



MESSAGE FROM THE SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

I am pleased to submit to the Congress, Secretary Rice, Secretary Gates, and the American people the 12th Quarterly Report from the Office of the Special Inspector General for Iraq Reconstruction (SIGIR). This Report coincides with the third anniversary of my appointment as Inspector General on January 20, 2004. I soon will depart on my 15th trip to Iraq, to join the 55 SIGIR auditors, inspectors, and investigators who continue to provide aggressive in-country oversight of the U.S. taxpayers' investment in Iraq's reconstruction.

This Quarterly Report covers the last phase of the Iraq Relief and Reconstruction Fund's (IRRF) implementation. Virtually all of the IRRF's \$21 billion is now under contract, and approximately 80% is spent. The end of the IRRF marks the beginning of a new phase in aid to Iraq, which will entail a broader multilateral component and an increase in the Iraqi government's responsibility for the overall economic recovery effort.

This new phase, however, does not mark the end of oversight. To the contrary, more remains to be done to account for past U.S. investment and to promote the highest and best use of future U.S. funding for Iraq. Recognizing the need for continuing oversight, Congress passed, and the President signed, the Iraq Reconstruction Accountability Act in December 2006. This Act extended SIGIR's jurisdiction to include all FY 2006 appropriations for Iraq reconstruction, including the Iraq Security Forces Fund, the Economic Support Fund, and the Commander's Emergency Response Program. The Act requires SIGIR to conduct a forensic audit to account for the use of the IRRF and effectively extends SIGIR's organizational life through 2008.

During this quarter, SIGIR auditors completed 8 new audits, bringing the total number of completed audit products to 82. These new audits include a review of U.S. efforts to support the capacity development of Iraq's ministries, an examination of the Department of State's management of funding for Iraqi police training and training support, a report on medical equipment purchased to support the primary healthcare centers, and a statistical summary of security costs for major U.S. contractors in Iraq.

SIGIR inspectors assessed 15 projects this quarter, bringing to 80 the total number of assessments completed. Significantly, 13 of the 15 projects SIGIR visited this quarter complied with contractual requirements. SIGIR also provided a final assessment of the Baghdad Police College, which followed up on last quarter's quick reaction report. The final assessment confirmed that the project suffered a variety of shortfalls, including poor construction quality, significant descoping because of budget overruns, and the delivery of unfinished facilities.

SIGIR investigators continued work this quarter on 78 open investigations, including 23 cases under direct Department of Justice (DoJ) supervision. SIGIR also facilitated the formation of the International Contract Corruption Task Force to coordinate fraud investigations by its several members, including the Federal Bureau of Investigation, the U.S. Army's Criminal Investigation Command, and the Defense Criminal Investigative Service. In addition, SIGIR continued its participation on DoJ's National Procurement Fraud Task Force.

SIGIR remains dedicated to carrying out its charge to ensure effective oversight of the U.S investment in Iraq's relief and reconstruction. I am proud of the dedicated service of the many SIGIR auditors, inspectors, and investigators who continue to pursue their mission with professionalism, productivity, and perseverance.

Submitted January 30, 2007.

A handwritten signature in black ink, reading "Stuart W. Bowen, Jr." with a period at the end. The signature is written in a cursive style.

Stuart W. Bowen, Jr.
Inspector General

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SIGIR SUMMARY OF PERFORMANCE
FEBRUARY 1, 2004 – JANUARY 31, 2007^a

AUDIT

Reports Issued	82
Recommendations Issued	268
Dollars Saved and Recovered	\$49,700,000 ^b
Impact of SIGIR Audits	\$57,500,000 ^b

INSPECTIONS

Project Assessment Issued	80
Limited On-site Assessments Issued	96
Satellite Imagery Products Created	266
Impact of SIGIR Inspections	\$39,300,000

INVESTIGATIONS

Investigations Initiated	87
Investigations Closed or Referred	149
Open Investigations	78
Arrests	5
Convictions	4
Value of Funds Seized and Recovered	\$9,500,000

HOTLINE CONTACTS

Fax	13
Telephone	62
Walk-in	109
E-mail	307
Mail	26
Referrals	25
Total Hotline Contacts	542

NON-AUDIT PRODUCTS

Congressional Testimony	8
Lessons Learned Reports Issued	2

^a For details on Impact of SIGIR Operations, see Appendix C.

^b As of December 31, 2006.





SIGIR Observations

THE YEAR OF TRANSITION IN REVIEW

THE END OF THE IRAQ RELIEF AND RECONSTRUCTION FUND

THE WAY AHEAD

NOTABLE SIGIR ACTIVITIES THIS QUARTER

IMPACTS OF SIGIR OPERATIONS

THE HUMAN TOLL

SECTION

1



This 12th Quarterly Report from the Special Inspector General for Iraq Reconstruction (SIGIR) covers the conclusion of a significant phase in the U.S. reconstruction effort in Iraq and the beginning of an important new one. During this quarter, SIGIR progressed on its program to provide aggressive on-the-ground oversight of the Iraq Relief and Reconstruction Fund (IRRF), producing 8 audits and 15 inspections, and pushing forward 78 investigations into fraud, waste, and abuse in Iraq.

The Congress created the IRRF in 2003,¹ funding it with two appropriations amounting to \$21 billion. The IRRF served as the primary financial source for the U.S.-led phase of reconstruction in Iraq. As of the end of 2006, all of the IRRF was contracted, with nearly 80% expended. In 2007, SIGIR will execute detailed reviews of what the American taxpayer received for this investment of U.S. dollars in Iraq's reconstruction.

SIGIR previously observed that continued financial support from the United States and other outside sources will be necessary to support the ongoing recovery of Iraq. This support should aim at strengthening Iraq's capability to provide employment, restore essential services, and build the capacity of the Government of Iraq's (GOI) ministries.

The Congress already has appropriated \$11 billion beyond the IRRF to support relief efforts, primarily for training and equipping Iraq's security forces. Iraq's security forces, however, developed more slowly than

expected, and the security environment has continued to deteriorate. Iraq thus requires a new phase of investment. This phase urgently needs further contributions from international donors through the International Compact for Iraq.

Most important, the GOI must begin to provide significant funding for the relief and reconstruction effort. Ultimately, the sustained recovery of Iraq can be accomplished only by Iraqis.

On January 10, 2007, President Bush presented a new strategic direction for U.S. efforts in Iraq, which includes more U.S. investment in Iraq's economic recovery. This new funding is intended to support the expansion of the Commander's Emergency Response Program (CERP) and the Provincial Reconstruction Teams (PRTs). SIGIR has previously reviewed both programs, finding that CERP achieved success in smaller projects at the local level, and that the PRT program, while facing considerable security constraints, has made progress in its efforts to aid provincial officials in developing their capacity to govern.

In December 2006, Congress passed the Iraq Reconstruction Accountability Act of 2006, extending SIGIR's jurisdiction to include oversight of all FY 2006 funds designated for relief and reconstruction. The effect of this act will ensure that SIGIR will continue its oversight work in Iraq through 2008.

THE YEAR OF TRANSITION IN REVIEW

Early last year, SIGIR identified 2006 as the Year of Transition in Iraq Reconstruction. Throughout 2006, SIGIR tracked progress on a range of issues that challenged the success of the U.S. reconstruction effort in Iraq, including:

- helping the Iraqis fight corruption
- improving security, especially infrastructure security
- building the governance capacities of the Iraqi ministries and provincial governments
- ensuring the sustainability of completed IRRF programs and projects
- increasing the participation of international donors
- strengthening coordination among U.S. reconstruction agencies

SIGIR observed limited progress on each of these issues:

1. **Corruption continues to plague Iraq.** Anticorruption institutions in Iraq are fragmented, and there does not appear to be an internal Iraqi consensus about how these institutions should interact. SIGIR's 2006 audit of U.S. support to anticorruption efforts in Iraq presented a series of recommendations, some of which remain unresolved.
2. **Infrastructure security remains vulnerable.** Electric lines are attacked regularly, and the northern pipelines are largely inoperable because of interdiction. Iraqi repair crews are frequently unable to work because of repeated attacks. SIGIR's 2006 audit of infrastructure security efforts emphasized the need for greater focus in this area.
3. **The capacity of Iraq's ministries to execute their capital budgets remains weak.** Overcoming this weakness is essential to future progress on reconstruction. A recent SIGIR review of ministry capacity development found that much still needs to be done to improve U.S. support for GOI capacity development.
4. **The sustainability of completed IRRF projects remains a concern.** Although U.S. reconstruction officials have implemented a program to promote project sustainability, a recent SIGIR review indicates weakness in Iraq's management of this program.
5. **Multilateral support for Iraq reconstruction has yet to be realized.** The International Compact for Iraq (the Compact) is expected to advance this essential effort, but it has not yet been officially implemented. For the Compact to succeed, the UN, the World Bank, Iraq's regional neighbors, and the international donor community must engage more aggressively in supporting Iraq's recovery.
6. **Inconsistent coordination among the many U.S. agencies supporting Iraq's reconstruction has hampered the**

effective execution of the U.S. reconstruction program. The newly appointed U.S. coordinator for economic transition may help remediate these problems. SIGIR is conducting reviews of the evolving roles and responsibilities of U.S. agencies as internal reorganizations take place.

As the reconstruction program in Iraq progresses into 2007, the process of transitioning the management of the program to Iraqi control will accelerate. Ensuring the program's successful transition hinges on making effective progress on each of the foregoing issues.

THE END OF THE IRAQ RELIEF AND RECONSTRUCTION FUND

By the end of October 2006, all IRRF funds had been obligated; as of December 31, 2006, approximately 80% had been expended.

Over the course of the U.S.-led reconstruction program, the allocation of IRRF dollars evolved substantially. This evolution was shaped by a series of reprogrammings aimed at ameliorating the increasingly difficult security situation and bolstering programs critical to supporting elections and developing local governance capacity.

These funding adjustments required the transfer of IRRF money from traditional infrastructure projects to security and justice, and democracy projects. Ultimately, IRRF allocations were made to the sectors in these amounts:

- Security and Justice – 34%
- Electricity – 23%
- Water – 12%
- Economic and Societal Development – 12%
- Oil and Gas – 9%

- Transportation and Communications – 4%
- Health Care – 4%²

The Changing Focus of IRRF

These are the highlights of IRRF as it evolved:

April—September 2003, IRRF 1, Relief and Traditional Development: Congress created the IRRF in April 2003 and initially appropriated \$2.475 billion to fund it. The plan to execute IRRF 1 reflected many of the assumptions underlying pre-war planning. The U.S. government anticipated a significant humanitarian crisis and potential oil field fires. Also, the United States expected Iraqi oil revenues to fund major infrastructure reconstruction. Thus, approximately \$1 billion initially was allocated for infrastructure repair. Most IRRF 1 contracts were awarded using competition that was less than full and open.

September 2003—June 2004, Nation-building: The U.S.-led reconstruction program significantly expanded with the advent of the

Coalition Provisional Authority (CPA)—a transitional governing entity established to manage the transfer of democratic sovereignty to a new Iraqi government. The realization that Iraq’s infrastructure was significantly more dilapidated than expected drove CPA to develop a much broader reconstruction plan. In November 2003, Congress responded by appropriating another \$18.4 billion to the IRRF, primarily to fund the CPA’s ambitious plan. IRRF 2 funding was allocated among all the major infrastructure sectors, and major design-build contractors were awarded very large, competitively bid cost-plus contracts. The CPA initially expected to be in place in Iraq for more than two years, but it concluded operations on June 28, 2004, just over a year after its inception.

June 2004—present, A New Approach to Programs and Contracting: During this phase, a significant portion of IRRF 2 funding was shifted from infrastructure to security and democracy. Three significant funding adjustments in late 2004 and early 2005 resulted in the reallocation of more than \$5 billion. The security sector received the largest increase, and the water sector suffered the most significant decrease. U.S. reconstruction leadership also began to move toward the use of direct contracts and away from design-build contracts.

How IRRF Funds Were Spent in Each Sector: A Brief Overview

IRRF funding allocations among the sectors were as follows:

Security and Justice. This sector focused on public-safety requirements (police training and infrastructure), national security (training and equipping the Iraqi Army), and justice (development of the rule of law). Originally, IRRF allocated \$4.56 billion for security and justice projects. The aggravated security situation required the shift of significant funding into this sector, increasing the total amount allocated to nearly \$6.31 billion (an increase of almost 30%).

Electricity. Electricity projects focused on generation, transmission, and distribution networks. Originally, \$5.56 billion was allocated to electricity—the largest initial allocation to any sector—which reflected the CPA’s emphasis on improving Iraq’s capacity to generate power. However, electrical grid output averaged just 4,260 MW this quarter, which is below pre-war levels. The current allocation is nearly \$4.24 billion.

Water. The initial program focused on improving sewerage, access to potable water, and solid-waste management services. Projects included large water-treatment facilities, pumping stations, dams, and rural water supplies. Originally, \$4.33 billion was allocated in this sector; however, the allocation to this sector eventually was cut by nearly 50% (to \$2.13 billion).

Oil and Gas. Oil projects focused on investing in repairing the oil infrastructure and purchasing petroleum products. The IRRF 2 allocation for this sector was originally \$1.89 billion, but this was later reduced by 10% to \$1.72 billion. The Iraqi oil revenues expected

to fund major infrastructure repairs have yet to materialize, partly because attacks on pipelines and poor operations and maintenance of oil facilities have reduced oil exports. Oil production this quarter averaged approximately 2.17 million barrels per day, which is below pre-war levels.

Health Care. The original \$793 million in allocations for this sector included funding for building or refurbishing hospitals and primary healthcare centers (PHCs), repairing and replacing equipment, providing primary health care training, and constructing a pediatric hospital in Basrah. The construction of the PHCs, a major component of this sector, was hampered by poor management by the contractor and weak oversight by the U.S. government in an increasingly insecure environment. The Basrah Children's Hospital fell well behind schedule and greatly exceeded its original budget. The current allocation is approximately \$820 million.

Transportation and Communication. Projects in this sector focused on airports, ports, railroads, roads, and communication

systems and operations. Originally, IRRF allocated \$870 million, and two design-build contractors were hired to complete the work. But GRD-PCO soon realized that Iraqi firms could complete much of the work in the transportation subsector at a lower cost. Transportation became the first subsector to shift from design-build contractors to direct contracting. The current allocation for this sector is approximately \$800 million.

Economic and Societal Development. IRRF initially allocated \$433 million to programs in this sector. After the June 2004 transition to the Iraqi Interim Government and the subsequent program realignments, more money was added to this sector. This reflected the need to support the Iraqi elections process and stimulate employment and economic development. Thus, more than \$1 billion was added to democracy programs, and more than \$660 million was added to private-sector development. The current allocation for this sector is approximately \$2.21 billion.

THE WAY AHEAD

As the U.S. reconstruction effort in Iraq enters its next phase, future economic assistance to Iraq should focus on three areas:

- building the capacity of the GOI to govern on the national and provincial levels, especially in budget execution
- supporting the rule of law by intensifying and expanding programs in the security and justice sector
- stimulating the development of Iraq's private sector

SIGIR observes several areas of significant concern for the next quarter:

Iraqi Budgeting

The GOI continues to struggle to execute its capital budget programs: billions of budgeted GOI dollars remained unspent at the end of 2006. The draft 2007 budget includes a significant portion of those lapsed funds and applies \$10 billion to capital projects. As of this Report, the budget has been submitted to the Council of Representatives for approval.

Expanding Rule of Law and Security Programs

The GOI's most significant challenge continues to be strengthening rule-of-law institutions—the judiciary, prisons, and the police. The United States has spent billions in this area, with limited success to date. SIGIR is conducting a series of reviews of U.S. rule-of-law programs and has completed several reviews of security funding. The security reviews indicate that Iraqi security forces need to develop considerably more logistical and management capacity before they will be able to sustain themselves.

Business Development and Job Creation

Unemployment remains high in Iraq, particularly among young men. Recent U.S.

government efforts to develop programs to stimulate Iraq's economy hold some promise, including the work of the Business Transformation Agency at the Department of Defense (DoD), which seeks to help Iraq restart the state-owned enterprises with the most potential in the short term and also support related private-sector businesses. SIGIR supports continued U.S. efforts to help Iraq stimulate the development of business and industry and thus urges U.S. implementing agencies to develop a coordinated and unified approach to this crucial challenge.

Reconstruction Leadership: The New Economic Transition Coordinator

The recent appointment of a U.S. coordinator for economic transition is a welcome development in the effort to move Iraq's reconstruction management from U.S. to Iraqi control. The coordinator is charged with streamlining cooperation and coordination among U.S. implementing agencies and improving communication between Iraqi officials and U.S. agencies. He will also help to encourage more active participation in Iraq's reconstruction by other donors and international organizations in Iraq.

NOTABLE SIGIR ACTIVITIES THIS QUARTER

To perform its oversight mission this quarter, SIGIR completed 8 audits, which included 20 recommendations, and SIGIR's 15 project assessments presented many construction-related findings. SIGIR investigations continue to pursue allegations of fraud, waste, and abuse in Iraq reconstruction spending.

Audits

During this quarter, SIGIR auditors completed 8 audits. As of January 30, 2007, SIGIR has completed 82 audit products. This quarter, SIGIR also is working on 16 ongoing audits and plans to begin at least 8 more next quarter. This quarter, SIGIR audits addressed a wide range of issues:

- a review of a Department of State (DoS) task order for Iraqi police training, training support, and the construction of several training support camps (\$188.7 million)
- an update on the status of medical equipment purchased to support the delayed PHC project and an assessment of other non-construction contracts supporting the PHC project
- a follow-up on 17 recommendations that SIGIR made in previous audit reports on the control and accountability for contracts, grants, and cash transactions using the Development Fund for Iraq
- a review of government property management controls by the U.S. Agency for

International Development (USAID) and its contractor, Bechtel National, Inc., for contract SPU-C-00-04-00001-00

- a review of improper obligations using IRRF funds, the circumstances related to these obligations, and subsequent actions taken or planned regarding the use of these funds
- a review of internal controls related to disbursements of IRRF apportioned to DoS, DoD, and USAID
- two products on security costs as reported by design-build contractors on IRRF projects
- a review of U.S. government plans and programs for capacity development in Iraqi government ministries

Inspections

SIGIR completed 15 project assessments this quarter, bringing the total number of completed project assessments to 80. Since the beginning of the program, SIGIR has also completed 96 limited on-site inspections and 266 aerial assessments.

Thirteen of the IRRF projects that SIGIR visited this quarter met contractual specifications. Overall, SIGIR reconfirmed the important role of quality control and quality assurance programs in ensuring that contract specifications are met. Contractor and subcontractor performance and weak quality assur-

ance programs were issues at a few project sites that SIGIR visited.

SIGIR found two projects with deficiencies in sustainability, design, and construction. For example, at the *Baghdad Police College*—the subject of a previous quick reaction report—SIGIR confirmed that the contractor had installed inferior wastewater piping and joined it together improperly. Although the contractor had reportedly repaired and replaced the faulty pipe work, SIGIR's follow-up onsite assessments found continued leakage and other plumbing deficiencies. SIGIR inspectors also found inferior concrete construction in several buildings and faulty electrical wiring, which created potentially hazardous situations.

The Baghdad Police College project had to be descoped because of cost and schedule overruns. The U.S. government managers did not take sufficient steps to ensure project sustainability. As a result of these issues, there has been a delay in turning over the Baghdad Police College to the GOI.

At 13 sites that SIGIR assessed this quarter, the government quality assurance programs effectively monitored the contractor's construction progress and workmanship.

Investigations

This quarter, SIGIR investigations opened 27 cases and closed 43 preliminary and open cases. Currently, 78 investigations are open, including 23 cases awaiting action under prosecutorial control at the U.S. Department of Justice.

Also this quarter, the International Contract Corruption Task Force identified 36 cases. SIGIR, one of five agencies working jointly on the taskforce, contributed nine cases to this effort.

Since December 2005, SIGIR has worked closely with a range of agencies to suspend and debar contractors for fraud or corrupt practices involving Iraq reconstruction and Army support contracts in Iraq. These cases arise both from criminal indictments filed in federal district courts and allegations of contractor irresponsibility requiring fact-based examination by the Army's Suspension and Debarment Official.

To date, 14 individuals and companies have been *suspended* based on allegations of fraud and misconduct connected to Iraqi reconstruction and Army support contracts.

As of January 30, 2007, a total of eight have been *debarred*, and four others have been proposed for debarment.

IMPACTS OF SIGIR OPERATIONS

SIGIR oversight continues to produce a wide range of benefits. SIGIR advice and recommendations on policy have promoted economy, efficiency, and effectiveness in the conduct of the U.S. reconstruction program in Iraq and have served as a deterrent to malfeasance. SIGIR's information and analysis has enabled the U.S. government to improve its efforts in Iraq and also to plan more effectively for future efforts.

SIGIR oversight also continues to produce tangible financial benefits. Through December 31, 2006, SIGIR audits have saved or recovered \$50 million and have identified the potential to recover an additional \$106 mil-

lion. SIGIR investigations have recovered or seized \$9.5 million in assets and are working on the recovery of an additional \$15 million. SIGIR inspections have made recommendations to ensure the effective use of an estimated \$39 million in reconstruction projects. SIGIR inspectors also found that engineering improvements to oil pipelines could increase oil exports and potentially increase the volume of Iraqi oil revenues by more than \$1 billion annually if the pipeline can be effectively secured.

For the data supporting these benefits, see Appendix C.

THE HUMAN TOLL

Violence continues to exact a deadly toll on the Iraqi civilians, reconstruction contractors, and journalists in Iraq.

Iraqi civilians continue to be killed, wounded, or displaced from their homes:

- The UN Assistance Mission for Iraq (UNAMI) reported that 6,736 Iraqi civilians were killed this quarter, and at least 6,875 were wounded. In 2006, UNAMI estimates that 34,452 Iraqi civilians were killed, and 36,685 were injured.³
- Violence continues to force Iraqis to leave their homes. The Office of the UN High Commissioner for Refugees estimates that in 2006 alone, 500,000 Iraqis relocated to other areas inside Iraq and that 40,000 to 50,000 continue to flee their homes every month.⁴ In addition, hundreds of thousands have left Iraq for other countries.

U.S. contractors and journalists working in Iraq continue to risk their lives while doing their jobs in Iraq:

- Since Iraq reconstruction began, 768 death claims for civilian contractors working on U.S.-funded projects in Iraq have been filed. In the quarter ending December 31, 2006, the Department of Labor reported 99 new death claims.
- DoS reports that nine U.S. civilians died in Iraq this quarter. Since the beginning of the U.S. reconstruction effort, 205 U.S. civilians have died in Iraq.

In 2006, 32 journalists were killed in Iraq—the highest one-year total ever recorded in a single country, according to the Committee To Protect Journalists.⁵





Status of Iraq Reconstruction

INTRODUCTION: SECTOR REPORTS

STATUS OF ELECTRICITY

STATUS OF OIL AND GAS

STATUS OF WATER

STATUS OF ECONOMIC AND SOCIETAL DEVELOPMENT

STATUS OF SECURITY AND JUSTICE

STATUS OF HEALTH CARE

STATUS OF TRANSPORTATION AND COMMUNICATIONS

CONTRACTS

COST-TO-COMPLETE DATA

SOURCES OF FUNDING

ANTICORRUPTION ACTIVITIES

SECTION

2



INTRODUCTION

The security situation in Iraq continues to deteriorate, hindering progress in all reconstruction sectors and threatening the overall reconstruction effort.

In this Report, SIGIR continues to highlight and analyze developments in these reconstruction sectors: electricity, oil and gas, water, economic and societal development, security and justice, health care, and transportation and communications.

In addition to reporting on programs and projects funded with the Iraq Relief and Reconstruction Fund (IRRF) and the Iraq Security Forces Fund (ISFF), this Report also highlights the expanded oversight responsibilities assigned to SIGIR under the Iraq Reconstruction Accountability Act of 2006, which include reporting on activities funded by the FY 2006 Commander's Emergency Response Program (CERP) and the FY 2006 Economic Support Fund (ESF) in the Foreign Assistance budget. CERP and ESF were appropriated to continue reconstruction started with IRRF supplemental funds.

Section 2 also provides information on contracts, including the costs to complete reconstruction projects in Iraq, updates on the sources of funding for Iraq reconstruction, and a review of the continuing effort to support Iraqi anticorruption programs.

Status of Funds and Projects for this Quarter

As the IRRF reconstruction program begins to close out, SIGIR will increasingly focus on activities, outputs, and outcomes related to ISFF, CERP, and ESF funding. This quarter, SIGIR provides only high-level data on CERP-

and ESF-funded activities; more in-depth analysis will follow next quarter.

IRAQ RELIEF AND RECONSTRUCTION FUND (IRRF)

To assess overall progress, SIGIR reviews three aspects of reconstruction—activities, outputs, and outcomes:

- *Activities*: reconstruction at the project level (e.g., an electric turbine, a water treatment plant, a primary healthcare center, a training program for teachers)
- *Outputs*: results of the reconstruction projects (e.g., increased electricity generation, increased capacity to treat wastewater, more trained teachers)
- *Outcomes*: potential effects of the project outputs for the people of Iraq (e.g., hours of power, more Iraqis with access to clean water, more Iraqi children vaccinated for polio, higher literacy rates)

SIGIR, the Gulf Region Division-Project and Contracting Office (GRD-PCO),⁶ the DoS *Section 2207 Report*, and Public Law 108-106, as amended, use different definitions of the Iraq reconstruction sectors and project status. To compare the various definitions of sectors, see Appendix D.

Overview of the IRRF Program

The IRRF program is now beginning to wind down, and almost all remaining projects will be completed by the end of FY 2007. IRRF funds have been obligated, and around 80% have been expended.⁷

As of December 30, 2006, 12,395 projects (92%) had been completed in all sectors, with an additional 766 still ongoing (6%) and 351 yet to begin (3%). For a breakdown of IRRF funds and projects, see Figures 2-1, 2-2, and 2-3.

All funds that were not obligated by September 30, 2006, can be used to pay for legally permitted adjustments on contracts signed before September 30, 2006. These expired funds will remain available for five years and will be obligated when they are to be used. For a snapshot of IRRF funds by sector, see Table 2-1.

Last quarter, the IRRF-funded education and agriculture programs closed out operations, with only a few tasks remaining. Most of the IRRF funding used in the democracy sub-sector was spent in 2005 on elections and the

constitutional referendum; other money was used to fund projects in 2006 and into 2007. Most of the IRRF dollars used to develop the security and justice sector have been expended, and activities in this sector are now mostly funded by the ISFF.

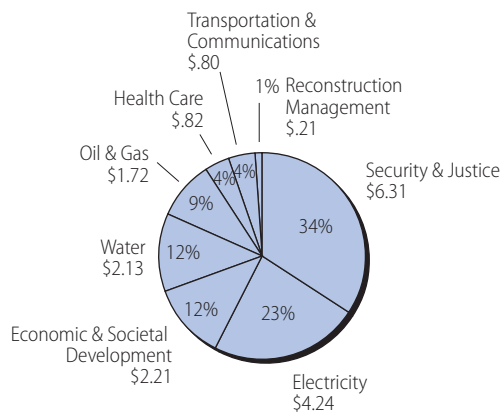
Congress was notified that IRRF funds have been shifted in recent quarters to health care, refugees and human rights, and transportation and communications to supplement a variety of projects and programs.

The oil and gas, electricity, and water sectors have the largest portions of the IRRF remaining for expenditure.

Finally, ministerial capacity development and sustainment initiatives became increasingly important in 2006 and are now central components of the current reconstruction strategy for U.S.-funded projects.

Figure 2-1
SECTOR SHARES OF IRRF FUNDS

\$ Billions
% of \$18.44 Billion
Source: IRMO, *Weekly Status Report* (1/2/2007)



Note:
Percentages do not add up to 100% due to rounding.

Figure 2-2
STATUS OF IRRF FUNDS

\$ Billions
Source: IRMO, *Weekly Status Report* (1/2/2007);
DoS, *Iraq Weekly Status* (9/27/2006)

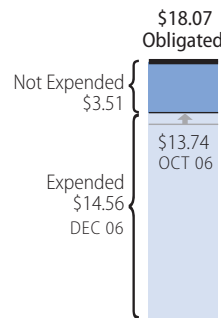
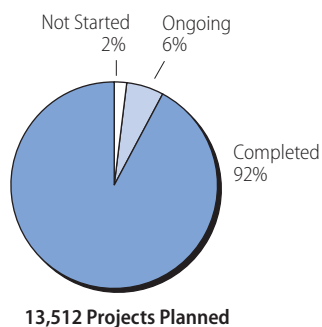


Figure 2-3

STATUS OF IRRF PROJECTS

Source: IRMO Rollup (12/30/2006);
USAID Activities Report (December 2006)



Sector	Not Started	Ongoing	Completed	Total
Electricity	27	161	345	533
Oil and Gas		29	28	57
Water	28	146	927	1,101
Economic and Societal Development	113	102	7,997	8,212
Security and Justice	175	95	2,555	2,825
Health Care	1	145	88	234
Transportation and Communications	7	88	455	550
Total	351	766	12,395	13,512

STATUS OF IRRF 2 BY SECTOR³ (IN BILLIONS)

SECTOR	TOTAL ALLOCATION	TOTAL OBLIGATION	TOTAL EXPENDED
Electricity	\$4.24	\$4.09	\$2.95
Oil and Gas	1.72	1.63	1.29
Water	2.13	2.06	1.41
Economic and Societal Development	2.21	2.21	1.98
Security and Justice	6.31	6.28	5.67
Health Care	0.82	0.80	0.58
Transportation and Communications	0.80	0.79	0.54
Reconstruction Management	0.21	0.21	0.14
Total	\$18.44	\$18.07	\$14.56

³The "Status of the IRRF" analysis focuses only on the \$18.44 billion approved under P.L. 108-106 in November 2003, commonly referred to as IRRF 2. It does not include the \$2.48 billion approved under P.L. 108-11 in April 2003, commonly referred to as IRRF 1.

Source: IRMO, *Weekly Status Report*, 1/2/2007

TABLE 2-1

Highlights of IRRF Activities this Quarter

SIGIR makes these observations about the status of a number of sectors in the U.S. reconstruction program:

- During this quarter, the average peak capacity of electricity generation nationwide fell below pre-war levels—4,260 vs. 4,500 megawatts (MW). Because of interdictions on the northern transmission lines and the reluctance of local authorities in the south to send power, less electricity was available in Baghdad this quarter than before the 2003 conflict.
- This quarter, oil production fell below production targets of 2.68 million barrels per day (BPD) and nearly 2.17 million BPD for the entire quarter. Oil exports averaged 1.48 million BPD, which is less than the Iraqi goal of 1.65 million BPD.
- The Primary Healthcare Center (PHC) program continues to face challenges. To date, only eight Model PHCs have been completed, and seven are currently open. GRD-PCO reports that, of the 126 still under construction, 50 are 90–100% complete, and 46 are 75–90% complete.⁸

Iraq Security Forces Fund (ISFF)

As of December 31, 2006, almost 80% of the \$8.32 billion in FY 2005 and FY 2006 ISFF funds had been obligated, and 54% had been expended. An additional \$1.7 billion was appropriated under the Department of Defense Appropriations Act for FY 2007.⁹ Of the

425 projects funded by ISFF in FY 2005 and FY 2006, 189 have been completed, 231 are ongoing, and 5 have not yet started.¹⁰ Figure 2-4 shows the status of ISFF funds, which are allocated for projects in the security and justice sector only.

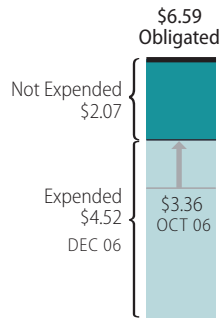
The goal of training and equipping 325,000 Iraqi soldiers and police officers was almost reached this quarter in the security and justice sector, and progress also continues in construction and rule-of-law activities.

However, the number of trained and equipped Iraqi Security Forces (ISF) should not be confused with the number labeled “present for duty.” The number of soldiers and police who are present for duty is lower because of attrition, absence without leave, and scheduled leave. Concerns also remain about the effectiveness of the ISF and the ability of the Ministries of Defense and Interior to support them adequately.

OVERVIEW OF THE ISFF PROGRAM

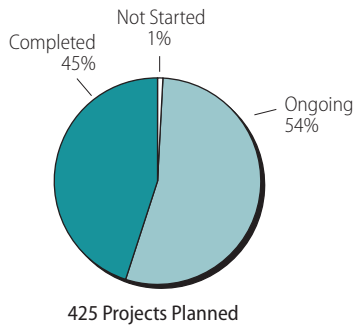
In 2005, the ISFF program was established under P.L. 109-13 to allow the Commander of the Multi-National Security Transition Command-Iraq (MNSTC-I) to provide assistance to the ISF. According to P.L. 109-13, this assistance includes “the provision of equipment, supplies, services, training, facility and infrastructure repair, renovation, and construction.” For the status of ISFF projects, see Figure 2-5.

Figure 2-4
STATUS OF ISFF FUNDS – SECURITY AND JUSTICE
 \$ Billions
 Source: DoD Secretary of the Army Update (12/31/2006)



Note:
 Totals are produced by combining financial detail from ISFF 2005 and ISFF 2006 funds.

Figure 2-5
STATUS OF ISFF PROJECTS
 Source: IRMO Rollup (12/30/2006)



Sector	Not Started	Ongoing	Completed	Total
Training and Operations	2	185	126	313
Infrastructure	3	21	51	75
Sustainment		19	10	29
Equipment and Transportation		6	2	8
Total	5	231	189	425

Note:
 ISFF projects are compiled by totaling and grouping projects from both ISFF FY 2005 and ISFF FY 2006.

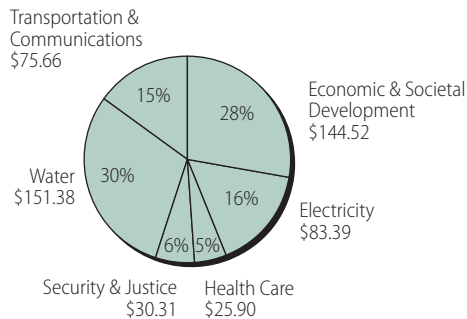
Commander's Emergency Response Program (CERP)

The most current data available for SIGIR's review of FY 2006 CERP funds and projects is dated September 30, 2006; more current information will be available next quarter.

Almost all of the \$511.16 million in CERP

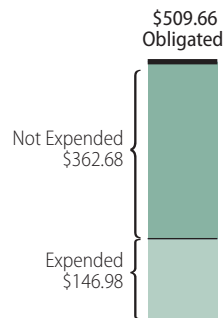
FY 2006 funds was obligated as of September 30, 2006, and 29% had been expended. Also, 2,200 (57%) CERP FY 2006 projects had been completed, with an additional 1,598 (42%) ongoing. Only 26 projects have yet to start. For the status of CERP funds, see Figures 2-6 and 2-7.

Figure 2-6
SECTOR SHARES OF FY 2006 CERP FUNDS
 \$ Millions
 % of \$511.16 Million
 Source: Office of the Assistant Secretary of the Army Financial Management and Comptroller (9/30/2006)



Note:
 1. Historically, SIGIR calculates sector share of funds by dividing dollars allocated for each sector by total dollars appropriated. Allocation detail at the sector and subsector level for CERP FY 2006 is currently unavailable; therefore, the percentages in this graphic are calculated using dollars committed.
 2. For reporting consistency, CERP activities are mapped to SIGIR-defined sectors. See Appendix E for the CERP cross-reference.

Figure 2-7
STATUS OF FY 2006 CERP FUNDS
 \$ Millions
 Source: Office of the Assistant Secretary of the Army Financial Management and Comptroller (9/30/2006)



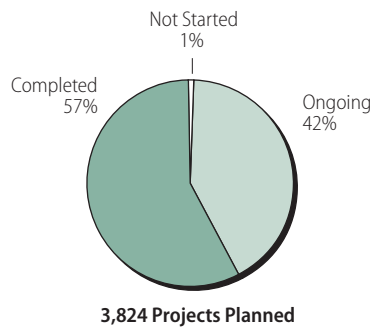
Note:
 For reporting consistency, CERP activities are mapped to SIGIR-defined sectors. See Appendix E for the CERP cross-reference.

OVERVIEW OF THE CERP PROGRAM

The purpose of CERP is to help commanders quickly respond to urgent humanitarian issues in their areas of responsibility by implementing quick-turnaround projects that benefit Iraqis. Specifically, FY 2006 CERP aims to improve the Government of Iraq’s (GOI) capacity to govern, keep critical infrastructure operational,

support economic strategies, minimize the effects of counter-insurgency operations on the Iraqi people, and promote secure elections with maximum participation.¹¹ SIGIR has released two audits on the management of the CERP program: 05-014 (FY 2004) and 05-025 (FY 2005). For the status of sector projects funded by the CERP, see Figure 2-8.

Figure 2-8
STATUS OF FY 2006 CERP PROJECTS
 Source: Office of the Assistant Secretary of the Army
 Financial Management and Comptroller (9/30/2006)



Sector	Not Started	Ongoing	Completed	Total
Economic and Societal Development	5	498	614	1,117
Security and Justice	2	140	632	774
Water	3	382	323	708
Transportation and Communications	4	238	318	560
Electricity	5	234	188	427
Health Care	7	106	125	238
Total	26	1,598	2,200	3,824

Economic Support Fund (ESF)

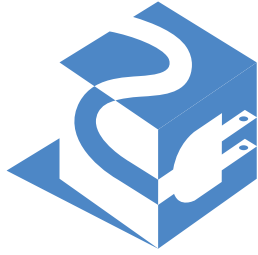
The Emergency Supplemental Appropriations for FY 2006, P.L. 109-234, appropriated more than \$1.48 billion in bilateral economic assistance for the ESF. This funding is allocated

to Security (\$932 million), Economic (\$345 million), and Political (\$208 million) tracks. For the breakdown of these funds by track, see Table 2-2.¹²

ECONOMIC SUPPORT FUND (MILLIONS)

SECURITY TRACK	AMOUNT
PRT/PRDC Projects	\$315
Infrastructure Security Protection (Oil, Water, and Electric)	\$277
PRTs Local Government Support	\$155
Community Stabilization Program in Strategic Cities	\$135
Community Action Program	\$45
Marla Ruzicka Iraq War Victims Fund	\$5
ECONOMIC TRACK	
Operations & Maintenance Sustainment	\$285
Capacity Development & Technical Training	\$60
POLITICAL TRACK	
Ministerial Capacity Development (USAID)	\$60
Ministerial Capacity Development (IRMO)	\$45
Regime Crimes Liaison Office	\$33
Democracy Funding for IRI, NDI, NED	\$25
Policy & Regulatory Reforms	\$20
Civil Society, ADF, IFES	\$18
USIP	\$4
Civil Society, IREX	\$3

TABLE 2-2



STATUS OF ELECTRICITY

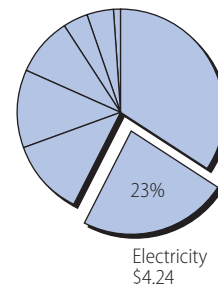
This review updates the status of U.S. reconstruction projects to restore Iraq's capacity to generate, transmit, and distribute electricity. SIGIR makes these observations about activities in the electricity sector this quarter:

- This sector receives the second-largest allocation (\$4.24 billion) of IRRF dollars. At the end of this quarter, 65% of planned IRRF-funded projects were complete, and 70% of the allocated dollars were expended. As of January 2, 2007, nearly 96% of allocations were obligated. For the status of IRRF funds in this sector, see Figure 2-9.
- U.S. projects have contributed 2,817 megawatts (MW)¹³ to Iraq's generation capacity. Actual peak production capacity this quarter was below pre-war levels (4,500 MW),¹⁴ averaging 4,260 MW.¹⁵ The average daily load served, however, is a better measure of how much power reaches Iraqis because it measures distribution over time.¹⁶ During this quarter, the daily load served averaged 90,614 megawatt hours (MWh),¹⁷ roughly 1,000 MWh above the past winter quarters of 2004 and 2005.
- Baghdad continues to receive fewer hours of power than the rest of the country, averaging 6.5 hours of power per day this quarter. Outside Baghdad, the measure of hours of power (12 hours) is greater than before the U.S.-led invasion.¹⁸ Daily electricity demand in Baghdad averaged approximately 2,200 MW this quarter.¹⁹

These are the challenges in the electricity sector this quarter:

- Insufficient operations and maintenance (O&M) allocations by the GOI continue to limit the sustainability of U.S.-funded projects as responsibility is transferred to Iraqi operators.
- Demand for electricity continues to outpace generation capacity, and operations at power plants continue to lack sufficient quantities of refined fuel to run generators at peak capacity.
- Sabotage of feeder lines limits the impact of U.S.-funded projects by reducing the hours of power that Iraqis receive in their homes and businesses.²⁰

Figure 2-9
ELECTRICITY SECTOR AS A SHARE OF IRRF FUNDS
 \$ Billions
 % of \$18.44 Billion
 Source: IRMO, *Weekly Status Report* (1/2/2007)





IRRF-funded Activities in the Electricity Sector

During this reporting period, \$330 million was expended in this sector—up from \$270 million last quarter. Total expenditures in this sector are \$2.95 billion. As of January 2007, \$150 million²¹ was reported as not having been obligated. For the status of IRRF funds in this sector, see Figure 2-10.

In this sector, 27 U.S.-funded IRRF projects (5%) have yet to begin,²² and 65% have been completed. All but one project in this sector are scheduled to be completed by January 2008. All but two electrical generation projects have started, and 96% have been completed. Transmission projects are generally large, complex, expensive, and central to the grid system. The remaining distribution projects are generally smaller and less complex than the large-scale generation and transmission projects. For the status of electricity projects by subsector, see Figure 2-11.²³

The electricity sector receives 16% (roughly \$84 million) of the committed CERP FY 2006 projects funds. Most CERP-funded projects support local efforts to repair electrical distribution and transmission systems to ensure that power reaches Iraqi homes.

As of September 30, 2006, approximately \$67 million of the total commitment of \$84 million had not been expended; approxi-

Figure 2-10
STATUS OF IRRF FUNDS - ELECTRICITY
 \$ Billions
 Source: IRMO, *Weekly Status Report* (1/2/2007);
 DoS, *Iraq Weekly Status* (9/27/2006)

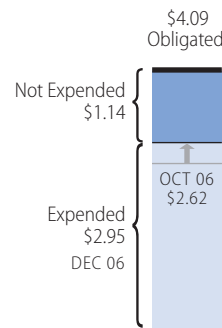
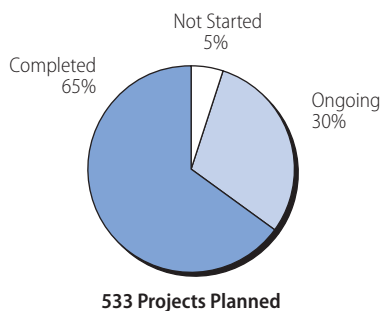


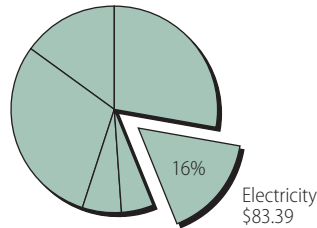
Figure 2-11
STATUS OF IRRF ELECTRICITY PROJECTS
 Source: IRMO Rollup (12/30/2006)
 USAID Activities Report (December 2006)



Sector	Not Started	Ongoing	Completed	Total
Distribution	13	123	283	419
Transmission	12	33	12	57
Generation	2		50	52
Automatic Monitoring & Control System		5		5
Total	27	161	345	533



Figure 2-12
ELECTRICITY AS A SECTOR SHARE OF FY 2006 CERP FUNDS
 \$ Millions
 % of \$511.16 Million
 Source: Office of the Assistant Secretary of the Army
 Financial Management and Comptroller (9/30/2006)



mately \$17 million was used to complete 188 of the 427 planned projects. An additional 234 projects were ongoing, and 5 projects had not started.²⁴ For the status of CERP funds, see Figure 2-12.

Key Projects Completed and Underway

The U.S. reconstruction program funds three major types of projects in the electricity sector:

- *Generation facilities* produce power for the system.
- *Transmission networks* carry that power across the country.
- *Distribution networks* deliver the transmitted power to local areas, homes, and businesses.

Seven U.S. projects,²⁵ valued at \$109 million, will provide an automated monitoring and control system for selected strategic portions of the electric grid. The **Supervisory Control and Data Acquisition system (SCADA)** is nearing completion; 95% of the materials have been procured, and 90% have been installed.²⁶



New electrical panel at the Al-Doura Power Plant. This plant has the potential to serve 1.5 million people in Baghdad.

GENERATION FACILITIES

Iraq's electricity sector suffers from aging and poorly maintained infrastructure; more than 85% of Iraqi power plants are over 20 years old. All remaining U.S.-funded generation projects to improve the condition of these facilities are expected to be finished by September 2007, except the computerized maintenance management system, which is scheduled to be completed in April 2008.²⁷ The **Al-Doura Power Plant** will add 280 MW to the power grid, potentially serving more than 1.5 million people in the Baghdad area.²⁸

Many of the sector's remaining generation projects address sustainability. Three of five planned projects at the **Baiji Power Plant** (\$59 million) are complete. The two remaining



ELECTRICITY

ELECTRICITY OUTPUT OF U.S. PROJECTS

CURRENT U.S. CONTRIBUTION, AS OF DECEMBER 30, 2006	TOTAL PLANNED U.S. CONTRIBUTION	U.S. PROGRESS TOWARD END-STATE GOAL
2,817 MW	3,710 MW	76%

Source: DoS NEA-I electricity expert, response to SIGIR, January 16, 2007.

Note: The GAO report, "Securing, Stabilizing, and Rebuilding Iraq: Key Issues for Congressional Oversight," reports that U.S. projects have added an estimated 2,093 MW, January 2007, p. 73.

TABLE 2-3

projects—repairs to mobile engines and combustion inspections for gas turbine engines—will help sustain 320 MW of generation capacity. Work at Baiji was estimated to be completed by June 6, 2006. A delay occurred because the mobile engine repair contractor was removed, and a new contractor began work. The combustion inspection remains on schedule, with additional work added. In September, the original contract was modified to include three inspections of gas turbines. Ongoing generation work at Baiji Power Plant is scheduled to be completed by March 2007.²⁹

TRANSMISSION NETWORKS

Eight transmission projects started construction this quarter; 12 transmission projects (\$217 million) have been completed to date, and 46 projects (\$683 million) are in progress. All projects remaining have started design, procurement, and pre-mobilization work, except the **Kirkuk-Diyala** 400 kV project for overhead lines, which was delayed to accommodate the Ministry of Electricity's schedule.³⁰ The first 13 towers were built this quarter for the 400 kilovolt (kV) **Baiji-Haditha-Qaim Transmission Line Project**. There are 344 towers on the Baiji-Haditha route and 229 along the Haditha-Qaim line.³¹

DISTRIBUTION NETWORKS

Distribution projects are crucial to getting generated power into Iraqi homes. This quarter, the remaining 155 of 411 programmed projects are in progress at a cost of \$327 million; the total budget is \$712 million.³²

Outputs of IRRF-funded Electricity Projects

The outputs of U.S.-funded electricity projects are measured by generation capacity added to the grid in MW. To compare the current U.S. contributions with the U.S. goal for contributions, see Table 2-3. U.S. reconstruction projects have contributed 2,817 MW of generation capacity.

The quarterly average for peak generation was below pre-war levels. This decrease can be attributed partly to the seasonal nature of electricity production—generation units are taken off-line for maintenance during the winter. It can also be attributed to attacks on infrastructure, aged equipment, lack of adequate fuel supply, and poor management. The current generation level, which averaged 4,260 MW for this quarter, is below both the pre-war level of 4,500 MW and the U.S.-Iraqi goal of 6,000 MW.³³ Table 2-4 compares pre-war levels with the GOI goal set in July 2006 and this quarter's average.



CURRENT ELECTRICITY GENERATION CAPACITY VS. PRE-WAR LEVEL (MEGAWATTS)

OUTPUT METRIC	PRE-WAR LEVEL, AS OF MARCH 2003	U.S.-IRAQ GOAL FOR JULY 2006	QUARTER AVERAGE
Generation Capacity	4,500	6,000	4,260 MW

Source: Pre-war level: UN/World Bank Joint Iraq Needs Assessment, 2003, p. 28.
 Note: GAO recently reported the pre-war level as 4,300 MW (GAO Report 06-697T, April 25, 2006, p. 19).
 Goal: Joint U.S.-Iraqi Electricity Action Plan, March 12, 2006, p. 2.
 Current Status: IRMO, *Weekly Status Report*, July-September 2006.

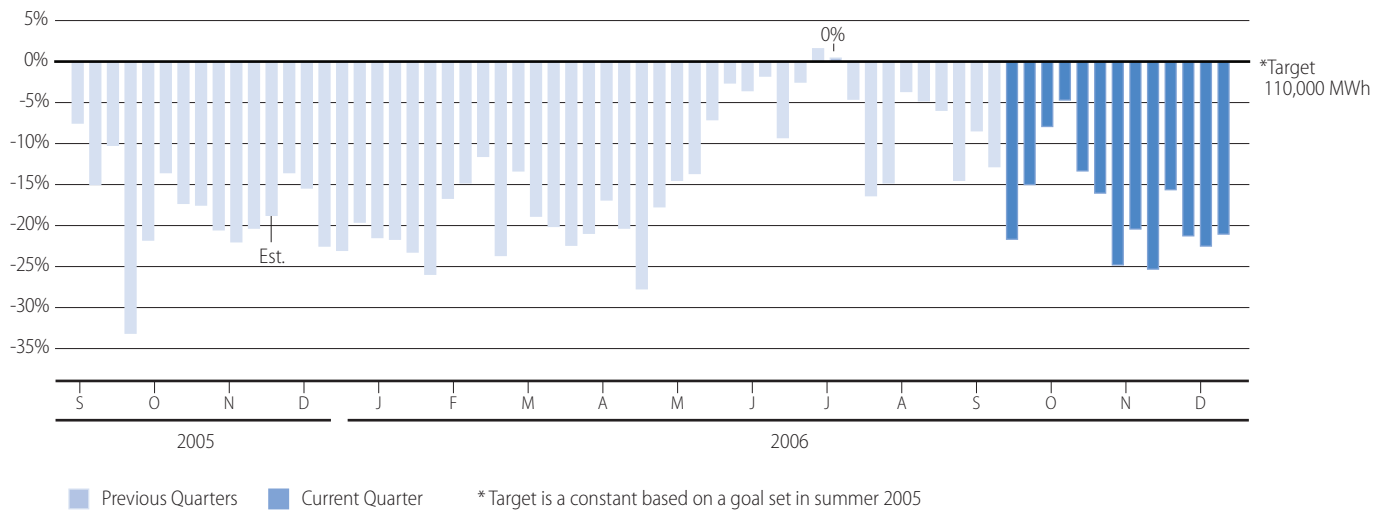
TABLE 2-4

Figure 2-13

ELECTRICITY LOAD SERVED

Weekly Average Electricity Load Served, Megawatt Hours (MWh)

Source: IRMO Weekly Status Reports, DoS, *Iraq Weekly Status*, (9/28/2005 - 12/26/2006)



Outcomes of IRRF Projects

Although outputs in this sector are measured by MW contribution, outcomes are measured by MW hours and hours of power available to Iraqi consumers. This quarter, the average load served of 90,614 MWh³⁴ per day was a slight gain from the winter quarters in 2004 (86,376

MWh) and 2005 (89,785 MWh). However, this was lower than the pre-war level of 98,000 MWh and nearly 20,000 MWh short of the Iraqi target of 110,000 MWh set during the summer of 2005.³⁵

Figure 2-13 shows the weekly average electricity load served in megawatt hours.



CURRENT OUTCOMES VS. PRE-WAR LEVELS AND GOALS

OUTCOME METRIC	PRE-WAR LEVEL	IRAQ GOAL FOR JULY 2006	DAILY AVERAGE, LAST WEEK OF DECEMBER 2006
Iraq Hours of Power/Day	4-8	12	12
Baghdad Hours of Power/Day	16-24	12	6.5

Sources: Pre-war level: DoS Briefing by U.S. Embassy Baghdad, November 30, 2005; Goals: Joint U.S.-Iraqi Electricity Action Plan, March 12, 2006, p. 2.; Current Status: DoS, *Iraq Weekly Electricity Report*, December 27, 2006, p. 14.

TABLE 2-5

Distributing power from generation facilities to Iraqi homes remains a major challenge. For the hours of power available to Iraqis compared to pre-war levels, see Table 2-5. Multiple challenges in this sector associated with distributing and transmitting power have left Iraqi consumers frustrated by the low and inconsistent supply of electricity.

Baghdad averaged only 6.5 hours of power per day this quarter because of attacks on power lines that feed the capital, as well as political issues inhibiting the transfer of power from large plants in both northern and southern Iraq. Baghdad does not have enough power plants to meet its own needs.

In the north, sabotage and weather-related damage of transmission lines have prevented the transfer of power to Baghdad. In addition, Baghdad has received no power from the Haditha Dam since December 4, 2006.³⁶ The dangerous security situation has delayed or prevented repairs.

In the south, contentious relationships between the “recently empowered provincial authorities and the centrally managed electricity authority” account for major disparities in the rationing and distribution of electricity supplies between the south and Baghdad.³⁷

This resistance to power-sharing has resulted in Baghdad averaging 4-8 less hours of power daily than in other parts of the country.³⁸ To decrease Baghdad’s long-term reliance on power transfers from the rest of the country, the GOI plans to expand generation connected directly to the Baghdad loop to include more generation facilities.³⁹

Private generators are used throughout Baghdad to meet the gap between supply and demand. As SIGIR reported last quarter, high demand is attributable to government subsidies, a growing economy, and a surge in the consumer purchases of appliances and electronics.⁴⁰

Because the GOI struggles to distribute power equitably and reliably, SCADA is being constructed to maximize the availability of electricity across Iraq. Six of the seven SCADA projects are underway. The system is projected to cost \$109 million and is estimated to be completed by April 2007.⁴¹ SCADA is expected to limit the number of power outages by increasing automation and implementing control mechanisms.⁴² GRD-PCO notes that SCADA is also expected to accomplish these goals:



- Increase system safety by preventing damage from overloads.
- Allow the Ministry to react faster to incidents mitigating regional effects.
- Increase controls for a more accurate and reliable system.
- Facilitate equitable distribution across the country.
- Reduce system upsets during rolling blackouts.

The goals of stabilization and equalization are two separate issues for the Iraqi power system.⁴³ As GRD-PCO notes, SCADA will help with system stability, but Iraqi officials will determine whether power is shared equally. Although SCADA will contribute to both equalizing and stabilizing power in Iraq, the Iraq Reconstruction Management Office (IRMO) reports that it is not the sole solution to both problems. Equalization and system stability can be achieved only when generation capacity exceeds demand.⁴⁴

This quarter, unplanned power outages accounted for nearly 2,000 MW of lost production per day. The Ministry of Electricity estimates that it has not met 1,000 MW of capacity because fuel is unavailable.⁴⁵ An additional 925 MW were lost to planned outages for upgrades, repairs, maintenance, fuel shortages, and load shedding. Load shedding is a form of rationing: power is turned off for set amounts of time to mitigate the gap between supply and demand.⁴⁶

Figure 2-14 shows the distribution of power throughout the country in relation to the hours of power by governorate.

Challenges

Major challenges in this sector include developing the capacity to fund O&M projects, meeting rising demand, mitigating fuel shortages, and securing infrastructure.

