

The seal of the Office of the Special Inspector General for Iraq Reconstruction is a large, circular emblem in the background. It features an eagle with wings spread, holding an olive branch and arrows. The eagle's chest is covered by a shield with vertical stripes. The seal is surrounded by text in both English and Arabic. The English text reads "INSPECTOR GENERAL" at the top and "RECONSTRUCTION" at the bottom. The Arabic text reads "مفتش العام" at the top and "إعادة إعمار العراق" at the bottom.

**ASSET-TRANSFER PROCESS FOR IRAQ
RECONSTRUCTION PROJECTS LACKS
UNITY AND ACCOUNTABILITY**

**SIGIR 09-016
APRIL 26, 2009**



SIGIR

Special Inspector General for IRAQ Reconstruction

Summary of Report: SIGIR-09-016

Why SIGIR Did This Study

After more than four years of reconstruction activity, U.S. reconstruction agencies continue to experience difficulties transferring completed projects to the Government of Iraq (GOI). GOI recognition of projects is important to ensure ongoing support for the projects, to inform its own reconstruction planning, and to leverage completed projects to obtain financing for future initiatives from world markets. This review follows up on SIGIR's earlier work to determine (1) the extent to which U.S. reconstruction agencies working in Iraq have made progress in establishing a uniform policy and procedure for transferring projects to the GOI, and (2) whether the Embassy has made progress in obtaining GOI support for a formal asset-transfer agreement.

What SIGIR Recommends

SIGIR previously recommended that the Ambassador and the Commanding General, Multi-National Force-Iraq (MNF-I) take these actions:

- Direct that a single set of policies, processes, and procedures for transferring assets be developed for use by all involved agencies and for all U.S. projects, regardless of funding source. This recommendation remains open.
- Enter into high-level discussion with the GOI on developing a memorandum of understanding (MOU) for the transfer of assets. SIGIR is modifying this recommendation to clarify our intent that the discussions result in an MOU and we are reopening the recommendation.

Management Comments

The U.S. Embassy-Iraq, and the U.S. Army Corps of Engineers Gulf Region Division provided written comments on this report. The Embassy did not concur with our recommendations. GRD generally agreed with the facts as presented in the draft report. SIGIR continues to believe its recommendations have merit and the report details the basis for SIGIR's position.

For more information, contact SIGIR Public Affairs at (703) 428-1100 or PublicAffairs@sigir.mil

April 26, 2009

Asset-transfer Process for Iraq Reconstruction Projects Lacks Unity and Accountability

What SIGIR Found

U.S. Iraq reconstruction agencies have yet to develop a uniform process and procedure for transferring completed projects to the GOI. Each U.S. agency has its own internal process for transferring assets to the Iraqis. Management oversight of the process lacks clear authority and accountability, a core problem that SIGIR has identified in previous asset-transfer reports.

Most asset-transfers occur at the local level. Thus, the GOI and its ministries that are responsible for planning the sustainment and integration of assets generally have incomplete information on what the United States has provided. Iraq Transition Assistance Office (ITAO) data shows that only 13 percent of projects have been transferred nationally, while 72 percent have been transferred locally.

The failure of the Embassy and the GOI to finalize a memorandum of understanding on their respective asset-transfer roles and responsibilities has contributed to the problem. A draft memorandum was prepared in November 2007 but, as yet, the memorandum has not yet been finalized. ITAO officials told SIGIR that the GOI Council of Ministers (Council) met on December 16, 2008, and issued a decision that established rules and procedures on how the GOI would accept completed projects. Essentially the decision states that U.S. projects will be accepted as a gift, with no financial obligation between the two countries. The Council decision also reiterated the recommendation that a memorandum of understanding be negotiated between the two governments on asset transfer. A final agreed-to version of the memorandum has not been completed or signed.

Unreliable data in the Iraq Reconstruction Management System (IRMS) continues to make it difficult for managers to track the status of reconstruction projects. IRMS was intended to be the central repository for Iraq reconstruction project information, however, as SIGIR has reported, IRMS does not contain complete or accurate data. For example, a SIGIR report issued in July 2008 pointed out that information on billions of dollars in projects is missing from the system and information on project completions is inaccurate and incomplete.

In addition to erroneous reporting to the GOI, the IRMS problems also prevent the Embassy from providing the Congress and the public a complete accounting of what has been accomplished and the status and current condition of the facilities that were constructed. The lack of reliable data also impedes U.S. efforts to monitor projects and make assessments about the type and extent of further assistance the United States may consider providing.

As a result of these conditions, a substantial portion of the billions of dollars invested in reconstruction is at risk of being wasted. These conditions also provide key lessons learned for other contingency reconstruction operations, such as Afghanistan.



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

April 26, 2009

MEMORANDUM FOR U.S. SECRETARY OF STATE
U.S. AMBASSADOR TO IRAQ
MINISTER FOR ECONOMIC AFFAIRS/COORDINATOR FOR
ECONOMIC TRANSITION IN IRAQ
DIRECTOR, IRAQ TRANSITION ASSISTANCE OFFICE
MISSION DIRECTOR-IRAQ, U.S. AGENCY FOR
INTERNATIONAL DEVELOPMENT
COMMANDING GENERAL, MULTI-NATIONAL FORCE-IRAQ
COMMANDING GENERAL, MULTI-NATIONAL SECURITY
TRANSITION COMMAND-IRAQ
COMMANDING GENERAL, GULF REGION DIVISION,
U.S. ARMY CORPS OF ENGINEERS

SUBJECT: Asset-transfer Process for Iraq Reconstruction Projects Lacks Unity and
Accountability (SIGIR-09-016)

We are providing this audit report for your information and use. It pertains to efforts by the U.S. government reconstruction agencies to transfer completed projects to the Government of Iraq. The audit was conducted by the Special Inspector General for Iraq Reconstruction (SIGIR) as project 8022, under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978.

We considered comments from the U.S. Embassy Iraq, and the U.S. Army Corps of Engineers, Gulf Region Division when preparing the final report. The comments are addressed in the report, where applicable, and copies are included in the Management Comments section of this report.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Glenn Furbish (glenn.furbish@sigir.mil / 703-428-1058); or Ms. Nancee Needham at (nancee.needham@iraq.centcom.mil / 240-553-0581, ext. 3793).

Stuart W. Bowen, Jr.
Inspector General

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Asset-transfer Process for Iraq Reconstruction Projects Lacks Unity and Accountability

SIGIR 09-016

April 26, 2009

Executive Summary

Introduction

Since reconstruction began, tens of thousands of reconstruction projects have been completed in all sectors of Iraqi governance, including electricity, water, health care, and transportation. Nevertheless, the U.S. Embassy, and the primary reconstruction agencies—including the Multi-National Security Command-Iraq (MNSTC-I), the U.S. Agency for International Development (USAID), and the Gulf Region Division of the U.S. Army Corps of Engineers (GRD)—have yet to finalize an agreement on a process for transferring responsibility for the projects to the Government of Iraq (GOI). U.S. agencies have used their own procedures to deliver completed projects to the Iraqi citizens they were meant to benefit. Projects have been turned over at various governmental levels, from local governments to Iraqi ministries, using a variety of procedures, including unilateral transfers. Projects have been transferred even though there is no complete or accurate database or list of what has been turned over, and no assurance that the Iraqis have received all necessary documentation and training, or that the GOI accepts responsibility for project operation, maintenance, and capital replacement.

Because of the importance of this issue to the success of the overall U.S. reconstruction program, the Special Inspector General for Iraq Reconstruction (SIGIR) has issued six reports on the transfer of completed U.S.-funded projects to the GOI since January 2006. In each report, SIGIR recommended that U.S. reconstruction agencies work together to develop a common policy and process to transfer completed projects to the GOI. The most recent report, issued in April 2008, noted that although U.S. agencies had made efforts to improve plans, policies, and procedures for the transfer of assets, they had been unable to agree on a uniform set of procedures.

The Congress has also called for transfer agreements and assurance that the GOI will maintain projects. In the Fiscal Year 2008 Supplemental Appropriations Act¹ the Congress made the availability of certain funds conditional on action by the Department of State (DoS) to secure and implement an agreement with GOI on the transfer of completed projects to the GOI. However, when SIGIR issued the report in April 2008, DoS had been unable to finalize an agreement.

¹ Public Law 110-252, Section 1402 (a) (1)

Also, the Omnibus Appropriations Act, 2009², requires DoS to report on its plans to transition certain programs and activities to the GOI.

The objectives of this review are:

1. Determine the extent to which U.S. reconstruction agencies working in Iraq have made progress since April 2008 in establishing a uniform policy and procedure for transferring projects to the GOI.
2. Determine whether the Embassy has made progress in obtaining GOI support for a formal asset-transfer agreement.

