SIGIR OVERSIGHT

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SIGIR AUDITS

From July 30, 2007, to October 30, 2007, SIGIR completed seven new audit products. SIGIR has now issued 101 audit products since March 2004.

This quarter, SIGIR audits addressed a diverse range of issues and programs, such as agencies' management of unliquidated obligations and contract closeout processes, effectiveness of the Provincial Reconstruction Team program in Iraq, and use of contractors in managing Iraq relief and reconstruction projects. SIGIR also issued two interim reports this quarter to address issues in need of immediate attention:

- development of a financial management and information system in Iraq
- the limitations on SIGIR's ability to conduct a focused financial review of the DynCorp International contract for the Iraqi Police Training Program

For an overview of SIGIR audit products this quarter, see Table 3.1.

SIGIR has ten ongoing audits and plans to start a number of others next quarter. SIGIR performs audit work under generally accepted government auditing standards.

SIGIR's reports have produced scores of recommendations designed to achieve management improvements and corrective actions needed in reconstruction and relief activities. The implementation of audit recommendations is crucial. SIGIR auditors regularly follow up on all accepted recommendations, seeking to achieve their full implementation to the extent practical. Recommendations that are not accepted are resolved through the applicable resolution process of each organization, normally at the deputy level.

- For information on all SIGIR audit work completed as of October 30, 2007, see Appendix I, Table I-1, and the SIGIR website: www.sigir.mil.
- For information on the status of implementation of SIGIR audit recommendations and recommendations that remain open, see

SIGIR Final Audit Products, since July 30, 2007

Report Number	Report Title	Date Issued
07-010	Agency Management of the Closeout Process for Iraq Relief and Reconstruction Fund Contracts	October 2007
07-011	Controls over Unliquidated Obligations in the Iraq Relief and Reconstruction Fund	October 2007
07-015	Review of the Effectiveness of the Provincial Reconstruction Team Program in Iraq	October 2007
07-016	Interim Review of DynCorp International, LLC, Spending under Its Contract for the Iraqi Police Training Program	October 2007
08-001	Interim Report on Efforts and Further Actions Needed To Implement a Financial Management Information System in Iraq	October 2007
08-002	Logistics Civil Augmentation Program Task Orders 130 and 151: Program Management, Reimbursement, and Transition	October 2007
08-003	Review of the Use of Contractors in Managing Iraq Relief and Reconstruction Projects	October 2007

Table 3.1

Appendix I, Table I-2.

SIGIR's audit work is well coordinated with other audit entities engaged in Iraq-related work. That coordination is reinforced and formalized by representatives of these entities who meet together quarterly on the Iraq Inspectors General Council (IIGC). The IIGC's objective is to coordinate audit activities to prevent duplication of effort and to share information and experiences gained from ongoing audit activity.

On August 15, 2007, the IIGC met at SIGIR headquarters in Arlington, Virginia; some members participated by phone from other U.S. locations and Baghdad. The meeting was attended by representatives from SIGIR, Army Inspector General (Army IG), 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), Defense Contract Audit Agency (DCAA), Army Audit Agency (AAA), Air Force Audit Agency, Naval Audit Service, and Government Accountability Office (GAO).

Final SIGIR Audit Products

Agency Management of the Closeout Process for Iraq Relief and Reconstruction Fund Contracts

(SIGIR-07-010, OCTOBER 23, 2007)

Introduction

In the course of implementing the $20.9 billion Iraq Relief and Reconstruction Fund (IRRF) program, thousands of contracts were issued for activities ranging from the purchase of supplies to billion-dollar construction programs. Most of the work performed under the IRRF program involved the use of contracts, and contract closeout is the final phase in a contract's life cycle. During this phase, agencies receive and accept final delivery of services and supplies, make final payments to contractors, determine whether excess funds are available for de-obligation and use elsewhere, and prepare required documentation (such as the contract completion statement). The process also provides transparency of the decisions made and documents the history of the contract.

Federal Acquisition Regulation (FAR) 4.804-5 provides financial and administrative requirements and timelines for closing out contracts. These requirements include de-obligating excess funds, disposing of classified material, completing contractor's closing statements, and others. Regarding timing, however, the FAR provides guidelines rather than requirements. The FAR states that firm-fixed-price contracts should be closed out within six months of evidence of physical completion, and contracts requiring settlement of indirect cost rates should be closed out within 36 months after the contract is physically completed.

This review was announced as a broad review of IRRF closeout actions involving contracts and associated task orders, grants, and cooperative agreements to determine their compliance with FAR procedures and to determine whether there were significant impediments to closeout actions. SIGIR subsequently deleted grants and cooperative agreements from the analysis because they comprised a relatively small share of IRRF awards, and they are not covered under the FAR. This report summarizes the SIGIR

review of agency measures to manage contract closeout and future issues affecting closeout of high-value cost-reimbursable contracts.

Results

The Department of Defense (DoD) and civilian agencies conducting contract activities in Iraq have policies and procedures for closing out contracts that support the FAR, and the data indicates that agency officials have closed out contracts. These agencies include:

- U.S. Army Corps of Engineers Gulf Region Division (USACE/GRD)
- Joint Contracting Command-Iraq/Afghanistan (JCC-I/A)
- Air Force Center for Engineering and the Environment (AFCEE)
- Department of State (DoS)
- U.S. Agency for International Development (USAID)

When problems have arisen, agencies have responded by seeking outside help to close out backlogs, hiring more staff, or providing additional training to staff. Contracts are not always closed out within FAR guidelines. However, DoS, DoD, and USAID contracting officials state that not meeting the guidelines has a limited effect as long as financial closeout requirements—such as settling final payments with the contractor and de-obligating unneeded contract funds—are completed. SIGIR found that the agencies do take actions to financially close out contracts and then address the less important administrative closeout tasks as time permits.

Agency officials voiced concern in one area—closing out the large design-build infrastructure construction contracts in Iraq. GRD and USACE officials estimate that it could take up to 15 years to fully close out these contracts. In the past, the complicated financial and legal issues on similar contracts required years to close out. This could be problematic because the agencies administering these contracts—USACE/GRD and JCC-I/A in Iraq—are temporary, and plans to transition their closeout workload to other organizations have not been fully worked out. A transition plan is needed to ensure continuity of efforts to accomplish required closeout actions where long-term closeout activity is anticipated.

Recommendations

SIGIR recommends that the Assistant Deputy Assistant Secretary of the Army for Policy and Procurement-Iraq/Afghanistan (ADASA-P&P I/A) coordinate with JCC-I/A, USACE, and U.S. Central Command (CENTCOM) to ensure that timely action is taken to ensure that GRD and JCC-I/A transition plans address closing out the large, cost-reimbursable contracts in Iraq.

Management Comments and Audit Response

SIGIR received written comments on a draft of this report from ADASA-P&P I/A, USACE, and AFCEE. All agencies concurred with the recommendation. DoS stated in an email that it concurred with the findings in the report. USAID similarly sent an email with technical comments, which SIGIR incorporated as appropriate.

Controls over Unliquidated Obligations in the Iraq Relief and Reconstruction Fund

(SIGIR-07-011, OCTOBER 22, 2007)

Introduction

Through two appropriations referred to as IRRF 1 and IRRF 2, the Congress has authorized a total of $20.9 billion for the Iraq Relief and Reconstruction Fund (IRRF). DoD, DoS, and USAID are the major recipients of IRRF funds.

Obligations are recorded when an authorized agent of the federal government enters into a legally binding agreement to purchase specific goods or services. As bills are received and payments made, the recorded obligation is reduced by the payment amounts, with the balance referred to as the unliquidated obligation. Funds no longer needed may be de-obligated.

The purpose of this audit was to determine the amount of IRRF unliquidated obligations retained by DoD, DoS, and USAID and whether those agencies have established adequate management controls over their unliquidated obligations. This audit focused on annual reviews of unliquidated obligations that agencies should have completed for FY 2006.

Results

As of March 31, 2007, the IRRF unliquidated obligation balance for DoD, DoS, and USAID totaled $2.649 billion.[421] The breakdown by agency was $2.308 billion, $182.1 million, and $159.6 million, respectively.

Each of the three agencies included in the SIGIR review has policies and procedures to monitor obligations and to conduct at least an annual review of those that remain unliquidated. The organizations SIGIR examined varied in the extent to which they had conducted and/or documented the required annual review of unliquidated obligations for FY 2006. Based on the reviews, SIGIR believes that there are opportunities for them to improve their performance, better document the results, and potentially expedite the de-obligation of unneeded funds in the future. Completing and documenting such reviews can be important to facilitating ongoing monitoring, follow-up oversight, financial-report preparation, and the retention of institutional knowledge in the face of personnel turnovers. The following examples illustrate limitations that SIGIR identified in the reviews:

- USACE/GRD, which manages DoD's IRRF-funded programs, provided documentation indicating that it had conducted its required review of fiscal year unliquidated obligations in August/September 2006. This review resulted in USACE de-obligating about $30.6 million. Nevertheless, SIGIR identified opportunities for additional de-obligations. For example, SIGIR selected a sample of 150 unliquidated obligations—50 from each of the prior fiscal years—FY 2004, FY 2005, and FY 2006. As of September 2007, SIGIR determined that 24 of the 150 unliquidated obligations, totaling approximately $28.4 million, have had no disbursements since September 2006 and often no documentation of why a continual obligation was needed.

