# GOVERNMENT AGENCIES CANNOT FULLY IDENTIFY PROJECTS FINANCED WITH IRAQ RELIEF AND RECONSTRUCTION FUNDS

SIGIR 13-006 MARCH 6, 2013



#### SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

March 6, 2013

MEMORANDUM FOR U.S. SECRETARY OF DEFENSE

U.S. SECRETARY OF STATE

ADMINISTRATOR, U.S. AGENCY FOR INTERNATIONAL

**DEVELOPMENT** 

COMMANDER, U.S. CENTRAL COMMAND

COMMANDING GENERAL, U.S. ARMY CORPS OF ENGINEERS

U.S. AMBASSADOR TO IRAQ

SUBJECT: Government Agencies Cannot Fully Identify Projects Financed with Iraq Relief

and Reconstruction Funds (SIGIR 13-006)

We are providing this report for your information and use. The report discusses our efforts to assess the extent to which federal agencies can identify projects financed with relief and reconstruction funds from 2003 through September 30, 2012. We performed this work as a nonaudit evaluation in accordance with our mission to provide independent oversight of programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Iraq, and for recommendations on related policies designed to promote economy, efficiency, and effectiveness and to prevent and detect fraud, waste, and abuse. This work was conducted as SIGIR Project 1205.

We received official comments from from the Department of State and the U.S. Army Corps of Engineers, which are included in Appendix D and Appendix E, respectively. We also received technical comments which we incorporated as appropriate.

We appreciate the courtesies extended to the SIGIR staff. For additional information on the report, please contact F. James Shafer, Assistant Inspector General for Audits (Washington, D.C.) (703) 604-0894/ <a href="mailto:freed.j.shafer.civ@mail.mil">freed.j.shafer.civ@mail.mil</a>, or Robert Pelletier, Deputy Assistant Inspector General for Audits (Washington, DC), (703) 604-1387/ <a href="mailto:Robert.l.Pelletier12.civ@mail.mil">Robert.l.Pelletier12.civ@mail.mil</a>.

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#### **Government Agencies Cannot Fully Identify Projects Financed with Iraq Relief and Reconstruction Funds**

**SIGIR 13-006** 

March 6, 2013

#### Introduction

Following the 2003 intervention in Iraq and the fall of Saddam Hussein's regime, the United States initiated a major relief and reconstruction program to stabilize the country, rehabilitate the economy, provide a secure and safe environment by recruiting and training Iraq police and military forces, and provide for humanitarian and emergency relief, among other objectives. Over the last nine years, the United States provided billions of dollars for thousands of projects funded and managed by multiple federal agencies. These projects ranged from small-scale efforts such as providing cash to individual Iraqis for humanitarian relief, to large-scale construction projects to revitalize Iraq's infrastructure. Altogether, \$60.6 billion in U.S. appropriated funds were allocated to this effort.

Over the nine-year reconstruction period, executive agencies reported extensively on how appropriated funds were allocated, obligated, and spent in different categories and subcategories. These embraced a broad range of efforts from building electrical generating capacity to providing training and education on how to build democratic institutions. In this final audit product of the Special Inspector General for Iraq Reconstruction (SIGIR), we attempted to construct a picture of how appropriated Iraq relief and reconstruction funds were used. This report presents the results of this effort, which was conducted between August 2012 and January 2013.

#### **Background**

As of September 30, 2012, \$220.2 billion has been made available for the relief and reconstruction of Iraq through three main sources:

- \$145.8 billion in Iraqi funds through the Iraq capital budget (as of fiscal year 2012), seized and vested assets, and the Development Fund for Iraq (DFI)<sup>2</sup>
- \$60.6 billion in U.S. appropriated funds through fiscal year 2012
- \$13.8 billion in international commitments of assistance and loans from non-U.S. sources

<sup>&</sup>lt;sup>1</sup> For the purposes of this report, we used the Project Management Institute's definition of a "project," which is defined as "a temporary endeavor undertaken to create a unique product or service."

<sup>&</sup>lt;sup>2</sup> The Development Fund for Iraq was established May 2003 by United Nations Security Resolution 1483 as a means to channel revenue from Iraqi oil sales, unencumbered Oil for Food deposits, and repatriated Iraqi assets to the relief and reconstruction efforts for Iraq.

#### Major U.S. Funds for Iraq Relief and Reconstruction

The United States has been the primary external provider of funds for Iraq relief and reconstruction efforts. Of the \$60.6 billion that the Congress appropriated or otherwise made available as of September 30, 2012, about \$51.6 billion, or about 85% of the total, came from five major funds. Table 1 shows the funds and their obligations and expenditures as of September 30, 2012.

Table 1—U.S. Appropriated, Obligated, and Expended Funds for Iraq Relief and Reconstruction, as of September 30, 2012

\$ Billions

Fund	Appropriated	Obligated	Expended
Iraq Relief and Reconstruction Fund (IRRF)	\$20.9	\$20.3	\$20.1
Iraq Security Forces Fund (ISFF)	20.2	19.6	18.8
Economic Support Fund (ESF)	5.1	4.6	4.2
Commander's Emergency Response Program (CERP)	4.1	3.7	3.7
International Narcotics Control and Law Enforcement (INCLE)	1.3	1.2	1.0
Subtotal	\$51.6	\$49.4	\$47.8
Other Funding <sup>a</sup>	9.0	5.8	5.4
Total	\$ 60.6	\$55.2	\$53.3

Sources: SIGIR, Quarterly Report to the United States Congress, 10/30/2012, pp. 22–23. CERP data provided by the U.S. Central Command.

Note: Totals may not add due to rounding.

#### Iraq Relief and Reconstruction Fund

The Congress provided \$20.9 billion to the IRRF through two appropriations: IRRF 1 (\$2.5 billion) and IRRF 2 (\$18.4 billion). The IRRF was first established in April 2003 under Public Law 108-11,<sup>3</sup> which appropriated funds for humanitarian assistance and rehabilitation and reconstruction in Iraq. In the law, Congress identified 12 areas in which funds could be used, to include building, repairing, and renovating Iraq's electrical, water, oil, healthcare, transportation and education infrastructure. IRRF 1 funding also permitted non-construction projects, such as developing the capacity of the Iraqi government and providing equipment, supplies, and training to support reconstruction.

<sup>&</sup>lt;sup>a</sup> The remaining \$9 billion in the appropriated funds were used to fund 18 smaller assistance programs, to cover overhead costs, and to fund various reconstruction oversight agencies such as SIGIR, the Department of State (DoS) Office of Inspector General, and Department of Defense (DoD) Office of Inspector General. SIGIR focused its efforts on identifying projects associated with the five major funds because they represent the bulk of the Iraq relief and reconstruction effort.

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<sup>&</sup>lt;sup>3</sup> Public Law 108-11, "Making Emergency Wartime Supplemental Appropriations for the Fiscal Year 2003, and for Other Purposes," 4/2003.

In November 2003, the Congress passed, Public Law 108-106,<sup>4</sup> which allocated an additional \$18.4 billion to the IRRF. Called IRRF 2, funding from this legislation was primarily intended to support infrastructure and security projects in 10 sectors. Almost all of the IRRF 2 was apportioned to the Department of Defense (DoD), which was assigned financial responsibility for the fund. DoD received approximately \$14 billion, the Department of State (DoS) received approximately \$1.6 billion, the U.S. Agency for International Development (USAID) received approximately \$4.6 billion, and other organizations received \$.7 billion of IRRF 1 and IRRF 2 funds.

Public Law 108-106 also required that U.S. agencies submit quarterly reports to the Congress detailing how they used the IRRF on a project-by-project basis. The reports to the Congress provided details about how money was obligated and spent by sector. This information was further broken down into detailed subsectors and in many cases identified specific projects. All funds appropriated to the IRRF have expired and are thus no longer available for obligations to new activities.

