005

This audit will determine whether contracts funded by the Iraq Relief and Reconstruction Fund (including letter contracts and task orders) are being definitized in a timely and whether the definitization process complied with applicable regulations, policies and procedures.
Review of Close-out Processes and Procedures for IRRF Contracts
SIGIR-6006

This audit will determine whether contracts funded by IRRF (including task orders, grants, and cooperative agreements) are being closed out in a timely manner and comply with the Federal Acquisition Regulation (FAR) 4.804-1(a) and other applicable regulations, policies and procedures.

Planned Audits
SIGIR will conduct performance audits that assess the economy, efficiency, effectiveness, and results of Iraq reconstruction programs and operations as necessary. These audits will be accomplished through individual audit projects of specific issues, as well as an audit series that will evaluate several components of related topics. Each of these audits will be announced before the start of any audit field work. For the full text of the Audit Plan, see the SIGIR Web site: http://www.sigir.mil/.

Status of SIGIR Audit Recommendations
SIGIR has made several recommendations to management officials for corrective actions needed in reconstruction and relief activities. Table 3-3 lists the status of prior recommendations for this semiannual reporting period.
## Status of SIGIR Audit Recommendations, as of December 31, 2005

<table>
<thead>
<tr>
<th>Report Number</th>
<th>Report Title</th>
<th>Date Issued</th>
<th>Recommendations Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>05-022</td>
<td>Managing Sustainment for Iraq Relief and Reconstruction Fund Programs</td>
<td>10/24/2005</td>
<td>4 0 0</td>
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<td>05-021</td>
<td>Management of Iraq Relief and Reconstruction Fund Programs</td>
<td>10/24/2005</td>
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<td>05-020</td>
<td>Management of the Contracts, Grant and Micro-Purchases Used to Rehabilitate the Kurbala Library</td>
<td>10/26/2005</td>
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<td>05-019</td>
<td>Attestation Engagement Concerning the Award of Non-Competitive Contract DACAD-03-D-0005 to Kellogg, Brown and Root Services, Inc.</td>
<td>09/30/2005</td>
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<tr>
<td>05-018</td>
<td>Acquisition of Armored Vehicles Purchased Through Contract W914NS-05-M-1189</td>
<td>10/21/2005</td>
<td>5 0 0</td>
</tr>
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<td>05-017</td>
<td>Award Fee Process for Contractors Involved in Iraq Reconstruction</td>
<td>10/25/2005</td>
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<td>05-016</td>
<td>Management of the Contracts and Grants used to Construct and Operate the Babylon Police Academy</td>
<td>10/26/2005</td>
<td>3 0 0</td>
</tr>
<tr>
<td>05-015</td>
<td>Management of Rapid Response Program Grants in South-Central Iraq</td>
<td>10/26/2005</td>
<td>3 0 0</td>
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<tr>
<td>05-014</td>
<td>Management of Commander's Emergency Response Program for Fiscal Year 2004</td>
<td>10/13/2005</td>
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<tr>
<td>05-013</td>
<td>Controls Over Equipment Acquired by Security Contract</td>
<td>09/09/2005</td>
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</tr>
<tr>
<td>05-012</td>
<td>Policies and Procedures Used for Iraq Relief and Reconstruction Fund Project Management Construction Quality Assurance</td>
<td>07/22/2005</td>
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</tr>
<tr>
<td>05-011</td>
<td>Cost-to-Complete Estimates and Financial Reporting for the Management of the Iraq Relief and Reconstruction Fund</td>
<td>07/26/2005</td>
<td>5 0 0</td>
</tr>
<tr>
<td>05-010</td>
<td>Interim Briefing to the Project and Contracting Office Iraq and the Joint Contracting Command-Iraq on the Audit of the Award Fee Process</td>
<td>07/26/2005</td>
<td>5 0 0</td>
</tr>
<tr>
<td>05-009</td>
<td>Reconciliation of Reporting Differences of the Source of Funds Used on Contracts after June 28, 2004</td>
<td>07/08/2005</td>
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<td>05-008</td>
<td>Administration of Contracts Funded by the Development Fund for Iraq</td>
<td>04/30/2005</td>
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<tr>
<td>05-007</td>
<td>Administration of Iraq Relief and Reconstruction Fund Contract Files</td>
<td>04/30/2005</td>
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<td>05-006</td>
<td>Control of Cash Provided to South-Central Iraq</td>
<td>04/30/2005</td>
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</tr>
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<td>05-002</td>
<td>Accountability and Control of Materiel Assets of the Coalition Provisional Authority in Kuwait</td>
<td>10/25/2004</td>
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<td>04-011</td>
<td>Audit of the Accountability and Control of Materiel Assets of the Coalition Provisional Authority in Baghdad</td>
<td>07/26/2004</td>
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<td>04-001</td>
<td>Coalition Provisional Authority Coordination of Donated Funds</td>
<td>06/25/2004</td>
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</tr>
</tbody>
</table>

**Table 3-3**
SIGIR OVERSIGHT

SIGIR INSPECTIONS

The SIGIR Inspections Division conducts assessments of individual relief and reconstruction projects across Iraq to ascertain the adequacy and efficacy of reconstruction work. To further its mission, SIGIR Inspections leverages the work of other government agencies and contractors, using a variety of tools, including eyewitness reviews and satellite imagery.

Since the October 2005 Report to Congress, SIGIR inspectors have:
- completed 13 project assessments
- completed a special assessment of horizontal directional drilling (HDD) for oil pipelines under the Tigris River
- processed and summarized 60 limited preliminary assessments on projects provided by U.S. government quality control and assurance staff
- analyzed satellite imagery to identify potential sites for future inspections

Approach
During this quarter, SIGIR conducted 13 eyewitness inspections of reconstruction project sites. To accomplish assessments, teams of SIGIR engineers and auditors gather contractual specifications, travel to the project sites, examine on-site efforts and accomplishments, and review their results with reconstruction managers. The initial success of the first integrated assessment team during the quarter ending June 2005 prompted SIGIR to establish three more teams. Two additional assessment teams became operational during this quarter, and a third new team will be added next quarter.

SIGIR has begun to conduct analyses using satellite imagery on projects that are remote or inaccessible because of security concerns. This satellite imagery helps inspection teams in their preliminary research on site. This quarter, SIGIR continued to expand its satellite imagery operation, conducting 53 imagery assessments.

Planning
SIGIR has selected a cross-section of projects from each of the major reconstruction sectors to assess, survey, and analyze, including:
- water, electricity, oil, facilities, and transportation projects
- projects involving large and small contract amounts
- projects with different general contractors
- projects in different sections of the country
- projects in the programs of each of the major U.S. agencies
- fully completed projects and projects in various stages of completion
- construction and non-construction projects

Results
SIGIR’s presence across Iraq continues to promote and achieve better accountability
by contractors, prompting them to perform more effectively. The assessments conducted in Iraq this quarter revealed a mix of problems and progress in contractor performance. As indicated in the reports, SIGIR has concerns about inadequate construction at some sites, as well as the failure to comply with contract provisions at four border forts, which required more perimeter security than was found at the time of the assessment. SIGIR also reviewed projects in Hilla, revisiting sites that were the subject of a series of highly critical SIGIR audits in 2004. These audits led to several significant investigations that have produced four arrests to date. Unfortunately, SIGIR’s latest review at Hilla revealed that corrective action still needs to be taken to reach the goals initially identified in those projects. SIGIR’s project assessments this quarter were quite positive regarding the sustainability plans in place at the sites visited. Specifically, SIGIR inspectors found that GRD-PCO had initiated actions to address sustainability deficiencies at some sites.

Table 3-4 presents a summary of SIGIR project assessments completed during this reporting period.

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Governorate</th>
<th>Budgeted Total Cost</th>
<th>Executing Agency</th>
<th>Contractor</th>
<th>GRD-PCO Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hilla SWAT Facility</td>
<td>Babylon</td>
<td>$2,219</td>
<td>GRD-PCO</td>
<td>Foreign</td>
<td>South</td>
</tr>
<tr>
<td>Al Balda Police Station</td>
<td>Babylon</td>
<td>$135</td>
<td>GRD-PCO</td>
<td>Foreign</td>
<td>South</td>
</tr>
<tr>
<td>Border Post As Sul #37- Bnawasuta-Issawa</td>
<td>Sulaymaniyah</td>
<td>$272</td>
<td>GRD-PCO</td>
<td>Parsons Delaware</td>
<td>North</td>
</tr>
<tr>
<td>Border Post As Sul #29- Kuralau Bnaw-Azmik</td>
<td>Sulaymaniyah</td>
<td>$275</td>
<td>GRD-PCO</td>
<td>Parsons Delaware</td>
<td>North</td>
</tr>
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<td>Border Post As Sul #20- Marwa</td>
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<td>$272</td>
<td>GRD-PCO</td>
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<td>North</td>
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<tr>
<td>Border Post As Sul #23- Bargurd-Safrah</td>
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<td>$272</td>
<td>GRD-PCO</td>
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<td>North</td>
</tr>
<tr>
<td>Military Base Um Qasr Ammo Supply Point</td>
<td>Basrah</td>
<td>$253</td>
<td>GRD-PCO</td>
<td>Foreign</td>
<td>South</td>
</tr>
<tr>
<td>Operation Center and Security</td>
<td>Basrah</td>
<td>$1,175</td>
<td>GRD-PCO</td>
<td>Foreign</td>
<td>South</td>
</tr>
<tr>
<td>Port of Um Qasr Security Upgrades</td>
<td>Basrah</td>
<td>$3,747</td>
<td>GRD-PCO</td>
<td>Foreign</td>
<td>South</td>
</tr>
<tr>
<td>Project Phoenix Restore Qudas Gas Turbines</td>
<td>Baghdad</td>
<td>$11,391</td>
<td>GRD-PCO</td>
<td>FluorAmec</td>
<td>Central</td>
</tr>
<tr>
<td>Hilla Police Academy CN W914NS-04-C-9046</td>
<td>Babylon</td>
<td>$9,135*</td>
<td>JCC-I/A</td>
<td>Foreign</td>
<td>South</td>
</tr>
<tr>
<td>Kerbala Library</td>
<td>Kerbala</td>
<td>$1,294</td>
<td>CPA (South-Central)</td>
<td>Global Business Group</td>
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</tr>
<tr>
<td>Horizontal Drilling</td>
<td>Tameem</td>
<td>$75,500</td>
<td>GRD-PCO</td>
<td>KBR</td>
<td>North</td>
</tr>
</tbody>
</table>

*Construction Portion of the Life Support Contract
On-site Project Assessment Program Approach

Since June 2005, SIGIR has completed 29 project assessments, including one special assessment. During this most recent quarter, SIGIR inspected and completed assessments of 13 project sites and one special assessment. The general objectives governing the project assessments included:

- Were the project results consistent with the original objectives?
- Were the project components adequately designed before construction or installation?
- Did the construction or rehabilitation adequately meet the standards of the design?
- Were the contractor’s quality control plan and the U.S. government’s quality assurance (QA) program adequately carried out?
- Were project sustainability and operational effectiveness addressed?

For a list of project assessments completed in previous quarters, see Table 3-5.