  Moreover, based on the SIGIR assessment of 14 unliquidated obligations in the sample, SIGIR found three—totaling about $1 million—that GRD's documentation indicates should have been de-obligated before the year-end review in September 2006. Simi-

larly, SIGIR identified another instance in which an additional unliquidated obligation of $513,066 should have been de-obligated in September 2006. After SIGIR brought these and other examples to the attention of USACE/GRD officials, they initiated action to de-obligate these funds. USACE headquarters officials, who are currently in the process of revising their procedures for conducting the review of unliquidated obligations, told SIGIR that they will require the reviewers to document in the Corps of Engineers Financial Management System (CEFMS) if a continuing need exists for each unliquidated obligation.

- AFCEE awarded about $1.1 billion of the DoD IRRF program monies. However, AFCEE did not conduct the required review of its September 2006 unliquidated obligations because, according to a senior AFCEE official, USACE/GRD did not ask for one and had not provided AFCEE with a list of unliquidated obligations that would have provided the basis for a review. Nevertheless, the DoD regulations required AFCEE to perform the review.

  SIGIR determined that as of September 2006, AFCEE had 100 unliquidated obligations totaling approximately $91 million; 78 of those obligations were made in FY 2004 and FY 2005. SIGIR determined further that 20 obligations (10 established in each of those fiscal years) had no disbursements as of September 2006. The obligations in question totaled approximately $12.2 million. SIGIR believes that AFCEE should have reviewed these unliquidated obligations during the annual review because that organization awarded the contracts and performs project monitoring. AFCEE should have determined whether a continuing need existed for these obligations.
- USAID did not conduct a year-end review of its IRRF unliquidated obligations before the end of FY 2006. On October 2, 2006, however, as permitted by its guidelines, the USAID/Iraq Mission Director issued an advance certification stating that IRRF unliquidated obligation balances were needed in the activities for which they were obligated and that the amount of funding was consistent with agency guidelines for forward funding. As permitted by its guidelines, the Mission then undertook an actual review of unliquidated obligations between October 2006 and February 2007 while the SIGIR review was underway.

  As a result of the annual review, the Mission de-obligated $24.1 million. Later, while the review was underway, USAID de-obligated an additional $39.0 million of unliquidated obligations that were not identified in their annual review documentation. Continuing to monitor the USAID financial management database for IRRF obligations, SIGIR determined that agency officials had de-obligated an additional $6.5 million of IRRF unliquidated obligations from May 2007 through September 2007. Consequently, USAID de-obligated $69.6 million of IRRF funding since October 2006. For the assessment, SIGIR reviewed USAID's unliquidated obligations as of September 2006, when no disbursements had occurred for at least six

months. SIGIR found 71 obligations, totaling about $1.2 million, which could have been de-obligated prior to the end of the fiscal year, principally in obligations with no disbursements for significant time periods. After bringing these obligations to USAID's attention, agency officials subsequently de-obligated 62 of the 71 obligations, totaling about $611,000, and Mission officials continue to review the remaining 9.

- DoS policy requires an annual, fiscal year-end review of unliquidated obligations, along with monthly reviews, to determine if there is a continuing need for funds as currently obligated. DoS officials provided SIGIR with the FY 2006 certifications from the bureaus and embassies responsible for the IRRF, stating that they had certified their year-end unliquidated obligation balances of $316.5 million. The agency did not, however, provide supporting documentation for its annual review of unliquidated obligations and its determination of a continuing need for individual obligations. As a result, SIGIR could not determine the thoroughness and completeness of DoS's year-end review of unliquidated obligations.

The SIGIR review of DoS's unliquidated obligations found instances in which a continuing need for an obligation could be questioned—principally in regard to agreements with another government agency where there had been no activity for significant time periods or where obligations occurred in prior years. As of March 2007, DoS accounting records identified $70 million of unliquidated obligations pertaining to 24 interagency agreements with the Department of Justice (DoJ). DoJ reported to DoS that $39.5 million of the $70 million remained unobligated, as of March 2007.

Recommendations

Overall, SIGIR found various instances in each of the agencies that provide opportunities to improve documentation of the review of unliquidated obligations, including the justifications for retaining individual obligations. Therefore, SIGIR recommends that:

- USACE/GRD provide a list of unliquidated obligations to AFCEE, as required by the DoD regulation, and follow up with them on the reviews
- USAID and DoS develop written procedures requiring finance offices to document their reviews of unliquidated obligations and the reasons for retaining an obligation, including identifying a continuing need
- DoS document, as appropriate, its year-end review of each individual unliquidated obligation and document its determination of a continuing need

Management Comments and Audit Response

SIGIR received written comments on a draft of this report from USACE and USAID. USACE concurred with the recommendation and provided technical comments, which SIGIR included in the report where appropriate. In its written response to the draft report, USAID said it had completed its annual review of unliquidated obligations during FY 2006. During the audit, however, SIGIR requested but did not receive supporting documentation of USAID's

FY 2006 certification of unliquidated obligations until February 2007.

Therefore, SIGIR had no evidence to support USAID's position that the agency completed its review before the end of FY 2006. USAID did not respond to the recommendation that it document its reasons for retaining an obligation. Rather, USAID said that it already has procedures for documenting reviews and recording reasons for retaining an obligation. SIGIR reviewed all of the data USAID provided and again found no documentation detailing why it retains obligations. Consequently, SIGIR is keeping this recommendation. USAID also provided some technical comments, which SIGIR included in the report where appropriate.

Review of the Effectiveness of the Provincial Reconstruction Team Program in Iraq

(SIGIR-07-015, OCTOBER 18, 2007)

Introduction

The Provincial Reconstruction Team (PRT) program for Iraq is a U.S.-led, civil-military effort to help Iraq's provincial and local governments govern effectively and deliver essential services. The initiative has evolved and expanded considerably since the opening of the first PRTs in Mosul, Kirkuk, and Hilla in November 2005. As of August 2007, the program comprised:

- seven PRTs led by the United States and three led by the coalition
- seven provincial support teams (PSTs)—small cells of advisors who provide advice to provincial officials[422]
- 15 recently deployed ePRTs—the latter embedded with brigade combat teams (BCTs) in and around Baghdad and Anbar province

The PRT program provides integrated and multidisciplinary teams of U.S. and Coalition civilian and military personnel to teach, coach, and mentor provincial and local government officials in core competencies of governance and economic development.

This report examines the PRT program and provinces in Iraq across five selected areas of program emphasis:

1. assisting Iraq's provincial and local governments in developing a transparent and sustained capability to govern
2. promoting increased security and rule of law
3. advancing economic development
4. providing the provincial administration necessary to meet the basic needs of the population
5. promoting reconciliation and shaping the political environment

This report provides some generalizations across each area of emphasis and also provides an assessment of progress across the country. To show the progress of the PRTs in different parts of Iraq, SIGIR has grouped the 18 provinces into a nominal construct of five geographic regional areas. This grouping is only for discussion purposes in this report.

In making the assessment, SIGIR visited the ten PRTs and seven PSTs, as well as nine of the new ePRTs. The work included discussions with senior-level military and U.S. Embassy officials in Baghdad and structured interviews

throughout Iraq with 274 civilian and military officials and officers, including senior leaders in the BCTs, team and deputy team leaders, technical specialists, bilingual bicultural advisors, civil affairs members, and Iraqi and third-country government advisors. SIGIR did not systematically obtain the perspective of Iraqi provincial-government officials on the effectiveness of the PRTs.

Results

In many locations, the PRT program in Iraq is making incremental progress in developing the nation's provincial and local government capacity to effectively govern and manage its own reconstruction, despite continuing political and ethnic conflicts, as well as the difficult security situation. However, Iraq's complex and overlapping sectarian, political, and ethnic conflicts, as well as the difficult security situation, continue to hinder progress in promoting economic development, rule of law, and political reconciliation. Despite these general observations, some differences do exist across sections of the country and individual provinces. The following are summaries of SIGIR's findings on the five areas of PRT program emphasis that SIGIR examined:

Governance—At the sites SIGIR visited, PRT officials provided mixed judgments of their provinces' effectiveness at governing and managing their governmental institutions, but noted that each had improved incrementally over the previous year. Officials told SIGIR that a key obstacle to developing governance capacity was the lack of a Provincial Powers Law to define the rights and responsibilities of government offices and to hold provincial officials accountable for their actions.

Rule of Law—Numerous PRT officials identified rule of law as their most problematic core function. In many locations, there is little cooperation between the police, courts, and correction facilities, and judicial orders are routinely ignored. With a few exceptions, the local population views police officers with suspicion because of suspected links to local militias and criminal activity. Judges and other participants in the judicial process are subjected to intimidation, and courts are often unable or unwilling to hear cases because of inadequate security.

Economic Development—The dangerous security environment continued to undermine efforts by the PRTs to increase living standards and reduce unemployment. Therefore, it is difficult to ship raw materials into provinces and transport agricultural and manufactured products to markets, and there is little Iraqi or foreign investment. Many provinces suffer from shortages of fuel oil and electrical power, and PRT economic advisors report that it will be difficult to create employment opportunities without a stable power source. The PRTs are engaged in a number of efforts to foster economic development, including micro-lending programs, agribusiness development, small-business development centers, and plans to resurrect state-owned enterprises.