#### Iraq Security Forces Fund

The Iraq Security Forces Fund (ISFF) was established in May 2005 under Public Law 109-13 to cover the expenses of developing the Iraqi Security Forces (ISF). The ISF comprises the Police Service, National Police, Directorate of Border Enforcement, and Facilities Protection Service under the Ministry of Interior; the Army, Navy, Air Force, and Support Forces under the Ministry of Defense; and the Special Operations Forces under the Counter-Terrorism Bureau. Before the ISFF, funding for developing the ISF had come from the IRRF. As of September 30, 2012, the Congress had appropriated a total of \$20.2 billion to equip, supply, and train the ISF and to build and renovate supporting facilities and infrastructure. DoD reported as of September 2012 that about \$19.6 billion had been obligated and \$18.8 billion had been expended. ISFF appropriations are no longer available for obligations to new activities.

#### Economic Support Fund

The Economic Support Fund (ESF) is an appropriation account authorized by the Foreign Assistance Act, as amended, to provide flexible economic assistance to countries selected for their special political and security interests to the United States. It supports U.S. foreign policy objectives by providing funds to accomplish the following: increase the role of the private sector in the economy, reduce government controls over markets, enhance job creation; improve economic growth, develop and strengthen the institutions necessary for sustaining democracy, strengthen the capacity to manage the human dimension of the transition to a democracy and a market economy, and help sustain the needlest sectors of the population during the transition period. Since 2003, the Congress appropriated about \$5.1 billion to the ESF to DoS, USAID, and the Departments of Treasury, Agriculture, Commerce, and Justice. As of September 30, 2012, \$4.6 billion had been obligated and about \$4.2 billion had been spent. ESF supported programs and projects to improve infrastructure and community security, promote democracy and civil society, and support capacity building and economic development.

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<sup>&</sup>lt;sup>4</sup> Public Law 108-106 "Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004," 11/2003.

#### Commander's Emergency Response Program

In July 2003, the Coalition Provisional Authority (CPA), which was the initial interim managing body for governance and reconstruction activities, established the Commander's Emergency Response Program (CERP) to give military commanders in the field the ability to respond to urgent humanitarian relief and reconstruction needs in their areas of responsibility. Projects eligible for CERP funding include civic cleanup, education, electricity, and health care. Although the CERP was initially intended for small-scale, urgent humanitarian relief and reconstruction projects, the program has increasingly been used for expensive large-scale projects, many costing over \$500,000.

Initial funding for the CERP came from seized Iraqi assets and the DFI. In November 2003, the Congress passed the first appropriation for the CERP as part of Public Law 108-106. Generally, the Congress has appropriated CERP funds in DoD annual and supplemental appropriations, and funds are available for obligation only until the end of the associated fiscal year. Moreover, the Congress has generally not appropriated the CERP to a specific country but rather to a fund for both Iraq and Afghanistan. DoD then allocates the funds to the countries. Through fiscal year 2011, DoD had allocated a total of \$4.1 billion to CERP in Iraq. As of January 2013, \$3.7 billion of the appropriated funds had been obligated.

#### International Narcotics Control and Law Enforcement

International Narcotics Control and Law Enforcement (INCLE) funds are provided to DoS to strengthen law enforcement and other rule-of-law institutional capabilities outside the United States. Since 2006, DoS has allocated approximately \$1.3 billion in INCLE funds to assist the Government of Iraq (GOI) in strengthening its criminal justice, law enforcement, courts, and judicial systems.

Prior to fiscal year 2010, INCLE funds were focused primarily in the criminal justice and corrections areas. Fiscal year 2010 funds continued programs in these two areas, but the bulk of the funds were focused on the Iraqi Police Development Program. Responsibility for that program transferred from DoD to DoS on October 1, 2011, and fiscal year 2010 funds were to be used to support the program's start-up requirements.

# **Prior SIGIR Reports Identified Weaknesses in Relief and Reconstruction Agencies' Iraq Reconstruction Records**

In Public Law 108-106, the Congress required U.S. agencies involved in Iraq reconstruction to account for and report on how they used the appropriated funds made available. The agencies were required to submit quarterly reports on their use of the funds, and \$50 million in IRRF funding was made available to develop an information management system to support this reporting requirement, detailing the use of IRRF on a project-by-project basis. This funding was initially apportioned by the Office of Management and Budget to the Department of Defense as "Operating Expenses of the Coalition Provisional Authority" (CPA). CPA began to develop and implement an automated system in Iraq to collect and report on IRRF information Efforts to develop and implement an automated system began in June 2004 through the Project and Contracting Office, which was established on June 22, 2004, to provide support for all activities associated with financial, program and project management for both construction and non-

construction related IRRF activities under the Iraq Reconstruction Management Office (IRMO). The information system (known as the PCO Solution) was only partially implemented as of January 2006.

The system sought to meet three objectives:

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

When the CPA was disestablished and its responsibilities transferred to the U.S. Embassy, Iraq; system development funds of \$23.8 million remaining from the \$50 million apportionment were transferred back to the Office of Management and Budget and reapportioned to the Department of State.

The Project and Contracting Office continued to provide support to the newly created Iraq Reconstruction and Management Office (IRMO) for all activities associated with financial, program and project management for both construction and non-construction related IRRF activities under the PCO Solution.

IRMO issued an action memorandum dated September 20, 2005 mandating that all Federal Agencies spending IRRF dollars be required to load and update IRRF-funded project data in the information technology system being developed by the Project and Contracting Office/Gulf Region Division, the Iraq Reconstruction Management System (IRMS). Five agencies involved in Iraq reconstruction initially shared responsibility for IRMS:<sup>5</sup>

- Iraq Reconstruction and Management Office (U.S. Embassy, Iraq)
- Multi-National Corps Iraq
- Multi-National Security Transition Command-Iraq
- U.S. Agency for International Development
- U.S. Army Corps of Engineers, Gulf Region Division

The management of IRMS was initially accomplished by a working group, the IRMS Inter-Agency Working Group (IIWG), comprised of representatives from the above five agencies. In late 2005, the agencies signed a Memorandum of Understanding to define the type of information to be entered in IRMS and to set forth the mutually agreed upon procedures for providing information. The Memorandum identified the U.S. Army Corps of Engineers, Gulf Region Division (GRD) as the agency responsible for maintaining and administering IRMS. The MOU identified the following broad objectives:

• The sharing of information and data with one another about projects and activities implemented by each Participant.

- Serve as a working tool for the Participants and facilitate the completion of standardized records for U.S. government reporting requirements, including Congressional reporting.
- Serve as a common operating picture for U.S. government funded reconstruction and economic development activities in Iraq.
- As envisioned for the future, serve as a comprehensive archive a channel through which information on all USG-funded or managed in Iraq can be located.

IRMS became fully operational in 2006 and, over time, IRMS had expanded to incorporate projects funded by other major U.S. accounts—ISFF, CERP, ESF, and INCLE—through a series of interagency agreements. Under these agreements, the other government agencies involved in reconstruction were to enter data into IRMS on their projects. IRMS operated until September 2010 when it was shut down because of the drawdown of the reconstruction effort and the additional cost that would have been incurred to upgrade both software and hardware. When IRMS stopped operating, it contained 73,000 entries valued at \$30.2 billion.

To improve visibility of contract information USACE in 2004 implemented the use of its Resident Management System (RMS) in the Iraq theater of operations to better manage its construction responsibilities. In late 2004, USACE developed an RMS-generated summary report called the Iraq Status of Construction (ISOC). The ISOC is primarily a construction management tool that provides a summary report of the data on contract information that is loaded into the RMS. USACE notes that the ISOC is not a project or program management database.

Since its inception, IRMS has not contained complete and accurate information on the U.S. reconstruction effort. As early as 2006, SIGIR issued reports detailing problems with the quality, accuracy, and thoroughness of IRMS data. Numerous data fields were incomplete or inaccurate, and DoS and USAID did not regularly enter their project data into IRMS, as required by memorandums of agreement. For example, in January 2008, SIGIR reported that approximately \$35.3 billion in U.S. funding had been obligated for projects, but IRMS contained data on only about \$25.1 billion (71%).

