Message from the Special Inspector General for Iraq Reconstruction

I am pleased to submit the seventh Quarterly Report from the Office of the Special Inspector General for Iraq Reconstruction. This Report contains the product of months of hard work by SIGIR personnel in Iraq and the United States, and it evidences substantial progress in the U.S. reconstruction program in Iraq.

In this Report, you will find ten final reports generated by SIGIR auditors, including the latest in a series of audits on the mismanagement of Development Fund for Iraq assets by the Coalition Provisional Authority, a money-saving review of the award-fee process for Iraq reconstruction contracts, and an in-depth examination of U.S. plans to ensure the sustainment of Iraq's infrastructure.

You will also find 12 detailed, eye-witness reports from reconstruction sites in Iraq. SIGIR inspectors have spent the last four months fanning out across Iraq, examining the quality of the projects being built with taxpayer dollars. They found that many of the projects demonstrate quality workmanship; in one instance, the inspectors suggested an engineering modification at an oil site that will result in millions of dollars in additional revenue for Iraq.

During this quarter, SIGIR investigators made extensive progress on a series of significant cases alleging fraud, bribery, and kickbacks involving U.S. citizens—both government and contractor—in Iraq. The Special Investigative Task Force on Iraq Reconstruction (SPITFIRE) has generated an enormous amount of evidence in support of these investigations. SPITFIRE includes, along with SIGIR investigators, participants from the Internal Revenue Service, Immigration and Customs Enforcement, and the Department of State Office of Inspector General. Recently, SIGIR transferred more than $2 million to the Department of Justice's Criminal Division to fund prosecution efforts; four prosecutors are now working full-time on SIGIR cases.
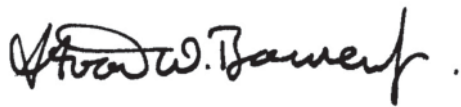
In the opening section of this Report, SIGIR draws attention to a critical concern that has emerged over the course of this year: the reconstruction gap. Nearly two years ago, the U.S. developed a reconstruction plan that specified a target number of projects that would be executed using the Iraq Relief and Reconstruction Fund. That target number was revised downward during last year's reprogrammings. Now it appears that the actual number of projects completed will be even lower. The reasons for the shortfall are many, security being the most salient. With the publication of this Report, SIGIR announces an audit to examine this issue.

SIGIR continues to coordinate oversight in Iraq through the Iraq Inspectors General Council, which includes every oversight entity operating in Iraq. As of September 30,

2005, IIGC members had completed 97 audits on Iraq reconstruction activities, with over 35 more ongoing. SIGIR's coordination of these collective efforts has obviated redundancies, while ensuring comprehensive coverage.

The Foreign Operations Appropriations Bill, which is now in conference, contains a provision that would extend the duration of SIGIR's oversight through approximately the end of FY 2007. Unless this provision is passed into law, SIGIR will cease operations in the summer of 2006—well before the U.S. reconstruction program in Iraq is complete. The Departments of State and Defense both support SIGIR's extension.

Submitted on October 30, 2005

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Special Inspector General for Iraq Reconstruction

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Key Themes

SIGIR focuses on these key themes in this Quarterly Report to Congress:

- Reconstruction Gap

- Sustainment

- Cost to Complete

- Integrated Information Systems

- Anticorruption

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Section 1

This section presents the Special Inspector General for Iraq Reconstruction's (SIGIR) views on the current state of the U.S. role in Iraq's reconstruction.

Section 1 covers these topics:

- SIGIR Observations
- Progress of Reconstruction

SIGIR Observations

SIGIR is encouraged by the progress that the U.S. Ambassador to Iraq and his reconstruction team continue to make across the reconstruction front. By exerting strategic control over reconstruction planning, the Ambassador and the Iraq Reconstruction Management Office (IRMO) have improved project and program management by better allocating roles and responsibilities and by improving overall program coordination.

In August 2005, during his ninth trip to Iraq, the Inspector General continued to promote progress on the critical issues currently confronting the reconstruction program: the reconstruction gap, sustainment, reliable cost-to-complete estimates, integrated information systems, direct contracting, coordinated program leadership, and anticorruption.

The Reconstruction Gap

On October 18, 2005, the Inspector General appeared before the House Government Reform Subcommittee on National Security, Emerging Threats, and International Relations. In his testimony, the Inspector General highlighted a growing area of concern—the *reconstruction gap*. SIGIR defines the reconstruction gap as the difference between the number of projects that the United States originally proposed to build in Iraq and the number of projects that the United States will ultimately complete. When the U.S.-led portion of Iraq's reconstruction concludes, many planned projects will remain on the drawing board for execution by other funding sources.

The reconstruction gap is the result of a number of factors:

- dramatically increased spending for security needs
- increased costs of materials, particularly in the oil sector
- increased costs arising from project delays
- cost overruns
- multiple reprogrammings of reconstruction priorities
- needed increases in spending for sustainment

The United States has appropriated nearly $30 billion for reconstruction projects in Iraq. Nearly all of the U.S. appropriated dollars—more than 93%—have already been committed to programs and projects. More than 25% of these funds have been spent on security costs related to the insurgency, which has proportionately reduced funds for other reconstruction projects.

With the issuance of this Quarterly Report, SIGIR announces an audit to determine the scope and effect of the reconstruction gap.

Sustainability

SIGIR continues to focus on the importance of ensuring that reconstruction projects are sustainable. Sustainability has two components:

- *operations and maintenance (O&M) sustainment:* ensuring that the infrastructure provided by the United States to Iraq includes capacity-building measures and resources to ensure successful management beyond completion of the projects
- *legacy sustainment:* ensuring that the Iraqi government develops a long-term strategic plan to manage and budget for the overall sustainment of its infrastructure

This Quarterly Report contains a summary of the recently completed SIGIR audit on the effectiveness of U.S. planning for sustaining completed projects in Iraq.

The SIGIR audit on sustainment was prompted by two concerns:

- reports that recently constructed facilities, including water treatment plants and electrical substations, were not being properly sustained
- reports that Iraqi plans for the long-term maintenance of the nation's infrastructure were inadequate

The audit identified a need for effective, high-level coordination of sustainability plans across all U.S. agencies operating in Iraq. IRMO promptly responded to SIGIR's concerns by appointing a special coordinator for sustainment, who will manage an office that will drive sustainment initiatives throughout the remainder of the reconstruction program. The new office is an important step; however, much remains to be done to achieve successful sustainment in Iraq.

SIGIR's audit estimates that the Iraqi government will need to allocate $650-750 million annually to operate and maintain current and planned projects funded by the Iraq Relief and Reconstruction Fund (IRRF)[1]. An additional 20-25% will be needed to cover the associated costs of security, salaries, and fuel. To help defray some of these sustainment costs, IRMO has identified $350 million in IRRF funds for sustainment.

Current Iraqi funding for existing infrastructure support remains a small fraction of the amount necessary for effective sustainment. IRMO senior consultants are beginning to press Iraqi ministers to address sustainment within the ministries' budget processes. And the Project and Contracting Office (PCO) and the U.S. Agency for International Development (USAID) have attempted to address the capacity-building problem by expending training for Iraqis on practical O&M techniques.

To enhance sustainability, SIGIR's audit on sustainment recommends that the Ambassador do the following:

1. Direct the new Sustainment Office to formulate and implement a plan with clear goals and objectives for the sustainment of IRRF projects.
2. Direct this office to work with the Director of IRMO and the Senior PCO Sector Leads to determine the capacity of the Iraq government to maintain the IRRF projects.
3. Direct the Sustainment Office to develop supportable cost estimates for sustaining Iraqi infrastructure for both the near-term and long-term and to develop a proposed funding plan that supports these estimates.
4. Direct this office to review the guidance that the Iraq government's leadership is receiving on sustainment, to determine the adequacy of such guidance, and to shore up any shortfalls.

Creating the new sustainment office is an important step toward developing an effective sustainment strategy for Iraq's infrastructure. SIGIR believes that the Ambassador must promptly delegate clear authority to the sustainment coordinator to act on his behalf, so that all participating agencies will respond to coordinative guidance on sustainment.

Cost-to-Complete Estimates

Since January 2005, SIGIR has raised concerns about the need for reliable cost-to-complete estimates. Public Law 108-106 (P.L. 108-106), which allocated $18.4 billion to the IRRF, required PCO, U.S. Army Corps of Engineers (USACE), and USAID to provide cost-to-complete data for the quarterly Department of State (DoS) *Section 2207 Report* to Congress. The *Section 2207 Report* is the chief source of information for Congress on the progress of the reconstruction program in Iraq.

The cost to complete a project is defined as the total projected cost of a project minus the total value of the work performed. Accurate cost-to-complete estimates are necessary for effective project management. The lack of cost-to-complete data can cause a project to exhaust its budget before completion and result in a reduction of the scope of a project's purpose. SIGIR believes that the reductions in scope that have occurred could have been avoided if accurate cost-to-complete data had been available.

DoS shared SIGIR's concerns about the lack of cost-to-complete data and deployed an interagency assessment team to Baghdad in March 2005 to address the issue. The assessment team's work resulted in an action plan to provide cost-to-complete data on all projects valued at more than $6.5 million, amounting to 151 projects. But this cost-to-complete action plan was not

effectively tracked. So in August 2005, a second assessment team traveled to Iraq to reenergize the effort. Subsequently, the first comprehensive cost-to-complete data became available on October 15, 2005.

Comprehensive cost-to-complete data will permit reconstruction program managers to improve the accuracy of project budgeting. Further, this cost-to-complete data will spotlight the likelihood of project-cost overruns. Because of the indispensable value of cost-to-complete information, SIGIR will continue to monitor efforts to gather and maintain it through an ongoing series of audits.

Of note, SIGIR's first cost-to-complete audit, which was reported in the SIGIR July 2005 Quarterly Report, focused on the failure of reconstruction information systems to generate reliable cost-to-complete data. SIGIR's second cost-to-complete audit is summarized in this Report. During the course of this new audit, SIGIR recommended that IRMO adopt a formal policy for securing comprehensive cost-to-complete information. IRMO has agreed to do so and has further responded to SIGIR concerns about the lack of cost-to-complete data by developing plans to coordinate its program-wide production.

Information Systems Management

SIGIR continues to be concerned about the lack of an effective reconstruction database in Iraq. That concern has prompted a series of audits on the reconstruction information systems used to track projects. This audit series, begun in April 2005, addresses the problems that have occurred because no single database exists that integrates all Iraq reconstruction project information. The problem surfaced in earnest in February 2005, when SIGIR sought a comprehensive report on all reconstruction data. The difficulties in obtaining this report led SIGIR to create the SIGIR Iraq Reconstruction Information System (SIRIS)—the first integrated project database for Iraq reconstruction.

SIGIR's efforts on SIRIS prompted IRMO and PCO to pursue an integrated database system, and IRMO recently directed the rapid development of an integrated system. SIGIR applauds this directive; the new system is being facilitated through the cooperation of the executing agencies and will be operational by December 2005. Moreover, SIGIR is encouraged by the USACE Gulf Regional Division Commander's insistence on data discipline as the new system develops. His emphasis indicates that significant improvement in reconstruction program reporting is in the offing.

SIGIR is separately auditing the use of $50 million allocated by Congress in P.L. 108-106 for information reporting on the IRRF. Another SIGIR audit is examining the quality of the data contained in reconstruction information systems. Finally, SIGIR plans to identify and review the policies and procedures in place for the collection and reporting of data from the information technology systems supporting the IRRF.

Direct Contracting

SIGIR continues to encourage fixed-price direct contracting instead of cost-plus contracts. The Inspector General's latest visit to Iraq revealed that IRMO, PCO, USACE, USAID, and the Multi-national Security Transition Command-Iraq (MNSTC-I) all are now emphasizing direct contracting. This appears to be yielding cost-efficient results, while simultaneously stimulating the Iraqi economy. A future SIGIR audit will examine this issue in greater detail.

The move toward fixed-price direct contracting is part of the transformation of the reconstruction program from a U.S.-led effort to an Iraqi-led effort with strong U.S. support. Current organizational structures must adjust to meet these new emphases, which should produce an increasing engagement by Iraqis in reconstruction at the local level. SIGIR believes that the Ambassador's strong support for the Provincial Reconstruction Development Committees (PRDCs) is tangible evidence of movement in this direction.

Turnover of Key Personnel

During this quarter, there have been major changes in personnel in most of the reconstruction agencies that manage Iraq reconstruction projects. Leadership changes are a regular feature of organizational life in Iraq, but all six of the key U.S. reconstruction organizations in Iraq experienced replacement of some or all of their senior leadership during this reporting period. SIGIR hopes that future personnel changes, particularly at the top levels, will be more effectively coordinated among agencies.

Such organizational discontinuities have plagued the U.S. role in Iraq's reconstruction since its inception. In September 2005, SIGIR examined this problem in the first SIGIR Lessons Learned Forum, which focused on human capital management in Iraq reconstruction. For a summary of the Forum's conclusions, see the Lessons Learned section in this Report.

Centralized Leadership

An insistent theme in the course of Iraq's reconstruction has been the need for centralized leadership exerting clear authority over the entire reconstruction program. The Ambassador has made a good start toward removing the institutional "stove-piping" that has plagued the reconstruction effort since its start, but much remains to be done.

In National Security Presidential Directive 36, the President granted the Ambassador clear authority to manage the entire reconstruction process. SIGIR urges the Ambassador to continue to assert the authority vested by this delegated power. To that end, in late October, the Inspector General wrote a letter clarifying the legal mandate of the Ambassador and IRMO to supervise multi-agency reconstruction efforts in Iraq.

Fighting Corruption in Iraq

Creating an effective anticorruption structure within Iraq's government is essential to the long-term success of Iraq's fledgling democracy. Corruption was endemic in the prior regime, and its legacy of corruption still burdens the country. For example, Iraq loses more than $2 billion annually in stolen gasoline and diesel fuel supplies.[2] Recently, several Iraqi ministers have spoken openly about the serious threat that corruption poses to their country's progress toward prosperity. Iraq's anticorruption agencies are attacking this corruption at all levels of government, as revealed by recent Commission on Public Integrity (CPI) announcements on the progress made in ongoing on corruption cases.

Because of Iraq's corruption problem, SIGIR believes that the U.S. effort to assist the Iraqi government to develop strong anticorruption institutions is immensely important. Thus, SIGIR strongly supports Iraq's anticorruption triumvirate: the CPI, the Board of Supreme Audit (BSA), and the Iraqi Inspector General System. SIGIR has urged the Ambassador to call a U.S.-Iraqi Anticorruption Summit to emphasize U.S. support for Iraqi efforts to fight corruption.

SIGIR is also encouraged to see that the DoS-led Anticorruption Working Group is operating again and moving toward developing a sustainable strategy to support Iraq in this area. The objectives of the working group are to:

- develop a comprehensive anticorruption strategy that enhances the Iraqi government's ability to combat corruption

- formulate an effective public education and outreach plan on anticorruption

- provide specific anticorruption policy recommendations to the Ambassador

- coordinate, focus, and prioritize anticorruption resources and assistance to the Iraqi government

Progress of Reconstruction

This section summarizes SIGIR's observations on the current Iraq reconstruction situation.

Current Environment

The United States has made steady progress in its part of Iraq's reconstruction, despite the hazardous security environment, the fluid political situation, and the harsh realities of working in a war zone. In light of these significant variables and limitations, the positive results achieved in the reconstruction program are impressive. As of October 14, 2005, 2,784 projects had been started, 1,887 had been completed, and 897 are ongoing.[3] Table 1-1 shows the sector-by-sector totals for Iraq reconstruction projects that are complete or ongoing.

Iraq Reconstruction, as of October 14, 2005			
Benchmark Facilities	Complete	Ongoing	Total
Security and Justice			
Border Posts	128	107	235
Points of Entry	6	4	10
Military Facilities	62	63	125
Police Facilities	228	130	358
Fire Facilities	58	31	89
Prisons & Courts	17	14	31
Miscellaneous Facilities	12	5	17
Electricity			
Generation	17	2	19
Transmission	13	6	19
Distribution	69	85	154
Monitoring and Control	4	5	9
Oil			
Water Injection Pump Stations	7	1	8
LPG/LNG Plant Refurb	0	0	0
Dedicated Power	3	1	4
Miscellaneous Facilities	4	20	24
Public Works and Water			
Water Treatment	144	78	222
Sewer Projects	26	8	34
Water Resource Projects	22	6	28
Miscellaneous Facilities	20	3	23

Iraq Reconstruction, as of October 14, 2005			
Benchmark Facilities	Complete	Ongoing	Total
Buildings, Health, and Education			
Schools	762	72	834
Primary Healthcare Centers	9	144	153
Hospitals	12	17	29
Public Buildings	60	6	66
Miscellaneous Facilities	16	1	17
Transportation and Communication			
Village Roads	68	38	106
Expressways	1	1	2
Bridges	5	2	7
Airports	5	7	12
Ports	2	3	5
Railroad Stations	66	30	96
Transportation Other	5	3	8
Postal Facilities	23	1	24
Communications	13	3	16
Total Program	**1,887**	**897**	**2,784**
Source: PCO Baseline Current Projects Report (IRRF, AIRP, DFI), October 14, 2005			
Data not formally reviewed or audited.			

Table 1-1

On the governance front, reports indicate that Iraq's citizens approved the country's historic constitution on October 15, 2005. On October 17, 2005, President Jalal Talabani issued a decree setting December 15, 2005, for Iraqis to vote to elect a new Parliament, which will be installed by December 31, 2005. These events bode well for the future of Iraq's new democracy. Further, they hold the promise of improvement in the reconstruction environment, which will enhance the chances of a more rapid transition in program management to the Iraqis.

There are inherent and obvious difficulties in managing massive reconstruction programs across a country the size of California that is beset by a deadly insurgency. The daily situation reports provided by USACE illustrate the dangers facing those involved in Iraq reconstruction:[4]

> *The project has been delayed owing to insurgent activity around the site. Although the contractor had been averaging 30 employees daily, recent reports indicate that work has slowed to a virtual halt. Meanwhile, a recent report of a kidnapped employee is being investigated by the company. An engineer who had been tipped off that he would be*

ambushed and either kidnapped or murdered as he left this location opted to remain instead as the matter was investigated. As a result, visits he had scheduled to other project sites were cancelled.

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Another of our convoys has been ambushed. As one vehicle had been disabled, its truck driver suffered a chest wound and had to be immediately medivaced to a hospital nearby. To minimize further risk, a security inspection team subsequently ordered the vehicle destroyed, with a second team being dispatched to confirm destruction of the truck's contents. That second team was immediately ambushed. By the time both teams left the area, three casualties had been sustained.

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Two workers were abducted while leaving an electrical substation, though two others escaped these abductors. Exactly one week later, the U.S. contractor reported that one of the victims had been released, even though the other subcontractor engineer is still being held.

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Terrorists called a carpenter on his mobile phone and made threats. The Resident Office asked the contractor to contact the carpenter and review caller ID for the terrorist's phone number. The contractor has stopped work. Days later, local militant forces occupied the x-ray room and engaged in a gun battle with Iraqi police next door. The other contractor has also stopped work.

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SIGIR personnel have faced the same kinds of danger referred to in these excerpts. In December 2004, a hand-held surface-to-air missile was discharged at an aircraft on which the Inspector General was traveling. In January 2005, a rocket penetrated the roof of the U.S. Embassy, impacting an office immediately adjoining the office where SIGIR auditors work. Tragically, two PCO employees were killed. SIGIR inspectors regularly visit sites across Iraq where security concerns are very high, and in September 2005, a suspected terrorist sniper shot at two SIGIR investigators who were working a case in Baghdad.

The Human Toll

During this reporting quarter, 17 U.S. civilians were killed in Iraq, bringing the total number of U.S. civilian deaths in Iraq to 147 (since March 11, 2003). Of the total number of U.S. citizens killed, 120 (82%) were American contractors, 12 (8 %) were U.S. government or UN workers, 10 (7%) were non-governmental organization workers, and 5 (3%) were journalists. The Department of Labor (DoL) and DoS provided the information in Figure 1-1.

Cumulative Civilian Deaths in Iraq

Date	U.S. Civilian Deaths	Non-U.S. Contractors (DBA Claims)	Total
6/30/04	52	46	98
9/29/04	61	59	120
12/31/04	81	151	232
3/31/05	95	181	276
6/30/05	113	217	330
9/30/05	147	265	412
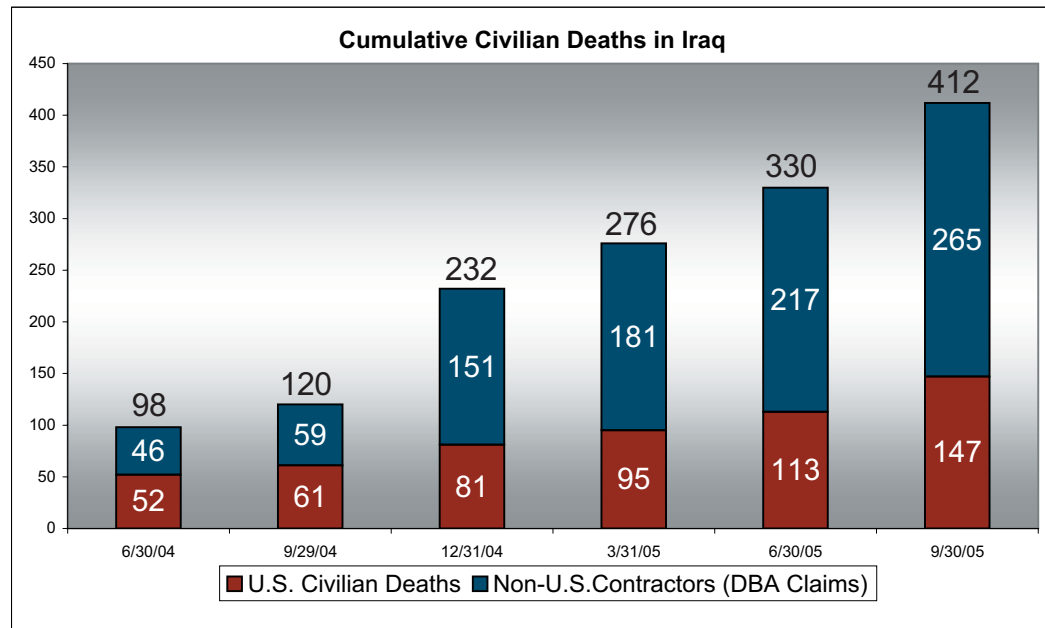
Figure 1-1

The number of insurance death-claims filed this quarter by contractors from all countries rose by 82 (70%) from the previous quarter, bringing the total number of non-Iraqi contractor deaths to 412 for the period March 11, 2003 through September 30, 2005. There have been 4,208 Defense Base Act (DBA) death and injury claims filed with DoL since April 2003. This number increased by 24% from the previous quarter.