Reconstruction—PRT officials generally believe that the provinces are effective at managing their infrastructure and brick-and-mortar reconstruction projects. However, provincial

governments have little ability to manage and sustain existing infrastructure projects, and they are not budgeting for operation and maintenance requirements. The use of the Commander's Emergency Response Program (CERP) exacerbated the problem. SIGIR documented frequent instances of CERP projects that conflicted with the capacity-development mission of the PRTs by performing tasks that properly belong to local and provincial governments.

Political Reconciliation—PRT officials reported little progress in this key area at the local and provincial level—with the notable exception of Anbar province, where the tribes banded together to oppose al-Qaeda and support the national government. Efforts toward reconciliation have been undermined by tension between rival Shia groups, a sense of alienation among Sunnis, and growing public frustration over the inability to obtain government services.

Looking across the five regional areas and the provinces associated with them, one can see differences across and within the regions. The northern area is heavily Kurdish, the western area is largely Sunni, the southern areas are largely Shia, and the central region is mixed. Despite the best efforts of PRT civilian and military officials who are working under dangerous and austere conditions to accelerate the Iraqi transition to self-reliance, resolving these problems will likely be a slow process. It will require years of steady engagement and will depend heavily on the security environment and political settlements at the national level.

Observations

PRTs are coaching their provincial counterparts to execute their provinces' capital budget allocations. Most provinces report that they are ahead of their 2006 spending pace and generally on course to spend their 2007 funds. Generally, the provinces were spending their funds on brick-and-mortar construction projects, although issues with procurement complexity and lack of contractors have caused some provinces to focus instead on spending to stockpile materials for future projects.

As SIGIR has previously reported, management actions are needed to improve sustainment capacity for reconstruction programs. However, this problem continues.[423] SIGIR noted that the provinces struggle to staff and maintain buildings and facilities once constructed—such as clinics, schools, and water treatment plants. One PRT team leader characterized the problem as a future "train wreck" unless steps are taken now to begin budgeting and deploying the systems needed to sustain the new construction. In an earlier report, SIGIR recommended that the U.S. Ambassador, in coordination with the Commanding General, Multi-National Force-Iraq (MNF-I), formulate and implement a plan with clear goals and objectives for the sustainment of IRRF projects, and review the Government of Iraq's (GOI's) leadership in this area to determine its adequacy and shore up any shortfalls.

Although SIGIR directed this recommendation to the Embassy, it also has relevance at the provincial level. SIGIR believes that the PRTs should expand their focus on budget execution

efforts, including helping the provincial governments to budget for and carry out sustainment tasks. This would also have the salutary secondary effect of increasing coordination between the central ministries' provincial-level representatives and local officials.

Further, SIGIR's two previous reports on the PRT program recommended the development of clearly defined objectives and performance measures to guide the PRTs and determine their accomplishments.[424] SIGIR believes that those recommendations are still appropriate and are particularly relevant for those provinces where the PRTs' access and engagement with Iraqi officials have been limited. SIGIR also found frequent instances in which the military's use of CERP to perform tasks that properly belong to local and provincial governments conflicts with the PRT's capacity-development mission.

Recommendations

SIGIR recommends that the U.S. Ambassador to Iraq and the Commanding General, MNF-I, take these actions:

1. In an expeditious manner, jointly establish a comprehensive plan for the PRTs (including ePRTs), with elements tailored for each PRT. At a minimum, the plan should: (a) clearly define objectives and performance measures, (b) clearly define milestones for achieving stated objectives, (c) be linked to funding requirements, and (d) identify the organization(s) within each agency that are accountable for the plan's implementation. To provide senior-level attention to this issue, the plan should be approved by the Office of the Chief of Mission and the MNF-I Commander to demonstrate each agency's commitment to this effort.
2. Develop guidance on the use and synchronization of CERP funds to support the U.S. government's capacity-development mission.

Management Comments and Audit Response

The U.S. Embassy-Iraq and Headquarters, MNF-I, provided comments on a draft of this report. DoD did not provide comments. Both the Embassy and MNF-I expressed disagreement with a recommendation in the draft report relating to reassigning certain PRT personnel because of security issues and outlined steps underway to address the security challenges. They differed in their response to the second recommendation dealing with the use and synchronization of CERP funds: the Embassy concurred, and MNF-I non-concurred. MNF-I also provided other technical comments, which were incorporated in the report as appropriate.

The draft report recommended that the U.S. Ambassador to Iraq and the Commanding General, MNF-I, consider reassigning the PRT personnel from Basrah, Najaf, Karbala, Qadisiyah, and Maysan (Missan) to functioning PRTs until the security environment improves, or develop a plan to better use the staff of those five units and provide clearly defined objectives and guidance for what they are to accomplish. The Embassy responded that it was premature to reassign the affected PRT personnel and that retaining provincial contacts is important because it demonstrates a political commitment to developing the affected provinces. The Embassy and MNF-I

both commented that efforts are underway to provide appropriate security and movement and other actions to accomplish their objectives. MNF-I also noted that an effort is underway to relocate the Qadisiyah PRT to Camp Echo and have it become an ePRT, presumably with enhanced security. The Embassy indicated that further measures will be considered if PRT operations languish and security conditions do not improve. Because of these actions, SIGIR modified the recommendation by deleting the portion that addressed the reassignment of personnel.

Neither the U.S. Ambassador to Iraq nor the Commanding General, MNF-I, however, responded to the part of the recommendation to develop a plan to better utilize the staff at Basrah, Najaf, Karbala, Qadisiyah, and Maysan. In two previous reports, SIGIR discussed the need to develop clearly defined objectives and performance measures to guide PRT activities and measure their accomplishments; SIGIR still considers a plan to be an essential tool for those purposes. A plan is also essential for managing the human capital and financial resources at those locations. To date, SIGIR's earlier recommendations have not been implemented. Accordingly, SIGIR modified this portion of the recommendation to emphasize the need for senior management attention to develop a management approach to address these issues. SIGIR also continues to believe that this area will require close monitoring by the Embassy and MNF-I.

Concerning the SIGIR recommendation related to the synchronization of CERP funds, the Embassy concurred and indicated that it was providing guidance to its PRTs to use the Mission Strategic Plan and the Joint Campaign Plan as they coordinate with their military counterparts on capacity-development projects. MNF-I did not concur with the recommendation, noting elements of ongoing coordination; however, MNF-I also noted room for improvement by having provincial-level PRTs develop and implement Joint Common plans with their paired combat force elements. MNF-I noted that the latter has already been proposed and is under consideration. Based on these comments, SIGIR believes that this recommendation continues to have merit and is retained.

Interim Review of DynCorp International, LLC, Spending under Its Contract for the Iraqi Police Training Program

(SIGIR-07-016, OCTOBER 19, 2007)

Introduction

This audit was to be the second in a series of focused financial reviews of the IRRF conducted by SIGIR. On March 22, 2007, SIGIR announced the subject review to determine: (1) what the U.S. government required under contract S-LMAQM-04-C-0030, (2) what the contractor provided, (3) how the money was spent, and (4) what contract oversight was provided. However, shortly after the work began, SIGIR learned that these objectives could not be fully accomplished. Officials with the DoS Bureau for International Narcotics and Law Enforcement Affairs (INL)—the program execution office—told SIGIR that INL did not have the information needed to identify what DynCorp International, LLC (DynCorp), provided under the contract or how funds were spent. INL has a number of initia-

tives to improve its management and oversight of the contract and recoup funds inappropriately paid to DynCorp. Because of these problems and initiatives, SIGIR has temporarily suspended this work and plans to follow up later on INL's progress implementing the initiatives and addressing the serious contract management issues. In the interim, SIGIR is issuing this report to summarize the information gathered to date.

Results

Although training has been conducted and equipment provided under the contract, INL officials report that (1) invoices and supporting documents submitted by DynCorp were in disarray, but are being organized; (2) INL had not validated the accuracy of the invoices it received prior to October 2006, but since October, INL contracting officer's representatives in Iraq have been validating all incoming invoices as time and conditions in Iraq allow; (3) INL personnel in Iraq and in Washington, D.C., are in the process of validating past invoices; and (4) INL lacks confidence that DoS accounting records accurately capture the purpose for most disbursements.[425] As a result, INL does not know specifically what it received for most of the $1.2 billion in expenditures under its DynCorp contract for the Iraqi Police Training Program. INL's prior lack of controls created an environment conducive to waste and fraud.

INL's contract administration problems are well documented. In July 2005, DoS OIG reported the need for strengthened oversight of procurement and contract compliance.[426] In January 2007, SIGIR and DoS OIG jointly reported on Task Order 0338 of this contract,[427] citing poor contract administration by INL and the DoS contracting office.[428]

INL recognizes that the contract was poorly managed and that improvements are needed in its contract administration and has begun a number of improvement initiatives, including:

- organizing contract files
- increasing the number of contract management personnel in Iraq
- increasing its headquarters staff
- improving its oversight of property management
- collecting for excess or erroneous charges
- improving its project oversight and business processes

SIGIR supports INL's overdue efforts and recognizes that INL needs time to implement those initiatives.

Because of the magnitude of the problems confronting INL and the number of actions planned to address them, SIGIR believes that INL needs to develop a coordinated, comprehensive corrective-action plan with approval at the highest levels, which will demonstrate INL's commitment to this effort and will facilitate the tracking of progress in implementation.