For the approximate location of each project assessment, see Figure 3-1.
### Projects Assessed in Previous Quarters (Dollars in Thousands)

<table>
<thead>
<tr>
<th>GRD-PCO ID</th>
<th>Project Name</th>
<th>Governorate</th>
<th>Budgeted Total Cost</th>
<th>Executing Agency</th>
<th>Contractor</th>
<th>GRD-PCO Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>3532</td>
<td>Al Wahda Water Treatment Plant</td>
<td>Baghdad</td>
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</tr>
<tr>
<td>3529</td>
<td>Al Wathba Water Treatment Plant</td>
<td>Baghdad</td>
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<td>GRD-PCO</td>
<td>FluorAmec</td>
<td>Central</td>
</tr>
<tr>
<td>18462</td>
<td>Al Nahrwan Water Supply Project</td>
<td>Baghdad</td>
<td>$348</td>
<td>GRD-PCO</td>
<td>Foreign</td>
<td>Central</td>
</tr>
<tr>
<td>18079</td>
<td>Al Sumelat Water Network</td>
<td>Baghdad</td>
<td>$764</td>
<td>GRD-PCO</td>
<td>SIMA International</td>
<td>Central</td>
</tr>
<tr>
<td>1654</td>
<td>Al Hakamia Substation</td>
<td>Basrah</td>
<td>$5,934</td>
<td>GRD-PCO</td>
<td>Perini Corporation</td>
<td>Central</td>
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<td>1657</td>
<td>Hamdan Substation</td>
<td>Basrah</td>
<td>$5,001</td>
<td>GRD-PCO</td>
<td>Perini Corporation</td>
<td>Central</td>
</tr>
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<td>1655</td>
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<td>GRD-PCO</td>
<td>Perini Corporation</td>
<td>Central</td>
</tr>
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<td>GRD-PCO</td>
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<td>Central</td>
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<td>1659</td>
<td>Shat Al Arab Substation</td>
<td>Basrah</td>
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<td>GRD-PCO</td>
<td>Perini Corporation</td>
<td>Central</td>
</tr>
<tr>
<td>18183</td>
<td>Al Fatah Pipe Crossing</td>
<td>Tameem</td>
<td>$29,715</td>
<td>GRD-PCO</td>
<td>Parson PJIV</td>
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<td>18185</td>
<td>Kirkuk Canal Crossing</td>
<td>Tameem</td>
<td>$2,088</td>
<td>GRD-PCO</td>
<td>Parson PJIV</td>
<td>North</td>
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<td>19604</td>
<td>Al Fatah River Crossing Tie-ins</td>
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<td>18427</td>
<td>Seif Sa’ad Police Station</td>
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<td>13607</td>
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<td>Babylon</td>
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<td>GRD-PCO</td>
<td>Parsons Global Services</td>
<td>South</td>
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<td>11812</td>
<td>Al Imam Primary Care Center</td>
<td>Babylon</td>
<td>$533</td>
<td>GRD-PCO</td>
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<td>South</td>
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<td>21950</td>
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<td>$274</td>
<td>GRD-PCO</td>
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<td>South</td>
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</table>

*Table 3-5*
SIGIR Project Assessments

Hilla Police Academy in Southern Iraq
PROJECT ASSESSMENT NUMBER: SIGIR-PA-05-032

SIGIR conducted audits and assessments of six contracts performed at the Hilla Police Academy; the contracts are valued at more than $13 million. In October 2005, SIGIR presented the results of its audit of the first five of those contracts, which used Development Fund for Iraq (DFI) funds to set up the initial 600-student Police Academy in Hilla. The sixth contract, which used IRRF funds, continued life support for the Police Academy and constructed semi-permanent facilities to accommodate an additional 600 students. SIGIR performed an on-site assessment and inspected the construction component of the IRRF-funded project, focusing on the quality of work completed as required in the contract. Although the IRRF-funded contract is complete, the on-site assessment confirmed that deficiencies still exist: cracks in the walls, inadequate backup power capability, poorly constructed sidewalks, poorly designed wastewater system, roof leaks, and inadequate security systems.

These were SIGIR’s objectives for the construction portion of the IRRF-funded life support contract (W914NS-04-C-9046):
- Were project results consistent with original objectives?
- Were project components adequately designed before construction or installation?
- Did construction or rehabilitation meet the standards of the design?
- Were the Contractor’s Quality Control (CQC) plan and the U.S. government’s quality assurance program adequate?
- Were remedies for existing deficiencies on the completed contract initiated?

SIGIR’s objectives for the five DFI contracts were to determine whether the completed projects were consistent with original objectives. In addition, SIGIR focused on the evaluation of previously known deficiencies to determine if appropriate corrective action was taken.

SIGIR on-site assessments disclosed gaps still existing in the perimeter walls that would allow insurgents to fire weapons into or place bombs inside the academy. Although some of the gaps were filled with sand bags and Hesco walls were installed next to many of the wall deficiencies, there are still force-protection issues that need correction to provide maximum security to the academy occupants. In addition, the perimeter walls were not supported with concrete. Also, there were problems with the sanitary system design, and the grinder pump appears to have never been maintained.

This DFI contract was for security upgrades, including an external lighting system, steel guard towers, and hydraulic steel lifts at each gate, which were not delivered or installed. Instead, makeshift towers were constructed in-house.
Finally, the DFI contractor did not deliver or install the two generators. One generator removed for overhaul was not returned. The two generators that are currently on-site will not sustain the academy in case of a power outage.

If these problems are not addressed, continued degradation of the Police Academy infrastructure will occur. SIGIR recommended that U.S. management agencies conduct a comprehensive facility inspection and repair construction deficiencies at the Police Academy.

Kerbala Library, Kerbala, Iraq

The objective of this project assessment was to provide real-time relief and reconstruction project information to interested parties to enable appropriate action when warranted. Specifically, SIGIR determined whether contract deficiencies were remedied in these four contracts:

- Contract DABV01-04-R-8339, March 30, 2004, $373,400 for construction and repairs throughout the building
- Contract DABV01-04-Q-8342, March 31, 2004, $197,500 for landscaping the library grounds
- Contract DABV01-04-Q-8343, March 31, 2004, $224,010 for furniture
- Contract DABV01-04-R-8353, April 4, 2004, $498,900 for computers and Internet connections
This project comprised four contracts totaling $1.3 million, which were awarded to the same contractor. These contracts were for various upgrades to the Kerbala Library. The upgrades included minor construction and repair, landscaping, new furniture, and computers with Internet connections.

The minor construction and repairs contract required, but the contractor did not provide, sealing around the windows, Jordanian wooden frames (double) for wooden doors, 411 square meters of carpet, 10 ceiling fans, glass panels, slate boards, D-section end trim, and 24” x 6” and 24” x 10” shelves with supports. None of these items were provided by the contractor.

For the landscaping contract, the contractor provided a paved parking lot half the size of the specifications, no hedge plants, and two fountains (one broken and one inoperable). Only 22 of 42 required landscaping lights, and all of the park benches were broken.

The furniture contract required, but the contractor did not provide, 180 book shelves, 4 rolling ladders, 110 reading tables, 182 upholstered chairs (plastic chairs were delivered instead), 24 glass and wooden tables, computer tables, 68 swivel chairs, card catalogs with trays, and 60 computer desks. None of the items were provided except the chairs, which were thin plastic chairs—not upholstered chairs as specified.

Finally, for the Internet contract, the contractor provided only 14 of 68 computers, no workstations, no servers, no hardware or software, and no installation.

SIGIR recommended that U.S. management agencies coordinate and correct these long-standing deficiencies.
Horizontal Directional Drilling Project
SPECIAL ASSESSMENT NUMBER:
SIGIR-SA-2005-001

SIGIR responded to a Hotline referral that questioned the USACE decision to use horizontal directional drilling for routing 16 pipelines under the Tigris River despite predictions from a geologist that soil conditions underneath the Tigris River may not be conducive to drilling.

The river crossing project, located close to the town of Al Fatah, Iraq, replaces 16 pipelines that were contained in a bridge over the Tigris River. The lines were severed when the bridge was attacked by coalition bombing during Operation Iraqi Freedom.

Repairing the severed pipelines to provide crude oil to the Baiji refinery and the Iraq-Turkey pipeline is critical to Iraq’s oil production and export goals. These repairs are expected to increase the flow rate from 300,000 barrels of oil per day (BPD) to 500,000 BPD. At a unit price of $25 per barrel, the potential daily increase in revenue for 200,000 BPD is $5 million per day. The Al Fatah, Iraq, project was awarded to a contractor by the USACE Southwest District Contract #DAACA63-03-D-0005, Task Order #6, on December 8, 2003.

Bridge cross-section showing melted pipes from bomb damage
SIGIR performed this special assessment to determine why the HDD project achieved only 32% of the planned pipeline throughput. SIGIR focused on the processes used by CPA and USACE to:

- arrive at the HDD decision
- award the subcontract
- develop the construction design
- manage project performance

The project failed because subsurface geologic conditions—such as loose, unconsolidated gravels and cobbles—made it impossible to retain open boreholes for large-diameter pipelines. Although the contractor was warned of these conditions by a consultant, the company awarded the drilling subcontract in September 2003. Neither USACE nor the contractor acted on the consultant’s recommendation to perform additional research, which should have prevented the failure. These factors also contributed to the project’s failure:

1. The contractor’s project design did not provide the necessary flexibility to support HDD and conflicted with the security reasons that overturned an original decision to repair the bridge. Specifically, the design included valve manifolds located above ground on each side of the river for routing product through different lines. Placing the manifolds at designated locations on both sides of the river fixed the drilling area and the underground trajectory for the boreholes. Unfortunately, the geological conditions in this particular area were the same as those cited in the consultant’s desktop study and not conducive to HDD. USACE did not recognize the contractor’s inexperience with HDD and should have required design reviews and approvals before mobilizing the HDD project team.

2. The contractor awarded a firm fixed-price subcontract to Willbros, Inc., which required the subcontractor to perform drilling services for a six-month period. The contract converted to a daily-rate time and materials contract after the six-month firm fixed-price period expired. There was no requirement for the subcontractor to complete any boreholes and install pipes. Because the terms and conditions of the subcontract did not provide completion requirements, the contractor and USACE assumed full completion risk for the project. However, USACE and the contractor did not adequately structure the project into manageable phases that should have increased the probability of success or confirmed the consultant’s warnings before full-scale mobilization. These phases should have been implemented: a thorough geological analysis, a construction-design review and approval process, and a formal project management system.

3. The project’s compartmentalized management structure did not foster effective communications between the subcontractor, general contractor, and USACE. Although communication protocols between general contractors and subcontractors are
necessary, the critical nature and technical complexities associated with this project required expert technical input from all parties involved. The contractor’s policy, which restricted the subcontractor to route all communication through the contractor company, appears to have impeded an effective exchange of ideas and solutions. A project management team comprising representatives from USACE, the contractor, and the subcontractor would have fostered a decision-making process that effectively identified and resolved technical problems.

4. USACE’s direction to the contractor was neither adequate nor timely. USACE’s first formal direction to the contractor was provided more than two months after the contractor had already awarded the HDD subcontract. On December 8, 2003, USACE issued Task Order #6 instructing the contractor to analyze alternatives for using either a dedicated bridge or tunnel under the river. The direction incorrectly implied that alternatives were still being considered even though the contractor had awarded the HDD subcontract two months earlier.

Appropriate procurement oversight by USACE should have provided the timely direction necessary to mitigate the government’s risk for the project, including:

- formal engineering and geotechnical studies that could have invalidated the HDD concept
- a project design review and approval process
- a formal performance reporting system that demonstrated progress against a detailed baseline plan
- formal program management reviews that identify and resolve performance issues

5. USACE’s on-site technical management did not comprehend the problems encountered by the drilling subcontractor, did not adequately surface issues to USACE senior management, and/or senior management did not take timely and aggressive action to resolve performance issues.

Because the government and contractor failed to adequately research, plan, design, and manage the project, $70 million allocated to the project was exhausted while only 32% of the drilling scope was completed. The HDD project was replaced by a contract awarded to Parsons Iraqi Joint Venture, at a cost of $29 million—the amount SIGIR attributes to the cost overrun.

Additionally, the hostile environment where the project is being performed has protracted the personal risk to contractor and government personnel working in the vicinity by more than a year. Finally, failure to complete the project may have been instrumental in losing more than $1.5 billion in potential oil revenues critical to the Iraqi government.
Border Forts in Sulaymaniyyah, Iraq

PROJECT ASSESSMENT NUMBER:
SIGIR-PA-05-021, 022, 023, & 024

SIGIR assessed the in-process construction work being performed at four border-de- nial points (border forts) to determine their status and whether intended objectives will be achieved. The border forts were being built under a task order issued as part of a cost-plus, design-build, indefinite-delivery, indefinite-quantity contract. The objective of the task order was to build 57 new border forts using essentially the same standard design. The border forts will provide the Iraqi border police bases of operation along the Iraq-Iran border in the Sulaymaniyyah and Diyala governorates. The estimated cost of the definitized task order for design and construction of the 57 border forts is $35,900,149. The four border forts that SIGIR assessed were all located on the mountainous Iraq/Iran border in remote areas of the Sulaymaniyyah governorate.

During the design phase, to reduce construction time, the contractor proposed replacing steel-reinforced concrete columns and beams with structural steel I-beams. The contractor prepared 90% design drawings for the structural steel construction. There is no record that the Project and Contracting Office (PCO) reviewed or approved the design changes. During construction, USACE personnel observed that the horizontal I-beams supporting the roof were deflecting under the weight of the roofing material, and some of the I-beams were improperly installed. Further investigation determined that the I-beams were smaller than design requirements, and normal-strength A36 steel was used instead of high-strength A50 steel. In addition, the design calculations used for the structural steel design did not include snow-load requirements, and the drawings did not specify the required type of steel to be used.