IRAQI FUNDING ISSUES

In December 2006, the Ministry of Electricity submitted its 2007 budget to the Cabinet for approval. The \$2.8 billion draft budget is a three-fold increase from the \$840 million budgeted in 2006, but falls well short of the \$5 billion that Iraqi and IRMO officials estimate is needed for capital requirements (\$3.5 billion) and O&M (\$1.5 billion).⁴⁷ The Department of State (DoS) notes that the Ministry of Electricity has improved its ability to spend its capital budget because it is better able to follow the Ministry of Finance's funding procedures. In addition to funding issues, coordination linkages between the Ministry of Electricity and the Ministry of Finance remain unsettled.⁴⁸

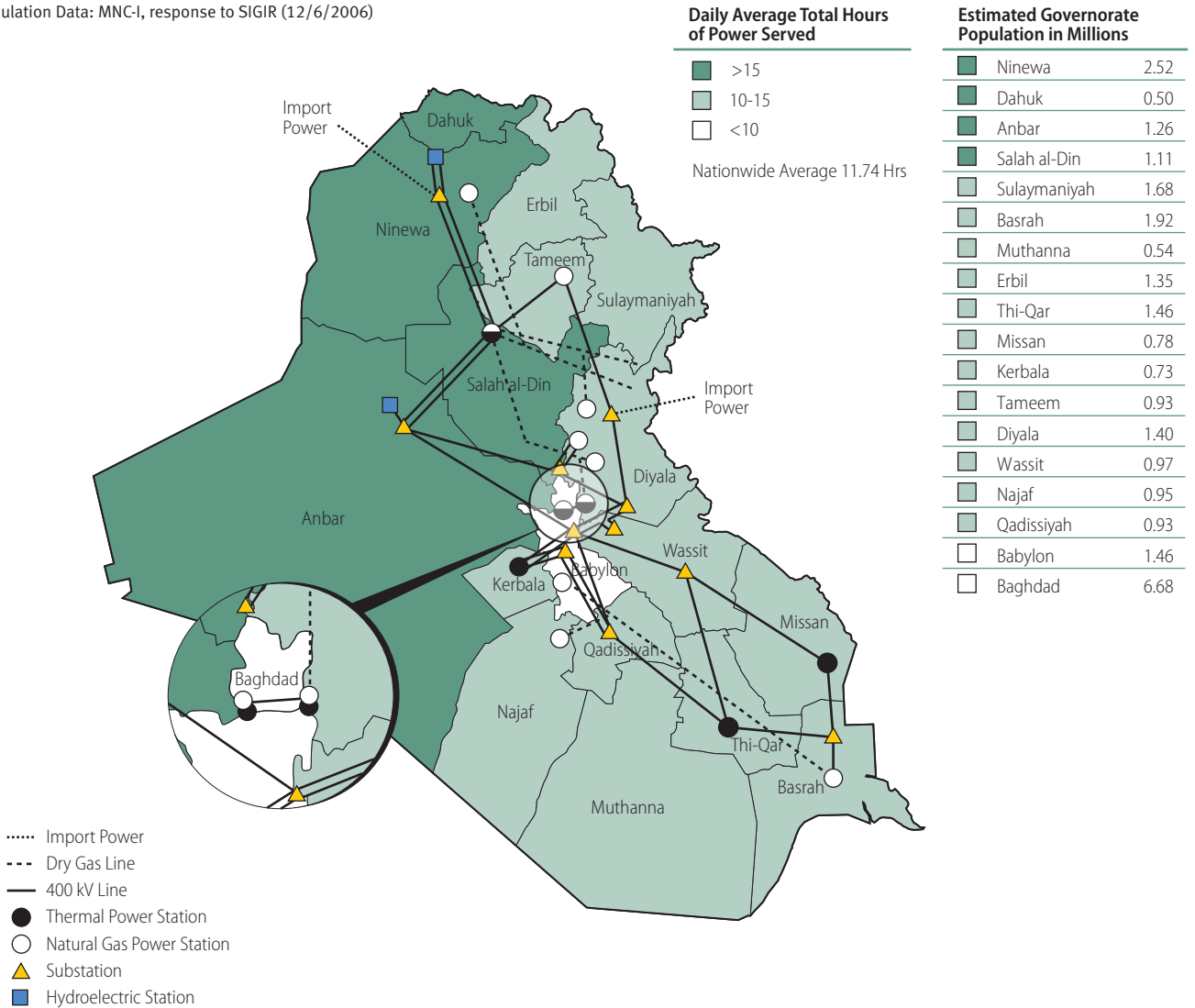
As SIGIR reported last quarter, when U.S. funding for O&M programs ends and responsibility for IRRF-funded projects shifts to the GOI, this sector will face a significant O&M challenge. Along with O&M funding shortfalls, a major concern is that O&M continues to work on a "break-down basis with resulting unreliable operations."⁴⁹ These U.S. programs are intended to build O&M capacity at the Ministry of Electricity:

- Last quarter, SIGIR reported that a nationwide long-term O&M support program had begun. Over the summer, a contractor was chosen to provide support for the \$81



ELECTRICITY

Figure 2-14
ELECTRICITY DISTRIBUTION AND HOURS OF POWER
 Source: IRMO Daily Electricity Report (10/1/2006 - 12/31/2006)
 Population Data: MNC-I, response to SIGIR (12/6/2006)



million program,⁵⁰ which aims to help the Ministry of Electricity develop, implement, and sustain an effective O&M plan. The contractor will help provide O&M services at thermal and gas turbine power plants.

- FY 2006 ESF provided an additional \$278.6 million for O&M in the electricity sector.⁵¹

As of December 2006, \$308 million was programmed for Operations, Maintenance, and Sustainment (OMS); 21 projects (\$288 million) are in progress; and 5 (\$20 million) are complete. The OMS program is scheduled to finish by October 2007.⁵²



RISING DEMAND

Demand for electricity continues to surpass Iraq’s peak generation capacity—8,122 MW were demanded on average this quarter, compared to a peak generation average of 4,260 MW.⁵³ U.S.-funded generation projects have contributed 2,817 MW⁵⁴ of capacity to Iraqi daily electricity output through construction, repairs, and modifications to power stations.⁵⁵ The U.S. Department of Energy (DoE) estimates Iraq’s long-term generation capacity need at 18,000 MW.⁵⁶ This quarter, Baghdad is experiencing electricity demands averaging 2,200 MW per day.⁵⁷ These are the main issues associated with electricity demand in Iraq:

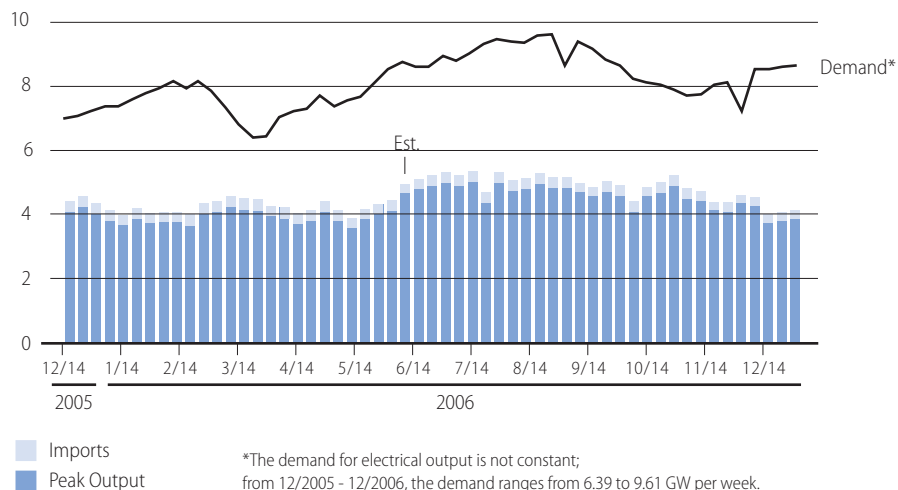
- The high demand can be attributed to government subsidies, a growing economy, and a surge in the consumer purchases of appliances and electronics. The Minis-

try of Finance has advocated eliminating subsidies on electricity, which would raise rates and increase government revenue. Unreliable distribution, however, provides consumers with a disincentive to pay for service.⁵⁸

- Iraqi electricity expectations continue to go unmet, as hours of power inside Baghdad remain below pre-war levels. The GOI has set a goal to achieve 12 hours of power per day.⁵⁹
- Attacks on the electricity network—particularly the power lines—are cutting the capability to deliver electricity to the Baghdad loop; more than 80 transmission towers along the Baiji-Baghdad West #2 line are down from attack.⁶⁰ Baghdad receives very little power from generation plants in the north.⁶¹

Figure 2-15 shows the generation capacity versus demand.

Figure 2-15
ELECTRICITY DEMAND VS. CAPACITY
 Weekly Average Gigawatts (GW)
 Source: IRMO, *Weekly Status Reports* (12/14/2005 - 12/26/2006)





FUEL SHORTAGES

Insufficient supplies of fuel and water led to a loss of nearly 1,500 MW in production per day this quarter; the issue of fuel and water supply grows more critical as new generation projects come online.⁶² As SIGIR reported last quarter, the solution to fuel shortages requires coordination between the Ministries of Oil and Electricity, but joint discussions have not yet produced a coordinated plan. Figure 2-16 shows a breakdown of unmet fuel and water needs at power plants by type of generation

facility. The supply of fuel and water fluctuate from week to week, leading to inconsistent power production and service. These factors contribute to the challenge of fuel shortages throughout Iraq:

- Less-than-optimal fuel causes a more rapid deterioration of parts, more frequent maintenance, more pollution, and more costs. U.S. reconstruction projects have installed 35 natural gas turbines in generation plants throughout Iraq. However, 16 of these 35 turbines use crude or heavy fuel oil instead of natural gas.

Figure 2-16
UNMET ELECTRICITY PRODUCTION CAUSED BY WATER AND FUEL SHORTAGE
 Megawatts (MW), Weekly Average
 Source: IRMO Daily Electricity Report (10/1/2006 - 12/26/2006)

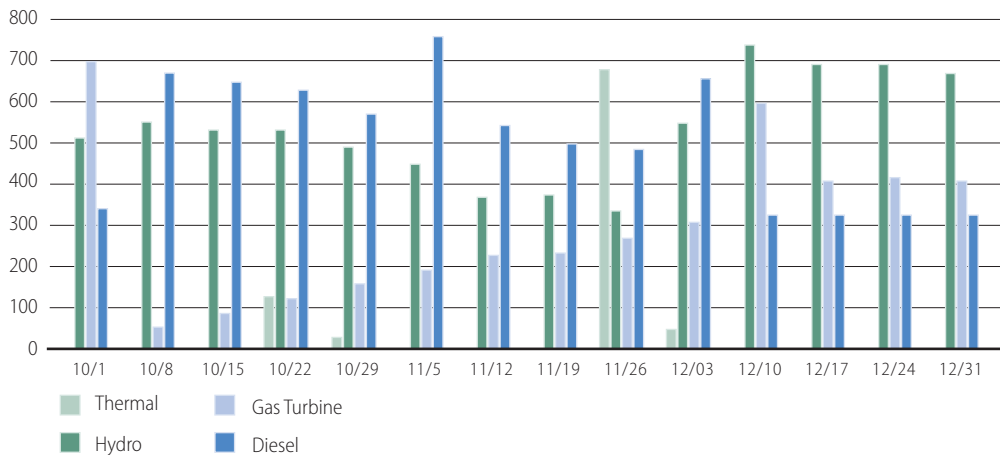
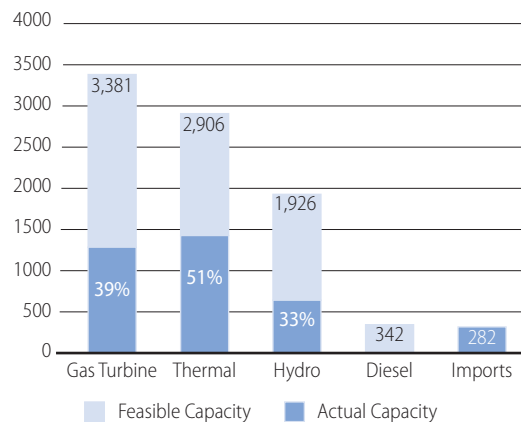




Figure 2-17
ACTUAL VS. FEASIBLE ELECTRICITY PRODUCTION
 Megawatts (MW)
 Source: IRMO Daily Electricity Report (10/1/2006 - 12/31/2006)



Note:

1. Diesel power produced only 233 MW, less than 1% of the total feasible production.
2. Imported power provides less than 1% of Iraq's electricity.

- IRMO estimates that Iraq could save \$4 billion each year by initiating programs to transfer flared natural gas to power plants for electricity production.

As Figure 2-17 demonstrates, 61% of feasible capacity at gas turbine facilities that produce electricity goes unmet. Gas turbine plants lose nearly 2,000 MW production because heavy fuel oil is used instead of natural gas.

SECURITY

The lack of security continues to challenge the electricity sector, leading to project delays and increased costs for security services.⁶³ A major concern is protecting linear assets, particularly

transmission lines.⁶⁴ Last quarter, a SIGIR audit (SIGIR-06-038) noted that \$216.2 million went to improve Iraq's capacity to protect its electricity infrastructure. IRMO and the Ministry of Electricity continue to take steps to improve data on attacks on electricity infrastructure. The audit found that attack rates varied between January 2005 and April 2006, but they were down from April to June 2006. A DoS oil expert cautioned against drawing conclusive links between the number of attacks and energy supply, because strategic attacks—although they may occur less frequently—can have equally debilitating effects.⁶⁵ Repair teams sent in after attacks continue to face threats, including kidnapping and murder.⁶⁶





STATUS OF OIL AND GAS

This review updates the status of reconstruction projects designed to increase Iraqi oil production and exports, improve natural gas production, and enhance critical fuel-refining capabilities. Project work in this sector is designed to maintain major production fields and to repair key facilities and infrastructure.

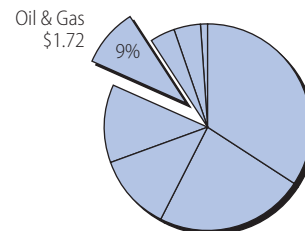
Although U.S.-funded projects have helped increase crude oil production capacity and exports, a number of issues continue to pose significant challenges to sustained development in this sector, including the deteriorating security situation, inadequate maintenance, insufficient sustainment processes, continued corruption, and an inefficient budget execution process.

SIGIR makes these observations about activities in the oil and gas sector this quarter:

- As of January 2, 2007, 1.63 billion of the sector's \$1.72 billion allocation was obligated, and \$1.29 billion had been expended (75%).⁶⁷ Figure 2-18 shows this allocation as a percentage of total IRRF funding.
- In 2006, Iraqi crude oil production increased slightly over 2005, averaging 2.12 million barrels per day (BPD) for the year. This quarter, output dipped to 1.86 million BPD⁶⁸ for one week in early November and averaged 2.17 million BPD⁶⁹ for the quarter. Iraq has missed its quarterly production target every quarter since 2004.

- End-of-year numbers show that the daily average of exported crude oil in Iraq increased by more than 150,000 BPD from 2005, but still fell short of the GOI export goal of 1.65 million BPD. This quarter, exports averaged 1.48 million BPD.
- Imports of refined fuels, particularly kerosene and diesel, have increased; nevertheless, supply still will not meet this winter's demand.
- The Ministry of Oil reached a milestone by installing meters at the Al Basrah Oil Terminal in January 2007.

Figure 2-18
OIL AND GAS SECTOR AS A SHARE OF IRRF FUNDS
 \$ Billions
 % of \$18.44 Billion
 Source: IRMO, *Weekly Status Report* (1/2/2007)





SIGIR sees these key challenges facing the oil and gas sector this quarter:

- Slow budget execution continues to increase pressure on an already stressed infrastructure. The proposed GOI 2007 budget allocates \$2.4 billion to the Ministry of Oil for capital projects, a drop of 33% from last year's \$3.6 billion budget.⁷⁰
- An insurgent attack on a refined fuel pipeline in the south increased security concerns about the ability of Iraqi forces to protect linear infrastructure.
- The GOI is developing national hydrocarbon legislation, which will create policy for sharing oil revenue, establish a new Iraqi state oil company, and define the regulatory role of the Ministry of Oil.⁷¹ Currently under consideration by the Council of Ministers, the law is not expected to reach the Council of Representatives until March 2007 at the earliest.

IRRF-funded Activities in the Oil and Gas Sector

All U.S. construction projects in this sector are scheduled to be completed by the end of July 2007.⁷² For a summary of U.S.-funded construction projects to date, see Figure 2-19.⁷³

At the start of January 2007, \$1.29 billion of the \$1.72 billion allocation had been expended. This quarter, \$150 million was expended. Figure 2-20 shows the status of sector funds.

IRRF-funded Project Status

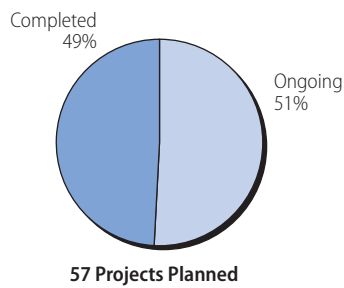
Currently, 182 projects are planned in this sector—125 non-construction and 57 Engineering, Procurement, and Construction (EPC) projects.⁷⁴ For the completion status of non-construction and EPC projects as of the end of this quarter, see Table 2-6.



Pipeline construction in northeastern Iraq.

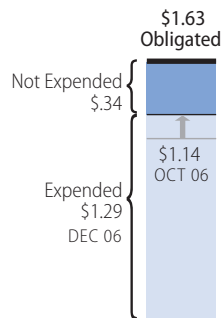


Figure 2-19
STATUS OF IRRF OIL AND GAS PROJECTS
 Source: IRMO Rollup (12/30/2006);
 USAID Activities Report (December 2006)



Sector	Not Started	Ongoing	Completed	Total
Water Injection Pump Station		10	9	19
Southern Region Projects		13	6	19
Northern Region Projects			9	9
Dedicated Power		1	2	3
LPG/LNG Plant Refurb		5	1	6
General Projects			1	1
Total		29	28	57

Figure 2-20
STATUS OF IRRF FUNDS - OIL AND GAS
 \$ Billions
 Source: IRMO, *Weekly Status Report* (1/2/2007);
 DoS, *Iraq Weekly Status* (9/27/2006)



NON-CONSTRUCTION VS. EPC PROJECT STATUS SUMMARY

TYPE	TOTAL PROJECTS	NOT STARTED	ONGOING	COMPLETED
Non-construction	125	0	53	72
EPC	57	0	29	28

Non-construction source: USACE-GRD, *Bi-weekly Situation Report*, December 25, 2006, p. 13.

TABLE 2-6



Key Oil and Gas Projects Completed and Underway

Most construction initiatives in the oil and gas sector have focused on production and exportation, but some projects have also helped rehabilitate refining and gas facilities. Figure 2-21 shows the critical oil and gas infrastructure across Iraq, including the country's 4,350-mile-long pipeline system.

In the north, the Baiji-Kirkuk Pipeline is the major route by which crude oil reaches the refineries at Baiji. The four pipelines of this route are frequently attacked. The Baiji-Ceyhan Pipeline, also known as the Iraq-Turkey Pipeline (ITP), is the major export route for crude oil from the northern fields. Oil exports in the north have been significantly limited because pipelines have been inoperative for most of the reporting period.

For the pipeline routes from Kirkuk to Baiji and Baiji to Turkey, as well as the major oil routes linked to the Rumaila fields in the south, see Figure 2-21.

The **Al Basrah Oil Terminal (ABOT)** task order was 48% complete as of December 29, 2006.⁷⁵ As of December 2006, 6 of the 14 projects under this task order had been completed. This task order focuses on sustainability operations.⁷⁶ The work underway on this task order has suffered chronic schedule slippages. On November 19, 2006, SIGIR made an initial inspection of rehabilitation work at ABOT. A SIGIR report detailing the extensive rehabilitation work and the challenges faced in performing the work at ABOT is scheduled to be issued in March 2007.

This quarter, the Ministry of Oil met a milestone, installing meters at ABOT on January 15, 2007. The start of the project had been delayed because the shutdown deprives the GOI of its main source of income—oil exports—while work is being completed.⁷⁷ IRMO recommended against the ABOT shutdown, arguing that ABOT loading berths already feature turbine and positive displacement meters. IRMO also noted that “changing from one metering device to another does not warrant shutting down the platform.”⁷⁸

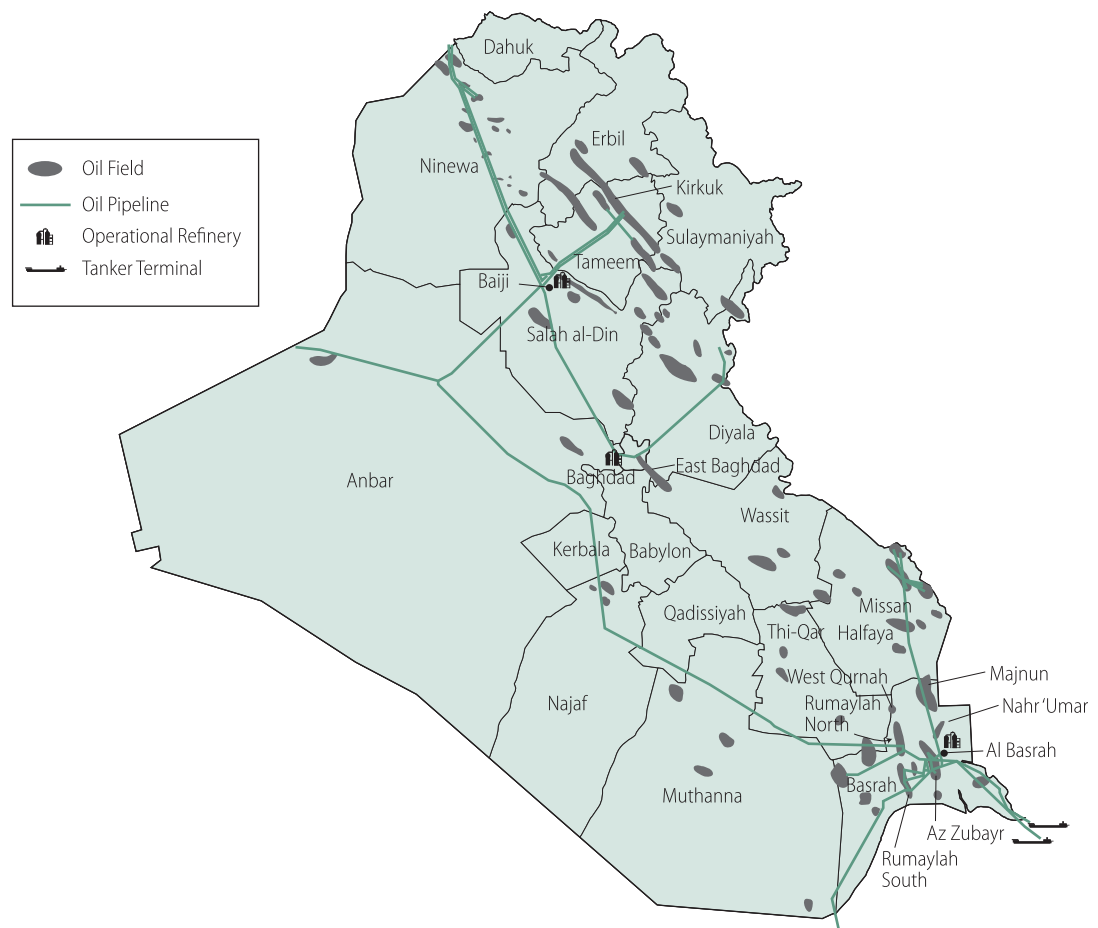
However, the 2004 International Advisory and Monitoring Board (IAMB) for the Development Fund for Iraq (DFI) recommended that metering equipment be expeditiously installed.⁷⁹ In addition, the International Monetary Fund (IMF) Stand-By Arrangement with Iraq states that the GOI will work “to install a metering system by end-2006” to meet international quality assurance standards.⁸⁰ The estimated completion date for the ABOT task order is May 2007.⁸¹

Last quarter, SIGIR reported that 12 **gas-oil separation plants (GOSPs)** were undergoing refurbishments throughout southern Iraq to increase crude oil processing capacity by 600,000 BPD. Seven of the eight GOSP projects in the north have been completed, increasing crude oil processing capacity by 300,000 BPD.⁸² Six of the 12 GOSP projects in the south are completed. The overall task order is nearing completion and is expected to be finished by February 2007.⁸³

The refurbishment of the **Shuaiba Refinery Power Plant** in Basrah was completed in



Figure 2-21
GAS AND OIL INFRASTRUCTURE BY GOVERNORATE
 Source: CIA Country Profile Map



November 2006. This project was designed to improve the continuous long-term power supply to the Basrah Refinery. GRD-PCO reported that a training project for plant operators is also complete.⁸⁴

The **Qarmat Ali project** is designed to provide treated water for injection wells to maintain oil reservoir pressure and to help sustain production levels in one of the largest southern oil fields. Phase I is complete. Phase II is cur-

rently 30% complete, and GRD-PCO reports that it is scheduled to be finished by the end of July 2007 although the original completion date was December 2006.⁸⁵ This delay stems from an assessment of equipment that revealed a need for replacement parts. GRD-PCO notes that project costs will increase because of this additional procurement, but does not state by how much.



Phase II of the **Qarmat Ali** task order is expected to increase water injection to full capacity, resulting in a crude oil production increase of 200,000 BPD. Research completed by several leading international oil companies, however, questioned whether water injection was the proper technique to boost production in some of the Rumaila fields. IRMO has previously cited significant pre-war deterioration in these fields and questions the potential benefit of continued water injection; oil company reports instead recommend the use of artificial lift pumps or gas injection.⁸⁶

The **South Well Workovers** project in the Basrah governorate began on August 1, 2006, and has made steady progress; the project is now 27% complete. This project aims to refurbish wells throughout the governorate, including the workover of 30 wells in the Rumaila fields and completion and replacement of tubing in an additional 30 wells in West Qurna. GRD-PCO reports increased investment in this area because workovers were viewed as a higher priority than storage projects and similar projects.⁸⁷ GRD-PCO reports that a logistics issue dealing with the delivery of chemicals has been solved and that the project may still meet its original completion date of April 2007.⁸⁸

To date, \$359 million has been allocated for engineering and procurement projects, \$17 million for government procurement, \$11 million for capacity-development initiatives for operating company personnel, and \$506 million for administrative task orders.⁸⁹

Outputs of IRRF-funded Oil and Gas Projects

Output in this sector is measured in barrels as a daily average per month, and U.S.-funded projects in this sector aim to help the GOI achieve the current production target of 2.68 million BPD. This quarter's average was 2.17 million BPD, more than 500,000 BPD below the target. This quarter's production averages, however, are nearly 200,000 BPD greater than the fourth quarter of 2005.

Over the summer, IRMO warned that gains from rehabilitation projects would "be overtaken by production losses in the near future due to inadequate expenditures for maintenance and lack of replacement of critical parts, material, and equipment if nothing is done to change the current constricting budgetary system for the Ministry of Oil."⁹⁰ These sustainment issues persist despite U.S.-funded attempts to improve Iraqi capabilities in these areas.



Outcomes of IRRF-funded Oil and Gas Projects

The major outcome of U.S.-funded projects in this sector is revenue generated by increased crude oil exports. Table 2-7 presents reconstruction project metrics against pre-war levels and U.S. and Iraqi end-state goals.

The 2006 GOI budget anticipated an average crude oil production of 2.3 million BPD, with revenues generated from an estimated 1.65 million BPD exported at an estimated price

of \$46.60.⁹¹ Despite increasing its crude oil production target from 2.5 million BPD to 2.68 million BPD, the GOI has decreased its estimated 2007 crude oil production average to 2.1 million BPD. Figure 2-22 shows a crude oil production breakdown between the northern and southern oil fields, and figure 2-23 shows crude oil production nationwide. As the GOI struggles to stabilize services, pay employees, and foster economic development, officials look to the oil and gas sector to boost govern-

CURRENT OIL AND GAS PROJECT BENEFITS VS. PRE-WAR LEVEL AND GOAL

OUTCOMES METRICS	PRE-WAR LEVEL (2003)	QUARTER AVERAGE	U.S. END-STATE GOALS	IRAQI END-STATE GOALS
Oil Production Capacity (million BPD)	2.8	2.68	3.0	2.8
Oil Production (Actual) (million BPD)	2.58	2.17	Not Available	2.8
Export Levels (million BPD)	Not Available	1.48	2.2 (capacity)	1.65
Natural Gas Production Capacity (MSCFD)	Not Available	730*	800	Not Available
LPG Production Capacity (TPD)	Not Available	1,700*	3,000	Not Available

*Data for these figures is taken from a GRD-PCO report of December 1, 2006, and does not constitute a full quarterly average.

Sources: Pre-war numbers—DoE Country Analysis Brief, meeting with DoE officials on May 31, 2006. Quarter Average—IRMO Monthly Import and Export Production, January 6, 2007.; DoS, *Iraq Weekly Status* reports, July-October, 2006 (oil production and exports); GRD-PCO, "Sector Consolidated Results Update Meeting," September 10, 2006, p. 3 (natural gas production capacity and LPG production capacity). U.S. end-state goals—GRD-PCO, "Iraq Reconstruction Report," October 5, 2006, p. 3 (production capacity); DoS, response to SIGIR, July 24, 2006 (export capacity); Iraqi end-state goals—meetings and discussions with DoS officials for April 2006 Quarterly Report; DoS, *IRMO Weekly Status Report*, May 16, 2006, p. 9 (Iraqi export target).

TABLE 2-7



ment coffers through crude oil exports. For 2006, DoS projected oil revenues in Iraq to reach \$31.3 billion, an increase of \$7 billion from 2005. The proposed 2007 budget estimates revenues of \$32.7 billion from an export average of 1.7 million BPD;⁹² an additional \$1.7 billion in non-oil revenues is also projected. For Iraq's export trends throughout the year, see Figure 2-24.

EXPORTS

U.S.-funded projects have added capacity to Iraq's oil export industry, the backbone of the Iraqi economy. Oil revenue constitutes almost 93% of total export earnings.⁹³ However, last quarter, a SIGIR audit (06-038) estimated that \$16 billion in oil export revenue was lost over the past three years because of attacks,

poorly maintained infrastructure, and criminal activity.⁹⁴

The oil and gas sector's improved export performance for 2006 is attributed to GOSP refurbishments, occasional flows of crude oil through the ITP, and rehabilitation work on the loading arms at the southern offshore loading berths. This quarter, exports averaged 1.48⁹⁵ million BPD for the quarter and closed the year averaging 1.51 million BPD.

As Figure 2-24 shows, revenue is related to exports and the price of crude oil in the global market.

Iraq also faces sustainability issues with its domestic export capacity, even though activities to further boost exports continue:

- In the north, Iraqis expected that the completion of the 40-inch crude oil pipeline would increase northern exports.⁹⁶

Figure 2-22
CRUDE OIL PRODUCTION BY REGION
 Millions of Barrels Per Day, Monthly Average
 Source: IRMO Monthly Import, Production, and Export Report (December 2006)

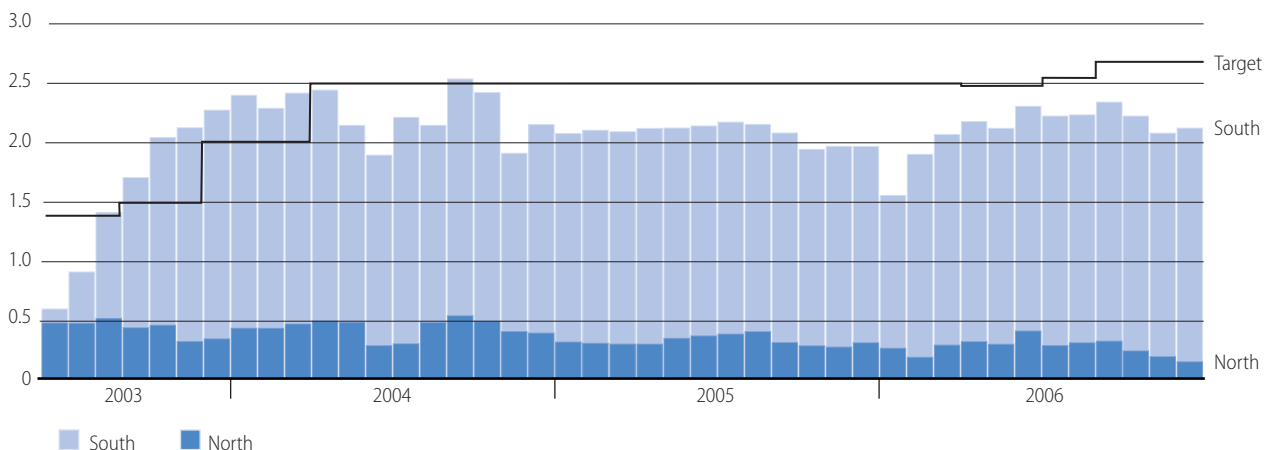




Figure 2-23
MONTHLY CRUDE OIL PRODUCTION
 Millions of Barrels Per Day (MBPD)
 Source: IRMO Monthly Import, Production, and Export Report (December 2006)

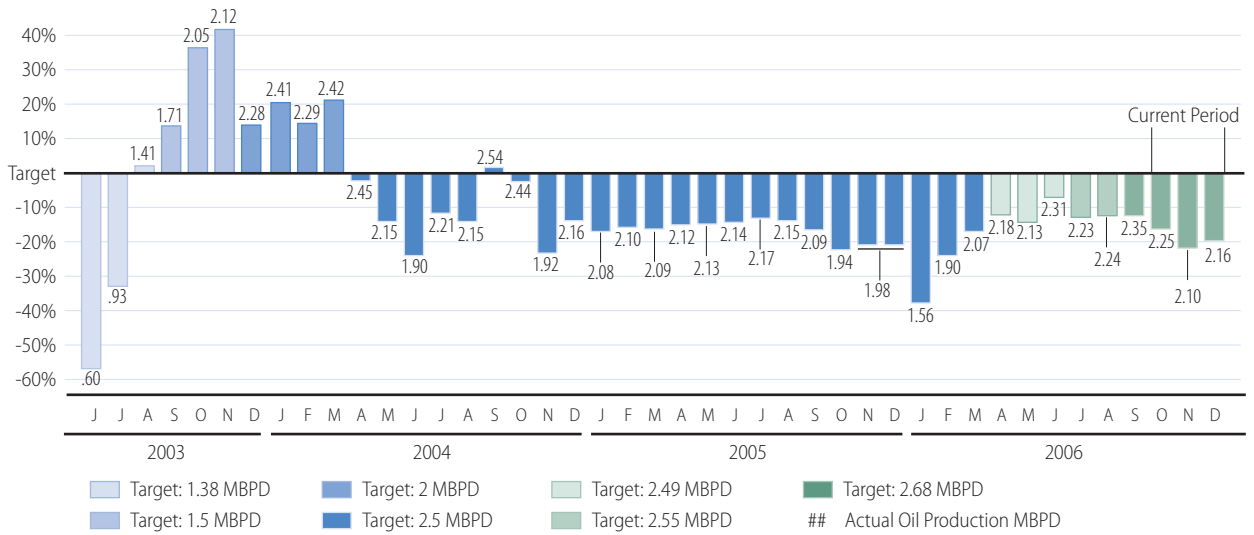
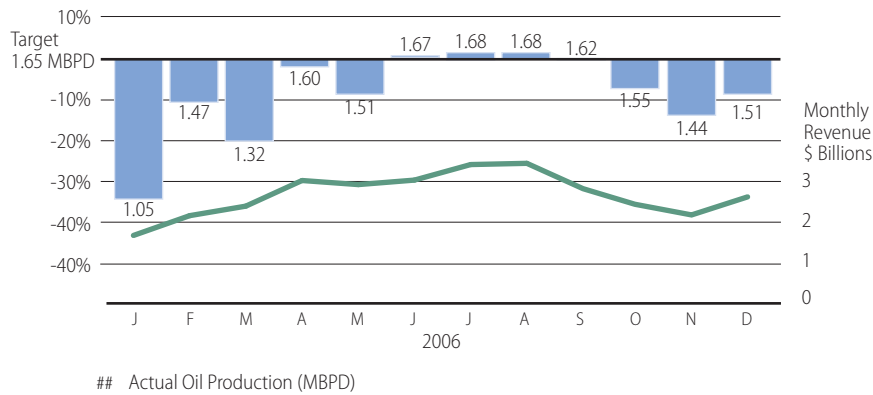


Figure 2-24
MONTHLY CRUDE OIL EXPORTS AND REVENUE RAISED
 Millions of Barrels Per Day (MBPD)
 Source: DoS, *Iraq Weekly Status* (1/4/2006 - 12/27/2006); IMF SBA (Iraqi Target)

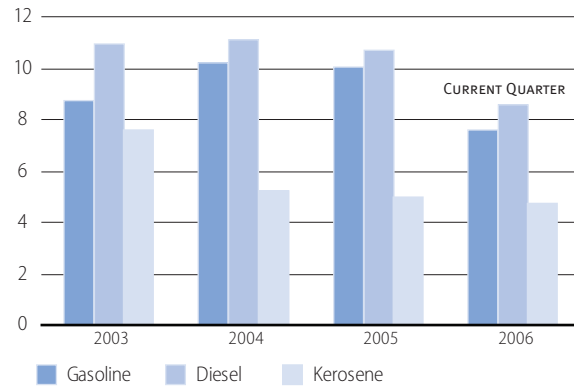


Month	Average Oil Price
Jan	\$54.16
Feb	53.02
Mar	52.98
Apr	61.10
May	63.19
Jun	60.26
Jul	65.08
Aug	66.88
Sep	57.24
Oct	52.01
Nov	51.24
Dec	56.12



Figure 2-25
WINTER FUEL REFINERY PRODUCTION (2003 - 2006)
 Millions of Liters

Source: IRMO Monthly Import, Production, and Export Report (12/2006)



Note:
 This quarter, winter 2006, refined fuel production is the lowest it has been (compared to other winters) since the U.S.-led invasion in 2003. Refined fuels include kerosene (to heat homes), gasoline (to fuel automobiles) and diesel (to power electricity generators).

Insurgent attacks, looting, and maintenance issues along the ITP pipeline, however, continue to prevent significant flows of crude oil to Ceyhan.

- In the south, recently refurbished loading berths at ABOT have improved the efficiency of tanker loadings. Khor al-Amaya Oil Terminal also resumed partially loading crude oil tankers⁹⁷ on November 22 after Iraqi workers repaired the damage caused by a major fire that occurred earlier this year.⁹⁸

As SIGIR has previously reported, Iraq relies heavily on ABOT for exports, particularly when the northern pipeline system is down. This severe export burden increases the southern system's susceptibility to long-standing vulnerabilities, including low storage capacity, volatile winter weather in the Persian Gulf, and interdictions. This quarter, IRMO reported that one of the southern pipelines that carries residual fuel to the Mussayib power plant and Daura refinery was hit with rockets, one of which impacted the pipeline manifold. This is the first time in several years that an attack was launched on this pipeline.⁹⁹

REFINING

Although Iraq has enormous reserves of crude oil, the nation lacks the domestic refining capacity to supply its population with enough refined fuels for heating homes, fueling automobiles, and powering factories. Iraq's inability to meet domestic demand forces the GOI to import kerosene, gasoline, diesel, and liquefied petroleum gas (LPG), the primary refined fuels consumed by the Iraqis. Iraq is estimated to need 18 million liters per day of kerosene to meet winter supply needs, and imports have averaged 4 million liters, leaving a large demand gap this winter.¹⁰⁰

Figure 2-25 shows the status of Iraq's refined fuel production.

Iraq faces both short-term and long-term challenges in the refined fuels industry. In the short term, Iraq relies heavily on its neighbors to help address domestic demand, especially Turkey for refined fuel imports. Consequently, procuring, transporting, and storing imported fuel are three major challenges that Iraq faces in the refining subsector.

Procuring refined fuel is complicated by large unpaid debts to the countries Iraq relies



on for refined fuel imports. Turkey holds the bulk of Iraq’s debt and is also the leading source of Iraq’s imported refined fuel. On November 21, 2006, Iraq paid \$80 million to Turkey, which followed another \$80 million payment in October. The GOI requested and received an additional \$800 million from the Council of Representatives to continuing purchasing refined products because it does not budget for fuel imports.¹⁰¹

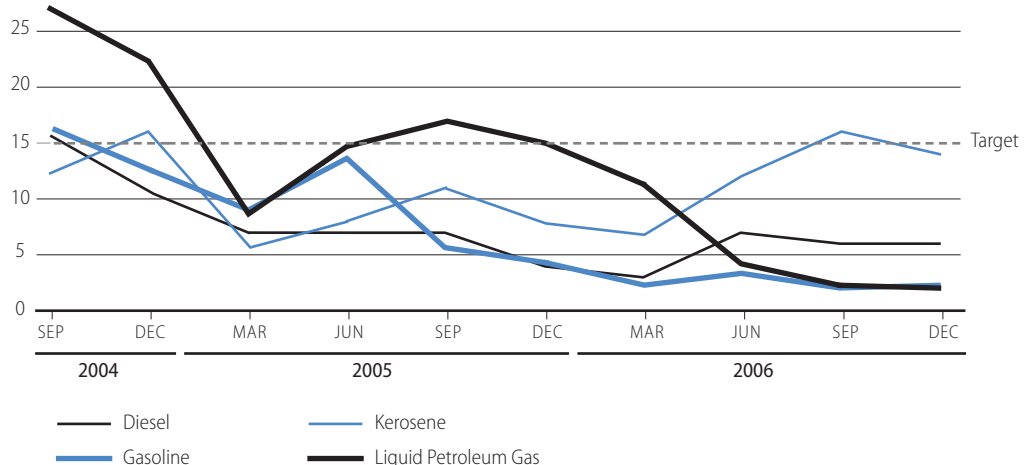
Transporting refined fuel imports from Turkey into the market remains cumbersome, particularly because these shipments are moved by truck from the border. In preparing for shortages of refined fuels during the winter months, several Iraqi governorates have signed deals with neighboring countries to import kerosene, including Iran. This quarter, Iran

signed an agreement with Kurdistan to supply 2 million liters of kerosene per day.¹⁰²

Storing LPG, diesel, kerosene, and gasoline throughout Iraq remains insufficient, especially at refineries. Attacks, threats, and insufficient storage capacity for refined fuel have led to the repeated shutdown of the Baiji refinery.¹⁰³ Also, DoS reports that some refined fuel storage facilities are under insurgent control.¹⁰⁴ To address distribution in Baghdad, the security plan includes the renovation of 18 gasoline stations.¹⁰⁵ Figure 2-26 shows the average days of refined fuels in storage.

To help alleviate repeated shortages and provide a stable supply of refined fuels in the future, the GOI has sought to improve its refining capacity. On October 7, 2006, it inaugurated a small refinery in Najaf with

Figure 2-26
QUARTERLY AVERAGE INVENTORY OF CRITICAL REFINED FUELS
 Quarterly Average Days of Stock
 Source: DoS, *Iraq Weekly Status* (9/2004 - 12/2006)





a capacity of 10,000 BPD.¹⁰⁶ Although new, this refinery lacks adequate storage capacity and has been inactive because of an inability to transport residual fuel via truck or pipeline.¹⁰⁷ Plans are also underway to upgrade two main refineries and construct another two in northern and central Iraq.¹⁰⁸ However, Iraq will continue to face refined product deficiencies until it addresses issues of pricing, import restrictions, and insufficient domestic refining capacity.

Challenges

Projects in this sector continue to face a number of challenges, including difficulties with budget execution, attacks on key infrastructure, corruption, smuggling, and ensuring the sustainability of operations.

SECURITY

The challenge of providing security for oil facilities and installations continued throughout this quarter. DoS reported that the lack of security is a serious challenge to increased production and export levels, especially in the north, where pipeline interdictions and attacks on static infrastructure in the Kirkuk-Baiji Pipeline have limited production and processing capacity. For example, one of two desulfurization plants in Kirkuk was attacked in November 2006, reducing its 500,000 BPD capacity to 50%.¹⁰⁹ This plant had been supplementing the output of a larger processing plant in Kirkuk, which has been offline since February 2006 because of an attack.

IMPLEMENTING AND FUNDING SUSTAINMENT ACTIVITIES

Sustaining U.S.-funded projects continues to be a critical challenge for the oil and gas sector. IRMO reported to SIGIR last quarter that the Ministry of Oil was struggling to operate, maintain, and replace aging and deteriorated infrastructure. Iraq's Ministry of Oil, which has a \$3.59 billion budget for FY 2006, saw a decrease in its allocation for maintenance from 2005. In FY 2006, the Ministry of Oil allocated 98.4% of its budget on capital projects, leaving very little for O&M, salaries, services, and pensions.¹¹⁰ The lack of investment in O&M is compounded by questionable practices, such as fuel reinjection, which continues to take a significant toll on the Kirkuk fields.¹¹¹ Fuel reinjection—a process in which oil is pumped back into the ground because pipelines, refineries, and/or storage facilities are not able to accept it—damages oil fields.¹¹²

GAO reports this quarter that the oil sector's "rebuilding efforts continue to be impeded by the lack of modern technology; qualified staff and expertise at the field, plant, and ministry level; an effective inventory control system for spare parts within the oil sector's 14 operating companies; and difficulties in spending budgets for equipment upgrades and replacements."¹¹³

Funding procedures implemented by the Ministry of Finance, Ministry of Planning, and Council of Ministers High Contracting Committee to control procurement corruption have slowed execution of the Ministry's budget. Furthermore, IRMO reports that the capacity



of the Ministry of Oil has decreased over the last year as experienced bureaucrats retire or leave Iraq.¹¹⁴

Iraq's South Oil Company sought to purchase four new tugboats to pull tankers into oil terminals, especially during the winter when the weather on the gulf becomes threatening, but the Ministry of Transportation has held up the transaction, noting price issues and lines of authority for the purchases.¹¹⁵ The State Company for Oil Projects has yet to begin construction of oil storage facilities in the south because the Chinese company it signed an agreement with in 2003 has not supplied the materials.¹¹⁶

CORRUPTION AND SMUGGLING

For the last four quarters, SIGIR has reported on the debilitating effects of corruption on the Iraqi oil industry. This quarter, corruption remains a challenge. The Ministry of Oil has acknowledged that corruption significantly affects the production and distribution of refined fuels. In its January 2007 report, GAO affirmed the Ministry's acknowledgment, noting that "widespread corruption and smuggling affect the distribution of refined oil products such as gasoline."¹¹⁷

An oil expert with DoS confirmed that oil *skimming* occurs in Iraq. Skimming means over or under-reporting flows as the fuel is transferred from the pipeline to the mode of transport. The IMF has identified metering as a priority mechanism to limit skimming.¹¹⁸

Another problem, *smuggling*, occurs when pipelines are tapped or trucks are intercepted. When pipelines are offline, vehicles are the only means of transport for exports and imports.¹¹⁹ This reliance on trucks increases the fear that drivers have ties to the insurgency or are vulnerable to threats and violence.¹²⁰

BUDGET EXECUTION

During his visit to Iraq last quarter, the Inspector General visited the Ministry of Oil to confer with the Deputy Minister, Chief Budget Officer, and Director of Plans. Those meetings confirmed widely voiced concerns that the Ministry of Oil has had problems executing its capital budget. In January 2007, GAO reported that as of August 2006, "the ministry had spent less than 1% of its \$3.5 billion budget."¹²¹ The DoS Bureau of Near Eastern Affairs (NEA)¹²² noted that the Ministry of Oil has struggled to comply with bureaucratic funding procedures instituted by the Ministry of Finance. Capital projects are affected by the budget process because allocations are made for only one year at a time. For example, a three-year project would be required to submit a budget request every year. If funding is approved in the first year but denied or delayed in later years, the project is delayed.¹²³ This is a government-wide problem in Iraq and is particularly significant for the Ministry of Oil, the major revenue-generating ministry in the country.



ENABLING LEGISLATION

Enacting national hydrocarbon legislation remains critical for Iraq to help reduce ethnic, regional, and tribal competition for control of crude oil resources.¹²⁴ Most international oil companies are awaiting the outcome of the debate before moving ahead with investment deals. According to the Iraq Ministry of Oil, “All indications confirm that the oil sector in Iraq can’t stand up on its own without the participation of international companies to develop oil fields and increase export rates.”¹²⁵

The current legislation addresses revenue-sharing, creates a new state oil company, and outlines a regulatory role for the Ministry of Oil.¹²⁶ The law is not expected to reach the Council of Representatives until March 2007 at the earliest.¹²⁷

Unlike the consensus to pass the Fuel Import Liberalization Law, the national hydrocarbon legislation continues to experience repeated false starts.¹²⁸ On October 22, 2006, the Kurdish Regional Government (KRG) published a final draft of its own hydrocarbon law. Although the KRG was applauded for what was considered an act of transparent government, the language of its legislation places it at odds with Iraq’s central government in Baghdad. The main risk to foreign investors is the possibility that the KRG and the central government could pass legislation that is not compatible, thereby generating uncertainty as to which hydrocarbon law will take precedence.



STATUS OF WATER

This review updates the status of U.S. reconstruction projects to increase access to clean water and sewerage services in Iraq and improve water resource management capabilities.

SIGIR makes these observations about activities in the water sector this quarter:

- The water sector has expended all but 30% (\$1.13 billion) of its IRRF allocation (\$2.13 billion). Figure 2-27 shows this sector’s funding as a share of the total IRRF. Only about 3% of water projects have yet to start, and 84% are complete.¹²⁹
- The water sector receives the largest portion of FY 2006 CERP commitments (\$151.38 million). Nearly 80% of the obligated FY 2006 CERP funds (\$149.81 million) remains unspent; \$31.52 million was used to complete 323 of the planned 708

projects. An additional 382 projects are ongoing, and 3 projects have not started. Figure 2-28 shows this sector’s funding as a share of the total CERP.

SIGIR sees these challenges in the water sector this quarter:

- A major concern for sustainment of U.S.-funded projects is the GOI’s insufficient O&M budget. In 2006, the GOI allocated 9% of its \$259 million water budget for maintenance activities, according to an IRMO budget expert.¹³⁰
- A remaining challenge is measuring how much potable water the Iraqis will receive and how much sewage will be treated when U.S. projects are completed.¹³¹

Figure 2-27
WATER SECTOR AS A SHARE OF IRRF FUNDS
 \$ Billions
 % of \$18.44 Billion
 Source: IRMO, *Weekly Status Report* (1/2/2007)

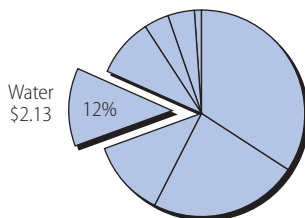


Figure 2-28
WATER SECTOR AS A SHARE OF FY 2006 CERP FUNDS
 \$ Millions
 % of \$511.16 Million
 Source: Office of the Assistant Secretary of the Army Financial Management and Comptroller (9/30/2006)

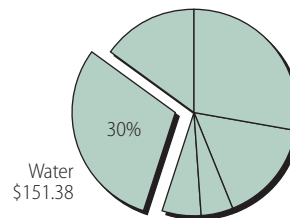
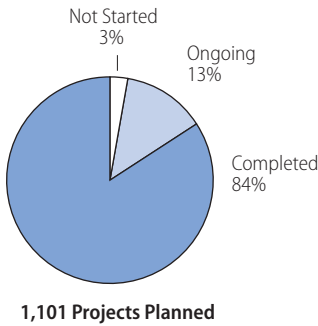




Figure 2-29
STATUS OF IRRF WATER PROJECTS
 Source: IRMO Rollup (12/30/2006);
 USAID Activities Report (December 2006)



Sector	Not Started	Ongoing	Completed	Total
Potable Water	22	135	844	1,001
Sewerage	6	7	54	67
Water Conservation			18	18
Pumping Stations and Generators		1	7	8
Other Solid Waste Management			2	2
Umm Qasr/Basrah Water Supply Project		1	1	2
Dam Repair, Rehabilitation & New Construction		1		1
Major Irrigation Projects		1		1
Irrigation Project (non-construction)			1	1
Total	28	146	927	1,101

Activities in the Water Sector

As of January 2, 2007, more than 80% of U.S.-funded sewerage projects were finished, and 84% of potable water projects were complete. For the status of projects in the water sector, see Figure 2-29. This quarter, approximately \$120 million was expended in the water sector, a decrease from the previous four quarters.

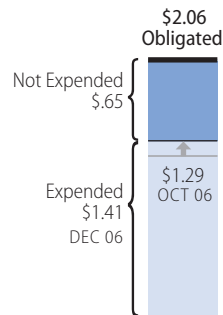
As of January 2, 2007, 97% of the sector's IRRF funding had been obligated, but only approximately 66% of the total allocation had been expended.¹³² Water was the last of the major construction sectors to undertake reconstruction in Iraq. For the status of IRRF funds in this sector, see Figure 2-30.

Key Projects Completed and Underway

All U.S.-funded projects in this sector are scheduled to be complete by October 2008.¹³³ The \$262 million **Nassriya Water Treatment Plant** project is 93% complete, as of December 10, 2006.¹³⁴ The original comple-

tion date of June 2006¹³⁵ was pushed back to October 2006¹³⁶ and then to April 2007 to increase output and provide network connections to five cities.¹³⁷ The Ministry of Electricity is connecting two feeder lines that will provide permanent power to the facility; the plant is currently using generator power. The completed water treatment plant will provide 240,000 cubic meters of water capacity per day, which is sufficient to serve an estimated 555,000 people.¹³⁸

Figure 2-30
STATUS OF IRRF FUNDS - WATER
 \$ Billions
 Source: IRMO, *Weekly Status Report* (1/2/2007);
 DoS, *Iraq Weekly Status* (9/27/2006)





U.S. and Iraqi engineers inspect the broken sweep arm at the Al Kasik Waste Water Treatment Plant.

Additionally, the **Nassriya Drainage Pump Station** was 64% complete, as of December 25, 2006,¹³⁹ and is scheduled for completion in June 2007. Cost overruns and schedule delays for this project, however, have pushed its cost to \$147.7 million, nearly double its original obligation of \$82.3 million.¹⁴⁰ The overruns and delays are largely the result of the addition of the Industrial Services Water Building, unforeseen site conditions, and increased security costs.¹⁴¹ GRD-PCO and IRMO are considering options for the future of this project.

This quarter, SIGIR inspectors visited the **Al Kasik Water Storage Tanks** (\$4.9 million) and **Al Kasik Waste Water Treatment Plant** (\$2.7 million). SIGIR found that although the work on the water storage tanks met applicable standards, the wastewater treatment plant completed in February 2006 has not

been operational since March 2006 because of the failure of the sweep-arm assembly in the clarifier tank. Before the U.S. contractor turned the facility over to the Iraqi operator, the contractor appears to have provided insufficient operational testing and ineffective plant operator training.¹⁴² For more information, see section 3 of this Report.

The \$22.9 million project to restore the **Sharq Dijla Water Treatment Plant** was finished in October 2006.¹⁴³ The restored capacity will be sufficient to serve an additional 196,000 cubic meters of water per day, with the potential to serve an additional 392,000 people.¹⁴⁴

Last quarter, GRD-PCO introduced a \$116 million **Small Potable Water Program**, which focuses on contracting directly with Iraqi firms. When completed, these projects are expected to add 419,000 cubic meters



of potable water treatment capacity, potentially serving up to 3.2 million people. As of December 10, 2006, 179 of 323 projects were completed (55%). These projects employ approximately 3,400 Iraqis.¹⁴⁵ The **Potable Water Rehabilitation Program** (\$59 million) is the largest of these projects and has the potential to provide improved water sources to 1.8 million Iraqis.¹⁴⁶

On October 30, 2006, the **Basrah Sewerage Project** was completed. Final electrical connection to the sewer pump stations was completed on December 18, 2006. The project scope included assessing a sewer system, constructing and rehabilitating sewage collection networks, constructing four new pumping stations, upgrading equipment in the wastewater treatment plant, procuring sewer jet trucks, and installing the hospital's main sewer line.¹⁴⁷

Outputs of IRRF-funded Projects

To date, the United States has constructed or rehabilitated 21 potable water treatment facilities and 200 smaller water systems.¹⁴⁸ Addi-

tionally, nine centralized sewage treatment facilities have been rehabilitated. The outputs of these IRRF-funded projects appear in Table 2-8, which shows the current and anticipated capacity provided by completed water projects.

Outcomes of IRRF-funded Projects in the Water Sector

It is difficult to measure how much water Iraqis actually receive as an outcome of U.S.-funded projects or whether the water is potable.¹⁴⁹ To measure the impact of U.S. reconstruction efforts in the water and sanitation sector and on the recommendation of a 2005 GAO audit, IRMO developed a set of metrics and standard methodologies to track potential impacts of U.S. reconstruction efforts for the water sector. SIGIR reports on two primary IRMO water sector metrics:

- maximum additional system capacity
- additional people served at standard level of service, considering actual system conditions¹⁵⁰

CURRENT U.S. WATER PROJECT OUTPUTS AND ANTICIPATED END-STATE

OUTPUTS METRIC	CURRENT STATUS, AS OF 12/31/06	ANTICIPATED END-STATE (APRIL 2007)
Potable Water—Maximum Additional System Capacity	1.67 million cubic meters per day	2.37 million cubic meters per day
Sanitary Sewage—Maximum Additional System Capacity	1.20 million cubic meters per day	1.22 million cubic meters per day

Sources: IRMO, response to SIGIR, January 19, 2007.

TABLE 2-8



CURRENT U.S. WATER PROJECT OUTCOMES AND ANTICIPATED END-STATE

OUTCOME METRIC	CURRENT STATUS, AS OF 12/31/06	ANTICIPATED END-STATE ^a
Potable Water—additional people potentially served at a standard level of service, considering actual system conditions	5.4 million people	8.4 million people
Sanitary Sewage—additional people potentially served at a standard level of service, considering actual system conditions	5.1 million people	5.3 million people

Source: GRD-PCO, response to SIGIR, January 18, 2007. IRMO reports the anticipated end-state goal for additional people potentially served in sanitary sewage as 5.2 million people.
^a The estimated end-state is based on the estimated date for completing all water projects. All planned GRD-PCO projects will be completed by April 2007 (IRMO, Information Memorandum from Acting IRMO Director to Deputy Chief of Mission, April 19, 2006).

TABLE 2-9

U.S. projects have provided capacity to supply potable water access to an estimated 5.4 million people—an increase from last quarter’s 4.2 million and more than half the anticipated end-state of 8.4 million people. For a summary, see Table 2-9.