SIGIR requested comments from INL on a draft of this report. INL agreed with SIGIR's overall findings and recommendations and provided additional information that clarified its progress on some initiatives. SIGIR has incorporated that information, as appropriate.

Background

INL's mission is to develop policies and manage programs to combat international narcotics

production and trafficking, combat international crime, and strengthen law enforcement and other rule-of-law institutional capabilities outside the United States. To that end, INL awarded contract S-LMAQM-04-C-0030 to DynCorp on February 18, 2004. The contract—for a base year and four one-year options—is now in its third option year.[429] It includes tasks in support of INL programs for Iraq and Afghanistan. This report focuses on the contract tasks for Iraq. Among other things, those tasks required DynCorp to provide housing, food, security, facilities, training support systems, and a cadre of law enforcement personnel of various specialties to support the Iraqi civilian police-training program. According to INL officials, INL had obligated $1,338.1 million and had paid $1,217.8 million in pursuit of the Iraq program, as of August 23, 2007.

INL Contract Management Issues

During the initial year of the DynCorp contract, INL's workload increased substantially—without a commensurate increase in personnel. The result was poor contract management, a problem that continued until recently. As a result, INL cannot provide a detailed accounting of the $1.2 billion expended under its DynCorp Iraqi Police Training Program. INL's contract management problems are well documented:

- In July 2005, DoS OIG reported that INL's responsibilities and programs had increased substantially from 2003 to 2005, but its staffing had not increased commensurate with its workload, creating a significant management challenge. "INL must strengthen its mechanisms for oversight of procurement and contract compliance," the report stated, "particularly regarding the Iraq and Afghanistan programs." Consequently, INL submitted a reorganization proposal—approved by DoS—to add 35 full-time domestic positions. According to the DoS OIG report, however, the INL reorganization did not address the critical staffing requirements for overseas posts, including Iraq.
- In a January 2007 report on Task Order 0338, SIGIR and DoS OIG reported that poor contract administration by INL and the DoS Office of Acquisition Management (the contracting office) put millions of dollars at risk and resulted in unaccountable property. In commenting on the report, the Assistant Secretary of State, INL, identified steps that INL had initiated to strengthen its contract and asset management, as well as its intent to reconcile past payments made since the inception of INL contracts in Iraq, Afghanistan, and Jordan.
- On April 25, 2007, the Assistant Secretary, in testimony on contracting for the Iraqi security forces, recognized problems with contract management and related measures to improve INL's management and oversight capabilities.[430] She stated: "The urgency and scale of requirements in Iraq has often outstripped our staffing and oversight capabilities, both domestically and in the field, particularly in the early stages.

  Security challenges have also impeded the ability of our staff to travel throughout Iraq." The Assistant Secretary also said that INL had recently obtained approval to increase its Baghdad staff, was expanding its Washing-

ton, D.C.-based Iraq program staff, and had strengthened such internal controls as inventory oversight and performance reporting on property management.

- In June 2007, shortly after SIGIR began work on the subject review, officials told SIGIR that INL's review of DynCorp invoices had identified numerous issues, including duplicate payments, the purchase of a $1.8 million x-ray scanner that was never used, and payments of $387,000 to house DynCorp officials in hotels in Iraq rather than in existing living facilities.[431] Also, INL discovered a problem with business-class travel and asked DynCorp to review all such travel and provide all supporting documentation. Four weeks later, INL received a check for $108,000 and all historical and current invoices. The officials admitted that INL did not have enough personnel in Iraq and at INL headquarters to properly validate the invoices, ensure that DynCorp charges were accurately recorded in DoS accounting systems, and provide oversight of the company's performance. As a result, INL officials concluded that they have no confidence that the U.S. government has paid only for valid expenses under the contract or that the DoS accounting records accurately capture the purpose for which funds were disbursed.
- In July 2007, in a review requested by INL, DoS OIG reported on the results of a limited review to determine (1) the effectiveness of INL's process for reviewing and approving invoices from DynCorp for the support of the Jordan International Police Training Center, (2) the best practices for reviewing and approving invoices, and (3) whether invoices provided by DynCorp in FY 2005 for the support of the training center were adequately supported.[432] The review, requested by INL, found that INL did not have an effective process in 2005 for reviewing and approving DynCorp invoices. For example, INL approved payments without assurance that the work or services were completed satisfactorily. The review also found that invoices for the training center were not supported by complete and clear documentation that complied with federal regulations, DoS acquisition procedures, and contract requirements. For instance, DynCorp did not provide required data to support travel and housing charges, and documents submitted to support other expenses were also inadequate and presented in an unmanageable format. In response, INL provided DoS OIG with information on improvements that INL has made and continues to make in its invoice review and approval process.

Initiatives To Improve Contract Management

INL recognizes that it has poorly managed the DynCorp contract and that improvements are needed. INL has begun a number of initiatives to improve management, including reviewing and completing contract files, reviewing and reconciling invoices, recovering excess or erroneous payments, and accounting for costs and property. Following is a brief discussion of some contract management areas undergoing improvement and the status of those initiatives as of September 2007.

Contract files: INL was compiling contract files to include contracts, task orders, and other

pertinent documents. According to INL officials, INL has accumulated copies of the documents, and they are being organized into binders; this effort is just over 60% complete.

Review and reconciliation of invoices:

- INL was increasing the number of contract management personnel in Iraq from one to seven. Five were already in Iraq, and the other two were awaiting clearances to join them. Those individuals will review all new invoices and help reconcile earlier ones with supporting documents. In addition, INL was working to obtain ten detailees from the Defense Finance and Accounting Service and other agencies to assist INL staff in the United States with invoice reconciliation. Seven detailees had been accepted, and INL was in the process of selecting three more. Although the reconciliation effort began in April 2006, progress had been slow because of limited staff devoted to the effort.
- Rejecting out-of-scope or unsupported work: INL was comparing invoices to DynCorp's pricing proposal and rejecting invoices for work that appears to be out of scope or lacks documentary support. According to INL officials, when an invoice is questioned, none of the bill is paid, and DynCorp must resubmit documentation to support its claim.

Collection for excess or erroneous charges: On October 16, 2006, INL negotiated a contract modification that allows it to review invoices after they are paid and to request reimbursement for excess or erroneous charges. Although the modification is not retroactive, INL has issued demand letters for reimbursement of excess or erroneous charges paid before that date and has been successful in getting those funds reimbursed.

Accounting for costs: INL had begun to inventory and review all invoices and supporting documents and to record charges in appropriate cost categories. According to INL officials, charges were not appropriately categorized, principally because the personnel who processed the invoices did not take the time to do that or because the invoices were not clear or complete. As a result, INL cannot be certain that accounting records accurately capture the purpose for which the funds were disbursed until its inventory and review are completed. When the additional invoice reviewers are on staff, INL estimates that contract accounting will be completed within three to five years.

Property management: Between January and June 2006, INL directed DynCorp to improve its management of property. INL gave this direction in a series of letters that documented defects in contract performance; the company responded by identifying corrective actions it was taking or planned to take. Subsequently, an INL senior management consultant reviewed DynCorp's management of government property in Iraq from April 22 to May 12, 2007, and found that it was still unacceptable and did not meet regulatory standards. DynCorp then provided another corrective-action plan and, according to INL officials, has made improvements in:

- revalidating property accountability
- identifying excess property
- improving storage capability to ensure that the right amount of supplies and equipment are at the right locations to provide required logistical support

At INL's request, DynCorp prepared an inventory of contractor-procured, government-owned equipment in Iraq. According to INL, the inventory contained 31,680 line items valued at $85.6 million. The contract management team in Iraq has requested a 100% audit of all contractor inventory records, including a review of weapons and weapons-support equipment. INL says its contract management members in Iraq have evaluated DynCorp's system for accounting for weapons and found it to be adequate. According to INL officials, INL's most recent review of DynCorp's property management records found that the accuracy had improved; however, DynCorp's notifications of lost weapons were not done in a timely manner. DynCorp has implemented a remedy action plan, and the contract management team will continue to monitor DynCorp's actions and report on progress.

Project oversight and INL business processes: INL has hired two civil engineers to locally verify the implementation of INL construction projects and enforce U.S. quality standards in Iraq. INL is also hiring a logistics specialist in Washington, D.C., to improve overall business processes and logistics management, conduct cost-benefit analyses, and assist with reviews of contract performance. Moreover, officials told SIGIR that INL is recruiting an industrial property-management specialist to help draft specific requirements for INL contracts and task orders, as well as to ensure that U.S. government property in contractors' custody is managed in accordance with government contract and FAR requirements. INL expects the additional positions to significantly improve contract specifications and contract property management.

According to INL officials, it will take three to five years to complete a 100% review and reconciliation of the invoices and a validation of the property records. But INL is already beginning to see benefits from its initiatives. As of September 20, 2007, INL had identified these savings from the initiatives in Iraq:

- $113.7 million in negotiated reductions in cost/price proposals
- $1.1 million in rejected invoices
- $0.7 million in received refunds from DynCorp

INL also identified $1.1 million in potential savings from invoiced amounts.

According to INL officials, the initiatives will be part of a corrective plan that INL is developing. However, the plan has been delayed because of the need to respond to high-priority congressional requests.