Results

SIGIR's review found little progress on creating uniform policies and procedures or reaching agreement with the GOI on an asset transfer process. Since SIGIR's previous report in April 2008, the U.S. agencies involved in Iraq reconstruction still have not developed a uniform process and procedure for transferring completed projects to the GOI. Each U.S. agency continues to follow its own internal process for transferring projects to the GOI. The management of the process continues to lack clear authority and accountability, a core problem SIGIR has identified in previous reports. And because most transfers occur at the local level, the GOI and the ministries responsible for planning the sustainment and integration of assets generally have incomplete information on what the United States has provided.

The inability of the Embassy and the GOI to finalize a memorandum of understanding with the GOI on their respective asset transfer roles and responsibilities continues to contribute to the problem. Such an agreement could help U.S. reconstruction agencies in standardizing their asset transfer processes. A draft memorandum was prepared in November 2007, but the memorandum has not yet been finalized. Iraq Transition Assistance Office (ITAO) officials told SIGIR that the GOI Council of Ministers (Council) met on December 16, 2008, and issued a decision establishing rules and procedures on how the GOI would accept completed projects. Essentially the decision states that U.S. projects will be accepted as a gift, with no financial obligation between the two countries. The Council decision reiterated the recommendation that a memorandum of understanding be negotiated between the two governments on asset-transfer. A final agreed-to version of the memorandum has not been completed or signed.

Unreliable data in the Iraq Reconstruction Management System (IRMS) continues to make it difficult for planners to track the status of reconstruction projects. IRMS was intended to be the central repository for Iraq reconstruction project information, however, as SIGIR has reported, IRMS does not contain complete or accurate data. For example, a SIGIR report issued in July 2008 pointed out that information on billions of dollars in projects is missing from the system.³ As a result, ITAO cannot provide a complete or consistent picture of reconstruction activities

² Omnibus Appropriations Act, 2009, Public Law 111-8, Section 7042, subsection c.

³ "Comprehensive Plan Needed to Guide the Future of the Iraq Reconstruction Management System," SIGIR-08-021 dated July 25, 2008, and "Interim Report on Iraq Reconstruction Contract Terminations," SIGIR-08-013 dated April 28, 2008.

because the executing agencies did not regularly enter their data into IRMS. Nevertheless, ITAO uses this data to prepare a monthly report to the GOI on transferable assets. According to the October 2008 report, of \$13.5 billion in completed projects, 72% has been transferred locally, and 13% has been transferred nationally. However, because the IRMS asset-transfer data is unreliable, the data provided to the GOI is also undependable. In addition to erroneous reporting to the GOI, the lack of reliable data also prevents DoS from providing the Congress and the public with a complete accounting of the current status and condition of the facilities that were constructed. The IRMS asset-transfer data problem also impedes U.S. efforts to monitor projects to ensure they are being maintained and used effectively.

Recommendation

SIGIR has previously recommended that the Ambassador and the Commanding General, Multi-National Force-Iraq (MNF-I) direct that a single set of policies, processes, and procedures for transferring assets to the GOI be developed for use by all involved agencies and for all U.S. projects regardless of funding source. This recommendation has not been implemented and will remain open.

1. SIGIR also recommended that the Ambassador and the Commanding General, MNF-I enter into high-level discussions with the GOI on developing a memorandum of understanding with the GOI for the transfer of assets. In December 2008, SIGIR closed this recommendation based on talks that were ongoing at that time between the Embassy and the GOI. However, the talks were not successful. Even though the GOI has established rules and procedures for accepting assets, SIGIR continues to believe that a formal agreement is needed. The Embassy questioned SIGIR's reopening the recommendation because it has conducted discussions on asset transfer with the GOI. However, SIGIR's intent was that the discussions should result in a memorandum of understanding. Consequently, SIGIR is modifying the recommendation to clarify our intent that the discussion result in a memorandum of understanding and is reopening this recommendation. SIGIR's recommendation is that the Ambassador and the Commanding General, MNF-I develop a memorandum of understanding with the GOI for the transfer of assets

Management Comments and Audit Response

U.S. Embassy-Iraq, and GRD provided written comments on a draft of this report. We did not receive comments from USAID. The Embassy did not concur with either our earlier recommendation, or reopening our previously closed recommendation. SIGIR notes, however, that the Embassy had previously agreed with both recommendations.⁴ GRD generally agreed with the facts as presented in the report.

⁴ Transition of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government, (SIGIR 06-017, July 28, 2006).

Transferring Iraq Relief and Reconstruction Fund Capital Projects to the Government of Iraq, (SIGIR 07-004, July 25, 2007)

The U.S. Embassy did not agree that the U.S. reconstruction agencies should develop a single set of policies, processes, and procedures for transferring assets to the GOI. According to the Embassy, the agencies have their own documents, requirements, and regulations, and it sees no compelling reason that these should be abandoned for a common set of procedures. However, in SIGIR's view the Embassy's response focuses too much on the process and too little on what the process was intended to accomplish. As SIGIR discusses in the report, in the absence of a standardized process or procedures for transitioning assets to the GOI each agency uses its own procedures. The result is that assets are turned over at various governmental levels and the GOI and the ministries responsible for planning the sustainment and integration of assets generally have incomplete information on what the U.S. has provided. This situation illustrates the need for an integrated approach among agencies for managing contingency reconstruction programs. Therefore, SIGIR continues to believe the recommendation is appropriate. SIGIR also notes that the Embassy agreed with this recommendation when it was made in an earlier report.⁵

The U.S. Embassy also did not concur with our recommendation that the Ambassador and Commanding General MNF-I immediately enter into high level discussions with the GOI on developing a memorandum of understanding for the transfer of assets. SIGIR understands that there have been high-level discussions between the U.S. Embassy and the GOI regarding asset-transfer. The Council of Ministers Decision Number 444, stated that immediately after the takeover of the projects, the Ministries concerned should be responsible for their operation and maintenance of the projects. Additionally, the Decision states that the Ministry of Planning and Development Cooperation shall undertake the task of drafting a memorandum of understanding that establishes suitable mechanisms for taking over the projects. However, the intent of SIGIR's recommendation was that the discussions with the GOI result in a formal memorandum of understanding on asset transfers. SIGIR has modified the recommendation to clarify this point. Again, SIGIR notes that the Embassy agreed with this recommendation when it was made in an earlier report.⁶

GRD provided written comments that were reviewed and approved by MNF-I. GRD stated that it generally agreed with the facts as presented in the draft report. GRD also provided technical comments that we have addressed in the report as appropriate.

Matter for Consideration of the Congress

To enhance the accounting for the status of U.S.-funded reconstruction projects, the Congress may wish to consider directing implementing agencies to gather and provide a uniform set of data that clearly identifies all projects initiated and completed, their cost, and whether they have been transferred and are being sustained.

⁵ Transition of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government, (SIGIR 06-017, July 28, 2006).

⁶ Transferring Iraq Relief and Reconstruction Fund Capital Projects to the Government of Iraq, (SIGIR 07-004, July 25, 2007).

Lessons Learned

The Iraq asset-transfer program yields several key lessons learned for other contingency reconstruction operations, such as Afghanistan, that should be applied as early in the operation as possible. They are the following:

- A management structure must be established that provides unity of command among the involved agencies to achieve uniform asset transfer processes and procedures.
- An accurate and comprehensive project management information system must be established and maintained throughout the reconstruction program.
- U.S. officials must engage host country officials to establish formal agreements on asset transfer and project sustainment.

Introduction

Because of the importance of this issue to the success of the overall U.S. reconstruction program, the Special Inspector General for Iraq Reconstruction (SIGIR) has issued six reports on transferring completed U.S. government-funded reconstruction projects to the Government of Iraq (GOI) since January 2006. As SIGIR reported in July 2007,⁷ an effective asset transfer process is essential for two reasons. First, it allows the GOI to recognize that a project is complete and that the U.S. has provided all necessary documentation and training. Second, it validates that the GOI accepts responsibility for project operation and maintenance and capital replacement. The GOI's acceptance of projects and its commitment to maintain them are important steps in ensuring that the billions of dollars in U.S. reconstruction assistance are not wasted because the projects are not maintained and used.

SIGIR has previously identified problems in the asset transfer process, including the lack of a uniform process among U.S. agencies for transferring completed projects to the GOI, the unilateral transfer of projects to individual ministries, and the transfer of projects to provincial or local officials without assurance that ministry officials with budget authority were prepared to sustain the transferred assets.