The assessment determined that the contractor did not prepare a properly designed facility and did not obtain written approval from PCO for the design before construction. Correcting the problem will require significant rework, including a design modification and retrofit of the I-beams at the four forts assessed by SIGIR. Although the original design was intended to reduce construction time, it resulted in increased construction time. Further, because the construction of the border forts was done under a cost-plus contract, the U.S. government may be required to pay for the rework.

The four border forts are scheduled for structural steel retrofit to reinforce the
installed undersized and standard-strength I-beams and to incorporate the additional snow-load requirements. The retrofit of the structural I-beams had not yet begun at the time of the site visit.

The SIGIR on-site assessment found that perimeter security walls, berms, concertina wire, and entrance gates had not been constructed as required under the contract. The jail facility, generator units, fuel tanks, and water system were not secured within perimeter security walls or berms. There were no physical restrictions on access to the border-post buildings.

The assessment showed the border forts were not yet functional because the perimeter security requirements had not been addressed. If the border fort construction is completed in accordance with the contract requirements, however, and the perimeter security walls or berms are constructed, the project should result in functional border forts.

SIGIR will follow up to ensure that rework is completed and that cost increases are justifiable because of two factors:
- the risk to human life caused by the inadequate construction and the lack of perimeter security found at the time of SIGIR’s assessment
- the increase in contract costs, which will likely be significant

Project Phoenix Restore Qudas Gas Turbine Units to Operation, Baghdad, Iraq

The purpose of “Project Phoenix—Restore Qudas Gas Turbine Units to Operation” was to commission six power generation units (two Frame 9E and four LM-6000 Units) installed...
under a previous DFI project at the Qudas Electrical Power Plant. The previous project did not result in an operational system. The current IRRF-funded project was to put the power generation units into commission to produce electricity for the Iraqi grid. The combustion gas turbine commissioning at Qudas, which cost $11,390,750, was reported complete in October 2005.

SIGIR’s assessment of the Qudas project focused solely on sustainability. To assess sustainability, SIGIR addressed a number of key aspects, including:

- the availability of consumables—such as fuel, lubricating oil, and chemical additives—to keep the plant operational  
- spare parts inventory management  
- presence and utilization of operation and maintenance (O&M) manuals  
- implementation of preventive maintenance and monitoring system  
- the presence and effectiveness of a formal training program, including on-the-job training

Although improving the supply and quality of consumable products, such as fuel, was not an objective of the Qudas project, the current method for delivering diesel fuel for the LM-6000 units by truck cannot sustain long-term continuous operations. Maintenance manuals for the Frame 9E Units and the LM-6000 were in the two control room facilities adjacent to each unit and appeared to be used by the plant technicians. Alternatively, Frame 9E manuals were located in a cabinet at the Qudas administration building conference room and not readily available for the operators. Preventive maintenance was not performed, and documentation was not available to demonstrate the presence of a preventive maintenance program. Instead, maintenance on the LM-6000s and Frame 9E units was reactive—not preventive.

Functional parts and emergency spare parts were not part of the scope for the Qudas project. However, in a separate project for Qudas, more than $2 million had been expended for emergency spare parts, and $2.5 million had been expended for functional spares.

During the contract period, two separate training classes were conducted, which focused on the operation and maintenance of the LM-6000 units.

GRD-PCO, USACE, and IRMO are directing current and future efforts at sustaining Iraq’s entire power generation capability. GRD-PCO has issued a request for proposal for the development, implementation, and sustainment of an effective operations and maintenance plan in coordination with the Iraqi Ministry of Electricity. This contract is intended to enhance production and long-term reliability and availability at the Ministry’s power stations by having embedded and mobile teams assist plant operators in a number of activities, including:

- developing and implementing O&M proce-
- developing and implementing O&M reports
- providing an overall spare parts plan and inventory control
- implementing on-the-job training activities

GRD-PCO, USACE, IRMO, and USAID are currently in the planning stages of developing requirements for comprehensive bid documents to fulfill the complete routine maintenance needs for ten Iraqi power plants, including the Qudas Gas Turbine Plant. These needs, which currently are not fully funded, include hot-gas path inspections, combustion inspections, aero-derivative turbine change-outs, as well as functional parts identification and procurement to support the combustion turbine overhauls and to maintain an on-hand strategic spare reserve. This initiative also emphasizes that the Ministry should become more involved in funding some of the requirements.

Although GRD-PCO is initiating actions that address sustainability deficiencies identified in the SIGIR on-site assessment, the initiatives have not yet been implemented. Because of the significance of the electrical sector to the well-being of the Iraqi people and economy, SIGIR will continue to inspect electrical projects for sustainability.

Security Upgrades at the Port of Um Qasr, Southern Iraq
PROJECT ASSESSMENT NUMBER: SIGIR-PA-05-025, 026, & 027

SIGIR conducted assessments of three related projects (under construction or re-
recently completed) to enhance the security and sustainability of the port of Um Qasr in southern Iraq:

• an Armory/Ammunition Supply Point (ASP)
• Operations Center Renovation
• Port of Um Qasr Security Upgrades

All three projects support the increased security at the port of Um Qasr. Increased security is one requirement needed to obtain the International Ship and Port Facility Security Code (ISPS) certification for an international transfer point of shipping goods. Increased security will support the ISPS certification that will enhance the shipping and receiving of Iraqi goods and foreign merchandise to and from Iraq.

Um Qasr is located at the southern edge of the country’s 53-kilometer-long Persian Gulf shoreline adjacent to the border with Kuwait.

Um Qasr is a historic operational port that has undergone mine clearance and dredging since April 2003. It is a deepwater port on the Persian Gulf and a critical link for commerce with other countries.

SIGIR found that the ongoing or completed construction at all three projects appeared to meet the contractual specifications. The contractor quality control program was in place at only one of the three projects. However, the U.S. government’s quality assurance programs were sufficient to ensure quality construction at all three projects. Project sustainability and operational effectiveness appeared to be adequately addressed in the statements of work or in the modifications to the contracts.

Ammunition Supply Point, Um Qasr, Iraq
PROJECT ASSESSMENT NUMBER: SIGIR-PA-2005-025

The project’s contract cost is approximately $252,650, and the work was complete when
assessed. The statement of work (SOW) submitted for the contract stated that this work was to provide materials and equipment to construct an ammunition supply point (ASP) at the Um Qasr Naval Military Training Base. The contract and the original SOW required substantial modifications to provide an ASP building that was acceptable to meet the intent of the project. The SIGIR team found that the work completed by the contractor was consistent with the contractual specifications and addressed both sustainability and operational effectiveness. The ASP was being used for its intended purpose by the Iraqi Navy at the time of the assessment. Through an interpreter, the Iraqi Navy representative interviewed on-site expressed satisfaction with the results of the project.

On September 19, 2005, after the final USACE inspection, the ASP building was turned over to the Iraqi Navy. As-built drawings and information on the operation and maintenance of the fire alarm system and the heating, ventilation, and air conditioning (HVAC) were provided to the Iraqi Navy to enhance sustainability. The contract included
warranties on all equipment for 12 months after the issuance of the Taking Over certificate. In addition, the contract certified all operations for 12 months. During SIGIR’s visit to the site, a large crack in a stucco wall outside the ASP was identified. The USACE Resident Engineer noted that 6-month and 12-month reviews of completed projects are done to identify any corrective actions required by the contractor. During the warranty period, the customer is required to provide a list of defects in workmanship and equipment to the USACE representative for resolution. The USACE Resident Engineer stated that this crack would be noted and addressed during the 6-month review.

### Operations Center and Security Facilities Construction

**PROJECT ASSESSMENT NUMBER: SIGIR-PA-2005-026**

This project’s contract cost is approximately $1,175,040, and the work was almost complete when assessed. The contract’s Statement of Work (SOW) stated that this work consisted of all construction services for the renovation of the operations building with security upgrades and kiosk renovation. The major tasks to be accomplished included earthwork; perimeter fence and vehicle gate construction; roofing replacement; utilities replacement; and interior work, such as doors, windows, walls, floors, and ceiling repair and finishing.

The SIGIR team found that the work completed by the contractor was consis-

![New tile roof at Operations Center](image1)

![Renovated kiosks adjacent to Operations Center](image2)
tent with the contractual specifications and addressed both sustainability and operational effectiveness.

Port of Um Qasr Security Upgrades
PROJECT ASSESSMENT NUMBER: SIGIR-PA-2005-027
This project had an awarded contract cost of approximately $3,747,000. The contract called for a secure perimeter for the port of Um Qasr through the construction of chain-link fences, points of entry, observation posts, roads, lighting, electrical power, back-up power, and telecommunications.

Construction of this project was in the early stages at the time of the assessment. Significant work had been accomplished on the earthwork and fence line construction. Based on the current performance of this project and on the U.S government quality assurance program at the other two projects at Um Qasr, it is very likely that quality will meet contractual specifications.

The original contract solicitation and subsequent awarded contract consisted of an approximately 9,600 meter fence alignment. However, the project was conceived without input from the local community. The Um Qasr community was concerned that this security fence would block an existing road critical to the town. Following the contract award and meetings with the Iraqi Port Authority, Um Qasr Town Council, IRMO, and the Ministry of Transportation, it was determined that the proposed alignment depicted in the award documents was not acceptable.

The revised fence alignment caused several changes to the contract scope, including adding a North Port-South Port connector road to increase efficiency and security, adding a reinforced concrete railroad crossing, reducing perimeter lighting alignment, reducing the number of points of entry, reducing perimeter access road alignment, reducing observation posts, and adding renovations (upgrades) to the portion of existing wall structure.

In addition to the required contract additions, portions of the contract were either unclear in original scope, incorrect in the original scope, or missed requirements that were in the original scope. These are the changes:
- increasing truck staging area for the port
- adding manual railroad-crossing swing gates
- reducing perimeter light wattage from
The net result of these changes was a reduction of the contract price by $48,485. The contract was decreased from $3,747,000 to $3,678,515.

**Al Balda Police Station, Hilla, Iraq**

**PROJECT ASSESSMENT NUMBER:**

SIGIR assessed a $134,655 renovation and construction project at the Al Balda Police Station. The overall objective of this project was to renovate and reconstruct the Al Balda Police Station, an active station in Hilla. The existing police station, although structurally sound, needed rehabilitation. Major project tasks included an upgrade in perimeter security, installation of a new water supply system, installation and rehabilitation of the septic system, and installation of a new electrical generator. Other tasks included construction of an arms storage building, information building, dormitory, and cafeteria building.

The contract did not specifically require design drawings, and they were not provided by the contractor. Nevertheless, this did not significantly influence the outcome of the project. Minimal design was required, which the USACE Project Manager and Quality Assurance Representative ultimately accomplished. All work observed by SIGIR appeared to be consistent with the contract specifications.

Because of the renovation and reconstruction of the Al Balda Police Station, the Iraqi Security Forces now have another operational police station. This occurred primarily because the USACE Project Engineer and Quality Assurance Representative effectively managed the project.

**SWAT Police Station, Hilla, Iraq**

**PROJECT ASSESSMENT NUMBER:**

The rehabilitation of the Special Weapons and Tactics (SWAT) Police Station project was budgeted at $2,219,092. The project consisted of demolition and removal of existing damaged...
facilities, renovation of existing facilities, and the design and construction of an operations building, armory, jail facility, dormitory, and dining facility. The construction also incorporated additional security measures, including perimeter controls, stand-offs, blast protection, and interior-controlled entry and passage.

The contractor was required to submit a 30% design package to USACE for review. Concurrent with the review, the contractor was required to continue developing plans and specifications, adjust the design based on review comments, and provide a 95% design package to USACE for final review and approval. Although USACE approved the contractor’s final design submittal and construction start, the SIGIR assessment team found that the contractor had failed to submit a complete design package. The SIGIR team found that the contractor’s design submittal did not include design drawings to illustrate existing and proposed work for the road network, water and distribution systems, sanitary sewer collection systems, electrical power distribution systems, electrical power generator, and mechanical systems. In addition, the contractor’s design submittal did not include an overall sidewalk plan, design of the sanitary sewer system for the entire facility, and a comprehensive site storm-water management plan. The contract also did not provide required construction specifications for the project.