Conclusions

INL's prior lack of management and financial controls created an environment conducive to waste and fraud. INL has taken action and continues to take actions to improve its contract management in general and its management of the DynCorp contract in particular. Because INL (1) does not have complete and accurate information on what DynCorp provided and how the money was spent in Iraq under the DynCorp contract and (2) has several initiatives underway or planned to improve its contract management, SIGIR believes that INL needs time to demonstrate its commitment to better

contract management. Therefore, SIGIR has temporarily suspended its efforts and will notify the appropriate organizations when it decides to resume them. SIGIR also believes that to facilitate its efforts and guide its actions, INL needs a coordinated, comprehensive corrective-action plan that has the approval and support of senior INL management.

Recommendation

To improve contract management processes, SIGIR recommends that the Secretary of State direct the Assistant Secretary, INL, to establish milestones for preparing and finalizing a comprehensive corrective-action plan that incorporates the various initiatives that are planned or underway, as well as other needed actions that INL may identify. The plan should, at a minimum, include milestones and required resources to accomplish each initiative. It should be approved by the Assistant Secretary, and the approval process should include a commitment to provide the resources necessary to implement the plan. Also, a process should be established to assess the plan's implementation and its impact on INL's oversight of the DynCorp contract, including progress briefings to the Assistant Secretary, INL.

Management Comments and Audit Response

SIGIR requested comments from INL on a draft of this report. INL agreed with the overall findings and recommendations and provided additional information that clarified its progress on some initiatives. SIGIR has incorporated that information, as appropriate. INL also provided information on its actions to implement the recommendations included in the DoS OIG and SIGIR joint report on Task Order 0338.

Interim Report on Efforts and Further Actions Needed To Implement a Financial Management Information System in Iraq

(SIGIR-08-001, OCTOBER 23, 2007)

Introduction

In early summer 2003, the Coalition Provisional Authority (CPA) and the International Monetary Fund (IMF) separately conducted assessments that identified a need for improvements in the GOI budget and financial control system. The assessments found that the GOI financial structure had limited ability to monitor Iraqi ministerial budgets and expenditures, leaving the ministries vulnerable to fraud, waste, and misappropriation of funds. Further, a U.S. Embassy official told SIGIR that the existing systems had limited planning functionality, which makes it difficult for the GOI to develop a budget.

In July 2003, USAID awarded contract RAN-C-00-03-00043-00 to BearingPoint, Inc., for a broad range of tasks related to economic and financial reforms for Iraq. One of the tasks under that contract was to develop and implement a new Iraq Financial Management Information System (IFMIS) to replace the existing Iraq financial systems.

In September 2004, a follow-on contract (267-C-00-04-00405-00) with BearingPoint was awarded for the continuation of the economic and financial reforms. That contract, which continued to fund the IFMIS, specified that installation would be completed within the year. In September 2006, the Iraq Reconstruction Management Office—which has since become

the Iraq Transition Assistance Office (ITAO)—issued two concurrent contracts to BearingPoint to integrate components into the IFMIS:

- contract W916GXQ-06-C-0009 for a budget module
- contract W916GXQ-06-C-0010 for a procurement module

In July 2006, USAID awarded contract DFD-I-00-05-00221-01 to Management Systems International, Inc., to design and implement the National Capacity Development Program, a component of which is for training and policies for IFMIS.

On March 21, 2007, SIGIR announced a review of U.S. efforts to implement the IFMIS. That review continues, and SIGIR plans to report on that effort later this year. However, because the objective of this report is to provide timely information on economy and efficiency issues requiring immediate action and to respond to a request from the U.S. Embassy in Iraq, SIGIR is providing interim results and recommendations concerning the IFMIS contracts.

Interim Results

Although some progress has been reported on the IFMIS, it is difficult to tell specifically what has been developed and implemented and how much has been expended. Available information shows that the system development and implementation costs are more than $38 million. Although contract documents state that the IFMIS was to replace the Ministry of Finance's legacy accounting system, the ministry continues to operate its legacy systems in parallel with components of the IFMIS. According to U.S. Embassy officials, the Ministry of Finance continues to use its legacy system for overall budget and accounting, "nobody noticed" when the IFMIS was down for a month, and no one relies on the IFMIS to produce reports. Iraqi user requirements have not been identified and incorporated in the system's development. Other ministries, such as Interior and Defense, have developed their own financial management information systems, which are not compatible with the IFMIS and cannot transfer financial data from one system to another. As a result, the agency personnel must manually input financial data via terminals in the various ministries.

The IMF identifies five pre-conditions for the successful development of a financial management information system. SIGIR reviewed these pre-conditions in light of the work to date on the IFMIS and provides the preliminary observations shown in Table 3.2.

In May 2007, the BearingPoint project leader and four of his security detail were kidnapped from the Ministry of Finance building and have not been recovered. The work on the budget and procurement modules has since been halted. In July 2007, the U.S. Embassy ordered the suspension of the IFMIS project, pending clarification of GOI support for the effort.

Issues Needing Immediate Attention

The available information indicates that the selection and implementation of the IFMIS was undertaken without the fundamental planning and analysis that should properly precede the wholesale change of a country's financial man-

agement information system. Specifically, the IFMIS was reportedly undertaken without the traditional sequence of system development that should have included a conceptual design based on Iraqi requirements.

In fact, there were no attempts to produce detailed user specifications; as a result, there has not been true GOI ownership of the project.

The Board of Supreme Audit (BSA) highlighted the lack of analysis of Iraqi user requirements. BSA issued a statement pointing to shortfalls in the IFMIS implementation as a result of the lack of understanding of the existing Iraqi financial and business processes before and during the installation of the proposed new system. The U.S. Treasury Attaché confirmed that the GOI has a distinctive accounting system; it is a unique combination of cash and accrual accounts that is not easily adapted into the IFMIS system.

Recognizing the deficiencies in the current IFMIS configuration, the GOI and the World Bank recently conducted a workshop that addressed the IFMIS as part of a broader initiative—the Public Expenditure and Institutional Assessment. World Bank officials stated that a formal assessment of the IFMIS in this broader context may be undertaken by the GOI and the World Bank. In August 2007, a survey was conducted of GOI officials to obtain the views of stakeholders on aspects of the IFMIS arrangement.

In light of these generally acknowledged concerns, the U.S. Embassy's decision to suspend the system development seems appropriate. However, the Embassy has yet to develop a strategy for the next steps in the system's implementation.

Preliminary Review Observations

Pre-condition	Preliminary Observations
Clear commitment and ownership	The GOI is not clearly committed to IFMIS, nor has it demonstrated strong ownership of the project. True ownership is achievable only through active involvement of the GOI in the planning and execution of any financial management information system.
Pre-conditions are ready for reform	The GOI may be ready for reform, but the ministries have not agreed on a uniform approach. Iraqi skills and training are not yet sufficient to ensure successful operation of a system. Legacy system requirements or necessary changes to those requirements have not been mapped. Although a steering group has been formed, it does not include all key players.
Project design is sound	Sound design is predicated on adequate assessments, the identification of Iraqi user requirements, and implementation planning. None of these essentials has yet been fully met.
Management of project is capable	Project management should be a joint effort of the GOI, USAID, and BearingPoint. USAID and the GOI have not been equal partners in the management of the project.
Adequate resources	The United States has been the key provider of financial resources for the IFMIS, with little financial participation from the GOI.

Table 3.2

Conclusions

The U.S. government has made a substantial investment in the development of the IFMIS. However, for various reasons related principally to GOI acceptance of the system and related modules, the project has been suspended. Further, the Embassy does not have a firm plan or strategy for addressing the next steps in the development of the system.

Recommendations

Before further U.S. expenditures are made on a financial management system for the GOI, there is a need for a complete assessment of the current IFMIS system to determine whether requirements have been adequately defined, specific milestones for achieving those requirements have been set, and system development is headed in the right direction. There is also a need to clearly define a plan of action for the way forward and for the GOI to clearly state its commitment and willingness to take ownership of any system that eventually is developed. A key step in developing the plan of action is an assessment by an independent third party with expertise developing international financial management information systems. Such an assessment may be undertaken by the World Bank.

To position the U.S. Embassy to better evaluate the IFMIS in the context of GOI's financial management needs, SIGIR recommends that the Embassy establish a working group and draw on outside experts as necessary to evaluate such factors as:

- the capabilities and shortcomings of GOI financial management capabilities
- GOI financial management system requirements
- how best to achieve those requirements and specific milestones to measure progress toward meeting those requirements
- how best to integrate the other ministries' financial systems into the Ministry of Finance's overall financial system

SIGIR further recommends that DoS condition future work and funding for a GOI financial management system on (1) securing GOI's commitment to such a system and (2) the results of a GOI-sponsored independent assessment of GOI financial management needs. Moreover, in the interim, recognizing the need for the GOI to produce financial data, SIGIR recommends that DoS help GOI determine appropriate interim solutions that will improve financial data management—especially in the provinces where financial management of data is a relatively new capability—until a new operational system is developed.

Management Comments and Audit Response

SIGIR received comments from USAID on a draft of this report. USAID agreed with SIGIR's recommendations but stated that it is unaware of any organization performing an independent technical assessment of the IFMIS program, as stated in SIGIR's draft report. SIGIR addressed their comment in this report by stating that the World Bank is considering an assessment of Iraq's financial management information needs. SIGIR continues to believe that no further U.S. funds should be expended on the IFMIS until

it is clearly demonstrated that it supports GOI's financial management information needs and has the full support of the GOI.