#### Agencies Also Used Internal Databases to Track Reconstruction Activities

While IRMS was intended to be a unified project information system to provide a common operating picture of the Iraq reconstruction effort and to satisfy reporting requirements, the agencies involved in reconstruction simultaneously used their own financial systems and other project management databases to account for their reconstruction activities and to track their use of funds. These databases serve varying purposes within the respective agencies to include contract, project or program management, and financial management. A major impediment to tracking IRRF funding resulted from the OMB decision made in December 2003 that IRRF program funds were to be apportioned directly to the executing agencies, thereby precluding a single, centralized financial oversight of the IRRF program

In the course of our audit work, we requested that these agencies provide us with relevant information from these data systems. Table 2 provides a brief description of the databases from which agencies provided data for SIGIR analysis.

Table 2—Government Data Systems Used To Identify Projects

Data System Name	Description
Iraq Reconstruction Management System (IRMS)	Managed by USACE and terminated in September 2010. It was intended to be the centralized management system for recording data on Iraq relief and reconstruction activities.
Iraq Status of Construction (ISOC)	Created by USACE as the follow-on database for IRMS. It tracks USACE-managed reconstruction projects and is used by DoS to record assets formally transferred to the GOI. ISOC includes IRMS projects and is considered by USACE as the complete accounting database for Iraq projects.
Resident Management System (RMS)	Created by USACE to manage construction contracts under its purview.
Army Corps of Engineers Financial Management System (CEFMS)	USACE's financial management system.
Commander's Emergency Response Program (CERP) Tracker	Used by the Army, as executive agent for the CERP, to track activities funded by the CERP.
Phoenix	USAID's accounting and financial information system.
Global Financial Management System	DoS's financial management system.

Sources: DoD, USACE, DoS, USAID.

#### **Objective**

The objective for this report was to assess the extent to which federal agencies identified and reported on projects financed with Iraq relief and reconstruction funds, and to determine to the extent possible the waste that occurred in the Iraq relief and reconstruction effort. Our focus was on projects undertaken within the five major funds through September 30, 2012.

In conducting our audit, we incurred a major scope limitation. As noted, SIGIR audits found serious problems with IRMS data, including missing, inaccurate, and incomplete data. To fill some of the gaps in IRMS data, we requested and merged data from ISOC and the agencies' internal databases, as appropriate, with the IRMS data to develop a more complete picture of how relief and reconstruction funds had been used. We also performed a comparative analysis of the projects identified with the financial records of the major funds used to finance Iraq relief and reconstruction. These steps increased the amount of information available, but nonetheless, the limitations in the various databases seriously limited our ability to fully account for relief and reconstruction projects in Iraq.

For a discussion of the detailed scope and methodology of our work and a summary of selected prior coverage, see Appendix A. For a list of acronyms, see Appendix B. For a list of the team members on this effort, see Appendix C. For a copy of management comments, see Appendix D and E. For the SIGIR mission and contact information, see Appendix F.

# Gaps in Agency Records Prevented SIGIR From Identifying How All Appropriated Iraq Relief and Reconstruction Funds Were Used

There are significant gaps in agency records that prevented SIGIR from identifying how appropriated Iraq relief and reconstruction funds were used. Our ability to account for projects varied by fund, and with the exception of the CERP, there is a general lack of information on the projects that were funded. For example, we could not identify how about \$3.2 billion in IRRF obligations was used. The CERP Tracker system provided the most detailed information at the project level. Available information on ISFF, ESF, and INCLE funds was limited to identifying subcategories of programs. However, based on past experience, a more detailed record of projects implemented with these three funds could be developed with additional time and resources.

#### **IRRF Projects**

SIGIR could not determine how many projects were funded from IRRF, nor the actual cost of many individual projects. Furthermore, \$3.2 billion (about 15%) in IRRF obligations cannot be linked to specific projects in IRMS. This difference could be the result of erroneous data in available systems or missing/incomplete records. According to USACE officials some of the missing IRMS data occurred because projects were awarded prior to the implementation of IRMS, or because contract modifications that were awarded after the IRMS data system was shutdown in 2010 were not recorded in IRMS. USACE officials also maintain that the \$3.2 billion included USACE costs associated with in-house labor, and travel and transportation costs not recorded in IRMS. While these costs were not in IRMS, USACE officials emphasized that all IRRF funds are accounted for in CEFMS, USACE's financial management system.

#### A consistent definition of project was not used

Although P.L. 108-106 required agencies to report to the Congress on how funds were used on a project-by-project basis, a clear definition of project was never developed for use in the IRMS, resulting in data that were not consistently recorded. We found, for example, that the IRMS and ISOC data systems, have 20,809 records associated with IRRF-funded activities. However, the records represented different types of activities ranging from individual discrete projects, to components of larger projects, to records representing activities on multiple projects (such as administrative costs spread over several projects). For example, the Kirkuk Substation Combustion Turbine project reportedly cost \$205 million, and its objective was to replace the turbines in an existing electrical substation. Within the IRMS, this project was recorded as a single record. In contrast, the Falluja Waste Water Treatment System project cost \$108 million to construct a wastewater treatment facility in the city of Falluja. IRMS does not show this as a project. Instead, the IRMS has 49 separate records, including records for project activities funded with the CERP and ESF. USACE confirmed to us that one contract or multiple contracts may have been used to complete a project, and the IRMS user guide confirms that some projects were completed using multiple funding sources.

#### Cost data is inaccurate and incomplete

Even if complete listings of projects were available in IRMS and ISOC, data on costs in these systems are inaccurate and often incomplete. This makes it impossible to determine the true cost of any individual activity.

SIGIR attempted to validate IRMS cost data using information from RMS and CEFMS. The amount paid reported in ISOC is the amount invoiced by the contractor and is generated from RMS data. However, USACE cautioned that total cost in IRMS may not be accurate if contract modifications occurred on a contract prior to the implementation of IRMS or after the system was shut down in September 2010, and that CEFMS data is the final authority for contract amounts and amounts paid on the contract.

SIGIR has long written about data-entry problems in the IRMS, and these problems largely remain unresolved. In this analysis, SIGIR identified more specifically the types of data-entry errors in the IRMS and also in the ISOC data sources. SIGIR identified multiple cases in which the costs reported for individual projects did not match across IRMS, ISOC, CEFMS and RMS. SIGIR identified multiple projects for which the "Total Cost" of projects reported in IRMS did not match the amounts obligated or expended on those activities in the agency financial systems (CEFMS, Phoenix) even in cases of projects completed prior to September 2010. SIGIR found multiple instances of data-entry errors in the ISOC database where the total amount expended for a contract was reported as the amount expended for each individual project funded by that contract, resulting in dramatic overreporting of project costs.

Table 3—Examples of Variations in Reported Costs for Selected Projects Funded by the IRRF and ESF

\$ Millions

	Total Cost IRMS	Amount Paid ISOC	Amount Paid CEFMS/Phoenix
Repair to Natural Gas Liquid/Liquefied Petroleum Gas Plants and Additional Training	\$145.5	\$716.1	\$143.2
Well Logging and Workover	67.3	264.3	88.1
Project West Qurna	83.8	494.1	82.2
New Power Generator Buzurgan	4.0	125.1	125.1
Sadr City 68 Sector	191.8	917.8	93.4
Construction and Equipment for Public Health Clinics (South)	1.6	269.3	42.9

Sources: IRMS, ISOC, CEFMS, and Phoenix databases.

#### **IRRF-funded Projects**

Given the limitations in IRRF data, we could not, with any certainty, identify the largest IRRF-funded projects. However, table 4 lists some of the larger IRRF-funded projects SIGIR identified in its analysis.