The SIGIR on-site inspection found the demolition of facilities to be complete, with no discrepancies. The inspection also found the dormitory building to be complete and occupied by Iraqi SWAT personnel. The dining facility was also complete, but the assessment team noted discrepancies in the quality and type of appliances in the food preparation area. With respect to exterior construction and renovation work, the on-site assessment disclosed an improperly constructed helicopter pad, improperly anchored light poles, improperly positioned hand railings on exterior building stairs, cracks in the stucco exterior of buildings, and cracks and rough finish in concrete sidewalks.

The contract required a Quality Control Plan, which the contractor had not submitted. However, the contractor did submit quality control reports for each day that work activities occurred on-site. The contractor also provided test results to the contracting officer as required by the contract. Similarly, the assessment team determined the USACE Quality Assurance Reports and
Quality Assurance Deficiency Logs were sufficiently complete, accurate, and timely.

**Ground Project Survey Program**

The SIGIR’s Ground Assessment Program is an important component of SIGIR’s program for ensuring the broadest possible coverage of construction sites in Iraq. This component involves conducting ground-level general reviews of project construction sites, noting deficiencies, assessing overall progress, and taking photographs. The information is subsequently analyzed for contract compliance, shared with program management, and used to identify locations for more detailed engineering assessments. The program was initiated toward the end of the previous quarter, with 60 surveys conducted to date. SIGIR is in the process of analyzing these surveys.

The 60 surveys include 7 medical clinics, 2 maternity and children’s hospitals, 3 schools, 7 police station checkpoints, 15 police stations, 22 border posts, 2 road projects, a fire station, and a railway station. Projects were predominantly located in the northeast of Iraq and throughout southern Iraq.

For the approximate locations of the projects where surveys were conducted, see Figure 3-2. For a list of the individual projects, see Table 3-6.

**Aerial Project Survey Program**

The SIGIR Satellite Imagery Group, based in Washington, D.C., has begun an aerial projects
### Ground Survey Project List

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<td>Thi-Qar</td>
</tr>
<tr>
<td>18346</td>
<td>Police Station</td>
<td>Qadissiya</td>
</tr>
<tr>
<td>19114</td>
<td>Police Station</td>
<td>Thi-Qar</td>
</tr>
<tr>
<td>19160</td>
<td>Police Station</td>
<td>Thi-Qar</td>
</tr>
<tr>
<td>19221</td>
<td>Police Station Checkpoint</td>
<td>Thi-Qar</td>
</tr>
<tr>
<td>12137</td>
<td>Border Post - #17</td>
<td>Basrah</td>
</tr>
<tr>
<td>18241</td>
<td>Police Station</td>
<td>Basrah</td>
</tr>
<tr>
<td>19480</td>
<td>Police Station</td>
<td>Basrah</td>
</tr>
<tr>
<td>18263</td>
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<td>Basrah</td>
</tr>
<tr>
<td>21251</td>
<td>Railway Station Rehabilitation</td>
<td>Basrah</td>
</tr>
<tr>
<td>11866</td>
<td>Clinic</td>
<td>Basrah</td>
</tr>
<tr>
<td>19223</td>
<td>Police Station Checkpoint</td>
<td>Thi-Qar</td>
</tr>
<tr>
<td>18248</td>
<td>Police Station</td>
<td>Basrah</td>
</tr>
<tr>
<td>12138</td>
<td>Border Post-#16</td>
<td>Basrah</td>
</tr>
<tr>
<td>18268</td>
<td>Police Station</td>
<td>Basrah</td>
</tr>
<tr>
<td>18223</td>
<td>Police Station</td>
<td>Basrah</td>
</tr>
<tr>
<td>18273</td>
<td>Police Station</td>
<td>Basrah</td>
</tr>
<tr>
<td>20562</td>
<td>Border Post-#39</td>
<td>Sulaymaniyah</td>
</tr>
<tr>
<td>11862</td>
<td>Clinic</td>
<td>Basrah</td>
</tr>
</tbody>
</table>

**Table 3-6**
SIGIR OVERSIGHT

assessment initiative to increase the visibility and transparency of U.S.-funded project construction in Iraq. Information obtained by satellite imagery analyses will be provided as information to SIGIR Project Assessment teams in Iraq and to the respective contracting offices.

SIGIR has partnered with two federal agencies that specialize in aerial satellite imagery analysis, the National Geospatial-Intelligence Agency (NGA) and National Ground Intelligence Center (NGIC). This quarter SIGIR has received from NGA and NGIC 53 satellite assessments and unclassified imagery products of forts located on the Iraq border. Figure 3-3 shows the approximate location of the aerial imagery assessments conducted by SIGIR, NGA, and NGIC during this quarter.

The aerial assessments have identified projects that are in compliance with contract specifications and several that were not. Of the 58 projects tasked, 49 were observed to be in accordance with contract specifications. These are some of the significant findings of the projects that were not in accordance with contract specifications:

- Five projects could not be located using the coordinates provided by the contracting office.
- Three projects were not meeting contract specifications based on measured dimensions of the observed buildings.
- One project reported as 100% complete was observed to be 80% complete.

NGA and NGIC images are supplied for analysis and exploitation by SIGIR imagery analysts and are then reported to SIGIR Project Assessment teams in Iraq and to the respective contracting offices.
ect Assessments staff and the various contracting offices in Iraq that have oversight of these projects. Satellite imagery is provided from multiple government commercial satellite imagery libraries. Images contained in these libraries come from either of two main commercial satellites—Digital Globe’s Quickbird satellite and Space Imaging’s Ikonos satellite. Imagery from both satellites is represented above. The images on the previous page are examples of imagery of various IRRF-funded projects provided to SIGIR by NGA. The images above are provided by NGIC.

NGA imagery reviewed from May 5, 2005, shows two completed border forts near the northwestern region of the Iraq-Syria border. Visual assessment shows that both forts generally appear to be built according to project specifications.

On the left is an NGIC image taken on December 20, 2005, that that shows a completed border fort near the southeastern region of the Iraq-Iran border. Construction began on November 5, 2004, and was completed on August 31, 2005. Visual assessment shows that contract requirements generally appear to be met.

On the right is an NGIC image taken on September 28, 2005, near the southeastern region of the Iraq/Iran border, that confirms the location and construction of an Iraq border post. Construction at this site began on November 24, 2004, and was completed on September 22, 2005. Visual assessment shows that the project appears to be generally in accordance with contract requirements.

**SIGIR Imagery Analysis**

In addition to the collaborative efforts with NGA and NGIC, SIGIR has been conducting its own satellite imagery analyses of project sites located throughout Iraq. In November
2005, SIGIR hired an Imagery Analyst to conduct analyses of project sites and compare this with the contract’s statements of work and records made available to SIGIR by the respective contracting agencies.

Images displayed above, taken between March 2005 and November 2005, show the progress of a police station and checkpoint construction project in the southeastern region of Iraq. The first image at the left, taken on March 22, 2005, shows initial ground-clearing and preparation. The second image, taken on April 19, 2005, shows the framework of the police station being built. The last image, taken on November 11, 2005, shows a completed police station and nine guard posts. The visual indicators show that the project generally complies with the contract specifications.
During this quarter, SIGIR achieved significant results through a series of extensive investigations into alleged fraud and corruption regarding the use and expenditure of U.S.-controlled funds for Iraq reconstruction. A leading initiator of these recent successes was the Special Investigative Task Force for Iraq Reconstruction (SPITFIRE), which SIGIR established in spring 2005 to coordinate interagency investigations into alleged crimes involving reconstruction funds. Members of SPITFIRE working on these investigations include:

- U.S. Immigration and Customs Enforcement, Department of Homeland Security
- Criminal Investigations Division, Internal Revenue Service
- Office of the Inspector General, U.S. Department of State

The Federal Bureau of Investigation (FBI) and the Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATF) also have contributed to the investigative effort.

With 57 matters currently under investigation and a heavy investigative presence in Baghdad, SIGIR continues to pursue investigative leads in Iraq and throughout the Middle East, Europe, and the United States. Cooperation and coordination with a number of U.S. government agencies in Iraq, including the Joint Contracting Command, continues to generate quality cases involving alleged contract fraud and malfeasance.

**SIGIR Accomplishments: Multiple Arrests**

This quarter saw the initiation of the first significant prosecutions of procurement fraud originating in Iraq. These prosecutions, which resulted from the joint efforts of SPITFIRE investigators and Department of Justice prosecutors, reached three continents and spanned several months. The potential criminal conduct came to SIGIR’s attention in spring 2004 when the SIGIR Hotline received information about financial discrepancies at CPA’s southern
regional headquarters in Hilla, Iraq. Millions of dollars in reconstruction funds were being allocated to this region at the time.

In response to the Hotline contact, SIGIR initiated a number of audits in the Hilla regional headquarters and discovered that $96.6 million of reconstruction funds could not be properly documented, of which $7 million was simply missing. SIGIR auditors uncovered a pattern of financial misconduct that caused them to involve SIGIR criminal investigators. In November and December 2005, as a result of lengthy and continuous investigations, four Americans were arrested.

<table>
<thead>
<tr>
<th>VEHICLE</th>
<th>ASSET VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cadillac Escalade</td>
<td>$41,400</td>
</tr>
<tr>
<td>Harley Davidson MC</td>
<td>$23,000</td>
</tr>
<tr>
<td>GMC Denali</td>
<td>$31,000</td>
</tr>
<tr>
<td>Toyota Sienna</td>
<td>$16,320</td>
</tr>
<tr>
<td>Chevy Colorado</td>
<td>$13,730</td>
</tr>
<tr>
<td>Lexus LS430</td>
<td>$55,460</td>
</tr>
<tr>
<td>Recreational Vehicle</td>
<td>$170,000</td>
</tr>
<tr>
<td>Porsche</td>
<td>$160,000</td>
</tr>
</tbody>
</table>

**TABLE 3-7**

Porsche at time of seizure. Other vehicles include an RV, Lexus, Sienna, Colorado, Denali, Escalade, and motorcycle.
and charged in federal court for their roles in a major bribery and kickback scheme involving millions of dollars in rebuilding contracts.

The charges allege that CPA officials and a contractor conspired to rig the bids on contracts being awarded by CPA-South Central Region (CPA-SC) so that numerous contracts were wrongfully awarded to the contractor's businesses. The government officials were two U.S. Army Reserve Lieutenant Colonels and a DoD contract employee who was serving as the CPA-SC Comptroller and Funding Officer. The charges allege that the conspiring officials accepted money and gifts in return for using their official positions to award significant contracts to the contractor and his companies. The officials allegedly accepted more than $200,000 per month over several months to steer contracts to the co-conspirator contractor and his companies.

It is also alleged that these CPA officials directly stole and laundered CPA funds. The defendants allegedly smuggled some of the currency into the United States. Several defendants are also charged with federal firearms violations, including conspiring to embezzle and possess several .45-caliber, semi-automatic handguns; 5.56- and 7.76-caliber, automatic machine guns; and several grenade launchers purchased with CPA funds. Two of the defendants are in federal custody awaiting trial, and two have been released on property bonds.

**Seizures and Forfeitures**

As a result of the Hilla investigation, a significant number of assets have been seized and are being forfeited criminally, including vehicles, cash, jewelry, watches, real estate, an airplane, cameras, commemorative coins, weapons, presentation boxes, and associated military equipment.

Table 3-7 shows seized vehicle information. A cumulative total has not been finalized because valuation of some items is pending.
Crime Trends
SIGIR continues to track crime trends in reported violations. Table 3-8 presents the 57 ongoing investigations by investigative category. The category “other” includes computer crimes, administrative inquiry, and assistance to other law enforcement agencies.

Other SIGIR Partners
SIGIR continues to work closely with other investigative agencies on corruption issues in Iraq. As reported in the October 2005 Report, SIGIR has established a cooperative relationship with the U.S. Army Criminal Investigation Command’s Major Procurement Fraud Unit (MPFU). As a result, MPFU has established a presence in Iraq and assigned a liaison agent to SIGIR. This mutual relationship will result in shared information and cooperation in investigative matters.

SIGIR is currently working closely with the National Security Section, U.S. Immigration & Customs Enforcement, Department of Homeland Security, and National Security Investigations on a matter of mutual interest regarding alleged financial misconduct in Iraq. SIGIR has been conducting investigations in Iraq that have greatly assisted this major investigation.