USAID generally agreed with the report's findings. However, in a few areas, it disagreed and provided information which SIGIR cannot substantiate at this time. SIGIR will follow up on those areas as it completes its IFMIS review.

Logistics Civil Augmentation Program Task Orders 130 and 151: Program Management, Reimbursement, and Transition

(SIGIR 08-002, OCTOBER 24, 2007)

Introduction

Established in 1985, the Logistics Civil Augmentation Program (LOGCAP) is a U.S. Department of the Army (Army) program that preplans for the use of global corporate resources in support of worldwide contingency operations. If U.S. forces deploy, contractor support will then be available to a commander as an option. LOGCAP has two objectives:

- provide combat support and combat service support augmentation to both combatant and component commanders, primarily during contingency and other operations (including reconstitution and replenishment within reasonable cost)
- facilitate the management and physical responsibility to support deployment, site preparation, set preparation, module operations and maintenance, redeployment, and transportation requirements for the force provider

Examples of the type of support available include supply operations, laundry and bath, food service, sanitation, billeting, maintenance, fuel services, transportation, and power generation and distribution. LOGCAP has been used to support U.S. forces in operations in Somalia, Haiti, and Bosnia and is currently being used to support operations in Afghanistan, Kuwait, and Iraq. LOGCAP support may also be authorized for other U.S. military services, Coalition forces, other government agencies, and nongovernmental organizations.

Awarded on December 14, 2001, the LOGCAP contract (DAAA09-02-D-0007) comprises a series of task orders that commit the contractor to provide support services and commit the U.S. government to pay for those services. Task orders under this contract can be either fixed-price or cost-reimbursable. In Iraq, the total cost of all 149 task orders issued under the LOGCAP contract is approximately $22.5 billion, as of March 4, 2007.

The focus of this review is LOGCAP Task Order 130 (April 27, 2006) and Task Order 151 (June 6, 2007), which were awarded to Kellogg Brown and Root Services, Inc. (KBR). The purpose of these task orders was to provide services necessary to support, operate, and maintain the staffs of the Chief of Mission and MNF-I at the U.S. Embassy-Iraq and at other Chief of Mission sites in Baghdad, Basrah, Hilla, and Kirkuk. Task Order 130 had an estimated value of about $283 million and expired on June 6, 2007. Task Order 151, the successor to Task Order 130, was awarded for a one-year period, with an estimated cost of $200 million. These task orders are a

continuation of services previously awarded under Task Order 100 (November 5, 2004) and Task Order 44 (March 6, 2003). Because these task orders provided support to both the DoD and DoS missions in Iraq, the two departments reached an agreement that the reimbursement of costs associated with the these task orders would be shared 60% by DoS and 40% by DoD. The total cost associated with these four task orders is approximately $1.5 billion.

These are the primary government offices involved with the operation of Task Orders 130 and 151:

- The DoS Embassy Management Office, headed by the Counselor for Management Affairs, U.S. Embassy-Iraq, is responsible for the day-to-day support of Chief of Mission (COM) operations in Iraq.
- The DoD Joint Area Support Group-Central (JASG-C), located in the International Zone, is the military component of MNF-I that provides administrative and logistical services and coordinates military support to the U.S. Mission-Iraq.
- The Baghdad office of the Defense Contract Management Agency (DCMA) provides on-site monitoring of the contractor.
- The U.S. Army Sustainment Command is responsible for administration of the LOGCAP program. The Procuring Contracting Officer, the LOGCAP Program Manager, and the Logistical Support Element Office—established in Iraq to help customers with LOGCAP requirements—are assigned to this command.
- The DCAA provides expertise in reviewing the contractor's financial management system and ensures that costs claimed by the contractor are reasonable, allowable, and allocable.

The Army's LOGCAP contract is a contingency umbrella contract, which is considered "a contract of last resort" for customers because of the potential additional costs associated with this type of contract. Contingency contracts are primarily designed for situations where emerging requirements are the norm, rapid response is required, and/or normal sustainment contracts are not competitively available. Under contingency contracts, the government typically assumes the financial risk with the use of cost-plus-award-fee contracts. When a condition stabilizes and a reasonable determination can be made as to the quantity and type of contract work that will be required to support a mission, customers should transition out of contingency contracts into a more normal cost-effective type of contracts.

SIGIR's prior work identified the need for improvements in clarifying contractor standards and government oversight responsibilities for the LOGCAP task orders in Iraq to ensure that services were accomplished in an efficient and effective manner and that appropriate internal controls existed for protection of government resources. SIGIR also noted concerns over reimbursement issues related to the contract.

Concurrent with this review, SIGIR is also conducting an ongoing separate review of property accountability under Task Orders 130 and 151. Results of this review will be discussed in a separate report.

Objectives

This review is a follow-on review to a previous SIGIR report to determine whether the support provided under LOGCAP Task Order 130 was reasonable, efficient, and cost-effective. This review includes Task Order 130 and its successor, Task Order 151. The reporting objectives specifically address three issues:

1. What progress has been made in addressing contract management issues that SIGIR previously identified, and what actions are still needed?
2. Are the reimbursement issues involving costs related to, but not part of, Task Orders 130 and 151 properly addressed?
3. Are plans being considered to transition from a contingency contract to a more competitive contract mechanism in the future?

Results

The U.S. government agencies involved in the management of Task Orders 130 and 151 have made major improvements in the government's oversight role since SIGIR's prior review of the LOGCAP contract. In particular: (1) the Army Sustainment Command has clarified contractor standards and government oversight responsibilities, (2) DCMA has implemented an independent quality assurance program, (3) both JASG-C and DoS support DCMA by providing contracting officer's technical representatives (COTRs) to assist DCMA in its contractor oversight mission, (4) DoS has clarified dining facility food-service cost standards that KBR is expected to adhere to, (5) JASG-C and DoS have taken aggressive action to ensure that billeting operations are properly administered and billeting records reflect accurate data, and (6) DoS now recognizes that KBR's billeting operations are subject to government oversight.

The contractor, KBR, has also made significant improvements in its operations since the previous SIGIR report. KBR has improved (1) the accuracy of fuel information, as well as controls over its International Zone fuel operations; (2) its efforts to control food costs; and (3) its administration of billeting and the accuracy of billeting information. Nevertheless, problems remain in ensuring that dining facility food costs are within established standards and that fuel reports properly reflect the amounts issued to KBR by the Army.

Although progress has been made in ensuring appropriate reimbursement between DoD and DoS, problems were still noted in ensuring accurate billing for and reimbursements of both fuel and subsistence (food) used for Task Orders 130 and 151. In addition, as of September 30, 2007, the U.S. Embassy-Iraq had not issued billings to non-U.S. organizations seeking reimbursement for the cost of life support received under Task Order 151, which became effective June 6, 2007.

DoS has transitioned to its own contract for maintenance services at the new Embassy Compound, but will continue to rely on the Army's LOGCAP contingency contract for most services until the current situation in Iraq becomes more favorable for "peacetime" contractor-type operations.

Recommendations

SIGIR recommends that DCMA take these actions:

1. Work with KBR to implement appropriate procedures to ensure that fuel received from the Camp Victory fuel depot is properly recorded based on official government receipt documents and that procedures for resolving discrepancies regarding fuel deliveries are implemented.
2. Continue to require KBR to report the amount of commercial fuel received in the remarks section of the *Monthly Bulk Petroleum Accounting Summary* form so MNF-I can differentiate between the amounts of military fuel received and commercial fuel received when preparing fuel reimbursement billings. (During the audit, initial action was taken on this recommendation.)
3. Continue to work with the Army and U.S. Embassy-Iraq to develop and implement an appropriate billing procedure for Army reimbursement billings to DoS for subsistence costs. (During the audit, initial action was taken on this recommendation.)

SIGIR recommends that the Counselor for Management Affairs, U.S. Embassy-Iraq, take these actions:

4. After appropriate notification to the non-U.S. organizations involved, initiate billings to the organizations to recover the cost of life support provided under Task Order 151 for their personnel billeted in the Embassy housing compound.
5. Work with DCMA and the Army to develop and implement an appropriate billing procedure so DoS can reimburse the Army for appropriate dining facilities subsistence costs.
6. When security conditions in Iraq allow, consider transitioning from under the Army's LOGCAP for routine life support of the U.S. Embassy-Iraq mission and going to DoS contractual arrangements for required life support.

Management Comments and Audit Response

SIGIR received written comments from the DoS Management Counselor's Office and JASG-C on a draft of this report. The DoS Management Counselor concurred with the recommendations and stated that the Embassy was taking action to address each recommendation. JASG-C provided technical comments that SIGIR included in the report as appropriate.

Review of the Use of Contractors in Managing Iraq Relief and Reconstruction Projects

(SIGIR-08-003, OCTOBER 25, 2007)

Introduction

In formulating the Iraq reconstruction program, the CPA examined several options for program management. One option considered was to have the U.S. Army Corps of Engineers (USACE) manage the entire program. However, USACE officials believed that the agency lacked the capacity in Iraq to oversee such a large program and could not rapidly assemble sufficient staff. Similarly, CPA found that USAID and the Iraqi ministries lacked the organizational capacity to manage a large, infrastructure-focused program.

Seeking a solution, CPA developed a concept paper that proposed forming a new program-management office that would rely on contractors for both the management and the execution of the reconstruction program. Technical contractors would be used to design, plan, build, and complete projects and another group of contractors would provide program management. The CPA administrator accepted that proposal, and in August 2003 approved formation of the Program Management Office (PMO) to execute that plan.