#### **Table 4—Examples of Large IRRF-funded Projects**

\$ Millions

Project	Total Obligated
Nassriya Water Treatment Plant	\$259.91
Combustion Turbines for Kirkuk Substation	205.22
Erbil - Ifraz Water Project	185.31
Baghdad South New Generation Equipment Phase II	189.40
Qudas Gas Turbine Expansion	169.51
Generation Subsector Management Administration	153.92
Repair to Natural Gas Liquid/Liquefied Petroleum Gas Plants and Additional Training	146.70
New Power Generation Buzurgan	125.11

Sources: SIGIR analysis of IRMS, ISOC, CEFMS, RMS, and Phoenix databases.

Figure 1—IRFF-funded Qudas Power Plant and Nassriya Water Treatment Plant



Source: SIGIR.

#### **CERP Projects**

Among the five funds in SIGIR's analysis, records detailing how CERP funds were used are the most complete. SIGIR identified 36,517 CERP projects costing about \$3.62 billion. This is approximately 98% of the \$3.74 billion in obligations.

SIGIR's analysis of CERP data identified the following large-scale CERP projects:

- About \$370 million was paid to former insurgents and their passive supporters to guard checkpoints, buildings, and key parts of neighborhoods as part of the "Sons of Iraq" program.
- About \$35.5 million was spent at the Baghdad International Airport to develop a commercial economic zone that would generate revenue; provide prosperity, stability, and social development for the people of Iraq; and establish the airport as an international gateway.
- About \$11.8 million was spent on the Muhalla 312 Electrical Distribution Project.
- About \$11.3 million was spent for the Falluja Waste Water Treatment System.
- About \$9.9 million was spent on secure fencing for oil facilities.
- About \$1.6 million was spent to pave a new rural road from Showairej to Tak Harb.
- About \$900,000 was spent on projects to upgrade the Najaf International Airport, including satellite communication equipment and weather monitoring, reporting, and forecasting technology.

While we found the CERP data to be the most complete in identifying projects, we also found inadequacies in the data that precluded us from performing a thorough analysis of the final disposition of projects executed under the program:

- There is a \$186.6 million difference between the financial data maintained by the Army Budget Office and project data reported by USF-I.
- USF-I reported that it would not update the project-tracking data from fiscal year 2004 through fiscal year 2009 to reflect project completions, modifications, or cancelations, and that it did not intend to do so.

Figure 2—CERP-funded Road Paving and Falluja Sewer Pump Station



Source: SIGIR and USACE.

#### **ISFF Projects**

SIGIR could not identify how DoD used the ISFF on a project-by-project basis because DoD accounted for ISFF based on four broad categories of activity; sustainment, infrastructure, equipment/transportation, and training. In those cases where USACE awarded ISFF contracts, there is detail on how ISFF funds received by USACE were spent; however, this detail only exists currently for \$7.1 billion of the \$19.6 billion obligated by DoD.

Table 5 shows that a preponderance of ISFF appropriated funds, or about \$7.4 billion, were used to purchase equipment and transportation needs for the Iraq security forces. The next largest group of expenditures was for infrastructure projects, costing approximately \$4.7 billion.

Table 5—ISFF Funding Summary from 2005 to 2011, as of September 2012 \$ Billions

	Available	Obligated	Expended
Sustainment	\$3.6	\$3.6	\$3.2
Infrastructure	4.7	4.4	4.2
Equipment/Transportation	7.4	7.3	7.2
Training	3.4	3.4	3.3
Quick Response Fund and Other Related Activities	1.0	.9	.8
Totals	\$20.1	\$19.6	\$18.8

Sources: Office of the Secretary of Defense (Comptroller, derived from the Defense Finance and Accounting Services.

Note: Totals affected by rounding.

Obtaining detailed information on all individual ISFF expenditures was not possible because DoD only accounts for the ISFF by four activity categories; sustainment, infrastructure, equipment/transportation, and training<sup>5</sup>, and by the ministry supported (e,g.,Ministry of Defense, Ministry of Interior, and Special Operations Forces under the Prime Minister).<sup>6</sup> As such, reporting of ISFF expenditures to the Congress and oversight entities are organized into the Ministry of Defense sustainment, infrastructure, equipment/transportation, training; and Ministry of Interior sustainment, infrastructure, equipment/transportation, and training.

ISFF expenditures, as with other DoD-managed reconstruction funds, are accounted for using unique accounting codes established within the Defense Financial Accounting Service (DFAS). In Iraq, organizations responsible for awarding contracts (such as USACE, the Joint Contracting Command-Iraq/Afghanistan, the Project Contracting Office, the Army Contracting Command, and the Air Force Center for Engineering and the Environment) insert unique accounting codes that identified the specific appropriated funding source (that is, the ISFF, CERP, and IRRF) for each contract.

The decision to issue a contract belongs with the custodian of a fund. With the ISFF, custodial responsibilities have belonged to DoD's Multi-National Security Transition Command-Iraq (MNSTC-I), the United States Forces-Iraq (USF-I), and currently, the Office of Security and Cooperation-Iraq (OSC-I). These commands made decisions on how the ISFF was to be used and which contracting organization would issue the contract.

While the contracting organizations recorded contract actions, the custodial commands created spend plans and internal Excel spreadsheets to help track their ISFF expenditures. These expenditures were often categorized by projects or efforts. Through the years, the commands'

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<sup>&</sup>lt;sup>5</sup> A smaller amount of funding was categorized as "Quick Response Fund" expenditures used "to respond to relatively small, emerging and time-sensitive requirements")

<sup>&</sup>lt;sup>6</sup> Iraq's security forces are organized under the Ministry of Defense, Ministry of Interior and the Prime Minister.. Iraqi security forces under the Ministry of Defense include the Army, Navy, Air Force, and Special Operations Forces. Security forces under the Ministry of Interior include the police forces, the Iraqi Intelligence Agency, and border security forces, as well as the Facilities Protection Service. Iraq's Special Operations Forces are organized under the Prime Minister.

activities were entered into other government databases such as the IRMS and ISOC. However, the entries into the other government databases appeared to be incomplete as shown in Table 6.

Table 6—Examples of Databases Containing ISFF Information

Sources	SIGIR's Data Mining Methodology	Results
DFAS	Financial records containing ISFF accounting codes (such as MOD sustainment and MOI infrastructure)	\$19.6 billion obligated; \$18.8 billion expended
CEFMS	Line items reported as "Funded Work Items" that incorporated multiple contract vehicles and identified as funded by the ISFF	118 line items, valued at \$18.9 billion obligated; \$18.5 expended
IRMS	Line items indexed by "unique record identifier" and identified as funded by the ISFF	1,287 line items, valued at \$4.4 billion in "Total Cost"
ISOC	Line items indexed by "unique record identifier" and identified as funded by the ISFF	719 line items, valued at \$2.7 billion in total "Contract Amount"

Sources: SIGIR analysis of information provided by OSD Comptroller and databases provided by USACE.

#### Note

Table 6 shows that, although DFAS and CEFMS show nearly all ISFF funds as obligated and expended, the IRMS and ISOC do not capture nearly that amount. The last entry in IRMS was made in 2010 and therefore the full amount executed is not reflected in IRMS

Over the years, equipment purchases and transportation services obtained with ISFF funds have included:

- \$94.8 million for weapons, equipment, and vehicles for Kurdistan Regional Guard brigades, funded with the 2010/2011 ISFF appropriation
- \$19.0 million for training ammunition for the M1A1 tanks, funded with the 2010/2011 ISFF appropriation
- \$4.3 million for ambulances funded in the 2007/2008 ISFF appropriation

Funding for infrastructure projects have included:

- \$61.2 million for construction of 100 police stations funded with the 2007/2008 ISFF appropriation
- \$23.5 million for the Iraqi Air Force flight school funded with the 2007/2008 ISFF appropriation
- \$22.2 million for upgrades at the Taji National Depot funded with the 2007/2008 ISFF appropriation

<sup>&</sup>lt;sup>a</sup> In the IRMS database, there is no information on dollar amounts obligated or expended for each line item. The only available fields detailing the costs associated with each line item are a "Total Cost" and an "Annual O&M Cost." The Annual O&M Cost is not included in this reported total.

b ISOC does not include information on dollar amounts obligated or expended for each line item. The only available fields detailing the costs associated with each line item are a "Contract Amount" and a "Paid Amount." The Contract Amount is reported here.