Case Allegations Opened or Converted since October 31, 2005

<table>
<thead>
<tr>
<th>Investigative Category</th>
<th>Number of Violations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Theft</td>
<td>15</td>
</tr>
<tr>
<td>False Claims</td>
<td>7</td>
</tr>
<tr>
<td>Bribery/Kickbacks/Gratuities</td>
<td>19</td>
</tr>
<tr>
<td>Cost Mischarging/Product Substitution</td>
<td>2</td>
</tr>
<tr>
<td>Procurement Fraud</td>
<td>6</td>
</tr>
<tr>
<td>Conflict of Interest</td>
<td>4</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>57</td>
</tr>
</tbody>
</table>

Table 3-8

Breitling man’s watch with briefcase at time of seizure. Other items include assorted jewelry, multiple watches, diamond rings, tennis bracelets, and earrings.
SIGIR HOTLINE

The SIGIR Hotline facilitates the reporting of fraud, waste, abuse, mismanagement, and reprisal in all programs associated with Iraq reconstruction efforts funded by the U.S. taxpayer. Cases received by the SIGIR Hotline that are not related to the IRRF or to programs and operations of the former CPA are transferred to the appropriate entity. The SIGIR Hotline receives walk-in, telephone, mail, fax, and online contacts from people in Iraq, the United States, and throughout the world.

During this reporting period, SIGIR Hotline personnel continued to analyze and direct complaints received by the Hotline to SIGIR Investigations, Audit, and Inspections or to the appropriate responsible agency.

Fourth Quarter Reporting
As of December 31, 2005, the SIGIR Hotline had initiated 449 Hotline cases. A summary of these cases is provided in Table 3-9.

New Cases
From October 1 to December 31, 2005, the SIGIR Hotline opened 24 new cases, classified in these categories:
- 17 involved fraud
- 1 involved waste
- 1 involved abuse
- 1 involved discrimination
- 4 were categorized as “other,” which includes issues such as contract payment assistance and award of contracts

**SIGIR Hotline Cases**

<table>
<thead>
<tr>
<th>SIGIR Hotline</th>
<th>Received</th>
<th>Closed</th>
<th>Ongoing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fourth Quarter</strong></td>
<td><strong>Oct-Dec 2005</strong></td>
<td>**Cumulative Total ***</td>
<td><strong>Oct-Dec 2005</strong></td>
</tr>
<tr>
<td>Admin Investigation</td>
<td>3</td>
<td>350</td>
<td>2</td>
</tr>
<tr>
<td>Dismiss</td>
<td>3</td>
<td>NA</td>
<td>4</td>
</tr>
<tr>
<td>Transfer</td>
<td>12</td>
<td>NA</td>
<td>13</td>
</tr>
<tr>
<td>Referral</td>
<td>0</td>
<td>NA</td>
<td>0</td>
</tr>
<tr>
<td>Assist</td>
<td>1</td>
<td>NA</td>
<td>2</td>
</tr>
<tr>
<td>FOIA</td>
<td>0</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Admin Totals</td>
<td>19</td>
<td>354</td>
<td>21</td>
</tr>
<tr>
<td>Investigations</td>
<td>3</td>
<td>81</td>
<td>1</td>
</tr>
<tr>
<td>Audits</td>
<td>1</td>
<td>12</td>
<td>0</td>
</tr>
<tr>
<td>Inspections</td>
<td>1</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Totals</td>
<td>24</td>
<td>449</td>
<td>22</td>
</tr>
</tbody>
</table>

*The cumulative totals cover the period since the SIGIR Hotline began operations—from March 24, 2004, to December 31, 2005. 

**Table 3-9**
The SIGIR receives most reports of perceived instances of fraud, waste, abuse, mismanagement, and reprisal by electronic mail. Of the 24 new cases that SIGIR opened during this period, they were received as follows:
• 19 by electronic mail
• 5 by the SIGIR Hotline phone calls

Closed Cases
During the reporting period, 22 cases were closed:
• 13 were transferred to other Inspectors General.
• 2 were closed following administrative investigations.
• 2 were closed following assists (requests for information or administrative assistance).
• 1 was closed following criminal investigation.
• 4 were dismissed for lack of sufficient information, unreachable complaintants, or were outside SIGIR purview.

The two cases closed following administrative investigations were unsubstantiated.

Transferred/Referred Cases
More than half of the cases that were closed during this reporting period (13) were transferred to other Inspectors General:
• 6 were sent to the Department of the Army Office of Inspector General.
• 3 were sent to the Joint Contract Command-Iraq office.
• 1 was sent to the DoD Office of IG.
• 1 was sent to the Air Force IG.
• 1 was sent to the USAID OIG.
• 1 was sent to the Department of Justice.
SIGIR OVERSIGHT

SIGIR LESSONS LEARNED INITIATIVE

Begun in September 2004, SIGIR’s Lessons Learned Initiative focuses on three substantive areas that have affected the success of Iraq reconstruction programs and operations:
- Human Capital Management
- Contracting
- Program and Project Management

This initiative’s express purpose is to identify and catalogue the most significant challenges the U.S. government has faced while executing the ongoing reconstruction mission in Iraq and to derive concise and helpful solutions.

SIGIR researches each substantive subject area by interviewing people with first-hand experience and policy perspectives, collecting the information, and providing it to a panel of senior executives and experts from the U.S. government, industry, and academia—many of whom served in Iraq.

The participating experts then convene for a full-day forum to evaluate the findings and provide recommendations to increase the effectiveness of U.S.-led stability and reconstruction operations in Iraq and to inform future reconstruction efforts. For each of the forums, SIGIR will publish a separate report with findings and recommendations based on SIGIR research and the input of forum participants.

Human Capital Report

The SIGIR Lessons Learned Report on Human Capital Management will be released in the winter of 2006. The Report is the product of SIGIR audits, other research, and the Human Capital Management Forum, held in September 2005 at Johns Hopkins University’s Washington, D.C. facility. The document identifies and discusses four key “pillars” in forming effective human resources management in Iraq reconstruction:
- policy alignment
- workforce planning
- recruitment
- continuity

The report will be available at the SIGIR Web site: www.sigir.mil.

Contracting Lessons Learned Initiative

Contracting for Iraq reconstruction continues to be an exceptionally complex process. It has involved multiple agencies with overlapping authority, multiple sources of funds with different rules and timelines, and the application of varying sets of regulations. It also has required the obligation and expenditure of tens of billions of dollars, including funds appropriated by the U.S. Congress, Iraqi oil revenues and frozen/seized assets, and foreign donor contributions. Examining these processes to identify the challenge areas, successes, and shortcomings is a primary goal of the Lessons Learned Initiative and of SIGIR’s auditing and oversight responsibility.

In December 2005, SIGIR hosted two lessons learned forums to evaluate the contracting processes associated with Iraq
reconstruction. At the first panel, held at the George Washington University School of Law in Washington, D.C., participants included senior officials from key U.S. government agencies and distinguished experts from the academic and independent research communities. A second panel of executives from a broad spectrum of industry service providers supporting the reconstruction mission in Iraq was held at the Professional Services Council in Arlington, Virginia.

The data used as the foundation for review by both panels included unique primary sources: SIGIR interviews and surveys of Iraq reconstruction participants, audit reports, and investigations. SIGIR also examined a wide range of secondary sources: government reports, think-tank studies, reports by international organizations, articles in books and periodicals, and academic studies. Analysis and discussion focused on these periods:

- **Pre-War (August 2002 to January 2003):** preparing for an expected humanitarian crisis
- **Office of Reconstruction and Humanitarian Assistance (ORHA)/early CPA (January to September 2003):** providing essential services
- **CPA (September 2003 to May 2004):** shifting the emphasis to wide-spectrum reconstruction
- **IRM0 and the U.S. Mission in Iraq (May 2004 to Present):** the transfer of governance authority sovereignty and deterioration of the security situation

Within each of these time periods, SIGIR is analyzing the evolution of the contracting system to address the challenges associated with:

- planning
- funding
- agency roles and responsibilities
- legal/regulatory/contracting structures and processes
- availability and suitability of human resources

SIGIR’s Lessons Learned Report on Contracting and Procurement will be released in spring 2006 after formal interagency review.

**Program and Project Management Initiative**

The third topic in the lessons learned series will focus on program and project management of the U.S.- and coalition-led reconstruction mission. SIGIR researchers are completing the preliminary phase of their research. The third forum will be held in spring 2006, at the National Defense University. During summer 2006, SIGIR expects to publish the forum discussion and a final report with findings and recommendations.

**The Story of Iraq Reconstruction**

The materials developed in the SIGIR Lessons Learned Initiative will be a primary source for SIGIR’s *Story of Iraq Reconstruction*, a comprehensive study of the entire Iraq reconstruction process, which SIGIR plans to publish at the end of 2006.
Quarterly Reports to Congress, audit reports, and other SIGIR oversight products are available on the SIGIR public Web site at www.sigir.mil. The SIGIR Web site also provides comprehensive information on SIGIR, including facilities for the public to submit information to the SIGIR Hotline, to make general inquiries, or to request information under the Freedom of Information Act (FOIA). Web pages in Arabic provide translated versions of SIGIR reports.

During this quarter:
- The SIGIR Web site received approximately 12,900 visits, averaging more than 140 per day.
- The majority of users visited the SIGIR Reports section. The most frequently viewed document was the SIGIR October 30, 2005 Quarterly Report to Congress.
- The Arabic language section of the site received approximately 590 visits.
- 90% of users were from within the United States; other users were from more than 30 different countries, including those within the Middle East (1.8%) and Western Europe (5.4%).
- Fewer than 20% of SIGIR Web site users represented U.S. government agencies, and most of those visits were made from either DoD or DoS.
Assisting Iraqi government institutions in their fight against corruption is an important U.S. policy objective. Corruption directly undermines the effectiveness of U.S. reconstruction efforts and impedes Iraq’s progress toward becoming a democratic, market-oriented society. For this reason, and because IRRF funds directly support important U.S. anticorruption programs in Iraq, SIGIR continues to pay close attention to U.S. support for Iraqi anticorruption efforts.

To that end, SIGIR urged Ambassador Khalilzad in the October 30, 2005 Quarterly Report to call an Anticorruption Summit. SIGIR believed that such a summit was necessary to reinvigorate U.S. programs that assist Iraq fighting corruption and to ensure that those programs were fully coordinated. The summit, which included both U.S. and Iraqi officials with direct responsibilities in the anti-corruption area, took place on November 12, 2005.

The summit resulted in a proposal for a joint U.S.-Iraqi Anticorruption Working Group, similar to the joint working groups the Ambassador has established for a number of high-priority issues. Consultations between embassy staff and Iraqi officials are currently underway to produce a statement of work, declaration of principles, and some deliverable goals for a first plenary meeting sometime in February 2006. Although more refinement is expected, there is initial agreement on these issues:

- the need for more training for Iraqi anticorruption officials from the Board of Supreme Audit, the Commission on Public Integrity, and the Inspectors General of the Iraqi ministries
- the need to depoliticize and protect Iraqi IGs from political interference
- creation of a public education campaign on the corruption problem and the work of anti-corruption institutions, and an imperative to drastically reduce incentives for “grand corruption” by eliminating subsidies for fuels and commodities and pursuing other market reforms

The U.S. side has ongoing programs that address each of these issues, but Iraqi buy-in and more intense cooperation should increase the impact of the U.S. Mission’s work.

The U.S. Embassy internal interagency working group on corruption, chaired by the Economic Counselor, had previously identified its own priorities that encompassed those adopted by the joint working group and others, including:

- promoting market reforms as a central element in the fight against corruption
- helping reinforce the weak and uncoordinated law enforcement structure
- supporting anticorruption non-governmental organizations (NGOs) and civil society organizations
- supporting the development of an anticorruption network between U.S. and Iraqi IGs
- encouraging coalition and donor support for anticorruption initiatives
To achieve these goals, the following efforts and initiatives are underway:

- USAID economic reform and private-sector development programs, each funded at $80 million, to provide numerous activities to assist the government in implementing a variety of economic reforms, including subsidy reduction and encouragement of the private sector.
- USAID and Treasury are actively assisting the Iraqis in developing a transparent, electronic budget system for all ministries that would make budget numbers much more difficult to manipulate.
- IRRF-funded programs in the Security and Justice sector—including police training, prison administration, and judicial training—have helped develop the law enforcement structure crucial to fighting corruption over the long term.
- IRRF-supported advisers to the Iraq Commission on Public Integrity help promote civil society, support anticorruption efforts, and boost public awareness of the problem.
- Iraqi officials involved in anticorruption institutions have participated in visitor exchanges to the United States, helping to expand networks with their U.S. counterparts.
- U.S. Embassy Baghdad incorporates anticorruption messages in all of its public outreach campaigns and regularly reminds the Iraqi political leadership of the importance of this issue.