Challenges

IRMO reports these challenges to sustainability in the water sector:

- the lack of adequate funding for the budgets of the Ministry of Municipalities and Public Works and the Ministry of Water Resources O&M
- incentives to improve performance
- well-established fee-for-service system
- customer-oriented focus for service provision
- limited capacity to plan and implement major capital projects
- limited capacity to overcome the centralized management structure¹⁵¹

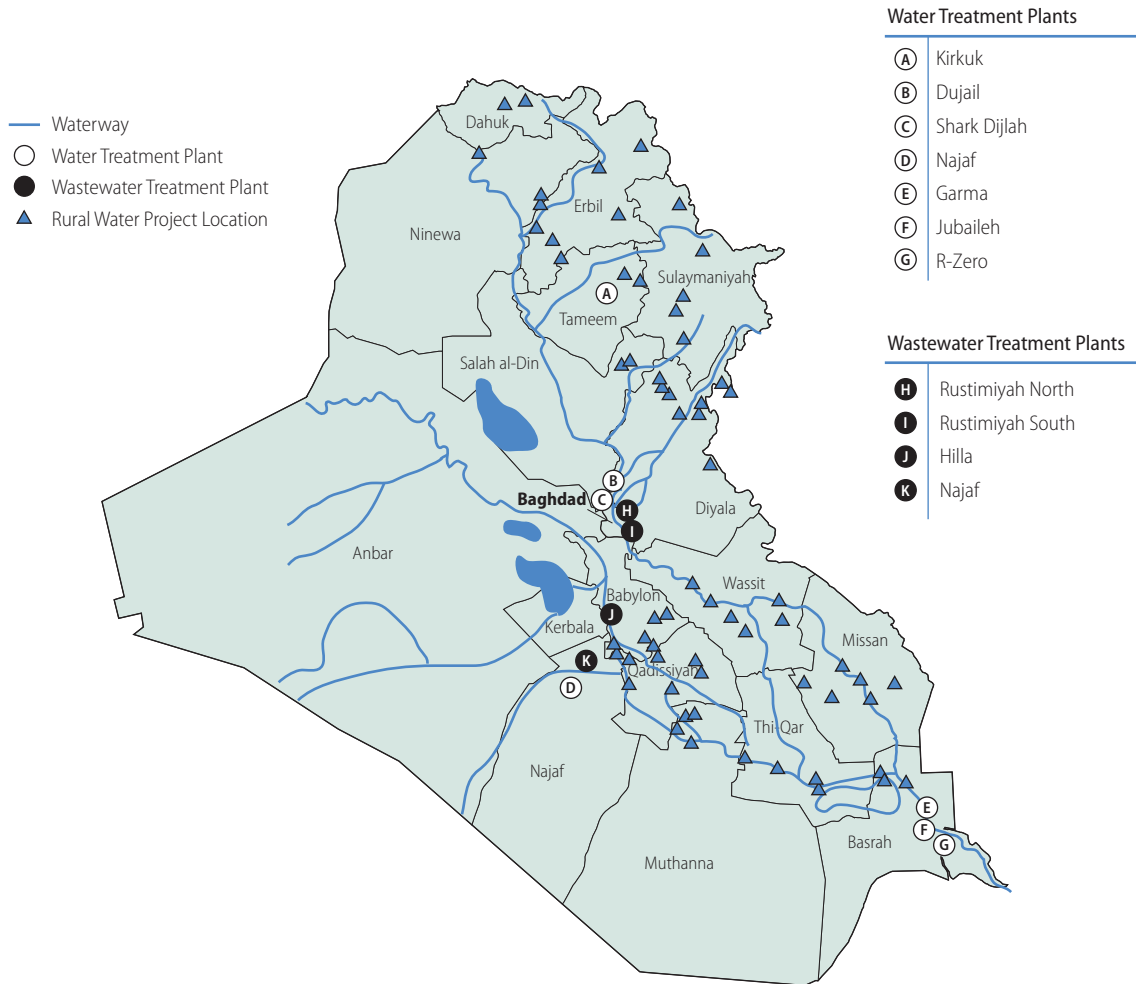
Poor O&M investment by the GOI and insufficient O&M training by contractors before the hand-over of projects continue to affect the sustainability of U.S.-funded projects. In 2006, the GOI allocated only 9% of its 2006 budget to O&M.¹⁵² In addition, insufficient O&M training likely hinders the sustainability of U.S.-funded projects, as SIGIR noted about the operations breakdown at the Al Kasik



Pallets of bottled water in Baghdad. Providing access to clean drinking water remains a challenge in Iraq.



Figure 2-31
WATER SECTOR SUSTAINMENT PROGRAM (WSSP) PROJECT MAP
 Source: GRD-WSSP (10/24/2006 - 11/27/2006)



Waste Water Treatment Plant.¹⁵³

The Water Sector Sustainment Program (WSSP) responds to the challenge of sustaining U.S.-funded water projects by adding O&M assistance at major water facilities in Iraq and supplying capacity-development functions

to ensure that the Iraqis have the means and ability to carry out sustained operations at an acceptable level of service.¹⁵⁴ This \$116 million program includes \$52 million for O&M facility support and \$21 million for capacity development and training. An additional \$6.3 million



was recently added for plant optimization work conducted by local Iraqi firms in support of the Baghdad Security Plan.

Figure 2-31 shows the locations of WSSP projects by governorate.

The sustainment program intends “to assist the Iraqi people in the proper operation and maintenance of selected water or wastewater facilities.” It includes supplying sufficient parts and consumables, as well as providing technical assessments and follow-on specialized repairs or optimization activities.¹⁵⁵ The WSSP builds on completed sustainment projects:

- USAID’s Water Sector Institutional Strengthening Program (WSIS) (\$25 million)¹⁵⁶ ended in April 2006, providing O&M support for 11 major water and wastewater treatment facilities.¹⁵⁷
- GRD-PCO’s Management Systems Training Program (\$14.5 million) for the Ministry of Municipalities and Public Works¹⁵⁸ will help build capacity in Baghdad and eight local governorates.¹⁵⁹

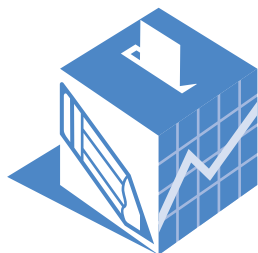
The ongoing WSSP program is scheduled to be completed in March 2007. The capacity development component of the WSSP includes:

- follow-up training, including mentoring, classroom training, on-the-job training, and workshops¹⁶⁰
- use of a scorecard to rate key operational areas at selected facilities, which GRD-PCO reports has been a very effective tool for the oversight and management of the WSSP program¹⁶¹
- daily training, with contractor and Iraqi staff working together, at the 11 facilities previously covered under the WSIS program
- continuing operations support at 40 major facilities and 69 rural water projects (Rural water O&M support activities include providing operators, maintenance technicians, instruction material, security, chemicals, and minor repair support.)

The WSSP is also implementing Phase II of the Capacity Development Program (CDP). This quarter, CDP provided 11 workshop trainings for 174 personnel at the Ministry of Water Resources and the Ministry of Municipalities and Public Works, as well as the Baghdad Amanat (the public works directorate for the city of Baghdad).¹⁶²



WATER



STATUS OF ECONOMIC AND SOCIETAL DEVELOPMENT

This section reports on activities in the following subsectors: democracy, agriculture, education, refugees and human rights, economic and private-sector development, and media.

SIGIR makes these observations about activities in the subsectors:

- IRRF allocations total \$2.21 billion, of which \$1.98 billion had been expended as of January 2, 2007.
- 98% of projects have been completed, 1% are ongoing, and only 1% have yet to start.
- In the democracy subsector, the National Reconciliation and Dialogue Project (NRDP) has held two of four planned conferences on reconciliation, but skepticism remains as to whether substantive reconciliation progress can be made as sectarian violence mounts.
- In the agriculture subsector, USAID's Agriculture Reconstruction and Development Program for Iraq (ARDI) has been closed out. Multi-National Force-Iraq (MNF-I) and Multi-National Corps-Iraq (MNC-I) have also been conducting many projects in agriculture and agribusiness development. A new USAID agriculture program is currently in the Request for Proposal (RFP) stage. The funding delay has forced USAID to let go dozens of Iraqi employees who had become adept at USAID project work in this subsector.
- U.S.-funded education programs have closed out. More than 5,100 schools have been rehabilitated or constructed to date, and 6,800 secondary school teachers have been trained in 2006. Security problems have caused many schools to close, and there have been many attacks against Ministry of Education employees, teachers, and professors.
- Two of the five IRRF-funded Migration and Refugee Assistance projects have been completed to date. Many observers are now arguing that there are insufficient resources to assist the growing number of Iraqis forced to leave their homes by escalating violence.
- Economic and private-sector development activities focus on economic governance, meeting the requirements of the IMF Stand-By Arrangement, modernizing the banking sector, and developing the private sector. A renewed focus on rejuvenating the most viable state-owned enterprises and the private businesses they support is part of the President's new Iraq strategy.
- The volatile security situation and politics are hampering the ability of the media to operate effectively and independently.



For the percentages of IRRF allocated and CERP funding committed to this sector, see Figures 2-32 and 2-33.

By the end of this quarter, all IRRF funding for these subsectors had been obligated, and 90% had been expended. As of December 2006, 7,997 projects (98%) had been completed in this sector.¹⁶³ For the status of IRRF funding in this sector, see Figure 2-34.

For the status of IRRF projects in this sector, see Figure 2-35.

As of September 30, 2006, almost all of the CERP funding in these sectors (\$144.52 million committed) had been obligated, and 33% (\$48.21 million) of the funding had been expended. To date, 614 CERP-funded projects have been completed, and 498 are ongoing.

Democracy

Democracy funding in 2005 focused on the Iraqi elections and national efforts to build civil society at the local level. By 2006, funding had shifted to supporting interagency Provincial Reconstruction Teams (PRTs) and projects to help Iraqi provincial leaders improve their capacity to provide basic services to their citizens.

DEMOCRACY PROJECTS COMPLETED AND UNDERWAY

Most IRRF funds in this sector were used to support the national elections, draft the constitution, and conduct the constitutional referendum in 2005. Various funding streams

Figure 2-32
**ECONOMIC AND SOCIETAL DEVELOPMENT SECTOR
AS A SHARE OF IRRF FUNDS**
\$ Billions
% of \$18.44 Billion
Source: IRMO, *Weekly Status Report* (1/2/2007)

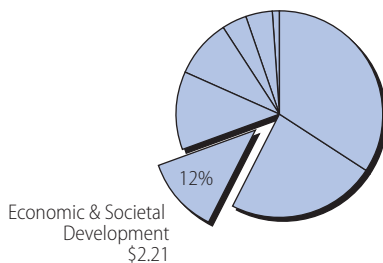


Figure 2-33
**ECONOMIC AND SOCIETAL DEVELOPMENT
AS A SECTOR SHARE OF FY 2006 CERP FUNDS**
\$ Millions
% of \$511.16 Million
Source: Office of the Assistant Secretary of the Army
Financial Management and Comptroller (9/30/2006)

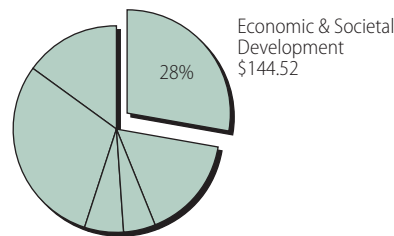




Figure 2-34
STATUS OF IRRF FUNDS - ECONOMIC AND SOCIETAL DEVELOPMENT
 \$ Billions
 Source: IRMO, *Weekly Status Report* (1/2/2007);
 DoS, *Iraq Weekly Status* (9/27/2006)

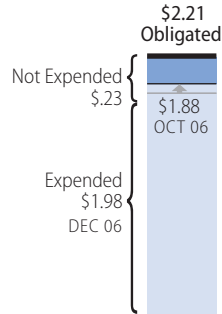
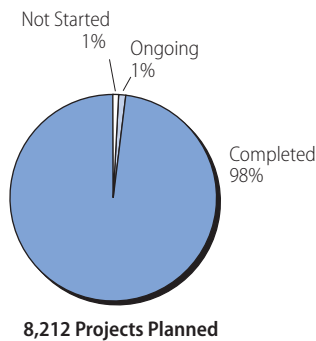


Figure 2-35
STATUS OF IRRF ECONOMIC AND SOCIETAL DEVELOPMENT PROJECTS
 Source: IRMO Rollup (12/30/2006); USAID Activities Report (December 2006)



Sector	Not Started	Ongoing	Completed	Total
Democracy Building Activities	110	97	5,913	6,120
Schools	1	2	807	810
Civic Program			446	446
Education			444	444
Agriculture	1		373	374
Public Buildings Construction and Repair	1		7	8
Migration and Refugee Assistance		3	2	5
Vocational Training			4	4
Market-Based Reforms			1	1
Total	113	102	7,997	8,212

have also been used to strengthen Iraq’s new democracy at the grassroots level by bolstering the legitimacy of the political system, developing institutional capacity, strengthening civil-society organizations, and inculcating a stronger sense of promoting civic involvement among Iraq’s citizens.

As of early December 2006, 5,913 of the 6,120 IRRF projects in the democracy sub-sector had been completed (97%). Additionally, 135 CERP-funded projects had been completed as of September 30, 2006; an additional 108 projects are in progress.

In 2006, the U.S. provided \$315 million from the Economic Support Fund (ESF) for



projects identified by the Provincial Reconstruction Development Committees (PRDCs) in each of the 18 provinces. These projects included the construction of roads, schools, sewers, and telecommunication upgrades. As of December 2006, 33 projects were funded, and \$68 million was expended.

In a national address on January 10, 2007, President Bush expressed his intention to “double the number of Provincial Reconstruction Teams (PRTs)” in Iraq.¹⁶⁴ PRTs work to decentralize U.S.-funded reconstruction efforts by placing combined military-civilian teams at the provincial level to strengthen governance capacity and help Iraqis prioritize development needs.¹⁶⁵ This quarter, DoS reported that the PRTs are focusing more on small-scale projects to help ensure that Iraqis quickly see the benefits of working with the government.¹⁶⁶ Currently, there are seven U.S. PRTs and three Coalition PRTs operating in Iraq; the office in Erbil is a Regional Reconstruction Team (RRT) that has not yet been officially opened.¹⁶⁷

The ability of PRTs to engage with local governments has been “directly related to support from the coalition force” in each governorate, according to a joint operational assessment of PRTs completed this quarter by MNF-I, MNC-I, and the National Coordination Team (NCT).¹⁶⁸ For example, the PRT team leader in Basrah reported in December that “the team itself cannot long be sustained as a body in exile.”¹⁶⁹ This quarter, ministers from the United Kingdom relocated personnel from the Basrah PRT to Kuwait because of escalating violence.¹⁷⁰ Security conditions have also hampered recruitment for civilian PRT

positions. A further concern is that, as an NCT assessment notes, “systems for documenting measurements in capacity building have not yet been developed and put in place.”¹⁷¹ On the other hand, senior USAID officials interviewed this quarter emphasized the positive impact of PRTs, noting that local Iraqi officials in many governorates are beginning to view the PRTs as their key interlocutors for development issues.¹⁷²

Forty-five million dollars in ESF funds go to the National Capacity Development Program (NCDP), which helps the GOI strengthen its core functions. Its activities include developing of key ministries, the Prime Minister’s office, participating inspectors general, and various anticorruption organizations.¹⁷³ The program uses Ministry Advisory Teams to provide public policy and programmatic advice, and work with the ministries to develop and address their respective priorities. It also supports the national public administration centers in their efforts to train ministry employees and develop core competencies.¹⁷⁴ The International Republican Institute (IRI), National Democratic Institute (NDI), and other grantees also receive ESF funds to continue to conduct IRRF-funded democracy activities at the national level.

OUTPUTS OF U.S. DEMOCRACY PROJECTS

U.S.-funded initiatives aimed at improving local governing capacity in Iraq have had mixed results. Since 2003, the Community Action Program (CAP) has operated in Iraq to promote democracy and help mitigate conflict



at the local level. The CAP aims to provide citizens with improved access to quality health care, education, recreation, water, sewerage, and other services by improving infrastructure and providing assistance to war victims.¹⁷⁵ This quarter, the program has established more than 66 community action groups throughout the country, creating more than 7,637 short-term jobs.¹⁷⁶ Additionally, CAP completed 327 community-based projects, valued at \$11 million. The CAP works closely with CAGs and PRTs, most recently emphasizing initiatives to generate income and employment.¹⁷⁷

The Iraq Civil Society Program (ICSP) began as a \$59.1 million contract in 2004 (increased to \$60.9 million, which includes \$8 million in ESF funds) with the goal of fostering participatory democratic governance in Iraq.¹⁷⁸ The ICSP has since supported services to Civil Society Resource Centers (CSRCs), worked to strengthen capacity and technical skills by delivering civic education workshops, advanced women's advocacy programs, and provided training for government officials on anticorruption and human rights.¹⁷⁹ The program is scheduled to terminate on June 30, 2007.

A November 2006 USAID audit on its ICSP contractors' Performance Monitoring Plan (PMP) found that only 17 of 35 intended civil-society initiatives have been accomplished to date, 8 others failed to meet their objectives, and documentation was not available for the final 10. Program achievements include establishing 4 regional CSRCs, awarding small grants to civil-society organizations, and adapting 83 capacity-building training

modules.¹⁸⁰ The PMP noted that the unfulfilled initiatives related to training staff on organizational assessments, establishing satellite centers, and providing multiple, human rights awareness and issues trainings.¹⁸¹

Last quarter, SIGIR reported on the activities of NDI and IRI in Iraq. Those activities continued this quarter, primarily with ESF funding. This quarter, NDI continued to focus on training and seminars. They have held seminars for political parties and non-governmental organizations (NGOs) on the anticipated provincial council elections and constitutional referendum, consulted with members of the Council of Representatives, debriefed the Multi-party Women's Caucus after the national conference, and conducted voter education. In December, NDI sponsored a delegation of Iraqi civic leaders who traveled to Romania to study civic development and advocacy.¹⁸²

IRI continues to support civil society groups, work with political parties to strengthen their structures and broaden their bases of support, and support the development of institutions in the Council of Representatives. This quarter, IRI organized strategic planning sessions for the civil society coalitions, "Civic Coalition for Free Elections," and "Yalla Shabab," a coalition of NGOs. IRI also held training sessions for Research Directorate staff, analyzing legislation and issues.¹⁸³

OUTCOMES OF U.S. DEMOCRACY PROGRAMS

The results of U.S. and other democracy programs are difficult to measure because they evolve over time. Nonetheless, it is fair



to suggest that movement toward greater political participation by Iraqis—as manifest in the national elections, active PRDCs, town councils, and the number of media outlets—is partly to the United States and others to train Iraqis in the skills of participating, organizing, prioritizing, and articulating their concerns and desires. Progress on the NRDP has been disappointing. On December 16, 2006, a reconciliation conference took place in Iraq, in which four groups of political leaders were formed to address issues raised by the Prime Minister; formal recommendations from the meeting were to be submitted in writing.¹⁸⁴ A third conference of political leaders, however, has been delayed;¹⁸⁵ actionable results from the meetings have yet to develop.

Upcoming milestones for 2007 include the passage and enforcement of constitutional enabling legislation and holding provincial elections throughout the country.¹⁸⁶ DoD remains skeptical, stating that “concrete actions by the GOI to implement national reconciliation have not been successful.”¹⁸⁷

CHALLENGES

Constitutional Reform. Promised reform of the constitution is needed to strengthen the central government. A July 2006 United States Institute for Peace (USIP) report offered a sober assessment of governance in Iraq, stating that the “central government, on paper and in reality, is possibly the weakest of any federal model in the world.”¹⁸⁸ Under the Iraqi constitution, the central government does not have the power to collect regional taxes, disband militias, or regulate the oil sector.

Ministerial Capacity Development

Coalition assessments have indicated repeatedly that Iraqi ministries have limited capacity to provide government services to the people. According to a GAO report, however, “the Iraqi government has taken a growing leadership role in capacity-development efforts in recent months.”¹⁸⁹ The major challenge moving forward, according to the GAO report, is the uncertainty about how the United States will make “the transition from the temporary U.S. entities leading these efforts to those having permanent post-conflict responsibilities.”¹⁹⁰

Security

Violence in Iraq has hampered progress on democracy efforts funded by the Coalition. The effectiveness of the Iraqi governance program remains in doubt as assassination attempts on politicians, professionals, and government officials continue unabated.¹⁹¹ Additional governance issues include:

- In August 2006, the U.S. Ambassador to Iraq noted that militias must be brought under control for Iraq to progress into a successful state.¹⁹²
- The UN Assistance Mission for Iraq (UNAMI) reports that many of the death squads and rival militias have direct links with, or are supported by, influential political parties belonging to the government; moreover, they are not attempting to conceal their respective affiliations.¹⁹³
- The UN has reported that judges and lawyers continue to be intimidated and targeted for attack. Harassment continues



for women and women's groups, especially secular women, who report receiving death threats for not abiding by strict and conservative dress codes. Armed groups in search of fathers and brothers have taken reprisal on mothers, sisters, and wives.¹⁹⁴

Agriculture

USAID has been responsible for most IRRF funding for the agriculture sector through the Agriculture Reconstruction and Development Program for Iraq (ARDI).

AGRICULTURE PROJECTS COMPLETED AND UNDERWAY

In December 2006, the ARDI program officially closed; it had worked to increase the capacity of the private sector in agronomic crop production, increase cultivation of high-value agricultural cash crops, improve animal health infrastructure and livestock production, and improve the use and management of water on agriculture lands.¹⁹⁵ Projects included establishing feed-lot cooperatives, sheep-raising cooperatives, and private veterinary service providers; strengthening honey-producer and agriculture input associations; and building the capacity of local NGOs to implement projects.¹⁹⁶ Additionally, the \$4 million allocated for the **Iraq Marshlands Restoration Program** was fully expended by the end of this quarter.¹⁹⁷

As of early December 2006, 373 of the 374 IRRF-funded projects in the agriculture sector had been completed, and the remaining project had yet to begin.

Although the ARDI contract will not be extended, USAID is issuing an RFP for a follow-up project, potentially using ESF funding.¹⁹⁸ The contract for this new follow-on program, known as *Inma*, is currently in the procurement process and expected to be awarded by USAID in February or March 2007.¹⁹⁹ However, ARDI employees may have already been demobilized, and it may prove difficult to bring them back.²⁰⁰

Additionally, the U.S. Department of Agriculture (USDA) awarded \$5.3 million in December 2006 to the Iraq Agriculture Extension Revitalization Project (IAER) to strengthen agriculture extension and training initiatives at Iraqi universities. As part of this project, a team of five U.S. universities will partner with universities across Iraq. The U.S. universities have specialized programs in arid-land agriculture, strong extension programs, experience in Middle East agro-ecologies similar to the various regions of Iraq, and 13 professors of Iraqi descent on their faculties.²⁰¹

IAER has a number of objectives: establish links between Ministry of Agriculture extension agencies and Iraqi agricultural colleges,²⁰² strengthen university capacity development, and provide training and support to Iraqis. The project will also provide specialized training and work with the private sector; it is scheduled to operate until September 2008.²⁰³

An additional \$2.5 million was designated to USDA staff who are currently supporting this project, and the Ministry of Higher Education and the Ministry of Science and Technology will also be involved.²⁰⁴



Using CERP funding, MNF-I and MNC-I are working to advance certain ARDI initiatives and project ideas, including:

- repairing and reconstructing irrigation infrastructure
- establishing farmer cooperatives and associations
- distributing cereal grain-seed cleaners throughout Iraq
- establishing honey-processing centers
- establishing vocation training centers with modules related to farm machinery repair
- distributing farm inputs (seed, fertilizer, etc.)²⁰⁵

As of September 30, 2006, 30 CERP-funded agriculture projects had been completed, and an additional 45 were ongoing.

Finally, the GOI is in the process of developing the Investment and Action Plan for Growth (IAPG) under the International Compact with Iraq (the Compact). The IAPG is a detailed plan that quantifies Iraq's financial and technical needs and sources. Agriculture is identified as one of the first sectors on which the IAPG will focus. The Compact includes two actions in this subsector—liberalizing the agricultural market and increasing access to agriculture credit through financial market reforms.²⁰⁶

OUTPUTS OF IRRF-FUNDED AGRICULTURE PROJECTS

The ARDI program worked directly with the Ministry of Agriculture, presenting an “Iraqi face” that helped keep security costs relatively low.²⁰⁷ The program employed more than 400 people; fewer than 30 were non-Iraqis.²⁰⁸ For final output metrics of the ARDI program, see Table 2-10.

The next USAID agriculture project will focus on agribusiness development, but some funding will remain for technical assistance to agricultural production. The Iraqi private sector is expected to provide farm machinery to assist in agricultural production, and credit programs are being set up to assist where necessary.²⁰⁹ USAID reported that there is also a need for continuing ARDI-type work along with agribusiness development.²¹⁰

OUTCOMES OF IRRF-FUNDED AGRICULTURE PROJECTS

Project outcomes in the agriculture sector depend mainly on activities that offer long-term returns on investment. USAID reported that the ARDI programs provided a potential \$400 million in value added to the Iraq economy.²¹¹ For example, production increased by an average of 70% in wheat, maize, rice, sorghum, and tomatoes.²¹² Also, 300,000 farm families increased productivity by more than 30% because of improved technology, infrastructure, and access to profitable markets provided by the ARDI programs.²¹³ Finally,



STATUS OF
ECONOMIC AND
SOCIAL
DEVELOPMENT

ARDI OUTPUTS

	<p>From 2005 to 2006, ARDI conducted wheat seed multiplication programs in two northern governorates, which provided 3,000 metric tons of higher quality, “certified +1” wheat seed to wheat producers.^a</p> <p>ARDI helped establish with the State Board for Date Palm Development 21 date palm mother orchards in 13 governorates. From 2004 to 2006, ARDI provided 80,000 date offshoot plants to the mother orchards, which will produce 240,000 new offshoots per year.^a</p> <p>7,406 farmers cleaned their saved wheat seed between September 2005 and January 2006, producing more than 35,000 metric tons of cleaned wheat seed.^a</p> <p>40 private veterinary service providers were established, 10 each in Ninewa, Kirkuk, Dahuk, and Salah al-Din. The providers offer services to rural areas not served by government clinics.^b</p> <p>68 veterinary clinics were rehabilitated, serving more than 5.7 million animals and 135,000 breeders.^b</p>
Crop and Livestock Management	
Land Irrigation	<p>ARDI rehabilitated irrigation systems, impacting 282,038 hectares.^c</p> <p>ARDI rehabilitated more than 1,100 km of irrigation infrastructure, which brought water to 283,000 hectares of land and benefited more than 85,000 farm families.^a</p>
Training and Capacity Development	<p>ARDI trained more than 215 mechanics, mostly in rural areas, as part of the tractor-repair program to improve infrastructure for repair and maintenance services for agricultural machinery.^b</p> <p>A wholesale price information system was established in all 18 governorates for dissemination by mass media (radio, SMS, e-mail) to farmers and traders of 60 fruits, dry goods, animal products, and agricultural inputs.^a</p> <p>ARDI also provided business management, association-building, and facilitation training to 19 NGOs active in agriculture development, 293 agricultural cooperative members in 15 newly-formed cooperative associations, 4,300 beekeepers and honey producers, a national association of 233 independent pesticide dealers, and 526 extension specialists.^a</p>
Mechanical Repairs	4,835 tractors were rehabilitated out of a goal of 5,000. ^b

^a IRMO, response to SIGIR, January 16, 2007.

^b DoS, *Section 2207 Report*, October 2006, I-100.

^c USAID, *Agriculture Reconstruction and Development Program for Iraq—End of Project Presentation*, December 18, 2006, p. 26.

TABLE 2-10

approximately 3,000 agribusinesses have generated at least 50% gains in income, including honey producers, mechanics, and tractor owners.²¹⁴

ARDI projects led to an increase of wheat production of 56% in areas cultivated by these initiatives, including replacing old seed varieties, introducing more productive growing techniques, cleaning wheat seeds, implementing pest-control techniques, and introducing salt-tolerant seed varieties.²¹⁵ This should help the Iraqis reduce their dependence on imported wheat.

To comply with the Stand-By Arrangement with the IMF, Iraq has asked the Coalition and other donors for advice under the Economic Governance program on how to phase out the Public Distribution System (PDS), which subsidizes food items by an estimated \$3 billion annually. The Iraqis are expected to ramp down the PDS over the next 3-5 years.²¹⁶

CHALLENGES

SIGIR sees two major challenges in the agriculture sector: inadequate security and the need to develop market-friendly laws and policies.



Security

Last quarter, the IRMO agriculture advisor noted that the greatest challenge for this sector is identifying how to work efficiently and effectively in the difficult security climate.²¹⁷ Although security accounted for only 6% of ARDI's total budget, security concerns caused project delays and cancellations, especially in ARDI's early days.²¹⁸ ARDI management moved its headquarters to Erbil in December 2004 because of the deteriorating security situation in and around Baghdad.²¹⁹ Many ARDI projects could not be initiated in certain areas of Iraq because of security risks, leaving out many potential recipients. Planned activities on specific projects also could not be implemented because of the danger and threats to the recipients.²²⁰

Develop Market-oriented Laws and Policies

Transitioning the agriculture sector to a market-oriented system will require substantial training and capacity building, investment capital, and mercantile infrastructure development. It will also require ending 15 years of universal food subsidies under the PDS while preserving a safety net for vulnerable groups. This challenge is also being addressed through programs to build ministerial capacity and support agricultural business development, as well as a USDA program to improve the Iraqi extension service.²²¹

Education

IRRF funding in the education sector was almost completely expended last quarter, with the exception of a few activities related

to school furniture and equipment, as well as three other projects to be finished by August 2007.²²²

Also, 316 CERP-funded projects in the education subsector had been completed, as of September 30, 2006; 236 projects are ongoing. Four projects have not yet begun.

The outputs in the education sector are reviewed in Table 2-11.

The United States has undertaken 6,639 projects, totaling \$1.15 billion, in the education sector.²²³ The October 2006 DoS *Section 2207 Report* stated that U.S.-funded projects have refurbished or constructed 5,168 schools to date.²²⁴ USAID reported that 33,000 secondary school teachers and administrators 15,513 of them women, were trained in 2004, and 6,800 secondary school teachers were trained in 2006. In addition, 84 primary and secondary schools were established as centers of excellence, providing specialized training to teachers.²²⁵

USAID IRRF funds supported the printing and distribution of 8.7 million math and science textbooks and delivered hundreds of thousands of desks, chairs, chalkboards, and more than 3 million school kits. USAID helped more than 13,000 out-of-school children complete an accelerated learning program. The Ministry and Directorates of Education also benefited from installation of U.S.-supplied computers and internet access.²²⁶

Despite the progress made by U.S.-funded projects, the lack of security has reduced the potential benefits of these activities. Many schools and universities have been forced to close, and teachers and professors have become



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SCHOOLS REPAIRED BY U.S. RECONSTRUCTION PROJECTS

TOTAL SCHOOLS (2003)	SCHOOLS NEEDING REPAIR (2003)	PROJECTS COMPLETED	PROJECTS IN PROGRESS	PROJECTS NOT YET STARTED
14,121	11,000	741–USAID IRRF 1 2,358–USAID IRRF 2 807–GRD-PCO IRRF 1,365 – MNF-I	N/A–USAID IRRF 1 77 USAID IRRF 2 2–GRD-PCO IRRF 2 N/A–MNF-I	N/A–USAID IRRF 1 N/A–USAID IRRF 2 1–GRD-PCO IRRF 2 N/A–MNF-I

Sources: DoS, *Section 2207 Report*, October 2006, p. 17 (Total Schools and Schools Needing Repair, MNF-I data); GRD-PCO, response to SIGIR, January 4, 2007 (PCO projects); all other metrics unchanged since last quarter.

TABLE 2-11

targets of violent attacks. In 2006 alone, the Ministry of Education reported that more than 300 of its teachers and employees were killed, and an additional 1,158 were wounded.²²⁷

From 2003 to August 2006, the Ministry of Higher Education reported that 154 professors had been assassinated, and in the three months between August and October 2006, 15 more were killed.²²⁸ It has been estimated, that 90% of the schools in the Diyala governorate are closed because of adverse security conditions, threats, and attacks. Almost no schools in the city of Ramadi in Anbar have opened because of insurgent threats.²²⁹

Although maintaining security around these educational institutions is the responsibility of the Iraqi government, it is difficult to determine how well these U.S.-refurbished facilities are being protected and to what degree they are being used.

Refugees and Human Rights

The escalating violence in Iraq during 2006 has caused an estimated 500,000 Iraqis to leave their homes. Approximately, 2,000-3,000 Iraqis leave for neighboring countries each day.²³⁰

The growing number of Iraqi refugees and internally displaced Iraqis has outpaced the resources available to support them, and violence in Iraq has hindered humanitarian efforts to assist Iraq's internally displaced population.

REFUGEES

During FY 2004, \$105 million in IRRF funds was allocated to assistance for conflict victims, including refugees and internally displaced persons (IDPs). In FY 2005, an additional \$54 million was allocated; a further \$27 million in FY 2006 brings the total allocation to \$186 million.²³¹ As of September 30, 2006, all allocations had been obligated, and \$134 million had been expended. IRRF funds have been used to support the capacity-building efforts of various Iraqi organizations, including the Ministry of Displacement and Migration and international groups, such as the International Organization for Migration (IOM), the UN High Commissioner for Refugees (UNHCR), and the International Committee of the Red Cross (ICRC).²³²



Progress in U.S.-funded projects in this sector included completing permanent water sources, continuing mobile health unit activities, and implementing water and sanitation activities, as well as training for the newly formed Iraq NGO, “Relief Iraq.” CERP is funding 146 additional humanitarian or reconstruction projects, which include construction of homeless shelters, providing orphanage supplies and food bags, and conducting shoe drops.²³³

RESOLUTION OF REAL PROPERTY DISPUTES

IRRF funds (\$10 million) have been committed and expended to support the Commission for Resolution of Real Property Disputes, formerly the Property Claims Commission. IOM implementation of the out-of-country claims program continues to be delayed pending additional funding that the UNHCR has committed. As of August 31, 2006, Iraqis had filed 124,092 property claims, and 25,893 had been adjudicated. UNHCR reports that only 401 Iraqis returned to Iraq in 2006, compared to 55,267 in 2005 and 191,645 in 2004. Last quarter, the UNHCR shifted its focus from aiding returning Iraqis to helping displaced citizens who continue to flee because of increased sectarian violence.²³⁴

HUMAN RIGHTS

Fifteen million dollars in IRRF funds were allocated to promote human rights in Iraq. All funds have been obligated, and \$12 million has been expended. USAID Human Rights

projects, funded by \$1.4 million of the IRRF, had been closed out by the end of October 2006.²³⁵

In FY 2007, the DoS Bureau for International Narcotics and Law Enforcement Affairs (INL) requested \$14 million to fund additional human rights programs to:

- Build internal monitoring, reporting, and enforcement systems in the Ministries of Interior and Defense.
- Support development of a robust and independent Human Rights Commission.
- Develop the capacity of Iraqi NGOs to monitor and report on human rights violations.
- Support the Human Rights Ministry.
- Train Iraqi journalists.²³⁶

CHALLENGES

Continued Human Rights Violations

The human rights situation continues to deteriorate in Iraq. UNAMI reports that attacks on Iraqi civilians and professionals have increased over the past few months:

- Attacks on professionals, such as teachers and religious figures, have increased since October 2006.
- Freedom of the press is currently a contentious topic in Iraq, as journalists and media workers remain targets for attack and assassination.
- Women in the central and southern governorates are increasingly restricted from accessing health and education services because of the volatile security situation. Furthermore, women continue to be the



victims of honor crimes, especially in the northern governorates.

- It has also been reported that minorities living in Kirkuk are prevented from participating in political, economic, and social developments in the city.²³⁷

UNAMI also reports that the total number of civilians violently killed in 2006 is 34,452—94 civilians each day. The number of civilians killed throughout the country was 3,462 in November and 2,914 in December, although December's figure does not include all governorates. The numbers of civilians killed in Baghdad alone during these same months were 2,230 and 2,501, respectively. On average, 3,338 Iraqis were killed each month between July 1, 2006, and December 31, 2006.²³⁸

Increased Refugees and IDPs and the Resolution of Real Property Rights

Although there are no exact figures for Iraqis displaced internally and abroad, the UNHCR reported in January 2007 that approximately 500,000 Iraqis had been internally displaced since the bombing of the Al-Askari Shrine in Samarra in February 2006.²³⁹ Additionally, it is estimated that approximately 50,000 Iraqis flee their homes each month. Many of these internally and externally displaced people are urban professionals considered crucial to Iraq's stability and development.²⁴⁰ Figure 2-36 shows how the Iraqi population has been displaced.

During the first half of 2006, more than 8,100 Iraqis applied for asylum in Europe, a 48% increase from the first half of 2005. The number of Iraqis seeking asylum in the United

States and Canada increased 32% during the same period.²⁴¹ Some observers have advocated raising the quota for Iraqi refugees allowed to resettle in the United States.

The sheer number of displaced Iraqis challenges the resources and services of host communities and host countries, and Iraq's neighbors are becoming overwhelmed by the growing number of Iraqi refugees in their countries. Syria has begun imposing new restrictions, such as limiting access to health care and schools. Jordan has closed its borders to young Iraqi men, and Lebanon has closed its borders to all Iraqi refugees.²⁴² The number of IDPs moving to the northern regions of Iraq is growing.²⁴³

Security

Security concerns across Iraq limit access of Iraqi ministries, humanitarian agencies, and NGOs to many vulnerable displaced groups. Both the UN and local aid groups have reportedly received threats for helping displaced families of differing religious affiliations.²⁴⁴ On November 9, 2006, the head of the Iraqi Red Crescent Society Administration was kidnapped.²⁴⁵ On December 18, 2006, the Iraqi Red Crescent (IRC) closed all of its Baghdad branches until further notice after the kidnapping of 30 IRC employees.²⁴⁶

Funding

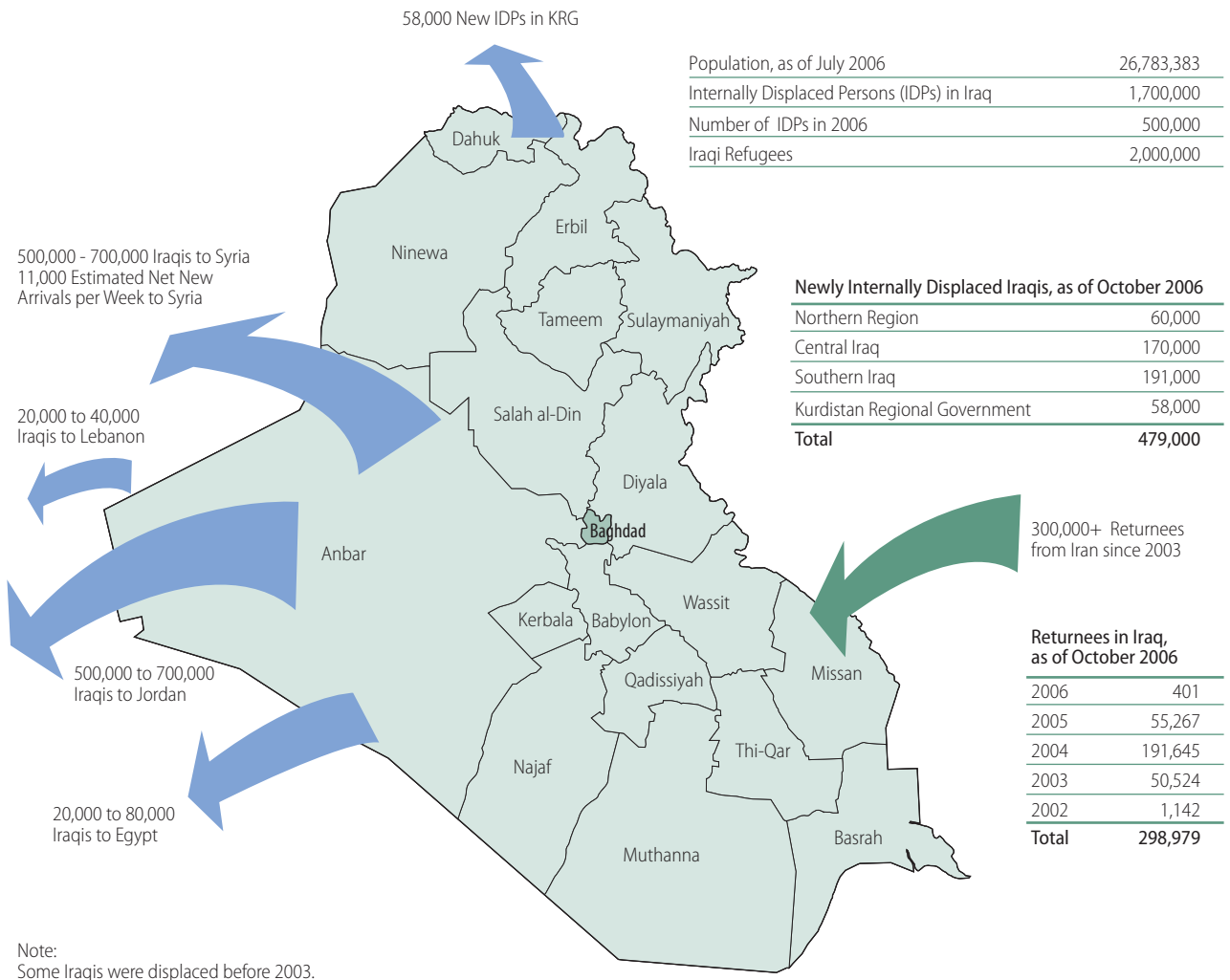
UNHCR operated in Iraq in FY 2006 with a budget of \$29 million. On January 8, 2007, UNHCR launched a new appeal for \$60 million for Iraqi operations over the next 12 months to deal with an estimated 2.3 million



Figure 2-36

MOVEMENT OF INTERNALLY DISPLACED IRAQIS AND IRAQI REFUGEES

Source: "UNHCR Update on the Iraq Situation," UNHCR, November 2006;
UNHCR "Iraq Situation Map; Situation as of October 2006";
CIA 2006 World Factbook: Iraq. www.cia.gov/cia/publications/factbook/geos/iz.html;
UNHCR Press Release "UNCHR launches new appeal for Iraq operations" 1/8/2007





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internally displaced persons. These funds will cover protection and assistance programs for Iraqi refugees in Syria, Jordan, Lebanon, Egypt, and Turkey, as well as non-Iraqi refugees and IDPs within Iraq.²⁴⁷ The increase in refugees also increases expenditures to pay for refugee status determination. The United States and Iraq's neighbors rely on the UNHCR to identify the most vulnerable Iraqi refugees. The DoS Bureau for Population, Refugees, and Migration has acknowledged that a lack of resources has hindered the UNHCR from doing settlement referrals on behalf of the United States.²⁴⁸

Economic and Private-sector Development

This section presents the key U.S. economic and private-sector development projects, as well as a general overview of the outputs of these projects.

PROJECTS COMPLETED AND UNDERWAY

Private-sector development programs have been allocated \$393 million of the IRRF. Approximately \$100 million was allocated to the ARDI program, and the remainder went to programs in institutional reforms, business skills and vocational trainings, and market-based initiatives. All funding in this sector has been obligated.²⁴⁹

USAID manages the vast majority of the funds in economic development. Its private-sector development funds (other than agriculture) are concentrated in two major contracts—one for economic governance and the other for private-sector development. USAID

also manages the microfinance program, under Izdihar, started by the CPA.²⁵⁰

Approximately \$30 million of IRRF funding was provided to the Overseas Private Investment Corporation in 2004 for expanding the Iraq Middle Market Development Fund (IMMDF),²⁵¹ a loan program that provides Iraqi companies with credit facilities of \$35,000 to \$5 million.²⁵² The program was recently provided an additional fund of \$9.1 million for smaller loans (\$35,000 to \$500,000), and 30% of this fund will be for agribusiness loans. As of the first week of January 2007, IMMDF has approved six loans, which have totaled approximately \$14.8 million. In addition, 11 loans, or \$32.6 million, have been disbursed.²⁵³ IMMDF also continues to support production in industries such as water, woodworking, milling, and used vehicles.²⁵⁴

As of September 30, 2006, 43 CERP-funded private-sector development projects had been completed, and 54 were ongoing.

ECONOMIC GOVERNANCE

The USAID **Economic Governance II Project (EG)** aims to help the GOI structure and implement “an operational legal, fiscal, regulatory and institutional framework, within which reform and policy can be formulated to foster a transparent and investment-friendly, market-based economy.”²⁵⁵ This quarter, USAID reported that \$113.5 million was distributed to the EG II project.²⁵⁶

The project works to support the reforms required to meet 28 of the 58 IMF targets²⁵⁷ through training, assistance in drafting of



legislation, and advocacy with international donors and organizations.²⁵⁸ The training plan and workflows were completed for the **General Commission for Tax** to support the automated tax system. The plan is to install the system by the end of the year.²⁵⁹ On November 21-22, 2006, USAID and the Ministry of Finance co-sponsored a conference, “Tax Reform—Mainstay for Building the Iraqi Economy,” which brought together a group of experts to discuss tax policy.²⁶⁰

Another fiscal reform initiative is to develop the **Financial Management Information System (FMIS)**, a new accounting and reporting system designed for all ministries to improve their respective budget preparation and cash-management processes while discouraging corruption. The core FMIS and additional modules are scheduled to be installed in all 182 budget agencies by September 2007; nevertheless, complete replacement of the legacy manual system depends on access of all agencies and a directive from the Minister of Finance.²⁶¹ This quarter, DoS reported that the Kurdish Regional Government was set to enter its expenditure data into the new system by year-end.²⁶²

The **Social Safety Net (SSN) automation Pilot Unit** in the Ministry of Labor and Social Affairs was first rolled out in December 2005. Development and testing activities of the software application for the SSN are also underway, as well as training ministry employees in its use.²⁶³

Treasury has helped establish a joint CBI/Ministry of Finance **Bank Restructuring Committee**, which should evolve into an inde-

pendent commission. Draft memorandums of understanding (MOUs) and an action plan were completed after the Ministry of Finance, CBI, and the two largest state-owned and commercial banks reached a unified position. These MOUs and action plan will be submitted to the Council of Ministers for approval by the end of 2006.²⁶⁴

A committee was established to address the issue of official debts; the committee will inventory, supervise, and resolve all official debts of the state in the bank records. Finally, the CBI worked with the headquarters of five other private banks last quarter to adopt two new components of the Iraqi Payment System (IPS).²⁶⁵ These activities should help strengthen linkages in the banking sector and improve oversight of the banks.

PRIVATE-SECTOR DEVELOPMENT PROGRAM

The private-sector development program, **Izdihar**, is designed to help the country achieve economic growth and higher employment through six areas:²⁶⁶

- privatization
- trade and market access
- investment promotion
- capital markets
- business skills
- micro, small, and medium-size enterprises

USAID reported that it has distributed approximately \$96.1 million of IRRF to Izdihar, and USAID is planning a new micro-finance project that will begin in late 2007.²⁶⁷



Izdihar continues to support the GOI on joining the World Trade Organization (WTO), assisting the government to draft the required documentation, responding to questions posed by WTO members, conducting conformity assessments, and appropriately training Iraqi government.²⁶⁸

Izdihar has also helped create the Iraq Company for Bank Guarantees (ICBG), which offers loan guarantees to private banks. The ICBG allows Iraq's microfinance industry to receive loans from private banks rather than just international donors.²⁶⁹ ICBG began its operations on November 1, 2006, and Izdihar plans to develop operational policies, procedures, and manuals; train staff; and establish headquarters to continue assisting ICBG through the end of 2006.²⁷⁰

Also, Izdihar's Sustainable Microfinance program includes grants to microfinance institutions (MFI), training for MFI staff, and technical assistance. USAID recently awarded \$9.9 million in grants to establish or continue the development of sustainable Iraqi MFI.²⁷¹ Last quarter, one new microfinance institution started operating and was awarded a \$250,000 grant to be used for loan capital.²⁷² From November 14-16, 2006, USAID organized the first Iraq Microfinance Summit in Erbil, with more than 100 participants in attendance.²⁷³ Izdihar also plans to train Iraqi MFI staff in the near future.²⁷⁴

Other activities under private-sector development last quarter include providing materials to the Iraqi Investment Promotion Agency and conducting strategic planning meetings. Izdihar also continued building capacity for

the Iraq Trade Information Center, which was established to encourage international investors through training and database/website development. USAID also supported the Iraqi Securities Commission through rule and regulation implementation and document drafting. The staff of the Iraqi Stock Exchange also received training for information technology, public relations, and regulations through seminars.²⁷⁵

DoD's Office of Business Transformation is exploring ways to help Iraq reinvigorate some of the most promising state-owned enterprises, using better market analysis that helps identify potential demand for the products of the enterprises in Iraq and beyond. It is anticipated that this activity will stimulate employment and private businesses that traditionally spring up around these state owned-factories.

OUTPUTS OF U.S. PROJECTS IN ECONOMIC DEVELOPMENT

EG project activities have yielded notable results in tax reforms: a Tax Policy Unit has been established within the Ministry of Finance to create a taxation strategy as mandated by the SBA. With assistance from USAID, the Ministry of Finance drafted a plan to overhaul Iraq's outdated tax system. The final plan is to be approved by the Council of Ministers and adopted by the GOI by the end of December, and implementation of this plan will meet a significant SBA requirement. Also, as of December 2006, all ministries and regional treasuries were using FMIS in parallel with the legacy manual system.²⁷⁶



As of September 2006, USAID was engaged in microfinance lending in 13 governorates, and its loan portfolios comprised 16,673 loans totaling more than \$17.8 million. Currently, more than 630 MFI staff have been trained.²⁷⁷ Last quarter, the first two indigenous microfinance institutions established with Izdihar's support had extended 40 new loans for \$100,000.²⁷⁸ In addition to these two MFIs, located in Kirkuk and Baghdad, the MFI in Fallujah was scheduled to open in January 2007.²⁷⁹

IRAQ'S ECONOMY REMAINS FRAGILE

Despite some positive results from U.S.-funded projects, Iraq's overall economic environment is still fragile. Inflation is a serious concern as the volatile security environment, shortage of goods, and supply disruptions in the non-oil economy push prices upward.²⁸⁰

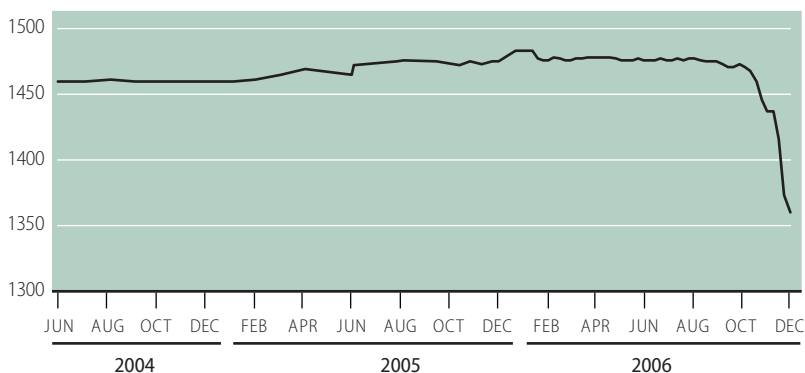
The 2006 SBA inflation goal of 15% is not

likely to be met: Iraq's Central Office for Statistics reported a surge of 7.6% in the Consumer Price Index for December 2006 alone.²⁸¹ The Economic Intelligence Unit estimated that inflation averaged 52% in 2006, significantly higher than last year at 32%.²⁸²

To cope with this increasing inflationary pressure, the CBI began to implement policies in September 2006 designed to appreciate the dinar, as suggested by the IMF.²⁸³ Iraq is an import-reliant country; therefore, a more valuable currency may help alleviate some pressure. As of December 26, 2006, the exchange rate was 1,360 Iraqi dinars to the dollar.²⁸⁴ The Central Bank has also raised its interest rate from 16% to 20%, as of December 24, 2006, to encourage holding dinar-based assets and lower expectations of inflation.²⁸⁵ See Figure 2-37 for historical and current information on the currency exchange rate.

Per capita GDP is rising in Iraq, from \$949

Figure 2-37
CURRENCY EXCHANGE RATE
Currency (Auction Selling Price Dinar/\$1 USD)
Source: IRMO, *Weekly Status Reports* (6/28/2004 - 12/26/2006);
Central Bank of Iraq





per person in 2004 to an estimated \$1,189 in 2005 and \$1,635 in 2006.²⁸⁶ However, when inflation is taken into account, real GDP growth is estimated to be only 4% in 2006, well below the SBA's 10.4% benchmark and the medians of other Middle Eastern and oil-producing countries.²⁸⁷

Unemployment remains very high in Iraq. As of July 2006, the Central Office for Statistics estimated that unemployment was at 18% and that underemployment was at 30.4%. However, officials believe that these numbers have been underestimated.²⁸⁸

CHALLENGES

Although there has been some economic progress in Iraq, economic development cannot reach its full potential unless Iraq first resolves its other challenges:

- security
- corruption
- lack of government capacity
- deteriorated infrastructure

Media

The Support for Independent Media in Iraq (SIMI) program is the media component of USAID's \$42 million Civil Society and Independent Media Support Program. SIMI is implemented by the International Research and Exchanges Board (IREX).²⁸⁹ IRRF funding for Civil Society and Independent Media Programs ended on September 30, 2006, but alternate funding remains for continuing similar

activities going forward.²⁹⁰ The objectives of the Independent Media Programs are to develop democratic media laws, promote media excellence and professionalism, support media as a commercial enterprise, and strengthen media associations and NGOs.²⁹¹

The Iraq Civil Society Program has conducted media workshops to brief Iraqi journalists on the media and federalism to improve participants' understanding of federal systems and the concept of public broadcasting and the importance of citizen control over program content. This program also supports efforts to promote the draft Iraqi Media Corporation Law. USAID is in the process of redesigning the scope of work for the follow-on project.²⁹²

PROJECTS COMPLETED AND UNDERWAY

The SIMI program has helped establish and build capacity for the National Iraqi News Agency and Iraqis for Public Broadcasting. USAID reports that SIMI has increased the knowledge and skills of more than 1,000 journalists and media professionals and has established an Iraqi media watchdog group.²⁹³

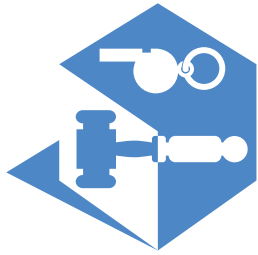
CHALLENGES

Journalists and news publications in Iraq continue to be the target of threats and attacks. Since March 2003, at least 132 journalists and media workers have been killed in Iraq.²⁹⁴ The Committee to Protect Journalists reported in December that 32 journalists were killed



in Iraq during 2006—the highest one-year death toll on record for journalists in a single country.²⁹⁵ Media organizations have also been targeted: Al-Shaabia satellite television and Al Iraqiya satellite television were attacked in October 2006.²⁹⁶

Iraqi journalists and other media workers in the southern and central regions were banned from attending parliament sessions, or threatened. The GOI may close stations alleged to incite hate and violence.²⁹⁷



STATUS OF SECURITY AND JUSTICE

The volatile security situation in Iraq continues to pose a significant challenge to the overall reconstruction effort. DoD warns that conditions in Iraq could lead to a full-scale civil war, particularly in and around Baghdad.²⁹⁸ Persistent attacks on U.S.-funded infrastructure projects and sustainment challenges could jeopardize the completion of projects by their planned end dates in the second half of 2008.²⁹⁹ The precarious security situation has not only hindered reconstruction progress, but it has also hampered an effective, consistent security strategy. GAO reports that expectations and benchmarks have changed numerous times since fall 2003 because the GOI and

security forces could not assume security responsibilities.³⁰⁰

IRRF funding intended to support the progress of security and justice personnel and facilities in Iraq has been almost fully obligated and expended, but more funding has been added through the ISFF. Figure 2-38 shows the security and justice sector³⁰¹ funding as a portion of the IRRF. Figure 2-39 shows the sector funding as a portion of the ISFF.

Additionally, \$277 million from the Economic Support Fund (ESF) has been allocated to protect the infrastructure of the oil, water, and electricity industries.³⁰²

Figure 2-38
SECURITY AND JUSTICE SECTOR AS A SHARE OF IRRF FUNDS
 \$ Billions
 % of \$18.44 Billion
 Source: IRMO, *Weekly Status Report* (1/2/2007)

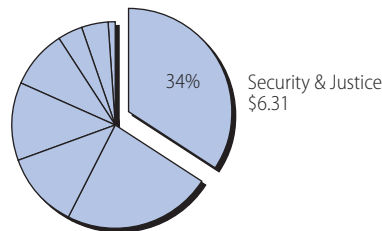
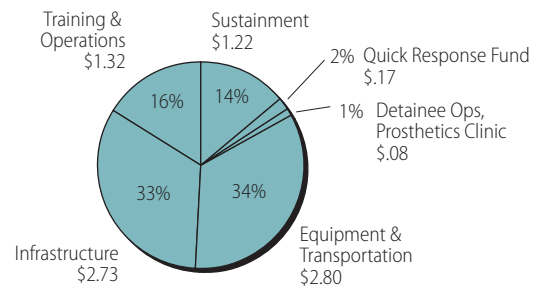
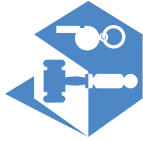


Figure 2-39
SECTOR SHARES OF ISFF FUNDS
 \$ Billions
 % of \$8.32 Billion
 Source: DoD Secretary of the Army Update (12/31/2006)



Note: 1. Totals are produced by combining financial details, from ISFF 2005 and ISFF 2006 funds.



SECURITY AND JUSTICE

SIGIR makes these observations on IRRF- and ISFF-funded activities in the sector:

- More U.S. funds have been committed to security and justice than any other reconstruction sector—almost \$15 billion from the IRRF and ISFF.
- As of January 2, 2007, almost 90% of the \$6.31 billion IRRF allocation in this sector had been expended.
- As of December 30, 2006, more than 54% of the cumulative \$8.32 billion ISFF allocation had been expended.
- An additional \$1.7 billion was appropriated for ISFF in the FY 2007 Defense Appropriations Bill. These funds will remain available until September 30, 2008.
- As of January 8, 2007, 323,000 Iraqi Security Forces (ISF), including military and police personnel, have reportedly been trained, equipped, and fielded.³⁰³ DoD notes that the actual numbers of active soldiers and police on duty are significantly lower because of scheduled leave, absence without leave, and attrition.³⁰⁴
- As of December 2006, 91% of IRRF-funded projects had been completed in the security and justice sector.

SIGIR also sees significant challenges in this sector:

- Although the reported number of trained and equipped ISF has almost reached the

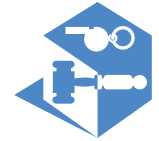
target of 325,000 troops and police, the security situation in parts of Iraq continues to deteriorate. Insurgent attacks and continued infiltration of the ISF and Iraqi Police by militia members also contributes to the escalating violence in some parts of the country.

- Critical infrastructure remains a target for insurgent attacks, and the effectiveness of the Strategic Infrastructure Battalions (SIBs) remains questionable.
- Transition of full security responsibilities to the Iraqis faces significant challenges, including militia infiltration of the ISF, slow growth in the capacity of the Ministries of Defense and Interior to support the soldiers and police, and the need for additional training for the ISF. In addition, the Iraqi Army still struggles to plan and execute logistics and sustainment requirements.

Activities in the Security and Justice Sector

On January 10, 2007, President Bush announced his intention to increase the number of U.S. forces in Iraq to help stabilize the security situation, particularly in Baghdad and Anbar. He noted, however, that this surge would be in support of the ISF and the GOI's ability to reach specific benchmarks.³⁰⁵

In the meantime, IRRF and ISFF funds continue to be used to further develop the



SECURITY AND JUSTICE

operational capacity of the ISF and the Ministries of Interior and Defense, while also aiming to facilitate the rule of law in Iraq.