Figure 3 shows a picture of the ISFF-funded Erbil Police Station construction.

Figure 3—ISFF-funded Erbil Police Station Construction



Source: SIGIR.

#### **ESF Projects**

From FY 2006 through FY 2012 the Congress appropriated about \$5.13 billion to the ESF to enable State and USAID to improve Iraq's infrastructure, strengthen security, promote democracy, empower civil society, support capacity building, and promote economic development. USAID was the primary beneficiary of ESF funding and conducted multiple programs to achieve a range of security, political, and economic objectives. However, while USAID tracked financial data by program, it did not consistently track data on projects within the programs. For example, USAID knows precisely how much was invested in its Community Stabilization Program, but cannot identify the specific projects and spending by location. According to USAID officials, its implementing partners, that is, those private entities that received the money to implement the programs, were responsible for keeping project data. We did not obtain this data because of time constraints. Table 7 lists examples of large ESF-funded programs and projects we identified in analyzing IRMS, ISOC, and the agency financial and contract databases. The amount paid is from USACE's or USAID's financial systems.

**Table 7—Examples of Large ESF-funded Programs/ Projects** \$ Millions

Program/Project	Total Amount Paid
Community Stabilization Program	\$613.6
Community Action Program (II and III)	443.2
Local Governance Program	439.9
National Capacity Development – Tatweer	334.2
Agribusiness – Inma	161.6
Iraq Rapid Assistance Project	160.7
Provincial Economic Growth - Tijara	144.2

Sources: SIGIR analysis of the IRMS, ISOC, CEFMS, RMS, and Phoenix databases.

#### **INCLE Projects**

SIGIR found that DoS could account for programs funded by INCLE, but could only provide a partial picture of the projects. DoS did not provide us access to their internal databases used to manage the programs, but did provide SIGIR with a table identifying programs implemented in Iraq derived from data in the DoS Global Financial Management System, and augmented with information from interagency agreements and contracts. Table 8 shows the information provided by DoS that accounts for INCLE funding in Iraq.

**Table 8—INCLE Programs and Their Costs** \$ Millions

Project/Programs	Number	Obligated	Expended
Justice Administration	10	\$32.9	\$32.8
Corrections/Pre-trial Detentions	5	227.8	218.1
Drug Demand Reduction	3	3.5	1.8
Anticorruption	8	26.8	23.6
Development	12	76.2	71.6
Outreach	3	27.6	21.0
Security (Courts)	5	59.7	6.2
Security (Police Training)	2	697.2	549.8
Total	48	\$1,146.9	\$974.9

Sources: DoS, Global Financial Management System, and DoS/INL review of interagency agreements/contracts. SIGIR observes that the financial data provided above by State does not track with financial data provided to SIGIR for its report SIGIR-13-001 entitiled "Sustaining the Progress Achieved by U.S. Rule of Law Programs in Iraq Remains Questionable".

Some of the more notable INCLE funded activities are listed in Table 9.

**Table 9—Examples of INCLE-funded Activities and Their Costs** \$ Millions

Project	Cost
Police Development Program (Training and Mentoring)	\$282.5
Police Development Program (Construction)	267.3
Corrections Training and Advisors	137.6
Corrections Construction	73.2
Development of Iraq Criminal Justice System	26.1
Witness Protection Program	25.0
Iraq Investigations of Crimes Against Humanity	24.4
Department of Justice Resident Legal Advisors to the GOI	24.3
Assistance to Commission on Integrity	15.6
Iraqi Justice Integration Project	13.0

Source: DoS.

SIGIR's review of CEFMS found additional detailed information on construction projects funded by INCLE and managed by USACE. Table 10 lists examples of construction projects funded by INCLE.

**Table 10—Examples of INCLE-funded Construction Projects Managed by USACE** \$ Millions

Project	Total Amount Paid
Fort Chamchamal Prison	\$28.7
Ft Suse Prison	13.4
500 Man Camp at Camp Slayer	11.6
Construction of Judicial Education and Development Institute JEDI	10.0
Basrah Central Prison Renovation	9.4
Nasiriyah Prison Facility Expansion	8.0
Procurement of Security Equipment	2.3
Sadr City Courthouse Security Upgrade	.9
Old Hillah Courthouse Security Upgrade	.6

Source: SIGIR analysis of IRMS, ISOC, and USACE databases.

Figure 4 shows an INCLE-funded project.

Figure 4—INCLE-funded Chamchamal Correctional Facility Renovation and Expansion



Source: USACE.

# Waste Associated with Implementing Projects in a Contingency Operation

Waste in Iraq contingency contracting has been a subject of congressional interest for many years. At several congressional hearings, officials responsible for wartime contract oversight have testified that waste is difficult to quantify in gross numbers, but afflicted a wide variety of U.S.-funded projects and programs. In an August 2011 report, the U.S. Commission on Wartime Contracting stated that wartime contracting waste in Iraq and Afghanistan ranged from 10% to 20% of the \$206 billion spent by the U.S.for contracts supporting contingency operations. SIGIR previously estimated the waste at about 10% of the \$60.6 billion spent on U.S. funded Iraq reconstruction. Because of the continuing congressional interest in this subject, SIGIR has examined all incidents of waste and fraud identified in SIGIR audits, inspections, and investigations over our nine years of operations in Iraq.

SIGIR, along with the Government Accountability Office and the Inspectors General of the Departments of Defense and State, jointly developed the following definition of waste, which also includes fraud and abuse:

Fraud, waste, and abuse generally relates to the U.S. taxpayer not receiving the full value of government-funded activities. Fraud is an illegal action taken by a government or contractor official for personal gain. Waste represents a transgression that is less than fraud and abuse and most waste does not involve a violation of law. Rather, waste relates primarily to conditions that could result in waste, such as mismanagement, inappropriate actions, or inadequate oversight. Waste involves the taxpayers as a whole not receiving reasonable value for money in connection with any government funded activities due to an improper act or omission by players with control over or access to government resources (such as executive, judicial, or legislative branch employees, contractors, grantees or other recipients).

Examples of waste in the acquisition and contracting area include the following:

- unreasonable, unrealistic, inadequate or frequently changing requirements
- proceeding with development or production of systems without achieving an adequate maturity of related technologies in situations where this is no compelling national interest to do so
- failure to use competitive bidding in appropriate circumstances
- over-reliance on cost-plus contracting arrangement where reasonable alternatives are available
- inordinately high security costs relative to the overall cost of the project
- poor contract oversight that results in shoddy workmanship and costly rework

- building projects during an insurgency that subsequently require expensive rebuilding because of the violence
- failure to coordinate project plans with foreign and domestic partners
- failure to estimate the costs of performing contracts in dangerous environments when making project-selection decisions
- failure to consider the host nation's ability to finance and sustain reconstruction projects when developing project requirements and planning for effective transfers
- using expensive stability and reconstruction projects to satisfy military tactical and strategic objectives that often resulted in questionable outcomes.