DoS also tracks casualties and categorizes them in a way that sheds further light on the dangers facing U.S. personnel in Iraq. Of the 147 civilian deaths, DoS reports that 117 were caused by terrorist action, 15 by vehicle accidents, 12 by other/natural causes, and 3 by homicide. DoS provided the information in Figure 1-2.
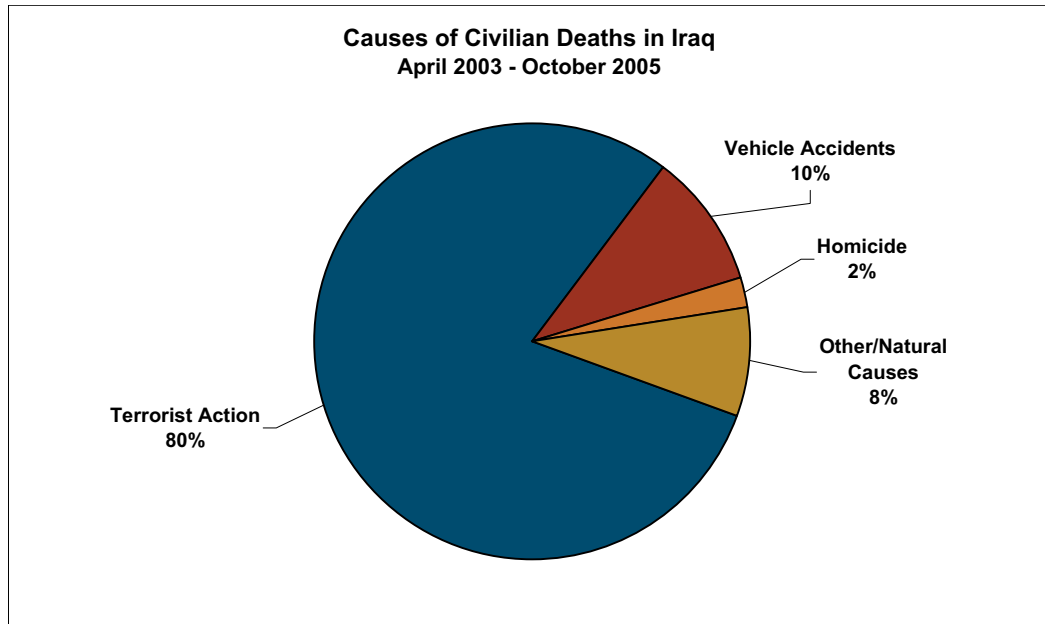
Figure 1-2

Security

The Department of Defense (DoD) estimates that at least 25,000 non-Iraqis currently work as private security contractors in Iraq. According to other studies, 6,000 of these contractors serve in armed tactical roles. But a Government Accountability Office (GAO) study found that none of the U.S. agencies reconstructing Iraq has complete data on the number of security contractors in Iraq or the costs of using private security providers. During the last two reporting quarters, 66% of the U.S. contractors killed in Iraq were working for private security companies.

While providing security in Iraq has clearly been costly, the U.S. government has been unable to accurately calculate the total cost of providing security for Iraq reconstruction. Direct security costs include spending on training security forces and on the construction of security-related infrastructure. Indirect security costs include the provision of security to workers on individual reconstruction projects.

Direct spending on security is concentrated in two IRRF sectors:

- Security and Law Enforcement
- Justice, Public Safety, and Civil Society

Before September 2004, $3.24 billion (17.5%) of the $18.4 billion IRRF was allocated to Security and Law Enforcement. By December 2004, after a series

of reprogrammings, the Chief of Mission increased funds for the Security and Law Enforcement sector to $5.045 billion. Spending for Justice, Public Safety, and Civil Society nearly doubled after September 2004, from $1.038 billion to $2.129 billion.

Indirect security spending is much more difficult to track, as noted in GAO's audit on security costs:

> Despite the significant role played by private security providers in enabling reconstruction efforts, neither the Department of State, nor DoD, nor the U.S. Agency for International Development have complete data on the costs of using private security providers. Even at the contract level, the agencies generally had only limited information readily available, even though agency and contractor officials acknowledged that these costs had diverted a considerable amount of reconstruction resources and led to canceling or reducing the scope of some projects.[5]

The USAID Office of Inspector General (USAID OIG) provided the most recent data available on security costs. The Defense Contract Audit Agency (DCAA) supported USAID OIG by segregating disbursements for security costs from total audited costs for selected contracts. While noting that many USAID projects are generally conducted in more secure locations within Iraq, the review indicated that the cost of security, as a percentage of total costs in selected USAID contracts, ranged from 5 to 8.5%, although in one case the cost of security registered as high as 40%.

During this quarter, several U.S. government initiatives related to contractors on the battlefield were either completed or are in progress:

- DoD released its *Section 1206 Report* to Congress on July 18, 2005. The report addresses questions on current policy on contractor civil and criminal sanctions, the legal status of private security personnel, and the current systems available for monitoring them

- DoS and DoD are currently developing a joint policy for monitoring and tracking civilian contractors in Iraq. This effort is expected to be approved by both departments in late 2005

- The House Armed Services Committee recently introduced a bill to produce new rules for managing contractors on the battlefield. The bill proposes clear rules for protecting contractors, whether or not they accompany a military force

Defense Base Act Insurance

For contractors working overseas, the Defense Base Act requires insurance coverage for employees performing work on contracts funded by the U.S. government. It provides lost wages and survivor benefits for death, injury, or other work interruptions, such as kidnapping. If war risk is found, the U.S. government reimburses insurance carriers for their costs and assumes responsibility for future payments.

Today, virtually every overseas contract with the U.S. government requires DBA coverage. USAID and DoS purchase DBA insurance for their contractors at lower costs than DoD and its components (including USACE).[6] As reported last quarter, USACE had begun to move toward a pilot program similar to the USAID and DoS approach.

In July 2005, the Senate Armed Services Committee proposed a review of needs, options, and risks associated with the DBA insurance program. The review and assessment is addressing:

- cost-effective options for acquiring DBA insurance
- methods for coordinating data-collection efforts among agencies and contractors regarding numbers of employees, costs of insurance, and other information relevant to decisions on DBA insurance
- improved communication and coordination within and among agencies on the implementation of DBA insurance
- action items to address the difficulties in administering DBA insurance, including cost, data, enforcement, and claims processing

SIGIR will soon announce an audit to examine DBA insurance costs in Iraq, which are reported to be exorbitant.

Measuring Progress

To measure progress in the U.S. portion of Iraq's reconstruction, SIGIR collects qualitative and quantitative data from a variety of reconstruction agencies. SIGIR continues to track key quantitative metrics on employment, oil production, electricity generation, petroleum supply, telecommunications, and security forces. SIGIR has not verified this data, reported in the *Iraq Weekly Status* reports.

Employment Data

The overall number of Iraqis employed on U.S. government projects has continued to decline from its peak of more than 170,000 in mid-March. It reached a low of 116,361 during the week of September 7, 2005, but by the end of September it had increased to 133,043. This reflects employment only on U.S. managed projects; it does not include jobs associated with U.S. projects that have been transferred to the Iraqi ministries. Figure 1-3 summarizes these weekly Iraqi employment reports, beginning in August 2004.
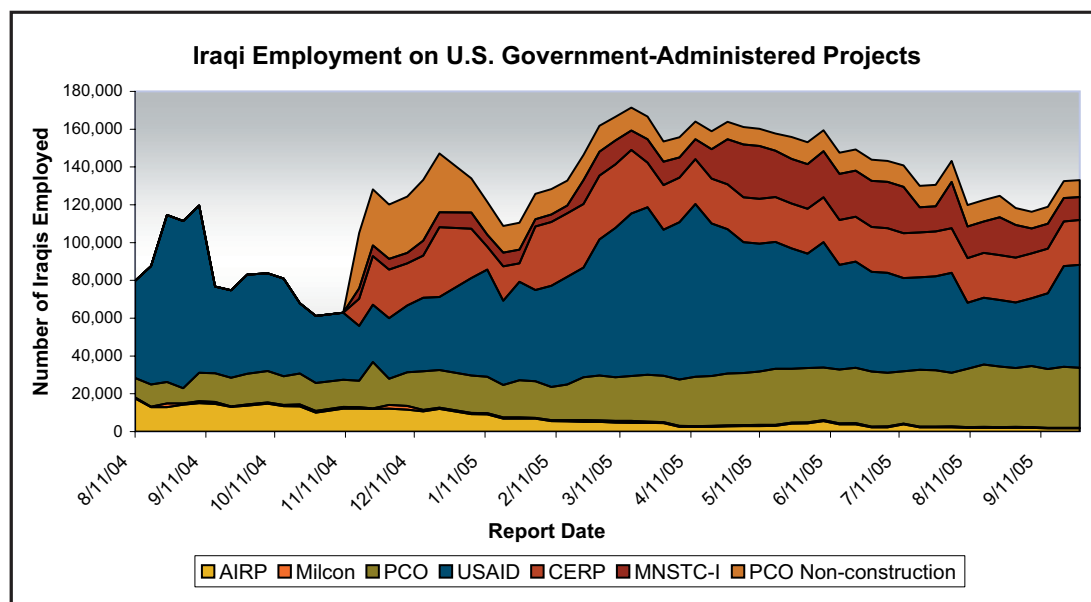
Figure 1-3

Oil

During this reporting period, Iraqi crude oil production continued to fall short of the 2.5 million barrels per day (MBPD) target set by the Iraqi Ministry of Oil. Security challenges, poor infrastructure, operational challenges, and external factors (such as electrical and water shortages) have reduced production capacity. Thus, production has remained near 2.1 MBPD. Figure 1-4 shows Iraq's weekly average oil output since the beginning of 2004.
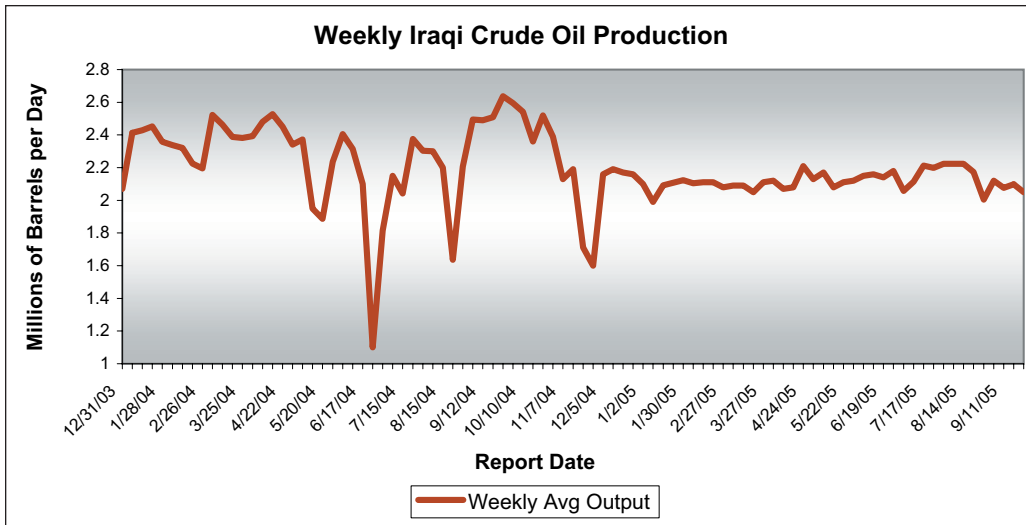
Figure 1-4

Crude Oil Exports

Exporting crude oil is Iraq's primary source of income; however, insurgent attacks on pipelines–particularly on the northern pipeline–continue to disrupt oil exports. These attacks have cost Iraq billions of dollars in lost revenue and repair costs. Since July 2005, crude oil exports have declined from 1.5 MBPD to approximately 1.44 MBPD. However, in August 2005, higher crude oil prices drove oil revenue to a post-war high of $2.63 billion. Figure 1-5 shows Iraq's crude oil export volume and revenues since June 2003.
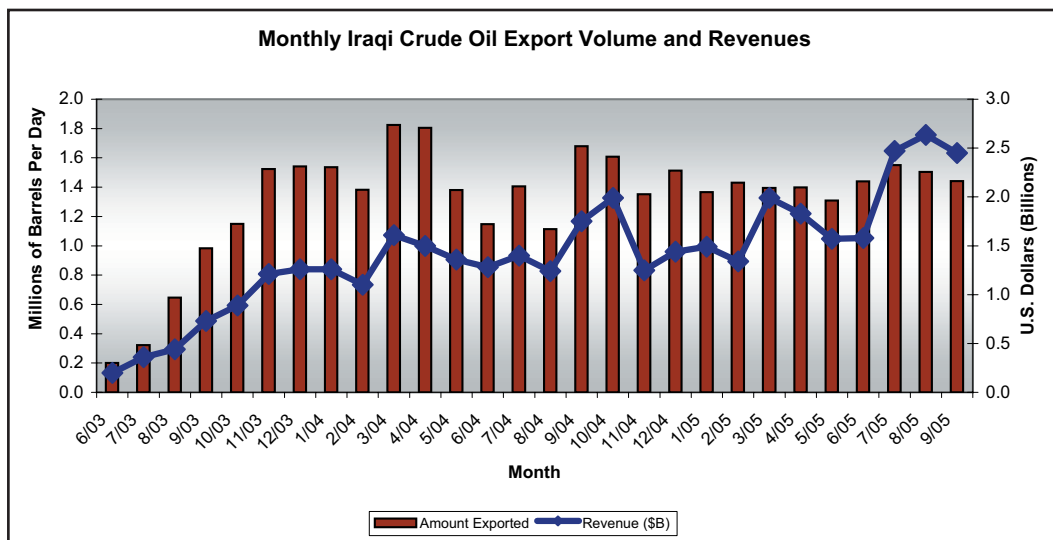
Figure 1-5

Refined Petroleum Supplies

Domestically produced refined products do not meet current Iraqi demand. Thus, Iraq relies on foreign petroleum imports to meet its rising demand. An antiquated production infrastructure, the lack of refineries, the frequency of insurgent attacks on pipelines, and an increase in demand for gasoline all combine to produce the fuel shortages that regularly plague Iraq. Moreover, government fuel subsidies have created incentives for smuggling oil products out to neighboring countries, which deprives the government of needed revenue and contributes to fuel shortages. Figure 1-6 shows weekly numbers for Iraq's nationwide supplies of refined petroleum.
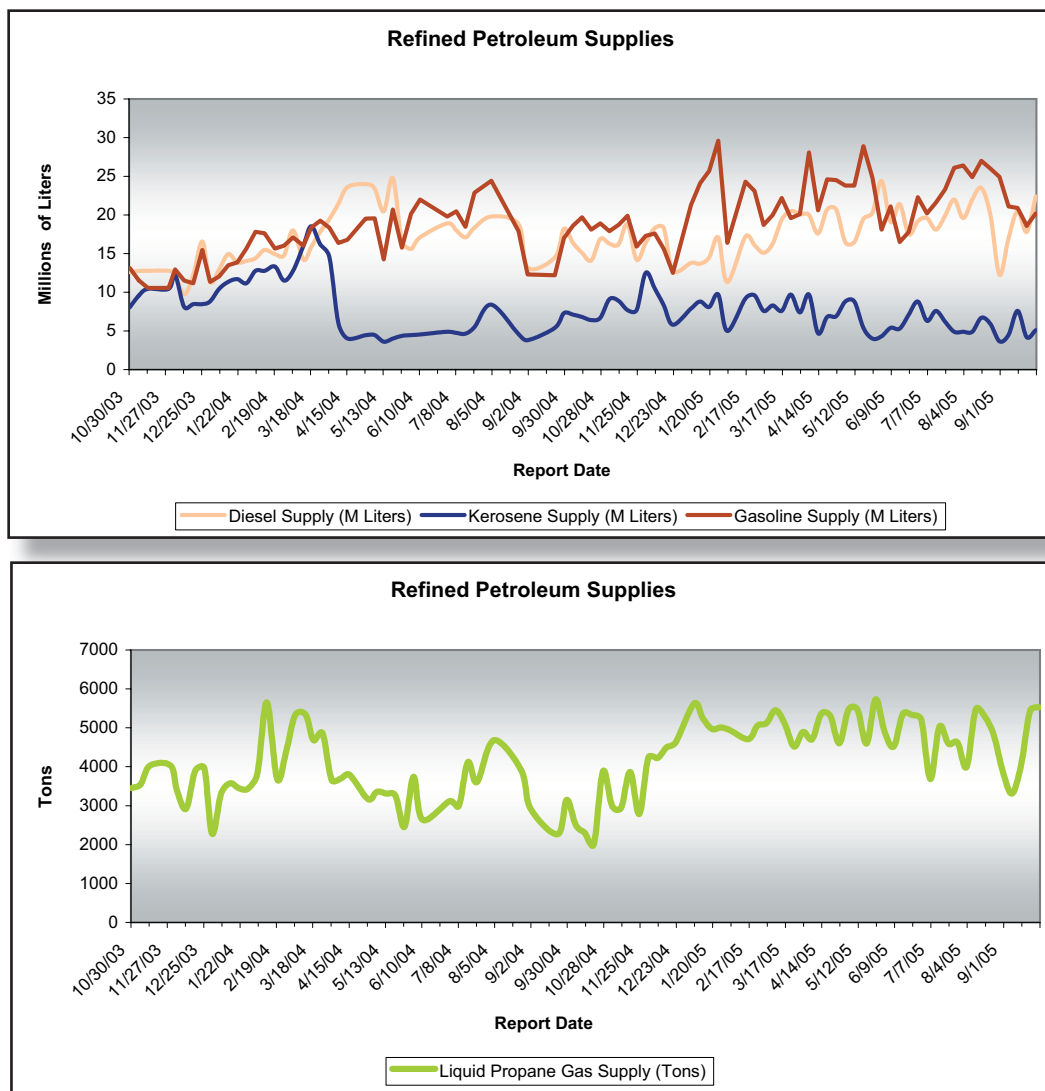
Figure 1-6

During this reporting period, gasoline supply reached a high of 26.4 million liters in August 2005 but then dipped to 18.4 million liters in September. Liquid propane gas supply declined in September 2005, reaching a low of 3,307 tons; but, by the end of September, the level had increased to 5,526 tons.

Refined Petroleum Stocks

Iraq's goal is to maintain at least a 15-day reserve supply of all refined petroleum products. In September 2005, the reserve supplies of all four petroleum products decreased as problems with fuel smuggling continued. According to Iraq's Oil Minister, nearly two million liters of fuel are being smuggled out of Iraq to neighboring countries every day. During this reporting period, gasoline reserve supplies showed the largest decrease—from 11 days in June 2005 to only 4 days in September 2005. Figure 1-7 shows monthly numbers for Iraq's nationwide stocks of refined petroleum as reported in the *Iraq Weekly Status* reports.
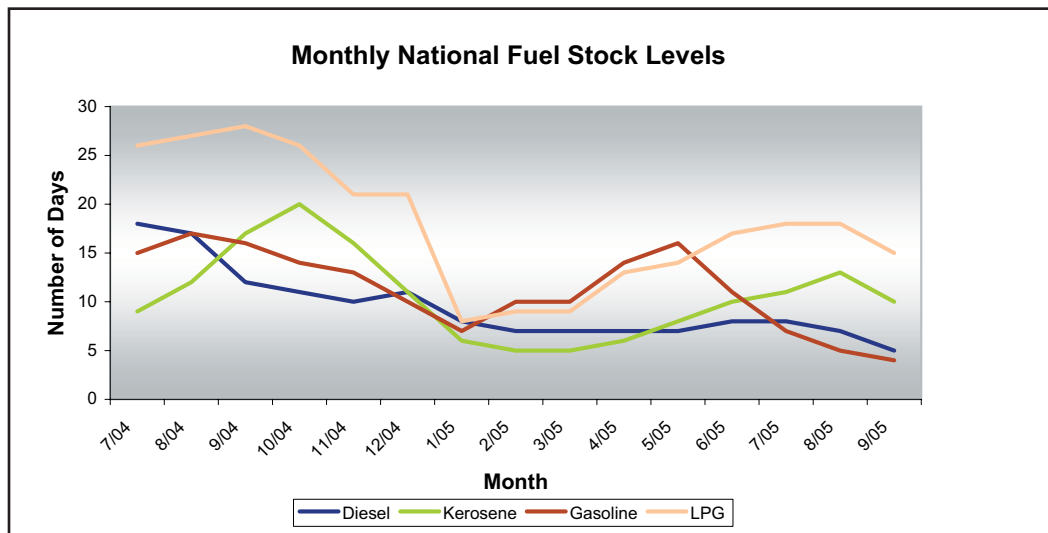
Figure 1-7

Electricity

Electricity supply remains constrained by a lack of generating capacity, shortages of fuel at generating plants, and persistent insurgent assaults on the distribution system and infrastructure. Current electricity supplies are not significantly higher than last year at this time, but demand has risen. However, lower seasonal temperatures in Iraq this fall are expected to decrease demand for electricity.

Two important metrics measure the progress of electricity generation in Iraq. The peak daily generating capacity of Iraq's electricity system is derived by tracking the total potential megawatts (MW) that all of Iraq's plants could

generate. The load actually served by these power plants is measured in megawatt hours (MWh), which reveals how much electricity the power plants produced over a given period of time.

In July 2005, peak daily generating capacity reached a high of 5,081 MW, demonstrating the capacity that new generators have brought to the grid. However, capacity fell in September 2005, dipping to a daily average of 4,747 MW. The electricity load served by the grid was quite volatile during this reporting period, dropping to as low as 88,026 MWh in August 2005, partially due to a national blackout on August 22, 2005.

Figure 1-8 shows electricity output in MW and electricity load served in MWh.
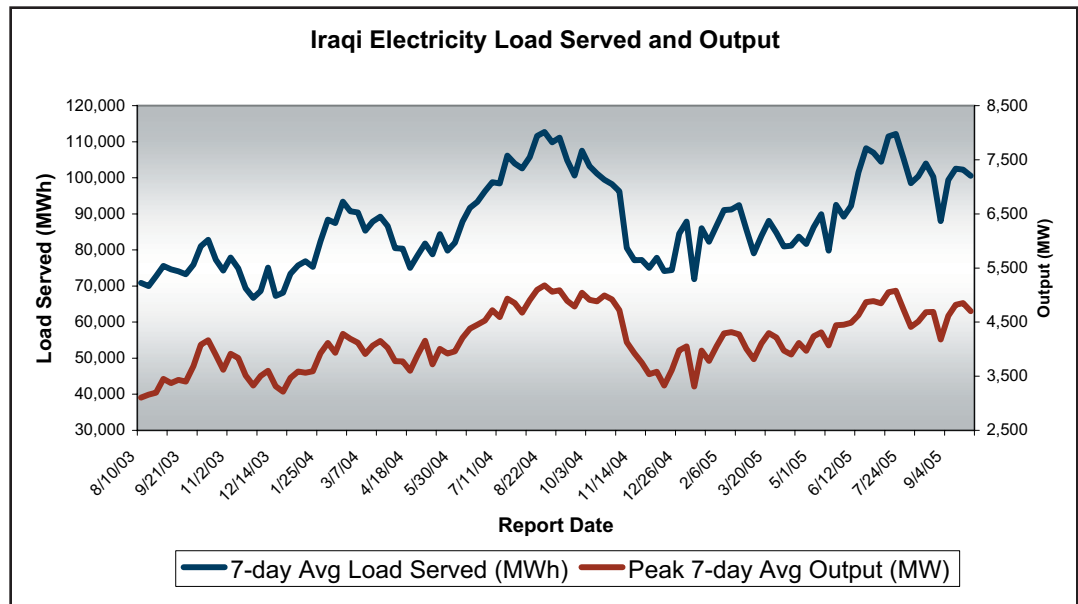
Figure 1-8

Telecommunications

Since March 2003, telecommunications usage in Iraq has continued to grow steadily. During the last quarter, wireless telephone service continued to add subscribers, reaching an all-time high of 3,592,723 subscribers in September 2005. The number of landline subscribers remained unchanged from the last reporting period. Figure 1-9 shows weekly snapshots of the numbers of telecommunications subscribers.