Programs and Activities Completed and Underway

IRRF projects focus on constructing and refurbishing facilities. By the end of the

quarter, approximately 90% of IRRF funds for this sector had been expended. For the status of IRRF funding, see Figure 2-40. ISFF funds, however, are used mostly to train, equip, and field members of the ISF. As of December 31, 2006, 54% of ISFF funding had been expended. For the status of ISFF funding, see Figure 2-41.

Figure 2-40
STATUS OF IRRF FUNDS - SECURITY AND JUSTICE
 \$ Billions
 Source: IRMO, *Weekly Status Report* (1/2/2007);
 DoS, *Iraq Weekly Status* (9/27/2006)

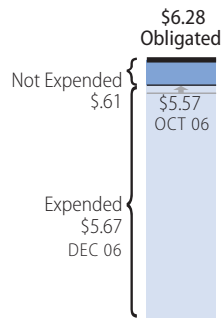
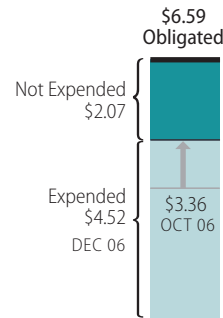
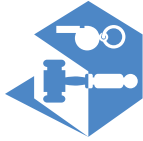


Figure 2-41
STATUS OF ISFF FUNDS - SECURITY AND JUSTICE
 \$ Billions
 Source: DoD Secretary of the Army Update (12/31/2006)



Note:
 Totals are produced by combining financial detail from ISFF 2005 and ISFF 2006 funds.



SECURITY AND JUSTICE

For a detailed list of projects funded by the IRFF and ISFF, see Figures 2-42 and 2-43.

Almost all of the committed \$30.31 million in CERP funding had been obligated, as of September 30, 2006. Additionally, \$17.29 million in CERP funding—57% of the committed amount—had been expended. Figure 2-44 shows sector funds as a percentage of the CERP.

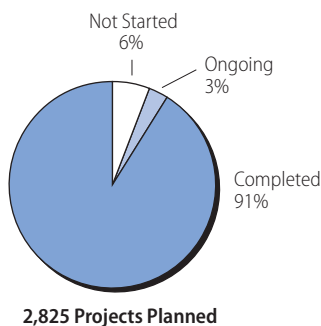
SIGIR has performed two audits on how Multi-National Force-Iraq (MNF-I) has used CERP funds (Audit 05-014 in October 2005 and Audit 05-025 in January 2006) and one audit on MNF-I's use of the Iraqi Interim Government Fund for CERP-like programs (Audit

06-031 in October 2006). Generally, SIGIR found that MNF-I had established reasonable processes to manage funds and projects. SIGIR also noted some data quality and reporting errors, as well as improvements in the management of funds.

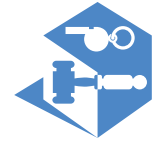
MILITARY/POLICE FORCE DEVELOPMENT AND SUPPORT

Work in this sector has focused on building military and police forces, mostly with funding from the ISFF; the effort has resulted in 323,000 trained and equipped military and police personnel, as of January 8, 2007.³⁰⁶ The

Figure 2-42
STATUS OF IRRF SECURITY AND JUSTICE PROJECTS
 Source: IRMO Rollup (12/30/2006); USAID Activities Report (December 2006)

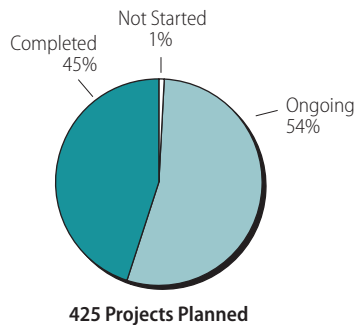


Sector	Not Started	Ongoing	Completed	Total
Marla Ruzicka Iraq War Victims Fund	151	18	978	1,147
Commanders Humanitarian Relief & Reconstruction		1	602	603
Facilities Repair	3	11	429	443
Border Enforcement	2	8	265	275
Establish New Iraqi Army	3	14	77	94
Iraqi Civil Defense Corps	4	14	69	87
Police Training & Assistance	11	3	59	73
Judicial Security & Facilities		9	28	37
Investigations of Crimes Against Humanity		1	34	35
Miscellaneous		3	7	10
Reconstruction of Detention Facilities	1	3	1	5
Witness Protection Program		4	1	5
National Security Communications Network			3	3
Penal Facilities		3		3
Public Safety Training & Facilities		2	1	3
Facilities Protection Services			1	1
Security & Law Enforcement		1		1
Total	175	95	2,555	2,825



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Figure 2-43
STATUS OF ISFF PROJECTS
 Source: IRMO Rollup (12/30/2006)



Sector	Not Started	Ongoing	Completed	Total
Training and Operations	2	185	126	313
Infrastructure	3	21	51	75
Sustainment		19	10	29
Equipment and Transportation		6	2	8
Total	5	231	189	425

Note:
 ISFF projects are compiled by totaling and grouping projects from both ISFF FY 2005 and ISFF FY 2006.

initial force-generation plans for the Ministry of Interior and the Ministry of Defense are expected to be completed by the end of 2006 when the effort will shift to replacing force losses and developing sustainment capacity.³⁰⁷

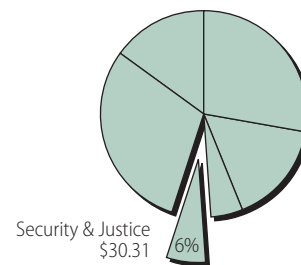
In addition to efforts by the United States and its Coalition partners, the GOI has announced an \$800 million initiative to expand the Iraqi Army by 3 division headquarters, 5 brigade headquarters, 20 battalions, and 1 special-forces battalion. This initiative should be completed within one year.³⁰⁸

CONSTRUCTION

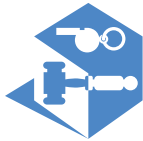
In this sector, IRRF has funded the construction and rehabilitation of border forts, fire stations, police stations, public-safety training academies, prisons and corrections facilities, courthouses, and witness-protection facilities.³⁰⁹ The last IRRF-funded construction project in the sector is scheduled to be completed by April 2008.³¹⁰

Last quarter, SIGIR Inspections identified a variety of construction deficiencies associated with the **Baghdad Police College** and health

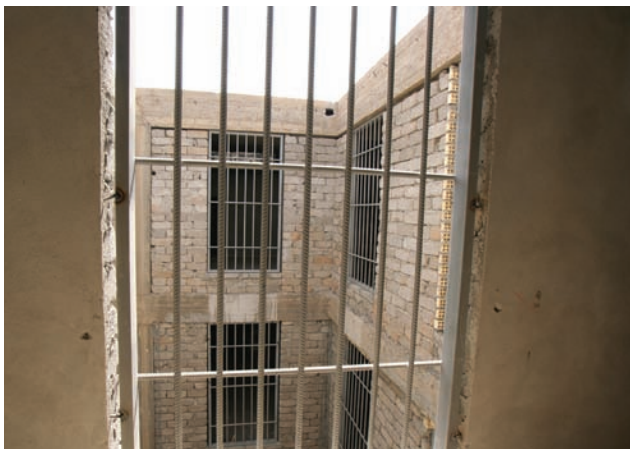
Figure 2-44
SECURITY AND JUSTICE AS A SECTOR SHARE OF FY 2006 CERP FUNDS
 \$ Millions
 % of \$511.16 Million
 Source: Office of the Assistant Secretary of the Army
 Financial Management and Comptroller (9/30/2006)



concerns that required prompt attention. The original contractor has since left this project and been replaced, but a SIGIR follow-up inspection of the site this quarter identified similar and additional issues. Although repairs have been performed on this facility, other deficiencies have been reported.³¹¹ Warranty and repair work at the facility is expected to be completed by April 2007.³¹² Last quarter, SIGIR Inspections reported that construction of this site was not adequately designed and did not meet the original objectives or design standards (Inspection 06-072). For details on these inspections, see section 3 of this Report.



SECURITY AND JUSTICE



Dahuk Prison



Nassriya Prison

The **Khan Bani Saad Correctional Facility**, which can house 1,800 inmates, is estimated to be completed by June 2007, and the 800-bed **Nassriya Correctional Facility** is estimated to be completed by October 2007. However, the volatile security environment might delay the completion dates of both projects.³¹³ The renovation of the **Zarka Rehabilitation Center** in Dahuk is 91% complete.³¹⁴

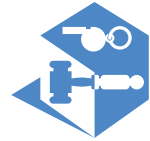
Finally, GRD-PCO reports this quarter that **114 border forts** have been constructed thus far, and **5 points of entry** have been completed.³¹⁵ SIGIR's ground project surveys inspected 21 border forts and identified many

quality issues, including structural integrity, general absence of security perimeters, and poorly functioning facilities that failed to support operational requirements.³¹⁶

RULE-OF-LAW INITIATIVES

In addition to training and fielding the ISF, several initiatives are in progress to help enforce the rule of law in Iraq, including the development of an effective legal code and well-functioning judicial and correctional systems. The Coalition Police Assistance Transition Team, for example, has been working with the Iraqi Major Crimes Task Force and the Major Crime Units to strengthen the Ministry of Interior's capacity to conduct criminal investigations.³¹⁷

DoJ has also been working with DoS to support the expansion and effectiveness of the Central Criminal Court of Iraq (CCCI). The CCCI has 12 panels operating throughout Iraq but focuses most of its work in Baghdad, processing an average of 118 insurgency-related cases each month.³¹⁸



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Private security forces are being increasingly relied upon by U.S. contractors in Iraq.



The DoS Bureau of International Narcotics and Law Enforcement (INL) budget for rule-of-law initiatives increased from \$88.6 million in FY 2006 to \$254.6 million for FY 2007. The largest portion of the funding (\$89.1 million) went to courts and criminal justice activities. The initiatives are designed to accomplish several goals, including:

- strengthening judicial independence
- supporting facility security to judges and court members
- providing secure housing for judges in Baghdad
- building court capacity through training

Other planned rule-of-law programs under INL management include:

- outreach and access to justice (\$49 million)
- corrections (\$31 million)
- anticorruption (\$27 million)
- justice integration (\$25 million)
- human rights (\$14 million)
- major crimes task force (\$11 million)³¹⁹

For more information on anticorruption, see the end of section 2 of this Report.

GRD-PCO also reported this quarter that 9 courthouse projects, 4 witness-protection security facilities, and 3 prison projects are in

progress; 29 courthouse projects and 1 witness-protection security facility have been completed.³²⁰

Outputs of Programs Funded by IRRF and ISFF

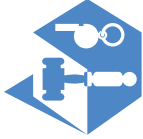
Outputs of U.S. projects in this sector include completing construction and refurbishments to various facilities, as well as fielding, training, and equipping Iraqi military and police forces.

FIELDING AND EQUIPPING TRAINED TROOPS AND POLICE

As of January 8, 2007, 323,000 Iraqi military and police forces have been trained and equipped for security operations:

- 134,700 Iraqi Army, Navy, and Air Force personnel³²¹
- 188,300 police, highway patrol, and other Ministry of Interior officers³²²

The goal of the Ministry of Interior is to field 188,260 trained and equipped personnel; the force-generation plan under the Ministry of Defense proposes an end-strength of approximately 137,500 soldiers. However, the “actual number of present-for-duty soldiers is significantly lower due to scheduled leave,



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absence without leave, and attrition.”³²³

The Coalition uses Transition Readiness Assessment (TRA) metrics to gauge the capacity of the ISF in the field. These assessments are based on “a variety of criteria similar to but not identical to what the U.S. Army uses to evaluate its units’ operational readiness by focusing on personnel, command and control, training, sustainment/logistics, equipment, and leadership.”³²⁴ However, these metrics have changed over time as key personnel rotate, equipment is added or replaced, and the tempo of unit operations changes.

Because the unit-level TRA assessments are not provided by DoD,³²⁵ this Quarterly Report will not assess the unit-level readiness of the ISF in terms of personnel, command and control, equipment, and leadership.

According to DoD, the ISF is increasingly taking the lead in operations. As of November 13, 2006, 91 Iraqi Army battalions had been assessed as capable of leading counter-insurgency operations. Also, of the National Police’s 27 authorized battalions, 5 are in the lead in their respective areas of responsibility.³²⁶ Finally, GAO reported that “7 Iraqi army division headquarters and 30 brigade headquarters had assumed the lead by December 2006.”³²⁷

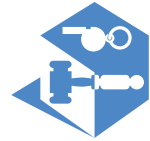
TRAINING INITIATIVES

In December 2006, the Iraqi police force graduated 8,708 officers from its basic training course. In addition, 2,462 students completed the Transition Integration Program course. By the end of 2006, approximately 151,000 police recruits had graduated from the basic

training course.³²⁸ Personnel management issues, however, make it difficult for officials at the Ministry of Interior to know the number of police officers on duty at any given time. The Coalition also estimates that attrition will continue to hover around 20% per year,³²⁹ which significantly impacts the overall capacity of the police force.

In addition to in-class training, 177 Police Transition Teams (PTTs) are operating throughout Iraq. These teams include International Police Liaison Officers who travel to police stations throughout Iraq to assist with in-station training and development. In addition to the PTTs, there are 28 Border Transition Teams and 39 National Police Transition Teams.³³⁰

Complementing the traditional police component in Iraq, the National Police is a paramilitary force that bridges the gap between the police and the military. The National Police have been trained primarily for paramilitary operations and are experienced in fighting the insurgency. Nevertheless, there have been numerous accusations of human rights abuses and other illegal activities. Elements of the Iraqi Police Service and the National Police, for instance, are known to support Shia death squads by facilitating freedom of movement and providing advance warning of upcoming operations.³³¹ To help combat such sectarian infiltration, a three-step phased training process was initiated in early August 2006 for the National Police. Additionally, the National Police Transformation and Retraining program began in October 2006.³³² DoS reports that more than 26,000 members of the National



Police have completed initial training, as of the end of the quarter.³³³

Three Iraqi Training Battalions have been formed and are fully operational for Iraqi Army units, allowing the Iraqis to independently train soldiers in sufficient quantities to meet force generation and replacement needs. After a 13-week program of basic training, soldiers receive additional instruction based on their specific occupations; the length of this specific training ranges from three to seven weeks.³³⁴

In mid-December, Lt. Gen. Martin Dempsey, the MNSTC-I commander responsible for training and equipping the ISF, noted that a four-phased training program has been launched for the Iraqi Army. Its goal is to provide the members of the Iraqi Army with the necessary information and training to be better prepared to interact with the local population.³³⁵

Finally, MNSTC-I has trained and equipped approximately 28,300 Department of Border Enforcement (DBE) and Department of Ports of Entry personnel, an increase of 4,400 since August 2006. Although these two departments have not made much progress in improving the TRA ratings of their personnel, the DBE is now in the lead on Iraq's borders. Thirteen of 14 land points of entry are now functional.³³⁶

INFRASTRUCTURE SECURITY

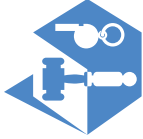
The United States has invested more than \$320 million to improve Iraq's capacity to protect its oil and electric infrastructure, as SIGIR reported in Audit 06-038 (September 2006).

U.S.-funded initiatives include training and equipping the Strategic Infrastructure Battalions (SIBs) and partnering Coalition forces with Iraq's various energy infrastructure protection forces.³³⁷ The Ministry of Defense established 17 SIBs, and U.S.-funded projects have trained and equipped 11 of those.³³⁸

Besides SIBs, the Facilities Protection Service (FPS) protects stand-alone facilities administered by individual ministries (for example, security guards at a ministry building). Currently, approximately 150,000 FPS personnel are working for the other ministries and 8 independent directorates, such as the Central Bank of Iraq. DoD reported anecdotal evidence that some FPS personnel are unreliable, and some may even be responsible for violent crimes and other illegal activities.³³⁹ As a result, security reforms in 2007 will include helping the Iraqis consolidate the FPS under the control of the Interior Ministry.³⁴⁰ This will add to the estimated 17,800 FPS personnel already working for the Ministry of Interior.³⁴¹

CONSTRUCTION

Last quarter, SIGIR reported that when all of the prison facilities currently underway are completed—tentatively scheduled for April 2007—Iraq's prison capacity is expected to increase by 4,800 beds. Despite this increased capacity, however, it is estimated that an additional 20,000 beds will still be needed to meet Iraq's correctional facility needs. This quarter, DoD reported that “pre-trial detention facilities are currently overcrowded, with



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substandard facilities and poor accountability for persons detained.”³⁴²

Three training academy projects have been completed, and two are under construction. The last training academy is scheduled to be completed in April 2007.³⁴³ But the largest training facility, the Baghdad Police College, has a number of significant infrastructure problems and may not be ready to transfer on schedule. For additional information on this project, see section 3 of this Report.

Outcomes of Programs Funded by IRRF and ISFF

To better assess the outcomes of IRRF- and ISFF-funded projects in the security and justice sector, this section reviews the current transition of security responsibilities to Iraqi control and the status of capacity development at both the Ministries of Interior and Defense.

TRANSITION TO IRAQI CONTROL

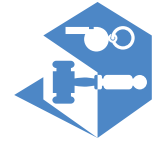
These transition events occurred this quarter:

- The governorate of Najaf was officially transferred to Iraqi control on December 20, 2006.³⁴⁴ Two other southern provinces—Wassit and Missan—are planned to be transferred by February 2007.³⁴⁵ The Thi-Qar and Muthanna governorates were transferred last quarter.
- Pending negotiations between the GOI and the Kurdistan Regional Government, security responsibility is expected to be transferred to the northern governorates of Dahuk, Erbil, and Sulaymaniyah.³⁴⁶

- Last quarter, SIGIR reported that the Iraqi Ground Forces Command assumed command and control responsibilities for the 8th Iraqi Army Division and the 4th Iraqi Army Division in mid-September. A third division was transitioned to Iraqi control in early December 2006.³⁴⁷ However, these units still require substantial logistics and sustainment support from Coalition forces.³⁴⁸
- As of October 2006, 52 of 110 Forward Operating Bases (FOBs) had been turned over to Iraqi control; an additional three FOBs were scheduled to be transferred by January 2007.³⁴⁹

The ISF is close to meeting the targeted number of 325,000 trained and equipped security forces, and more Iraqi army units are taking the lead for counterinsurgency operations. Attacks, however, continue on Coalition forces, the ISF, and civilians. These attacks reached record highs in October 2006 and continued at elevated levels through the end of the year.³⁵⁰

Additionally, the Iraqi Army is still unable to plan and execute logistics and sustainment requirements. As a result, the Iraqi Army will continue to rely on Coalition forces for “key assistance and capacity development, including quick-reaction reinforcement as required and provision of critical enablers, such as intelligence, air reconnaissance, and airlift support.”³⁵¹



CAPACITY DEVELOPMENT

As the initial force-generation plans for the Ministries of Defense and Interior approach completion, the focus has increased on developing Iraq's institutional capacity to direct, support, and sustain the ISF. This quarter, DoD reported that the Ministry of Defense is assessed as being "partly effective" at managing personnel, manning command and control, training, sustainment, logistics, equipping, and leadership. The overall TRA for the Ministry of Interior is also assessed as "partly effective." Nevertheless, DoD stresses that the transition teams of both Ministries are working to improve these assessments.³⁵²

The Coalition has also been working with both the Ministries of Interior and Defense to strengthen their logistics capabilities.³⁵³ SIGIR Audit report 06-032 showed last quarter that although the development of the logistics capabilities of the Ministry of Interior remains incomplete, MNF-I has made some progress in developing these capabilities for both the Iraqi Army and the Ministry of Defense. Despite this limited success, however, it is unlikely that MNF-I will meet its January 1, 2008 goal for the Ministry of Defense.

DoD also reports that force generation of Iraqi Army units is focused on combat enablers and logistics. For example, the Motorized Transportation regiments provide mobility and sustainment for Iraqi security forces; the final regiment was reported to have finished training in late October. As of December 2006,

DoD reported that seven of the nine planned regiments are operational and under Iraqi control.³⁵⁴

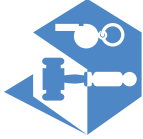
Challenges

The volatile security situation and attacks against critical infrastructure continue to pose a significant challenge to progress in this sector. Also, transitioning the ISF to functioning and self-sufficient Ministries of Interior and Defense has proven to be difficult thus far.

MITIGATING THE VIOLENCE

In late December 2006, DoD reported that since August 2006 the average number of weekly attacks increased by 22%, and most of the casualties were Iraqis. Nearly 54% of the violence occurred in Baghdad and Al Anbar.³⁵⁵ According to GAO, the average number of attacks per day has increased from approximately 70 in January 2006 to about 180 in October 2006.³⁵⁶ The UN Assistance Mission for Iraq (UNAMI) also reported that 6,376 civilians were violently killed in November and December 2006, a decrease from the approximately 7,054 killed in the September–October period. In 2006, 34,452 civilians were killed and 36,685 were wounded.³⁵⁷

The ineffectiveness of law enforcement and judicial systems has made the security environment worse. UNAMI continues to receive reports that militias have colluded with and infiltrated the ISF. To help mitigate this problem, the Ministry of Interior recently



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established the Centre for Human Rights and Ethics to deal with government officials involved in corruption and human rights abuses.³⁵⁸

This quarter, DoD also reported that “conditions that could lead to civil war do exist, especially in and around Baghdad, and concern regarding civil war runs high among the Iraqi populace.”³⁵⁹

INFRASTRUCTURE SECURITY

Critical infrastructure remains a high-value target for insurgent attacks. Although the SIBs continue to increase in size and capacity, only one has been assessed as capable of planning and executing independent operations.³⁶⁰

DoD reported an average of one attack per week on critical infrastructure in the electric, water, and oil sectors.³⁶¹ Although this is a decrease from previous quarters, Iraq’s oil and electricity infrastructure nevertheless continue to be hampered by slow repairs to previously destroyed infrastructure, weak ministerial oversight, and persistent criminal activity. These attacks are also assessed as being “more effective,” which results in more damage being inflicted per attack, thereby further diminishing facility output rates.³⁶²

However, SIGIR Audit also reported last quarter that even if attacks ceased, other factors—such as criminal activity and the effect of aging and poorly maintained infrastructure on operating capability—would continue to adversely affect oil exports and the availability of electricity.

TRANSITIONING TO IRAQI CONTROL

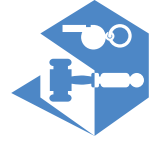
Even though more Iraqi troops and police are trained, equipped, and fielded, it is unclear whether these forces and troops can sustain a secure environment independent of Coalition forces. Lt. Gen. Dempsey stated in mid-December that one of the main reasons units refused to deploy to Baghdad was that “they did not feel like they had been trained to do that.”³⁶³

The ability to field security forces in operations also appears to be a continuing challenge in Iraq. One challenge relates to the maintenance of force levels. The Iraqi Army’s available-for-duty numbers are not released, but trained figures are annotated as being lower due to AWOL status and attrition.³⁶⁴ Leave and “immature personnel management policies” may account for up to 40% of police not being present for duty.³⁶⁵

Also, national and local police apparently are infiltrated by, and possibly coordinated with sectarian militias, raising serious concerns about the integrity of the government’s security services.³⁶⁶ Lt. Gen. Dempsey recently estimated that 20-25% of the National Police “needed to be weeded out.”³⁶⁷

Finally, recent surveys suggest that public confidence in the ability of the GOI to provide for public safety and the rule of law is below 40% nationwide. In Sunni and mixed Shia-Sunni areas of the country, that number is even lower.³⁶⁸

To help combat this transitioning challenge, a series of continuing training, mentoring,



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and imbed programs have been implemented. Force and leadership reorganization and reorientations also are continuing. In addition to rationalizing the integration of various

security organizations and commands, such as for the FPS and the National Police, processes for vetting and refining personnel roles are ongoing.³⁶⁹



SECURITY AND JUSTICE



STATUS OF HEALTH CARE

U.S. reconstruction spending in this sector has focused on building, rehabilitating, and equipping medical facilities, as well as providing immunization, training, and other health services.

SIGIR makes these observations about activities in the health care sector this quarter:

- More than 70% (\$.58 billion) of the sector's nearly \$.82 billion was expended by the end of this quarter.
- Approximately 38% of all projects in this sector that were funded by the IRRF have been completed, but progress on construction projects has been slowed considerably by security and management problems.
- Only 8 of 142 planned model Primary Healthcare Centers (PHCs) have been completed to date. 126 PHCs are currently under construction, and 8 have stopped work for various reasons.

- Of the 20 hospitals undergoing rehabilitation, 12 had been completed as of December 2006.

SIGIR also sees these challenges in this sector:

- Security issues continue to pose a serious threat to the health care sector and hinder the effectiveness of U.S.-funded projects.
- The procurement and distribution of medicine and medical equipment remain susceptible to corruption and inefficiencies.

Figure 2-45 shows sector funds as a percentage of the IRRF.

Figure 2-45
HEALTH CARE SECTOR AS A SHARE OF IRRF FUNDS
 \$ Billions
 % of \$18.44 Billion
 Source: IRMO, *Weekly Status Report* (1/2/2007)

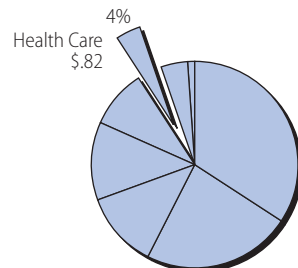




Figure 2-46
STATUS OF IRRF FUNDS - HEALTH CARE
 \$ Billions
 Source: IRMO, *Weekly Status Report* (1/2/2007);
 DoS, *Iraq Weekly Status* (9/27/2006)

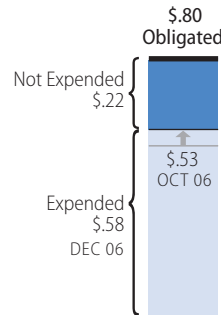
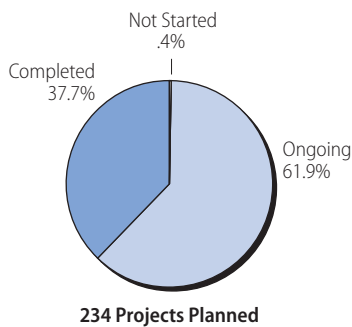


Figure 2-47
STATUS OF IRRF HEALTH CARE PROJECTS
 Source: IRMO Rollup (12/30/2006);
 USAID Activities Report (December 2006)



Sector Projects	Not Started	Ongoing	Completed	Total
Primary Healthcare Centers		133	8	141
Equipment Procurement		2	62	64
Hospitals	1	10	15	26
Nationwide Hospital and Clinic Improvements			3	3
Total	1	145	88	234

Activities in the Health Care Sector

As of January 2, 2007, almost all of the sector's IRRF funding had been obligated, and more than 70% had been expended. By December 2006, 88 of 234 health care sector projects were completed.³⁷⁰ Security delays, less-than-adequate contractor performance, and lapses in oversight have significantly limited construction initiatives. Figure 2-46 shows the status of sector funds.

Figure 2-47 shows the status of IRRF projects in the health care sector.

CERP funds are also used to support projects in this sector. Almost all of the \$25.9 million CERP funding had been obligated, and 30% had been expended as of September 30,

2006. Additionally, 125 CERP-funded projects had been completed, 106 were ongoing, and 7 were yet to start as of that same period. Figure 2-48 shows sector funds as a percentage of the CERP.

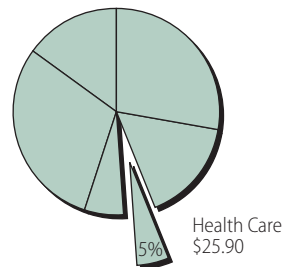
Key Projects Completed and Underway

Activities in this sector include constructing and refurbishing PHCs and hospitals throughout Iraq, as well as supplying those facilities with medical equipment and training medical practitioners and government officials appropriately. Past activities in this sector also included vaccination programs.



HEALTH CARE

Figure 2-48
HEALTH CARE SECTOR AS A SHARE OF FY 2006 CERP FUNDS
 \$ Millions
 % of \$511.16 Million
 Source: Office of the Assistant Secretary of the Army
 Financial Management and Comptroller (9/30/2006)



MODEL PRIMARY HEALTHCARE CENTERS

The planned total number of PHCs was 142—141 funded by IRRF 2 and 1 by CERP.³⁷¹ After the PHC design-build contract was terminated for convenience of the government for all but 7 of these PHCs, GRD-PCO re-awarded the remaining 135 to local Iraqi firms under fixed-price contracts.

Last quarter, GRD-PCO reported to SIGIR that 37 PHCs were slated for completion by the end of November 2006;³⁷² that goal, however, had not been met as of December 2006.³⁷³ In addition, construction for eight PHCs began but is currently on hold.³⁷⁴ The delay is caused by a variety of issues associated with contractor changes and security conditions. Some construction work performed by the previous contractor needed to be rectified as punch-list items³⁷⁵ and re-awarded contracts. In addition, there have been transition issues between old and new subcontractors related to payments for services previously rendered.³⁷⁶ Electrical connections are difficult to obtain at some construction sites because of high fees and non-standardized procedures to obtain permits. GRD-PCO reported that IRMO is currently working to achieve permanent solutions to the utility connection issues.³⁷⁷

Of the eight PHCs completed to date, seven are currently open to the public. Of the unfinished PHCs, 50 are 90-100% complete, and 46 are 75-90% complete. The remaining 38 are at various stages of completion, ranging between 17% and 75%.³⁷⁸

Overall, the PHC program administered by GRD-PCO is 81% complete and is estimated to be finished by December 2007.³⁷⁹

HOSPITALS

The hospital rehabilitation program has also been delayed, but it has made more progress than the PHC program. The hospital program's original goal was to renovate 17 hospitals. In December 2004, this number was increased to 20 hospitals, which will be renovated in 26 projects.³⁸⁰ Currently, GRD-PCO oversees the refurbishment of 20 hospitals under the original design-build contract and the construction of one hospital that was previously managed by USAID.

Of the 20 hospitals under the original design-build contract, 12 have been completed by the contractor. Because of slow construction progress, the other eight were re-awarded as fixed-price contracts to Iraqi contractors in May 2006, using IRRF funds. This quarter, GRD-PCO reported that the hospital rehabilitation projects were scheduled to be completed by the end of 2006. However, the schedule has slipped beyond the deadline for several reasons: modifications to the installation of air systems for the remaining hospitals, security



Sign at the Al Alwaiya Maternity Hospital in Baghdad, which reads, "Ministry of Health, Teaching Hospital for Maternity Health." A SIGIR inspection this quarter found that renovations were performed appropriately and that when complete, the hospital should improve health care services in Baghdad.

issues impeding construction work at various sites, and the financial settlement between the design-build contractor and its subcontractors.³⁸¹ GRD-PCO reported that all hospital rehabilitations in its hospital program are currently 87% complete; completion is expected by May 30, 2007.³⁸²

SIGIR reports in Inspections 06-064 and 06-065 that construction of both the **Al Alwaiya Maternity and Children's Hospitals** was well-designed, consistent with the design standards, and had effective quality control and management. For additional information, see section 3 of this Report.

The **Basrah Children's Hospital** has encountered significant project delays and slippages. GRD-PCO is currently managing the project as a fixed-price contract to MIDCON, a Jordanian firm.³⁸³ GRD-PCO reported to SIGIR that 34% of the construction at this site was completed as of December 29, 2006.

In addition to the construction activities on this project, there is also a medical equipment integration contract for which Project HOPE provides \$30 million in major medical equipment. Construction, equipment installation, and staff training are expected to be completed by November 2008, followed by a phased opening starting in early 2009.³⁸⁴

NON-CONSTRUCTION ACTIVITIES

U.S.-funded projects have allocated \$214 million to procuring health care equipment, modernization, and training. As of December 30, 2006, \$171 million had been expended in this subsector.³⁸⁵ Medical equipment contracts have been awarded for 18 hospitals across Iraq, totaling approximately \$24 million. Equipment was also purchased for the **Najaf Teaching Hospital** for \$1.2 million.³⁸⁶ In addition, medical equipment was installed and com-



HEALTH CARE

missioned at the 20 constructed or partially constructed PHCs, and basic training was provided for the use and maintenance of this equipment.³⁸⁷

This quarter, SIGIR Audit 06-030 identified six non-construction contracts awarded to various contractors for a combined value of \$43 million. Three of these contracts were affected by the termination of the PHC construction task orders, and \$38 million had been expended for them. For more information on the effects of the termination, see section 3 of this Report.

USAID's non-construction activities were extended through the end of December 2006 to provide training for health-care providers. The Training Model Primary Providers activities surged from September until mid-November 2006. During that period, 2,839 health-care

service providers were trained in a range of topics. USAID reports that the number of trainings met the target because of the efforts and cooperation of the Ministry of Health.³⁸⁸

Outputs of IRRF-funded Health Care Projects

HEALTH CARE FACILITIES

To date, only seven IRRF-funded PHCs are serving patients.³⁸⁹ The PHC program was expected to provide health care services to an annual average of approximately 35,000 people, or 110 people per clinic daily.³⁹⁰ Currently, most of the operational PHCs are meeting their respective capacities.³⁹¹

Table 2-12 summarizes the status of health care facilities funded by IRRF 1 and IRRF 2.

IRRF-FUNDED HEALTH CARE FACILITY CONSTRUCTION: CURRENT AND PLANNED

HEALTH CARE FACILITIES	CURRENT STATE, AS OF 12/29/06	IRRF PLANNED END-STATE
Hospitals Rehabilitated	12	20
Hospitals Built	In progress	1
Primary Healthcare Centers Rehabilitated	147	147
Primary Healthcare Centers Equipped	600	600
Small Primary Healthcare Centers Built and Equipped	6	6
Model Primary Healthcare Centers Completed to Operational Stage	7	142

Sources: GRD-PCO, response to SIGIR, January 4, 2007 (Hospitals and Model PHCs); DoS *Section 2207 Report*, Tab 5 (Selected Metrics), October 2006, p. 15 (all other data).

TABLE 2-12



HEALTH CARE

NON-CONSTRUCTION PROJECTS

In addition to construction and rehabilitation of medical facilities throughout Iraq, medical and dental equipment were to be installed for all PHCs. To date, approximately \$75.4 million of medical equipment and furniture sets have been purchased and delivered.³⁹² The equipment and these furniture sets, however, have not yet been installed at their respective sites; instead, they are being warehoused for future installation. SIGIR Audit 06-030 reports that, as of July 30, 2006, 130 medical sets had been delivered to a U.S. government-controlled warehouse.

USAID programs have also supported training programs for health-care service providers and their staff; vaccination campaigns for polio, measles, mumps, and rubella; and provided vaccine supplies to ensure the availability of routine immunizations.

Outcomes of IRRF-funded Health Care Projects

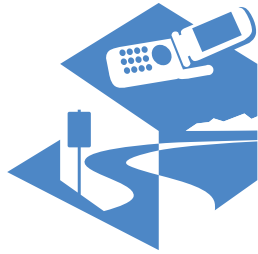
Construction at various hospital sites is making progress following the re-awarding of those contracts to local Iraqi firms, as shown in SIGIR Inspections 06-064 and 06-065, as well as last quarter's Inspection 06-066. One notable exception, however, is the Basrah Children's Hospital, which SIGIR Audit 06-026 (July 2006) reported as being significantly behind schedule.

The Model PHC Program is reportedly progressing at a much slower rate and has provided only one additional PHC for use by Iraqi patients since last quarter. For additional information on issues associated with PHC construction, see SIGIR Audit 06-011 (April 2006).

Activities in this sector were initially hindered by U.S. government mismanagement and design-build contractor performance and in executing and completing the tasks outlined in the reconstruction contracts. These issues most significantly impacted the Model PHC Program. Overall, the long-term impact of these projects will be better assessed after the hospital and PHC construction programs are complete.

Challenges

Security poses a significant threat in the health care sector, particularly because of the growing sectarian divide in Iraqi society. In November 2006, the Deputy Health Minister of the Dawa Party was kidnapped in Baghdad, and another Deputy Minister barely escaped assassination the next day.³⁹³ According to news accounts, 30 insurgents laid siege to the Ministry of Health headquarters later that week.³⁹⁴ Additionally, medicine and equipment procurement and distribution are operated by state-owned enterprises that are susceptible to inefficiency and possibly even corruption.³⁹⁵



STATUS OF TRANSPORTATION AND COMMUNICATIONS

This section examines the progress of reconstruction in the transportation and communications sector. Projects in this sector aim to improve transportation systems in Iraq, such as shipping, railways, roads, bridges, and airports. This sector also includes U.S.-funded telecommunications projects.³⁹⁶

SIGIR makes these observations about progress in the transportation and communications sector this quarter:

- As of January 2, 2007, more than 67% of the nearly \$800 million in IRRF funds allocated to this sector had been expended. Figure 2-49 shows sector funding as a portion of total IRRF allocations; sector projects are currently 83% complete.
- As of December 2006, U.S. reconstruction efforts at the Port of Umm Qasr were 86% complete.

- U.S. projects have completed repairs at 90 of 98 railway stations, but the effects of these projects are not yet apparent. Although the weekly average number of train trips was 45 during the quarter, only a small number of trains continue to run nationwide because of security concerns.
- Projects at the Basrah International Airport continue to make progress and are expected to be completed by September 2007; projects at other airports have been completed.
- Iraqis continue to subscribe to mobile phone services at a rapid pace although the number of landline subscriptions has remained constant. More than 8 million Iraqis now have access to mobile phone service.

Figure 2-49
TRANSPORTATION AND COMMUNICATIONS SECTOR AS A SHARE OF IRRF FUNDS
 \$ Billions
 % of \$18.44 Billion
 Source: IRMO, *Weekly Status Report* (1/2/2007)

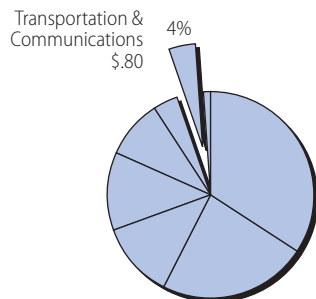
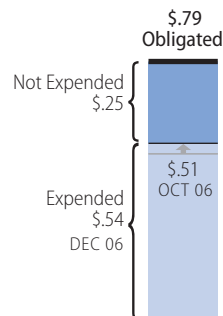


Figure 2-50
STATUS OF IRRF FUNDS - TRANSPORTATION AND COMMUNICATIONS
 \$ Billions
 Source: IRMO, *Weekly Status Report* (1/2/2007);
 DoS, *Iraq Weekly Status* (9/27/2006)

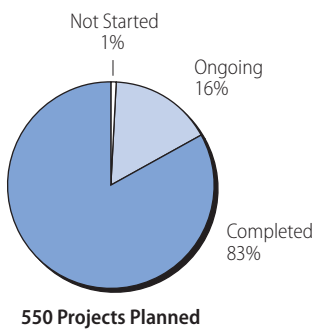




TRANSPORTATION AND COMMUNICATIONS

Figure 2-51
STATUS OF IRRF TRANSPORTATION AND COMMUNICATIONS PROJECTS

Source: IRMO Rollup (12/30/2006);
 USAID Activities Report (December 2006)



Sector	Not Started	Ongoing	Completed	Total
Roads and Bridges	6	67	215	288
Railroad Rehabilitation & Restoration		8	90	98
Consolidated Fiber Network			94	94
Telecommunications Business Modernization	1	1	32	34
Civil Aviation		5	14	19
Umm Qasr Port Rehabilitation		2	9	11
Expressways		4		4
Telecommunications Operations/Regulatory Reform			1	1
Telecommunications Systems		1		1
Total	7	88	455	550

Activities in the Transportation and Communications Sector

As of January 2, 2007, almost all of the sector's IRRF funding had been obligated, and approximately \$540 million had been expended.

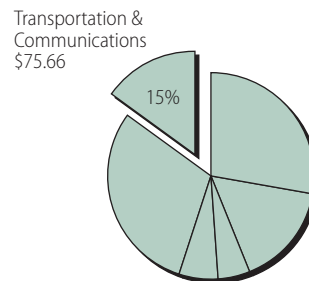
Figure 2-50 shows the status of sector funds.

Construction in this sector is expected to be completed by December 2008.³⁹⁷ For the status of projects in this sector, see Figure 2-51.

CERP funds are also used to support projects in this sector. As of September 30, 2006, almost all of the \$75.66 million CERP funding for this sector had been obligated, and approximately \$25 million had been expended. Also, 318 CERP-funded projects had been completed, and 238 were ongoing. Four projects have not yet begun. For a breakdown of CERP funding in this sector, see Figure 2-52.

Figure 2-52
TRANSPORTATION AND COMMUNICATIONS SECTOR AS A SHARE OF FY 2006 CERP FUNDS

\$ Millions
 % of \$511.16 Million
 Source: Office of the Assistant Secretary of the Army
 Financial Management and Comptroller (9/30/2006)





SHIPPING ACTIVITIES

Shipping projects have focused on improving the **Port of Umm Qasr** with rehabilitations and equipment funded with \$45 million of the IRRF; all funds were obligated last quarter.³⁹⁸ GRD-PCO has completed five of seven projects, and the overall program is 86% complete.³⁹⁹ The \$4.3 million security fence project has been completed; fire fighters have been trained to operate fire boats; and contracts have been awarded for vehicles, crane motors, and security upgrades.⁴⁰⁰ Finally, 86% of refurbishment work on the **Nelcon cranes/spreader** had been delivered, as of December 29, 2006.⁴⁰¹ The shipping program is expected to be finished in February 2007.⁴⁰²

Outputs of IRRF-funded Shipping Projects

As a result of U.S.-funded projects, 16 docks are now in operation; only one dock was functional at the end of the war.⁴⁰³ Other projects focus on enhancing handling capacity and operational efficiency, as well as augmenting security to provide a more reliable flow of cargo in and out of port.⁴⁰⁴

Outcomes of IRRF-funded Shipping Projects

Although SIGIR did not receive any data on the number of ships berthed at the port this quarter, Umm Qasr remains a busy port with long queues of ships waiting to dock. The GOI is considering constructing a new port with approximately 100 berths on the Al-Faw peninsula. At the time of this Report, no construction had begun, and the project remains in the planning phase.⁴⁰⁵



Oil tanker loading at Al Basrah Oil Terminal at the Port of Umm Qasr. This is the major shipping port for Iraq.

RAILWAY ACTIVITIES

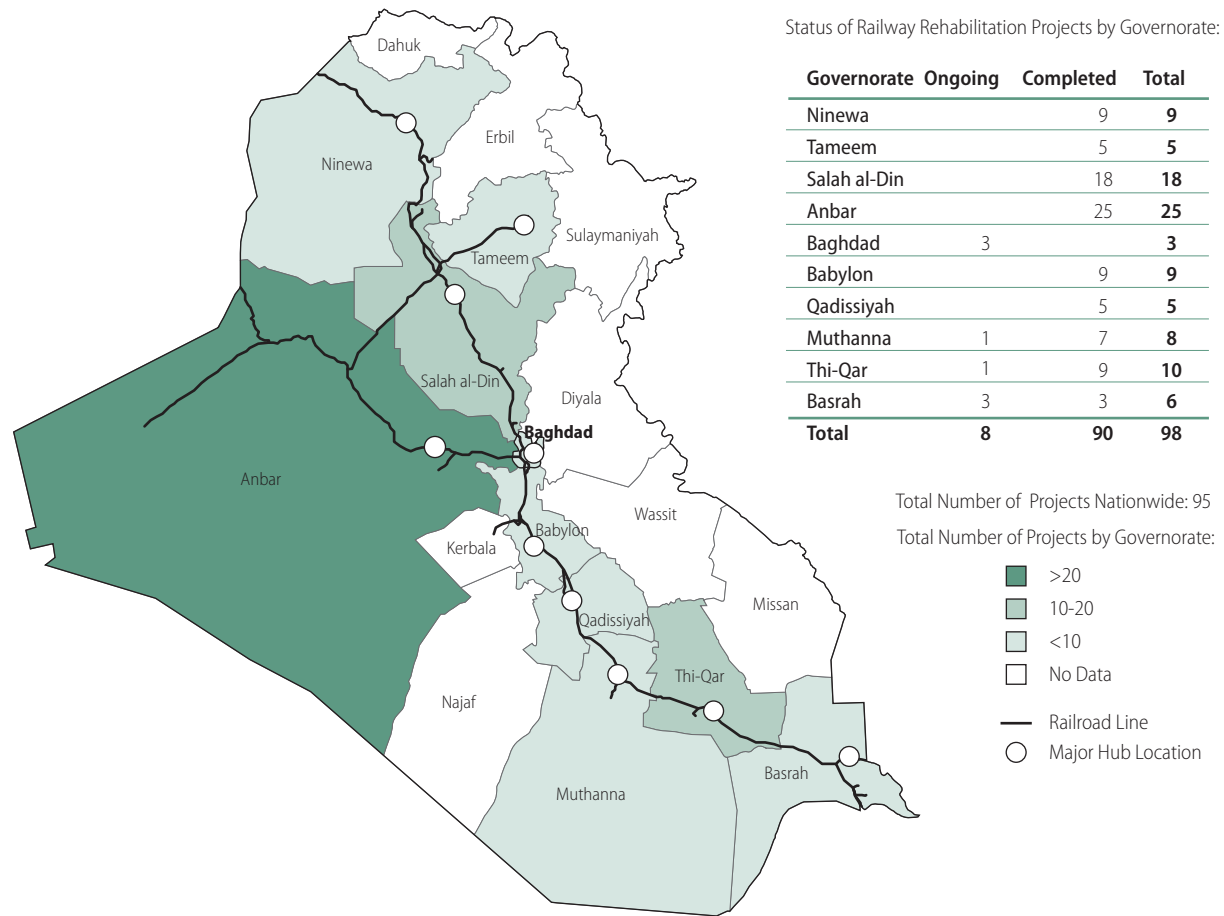
As of September 2006, allocations in this sub-sector amounted to \$197 million. In October 2006, DoS reported that \$1.2 million had been reallocated to civil aviation for upgrades to the Basrah International Airport.⁴⁰⁶ The bulk of expenditures in this sector—\$131 million—is for materials and equipment. Most of this funding has been used to purchase track maintenance equipment, spare parts, tools, and other materials.⁴⁰⁷

The **Communications-Based Train Control System (CBTC)** comprises two different contracts. Phase I of this \$57.6 million project valued at \$16 million and expected to be completed in September 2007, will provide the Iraqi Republic Railroad (IRR) with a train control system for tracking movement of all locomotives on the rail system. The project is currently 88% complete.⁴⁰⁸ To allow the contractor to start installation of the backbone



TRANSPORTATION AND COMMUNICATIONS

Figure 2-53
RAILROAD STATION REHABILITATION PROJECTS BY GOVERNORATE
 Source: IRMO Rollup (12/30/2006), GRD-PCO, Response to SIGIR, 1/18/2007



system, 33 site surveys have been completed for the communication towers between Mosul and Basrah.⁴⁰⁹ Phase II will provide a \$41.6 million Digital Microwave Radio Communications Network (also referred to as the **CBTC-backbone**); work has not yet begun.⁴¹⁰

In other construction activities, \$9 million worth of upgrades at the **Samawa Maintenance Shop** were completed,⁴¹¹ and a \$33,000

contract modification to address the additional work at **Baghdad Central Railway Station** was issued on December 22, 2006.⁴¹² For the railway station projects by location, see Figure 2-53.

Outputs of IRRF-funded Railway Projects

U.S. projects have helped bring the number of operational locomotives to 125; immediately



TRANSPORTATION AND
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after the war, only 25 were reported in Iraq.⁴¹³ Although most funding for Iraqi railway projects has been allocated for non-construction initiatives, construction projects have nevertheless repaired 90 of 98 planned stations under this \$51 million program.⁴¹⁴

Outcomes of IRRF-funded Railway Projects

This quarter, an average of 45 trains ran per week—up from last quarter’s average of 27 per week.⁴¹⁵ Although daily round-trip passenger service resumed between Basrah and Hilla after Ramadan, there has been limited passenger traffic between Mosul and Rabiya.⁴¹⁶

Despite the increase in rail travel this quarter, the rate is still far below the planned number of trains for previous quarters. This shortfall is primarily caused by poor security conditions, which continue to hinder the flow of rail traffic in Iraq. No trains have operated along the Baghdad-Basrah-Umm Qasr route since February 2006.⁴¹⁷ The railway is also vulnerable to insurgent threats at Baiji and Dora, which affects the capacity of train operations.⁴¹⁸ The IRR employees and staff abandoned the Dora facility in November: it was immediately looted.⁴¹⁹

AIRPORT ACTIVITIES

Civil aviation has been allocated \$80 million in IRRF funding, which includes reallocations of \$13 million from different initiatives, such as the Umm Qasr Port Rehabilitation, Railroad Rehabilitation, Iraq Telecommunications and Postal Corporation, and several security



Sign at the Baghdad Central Railway Station. No trains have operated on the Baghdad-Basrah route since February 2006.

projects. Funds were reallocated to aviation because projects in this subsector were more tangible, and the projects had been making good progress.⁴²⁰ Also, the contractor bids for work planned at Baghdad International Airport were higher than estimated.⁴²¹

This quarter, the \$7 million **Visual Aids** project was completed at the Baghdad International Airport. A number of training programs for **Iraqi Civil Aviation Authority** employees also took place this quarter, which included air worthiness inspection, radar operations and maintenance, and a 22-week intensive program in air traffic control communications skills.⁴²²

Most of these reallocated funds are slated to support upgrades to **Basrah International Airport (BIA)**.⁴²³ BIA projects were agreed to be of high priority and received funding from other subsectors and sectors once resources became available.⁴²⁴

Three new projects were started this quarter at BIA, including upgrades and repairs of navigational aids and communications, a new radar



TRANSPORTATION AND COMMUNICATIONS



Baghdad Central Railway Station. SIGIR inspectors reviewed the renovations at this facility in Summer 2006.

system, and renovations to the airport's water system. These projects are expected to be completed by September 2007. The terminal and tower renovation project is 95% complete, and final completion is scheduled for May 2007.⁴²⁵

Table 2-13 summarizes the work done at the Baghdad, Basrah, and Mosul airports. U.S.-led reconstruction efforts in this subsector are near completion.

Outputs and Outcomes of IRRF-funded

Air Transportation Projects

During this quarter, the Baghdad International Airport averaged 423 flights per week⁴²⁶—a decrease from last quarter's 473—including both military and civil operations.

IRMO reports that BIA has experienced an increased number of attacks because British

troops have redeployed there as a result of British base closures throughout the south.⁴²⁷

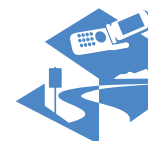
ROADS AND BRIDGES

U.S.-funded projects in this subsector will not be completed until December 2008. The projects have focused on small village roads, several key highways, and bridges.⁴²⁸

Key Road and Bridge Projects

Completed and Underway

Construction of the **Al Hamza Bridge** was completed in early October 2006.⁴²⁹ The highway between Baghdad and Kirkuk will be upgraded to four lanes by December 2008. Also, Diwaniya and Al-Samawa will be connected by an upgraded four-lane highway;

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COMMUNICATIONS

STATUS OF U.S.-LED PROJECTS AT IRAQI AIRPORTS, AS OF 12/31/2006

AIRPORT	CONTRACT SIZE	# PROJECTS	EST. COMPLETION DATE	STATUS
Baghdad	\$17 million	7	October 2006	100% Complete
Basrah	\$25 million	10	September 2007	55% Complete
Mosul	\$10 million	1	September 2006	100% Complete

Source: GRD-PCO, response to SIGIR, January 17, 2007.

TABLE 2-13

this \$15.5 million project is scheduled to be completed in February 2008.⁴³⁰

The Village Roads Program, budgeted at \$38.5 million, will improve 263 miles of roads throughout 15 governorates in Iraq.⁴³¹ Originally scheduled to be completed by August 2006,⁴³² the project is now estimated to be finished by July 2007. The program was delayed by security problems and a lack of construction resources, such as bitumen, asphalt, and fuel.⁴³³ In 2006, SIGIR inspected various Village Roads projects (06-039, 06-055, and 06-059) and concluded that construction was consistent with the contract objectives and met the design standards.

Provincial Reconstruction Development Committees (PRDCs) prioritize the road projects in their respective governorates, and the projects issued through them are making progress.⁴³⁴ There are currently 56 projects valued at \$56.5 million, and 6 have been completed to date.⁴³⁵ This quarter, a \$2.5 million ESF project was approved for the Technology Exchange Center (formerly named **Technology Transfer Center**, or T2C). This funding will be spent mainly on soft projects, particularly implementing government capacity-building and training initiatives. The Technology

Exchange Center is located at the Ministry of Construction and Housing,⁴³⁶ and the Ministry is partnering with the U.S. Federal Highway Administration.⁴³⁷

Outputs of IRRF-funded Road and Bridge Projects

U.S.-led road and bridge projects are expected to repair and pave 464 miles of road, including 261 miles of village roads, 112 miles of city carriageways, and 91 miles of major roads.⁴³⁸ Ten bridges are slated to be repaired by the end of the reconstruction program—eight from IRRF funding and two from DFI funding.⁴³⁹

GRD-PCO reports that five PRDC projects—four roads and one bridge—were completed this past quarter for a total of four miles.⁴⁴⁰

TELECOMMUNICATIONS

Projects to modernize the **Iraq Telecommunications and Postal Commission** were funded with \$20 million from IRRE, and all funds have been obligated, as of September 2006.⁴⁴¹ This includes 34 projects that focus on constructing and renovating post offices. At the end of this quarter, the projects were 80% complete, up from 65% last quarter. The last



TRANSPORTATION AND COMMUNICATIONS

post office project is expected to be completed in July 2007.⁴⁴² When finished, the projects are expected to bring mail service to approximately one million Iraqis.⁴⁴³

The **Iraqi Telecommunications System** was allocated \$48 million, almost all of which was obligated by the end of this quarter.⁴⁴⁴ This funding is being used to construct a **primary switching facility at Al-Mamoom** and a **wireless broadband network (WBBN)**. The \$26 million switch facility was 13% complete, as of December 29, 2006, and is estimated to be finished by September 2007.⁴⁴⁵ Construction for the Al-Mamoom Telephone Exchange facility also started this quarter.⁴⁴⁶ In late September, O&M support began to supply labor, materials, equipment, tools, management, transportation, and security to the WBBN Network for 35 Iraqi ministries. The project is currently 50% complete.⁴⁴⁷

According to the October DoS *Section 2207 Report*, the funding allocation for the Consolidated Fiber Network (CFN) was decreased to \$50 million in October 2006. Those funds were to be transferred to the health care sector to support completion of the Basrah Children's Hospital. However, a contract valued at \$1 million was awarded for the CFN O&M.⁴⁴⁸

To modernize the Iraq telecommunications operations system and support a regulatory agency, the Communications and Media Commission (CMC) was allocated \$20 million. Last quarter, the CMC headquarters was completed

and furnished in December 2006.⁴⁴⁹ A contract (\$2.5 million) for training all CMC staff was also awarded, along with a \$4.7 million contract for LAN equipment.⁴⁵⁰

Outputs and Outcomes of Telecommunications Projects

After the CMC is restructured, the Ministry of Communications will likely manage telecommunications regulatory functions, operating licensing, and the wireless spectrum. The CMC will retain responsibility for oversight of the media and broadcast licensing.⁴⁵¹ One of the priorities of the Ministry of Communications and CMC is to extend the wireless local loop network in the volatile Anbar governorate.⁴⁵²

Although the United States has provided some funding for wireless licenses, most of the development of the mobile phone infrastructure has come from the private sector. Mobile phone subscribers continue to increase at a rapid pace, from 7.2 million last quarter to

CURRENT TELEPHONE SUBSCRIBERS VS. PRE-WAR LEVELS

OUTPUTS METRIC	PRE-WAR LEVEL (2003)	LAST QUARTER STATUS, AS OF 9/26/2006	CURRENT STATUS, AS OF 1/2/2007
Landline Subscribers	833,000	1,046,027	1,046,027
Mobile Phone Subscribers	80,000	7,214,650	8,712,027

Sources: Pre-war Levels: Economist Intelligence Unit, Country Profile 2005-Iraq, 2005, p. 34; International Telecommunication Union, World Telecommunication/ICT Indicators, no date, p. A-30. Available online at http://www.itu.int/ITU-D/ict/statistics/at_glance/cellular03.pdf; last quarter status: IRMO Iraq *Weekly Status Report*, September 26, 2006, p. 23; current status: IRMO, *Iraq Weekly Status*, January 2, 2007, p. 23.

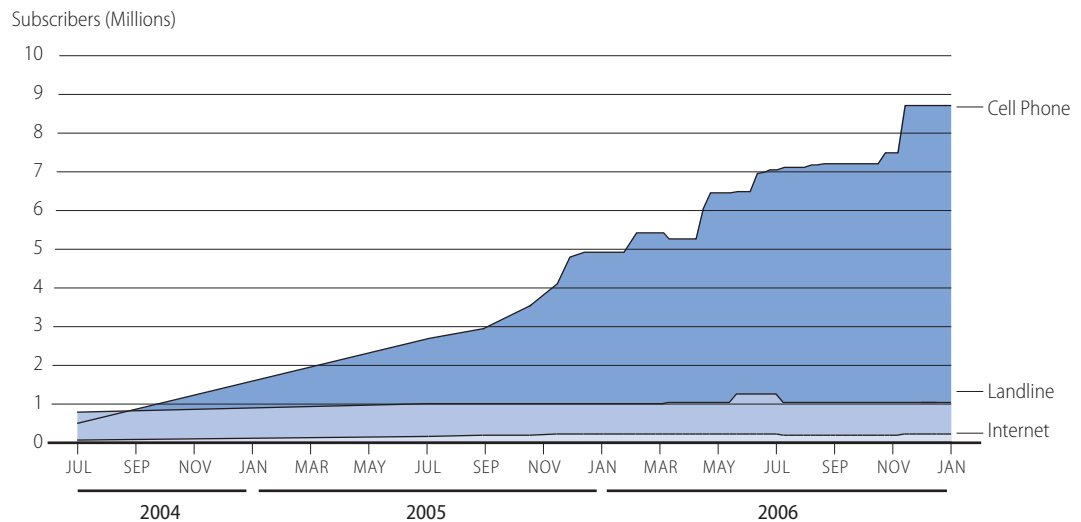
TABLE 2-14



more than 8.7 million this quarter. The number of landline telephone subscribers, however, stayed constant this quarter. Currently, there are an estimated 230,000 internet subscribers in Iraq,⁴⁵³ using the State Company for Internet Services. Most Iraqis gain internet access through cafes and hotels.