The Congress has also called for transfer agreements and assurance that the GOI will maintain projects. In the Fiscal Year 2008 Supplemental Appropriations Act⁸ the Congress made the availability of certain funds conditional on action by the Department of State (DoS) to secure and implement an agreement with the GOI on the transfer of completed projects. However, when SIGIR issued the report in April 2008, DoS had been unable to finalize an agreement. Also, the Omnibus Appropriations Act, 2009,⁹ requires DoS to report on its plans to transition certain programs and activities to the GOI.

The objectives of this review are to determine (1) the extent to which U.S. reconstruction agencies working in Iraq have made progress in establishing a uniform policy and procedure for transferring projects to the GOI, and (2) whether the Embassy has made progress in obtaining GOI support for a formal asset transfer agreement.

Background

An asset transfer process is essential to both the United States and Iraq. First, it allows the GOI to recognize ownership of the project, agree that the project is complete, that all necessary project-specific documentation is in place, and that the U.S. government has provided the necessary training and orientation to the local Iraqi staff that will have responsibility to manage operate, and maintain the new or refurbished facility. Second, it validates that the GOI is now responsible for project operation and maintenance and capital replacement. It also enables the

⁷ *Transferring Iraq Relief and Reconstruction Fund Capital Projects to the Government of Iraq*, SIGIR 07-004, July 25, 2007.

⁸ Public Law 110-252, Section 1402 (a) (1).

⁹ Omnibus Appropriations Act, 2009, Public Law 111-8, Section 7042, subsection c.

Iraqi Ministry of Finance to leverage completed projects to obtain financing for future initiatives from world markets, including the International Monetary Fund, World Bank, and donor nations.

There are four organizations primarily involved with Iraq reconstruction:

- The Iraq Transition Assistance Office (ITAO) is a temporary organization within the U.S. Mission-Iraq.¹⁰ According to the Joint Campaign Plan, ITAO is the lead U.S. organization to influence and work with the GOI to assume full ownership and responsibility for operation and maintenance of U.S. government funded projects.¹¹
- The U.S. Agency for International Development (USAID) implements programs in coordination with the United Nations, World Bank, International Monetary Fund, coalition country partners, nongovernmental organizations, and private sector partners. USAID programs are in education, health care, food security, economic growth, community development, local governance, and transition initiatives. This is accomplished through its Mission headquarters in Baghdad and five field offices located throughout Iraq.
- The Multi-National Security Transition Command-Iraq (MNSTC-I) is a component of the U.S. Central Command's Multi-National Force-Iraq. MNSTC-I assists in building the capacity of the Iraqi Security Forces through a program of recruitment, training, equipping, mentoring, and monitoring.
- The Gulf Region Division of the U.S. Army Corps of Engineers (GRD) provides engineering and construction services to the Multi-National Force-Iraq and the Iraqi government in support of military and civil construction. This is accomplished through its Baghdad headquarters, three district offices, and numerous field offices located throughout Iraq.

ITAO established an Asset Recognition and Transition Operational Group (ARTOG) that includes the following implementing agencies: (1) GRD, (2) Multi-National Corps-Iraq; (3) MNSTC-I, and (4) USAID.¹² Additionally, representatives from the U.S. Army Corps of Engineers, Multi-National Force-Iraq, the U.S. Treasury Attaché, the Iraq Ministry of Finance and Iraq Ministry of Planning and Development Cooperation are also invited to attend ARTOG meetings. The ARTOG's mission is to develop, improve, and implement a single set of overall transparent policies and procedures to achieve an effective, formal capital asset transfer process; providing clear lines of authority, responsibility and accountability.

¹⁰ Prior to 2007, ITAO was known as the Iraq Reconstruction Management Office (IRMO). ITAO's current mission carries forward the work of IRMO.

¹¹ The Joint Campaign Plan was developed and approved by the U.S. Embassy in Iraq and the Multi-National Force-Iraq as a top-level strategic planning document for achieving long-term partnership with Iraq.

¹² The ARTOG defines capital assets as physically tangible property which cannot easily be converted into cash and is expected to be held for a long period, generally five (5) years or more. Generally, these assets have a value above \$250,000. Examples of capital assets include buildings, real estate, and equipment. Capital assets do not include services, technical assistance, or training; although such expenses may be rolled into the total value of an asset when part of the same project and being relevant to its completion.

Since January 2006, SIGIR has issued six audit reports on the Iraq reconstruction agencies' efforts to implement an asset transfer process. These reports are identified in Appendix C. In summary, the reports said the following:

- A January 2006 report on the asset process used by GRD and the Project and Contracting Office found that their process was geared toward asset transfer to Iraqi government representatives at the local level and did not address the information needs of the GOI and the Iraqi Ministries responsible for integrating the assets into a nation-wide infrastructure plan, and budgeting for the sustainment of completed projects.
- An April 2006 report on MNSTC-I's asset transfer process found that MNSTC-I had developed procedures for transferring defense-related assets to the Ministry of Defense based upon DoD standard facilities management policies and procedures, but had less success in transferring law-enforcement related assets to the Ministry of Interior. SIGIR also found that a process was not in place for transferring projects to the GOI but that MNSTC-I was a part of a DoS working group that was addressing the issue.
- An April 2006 report on USAID's asset transfer process found that USAID was using USAID agency-wide procedures for its Iraq asset transfers and did not believe that it should have to use a common process. USAID also did not have a process for transferring assets to the national government, but was a part of the DoS working group that was working toward that goal.
- A July 2006 report followed up on earlier reports on the transition of completed projects funded by the Iraq Relief and Reconstruction Fund (IRRF) to the Iraqi government. Generally, the review found that the IRRF-implementing organizations had formed a number of working groups that were addressing key transaction issues; nevertheless, coordinated processes for the transfer of IRRF assets to the Iraqi government—including sustainment and capacity building—had not been finalized.
- A July 2007 report followed up on the earlier reports and found that ITAO and its partners had coordinated a process with the GOI's Ministry of Finance and successfully transferred several hundred projects. However, a new Minister of Finance was appointed in May 2006 and subsequently changed the GOI conditions, effectively halting further transfers at the national level. ITAO and its partners then tried to negotiate directly with the individual Iraqi line ministries and at the conclusion of the audit were still trying to negotiate an agreement. The report also found that USAID had still chosen not to follow the DoS working group and was working to negotiate its own agreements with the Iraqi line ministries.
- An April 2008 report found that ITAO and the other agencies had made progress. For example, they had drafted an Interagency Agreement on a U.S. asset transfer policy and a Memorandum of Understanding with the GOI on respective asset transfer roles and responsibilities. SIGIR's review of the agreement, however, found that it only provided guidance for agencies to follow while implementing their own policies and procedures. This "stove-piping" of responsibilities created a proliferation of different standards and procedures. For example, some agencies were using unilateral transfers when efforts to

obtain GOI acceptance had failed. In a unilateral transfer the U.S. sends the Iraqis a letter stating that they are now responsible for the project. SIGIR also found that U.S. efforts to obtain GOI signature to the Memorandum of Understanding had come to a stalemate and that wording in the Memorandum stated that it was not binding on either party.

Objectives

The objectives of this review are to determine (1) the extent to which U.S. reconstruction agencies working in Iraq have made progress in establishing a uniform policy and procedure for transferring projects to the GOI, and (2) whether the Embassy has made progress in obtaining GOI support for a formal asset transfer agreement.

For a discussion of the audit scope and methodology, see Appendix A. For information on U.S. agency asset-transfer processes, see Appendix B. Appendix C provides a summary of prior SIGIR audit reports on asset transfer. For more information on recent SIGIR Inspections reports identifying sustainment issues, see Appendix D. For a list of acronyms used in this report, see Appendix E. For a list of the audit team members, see Appendix F. For management comments, see Appendix G.

The Asset Transfer Process Lacks an Effective Management Structure and Accountability

In SIGIR's April 2008 report, we discussed ITAO's and the implementing agencies' efforts to develop a common set of asset transfer procedures. These efforts have been ongoing since 2005. However, after still another year of work, the current asset transfer process suffers from the lack of a management structure that provides clear authority and accountability, as well as uniform transfer policies and procedures.

In the April report, SIGIR noted that an Asset Recognition and Transfer Working Group, comprised of all the key players involved in Iraq reconstruction, had drafted an *Interagency Agreement on Procedures for the Transfer and Recognition of U.S. Government Funded Capital Assets to the Government of the Republic of Iraq* to formalize guidance. ITAO officials told us at the time that the draft interagency agreement had been approved by all the implementing agencies except for DoS, where it was awaiting legal review. The draft interagency agreement proposed to establish an Asset Recognition and Transfer Working Group¹³ as the focal point for all U.S. government IRRF-funded asset transfers. The Working Group was to deal with its GOI counterpart in developing the asset transfer process and would assume a number of related responsibilities including responsibility for keeping a record of all capital assets transferred to the GOI by all U.S. agencies, and for providing the GOI with a complete inventory of assets transferred, including sustainment information.