To manage its projects, the PMO established six sector program-management offices (SPMOs) organized by work sector, such as electricity and public works/water. These offices were led by government employees. To provide program-management support services for these offices, however, the Pentagon Reconstruction Program, which served as the contracting office, awarded seven cost-plus-award-fee contracts—one for the PMO and each of the six sector offices. These contracts were awarded in March 2004. The contractors awarded these contracts were known as Sector Program Management Office Contractors (SPMOCs). Over the next few years, there were several changes in project management and contract administration.

In May 2004, National Security Presidential Directive 36 replaced PMO as the program manager with a new program management office called the Project and Contracting Office (PCO). As a result, the SPMOs became the Sector Project and Contracting Offices (SPCOs), and the contractors who supported them became known as Sector Project and Contracting Office Contractors (SPCOCs). In October 2006, USACE/GRD replaced PCO as the project manager. In this report, SIGIR refers to the government offices responsible for contract administration as SPCOs and the contractors as SPCOCs, regardless of the timeframe.

The Iraq Transition Assistance Office (ITAO) is also involved in Iraq reconstruction projects and is responsible for coordinating and overseeing all non-security assistance for the Chief of Mission (COM).

The overall objectives of this audit were to determine the roles and responsibilities assigned to the SPCOCs and the extent to which the U.S. government benefited from the services provided by the SPCOCs. Specifically, SIGIR's reporting objectives for this report were to (1) assess contractor performance in managing another contractor and (2) review the effectiveness of the government in managing the contracts.

Results

As of June 7, 2007, the U.S. government had obligated approximately $527.5 million for contracted program-management support services, and $41.8 million in award fees have been authorized. These support services covered thousands of projects. Because of weaknesses in the implementation of required contracting policies, SIGIR was unable to conclusively assess how well the practice of using contractors to manage other contractors worked. Each contractor's performance was assessed and documented through an award-fee process. However, award-fee results offer only limited information on each contractor's performance and do not provide a sufficient basis to assess the practice of using contractors to manage contractors. A review of the award-fee

scores alone, however, suggests that the SPCOs were very satisfied with the performance of four of the contractors and slightly less satisfied with one.

To gain further insight on the contractors' performance, SIGIR interviewed senior GRD officials who worked with the contractors, as well as senior ITAO officials who were knowledgeable about each sector's programs. These interviews provided more details on contractor performance, but were decidedly mixed and inconclusive. GRD officials generally endorsed the contractors as effective, and ITAO officials more often expressed dissatisfaction with them. For example, in the water sector, the GRD sector lead stated that the contractor performed high-quality work, although the ITAO senior consultant believed that the contractor sidestepped the role of "watchdog" and did not aggressively oversee the design-build contractor's processes.

SIGIR also identified other contract administration practices that were not accomplished as required, including inappropriate obligations of award fees, contract administration transfer, and information disclosure practices.

Further, SIGIR is continuing to examine possible issues related to conflicts of interest between any of the contractors involved in these seven contracts. To the extent appropriate, SIGIR will report separately on these matters.

Lessons Learned

Because work on these program-management support contracts has ended, or soon will, SIGIR makes no recommendations. However, SIGIR provides these lessons learned:

- The award-fee process can be an effective tool for creating incentive for contractors to strive for superior results. Properly documenting contractor performance in accordance with award-fee criteria is essential to making appropriate award-fee judgments.
- The success of any contractual relationship depends heavily on the quality of the direction and oversight given the contractor by the government. When government oversight is lax, the risk of problems increases.
- A prerequisite for assessing the viability of any contract management approach, such as using contractors to manage contractors, requires the effective implementation of existing contract administration practices and policies.

Management Comments and Audit Response

USACE/GRD provided technical comments on a draft of this report. Those comments have been incorporated in the report where appropriate.

Ongoing and Planned Audits

SIGIR primarily conducts performance audits that assess the economy, efficiency, effectiveness, and results of Iraq reconstruction programs, often with a focus on the adequacy of internal controls and the potential for fraud, waste, and abuse. This includes a series of focused financial reviews of major Iraq reconstruction contracts that will enable SIGIR to respond to congressional direction for a "forensic audit" of U.S. spending associated with Iraq reconstruction.

ONGOING AUDITS

SIGIR is currently working on these ongoing audits:

- SIGIR-7010: Review of the Effectiveness of U.S. Government Contracts To Enable Budgeting and Financial Management Capabilities in Iraqi Ministries (IFMIS)
- SIGIR-7011: Review of Spending of U.S. Government Funds and Performance under Parsons Iraq Reconstruction Projects
- SIGIR-7016: Comparison of Contract Administration and Project Management—Gulf Region District, U.S. Army Corps of Engineers, and Air Force Center for Engineering and the Environment
- SIGIR-7018: Review of Spending and Performance under Blackwater Contracts (focused financial review)
- SIGIR-7019: Review of Commander's Emergency Response Program Projects over $400,000
- SIGIR-7023: Review of Spending and Performance under Research Triangle Institute (RTI) Contracts (focused financial review)
- SIGIR-7024: Review of Spending and Performance under Parsons Iraq Joint Venture (PIJV) Contracts—Oil Sector (focused financial review)
- SIGIR-7026: Review of Spending and Performance under Development Alternatives, Inc. (DAI) Contracts—Economic Development (focused financial review)
- SIGIR-7027: Review of Spending and Performance under Perini Corp Contracts—Electric Sector (focused financial review)
- SIGIR-7029: Survey of Iraq Reconstruction Projects Terminated for Convenience or Terminated for Default

PLANNED AUDITS

Throughout FY 2008, SIGIR will continue work involving focused financial reviews of major Iraq reconstruction contracts, which will enable SIGIR to respond to congressional direction for a "forensic audit" of U.S. spending associated with Iraq reconstruction. SIGIR's intent is to prepare a capping report summarizing the results of that work at the completion of this series of individual audits.

As this Quarterly Report is being completed, the Congress is considering an expansion of the scope of SIGIR's work and an extension of the tenure of this temporary organization beyond the previously anticipated end-date of 2008. The focus of SIGIR's work to date has been on construction projects funded through two congressional appropriations referred to as IRRF 1 and IRRF 2, specifically on appropriations made through FY 2006. SIGIR believes that the Congress intends for SIGIR to exercise oversight over all Iraq reconstruction funds appropriated or otherwise made available through FY 2008, in addition to IRRF 1 and IRRF 2. SIGIR expects that such changes would expand SIGIR's workload in these ways:

Non-construction projects. The focus of much of SIGIR's work to date has been on construction projects. SIGIR would broaden its focus to activities and programs that are funded with reconstruction funds but support other than "traditional" construction efforts. The United States has expended hundreds of millions of recon-

struction dollars on critical programs, including democracy-building activities, USAID's Community Action, economic governance, private sector development, refugee support, and human rights. SIGIR's planned work would include assessments of those programs, their costs, and outcomes.

Capping Reports. SIGIR plans to present a series of performance audit capping reports summarizing the accomplishments within each reconstruction sector: security and law enforcement; justice, public safety infrastructure, and civil society; electric; oil; water resources and sanitation; transportation and telecommunications; roads, bridges, and construction; private sector development; education, refugees, human rights, democracy, and governance. These reports will build on the information obtained in the focused financial reviews conducted in FY 2008 and provide detailed descriptions of the projects completed in each sector and the associated costs. SIGIR would also assess how well the Iraqis are maintaining projects and the impact of each project on the local communities.

Economic Support Fund (ESF). SIGIR currently has authority to review the FY 2006 funds, which are approximately $1.485 billion. It is anticipated that SIGIR will be given authority over FY 2007 and FY 2008 ESF funding, and audits of these funds will be performed with a focus on financial controls and how outcomes are tracked and reported.

Iraq Security Forces Fund (ISFF). SIGIR currently has authority to review expenditures of FY 2006 funds, and it is anticipated that SIGIR's authority will be extended to cover the remaining funds. SIGIR's projected audit workload for ISFF-funded activities will include reviews of infrastructure built with ISFF funding, training and operations conducted, and equipment and transportation purchases.

Recovery of Contract Overpayments. In accordance with Office of Management and Budget (OMB) Memorandum M-03-07, this audit will determine whether agencies involved in Iraq reconstruction have taken action to establish a cost-effective program for identifying errors made in paying contractors and for recovering amounts erroneously paid to the contractors. This requirement was mandated in Section 831 of the Defense Authorization Act for Fiscal Year 2002 by adding a new subchapter to the U.S. Code (31 USC 3561-3567). The new subchapter requires agencies that enter into contracts with a total value of more than $500 million in a fiscal year to carry out this error identification and recovery program.

SIGIR INSPECTIONS

This quarter, SIGIR assessed and reported on seven projects. Four of the seven were assessments of the sustainment of relief and reconstruction work funded under the Commander's Emergency Response Program (CERP). SIGIR also assessed the sustainment of a project funded under the Iraq Relief and Reconstruction Fund (IRRF). In addition, SIGIR assessed two construction projects funded by the IRRF.

SIGIR's sustainment assessments focus on whether the projects delivered to the Iraqis were operating at the capacity planned in the original contract or task order objective. To accomplish this, SIGIR determined whether the projects were at planned capacity when accepted by the U.S. government, when transferred to Iraqi operators, and during the assessment. In addition, SIGIR determined if sustainability was adequately planned for and whether it is likely to continue.