SIGIR's audits, inspections, and investigations are replete with examples of waste. These include:

- projects that were not completed but nonetheless were turned over to the Iraqis, or in some cases, abandoned, such as the \$40 million Khan Bani Sa'ad Prison
- projects that were subject to theft and fraud, such as the theft of \$800,000 in CERP funds by an Army officer working on the Sons of Iraq program
- projects in which overhead costs, mostly for security, consumed the majority of project funds, such as DoS's democracy-building grants in Erbil in which about 50% to 60% of funds were used for security and overhead costs
- the conflation of counterinsurgency and development in which expensive development projects that ultimately failed to meet their intended development objectives were used to satisfy military counterinsurgency objectives. (These include the \$36 million Baghdad Economic Zone project and the \$108 million Falluja Waste Water Treatment facility.)
- projects in which the Iraqi government did not agree in writing and subsequently changed their minds, such as DoS's Police Development Program (The program was ultimately downsized to a fraction of its original plan because the Iraqis did not want it—but not before \$206 million was spent constructing facilities to support the program.)

As stated, precisely quantifying total waste is difficult. The absence of details on the specific projects, the poor cost data, and the inability to travel to the sites for inspections were all barriers to our analysis. However, in the professional judgment of SIGIR's audit, inspection, and investigative staff, waste in the Iraq program ranged up to least 15% of Iraq relief and reconstruction spending, or at least \$8 billion.

#### **Conclusions**

The United States has spent over \$53 billion for thousands of projects to rebuild Iraq, yet, despite six months of effort in analyzing agencies' data, SIGIR was only able to identify a plurality of the projects funded by the five principal appropriations funds. We found that incomplete and unstandarized databases left us unable to identify the specific use of billions of dollars spent on projects, because the U.S. government agencies involved were not required to manage project data in a uniform and comprehensive manner.

While these agencies present broad information on their programs, they did not develop or retain accessible data regarding detailed projects. A full accounting, if ever possible, would require combing through mountains of disordered electronic and paper records accumulated since 2003 that are currently stored in multiple locations across many agencies.

Waste occurred throughout the reconstruction effort. Because of the database problems and other issues associated with operating in a hostile environment, precisely quantifying that waste is difficult. Our inability to account for specific projects, the status of projects, and their use by the Iraqis raises questions about the purpose of the spending and whether waste occurred in its use. Nonetheless, based on the 390 audits and inspections and over 600 investigations conducted by SIGIR's audit, inspection, and investigative staff since 2004, our judgement is that waste would range up to at least 15% of Iraq relief and reconstruction spending or at least \$8 billion.

#### **Management Comments and Audit Response**

SIGIR received formal and informal comments from both USACE and DOS. SIGIR did not receive comments from USAID. We incorporated agency comments as appropriate throughout the report. Official agency comments are included in Appendix D and E.

In written comments on a draft of this report, USACE expressed concerns that our objective of accounting for all projects appears to have been conflated with the objective of trying to account for all of the uses of the reconstruction funds. USACE was informed in writing as well as in meetings at the beginning of this effort, that SIGIR planned to identify from federal agencies' records the projects financed with Iraq relief and reconstruction funds. There was no ambiguity about our objectives. USACE is correct that the final report focuses on accounting for reconstruction funds. This is correct and consistent with our objective of identifying projects financed with those funds. As this report clearly points out, we could not identify, for a large percentage of obligated funds, the specific projects associated with those funds. Thus, the only way to describe what happened to the money was to report on summary information on obligated funds.

USACE was informed that we planned to use CEFMS, IRMS, ISOC, RMS and USAID's Phoenix data to account for projects, because earlier SIGIR audit work had found that IRMS did not contain information on about \$15 billion in Iraq relief and reconstruction spending.. However, throughout the first few months of our analysis, USACE continued to maintain that IRMS was the data base of record for all relief and reconstruction activities. After three months of negotiations, USACE finally provided CEFMS and RMS data. This delayed our effors but eventually provided additional data for a slightly more comprehensive understanding of how the relief and reconstruction funds were used. In the final analysis, however, we could not identify how about \$3.2 billion of IRRF was used, nor could we identify specifically how most of the ISFF was used.

That is not to say that USACE cannot account for the funds in CEFMS, it's financial management system. Earlier SIGIR audits found that USACE and other agencies were able to account for all IRRF funds allocated by OMB to them. However, CEFMS's is not designed to identify projects, it is designed to track obligations and expenditures. We attempted to link financial data in CEFMS with IRMS project data. Although we were able to identify uses for most of the IRRF funds, we were not able to identify uses for \$3.2 billion. USACE believes the \$3.2 billion relates to non-specific project costs, projects funded prior to full implementation of IRMS, or contract modifications that were issued after IRMS shut down in 2010. Though this may be true, we found no supporting documentation that could verify this explanation.

As stated in this report, during SIGIR's six months of effort, we could not find reliably complete information showing what U.S. construction funds accomplished. SIGIR issued numerous reports documenting the limitations of the applicable data systems, but little improvement occurred. Thus, the full story on the use of billions of U.S. dollars for reconstructing Iraq will forever remain incomplete.

The project accountability issue is inextricably linked to the subject of waste, a concern of the U.S. Congress throughout the relief and reconstruction effort. As we state in this report, precisely quantifying this waste is difficult. SIGIR's methodology from the beginning was to look at specific projects and pass on the findings and lessons to reconstruction managers to improve the overall effort. This methodology does not allow us to project our findings against the universe of relief and reconstruction efforts and arrive at an overall estimate of waste. What was clear to SIGIR in our 390 audits and inspections, however, is that many projects were highly vulnerable to inflated pricing, high security costs, poor quality control, a failure to obtain buy-in from the Iraqi's, and a myriad of other problems. While we recognize the limitations of trying to estimate waste without better data, we are comfortable with our professional judgment that the waste was at least15% or least \$8 billion.

In addition, in written comments to this report the State Departments Office of Near East Affairs-Iraq, expressed concern over our treatment of waste and suggested that we clarify the nature of the data used to make our observations. We have added additional information in the body to address this issue.

## **Appendix A—Scope and Methodology**

#### **Scope and Methodology**

In August 2012, the Special Inspector General for Iraq Reconstruction (SIGIR) initiated work on Project 1205 with an objective to assess the extent to which federal agencies identified projects financed with Iraq relief and reconstruction funds. Our focus was on projects undertaken within five major funds—the Iraq Relief and Reconstruction Fund (IRRF), Iraq Security Forces Fund (ISFF), Economic Support Fund (ESF), Commander's Emergency Response Program (CERP), and International Narcotics Control and Law Enforcement (INCLE) account—which, in aggregate, constitute about \$51.6 billion, or about 85% of the total reported \$60.6 billion in U.S. appropriated funds for Iraq relief and reconstruction through September 30, 2012.

To address our objective, SIGIR held discussions with officials from the key U.S. government entities involved with Iraq relief and reconstruction activities—the Department of Defense (DoD), Department of State (DoS), United States Army Corps of Engineers (USACE), and United States Agency for International Development (USAID)—regarding our efforts to capture project data from the inception of U.S. funding for Iraq in 2003 through September 30, 2012. We requested and analyzed project and related financial documentation and data contained in databases and other sources maintained by these agencies. Specifically, to determine the extent of the accounting for projects, SIGIR initially examined data extracted from the Iraq Reconstruction Management System (IRMS) database (which was once a USACE-managed government-wide database for U.S.-funded Iraq reconstruction efforts) as a baseline for its analysis. However, because IRMS had been terminated in September 2010 and prior SIGIR work had identified weaknesses in the system, such as incomplete project data, SIGIR sought other data sources resident in each of the agencies noted above. In this regard, SIGIR subsequently requested and analyzed project data from various financial, program management, and contract data sources maintained by the governmental agencies in an effort to achieve our objective. In total, our analysis focused on the following databases:

- the IRMS
- USACE's Financial Management System (CEFMS)
- USACE's Resident Management System (RMS)
- DoS's Iraq Status of Construction ISOC) database
- USAID's Financial Management System (Phoenix)

Using data obtained from these multiple sources, SIGIR performed a comparative analysis of the totality of the projects we could identify with the financial records of the major funds used to finance Iraq relief and reconstruction as of September 30, 2012, to ascertain the extent of the government's accounting for specific projects undertaken versus the funding provided and expended.