ITAO officials stated that the ARTOG has developed an informal asset transfer process but the process is still in draft and has not been signed and implemented by all members. ITAO officials stated that finalizing the asset transfer process is pending the finalized Memorandum of Understanding between the U.S. and the GOI on asset transfer. According to the official, the plan is to provide documentation on completed projects each month to the Iraqi Ministry of Planning Development and Cooperation. DoS is working with the Ministry to determine the form and content regarding how the ministries want to receive the asset inventory information. Until the Ministry agrees, the ARTOG cannot finalize the process. Table 1 shows the asset transfer process as currently envisioned with step three still under development pending the finalization of the Memorandum of Understanding.

¹³ The Asset Recognition and Transfer Working Group is now known as the Asset Recognition and Transition Operational Group

Table 1—Asset Transfer Process

Step One: Approval Process	Step Two: Functional Level Transfer (Local Transfer)	Step Three: Legal Transfer (National/Ministry Level Transfer)
<ul style="list-style-type: none"> • A project is proposed by a U.S. government agency. • The U.S. executing agency seeks to obtain a “letter of sustainment” from the GOI. The “letter of sustainment” will provide affirmation that the GOI will accept and sustain the asset in the future. • The U.S. executing agency approves and determines the programmatic funding for the project. • Funding is obligated and the project begins construction 	<ul style="list-style-type: none"> • The project is completed by the U.S. government executing agency. If necessary, training is conducted for the government of Iraq ministry that is receiving the asset. • Documentation on the asset is provided to the GOI. • A functional transfer letter is signed by the U.S. executing agency and the GOI. • The project information, functional transfer letter and other documentation are uploaded into IRMS by the U.S. government executing agency. 	<ul style="list-style-type: none"> • Notification of capital asset transfers provided to MoPDC through a monthly ARTOG report provided by ITAO.

Source: Iraq Transition Assistance Office

In our previous reports, and again in this report, SIGIR found that the inability to develop project management systems with accurate information on the projects initiated and their ultimate disposition can be attributed to a lack of unity of command and program accountability. For example, in April 2008, we reported that the U.S. government’s management of the asset transfer function is fragmented among several agencies. Presidential Directives and Executive Orders assign project management based on both purpose and funding source. As a result, ITAO states that it did not have the responsibility to coordinate all asset transfers. Consequently, there was no single entity responsible for ensuring that completed projects are transferred to the GOI in a uniform manner. Without one agency in charge, U.S. reconstruction agencies have pursued the goal of developing a common asset turnover process for over three years without success, and the U.S. Embassy has been unable to compel agencies to provide the data necessary to detail the extent and outcome of U.S. reconstruction activities in Iraq.

Agency officials have stated that they do not believe that a common process at the local level is necessary. For example, in its written response to our April report, GRD said that while an Iraqi government official may not have signed for a project, it does not mean that the Iraqi people have not taken possession of the asset either by constructive acceptance or by beneficial occupancy at the local level. SIGIR agrees that assets are being turned over at the local level. However, we continue to believe that a common process is needed to assure that the GOI is aware of the billions of dollars of projects that have been completed. This information is necessary so the GOI can support the projects, leverage completed projects to obtain financing for future initiatives from world markets, including the International Monetary Fund, World Bank, and donor nations, and have complete knowledge of what is occurring in each sector so it can conduct its own reconstruction and assistance plans. For example, a November 2007 report from the Iraqi Board of Supreme Audit said that many of the Iraqi ministries it audited had no

records detailing the existence of many U.S.-funded projects supposedly under the ministry's control. Further, in our last report we stated that Iraqi Ministry of Defense told SIGIR that the failure to notify appropriate officials of asset transfers prevents the Ministry from preparing a budget that would allow for the proper maintenance and support funding for the assets. SIGIR recognizes that the reconstruction agencies cannot hold on to assets while awaiting GOI notification, and that local turnover of assets has been necessary. However, notification to the GOI remains an important part of the process and should be pursued.

An information system with accurate data on project starts, costs, and disposition is also important to the DoS. As the agency responsible for the civil reconstruction effort, it is accountable to the Congress and the American people for the billions invested. A system with accurate project information is also important to the overall management of the reconstruction program in terms of reconstruction planning and end-use monitoring of projects to determine where additional assistance may be needed.

Programs for Monitoring Transferred Assets Do Not Exist

Although agencies do not have formalized sustainment programs, each agency, on an ad-hoc basis, will involve itself in some sustainment efforts if needed. For example, ITAO officials stated that it is currently developing a statement of work for a \$30 million contract for the sustainment of Provincial Reconstruction Development Council programs and projects. GRD's sustainment efforts are generally written into its contracts and it has issued some short-term sustainment contracts for specific equipment. MNSTC-I officials stated that after an asset has been transferred, the GOI is responsible for maintenance and sustainment of the asset. MNSTC-I does provide the Iraqis with an estimate of the funds required for maintenance and sustainment for each project. MNSTC-I recommends that the Iraq Ministry of Defense budget one to three percent annually of the initial project cost for operation and maintenance of the transferred facilities. However, MNSTC-I may get involved after an asset is transferred if there is a warranty issue with the asset. USAID officials stated that USAID does not monitor or sustain an asset once it has been transferred to the GOI. However, USAID is currently working with the Iraqi government on how to properly sustain, budget, and maintain its assets.

The ARTOG has drafted an end use monitoring plan. The plan calls for members of the ARTOG to prepare, on a quarterly basis, a list of projects to be visited. Site visits are to be conducted by the implementing agency or through the assistance of another U.S. government agency participating in the ARTOG. High-cost and high-profile assets will receive priority on the list. The agency conducting the site visit will provide an after action report to the group. ITAO will prepare a monthly and quarterly report for the group and for further dissemination. The MNF-I/U.S. Embassy Joint Campaign Plan, Annex B, Task 1.1.5, identifies ITAO as the lead U.S. government organization to influence and work with the GOI to assume full ownership and responsibility for operation and maintenance of U.S. government funded projects. To date the end use monitoring plan has not been implemented.

SIGIR Audits and Inspections Report Sustainment Issues in Assets Transferred to the GOI

SIGIR Audits have raised concerns about the GOI's need to prepare to take responsibility for project operations, security, and sustainability. In a capping report that looked at 122 SIGIR audit reports, one common theme was the need for U.S. recognition of the importance of working with appropriate GOI ministries in the transfer of reconstruction projects to ensure long-term sustainability of the projects completed. Additionally, recent SIGIR Inspections reports showed a reoccurring theme regarding sustainment issues once an asset has been transferred to the GOI: long-term operations and maintenance practices were not being followed, and routine maintenance was not being done. The lack of adequate oversight on these projects has put these projects in jeopardy of failure or in need of repair far sooner than expected. For more information on four recent SIGIR Inspections reports identifying sustainment issues, see Appendix D.

A Memorandum of Understanding with the GOI on Asset Transfer Has Not Been Finalized

The Embassy's inability to finalize a memorandum of understanding with the GOI on their respective asset transfer roles and responsibilities continues to contribute to the asset-transfer problem. Such an agreement could help U.S. reconstruction agencies in standardizing their asset-transfer processes. A draft memorandum was prepared in November 2007, but the memorandum was not finalized. ITAO officials told SIGIR that the GOI Council of Ministers (Council) had formed an asset transfer committee to develop an asset transfer process with the U.S. government. The Council met on December 16, 2008, and issued Decision number 444 on establishing rules and procedures on how the GOI would accept transferred projects executed by the United States. However, when the document was translated on December 22, 2008, ITAO discovered that the decision was re-worded and the clause removing the U.S. from financial liability had been taken out.

Upon further discussion it was discovered the Council of Ministers Secretary was responsible for the deletion of the statement and it was not the intent of the Council to have it removed. On January 13, 2009, the Council issued an amended Decision number 444, stating that all U.S. government asset transfers would be received as a gift with no financial obligations between the two governments. The decision also recommended that the two governments negotiate a memorandum of understanding on asset transfer. A final agreed-to version of the memorandum has not been completed or signed.

Although no memorandum between the Embassy and the GOI has been negotiated, other agencies have negotiated asset-transfer agreements at the provincial level. For example, the Governor of Baghdad Province, the Commanding General, Multinational Division Baghdad, the GRD Commanding General, the Commander, Joint Contracting Command-Iraq/Afghanistan, and the Team Leader for the Provincial Reconstruction Team-Baghdad signed a memorandum of understanding that details how assets will be transferred in the Baghdad province. The memorandum provided a sample letter that the Province Governor and the appropriate Iraqi Ministry and office are to sign accepting the asset and promising to sustain and maintain the asset after the transfer.