Nationwide Telephone Subscribers
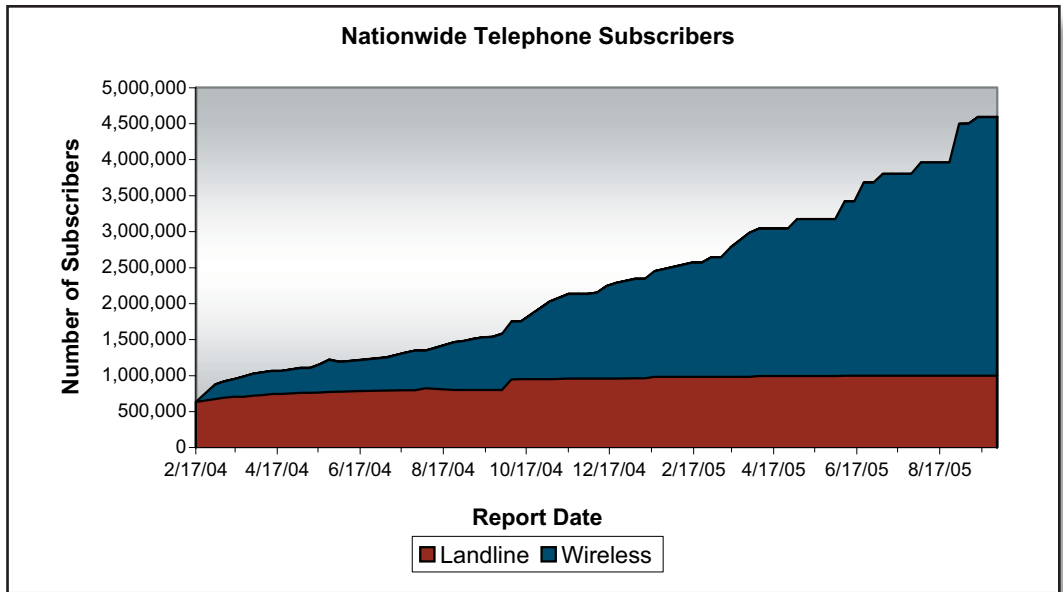
Figure 1-9

Training Iraqi Security Forces

In an October 9, 2005, DoD briefing, Lieutenant General David Petraeus, the former Commander of MNSTC-I, noted there were over 197,000 trained and equipped members in the Iraqi security forces. He further stated that, of the 115 Iraqi army battalions, about 80 are fighting alongside coalition forces, with a number of Iraqi battalions responsible for their own areas of operation. Iraqi security forces will continue to need support to develop more units that can operate independently of coalition support. Figure 1-10 shows the monthly progression of Iraqi security forces personnel strength reported in the *Iraq Weekly Status* reports since December 2004.

Iraqi Security Forces Trained
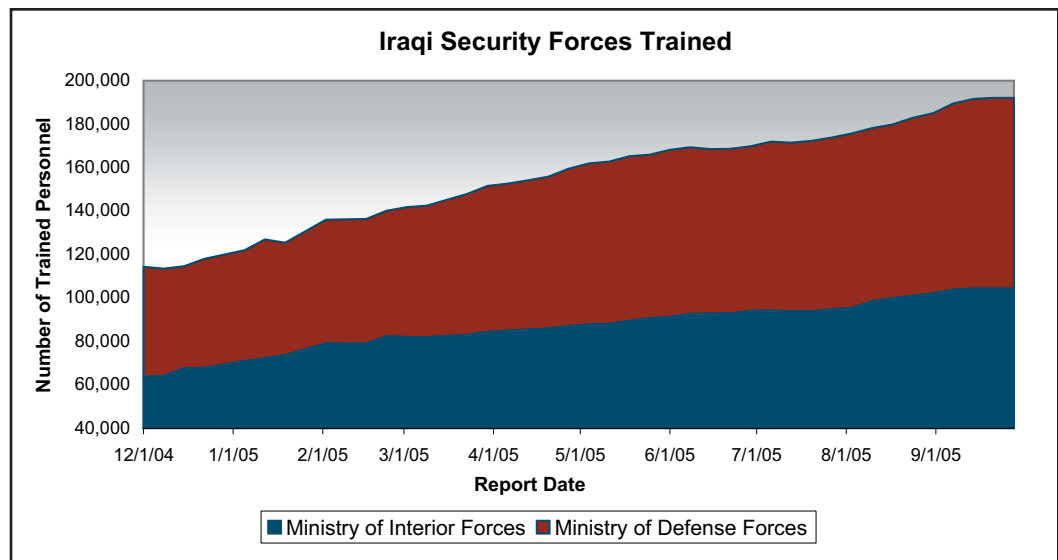
Figure 1-10

Iraqi Anticorruption Agencies

The CPA established three interlocking systems to serve as the anticorruption bulwark in Iraq:

- *31 Inspectors General (IGs)* conduct audits, investigations, and inspections, serving as the "eyes, ears, and conscience" of their ministers.

- *Board of Supreme Audit (BSA)* is responsible for the external audit (financial and performance) of Iraqi ministries and coordinates quality control of internal auditing practices at Iraqi ministries.

- *Commission on Public Integrity (CPI)* is responsible for criminal enforcement, education, and crime prevention, and it serves as the federal law enforcement agency for all of Iraq.

During this reporting period, the Iraqi National Assembly Committee on Integrity announced the formation of an interagency coordination committee on corruption issues. Monthly meetings of the Committee are attended by all Inspectors General, the CPI Commissioner, and BSA President. An Executive Council meets weekly to coordinate the committee's anticorruption efforts.

Iraqi IGs

Under CPA Order 57, the Iraqi IGs were given legal authority to "audit, investigate, and review accountability, integrity, and oversight of ministries; and to prevent, deter, and identify waste, fraud, abuse of authority, and illegal acts." There are 31 inspectors general assigned to ministries, and they collectively employ nearly 2,000 personnel. The Ministry of Interior houses the largest IG office, maintaining a staff of 450 people.

During this reporting period, the Iraqi IGs formed the Higher Council for Inspectors General to fight financial and administrative corruption in Iraqi government institutions. This Council elected five members to work toward passing legislation that would strengthen IG powers.[7]

Board of Supreme Audit

The BSA pursues a regular schedule of audit work across all Iraqi ministries. As the Ministry of Finance implements a standardized capability for conducting audits, BSA will be working to raise the level of accounting standards throughout the Iraqi government.

A SIGIR representative met with the BSA President on October 5, 2005, to identify areas of mutual interest and to expand on procedures for sharing audit reports. BSA has provided the SIGIR with copies of Iraqi IG and BSA reports, and SIGIR has initiated procedures to provide Iraqi IGs and BSA with copies SIGIR audit reports in Arabic.

The BSA recently issued a report on its audit of contracts, activities, and accounts of the Ministry of Defense for the period June 28, 2004, to February 28, 2005. The purpose of the audit was to investigate potential fraud and corruption in connection with 89 government contracts. The audit found that large sums of money ($500 million to $1.27 billion) were lost because:

- contracts were awarded without a bidding process or approval and were given to "favored" suppliers

- poor records were kept of purchases and agreements

- third-party companies were used to negotiate contracts, and money was given to these "middlemen," often in cash

- nearly half of the contracts were given to a former currency-exchange operator

The report noted that the funds involved were Iraqi and not U.S. funds.

Commission on Public Integrity

The Commission on Public Integrity (CPI) is a law enforcement, crime prevention, and education agency, similar to the U.S. Federal Bureau of Investigation. It is tasked with a broad scope of governmental anticorruption responsibilities. CPI investigates allegations of corruption by government officials and refers cases to the Iraqi judiciary.

CPI's 600 employees, which include 100 investigators, are working on approximately 1,500 cases, and more than 500 cases have already been forwarded to the Central Criminal Court of Iraq (CCCI). It has developed 450 cases in the Ministry of Defense alone, including:

- On October 10, 2005, CPI investigations into activities of the former Prime Minister's government resulted in warrants being issued for five former ministers (Defense, Electricity, Transport, Labor, and Housing) and 22 other former Ministry of Defense officials. At least one of these former government officials is currently a member of Parliament.

Figure 1-11 shows how criminal corruption cases are processed in Iraq.
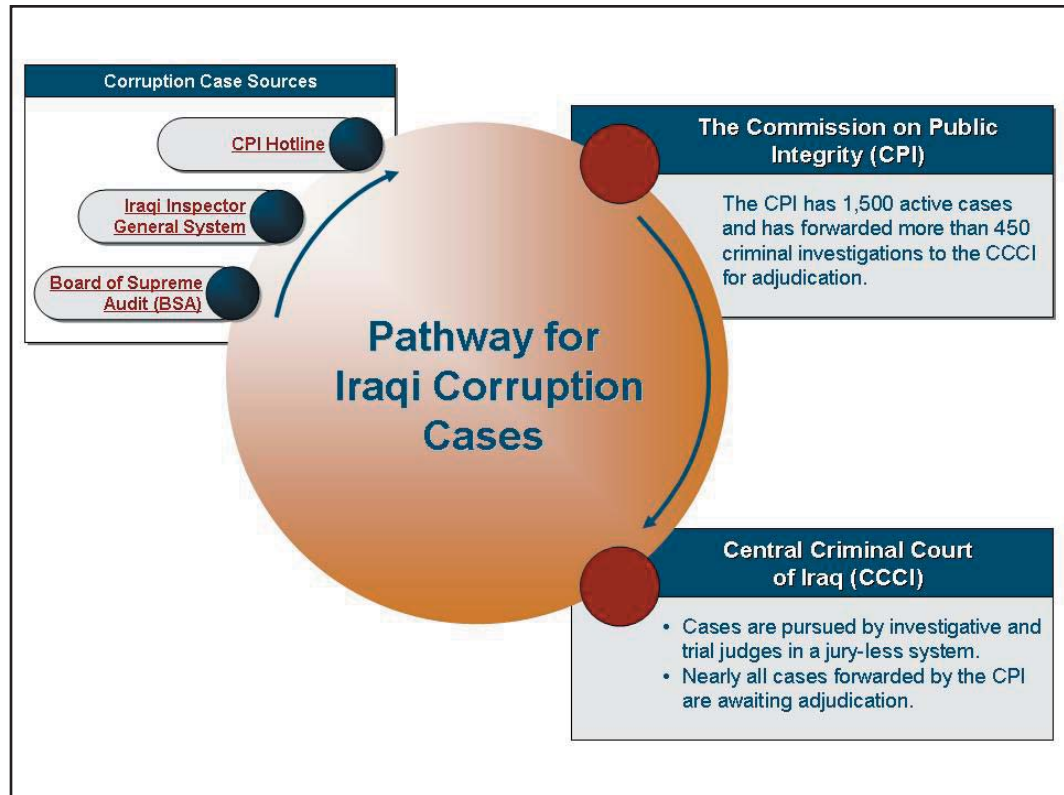
Figure 1-11

CPI personnel face significant security threats, and some of its investigators have been murdered. Despite the dangers inherent in its mission, CPI has achieved significant milestones:

- The first CPI case against a former minister is scheduled to go to trial.

- The draft constitution includes specific empowering support to CPI.

- CPI has established a new headquarters that will house the Anticorruption Training Academy. The training academy will provide capacity building for the CPI, Inspectors General, and BSA.

- CPI conducted training conferences to promote ethics and professionalism within the Civil Service.

- CPI crime prevention, code-of-conduct, and financial disclosure programs continue to develop.

During his ninth trip to Iraq, the Inspector General met with the Commissioner of the CPI and worked with him to finalize a Memorandum of Understanding to share investigative leads and other information.

Section 2

Public Law 108-106 (P.L. 108-106), as amended, requires the Special Inspector General for Iraq Reconstruction (SIGIR) to report to Congress quarterly on the progress of its activity. This section provides updates on:

- SIGIR Mission
- SIGIR Audits
- SIGIR Special Operations
- SIGIR Investigations
- SIGIR Hotline
- SIRIS
- Lessons Learned

More information about the SIGIR's oversight activities is available at http://www.sigir.mil.

SIGIR Mission

SIGIR is a temporary organization established by the Congress with a focused mission—to execute oversight of the Iraq Relief and Reconstruction Fund (IRRF)[7] via independent audits and investigations. Unlike other Inspector General organizations, which provide semiannual reports to Congress, SIGIR provides quarterly reports on its oversight, and this is SIGIR's seventh report since its inception.

In November 2003, Congress created the Coalition Provisional Authority Inspector General (CPA-IG) in P.L. 108-106. That law also provided $18.4 billion for the IRRF. The Inspector General was appointed in late January 2004 and made his first trip to Iraq soon thereafter. The CPA-IG's first Quarterly Report to Congress was submitted in March 2004.

The termination of the Coalition Provisional Authority on June 28, 2004, triggered the CPA-IG's sunset provision. The CPA-IG would have terminated in December 2004, but the Congress reconstituted CPA-IG as SIGIR in P.L. 108-375 and expanded its mission to oversee the entire IRRF. Pursuant to its enabling legislation, SIGIR is tasked to:

- Provide for the independent and objective conduct and supervision of audits and investigations.

- Provide for the independent and objective leadership and coordination of, and recommendations on, policies designed to promote economy, efficiency, and effectiveness in the management of Iraq reconstruction programs and operations.

- Prevent and detect fraud, waste, and abuse .

- Review existing and proposed legislation and regulations and make appropriate recommendations.

- Maintain effective working relationships with other governmental agencies and non-governmental organizations regarding oversight in Iraq.

- Inform the Secretaries of State and Defense, and the Congress of significant problems, abuses, and deficiencies and track the progress of corrective actions.

- Report violations of law to the U.S. Attorney General and report to Congress on the prosecutions and convictions that have resulted from those referrals.

- Submit regular reports (Quarterly and Semiannual) to Congress.

An overview of SIGIR, its statutory charter and all of its reports are available at http://www.sigir.mil.

SIGIR Audits

Since the July 2005 Report to Congress, SIGIR auditors have produced 10 final reports. The full text of all final audit products can be found at the SIGIR Web site: http://www.sigir.mil/audit_reports.html.

SIGIR performs audit work under generally accepted government auditing standards prescribed by the U.S. Comptroller General. For a list of all SIGIR audit work completed as of October 30, 2005, see Appendix G.

Final Audit Products

Table 2-1 presents the SIGIR final audit products issued during this reporting period.

Completed SIGIR Final Audit Products, since July 30, 2005		
Report Number	Report Title	Date Issued
SIGIR 05-013	Controls over Equipment Acquired by Security Contractors	September 9, 2005
SIGIR 05-019	Attestation Engagement Report concerning the Award of Non-competitive Contract DACA63-03-D-0005 to Kellogg, Brown and Root Services, Inc.	September 30, 2005
SIGIR 05-014	Management of Commander's Emergency Response Program for Fiscal Year 2004	October 13, 2005
SIGIR 05-018	Acquisition of Armored Vehicles Purchased Through Contract W914NS-05-M-1189	October 21, 2005
SIGIR 05-022	Managing Sustainment for Iraq Relief and Reconstruction Fund Programs	October 24, 2005
SIGIR 05-021	Management of Iraq Relief and Reconstruction Fund Programs—Cost-to-Complete Estimate Reporting	October 24, 2005
SIGIR 05-015	Management of Rapid Regional Response Program Grants in South-Central Iraq	October 25, 2005
SIGIR 05-017	Award Fee Process for Contractors Involved in Iraq Reconstruction	October 25, 2005
SIGIR 05-016	Management of the Contracts and Grants Used To Construct and Operate the Babylon Police Academy	October 26, 2005
SIGIR 05-020	Management of the Contracts, Grant, and Micro-purchases Used To Rehabilitate the Karbala Library	October 26, 2005

Table 2-1

Controls over Equipment Acquired by Security Contractors
SIGIR 05-013, September 9, 2005

This audit discussed the management control and accountability for
government property purchased with IRRF funds.

The objective of this audit was to determine whether controls over equipment
acquired by security contractors with IRRF funds were established,
implemented, and effective. Specifically, SIGIR examined selected contracts to
determine whether requirements for the acquisition of equipment were valid,
adequately supported, and properly approved, and whether the equipment
was accounted for and safeguarded. SIGIR could not fully address the
property accountability objectives, because the organizations responsible for
property administration could not provide adequate documented inventories of
government equipment.

SIGIR reviewed nine contracts obtained from the Joint Contracting Command–
Iraq/Afghanistan (JCC-I/A) in Baghdad to identify what controls, if any, those
contracts provided for the equipment purchased under those contracts. These
nine contracts comprised construction and security service contracts valued at
more than $661 million.

SIGIR found that: (1) some of the contracts reviewed failed to include required
control provisions regarding government property; (2) the PCO property
administration standard operating procedures were not consistently followed;
and (3) government property administrators assigned to monitor contract
compliance did not consistently perform property administration procedures.

*This report did not contain recommendations; therefore, no management
response was required. This information was provided so that the affected
agencies may take necessary actions to improve their accountability over
government-owned property.*

**Attestation Engagement Report concerning the Award of
Non-competitive Contract DACA63-03-D-0005 to Kellogg, Brown
and Root Services, Inc.**
SIGIR 05-019, September 30, 2005

The Director of the Defense Reconstruction Support Office-Iraq (DRSO) asked
SIGIR to provide an attestation on a non-competitively awarded contract that
Kellogg, Brown and Root obtained before the 2003 Iraq war. SIGIR performed
the attestation based on agreed-upon procedures of both DRSO and the UN
International Advisory and Monitoring Board. The purpose of the attestation
was to determine whether the non-competitive award of the contract was
appropriately justified and whether the goods and services delivered and billed
for were those required under the contract.

SIGIR concluded that the use of the non-competitive contract was appropriately justified and that the goods and services delivered and billed for were those required under the contract. SIGIR's review of the contract files revealed that:

1. The non-competitive award of contract number DACA63-03-D-0005 to Brown and Root Services—a division of Kellogg, Brown and Root—was properly justified.

2. The contract was a cost-plus award-fee (CPAF) indefinite-delivery, indefinite-quantity (IDIQ) contract. The final determination of fair and reasonable price was not made until the Defense Contract Audit Agency (DCAA) conducted the final incurred cost audit.

3. The only individual authorized by U. S. Code, Title 41, Section 253, to approve non-competitive contracting actions in excess of $50 million is the Assistant Secretary of the Army (Acquisition, Logistics and Technology). The Assistant Secretary of the Army (Acquisition, Logistics and Technology) signed the Justification and Approval for the contract.

4. The goods and services received and paid for with DFI funds under the contract were the goods and services required by in the contract.

5. The total amount of DFI fund disbursements under the contract did not exceed the total amount obligated for the contract.

Because SIGIR did not identify any adverse findings, this report did not contain any recommendations.

Management of Commander's Emergency Response Program for Fiscal Year 2004
SIGIR 05-014, October 13, 2005

The overall objective of this audit was to evaluate the adequacy of controls over Commander's Emergency Response Program (CERP) funds. Specifically, SIGIR sought to determine whether: (1) fund allocation procedures were adequate, (2) funds were used for intended purposes, and (3) financial records were accurately maintained and supported. SIGIR narrowed the audit's objective to report only on the extent to which CERP managers:

- obtained and documented required contracting officer's approval
- expended funds in accordance with authorized project limits
- effectively controlled the distribution of appropriated funds

Funds available for CERP during the period under review amounted to more than $727.1 million, of which approximately $140 million were appropriated funds. SIGIR reviewed CERP transactions made by the U.S. Central Command's Multi-National Force-Iraq (MNF-I). The review excluded CERP transactions made by the U.S. Central Command's Multi-National Security Transition Command-Iraq (MNSTC-I), because the U.S. Army Audit Agency (USAAA) audited those transactions.

SIGIR will report on FY 2005 CERP transactions in a future report. To avoid duplication of efforts, SIGIR will continue to coordinate with USAAA on its reviews of CERP projects managed by MNSTC-I.

SIGIR concluded that, while CERP-appropriated funds were properly used for their intended purposes, overall controls over CERP processes required improvement. Federal Acquisition Regulations (FAR) and Department of Defense (DoD) controls over the distribution of appropriated funds were not consistently followed, and the required tracking documents were not consistently used to ensure accountability of projects.

This report did not contain recommendations, therefore, no management response was required. However, SIGIR is currently reviewing 2005 CERP projects and will make recommendations as warranted if conditions reported herein persist.

Acquisition of Armored Vehicles Purchased through Contract W914NS-05-M-1189
SIGIR 05-018, October 21, 2005

SIGIR performed this audit after receiving a complaint via the SIGIR Hotline. The audit's objectives were to determine whether adequate procurement practices were used to acquire armored vehicles and whether the government received appropriate value for the money spent.

SIGIR concluded that MNSTC-I purchased seven armored Mercedes-Benz vehicles that did not have the required level of armored protection. In addition, MNSTC-I could not locate one of the vehicles after delivery was made. Thus SIGIR concluded that MNSTC-I may have paid $945,000 for armored vehicles that will not meet the purpose intended and may not be available for use.

SIGIR recommended that the Commanding General, MNSTC-I:

- Ensure that requirements—including the technical specifications—are appropriately and accurately defined to procurement officers during the acquisition process.

- Obtain an independent inspection of the condition of the vehicles to determine whether those vehicles are non-conforming to the contract terms and specifications.

- Obtain legal advice to determine what actions are available if the vehicles are found to be non-conforming to the contract terms and specifications.

- Locate the missing vehicle and have it inspected for conformance to the contract terms and specifications.

SIGIR also recommended that the Commanding General, JCC-I/A, purchase armored vehicles by using standard supply contracts rather than commercial items contracts.

Management from MNSTC-I and JCC-I/A agreed with the recommendations made in this report. Actions have been taken or are underway to implement the recommendations.

Managing Sustainment for Iraq Relief and Reconstruction Fund Programs
SIGIR 05-022, October 24, 2005

This SIGIR audit addressed two questions:

- Did the U.S. organizations responsible for managing the IRRF establish adequate plans and programs for the transition and sustainment of construction and non-construction projects?

- Did these organizations establish the budgets, funding sources, and detailed transitional guidelines necessary to ensure that adequate training, materials, and supplies are provided to the Iraqi government and its citizens to enable them to perform operations and maintenance on construction and non-construction projects placed under their control?

SIGIR found that IRMO has made progress in identifying and addressing the challenges of sustaining IRRF projects, which directly affects the larger challenge of sustaining a democratic and viable government in Iraq. There is a growing recognition that the Iraqi government is not yet ready to take over the management and funding of the infrastructure developed through IRRF projects. In addition, U.S. funding for sustainment is limited, and the amounts budgeted by the Iraqi government do not appear to be sufficient to ensure sustainment of completed reconstruction projects.

SIGIR also found that progress on sustainment has been hampered by the absence of a centralized office with the authority and responsibility to manage the sustainment effort across the jurisdictional boundaries of the operating agencies. During the course of the audit, SIGIR notified IRMO of its concerns about the absence of a central office to coordinate sustainment. To its credit, IRMO responded by taking the important step of creating a coordinating sustainment office. This centralizes leadership for sustainment, but to succeed, it must be vested with the necessary authority to provide directive coordination of a common sustainment vision for the planning and management of sustainment activities.

SIGIR estimated that the Iraqi government would need $650-750 million annually to operate and maintain the current projects the United States has provided or plans to provide through IRRF funding. The costs of security, salaries, and fuel increased the estimate by another 20-25% to a range of annual requirements for sustainment of $750-950 million. To date, DoS budget officials have identified $350 million in IRRF funds that could be used to pay for some sustainment costs. DoS is also considering deferring some planned IRRF projects to free additional funds for sustainment.

SIGIR recommended that the U.S. Ambassador to Iraq, in coordination with the Commanding General, MNF-I, direct the new sustainment office to take these actions:

1. Formulate and implement a plan, with clear goals and objectives for the sustainment of IRRF projects.

2. Work with the Director of IRMO and the Senior Sector Leads to determine the capacity of the Iraq government to maintain IRRF projects.

3. Develop supportable cost estimates for sustaining Iraqi infrastructure for both the near- and long-term and also develop a proposed funding plan that supports these estimates.

4. Review all guidance that the Iraq government's leadership receives on sustainment, determine its adequacy, and shore up any shortfalls.

IRMO concurred with this report. Actions have been planned or taken to address SIGIR's recommendations.

Management of Iraq Relief and Reconstruction Fund Programs—Cost-to-Complete Estimate Reporting
SIGIR 05-021, October 24, 2005

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

Since January 2004, the three organizations responsible for IRRF projects—PCO, U.S. Agency for International Development (USAID), and MNSTC-I—have been required to report cost-to-complete information for their IRRF projects in quarterly reports to Congress. However, until recently, these organizations had not been providing such data to IRMO.

Since January 2005, SIGIR has raised concerns about the lack of accurate cost-to-complete data. DoS shared this concern and deployed an interagency assessment team to Baghdad in March 2005 to address the information shortfall. The assessment team's work resulted in an action plan to provide cost-to-complete data, with data acquired on all projects valued at more than $6.5 million; this covered 151 projects. That plan, however, was not efficiently tracked. Thus, a second assessment team traveled to Iraq in August to reenergize the data collection effort. IRMO's recent reporting indicates that cost-to-complete data, effective as of September 30, 2005, was available on October 15, 2005.

In sum, IRMO has made important progress in securing improved reporting on cost-to-complete data and has an action plan in place to provide such data on a continuing basis. SIGIR recommends that a formal cost-to-complete reporting policy will be in place soon.