Figure 2-54 shows the steady rise in cell phone subscribers, and Table 2-14 compares the current number of telephone subscribers with pre-war levels.

Figure 2-54
STATUS OF IRRF FUNDS - TRANSPORTATION AND COMMUNICATIONS
 Source: IRMO, *Weekly Status Report* (1/2/2007);
 DoS, *Iraq Weekly Status* (9/27/2006)





TRANSPORTATION AND COMMUNICATIONS

CONTRACTS

The Iraq Reconstruction Accountability Act of 2006 expanded SIGIR oversight to include ISFF, CERP, ESF, and other FY 2006 reconstruction-related funding activities. As a result, SIGIR is increasing its efforts to collect contract data to account for these funds.

This quarter, SIGIR compiled more than 10,000 contracting actions funded by IRRF and ISFF, totaling approximately \$21 billion in obligations and \$16 billion in expenditures. The initial data collection effort for CERP and ESF produced summary-level reports that lacked

contract-level detail. SIGIR will continue to report on IRRF and ISFF contracts and collect contract data for CERP and ESF activities.

To date, approximately \$18 billion of the IRRF has been obligated, and more than \$6.5 billion of ISFF funds has been obligated. At a contract level, SIGIR can account for 81% of IRRF monies and 98% of ISFF monies.

Table 2-15 summarizes IRRF and ISFF contracting actions recorded in the SIGIR Iraq Reconstruction Information System (SIRIS) through January 7, 2007.

SUMMARY OF IRRF AND ISFF CONTRACTS IN SIRIS (\$ BILLIONS)

	OBLIGATED	EXPENDED	UNEXPENDED
IRRF			
GRD Construction	\$7.74	\$5.63	\$2.11
GRD Non-construction	4.08	3.49	0.59
USAID	2.92	2.53	0.39
Subtotal	\$14.74	\$11.65	\$3.09
ISFF			
ISFF 2005	5.17	4.19	0.98
ISFF 2006	1.30	0.58	0.72
Subtotal	\$6.47	\$4.77	\$1.7
Total	\$21.21	\$16.42	\$4.79

TABLE 2-15

Contractor Analysis for IRRF

Table 2-16 shows the top ten contractors receiving IRRF funds, as reported in SIRIS.

During this quarter, expenditures to Symbion Power LLC increased by nearly 50% for transmission projects in the electricity sector.

TOP 10 CONTRACTORS – IRRF (MILLIONS)

CONTRACTOR	OBLIGATED	EXPENDED	EXPENDED PREVIOUS QUARTER	% INCREASE IN EXPENDITURES
Bechtel	\$1,262	\$1,113	\$1,049	6%
FluorAMEC, LLC	\$982	\$878	\$842	4%
Parsons Global Services, Inc.	\$733	\$610	\$610	0%
Parsons Iraq Joint Venture	\$658	\$456	\$389	17%
Kellogg Brown & Root Services, Inc.	\$560	\$482	\$435	11%
Washington Group International	\$531	\$427	\$389	10%
Development Alternatives, Inc.	\$440	\$436	\$436	0%
Environmental Chemical Corporation	\$354	\$349	\$346	1%
Anham Joint Venture	\$259	\$258	\$258	0%
Symbion Power LLC	\$249	\$49	\$33	48%

TABLE 2-16

Contractor Analysis for ISFF

Table 2-17 shows the top ten contractors funded by ISFF. The largest ISFF contractor is Environmental Chemical Corporation, which reports more than 45% in undelivered funds on several ongoing training and operations projects for the Ministry of Defense and Ministry of Interior.

Innovative Technical Solutions, Inc., started most of its projects in October 2006; consequently, it reports the greatest percentage of undelivered orders—85% for the current quarter.

Appendix F lists contracting actions funded by IRRF and ISFF that have been recorded in SIRIS.

TOP 10 CONTRACTORS – ISFF (MILLIONS)

CONTRACTOR	OBLIGATED	EXPENDED	UNDELIVERED	% UNDELIVERED
Environmental Chemical Corporation	\$434	\$236	\$198	46%
Aecom Government Services Inc.	\$236	\$212	\$24	10%
Toltest, Inc.	\$188	\$89	\$99	53%
AM General LLC	\$162	\$161	\$1	1%
Tetra International, LLC	\$160	\$109	\$51	32%
AMEC Earth & Environmental, Inc.	\$157	\$82	\$75	48%
Innovative Technical Solutions, Inc.	\$144	\$21	\$123	85%
Washington Group International	\$130	\$55	\$75	58%
O’Gara-Hess & Eisenhardt Armoring Co.	\$120	\$117	\$3	3%
BLP	\$116	\$79	\$37	32%

TABLE 2-17

COST-TO-COMPLETE DATA

U.S. agencies executing reconstruction projects are required by Section 2207 of P.L. 108-106 to provide quarterly estimates of the cost to complete each IRRF-funded project. Cost-to-complete (CTC) data helps identify the funding status of all projects, both those that may exceed their budget and those that may be completed under budget, and allows management to prioritize activities.

In past Quarterly Reports, SIGIR highlighted CTC information from Project Assessment Reports (PARs). However, last quarter DoS reported CTC data only for projects managed by GRD-PCO; no CTC data was provided for projects managed by MNSTC-I or

USAID. The same situation exists this quarter. As of January 20, 2007, SIGIR has not received the PAR for the quarter ending December 31, 2006. An IRMO official told SIGIR that only GRD-PCO will again provide data because both MNSTC-I and USAID have nearly finished their IRRF-funded projects, and the remaining projects are being implemented by GRD-PCO. For example, for IRRF-funded construction projects as of January 2, 2007, all but \$2.38 billion of the \$10.27 billion had been expended. Of this, \$2.24 billion belongs to GRD-PCO projects. Only \$120 million in USAID projects remains to be expended.

SOURCES OF FUNDING FOR IRAQ RECONSTRUCTION

SIGIR is required to report on the oversight of and accounting for funds expended in Iraq relief and reconstruction, under P.L. 108-106, Section 3001 (as amended). Relief and reconstruction activities are funded by three sources:

- U.S. appropriated funds: IRRF, CERP, ISFF, ESF, and other U.S. appropriated funds
- international donor funds
- Iraqi funds

As of December 31, 2006, SIGIR identified \$38.28 billion in total U.S. appropriated funds for Iraq as “relief and reconstruction.” This includes \$20.91 billion in IRRF funding and \$17.34 billion in other U.S. appropriated funds. In the absence of an internationally recognized definition of “relief and reconstruction,” SIGIR includes 26 non-IRRF activities that are related to relief and reconstruction—for example, the construction of U.S. military installations that will eventually be turned over to the Iraqis. SIGIR’s current mandate includes oversight of \$32.96 billion of the \$38.28 billion in appropriated funding.

Table 2-18 presents the best information available for U.S. appropriated funding but does not provide a complete picture of all U.S. relief and reconstruction activities. SIGIR does

not have complete information on funding for narrowly focused programs of some agencies or the use of agency operating funds for projects in Iraq. However, SIGIR made some estimates for selected accounts, which are reflected in the footnotes to the table.

As of December 31, 2006, international donor funds totaled \$15.21 billion—\$13.59 billion pledged at the 2003 Madrid Donors Conference and \$1.62 billion in post-Madrid pledges—not including humanitarian or other types of assistance

Iraqi funds comprise vested and seized funds, the Development Fund for Iraq (DFI), and the Iraq Capital Budget. Iraqi funds have been an important funding source for reconstruction efforts, particularly during CPA’s tenure. As of December 31, 2006, these funds total \$50.45 billion, including:

- vested (frozen) funds of \$1.72 billion
- seized funds, including confiscated cash and property, of \$927 million
- DFI funds (including DFI sub-account), drawn primarily from oil proceeds and repatriated funds of \$23.04 billion
- budgeted Iraqi funding of \$24.76 billion from 2004 to 2007 (although much less has actually been expended)



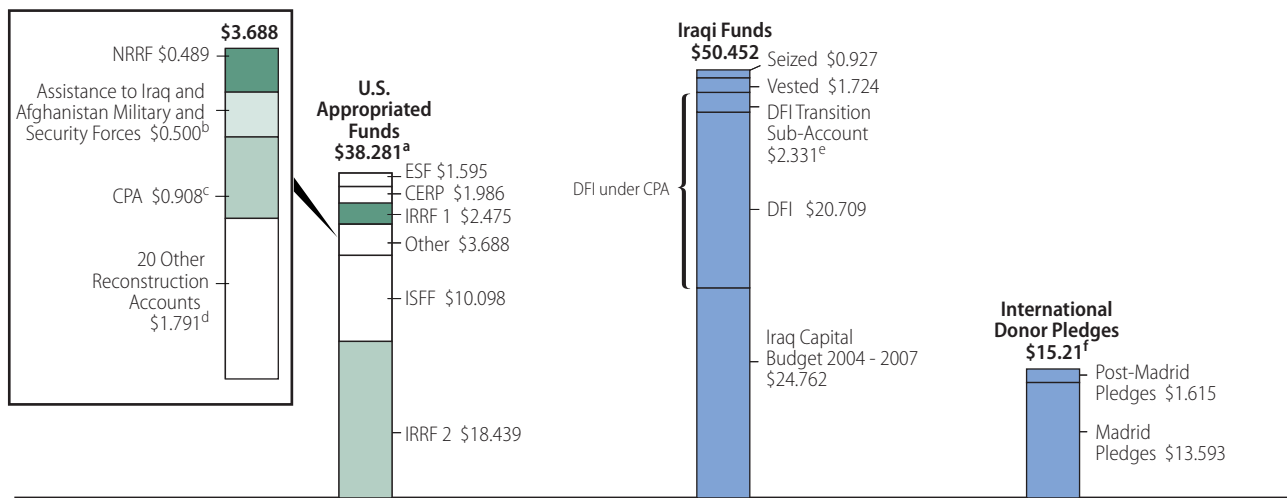
Figure 2-55 provides an overview of all sources of Iraq reconstruction funding. More details are provided in Appendices G and H.

U.S. Appropriated Funding

Since the 2003 conflict began, Congress has passed eight bills that provided \$38.23 billion in Iraq reconstruction funding, excluding \$40 million in ESF funding from P.L. 108-7 counted toward reconstruction efforts before

the initiation of hostilities. On September 29, 2006, the President signed the most recent appropriation for the Department of Defense (P.L. 109-289). This included \$1.7 billion in ISFF funding and \$375 million for CERP. Historically, Congress has also included additional funding in each year's Department of State/Foreign Operations bills. (FY 2007 appropriations had not yet passed at the time of printing this Report.)

Figure 2-55
SOURCES OF IRAQ RECONSTRUCTION FUNDING—\$103.924 BILLION
 \$ Billions



- Public Law 108-11 (April 2003)
- Public Law 108-106 (November 2003)
- Public Law 109-148 (January 2005)
- Spans Multiple Public Laws
- Non-U.S. Appropriated Funds

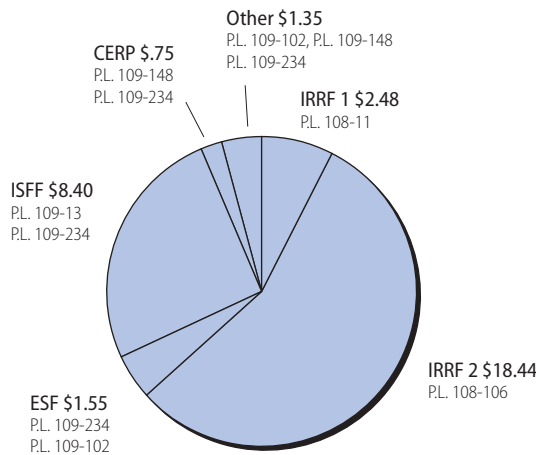
- a. In accordance with P.L. 109-440, SIGIR has oversight of any U.S. funds made available for FY 2006 for the reconstruction of Iraq. When added to IRRF funding, this amounts to approximately \$33 Billion.
- b. Congress provided DoD with authorization for drawdown authority for these funds.
- c. \$75 Million is excluded under CPA for Special Inspector General for Iraq Reconstruction, which is captured under "Other Reconstruction Accounts."
- d. Where Iraq-only appropriations unavailable, SIGIR assigned 85% for Iraq based on historical trends.
- e. Includes August 11, 2004 transfer of \$86 Million cash from Central Bank of Iraq for CERP at the authorization of the Ministry of Finance.
- f. Includes pledges for reconstruction only, not humanitarian aid or other types of assistance.

Over the past three years, more than half of U.S. reconstruction funding has come from IRFF 1 and IRFF 2, created under P.L. 109-11 and P.L. 108-106, respectively. U.S. agencies involved in the execution of reconstruction funding include DoD, DoS, USAID, and others. Projects highlighted earlier in this section range from infrastructure development to refugee and migration assistance. The appropriated funds are highlighted in Table 2-18.

New SIGIR Mandate

On December 20, 2006, the President signed P.L. 109-440, the Iraq Reconstruction Accountability Act of 2006. (For additional details, see Section 3, Legislative Update). Under P.L. 109-440, the IRRF is defined as including any U.S. funds made available for FY 2006 for the reconstruction of Iraq, regardless of how they are designated. Figure 2-56 identifies the primary funding activities associated with the new mandate, including ISFF, CERP, ESF, and others, representing nearly \$12 billion in additional oversight. SIGIR now oversees \$32.96 billion in reconstruction funding.

Figure 2-56
SUMMARY OF SIGIR OVERSIGHT
 \$32.96 Billion
 Source: SIGIR Analysis of U.S. Appropriated Funds



CERP = Commander's Emergency Response Program
 IRRF 1 & 2 = Iraq Relief and Reconstruction Funds
 ISFF = Iraq Security Forces Fund
 ESF = Economic Support Fund
 P.L. = Public Law

SECTOR SUMMARIES

FUNDING MECHANISM	CONSOLIDATED APPROPRIATIONS RESOLUTION, 2003	EMERGENCY SUPPLEMENTAL APPROPRIATIONS ACT, 2003	EMERGENCY APPROPRIATIONS ACT FOR THE RECONSTRUCTION OF IRAQ AND AFGHANISTAN, 2004	DEPARTMENT OF DEFENSE APPROPRIATIONS ACT, 2005	EMERGENCY SUPPLEMENTAL APPROPRIATIONS ACT FOR DEFENSE, THE GLOBAL WAR ON TERROR, AND TSUNAMI RELIEF, 2005	APPROPRIATIONS FOR THE DEPARTMENT OF STATE, FY 2006	APPROPRIATIONS FOR THE DEPARTMENT OF DEFENSE, FY 2006	EMERGENCY SUPPLEMENTAL APPROPRIATIONS FOR FY 2006	DEPARTMENT OF DEFENSE ACT, FY 2007	TOTAL APPROPRIATIONS
PUBLIC LAW #	P.L. 108-7	P.L. 108-11	P.L. 108-106	P.L. 108-287	P.L. 109-13	P.L. 109-102	P.L. 109-148	P.L. 109-234	P.L. 109-289	
DATE OF ENACTMENT	02/20/03	04/16/03	11/06/03	08/05/04	05/11/05	11/14/05	12/30/05	06/15/06	09/29/06	
Iraq Relief and Reconstruction Fund (IRRF 2)			\$18,439,000,000					\$3,007,000,000		\$18,439,000,000
Iraq Security Forces Fund (ISFF)					\$5,391,000,000				\$1,700,000,000	\$10,098,000,000
Iraq Relief and Reconstruction Fund (IRRF 1)		\$2,475,000,000								\$2,475,000,000
Commander's Emergency Response Program (CERP)				\$140,000,000	\$718,000,000		\$408,000,000	\$345,000,000	\$375,000,000	\$1,986,000,000
Economic Support Fund (ESF) ^a	\$40,000,000	\$10,000,000				\$60,390,000		\$1,485,000,000		\$1,595,390,000
Coalition Provisional Authority (CPA) ^b			\$908,000,000							\$908,000,000
Assistance to Iraq and Afghanistan Military and Security Forces ^c							\$500,000,000			\$500,000,000
Natural Resources Risk Remediation Fund (NRRRF)		\$489,300,000								\$489,300,000
Military Construction ^d				\$210,000,000			\$341,900,000	\$34,900,000		\$376,800,000
New Iraqi Army ^e								\$200,000,000		\$210,000,000
Project and Contracting Office (PCO/Dob) ^f										\$200,000,000
International Disaster Assistance	\$143,800,000									\$143,800,000
Combatant Commander Initiative Fund (CINC Initiative Fund) ^g	\$29,750,000		\$12,750,000	\$21,250,000	\$21,250,000		\$21,250,000	\$21,250,000		\$127,500,000
USAID Administrative Expenses	\$21,000,000				\$24,400,000			\$79,000,000		\$124,400,000
Department of State, International Narcotics Control and Law Enforcement (DoS/INL)	\$20,000,000							\$91,400,000		\$111,400,000
Diplomatic and Consular Programs ^h					\$49,659,000	\$56,908,000				\$106,567,000
Special Inspector General for Iraq Reconstruction (SIGIR) ⁱ			\$75,000,000					\$24,000,000		\$99,000,000
Child Survival and Health		\$90,000,000								\$90,000,000
P.L. 480 Title II Food Aid	\$68,000,000									\$68,000,000
Voluntary Peacekeeping Operations	\$50,000,000									\$50,000,000
Emergency Refugee and Migration Assistance	\$37,000,000									\$37,000,000
Overseas Humanitarian, Disaster and Civic Aid ^j			\$17,000,000							\$17,000,000
International Affairs Technical Assistance								\$13,000,000		\$13,000,000
United States Agency for International Development, Office of Inspector General (USAID OIG)	\$3,500,000		\$1,900,000		\$2,500,000					\$7,900,000
DoD Office of the Inspector General								\$5,000,000		\$5,000,000
Department of Treasury (Salaries and Expenses)								\$1,800,000		\$1,800,000
Department of State, Office of Inspector General								\$1,000,000		\$1,000,000
Legal Activities and U.S. Marshals (Salaries and Expenses)								\$1,000,000		\$1,000,000
TOTAL	\$108,000,000	\$3,369,350,000	\$19,453,650,000	\$371,250,000	\$6,206,809,000	\$117,298,000	\$1,271,150,000	\$5,309,350,000	\$2,075,000,000	\$38,281,857,000

^a \$40M from FY 2003 ESF base account that was not reimbursed; \$10M from P.L. 108-11
^b Excludes \$75M for Special Inspector General for Iraq Reconstruction under P.L. 108-106
^c Congress provided DoD with authorization for drawdown authority for these funds
^d As identified in GRD bi-weekly reports and P.L. 109-234
^e Where Iraq-only appropriations unavailable, based on historical trends SIGIR split 85% for Iraq and 15% for Afghanistan
^f Congress provided funding for PCO in other appropriations bills; more details will be available in future SIGIR reports
^g Includes Iraq Reconstruction Management Office salaries and expenses, mission travel, public diplomacy programs, and other operating expenses related to reconstruction.
^h CPA operating expenses under P.L. 108-106

TABLE 2-18

International Donor Funds

As IRRF funding winds down, assistance from other international donors is likely to play an increasing role in financing reconstruction in Iraq. The International Compact for Iraq (the Compact) is designed to help the GOI attract more financial support from the international community. This quarter, the total funds pledged for Iraq reconstruction by other international donors since 2003 increased slightly—from \$15.02 billion to \$15.21 billion, with an additional pledge of \$190 million from the United Kingdom. Precise information on the expenditures of these funds, however, continues to be difficult to obtain. The World Bank has not yet been able to fully update the status of the 2003 Madrid Conference pledges as requested by the donors, partly because of insufficient reporting on the part of some donors. For information on these pledges, see Table 2-19.

The Donor Committee that oversees the International Reconstruction Fund Facility for Iraq (IRFFI) remains intact although it has not had a formal meeting since July 2005. Twenty-six donors have committed a total of \$1.59 billion⁴⁵⁴ to the two IRFFI funds, the UN Development Group Iraq Trust Fund (UNDG ITF) and the World Bank Iraq Trust Fund (WB ITF). The WB ITF was scheduled to close December 31, 2007; however, the World Bank has recommended extending the fund through December 2010 to allow adequate time to finance the existing projects to completion.⁴⁵⁵

For a list of the members of the Donor Committee, see Table 2-20.

The future of international donor support to Iraq is expected to be shaped primarily by the Compact, which has been negotiated but not yet signed as this Report goes to press. In the context of the Compact, the GOI has asked the international community for:

- financial assistance, including loans and loan guarantees, to support major investments in basic services that are currently beyond the GOI's financial and technical capacity to execute given its volatile oil revenue stream
- debt relief (GOI wants to reduce non-Paris Club debt, reparations, and the remaining 20% of Paris Club debt by 2007.)⁴⁵⁶
- managerial and technical assistance, particularly to government ministries that need enhanced capacity to manage public investment
- assistance with a private-sector development strategy and promotion of private investment
- institutional strengthening and capacity building of government and civil society institutions
- assistance with accession to international agreements and development of new regional and international initiatives

The additional international financial assistance would help fund the Investment and Action Plan for Growth (IAPG), a detailed plan to quantify Iraq's financial and technical needs. After the Compact is signed, the GOI will develop this plan in coordination with a wide range of stakeholders, including the Iraqi

PLEDGES OF RECONSTRUCTION AID TO IRAQ, AS OF 12/31/2006 (U.S. DOLLARS)

DONOR	ORIGINAL MADRID PLEDGE OCTOBER 2003	ADDITIONAL PLEDGES SINCE MADRID CONFERENCE	TOTAL PLEDGES
Australia	\$45,590,974	\$81,042,221	\$126,633,195
Austria	5,478,165		5,478,165
Belgium	5,890,500		5,890,500
Bulgaria	640,000		640,000
Canada	187,466,454		187,466,454
China	25,000,000		25,000,000
Cyprus	117,810		117,810
Czech Republic	14,659,023		14,659,023
Democratic Governance Thematic Trust Fund		100,000	100,000
Denmark	26,952,384	40,000,000	66,952,384
Estonia	82,467		82,467
Finland	5,890,500		5,890,500
France		32,288	32,288
Germany		10,000,000	10,000,000
Greece	3,534,300		3,534,300
Hungary	1,237,005		1,237,005
Iceland	2,500,000		2,500,000
India	10,000,000		10,000,000
Iran	5,000,000	5,000,000	10,000,000
Ireland	3,534,300		3,534,300
Italy	235,620,020		235,620,020
Japan	4,914,000,000	50,000,000	4,964,000,000
Jordan		75,000	75,000
South Korea	200,000,000		200,000,000
Kuwait	500,000,000	65,000,000	565,000,000
Lithuania		30,000	30,000
Luxembourg (EURO)	2,356,200		2,356,200
Malta	27,000		27,000
Netherlands	9,424,801		9,424,801
New Zealand	3,351,975	990,000	4,341,975
Norway	12,867,617		12,867,617
Oman	3,000,000		3,000,000
Pakistan	2,500,000		2,500,000
Qatar	100,000,000		100,000,000
Saudi Arabia	500,000,000		500,000,000
Slovenia	419,382		419,382
Spain	220,000,000	2,380,000	222,380,000
Sri Lanka		75,500	75,500
Sweden	33,000,000		33,000,000

DONOR	ORIGINAL MADRID PLEDGE OCTOBER 2003	ADDITIONAL PLEDGES SINCE MADRID CONFERENCE	TOTAL PLEDGES
Turkey	50,000,000		50,000,000
United Arab Emirates	215,000,000		215,000,000
United Kingdom	452,326,416	190,000,000	642,326,416
United States	10,000,000		10,000,000
Vietnam		700,000	700,000
Subtotal	\$7,807,467,293	\$445,425,009	\$8,252,892,302
European Commission	235,620,000	669,680,000	905,300,000
Subtotal	\$8,043,087,293	\$1,115,105,009	\$9,158,192,302
International Financial Institutions			
IMF (low range)	2,550,000,000		2,550,000,000
World Bank (low range)	3,000,000,000		3,000,000,000
Islamic Development Bank		500,000,000	500,000,000
Subtotal	\$5,550,000,000	\$500,000,000	\$6,050,000,000
Total International Donor Assistance	\$13,593,087,293	\$1,615,105,009	\$15,208,192,302

Source: DoS, Iraqi Donor Assistance Database, donor response to SIGIR.

Note: Data not formally reviewed, audited, or verified. Pre-Madrid pledges for humanitarian assistance are not included in this table.

TABLE 2-19

and international banks, multilateral organizations, and the Iraqi private sector as an integral part of the formulation of Iraq's National Development Strategy. The IAPG will focus on the reconstruction of sectors that are critical to Iraq's economic recovery, such as Energy⁴⁵⁷ and Agriculture. Other sectors will be considered on a prioritized basis as part of the ongoing development of the National Development Strategy.

DONOR COORDINATION

As most U.S. reconstruction funding is expended, the Iraqis and international donors have become more aware of the need to target donor funds with more planning and precision. Improving donor coordination also continues to be a priority for the United States; the Baghdad Coordination Group and sector working groups continue to meet with increasing participation by Iraqi leadership.

The Ministry of Planning's Donor Assistance Database (DAD), supported by the UN

MEMBERS OF THE INTERNATIONAL RECONSTRUCTION FUND FACILITY FOR IRAQ DONOR COMMITTEE

Canada (Chair)	Kuwait
United Kingdom	Iran
Italy	Norway
India	South Korea
Turkey*	Qatar
Sweden	Spain
Finland*	European Commission
Japan	United States
Australia	Denmark
Germany	

* Rotating members

TABLE 2-20

Development Programme (UNDP), continues to improve as an assistance management tool to track all donor assistance. DAD shows the progress of pending and ongoing donor-supported projects and is available online at www.mop-iraq.org. Although the database is not complete, more projects are added each quarter, and the Ministry of Plan-

ning is becoming more adept at using it. As of December 31, 2006, DAD included 17,430 projects, totaling \$17.13 billion, associated with 20 donors. Against these projects, \$14.78 billion had been committed, and \$9.92 billion had been expended. Although these numbers are not verified or audited, DAD lists 16,941 U.S. projects, totaling \$13.61 billion. Against these projects, DAD reflects that the United States had committed \$11.99 billion and expended \$8.13 billion.⁴⁵⁸

MAJOR BILATERAL AND MULTILATERAL PROGRAMS

Iran

The economic ties between Iran and Iraq have grown stronger after the Iranian Foreign Minister's visit in May 2006. In a joint statement, the two countries referred to their deep-rooted historical, cultural, and religious ties and called for promotion of bilateral ties in all fields based on the principle of non-interference in each other's internal affairs and commitment to bilateral agreements. The Iran-Iraq Cooperation Headquarters was created to facilitate economic cooperation. The governors general of two border provinces in Iran and Iraq signed a memorandum of understanding stating that the Iranian Oil Ministry would export one million liters of oil and its by-product to Iraq daily for three months. The Iranian Ministry of Oil is providing a credit to build oil pipelines to move oil products between the two countries.⁴⁵⁹ Direct financial support from Iran includes:

- \$45 million credit for two oil pipelines connecting Iran and Iraq
- \$10 million grant to IRFFI⁴⁶⁰
- \$1 billion line of credit⁴⁶¹

Japan

Japan has pledged and expended more assistance to Iraq than any other country except the United States. By May 2005, Japan had completely obligated its Madrid pledge of \$1.5 billion plus an additional \$50 million.

Japan has now committed approximately \$1.6 billion of the promised \$3.5 billion in concessional loans. In October 2006, Japan announced a loan for six projects totaling \$863 million:

- \$259 million to a development project in the port sector
- \$81 million to a loan program in the irrigation sector
- \$315 million to the **Al-Mussaib Thermal Power Plant** rehabilitation project
- \$28 million to Samawah bridges and roads construction projects
- \$20 million for engineering services to upgrade the **Basrah Refinery**
- \$160 million to the **Khor Al-Zubair Fertilizer Plant** rehabilitation project

In December 2006, the Japanese government announced a loan for two additional projects to upgrade Iraq's oil and electricity sectors totaling \$738 million—\$447 million to construct a pipeline to export oil from Basrah and \$291 million to improve facilities for electricity transmission.⁴⁶² The Foreign Ministry

said the 40-year loan would be made through the state-funded Japan Bank for International Cooperation.

United Kingdom

The United Kingdom (UK) is one of the first major donors to fully expend all of its assistance to Iraq since 2003 (\$920). This includes its Madrid pledge of \$452 million and humanitarian assistance of \$468 million. An additional pledge of \$190 million has recently been announced, bringing total UK assistance to \$1.11 billion. Table 2-21 shows UK expenditures by program.

The UK also has a quick-impact program (\$59 million) financed by the Ministry of Defense, which has a similar mission to that of CERP.

The Department for International Development's (DFID) program for 2006-2007 focuses on economic reform, delivering power and

water improvements in the south, governance and institution-building in Baghdad and the south, support for civil society and political participation, and capacity building in the Ministry of Interior. DFID funds a World Bank advisor in Baghdad to speed up engagement in oil and electricity issues and to help the GOI develop a plan for the energy sector.

European Commission

The European Commission (EC) has pledged approximately \$905 million, of which \$779 million was for reconstruction assistance. Twenty-four percent of EC funding has been used to support education initiatives; 14% has supported health programs; 13% has supported poverty-reduction initiatives; 21% has supported the electoral/constitutional processes; and the remaining 28% has supported capacity building.

The \$252 million program announced for

UK DONOR EXPENDITURE AS OF DECEMBER 31, 2006 UNOFFICIAL ESTIMATE (IN MILLIONS)

PROGRAM	EXPENDITURES
DFID Bilateral Programme	\$536
IRFFI Trust Funds	127
Contribution to EC Programme	142
FCO Programmes	64
Global Conflict Prevention Pool	72
MoD Quick Impact Projects	59
Total	\$1,000

Source: DFID, response to SIGIR, January 3, 2007.

TABLE 2-21

2006 focuses on improving the quality of life of the Iraqi people by funding programs to:

- support basic services (\$223.65 million)
- provide a technical assistance facility to provide capacity building (\$7.56 million)
- support the Iraqi refugees inside Iraq (\$12.6 million)
- enhance the capacity of the Trade and Customs Administration (\$8.19 million)

The Trade and Customs Administration capacity-building initiative will support the EC-Iraq Trade and Cooperation Agreement. This agreement aims to improve the trade arrangements between Iraq and the EU, covering a wide range of issues, including trade in goods, services, measures to encourage investment, customs, intellectual and industrial property rights, and public procurement rules.⁴⁶³

World Bank

In January 2004, donors authorized the World Bank to administer the World Bank ITF, which began receiving funds in March 2004. Table 2-22 summarizes WB ITF and UNDG ITF allocations to IRFFI.

As of December 31, 2006, the World Bank ITF had received \$458 million from 17 donors. Of the tendered amount (\$278 million), \$166 million had been contracted, and \$76 million had been expended for projects:⁴⁶⁴

- \$411 million of the World Bank ITF has been allocated to 15 projects.
- Twelve of the 15 projects, valued at \$399 million, are for projects implemented directly by GOI authorities.

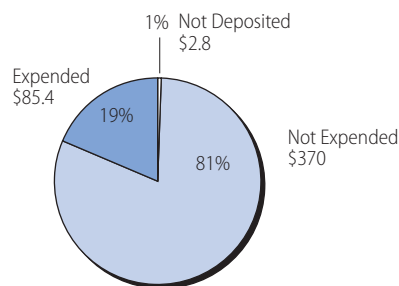
- The remaining three, valued at \$12 million, are capacity building and technical assistance activities implemented by the World Bank.
- Two World Bank projects financed by the ITF—the First Capacity Building Project and the Emergency Textbook Provision Project—are completed and closed.

Figure 2-57 reflects the status of World Bank ITF funds through December 31, 2006.

The World Bank has approved three projects, totaling \$275 million, through its International Development Association loans. The third was signed on December 12, 2006, to support hydropower in Iraq. The Board of Executive Directors approved a credit of \$40 million for the rehabilitation of two hydroelectric power stations in the Kurdistan region.⁴⁶⁵

Figure 2-58 shows international donor contributions to the IRFFI, as of December 31, 2006.

Figure 2-57
WORLD BANK - INTERNATIONAL TRUST FUND
 \$ Millions
 Total Commitments \$458.2 Million
 Source: www.irffi.org, (12/31/2006)



Note: Expenditures include project and administrative disbursements. Figures may not total due to rounding.

TOTAL IRFFI DONOR CONTRIBUTIONS, AS OF 12/31/2006

DONOR	COMMITMENTS		DEPOSITS	
	WORLD BANK	UNITED NATIONS	WORLD BANK	UNITED NATIONS
Australia	\$16,400,000	\$16,775,000	\$16,100,000	\$16,775,000
Australia (Dept of Immigration)	-	3,292,000	-	3,292,000
Belgium	-	1,321,000	-	1,321,000
Canada	22,300,000	46,400,000	22,300,000	46,400,000
Denmark	-	10,666,000	-	10,666,000
Finland	2,600,000	6,234,000	2,600,000	6,234,000
Germany	-	10,000,000	-	10,000,000
Greece	-	3,630,000	-	3,630,000
Iceland	1,000,000	500,000	1,000,000	500,000
India	5,000,000	5,000,000	5,000,000	5,000,000
Iran ^a	-	-	-	-
Ireland	-	1,226,000	-	1,226,000
Italy	-	29,782,000	-	29,782,000
Japan	130,634,143	360,951,000	130,634,143	360,951,000
South Korea	4,000,000	11,000,000	4,000,000	11,000,000
Kuwait	5,000,000	5,000,000	5,000,000	5,000,000
Luxembourg	-	2,319,000	-	2,319,000
Netherlands	6,200,000	6,697,000	6,200,000	6,697,000
New Zealand	-	3,365,000	-	3,365,000
Norway	6,700,000	7,009,000	6,700,000	7,009,000
Qatar	5,000,000	5,000,000	2,500,000	5,000,000
Spain	20,000,000	47,500,000	20,000,000	47,509,000
Sweden	5,800,000	10,622,000	5,800,000	10,622,000
Turkey	1,000,000	200,000	1,000,000	200,000
United Kingdom	71,400,000	55,542,000	71,400,000	55,542,000
United States	5,000,000	5,000,000	5,000,000	5,000,000
European Commission (Rapid Reaction Mechanism)	-	24,978,000	-	24,978,000
European Commission (Human Rights)	-	7,258,000	-	7,258,000
European Commission	150,214,592	439,141,000	150,214,592	428,961,000
Total Donor Assistance	\$458,248,735	\$1,126,416,000	\$455,448,735	\$1,116,236,000

Source: www.irffi.org

^a Iran has pledged \$10 million, but funds have not been allocated between WB ITF and UNDG ITF.

TABLE 2-22

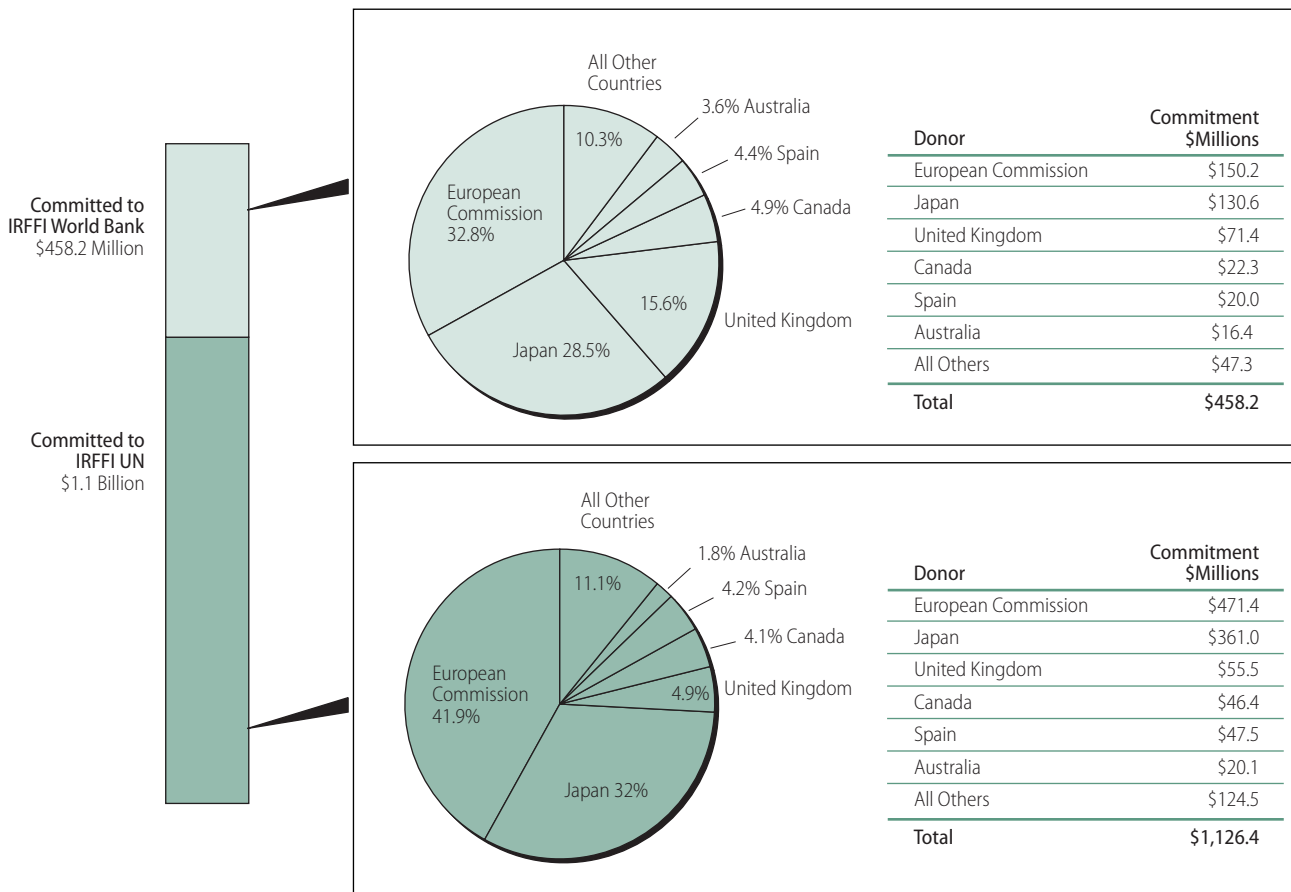
United Nations

The United Nations Development Programme (UNDP) administers the UNDG ITF. As of December 31, 2006, 25 donors have committed \$1.13 billion to the ITF, of which \$1.12 billion has been deposited. Sixteen UN agencies are implementing 110 projects with \$886 million in funding. UNDP has the most approved

funding at 28%, followed by the UN Office for Project Services (UNOPS) at 18% and United Nations International Children’s Emergency Fund (UNICEF) at 14%:

- \$688 million (78%) has been obligated.
- \$586 million (66%) has been expended.
- 21 projects have been completed.

Figure 2-58
INTERNATIONAL DONOR CONTRIBUTIONS TO IRFFI
 Source: www.irffi.org, (12/31/2006)



Note: Figures may not total due to rounding.

Figure 2-59 reflects the status of UNDG ITF funds through December 31, 2006.

Donors can earmark their contributions to seven different clusters within the ITF. Infrastructure rehabilitation (22%) and support for the electoral process (20%) are the most popular clusters among donors. Other popular sectors among donors and Iraqis include agriculture, education, and health. The UN website (www.irffi.org) posted \$490 million in contract awards: 17% to Iraq, 14% to Japan, 11% to the UK, and 10% to China. U.S. firms account for 2% of these contracts.

Figure 2-60 shows the UNDG ITF by UN cluster.

International Monetary Fund

International Monetary Fund (IMF) funding remains available for balance of payments support:

- \$297 million from the Emergency Post-conflict Assistance package
- \$475 million from the Stand-By Arrangement (SBA)

As of December 2006, Iraq had not drawn against any of its SBA funds.

Islamic Development Bank

The Islamic Development Bank (IDB) will provide a soft loan of \$12.9 million for con-

Figure 2-59
UNITED NATIONS DEVELOPMENT GROUP - INTERNATIONAL TRUST FUND
 Total Commitments \$1.1 Billion
 Source: www.irffi.org
 (12/31/2006)
 \$ Billions

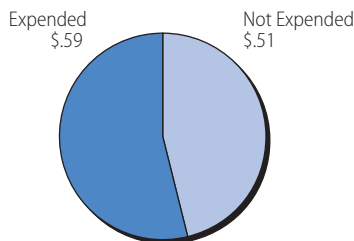
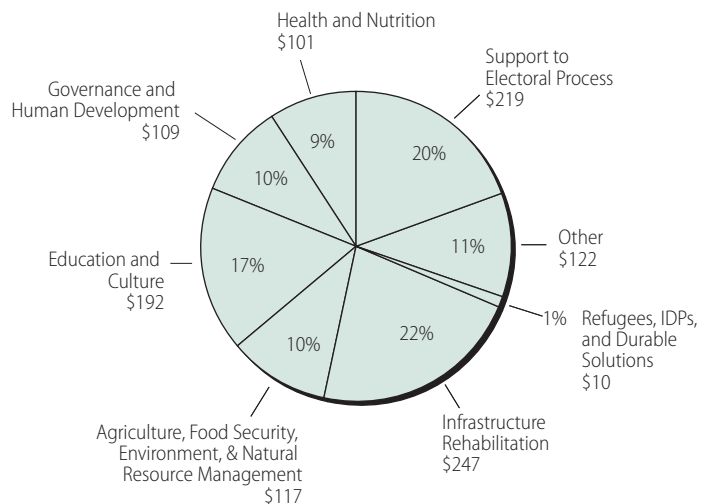


Figure 2-60
UNDG IRAQ TRUST FUND
 Total Commitments \$1.1 Billion
 Source: www.irffi.org
 (12/31/2006)
 \$ Millions



structing and furnishing 15 elementary schools and a technical assistance grant for capacity building in the Iraqi Ministry of Education. The loan is part of a \$500 million program launched by IDB for supporting the reconstruction and rehabilitation effort in Iraq.⁴⁶⁶

IRAQI FUNDS

One of the GOI’s commitments under the Compact is to ensure that legislation, regulation, systems, and processes are in place that will allow efficient and effective disbursement of its own budget. Overall, the GOI was able to spend 65% of its 2006 budget. Table 2-23 shows budget execution by ministry.

Iraqi ministries struggle to expend their capital budgets quickly. The president of the Iraqi Board of Supreme Audit reported that

only about 20% of Iraq’s \$6 billion 2006 capital budget has been spent.

The 2007 budget has been approved by the Council of Ministers and has been submitted to the Council of Representatives. Total revenues for the proposed Iraqi 2007 budget are \$33.4 billion, and budgeted expenditures are \$41 billion. The deficit of \$7.6 billion will be financed by funds carried forward from previous years. Operating expenditures will increase by 18.7% to \$30.7 billion over 2006 budgeted amounts. This amount includes \$7.3 billion for security, a 35% increase from 2006. Capital expenditures will increase by 22% to \$10 billion. Special initiatives totaling \$600 million include:

- DDR (disarmament, demobilization, and reintegration, \$150 million)

2006 IRAQI BUDGET EXECUTION BY MINISTRY, AS OF AUGUST 2006

MINISTRY	PERCENT OF TOTAL BUDGET EXPENDED
Interior	50%
Health	26%
Defense	24%
Education	68%
Transportation	11%
Municipalities and Public Works	20%
Housing and Construction	20%
Water Resources	30%
Oil	1%
Communications	2%
Electricity	33%
Total	65%

Source: DoS, response to SIGIR, January 16, 2007.

TABLE 2-23

- Baghdad Jobs (\$100 million)
- Primary Education Construction (\$150 million)
- University Education Construction (\$100 million)
- Pensions for Former Military (\$100 million)⁴⁶⁷

LOANS FROM INTERNATIONAL DONORS

Loans available from international donors:

- Iran: \$1 billion line of credit
- Japan: \$3.5 billion (\$1.6 billion has been committed.)
- Saudi Arabia: \$1 billion in trade credits and loans
- IMF: \$1.15 billion balance of payments support and loans
- World Bank: \$3-\$5 billion in loans (\$500 million for concessional loans)

DEBT RELIEF

In 2004, Iraq's public debt was estimated at \$120.2 billion. Paris Club members have agreed to cancel 80% of their claims against Iraq; the United States, Cyprus, and Malta have cancelled 100% of their debt. This quarter, Iraq reached an agreement with Indonesia, canceling 80% of its bilateral claims against Iraq. The accord is comparable to the bilateral agreements concluded between Iraq and its Paris Club creditors.

IRAQ'S CREDIT RATING

Debt relief has improved Iraq's credit rating. Global Insight⁴⁶⁸ has revised Iraq's medium-term sovereign credit rating, lowering its overall risk score to 75 as a result of the sharp rise in the country's oil export revenues and the huge debt-relief deal under the 2004 Paris Club agreement.

Debt relief has improved Iraq's sovereign external solvency and liquidity position because of the deferment of interest and principal payments until 2011. In addition, higher global oil prices have recently improved the current-account balance, which is also bolstered by substantial official transfer inflows.

Nevertheless, Iraq's sovereign credit still carries an extremely high payments risk, mainly because of its elevated levels of external debt, huge stocks of unresolved arrears left over from the 1980s, and the vulnerability of its foreign-exchange earnings to volatile global oil prices and insurgent attacks. Iraq's credit rating is also constrained by its narrowly based economy, weak institutions, poor governance, and security issues. Furthermore, given the historical volatility of global energy prices, there is always a significant risk that oil prices can fall sharply from current levels.⁴⁶⁹



ANTICORRUPTION UPDATE

Corruption continues to limit the ability of the GOI to manage reconstruction efforts and key areas of economic policy. The Iraqi Ministry of Oil estimates that Iraq loses \$700 million of revenue each month because of oil smuggling.⁴⁷⁰ Transparency International ranks Iraq 161st of 163 countries measured. This ranking, 1.9 on the Corruption Perceptions Index, indicates high levels of perceived corruption.⁴⁷¹ SIGIR's October 2006 Report discussed ways that Iraq, the United States, and international donors were helping to combat corruption, including new commitments and benchmarks for key actions that the Iraqis would agree to as part of the Compact. The U.S. Mission inter-agency Anticorruption Working Group helped the GOI identify anticorruption initiatives for the Compact and will help Iraq implement some of the key anticorruption priorities outlined in the Compact. The U.S. Mission is providing an advisor for each of the three Iraqi anticorruption institutions—the Commission on Public Integrity (CPI), the Board of Supreme Audit (BSA), and the ministry Inspectors General (IGs).

Commission on Public Integrity

The future of the CPI is uncertain. It was created by the Coalition Provisional Authority, but never written into Iraqi law. Iraqi legislators have stalled a vote on whether to give the

commission permanent status or to dissolve it and let the ministry IGs audit their own agencies.

Meanwhile, the head of the CPI has been the subject of corruption investigations by the Parliamentary Anticorruption Committee.⁴⁷² The CPI has nonetheless pushed for the prosecution of several former ministers and uncovered corruption in the Interior Ministry; 3,000 employees were dismissed in October for corruption and sectarianism.⁴⁷³ Targets have included former Ministers of Defense and Electricity.

CPI's current investigations include the quality of food purchased by the Ministry of Trade for monthly rations, the disappearance of petroleum products under the supervision of the Ministry of Oil, the lack of progress refurbishing the railroad system, and misconduct by 451 police officers in the Ministry of Interior.

Board of Supreme Audit

The UN is coordinating with international audit boards to train BSA staff according to modern audit systems.⁴⁷⁴ Members of the Arab Organization of Supreme Audit Institutions (ARABOSAI) would contribute to training the BSA Iraqi staff as part of a plan created by the ARABOSAI training committee when it met in Tunisia in January 2007.

U.S. Inspectors General

IGs from the United States continue to support Iraq's developing inspector general system. U.S. IGs have provided training, mentoring, and assistance to Iraqi IG staffs. The Iraqi Anti-Corruption and Principled Governance Initiative provides advisory support to the entire Iraqi anticorruption system by deploying IG advisors to Iraq. The DoD Office of Inspector General has detailed a full-time evaluator to MNSTC-I in Baghdad to support the IGs of the Ministries of Defense and Interior in their work with the Iraqi Security Forces.⁴⁷⁵

International Compact for Iraq

As part of the Compact, Iraq will commit to specific steps to improve transparency and inhibit corruption in exchange for pledges of aid and other international support. The current Compact language outlines a process to develop a legal framework and build institutional capacity to deter corruption at all levels of government.

Key priorities and benchmarks include:

- strengthening the rule of law and the capacities of law-enforcement agencies
- developing anticorruption plans for institutions with substantial revenue and expenditures
- fully implementing the public income and asset disclosure law and legislation to enable asset seizure and forfeiture
- strengthening capacity for internal audit and the BSA
- reviewing the mandates of the CPI and the inspectors general to ensure that they work as independent, professional, technical, and non-political bodies
- developing a comprehensive system of internal and external controls within government, including conflict of interest policies, audit, and evaluation
- ratifying the UN Convention Against Corruption
- launching a public education campaign on anticorruption



SIGIR Oversight

SIGIR AUDITS
SIGIR INSPECTIONS
SIGIR INVESTIGATIONS
SIGIR HOTLINE
SIGIR LESSONS LEARNED INITIATIVE
LEGISLATION

SECTION

3



SIGIR AUDITS

From November 1, 2006, to January 30, 2007, SIGIR completed eight audits, which resulted in nine audit products. As of January 30, 2007, SIGIR has issued 82 audit products. This quarter, SIGIR audits addressed a wide range of issues:

- a review of a Department of State (DoS) task order for Iraqi police training, training support, and the construction of several training support camps
- an update on the status of medical equipment purchased to support the delayed Primary Healthcare Center (PHC) project and an assessment of other non-construction contracts supporting the PHC project
- a follow-up on 17 recommendations that SIGIR made in previous audit reports on the control and accountability for contracts, grants, and cash transactions using the Development Fund for Iraq (DFI)
- a review of government property management controls by the U.S. Agency for International Development (USAID) and its contractor, Bechtel National, Inc. (Bechtel), for contract SPU-C-00-04-00001-00
- a review of improper IRRF obligations, the circumstances related to these obligations, and subsequent actions taken or planned regarding the use of these funds
- a review of internal controls related to disbursements of IRRF apportioned to the DoS, Department of Defense (DoD), and USAID
- a report on security costs as identified by design-build contractors on IRRF projects
- a review of U.S. government plans and programs for capacity development in the Government of Iraq (GOI) ministries

SIGIR also has 16 ongoing audits. At least 8 more are planned to start next quarter. SIGIR performs audit work under generally accepted government auditing standards.

Details on SIGIR audits are presented throughout this Report:

- For titles of the nine audit products issued during this reporting period, see Table 3-1.
- For information on all SIGIR audit work completed as of January 30, 2007, and for the full text of all final audit products, see the SIGIR website: <http://www.sigir.mil/>.

This quarter, SIGIR continues to note problems caused by the lack of a single organization responsible for the overall Iraq relief and reconstruction program. Progress continues to be hampered by the inability of U.S. government agencies to fully cooperate in conducting relief and reconstruction activities. For example, SIGIR's ministerial capacity development review identified that there is no integrated plan for capacity development. Most ongoing capacity-development activities seem to be internally driven. SIGIR first identified the need for an integrated capacity-development plan in October 2005, but after 15 months of meetings, no plan has emerged. Without a plan, it is difficult for the many organizations involved to coordinate and prioritize activities, and no one office or person

SIGIR FINAL AUDIT PRODUCTS, SINCE OCTOBER 30, 2006

REPORT NUMBER	REPORT TITLE	DATE ISSUED
06-029	Review of DynCorp International, LLC, Contract Number S-LMAQM-04-C-0030, Task Order 0338, for the Iraqi Police Training Program Support	January 2007
06-030	Status of Medical Equipment and Other Non-construction Items Purchased for Primary Healthcare Centers	January 2007
06-036	Follow-up on SIGIR Recommendations Concerning the Development Fund for Iraq (DFI)	January 2007
06-039	Review of USAID/Bechtel National, Inc., Property Management Controls for Contract SPU-C-00-04-00001-00	January 2007
06-040	Improper Obligations Using the Iraq Relief and Reconstruction Fund (IRRF 2)	January 2007
06-042	Fact Sheet on Major U.S. Contractors' Security Costs Related to Iraq Relief and Reconstruction Fund Contracting Activities (Restricted – Limited Distribution)	January 2007
06-043	Review of Iraq Relief and Reconstruction Fund Unmatched Disbursements	January 2007
06-044	Fact Sheet on Major U.S. Contractors' Security Costs Related to Iraq Relief and Reconstruction Fund Contracting Activities	January 2007
06-045	Status of Ministerial Capacity Development in Iraq	January 2007

TABLE 3-1

is clearly in charge of the overall U.S. government capacity-development program. During the quarter, management performance by the IRRF-implementing agencies was mixed. SIGIR found that USAID and its contractor, Bechtel, exercised adequate management control over U.S. government-furnished property purchased in support of its construction activities. SIGIR also found good management controls over the payment of invoices for DoD and USAID. However, SIGIR identified problems in DoD and DoS accounting and protection of U.S. property investments, questionable obligations by the U.S. Army Corps of Engineers-Gulf Region Division (GRD), and the failure of DoS to provide SIGIR access to financial records during this assessment.

Other significant reviews during this quarter include a joint SIGIR/DoS OIG review of a DoS contract for police training and training support. SIGIR reported that poor contract administration by the DoS Bureau for

International Narcotics and Law Enforcement Affairs (INL) and the DoS Office of Acquisition Management resulted in nearly \$44 million of potential unnecessary expenditures. Also, \$36.4 million in weapons and equipment could not be accounted for, including armored vehicles, body armor, and communications equipment. SIGIR reported that the Joint Area Support Group-Central (JASG-C) and the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) have made limited progress implementing recommendations made in previous SIGIR audits for improving accountability over the DFI. SIGIR also reported on security costs incurred by nine large design-build contractors engaged in IRRF projects.

During the quarter, SIGIR also assisted in the transfer of DFI records held by the United States to the GOI. SIGIR also provided two auditors to assist in a procurement fraud investigation in Kuwait.

SIGIR chaired two meetings of the Iraq Accountability Working Group (IAWG) on November 6, 2006, and January 23, 2007. Organization representatives, fellow auditors, and internal management evaluators met to discuss ongoing efforts and emerging issues. SIGIR has one review underway with the support of DoS OIG. In addition, SIGIR is coordinating several other efforts with the various accountability organizations, including the Multi-National Force-Iraq (MNF-I) and the Multi-National Security Transition Command-Iraq (MNSTC-I).

SIGIR continues to apply a balanced approach to provide insight, foresight, and oversight through audit and non-audit activities to assist executing organizations in Iraq and those who support these organizations outside Iraq.

- SIGIR's **insight** efforts advise the U.S. reconstruction leadership on management issues, with the emphasis on creating an environment of accountability, rule of law, and public trust in Iraq.
- SIGIR's **foresight** efforts continue to focus on end-state issues, such as cost to complete U.S. projects, transition of U.S.-funded projects to the GOI, sustainment of U.S.-funded projects and programs, and capacity building within the GOI and civil society.
- SIGIR's **oversight** efforts, an IG's traditional focus, address the ability to obtain maximum return on the U.S. taxpayer investment and promote transparency and accountability of the U.S. administration for any Iraqi resources used.

- SIGIR performance audits also evaluate the economy, efficiency, and effectiveness of Iraq relief and reconstruction projects.

SIGIR audits generally have four distinct phases:

- **engagement planning** to evaluate the adequacy and effectiveness of controls built into a project or program and establish detailed plans for fieldwork in a design matrix
- **fieldwork** to conduct detailed examinations, tests, and analyses to collect appropriate and adequate data
- **reporting** of results and recommendations
- **audit closure and follow-up** on the implementation of the audit recommendations

SIGIR communicates final audit findings and recommendations resulting from the audit engagement to the responsible program managers and senior management. SIGIR issues audit reports or other IG communications, depending on the complexity and significance of the issues involved.

The implementation of audit recommendations is crucial. SIGIR auditors follow up on all accepted recommendations until they are fully implemented. Recommendations that are not accepted are resolved through the applicable resolution process of each organization, normally at the Deputy level. Auditors seek the cooperation of program managers, who are expected to ensure compliance.

This quarter, as congressionally mandated by the Inspector General Act of 1978,

as amended, SIGIR includes its semiannual report on the status of the implementation of SIGIR recommendations. SIGIR reports on the recommendations closed since the last semiannual Report and the recommendations that remain open by report in Table 3-2.

Final Audit Products

Review of DynCorp International, LLC Contract Number S-LMAQM-04-C-0030, Task Order 0338, for the Iraqi Police Training Program Support

SIGIR 06-029, JANUARY 2007

Introduction. This report discusses the results of SIGIR's review of Task Order 0338, part of a DoS contract (S-LMAQM-04-C-0030) awarded to DynCorp International, LLC (DynCorp). The task order was to provide training services for international police liaison officers, training support equipment, construction of a residential camp on the Adnan Palace grounds in Baghdad to house training personnel, and construction of five regional camps in Iraq. The report focuses on actions taken to establish the residential camp and the performance of unauthorized work by DynCorp. This review was conducted jointly with the DoS OIG.

Objectives. The objectives of this audit were to answer these questions:

- What were the costs associated with the subject contract Task Order 0338, including amounts obligated and expended, potential liabilities, and controls over these costs?
- What is the status of property purchased under Task Order 0338, including related

internal controls, and what is the salvage value for unused assets?

- What is the cost and program impact of the stop-work order affecting the construction of police training facilities at the Adnan Palace?
- What is the status of construction of facilities to support provincial police training programs?