**SIGIR Audit of Embassy Anticorruption Initiative**

The Interagency Anticorruption Working Group (ACWG) establishes U.S. priorities for anticorruption efforts, and a joint U.S.-Iraq anticorruption working group has been established. Nevertheless, the effectiveness of these programs and the coordination of U.S. and international efforts need to be examined. SIGIR intends to announce an audit and evaluation of the progress in the U.S. anticorruption initiative to help establish the necessary benchmarks in the Embassy Anticorruption Strategy.
Other Agency Oversight

**Other Agency Audits**
- Department of Defense Office of Inspector General
- Department of State Office of Inspector General
- U.S. Agency for International Development Office of Inspector General
- Government Accountability Office
- Defense Contract Audit Agency
- U.S. Army Audit Agency
- Department of the Treasury
- Department of Commerce

**Other Agency Investigations**
- U.S. Agency for International Development Office of Inspector General
- Defense Criminal Investigative Service
- Department of State Office of Inspector General
- Federal Bureau of Investigation
The Special Inspector General for Iraq Reconstruction (SIGIR) formed the Iraq Accountability Working Group (IAWG) to provide coordination of audit efforts in Iraq. The forward-deployed audit staffs of the various federal agencies with audit presence in Iraq use the IAWG to coordinate audits, share data relative to Iraq relief and reconstruction, minimize audit disruption to clients, and avoid duplicative efforts. This quarter, the IAWG met on January 18, 2006, in the former Republican Presidential Palace in Baghdad, Iraq. These organizations attended:

- SIGIR
- Iraq Reconstruction Management Office (IRMO)
- U.S. Agency for International Development Office of Inspector General (USAID OIG)
- Defense Contract Audit Agency (DCAA)
- U.S. Army Corps of Engineers Gulf Region Division (USACE)
- Multi-National Security Transition Command–Iraq (MNSTC-I)

During the meeting, audit representatives from each agency discussed their current and planned work, discussed ways to improve coordination, and validated their primary audit contact for each activity. Bob Raggio of RMI, Inc., a guest invited by SIGIR, briefed the group on a program to collect documentation of Development Fund for Iraq (DFI) expenditures throughout Iraq. The RMI program uses Iraqi nationals exclusively and collects data to populate a database that will be provided to the Iraqi government and SIGIR.

In March 2004, SIGIR formed the Iraq Inspectors General Council (IIGC) to provide a forum for discussion regarding oversight in Iraq and to enhance the collaboration and cooperation among the inspectors general of the agencies that oversee the Iraq Relief and Reconstruction Fund (IRRF). Representatives of member organizations meet quarterly to exchange details about current and planned audits, to identify opportunities for collaboration, and to minimize redundancies.

The most recent meeting was held on November 15, 2005, with participants in Washington, D.C., and Baghdad. Inspector General Bowen, who was in Baghdad, provided an on-the-ground perspective, while other IIGC members shared information regarding their oversight activities.

Each quarter, SIGIR requests updates from member organizations on their completed, ongoing, and planned oversight activities. This section summarizes the audits and investigations reported to SIGIR this quarter by these agencies:

- Department of Defense Office of Inspector General (DoD OIG)
- Department of State Office of Inspector General (DoS OIG)
- USAID OIG
- Government Accountability Office (GAO)
- DCAA
- U.S. Army Audit Agency (USAAA)
- Department of the Treasury (Treasury)
- Department of Commerce (DoC)
- Defense Criminal Investigative Service (DCIS)
- Federal Bureau of Investigation (FBI)
SIGIR formed the IIGC to help coordinate oversight of IRRF programs. This section provides updates on the audits that IIGC member agencies reported to SIGIR. Table 4-1 summarizes oversight report activity of other U.S. agencies during this reporting period. For a complete list of audits and reviews on Iraq reconstruction by all entities, see Appendix H.

**Department of Defense Office of Inspector General**

In this quarter, DoD OIG performed limited audit activities related to Iraq relief and reconstruction. During this reporting period, one audit was completed. Six audits are still ongoing.

Currently, DoD OIG does not have any auditors in Iraq. DoD OIG is establishing a field office in Qatar. By February 2006, this office will provide oversight, audit, inspection, and investigative support to ongoing DoD operations in the U.S. Central Command (CENTCOM) area of responsibility. This office will be manned with eight personnel from DoD OIG. In December 2005, two DoD OIG inspectors completed a two-month mission in Baghdad to advise, assist, and train IG staff members of the two largest Iraqi ministries—the Ministry of Defense and Ministry of Interior. Currently, one DoD OIG evaluator is assigned full-time to assist the Ministry of Defense Inspector General.

**COMPLETED AUDIT AND REVIEWS**

**Audit of Contract Surveillance for Service Contracts**

(PROJECT NO. D-2006-010), ISSUED OCTOBER 28, 2005

This project is related to the Global War on Terrorism. The overall objective is to determine whether the U.S. government provides sufficient oversight to ensure that contractors perform in accordance with their contracts. Specifically, auditors determine whether personnel have been appointed to monitor

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**Recent Oversight Reports of Other U.S. Agencies, as of December 30, 2005**

<table>
<thead>
<tr>
<th>Agency</th>
<th>Report Number</th>
<th>Report Date</th>
<th>Report Title</th>
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<tbody>
<tr>
<td>1 DoD</td>
<td>D-2006-010</td>
<td>10/28/2005</td>
<td>Audit of Contract Surveillance for Service Contracts</td>
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<td>2 USAID</td>
<td>A.R. 9-267-06-001-P</td>
<td>12/20/2005</td>
<td>Audit of USAID/Iraq’s Basic Education Activities</td>
</tr>
<tr>
<td>3 USAID</td>
<td>A.R. 9-267-06-001-P</td>
<td>10/06/2005</td>
<td>Audit of the Accuracy of Biographical Datasheets provided by International Resources Group to USAID for Contracts in Iraq</td>
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<td>4 USAAA</td>
<td>A-2005-ALE-0376.000</td>
<td>09/30/2005</td>
<td>Follow-up of Commander’s Emergency Response Program (CERP) and Quick Response Fund (QRF)</td>
</tr>
</tbody>
</table>

**Table 4-1**
contractors’ performance, contractors’ work is adequately monitored, contractors perform in accordance with contractual obligations, and contractor performance has been properly documented for future use. Overall, DoD OIG found that DoD could not be assured it received the best value when contracting for services.

**ONGOING AUDITS AND REVIEWS**

**Audit of Equipment Status of Deployed Forces within U.S. Central Command**  
(PROJECT NO. D2006-D000LA-0092.00)

The overall objective of this audit is to determine whether units deployed to Iraq have been equipped in accordance with mission requirements.

**Antideficiency Act Investigation of the Operation and Maintenance Appropriation Accounts 2142020 and 2152020**  
(PROJECT NO. D2005FD-0300)

The investigation was requested by the Army IG on a potential Antideficiency Act (ADA) violation that occurred when Army personnel funded a prison in Camp Bucca, Iraq. The objective is to determine whether an ADA violation occurred.

**Review of the United States Government’s Relationship with the Iraqi National Congress**  
(PROJECT NO. D2005-DINTEL-0122)

This review was announced on February 14, 2005. The objective is to respond to a request from the House Appropriations Committee. Specific objectives are classified. Fieldwork continues on the project.

**Review of Detainee/Prisoner Abuse Investigations and Inquiries**  
(PROJECT NO. IPO2004-C005)

This is a review of all closed DoD criminal and non-criminal investigations into detainee deaths and allegations of detainee abuse. The objective is to evaluate the investigative sufficiency and gaps in reporting detainee deaths and allegations of detainee abuse. DoD OIG is nearing completion of a draft report that is intended to be distributed to the affected components for comment by January 30, 2006.

**Review of Detainee/Prisoner Abuse Investigations and Reviews**  
(PROJECT NO. D2004-DINTEL-0174)

DoD OIG continues to provide oversight of the investigations and reviews conducted into detainee abuse allegations and detention operations in Iraq. DoD OIG has completed an assessment of the 13 primary reports on detainee abuse and is preparing a draft report to be published in February 2006.

**DoD OIG Support to the Iraqi Ministry of Defense OIG**  
(PROJECT NO. D2006-DIPoE3-0038.000)

To help the Iraqi Ministry of Defense Office of the Inspector General to promote economy and efficiency, and to identify and prevent fraud, waste, abuse, and mismanagement in the Ministry of Defense, the DoD OIG created an IG Support Team and deployed a senior advisor to Baghdad to serve as a member of
the IRMO advisory team. In response to the official petition from the Iraqi IGs to partner with the U.S. IGs in 2005, the DoD OIG brought the IG for the Ministry of Defense to the United States to encourage the President’s Council on Integrity and Efficiency (PCIE) and the Defense Council on Integrity and Efficiency (DCIE) to engage in this desired U.S.-Iraqi IG partnership. This partnership is being studied by other U.S. IGs. The U.S. advisory team to the MOD OIG participated in a number of other activities, including creating the joint U.S.-Iraqi standards for inspecting detainee facilities, facilitating a joint U.S.-Iraqi cross-organizational team investigating the recent acquisition scandal in the Ministry of Defense, and facilitating the November 12 meeting of U.S. and Iraqi anticorruption officials, which established the Joint U.S.-Iraqi Anticorruption Task Force. It is hoped that the other Iraqi IGs will follow the example set by the Ministry of Defense IG, and thereby contribute to the Coalition goal of increasing the capacity of Iraqi institutions.

**Department of State Office of Inspector General**

Since the SIGIR October 30, 2005 Report, DoS OIG has not completed any audits. One of the ongoing audits is being performed jointly with SIGIR.

**ONGOING AUDITS**

**Contract Procurement of Armored Vehicles (Phase 1) – Contract Performed by Regis**

DoS OIG engaged a Certified Public Accountant (CPA) firm under contract to perform a review of the procurement competition for contracts to provide armored vehicles for use in Iraq. Specifically, the contractor will assess the adequacy of the competition for contracts that provide vehicle armoring and specialized glass. The final audit report will be issued in January 2006.

**DECO Agreed-upon Costs**

DoS OIG is conducting an agreed-upon procedures engagement on an Iraqi security contractor, DECO, to determine whether its loaded hourly rates are duplicative of what DoS Overseas Building Operations (OBO) paid as direct travel reimbursement, and whether DECO’s policies for including costs in the hourly rate comply with Federal Acquisition Regulation (FAR), Part 31. This audit is in the draft report stage.

**DynCorp Invoicing**

DoS OIG is performing an agreed-upon procedures engagement to:

- determine whether the Bureau for International Narcotics and Law Enforcement Affairs (INL) has a process to effectively review and approve invoices from DynCorp for the support of the Jordan International Police Training Centre (JIPTC)
- identify best practices for approving invoices
- determine whether invoices provided by DynCorp in FY 2005 for the support of JIPTC are adequately supported
OTHER AGENCY OVERSIGHT

This audit is in the fieldwork stage.

INL Funding (Joint Survey with SIGIR)
DoS OIG is conducting a joint survey with SIGIR to identify funding arrangements flowing through INL to Iraq. This survey is expected to be completed in January 2006.

U.S. Agency for International Development Office of Inspector General
Since the SIGIR October 30, 2005 Report, USAID OIG completed two audits and started one audit to determine if USAID/Iraq’s local governance activities are achieving their intended outputs. One audit started last quarter is still ongoing. USAID OIG has seven auditors in Iraq as of December 31, 2005.

COMPLETED AUDITS

In addition to the USAID OIG audits discussed below, DCAA completed two financial audits for the USAID OIG of costs incurred under various contracts for services. These audits covered $25.3 million in USAID funds. These audits contained questioned costs totaling $29,700. At the end of the reporting period, 12 DCAA audits were in process, which were being performed at the request of USAID/OIG.