IRMO concurred with the recommendations made in this report. Actions have been taken or are underway to implement the recommendations.

Management of Rapid Regional Response Program Grants in South-Central Iraq
SIGIR 05-015, October 25, 2005

This audit report was one of a series of reports addressing controls over cash, contract management, and grants management for the Coalition Provisional Authority (CPA) South-Central Region. This audit report discussed the processes used for the authorization, award, execution, and oversight of grants within the CPA South-Central Region.

The overall audit objective was to determine whether disbursing officers in selected locations in southern Iraq complied with applicable guidance and properly controlled and accounted for Development Fund for Iraq (DFI) cash assets and expenditures. During the audit, SIGIR observed deficiencies in grant award documentation and expanded the scope to determine whether coalition representatives in the South-Central Region properly managed grants.

SIGIR found that South-Central Region personnel, under the direction of the CPA, did not effectively manage 74 grants awarded through the Rapid Regional Response Program (R3P) amounting to $20.8 million. South-Central Region personnel could not account for $20,541,000 in DFI funds provided for R3P grants, and they made payments of $2,633,500 that exceeded the total value of grants awarded. The SIGIR audit showed that CPA South-Central Region personnel disbursed $23,471,500 through 74 grants, although the award value of these grants was only $20,838,000.

SIGIR could not determine how grant recipients actually used the cash that South-Central Region distributed through the R3P. Because SIGIR could not find documentation to support grant performance, SIGIR could not determine whether the grants met the intended goals; whether the work for which the grants were intended was started or satisfactorily completed; to whom the cash was actually disbursed in some grants; and what benefit, if any, the Iraqi people received as a result of the grants.

Based on the documentation examined during the review, SIGIR concluded that the South-Central Region failed to manage its R3P grant program.

SIGIR recommended that the U.S. Ambassador to Iraq determine the party responsible for collecting the overpaid grant amounts and direct the responsible individual to take action to seek reimbursement for the overpaid grant amounts. SIGIR also recommended that the Director of IRMO ensure proper authorization and oversight of the grant approval and administrative processes for all existing and future grants.

SIGIR recommended that the Commanding General, JCC-I/A require that contracting officers:

- Follow the DoD 3210.6-R, Grants and Agreements, for the award and administration of grants.

- Require grant recipients to provide receipts for all expenditures.

- Require monthly reports from the grant recipients detailing expenditures and achievements.

- Ensure regular site visits to the grant recipient location.

- Require reports at the end of the grant to assess the performance of the grantee and to document the outcome of the grant in relation to the grant goals.

SIGIR recommended that the Commander, JASG-C Baghdad:

- Require paying agents to obtain proper grant approval documentation prior to making disbursements.

- Require the appropriate separation of duties.

- Establish a special team to review disbursements made in other regions of Iraq to determine if the same conditions exist as determined by the SIGIR in the South-Central Region.

Management generally concurred with SIGIR recommendations. However, JASG-C Baghdad believed that it did not have the responsibility for seeking reimbursement of duplicate payments. Therefore, SIGIR added an additional recommendation to the U.S. Ambassador to establish who is responsible to recover these funds.

Award Fee Process for Contractors Involved in Iraq Reconstruction
SIGIR 05-017, October 25, 2005

The objective of this audit was to determine whether award fees provided to contractors performing IRRF-funded projects are adequately reviewed, properly approved, sufficiently substantiated, and awarded according to established standards. Specifically, SIGIR sought to answer these questions:

- Had an award review board been established? Had pertinent policies and adequate procedures been consistently applied to the evaluation of award fees?

- Did award fee plans clearly identify the specific criteria for award fee evaluation to assess contractor performance and determine the amount of the award fee?

- Were performance indicators properly established, and were the performance requirements properly defined?

- Were award review board recommendations and determinations supported by appropriate evaluations of contractor performance?

- Was the award fee determination documented in sufficient detail to show that the integrity of the award fee determination process has been maintained?

SIGIR reviewed the 18 cost-plus award-fee contracts funded with IRRF monies. The contracts and the associated contract files were located at PCO and JCC-I/A. The 18 contracts reviewed comprised 11 design-build contracts valued at up to $6.75 billion and 7 program management-and-support (PMAS) contracts valued at more than $200 million. These 18 contracts were awarded through six different procuring activities.

In general, cost-plus award-fee contracts include a base award fee (for simply meeting contract requirements) and a merit-based award fee for performance that exceeds contract expectations. For 16 of the 18 contracts reviewed, the base fee component was 3%, the highest base fee allowed by the DoD FAR Supplement. To receive merit-based award fees, management should evaluate and measure contractors against specific award fee evaluation criteria, which should be provided in the contracts. However, the 18 contracts did not contain the required criteria with definable metrics. This missing component created the potential for inflated contractor performance evaluations.

The Army FAR Supplement 5116.405-2 states that "contractors should not receive award fees (above the base fee) for simply meeting contract requirements." For 9 of the 11 design build contracts, the award fee plans allowed awards of an additional 50-74% of the award fee pool for *average* results. For the 7 PMAS contracts, the award fee plans permitted awards of an additional 60-70% of the award fee pool for some performance above standard while still allowing several weaknesses in performance to remain.

After reviewing the award fee files, SIGIR found that the Award Fee Evaluation Board recommendations and determinations of fees were not documented in sufficient detail to show that the integrity of the award fee determination process had been maintained. Thus, the documentation SIGIR reviewed in contract files was insufficient to substantiate the award fees that were approved.

On July 19, 2005, SIGIR briefed JCC-I/A, PCO, and U.S. Army Corps of Engineers (USACE) Gulf Region Division Award Fee Determining Official on the interim results of audit. At that time, these officials advised SIGIR that they would immediately implement new procedures to address many of the corrective actions needed. Since the SIGIR July 19 briefing, JCC-I/A and PCO have been proactive in implementing corrective actions, including all of the interim recommendations. For example on July 23, 2005, JCC-I/A issued a new Award Fee Board Policy.

SIGIR recommended that the Commanding General, JCC-I/A:

1.   Ensure that the appointments of the members of the Award Fee Evaluation Board—specifically, the Chairperson of the board, the board members (both voting and non-voting), and the contract performance monitors—are documented.

2.   Continue to revise award fee plans to more clearly identify the specific evaluation criteria for assessing contractor performance by providing clearer metrics and more quantifiable criteria that permit better performance evaluations.

3.   Continue to review and modify the current contracts to use a method of applying the award fee that provides incentives for contractors to achieve quality results.

4.   Ensure that the rationale of the Award Fee Determination Officer's and the Award Fee Evaluation Board's recommendations and determinations are fully documented.

JCC-I/A concurred with SIGIR's findings and recommendations. Actions have been taken to comply with this report.

Management of the Contracts and Grants Used To Construct and Operate the Babylon Police Academy
SIGIR 05-016, October 26, 2005

This audit report was one of a series of reports addressing controls over cash, contract management, and grant management for the CPA South-Central Region. The report addressed deficiencies in the CPA South-Central Region's process for managing 11 contracts, 4 grants, and 1 grant modification awarded for more than $7.3 million to establish and operate the Babylon Police Academy (the Academy).

The overall audit objective was to determine whether disbursing officers in selected locations in southern Iraq complied with applicable guidance and properly controlled and accounted for DFI cash assets and expenditures.

SIGIR expanded the scope of the audit to determine whether the South-Central Region properly managed contracts and grants for specific projects. SIGIR selected the Academy project for a review of the management of contracts and grants because of the multiple contracts and grants that had been awarded to establish and operate the Academy.

SIGIR found that, in the management of contracts and grants using R3P funds, South-Central Region personnel:

- entered into an unauthorized land grant and violated conflict-of-interest rules

- circumvented guidance by splitting requirements into more than one contract to avoid having to seek the appropriate funding-level approval and needlessly expended funds because work was not consolidated into a single contract

- did not make site visits, did not issue final performance reports, and did not properly prepare certificates of completion forms

- disbursed funds before contracts and grants were signed

- did not establish the required separation of duties as a control over the disbursement of funds

- did not maintain files that contained accurate or required documentation

As a result, South-Central Region personnel, under the direction of CPA, did not comply with applicable guidance and did not properly manage approximately $7.3 million of R3P funds. Specifically, South-Central Region needlessly expended almost $1.3 million in contract funds for duplicate construction projects; unnecessary or overpriced equipment; and requirements not identified in contract documents. Further, the South-Central Region could not account for more than $2 million of disbursed grant funds. Although SIGIR was able to determine that parts of the project were completed, SIGIR was unable to determine whether all requirements were accomplished with the remaining contract funds (almost $4 million).

Since the CPA was dissolved on June 28, 2004, SIGIR addressed the recommendations to three successor organizations: IRMO, JCC-I/A, and JASG-C, Baghdad.

Shell for the 500-kilowatt generator undergoing repairs at the Babylon Police Academy.

Site for the missing 1-megawatt generator at the Babylon Police Academy.

SIGIR recommended that the Director, IRMO, ensure that established policies and procedures for authorizing, awarding, and consolidating contracts and grants are effectively implemented and followed and that complete files to support transactions made for contracts and grants are maintained.

SIGIR recommended that the Commanding General, JCC-I/A:

- Ensure that established policies and procedures for awarding and consolidating contracts and grants are effectively implemented and followed

- Ensure that established policies and procedures for monitoring contract and grant performance are effectively implemented and followed

- Ensure that purchased equipment is delivered and construction is completed

- Maintain complete files to support transactions made for contracts and grants

SIGIR recommended that the Commander, JASG-C Baghdad, ensure that established policies and procedures for disbursing funds obtained through the DFI for contracts and grants are effectively implemented and followed, that funds are disbursed for intended purposes, and that complete files to support transactions made for contracts and grants are maintained.

Management concurred with the recommendations made in this report. Actions have been taken or are underway to implement the recommendations.

Management of the Contracts, Grant, and Micro-purchases Used To Rehabilitate the Karbala Library
SIGIR 05-020, October 26, 2005

This audit report was one of a series of reports addressing controls over cash, contract management, and grant management for the CPA South-Central Region. The report addressed deficiencies in the CPA South-Central Region's process for managing 5 contracts, 1 grant, and 33 micro-purchase contracts awarded for more than $2.1 million for the rehabilitation of the Karbala Library (the Library). The overall audit objective was to determine whether disbursing officers in selected locations in southern Iraq complied with applicable guidance and properly controlled and accounted for DFI cash assets and expenditures.

SIGIR expanded the scope of the audit to determine whether the South-Central Region properly managed contracts and grants at specific projects. SIGIR chose to review the Library because of the multiple contracts, grant, and micro-purchase contracts that had been awarded to rehabilitate the Library. Specifically, SIGIR reviewed the Library contract and grant-award process to determine whether fund agents adequately controlled cash assets, fully accounted for cash assets and expenditures, and properly returned cash assets and expenditures in compliance with guidance specifying dollar thresholds and allowable uses.

SIGIR found that, in the management of contracts, a grant, and micro-purchase contracts using Rapid Regional Response Program funds, South-Central Region personnel:

- circumvented guidance by splitting requirements into more than one contract to avoid seeking the required funding-level approval or to avoid required documentation

- issued contracts for dollar amounts that exceeded requirements

- did not monitor any contracts, the grant, or micro-purchase contracts; did not make any site visits; did not issue performance reports; did not prepare post-award assessments; did not act on the reports that the contractor was not performing to the standards set in the contracts

- disbursed funds on contracts, a grant, and micro-purchase contracts for which work was not performed, work was not contracted, equipment and services were not delivered, or the contracted amount was exceeded

- paid contract amount in full on the day the contracts, grant, and micro-purchase contracts were signed and did not require that progress payments be tied to project performance

- did not maintain files with accurate or required documentation

SIGIR found plastic chairs at the Karbala Library instead of the upholstered metal chairs required by the contract.

South-Central Region personnel, under the direction of the CPA, did not comply with applicable guidance and did not properly manage R3P funds provided through 5 contracts, 1 grant, and 33 micro-purchase contracts used to rehabilitate the Library. Specifically, South-Central Region needlessly disbursed more than $1.8 million for contracts, a grant, and micro-purchase contracts for which work was not performed, and the contracted amount was exceeded. Further, more than $2.3 million in R3P funds was disbursed despite the fact that the total value of the contracts, grant, and micro-purchase contracts awarded for the Library was about $2.1 million.

Since the CPA was dissolved on June 28, 2004, SIGIR addressed the recommendations to three successor organizations: IRMO, JCC-I/A, and JASG-C Baghdad, and to the U.S. Ambassador to Iraq.

SIGIR recommended that the U.S. Ambassador to Iraq recover the $154,000 in rescinded grant funds remaining on deposit, any other funds related to the rescinded grant, and funds that exceeded the contracted amount, and then return the recovered funds to the Iraqi government.

SIGIR recommended that the Director of IRMO ensure that established policies and procedures for authorizing, awarding, and consolidating contracts and grants are effectively implemented and followed and that complete files to support transactions made for contracts and grants are maintained.

SIGIR recommended that the Commanding General, JCC-I/A take these actions:

1. Ensure that established policies and procedures for awarding and consolidating contracts and grants are effectively implemented and followed

2. Ensure that established policies and procedures for monitoring contract and grant performance are effectively implemented and followed
3. Ensure that repairs were completed, purchased equipment and services were delivered, and work was performed
4. Maintain complete files to support transactions made for contracts and grants

SIGIR recommended that the Commander, JASG-C Baghdad, ensure that established policies and procedures for disbursing funds obtained through the DFI for contracts and grants are effectively implemented and followed, that funds are disbursed for intended purposes, and that complete files to support transactions made for contracts and grants are maintained.

The Director of IRMO, the Commanding General, JCC-I/A, and the Commander, JASG-C Baghdad concurred with the finding and recommendations.

Draft Reports Issued

SIGIR had no draft audits as of the reporting date.

Ongoing Audits

Currently, SIGIR has 15 ongoing audits.

Cash Controls over Disbursing Officers in Southern Iraq
D2004-DCPAAF-0034.4

The overall objective of this audit series is to determine whether disbursing officers in selected locations in southern Iraq complied with applicable guidance and properly controlled and accounted for DFI cash assets and expenditures. Specifically, these audits will determine whether fund agents adequately controlled cash assets, fully accounted for cash assets and expenditures, and properly returned cash assets. These audits will also determine whether expenditures complied with guidance specifying dollar thresholds and allowed uses.

This project reviews the processes used for the authorization, award, execution, and oversight of contracts in the CPA South-Central Region.

Selected Accounting and Reporting of the Obligation and Expenditure of Iraq Relief and Reconstruction Fund Funds (Cost-to-Complete Methodology)
SIGIR 2005-08.2

The overall objective of this audit is to determine whether the methodologies and processes used to collect accounting and reporting IRRF obligations and

expenditures are adequate to determine the cost-of-completion of projects currently underway or planned.

Review of the Fiscal Year 2005 Commander's Emergency Response Program
SIGIR 2005-15

The overall objective of this audit is to evaluate the adequacy of controls over the CERP. Specifically, the audit will determine if (1) fund allocation procedures were adequate, (2) funds were used for intended purposes, (3) financial records were accurately maintained and supported, and (4) the planning for sustainment was adequate.

Audit of the Policies and Procedures for Data Quality Assurance in the Collecting and Reporting of the Iraq Relief and Reconstruction Fund
SIGIR 2005-16

SIGIR plans to identify and review the policies and procedures for collecting and reporting data from the information technology systems supporting the IRRF. The objective of this audit is to determine whether the policies, procedures, and internal controls established by U.S. government organizations ensure valid and reliable data for effective management of Iraq reconstruction projects.

Specifically, SIGIR will evaluate the policies and procedures that ensure that transactions are valid, properly authorized, and completely processed and accurately reported. SIGIR will evaluate policies and procedures over both manual and automated systems to determine whether the controls in place ensure the integrity of the data.

Review of the Mansuria Electrical Reconstruction Project
SIGIR 2005-17

SIGIR plans to perform this review as part of its effort to determine whether selected sector reconstruction contractors are complying with the terms of the contracts or task orders and whether government representatives are complying with general legislative and regulatory guidance on contract administration and financial management. SIGIR will also evaluate the effectiveness of the monitoring and controls exercised by administrative contract officers. More specifically, SIGIR will examine the project's planning processes, actual progress of project, and performance of the contractor. SIGIR will also assess USAID management control over this project.

Survey of INL Funding for Iraq
SIGIR 2005-18

In conjunction with the DoS Office of Inspector General, SIGIR is initiating a survey of Bureau of International Narcotics and Law Enforcement Affairs

(INL) funding for Iraq. The survey will concentrate primarily on major INL programs to determine whether INL has implemented appropriate management and accounting controls to ensure that funds provided by Congress are properly expended in accordance with federal regulations. The survey will be performed at INL and other DoS facilities in Washington, D.C.

Audit of the Compliance with the Prompt Payment Act for Expenditures Made From the Iraq Relief and Reconstruction Fund
SIGIR 2005-12

The objective is to determine whether expenditures by U.S. government organizations responsible for managing the IRRF comply with the Prompt Payment Act and other applicable policies and regulations.

Policies and Procedures Used for Iraq Relief and Reconstruction Fund Project Management
D2005-DCPAAP-0005.2

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

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

Information Systems Used for the Management of IRRF Programs

The overall objective of this audit series is to determine whether information systems used by U.S. government organizations result in the effective management of IRRF programs. These audits will also determine whether those information systems were adequately reliable and sufficiently coordinated among those organizations to ensure accurate, complete, and timely reporting to senior government officials and Congress on the use of IRRF funds.

- D2005-DCPAAI-0004.2
  This audit will determine the impact of the $50 million that was appropriated for support of the IRRF reporting.

- D2005-DCPAAI-0004.3
  This audit addresses the actions being taken by IRMO and other U. S. government activities to ensure an effective U.S. government solution.

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

The objectives of this audit are to determine the extent to which:

- ATOs accomplished their intended purpose—to capture the design-build contractors' fixed administrative costs for the total indefinite delivery order contract
- the de-scoping of projects impacted the necessity for certain of the administrative costs included in the ATO
- increased or decreased periods of contract/task order performance impacted the value of ATO cost, and ATOs vary from one design build contractor to another

Review of the Management of the Transfer of Assets to the Government of Iraq that Were Purchased, Renovated, and/or Constructed with IRRF Funds

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

- Multi-National Security Transition Command, SIGIR 2005-20
- Project and Contracting Office and the Gulf Regional Division of the U.S. Corps of Engineers, SIGIR 2005-21
- U. S. Agency for International Development, SIGIR 2005-22

Audit of the U. S. Reconstruction Gap in Iraq
SIGIR 2005-23

The overall objective of this audit is to determine:

- How were the plans and expectations for the IRRF carried out?
- How effective were the U.S. government agencies in carrying out those plans and meeting the expectations?

SIGIR will also attempt to identify any causes that diverted execution of those plans and what the U.S. government did in response.

Planned Audits

SIGIR is in the process of planning for audits in these areas:

- unmatched disbursements
- unliquidated obligations
- invoices matching requirements and allowable costs

SIGIR will also conduct additional performance audits that assess the economy, efficiency, effectiveness, and results of Iraq reconstruction programs and operations as necessary. These audits will be accomplished through individual audit projects of specific issues, as well as an audit series that will evaluate several components of related topics. Each of these audits will be announced before the start of any audit field work.

For the full text of the Audit Plan, see the SIGIR Web site: http://www.sigir.mil/pdf/Audit_Plan_Feb_2005E.pdf.

SIGIR Special Operations

During this quarter, SIGIR Special Operations continued to expand its project assessment program, which is designed to determine whether taxpayer dollars are being well spent on U.S.-funded projects across Iraq. While SIGIR auditors generally analyze larger program issues and SIGIR investigators focus on significant criminal activities, SIGIR inspectors focus on assessing actual work accomplished on specific projects in Iraq.

Approach

During this quarter, SIGIR inspected 12 project sites. To accomplish these inspections, SIGIR engineer and auditor teams gathered contractual specifications, traveled to the project sites, and inspected on-site efforts and accomplishments. The initial success of the integrated assessment team that was operating at the beginning of the quarter prompted SIGIR to create three more teams. The second integrated team began operations during the latter portion of the quarter; the two other teams are being assembled and should begin conducting site assessments next quarter.

While the integrated assessment teams were conducting on-site inspections, other SIGIR personnel began to execute a ground project survey program that involves less technical reviews. These operations, implemented late in the quarter, produced ten project-site surveys.

SIGIR also began an aerial project survey program this quarter to supplement integrated assessment and ground survey efforts. The aerial project survey program looks at sites that are remote or inaccessible because of security concerns. The program began this quarter with personnel assigned in Iraq pulling project contract specifications, completion data, and tasking instructions and forwarding this information to imagery analysts in Washington, D.C. These personnel are currently accessing satellite imagery and determining whether general construction requirements have been met. Fifty projects are currently under aerial review.

Planning

The SIGIR selected a cross-section of projects to assess, survey, and analyze from each of the major sectors, including:

- water, electrical, oil, facilities, and transportation projects
- projects involving large and small contract amounts
- projects of different general contractors
- projects in differing sections of the country
- projects in the programs of each of the major U.S. agencies

Results

The efforts of the SIGIR assessment program have improved construction work at several sites. Contractors have repaired deficiencies identified by SIGIR engineers, and managers have advised SIGIR that they will visit their sites more frequently to ensure that subcontractors are properly doing their work. SIGIR inspectors have brought deficiencies in planning, design work, construction, testing, and general contractor oversight to the attention of U.S. managers, so that action can be taken to improve project execution.

Word has spread among the engineering agencies that SIGIR teams could drop in unexpectedly on any of their projects across Iraq, and SIGIR has learned that engineers in various parts of the country are discussing the locations and activities of SIGIR teams. Thus, SIGIR's presence across Iraq has had the salutary effect of motivating more effective contractor performance.

On-site Project Assessment Program

During this quarter, SIGIR integrated assessment teams completed project assessments of the work being performed on 12 relief and reconstruction projects. The project assessments addressed several issues:

- Were the project results consistent with the original objectives?

- Were project components adequately designed before construction or installation?

- Did construction or rehabilitation adequately meet the standards of the design?

- Were the contractor's quality control plan and the U.S. government's quality assurance program adequately carried out?

- Were project sustainability and operational effectiveness addressed?

SIGIR presented the results of these project assessments, including both findings and recommendations, to the PCO and the USACE.

River and Irrigation Canal Pipeline Crossing Projects, Northern Iraq

SIGIR conducted assessments of three related projects under construction that are essential to the oil and gas distribution system in northern Iraq:

- a pipeline crossing a river in Iraq
- the pipeline connections (tie-ins) to the land-based pipelines at the river crossing
- a pipeline crossing an Iraqi irrigation canal

All are pieces of the northern pipeline distribution system that will connect Iraqi oil fields to oil refineries and pipelines used for export. The Inspector General ordered these reviews because of significant failures by previous contractors to perform these important projects.

The SIGIR integrated assessment team found that the ongoing construction at all three projects appeared to meet contractual specifications. The contractor's quality control programs and the U.S. government's quality assurance programs were sufficient to ensure quality construction. Project sustainability and operational effectiveness were also adequately addressed in the projects' Statements of Work.

The U.S. government had previously contracted with another firm to construct the same projects. That firm spent all the funds allotted for the projects, but completed only a small percentage of the work. The work of the previous contractor was not addressed during these assessments, but SIGIR is reviewing that work in an audit and will report its findings at a later date.

Because of the considerable money already lost on these projects and the difficulties encountered by the previous contractor, SIGIR decided to conduct assessments of the three projects during the early stages of construction and then to monitor their progress. This strategy allowed the SIGIR integrated assessment team to recommend a modification to the contract of the oil pipeline project that will substantially increase flow capacity and thus, increase revenue substantial to Iraq.

River Pipeline Crossing, Northern Iraq
Project Assessment Number: SIGIR-PA-05-010

The project's contract cost is approximately $29.7 million, and work was reported to be 14% complete when assessed. The integrated assessment team found that the work completed by the current contractor on the project was consistent with contractual specifications and that the components were adequately designed.