To respond to the audit objectives, SIGIR structured the report in three sections:

- cost incurred under Task Order 0338
- construction of the Adnan Palace residential camp and regional camps
- contracting and contract management

The audit focused on supplies and services provided under Task Order 0338, which represented the bulk of spending under the task order. Within supplies and services, SIGIR narrowed the focus on the work to be done and items to be provided for the \$51.6 million residential camp and the \$36.4 million of equipment to be procured. SIGIR did not include an assessment of the regional camps in this review, but they will be addressed in SIGIR's continuing review of Task Order 0338, DynCorp contract S-LMAQM-04-C-0030, and other INL expenditures of IRRF.

Findings. Poor contract administration by INL and the DoS Office of Acquisition Management resulted in millions of dollars put at unnecessary risk, and property that cannot be accounted for that was acquired under Task Order 0338. Specifically, between

July 2004 and June 2006, DoS paid approximately \$43.8 million for manufacturing and temporary storage of a residential camp that has never been used, including \$4.2 million for unauthorized work associated with the residential camp. In addition, DoS may have spent another \$36.4 million for weapons and equipment, including armored vehicles, body armor, and communications equipment that cannot be accounted for because invoices were vague and there was no backup documentation or property book specific to items purchased under Task Order 0338.

A key part of the task order was the manufacture and installation of a residential camp to house 1,040 police training and advisor personnel with associated facilities, including dining and office space. To accomplish this, DynCorp issued a subcontract valued at \$55.1 million to Corporate Bank Financial Services (Corporate Bank) on August 15, 2004. On September 1, 2004, the manufacture of 1,048 trailers was subcontracted with an Italian manufacturing firm, Cogim SpA, for \$47.1 million. Because of security concerns, INL officials decided to cancel the residential camp project in September 2004. On or about September 23, 2004, the DoS contracting officer communicated to DynCorp INL's decision not to proceed. DynCorp, in turn, issued a stop-work order to Corporate Bank on September 25, 2004.

Based on the review, SIGIR identified these concerns about the residential camp:

- SIGIR found contradictory information on the actual status of trailer manufacturing

for the residential camp, as of September 2004. DynCorp issued the subcontract for the residential camp to Corporate Bank on August 15, 2004, and Corporate Bank in turn issued a subcontract to Cogim SpA on September 1, 2004. According to an INL internal review report, the manufacturing had actually begun in May 2004—more than three months before the subcontract for the residential camp project was issued. In addition, on July 30, 2004, DynCorp submitted an invoice to DoS that included \$18 million in mobilization fees for the residential camp for the period of April 17, 2004, to May 16, 2004. However, it is not clear what costs were attributable to the mobilization or whether these costs were a prepayment because DynCorp did not issue a subcontract to Corporate Bank until August 15, 2004. According to the DoS contracting officer, when DynCorp issued the stop-work order to Corporate Bank in September 2004, DoS was told by DynCorp that the residential camp had been completed.

- SIGIR found no information to indicate that any INL official or the Contracting Officer Representative (COR) questioned why DynCorp submitted an invoice for mobilization fees for the residential camp before it had subcontracted for the manufacture of the trailers. Nor did INL seek to determine the actual status of the work when DynCorp was notified not to proceed, given the \$18 million paid to DynCorp for mobilization fees for the residen-

tial camp. Rather INL relied on DynCorp's representations. As such, the true status of the manufacturing effort was unknown as of the issuance of the notice.

- INL appears to be making some recent progress after about two years of attempting to find a resolution for the use of the residential camp trailers. In May 2006, SIGIR communicated its concern to the COR about moving the residential camp components from one storage location to another before formalizing plans for their ultimate use. Notwithstanding these concerns, the COR moved the trailers to the Baghdad International Airport (BIAP). On June 24, 2006, DynCorp entered into a subcontract to obtain open and covered storage and security for the trailers at the BIAP for an initial period of three months to two years. On September 7, 2006, INL told SIGIR that it planned to use the trailers to house INL's personnel, but faced complications due to limited availability of land and high demand that was driving up costs in the area near BIAP. As of January 18, 2007, INL appears to be making progress in resolving the use of the trailers in that discussions are underway for an alternative use of the trailers at the Baghdad Embassy.
- Of the approximately \$43.8 million spent on the residential camp, \$4.2 million was for work that was not contractually authorized. The Iraqi Ministry of Interior directed the work, but DoS, as the contracting agency, never authorized it. The unauthorized work included relocating the

residential camp to outside of the Adnan Palace grounds, manufacturing an additional 20 VIP trailers, and constructing an Olympic-size swimming pool on the palace grounds.

Weak and sometimes non-existent contract administration was the root cause of the problems that SIGIR identified with work performed under Task Order 0338. Review of the actions taken by the DoS contracting officer and INL COR during the performance period of Task Order 0338 indicated that neither performed key responsibilities assigned by the DoS Foreign Affairs Handbook for contract administration. For example, the INL COR was responsible for accepting contractor work, informing the contracting officer of performance failure, and maintaining a COR file. However, SIGIR found no evidence that the COR performed or properly documented any of these activities. Further, for more than a decade, the INL COR assigned to Task Order 0338 has also been responsible for monitoring other DynCorp police contracts and task orders for INL. Many of the problems identified by SIGIR were associated with this COR's performance on the task order and had been identified and previously reported in a March 2002 DoS OIG report on U.S. police support in Bosnia.⁴⁷⁶

The Foreign Affairs Handbook does not address the maximum length of time personnel should serve as a contracting officer or COR for the same contractor. In July 2006, correspondence on contract management⁴⁷⁷ pro-

vided to the House and Senate Armed Services Committees and the Government Accountability Office (GAO) noted that tenure can become a vulnerability if the control environment in an organization is weak. The results of SIGIR's review of Task Order 0338 suggest that, at least for this task order, the control environment has been weak. However, although there have been several DoS contracting officers for Task Order 0338 over the past two years, the INL COR has been assigned to this and other DynCorp contracts/tasks orders since 1994—a 12-year period.

In December 2005, INL issued an asset verification report documenting that DynCorp could not provide a complete property book and backup documentation for items it purchased for the U.S. government. The report concluded:

- DynCorp invoices were frequently ambiguous and lacked the level of detail necessary to identify what was procured.
- DynCorp did not maintain a complete list of items procured.
- DynCorp did not establish policy guidance or accountability procedures.

The report also concluded, "INL cannot determine if the bureau received what it paid for." SIGIR's review found that the invoices for Task Order 0338 lacked the level of detail to determine what was procured and that the U.S. government or DynCorp did not maintain a complete list of items procured under Task Order 0338. Further, SIGIR found that the COR, although responsible for inspecting and

accepting contractor work, did not ensure that DynCorp maintained proper inventory control records or maintain the records personally for the \$36.4 million of proposed equipment that was to be procured under this task order.

Management Control Weaknesses. During the audit, SIGIR identified management control weaknesses in the timely issue of task order modifications, the process of documenting the review of contractor invoices, and the administration of the task order. This report includes recommendations to strengthen internal controls needed to improve DoS contracting and administration of the task order. Further, because INL reported similar conditions in its December 2005 INL asset verification report, SIGIR has no reason to believe that the management internal control weaknesses in this task order are isolated. Therefore, SIGIR intends to continue the review of Task Order 0338 and will announce a full review of contract S-LMAQM-04-C-0030 and other expenditures by INL in Iraq.

Management Actions. According to the DoS OIG, in November 2005, INL's Principal Deputy Assistant Secretary met with the DoS Inspector General and subsequently with DoS Investigations to discuss concerns of potential fraud with Task Order 0338. Specifically, INL disclosed that DynCorp had billed INL for 500 trailers for the residential camp related to this task order that may not have been manufactured or completed at the time of billing. The preliminary investigation conducted by DoS investigations revealed that INL contacted DoS Office of Acquisition Management in October

2005 to discuss its concerns regarding the number of trailers actually received and billed under this task order. DoS and SIGIR worked jointly on this investigation, and SIGIR has taken the lead and the investigation is ongoing.

Beginning in 2005, according to INL senior officials, INL initiated a number of steps to strengthen its contract and asset management across the Bureau. INL senior managers provided the following information:

- A series of internal reviews were undertaken concerning property controls and an inventory of the residential camp trailers related to the DynCorp contract that are discussed in this report.
- Between January and June 2006, INL directed DynCorp to take action on asset management improvements. These improvements were documented in a series of letters INL exchanged with DynCorp in which INL documented defects in contract performance and DynCorp responded by identifying corrective actions it was taking or planned to take. Currently, INL is in the process of following up on DynCorp inventory control corrective actions.
- In June 2006, INL requested assistance from the Defense Contract Management Agency (DCMA) in reviewing DynCorp property management practices in Iraq and Afghanistan (which the DCMA declined due to property administrator staffing shortages).
- In October 2006, INL attempted to contract for Defense Contract Audit Agency (DCAA) services to close out several

DynCorp task orders, including Task Order 0338. As of January 18, 2007, the DCAA had not responded.

- On November 2, 2006, INL appointed an overall COR for the DynCorp contract.
- In January 2007, INL identified an Iraq in-country COR. This person will be on duty once all human resource actions are finalized.
- In January 2007, INL began a review to complete contract files, which consisted of contracts, task orders, and pertinent documents exclusive of information, such as contract evaluation sheets and private e-mail exchanges between a program office and the contracting officer.
- Over the past several months, INL has developed a process for thoroughly reviewing invoices. This process has already resulted in INL identifying billing errors in a DynCorp invoice. For example, INL rejected a January 9, 2007, invoice for \$1.1 million which was for a different DynCorp contract. This invoice was rejected because INL determined that the billed rate was outside the period of performance dates.

INL also advised SIGIR that it was working to ensure internal and management controls are in place and adhered to at all times, and intends to reconcile all past payments made since the inception of INL contracts in Afghanistan, Iraq, and Jordan.

SIGIR initially recommended that INL consider replacing the COR for the DynCorp contracts and task orders who had held that

position since 1994—a 12-year period. INL advised SIGIR on January 11, 2007:

- The COR has been replaced. INL also provided to SIGIR the appointment letters for in-country CORs for all INL contracts in Afghanistan and Jordan.
- The transition of contracting responsibilities took place in November 2006.
- The Iraq in-country CORs, who will be personal services contractors, had been selected and are going through the clearance process.

SIGIR considers INL's actions to be responsive to the draft recommendation, and therefore removed it from the final report.

Recommendations. To ensure that DoS conserves IRRF funds and other DoS funds, SIGIR recommends that the Assistant Secretary for the Bureau of International Narcotics and Law Enforcement Affairs:

1. Present a plan to the U.S. Ambassador to Iraq for review and approval on the use of the residential camp to house police trainers, as originally intended, or make arrangements to dispose of the camp. Because of the lengthy consideration already given to deciding what to do with the trailers, this action should be taken within the next 60 days.

To ensure that contracted work is properly invoiced, payments are proper, and the contract is properly managed, SIGIR also recommends that the DoS Director, Office of Acquisition Management should take these actions:

2. Seek reimbursement from DynCorp for the

improperly authorized payment of \$4.2 million that represents contractually unauthorized work directed by the Iraqi Ministry of Interior. This work included the relocation of the residential camp, the manufacture of additional VIP trailers, and the construction of an Olympic-size swimming pool.

3. Request that the DCAA take these actions:
 - a. Review the July 30, 2004 DynCorp invoice that included a residential camp mobilization fee to determine whether a prepayment of \$18 million occurred.
 - b. Review the October 30, 2006 DynCorp invoice for approximately \$1.1 million pertaining to labor costs associated with Task Order 0338.
4. On receipt of the DCAA audit report, the contracting officer should take the appropriate action.
5. Enforce procedures to ensure that the contracting officer and COR comply with the duties and responsibilities identified in the DoS Foreign Affairs Handbook. These procedures should address:
 - a. receiving and retaining technical and financial reports
 - b. examining invoice with supporting documentation before certification for payment
 - c. processing “receiving and inspection reports” for equipment
 - d. maintaining a COR file
6. Establish and enforce tenure limitations for all contracting personnel, as part of the Foreign Affairs Handbook.

Management Comments and Audit

Response. SIGIR received written comments on a draft of this report from INL which incorporated comments from the DoS Office of Acquisition Management, that they agreed with recommendations 1 through 5. INL stated that the Office of Acquisition Management disagreed with recommendation 6, regarding tenure limitations, because it has a Quality Assurance Plan for reviewing and approving contract actions to ensure that all requirements of law, regulation, department policy, and sound procurement practices are met. SIGIR recognizes the importance of a Quality Assurance Plan, but believes that the need for tenure limitations is underscored when the control environment in an organization is weak. SIGIR, therefore, retained the recommendation.

In response to the draft of this report, INL provided SIGIR with information on its management actions to strengthen its contract and asset management across INL, which is detailed in the management actions section of this Report. INL also provided SIGIR with technical changes, which were incorporated in the final report as appropriate.

Status of Medical Equipment and Other Non-Construction Items Purchased for Primary Healthcare Centers

SIGIR-06-030, JANUARY 2007

In July 2006, SIGIR issued a report on medical equipment purchased by Parsons Delaware, Inc. (Parsons), in support of a contract, also issued to Parsons, to construct 150 PHCs

throughout Iraq. This report updates the status of the medical equipment and discusses SIGIR's review of controls over and use of medical consumables and other non-construction purchases for the PHC project, which has been subject to delay and de-scoping. Although GRD's contract to construct PHC facilities through Parsons was significantly reduced, the overall PHC construction requirement remained. GRD procured medical equipment sets based on this overall requirement. To its credit, GRD did arrange to have the medical equipment sets, furniture, and consumables delivered to storage facilities, thus reducing an extremely high risk of pilferage and susceptibility to damage.

Objectives. SIGIR initiated this audit as a review of the medical consumables purchased under contract W27P4B-05-A-5018 for the PHCs. Subsequent work led to the expansion of the audit's scope to include other supporting, non-construction contracts. SIGIR modified the objectives to answer these questions:

- Were the procured medical consumables, medical equipment, and other non-construction items properly controlled?
- Were the plans for their utilization adjusted based on the delay and/or de-scoping of the PHC project?

Findings. At the time of SIGIR's July 2006 report on medical equipment, 20 of the 151 medical and dental equipment sets procured under the Parsons contract were physically

located at the sites of 20 PHCs that were fully or partially constructed by Parsons. Another 115 full or partial sets were located at a U.S. government-controlled warehouse in Abu Ghraib. Since then, 15 additional sets of equipment have been delivered to the warehouse; the total number of sets in Abu Ghraib was 130, as of July 30, 2006. The location of one set is unknown.

SIGIR's July 2006 report also stated that no official government receipt, inspection, or acceptance function had been performed on any of the medical equipment sets at Abu Ghraib and that there were questions about the equipment warranty because of the extended storage. As of July 30, 2006, approximately \$45 million had been disbursed for the medical equipment. Since then, GRD, as the program manager of the PHC project, has examined 102 equipment crates that were damaged, and opened and inspected 61 of the most damaged. In 59 of the crates, GRD found that all of the equipment was accounted for, and almost all of the equipment was missing in 2 crates. GRD did not test the medical equipment to ensure that it was in working order. GRD did not open the remaining crates to inventory the equipment because of concern that doing so without a manufacturer's representative present could void any remaining warranty; however, they did take pictures to document the status of the equipment. On January 19, 2007, GRD told SIGIR that JCC-I/A has informed GRD that manufacturer warranties are effective for 15 months from the invoice date or 12 months from the commissioning date (whichever is earlier).

SIGIR identified six other non-construction contracts, awarded to various contractors, with a combined value of about \$43 million. Of these, three were affected by the termination of the PHC construction task orders:

- a \$22.6 million contract for generators, transformers, and cables
- a \$14.4 million contract for PHC furniture
- a \$5.5 million contract for consumable medical supplies⁴⁷⁸

Approximately \$38 million had been disbursed for these three contracts. GRD and JCC-I/A modified the generator/transformer contract to have the contractor store and secure the items until required at the PHC sites. GRD and JCC-I/A, however, did not take effective action to protect all of the furniture and consumable medical supplies. Specifically:

- The government contracted for 142 sets of furniture for the PHCs under contract W27P4B-05-C-0016. Six sets of furniture were delivered directly to PHC construction sites, 90 sets were delivered to the U.S. government-controlled warehouse in Abu Ghraib, and 46 sets were delivered to the Iraqi Ministry of Health warehouse in Erbil. JCC-I/A reports that the furniture delivered to Abu Ghraib was formally accepted, inventoried, and inspected. Damaged items were corrected by the contractor. However, the furniture at Erbil was formally accepted for payment purposes but was not inventoried and inspected. The furniture at Erbil has also been reported as damaged. The contractor was not notified in a timely manner and is refusing to take responsibility.

ity for furniture reported damaged after delivery.

- The U.S. government contracted for 118 sets of consumable medical supplies⁴⁷⁹ to provide an estimated 90-day supply for each PHC. Under contract W27P4B-5-A-5018, 112 sets of consumable medical supplies were delivered to both the Abu Ghraib warehouse and the Iraqi Ministry of Health warehouse in Erbil. Six sets were delivered directly to PHCs under construction. GRD stated that it inventoried crates at Abu Ghraib but did not open the crates. At Erbil, SIGIR found no evidence that the U.S. government formally accepted, inventoried, or inspected the items.

This Report also identifies a lesson learned about the need to fully examine the potential impact of changes in contract terms on other supporting contracts. In this case, a construction contract was terminated, but supporting non-construction items had already been ordered. As a result, the U.S. government needed to develop plans to secure items awaiting the completion of construction by new contractors on the project.

Recommendations. SIGIR makes these recommendations:

The Commanding General, JCC-I/A, in coordination with the Commanding General, GRD, should take these actions:

1. Conduct a complete inventory and inspection of furniture at the Erbil storage facility as soon as practicable.
2. Using the inventory list of all furniture

items currently stored at the Erbil storage facilities, take appropriate actions to recoup the cost of all items found missing or damaged, or determine how this missing or damaged furniture will be replaced.

3. Conduct a complete inventory and inspection of all of the consumable medical supplies as soon as practicable.
4. Using the inventory list of consumable medical supplies currently stored at both the Abu Ghraib and Erbil storage facilities, take appropriate action to recoup the cost of all items found missing or damaged, or, if the items can not be replaced by the contractor, determine how these items will be replaced.

Management Comments and Audit

Response. SIGIR received written comments on a draft of this report from GRD and JCC-I/A who generally concurred with the findings and recommendations. Actions are planned or underway to implement the recommendations. The comments received were fully responsive. These officials also provided technical comments which SIGIR has incorporated in the report where appropriate.

Follow-up on SIGIR Recommendations Concerning the Development Fund for Iraq (DFI)

SIGIR-06-036, JANUARY 2007

This report follows up on actions taken by U.S. government agencies to address recommendations made in previous SIGIR audit reports on the control and accountability for

contracts, grants, and cash transactions using the DFI. SIGIR made these recommendations to the U.S. Ambassador to Iraq, JASG-C, and JCC-I/A. In April 2006, SIGIR reported that appropriate actions had been taken to close 23 of 40 recommendations.⁴⁸⁰ Since then, SIGIR has redirected the recommendations that were made to the U.S. Ambassador to the DFI Administrator, who is also the Commanding General, JCC-I/A. This report follows up on the remaining 17 open recommendations to determine whether appropriate corrective actions were taken to address the deficiencies.

Objective. The objective of this review was to determine whether the U.S. Ambassador to Iraq, JASG-C, and JCC-I/A have developed and implemented action plans to address the deficiencies identified by SIGIR in these reports:

- Control of Cash Provided to South-Central Iraq, SIGIR-05-006, April 30, 2005
- Administration of Contracts Funded by the Development Fund for Iraq, SIGIR-05-008, April 30, 2005
- Management of Rapid Regional Response Program Grants in South-Central Iraq, SIGIR-05-015, October 25, 2005
- Management of the Contracts and Grants Used To Construct and Operate the Babylon Police Academy, SIGIR-05-016, October 26, 2005
- Management of the Contracts, Grant, and Micro-Purchases Used To Rehabilitate the Karbala Library, SIGIR-05-020, October 26, 2005

- Management of Rapid Regional Response Program Contracts in South-Central Iraq, SIGIR-05-023, January 23, 2006

Findings. As of August 31, 2006, the U.S. government had spent approximately \$1.4 million on audit services and computer equipment to satisfy SIGIR recommendations but failed to effectively write the contract and monitor the contractor's work. The contract requirements were not specific enough and were changed twice, through modification, late in the performance period. Inspections and quality assurance surveillance were not performed. As a result, DFI accountability has only slightly improved, and seven SIGIR recommendations directed to JASG-C remain open.

As of December 30, 2006, 8 of the 17 recommendations that SIGIR reported as open in the April 2006 follow-up report are now closed, and 9 remain open. SIGIR's review identified these actions taken in response to the open recommendations:

JASG-C. SIGIR's April 2006 report identified seven open recommendations made to the Commander, JASG-C. SIGIR reported that JASG-C had taken action to address all seven recommendations by contracting with a private firm to review and reconcile all DFI accounts throughout Iraq. The key deliverable on the contract was a DFI accountability database with embedded scans of supporting DFI documentation. Since then, SIGIR has determined that the action did not satisfy any of the open recommendations because U.S. government agencies failed to properly write

detailed requirements into the contract's statement of work and failed to effectively monitor contractor performance. Therefore, all seven recommendations remain open. Specifically, since SIGIR reported in April 2006:

- JASG-C has taken additional action on four of the recommendations for review and reconciliation of Statements of the Agent Officer's Accounts. The JASG-C Comptroller has taken available records from the DFI accountability database and entered them into a separate Access database. The JASG-C Comptroller has also developed a list of paying agent names whose DFI accounts require reconciliation. SIGIR considers the actions underway to be responsive to the recommendations; however, a full review and reconciliation of all DFI records has not yet been completed. Therefore, all four recommendations remain open. SIGIR's recommendations were intended to ensure that the types of problems identified with the control and accountability of DFI cash disbursements in South-Central Iraq would also be appropriately addressed if found during the contracted accountability review of other Iraqi regions.
- The scope of work for the DFI accountability contract did not address three remaining recommendations, and there has been no subsequent action by JASG-C to address them. Therefore, the status of these recommendations was downgraded from open, actions underway. The three recommendations are: one to establish a special team to

review grant disbursements made in other regions of Iraq to determine if the same condition exists as determined by SIGIR in the South-Central Region (open, no action), and two recommendations requiring that complete files supporting payment and contract/grant execution are maintained (open, action incomplete).

JCC-I/A. SIGIR's April 2006 report identified six open recommendations made to the Commanding General, JCC-I/A. JCC-I/A has implemented Procurement Management Reviews to address these recommendations by providing enhanced monitoring of contracts. In addition, JCC-I/A has developed a Principal Assistant Responsible for Contracting-Iraq (PARC-I) Acquisition Instruction, which is a comprehensive guide to JCC-I/A contracting procedures in Iraq. All six recommendations have been closed.

DFI Administrator. SIGIR's April 2006 report identified four open recommendations made to the U.S. Ambassador to Iraq. Because the recommendations directed to the U.S. Ambassador have now been identified as the purview of the DFI Administrator, SIGIR has redirected the recommendations.

JCC-I/A representatives, acting under the direction of the DFI Administrator, have taken action to close two of the recommendations, and action is underway to close one other recommendation on the recovery of DFI funds disbursed for grants. In addition, action is underway to satisfy a recommendation to acquire a central database system to assemble

and maintain accurate and reliable historical DFI records. JCC-I/A personnel have received training on the DFI accountability database and are in the process of reconciling records in that database with records in JCC-I/A database of contracts. JCC-I/A actions are responsive to the two open recommendations.

Recommendations. Of the 17 open recommendations in SIGIR's April 2006 report, nine remain open. SIGIR considers the actions underway to be responsive for six of the nine. Effective action is not underway on the remaining three recommendations. SIGIR makes no additional recommendations.

Observations. SIGIR's recommendations were intended to determine if the unsatisfactory conditions of the control and accountability of the DFI present in the South-Central Region in 2004 existed in other regions of Iraq. More than two years after SIGIR first identified these material control and accountability weaknesses, U.S. government agencies still do not know the extent of the conditions of control and accountability in the other regions.

During the follow-up review, SIGIR also observed that under JCC-I/A policy, when a COR departs, the contracting officer has discretion to either appoint a new COR on the contract or to terminate the previous COR's appointment and take on the responsibility personally. The contracting officer for the DFI accountability contract failed to follow JCC-I/A policy and appoint a new COR or terminate the departing COR's appointment. During the audit, SIGIR discussed this with JCC-I/A officials, who acknowledged that

the type of COR succession described in the JCC-I/A policy is a part of its internal control procedures. In this case, those procedures were not followed. This failure represents an internal control weakness; however, because the contract has now ended, no action is required.

Lessons Learned. During the course of the review of the management of the DFI accountability contract, SIGIR noted that if the statement of work had been written in sufficient detail, it could have improved the mutual understanding of requirements between U.S. government officials and the contractor. SIGIR found that the turnover of multiple government personnel and an unclear requirements statement resulted in an unsatisfactory result in the administration and execution of the contract.

Management Comments and Audit Response. This report contained no additional recommendations; therefore, no written responses were required. JCC-I/A and JASG-C officials verbally concurred with the facts and results of this report.

Review of USAID/Bechtel National, Inc., Property Management Controls for Contract SPU-C-00-04-00001-00

SIGIR-06-039, JANUARY 2007

This report discusses SIGIR's review of government property management controls by USAID and its contractor, Bechtel National, Inc.⁴⁸¹ (Bechtel), for contract SPU-C-00-04-00001-00.

To support its mission and related infrastructure reconstruction efforts in Iraq, USAID

awarded Bechtel two successive contracts (Phase I and II):

- The Phase I contract, EEE-C-00-03-00018-00, was a cost-plus-fixed-fee award on April 17, 2003, for \$680 million. On September 30, 2003, the contract was modified and increased to a total of approximately \$1.03 billion. It expired December 31, 2004.
- The Phase II contract, SPU-C-00-04-00001-00, also a cost-plus-fixed-fee contract, was awarded on January 5, 2004 for about \$1.82 billion. In July 2006, the contract amount was decreased to about \$1.26 billion. On January 7, 2007, the contract was modified and further reduced to approximately \$1.24 billion. The contract is scheduled to expire on January 31, 2007.

Under the contracts, Bechtel was required to maintain the official property records. On July 18, 2005, USAID authorized the transfer of all IRRF-funded property from Bechtel's Phase I to Phase II property records—either supplied to or acquired by Bechtel or its subcontractors. Thus, all government property was consolidated in the Phase II contract property records.

Objectives. This review was announced on September 7, 2006, with the objective of determining whether USAID and Bechtel had established and implemented adequate management controls over government property acquired for Iraq reconstruction projects. The review announcement identified these questions:

- Was the property accurately documented, especially from purchase authorization to disposition?⁴⁸²

- Was the property accurately inventoried and safeguarded?
- Was the property controlled and disposed of in accordance with relevant regulations?

In performing the review, SIGIR learned that in 2005, DCAA reviewed Bechtel's management controls for the purchase and inventorying of government property, reporting no significant deficiencies. Therefore, SIGIR concentrated the audit effort on USAID's and Bechtel's property management controls over the disposition of government property under the contract.

DCAA Audit and Report. On January 10, 2005, the USAID Regional Inspector General requested that the DCAA Iraq Branch Office perform audits to verify the physical existence (receipt, storage, and use) of the materials, supplies, and equipment purchased under Bechtel's Phase I and Phase II contracts. DCAA was also to evaluate if the government property was (1) received, stored, or consumed; (2) required for the contract; and (3) accounted for in the proper manner. Specifically, DCAA reviewed:

- compliance with established government purchasing policy and procedures
- the adequacy of Bechtel's internal control policies and procedures for purchasing and inventorying supplies and equipment
- the existence and accuracy of inventory records for materials
- the adequacy of internal controls over the management of purchased services
- purchased services to determine if they

- were performed as purchased or contracted material and purchased services to determine if they were charged to the proper cost objective

In performing its audit of purchasing policies and procedures, DCAA selected property and services valued at \$52.4 million from total purchases during January and February 2005.

In September 2005, DCAA issued two audit reports,⁴⁸³ which disclosed no significant deficiencies in Bechtel's purchasing practices or property controls in performing the USAID contracts. DCAA was able to verify the existence of the property and trace the received property back to the respective purchase invoices. DCAA found no significant non-compliance with Bechtel's internal policies and procedures. DCAA also reviewed the subcontractors' controls and found them to be in compliance with the terms of the subcontracts.

Findings. Because of the DCAA audits, SIGIR concentrated its audit efforts on property management controls by USAID and Bechtel over the disposition of government property under the contract. SIGIR tested management controls over property disposal as of September 19, 2006, and found that USAID and Bechtel provided adequate accountability over the disposition of government property under the Phase I and II contracts. The SIGIR test comprised 96 disposal actions valued at \$28.2 million from a universe of 2,569 disposals over the life of the Phase I and II contracts.

Recommendations. Because the USAID and Bechtel property disposition controls

appear to be adequate, SIGIR made no recommendations.

Management Comments and Audit

Response. SIGIR received a written response from USAID on the draft of this report. The response was considered to be fully responsive. USAID concurred with the results of this report and provided no additional comments.

Improper Obligations Using the Iraq Relief and Reconstruction Fund (IRRF 2)

SIGIR-06-040, JANUARY 2007

On September 22, 2006, SIGIR issued an interim audit report on improper obligations using IRRF 2.⁴⁸⁴ The review determined that \$362 million recorded in USACE financial records did not constitute proper obligations. As a result of the interim findings, SIGIR further reviewed the circumstances of these questionable funds and subsequent actions taken or planned by GRD for the use of these funds.

Objectives. The overall objective of this audit was to describe the events surrounding GRD's decision to obligate the funds in question in FY 2006 for future contingency requirements beyond FY 2006, why GRD believed that it was proper to do so, and what has become of those funds. These were the specific objectives of the audit:

- What legal guidance was provided to GRD on whether it could obligate IRRF 2 funds for contingencies?
- What became of the funds associated with the obligations that SIGIR questioned as improper?
- What procedures are in place regarding IRRF 2 expired funds?

Findings. On January 28, 2006, GRD developed an internal plan, including financial guidance. The purpose of the plan was to ensure that there were sufficient obligated funds in the expired IRRF 2 appropriation to close out design-build contracts during FY 2007 and beyond.⁴⁸⁵ The plan underwent legal review at multiple levels within DoD. In February or March 2006, the senior official in the DoD Office of General Counsel (Fiscal) orally indicated to the Director, Management and Control in the Army Budget Office,⁴⁸⁶ that the proposed plan to obligate IRRF 2 funds for contingencies was permissible, but a written opinion was not provided. In June 2006, after a change in personnel, the new senior official in the DoD Office of General Counsel (Fiscal) reached the opposite conclusion—that the proposed plan was not proper. As of October 2006, this remains the DoD legal position, but no written guidance has been made available.

A series of actions were taken between September 29, 2006, and October 4, 2006, to ensure that the funds in question remained available consistent with appropriations law. These funds were returned to the Department of the Army, moved to the custody of USACE, allowed to expire, and then returned to GRD for its use. On September 29 and 30, 2006, \$385.2 million in IRRF 2 funds were returned to the Department of the Army:

- \$378.8 million in deobligated funds that were returned by GRD on September 29–30, 2006, which included the \$362 million questioned in SIGIR’s interim report

- \$6.4 million still held for the defunct Office of Reconstruction and Humanitarian Assistance, the original agency established for Iraq reconstruction

On September 29 and 30, 2006, the Department of the Army reissued to USACE the \$385.2 million in returned IRRF 2 funds. These funds expired at midnight on September 30, 2006. On October 3 and 4, 2006, USACE issued \$385.2 million in expired IRRF 2 funds to its subordinate command, GRD.

The Iraq Reconstruction Management Office (IRMO) has developed procedures for the use of expired funds, *Updated Procedures for Iraq Relief and Reconstruction Fund (IRRF) Expired Funds, November 28, 2006*. The procedures require each IRRF-implementing organization to notify or receive approval from IRMO on the use of the expired funds, depending on the amount involved. However, SIGIR found that GRD had been directed by the USACE CFO, rather than IRMO, to use the \$385.2 million of expired IRRF 2 funds to take actions to meet its contingency expectations. This amount represents almost all (99%) of the \$389.2 million total expired funds that were deobligated and returned to the Department of the Army at the end of FY 2006 for all agencies.⁴⁸⁷

The use of expired funds has been the subject of considerable discussion between IRMO and GRD and is but one aspect of a broader problem—how to manage future costs to complete work across the range of IRRF projects. USACE has conducted a detailed review of the

cost to complete its pre-September 30, 2006 IRRF-funded contracts and has quantified its need for the expired funds. While GRD has quantified its requirements for the use of the expired funds, IRMO's procedures call for its approval on a case-by-case basis to ensure the best use of limited funds. SIGIR believes that having IRMO's approval is a good start, but it may be challenging from a strategic perspective.

Recommendations. GRD has addressed SIGIR's previous recommendation to safeguard the availability of the \$362 million that had been improperly obligated, and because actions are underway to clarify the use of the expired IRRF 2 funds, SIGIR makes no further recommendations.

Management Comments and Audit

Response. This report contains no recommendations; therefore no written response was required. A draft of this report was provided to USACE and IRMO. USACE officials responded with no comments to add. IRMO officials provided technical comments, which were addressed in the final report. IRMO officials concurred and had no additional comments.

Fact Sheet on Major U.S. Contractors' Security Costs Related to Iraq Relief and Reconstruction Fund Contracting Activities (Restricted Distribution)

SIGIR 06-042, JANUARY 2007

SIGIR initiated this project in order to capture the following information: (1) the extent to which major U.S. contractors have identified, captured, and reported the security costs of

their IRRF contracting activities; and (2) the impacts of these security costs in relation to the overall original project estimates. This fact sheet provides detailed responses to SIGIR's request for information from nine contractors. This detailed fact sheet is available on a need-to-know basis because some of the contractor-provided information is marked proprietary by the provider. Requests by mail can be made to SIGIR Office of General Counsel, 400 Army Navy Drive, Arlington, VA, 22202.

Review of Iraq Relief and Reconstruction Fund Unmatched Disbursements

SIGIR-06-043, JANUARY 2007

This report discusses SIGIR's review of internal controls over disbursements of the IRRF apportioned to DoS, DoD, and USAID.

Objectives. This review was announced on July 21, 2006, to determine the amount of IRRF unmatched disbursements and whether U.S. government agencies have established adequate management controls over IRRF 1 and IRRF 2 unmatched disbursements. To accomplish this objective, SIGIR addressed these questions:

- How much of the IRRF has been identified as unmatched disbursements?
- How often are unmatched disbursements reviewed by government officials, and who makes the determination that the disbursement was an IRRF expenditure?
- Have IRRF unmatched disbursements subsequently been identified to other IRRF projects?

- What management controls are in place to eliminate and resolve unmatched disbursements?

SIGIR's results were limited to an assessment of DoD and USAID because DoS officials did not provide access to the detailed IRRF obligations and disbursements data needed for the review. SIGIR plans to perform a separate audit of unmatched DoS disbursements at a later date.

Findings. DoD has effective internal controls to prevent unmatched disbursements. SIGIR tested DoD controls over \$9.2 billion in disbursements and found, in all instances, that DoD disbursements could be matched with obligations in accounting records.

SIGIR also tested USAID's controls over \$4.3 billion in disbursements and found no unmatched disbursements. However, because USAID could not provide 2 of the 32 invoices that SIGIR randomly selected for testing, SIGIR could not complete the assessment of the effectiveness of its internal controls before the audit concluded. However, based on the 30 of the 32 USAID invoices reviewed, SIGIR finds that USAID appears to have adequate controls.

Recommendations. Because the DoD and USAID management controls over disbursements appear to be adequate to identify and resolve unmatched disbursements, SIGIR makes no recommendations.

Management Comments and Audit Response. This report contains no recommendations; therefore no written response was required. A draft of this report was provided

to USACE for DoD, USAID, and DoS. USACE officials responded with no comments to add. USAID officials provided no response. DoS officials provided technical comments, which were addressed in the final report.

Fact Sheet on Major U.S. Contractors' Security Costs Related to Iraq Relief and Reconstruction Fund Contracting Activities SIGIR 06-044, JANUARY 2007

SIGIR initiated this project in order to capture the following information: (1) the extent to which major U.S. contractors have identified, captured, and reported the security costs of their IRRF contracting activities; and (2) the impacts of these security costs in relation to the overall original project estimates. SIGIR requested that each of the nine major U.S. contractors conducting the physical reconstruction of Iraq's infrastructure provide the following data to address the survey's objectives:

- the total amount of their IRRF contract dollars spent on security costs
- the percentage of total IRRF funds disbursed comprising security costs
- initial and subsequent revisions to the projected security costs of IRRF contracting activities
- when the magnitude of these costs became evident, and what were the significant causal or contributing factors
- the contractor's method(s) of record-keeping for capturing and differentiating between the types of security required, such as Personal Security Details, site/static, perimeter, convoy/materiel movement

- the breakdown, by category (billed, charged, and estimated) of both the direct and indirect security costs for IRRF contracting activities
- any other additional security cost increases from subcontractor work

The following contractors were asked to respond to SIGIR's survey: Bechtel National, Inc.; FluorAMEC, LLC; Kellogg, Brown, and Root Services, Inc.; Lucent Technologies; Parsons; Parsons Iraq Joint Venture; Perini Corporation; Washington International/Black & Veatch; and Washington International, Inc.

All nine contractors responded to SIGIR's request for information. The contractors generally provided security costs and security costs as a percentage of total costs. Four of the nine contractors did not provide a summary of all total cost data; in these cases SIGIR calculated total costs based on the information provided. Contractor security costs ranged from a low of 7.6% to a high of 16.7%. The average for all contractors when identifying percentage of security costs to total costs was 12.5%.

Detailed responses to SIGIR's request for information from each of the nine contractors are included in SIGIR's Fact Sheet on Major U.S. Contractors' Security Costs Related to Iraq Relief and Reconstruction Fund Contracting Activities (Restricted Distribution), SIGIR-06-042, January 2007. This detailed fact sheet is available on a need-to-know basis because some of the contractor-provided information is marked proprietary by the provider. Requests by mail can be made to SIGIR Office of Gen-

eral Counsel, 400 Army Navy Drive, Arlington, VA 22202.

Status of Ministerial Capacity Development in Iraq

SIGIR 06-045, JANUARY 2007

SIGIR initiated this review to determine whether U.S. government organizations had plans and programs in place for capacity development in the Iraqi government ministries.

Introduction. Iraq's governing capacity has suffered from years of centralized control that led to the decay of core functions in many key institutions and ministries. Government systems and processes were weakened in strategic and policy planning, finance, information technology, and human resources management. For almost 30 years, the central government neglected to develop a professional civil service, which fostered poor management practices. After the fall of Saddam Hussein's regime in 2003, governing capacity continued to deteriorate during the formation of multiple governments:

- provisional Iraqi Governing Council, established by the Coalition Provisional Authority, 2003
- Iraqi Interim Government, 2004
- Iraqi Transitional Government, 2005
- elected Government of Iraq (GOI), which took office in May 2006

The current government, in office for about seven months, must deal with the ongoing sectarian strife and increased violence that continues to impede Coalition nation-building

and related capacity-development efforts.

The staggering implications of Iraq's poor governing capacity became fully apparent when some infrastructure facilities constructed or rehabilitated by the U.S. reconstruction effort failed or operated in suboptimal conditions after their handover in 2004 and 2005. P.L. 108-106, the Emergency Supplemental Appropriations Act for Defense and the Reconstruction of Iraq and Afghanistan—2004, had encouraged U.S. organizations receiving reconstruction funds to provide significant financial resources, technical assistance, and capacity building to counterpart organizations. SIGIR found that those programs addressing Iraq's ministerial capacity-development needs were just beginning at the time of the evaluation.

The November 2005 U.S. National Strategy for Victory in Iraq and the April 2006 Joint Campaign Plan—issued by the Chief of Mission, U.S. Embassy-Iraq, and the Commanding General, MNF-I—together provided broad policy and program guidance. These documents identified Iraqi national capacity development as a key component of U.S. strategic, political, security, and economic objectives in Iraq.

Capacity development is defined as an activity or multiple activities that lead to the transfer of knowledge, skills, and abilities across a range of functions over a period of time. It is also an essential prerequisite for sustainment, thus enabling individuals, units, organizations, and systems to perform functions efficiently to establish sustainable operations. IRMO, USAID, USACE GRD, and MNSTC-I have designed internal programs to strengthen the management capability of Iraq's

executive institutions and key ministries. Other participants in ministerial capacity building include IRMO's senior consultants and the U.S. Embassy's officers (Justice, Treasury, and Economic Affairs). These organizations and individuals receive strategic and policy guidance from the Executive Steering Committee, which comprises U.S. Mission officials, U.S. military, and other Coalition representatives. In September 2006, the Joint Task Force on Capacity Development was created to coordinate the capacity-development initiatives of all U.S. government organizations and to make recommendations to the Executive Steering Committee.

This audit examined the status of the ministerial capacity-development initiatives in Iraq as of December 2006.

Objectives. The objectives of this audit were to determine whether U.S. government organizations had plans and programs in place for capacity development in the Iraqi government ministries. Specifically, SIGIR addressed these questions:

- Have U.S. government organizations, such as DoS and USAID, assessed the competency of the responsible Iraqi ministries for the long-term management of essential government functions and services?
- What are their programs for addressing the identified shortcomings?
- What performance indicators or metrics will be used to measure progress, and who has overall responsibility for measuring progress?
- Have U.S. government organizations identified adequate funding?

- Is the U.S. government working with other donor nations and institutions to coordinate, fund, and develop solutions for a comprehensive capacity-development program in future years?

Findings. The first step in capacity-development planning is a clear assessment of the competencies and needs of the GOI. Yet the crucial task of assessing Iraqi ministerial competency has not been accomplished in a unified or comprehensive way. Since the CPA established the Iraqi Governing Council in mid-2003, many U.S. government officials have been working within the key Iraqi ministries.

Through their ongoing interaction with Iraqi ministers and subordinates, U.S. government officials have developed first-hand knowledge of the abilities and needs of the respective institutions. However, this information is not always available, shared, or used across all U.S. agencies, hampering overall coherence and possibly program effectiveness. Without a clear understanding of what needs are to be achieved, individual U.S. government organizations have initiated individual projects to support the defined National Strategy for Victory in Iraq. Some organizations appear to address a crisis rather than projects that have been defined and prioritized as a part of an overall detailed strategy. For example, obtaining fuel for the Iraqi Security Forces is a critical problem that must be addressed at multiple ministries, but at the time of the review, SIGIR found no U.S. government programs that addressed management capacity

building across the ministries involved. Similarly, budget execution is critical for the delivery of services and security to the Iraqi public, and U.S. government officials remain concerned about the GOI's inability to manage and effectively use its own budget resources, yet there is no comprehensive program to address the GOI's budget execution problems.

U.S. government initiatives within Iraq's executive institutions and key ministries seem to be internally driven and responsive to individual agency direction rather than a part of an overarching U.S. government capacity-building plan or program that defines roles and responsibilities, goals, objectives, and milestones. Without a plan, SIGIR could not determine how these ongoing activities contribute to overall U.S. government objectives. The basic problem seems to be that no one office or person is clearly in charge of the overall U.S. government capacity-development effort. Rather, functional responsibility for ministerial capacity development was intentionally divided: IRMO's Ministerial Coordination Team (MCT) addresses immediate short-term process and system problems at the ministries, and USAID focuses on the medium- to long-term institution building. Additionally, other U.S. organizations and offices conduct capacity-development activities at the ministries, including IRMO's senior consultants, U.S. Embassy's officers (Justice, Treasury, and Economic Affairs), MNSTC-I's embedded advisors at the security ministries (Defense and Interior), and GRD's functional experts at the essential services ministries (Oil,

Electricity, Water Resources, Municipalities and Public Works, and Health). Without a detailed plan identifying common expectations that relate to both short- and long-term initiatives, resources may be wasted because ongoing initiatives may not be compatible with overall program goals.

In concept, these organizations' discrete efforts are to be coordinated by the recently formed Joint Task Force on Capacity Development. Although created to identify issues, critical paths, gaps, and redundancies in capacity-development initiatives for all U.S. government organizations and, subsequently, to make recommendations to the Executive Steering Committee for respective ministerial action, SIGIR found that the Joint Task Force was making limited progress in coordinating the various activities and establishing an overall capacity-development agenda. Task Force members were still at the stage of cataloguing their various activities and had yet to identify critical programming paths or how to leverage their resources and activities with each other or with their Iraqi counterparts.

Committed to support sustainable infrastructure and services in Iraq, the U.S. government, through multiple organizations and offices, has engaged the Iraqi ministries in numerous capacity-development activities. However, during the course of this review, SIGIR determined that U.S. government organizations introduced many of their activities without articulating clear achievable goals, especially the basis for measuring progress. Although some organizations had developed,

or were in the process of developing, their own individual program objectives and performance measures, SIGIR noted the lack of a system to measure overall progress. And, most important, no single U.S. government office or official is responsible or accountable for measuring and reporting on overall U.S. ministerial capacity-development progress.

U.S. government organizations could not estimate how much funding would be necessary to achieve the goal of a self-sufficient Iraqi government. Agency officials explained that their capacity-development budgets were structured around their respective programs and that their programs were based on the level of funding that was allocated to them, not on an assessment of requirements to achieve the overall U.S. government goal. For FY 2006, IRMO and USAID received approximately \$125 million. USAID has requested an additional \$310 million for activities in FY 2007 and FY 2008, and IRMO has requested an additional \$70 million for activities in FY 2007. Congress has not yet approved the FY 2007 budgets for DoS and USAID; the agencies are operating under a continuing resolution based on their FY 2006 funding.

More than 40 nations and international institutions have pledged more than \$15 billion for the reconstruction of Iraq, as of December 30, 2006. These bilateral and multilateral donors have played a limited role in Iraqi ministerial capacity-development programming. However, SIGIR identified some capacity-development programs—two by the United Kingdom and several implemented through

the United Nations Development Group Iraq Trust Fund and the World Bank Iraq Trust Fund. Though the United States works in close consultation with the United Kingdom on capacity-development activities at several Iraqi government offices, including the Ministry of Interior, SIGIR was unable to determine whether U.S. government managers took any steps to jointly develop and fund capacity-development programs with other bilateral or multilateral donors. The international community continues to negotiate the details of the International Compact for Iraq,⁴⁸⁸ projected to be completed in early 2007. SIGIR believes that the Compact presents the U.S. government with an excellent opportunity to actively work with participating bilateral and multilateral donors to assist in the planning, execution, and funding of a unified comprehensive capacity-development program in Iraq.

Recommendations. SIGIR recommends that the U.S. Ambassador to Iraq and the Commanding General, MNF- I, take these actions:

1. Develop a capacity assessment baseline for each ministry based on an agreed-on criterion that uses (a) the input from the individual U.S. organizations that have had an ongoing presence within the Iraqi ministries and (b) the assessment conducted by IRMO/MCT.
2. Develop a mechanism to share this information among the U.S. organizations involved in the ministry capacity-development program.
3. Develop a detailed plan, in concert with the GOI, including clearly defined objectives

and outcome-related performance measures, milestones for achieving stated objectives, and future funding requirements, for implementing a unified comprehensive capacity-development program to enable the GOI to provide sustainable security and services to the Iraqi public.

4. Actively work with other bilateral and multilateral donors through the International Compact for Iraq process to assist in the planning, execution, and funding of a unified comprehensive capacity-development program in Iraq.
5. Assign clear responsibility for the overall U.S. capacity-development effort to one U.S. government official or organization.

Management Comments and Audit

Response. SIGIR received written comments on a draft of this report from IRMO and USAID. Although SIGIR anticipated comments from MNF-I, they were not received when due in order to incorporate into this Report. SIGIR anticipates having MNF-I's comments prior to the release of the final audit report.

Overall, the organizations generally concurred with SIGIR's five recommendations. USAID disagreed on some of the methods of implementation. SIGIR is pleased to report that IRMO indicated in its comments that it had or was in the process of implementing all of the recommendations. IRMO, USAID, and MNSTC-I also provided technical comments which were incorporated in the report where appropriate. SIGIR considers all comments

received responsive to the intent of the recommendations.

However, for recommendation 5, “assign clear responsibility for the overall U.S. capacity development effort to one U.S. government official or organization,” SIGIR believes that IRMO’s response of assigning this responsibility to the Joint Task Force for Capacity Development may not resolve the organizational and program management challenges confronting the U.S. capacity development initiative. As SIGIR observed during this assessment, the Joint Task Force is a useful mechanism for information sharing but lacks the authority to direct organizations in a coordinated manner. This may change when its charter is briefed to the Executive Steering Group on January 23, 2007. However, as currently operating, the Joint Task Force appears to be an organization that coordinates by committee rather than having an accountable management responsibility. SIGIR believes this accountability, with the appropriate authority, is particularly important in addressing cross-ministerial management problems with multiple implementing agencies and organizations. IRMO, itself, stated in its comments that the magnitude and complexity of the challenges faced in Iraq, combined with the many U.S. government entities involved, presents an organizational challenge of some magnitude. SIGIR agrees. As such, SIGIR continues to believe—and USAID’s response to the draft report supports—that assigning overall responsibility to a single official or office with directive authority is the best way forward in

addressing these organizational challenges. USAID’s response even suggested it believed that, “the best scenario would be for a single organization to receive all funding for capacity development with the head of that organization named as the one U.S. government official responsible for U.S. capacity development efforts.”

Ongoing Audits

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 on time and whether they comply with the Federal Acquisition Regulation (FAR) 4.804 1(a) and other applicable regulations, policies, and procedures. SIGIR will also determine what steps the government program and contract officials perform to ensure that the delivery of the goods or services meet the identified requirements and the payments were reasonable for goods and services received.

Fact Sheet: U.S. Government Organizations’ Roles and Responsibilities for Iraq Relief and Reconstruction Activities

SIGIR-6012

This report is being updated. It describes the roles and responsibilities of the principal U.S. government organizations engaged in Iraq relief and reconstruction. This report examines how officials in those organizations view their authority and role in the Iraq effort and how

the officials believe they interface with other organizations. (The validation of those authorities, roles, and interface efforts is not in the scope of this review and, therefore, will not be conducted.)

Objectives. The objectives of this review were to determine the roles and responsibilities of each principal U.S. government organization with programmatic, operational, or financial stewardship for Iraq relief and reconstruction. Specifically, the review focused on these questions:

- Which U.S. government organizations have been authorized to perform a role in Iraq relief and reconstruction activities?
- What are the authorized roles and responsibilities of each organization and their relationship to other organizations?
- How do these organizations coordinate policies, procedures, and activities with each other?
- Of the U.S. government organizations that have not had principal roles and responsibilities, which have provided staff to Iraq relief and reconstruction?
- How much funding was provided to each organization? What kind of funding was provided? What was the purpose of the funding?
- What performance reporting does each organization produce, to whom, and how often?
- What event triggers the cessation or transfer of each organization's mission relating to Iraq relief and reconstruction?

Iraq Relief and Reconstruction Fund (IRRF) Financial Review: Unliquidated Obligations

SIGIR-6026

The overall objective of this audit is to determine the amount of IRRF unliquidated obligations and whether the U.S. government agencies responsible for reconstruction projects in Iraq have established adequate management controls over IRRF 1 and IRRF 2 unliquidated obligations. SIGIR intends to answer these questions:

- How much IRRF monies remain as unliquidated obligations?
- Have unliquidated obligations or monies committed to complete projects been deobligated, decommitted, and moved to cover unfunded requirements?
- What management controls are in place to monitor unliquidated obligations?

Review of Spending of Where the Money Went under the USAID Bechtel Contract and the Recording and Reporting of Associated Costs

SIGIR-6028

The objective of this review is to determine, in detail, the costs incurred by the contractor in performing work under selected contracts with USAID for reconstruction projects in Iraq, as well as the methods used to record and report associated costs. SIGIR will also evaluate the controls associated with program and contract management. Specifically, SIGIR intends to answer these questions:

- What was the original objective of the contract?

- What was accomplished (were projects completed or changed)?
- Was each project completed within its original budget estimate?
- What controls were established to monitor the contractor and the execution of the contract?
- What reports were used to monitor the contract, and what reports were required by the contract?
- Is there visibility over costs incurred by task order, job order, project, etc?
- What review process is in place by the government to ensure accuracy of billings?
- What are the subcontracting provisions in the contract, and to what extent was the work subcontracted?
- What cost detail is contained in the invoices and supporting documentation that Bechtel submitted to the government?
- What costs did Bechtel incur in carrying out its contracted tasks, including materials, labor, overhead, security, subcontracts, and all other costs?
- How many layers of subcontracts did Bechtel have in performing the contracted work?
- What types of contracts—firm fixed-price, cost-plus, or other arrangement—were used for subcontracts?
- At each layer of subcontracting, what costs were billed to the next level of subcontractor?
- What administrative fees did the contracting agency charge?

Review of Logistics Civil Augmentation Program (LOGCAP) Task Order 130

SIGIR-6029

This review was requested by the Office of the Chief of Mission, U.S. Embassy-Iraq. The overall objective is to determine whether the U.S. government is receiving the services paid for under Logistics Civil Augmentation Program (LOGCAP) Task Order 130 and whether the support provided is reasonable, effective, and cost-effective. Task Order 130 was awarded to provide services necessary to support, operate, and maintain Chief of Mission and MNF-I staffs at the U.S. Embassy-Iraq. SIGIR will review two service areas in particular: (1) vehicle service and maintenance and (2) fuel procurement, delivery, and pricing.

The audit will answer these questions:

- Are all requirements, including those initiated by the contractor, properly validated?
- Is a proper and adequate review process in place for all work?
- Does the contractor present auditable invoices?
- Is all work properly evaluated against criteria?
- Do proper controls exist for the property associated with this task order?
- What are the lessons learned from the management and execution of the service contract process and practices related to this task order?

In addition, SIGIR will assess the suitability of continuing a LOGCAP-type contract arrangement for selected services when the

U.S. Embassy-Iraq moves into its new compound. For comparative purposes, SIGIR will look at similar services performed, associated costs incurred, and which U.S. government agencies were responsible for each area under previous LOGCAP contracts, as well as similar life-support services provided under other contracts in Iraq.

Lessons Learned from Management and Organizational Challenges of the Iraq Relief and Reconstruction Fund

SIGIR-6032

This continues the SIGIR review (SIGIR-6012) on how roles and responsibilities have been assigned for the management of IRRF. This study will identify leading practices that may be used to guide future multi-organizational interaction for managing similar relief and reconstruction initiatives. The objective of this study is to answer these questions:

- What is the ideal structure of a reconstruction management office, in terms of roles and responsibilities, as it goes from training and planning to support deployment, pre-deployment actions, actual deployment, and re-deployment?
- What should the skill set of the organization be as it goes through these phases?
- What is the ideal size during each of these phases and, most especially, during the full deployment phase?

Review of the Advanced First Responder Network Implementation and Sustainment

SIGIR-6039

The objective of this review is to answer these questions:

- How effective is the Advanced First Responder Network now that it has been implemented?
- Are there any sustainment issues regarding the operation and maintenance of the system?

Lessons Learned: Contracting in Iraq Reconstruction: Design-build vs. Direct Contracting

SIGIR-7001

The objective of this assessment is to understand how the major construction contracts were managed in Iraq. SIGIR is comparing the two major project delivery systems used in Iraq—design-build and direct contracting—to U.S. industry-leading practices to identify the circumstances that enhance or limit their successes. SIGIR is also assessing the outcomes of the use of each delivery system and how each met the U.S. strategic goals for relief and reconstruction.

Iraq Relief and Reconstruction Fund (IRRF) Financial Review: DoS Unmatched Disbursements

SIGIR-7002

The overall objective of this audit is to determine the amount of IRRF unmatched disbursements and whether DoS has established adequate management controls over IRRF 1

and IRRF 2 unmatched disbursements. SIGIR intends to answer these questions:

- How much IRRF monies have been identified as unmatched disbursements?
- How often are unmatched disbursements reviewed by government officials, and who makes the determination that the disbursement was an IRRF expenditure?
- Have IRRF unmatched disbursements subsequently been identified to other IRRF projects?
- What management controls are in place to eliminate and resolve unmatched disbursements?

Review of Financial Reporting and Cost-to-complete Estimates for Iraq Relief and Reconstruction U.S.-funded Programs and Projects

SIGIR-7003

The overall objective is to determine whether IRMO, USAID, GRD, and MNSTC-I provide accurate project financial data in required reports to the Congress. The review will answer the following questions:

- Do the U.S. government reports submitted to comply with Section 2207 of Public Law 108-106 accurately report how estimates and assumptions contained in previous reports have changed?
- Have U.S. government agencies established effective internal control systems to ensure the accuracy of cost-to-complete estimates and financial reports?
- What is the impact of inaccurate project cost reporting?

- What is the status of actions taken on implementing previous SIGIR recommendations?
- What is the impact of the new sources of funds to cost-to-complete and current financial management reporting of the Iraq relief and reconstruction efforts?
- Are gaps in resource requirements identified when comparing the cost-to-complete information to the funds available?

Progress Review of the Transition of Iraq Relief and Reconstruction Fund Projects to the Government of Iraq

SIGIR-7004

The overall objective is to determine whether DoS, USAID, GRD, and MNSTC-I have developed and implemented plans for the transition of IRRF-funded projects to the GOI. The audit will answer these questions:

- Have U.S. agencies involved in U.S.-funded or U.S.-managed construction projects developed adequate procedures for transitioning completed projects to the GOI?
- Have there been delays transitioning projects to the GOI? If so, what have been the cause and impact of those delays?
- What is the status of actions taken in responding to implementing previous SIGIR recommendations on transition and sustainment?