Audit of USAID/Iraq’s Basic Education Activities
(A.R. NO. 9-267-06-001-P), ISSUED DECEMBER 20, 2005

The objective of this audit was to determine if USAID/Iraq’s basic education activities have progressed toward their intended outputs. The audit found that, of the 82 intended outputs included in the June 2005 USAID-approved implementation plan, work had commenced and progress was being made on 33 outputs. Work was planned for, but not yet started on, 22 outputs; a revised implementation plan deleted the remaining 27. The audit also found that the Ministry of Education did not have appropriate computer equipment to operate an education management information system being developed by USAID’s implementing partner. USAID OIG recommended that the Mission develop a plan to ensure that appropriate computer equipment was available or discontinue the funding of the program.

Audit of the Accuracy of Biographical Datasheets Provided by International Resources Group to USAID for Contracts in Iraq
(A.R. 9-267-06-001-P), ISSUED OCTOBER 6, 2005

This audit’s objective was to determine whether selected information on the biographical data sheets provided to USAID by International Resources Group (IRG) was accurate. No significant discrepancies were noted on the biographical data sheet information that was tested during the audit. The audit also noted that IRG ensured accuracy by verifying information—such as education, salary, and citizenship—shown on the form. The audit contained no recommendations.
Ongoing Audits
Audit of USAID/Iraq’s Non-Expendable Property
Objective: Did USAID/Iraq manage its non-expendable property in accordance with Agency guidelines? This audit is in the draft report stage.

Government Accountability Office
Since the SIGIR October 2005 Report, the GAO has issued 2 reports and has 13 ongoing audits on Iraq reconstruction, 2 of which are new audits.

COMPLETED REPORTS

Defense Transportation: Air Mobility Command Needs To Collect and Analyze Better Data To Assess Aircraft Utilization (GAO-05-819), ISSUED SEPTEMBER 29, 2005

Airlift is a flexible, but expensive, transportation method. From September 2001 to April 2005, DoD has spent about $9.5 billion using airlift to transport equipment, supplies, and troops for Operation Enduring Freedom (OEF) and Operation Iraqi Freedom (OIF). As of December 2004, airlift accounted for about 13% of all cargo and passengers transported for these operations. DoD has stated that high demand for available airlift assets requires DoD to use airlift assets as efficiently as possible. However, DoD’s primary objective emphasizes delivering “the right items to the right place at the right time” over using aircraft capacity as efficiently as possible.

Under the Comptroller General’s authority, GAO sought to determine whether DoD used capacity on strategic military aircraft transporting cargo and passengers between the United States and overseas theaters for OEF and OIF as efficiently as possible.

GAO is making recommendations to improve DoD’s collection and analysis of information on operational factors that impact payloads transported on strategic airlift missions. DoD concurred with the recommendations. However, based on DoD’s comments, GAO has modified one recommendation.

Rebuilding Iraq: Enhancing Security, Measuring Program Results, and Maintaining Infrastructure Are Necessary To Make Significant and Sustainable Progress (GAO-06-179T), ISSUED OCTOBER 18, 2005

The United States, along with coalition partners and various international organizations, has undertaken a challenging and costly effort to stabilize and rebuild Iraq following multiple wars and decades of neglect by the former regime. This enormous effort is taking place in an unstable security environment, concurrent with Iraqi efforts to complete a constitutional framework for establishing a permanent government. The U.S. goal is to help the Iraqi government develop a democratic, stable, and prosperous country, at peace with itself and its neighbors, a partner in the war against terrorism, enjoying the benefits of a free society and a market economy.

In this testimony, GAO discusses the funding used to rebuild and stabilize Iraq and the
challenges that the United States faces in its rebuilding and stabilization efforts.

This statement is based on several reports that GAO has issued to Congress over the past three months. In July, GAO issued two reports on the status of funding and reconstruction efforts in Iraq and the use of private security providers in Iraq. GAO issued two additional reports in September on U.S. reconstruction efforts in the Water and Sanitation sector and U.S. assistance for the January 2005 Iraqi elections. Finally, GAO expects to issue shortly a report on U.S. efforts to stabilize the security situation in Iraq (a classified report). This statement includes unclassified information only.

**ONGOING AUDITS**

**United Nations Oil for Food: Oversight and Accountability**

United Nations (UN) Security Council Resolution 986 established the Oil-for-Food program in 1996 to allow Iraq to use oil revenues to purchase certain goods after sanctions were imposed in 1990 following Iraq’s invasion of Kuwait. The overall objectives of the humanitarian assistance program were to prevent Iraq from having weapons of mass destruction while allowing Iraq to use its oil revenues to import food, medicine, and other needed supplies.

GAO, other congressional investigators, the Defense Intelligence Agency Iraq Survey Group, and others have reported that Iraq gained billions in illicit revenues through smuggling and corruption. Allegations have also surfaced about misconduct by UN and contractor personnel involved in the program. In October 2004, Congress mandated that the GAO review the program (P.L. 108-375).

- What programs and activities did Resolution 986 authorize?
- What were the internal controls and external challenges associated with the selling of Iraq’s oil?
- What were the internal controls and external challenges associated with the humanitarian assistance program?
- What is the mandate of the UN Compensation Commission, and how is it structured to carry it out?

**Private Security Contractors**

This work is in response to congressional interests related to the reliance of the U.S. government and its contractors on private firms to provide security in Iraq:

- To what extent have U.S. government agencies and contractors working in Iraq acquired security services from private providers?
- To what extent have U.S. military and private security providers in Iraq developed a cooperative working relationship?
- To what extent have U.S. government agencies assessed the costs associated with using private security providers on reconstruction contracts?

The report also assesses the impact of the increased use of private security providers on attrition in key military skills.
DoD Logistics Transformation Initiatives
DoD has undertaken logistics improvement initiatives but has not achieved a logistics system responsive to the asymmetric threat now facing DoD. Earlier logistics transformation efforts lacked an overarching plan to tie numerous service initiatives to DoD’s strategic logistics objectives:

- To what extent has DoD defined the desired end-state for its initiatives and identified goals, resources, and timeframes?
- How successful have logistics initiatives been to date, and what are the challenges/barriers to broader implementation?
- To what extent are DoD’s initiatives integrated, and do they complement DoD’s overall force transformation plans?
- To what extent have these initiatives improved the effectiveness of support to the warfighter?

Use of Funds in Support of the Global War on Terrorism
Since September 11, 2001, Congress has appropriated about $275 billion for the Global War on Terrorism. Based on April 2005 data, spending is running about $6 billion per month. The GAO’s objectives are to determine:

- whether DoD’s reported war costs are based on reliable data
- the extent to which DoD’s financial management guidance applies to war spending
- whether spending controls for the war can be strengthened as operations mature

Improving Iraq’s Security
As of March 2005, the United States had obligated about $5.8 billion to train, equip, and develop Iraqi security forces and transfer security responsibilities to them. The President requested an additional $6 billion in early 2005 to accelerate this process.

- What is the current multinational force strategy for transferring security missions to Iraqi security forces?
- What are the challenges to this transition?
- What are the current trends in the security situation in Iraq?

Use of Airlift Capacity for Operations in Afghanistan and Iraq
The DoD’s ability to airlift cargo is critical to supporting contingency operations, such as OEF and OIF.

- How did the Air Mobility Command manage the use of airlift capacity, including the Civil Reserve Air Fleet, for OIF and OEF and for current containment operations?
- What barriers exist, if any, to maximizing airlift capacity?

Post-transition Management of Iraq Reconstruction
When the United States transferred governance authority to Iraq in June 2004, the Secretary of State assumed responsibility from the DoD and the CPA for setting requirements and priorities for managing the U.S. reconstruction program in Iraq, including $18.4 billion in FY 2004 emergency funding.

- How is the U.S. government organized to supervise and direct the reconstruction
effort in the post-transition phase?

- How are program management contracts used to manage and support the reconstruction effort in Iraq?
- What factors are challenging U.S. efforts to rebuild Iraq, and how are they being addressed?

**National Strategy for Iraq**

In November 2005, the President issued a new national strategy for Iraq. This engagement will assess the strategy's goals, scope, performance measures, and costs.

- What is the U.S. government strategy for stabilizing and rebuilding Iraq?
- To what extent does the new strategy include the desirable elements of an effective strategy?
- What key challenges could affect the implementation of the U.S. strategy?

**Accountability, Maintenance, Utilization, and Strategy for OIF Stay-behind Equipment**

During OIF, vast amounts of equipment were used in-theater and are being retained for possible use by follow-on forces. The Army National Guard, alone has reportedly left more than $1.5 billion worth of its equipment, consisting of 80,000 items. Army prepositioned equipment is also still in use.

- Do DoD, CENTCOM, and the military services have visibility over stay-behind equipment?
- What is the condition of the equipment and is it being maintained to meet CENTCOM’s and the services’ requirements?

- What is DoD’s strategy for utilizing or disposing of the equipment?

**Logistics Support for the Stryker Vehicle and Stryker Brigade**

DoD has deployed Stryker Brigades to OIF and may make additional deployments. GAO will review the logistics support.

- How effective has maintenance support been, and how does it compare with the logistics plan?
- What have been the force protection arrangements for the contractors who provide maintenance support?
- What adjustments, if any, is the Army planning for contractor-supported maintenance?
- What other logistical support activities were provided by contractors for the Stryker Brigades in Iraq?

**Review of FY 2006 Global War on Terrorism Cost and Funding**

As part of its ongoing work on the cost and funding of the global war on terrorism, GAO will be (1) providing Congress with a series of quarterly updates on the reported costs of OIF and OEF as required by section 1221(c) of the National Defense Authorization Act for FY 2006, and (2) assessing the adequacy of FY 2006 funding for the global war on terrorism.

These are GAO’s specific objectives:

(1) Comply with the requirement of section 1221 (c) of the FY 2006 National Defense Authorization Act regarding providing Congress with quarterly updates on the reported costs of OIF and OEF.
(2) Determine what progress has been made in improving the reliability of reported war costs since GAO's September 2005 report (GAO-05-882).

(3) Assess the adequacy of the funding for the global war on terrorism in FY 2006, and, if it appears that costs may exceed funding, the actions planned to cover any potential gaps.

(4) Determine the extent to which changes in ongoing operations, such as force drawdowns, may affect funding needs.

Screening of DoD Contractors
This work is in response to congressional concerns regarding DoD contractors' use of U.S. nationals, third-country nationals, and host-country nationals in Iraq and Afghanistan.

These are GAO's specific objectives:
(1) To what extent do DoD contracts require contractor employees supporting deployed U.S. forces to undergo background screenings, and what standards and procedures has DoD established for contractors to use in screening their employees?
(2) How do contractors supporting deployed U.S. forces screen their employees and what difficulties, if any, are encountered when screening U.S. nationals, third-country nationals, and host-nation nationals?
(3) What role do DoS, FBI, and other national agencies play in assisting DoD and contractors in screening their employees?

Contractors on the Battlefield
This work is in response to congressional interest in revisiting issues raised in prior GAO reports on the use of contractors on the battlefield.

These are GAO's specific objectives:
(1) What progress has DoD made in addressing the issues raised in GAO's June 2003 report and related requirements in the Defense Authorization Acts?
(2) To what extent are additional steps necessary for DoD to more effectively use contractors to support deployed forces and more fully integrate contractors as part of the total force?

Defense Contract Audit Agency
DCAA's services include professional advice to acquisition officials on accounting and financial matters to assist them in the negotiation, award, administration, and settlement of contracts.