Construction Conformity: All welds (100%) were radiographed (x-rayed) to ensure adequate pipe strength and seal. This will reduce the injury risk to

personnel working around the pipe after commissioning and avoid product loss from leaking. In the picture below, the welders who performed the work are identified by number (19/20), and the weld was dated (9-24-05) and numbered (27). Such information is necessary in tracking welder performance and weld quality and is integral to overall effective construction management practices.

Welder Testing: All welder applicants were field-tested before being hired to determine whether they possess the skills required. Standards are strict, and retests are not allowed.
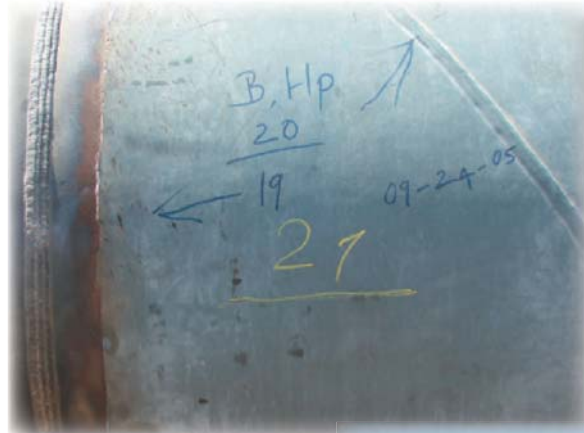
Example of a properly marked, quality welding at river pipeline crossing site.

QM team testing a welder's skill at river pipeline crossing site.

Supervisor Field Presence: Line-level construction supervisors were on site virtually 100% of the time, and quality control (QC) and quality assurance (QA) personnel were on site frequently enough to effectively perform their duties. In addition, contractor and government personnel shared a local communications (walkie-talkie) net. Accordingly, events that required the attention of a supervisor or the quality management (QM) team were known to all in a timely manner.

Effective implementation of the contractor's quality control plan and the U.S. government's quality assurance program were highly instrumental in the success of the project to date and it appears that the project will successfully be completed this time.

River Crossing Tie-ins, Northern Iraq
(Project Assessment Number: SIGIR-PA-2005-012)

This project has a contract cost of approximately $8.2 million. It was reported that the project was approximately 14% complete when assessed. The integrated assessment team found that the project results will very likely be consistent with original objectives, because project components were adequately designed before construction or installation. While on site, the assessment team observed the same good practices related to construction conformity, hiring key labor, and on-site supervision described in the River Pipeline Crossing section of the report.

As a result of the team's assessment, SIGIR recommended a modification to the scope of work that could substantially increase the potential flow of crude oil in this pipeline system and produce millions in additional revenue for Iraq. The original contract scope of work linked the supply pipeline to a 200-meter span of 32-inch pipe, which then linked to a distribution and exportation pipeline. SIGIR engineers determined that of the 32-inch pipeline unduly restricted oil flow. The SIGIR integrated assessment team recommended that a 40-inch connector pipeline be added to eliminate the restriction, increase carrying capacity, and provide for operational flexibility. This change could increase oil flow capacity by more than 50%.

Supervisors on site at river crossing tie-ins.

Pipe with hydra-test fittings at river crossing in northern Iraq.

The USACE initiated a plan to implement this recommendation and advised that both the extra piping and skilled labor that could complete this project change were on site and could be used with negligible impact on project schedule and budget. Implementing this recommendation achieved cost savings, accelerated completion, increased pipeline flow capacity, and thus, increased oil revenue for Iraq. Given the substantial and immediate economic benefits this minor modification provided, USACE agreed to implement this contract modification quickly.

Construction at the tie-in site.

Canal Crossing, Northern Iraq
(Project Assessment Number: SIGIR-PA-2005-011)

This project had a contract cost of approximately $2.1 million and was reported to be 35% complete when assessed. The integrated assessment team found that the project results very likely will be consistent with original objectives, because project components were adequately designed before construction and installation. Subsequent construction will likely meet design standards, because a comprehensive contractor quality control plan and U.S. government quality assurance program have been implemented.

Welding and pipeline fabrication at the canal crossing is in its early stages. However, construction conformity and quality very likely will meet contract requirements because the QM team responsible for the canal project has demonstrated its ability to ensure quality at related project sites. In addition, the contractor's daily quality control reports and the Government Quality Assurance Representative's reports were found to be adequate. Finally, 100% pipe-weld testing, individual welder testing, and a strong QM team presence on the site very likely will result in a project built to specifications.

Other Project Assessments

In addition to the three pipeline projects, SIGIR integrated assessment teams also conducted assessments of electrical projects, a healthcare center, a police station, a railway station, and a hospital.

Five Electrical Power Substations in Southern Iraq
(Project Assessment Numbers: SIGIR-PA-05-05 to SIGIR-PA-05-09)

SIGIR conducted project assessments of five electrical substations in southern Iraq, valued at $28.8 million. The completed substations were found to be well-planned, well-designed, and well-constructed. Specifically, the required transformers, switchgear, relays, disconnect switches, battery systems, communications equipment, offices, switchgear buildings, guardhouses, security fences, restrooms, parking lots, and other associated equipment required for functional substations were properly constructed or installed. The construction and equipment installation was completed at a high level of workmanship. As a result, the substations should convert high-voltage transmission electricity to low-voltage distribution electricity when commissioned and feeder lines to and from the facilities are installed.

There were two keys to the program's effectiveness: the contractor's quality control and U.S. government quality assurance programs adequately addressed quality control elements. The contractor also adequately addressed sustainability issues, including:

- training substation employees how to operate the plants
- operational and maintenance manuals for the substation systems
- spare parts for maintenance operations

Operational effectiveness, however, needs to be addressed. IRRF-funded projects are planned or underway to complete the high-voltage feeder connections to the substations. However, installation of the distribution lines from the substations to end users, which was initially part of the contract but later deleted, has been turned over to the Iraqi Ministry of Electricity. PCO advised SIGIR that one of the substations has two outgoing feeder lines installed and a third is planned. Three of the substations would begin receiving the outgoing feeder lines near the end of 2005, and the last substation is considered a lower priority. No date for installing the distribution system was given.

SIGIR recommended that U.S. management agencies monitor the installation of the incoming and outgoing feeder lines to ensure that the substations are put into service and that the Iraqi people benefit from the completed projects.

New wall, guardhouse, and gate at electrical facility in central Iraq.

Primary Healthcare Center in Central Iraq
(Project Number SIGIR-PA-2005-016)

A SIGIR integrated assessment team conducted a site assessment of a primary health care center in central Iraq. The objective of this IRRF-funded project is to construct a new 2-story primary healthcare facility of approximately 15,064 square feet. The facility will include medical and dental offices and exam rooms, x-ray facilities, a pharmacy, a laboratory, and a reception area. This project is one of 141 new primary healthcare centers being constructed in Iraq under a single design-build contract. This project, which is contracted to cost $441,624, was reported to be 47% complete at the time of the assessment. An additional IRRF-funded project is currently underway to purchase the required medical equipment necessary for an operational primary healthcare center.

The project appeared adequately scoped with sufficient design and specifications for the construction to meet the stated objectives. Before the SIGIR visit, site preparation was complete, and concrete had been placed for ground floor columns, ground floor ceiling structural beams, first floor slab, center stairwell, and x-ray room walls.

The SIGIR assessment found significant issues relating to the concrete placement used for the construction of this facility. SIGIR observed that several concrete structural beams had segregation and honeycombing, with the metal reinforcement showing at the surface. In addition, USACE quality assurance reports showed previous deficiencies in the concrete placement that had not been corrected.

The assessment also found that the contractor did not have an adequate quality control program in place to ensure that the work was accomplished according to the contract design and specification, and the contractor did not have an efficient process to make corrective actions when issues developed. To date, corrective action has not been proposed or approved. The contractor has stated that it is currently developing procedures to increase quality control for concrete. The contractor, PCO, and USACE are working to develop corrective action for these concerns.

Primary healthcare building in central Iraq, under construction.

Police Station in Central Iraq
(Project Number SIGIR-PA-2005-020)

This SIGIR assessment determined that the completed project will be consistent with the original task order objectives, once a deficiency found during the assessment is corrected. The $153,000 contract required the construction, reconstruction, or renovation of buildings and facilities and all associated equipment required for a functional police station. With one exception, the work appeared to be consistent with the contract specifications and had been effectively managed by the USACE project engineer and quality assurance representative.

Overall, the quality of the construction work was good. The sidewalks, parking lot, perimeter walls, guard towers, new three-room building, lighting, and a new generator were constructed or installed properly. The contract also adequately addressed sustainability, including training police station

employees to operate the new generator and providing operational and maintenance manuals for the generator.

The SIGIR assessment did, however, identify a construction deficiency that required immediate correction. The newly installed roofing tiles had insufficient sealing between them, and the roof leaked. USACE advised subsequently that the contractor had agreed to repair the roof under the contract warranty and was completing repairs within several days of the SIGIR site visit.

Railway Station Rehabilitation in Central Iraq
(Project Number SIGIR-PA-2005-019)

This SIGIR assessment determined that the railway station renovation will be consistent with original task order objectives and contract specifications, if final inspection items identified by the USACE are corrected. The project work, at a cost of $274,000, was reported to be 86% percent complete at the time of the assessment.

While some areas of the project were inaccessible during the two visits to the site, the work that was observed met the requirements of the contract. The rehabilitation work included new brick facing on the exterior walls and columns, new exterior and interior lighting, new air-conditioning units, new doors and windows, a new false ceiling, new flooring, and upgraded electrical system.

Structural overhead beam with honeycombing and metal reinforcement visible.

Structural overhead beam showing honeycombing and segregation of concrete at hospital.

The assessment found that the contractor's quality control program, which was required in the contract, was almost non-existent. Nevertheless, the rehabilitation work met the contract specifications because the USACE project engineer and quality assurance representative monitored and supervised the work.

Maternity and Pediatric Hospital in Central Iraq
(Project Number SIGIR-PA-2005-016)

The SIGIR integrated assessment team visited the Maternity and Pediatric Hospital, a 260-bed operational hospital in central Iraq. The existing facilities are insufficient to fulfill functional and cleanliness requirements of hospitals, and some of the equipment and facilities are in a state of disrepair. The objective of this project is to renovate the hospital, including:

- replacing or renovating electrical, water, heating, air-conditioning, and communications systems in the main hospital building
- renovating the doctor's residence building
- installing a new incinerator unit and power plant (generator)
- repairing four elevator systems

The project work, at a cost of $7.4 million, was reported to be 33% complete at the time of the assessment.

The project appeared adequately scoped, with sufficient design and specification for most components to meet the stated objective. However, it is too early to determine whether the project will actually meet those objectives.

One area of concern is the rehabilitation of the four elevator systems. The scope of work, specifications, and contractor quality control program were not sufficiently specific to ensure the quality of work. The USACE quality assurance representative, who had experience inspecting elevators, has identified numerous problems, including:

- ropes that were not certified
- no emergency pit shutoff valves
- no emergency lockable disconnect for lockout/tag out
- no guards installed on drive sheave and ropes

Although the contractor is working to improve the deficiencies, elevator renovation activities should be closely monitored in the future to ensure that the work meets the specifications of the contract.

Ground Project Survey Program

The second component in SIGIR's program for inspecting construction at specific sites is the ground project survey program. This program involves conducting more general reviews of project construction sites, noting deficiencies, assessing overall progress, and taking photographs. The information is subsequently analyzed for contract compliance, shared with program management, and used to identify locations for more detailed engineering assessments. The program was initiated toward the end of the quarter, with 10 surveys conducted during this period. SIGIR expects to conduct large numbers of surveys next quarter.

Aerial Project Survey Program

The third component of SIGIR's inspection program is its aerial project survey program. In this joint effort, SIGIR is working with another federal agency, using satellite imagery to determine whether structures, roads, and other construction projects comply with contractual requirements and reported completion information. In the past, SIGIR used aerial imagery to assess potential targets for audits.

SIGIR's initial aerial survey projects involve recently constructed Iraqi posts and forts along the Iraq border. In the first phase, SIGIR gathered contractual information, maps, and grid coordinates on posts and forts on the border and along more than 400 kilometers of road construction in Iraq. SIGIR provided the information on these 50 project sites to satellite imagery analysts in Washington D.C., who pulled satellite imagery of the projects to compare the images to the general contract specifications. The imagery analysts will determine whether the projects are underway. SIGIR will use these results for targeting its other assets.

SIGIR Investigations

SIGIR continues to investigate fraud and corruption in the expenditure of appropriated funds for Iraq reconstruction. SIGIR, along with its Special Investigative Task Force for Iraq Reconstruction (SPITFIRE) partners, has produced significant results during this quarter. SPITFIRE investigations have led to enormous cost savings, recoveries, and cost avoidance. The members of SPITFIRE include:

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

After creating SPITFIRE, SIGIR moved quickly to coordinate with the Asset Forfeiture and Money Laundering and Section (AFMLS), Criminal Division, U.S. Department of Justice, to facilitate the thorough investigation and successful prosecution of cases initiated by SPITFIRE. SIGIR provided $2 million to the Department of Justice to fund four full-time prosecutors to work on SIGIR cases.

AFMLS is mandated to prosecute complex, sensitive, multi-district, and multi-agency cases, including matters of international interest. With the capacity to work with the entire spectrum of law enforcement and regulatory agencies, AFMLS uses an interagency, interdisciplinary, and international approach to effectively prosecute fraud, money-laundering, and forfeiture cases originating in Iraq.

With more than 50 matters currently being investigated, SPITFIRE conducts interviews throughout the United States, as well as in Europe and the Middle East. Cooperation and coordination with a number of U.S. government agencies in Iraq, including the Joint Contracting Command, continues to generate quality cases involving contract fraud and mismanagement.

Crime Trends

SIGIR continues to track crime trends in reported violations. Table 2-2 presents the 24 cases either opened or converted from preliminary investigations since the SIGIR July 2005 Report.

Case Allegations Opened or Converted since July 31, 2005	
Investigative Category	Number of Violations
Theft	8
False Claims	7
Bribery/Kickbacks/Gratuities	4
Cost Mischarging/Product Substitution	3
Procurement Fraud	3
Conflict of Interest	3
Other	3
Total	**31**
Note: Some cases have multiple allegations; therefore the total number of allegations exceeds 24.	

Table 2-2

Of the 24 cases, 13 involved theft, bribery/kickback/gratuities, or conflict of interest; these were crimes by individuals for personal gain or profit. Eleven cases involved allegations of procurement fraud, cost mischarging/product substitution, or false claims; these were crimes by contractor companies.

Seizures and Forfeitures

In a matter under investigation in Iraq, SIGIR seized $4 million in an investigation involving possibly an $8 million theft and fraud case that entailed the awarding of unauthorized contracts for the maintenance of a police training facility.

$4 million in cash seized by SIGIR agents in Baghdad.

SIGIR also recently returned $670,000 in seized DFI monies to the U.S. comptroller in Iraq for use in reconstruction. Recovered funds are shown in the photo below.

$670,000 in DFI funds returned to U.S. comptroller in Iraq.

In a separate investigation, SIGIR recovered $527,456 of DFI funds that had not been accounted for. Under SIGIR's direction, these funds were returned to the Comptroller for use in the reconstruction of Iraq.

With the assistance of the U.S. Mission Iraq, Regional Security Office, SIGIR has seized 21 automatic assault rifles valued at $37,800, as well as a sniper rifle valued at $3,400. SIGIR believes that these weapons, shown in the next photo, were purchased with funds diverted from DFI monies earmarked for reconstruction in Iraq. A SIGIR audit discovered this problem.

Sig Saurer assault rifles seized in a criminal investigation in Iraq.

In another matter, SIGIR seized five government computers and several unauthorized weapons from a government contractor in an investigation involving the overbilling of personnel costs and the double-billing of a piece of equipment valued at $500,000.

Other SIGIR Partners

SIGIR investigators continue to work closely with other government agencies in Iraq and the U.S. Work continues with the U.S. Army Criminal Investigation Command's Major Fraud and Procurement Unit on a possible contract fraud and murder case in Iraq. Additionally, SIGIR is a member of two task forces involved in the possible diversion of U.S. funds to the insurgency in Iraq:

- Threat Financial Exploitation Task Force
- Threat Financial Investigation Task Force

SIGIR provides valuable information to these organizations on potential fraud in the expenditure of appropriated Iraq reconstruction funds.

SIGIR Cooperation with Iraqi Investigators

SIGIR has worked to finalize a Memorandum of Understanding (MOU) to share information on corruption with the Iraqi Commission on Public Integrity (CPI). During many criminal investigations, SIGIR investigators develop information about Iraqi citizens and public officials engaging in illegal and corrupt activity. For example, SIGIR recently provided significant information on the activities of an Iraqi military officer who was alleged to have been soliciting bribes from contractors.

Under this MOU, SIGIR will assist CPI in tracking and freezing assets of Iraqi citizens in the United States who are involved in criminal activity. Under Executive Orders 13315 and 13350, SIGIR is working closely with the Office of Foreign Assets Control (OFAC) of the U.S. Department of Treasury to impose controls on transactions and freeze foreign assets under U.S. jurisdiction. Many of these sanctions may also be based on UN and other international mandates.

Initiatives

SIGIR maintains a proactive approach to investigations. To develop significant investigations, SIGIR has initiated two Iraq-based programs that involve tracking and monitoring money destined for the reconstruction of Iraq. SIGIR will share the information developed by these initiatives with the Threat Financial Exploitation Task Force and the Threat Financial Investigation Task Force.

SIGIR recently sent correspondence to all former CPA employees soliciting their assistance in providing information regarding any issue or event that they believe may have been a violation of legal or ethical standards. This includes fraud, waste, or abuse of Iraq reconstruction assets; misuse or abuse of authority by U.S. citizens; and apparent financial or managerial improprieties.

To report such information, contact SIGIR at:

Telephone: (866) 301-2003
FAX: (703) 602-5993
E-mail: hotline@sigir.mil

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. Cases received by the SIGIR Hotline that are not related to SIGIR's mission are transferred to the appropriate entity. The SIGIR Hotline receives walk-in, telephone, mail, fax, and online contacts from people in Iraq, the United States, and throughout the world.

During the third quarter of 2005, the SIGIR Hotline combined all of its cases from the Baghdad office into master files in Washington, D.C. All open case files were then reviewed and analyzed to determine if they were valid and within SIGIR's purview to investigate. As a result, SIGIR transferred a number of cases to other IGs and closed others.

Third Quarter Reporting

As of September 30, 2005, the SIGIR Hotline has initiated 425 Hotline cases since its inception. A summary of these cases is provided in Table 2-3.

SIGIR Hotline Cases						
SIGIR Hotline	Received		Closed		Ongoing	
Third Quarter	Jul-Sept 2005	Cumulative Total *	Jul-Sept 2005	Cumulative Total *	Jul-Sept 2005	Cumulative Total *
Admin Investigation	3	336	2	74	3	8
Dismiss	5	NA	53	67	0	0
Transfer	9	NA	26	100	0	0
Referral	0	NA	0	45	0	0
Assist	1	NA	7	42	0	0
FOIA	0	4	0	4	0	0
Admin Totals	**18**	**340**	**88**	**332**	**3**	**8**
Criminal Inv.	4	73	7	39	2	34
Audits	3	11	0	5	3	6
Special Ops.	0	1	0	0	1	1
Totals	**25**	**425**	**95**	**376**	**9**	**49**

*The cumulative totals cover the period since the SIGIR Hotline began operations, from March 24, 2004, to September 30, 2005.

Table 2-3

New Cases

From July 1 to September 30, 2005, the SIGIR Hotline opened 25 new cases. Figure 2-1 shows the new cases by type.

New Cases

- 7 - Other issues, e.g. payment assistance, contract awards, etc
- 7 - Fraud
- 1 - Reprisal
- 1 - Abuse
- 3 - Criminal conduct - not fraud
- 6 - Waste
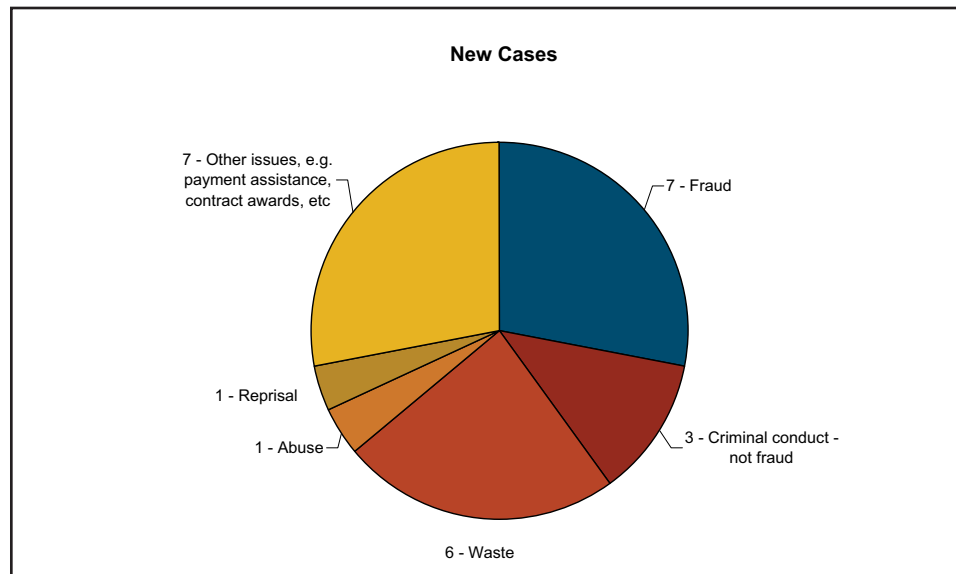
Figure 2-1

The SIGIR receives most reports of perceived instances of fraud, waste, abuse, mismanagement, and reprisal by electronic mail, but it receives inputs in person and via conventional mail, phone, and transfer from other agencies.

Closed Cases

During the reporting period, SIGIR closed 95 cases. Figure 2-2 shows the reasons for case closure.

Closed Cases

- 26 - Transferred to other IG agencies
- 53 - Dismissed for lack of information, unreachable complainants, or outside SIGIR scope
- 2 - Closed following administrative investigations
- 7 - Closed following assists
- 7 - Closed following criminal investigations
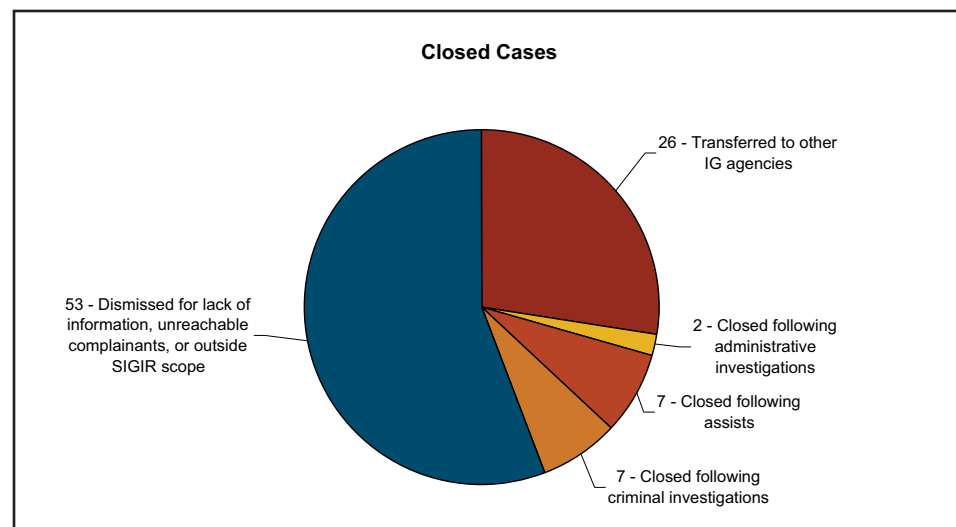
Figure 2-2

Both cases closed after administrative investigations were unsubstantiated.

Transferred/Referred Cases

During this reporting period, SIGIR transferred 26 closed cases to other Inspectors General.