Review of U.S. Sources and Uses of Fiscal Year 2006 Funding for Iraq Relief and Reconstruction

SIGIR-7005

The overall objective of this review is to assess how the funds from U.S. sources were used in Iraq. These funds include the Economic Support Fund, CERP, ISFF, and any other funds identified during the review if used to support the Iraq relief and reconstruction mission in FY 2006.

Survey of the Department of State’s International Narcotics and Law Enforcement IRRF Projects and Efforts in Support of Iraq Relief and Reconstruction

SIGIR-7006

This review is a spin-off of the SIGIR review of INL efforts to build the Adnan Police Academy. This review identified serious weaknesses in contracting, contract administration, accountability, and overall management. This SIGIR review will also include INL’s program at the International Jordanian Police Training Center.

Review of the Commander’s Emergency Response Program (CERP) for Fiscal Year 2006

SIGIR-7007

SIGIR plans to assess management controls and project documentation of FY 2006 CERP funds by answering these questions for a number of CERP 2006 projects:

- What controls are in place to ensure the accountability of CERP funds and project records?
- Were CERP funds used for intended and authorized purposes?
- What performance measures are in place to evaluate the effectiveness of the individual CERP projects in relationship to the overall goals of the CERP program?
- How are commanders ensuring sustainment of completed CERP projects by the GOI?
- How are CERP projects transitioned to the GOI?

Further, this review will follow up on and assess actions taken by U.S. government officials on the recommendations made in previous SIGIR reports on the use of CERP.

Review of U.S.-funded Weapons Provided to Iraqi Security Forces

SIGIR-7008

The overall objective is to determine whether proper accountability has been established for U.S.-funded weapons provided to Iraqi security forces. The review will answer these questions:

- Has MNSTC-I taken steps to establish accurate inventories for weapons provided to Iraqi security forces?
- Has MNSTC-I determined the requisite spare parts and technical repair manual requirements by weapons type and, if applicable, weapons model, and has it provided this information to the Ministries of Defense and Interior?

Review of the Status of U.S. Government Anticorruption Efforts in Iraq

SIGIR-7009

The overall objective is to assess the U.S. government's anticorruption efforts in Iraq. To meet the objective, the audit will answer these questions:

- Has the U.S. government developed a strategic anticorruption program with identified goals?
- Do anticorruption activities conducted by all U.S. government agencies in Iraq support the U.S. anticorruption strategic plan?
- Have organizational roles and responsibilities been clearly identified and resources provided to meet strategic program goals?
- Have U.S. government agencies established programs to strengthen Iraq's inspectors general?
- Have the appropriate U.S. government agencies developed action plans or implemented the recommendations made in previous reports?

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 website: <http://www.sigir.mil/>.

These audits are planned to be announced during the next quarter:

- Review of the Effectiveness of U.S. Government Contracts To Enable Budgeting and Financial Management Capabilities in Iraqi Ministries
- Comparative Analysis of the Air Force Center for Environmental Excellence Versus Gulf Region Division in IRRF (Project Management and Contracting)
- Review of Spending on Parsons Facilities and Transportation Sector Design-Build Contracts and the Recording and Reporting of Associated Costs
- Review of U.S. Government Organizations' Efforts To Execute Job-producing Programs in Iraq
- Review of U.S. Government Organizations' Efforts To Expand Provincial Reconstruction Teams in Iraq
- Controls Over U.S. Government Property and Equipment in the Possession of Design-Build Contractors
- Review of the Use of Sector Project and Contracting Office Contractors (SPCOs) in Managing IRRF Projects
- Review of U.S. Government Efforts To Expand the Micro-loan Program

STATUS OF SIGIR AUDIT RECOMMENDATIONS, AS OF DECEMBER 30, 2006

REPORT NUMBER	REPORT TITLE	DATE ISSUED	RECOMMENDATIONS		
			TOTAL	CLOSED	IN-PROCESS
06-038	Unclassified Summary of SIGIR's Review of Efforts To Increase Iraq's Capability To Protect Its Energy Infrastructure	9/27/2006	0	0	0
06-037	Interim Audit Report on Improper Obligations Using the Iraq Relief and Reconstruction Fund (IRRF 2)	9/22/2006	1	1	0
06-035	Interim Audit Report on Inappropriate Use of Proprietary Data Markings by the Logistics Civil Augmentation Program (LOGCAP) Contractor	10/26/2006	5	2	3
06-034	Status of the Provincial Reconstruction Team Program in Iraq	10/29/2006	7	0	7
06-033	Iraqi Security Forces: Weapons Provided by the U.S. Department of Defense Using the Iraq Relief and Reconstruction Fund	10/28/2006	4	0	4
06-032	Iraqi Security Forces: Review of Plans to Implement Logistics Capabilities	10/28/2006	5	0	5
06-031	Management of the Iraqi Interim Government Fund	10/27/2006	4	0	4
06-028	Review of Administrative Task Orders for Iraq Reconstruction Contracts	10/23/2006	3	3	0
06-026	Review of the U.S. Agency for International Development's Management of the Basrah Children's Hospital Project	7/31/2006	6	5	1
06-025	Review of the Medical Equipment Purchased for the Primary Healthcare Centers Associated with Parsons Global Services, Inc., Contract Number W914NS-04-D-0006	7/28/2006	7	3	4
06-024	Joint Cash Count: Iraq National Weapons Card Program	7/26/2006	0	0	0
06-023	Changes in Iraq Relief and Reconstruction Fund Program Activities-January through March 2006	7/28/2006	0	0	0
06-021	Joint Survey of the U.S. Embassy-Iraq's Anticorruption Program	7/28/2006	14	0	14
06-020	Review of the Advanced First Responder Network Project	7/28/2006	5	0	5
06-019	Review of the Use of Definitization Requirements for Contracts Supporting Reconstruction in Iraq	7/28/2006	2	0	2
06-018	Survey of the Status of Funding for Iraq Programs Allocated to the Department of State's Bureau of International Narcotics and Law Enforcement Affairs as of December 31, 2005	7/2006	3	0	3
06-017	Transition of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government	7/28/2006	6	0	6
06-015	Iraqi Armed Forces Seized Assets Fund: Review of Contracts and Financial Documents	4/28/2006	4	1	3
06-014	Review of Efforts to Increase Iraq's Capability To Protect Its Energy Infrastructure (Classified)	7/27/2006	7	0	7
06-011	Management of the Primary Healthcare Centers Construction Projects	4/29/2006	7	1	6
06-009	Review of Task Force Shield Programs	4/28/2006	8	6	2
06-008	Development Fund for Iraq Cash Accountability Review: Joint Area Support Group - Central	4/28/2006	3	0	3
06-007	U.S. Agency for International Development Management of the Transfer of Iraq Relief and Reconstruction Fund Projects To the Iraqi Government	4/29/2006	1	0	1
06-006	Multi-National Security Transition Command-Iraq Management of the Transfer of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government	4/29/2006	1	0	1

REPORT NUMBER	REPORT TITLE	DATE ISSUED	RECOMMENDATIONS		
			TOTAL	CLOSED	IN-PROCESS
06-003	Review of Data Entry and General Controls in the Collecting and Reporting of the Iraq Relief and Reconstruction Fund	4/28/2006	9	2	7
06-002	Prompt Payment Act: Analysis of Expenditures Made from the Iraq Relief and Reconstruction Fund	2/03/2006	1	1	0
06-001	Management of Iraq Relief and Reconstruction Fund Program: The Evolution of the Iraq Reconstruction Management System	4/24/2006	3	0	3
05-028	GRD-PCO Management of the Transfer of IRRF-funded Assets to the Iraqi Government	1/24/2006	1	0	1
05-027	Methodologies for Reporting Cost-To-Complete Estimates	1/27/2006	14	0	14
05-025	Management of the Commander's Emergency Response Program for Fiscal Year 2005	1/23/2006	5	0	5
05-023	Management of Rapid Regional Response Program Contracts in South-Central Iraq	1/23/2006	3	3	0
05-022	Managing Sustainment for Iraq Relief and Reconstruction Fund Programs	10/24/2005	4	0	4
05-021	Management of Iraq Relief and Reconstruction Fund Programs	10/24/2005	1	0	1
05-020	Management of the Contracts, Grant and Micro-Purchases Used to Rehabilitate the Karbala Library	10/26/2005	7	6	1
05-018	Acquisition of Armored Vehicles Purchased Through Contract W914NS-05-M-1189	10/21/2005	5	2	3
05-017	Award Fee Process for Contractors Involved in Iraq Reconstruction	10/25/2005	4	0	4
05-016	Management of the Contracts and Grants Used To Construct and Operate the Babylon Police Academy	10/26/2005	6	5	1
05-015	Management of Rapid Response Program Grants in South-Central Iraq	10/25/2005	10	8	1
05-011	Cost-to-Complete Estimates and Financial Reporting for the Management of the Iraq Relief and Reconstruction Fund	7/26/2005	5	2	3
05-010	Interim Briefing to the Project and Contracting Office-Iraq and the Joint Contracting Command-Iraq on the Audit of the Award Fee Process	7/26/2005	7	0	7
05-008	Administration of Contracts Funded by the Development Fund for Iraq	4/30/2005	6	5	1
05-007	Administration of Iraq Relief and Reconstruction Fund Contract Files	4/30/2005	7	7	0
05-006	Control of Cash Provided to South-Central Iraq	4/30/2005	8	4	4
05-002	Accountability and Control of Materiel Assets of the Coalition Provisional Authority in Kuwait	10/25/2004	5	3	2
04-011	Audit of the Accountability and Control of Materiel Assets of the Coalition Provisional Authority in Baghdad	7/26/2004	4	1	3
04-001	Coalition Provisional Authority Coordination of Donated Funds	6/25/2004	3	2	1

Note: Since the July 2006 semiannual Report, the number of open recommendations was adjusted to more accurately reflect components of recommendations that are being tracked as iterative corrective actions are addressed.

TABLE 3-2

SIGIR INSPECTIONS

During this quarter, SIGIR visited, assessed, and reported on 15 construction projects across Iraq, yielding a variety of results. SIGIR found several well-constructed projects with sufficient contractor quality control (QC) and effective U.S. government quality assurance (QA) programs in place. In one notable instance, however, SIGIR found serious construction deficiencies that stemmed from insufficient government oversight and inadequate contractor performance. Recurrent construction problems included contractor failure to comply with international standards required in the contract, construction on non-compacted soil, deficient concrete pours, substandard plumbing installation, and unsafe electrical wiring.

Lack of security continued to impede construction and SIGIR assessments. Because of safety concerns, personal security details would not escort SIGIR assessment teams to several sites.

SIGIR's presence across Iraq continues to positively affect reconstruction efforts. For example, last quarter, after receiving complaints about substandard construction work at the Baghdad Police College, SIGIR conducted a quick reaction report on the site. The SIGIR report prompted a rapid response by the U.S. government, prime contractor, subcontractors, and additional contractors hired to begin to remediate problems and complete work not performed by the original prime contractor. At the time of this report, these actions still have not been fully successful.

As of December 31, 2006, SIGIR has completed 80 project assessments, 96 limited on-site inspections, and 266 aerial assessments.

Project Assessments: Findings at a Glance

These are the highlights of SIGIR's inspection work this quarter.

Al Alwaiya Maternity Hospital (\$1.99 million)

- The project was sufficiently well-designed to renovate the facility.
- Construction work was consistent with the standards of the contract design.
- The contractor's QC plan was sufficiently detailed to effectively guide the contractor's quality management (QM) program.
- The government's QA program effectively monitored the contractor's QC program.
- The city of Baghdad should receive a renovated and modernized maternity hospital.

Al Alwaiya Children's Hospital (\$1.29 million)

- The project was sufficiently well-designed to renovate the facility.
- Construction work was consistent with the standards of the contract design.
- The contractor's QC plan was sufficiently detailed to effectively guide the contractor's QM program.
- The government's QA program effectively monitored the contractor's QC program.
- This renovation/modernization will result

in a modern facility that provides a healthy and safe environment for patients, visitors, and employees.

Dahuk Rehabilitation Center (\$5.63 million)

- The contract's design and specifications were specific enough to complete construction of the facility because the U.S. Army Corps of Engineers (USACE) conducted a prudent evaluation of pre-existing conditions and current requirements.
- Closely supervised craft-specific crews performed the construction work, and effective QM practices ensured adherence to design standards.
- Project sustainability was adequately addressed in the contract.
- When completed, the Dahuk Rehabilitation Center project should be a modern self-contained prison facility, as designed.

Al Kasik Water Storage Tanks (\$4.9 million)

- The completed construction work complied with the design standards for the Al Kasik Water Storage Tank project.
- The contractor's QC and the U.S. government's QA were adequate and ensured effective QM during construction.
- The construction of the water storage tanks comprised a system of eight tanks of the same design and size. The covered, non-pressurized water-holding tanks offer a high degree of sustainability when properly constructed.

- When the system of tanks is filled with water, it is designed to remain in place and supply clean water to the water distribution system. If completed as designed, the project will likely be sustainable for years to come.

Al Kasik Waste Water Treatment Plant (\$2.7 million)

- In general, project components were adequately designed before construction. However, because the chlorination system disinfected wastewater at the pre-filter stage, the unfiltered suspended solids reduced the efficiency of the disinfection.
- Construction at the plant met design standards, with two exceptions—the clarifier tank's sweep-arm assembly and the G-3 pump station were deficient.
- The contractor's QC and the U.S. government's QA programs were found to be generally effective.
- Some aspects of project sustainability were not adequately addressed in the contract. First, the inventory of backup replacements and spare parts provided was not sufficient to effectively maintain components to sustain operations. Second, it is likely that insufficient operational/run testing, and ineffective plant operator training before turnover, contributed to the failure of the clarifier tank.
- The plant did not operate between March 19, 2006, and August 8, 2006, when the assessment team completed the site visit. Until repaired, raw sewage in excess of

the daily holding capacity will continue to be pumped into the countryside through a surface ditch; this practice creates a potential health hazard to local people and groundwater.

- During initial fieldwork, SIGIR confirmed that action was underway to correct deficiencies with the sweep-arm in the clarifier tank. On October 2, 2006, representatives of the Air Force Center for Engineering Excellence (AFCEE) confirmed that reconstruction of the G-3 pump pad structure was to begin on December 12, 2006.
- The project has resulted in the construction of new buildings and facilities for Iraqi Army soldiers. SIGIR noted concerns with the motor pool that require follow-up by USACE.

Al Hillah Police Firing Range (\$.43 million)

- The firing range components were adequately designed before construction.
- The work completed at the time of SIGIR's on-site inspection met the standards of the design.
- USACE ensured quality and compliance with the contract requirements. The completed project work will result in a fully functioning firing range with 12 rifle-firing stations and 12 pistol-firing stations for the Iraqi Police.

51st Brigade Iraqi Army Barracks (\$.99 million)

- The USACE design package was adequate to construct the buildings and most of the facilities that were included in the contract scope.
- Most of the construction appeared to meet the standards of the Statement of Work (SOW) and design.
- The contractor's QC plan was sufficiently detailed to effectively guide the contractor's QM program.
- The government's QA program effectively monitored the contractor's QC program.
- Sustainability was not adequately addressed in the basic contract and was not mentioned in the task order requirements. In addition, this report identified low-quality plumbing fixtures and barracks building doors used by the contractor. The use of these items will present the Iraqi Army with continual maintenance problems.

402nd Battalion Iraqi Army Headquarters Barracks (\$.74 million)

- The USACE design package was adequate to construct the buildings and most of the facilities that were included in the contract scope.
- In general, the construction appeared to meet the standards of the SOW and design. However, a noticeable crack in the classroom building exterior requires further assessment by USACE. In addition, because the water-tank design lacked sufficient detail, the water-tank construction should be assessed for structural adequacy.
- The contractor's QC and the government's QA program were effective.
- Sustainability was not adequately addressed

in the basic contract and was not mentioned in the task order requirements. In addition, this report identified low-quality plumbing fixtures and barracks building doors used by the contractor. The use of these items will present the Iraqi Army with continual maintenance problems.

- The project has resulted in the construction of new buildings and facilities for Iraqi Army soldiers. SIGIR noted concerns about the classroom building and water tank that require USACE to follow up and possibly take remedial action.

Baghdad Police College (\$72.25 million)

- Project components were not adequately designed before construction. The contractor did not provide, and the government did not review, the required number of design drawings. For the design drawings that were reviewed, the government determined that the submittals were generally incomplete and inadequate. For several buildings, the 100% design drawing submittals were rejected by the government reviewer.
- Most of the work that SIGIR observed did not meet the standards of the contract and task orders. SIGIR identified significant construction deficiencies, such as poor plumbing installation, expansion cracks, concrete segregation and honeycombing, reinforcement bar exposure, and poor brickwork. Also, the construction and equipment installation were performed at a low level of workmanship by the contractor

and did not comply with the international standards required by the contract and task orders.

- The government's QA program was essentially non-existent in terms of monitoring the contractor's performance. The government did not review the contractor's daily QC reports. In addition, the government QA representatives tracked project progress but did not identify quality issues. They did not identify any construction deficiencies noted in the contractor's daily QA reports. Consequently, USACE was not aware of significant construction deficiencies at the project site.
- Sustainability was addressed in the task order requirements, yet not adequately administered by USACE.
- The Baghdad Police College construction and renovation results were not consistent with the original contract objectives. The project was poorly designed and constructed, and the contractor and USACE did not effectively manage the project.

Electrical Substation Sustainment (\$28.27 million)

- The facilities were secured and in good repair.
- The substation operation was staffed by personnel with adequate skills to manage and operate them.
- Spare parts, drawings, and operating manuals were provided as required by the contract.

FIFTEEN PROJECTS ASSESSED THIS QUARTER (THOUSANDS)

PCO ID	PROJECT NAME	GOVERNORATE	BUDGETED TOTAL COST	EXECUTING AGENCY	CONTRACTOR	GRD REGION
1225	Al Alwaiya Maternity Hospital	Baghdad	\$1,986	GRD	Parsons/Local	Central
1223	Al Alwaiya Children’s Hospital	Baghdad	\$1,288	GRD	Parsons/Local	Central
NA	Dahuk Rehabilitation Center	Dahuk	\$5,634	GRD	Biltek	North
NA	Al Kasik Water Storage Tanks	Ninewa	\$4,900	AFCEE	AMEC	North
NA	Al Kasik Waste Water Treatment Plant	Ninewa	\$2,700	AFCEE	Shaw	North
23025	51st Brigade Iraqi Army Barracks	Babylon	\$999	GRD	Local	South
23540	Al Hillah Police Firing Range	Babylon	\$434	GRD	Local	South
23026	402nd Battalion Iraqi Army Headquarters Barracks	Babylon	\$737	GRD	Local	South
NA	Baghdad Police College, Task Order 06	Baghdad	\$42,909	GRD	Parsons	Central
NA	Baghdad Police College, Task Order 29	Baghdad	\$29,345	GRD	Parsons	Central
1654	Electrical Substation Sustainment-Al Hakamia	Basrah	\$5,677	GRD	Perini	South
1657	Electrical Substation Sustainment-Al Hamdan	Basrah	\$5,719	GRD	Perini	South
1655	Electrical Substation Sustainment-Al Kaffat	Basrah	\$5,438	GRD	Perini	South
1656	Electrical Substation Sustainment-Al Serajii	Basrah	\$5,718	GRD	Perini	South
1659	Electrical Substation Sustainment-Shat al Arab	Basrah	\$5,724	GRD	Perini	South

TABLE 3-3

- Substations were distributing 36% of the power because of insufficient input from upstream transmission substations.
- Protective relays used to manage power surges in the distribution feeders may not be as robust as necessary.

Planning

SIGIR selects a cross-section of projects from each of the major reconstruction sectors to assess, survey, and analyze:

- projects involving water, electricity, oil facilities, and transportation
- projects involving large and small contract dollar amounts
- projects of different general contractors
- projects in different sections of the country
- projects in programs of each of the major U.S. agencies
- projects that were fully completed and partly completed

On-site Project Assessment Program Approach

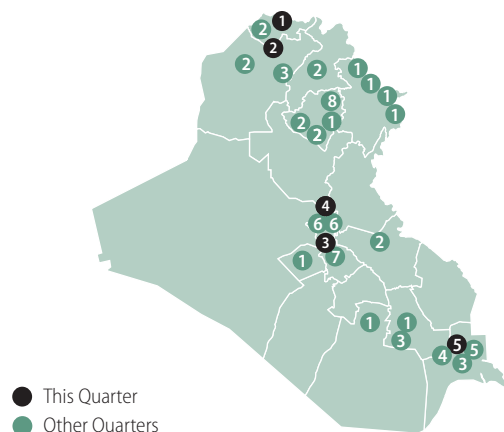
Since June 2005, SIGIR has completed 80 project assessments—15 during this quarter. These were the general objectives of the project assessments:

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

Table 3-3 lists project assessments completed this quarter. For a complete list of project assessments from previous quarters, see

Figure 3-1
PROJECT ASSESSMENTS

Approximate locations of the 80 projects where inspections were conducted, analyzed, and reported to date.



Appendix J. Figure 3-1 shows the approximate location of each project assessed.

SIGIR Project Assessments

Al Alwaiya Maternity Hospital, Baghdad, Iraq

SIGIR PA-06-064

This project was originally started under Task Order 0006 of Contract W914NS-04-D-0006, an indefinite delivery/indefinite quantity design-build contract, awarded in March 2004 by the Coalition Provisional Authority (CPA) to Parsons Delaware, Inc. In May 2006, the USACE Gulf Region Division-Project and Contracting Office (GRD-PCO) novated its contract with Parsons Global Services, Inc. On May 11, 2006, GRD-PCO awarded a firm fixed-price contract (W91GXZ-06-C-0011) to an Iraqi subcontractor of Parsons Global Services, Inc. (Parsons). According to USACE, when the project was terminated, Parsons had completed 60% of the project requirements. When SIGIR inspected the project in June

2006, the current Iraqi contractor had completed 7% of the remaining project requirements.

The objective of the project was to rehabilitate the Al Alwaiya Maternity Hospital in central Baghdad, originally constructed in 1969. Before the start of the renovation project, the hospital's capacity was 300 beds. When the project began, the hospital's infrastructure was in very poor condition: the hospital was capable of supporting only 70 of the original 300 beds. The contract scope of work included installing new updated equipment and replacing critical hospital systems (mechanical, electrical, structural, and sanitary). The contract scope also included a complete architectural renovation of the hospital's ten buildings, including repairing and replacing windows and doors, repairing and repainting exterior and interior walls, repairing ceilings and installing suspended acoustical ceilings in main corridors, and installing new flooring throughout the hospital buildings.



Site Photo 1. Main corridor in women's health and laboratory building.



Site Photo 2. Patient room in women's health and laboratory building.



Site Photo 3. Patient ward in Building B9 after demolition of wall plaster and flooring.

What SIGIR Found

The SIGIR assessment team interviewed personnel from the GRD Resident Office and reviewed contract documentation, construction drawings and specifications, and QC and QA reports. Based on the review of the drawings and specifications, SIGIR concluded that the design was sufficient to renovate the facility.

SIGIR's on-site assessment included inspections of these buildings and facilities:

Completed renovation work:

- Building B1, women's health and laboratory (front portion of building)
- Reverse Osmosis Purification Unit

Renovation in progress:

- Building B1 (ground floor), women's health and laboratory (rear portion of building)
- Building B8, kitchen and laundry
- Building B9, patient wards
- Water storage and distribution system

Building B1 (Site Photo 1) and the Reverse Osmosis Purification Unit were completed under the Parsons contract. Renovation work was in progress on the remaining buildings and facilities included in the contract scope. The work that SIGIR observed appeared to comply with the contract requirements. The Al Alwaiya Maternity Hospital modernization project results were consistent with the original contract objectives. When complete, the hospital renovation/modernization project should improve healthcare facilities and services in Baghdad.

Sustainability

Sustainability was addressed in the contract. It required a one-year warranty for all building equipment, construction, components, and commonly offered extended warranties for equipment and machinery purchased. In addition, the task order required three legible copies of O&M manuals, written in English and Arabic, for all new equipment, finishes, fixtures, and hardware.

Al Alwaiya Children's Hospital, Baghdad, Iraq

SIGIR PA-06-065

This project was originally started under Task Order 0006 of Contract W914NS-04-D-0006, an indefinite delivery/indefinite quantity design-build contract, which the CPA awarded to Parsons Delaware, Inc., in March 2004. A modification to the basic contract changed the name of the contractor from Parsons Delaware to Parsons Global Services, Inc. (Parsons).

In May 2006, GRD-PCO novated its contract with Parsons. On May 11, 2006, GRD-PCO awarded a firm fixed-price contract (W91GXZ-06-C-0010) to the subcontractor of Parsons. According to USACE, Parsons had completed 65% of the project requirements at the time of its termination. When SIGIR inspected the project in June 2006, the current Iraqi contractor had completed 8% of the remaining project requirements.

The objective of the project was to rehabilitate the Al Alwaiya Children's Hospital in central Baghdad. Originally constructed in 1956, the hospital required a major repair and reconstruction effort. The contract scope

covered site work; plumbing improvements; heating, ventilation and air conditioning, and other mechanical upgrades (incinerator, elevators, medical gas system); and electrical retrofits to include distribution panels, lighting, communications, and fire alarm systems. The contract scope also included a complete architectural renovation of the hospital's buildings, including repairing and repainting exterior and interior walls, repairing ceilings and installing suspended acoustical ceilings in main corridors, installing new flooring, and repairing and replacing windows and doors.

What SIGIR Found

The SIGIR assessment team reviewed the construction design and bill of quantities and found them sufficient for the renovation project. SIGIR's on-site assessment included inspections of these buildings and facilities:

Completed renovation work:

- Building B2, emergency wards
- Building B5, outpatient clinic
- Building B7, laundry
- Reverse Osmosis Purification Unit

Renovation in progress:

- Building B1, wards, laboratories, and x-ray rooms
- Building B10, administration and doctor residences

All completed renovation work noted above was accomplished under the Parsons contract. The ongoing renovation work was performed by the current Iraqi contractor.



Site Photo 4. Pharmacy entrance in outpatient clinic.



Site Photo 5. Construction in Building B1 (wards, laboratories, and x-ray rooms).



Site Photo 6. Exposed walls in Building B1 before re-plastering.

The completed work and work in progress observed by the team appeared consistent with the contract requirements. The government QA was effective in monitoring the contractor's QC. The USACE QA Representative (QAR) maintained daily QA reports that documented any deficiencies noted at the site. The Deputy Resident Engineer and the QAR ensured that the deficiencies cited during QA inspections were corrected.

The Al Alwaiya Children's Hospital project results, to date, were consistent with the

original contract objectives. As a result of the renovation, this hospital, when completed, should provide modern healthcare facilities for Iraqi citizens.

Sustainability

Sustainability was addressed in the contract. It required a one-year warranty for all building equipment, construction, and components and commonly offered extended warranties for equipment and machinery purchased. In addition, the task order required three legible



Site Photo 7. The Dahuk Rehabilitation Center at the pre-construction stage for the current contract. (Photo courtesy USACE)

copies of O&M manuals, written in English and Arabic, for all new equipment, finishes, fixtures, and hardware.

Dahuk Rehabilitation Center, Dahuk, Iraq

SIGIR PA-06-070

The objective of the Dahuk Rehabilitation Center project was to finish discontinued construction of a modern self-contained prison facility designed to house 1,490 inmates so that juveniles, women, and other inmates with varied sentences (light to maximum security) would be housed separately. The GOI started the project in late 2000, but discontinued work in mid-2001 because of political and funding issues. When halted, the facility's structural concrete framework was completed. This concrete skeleton from the previous work served as a starting point for new construction. USACE performed a detailed assessment of the existing concrete structure to baseline current contract requirements.

The contract's SOW included three distinct lump-sum contract line items. Overall, the contractor was required to provide all of the design, labor, and material to complete the three contract line items, using the existing

plans and specifications of the work previously started and stopped as a 90% design submission.

- Contract Line Item 1 included the design and complete repair of the existing structure based on a pre-construction deficiency assessment conducted by USACE, including the main structure, grounds, and all associated utilities, excluding the power plant, equipment, and water tanks. Additionally, design completion included all necessary modifications to existing drawings to match dimension measurements with the actual existing physical structure.
- Contract Line Item 2 included the complete design and construction of a power plant, equipment, and water tanks specifically excluded from Contract Line Item 1.
- Contract Line Item 3 included requirements for the contractor to provide designs only, without any construction, for contractors providing items or work that were "furnished by others."

What SIGIR Found

The contract's design and specifications were specific enough to construct the facility because USACE conducted a prudent evalu-



Site Photo 8. Ground-floor installation of security protection bar assemblies.

Site Photo 9. Dahuk Rehabilitation Center main entrance, July 31, 2006.



ation of pre-existing conditions and current requirements. In addition to reviewing relevant project documentation and conducting discussions with selected government representatives, the assessment team conducted a site visit on July 31, 2006, when the project was estimated to be 60% complete. During the site visit, the assessment team observed closely supervised craft-specific crews working throughout the facility.

The SIGIR report described various techniques used by the contractor to ensure acceptable construction work. For example, the

contractor established a fabrication shop with a variety of metal-working tools to construct reinforced frames with metal bars for window and door applications throughout the facility. Contractor performance appeared to meet the standards of the design. SIGIR did not identify any negative findings or recommendations for corrective action. When completed, the project should meet the intended objective if past construction and oversight practices continue.

The U.S. government's QA and the contractor's QC programs were effective. QA and QC functions were performed by the same people

since the project's beginning—a key to the effectiveness of the QC and QA programs. The benefit of such continuity was apparent during the assessment team's on-site visit. Specifically, QA and QC personnel were well-informed about the project's history, progress, and status.

Sustainability

Project sustainability was adequately addressed in the contract. In addition to completing construction of the main facility—which included a power generating and distribution system and a heating and cooling plant—the contractor was required to provide a design package for all furnished items or work to be completed by other subcontractors. Including a design package requirement from a single source should increase the cohesiveness of work to be completed by an array of subcontractors.

Al Kasik Water Storage Tanks,

Al Kasik, Iraq

SIGIR PA-06-071

The objective of the project was to construct a storage tank system for potable water, with a capacity of no less than 7.7 million liters. The SOW specified the contractor's roles and responsibilities and provided details on the specifications and testing requirements. The contract SOW also addressed the piping, valves, meters, pumps, and control equipment required to incorporate the system of storage tanks with existing water distribution and treatment systems. Based on the final design, most of the physical construction was devoted to building a system of eight equally configured tanks to yield a minimum system capacity of 7.7 million liters. The water storage tank project was initiated to replace inadequate water storage facilities with facilities that have greater capacity and are in better condition.



Site Photo 10. Overall progress of water storage tank construction, as of August 1, 2006.

What SIGIR Found

In addition to reviewing relevant project documentation and conducting discussions with selected government and contractor representatives, the assessment team visited the site on August 1, 2006, when the project was estimated to be 57% complete. Although the field period of performance had been extended to September 19, 2006, the contractor's representative believed that it was unlikely that the Water Storage Tank project would be completed by then for a number of reasons. Government QA reports confirmed that substantial rain in January, February, and March 2006 contributed to delayed progress on the project. In addition, the contractor's representative stated that there had been unspecified delays because equipment and material were unavailable. SIGIR observed that the subcontractor was waiting for a sand blaster to clean all steel before a protective/finish coating could be applied. In addition, the contractor's representative stated that a shortage of welders skilled enough to pass a welding test administered by the QC manager had been a persistent problem.

The final design to construct the facility with eight similar water tanks was adequate and practical. At the time of the assessment team's site visit, construction of each tank was in various stages of completion, and the completed construction work complied with the design standards. The tanks were designed to be fabricated on site by the contractor. Tank construction was divided into four major

stages: concrete foundation, welded steel floor, welded steel walls, and welded steel roof. At the time of the SIGIR site visit, work on the foundation, floor, and wall was in progress. Based on the assessment team's review of relevant documentation, discussions conducted with informed contractor and government personnel, and the on-site visit, the contractor's procedures to manage construction activity appeared effective. QC and QA and numerous test reports confirmed that QC and QA personnel effectively monitored the project.

Although delayed, the project should meet its intended objective when completed if past construction and oversight practices continue. When filled with water, the project should store and supply clean water to the water distribution system. Accordingly, the SIGIR report did not contain any negative findings or recommendations for corrective action.

Sustainability

Project sustainability was adequately addressed. Covered non-pressurized water holding tanks offer a high degree of sustainability when properly constructed. When the system of tanks is filled with water, it is designed to remain in place and supply clean water to the water distribution system. If completed as designed, the project will likely be sustainable for years to come.

Site Photo 11. Raw sewage pumped offsite through a surface ditch.



Al Kasik Waste Water Treatment Plant, Al Kasik, Iraq SIGIR PA-06-074

The project objective was to plan and construct a wastewater treatment plant that complies with the specifications of World Health Organization 2000. The contractor was required to develop a work plan to select, provide, and install a complete wastewater treatment plant. Specifically, the SOW required the full range of construction and engineering activities to meet all customer requirements and project objectives.

What SIGIR Found

In addition to reviewing relevant project documentation and conducting discussions with selected government representatives and Iraqi wastewater treatment plant operators, the assessment team visited the site on August 1, 3, 7, and 9, 2006, to conduct a thorough inspection of the wastewater treatment plant. No construction was in progress because construction was completed and accepted by the U.S. government on February 13, 2006, and the contractor departed from the site on February 18, 2006. However, at the time of the site visit,

the facility was not operating or processing wastewater because of a catastrophic failure of the sweep-arm assembly in the clarifier tank on March 19, 2006. As a result, since the failure occurred, raw sewage has been pumped off the site. Until the sweep-arm assembly is repaired, sewage will continue to be pumped into the countryside through a surface ditch, which creates a potential health hazard to local people and groundwater. AFCEE representatives confirmed that repairs to the facility started in early December 2006.

In general, project components were adequately designed before construction. However, the assessment team noted that the installed chlorination system disinfected the wastewater at the pre-filter stage. During this stage, suspended solids reduced disinfection efficiency. As an alternative, a post-filter stage chlorination process would have been more effective because suspended solids would have been significantly reduced before the chlorination process. In addition, the chlorination solution used, per design, may not have been compatible for storage in the high-temperature extremes of the local environment.

Construction appeared to meet design standards, with two exceptions. *First*, the clarifier tank's sweep-arm assembly was not built in accordance with the approved design documentation. Failure to construct the tank sweep arm to the design may have been the primary factor, or at least a significant contributing factor, causing a complete failure of the clarifier tank on March 19, 2006. *Second*, the G-3 pump station experienced a significant amount of structural concrete fracturing/cracking. The most likely reason for fracturing was inadequate soil compaction before the concrete was cast. However, the contractor may not have sufficiently reinforced the concrete at the corner of the G-3 foundation with steel as required. Insufficient reinforcement at a corner could have contributed to the severe cracking. In any case, the physical failure of the concrete could result in severe damage to the piping and pumps of the pump station.

The contractor's QC and the U.S. government's QA programs were found to be generally effective. As required, the contractor submitted an adequate QC plan before construction started. QA activities were sufficiently documented with reports that were reasonably well-written, descriptive, complete, and almost always supported by relevant photos. Project deficiencies were not caused by ineffective QM practices or personnel.

Sustainability

Task order requirements related to project sustainability were too vague, and the contractor was not required to provide a suf-

ficient inventory of backup replacements and spare parts to effectively maintain wastewater treatment plant components to sustain operations. The assessment team observed several instances in which components of the wastewater treatment plant were inoperative because there was no inventory of backup replacements or spare parts to facilitate repair. As a result, the failure of a common component led to significant disruption in wastewater treatment plant operations and effectiveness.

In addition to the design and construction issues, two other factors contributed to the failure of the clarifier tank—insufficient operational/run testing and ineffective plant operator training before turnover to the Iraqi Army operators. The operational test period for the clarifier tank was only eight days because of a water shortage at the time. Consequently, run-test observations by contractor personnel were limited to only 8 days—not the 30 days originally planned. In addition, Iraqi wastewater treatment plant operators stated that they received only four days of operational training before the contractor departed the site.

Government and contractor officials said that the failure of the clarifier tank sweep-arm was partly or completely caused by the Iraqi wastewater treatment plant operators. The contractor explained that the sweep arm would have failed "...if the tank was not drained prior to restart." Conversely, AFCEE representatives wrote: "It is believed that the Iraqi Army put the plant into operation ... before adequate flow of liquids was available...." Considering the differences between the two explanations,

what actually led to the failure could not be determined. However, it is likely that the Iraqi wastewater treatment plant operators were not sufficiently trained, largely because of the reduced testing period and the contractor's quick departure from the site.

Based on the fieldwork results, SIGIR recommended that the AFCEE Director seek funding and implement a contract amendment to provide sufficient backup replacements and spare parts to ensure that the wastewater treatment plant is effectively maintained. SIGIR also recommended that sufficient training should be provided to plant personnel to ensure effective plant operation. No additional recommendations were made because AFCEE representatives took or initiated appropriate actions to correct deficiencies related to the failure of the clarifier tank sweep-arm and the fracturing of the G-3 pump station concrete.

Management Comments

The AFCEE Director concurred with the recommendation and issued an amendment to the contract to extend the period of performance to January 31, 2007, for needed repairs to the facility. The AFCEE also is working on an additional contract extension amendment to address replacement parts, personnel training, and maintenance issues. Management comments fully addressed the issues raised in SIGIR's conclusions and recommendations. These actions, together with actions initiated before and during the assessment, will resolve the issues that SIGIR identified.

51st Brigade Iraqi Army Barracks, Hilla, Iraq

SIGIR PA-06-075

The objective of this project was to construct new buildings and facilities in Hilla, Iraq, for the 2/8 (formerly 51st) Brigade Garrison, Iraqi Army. This project was constructed under a task order issued under an indefinite delivery/indefinite quantity contract awarded by the USACE Gulf Region Division South District (GRS). The scope of work included construction of these buildings and facilities:

- a dining facility for 100 men
- two 75-man barracks
- two ablution buildings with 8 water closets, 7 showers, and 8 hand-washing stations in each building
- electrical distribution enhancements, such as electrical generators
- covered parking (sunshades) for 50 vehicles
- motor pool (a vehicle maintenance facility)
- paved street and pads, plus an aggregate service road
- force protection improvements (a new guardhouse and main gate improvements)

At the time of the assessment, the project was 90% complete, with the buildings substantially finished, except for punch-list items. Remaining work included completion and hookup of the electrical generators, as well as asphalt paving.



Site Photo 12. Water closet at the 2nd Brigade garrison showing plastic plumbing fixtures.



Site Photo 13. Crumbling mortar at the surface of the vehicle ramp.



Site Photo 14. Shower facilities at the 2nd Brigade garrison showing a thin wall metal tubing shower fixture connected to the wall with a single screw clamp.

What SIGIR Found

The SIGIR assessment team reviewed contract documentation, construction drawings and specifications, and QC and QA reports, and the team conducted interviews with GRS personnel. SIGIR concluded that the USACE-developed design was adequate to construct the buildings and facilities included in the scope of work. However, there were no structural drawings for the motor pool facility, and there were no drawings for the paving work defined in the scope of work.

The SIGIR assessment team concluded that most of the construction appeared to meet the standards of the SOW and design. However, the team identified some punch-list item deficiencies that should be corrected by the contractor before final acceptance by USACE. The assessment team also noted deficiencies with the motor pool vehicle maintenance ramps and details associated with the structural steel. Because the motor pool design lacked sufficient detail, SIGIR recommended

that GRS assess the adequacy of the concrete vehicle ramps and the structural steel frame supporting the facility's roof.

Sustainability

SIGIR concluded that sustainability was not adequately addressed in the basic contract and not mentioned in the task order requirements. The basic contract did not address spare parts lists, major catalog cuts, or a specific one-year warranty on all materials and workmanship for the buildings and facilities constructed or renovated in this project. In addition, the assessment team identified low-quality plumbing fixtures and barracks building doors used by the contractor. The use of these items will present the Iraqi Army with continual maintenance problems.

Al Hillah Police Firing Range, Hilla, Iraq

SIGIR PA-06-076

The objective of this project was to construct a combination rifle and pistol range for the Iraqi Police at the Police Academy in Hilla, Iraq. This project was constructed under a fixed-price contract awarded by USACE GRS. The scope of work included construction of these buildings and facilities:

- 12 cast-in-place reinforced concrete pipes (rectangular tubes) for rifle-firing stations
- 12 cast-in-place reinforced concrete pipes (rectangular tubes) for pistol-firing stations
- range-control building with armory, bathrooms, first-aid room, and waiting area for students
- generator pad and sunshade, 100-kilovolt-amp (kVA) generator, 2,000-liter fuel tank, and main distribution panel with automatic transfer switch
- four 9.1-meter aluminum light standards with 250-watt high-pressure sodium luminaries
- site work, including sidewalk construction



Site Photo 15. Rifle-firing stations.

At the time of the assessment, the project was 95% complete. The range-control building and 24 firing stations were substantially finished, except for punch-list items. Remaining work included completing the installation of the generator fuel tank and constructing a sunshade for the electrical generator.

What SIGIR Found

Based on the SIGIR assessment team's review of contract documentation, construction drawings, and specifications, the team concluded that the design developed by USACE was adequate to construct the 12 rifle-firing stations and the 12 pistol-firing stations. Each firing station included a sunken firing pit covered by a steel sunshade, as well as a reinforced concrete firing tube for the shooter to fire into at a target located in a concrete and masonry enclosure at the other end of the firing tube. The design for the range control building, added to the project scope by modification, comprised a single architectural drawing. There were no structural, electrical, or mechanical drawings for the building, but



Site Photo 16. Pistol-firing station showing shooter's pit, firing tube, and target enclosure.

the contractor had substantially completed construction of the building with no significant deficiencies observed during SIGIR's on-site assessment. In addition, the construction of the rifle-firing and pistol-firing stations met the standards of design. USACE GRS personnel from the Babil Resident Office ensured quality and compliance with the contract requirements. The completed project work will result in a fully functioning firing range with 12 rifle-firing stations and 12 pistol-firing stations for the Iraqi Police.

Sustainability

Sustainability was addressed in the contract requirements. The contract specifications required a one-year warranty on all materials and workmanship for the buildings and facilities constructed in this project. In addition, the contract required the training of at least two people designated by the police in the operation and maintenance of the generator. Further, the contract stated that all operating, maintenance, and repair manuals be provided in Arabic.

402nd Battalion Iraqi Army Headquarters Barracks, Hilla, Iraq

SIGIR PA-06-077

The objective of this project was to construct new buildings and facilities for the 1/2/8 (formerly 402nd) Battalion Garrison, Iraqi Army, in Hilla, Iraq. This project was constructed under a task order issued under an indefinite delivery/indefinite quantity contract awarded

by USACE GRS. The scope of work included construction of these buildings and facilities:

- two 75-man barracks
- two ablution buildings with 8 water closets, 7 showers, and 8 hand-washing stations
- medical clinic addition
- classroom building
- armory
- water storage tank (300 cubic meters)
- asphalt concrete roads and pads
- covered parking (sunshades) for 48 vehicles

At the time of the assessment, the project was 95% complete. The buildings were substantially complete, except for punch-list items. Remaining work included completion of the water storage tank and road paving.

What SIGIR Found

The SIGIR assessment team reviewed contract documentation, construction drawings and specifications, and QC and QA reports. The team also interviewed GRS personnel. They found that the design developed by USACE was adequate to construct the buildings and facilities included in the scope of work, although the design of the water tank and the architectural drawings lacked some details.

The inspection team did not observe significant deficiencies. However, the team observed a noticeable settlement crack in the classroom building exterior. In addition, because the design of the water tank lacked sufficient detail, SIGIR recommended that GRS review the water tank construction for structural adequacy.



Site Photo 17. Classroom building at the 1/2/8 Battalion garrison.

Sustainability

SIGIR concluded that sustainability was not adequately addressed in the basic contract and not mentioned in the task order requirements. The basic contract did not address spare parts lists, major catalog cuts, or a specific one-year warranty on all materials and workmanship for the buildings and facilities constructed or renovated. In addition, the assessment team identified low-quality plumbing fixtures and barracks building doors installed by the contractor; these items will present the Iraqi Army with continual maintenance problems.

Baghdad Police College, Baghdad, Iraq

SIGIR PA-06-078.2

SIGIR PA-06-079.2

The overall objective of the project was to design and construct a modern police training academy campus at the existing Baghdad Police College (BPC). The existing facility comprised a number of decaying buildings constructed in the 1930s and 1940s. These buildings had the capacity to house approximately 1,200-1,500 cadets. The new campus was to include new and renovated barracks

and training facilities, an upgraded and new storm-water system, a sanitary sewer collection system, a potable water system, and electrical service distribution system. Other improvements included a new dining facility, administrative offices, firing ranges, laundry, athletic and communication facilities, and an improved security perimeter. The ultimate goal of the project was to house and train approximately 10,000 cadets.

In March 2004, the CPA awarded a contract to Parsons Delaware, Inc., to construct and renovate the BPC. When the CPA was dissolved, the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) became the contracting agent. The USACE Gulf Region Division (GRD) and the Project and Contracting Office (PCO) are responsible for the efficient and effective execution and administration of design-build contracts for the reconstruction of Iraq. The JCC-I/A gave GRD and PCO a roles and responsibilities matrix to specify the functions of each organization.



Site Photo 18. Water leaking from ceiling of cadet barracks.

What SIGIR Found

SIGIR made six visits to the BPC: August 22, 2006; September 4, 2006; September 21, 2006; November 10, 2006; December 1, 2006; and December 8, 2006.

The intent of the August 22, 2006 site visit was to assess the entire project using the stated objectives. However, SIGIR identified significant plumbing issues in the cadet barracks that required separate reporting.⁴⁸⁹ In September 2006, SIGIR visited the BPC twice to determine whether GRD had required the contractor to take corrective actions on the plumbing issues SIGIR identified in its first visit. GRD later advised SIGIR that the plumbing issues had been corrected in early November 2006; therefore, SIGIR visited the BPC on November 10, 2006, to assess the quality of the plumbing rework. SIGIR identified similar and additional plumbing deficiencies. The team immediately noticed water on the ground floor common area of a cadet barracks building and water leaking from the ceiling (Site Photo 18) at approximately the same pace as documented in the previous report. The team also noticed water leaking in the same locations on the pipes (Site Photos 19 and 20). The team noted fewer stains from



Site Photo 19. Effects of wastewater leaking on plumbing pipes.



Site Photo 20. Effects of wastewater leaking on plumbing pipes.



Site Photo 21. Urine-filled ceiling light.

the wastewater leaking on pipes than the team observed during its initial visit. BPC cadets stated that water had been leaking for approximately four to five days.

In the barracks first-floor bathroom, the SIGIR team found more evidence that the subcontractor had not properly corrected the previously identified plumbing deficiencies. In some instances, the subcontractor apparently did not even replace ceiling lights and false ceiling panels (Site Photos 21 and 22). Several ceiling lights were full of urine and fecal matter and corroded on the outside, which appeared to be more than a few weeks old. The crystallized urine stains on the false ceiling panels appeared to be similar to the stained panels observed on SIGIR's first visit to the BPC. However, GRD and the subcon-



Site Photo 22. Urine-filled ceiling light and hanging wires.



Site Photo 23. Pieces of plumbing pipes in the process of being removed.

tractor told BPC representatives that work on the entire barracks was complete. In fact, the upstairs bathrooms were not complete, and there were some potential hazards. For example, above the showers, live wires were dangling through exposed areas of the false ceiling with light fixtures filled with urine and water leaking from the sewer pipes.

The BPC construction and renovation contract and task orders required significant work by the contractor. SIGIR made two additional site visits in December 2006 to assess the remainder of the project. As a standard part of the assessment, SIGIR reviewed the design submittal process, the adequacy of the design submittals, construction workmanship, and the quality of oversight by the contractor and the government.

SIGIR identified these significant issues with the BPC project:

- A design and specification review process for construction, equipment, and parts with approval/rejection/resubmission and

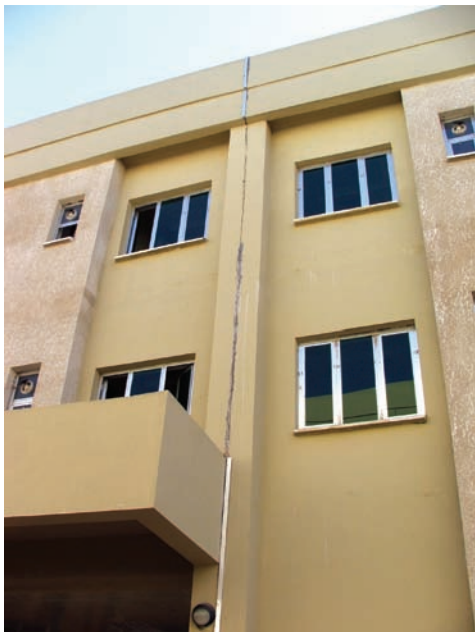
acceptance of documentation was not implemented.

- Poor-quality and non-standard construction methods were used, which were not in compliance with required codes.
- Low-quality parts were used.
- Beneficial Occupancy forms were improperly used.
- The QM program was poor.
- The contractor did not perform invoice reviews.
- Contractor test results and as-built drawings were questionable.

Poor Construction Methods

The contract and task orders required the contractor to follow the International Plumbing Code (IPC). However, in several important instances, the contractor did not follow the IPC. Section 708 of the IPC requires the use of cleanouts.⁴⁹⁰ The contractor did not provide the required cleanouts for soil pipes at multiple locations in the cadet barracks. For example, each toilet, sink, and shower required a cleanout because the drains connected to the sewer lines are at a change in direction.

In addition, there are no traps installed for the shower and sink soil pipes. Without the required cleanout traps installed for the toilets and for the directional change of the soil pipes, solid waste collects and will ultimately clog the soil pipes, resulting in a backup of wastewater and a release of sewer gas (methane gas). Section 708 of the IPC specifically prohibits the use of cement or concrete joints. According to the USACE GRD and BPC representatives,



Site Photo 24. Exterior expansion crack on the instructor barracks.

the common practice of local subcontractors is to cement joints in the bathroom areas (Site Photo 23); however, the IPC strictly prohibits this practice. As a result of not complying with the IPC requirement, the BPC will be faced with continual maintenance problems, including the backup and overflow of wastewater.

SIGIR also observed significant expansion cracks on the exterior and interior of the instructors' barracks buildings (Site Photo 24). SIGIR determined that the contractor's as-built drawings did not reflect the reality of what was actually constructed at the instructors' barracks.

Construction was so poor for the central laundry facility that the contractor issued a Nonconformance Report (NCR), and work was stopped while independent assessments were conducted to determine whether the construction deficiencies could be corrected. The independent assessments determined that it would be too costly to attempt to correct the structural construction deficiencies. Even though the subcontractor agreed to "take financial responsibility for the engineering



Site Photo 25. Evidence of improperly placed exposed reinforcement bar, PVC conduit, and rust.

fix," this facility was removed from the SOW under the contract after the government paid approximately \$350,000 for the poor construction work. Demolishing the facility will require approximately \$100,000. Site Photo 25 depicts the poor construction of the central laundry facility.

Quality Management Program

The contractor's QC plan was sufficiently detailed to effectively guide the contractor's QM program, including the use of daily QC reports and NCRs to document construction deficiencies. However, the contractor's QC Representative did not identify significant construction deficiencies, such as poor plumbing installation practices and substandard expansion joints. Even when the NCRs identified significant construction deficiencies, there was no assurance that corrective actions were taken. In addition, it appears that the contractor did not provide the NCRs to the government's Contracting Officer Representative, which the QC plan required.

The government QA program was essentially non-existent in terms of monitoring the

contractor's QC program. Neither the USACE Gulf Region Central (GRC) Project Engineer nor the QAR reviewed the contractor's daily QC reports. In addition, the QAR was used to track project progress—not to identify quality issues. The QAR did not identify any construction deficiencies in the daily QC reports. Consequently, USACE GRC was not aware of significant construction deficiencies at the project site.

USACE GRC will receive a fee of 4% of the cost of both task orders for what it stated was a "limited Quality Assurance role." This included using the on-site QAR to "track progress toward" project completion instead of identifying construction deficiencies. According to USACE GRC personnel, the daily QA reports given to the QAR did not "contain a block for quality issues." USACE GRC believed that the PCO "assumed the responsibility for project oversight and review of the Quality Assurance Reports..." As a result, USACE GRC will be paid approximately \$2.5 million for simply tracking the progress of the project completion instead of enforcing the procedures set forth in its own guidance on the QA program.

Finally, as a result of USACE's poor project management and lack of oversight, the U.S. government paid Parsons approximately \$5.3 million in base and awards fees for sub-standard work.

Conclusions

The BPC construction and renovation project results were not consistent with the objectives

of the original contract and TOs. The contract SOW called for providing the "Iraqi people with necessary basic public facilities and infrastructure with sufficient space accommodations and reliable public works, electrical, plumbing, mechanical, and communications resources that are easy to maintain, upgrade and repair..." The completed barracks buildings continue to experience significant plumbing failures; the massive expansion cracks on the interior and exterior of the buildings will leave the Iraqis with continual maintenance issues.

In addition, this project's construction costs were originally estimated to be approximately \$73 million. In an effort to complete the project, which was experiencing significant cost overruns and schedule slippages, 24 items were removed from the scope of work under the contract, such as the laundry facility, fire protection, and the communications building. The laundry facility was 51% complete, and the communications building was 38% complete. Other items—such as the driving course, connection to the power grid, and structural repairs—were de-scoped with no work done at all.

The U.S. government estimates that it will pay Parsons approximately \$62 million for work both fully and partially completed. Additional contracts with other contractors in excess of \$8 million have been awarded to complete some of the construction work not finished by Parsons. However, most of the de-scoped items, which were originally determined to be essential to a functioning

police training college, will either be left as a shell (the communications building) or not even begun (the driving course and fire protection). USACE has been unable to provide the original estimated costs and amounts paid for each of the de-scoped items; therefore, it is not possible to determine how much new funding will be required to complete all of the objectives of the TOs.

The BPC construction and renovation project results were not consistent with the original contract and TO because the project was poorly designed and constructed, and the contractor and the USACE GRC Project Engineer and QAR did not effectively manage the project.

Recommendations

SIGIR recommended that the Commanding General, GRD:

1. Require the contractor to replace all existing plumbing fixtures and fittings in all newly constructed buildings to comply with the IPC in accordance with contract specifications. Specifically, eliminate the use of cemented joints, abnormal fittings, and improperly sealed pipe connections. In addition, require the use of cleanouts, traps, and proper sealing techniques.
2. Require the USACE GRC QARs to be responsible for identifying quality issues as required by the contract and USACE ER 1180-1-6, instead of simply tracking project progress.
3. Require the USACE QARs to become thoroughly familiar with the IPC standards.
4. Require the USACE Project Engineer and QARs to supervise the contractor's installation of all plumbing rework to ensure compliance with the IPC.
5. Require the USACE GRD Resident Engineer to thoroughly review the as-built drawings submitted by the contractor. Specifically, walk through each facility and compare the as-built drawings to the actual construction completed.
6. Require the contractor to resubmit, at no cost to the government, accurate as-built drawings for any deviations noted during the walk-through of the facility.
7. After completing the thorough review of the as-built drawings, verify the contractor's individual charges against the confirmed work performed. Determine if the contractor was paid for work claimed, but not performed. Specifically, determine if the contractor charged, and was paid, for engineered expansion joints in the instructors' barracks. If so, then recover the money paid to the contractor.
8. Require the USACE QARs to be present for any future plumbing tests. In addition, require the QARs to document the tests performed, equipment used, and test setup information.
9. Require the Project Engineer and QARs to review the 95 NCRs submitted by Parsons for construction deficiencies and determine if corrective actions were previously taken.

If corrective actions were not taken, require that necessary corrective actions be taken.

Indications of Potential Fraud

During this inspection, SIGIR found indications of potential fraud and referred these matters to SIGIR Investigations.

Management Comments

GRD generally concurred with the conclusions in the draft report; however, GRD did not concur with all of the draft report's recommendations. GRD noted that the strategic and urgent need to quickly provide a training capability for the Iraqi Police has been achieved. And despite identified shortfalls in workmanship of the sewer, water, and electrical infrastructure of the facilities, not one graduation has been delayed, nor has a single class of cadets been delayed.

GRD's comment regarding the ability of the Baghdad Police College to graduate cadets is irrelevant to the issues raised in this report. The contract and task orders specifically required the construction of the Baghdad Police College to comply with international building standards and diligent quality management by the contractor and the government. In its comments, GRD confirmed that international building standards were not followed and that the quality management program of the contractor and the government was not adequate. The intent of the contract and task orders was to provide the Baghdad Police College staff an adequate training facility—including cadet barracks and

classrooms—to train a substantial number of cadets. Instead, the poor construction and oversight forced the Baghdad Police College to relocate cadets from one barracks to another—and in at least one case, into a classroom—as temporary living quarters to protect cadets from leaking urine and fecal matter.

In view of GRD's admission that “established international standards” were not followed by the contractor and enforced by the government, SIGIR continues to believe that the recommendations are appropriate and will work with GRD to reach a mutually satisfactory resolution.

Electrical Substation Sustainment

SIGIR PA-06-082-AL HAKAMIA
 SIGIR PA-06-083-AL HAMDAN
 SIGIR PA-06-084-AL KAFFAT
 SIGIR PA-06-085-AL SERAJII
 SIGIR PA-06-086-SHAT AL ARAB

The SIGIR Inspections directorate is assessing completed projects to determine whether they are likely to remain operational after transition from the U.S. government to the GOI.

This report addresses SIGIR's assessments of five electrical distribution substations completed in Basrah in September 2005 and transitioned to the Southern Distribution Company, which reports to the Iraqi Minister of Electricity. The substations were designed to convert high-voltage transmission electricity to low-voltage electricity and feed it through distribution lines to support local electrical demands. SIGIR originally performed construction assessments of all five substations in



Site Photo 26. Al Hamdan substation distribution: 11 kV switchgear panels at the time of the initial assessment.



Site Photo 27. Al Hamdan substation distribution: 11 kV switchgear panels at the time of the second assessment.