Incomplete and Inaccurate Data in IRMS Contributes to Asset Transfer Problems

Unreliable data in the Iraq Reconstruction Management System (IRMS) continues to make it difficult for planners to track the status of reconstruction project. IRMS was intended to be the central repository for Iraq reconstruction project information, however, as SIGIR has reported, IRMS does not contain complete or accurate data. Nonetheless, prior to October 2008, ITAO was providing a monthly report to GOI on transferable capital assets even though ITAO is aware that the data in the report are inaccurate. For example, the report showed all completed capital assets whether or not transferred; USAID projects are not included, and the data includes unilateral transfers. SIGIR also found that the GOI individual designated to receive the data has

been gone for several months, no asset-transfer data has been provided to GOI since October 2008, and ITAO has not retained copies of the prior reports. Consequently, there is no master record of projects transferred by ITAO to the GOI. Actions are currently underway by the IRMS Interagency Working Group to correct data inaccuracies for each of the reconstruction agencies data sets and this initiative will continue. In addition, GRD has upgraded or refreshed system software and replaced outdated hardware for IRMS.

Even though the IRMS asset transfer data are incomplete and inaccurate, the data can be used for high level analysis of national and local level asset-transfer practices. In total, IRMS shows that as of December 2008, \$13.5 billion of assets have been transferred. Of this amount, \$9.7 billion (72%) was transferred locally and \$1.7 billion (13%) was transferred nationally.

Conclusions and Recommendation

The Iraq reconstruction program and its associated management structures evolved over time and were accomplished in a difficult security environment. Nonetheless, the implementing agencies for Iraq reconstruction projects have, after four years of effort, been unsuccessful at implementing an asset-transfer program that has uniform policies and procedures among the involved agencies, and accurate information on project construction, transfer, and operational status.

This situation leaves the implementing agencies and the GOI without the fundamental information needed to effectively manage the program, particularly as it relates to assets yet to be transferred and to actions that may need to be taken to address current and future sustainment issues. As a result, a substantial portion of the billions of dollars invested in reconstruction is at risk of being wasted.

On the U.S.-side, the longstanding lack of unity of command has created a situation where organizational accountability for addressing these issues does not exist. On the GOI side, there must be a willingness to reach a timely agreement for receiving and accepting the assets that are ready for transfer.

Recommendation

SIGIR has previously recommended that the Ambassador and the Commander, Multi-National Force-Iraq (MNF-I) direct that a single set of policies, processes, and procedures for transferring assets be developed for use by all involved agencies and for all U.S. projects regardless of funding source. This recommendation has not been implemented and will remain open.

1. SIGIR also recommended that the Ambassador and the Commanding General, MNF-I enter into high-level discussions with the GOI on developing a memorandum of understanding with the GOI for the transfer of assets. In December 2008, SIGIR closed this recommendation based on talks that were ongoing at that time between the Embassy and the GOI. However, the talks were not successful. Even though the GOI has established rules and procedures for accepting assets, SIGIR continues to believe that a formal agreement is needed. The Embassy questioned SIGIR's reopening the recommendation because it is conducting discussions on asset transfer with the GOI. However, SIGIR's intent was that the discussions result in a memorandum of understanding. Consequently, SIGIR is modifying the recommendation to clarify our intent that the discussion result in a memorandum of understanding and is reopening this recommendation. SIGIR's recommendation is that the Ambassador and the Commanding General, MNF-I negotiate a memorandum of understanding with the GOI for the transfer of assets

Management Comments and Audit Response

The U.S. Embassy-Iraq, and GRD provided written comments on a draft of this report. We did not receive comments from USAID. The Embassy did not concur with either our earlier recommendation, or reopening our previously closed recommendation. SIGIR notes, however, that the Embassy had previously agreed with both recommendations.¹⁴ GRD generally agreed with the facts as presented in the report.

The Embassy did not agree that the U.S. reconstruction agencies should develop a single set of policies, processes, and procedures for transferring assets to the GOI. According to the Embassy, the agencies have their own documents, requirements, and regulations, and it sees no compelling reason that these should be abandoned for a common set of procedures. However, in SIGIR's view the Embassy's response focuses too much on the process and too little on what the process was intended to accomplish. As SIGIR discusses in the report, in the absence of a standardized process or procedures for transitioning assets to the GOI each agency uses its own procedures. The result is that assets are turned over at various governmental levels and the GOI and the ministries responsible for planning the sustainment and integration of assets generally have incomplete information on what the U.S. has provided. This situation illustrates the need for an integrated approach among agencies for managing contingency reconstruction programs. Therefore, SIGIR continues to believe the recommendation is appropriate.

The Embassy also did not concur with our recommendation that the Ambassador and Commanding General MNF-I immediately enter into high level discussions with the GOI on developing a memorandum of understanding for the transfer of assets. SIGIR understands that there have been high-level discussions between the Embassy and the GOI regarding asset-transfer. The Council of Ministers Decision Number 444, stated that immediately after the takeover of the projects, the Ministries concerned should be responsible for their operation and maintenance of the projects. Additionally, the Decision states that the Ministry of Planning and Development Cooperation shall undertake the task of drafting a memorandum of understanding that establishes suitable mechanisms for taking over the projects. However, the intent of SIGIR's recommendation was that the discussions with the GOI should result in a formal memorandum of understanding on asset transfers. SIGIR has modified the recommendation to clarify this point.

GRD provided written comments that were reviewed and approved by MNF-I. GRD stated that it generally agreed with the facts as presented in the draft report. GRD also provided technical comments that we have addressed in the report as appropriate.

¹⁴ Transition of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government, (SIGIR 06-017, July 28, 2006).

Transferring Iraq Relief and Reconstruction Fund Capital Projects to the Government of Iraq, (SIGIR 07-004, July 25, 2007)

Matter for Consideration by the Congress

To enhance the accounting for the status of U.S.-funded reconstruction projects, the Congress may wish to consider directing implementing agencies to gather and provide a uniform set of data that clearly identifies all projects initiated and completed, their cost, and current disposition regarding transfer and sustainability status.

Lessons Learned

The Iraq asset-transfer program yields several key lessons learned for other contingency reconstruction operations, such as Afghanistan, that should be applied as early into the program as possible. They are the following:

- A management structure must be established that provides unity of command among the involved agencies to achieve uniform asset transfer processes and procedures.
- An accurate and comprehensive project management information system must be established and maintained throughout the reconstruction program.
- U.S. officials must engage host country officials to establish formal agreements on asset transfer and project sustainment.

Appendix A— Scope and Methodology

SIGIR initiated this review in May 2008 to assess U.S. efforts in transferring assets to the Government of Iraq. Shortly thereafter, SIGIR suspended its work until August 2009 because of security issues. The objectives of this review are to determine (1) the extent to which the U.S. reconstruction agencies working in Iraq have made progress in establishing a uniform policy and procedure for transferring projects to the GOI, and (2) whether the Embassy has made progress in obtaining GOI support for a formal asset transfer agreement. This review was conducted as SIGIR project 8022.

To determine the extent to which U.S. reconstruction agencies have made progress in establishing a uniform policy and procedure for transferring assets, SIGIR interviewed representatives from the Iraq Transition Assistance Office (ITAO), U.S. Army Corps of Engineers Gulf Region Division (GRD), the Multi-National Security Transition Command-Iraq (MNSTC-I), and U.S. Agency for International Development (USAID). We also attended a meeting of the Asset Recognition Transfer Operational Group (ARTOG), and examined proposed agreements among implementing agencies. SIGIR reviewed internal management practices and draft agreements for specific plans, policies, and procedures that may be used to improve these efforts.

To determine the extent to which the Embassy has made progress in obtaining GOI support for a formal asset transfer agreement, SIGIR interviewed representatives from ITAO, GRD, the MNSTC-I, and USAID.

To determine the processes in place for end use monitoring of transferred assets, SIGIR interviewed representatives from the ITAO, GRD, MNSTC-I, and USAID. SIGIR reviewed internal management practices and draft agreements for specific plans, policies, and procedures for end use monitoring of assets.

To determine if the information the U.S. government provides to the GOI on transferred assets was accurate, SIGIR interviewed representatives from the ITAO, GRD, MNSTC-I, and USAID. SIGIR examined the Iraq Reconstruction Management System (IRMS) and the United Nations Donor Assistance Database. SIGIR's information on IRMS was largely based on information we obtained in the course of our July 2008 review of IRMS.¹⁵

SIGIR performed this audit under the authority of Public Law 108-106, as amended, which incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978, as amended. The audit was conducted between May 2008 and March 2009 in accordance with generally accepted government auditing standards. Those standards require that SIGIR plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. SIGIR believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

¹⁵ *Comprehensive Plan Needed to Guide the Future of the Iraq Reconstruction Management System*, SIGIR 08-021, 7/26/2008.