- 12 to the Multi-National Force-Iraq OIG
- 5 to the Department of the Army IG
- 4 to the Department of Defense IG
- 2 to the Air Force IG
- 1 to the Department of State OIG
- 1 to the Department of Justice
- 1 to the Project and Contracting Office

SIRIS

Public Law 108-106, as amended, requires SIGIR to report on Iraq reconstruction efforts funded by the IRRF. SIGIR expects the U.S. agencies managing reconstruction in Iraq to provide timely and accurate data on programs and projects. No single information system currently captures comprehensive project, contract, and financial data. To address this problem, SIGIR designed and built the SIGIR Iraq Reconstruction Information System (SIRIS) as a repository for project, contract, and financial data on Iraq reconstruction. SIRIS is not intended to be a financial management or a transaction-based system, but rather a warehouse of Iraq reconstruction data from all of the organizations that have the authority to obligate IRRF monies.

SIRIS houses several types of data:

- *contracting actions* from either electronically scanned or physical copies of the contract documents
- *expenditure data* from multiple financial systems
- *project data* with cost-to-complete estimates

SIGIR and other oversight organizations can use SIRIS data to target and perform the highest-value audits and investigations of Iraq reconstruction. To develop a complete picture of IRRF-related contracting actions, SIGIR collected and filed copies of contracts from external oversight organizations and issued monthly data calls to executing agencies that manage the IRRF. These agencies track activities within their respective operational scope; therefore, they can help SIGIR collect data.

Technical development of SIRIS is complete, and SIGIR is continuing to gather the data to populate it from the agencies that use IRRF funds. SIGIR initiated a large data-gathering effort, sending a data-call letter asking for project, contract, and expenditure information. This data enables SIGIR to verify the information provided by reconstruction agencies. As of October 17, 2005, SIGIR has entered 3,271 contracting actions for obligations of $14.2 billion. Of that total, 1,548 contracting actions, valued at $5.1 billion, obligated IRRF funds. For a list of these contracts, see Appendix I.

Goals and Objectives

These are the main goals and objectives of SIRIS:

- Support reporting requirements of P.L. 108-106, as amended.

- Collect and store all contracting actions, project data, and expenditures received from SIGIR data calls.

- Establish an audit trail that can track monthly SIGIR data calls.

- Improve sharing of information across all oversight organizations.

- Develop standard reports to support internal and external users.

Contract and Project Data Analysis

SIGIR is required by P.L. 108-106, as amended, to submit a report summarizing all contract activities that support reconstruction efforts in Iraq. To facilitate this effort, SIGIR requests information on all IRRF obligations, expenditures, and revenues, including contractual and other agreements at the project and program levels, from these executing agencies:

- Project and Contracting Office (PCO)
- Multi-National Security Transition Command-Iraq (MNSTC-I)
- U.S. Army Corps of Engineers (USACE)
- Defense Finance and Accounting Service (DFAS)
- United States Agency for International Development (USAID)
- Department of State/Bureau for International Narcotics and Law Enforcement Affairs (INL)

SIGIR requested these agencies to provide this information by July 15, 2005, followed by monthly updates. SIGIR imports the data and then organizes it in a format that allows for dynamic reporting.

In September, SIGIR received data only from PCO, MNSTC-I, and USAID. SIGIR examined the data and found differences in trends among the three. Each organization plays a different role in Iraq reconstruction, allocating its portion of IRRF funds in different areas. MNSTC-I oversees the training of the Iraqi army and other security-related undertakings. USAID is more focused on humanitarian projects. PCO is charged with overseeing general reconstruction of infrastructure, including oil, electrical, transportation, and water systems.

For a complete listing of contracts reported to SIGIR, see Appendix I.

PCO Data

PCO manages activities associated with IRRF-funded programs and projects across various sectors, including:

- Oil
- Electrical
- Public Works and Water
- Security and Justice
- Transportation and Communications
- Buildings, Health, and Education

Financial Summary of PCO Projects

As of August 31, 2005, PCO reported 3,041 projects related to Iraq reconstruction, providing information on $4.59 billion in PCO IRRF obligations.[8] (Of note, PCO recently indicated that its total amount obligated is higher but SIGIR was not provided data to substantiate this.) The electricity and oil sectors together represent more than half of the reported $4.59 billion. National security costs incurred by border enforcement projects accounted for more than a third of the reported $1.5 billion in PCO expenditures. Table 2-4 shows a summary of PCO projects grouped by sector.

Summary of PCO Projects Reported to SIGIR, as of August 31, 2005 (dollars in millions)					
Sector	Number of Projects	Amount Obligated	Obligations as Percentage of Total Obligated	Amount Expended	Expenditures as a Percentage of Total Expended
Buildings, Health, and Education	1,646	$299.7	7%	$126.2	8%
Electrical	484	1,134.3	25%	369.8	24%
Security and Justice	340	808.4	18%	538.4	35%
Public Works and Water	243	844.0	18%	241.7	16%
Transportation and Communications	239	238.7	5%	73.3	5%
Oil	89	1,265.5	28%	199.1	13%
Total	**3,041**	**$4,590.8**	**100%**	**$1,548.8**	**100%**

Note: Data not formally reviewed or audited. Figures may not add because of truncation.

Table 2-4

PCO Project Cost Metrics

To monitor projects costs, several metrics were detailed in the PCO data set. For each project, PCO has assigned an initial cost estimate, an estimate of current project costs, and the estimated project costs at the time of completion. Figure 2-4 shows the project cost metrics grouped by sector.

Project Cost Metrics, as of August 31, 2005 (in millions)
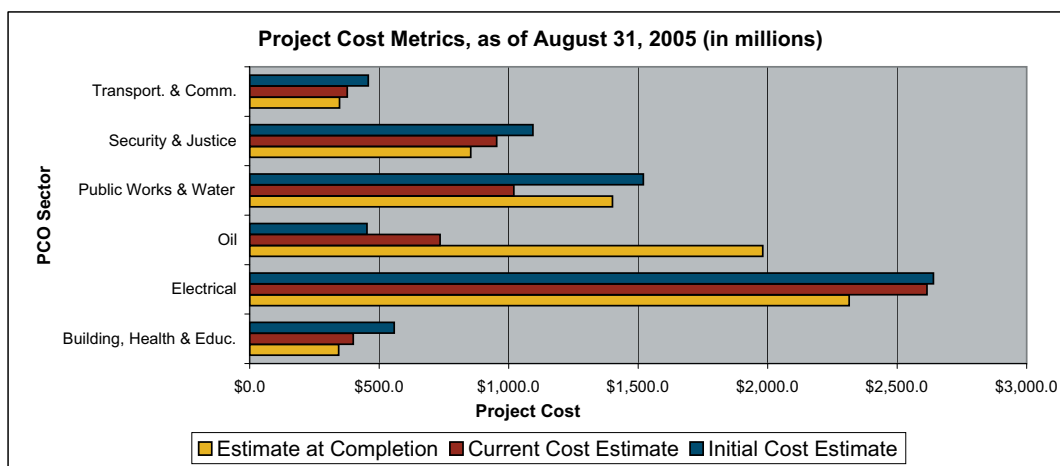
Figure 2-4

In most sectors, the PCO data indicates that project costs at the time of completion will not exceed the initial cost estimates. The oil sector, however, reports that costs were initially underestimated by approximately $790 million. Figure 2-4 also suggests possible funding anomalies. PCO reported that more than 85% of oil projects are on schedule or ahead of schedule, yet Figure 2-4 shows that the cost to complete these projects is increasing beyond initial estimates. This sector shows the highest percentage of projects on or ahead of schedule, but also the largest increase in estimated costs to complete.

PCO Project Scheduling Metrics

For each project, the PCO data set reported the initial projected completion date, the current projected completion date, and the actual completion date. Comparative analysis of these dates identifies completed projects, ongoing projects, and projects that are either ahead of schedule or behind schedule. Of the 3,041 projects reported by PCO:

- 1,905 projects were ongoing
- 1,128 projects were complete
- 8 projects were not scheduled

Figure 2-5 shows the status of ongoing PCO projects grouped by sector. The security and justice and transportation sectors have the greatest number of projects that have fallen behind schedule. More than 80% of all security and justice projects are currently behind schedule.

Completion Status of PCO Ongoing Projects, as of August 31, 2005

Legend: □ % of Projects On Schedule ■ % of Projects Ahead of Schedule □ % of Projects Behind Schedule
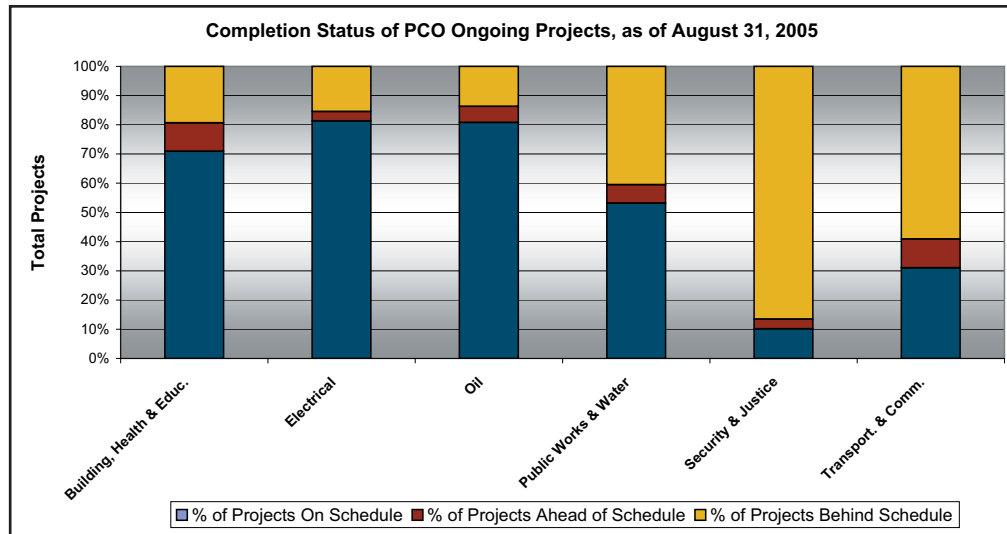
Figure 2-5

MNSTC-I Data

MNSTC-I has been tasked with assisting the Iraqi government in training, mentoring, and equipping the security forces of Iraq. MNSTC-I has 139 projects in support of its mission, funded with an initial $834.5 million in IRRF-appropriated money. MNSTC-I executes its funds through other organizations that undertake the projects. The projects are currently categorized under four major groupings:

- Iraqi Armed Forces
- Iraqi National Guard (now part of the Iraqi Army)
- Police Station, Police Academies, and Special Unit Garrisons
- Department of Border Enforcement

As of September 12, 2005, projects in all four major groups have spent more funds than originally allocated. To date, MNSTC-I has obligated more than $119 million more than originally anticipated for security transition costs. Table 2-5 details the amount spent under each project. The Department of Border Enforcement exceeded its allocated amount by 49%, the highest of the four categories. Overall, the projects have spent 14% more funds than originally allocated.

MNSTC-I Project Cost and Allocation, as of September 12, 2005 (dollars in millions)					
	Project Name				
	Police Station, Police Academies and Special Unit Garrisons	Iraqi Armed Forces	Iraqi National Guard	Department of Border Enforcement	Cumulative Total
Total Cost	$320.2	$149.3	$389.1	$94.8	$953.6
Percent of Project Cost over Cumulative Total	34%	16%	41%	10%	100%
Original Allocation	$284.0	$128.5	$358.5	$63.5	$834.5
Amount over Initial Estimate	$36.2	$20.8	$30.6	$31.3	$119.1
Percent of Project Cost over Original Allocation	13%	16%	9%	49%	14%

Note: Data not formally reviewed or audited. Figures may not add because of truncation.

Table 2-5

Table 2-6 provides a summary of the funds allocated by location. Almost 25% of MNSTC-I projects are in either Baghdad or Tadji.

Top 10 MNSTC-I Project Locations by Project Value, as of September 12, 2005 (dollars in millions)				
Location	Amount Obligated	Percent Obligated of Total Obligated	Amount Expended	Percent Expended
Tadji	$210.9	12.7%	$88.2	41.8%
Baghdad	$203.1	12.2%	$42.3	20.8%
An Numaniyah	$168.7	10.1%	$145.0	86.0%
Al Kasik	$121.7	7.3%	$93.3	76.6%
Kirkuk	$115.8	7.0%	$92.7	80.1%
Tallil	$108.2	6.5%	$95.5	88.2%
Ar Rustamayah	$91.8	5.5%	$53.3	58.1%
Kirkush	$75.4	4.5%	$55.6	73.7%
India Base	$70.0	4.2%	$38.3	54.7%
Multiple–Schools	$59.1	3.6%	$61.9	104.7%

Note: Data not formally reviewed or audited. Figures may not add because of truncation.

Table 2-6

USAID Data

USAID helps rebuild Iraq by implementing programs in education, food, security, health care, infrastructure reconstruction, economic growth, community development, airport and seaport management, local governance, and transition management. It currently has oversight of 9,870 projects, funded with $2.2 billion in IRRF monies. More than 68% of the reported projects fall under Justice, Public Safety Infrastructure, and Civil Society, which have objectives that include democracy-building and human rights activities.

Table 2-7 provides a financial summary of USAID IRRF-funded projects categorized by type and project status. Although most projects are non-construction, the largest portion (56.4%) of USAID resources are allocated to large construction projects, such as roads, bridges, and airports. More than $23 million in IRRF funds were obligated for projects that have either been cancelled or suspended. These funds may be reallocated to new projects or to ongoing projects that need more funds.

Project Type	Project Status					Project Type Total	Project Type Total as a Percent of Total Projects
	Cancelled	Completed	In Progress	Proposed	Suspended		
Large-scale Construction	$8.1	$0.0	$1,155.0	$91.4	$14.7	$1,269.3	56.4%
Non-construction	0.0	182.3	563.7	3.5	0.0	749.7	33.3%
Small-scale Construction	0.0	201.8	27.2	3.2	0.1	232.5	10.3%
Project Status Total	$8.1	$384.1	$1,746.0	$98.3	$14.9	$2,251.7	100.0%
Project Status Total as a % of Total Projects	0.4%	17.1%	77.5%	4.4%	0.7%	100.0%	

USAID Fund Allocation by Project Type and Project Status, as of October 2, 2005 (dollars in millions)

Note: Data not formally reviewed or audited. Figures may not add because of truncation.

Table 2-7

Table 2-8 provides a summary of the top 10 locations to which the funds are allocated. Of the funds allocated, 44.7% have been concentrated in Baghdad, 83% of which have been large-scale construction.

Top 10 USAID Project Locations by Obligation Value, as of October 2, 2005 (dollars in millions)					
Location	Project Type			Total Cost	Percent of Total Cost over Accumulated Cost
	Large-scale Construction	Non-construction	Small-scale Construction		
Baghdad	$834.8	$66.6	$104.4	$1,005.9	44.7%
Nationwide	$224.5	$546.3	$715.2	$771.6	34.3%
Basrah	$57.1	$18.7	$24.7	$100.5	4.5%
Babil	$56.8	$16.0	$10.7	$83.6	3.7%
Salah ad-Din	$16.4	$6.1	$8.8	$31.3	1.4%
Diyala	$14.5	$8.9	$5.8	$29.4	1.3%
Karbala	$19.8	$1.9	$5.8	$27.5	1.2%
Tameem	$0.1	$10.3	$11.9	$22.5	1.0%
Multi-Governorate	$0.0	$18.0	$1.6	$19.6	0.9%
Erbil	$7.1	$7.9	$4.5	$19.5	0.9%
Note: Data not formally reviewed or audited. Figures may not add because of truncation.					

Table 2-8

Lessons Learned

SIGIR's Lessons Learned Initiative focuses on three key subject areas within Iraq reconstruction:

- Human Capital Management
- Contracting and Procurement
- Program and Project Management

SIGIR conducted its first Lessons Learned Forum this quarter at Johns Hopkins University, Washington, D.C., addressing human capital management. The process began with in-depth research, scores of individual interviews, and the collation of all-source information, which was then distilled into a draft white paper and presented to the Forum's panel of more than 30 experts drawn from government, industry, and academia, including many who served in Iraq. The full-day Forum evaluated the evidence and provided recommendations that are being refined into a final report.

SIGIR's second Forum, which will examine contracting and procurement in Iraq, will be held in December 2005. Two subsequent Forums will occur in 2006—one on program and project management and the other as a capstone session to review the overall findings of the project.

This section summarizes the information developed in the SIGIR Human Capital Management Draft Report and incorporates the input and recommendations of the expert panel. The Human Capital Management Report will be issued in November and will be available at SIGIR's Web site: http://www.sigir.mil.

Findings from the SIGIR Forum

SIGIR has identified four key "pillars" examining human capital management in Iraq reconstruction:

- policy alignment
- workforce planning
- recruitment
- continuity

Policy Alignment: Policy and Regulatory Guidelines for Staffing a Temporary "Surge Organization"

History teaches that reconstruction programs in post-conflict environments are neither easy nor expeditious. The most successful of these efforts—the post-World War II reconstruction of Japan and Germany—took many years and a major, continuing commitment of U.S. forces and funds to reach its goals. Other U.S. reconstruction or relief endeavors—although less costly and protracted—were generally more troublesome or, as in Somalia, ultimately unsuccessful.

Planning for the occupation and reconstruction of Japan and Germany began a few months after the United States entered World War II and continued for more than three years. By the time the Axis powers were defeated, the relief and reconstruction plan for Germany and Japan was ready for implementation. In Iraq, however, systematic planning for the post-hostilities period was insufficient in both scope and implementation. With respect to human capital, no comprehensive policy or regulatory guidelines were in place for staffing the management of post-war Iraq. Shortly after the conclusion of overt hostilities, two human resources shortcomings became rapidly evident:

- the lack of a template for recruiting personnel to staff a temporary "surge" relief and reconstruction organization
- the lack of a contingency organization that could lead the reconstruction and relief process

Initial Planning Phase

The initial phase of post-conflict planning for Iraq began in mid-2002, when a number of interagency groups, led by DoD, began working on different aspects of the relief and reconstruction plan. These groups had only limited coordination and information sharing. DoS was simultaneously sponsoring the "Future of Iraq" project, but DoD officials were either unaware of this endeavor or chose to ignore it.

Formal development of an overarching reconstruction administrative plan did not begin until the end of January 2003, when Lieutenant General Jay Garner (U.S. Army, ret.) was appointed to head the new Office of Reconstruction and Humanitarian Assistance (ORHA). According to General Garner, the organization had no pre-existing guidelines. An *ad hoc* staffing plan was expediently developed based on an authorization for "detailing" provided by a January 2003 Presidential Decision Memorandum. General Garner observed: "We started [our staffing plan] in, really, the first [week] of February for a March problem."

Planning Guidelines and the 3161 Provision

Several DoD documents relate to surge staffing in emergencies, but none provides a framework for establishing a temporary organization or offers post-conflict civilian staff requirements. The key statutory provision for temporary employment that has been used since the operational inception of ORHA is 5 USC 3161. The "3161 provision" provides for the staffing of temporary organizations by providing temporary appointments to the excepted service of the Civil Service. ORHA and CPA used the 3161 provision to hire civilian personnel for periods of up to one year, with the possibility of renewal. Without the authority provided under section 3161, the potential shortfall in federal detailees would have been difficult to overcome. Among employees working for the CPA in March 2004, more than 20% had been hired under 5 USC 3161.

Uniform HR Rules

Forum participants noted that there were no generally applicable personnel deployment regulations with clearly defined and uniform provisions and benefits. Insurance, leave eligibility, reemployment rights, security arrangements, hazardous-duty pay, overtime pay, and other allowances differed by agency and by status—military, civilian direct hire, contractor, DoD detailee, DoS detailee—which created confusion and resentment.

Creation of the DoS Office of the Coordinator for Reconstruction and Stabilization

At the outset of post-conflict planning, there was no existing organization that could have been expanded to coordinate relief and reconstruction. DoS has since addressed this need by creating the Office of the Coordinator for Reconstruction and Stabilization (S/CRS), which is mandated to "lead, coordinate, and institutionalize U.S. government civilian capacity to prevent or prepare for post-conflict situations…anticipating, averting, and responding to conflict requires a greater, more comprehensive level of planning and organization."

Workforce Planning and Deployment: Dealing with Mission Flux and Interagency Culture Conflicts

Workforce planning is fundamental to establishing a government-managed reconstruction organization. Planning should include the identification of current and future human capital needs, the number of personnel required, the specific competencies necessary, and the sources from which skilled personnel could be drawn. Appropriate workforce planning should also include elements for evaluating and revising plans.

The Iraq reconstruction experience was affected by special circumstances and requirements that inhibited management's capacity to execute workforce planning activities. These circumstances, which affected all workforce planning and recruiting activities, included:

- *The wide-ranging role of CPA:* CPA was a *de facto* government, overseeing the reestablishment of Iraq ministries, consulting with an advisory "legislature," promulgating laws and regulations, providing diplomatic links with foreign governments, and coordinating with the coalition's military leadership.

- *CPA's temporary status and the difficult security environment in which it operated:* CPA had only a few months to define its mission, design an organization to meet the mission, and staff the organization. The lack of meaningful planning at the outset and the eventual deterioration of the security situation (perhaps an outcome of the lack of a strategic plan) made it difficult to secure long-term personnel.

- *A lack of accurate knowledge about Iraq's pre-war conditions:* Initial reconstruction planning assumptions proved invalid, leading to required modifications and necessary changes in CPA's mission. Several SIGIR Human Capital Forum attendees described this as a key factor underlying all of CPA's organizational and operational difficulties.

Several operational shortcomings exacerbated the special circumstances ORHA and CPA faced in Iraq:

- limited personnel sources
- constantly changing requirements
- inconsistent interagency coordination

Limited Personnel Sources

The workforce planning and deployment process for Iraq reconstruction dates from ORHA's efforts, before the start of hostilities, to develop a staff that would address Iraq's post-war requirements. ORHA was assigned three major tasks or "pillars"—reconstruction, civil administration, and humanitarian affairs. ORHA built a structure to address these pillars and sought personnel from the appropriate U.S. government civilian and military agencies to fill the billets. The only apparent systematic manpower plan, however, was a military Joint Manning Document (JMD) that eventually authorized 94 military positions within ORHA.

ORHA sent requests to civilian agencies and the military for personnel support, asking for personnel with appropriate skills in a given area. ORHA's personnel count rose from 150 in mid-March 2003 to more than 500 in April. At the same time, actual staffing patterns began to deviate sharply from the JMD as individual assignments were shifted to respond to rapidly evolving events on the ground. When it became clear in April 2003 that Iraq would need a governing entity with a broader range of functions, the CPA was formed and Ambassador L. Paul Bremer III was appointed as Administrator. CPA immediately subsumed ORHA's role and staff and, after some initial hesitation, recognized the need for many more personnel than ORHA had. CPA then

began to rapidly add new personnel and the personnel balance shifted from majority military to majority civilian personnel.

Lack of an Adequate Staffing Document

Except for the JMD passed down from ORHA, CPA had no formal program for manpower planning. The system that evolved lacked an adequate integrated staffing document and was basically a "pull system," with personnel needs determined in Baghdad and passed back to Washington. According to a March 2004 Report of the CPA Inspector General (CPA-IG), CPA's personnel office in Baghdad was initially staffed by a single person, who received personnel requirements from CPA senior advisers and then forwarded them to CPA Washington for action. CPA Washington officials then contacted U.S. agencies seeking detailees to meet these requirements.

Senior CPA officials in Baghdad sometimes recruited personnel directly from various U.S. government agencies without going through CPA Washington. These "fait accompli hires" were then presented to be processed. This added to CPA's confused HR situation. Because CPA was expected to be a short-term organization, little attempt was made to provide personnel committed to long-term stays beyond three to six months.

New Demands on Recruiting

By late summer 2003, the changing circumstances facing CPA in post-war Iraq extirpated the original assumptions about a short stay and placed new demands on the incipient recruiting system. To solve this situation, a new CPA recruiting team was set up within the Pentagon's White House Liaison Office (WHLO), based on the "transition team" model used to staff new Presidential administrations. This team immediately began a strong recruitment drive for temporary, direct-hire 3161s to staff up CPA and to cover the shortfall in detailee contributions from federal agencies.