SIGIR further analyzed the data across all funds to provide descriptive detail regarding the use of identified projects. SIGIR's focus for these descriptive summaries and tables was to make note of the top projects funded under the five different funding sources—the IRRF, ISFF, ESF,

CERP, and INCLE as examples of the types of efforts funded and the level of detail in terms of identifying single large projects.

SIGIR faced several challenges in the conduct of its work, including the following:

- Because of the absence of a comprehensive government-wide database for presenting project data for Iraq relief and reconstruction activities, our analysis required examining an extensive volume of data contained in multiple agencies' databases.
- The databases that SIGIR analyzed were not uniform in presentation of key data elements, to include what constitutes a "project." Thus, in many cases, we were unable to categorize within all major funds the data at the project level because of variations in how data was presented across agencies' databases. In some cases, data reflected individual transactions, many of which comprise a single project. In other cases, the data were presented at the contract or program level and thus could not readily be disaggregated to determine the precise cost or nature of individual projects within the program.
- Some data, as presented, were not reliable as evidenced by poor recordkeeping (such as
  the absence of project cost, apparent duplicative costs across some projects, or poor or
  missing project descriptions and status), thus creating difficulties in SIGIR's ability to
  determine the extent to which the government could fully account for reconstruction
  projects.
- Cost data was also inconsistently reported among the databases. When we found an
  inconsistency in the cost reported for a specific project, we reported on costs as it
  appeared in the CEFMS (the financial database for USACE) or Phoenix (the financial
  data base for USAID).

Nonetheless, SIGIR believes that, while these limitations presented daunting challenges (particularly as they relate to the precision of some quantitative analyses we performed), they did not materially affect the key findings presented in this report.

SIGIR conducted this work as a nonaudit evaluation from August 2012 through January 2013 from its headquarters in Arlington, Virginia. This means the work was performed in accordance with SIGIR's quality controls, which require that SIGIR plan and perform the work to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objective.

#### **Use of Computer-processed Data**

We used computer-processed data contained in DoD, DoS, USACE, and USAID databases. Given that these databases are the primary means for the U.S. government to highlight how U.S. funds have been used to support Iraq relief and reconstruction efforts and are used to support data presented to the Congress, SIGIR acknowledges that they represent the best sources readily available for the purposes of this review. We did not verify the data, but where SIGIR used the data for analysis in accounting for U.S.-funded projects for Iraq relief and reconstruction, SIGIR identified any known associated limitations.

#### **Internal Controls**

In conducting this audit, we did not focus on internal management controls used by the agencies in managing its Iraq reconstruction and relief activities.

#### **Prior Coverage**

We reviewed the following SIGIR reports and publications:

The Department of State's Process To Provide Information on Reconstruction Projects to the Government of Iraq, SIGIR 12-009, 1/29/2012.

Iraq Relief and Reconstruction Fund 2: Report on Apportionments, Expenditures, and Status at End of Fiscal Year 2010, SIGIR 11-013, 4/22/2011.

Commander's Emergency Response Program Obligations Are Uncertain, SIGIR Audit 11-012 1/31/2011.

Department of State Contract To Study the Iraq Reconstruction Management System, SIGIR 10-010 1/26/2010.

Asset-transfer Process for Iraq Reconstruction Projects Lacks Unity and Accountability, SIGIR 09-016, 4/26/2009.

Key Recurring Management Issues Identified in Audits of Iraq Reconstruction Efforts, SIGIR 08-020, 7/27/2008.

Comprehensive Plan Needed To Guide the Future of the Iraq Reconstruction Management System, SIGIR 08-021, 7/25/2008.

Management of Iraq Relief and Reconstruction Fund Program: The Evolution of the Iraq Reconstruction Management System, SIGIR 06-001, 4/24/2006.

SIGIR, *Iraq Reconstruction: Lessons Learned from Auditing U.S.-funded Stabilization and Reconstruction Activities*, 10/30/2012.

SIGIR, Quarterly and Semianual Reports to the United States Congress, 10/30/2008, 7/30/2012, and 10/30/2012.

# **Appendix B—Acronyms**

Acronym	Description
CEFMS	Corps of Engineers Financial Management System
CERP	Commander's Emergency Response Program
DFAS	Defense Financial Accounting System
DoD	Department of Defense
DoS	Department of State
ESF	Economic Support Fund
GOI	Government of Iraq
INCLE	International Narcotics Control and Law Enforcement
IRRF	Iraq Relief and Reconstruction Fund
ISOC	Iraq Status of Construction
RMS	Resident Management System
ISFF	Iraq Security Forces Fund
SIGIR	Special Inspector General for Iraq Reconstruction
USACE	United States Army Corps of Engineers
USAID	United States Agency for International Development

# **Appendix C—Audit Team Members**

This report was prepared and the work conducted under the direction of James Shafer, Assistant Inspector General for Audits, Office of the Special Inspector General for Iraq Reconstruction.

The staff members who performed the work and contributed to the report include:

Charles Bolton

Joan Hlinka

Tinh Nguyen

Robert Pelletier

James Reifsnyder

James Smith

Shauna Sweet

Karl Tool

## **Appendix D—Management Comments**



United States Department of State

Washington, D.C. 20520

March 1, 2013

Mr. James Shafer Assistant Inspector General of Audits Office of the Inspector General for Iraq Reconstruction Washington, DC

Re: Comments on Draft Report, "Government Agencies Cannot Fully Identify Projects Financed with Iraq Relief and Reconstruction Funds" (SIGIR 13-006, February 20, 2013)

Dear Mr. Shafer:

Thank you for the opportunity to comment on the aforementioned report. We appreciate SIGIR's efforts to promote economy, efficiency and effectiveness and to prevent and detect fraud, waste, and abuse.

As described in this report, the lack of consistent record keeping systems has made it impossible to quantify the precise extent of waste that occurred during the implementation of reconstruction programs in Iraq. For this reason, we believe it is premature to estimate that such waste would range up to about 15 percent of Iraq relief and reconstruction spending, as set out in the report.

In this regard, we believe it would be useful for SIGIR to describe more fully the nature of the data consulted and explain how it was used to arrive at the above conclusion. For example, SIGIR characterizes the Iraq Status of Construction (ISOC) data as a database used to track Department of State projects while in fact it was a summary report derived from the Resident Management System (RMS) used by the U.S. Army Corps of Engineers and cannot be used for comprehensive tracking purposes. We would also note that high security and overhead costs are best understood in relation to the operating environment of a

conflict or post-conflict zone, and are not of themselves confirmation of waste, fraud or abuse.

We share the hope that the lessons learned in this investigation will prove to be useful in the future.