Internal Controls

We reviewed the effectiveness of management controls over the asset-transfer program. We identified and reviewed policies and procedures to assess their effectiveness. We also reviewed the overall effectiveness of the program's management structure with a particular emphasis on the issue of program accountability. The focus of the report's recommendations addresses ways to improve program management controls.

Use of Computer-Processed Data

To achieve our assignment's objective, we extensively used computer-processed data contained in the Iraq Reconstruction Management System (IRMS). Our prior work has assessed this system and reported on its weaknesses. Our current review indicated that limitations in the data's completeness and accuracy continue to exist. However, these data are the best source available for purposes of our review. Where we used this data for analysis, we identified associated limitations.

Prior Coverage

We reviewed the following SIGIR reviews and relied on them in conducting this audit:

SIGIR Inspections

Report on Project Sustainment Assessment of the Haditha Primary Healthcare Center, Haditha, Iraq, PA-08-134, January 28, 2009.

Report on Rebuilding of the Al Iqitadar School in Anbar Province, Iraq, PA-08-141, January 26, 2009.

Heet Primary Healthcare Center, PA-08-133, January 23, 2009.

Report on Plumbing Repairs at the Baghdad Police College, Baghdad, Iraq, PA-08-154 to 156, January 22, 2009.

SIGIR Audits

Comprehensive Plan Needed to Guide the Future of the Iraq Reconstruction Management System, SIGIR-08-021, July 2008.

Transferring Reconstruction Projects to the Government of Iraq: Some Progress Made but Further Improvements Needed to Avoid Waste, SIGIR- 08-017, April 2008.

Interim Report on Iraq Reconstruction Contract Terminations, SIGIR-08-013, April 2008.

Transferring Iraq Relief and Reconstruction Fund Capital Projects to the Government of Iraq, SIGIR-07-004, July 2007.

Transition of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government, SIGIR-06-017, July 2006.

Audit Report on U.S. Agency for International Development Management of the Transfer of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government, SIGIR-06-007, April 2006.

Audit Report on Multi-National Security Transition Command-Iraq Management of the Transfer of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government, SIGIR-06-006, April 2006.

GRD-PCO Management of the Transfer of IRRF-funded Assets to the Iraqi Government, SIGIR-05-028, January 2006.

Appendix B—Current U.S. Agency Asset-transfer Processes

U.S. Army Corps of Engineers-Gulf Region Division (GRD)

Asset Transfer Process: GRD turns assets over at the local level to the Iraqi Directorate General. GRD provides a DD Form 1354 “Transfer and Acceptance of Military Real Property” to document that the asset has been transferred to the GOI. The local Directorate General signs and formally accepts the asset.

Multi-National Security Transition Command-Iraq (MNSTC-I)

Asset Transfer Process: MNSTC-I provides notification to the GOI 30 days prior to the estimated completion of an asset. On larger scale projects MNSTC-I may also send out 60- and 90-day letters. In addition, MNSTC-I also sends out to the Iraq Ministry of Defense and Iraq Ministry of Interior a 30/60/90 Day Biweekly Project Notification that contains a list of projects expected to be completed and ready to be transferred. According to MNSTC-I, the advisors inform both Iraqis and Multinational Corps Iraq chain of command that assets are completed. At the completion of the construction, there is a joint inspection between MNSTC-I and the Iraqis prior to the GOI accepting the asset. An Asset Recognition Transfer Letter is then executed between the Iraqis and the U.S. government and a DD Form 1354 “Transfer and Acceptance of Military Real Property” is prepared to document that the asset has been transferred to the GOI.

U.S. Agency for International Development (USAID)

Asset Transfer Process: USAID generally requires the execution of a bilateral grant agreement between the foreign government and USAID prior to the start of a project and before disbursement of any project funds. The grant agreement specifies various terms, requirements, and preconditions that must be met by the host government. They can include items such as the project dollar amount being granted, the host government’s contribution, the estimated project completion date, the ability to sustain the project after completion, and the expected results.

USAID officials accept completed construction projects from the prime contractor in accordance with standard contracting procedures. USAID then transfers responsibility for the security, control, operation and maintenance of the completed projects to the appropriate Iraqi operating ministry (Electricity, Water, Health, Education, Transportation, Roads, and Communications). This is accomplished through a “care and custody” letter provided to an operating ministry official. The letter also assigns all warranties to the operating ministry and provides contact points for warranty claims.

Appendix C—Summary of Prior SIGIR Reports on Asset-transfer

In addition to our report on the asset transfer process discussed above, SIGIR has issued six additional audit reports on concerns and recommendations on assets transferred to the GOI.

GRD-PCO Management of the Transfer of IRFF-funded Assets to the Iraqi Government, SIGIR-05-028, January 2006

We recommended that the Commanding General, Gulf Region Division, U.S. Army Corps of Engineers direct the GRD-PCO, in coordination with the Iraq Reconstruction Management Office, to complete the development of a common policy and process facilitating the transfer of completed project assets to the Government of Iraq. That 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.

Audit Report on Multi-National Security Transition Command-Iraq Management of the Transfer of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government, SIGIR-06-006, April 2006

We recommended that the Commanding General, Multi-National Security Transition Command-Iraq continue to support the evolving policies and procedures for transferring completed projects to the Iraqi Ministries of Finance and Planning and, once those procedures are finalized, ensure sufficient resources are made available to fully implement the procedures in sufficient time that the information can be used by the Iraqi government in formulating its calendar year 2007 budget.

Audit Report on U.S. Agency for International Development Management of the Transfer of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government, SIGIR-06-007, April 2006

We recommended that USAID, in coordination with the Iraq Reconstruction Management Office, complete the development of a common policy and process facilitating the transfer of completed project assets to the Iraqi government. That process should, at a minimum, provide formal notification of the project asset transfer to the Iraqi Ministry of Finance, Ministry of Planning, and the appropriate operating ministry central headquarters (Electricity, Water, Oil, Health, Education, Transportation, Roads, Communications, Justice, Interior and Defense). We further noted that completed assets should also include, at a minimum, relevant data such as operation start date, asset cost, estimated near and long-term sustainability costs, terms of warranties, and the location of maintenance and systems manuals and instructions.

Transition of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government, SIGIR-06-017, July 2006

We recommended that the U.S. Ambassador to Iraq direct the Director of IRMO to do the following:

1. Develop a single, uniform process for asset recognition and transfer of all completed projects to the Iraqi government. This process should be followed by all of the IRRF-implementing agencies, and sufficient resources should be made available to implement the process in time for the Iraqi government's use in budget planning;
2. Provide a bi-weekly report to the Deputy Chief of Mission on the progress and impediments to the implementation of the asset recognition and transfer process;
3. Develop a sustainment plan to guide U.S. activities past June 2007 emphasizing capacity-development activities to ensure that established infrastructure management processes are in place in the Iraqi ministries;
4. Complete an assessment to determine the capacity of the Iraqi government for maintaining the IRRF projects;
5. Formulate and implement a plan as part of the Joint Campaign Plan, with clear goals and objectives for developing the capacity of the Iraqi ministries; and
6. Ensure the capacity-development plan is linked to and supported by the necessary sustainment funding to ensure the viability of all IRRF-funded projects. This plan should include the \$134 million requested for this purpose in the U.S. budget for fiscal year 2007. It should also identify any shortfalls and the impacts of the shortfalls on the IRRF investment.

Transferring Iraq Relief and Reconstruction Fund Capital Projects to the Government of Iraq, SIGIR-07-004, July 2007

We recommended that the U.S. Ambassador to Iraq provide senior-level support to finalize a bilateral agreement between the United States and Iraq on asset transfer to the Government of Iraq.

Transferring Reconstruction Projects to the Government of Iraq: Some Progress Made but Further Improvements Needed to Avoid Waste, SIGIR- 08-017, April 2008

SIGIR recommended that the U.S. Ambassador and Commander, Multi-National Forces-Iraq (MNF-I), working jointly, direct that the following actions be taken, to:

1. Assess the current management structure for the asset transfer process and develop a new structure that provides clear lines of authority, responsibility and accountability;
2. Direct that a single set of transparent uniform set of policies, processes, and procedures on asset transfer be developed for use by all involved agencies and for all U.S. projects regardless of funding source;
3. Establish specific criteria for using unilateral transfers as a "last resort" method of transferring low risk assets. These criteria should make clear that unilateral transfers should be the exception rather than a common practice, and that investment costs and the complexity of sustainability should be considered, and;

4. Immediately enter into high-level discussions with the GOI on the MOU for the transfer of assets completed by all U.S. reconstruction agencies from all funding sources.