The WHLO CPA recruiting team was successful in rapidly hiring hundreds of new temporary employees, but its personnel planning was still *ad hoc*: no long-term personnel resource strategic plan was developed. In addition, CPA recruiting staff generated some controversy because of perceptions of possible bias in hiring decisions. Some reports indicated that the team may have filled some staff positions in CPA with ideologically motivated but inexperienced young people who lacked experience in their respective assignment areas.

Constantly Changing Requirements

Constantly shifting personnel requirements were a continuing feature in CPA. This began at war's end with the collapse of the Iraqi government and the subsequent expansion of the U.S. role to full management of relief and reconstruction. The difficulties inherent in the post-war environment were exacerbated in May 2003 when CPA:

- disbanded the Iraqi Army and Defense Ministry
- decided to pursue an absolutist "de-Ba'athification" policy

These and other events generated demands for U.S. military and civilian personnel with new skill sets, just as the first contingent of CPA personnel were becoming operational.

In late summer 2003, Ambassador Bremer announced that CPA could be expected to remain in place for at least two years. Following this announcement, CPA's recruiting practices rapidly expanded, including more aggressive use of the WHLO CPA recruiting team as the primary recruiting center.

As the CPA recruiting team was ramping up its hiring campaign, it learned of President Bush's announcement in November 2003 that CPA would terminate by the end of June 2004 and transfer all governance authority to the Iraqi Interim Government. This critical decision immediately changed employee expectations about service in Iraq and put the future of many CPA positions in doubt. By the spring of 2004, many job offers and deployment actions were frozen, while CPA and DoS decided whether these positions would continue after the June 28, 2004 turnover.

Interagency Coordination

Relatively few agencies responded positively to the call for volunteer detailees for CPA, and those that did may have acted through requests from senior officials in Baghdad who had influence in their agencies and not through a formal coordination or tasking process. Interagency coordination of human resource management was generally weak. This weakness reflected the larger problem of a general lack of interagency coordination throughout the Iraq reconstruction program. One Forum member expressed surprise at the degree to which many federal agencies gave only "lip service" to taskings from the White House and the National Security Council for Iraq detailees, noting that this remains a problem today. This participant suggested that the White House needs to insist that cabinet secretaries support the detailee initiative and be held accountable.

Although Section 3161 temporary direct hires were able to fill most of the billets for which government detailees were not available, many had no military or government experience and thus were operating in an unfamiliar management environment. Among CPA detailees from other U.S. government agencies, a substantial number had never worked with the military or in a post-conflict environment. Better workforce planning by CPA might have alleviated this problem.

The Iraq Reconstruction and Development Council

In a unique effort to tap the expertise of Iraqi exiles and expatriates for the reconstruction program, the U.S. government created the Iraq Reconstruction

and Development Council (IRDC) in 2003. IRDC was tasked with helping to rebuild Iraqi government structures by embedding Iraqi exiles and expatriates as technical advisers in 23 Iraqi ministries. The program's main goal was to leverage Iraqi expatriates' professional knowledge and cultural understanding to help rebuild the government infrastructure. There are mixed reports about this program's effectiveness. Problems arose in a variety of areas: IRDC members had an ambiguous status that differentiated them both from mainstream CPA colleagues and from their native Iraqi counterparts. At the same time, the chain of command established for the IRDC was unclear, and IRDC members were deployed on a broad range of projects with no central point of contact for overall guidance and management.

Like other aspects of Iraq reconstruction, IRDC suffered from poor planning, poor implementation, and inadequate oversight. One Lessons Learned Forum participant said that the IRDC's "major shortcoming was [that] the goals and commitments set forth through the Office of the Secretary of Defense were not communicated to ORHA/CPA's personnel in Baghdad. As a result, IRDC and ORHA/CPA's expectations and objectives never completely meshed."

Recruitment: Matching Skills with Needs

As with any large and diverse organization, CPA's ability to accomplish its mission was directly linked to the quality and skill of the people who staffed it. Therefore, the personnel recruiting process was a fundamental component of CPA operations. Recruiters needed to determine the necessary skills and experience, identify candidates who possessed these traits, and hire and retain these candidates. They also had to ensure that managers properly matched employees to CPA positions. These circumstances and requirements combined to create unique challenges to the effective planning and execution of recruiting for Iraq reconstruction.

CPA's experiences yielded shortcomings that suggest possible areas for improvement within the ongoing recruiting processes in Iraq and lessons learned for future overseas endeavors:

- lack of mission-based talent acquisition
- inappropriate or inconsistent tour length
- the overtime disincentive
- lack of interagency support

Lack of Mission-based Talent Acquisition

One of CPA's critical personnel shortcomings was the inadequate link between position requirements and necessary skills. The process for identifying qualified personnel and hiring them for specific positions was never coordinated in a systematic manner. Gaps existed both in the type of experience among those hired and the quality and depth of their experience. Although most of the

dedicated personnel deployed to CPA proved to be flexible, their adaptability and resilience in the face of the rigors of post-war Iraq frequently could not overcome shortfalls in skills or experience.

Many Forum participants involved in Iraq's reconstruction described the dearth of CPA personnel with appropriate skills for their positions. Moreover, a SIGIR audit of the administration of DFI contracts found that personnel and resource shortfalls contributed to the ineffective monitoring of DFI contracts, poor document execution, and inaccurate collection of data. SIGIR found that the general shortage of personnel and the widespread lack of skill and experience among those available negatively affected all facets of reconstruction assistance.

Forum participants expressed concern that appropriate pools of qualified people were not fully accessed. One participant believed that CPA should have taken greater advantage of the expertise within the Civil Service. Another noted that, over the last decade, at least one million Americans have had experience in post-conflict reconstruction environments, and thus there was a reservoir of experienced personnel.

Members of the CPA recruiting team who were Forum participants expressed disagreement with some negative observations, stating that they recruited outstanding people with the proper skills. These divergent comments reflect the differing perceptions of those who hired and those who managed.

Inappropriate/Inconsistent Tour Length

Developing a standard cycle of deployment is a key factor in employing personnel with essential experience in a hostile environment. Standard tour lengths should be set, appropriate personnel should be assigned and deployed, and other qualified personnel should be identified and prepared to deploy as replacements. CPA, however, never established a standard deployment cycle.

Non-government, direct-hire personnel (3161s), who frequently provided the critical skills needed to accomplish the mission, were on deployment cycles that differed from federal detailees. It was a daunting task to maintain continuity of effort within this diverse pool of personnel with varying tour lengths and skills and who were not immediately replaceable.

Iraq tour lengths eventually stabilized at one year for Army personnel, six months for civilian 3161 temporary hires (later extended to one-year), six months for Navy personnel, and four months for the Air Force. The Marine Corps used a more complex system; its personnel served multiple, but relatively short, tours in country, with short breaks between them. Detailees from federal government agencies other than DoD and DoS were recruited for six-month tours. DoS detailees were originally asked to serve three-month temporary duty (TDY) assignments. In January 2004, this was extended to six-month TDYs; in the post-CPA period, DoS tours were extended to one year.

CPA-IG conducted an audit of personnel management in CPA, issued as *Coalition Provisional Authority Audit Report No. 04-002, June 25, 2004.* In this report, CPA-IG found that a number of factors caused the high turnover of personnel in CPA, including:

- uncertain length of rotations
- high work volume
- intense operational tempo
- limited incentives
- many risks
- shortfalls in qualified personnel

Aggressive incentives, such as retention rewards for full completion of deployment, could have helped keep individuals in the rotation and also would have deterred some of the "contractor cannibalization" (the recruitment of government personnel by contractors).

The Overtime Disincentive

Forum participants noted that many 3161s claimed large amounts of overtime pay, which caused them to reach federal pay caps months before their scheduled tour completion dates. This became a disincentive that caused early departures. The problem manifested itself most strongly among senior staff, whose base salary was already near pay cap levels. Because of large overtime payments, these people often reached the pay cap after only six to eight months of what was to be a one-year assignment. One Forum participant suggested that overtime should not have been authorized or been very limited for such personnel, in order to maintain the integrity of the senior leadership cadre.

Lack of Interagency Support

Assumptions about the availability of personnel had to be made early in the planning process. To accomplish its mission, CPA expected to be able to draw human capital from agencies throughout the U.S. government; however, those assumptions proved to be faulty. Support from U.S. government agencies fell well short of expectations. Moreover, although it may be possible, members of the Forum agreed that the involuntary assignment of civilian detailees would not work in practice. A February 2004 DoD study specifically cited the lack of interagency support, finding that U.S. government agencies were "reluctant to send the requested number of people or their best people because they see CPA as a DoD project. DoD was also slow to deploy their best people to Baghdad."

CPA-IG data from March 2004 illustrate the poor response from U.S. government agencies. At that time, CPA was estimated to have 1,196 billets filled, out of 2,117 authorized. Of the 1,196 filled positions, federal government cabinet level agencies—other than DoD and DoS—filled just 64 positions (about 5.4%) of the total filled positions. Of the remainder, DoS and USAID filled 91 positions (about 7.5%). The remaining 1,041 positions were mostly filled by coalition members, 3161 temporary-direct hires, and military detailees. A

DoD HR specialist interviewed by SIGIR noted that these March 2004 figures probably constitute the high point in CPA staffing.

To compensate for the lack of available candidates, agencies hired personnel from outside the government to deploy to Iraq. This aggravated the human capital difficulties, because newly hired civilians are more difficult to deploy than federal workers. Each person recruited outside the government had to be in-processed, cleared, and trained, adding additional time to the recruiting and deployment cycle. Hiring delays caused some qualified outside applicants to terminate their candidacies.

Continuity: Dealing with Staff Turnover and Information Handoff

U.S. government workforce planning for Iraq's reconstruction suffered from a poorly structured and *ad hoc* personnel process. The management problems this spawned were aggravated by, among other things, the mounting insurgency that substantially hindered progress on all fronts in Iraq.

As Iraq reconstruction became more difficult than expected, the need for increased numbers of U.S. reconstruction personnel to stay longer—or at least for predictable periods of time—became apparent. Moreover, the stresses associated with living in the Green Zone and the increase in the security threat cried out for the development of a clearly structured deployment cycle with well-defined tour lengths and sufficient overlap with successors.

The Need for Continuity

An ideal tour cycle should include sufficient time to develop necessary job knowledge, apply that expertise, and transfer knowledge to a successor. A face-to-face transition is essential for mission continuity because, particularly in Iraq, pre-deployment briefing information is limited. Successors should be selected and prepared to deploy well in advance of their predecessors' departure.

Many sources stated that CPA never developed a formal deployment cycle for detailees or 3161s. The shortcomings regarding the continuity of personnel included:

- temporary mindset
- lack of synchronized deployment
- actual tour length, personnel turnover, and control

Temporary Mindset

CPA was a temporary organization that subsumed the short-lived ORHA. The definition of "temporary" for CPA, however, changed over time. Originally, it was expected that the United States would use ORHA to supervise a three-month transition of most governing functions to a new Iraqi government staffed

largely by Iraqi expatriates who would move ahead with a democratic vision for Iraq. But in the spring of 2003, it became apparent that the level of recovery in Iraq would require a more extensive U.S. presence. The U.S. government reoriented by disestablishing ORHA and creating CPA as an interim governing authority for Iraq. According to Forum participants, however, the "temporary mindset" continued for several months after CPA's establishment, despite its expanded role. CPA personnel still expected to complete the mission and be gone in a few months.

After adjusting to the reality that CPA would exist for a longer period, CPA employees learned in November 2003 of a new CPA termination date, which would occur the following June. On June 28, 2004, CPA dissolved after just 14 months of existence and transitioned governance authority to the Iraqi Interim Government.

CPA spent half of its 14-month life-span preparing for its own expiration. This situation did not promote long-term commitment among staff nor did it allow for the orderly execution of a strategic plan. A RAND study of U.S. post-conflict reconstruction efforts executed since the end of World War II concluded that long-term commitment is a key factor in successful reconstruction or nation-building: "Five years seems the minimum required to enforce an enduring transition to nation-building."

Lack of Synchronized Deployment

The lack of cooperation among U.S. government agencies significantly hampered the early management of Iraq reconstruction. DoD field assessment reports and SIGIR interviews of CPA personnel suggest that the varying deployment length within diverse federal agencies was a contributory problem to the overall lack of interagency coordination.

With disparate deployment lengths, no effective way to track personnel, and an *ad hoc* rotation schedule, government agencies could not ensure that those who deployed actually completed their rotation. SIGIR interviews and various reports confirm that no agency supporting Iraq reconstruction developed a deployment cycle that included a standard overlap period to ensure transmission of critical information from predecessors to successors. New personnel arrived in Iraq facing steep learning curves and long orientation times, which lengthened the development and execution of the reconstruction program.

Actual Tour Length, Personnel Turnover, and Control

> *The volunteers that did come to Iraq performed heroically, but people frequently rotated through every four to eight weeks, and, when they departed, too often their invaluable knowledge went with them.*

This comment by the former Director of CPA's Office of Management and Budget typifies what SIGIR learned from many CPA officials about deployment difficulties in Iraq. CPA's personnel planning was fundamentally flawed, because supporting agencies failed to develop an integrated framework from which to source and deploy people.

One former CPA human resource specialist told SIGIR that there was no way to enforce deployment lengths—especially for civilian 3161s. Therefore, personnel were held to a "moral commitment" to stay for an agreed-upon time period. This commitment, however, was frequently breached as personnel regularly and independently terminated their deployments early. A Forum participant noted that tour length was negatively affected by the fact that deployed personnel were constantly under stress. There was nowhere in country that they could go for rest and recreation. The result was a high burnout rate, with personnel returning to the United States "when they got worn out." Departures were often relatively sudden and unplanned, and the long processing pipeline for hiring meant that replacements were not readily available and no overlap or handoff was possible.

The insistent and continuous personnel turnover was perhaps the primary reason why the U.S. reconstruction effort during CPA's tenure never reached its authorized working staff level. Notwithstanding this ongoing operational limitation, no interagency coordination center was ever established to monitor and manage the plethora of personnel challenges that CPA and other U.S. government agencies faced in Iraq.

Accounting for Personnel

The U.S. government experienced shortcomings in tracking personnel deployed to Iraq, especially civilians and contractors. There was a lack of effective control procedures at many entry and exit points for Iraq, and there is no inter-agency personnel tracking system. Personnel often arrived and departed without any systemic tracking of their whereabouts or activities, or, in some cases, even knowledge of their presence in country. As late as June 2004, shortly before its dissolution, CPA was unable to account for 10% of its total manpower in Iraq. A CPA-IG report in June 2004 noted that this situation adversely affected contingency planning and CPA's capacity to forecast life-support requirements.

Forum participants stated that, while the personnel tracking issue has been resolved for official personnel, it remains an acute problem for contractor personnel. Mechanisms to track contractors supporting the CPA have largely been left to the contractors' individual firms and have not been enforced. The Forum's recommendations to remedy contractor accountability problems were echoed in a recent proposed interagency policy change to cover U.S. government contractors in Iraq.

Recommendations

Short-term Recommendations

- Establish a clear line of authority/chain of command, make it known, and enforce it.
- Support the Department of State Office of the Coordinator for Reconstruction Stabilization (S/CRS) to leverage strengths across agencies.
- Put in place "Prepositioned Service Contracts" with an experience base that reflects projected needs.
- Establish clear rotational policies with mandated hand over periods.
- Use legal, binding contracts for all personnel, with return rights for detailees.
- Establish rigorous supervisory responsibilities and accounting procedures.
- Establish a registry of contractors operating in support of U.S. government activities in Iraq.
- Establish a joint policy on ID requirements and issuance between DoS and DoD, to be issued by PCO or its successor.

Long-term Recommendations

- Establish a single authority, with appropriate resources, to serve as the umbrella organization for all HR policies. This organization would align processes and programs for future relief and reconstruction efforts. Several Forum participants noted that a single interagency control office based in Washington would have improved coordination, leadership, and credibility in the recruiting and HR management effort in Baghdad. This entity could have controlled the flow of personnel in and out of Iraq, ensured coordination among agencies, and managed personnel demands for specific requisite experience needed on the ground in Baghdad.
- The umbrella authority should include a quick reaction human resources team that can quickly identify the needed human resources requirements in an emerging relief and reconstruction environment.
- Establish the DoS S/CRS as this single point of authority (or as the organization that will develop a single point of authority), and provide it with sufficient funding to carry out these roles. There was consensus among forum participants for making S/CRS a key player in future reconstruction efforts, although there were differing views as to what its specific role should be.
- Implement a uniform set of HR rules that apply to deployed personnel across all agencies and organizations. Provide for a multi-sector/multi-functional workforce with sufficient flexibility to meet rapidly changing stability and reconstruction requirements.

- Focus workforce planning efforts in future reconstruction initiatives on identifying key competencies likely to be needed rather than trying to develop traditional job descriptions that may be quickly overcome by events. Recruiting people based on their core competencies—especially if they are willing to be flexible regarding the specific work they do—will be much more useful.

- Enact new legislation that will allow coverage of costs of government agencies supplying detailees and other related incurred obligations.

- Complete and vet a strategic plan and agreed mission before initial deployment for U.S. engagement in a foreign locale.

- Develop a "universal" U.S. government ID card.

Section 3

SIGIR coordinates oversight activities for Iraq reconstruction programs through the Iraq Inspectors General Council (IIGC) in Arlington, Virginia, and the Iraq Accountability Working Group (IAWG) in Baghdad. These organizations promote discussion and collaboration among the inspectors general and staff of the many agencies involved in overseeing the Iraq Relief and Reconstruction Fund (IRRF). Representatives of member organizations exchange details of current and planned audits, and they work to identify opportunities for collaboration and to minimize duplication of oversight efforts.

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 by these agencies:

- Department of Defense Office of Inspector General (DoD OIG)
- Department of State Office of Inspector General (DoS OIG)
- U.S. Agency for International Development Office of Inspector General (USAID OIG)
- Government Accountability Office (GAO)
- Defense Contract Audit Agency (DCAA)
- U.S. Army Audit Agency (USAAA)
- Defense Criminal Investigative Service (DCIS)

Other Agency Audits

SIGIR formed the IIGC to help coordinate the oversight of IRRF programs. This section provides updates on the audits that IIGC member agencies reported to SIGIR. Table 3-1 summarizes oversight report activity of other U.S. agencies during this reporting period.

	Agency	Report Number	Report Date	Report Title
Recent Oversight Reports of Other U.S. Agencies, as of September 30, 2005				
1	DoD OIG/ DoS OIG	IE-2005-002/ISP-IQO-05-72	July 25, 2005	DoS/DoD IG Interagency Evaluation of Iraqi Police Training
2	GAO	GAO-05-737	July 28, 2005	Rebuilding Iraq: Actions Needed To Improve Use of Private Security Providers
3	GAO	GAO-05-876	July 28, 2005	Rebuilding Iraq: Status of Funding and Reconstruction Efforts
4	GAO	GAO-05-775	August 11, 2005	Defense Logistics: DoD Has Begun to Improve Supply Distribution Operations, but Further Actions Are Needed to Sustain These Efforts
5	GAO	GAO-05-872	September 7, 2005	Rebuilding Iraq: U.S. Water and Sanitation Efforts Need Improved Measures for Assessing Impact and Sustained Resources for Maintaining Facilities
6	GAO	GAO-05-932R	September 7, 2005	Rebuilding Iraq: U.S. Assistance for the January 2005 Elections
7	GAO	GAO-05-882	September 21, 2005	Global War on Terrorism: DoD Needs to Improve the Reliability of Cost Data and Provide Additional Guidance to Control Costs
8	USAID OIG	E-267-05-005-P	September 27, 2005	USAID/Iraq's Cash Control Procedures

Table 3-1

For a complete list of audits and reviews on Iraq reconstruction by all entities, see Appendix H.

Department of Defense Inspector General

This quarter, the Department of Defense Office of Inspector General (DoD OIG) performed limited audit activities related to Iraq relief and reconstruction. At present, DoD OIG does not have any auditors in Iraq (but that may change). The only DoD OIG audit personnel who performed audit work related to Iraq this quarter were detailed to the SIGIR. One DoD OIG evaluator is assigned to assist the Ministry of Defense Inspector General.

Completed Audits and Reviews

Since the SIGIR July 2005 Report, DoD OIG has not completed any new audits. DoD OIG did complete one significant joint review.

DoS/DoD IG Interagency Evaluation of Iraqi Police Training
(DoS Report ISP-IQO-05-72/DoD Report IE-2005-002)

On July 25, 2005, the DoS/DoD Inspectors General released their joint assessment of the shared responsibility of DoS and DoD to train and equip the Iraqi national police forces. The report notes considerable evidence of improving performance within the Iraqi police service and also makes 30 formal recommendations to improve the effectiveness of the training program and to accelerate the transition of training responsibility from DoD to the Iraqi government. Several of the recommendations have already been implemented.

Ongoing Audits and Reviews

Audit of Contract Surveillance for Service Contracts
(Project No. D2004CF-0140)

This audit is not focused on Iraq. The overall objective is to determine whether the U.S. government provides sufficient contract oversight for service contracts to ensure that contractors perform in accordance with the contract. Specifically, auditors are determining whether personnel have been appointed to monitor contractor performance, whether contractor work is adequately monitored, whether contractors perform in accordance with contractual obligations, and whether contractor performance has been properly documented for future use. The audit is now in its draft report phase.

Contracts Awarded To Assist the Global War on Terrorism by the U.S. Army Corps of Engineers
(Project No. D2004CF-0186)

The objective of this audit is to examine contract requirements, determinations, validation, and award procedures for selected contracts and contract actions awarded by the U.S. Army Corps of Engineers in support of the Global War on Terrorism. The audit is now in its final report phase, but is not focused on Iraq.

Review of the U.S. Government's Relationship with the Iraqi National Congress
(Project No. D2005-DINTEL-012)

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

Review of Detainee/Prisoner Abuse Investigations and Inquiries
(Project No. IPO2004-C005)

This is a review of all closed DoD criminal and non-criminal investigations into detainee deaths and allegations of detainee abuse. The objective is to evaluate the investigative sufficiency and gaps in reporting detainee deaths and allegations of detainee abuse.

Review of Detainee/Prisoner Abuse Investigations and Reviews
(Project No. D2004-DINT01-0174)

DoD OIG continues to provide oversight of the investigations and reviews conducted into detainee abuse allegations and detention operations in Iraq. DoD OIG has completed an assessment of the 12 primary reports on detainee abuse and has identified gaps in those 12 reports. A draft report will be published in November 2005.

Support of the U.S. Government Efforts To Create an Iraqi Academy for Principled Governance

This review's purpose is to promote and sustain an anticorruption culture throughout the Iraqi government. A "rear element" of DoD OIG personnel is coordinating activities in support of a three-part process with 28 Ministry IGs, the Board of Supreme Audit, and the Commission on Public Integrity. (SIGIR has not verified whether this review is coordinated with IRMO's anticorruption initiative.)

Department of State

Since the SIGIR July 2005 Report, DoS OIG has not initiated any new audits on Iraq reconstruction and relief.

U.S. Agency for International Development

Since the SIGIR July 2005 Report, USAID OIG completed one audit involving Iraq relief and reconstruction and began two new audits.

Completed Audits

During this reporting period, the USAID OIG completed an audit on activities in Iraq's cash control procedures.

In addition to the USAID OIG audits discussed below, DCAA completed three financial audits for the USAID OIG on costs incurred and materials and services. These audits covered $209,016,537 in USAID funds. There were no questioned costs. At the end of the reporting period, five DCAA audits were in process, which were being performed at the request of the USAID OIG.

Audit of USAID/Iraq's Cash Control Procedures
(Report No. E-267-05-005-P), issued September 27, 2005

The USAID OIG performed this audit to determine whether the Mission (1) managed its cashiering operations in accordance with established regulations, policies, and procedures and (2) properly calculated and disbursed cash payroll payments to its foreign service national workforce in accordance with established regulations, policies, and procedures.

The audit found that USAID/Iraq properly managed its cashiering operations and properly calculated and disbursed its foreign service national cash payroll payments. However, the Mission did not require its regional representatives to sign a form to confirm that they received the petty cash funds sent to them. The USAID OIG recommended that USAID/Iraq finalize and implement its draft policy requiring regional offices to accept, in writing, petty cash funds delivered to them by the Mission's cashier's office.