Site Photo 28. Al Serajii 33/11 kV transformer, first assessment.



Site Photo 29. Al Serajii 33/11 kV transformer, second assessment.

July 2005 and found the construction quality adequate and consistent with contract requirements. However, the report noted that none of the five substations were energized because incoming transmission lines and outgoing distribution lines were not connected.

PCO⁴⁹¹ informed SIGIR at that time that plans to energize the substations were underway. A \$10 million transmission feeder contract funded with IRRF funds had been awarded to an Iraqi company on April 30, 2005. The distribution feeders were the responsibility of the Iraqi Ministry of Electricity.

What SIGIR Found

At the time of this second assessment, SIGIR was informed that transmission and distribution lines were connected to four of the five

substations. The transmission lines to the fifth substation at Shat Al Arab were being routed, but had not yet been completed. On October 19, 2006, SIGIR observed two of the five substations, but because of security conditions, personal security representatives would not escort SIGIR inspectors to the other three. However, through representations made by the Resident Engineer USACE GRS and Iraqi Southern Distribution Company representatives and a review of documentation and analysis of satellite imagery of the unobserved substations, SIGIR believes that none of the unobserved substations have suffered any significant deterioration since they were transferred to the Ministry of Electricity. Two of the three unobserved substations appear to be operating, and the third is waiting for the

transmission line connection before it can be energized.

The facilities were secured and in good repair and showed no significant deterioration since the first assessment. Four of the five substations were operational, and the fifth was awaiting the connection of the incoming transmission line. SIGIR was informed that the fifth substation became operational during the week of November 26, 2006.

Although the substations were capable of distributing power to the grid at the time of the second assessment, they were operating at only 36% capacity, partly because of insufficient input from upstream transmission substations and partly because of excess switching capability designed into the substations to meet long-term demand. The substations should achieve their stated objective when the transmission lines are connected to the Shat Al Arab substation and the transmission capacity is increased to provide adequate power to energize distribution feeders to meet local demand.

Protective relays used to manage power surges in the distribution feeders may not be robust enough for the current environment. The absence of replacement relays required the cannibalization of non-energized lines. If left unresolved, degradation in distribution could diminish the power supply to the Basrah area.

Sustainability

The substation operations appeared to be staffed by personnel with adequate skills to manage and operate them. However, the

formal training that the subcontractor provided to ten Iraqis appears to have provided no value to the substation operations because none of the Iraqis selected by the Ministry of Electricity for training were assigned to operations or management positions in the Southern Distribution Company.

Spare parts, drawings, and operating manuals were provided as required by the contract. However, confusion over the official acceptance process appears to have caused spare parts to be left in unopened boxes next to at least one substation for more than one year. Neither the contractor nor the GRS Resident Engineer was notified by Southern Distribution Company personnel that the spare parts boxes had not been opened.

SIGIR recommended that the USACE GRD-Electric Sector Program Office take these actions:

1. Continue actions to connect the transmission lines to the Shat Al Arab substation.
2. Execute a memorandum of understanding with the Iraqi Minister of Electricity that would require assigning formally trained Iraqis to specific positions that directly benefit the project. Absent a formal agreement, the Ministry of Electricity should be required to pay the training costs.
3. Modify the project transfer process to ensure that there is no misunderstanding or confusion over responsibility and delivery procedures for spare parts, drawings, and operating manuals.

4. Review the frequency and cause of the protection relay failures to determine if they are systemic and/or design deficiencies. Based on their analysis, GRD-Electric Sector should work with the Ministry of Electricity to take appropriate action to remedy any premature relay failures.

The Commanding General, USACE GRD, concurred with SIGIR's conclusions and recommendations and implemented corrective actions as appropriate.

Aerial Project Survey Program

The SIGIR Satellite Imagery Group, based in Arlington, Virginia, conducts aerial assessments of U.S.-funded reconstruction project sites throughout Iraq. SIGIR project assessment teams in Iraq use this information and analysis to evaluate reconstruction project sites that are inaccessible because of the security situation or are located in remote locations. The information provided is also used to verify project locations and obtain follow-up information on previously inspected reconstruction sites. This provides SIGIR personnel with a visual basis to evaluate reconstruction progress and determine if projects are being built according to contract specifications. The Satellite Imagery Group also assists other SIGIR directorates by providing imagery products as needed.

NATIONAL GEOSPATIAL-INTELLIGENCE AGENCY SUPPORT

SIGIR has continued to work with other government agencies to provide more in-depth analysis and evaluation of project sites. To date, this continuing relationship has resulted in analysis of 96 project sites and 6 road segments. In the fourth quarter of 2006, the National Geospatial-Intelligence Agency (NGA) completed analyses of 20 project sites for SIGIR. NGA's continued assistance provides an invaluable resource to SIGIR inspectors. These are some of NGA's findings provided to SIGIR for the quarter:

- 18 sites appeared to be completed.
- 1 site appeared to be under construction.
- 1 border fort appeared to be a duplicate because of provided geo-coordinates.

The partnership of SIGIR and NGA combines resources to meet mission requirements. NGA's assistance and knowledge base increases the number and depth of analysis of projects that can be reviewed and allows SIGIR to provide a more accurate picture of Iraq's reconstruction progress. Aerial Image 1 is an example of imagery provided by NGA this quarter.

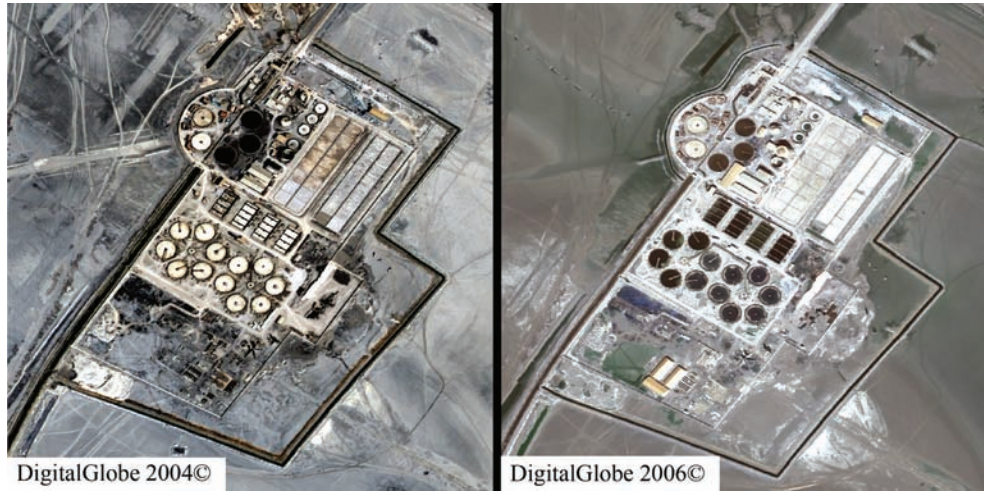
SIGIR IMAGERY

This quarter, SIGIR imagery analysts created 26 imagery products using commercial satellite imagery and limited available contract information. This imagery provided visual assessments of progress at reconstruction site locations throughout Iraq. SIGIR shares the



Aerial Image 1. Border post located in northwest Iraq along the Syria-Iraq border.

DigitalGlobe 2006©



DigitalGlobe 2004©

DigitalGlobe 2006©

Aerial Image 2. Time-phase overview of a water treatment facility in the Al Muthanna region. Imagery on the left shows the construction of support buildings on October 3, 2004. Imagery on the right shows the completed water treatment facility on February 25, 2006.



Aerial Image 3. Overview of the Al Hamden electrical substation, which SIGIR personnel visited this quarter.

DigitalGlobe 2006©

imagery products with government contracting agencies to update their project information and to identify any obvious deficiencies. SIGIR assessed and reviewed the following during the reporting period:

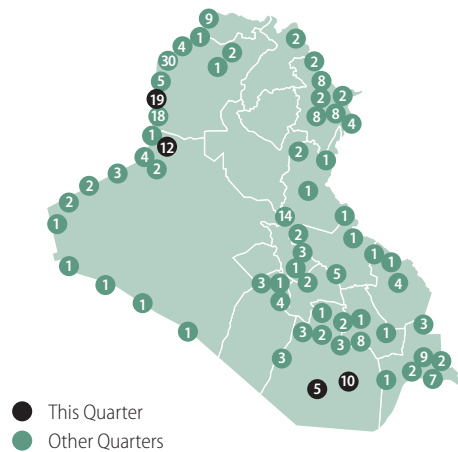
- 11 border posts
- 10 electrical substations
- 5 water treatment facilities

Aerial Images 2 and 3 are examples of imagery created by SIGIR this quarter.

The SIGIR Satellite Imagery Group has also provided imagery to support SIGIR audits and investigations during previous quarters, in addition to its standard role of supporting SIGIR inspections. Imagery support products—including site overviews, project site breakouts, and site assessments—are used to prepare for site visits and to identify possible problems.

In partnership with NGA during the past four quarters, SIGIR imagery analysis has resulted in 266 cumulative satellite imagery assessments and products. Figure 3-2 shows the approximate locations of this joint effort.

Figure 3-2
AERIAL IMAGERY ASSESSMENTS



SIGIR INVESTIGATIONS

SIGIR fields the largest number of fraud investigators in Iraq. This quarter, SIGIR continued to work closely with the Major Procurement Fraud Unit (MPFU) of the U.S. Army Criminal Investigation Command (CID). Also, SIGIR welcomed the arrival of two criminal investigators from the DoD OIG Defense Criminal Investigative Service (DCIS) to Iraq. SIGIR has extended its investigative arm into Kuwait, joining two investigators from DCIS and four from Army CID MPFU.

Currently, SIGIR investigators are working on 78 cases. Thus far, their work has resulted in 5 arrests and 4 convictions, and another 23 cases await prosecution at the Department of Justice (DoJ).

During this quarter, SIGIR and five other agencies established the International Contract Corruption Task Force (ICCTF):

- MPFU, U.S. Army CID
- DoS OIG Criminal Investigations Directorate
- USAID OIG
- DCIS
- Federal Bureau of Investigation (FBI)

The task force identified 36 cases; SIGIR contributed 9 cases to this effort. SIGIR is still working on 37 cases for presentation to the task force. This quarter, SIGIR investigations opened 27 cases and closed 43 of the preliminary and open cases. There are currently 78 open investigations.

SIGIR is also a member of several subcommittees of the DoJ National Procurement Fraud Task Force, most notably the Interna-

tional Working Committee (IWC). The IWC serves as a valuable link between federal law enforcement agencies and DoJ, as well as a vehicle to discuss issues concerning additional funding for corruption/fraud investigations, prosecutorial venue, extra-territorial jurisdiction, liaison with DoS and foreign governments, and coordination with legal attachés, agencies with deployed investigators, and auditors.

SIGIR continues to work with MPFU on suspensions and debarments of individuals and companies. SIGIR investigators also work closely with the DoJ Commercial Litigation Section, Civil Division, pursuing civil remedies against individuals and companies, and in many cases proceeding with side criminal investigations.

SIGIR-issued Subpoenas

This quarter, SIGIR investigators have issued four Inspector General (IG) Subpoenas. The legal authority for issuing these subpoenas is the Inspector General Act of 1978, as amended. The act empowers IGs to conduct and supervise audits and investigations relating to agency programs and operations.

International Contract Corruption Task Force/ Joint Operations Center

On October 2, 2006, a Joint Operations Center (JOC) was established at SIGIR headquarters in Arlington, Virginia, to gather intelligence and disseminate information on corruption and fraud investigations. On November 20,

2006, the ICCTF was created as a force multiplier for all federal agencies engaged in investigating complex matters in combat and austere international environments.

The ICCTF-JOC will coordinate the process of gathering intelligence, and sharing intelligence and appropriate case information. It will also provide analytical and target linkage data response reporting for use by all partner agencies. When fully functioning, the JOC will allow case agents in the United States to work together with special agents and prosecutors outside the United States, reducing travel time and expense, eliminating case overlap, and providing valuable analytical case support. The ICCTF will also find prosecutorial jurisdiction to determine suitable venue.

Initially designed for the smooth transition of investigations when SIGIR was to have terminated, the ICCTF-JOC will now continue SIGIR's efforts, ensuring transparency with other law enforcement agencies through coordination and partnerships on all SIGIR cases—an unprecedented sharing within the federal law enforcement community.

To accomplish its mission more efficiently and cost-effectively, SIGIR leverages the resources of other law enforcement agencies and the 20 SIGIR Investigations personnel in Kuwait and Iraq. This quarter, the startup of this initiative generated momentum and set up a steady flow of federal law enforcement action during the next several quarters.

As part of the ICCTF-JOC, the FBI has assigned eight significant SIGIR criminal investigations to FBI field offices throughout

the country. In addition, as part of a unique federal law enforcement agreement, the FBI will run investigative leads for SIGIR at the preliminary stages of investigations even before acceptance by the task force. The use of resources with FBI field offices throughout the country and legal attachés around the world will add immeasurable value to criminal investigations originating in Iraq and Kuwait. SIGIR has also received a further personal commitment from FBI senior leadership regarding continued support for SIGIR and ICCTF.

Suspensions and Debarments

Since December 2005, SIGIR has worked closely with DoJ, CID, DCIS, and the Army Legal Service Agency's Procurement Fraud Branch to suspend and debar contractors in cases of fraud or corruption within the Army, including those involving Iraq reconstruction or Army support contracts in Iraq. These cases arise both from criminal indictments filed in federal district courts and allegations of contractor irresponsibility requiring fact-based examination by the Army's Suspension and Debarment Official.

In June 2003, DoD designated the Army as the Executive Agent for contracting support to the CPA; therefore, the Army's Suspension and Debarment Program is at the forefront of ensuring the integrity of contractors performing these contracts. The goal of this program is to ensure that these contracts are awarded to, and performed by, contractors who are honest, ethical, and have the ability to successfully perform this important work. The Procurement

Fraud Branch has also taken a leading role within the Army and at joint contracting organizations to provide training to contracting officers assigned to oversee Iraq reconstruction and support contracts to aid in the prevention and early detection of contractor fraud.

To date, the Procurement Fraud Branch has suspended 14 individuals and companies based on allegations of fraud and misconduct connected to Iraqi reconstruction and Army support contracts. Included in this list are five individuals involved in the Bloom/Stein conspiracy⁴⁹² and Mr. Faheem Salam.⁴⁹³ In addition, 12 other individuals and companies have been proposed to the Army Suspension and Debarment Official for debarment, resulting in 8 debarments. For more information on suspensions and debarments, see Appendix M.

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 American taxpayer. The SIGIR Hotline receives walk-in, telephone, mail, fax, and online contacts from people in Iraq, the United States, and throughout the world. Cases received by the SIGIR Hotline that are not related to SIGIR's mission or to the programs and operations of the former CPA are transferred to the appropriate entity.

Fourth Quarter Reporting

As of December 31, 2006, the SIGIR Hotline had initiated 542 hotline cases with 43 currently open. A summary of these cases is provided in Table 3-4.

New Cases

During this reporting period, the SIGIR Hotline received 19 new complaints. The new complaints were classified in these categories:

- 11 involved fraud
- 3 involved mismanagement
- 5 involved miscellaneous/personnel issues

The SIGIR Hotline receives most reports of perceived instances of fraud, waste, abuse, mismanagement, and reprisal by electronic mail. SIGIR's 19 new hotline complaints were received in these ways:

- 17 by electronic mail
- 1 by SIGIR Hotline phone call
- 1 by conventional mail

SUMMARY OF SIGIR HOTLINE CASES

OPEN CASES

Investigations	38
Audit	5
Total	43

CLOSED CASES	1ST QTR 2006	2ND QTR 2006	3RD QTR 2006	4TH QTR 2006	CUMULATIVE*
FOIA	0	0	0	0	4
OSC Review	0	0	0	0	2
Assists	0	0	0	1	44
Dismissed	2	6	4	12	94
Referred	13	13	10	5	201
Inspections	0	1	0	0	79
Investigations	1	5	4	11	66
Audit	0	0	4	2	9
Total Closed	16	25	22	31	499
Cumulative* Open & Closed					542

*Cumulative totals cover the period since the SIGIR Hotline began operations—from March 24, 2004, to December 31, 2006.

TABLE 3-4

Closed Cases

During this quarter, 31 hotline cases were closed:

- 5 were referred to other inspector general agencies.
- 12 were dismissed for lack of sufficient information.
- 11 complaints were closed based on information received from SIGIR investigations.
- 2 complaints were closed based on information received from SIGIR audits.
- 1 complaint was closed based on assistance provided by SIGIR public affairs.

Referred Complaints

After a thorough review, five complaints were referred to outside agencies for proper resolution:

- 2 were sent to the OIG, U.S. Army.
- 1 was sent to the OIG, U.S. Air Force.
- 1 was sent to the OIG, Multi-National Forces-Iraq.
- 1 was sent to the Joint Contracting Command-Iraq/Afghanistan.



SIGIR LESSONS LEARNED INITIATIVE

SIGIR's Lessons Learned Initiative focuses on three areas of the U.S. relief and reconstruction program in Iraq:

- human capital management
- contracting and procurement
- program and project management

Through expert forums and research, this initiative has been identifying significant challenges facing the U.S. reconstruction mission in Iraq. SIGIR's goal is to develop actionable recommendations for enhancing ongoing efforts in Iraq and to inform future U.S. reconstruction and stabilization operations.

Human Capital Report

In February 2006, SIGIR released *Iraq Reconstruction: Lessons in Human Capital Management*. The report is the product of SIGIR audits, other research, and a Lessons Learned forum held in September 2005 at Johns Hopkins University's Washington, D.C. campus. The document identifies and discusses four key components of effective human resource management:

- policy alignment
- workforce planning
- recruitment
- continuity

The full report is available at the SIGIR website: www.sigir.mil.

Contracting and Procurement Report

In December 2005, SIGIR hosted two Lessons Learned forums to evaluate the procurement and contracting processes associated with Iraq reconstruction. The first panel—held at the George Washington School of Law in Washington, D.C.—gathered senior officials from key U.S. government agencies and distinguished members of the academic and independent research communities. SIGIR hosted a second panel of executives from a broad spectrum of industry service providers supporting the reconstruction mission in Iraq; this meeting was held at the Professional Services Council in Arlington, Virginia.

The SIGIR report, *Iraq Reconstruction: Lessons in Contracting and Procurement*, examines the establishment and evolution of the contracting process to identify challenges in planning, systems, policies, and procedures.

The full report is available at the SIGIR website: www.sigir.mil.

Program and Project Management Report

The third Lessons Learned report focuses on program and project management during the U.S.-led reconstruction mission, capturing the evolution of the key agencies tasked to oversee the effort. The final report, *Iraq Reconstruction: Lessons in Program and Project Management*, is expected to be released in March 2007.

Capping Report: *The Story of Iraq Reconstruction*

In keeping with SIGIR's mandate from Congress—to provide recommendations that promote economy, efficiency, and effectiveness in the administration of the reconstruction program in Iraq—SIGIR is producing a cumulative account of these efforts, *The Story of Iraq Reconstruction*. This capping report draws together SIGIR's Quarterly Reports to Congress, audits, inspections, investigations, interviews with key decision-makers, and SIGIR's three reports on the lessons learned from Iraq reconstruction.

The United States, Iraq, and the international community have committed more than

\$103 billion to Iraq reconstruction; more than \$38 billion comes directly from bills passed by Congress. *The Story of Iraq Reconstruction* will provide a narrative history of the planning and execution of this reconstruction, with a primary focus on the roles of the Office of Reconstruction and Humanitarian Assistance, CPA, USAID, DoD, and DoS. The report will begin with preparations for reconstruction in 2002, follow progress through 2006, and conclude with recommendations on how reconstruction efforts can be better carried out in the future. SIGIR will publish *The Story of Iraq Reconstruction* at the end of 2007.

LEGISLATION

Public Law 108-106, as amended, requires SIGIR to submit semiannual reports that meet the requirements of Section 5 of the Inspector General Act of 1978, as amended. Appendices A and B provide cross-references of this Report with the Section 5 requirements.

In addition, Section 4(a)(2) of the Inspector General Act of 1978, as amended, which was applied to SIGIR by P.L. 108-106, as amended, requires SIGIR to:

review existing and proposed legislation and regulations relating to programs and operations of such establishment 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.

Legislative Update

On December 20, 2006, President Bush signed into law the Iraq Reconstruction Accountability Act of 2006 (P.L. 109-440). This legislation modified SIGIR's termination date—repealing the October 1, 2007 date and returning the termination formula of 10 months after 80% “of the funds appropriated or otherwise made available to IRRF have been expended.” U.S. funds made available in FY 2006 for Iraq reconstruction are also included in this termination calculation, bringing the total to approximately \$33 billion. (See U.S. Appropriated Funding in Section 2 of this Report.)

This act provides:

Section 3001(o) of the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004 (Public Law 108-106; 117 Stat. 1238; 5 U.S.C. App., note to section 8G of Public Law 95-452), as amended by section 1054(b) of the John Warner National Defense Authorization Act for Fiscal Year 2007 (Public Law 109-364), is amended to read as follows:

(o) Termination- (1)(A) The Office of the Inspector General shall terminate 10 months after 80 percent of the funds appropriated or otherwise made available to the Iraq Relief and Reconstruction Fund have been expended.

(B) For purposes of calculating the termination of the Office of the Inspector General under this subsection, any United States funds appropriated or otherwise made available for fiscal year 2006 for the reconstruction of Iraq, irrespective of the designation of such funds, shall be deemed to be amounts appropriated or otherwise made available to the Iraq Relief and Reconstruction Fund.

(2) The Special Inspector General for Iraq Reconstruction shall, prior to the termination of the Office of the Special Inspector General under paragraph (1), prepare a final forensic audit report on all funds deemed to be amounts appropriated or otherwise made available to the Iraq Relief and Reconstruction Fund.



Other Agency Oversight

INTRODUCTION

OTHER AGENCY AUDITS

OTHER AGENCY INVESTIGATIONS

SECTION

4



INTRODUCTION

The Special Inspector General for Iraq Reconstruction (SIGIR) formed the Iraq Accountability Working Group (IAWG) to coordinate U.S. audit efforts in Iraq. The forward-deployed audit personnel of the various federal agencies with audit presence in Iraq use the IAWG to coordinate audits, share Iraq relief and reconstruction data, minimize audit disruption to clients, and avoid duplicative efforts.

SIGIR also formed the Iraq Inspectors General Council (IIGC)⁴⁹⁴ in March 2004 to provide a forum for discussion of oversight in Iraq and to enhance collaboration and cooperation among the IGs of the agencies that oversee Iraq reconstruction funds. Representatives of member organizations meet quarterly to exchange details about current and planned audits, identify opportunities for collaboration, and minimize redundancies.

The most recent meeting was held on November 13, 2006, at the SIGIR office in Arlington, Virginia. The organizations in attendance included:

- Department of Defense Office of Inspector General (DoD OIG)
- Department of State Office of Inspector General (DoS OIG)
- Department of the Army Inspector General
- U.S. Army Audit Agency (USAAA)
- U.S. Agency for International Development Office of Inspector General (USAID OIG)
- Government Accountability Office (GAO)
- Defense Contract Audit Agency (DCAA)
- Project and Contracting Office (PCO)
- Defense Intelligence Agency Office of the Inspector General
- SIGIR

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 DoD OIG, DoS OIG, USAID OIG, GAO, and USAAA. See Appendix K for DCAA updates. The U.S. Department of the Treasury and the Department of Commerce did not complete or initiate any new audits this quarter.

OTHER AGENCY AUDITS

This section updates the audits that IIGC member agencies reported to SIGIR:

- For recently completed oversight report activity, see Table 4-1.
- For ongoing oversight report activity of other U.S. agencies during this reporting period, see Table 4-2.
- For more information on other agency audits, including audit summaries, see Appendix K.
- For a complete historical list of audits and reviews on Iraq reconstruction by all entities, see Appendix L.

RECENTLY COMPLETED OVERSIGHT REPORTS OF OTHER U.S. AGENCIES, AS OF 12/31/2006

#	AGENCY	REPORT NUMBER	REPORT DATE	REPORT TITLE
1	DoD	D-2007-030	12/8/2006	Management of the Iraq Security Forces Fund in Southwest Asia – Phase I
2	DoD	D-2007-010	11/2/2006	The Army Small Arms Program That Relates to Availability, Maintainability, and Reliability of the Small Arms To Support the Warfighter
3	DoD	D-2007-001	10/6/2006	Information Operations Activities in Southwest Asia
4	DoS	AUD/CG-07-02	12/18/2006	Agreed-Upon Procedures on Indirect Cost Rates Proposed by National Endowment for Democracy
5	DoS	AUD/CG-07-03	12/18/2006	Agreed-Upon Procedures on Indirect Cost Rates Proposed by International Republican Institute
6	DoS	AUD/CG-07-04	12/18/2006	Agreed-Upon Procedures on Indirect Cost Rates Proposed by The Center for International Private Enterprise, Inc.
7	DoS	AUD/CG-07-05	12/18/2006	Agreed-Upon Procedures on Indirect Cost Rates Proposed by National Democratic Institute for International Affairs
8	GAO	GAO-06-1085	9/29/2006	DoD Civilian Personnel: Greater Oversight and Quality Assurance Needed To Ensure Force Health Protection and Surveillance for Those Deployed
9	GAO	GAO-07-40	10/6/2006	Rebuilding Iraq: Status of Competition for Iraq Reconstruction Contracts
10	GAO	GAO-07-76	11/13/2006	Global War on Terrorism: Fiscal Year 2006 Obligation Rates Are Within Funding Levels and Significant Multiyear Procurement Funds Will Likely Remain Available for Use in Fiscal Year 2007
11	GAO	GAO-07-30R	12/15/2006	Rebuilding Iraq: Status of DoD's Reconstruction Program
12	GAO	GAO-07-145	12/18/2006	Military Operations: High-Level DoD Action Needed To Address Long-standing Problems with Management and Oversight of Contractors Supporting Deployed Forces
13	USAAA	A-2007-0011-ALL	11/16/2006	Nontactical Vehicle Usage in the Iraq Area of Operations, Audit of Logistics Civil Augmentation Program Operations in Support of Operation Iraqi Freedom
14	USAAA	A-2007-0019-ALL	11/21/2006	Distribution Functions, Audit of Logistics Civil Augmentation Program Operations in Support of Operation Iraqi Freedom
15	USAID	E-267-07-001-D	11/05/2006	Audit of USAID's/Iraq's Civil Society Activities

TABLE 4-1

OTHER AGENCY OVERSIGHT

ONGOING OVERSIGHT ACTIVITIES OF OTHER U.S. AGENCIES, AS OF 12/31/2006

#	AGENCY	PROJECT NUMBER	DATE INITIATED	PROJECT DESCRIPTION
1	DoD	D2006-D000AB-0236.000	8/4/2006	Audit of U.S. Transportation Command (USTRANSCOM) Compliance with DoD Policy on the Use of Commercial Transport
2	DoD	D2006-D000LA-0092.000	11/17/2005	Audit of Equipment Status of Deployed Forces within U.S. Central Command
3	DoD	D2006-D000LQ-0240.000	8/4/2006	Audit of the Management of the Iraq Security Forces Fund-Phase II
4	DoD	D2006-D000LQ-0254.000	9/5/2006	Audit of Potable and Nonpotable Water in Iraq
5	DoD	D2006-D000LH-0246.000	8/30/2006	Audit of the Inspection Process of the Army RESET Program for Ground Vehicles for Units Returning from Operation Iraqi Freedom
6	DoD	D2006-D000AE-0225.000	7/21/2006	Audit of the Conditional Acceptance and Production of the Army Medium Tactical Vehicles in Support of the Global War on Terrorism
7	DoD	D2006-D000AE-0241.000	8/4/2006	Audit of the DoD Use of GWOT Supplemental Funding Provided for Procurement and Research, Development, Test, and Evaluation
8	DoD	D2006-D000FL-0208.000	5/23/2006	Audit of Internal Controls over Out-of-Country Payments
9	DoD	D2006-D000CK-0210.000	5/15/2006	Audit of Procurement Policy for Armored Vehicles
10	DoD	D2005-D000FD-0300.000	9/15/2005	Antideficiency Act Investigation of the Operation and Maintenance Appropriation Account 2142020 and 2152020
11	DoD	D2006-D000CK-0273.000	9/26/2006	Audit Research on DoD Contracts Awarded to Parsons Corporation and Its Subsidiaries
12	DoD	D2007-D000LF-0032.000	11/30/2006	Audit of Supplemental Funds Used for Medical Support for the Global War on Terrorism
13	DoD	D2006-D000LA-0251.000	8/22/2006	Audit of Management of Prepositioned Munitions
14	DoD	D2007-D000LA-0054.000	11/9/2006	Audit of Procurement, Distribution, and Use of Body Armor in the Department of Defense
15	DoD	D2007-D000LC-0051.000	12/14/2006	Audit of Hiring Practices Used to Staff the Iraqi Provisional Authorities
16	DoD	D2007-DINT01-0092	12/15/2006	Evaluation of Department of Defense Intelligence Support to the Combatant Commands in Operation Enduring Freedom and Operation Iraqi Freedom
17	DoD	D2006-DIP0E3-0038.000	7/15/2006	Advisory Support to Iraqi Ministry of Defense (MoD) and Ministry of Interior (Moi) Offices of the Inspector General
18	DoD	D2006-DIP0E3-0256.000	8/23/2006	Interagency Iraqi Anticorruption & Principled Governance Initiative
19	DoS	D2005-DINTEL-0122	2/14/2005	Review of the United States Governments' Relationship with the Iraqi National Congress
20	DoS	Not Reported	April 2006	National Endowment for Democracy
21	DoS	Not Reported	Not Reported	INL Invoicing for the Jordan International Police Training Center
22	DoS	S-LMAQM-04-C-0030	December 2006	Review of DynCorp, Inc. Iraqi Police Training Program Support
23	DoS	Not Reported	September 2006	Accountability for Contractor-held Government Property and Equipment Supporting Department of State Programs and Operations in Iraq and Afghanistan
24	GAO	350895	August 2006	Solatia (Condolence) Payments in Iraq
25	GAO	320383	November 2005	Iraq Energy
26	GAO	350739	September 2005	Use of Contractors on the Battlefield
27	GAO	350770	November 2005	Securing Sensitive Sites Containing High Explosives

#	AGENCY	PROJECT NUMBER	DATE INITIATED	PROJECT DESCRIPTION
28	GAO	350790	February 2006	Iraqi Support Capabilities
29	GAO	350794	February 2006	Improving Joint Force Protection Capability for Deployed Ground Forces
30	GAO	320411	March 2006	Accountability for Equipment Provided to Iraqi Forces
31	GAO	350853	April 2006	Army and Marine Corps Readiness
32	GAO	320424	July 2006	Iraq Ministry Capacity
33	GAO	350911	August 2006	U.S. Military Bases in Iraq
34	GAO	320388	October 2005	Afghan Counter-narcotics
35	GAO	120596	November 2006	Restore Iraqi Oil Settlement
36	GAO	350947	November 2006	FY 2007 Global War on Terrorism Costs
37	GAO	350921	September 2006	Army's Prepositioning Program
38	GAO	350948	December 2006	Factors Affecting U.S. Support for the Iraqi Security Forces
39	GAO	320437	August 2006	Insurgents, Militias, and Other Armed Groups in Iraq
40	GAO	320461	October 2006	Efforts to Stabilize Iraq and Achieve Conditions to Allow the Drawdown of U.S. Troops
41	GAO	350932	November 2006	Improvised Explosive Devices
42	GAO	832042	November 2006	Follow-up on GAO Recommendations for U.S. Assistance to Afghanistan and Development of a Strategic Approach for Future Afghan Engagements
43	USAAA	A-2005-ALS-0340, A-2006-ALL-0264 and A-2007-ALL-0212	1/3/2005	Audit of Logistics Civil Augmentation Program (LOGCAP)
44	USAAA	A-2006-ALL-0397	6/26/2006	Retrograde Operations in Southwest Asia
45	USAAA	A-2006-ALL-0535	5/19/2006	Procedures for Managing Overage Repairable Items Lists in the HMMWV Refurbishment Program
46	USAAA	A-2007-ALL-0329	Not Reported	Audit of U.S. Army Contracting Command Southwest Asia-Kuwait
47	USAAA	A-2007-ALL-0081	Not Reported	Management of Shipping Containers in Southwest Asia
48	USAID	Not Reported	Not Reported	Audit of USAID/Iraq's Agriculture Reconstruction and Development Program
49	USAID	Not Reported	Not Reported	Audit of USAID/Iraq's Education Activities
50	USAID	Not Reported	Not Reported	Audit of USAID/Iraq's Telecommunication Activities
51	USAID	Not Reported	Not Reported	Audit of USAID/Iraq's Planning and Reporting Process of Its Activities
52	USAID	Not Reported	Not Reported	Audit of Office of Foreign Disaster Assistance Program in Iraq

TABLE 4-2

OTHER AGENCY INVESTIGATIONS

SIGIR regularly coordinates with other government agencies conducting investigations in Iraq. For statistics of investigative

activities from other agencies, see Table 4-3. For more information on these investigations, see Appendix K.

STATUS OF INVESTIGATIVE ACTIVITIES FROM OTHER U.S. AGENCIES, AS OF 12/31/2006

AGENCY	INVESTIGATORS IN IRAQ	INVESTIGATORS IN KUWAIT	OPENED/ONGOING CASES
DCIS	2	2	2
DoS/OIG	0	0	1
FBI	0	0	12
USAID	1	0	12
CID/MPFU	5	4	57
Total	8	6	84

TABLE 4-3

ENDNOTES

1. \$18.439 billion represents the amount appropriated by Congress for Iraq programs in IRRF 2 under P.L. 108-106, enacted in November 2003. Congress had initially appropriated \$18.649 billion to IRRF 2, but also earmarked that \$210 million be transferred to other accounts for programs in Jordan, Liberia, and Sudan. Of the remaining \$18.439 billion, the Administration transferred out of the IRRF to other accounts roughly \$562 million for Iraq-related programs that could be implemented only in other accounts, such as a \$352 million Iraq bilateral debt forgiveness program to the United States that required funding in a Treasury account. Congress was notified of all transfers out of the IRRF. In addition, in FY 2006 appropriations, Congress earmarked that \$9.95 million be transferred into the IRRF from the DoS Economic Support Fund account.
2. These figures do not add up to 100% because of rounding and administrative costs.
3. UN Assistance Mission for Iraq, www.uniraq.org, January 16, 2007.
4. UNHCR, Supplementary Appeal Iraq Situation response, January 2007, p. 3; UN Assistance Mission for Iraq, *Human Rights Report*, September 1-October 31, 2006, pp. 15-17; UNHCR, *Update on the Iraq Situation*, November 2006, p. 1-2.
5. Committee To Protect Journalists, *Special Report 2006*, www.cpj.org, December 20, 2006.
6. PCO-I (Iraq) ceased operations on October 14, 2006 (in conjunction with the change of command), and PCO-W (Washington D.C.) will cease operations in May 2007. The succession orders were signed by Assistant Secretary of the Army (ALT) Bolton on October 13, 2006.
7. All IRRF 2 financial data in Section 2 is derived from the DoS *Iraq Weekly Status* report. At the time of publication, the financial data in these status reports was the most accurate and current information available on IRRF 2 funding.
8. GRD-PCO, response to SIGIR, January 18, 2007.
9. *Department of Defense Secretary of the Army Update*, December 31, 2006.
10. *IRMO Rollup*, Iraq Reconstruction Management System, December 30, 2006.
11. Multi-National Force-Iraq, Commander's Emergency Response Program (CERP) Senior Leader's Meeting, September 20, 2005, p. 8.
12. IRMO, response to SIGIR, January 17, 2007.
13. NEA, response to SIGIR, January 16, 2007.
14. NEA, response to SIGIR, January 16, 2007, and GRD-PCO, response to SIGIR, January 17, 2007, note that 4,500 MW represents the peak pre-war generation capacity and that published generation-capacity numbers have ranged from 4,200-4,500 MW. GRD-PCO reports U.S. projects as having added or restored 2096 MW to Iraq's generation capacity and state that the planned U.S. goal is 2555 MW.
15. IRMO, *Load Served October–December 2006*, December 2006.
16. GRD-PCO response to SIGIR, January 20, 2007, notes that the “Average daily load served is a better measure of how much power is produced for the national grid because it measures generation over a period of time rather than peak produced during the day. Average daily load served does not measure distribution or how much power reaches the consumer.”

17. IRMO, *Load Served October–December 2006*, December 2006.
18. GRD-PCO response to SIGIR, January 20, 2007, notes that hours of power outside Baghdad were 13.5 hours this quarter. GRD-PCO also indicates that pre-war national estimates average 13-15 hours of power per day.
19. IRMO electricity expert, response to SIGIR, December 21, 2006.
20. IRMO electricity expert, response to SIGIR, December 27, 2006.
21. GRD-PCO, response to SIGIR, January 20, 2007, reports that at the end of this quarter, \$144 million in unobligated IRRF 2 GRD funds remain. Of this amount, \$143 million is budgeted as a contingency for ongoing projects. The purpose is to cover the costs of in-scope contract modifications, claims and close-out costs. These funds are essential to ensure the completion of ongoing work and cover contractor closeout claims in the future. Without access to these funds, ongoing projects are at significant risk of incompleteness and cancellation.
22. GRD-PCO, response to SIGIR, January 20, 2007, reports that all projects are started except one transmission project and three small distribution projects that are scheduled to start in January 2007. There are 528 IFFR 2 active GRD projects and 298 (56%) have been completed. All but one project in this sector is expected to be complete by the end of 2007; completion of the remaining project is expected by April 2008.
23. GRD-PCO, response to SIGIR, January 20, 2007, notes that project start is defined as project awarded and the contractor beginning to design, procure equipment, subcontract and conduct, geotechnical surveys and other pre-mobilization work. Others define project start when the contractor has a continued presence at the project site. While more applicable to bricks-and-mortar type work, much of electricity work is done prior to site mobilization.
24. GRD-PCO, response to SIGIR, January 20, 2007, reports that it is managing approximately \$14.4 million of CERP FY 2006 funds allocated to the electrical commodity.
25. GRD-PCO, response to SIGIR, January 19, 2007, notes that a discrepancy may exist in total and completed projects because GRD-PCO and SIGIR have different definitions of “project start.”
26. GRD-PCO, response to SIGIR, January 4, 2007.
27. GRD-PCO, response to SIGIR, January 20, 2007, p. 7 and USACE-GRD, *Bi-Weekly Situation Report*, December 25, 2006, p. 6.
28. USACE-GRD, “Reconstruction Continues in Iraq,” October 2, 2005.
29. GRD-PCO, response to SIGIR, January 4, 2007.
30. GRD-PCO, response to SIGIR, January 20, 2007.
31. USACE-GRD, *Bi-Weekly Situation Report*, December 25, 2006, p. 9.
32. USACE-GRD, *Bi-Weekly Situation Report*, December 25, 2006, p. 9.
33. GRD-PCO, response to SIGIR, January 20, 2007, reports that the 6,000 MW goal is the current U.S. goal. With the remaining IRRF 2 work, non-IRRF funded work and GOI efforts, the forecast is to achieve or surpass 6,000 MW by the end of 2007.
34. Megawatt hour is the measure of electricity generation over time. For example, a generator with a capacity of one megawatt produces one megawatt hour when it runs consistently for one hour.

35. Weelock, Tom and McGuckin, Robyn, “Iraqi Power Sector: CPAs Legacy and Lessons,” Middle East Economic Survey, Volume 47, Number 29, July 18, 2005.
36. DoS, *Iraq Weekly Status*, January 4, 2007, p. 13.
37. Al-Khalisi, Isam, “Iraq’s Electricity Ten-Year Plan—Is it Credible?” November 6, 2006, Middle East Economic Survey, Volume 49, Number 45, p. 1.
38. DoS, *Section 2207 Report*, December 2006, electricity sector, p. I 56.
39. NEA response to SIGIR data call, January 16, 2007.
40. SIGIR, *Quarterly Report to the United States Congress*, October 30, 2006, p. 25.
41. GRD, *Bi-Weekly Situation Report*, November 13, 2006, p. 8.
42. DoS, *Section 2207 Report*, December 2006, electricity sector, p. I 54.
43. GRD-PCO, response to SIGIR, January 20, 2007.
44. IRMO electricity expert, response to SIGIR, December 27, 2006.
45. IRMO electricity expert, response to SIGIR, December 27, 2006.
46. Weelock, Tom and McGuckin, Robyn, “Iraqi Power Sector: CPAs Legacy and Lessons,” Middle East Economic Survey, Volume 47, Number 29, July 18, 2005.
47. IRMO electricity expert, response to SIGIR, December 21, 2006.
48. USAID electricity expert, response to SIGIR, December 31, 2006.
49. USAID electricity expert, response to SIGIR, December 31, 2006.
50. GRD-PCO, response to SIGIR, January 20, 2007.
51. GRD-PCO, “FY 2007: Reconstruction Way Ahead,” July 15, 2006, slide 8.
52. USACE-GRD, *Bi-Weekly Situation Report*, December 25, 2006, p. 6.
53. IRMO, *Weekly Status Report*, Electricity Demand vs. Capacity, December 14–26, 2006.
54. NEA, response to SIGIR, January 16, 2007.
55. IRMO, response to SIGIR, “MW Additions Through 2007 (New/Repairs/Mods),” December 11, 2006.
56. DoE, “Iraq Country Analysis Brief,” December 2005. Available online at <http://www.eia.doe.gov/emeu/cabs/Iraq/Electricity.html>.
57. IRMO electricity expert, response to SIGIR, December 27, 2006.
58. USAID electricity expert, response to SIGIR, December 31, 2006.
59. USAID electricity expert, response to SIGIR, December 31, 2006.
60. IRMO electricity expert, response to SIGIR, December 27, 2006.
61. DoS, *Iraq Weekly Status*, January 4, 2007, p. 13.
62. IRMO compiles Station Performance statistics in spreadsheet format. This figure is the average of the daily fuel shortage amounts reported in the Station Performance spreadsheet.
63. GAO, 06-1094T, “Stabilizing Iraq: An Assessment of the Security Situation,” September 11, 2006.
64. IRMO electricity expert, response to SIGIR, December 27, 2006.

65. DoS oil expert, SIGIR interview, December 14, 2006.
66. DoS electricity expert, SIGIR interview, December 27, 2006.
67. DoS, *Iraq Weekly Status*, December 20, 2006.
68. IRMO, response to SIGIR, January 19, 2007.
69. USEIA, response to SIGIR: "...reporting 2.17 million BPD overstates the amount of Iraqi oil available to world oil markets and for Iraqi oil revenues." EIA states that adding a net (or re-injection) number would be a better way of reporting production and estimating the potential for oil revenues. EIA uses net production estimates for its reporting of Iraqi production.
70. DoS, *2007 Budget Summary*, December 24, 2006, p. 5.
71. IRMO oil expert, response to SIGIR, January 2, 2007.
72. GRD-PCO, response to SIGIR, December 29, 2006. The last construction projects are Qarmat Ali pressure maintenance in Basrah. GRD-PCO oil sector has proposed converting the last five cluster pump stations to Engineering and Procurement, with final installation of pumps by the South Oil Company. If approved, the last construction project is estimated to finish in May 2007, otherwise July 2007.
73. On October 11, 2006, GRD-PCO commented on project assessments by region: "When the projects were set up, PIJV had a northern office in Kirkuk and a southern office in Basrah. In general, the Kirkuk office handled PIJV's northern Projects (NP), and the Basrah office handled southern projects (SP). Where the project was located was secondary to which office handled it. Some projects in the Basrah area were handled by the Kirkuk office."
74. USACE-GRD, *Bi-Weekly Situation Report*, November 13, 2006, p. 11.
75. GRD-PCO, response to SIGIR, January 6, 2007, p. 9.
76. GRD-PCO, response to SIGIR, December 29, 2006.
77. IMF, *Country Report No. 06/301*, August 2006.
78. IRMO oil expert, response to SIGIR, January 19, 2007. IRMO notes that the IMF confirmed to IRMO that it was not concerned about the immediate replacement of the export metering at ABOT for the Stand-By Arrangement. The IMF focus under the SBA is on the metering system in the production and transportation areas.
79. GAO, "Securing, Stabilizing, and Rebuilding Iraq: Key Issues for Congressional Oversight," January 2007, p. 69.
80. IMF, *Country Report No. 06/301*, August 2006.
81. GRD-PCO, response to SIGIR, January 6, 2007, p. 9. IRMO notes that it is unclear whether this project will be completed because of de-obligation requirements to cover contractor liability costs.
82. IRMO, response to SIGIR, January 19, 2007.
83. GRD-PCO, response to SIGIR, January 6, 2007, p. 10.
84. GRD-PCO, response to SIGIR, January 6, 2007, p. 10.
85. USACE-GRD, *Bi-Weekly Situation Report*, November 13, 2006, p. 11.

86. Al-Khayat, Faleh, "Iraqi 'missing barrels' increase to 140,000 b/d in third quarter; Production from the south of Iraq rockets, but analysts believe the increase cannot be justified," *Platts Oilgram News*, November 6, 2006, Volume 84, Number 213, p. 2.
87. GRD-PCO expert, SIGIR interview, November 30, 2006.
88. GRD-PCO, response to SIGIR, January 6, 2007, p. 10.
89. USACE-GRD, *Bi-Weekly Situation Report*, November 13, 2006, p. 11.
90. IRMO, Action Memorandum, "Recommended Solutions to Relieve the Ministry of Oil from Hampering Budgetary, Spending, and Procurement Constraints," July 29, 2006, p. 3.
91. DoS, *2007 Budget Summary*, December 24, 2006, p. 3.
92. Assumes a price of \$50 per barrel of crude oil. Source: DoS, *2007 Budget Summary*, December 24, 2006.
93. DoS, *Section 2207 Report*, Oil Infrastructure, October 2006, p. I-66.
94. SIGIR, Audit 06-038, "Unclassified Summary of SIGIR's Review of Efforts To Increase Iraq's Capability To Protect Its Energy Infrastructure," September 27, 2006, p. 1.
95. IRMO, response to SIGIR, January 19, 2007.
96. DoS, *Section 2207 Report*, December 2006, p. 166.
97. IRMO, *Weekly Status Report*, November 28, 2006.
98. DoS oil expert, SIGIR interview, December 14, 2006.
99. IRMO, Senior Consultants Meeting, response to SIGIR, November 28, 2006.
100. DoS oil expert, SIGIR interview, December 14, 2006.
101. IRMO, response to SIGIR, January 19, 2007.
102. IRMO, *Weekly Status Report*, November 14, 2006, p. 6.
103. GRD-PCO, response to SIGIR, November 30, 2006.
104. DoS oil expert, response to SIGIR, January 9, 2007.
105. IRMO, *Weekly Status Report*, November 28, 2006, p. 6.
106. *Platts Oilgram News*, Volume 84, Number 194, October 10, 2006.
107. DoS oil expert, SIGIR Interview, January 11, 2007.
108. *Platts Oilgram News*, Volume 84, Number 194, October 10, 2006.
109. DoS oil expert, SIGIR interview, December 14, 2006.
110. *Iraqi 2005 and 2006 Budget*, November 2006.
111. DoS oil expert, SIGIR interview, December 14, 2006.
112. DoS oil expert, SIGIR interview, December 14, 2006.
113. GAO, "Securing, Stabilizing, and Rebuilding Iraq: Key Issues for Congressional Oversight," January 18, 2007, p. 69.
114. IRMO oil expert, response to SIGIR, January 2, 2007.

ENDNOTES

115. DoS oil expert, SIGIR interview, December 14, 2006.
116. DoS oil expert, SIGIR interview, December 14, 2006.
117. GAO, "Securing, Stabilizing, and Rebuilding Iraq: Key Issues for Congressional Oversight," January 18, 2007, p.11.
118. DoS oil expert, SIGIR interview, December 14, 2006.
119. DoS oil expert, SIGIR interview, December 14, 2006.
120. DoS oil expert, SIGIR interview, December 14, 2006.
121. GAO, "Securing, Stabilizing, and Rebuilding Iraq: Key Issues for Congressional Oversight," January 18, 2007, p. 55.
122. DoS NEA expert, SIGIR interview, December 20, 2006.
123. DoS NEA expert, SIGIR interview, December 20, 2006.
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329. DoD, “Measuring Stability and Security in Iraq,” December 18, 2006, p. 32.
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408. GRD-PCO, response to SIGIR, January 17, 2007.
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410. GRD-PCO, response to SIGIR, January 4, 2007.
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481. Bechtel National, Inc., a Bechtel Corporation business entity based in Frederick, Maryland, specializes in large, complex projects related to defense, energy, security, and the environment. Bechtel is a leading provider of services to the U.S. government.
482. The word *disposition* is broadly defined to cover various categories: transferred, lost, damaged, stolen, or destroyed (scrapped) property.

483. *Report on Material Existence Performed at Bechtel National, Inc. (BNI) on Iraq Infrastructure Reconstruction Phase I Contract No. EEE-C-00-03-00018-00 and Phase II Contract No. SPU-C-00-04-00001-00* (DCAA Report No. 2131-2005R10320003), September 11, 2005; *Report on Purchases Existence and Consumption—FY 2005 Bechtel National, Inc.—Iraq Infrastructure Reconstruction Contract USAID Prime Contract Nos. EEE-C-00-03-00018-00 and SPU-C-00-04-00001-00* (DCAA Report No. 4281-2005D10320002, Revised), September 23, 2005.
484. SIGIR-06-037, *Interim Audit Report on Improper Obligations Using the Iraq Relief and Reconstruction Fund (IRRF 2)*, September 22, 2006.
485. A design-build contract places the design and building phases of a project under the same contract.
486. This official is now the USACE CFO.
487. Of the \$389.2 million in expired funds, GRD controlled \$385.2 million, and other agencies controlled the balance of \$4 million.
488. The International Compact for Iraq is a joint GOI-UN effort launched in July 2006 to bring together the international community and multilateral organizations to spur political, economic, and social development in Iraq.
489. SIGIR report, PA-06-078.1 & 079.1, “Quick Reaction Report on the Baghdad Police College, Baghdad, Iraq,” September 27, 2006.
490. A cleanout is a soil (wastewater) pipe fitting and associated piping connected to a building sewer or lateral sewer line.
491. The Project and Contracting Office was transferred to the U.S. Army Corps of Engineers Gulf Region Division on December 4, 2005.
492. SIGIR uncovered this scheme to defraud the CPA of more than \$8.6 million. For complete details of this conspiracy, see the SIGIR October 2006 Report, Appendix J.
493. On August 4, 2006, Salam pled guilty to one count of a violation of the Foreign Corrupt Practices Act of 1997.
494. IIGC members: SIGIR (Chair), DoS IG (Co-Vice Chair), DoD IG (Co-Vice Chair), Army IG, USAID IG, Treasury IG, DoC IG, DCAA, USAAA, GAO (observer member), USACE Chief Audit Executive (observer member).

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ACRONYMS AND DEFINITIONS

This section contains all of the abbreviations and acronyms found in the SIGIR Quarterly Report to the Congress.

ACRONYMS	DEFINITIONS
ABOT	Al Basrah Oil Terminal
ACWG	Anti-corruption Working Group
AFCEE	Air Force Center for Engineering Excellence
ARABOSAI	Arab Organisation of Supreme Audit Institutions
ARDI	Agriculture Reconstruction and Development Program for Iraq
Bechtel	Bechtel National, Inc.
BIA	Basrah International Airport
BIAP	Baghdad International Airport
BPC	Baghdad Police College
BPD	Barrels Per Day
BSA	Board of Supreme Audit
CAG	Community Action Group
CAP	Community Action Program
CBI	Central Bank of Iraq
CBTC	Communications-Based Train Control
CCCI	Central Criminal Court of Iraq
CDP	Capacity Development Program
CERP	Commander's Emergency Response Program
CFN	Consolidated Fiber Network
CID	U.S. Army Criminal Investigation Division
CMC	Communications and Media Commission
Compact	International Compact for Iraq
COR	Contracting Officer Representative
Corporate Bank	Corporate Bank Financial Services
CPA	Coalition Provisional Authority
CPI	Commission on Public Integrity
CRRPD	Commission for Resolution of Real Property Disputes
CSRC	Civil Society Resource Center
CTC	Cost-to-complete
DAD	Donor Assistance Database
DBE	Department of Border Enforcement
DCAA	Defense Contract Audit Agency

ACRONYMS & DEFINITIONS

ACRONYMS	DEFINITIONS
DCIS	Defense Criminal Investigative Service
DCMA	Defense Contract Management Agency
DFI	Development Fund for Iraq
DFID	Department for International Development (United Kingdom)
DoD	Department of Defense
DoD OIG	Department of Defense Office of Inspector General
DoE	Department of Energy
DoJ	Department of Justice
DoS	Department of State
DoS OIG	Department of State Office of Inspector General
DynCorp	DynCorp International, LLC
EAC	Estimate at Completion
EC	European Commission
EG	Economic Governance (USAID)
EPC	Engineering, Procurement, and Construction
ESF	Economic Support Fund
FBI	Federal Bureau of Investigation
FMIS	Financial Management Information System
FOB	Forward Operating Base
FPS	Facilities Protection Service
FY	Fiscal Year
GAO	Government Accountability Office
GOI	Government of Iraq
GOSP	Gas-oil separation plant
GRC	Gulf Region Division Central District (USACE)
GRD	Gulf Region Division (USACE)
GRD-PCO	Gulf Region Division – Project and Contracting Office
GRS	Gulf Region Division South District (USACE)
GW	Gigawatt
IAER	Iraq Agriculture Extension Revitalization Project
IAMB	International Advisory and Monitoring Board
IAPG	Investment and Action Plan for Growth
IAWG	Iraq Accountability Working Group
ICBG	Iraq Company for Bank Guarantees
ICCTF	International Contract Corruption Task Force
ICRC	International Committee of the Red Cross
ICSP	Iraq Civil Society Program
IDB	Islamic Development Bank
IDP	Internally Displaced Persons
IG	Inspector General
IMF	International Monetary Fund
IMMDF	Iraq Middle Market Development Fund

ACRONYMS	DEFINITIONS
INL	Bureau of International Narcotics and Law Enforcement Affairs
IOM	International Organization for Migration
IPC	International Plumbing Code
IRC	International Red Crescent
IREX	International Research and Exchange Board
IRFFI	International Reconstruction Fund Facility for Iraq
IRI	International Republican Institute
IRMO	Iraq Reconstruction Management Office
IRRF	Iraq Relief and Reconstruction Fund
ISF	Iraqi Security Forces
ISFF	Iraq Security Forces Fund
ISRB	Iraqi Strategic Review Board
ITF	Iraq Trust Fund
ITP	Iraq-Turkey Pipeline
JASG- C	Joint Area Support Group-Central
JCC-I/A	Joint Contracting Command-Iraq/Afghanistan
JOC	Joint Operations Center
KRG	Kurdistan Regional Government
kV	Kilovolt
LOGCAP	Logistics Civilian Augmentation Program
LPG	Liquefied Petroleum Gas
MBPD	Million Barrels Per Day
MCT	Ministerial Coordination Team (also IRMO MCT)
MFI	Microfinance Institution
MNC-I	Multi-National Corps-Iraq
MNF-I	Multi-National Force-Iraq
MNSTC-I	Multi-National Security Transition Command-Iraq
MOU	Memorandum of Understanding
MPFU	Major Procurement Fraud Unit
MSCFD	Million Standard Cubic Feet Per Day
MW	Megawatt
MWh	Megawatt Hours
NCDP	National Capacity Development Program
NCR	Nonconformance Report
NCT	National Coordination Team
NDI	National Democratic Institute
NEA	Bureau of Near Eastern Affairs (DoS)
NGA	National Geospatial-Intelligence Agency
NGO	Non-governmental Organization
NRDP	National Reconciliation and Dialogue Project
NRRRF	Natural Resources Risk Remediation Fund
O&M	Operations and Maintenance

ACRONYMS & DEFINITIONS

ACRONYMS	DEFINITIONS
OIG	Office of Inspector General
OMS	Operations, Maintenance, and Sustainment
P.L.	Public Law
P.L. 108-106	National Defense Authorization Act for FY 2004
P.L. 109-234	FY 2006 Emergency Supplemental Appropriations
P.L. 109-440	Iraq Reconstruction Accountability Act of 2006
PAR	Project Assessment Report
Parsons	Parsons Delaware, Inc.
PCO	Project and Contracting Office
PDS	Public Distribution System
PHC	Primary Healthcare Center
PMP	Performance Monitoring Plan
PRDC	Provincial Reconstruction Development Committee
PRT	Provincial Reconstruction Team
PTT	Police Transition Team
QA	Quality Assurance
QAR	Quality Assurance Representative
QC	Quality Control
QM	Quality Management
RFP	Request for Proposal
RRT	Regional Reconstruction Team
SBA	Stand-By Arrangement (IMF)
SCADA	Supervisory Control and Data Acquisition
SIB	Strategic Infrastructure Battalion
SIGIR	Special Inspector General for Iraq Reconstruction
SIMI	Support for Independent Media in Iraq
SIRIS	SIGIR Iraq Reconstruction Information System
SOW	Statement of Work
SSN	Social Safety Net
TO	Task Order
TPD	Tons per Day
TRA	Transition Readiness Assessment
Treasury	U.S. Department of Treasury
UK	United Kingdom
UN	United Nations
UNAMI	United Nations Assistance Mission for Iraq
UNDG	United Nations Development Group
UNDG ITF	United Nations Development Group Iraq Trust Fund
UNDP	United Nations Development Program
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations International Children's Emergency Fund
USAAA	U.S. Army Audit Agency

ACRONYMS	DEFINITIONS
USACE	United States Army Corps of Engineers
USAID	United States Agency for International Development
USAID OIG	United States Agency for International Development Office of Inspector General
USDA	United States Department of Agriculture
USIP	United States Institute of Peace
WB	World Bank
WB ITF	World Bank Iraq Trust Fund
WBBN	Wireless Broadband Network
WSIS	Water Sector Institutional Strengthening Program
WSSP	Water Sector Sustainment Program
WTO	World Trade Organization