Appendix D—Recent SIGIR Inspection Reports Identifying Sustainment Issues

Project Sustainment Assessment of the Haditha Primary Healthcare Center, Haditha, Iraq, PA-08-134, January 28, 2009

The inspection found that the medical equipment was improperly installed and Iraqi personnel had not been trained to use the equipment. GRD officials also stated that little preventative maintenance is performed for items such as generators once the healthcare facilities are turned over to the Iraqi government. Consequently, the facilities and equipment are failing at a rate much faster than would be expected.

Rebuilding of the Al Iqitadar School in Anbar Province, Iraq, PA-08-141, January 26, 2009

The inspections found that routine facility maintenance was not being conducted even though the Project Operation and Maintenance Plan, signed by the Ministry of Education and the Fallujah Director General of Schools, required that, at the completion of the project, the facilities would be properly maintained.

Heet Primary Healthcare Center, PA-08-133, January 23, 2009

The inspection found that the medical equipment had not been properly installed and that Iraqi personnel had not been trained to use the equipment. GRD officials also stated that little preventative maintenance is performed for items such as generators once the healthcare facilities are turned over to the Iraqi government. Consequently, the facilities and equipment are failing at a rate much faster than would be expected.

Plumbing Repairs at the Baghdad Police College, Baghdad, Iraq, PA-08-154_to_156, January 22, 2009

The inspection found significant vandalism, the theft of plumbing, heating, and ventilating equipment, and an unsatisfactory level of maintenance in the latrine buildings. SIGIR inspections of representative barracks confirmed that the buildings were well maintained and the barracks' plumbing on the first floors had been repaired and was generally in good shape. The GOI did not repair the damage caused by vandalism or replace the items that had been removed by apparent theft from the new latrines. As a result, only portions of the two new latrine buildings and none of the eight latrine trailers appeared usable. The eight latrine trailers were particularly filthy thereby creating a health hazard.

Appendix E—Acronyms

Acronym	Definition
ARTOG	Asset Recognition and Transition Operational Group
DoD	Department of Defense
DoS	Department of State
GOI	Government of Iraq
GRD	U.S. Army Corps of Engineers-Gulf Region Division
IRMS	Iraq Reconstruction Management System
IRRF	Iraq Relief and Reconstruction Fund
ITAO	Iraq Transition Assistance Office
MNF-I	Multi-National Force-Iraq
MNSTC-I	Multi-National Security Transition Command-Iraq
SIGIR	Special Inspector General for Iraq Reconstruction
USAID	U.S. Agency for International Development

Appendix F—Audit Team Members

This report was prepared and the review was conducted under the direction of David R. Warren, Assistant Inspector General for Audit, Office of the Special Inspector General for Iraq Reconstruction.

The staff members who conducted the audit and contributed to the report include:

Clarence Brooks

W. Dan Haigler

Dorian Herring

Waheed Nasser

Nancee Needham

Appendix G-Management Comments - U.S. Embassy



Embassy of the United States of America

Baghdad, Iraq
April 19, 2009

Mr. David R. Warren
Assistant Inspector General for Audit
Special Inspector General for Iraq Reconstruction

Dear Mr. Warren:

We appreciate the effort and research that has gone into the SIGIR Draft Audit Report 09-016: *Asset Transfer Process for Iraq Reconstruction Projects Lacks Unity and Accountability*. Our responses to the recommendations are as follows:

Recommendation One: SIGIR previously recommended that the Ambassador and the Commanding General, Multi-National Force-Iraq (MNF-I) direct that a single set of policies and procedures for transferring assets be developed for use by all involved agencies and for all U.S. projects, regardless of funding source. This recommendation has not been implemented and will remain open.

The Embassy non-concurs with this recommendation. The agencies involved in the transfer of assets to the GOI have agreed as a matter of policy to ensure that their procedures are compatible and result in an orderly transfer of assets to the GOI. Different agencies over time have developed different documents and requirements, sometimes imposed by the congress, sometimes by agency regulations, many of which are in use throughout the world. We can find no compelling reason to believe that these must be abandoned and a new single set of procedures developed that would apply only to Iraq. As long as all agencies' procedures are compatible with their shared policy of supporting an orderly transfer to the GOI, this recommendation should be closed.

With respect to the audit reports observation that data in IRMS is unreliable, steps are being taken to improve the database for recovery of historical data on past projects. Current project information is already updated and captured in IRMS. In a previous report, SIGIR recommended that the Chief of Mission and the Commanding General, MNF-I jointly establish an interagency planning process to address the future operation and use of IRMS. As a part of this process, GRD started a study on the future of IRMS. The results of this study will be useful in our efforts to improve IRMS.

Every effort will be made to ensure that the project data transferred to the GOI will be as full and accurate as possible. In addition, ITAO is reviewing the process of developing and transmitting information on a monthly basis on the transfer of projects to the Ministry of Planning, Development, and Cooperation. This monthly update to the GOI is an ongoing and important part of ensuring full visibility at the national level of all completed and transferred projects. This in turn will contribute to efforts to ensure the sustainability of the projects.

Recommendation Two: SIGIR recommended that the Ambassador and Commanding General, MNF-I immediately enter into high-level discussions with the GOI on developing a memorandum of understanding for the transfer of assets. SIGIR closed this recommendation in December 2008, when talks were ongoing between the Embassy and the GOI. However, the talks were not successful. Therefore, SIGIR is reopening this recommendation.

The Embassy non-concurs with the reopening of this recommendation. The result sought in the high-level negotiations that took place in December was not an MOU, but rather an authoritative Decision by the Council of Ministers. These talks were successful and accomplished most of the work SIGIR had envisioned being accomplished by an MOU, most notably the unilateral commitment on the part of the GOI to sustain our assets at their expense.

Since December, the Embassy has continued to engage with the GOI on the matter of asset transfer, including meetings with Deputy Prime Minister Rafi al-Issawi. It is expected that there will be an exchange of diplomatic notes which would document the understandings between the two nations on the transfer of assets. Once the exchange of diplomatic notes is completed, we will work with the Ministry of Planning, Development, and Cooperation to agree on the principles and procedures for the transfer of assets in the form of a memorandum of understanding.

It should be noted that the Council of Ministers decision, issued in December of 2008, included the establishment of rules and procedures on how the GOI would accept completed projects, and that these projects would be accepted as gifts of the U.S. government and that there would be no financial obligation between the two countries. Furthermore, this decision also included a commitment by the GOI to maintain and sustain the projects. While the decision did not take the form of a memorandum of understanding as recommended by SIGIR, it is a clear indication of the GOI's intention to work with the Embassy to complete the transfer of assets and assume responsibility for their sustainment. As indicated, we will continue our efforts to reach agreement on these issues through an exchange of diplomatic notes and a memorandum of understanding.

Sincerely,



Marc M. Wall
Ambassador
Coordinator for Economic Transition in Iraq

Management Comments-MNF-I (incorporates GRD comments)

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MNF-I RESPONSE TO 20090406-018 (MNF-I CT-3694)
Draft SIGIR Audit Report "ASSET-TRANSFER. PROCESS FOR IRAQ
RECONSTRUCTION PROJECTS LACKS UNITY AND ACCOUNTABIUTY." (SIGIR
09-018 Project # 8022)

BACKGROUND: After more than four years of reconstruction activity, U.S. reconstruction agencies continue to experience difficulties transferring completed projects to the Government of Iraq (GOI). GOI recognition of projects is important to ensure ongoing support for the projects, to inform its own reconstruction planning, and to leverage completed projects to obtain financing for future initiatives from world markets.

QUESTION: To obtain MNF-I response to the two recommendations and general comments on the report. Respond directly back to SIGIR at SIGIRAuditReports@sigir.mil NLT 16 April 09, with copy to CCIG NLT 20 April 09. The report contains one recommendation to MNF-I that remains open and one recommendation to MNF-I that has been reopened. Per CENTCOM CoS guidance, all audit report taskers on draft or final reports must indicate they have been reviewed and approved at an O-6 level (minimum) prior to sending response to CCIG. This response requires a signed memo.

MNF-I PROPOSED RESPONSE: MNF-I responds with the following:

Please refer to Tab B (MG Eyre approval) and Tab C (MNF-I Comments).

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This is an official MNF-I RPI response.