Ongoing Audits

Since the SIGIR July 2005 Report, the USAID OIG has begun two audits that address Iraq's basic education activities and Iraq's non-expendable property audit objective.

Also, the USAID OIG has carried over one audit from the last reporting period that addresses the accuracy of data biographical datasheets. This audit is being conducted by the Washington headquarters staff. A draft report was in process at the end of this period.

Audit of USAID/Iraq's Basic Education Activities

Objective: Have USAID/Iraq's basic education activities progressed toward their intended outputs?

Audit of USAID/Iraq's Non-Expendable Property

Objective: Did USAID/Iraq manage its non-expendable property in accordance with Agency guidelines?

Audit of the Accuracy of Data Biographical Datasheets Provided by International Resources Group to USAID for Contracts in Iraq

Objective: Is selected information accurate on the biographical datasheets provided to USAID by the International Resources Group (IRG)?

Government Accountability Office

Since the SIGIR's July 2005 Report, GAO has issued six reports and has nine ongoing audits on Iraq reconstruction, five of which are new during this reporting period.

Completed Reports

Rebuilding Iraq: Actions Needed To Improve Use of Private Security Providers
(GAO-05-737), issued July 28, 2005

The United States is spending billions of dollars to reconstruct Iraq while combating an insurgency that has targeted military and contractor personnel and the Iraqi people. This environment created a need for those rebuilding Iraq to obtain security services. GAO evaluated the extent to which (1) U.S. agencies and contractors acquired security services from private providers, (2) the U.S. military and private security providers developed a working relationship, and (3) U.S. agencies assessed the costs of using private security providers on reconstruction contracts.

GAO is making recommendations to the DoD to enhance military procedures to reduce incidences of the military firing on security providers and to provide training to U.S. military forces on the role of security providers. Also, GAO is making recommendations to the Secretaries of Defense and State and the Administrator, USAID, to assist contractors in obtaining security services, and to enable agencies to better plan for security costs in future efforts. DoS disagreed with the GAO recommendation to explore options to assist contractors in obtaining security, citing potential liability concerns, and did not take a position on the GAO recommendation to account and plan for security costs. DoD agreed with GAO recommendations. USAID did not comment on them.

Rebuilding Iraq: Status of Funding and Reconstruction Efforts
(GAO-05-876), issued July 28, 2005

Rebuilding Iraq is a U.S. national security and foreign policy priority and constitutes the largest U.S. assistance program since World War II. Billions of dollars in grants, loans, assets, and revenues from various sources have been made available or pledged to the reconstruction of Iraq. The United States,

along with its coalition partners and various international organizations and donors, has embarked on a significant effort to rebuild Iraq following multiple wars and decades of neglect by the former regime. The U.S. effort to restore Iraq's basic infrastructure and essential services is important to attaining U.S. military and political objectives in Iraq and helping Iraq achieve democracy and freedom.

This report provides information on (1) the funding applied to the reconstruction effort and (2) U.S. activities and progress made in the oil, power, water, and health sectors and key challenges that these sectors face.

Defense Logistics: DoD Has Begun To Improve Supply Distribution Operations, but Further Actions Are Needed To Sustain These Efforts
(GAO-05-775), issued August 11, 2005

Problems in the supply distribution system dating back to the Persian Gulf War have impeded DoD's ability to provide effective and timely logistics support to the warfighter. DoD has taken actions to improve the distribution system by assigning new organizational responsibilities, including designating U.S. Transportation Command as the "Distribution Process Owner" (DPO), issuing a new logistics transformation strategy, and undertaking specific improvement initiatives. GAO's objectives were to (1) assess DoD's organizational structure and transformation strategy to improve the distribution system and (2) determine the status of, and timelines for, completing, specific DoD distribution initiatives.

To enhance DoD's ability to improve the supply distribution system, GAO recommends that the Secretary of Defense (1) clarify the responsibilities, accountability, and authority between the DPO and Defense Logistics Executive; (2) issue a directive to institute these clarifications; (3) direct that improvements be made in DoD's logistics transformation strategy; and (4) address underfunding of new communications and tracking systems. DoD disagreed with the first two recommendations and agreed with the latter two.

Rebuilding Iraq: U.S. Water and Sanitation Efforts Need Improved Measures for Assessing Impact and Sustained Resources for Maintaining Facilities
(GAO-05-872), issued September 7, 2005

After security conditions in Iraq began to deteriorate in June 2003, the U.S.-led Coalition Provisional Authority (CPA) included restoring essential services in Iraq, such as water and sanitation, as part of its strategy for establishing a secure, peaceful, and democratic Iraq. From 1991 to 2003, a decreasing number of Iraqis had access to safe drinking water and sanitation services, and water-borne disease rates rose. The United States has made available $2.6 billion for rebuilding the water and sanitation sector.

As part of GAO's review of Iraq reconstruction under the Comptroller General's authority, GAO assessed U.S. activities in the water and sanitation sector, including (1) the funding and status of U.S. activities, (2) U.S. efforts to measure progress, (3) the factors affecting the implementation of reconstruction activities, and (4) the sustainability of U.S.-funded projects.

GAO recommends that the Secretary of State (1) establish and monitor improved indicators and measures that assess how U.S. efforts are improving water and sanitation services in Iraq and (2) work with Iraqi ministries to assess and obtain the resources needed to operate and maintain facilities. DoS agreed with GAO findings and recommendations and stated that it has begun taking steps to implement them.

Rebuilding Iraq: U.S. Assistance for the January 2005 Elections
(GAO-05-932R), issued September 7, 2005

The United States obligated approximately $130 million for nonsecurity assistance to help Iraq undertake elections in 2005. The largest U.S.-funded area of nonsecurity election assistance was $41.1 million awarded by USAID to IFES to provide technical expertise directly to the IECI to help it conduct the elections and make key procurements. DoS provided $30 million to NDI and IRI to advise, train, and help organize democratically oriented political parties. Both USAID and DoS funded $25.2 million of voter education efforts in Iraq, with grants obligated to IRI, Voice for Humanity, and Iraqi NGOs to conduct voter outreach. USAID provided an additional grant of $14.2 million to IFES to build an Iraqi NGO network to identify and monitor elections-related violence. USAID also obligated $14 million to NDI to develop an Iraqi NGO domestic elections monitor network. The United States sought the participation of Iraqi women in elections with $5.8 million from the DoS and through USAID's integrated gender strategy. The United States, through the Multi-National Force-Iraq (MNF-I), also helped the Iraqi government provide security to conduct the elections.

The UN, which coordinated assistance from the international community, convened a post-elections conference that included IECI, IFES, UN, and USAID officials to assess preparations for the January 30, 2005 elections and to identify areas needing improvement before the next elections. Conference participants identified overall elections management, media involvement in the elections process, and voter education as areas needing improvement. For example, regarding elections management, participants noted that reporting systems and communication practices among elections headquarters, governorate offices, and district offices needed to be improved to avoid confusion about official policy guidance. In addition, participants suggested that the IECI develop a way to address regional differences in voter education. For example, the development of materials by the IECI in languages such as Assyrian and Turkmen would help avoid inconsistencies and inaccurate translations of official voter education materials.

Global War on Terrorism: DoD Needs To Improve the Reliability of Cost Data and Provide Additional Guidance To Control Costs (GAO-05-882), issued September 21, 2005

Since the attacks of September 11, 2001, DoD has reported spending $191 billion through May 2005 to conduct the Global War on Terrorism (GWOT). On an ongoing basis, DoD compiles and reports information on the incremental costs of the war and uses these data in preparing future funding requests. To assist Congress in its oversight of war spending, GAO assessed (1) whether DoD's reported war costs are based on reliable data, (2) the extent to which DoD's existing financial management policy is applicable to war spending, and (3) whether DoD has implemented cost controls as operations mature. GAO focused primarily, but not exclusively, on FY 2004 reported costs—the latest full year of data available at the time of GAO's review.

GAO is making a number of recommendations to the Secretary of Defense to (1) undertake a series of steps to ensure that reported GWOT costs are reliable, (2) expand its financial management regulation for contingency operations to include contingencies as large as GWOT, and (3) establish guidelines to control costs. In commenting on a draft of this report, DoD agreed with all but one of GAO's recommendations and described steps it has taken to improve its cost reporting.

Ongoing Audits

United Nations Oil for Food: Oversight and Accountability

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

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

- What programs and activities did Resolution 986 authorize?

- What were the internal controls and external challenges associated with selling Iraq's oil?

- What were the internal controls and external challenges associated with the humanitarian assistance program?

- What is the mandate of the UN Compensation Commission, and how is it structured to carry it out?

DoD Policies on Deployment of Civilians

DoD involvement in contingency operations has increased significantly in recent years. With the ongoing military operations in Iraq and Afghanistan, DoD is increasingly reliant on civilian personnel to provide essential support to accomplish the mission. DoD reportedly has deployed thousands of federal civilian employees in support of military operations in Iraq. These are the key questions:

- To what extent do DoD and its components comply with the law and policies on deployment of civilian personnel to Iraq and Afghanistan?

- What are the lessons learned by DoD from the deployment of civilian personnel to Iraq and Afghanistan?

- How do the mission, roles, and compensation for deployed civilian personnel compare with those for military personnel?

Post-transition Management of Iraq Reconstruction

Since Iraq regained governance authority in June 2004, the Secretary of State has assumed responsibility from DoD and CPA for setting requirements and priorities for managing the U.S. reconstruction program in Iraq, including $18.4 billion in FY 2004 emergency funding. These are the key questions:

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

- How are program management contracts used to manage and support the reconstruction effort in Iraq?

- What factors are challenging U.S. efforts to rebuild Iraq, and how are they being addressed?

Availability of Armored Trucks During Operation Iraqi Freedom

Prior reviews of logistics activities in Operation Iraqi Freedom (OIF) showed that DoD's supply system was unable to effectively meet warfighter needs by failing to provide a number of critical supplies and equipment, including protective items, such as body armor and armored Humvees. More recently, reports have surfaced in the media and within DoD that troops in Iraq also lacked adequate numbers of armored trucks and other vehicles.

- To what extent has the need for truck armor been met?

- What were the primary causes for any armored truck shortages?

- What actions, if any, has DoD taken to improve the availability of armored trucks to U.S. forces in Iraq and for future operations?

Reconstruction of Energy Sectors in Iraq

Restoration of the oil and power sectors in Iraq is central to the development of a stable society. Oil revenue is the basis of the Iraqi budget, and power sustains daily life and economic redevelopment. The two sectors are mutually supporting: oil-based gases and fuels power electricity plants and facilities, and electricity powers oil facilities.

- What is the nature and extent of funding devoted to Iraq's oil and electricity sector reconstruction and capacity-building efforts?

- What are U.S. program goals, and how does the U.S. measure progress in achieving these goals?

- What factors have affected the implementation of the U.S. program?

- What challenges have affected the Iraqi government's ability to develop the oil and electricity sectors?

Use of Contractors on the Battlefield

Contractors are known to be providing a wide array of support to U.S. forces in Iraq. In a June 2003 report, GAO identified a number of issues associated with the use of contractors on the battlefield and recommended actions to improve oversight of and planning for the use of contractors. This effort will update the June 2003 report and assess DoD actions to address both GAO recommendations and congressional reporting requirements.

- What progress has DoD made in addressing the issues raised in GAO's June 2003 report?

- What is DoD doing to address the issues and concerns raised in legislative requirements in past National Defense Authorization Acts, as well as in Title XVI of the House version of this year's bill?

- How much visibility do commanders have over the contract support they are receiving?

- Beyond the Logistics Civilian Augmentation Program (LOGCAP), what types of support are being provided by contractors (e.g., weapons system maintenance, intelligence analysis)?

- Have contractors been able to provide the needed numbers of workers with the right skills to get the job done? If not, what are the workarounds, and what has been the impact of any staffing shortfalls?

- What do commanders see as unresolved issues/problems associated with contractor support?

U.S. Efforts To Stabilize Iraq and Develop Security Forces

DoD has reported that the criteria for withdrawing coalition forces from Iraq are conditions-based, including the development of Iraqi security forces and the progress in developing national governance and economic structures and the rule of law.

- What are the roles, responsibilities, and reporting relationships of the U.S. and Iraqi organizations involved in developing Iraqi security forces and ministries?

- How are the Multi-National Force-Iraq and other U.S. agencies assessing progress toward achieving conditions that would allow a drawdown of U.S. forces?

- What do their progress assessments show thus far, and what are the challenges to achieving the conditions?

Vetting Processes Used by Contractors Who Support Deployed Forces

The military is increasingly reliant on contractors to provide support for deployed forces.

- To what extent do DoD contracts require that contractor employees supporting deployed U.S. forces be vetted, and what standards and procedures has DoD established?

- How do contractors vet their employees and consider key factors such as identifying people who pose a national security risk, have a criminal history, or have been convicted or accused of human rights violations?

- What difficulties, if any, do contractors encounter when vetting Americans, nationals from European Union countries, and host-country nationals?

Defense Contract Audit Agency

DCAA's services include professional advice to acquisition officials on accounting and financial matters to help them negotiate, award, administer, and settle contracts.

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

DCAA plans and performs work on a fiscal-year basis (October 1 – September 30). Table 3-2 shows both the Iraq-related audits closed during FY 2004 and the audits closed, opened, and planned in FY 2005, as of September 30, 2005.

DCAA Audits Related to Iraq for FY 2004 and FY 2005, as of September 30, 2005				
	FY 2004	FY 2005	FY 2005	FY 2005
	Closed	Closed	Open	Planned*
Price Proposals (1)	128	186	14	1
Agreed-Upon Procedures Price Proposal (2)	113	50	4	2
Other Special Requested Audits (3)	123	190	127	8
Incurred Cost (4)	1	8	22	11
Labor Timekeeping (5)	59	82	34	0
Internal Controls (6)	47	59	38	12
Pre-award Accounting Survey (7)	30	20	7	2
Purchase Existence and Consumption (8)	15	19	9	2
Other (9)	51	92	80	4
Total	**567**	**706**	**335**	**42**

*Planned - Represents audits established as part of the DCAA's program plan effort for FY 2005, but no hours were incurred before year end. These audits will be carried over as part of DCAA's planned audits for FY 2006.

Notes:

1. Price Proposals – Audits of price proposals submitted by contractors in connection with the award, modification, or repricing of Government contracts or subcontracts

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

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

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

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

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

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

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

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

Table 3-2

U.S. Army Audit Agency

USAAA did not complete any audits during the current reporting periods and currently has three audits ongoing.

Ongoing Audits

Audit of Fund Accountability for Iraq Relief and Reconstruction Fund 2 (IRRF 2) (Project Code: A-2005-ALA-0240.000)

The former Acting Secretary of the Army requested this audit. The audit will focus on fund control and accountability over IRRF 2 for reconstruction activities and Operation and Maintenance, Army funds for Project and Contracting Office (PCO) administrative expenses. The overall objective is to ensure that the Army and PCO have effective controls and sound business processes in place to properly account for that portion of the $18.4 billion in IRRF 2 that DoD activities execute.

Specific objectives include:

- Do the PCO's financial management system and processes have the controls needed to ensure that commitments, obligations, and disbursements are accurately recorded? This includes ensuring that the PCO used and recorded the funds for the proper sector.

- Does the PCO have adequate controls in place to ensure that operating costs and program costs are properly allocated and recorded?

- Can the PCO's financial management system and processes accommodate Army and PCO plans to decentralize contract award and project management?

Field work has been completed, and a draft report was issued to command for comment in September 2005.

Follow-up of Commander's Emergency Response Program (CERP) and Quick Response Fund (QRF)
(Project Code: A-2005-ALE-0376.000)

The Commander of the Multi-National Security Transition Command-Iraq (MNSTC-I) requested this audit. Objectives of the audit include:

- Were FY 2005 funds for the CERP and the QRF received, accounted for, and reported according to applicable laws and regulations?

- Were disbursements consistent with the intent of the charter or implementing guidance?

- Did MNSTC-I adequately implement agreed-to recommendations of audit A-2005-ALE-0191.000, and did corrective actions fix problems?

- Did MNSTC-I have an effective follow-up system for tracking the implementation of corrective actions until fully implemented?

A draft report for comment was issued in June 2005.

Audit of Logistics Civil Augmentation Program
(Project Code: A-2005-ALS-0340.000)

The audit focuses on evaluating the adequacy of the LOGCAP program throughout the Iraq area of operations. The specific objectives include:

- Are services acquired under the LOGCAP contract reasonable and cost-effective solutions for satisfying force requirements?

- Are adequate management structures in place to plan, acquire, and manage services obtained under the LOGCAP contract?

- Is the contract administration over LOGCAP work in Iraq adequate?

- Are adequate management/internal controls in place over LOGCAP operations in Iraq, especially those areas highly susceptible to fraud, waste, and abuse?

- Does adequate information exist to enable higher management levels to provide sufficient oversight over LOGCAP operations in Iraq?

USAAA is working with the affected commands, DoD agencies, and the prime contractor to improve program management, contract administration, and management of functional areas (such as food service operations, supply distribution, and vehicles used by the contractor). USAAA will issue a series of reports on this program.

USAAA currently has nine auditors in Iraq and six auditors in Kuwait working on the LOGCAP audit.

Other Agency Investigations

SIGIR regularly coordinates with other government agencies conducting investigations in Iraq. SIGIR received information from the USAID, DCIS, and the DoS OIG. Because most of this information is sensitive, SIGIR can provide only general summary information.

U. S. Agency for International Development

During this reporting period, USAID closed three cases and did not open any new cases.

The one USAID investigative staff investigator assigned to Iraq completed his tour in July 2005. His replacement was pending as of September 30, 2005.

Closed Cases

The USAID closed three cases during this reporting period.

- *Employee Integrity:* USAID received an allegation of ethical misconduct involving an employee assigned to Iraq. The active investigation was concluded, and the results were forwarded to USAID for consideration of appropriate administrative action. Subsequently, the employee resigned in lieu of disciplinary action.

- *Program Integrity:* USAID received an allegation that a contractor knowingly used non-U.S. flag carriers to transport equipment from the United States to Iraq in violation of the terms and conditions of the contract. The investigation did not uncover any evidence of wrongdoing, but did discover possible contractual issues. The matter was referred to USAID, which determined that it would not pursue an administrative recovery of funds because a waiver for non-U.S. flag carriers would have been granted had it been sought.

- *Program Integrity:* USAID received an allegation that a contractor may be inflating the costs it is charging USAID. The matter was referred to OIG/Audit, which determined that verification of salary history and use of biographical datasheet forms were not contractually required; therefore, market-based salaries were appropriate. Accordingly, the case was closed.

Ongoing Cases

USAID currently has three ongoing cases on program integrity.

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

Defense Criminal Investigative Service

On October 31, 2004, DCIS ceased operations in Baghdad, Iraq. It currently has three open cases. Table 3-3 lists the investigations by type and investigative status.

DCIS Cases, as of September 30, 2005						
Investigative Status	Conflict of Interest	Counter-feit	Weapons Recovery/ Security	False Claims/ Statements	Theft/ Drugs	Bribery/ Corruption
Open	1			1		1
Closed	1	3	6	2	20	8
Totals	**2**	**3**	**6**	**3**	**20**	**9**

Table 3-3

Closed Cases

Since the SIGIR's April 30, 2005 Report, DCIS has closed 40 cases. This data was not available to report on for the July 2005 Quarterly Reporting period.

- DCIS and the military police (MP) initiated an operation to target elements within Baghdad, Iraq, that posed immediate threats to coalition forces. This included terrorists, suspected weapons dealers, and counterfeiters. DCIS and MP sources provided information about people known to have weapons that were intended to attack coalition forces. Based on source information, numerous search warrants were conducted and weapons seized before any strikes against coalition forces occurred. Along with the seizure of weapons, many of the suspects were arrested and turned over to Iraqi police for prosecution. In March 2004, investigative activity relative to this operation ended because of safety concerns that surfaced as a result of the volatile environment in Iraq. This case is now closed.

- During the course of an investigation into the improper leasing of DoD CPA property, information surfaced that a U.S. Army Colonel, U.S. Army Lieutenant Colonel, and a U.S. Army Reserve Lieutenant Colonel may have stolen funds from the 352 Civil Affairs Command while they were deployed in Baghdad, Iraq. During an interview, a DCIS witness alleged that the 352 Civil Affairs Command paid for a Nurses Conference in July 2003 that was held in Baghdad, Iraq. The cost of the conference was approximately $26,000, which the 352 Civil Affairs Command paid.

  The witness alleged that after the 352 Civil Affairs paid for the conference, he/she applied for and received a grant in the same amount, in cash, from USAID. According to the witness, he/she turned over the money in a bag to the three U.S. Army officers named in the investigation and never saw the money again. The accused Army officers were interviewed and provided documentation showing that the U.S. Army also paid $26,000 for the same Nurses Conference, and the cash received from the witness was returned to the U.S. Army. The money was a "loan" to the witness for the expenses of the Nurses Conference (travel, per diems, conference hall rental, etc.), and the cash received from the witness from USAID was returned to the U.S. Army.

  During the course of the DCIS investigation, the witness who raised the allegations was shot and killed near Baghdad International Airport by unknown subjects. As a result of the witness's murder, the Special Judge Advocate's office, Multi-National Corps-Iraq, declined to prosecute the investigation. This investigation is now closed.

Department of State

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

List of Appendices

Appendix A: Statutory Requirements. . . . . CD and Web site
This appendix cross-references the pages of this Report to the reporting requirements under Public Law 108-106, Section 3001 (amended by section 1203).

Appendix B: Status of Reconstruction Funding. B-1
Public Law 108-106, as amended, requires SIGIR to report on the oversight and accounting of the obligation and expenditure of funds used for Iraq reconstruction. Reconstruction activities have been funded by three main sources:
- · U.S. appropriated funds
- · Iraqi funds
- · Donor funds

Appendix C: Iraq Relief and Reconstruction Fund
Apportionments by Agency . . . . CD and Web site
This appendix presents a table that details the apportionment of Iraq Relief and Reconstruction Fund allocations of funds by agency. The source of this data is the Office of Management and Budget and reflects both the new *Section 2207 Report* allocations requested by the Department of State and the latest round of OMB apportionment.

Appendix D: Iraqi Funds . . . . CD and Web site
This appendix provides an update on Iraqi funds used for reconstruction. It includes information on these categories of funds:
- · Seized
- · Vested
- · Development Fund for Iraq
- · Oil-for-Food Program

Appendix E: Donor Funds . . . . CD and Web site
This appendix provides an update on international financial support pledged to Iraq. The funds described in this section include:
- · donor funds
- · humanitarian aid
- · bilateral aid
- · International Reconstruction Fund Facility for Iraq
- · World Bank, International Monetary Fund, and Loan Programs
- · Iraqi debt relief

This appendix reproduces the testimonies submitted by Special Inspector
General Stuart W. Bowen to the Congress. On September 7, 2005, he testified
before the House Committee on Appropriations Subcommittee on Foreign
Operations, Export Financing, and related programs. On October 18, 2005, he
testified before the House Committee on Government Reform Subcommittee on
National Security, Emerging Threats, and International Relations.

This appendix lists all completed SIGIR audits on Iraq reconstruction, as of
October 30, 2005.

This appendix contains a list of completed audits, reports, and testimonies on
Iraq reconstruction activities as of September 30, 2005, released by the SIGIR
and the following five agencies:
- U.S. Army Audit Agency
- Department of Defense Office of Inspector General
- Department of State Office of Inspector General
- Government Accountability Office
- U.S. Agency for International Development Office of Inspector General

The audits from this list are further categorized according to the sector
of the Iraq Relief and Reconstruction Fund they cover and the types of
recommendations made.

As required in P.L. 108-106, Section 3001 (i)(1)(F), as amended, Appendix I lists
contracting actions funded by the IRRF that have been entered into the SIRIS.

This section contains all the abbreviations and acronyms found in the SIGIR
Quarterly Report to the Congress.

This section contains the endnotes for the Quarterly Report to Congress. They
are listed numerically and consecutively, both in the Report and in the following
section.