Sincerely,

Andrew Snow Director Near East Affairs – Iraq Approved: NEA/I - ASnow

Drafted: NEA/I/EAA, Dianna Chianis, 7-9883, Cell: 281-536-0914

Cleared: NEA/I -SRoss (ok)

NEA/POL – ANorris (ok) NEA/PM – SRice (ok) D(N) – KPeterson (ok) M – KAustin-Ferguson (ok)

L – Ddebartolo (ok) H – Tdonald (ok) INL – DBates (ok)

Baghdad - AForsberg (ok)

USACE - DSchmidt/JHowell (ok)

#### **Appendix E—Management Comments**



- 4 MAR 2013

CETAD- IR

MEMORANDUM FOR Special Inspector General for Iraq Reconstruction (SIGIR) ATTN: Fred J. Shafer, Assistant Inspector General for Audits 2530 Crystal Drive, Arlington, VA 22202-3940

SUBJECT: U.S. Army Corps of Engineers (USACE) Response to SIGIR Draft Report 13-006, Government Agencies Cannot Fully Identify Projects Financed With Iraq Relief and Reconstruction Funds

DEPARTMENT OF THE ARMY UNITED STATES ARMY CORPS OF ENGINEERS
TRANSATLANTIC DIVISION
255 FORT COLLIER ROAD
WINCHESTER, VIRGINIA 22603

- 1. USACE expressed concerns earlier regarding some ambiguity of the objectives of this evaluation. These concerns remain as the objective of accounting for all projects appear to have been conflated with the objective of trying to account for all the uses of the reconstruction funds. These objectives are not the same as not all reconstruction funds were used for project specific purposes. Non-specific project costs, incurred by USACE, such as in-house labor, supervision and administration, travel and transportation costs recorded in CEFMS were not recorded in the Iraq Reconstruction Management System (IRMS). Furthermore, the evaluation suffered from the assumption that the project systems would account for all funds when that was never their objective. The official accounting for all funds for USACE is the Corps of Engineers Financial Management System (CEFMS).
- 2. USACE was also concerned that the draft report engaged in conjecture regarding waste based on the incorrect assumption that the projects systems included all reconstruction funds. Finally, USACE was presented with this conclusion in the draft report with insufficient time to provide information on the funds not tracked in the project systems.
- 3. Additional comments concerning the draft report are provided in the enclosure.
- 4. My point of contact for these comments is Mr. George Sullivan, Chief, Internal Review at 540-665-2117, George.a.Sullivan@usace.army.mil.

Encl

COL, EN

Deputy Commander

USACE, Transatlantic Division (USACE-TAD) Comments to SIGIR Draft Report 13-006, Government Agencies Cannot Fully Identify Projects Financed With Iraq Relief and Reconstruction Funds

- USACE-TAD has reviewed SIGIR Draft Report 13-006 and provides the following comments for clarification.
- Clarification concerning the \$3.2 billion in IRRF obligations that SIGIR could not determine the use of.
  - a. The Corps of Engineers Financial Management System (CEFMS) is the official financial management system used by USACE to account for funds. USACE can account in CEFMS for IRRF funds that were provided to USACE. Any portion of the \$3.2 billion that SIGIR was unable to identify the specific use of, that were provided to USACE, is either cost not associated directly to a project, cost not entered into IRMS for projects constructed prior to full implementation of IRMS in 2006, or contract modifications that were issued after the IRMS shutdown in 2010.
  - b. Government audits are performed in accordance with generally accepted government auditing standards which require that the auditor plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on audit objectives. SIGIR's evaluation was not an audit; it was a "nonaudit evaluation". SIGIR implying that \$3.2 billion is unaccounted for and may have been wasted is speculation and not supported by the evidence presented in the draft report.
- 3. Clarification concerning the Iraq Management System (IRMS).
  - a. IRMS, the successor database to the PCO Solution, was established to serve as a comprehensive database about projects and activities by the implementing partners, to serve as a tool to facilitate standardized records and reports, including Congressional reporting and to serve as a Common Operating Picture (COP) for the USG reconstruction and economic development activities in Iraq. IRMS is the successor database system to the one (the PCO Solution) that was begun under Coalition Provisional Authority auspices and which was developed and managed by the Project and Contracting Office.
  - Non-specific project costs such as in-house labor, supervision and administration (S&A), travel and transportation costs recorded in CEFMS were not recorded in IRMS
  - The IRMS database was only used by USACE from mid-2005 through September 2010.
    - IRMS was not fully operational until 2006; therefore data on IRRF projects from mid-2003 until 2006 may not be captured in IRMS, unless the projects were part of the PCO Solution database. This is confirmed in SIGIR Memorandum for U.S. Ambassador to Iraq, Director, Iraq Reconstruction Management Office, Commanding General, Gulf Region Division, USACE, dated January 27, 2006..."Although efforts to develop

USACE, Transatlantic Division (USACE-TAD) Comments to SIGIR Draft Report 13-006, Government Agencies Cannot Fully Identify Projects Financed With Iraq Relief and Reconstruction Funds

- this system have been underway since June 2004, at present the system has only been partially implemented."
- ii. A major impediment to tracking IRRF funding was the result of an Office of Management and Budget (OMB) decision made in December 2003 that IRRF program funds were to be apportioned directly to the executing agencies, thereby precluding a single, centralized financial oversight of the IRRF program. The disestablishment of the Coalition Provisional Authority (CPA) and the concurrent establishment of the US Embassy, Iraq impacted the Program Management Office (PMO), the predecessor organization to PCO and Iraq Reconstruction Management Office (IRMO). PMO was responsible for total IRRF program management reporting, to include those organizations that received IRRF funding directly from OMB. The creation of IRMO resulted in the transfer of program management responsibilities to IRMO and the retention of project management responsibility with PCO. With this transfer of program management responsibilities went the PCO reporting responsibilities for the actions of non-Defense agencies who received funds other than from PCO, principally Department of State and the US Agency for International Development (USAID).
- iii. The Project and Contracting Office (PCO) was established on 22 Jun 2004 to provide support for all activities associated with financial, program and project management for both construction and non-construction related IRRF activities under IRMO. The PCO Solution began in Jun 2004, eight months after the November 2003 IRRF II appropriation and more than a year after the IRRF I appropriation in April 2003. Thus the PCO Solution was funded for configuration and deployment after the IRRF program was well underway, and was only for Defense agencies who received funds from PCO.
- iv. IRMO issued an action memorandum dated 20 September 2005 mandating that all agencies spending IRRF dollars be required to load and update IRRF-funded project data in the IT system being developed by PCO/GRD.
- PCO was not fully merged into GRD until 4 December 2005, a full two years after the November 2003 IRRF II appropriation.
- vi. Regardless of whether the PCO Solution or IRMS was the database of record, the database is only as good as the many implementing partners were in providing up-to-date data into the system.
- IRMS was discontinued as a database on 1 September 2010; therefore data on IRFF projects after 2010 is not captured in IRMS.
- viii. Within USACE, when IRMS use was discontinued, USACE continued to track contract management using the USACE Resident Management

USACE, Transatlantic Division (USACE-TAD) Comments to SIGIR Draft Report 13-006, Government Agencies Cannot Fully Identify Projects Financed With Iraq Relief and Reconstruction Funds

System (RMS). Use of RMS as a contract management tool is a standard USACE business practice. RMS is a contract management system, and not specifically a construction contract management system. Many types of contracts can be managed and tracked in RMS, although RMS is primarily used by USACE for construction contracts.

- 4. Clarification concerning the Iraq Status of Construction (ISOC).
  - a. ISOC is not a USACE database, it is a summary report generated from RMS.

# **Appendix F—SIGIR Mission and Contact Information**

SIGIR's Mission	<ul> <li>Regarding the U.S. reconstruction plans, programs, and operations in Iraq, the Special Inspector General for Iraq Reconstruction provides independent and objective:</li> <li>oversight and review through comprehensive audits, inspections, and investigations</li> <li>advice and recommendations on policies to promote economy, efficiency, and effectiveness</li> <li>deterrence of malfeasance through the prevention and detection of fraud, waste, and abuse</li> <li>information and analysis to the Secretary of State, the Secretary of Defense, the Congress, and the American people through Quarterly Reports</li> </ul>
Obtaining Copies of SIGIR Reports and Testimonies	To obtain copies of SIGIR documents at no cost, go to SIGIR's Web site (www.sigir.mil).
To Report Fraud, Waste, and Abuse in Iraq Relief and Reconstruction Programs	Help prevent fraud, waste, and abuse by reporting suspicious or illegal activities to the SIGIR Hotline:  • Web: www.sigir.mil/submit_fraud.html  • Phone: 703-602-4063  • Toll Free: 866-301-2003
Congressional and Public Affairs	Hillel Weinberg Assistant Inspector General for Congressional Affairs Mail: Office of the Special Inspector General for Iraq Reconstruction 2530 Crystal Drive Arlington, VA 22202-3940 Phone 703-428-1059 Email hillel.weinberg.civ@mail.mil