MNF-I CDR RPI Manager/DSN 318.239.5863/air@sigir.com and r0@sigir.com.com and lund

Management Comments- GRD



APPLY TO
ATTENTION OF

CEGRD-CKI

DEPARTMENT OF THE ARMY
U.S. ARMY CORPS OF ENGINEERS
GULF REGION DIVISION
BAGHDAD, IRAQ
APO AE 09548

16 April 2009

MEMORANDUM FOR Special Inspector General for Iraq Reconstruction, US Embassy Annex
II, Room 1103, APO AE 09516

SUBJECT: SIGIR Draft Audit Report – Asset-Transfer Process for Iraq Reconstruction Projects
Lacks Unity and Accountability (09-016)

1. The Gulf Region Division reviewed the subject draft report and provides comments in the enclosure.
2. Thank you for the opportunity to review the draft report and provide our written comments for incorporation in the final report.
3. If you have any questions, please contact Mr. Robert Dorner at (540) 655-5022 or via email Robert.L.Dorner@usace.army.mil.

Incl
as

Michael R. Eyre
MICHAEL R. EYRE
Major General, USA
Commanding

**GULF REGION DIVISION
COMMAND REPLY
to
SIGIR Draft Audit Report – Asset-Transfer Process for Iraq Reconstruction
Projects Lacks Unity and Accountability
SIGIR Report Number 09-016
(Project Number 8023)**

Overall Comment. The Gulf Region Division (GRD) reviewed the report and generally agrees with the facts as presented in the study. Although not the primary focus of the report on asset transfers, a number of statements are made regarding the Iraq Reconstruction Management System (IRMS). We share some of SIGIR's concerns and frustrations in working with prior IRMS outputs and have worked hard to improve the product. We believe more emphasis should be provided in the report on the improved products provided by IRMS. Since the last SIGIR audit on IRMS, in July 2008, the IRMS Interagency Working Group (IIWG) has focused on correcting data inaccuracies at each of the member agencies data sets. Moreover, the Iraq Transition Assistance Office (ITAO) was appointed as the executive agency for IRMS. In addition, GRD has worked to improve IRMS by implementing upgrades, refreshing system software, and replacing outdated hardware. IIWG continues to work together to improve IRMS data quality.

GRD provides the following comments for clarity and accuracy.

1. Draft Report, no page number provided, Summary of Report, first paragraph. U. S. Iraq reconstruction agencies have yet to develop a uniform process and procedure for transferring completed projects to the GOI. Each U. S. agency has its own internal process for transferring assets to the Iraqis.

Command Comment. ITAO changed the definition of capital assets, transfer procedures, and other items numerous times between 2006 and 2009. The new definition of ARTOG includes refurbishment projects. However, ITAO did not provide any clear directions about the need to go back to re-identify old, closed projects as ARTOG projects. In many cases before 2008, refurbishment projects were not turned over at the local level because there was nothing to turn over. GOI already owned the building; the USG merely refurbished it. For GRD, this mainly impacts electrical projects. Local turn over project documentation was not required on those projects at the time, does not exist today, and is unlikely to exist in the future.

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2. Draft Report, no page number provided, Summary of Report, second paragraph. Most asset-transfers occur at the local level. Thus, the GOI and its Ministries that are responsible for planning the sustainment and integration of assets generally have incomplete information on what the United States has provided. ITAO data shows that only 13 percent of projects have been transferred nationally, while 72 percent have been transferred locally.

Command Comment. Ever changing definitions regarding the Asset Recognition Transfer (ART) process have led to the big difference between local and national turnovers. In the case of GRD, almost everything is turned over locally. Nationally, GRD only turned over what met the ART definitions for assets requiring a national turnover. It is IIAU's responsibility to develop the requirements for agencies to perform national turnovers.

3. Draft Report, no page number provided, Summary of Report, fourth paragraph. The unreliability of data in the Iraq Reconstruction Management System (IRMS) continues to make it difficult for managers to track the status of reconstruction projects. IRMS was intended to be the central repository for Iraq reconstruction project information, however, as SIGIR has reported, IRMS does not contain complete or accurate data. For example, a SIGIR report issued in July 2008 pointed out that information on billions of dollars in projects is missing from the system and information on project completions is inaccurate and incomplete.

Command Comment. It is difficult to determine which billions of projects are missing. GRD data is accurate for reconstruction projects, less so for support contracts. Multi-National Corps-Iraq (MNC-I) data should be similarly accurate due to their efforts in performing year-end balancing for the previous fiscal years. U. S. Agency for International Development (USAID) has also provided input on all USAID projects. Some problems have entered the system when Multi-National Security Command-Iraq (MNSTC-I) entered projects that were not GRD-managed.

IRMS was designed and built around a specific set of parameters largely defined in 2003. What started out as a solution configured to manage a single program, funded by a single appropriation, and executed by a single agency, has expanded in scope well beyond that imagined by the original consulting team. This mission-essential growth in functionality and complexity continues as evidenced by the continuing stream of requests for functional enhancements. The piecemeal approach to solution deployment has led to a less than efficient operating platform, exposed the users to a high level of software complexity, and forced the requirement of numerous business rules to validate data entry and interface updates.

4. **Draft Report, summary page, fifth paragraph.** In addition to erroneous reporting to the GOI, the IRMS problems also prevent the Embassy from providing the Congress and the public a complete accounting of what has been accomplished and the status and current condition of the facilities that were constructed. The lack of reliable data also impeded U. S. efforts to monitor projects and make assessments about the type and extent of further assistance the United States may consider providing.

Command Comment. GRD polices its own data. GRD does not check the completeness or accuracy of data reported by other agencies unless GRD itself manages those projects.

IRMS was never intended to be a comprehensive project (emphasis added) management information system for all funds allocated and expended in Iraq. IRMS was intended to meet three objectives:

- Provide a single unified management information system with a common data dictionary that would provide a common operating picture of the Iraq Reconstruction Effort.
- Support the production of reports required by Public Law 108-106.
- Serve as a joint U.S. – Iraq system that could be transferred to the GOI to provide management information on U. S. funded reconstruction projects.

The comment implies that IRMS does not contain reliable data. IRMS provides the most accurate and complete set of data available, as exemplified by SIGIR's use of the data in this report. There are gaps in the data, depending both upon the source database where data is entered and what can be transferred into IRMS. Prior agreements have also identified only a limited set of fields as required, a number that is being expanded. Efforts through the IIWG are continuing to improve data quality checks and back-filling information on past projects.

Additional challenges include missing record data within IRMS. When missing record data is discovered, the executing agency researches the closed projects to backfill the information. The IIWG helps to identify and resolve such issues between agencies. Still other challenges involve the use of IRMS reports by agencies for purposes different from the purposes for which the reports were initially written and developed. These interpretive departures have sometimes led to claims of a lack of accurate information in IRMS.

5. **Draft Report, summary page, sixth paragraph.** As a result of these conditions, a substantial portion of the billions of dollars in reconstruction is at risk of being wasted. These conditions also provide key lessons learned for other contingency reconstruction operations, such as Afghanistan.

Command Comment. We do not believe that unreported projects necessarily constitute waste. Indeed, most of the unreported MNSIC-1 projects from prior years have been completed.

6. **Draft Report, Executive Summary, page i, first paragraph, second sentence.** Nevertheless, the U. S. Embassy, and the primary reconstruction agencies – including the Multi-National Security Command-Iraq (MNSTC-I), the U. S. Agency for International Development (USAID), and the Gulf Region Division of the U. S. Army Corps of Engineers (GRD) -- have yet to finalize an agreement on a process for transferring responsibility for the projects to the Government of Iraq (GOI).

Command Comment. MNC-I is also a primary reconstruction agency. In fact, MNC-I has more records in IRMS than any other agency.

7. **Draft Report, Executive Summary, page i, first paragraph, fourth sentence.** Projects have been turned over at various government levels, from local government to Iraq ministries, using a variety of procedures including unilateral transfers, without any centralized database or listing of what has been turned over, or any assurance that the Iraqis have received all necessary documentation and training, or that GOI accepts responsibility for project operation, maintenance, and capital replacement.

Command Comment. GRD uses both IRMS and Enhanced ART databases. While the databases are not 100 percent accurate, they do function as centralized databases and include the majority of projects that have been turned over. The GRD program management plan and checklist for contract closeout both require the transfer of all Operation and Maintenance manuals and other training manuals as part of the bilateral asset transfer process.

8. **Draft Report, Executive Summary, page iii, fourth paragraph, first sentence.** To enhance the accounting for the status of U.S. -funded reconstruction projects, the Congress may wish to consider directing implementing agencies to gather and provide a uniform set of data that clearly identifies all projects initiated and completed, their cost, and whether they have been transferred and are being sustained.

Command Comment. GRD does not feel that IRMS is the accounting system of funds. Rather, we recommend that each reporting agency use its own financial system for true accountability. IRMS was intended to be used as a project management tool and not as an authoritative source for data entered into IRMS for general reporting. GRD does not manage its own projects with IRMS. GRD projects are managed with the Resident Management System (RMS), its funds with the Corps of Engineers Financial Management System (CEFMS). IRMS provides transparency by accessing data in these two systems.

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