In addition to DCAA's involvement in the negotiation and award of contracts, significant resources are also dedicated to overseeing the allowability, allocability, and reasonableness of incurred and billed costs. Procedures that govern the costs incurred in-country are also tested through reviews of contractor timekeeping, subcontract management, and cash management/disbursement. Finally, to ensure that adequate internal controls are in place regarding the contractor's policies and procedures, DCAA performs audits associated with critical internal control systems, with an emphasis on
### DCAA Audits Related to Iraq for FY 2005 & FY 2006, as of December 31, 2005

<table>
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<th>Type of Audit</th>
<th>FY 2005 Closed</th>
<th>FY 2006 Closed</th>
<th>FY 2006 Open</th>
<th>FY 2006 Planned</th>
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<tr>
<td>Price Proposals¹</td>
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<td>2</td>
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<tr>
<td>Agreed-Upon Procedures Price Proposal²</td>
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<td>0</td>
</tr>
<tr>
<td>Other Special Requested Audits³</td>
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<td>Internal Controls⁶</td>
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<tr>
<td>Pre-award Accounting Survey⁷</td>
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<tr>
<td>Purchase Existence and Consumption⁸</td>
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<tr>
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<td><strong>156</strong></td>
<td><strong>374</strong></td>
<td><strong>237</strong></td>
</tr>
</tbody>
</table>

Notes:

1 Price Proposals – Audits of price proposals submitted by contractors in connection with the award, modification, or re-pricing of government contracts or subcontracts

2 Agreed-Upon Procedures Price Proposal – Evaluation of specific areas, including actual labor and overhead rates and/or cost realism analysis, requested by customers in connection with the award of government contracts or subcontracts

3 Other Special Requested Audits – Audit assistance provided in response to special requests from the contracting community based on identified risks

4 Incurred Cost – Audits of costs charged to government contracts to determine whether they are allowable, allocable, and reasonable

5 Labor Timekeeping – Audits to determine if the contractor consistently complies with established timekeeping system policies and procedures for recording labor costs

6 Internal Controls – Audits of contractor internal control systems relating to the accounting and billing of costs under government contracts

7 Pre-award Accounting Survey – Pre-award audits to determine whether a contractor’s accounting system is acceptable for segregating and accumulating costs under government contracts

8 Purchase Existence and Consumption – The physical observation of purchased materials and services and related inquiries regarding their documentation, and verification of contract charges

9 Other – Significant types of other audit activities, including financial capability audits and Cost Accounting Standards compliance audits

**Table 4-2**
estimating, subcontract management, and billing systems.

DCAA plans and performs work on a fiscal year basis (October 1 – September 30). Table 4-2 shows both the Iraq-related audits closed during FY 2005 and the audits closed, opened, and planned in FY 2006 (as of December 31, 2005).

**U.S. Army Audit Agency**

USAAA has completed one audit since the SIGIR October 30, 2005 Report and has three audits in progress.

**COMPLETED AUDITS**

**Follow-up of Commander’s Emergency Response Program (CERP) and Quick Response Fund (QRF)**

(PROJECT CODE: A-2005-ALE-0376.000), ISSUE SEPTEMBER 30, 2005

MNSTC-I received, accounted for, and reported funds according to applicable laws, regulations, and guidance. The CERP and QRF projects met the intent of the program guidance. Command personnel demonstrated adequate oversight over administrative processes, and processed cash disbursements properly for both programs. However, MNSTC-I needed to ensure that its personnel reviewed QRF projects for reasonableness and tracked the status of military interdepartmental purchase requests.

MNSTC-I did not exercise management oversight responsibilities over the programs:
- Of the 90 CERP-funded projects, 41 projects valued at about $2.7 million were past their completion dates by an average of 68 days.
- Of the 14 Iraqi Interim Government Emergency Response Program projects, 8 projects valued at about $2.6 million were an average of 110 days old, with no obligations.
- J8 Comptroller personnel did not have a current status for about 350 Quick Response Fund projects, and many were past the performance period.

This happened because project oversight was not normally a function of the typical J8 Comptroller office, and Command had not assigned it to a specific section. As a result, Command funded projects and then lost oversight. Without this oversight function, projects that are no longer valid remained listed as “active,” tying up resources that could have been redirected to other projects.

In addition, USAAA discovered a $553,202 overage when reviewing the turn-in of Development Fund for Iraq Emergency Response Program cash. The command did not perform a reconciliation or investigation when the funds were turned in. Because records were not reconciled, the risk was high that funds may have been mishandled.

OTHER AGENCY OVERSIGHT

The final report was issued on September 30, 2005. MNSTC-I agreed with the recommendations and said it had taken or would take corrective action.

ONGOING AUDITS

Audit of Fund Accountability for Iraq Relief and Reconstruction Funds 2 (IRRF 2)
(PROJECT CODE: A-2005-ALA-0240.000)

At the request of the former Acting Secretary of the Army, USAAA reviewed the Project and Contracting Office's (PCO's) fund control and accountability over FY 2004 IRRF monies. USAAA also reviewed PCO's fund control over Operation and Maintenance, Army (OMA) funds used for administrative expenses. PCO is responsible for managing and overseeing a majority of the $18.4 billion in IRRF appropriated by Congress in FY 2004.

This report focuses on these objectives:
• Do PCO's financial management system and processes have the controls needed to make sure commitments, obligations, and disbursements are accurately recorded?
• Does PCO have adequate controls in place to make sure operating costs are properly recorded?

PCO's financial management system and processes were generally effective for ensuring the accurate recording of commitments, obligations, and disbursements. PCO used the Corps of Engineers Financial Management System (CEFMS) as its main accounting and financial system for recording and tracking PCO's financial transactions. The system has several internal controls to ensure that only authorized transactions are processed. PCO established general guidance, which incorporated some of the processes and controls of CEFMS and the regulatory guidance of DoD financial management. However, control weaknesses existed related to handling Military Interdepartmental Purchase Requests (MIPRs) and non-construction contract payments, making Iraqi vendor payments, and performing fund status reviews.

In addition, while USAAA found that PCO generally had adequate controls to make sure that operating costs were properly recorded, they did identify some areas needing improvement. Although some supporting documentation was lacking, PCO properly developed the FY 2005 operating budget estimate of $329.5 million. PCO recorded contract costs accurately and properly supported the costs, but needed to improve the timeliness and coding of contract transactions. PCO recorded payroll costs accurately, but needed to improve how timecards were submitted, approved, and reconciled. Additionally, while PCO was generally effective at reviewing the fund status of its operating budget, it needed to monitor funds status at a budget line item level. USAAA also identified $12.4 million in unused payroll funds that should be used to offset other budget requirements.

Strengthening these controls should give Army leadership added assurances that PCO is making the most of its resources and accurately recording and reporting commitments,
obligations, and disbursements.

During the audit, PCO was proactive and initiated several actions to improve control over fund accountability. USAAA is still working with Command on the Official Army Position and plans to issue the final report during the second quarter of FY 2006.

Follow-up II of Commander’s Emergency Response Program (CERP) and Quick Response Fund (QRF)
(PROJECT CODE: A-2006-ALE-0108.000)

The Commander of Multi-National Security Transition Command-Iraq (MNSTC-I) requested this audit. Objectives of the audit include:
• Were disbursements consistent with the intent of the charter or implementing guidance?
• Did MNSTC-I:
  o adequately implement agreed-to recommendations of audit A-2005-ALE-0332.000, and did corrective actions fix problems?
  o have an effective follow-up system for tracking the implementation of corrective actions until fully implemented?

On December 2, 2005, USAAA issued a draft report to the command and is awaiting the official Army position.

Audit of Logistics Civil Augmentation Program
(PROJECT CODE: A-2005-ALS-0340.000)

The Commander, Multi-National Force-Iraq (MNF-I), requested this audit. Preliminary audit planning began on January 3, 2005, and audit work began in both Kuwait and Iraq on May 3, 2005. In-country work was delayed at the command’s request. The audit focuses on evaluating the adequacy of the Logistics Civilian Augmentation Program (LOGCAP) throughout the Iraq area of operations.

The specific objectives include determining whether:
• services acquired under the LOGCAP contract are reasonable and are cost-effective solutions for satisfying force requirements
• adequate management structures are in place to plan, acquire, and manage services obtained under the LOGCAP contract
• the contract administration of LOGCAP work in Iraq is adequate
• adequate management/internal controls are in place for LOGCAP operations in Iraq, especially for those areas highly susceptible to fraud, waste, and abuse
• adequate information exists to enable higher management levels to provide sufficient oversight over LOGCAP operations in Iraq

USAAA auditors are traveling to operating bases in Iraq, principal sites of contractor operations in Kuwait, and the prime contractor’s home office in Houston, Texas. They have received authority from DoD OIG (Auditing) to audit the Defense Contract Management Agency in relation to its LOGCAP contract administration operations in Iraq and Kuwait.
and the Defense Logistics Agency in relation to its food service operations in support of the Iraq area of operations. USAAA has issued or is completing reports focusing on conversion of LOGCAP statements of work to sustainment contracts, unliquidated obligations for Task Order 59, program management in the area of operations, base closure process, non-tactical vehicles, distribution operations, food supply operations, and dining facility operations. They have on-going audits of sustainment contracting practices in Kuwait, contract administration management, and contractor labor and equipment assigned to Iraq forward operating bases. USAAA has 18 auditors in Iraq and Kuwait working on the audit.

**Department of the Treasury**
The Department of the Treasury did not complete any audits since SIGIR’s October 30, 2005 Report, but currently has one audit ongoing.

**ONGOING AUDITS**

**Review of Treasury Activities for Iraq Reconstruction**
The objective of this audit is to identify the Treasury activities and funding involved in Iraq reconstruction, and to determine the accuracy and completeness of the financial information periodically provided to SIGIR by the Treasury. A final report is due in January 2006.

**Department of Commerce**
During this period, the Department of Commerce initiated no new cases relative to Iraq reconstruction and relief and has not closed any cases.
SIGIR regularly coordinates with other government agencies conducting investigations in Iraq. This quarter, SIGIR received information from USAID and FBI.

U.S. Agency for International Development Office of Inspector General

CLOSED INVESTIGATIONS

USAID closed one case during this reporting period:

- **Program Integrity:** USAID OIG received an allegation that a subcontractor on a USAID-funded prime contract was engaged in a variety of financial irregularities. The investigation disclosed no evidence to support the alleged misconduct.

ONGOING INVESTIGATIONS

USAID currently has two ongoing investigations, with one investigator currently in Iraq:

- A USAID contractor is alleged to have submitted false and/or fraudulent costs associated with its work in Iraq. In addition, information was developed indicating that this contractor may have used USAID funds to make improper payments to Iraqi government officials.
- Employees of a USAID contractor are alleged to have solicited kickbacks in exchange for the awarding of subcontracts for work in Iraq.

Defense Criminal Investigative Service

DCIS is coordinating with SIGIR to continue the investigations regarding Iraqi reconstruction funds and activities. In addition, DCIS continues its investigations regarding the expenditure of DoD funds in the region. Table 4-3 shows the status of DCIS investigations.

OPEN CASES

DCIS currently has one open case.

<table>
<thead>
<tr>
<th>Defensive Criminal Investigative Service Investigations</th>
<th>Investigative Status</th>
<th>Conflict of Interest</th>
<th>Counterfeit</th>
<th>Weapons Recovery/Security</th>
<th>False Claims/Statements</th>
<th>Theft/Drugs</th>
<th>Bribery/Corruption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Closed</td>
<td>2</td>
<td>3</td>
<td>6</td>
<td>2</td>
<td>20</td>
<td>9</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>2</td>
<td>3</td>
<td>6</td>
<td>3</td>
<td>20</td>
<td>9</td>
<td>—</td>
</tr>
</tbody>
</table>

Table 4-3
CLOSED CASES

One investigation involved a U.S. Air Force Colonel who was the former Executive Officer assigned to the Office of Reconstruction and Humanitarian Assistance (which became CPA). Allegations surfaced and were confirmed that the Colonel used her position to steer contracts to a South African company, which provided personal security services for the U.S. military and civilian components of DoD. In addition to steering contracts, the Colonel was paid to establish a U.S.-based portion of the South African company for possible future contracts in Iraq. The investigation was presented to the U.S. Air Force for prosecution. The Colonel admitted to committing violations of the conflict of interest and pled guilty to several Article 15 violations. The Colonel and the South African-based company were debarred by the Air Force for a period of three years. This investigation is now closed.

The second investigation involved the wrongful leasing and transfer of government property between CPA contractors and local Iraqi nationals. Investigation uncovered that there were not adequate controls in place for the leasing of green zone property, which resulted in unauthorized individuals leasing property within the confines of the green zone. Investigation was limited in scope; however, several unauthorized occupants were evicted as a result of the investigation. This investigation is now closed.

Department of State Office of Inspector General

During this period, DoS OIG initiated no new cases relative to Iraq reconstruction and relief and has not closed any cases. Two DoS criminal investigators are supporting SIGIR operations in Iraq on an as-needed basis.

Federal Bureau of Investigation

The FBI Washington Field Office has not formally opened or closed any Iraq-related public corruption or governmental fraud cases since the SIGIR October 30, 2005 Quarterly Report, but has recently become a member of the Special Investigative Task Force for Iraq Reconstruction (SPITFIRE). Other members include SIGIR; Department of Justice; the Internal Revenue Service; U.S. Immigration and Customs Enforcement; the Bureau of Alcohol, Tobacco, Firearms and Explosives; and DoS. The FBI plans to report on at least two public corruption investigations related to allegations developed via an investigation already underway by SPITFIRE. Additional cases are anticipated in the future as a result of the FBI’s involvement with the task force.