These were the general objectives of SIGIR's construction assessments:

- Were project components adequately designed before construction or installation?
- Did construction or rehabilitation meet the standards of the design?
- Were the contractor's quality control and the U.S. government's quality assurance programs adequate?
- Were project sustainability and operational effectiveness adequately addressed?
- Were project results consistent with original objectives?

Since the Inspections program began in the summer of 2005, SIGIR has completed 102 project assessment reports, 96 limited on-site inspections, and 388 aerial assessments.

This quarter, security continues to impede Iraq reconstruction projects and SIGIR assessments, extending delays in travel to assessment sites, and limiting access to the sites. In Mosul, the U.S. Army and both private security contractors for the U.S. Army Corps of Engineers (USACE) could not honor the SIGIR assessment team's requests for escort to any inspection sites for five days because of the security situation at the time. The inspection team spent two weeks in Mosul, and neither the U.S. Army nor the security contractors considered it sufficiently safe to escort the team to one of the four CERP project sites. Consequently, the assessment team was unable to make an on-site assessment of one of its announced projects.

Table 3.3 lists the project assessments that SIGIR completed this quarter. For a complete list of project assessments from previous quarters, see Appendix J. Figure 3.1 shows the approximate location of each project assessed this quarter.

SIGIR Project Assessments

This section provides summaries of SIGIR project assessment reports completed this quarter. For the full reports, see the SIGIR website, **www.sigir.mil**.

Relief and Reconstruction Funded Work at Mosul Dam, Ninewa Governorate

SIGIR PA-07-105

The Mosul Dam was constructed on a foundation of soluble soils that are continuously dissolving, resulting in the formation of underground cavities and voids that place the dam at some continuing risk and thus requires a continuous grouting program to mitigate. The objective of the original task order and associated contracts was to conduct studies specifically related to the Mosul Dam's problems, identify the most critical problems and develop solutions, and to implement those solutions. The project was funded through the Iraq Relief and Reconstruction Fund (IRRF) and administered by the U.S. Army Corps of Engineers (USACE), Gulf Region Division (GRD).

The U.S. government funded short-term solutions to the Mosul Dam problem, while the Iraqi Ministry of Water Resources was responsible for implementing a long-term solution. The short-term solutions required the Ministry to be given the most critically needed replacement and spare parts for grouting operations, assistance with its massive grouting program, and enhanced grouting to augment

Seven Projects Assessed this Quarter

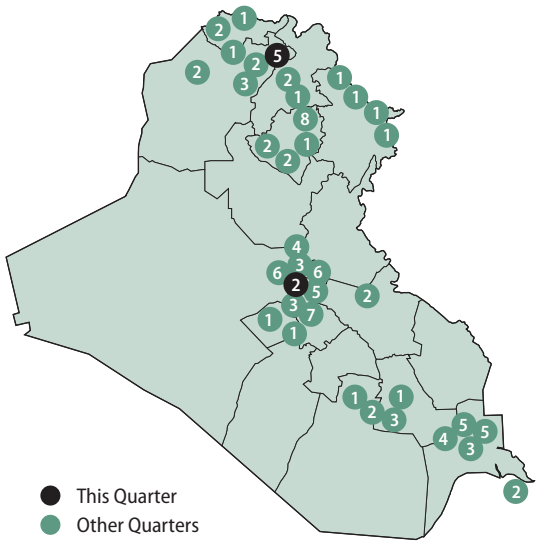
Project Name	Assessment Type	Governorate	Budgeted Cost (millions)	Executing Agency	Funding Source	Contractor	GRD Region
Relief and Reconstruction Funded Work at Mosul Dam	Construction	Ninewa	$27.1	GRD	IRRF	Various	GRN
Qudas Power Plant Turbine Restoration	Sustainment	Baghdad	$90.6	GRD	IRRF	Fluor AMEC, LLC	Central
Qudas Power Plant Expansion	Construction	Baghdad	$147.4	GRD	IRRF	Various	Central
Showairrej to Tak Harb Road Paving	Sustainment	Ninewa	$1.4	GRN	CERP	Local	North
Bartilla New Road Paving	Sustainment	Ninewa	$0.148	GRN	CERP	Local	North
Right Bank Drinking Water Treatment Plant Rehabilitation	Sustainment	Ninewa	$1.7	GRN	CERP	Local	North
Bartilla Booster Pump Station Repair	Sustainment	Ninewa	$0.237	GRN	CERP	Local	North

Table 3.3

Figure 3.1

Project Assessments

Approximate locations of the 102 projects where inspections were conducted, analyzed, and reported to date.



Site Photo 1. Mosul Dam in operation (photo courtesy of ITAO).

their grouting efforts. Twenty-one contracts,[433] worth approximately $27 million, were to help with short-term solutions at the dam.

Project Assessment Objectives

The objective of this project assessment was to provide real-time relief and reconstruction project information to interested parties to enable appropriate action, when warranted. Specifically, SIGIR determined whether:

- construction or rehabilitation was in compliance with the standards of the design
- an adequate quality management program was utilized
- sustainability was addressed in the contract or task order for the project
- the project results were consistent with its original objectives

Conclusions

The assessment came to a number of conclusions:

Although most of the contracts awarded were of the simple procurement type, several required design drawings and specifications. For example, design drawings and specifications were necessary for the construction of the stationary silos, the procurement and installation of five grout-mixing plants, and the comprehensive and relational diagram or schematic drawings of the complete assembly and implementation of the Intelligrout system[434] and enhanced grouting equipment for use inside and outside the Mosul Dam gallery. GRD provided the design drawings for the stationary silos and mixing plants; however, no comprehensive and relational diagram or schematic drawings existed for the Intelligrout system and enhanced grouting equipment.

After a thorough review of all available design drawings, SIGIR found the drawings to be deficient, leading to a number of safety concerns. For example, the stationary silos design drawings lacked significant details, such

Site Photo 2. View of the partially constructed stationary silos.

Site Photo 3. Close-up view of foundation bolts for the stationary silos.

as bracing support for the entire height of the silos and how the Ministry of Water Resources personnel will deposit cement into the silos. For the 100-m^3/hour grout-mixing plant and the four 30-m^3/hour grout-mixing plants, the design drawings clearly indicated the contractor was offering *concrete*-mixing plants, not the required *grout*-mixing plants.

SIGIR identified an instance where construction did not appear to be adequate. The SIGIR team observed that some foundation bolts cast within concrete columns had insufficient thread to properly fasten the nuts. Specifically, SIGIR determined that 43 of the 144 (30%) foundation bolts were inadequately installed. Further, the installation of the foundation bolts also contradicted the contractor's own design construction techniques, which required bolt threads to extend higher than the nut. Complete design drawings are needed to determine if the remaining foundation bolts are adequately secured within the foundation or pose a serious threat of failure. Because each stationary silo will hold approximately 1,500 tons of cement, SIGIR believes that the inadequate installation of the foundation bolts leaves these structures in a potentially dangerous condition.

Iraq Transition Assistance Office (ITAO) representatives have significant concerns with the quality of the contractor's work; therefore, the contractor was terminated for default, and a new contract will be issued to construct new stationary silos at a different location on the Mosul Dam property. Consequently, a critical project awarded 19 months ago must be re-awarded, thereby significantly delaying its completion date, and the $635,138 already paid to the contractor resulted in a potentially unsafe silo framework.

The mixing plants contract required construction and installation of five mixing-plants. SIGIR observed the single 100-m^3/hour "modified" grout-mixing plant; however, it was

Site Photo 4. Close-up view of foundation bolts for the stationary silos.

not operational due to control room issues. For the 30-m^3/hour mixing plants, SIGIR found various pieces of two unassembled mixing plants on site. The construction for the two unassembled mixing plants was not in compliance with the contract requirement that the contractor deliver and install functioning mixing plants. According to the Material and Inspection Report (September 6, 2006), the contractor delivered two 30-m^3/hour mixing plants "with all the accessories including valves, piping, screw conveyors, control room, control panel" and "50% Spare Parts according to the contract." However, the lack of any construction made it impossible for SIGIR to determine if the contractor delivered all the material necessary to construct the two mixing plants. In addition, none of the spare parts allegedly delivered could be located. Finally, even though the contractor did not install either mixing plant and may not have provided all the required components and spare parts, GRD paid the contractor in full ($604,000).

The quality management program did not adequately ensure the correct delivery and construction of materials and equipment at the Mosul Dam. SIGIR judged the contractors' quality control (QC) programs to be deficient because many invoices did not provide the materials and equipment claimed on invoices. For example, one contractor's invoice claimed the delivery of four contract-specified submersible pumps with 54-m3/hour capacity with 20-meter lift capability, but the pumps actually delivered were 36-m^3/hour capacity with 17.5-meter lift capability.

In addition, there was no evidence that a contractor QC program was implemented for the construction of the stationary silo. Further, there was no indication that the contractor employed anyone to determine the quality of the stationary silos' construction. SIGIR observed inadequately installed foundation bolts (see site photos 2-4); however, nothing in

the project file documents identified this as a potential problem.

The U.S. government quality assurance (QA) program was not adequate. Even though GRD viewed the 21 contracts as procurement contracts only, a QA program was necessary to verify that the contractors delivered the materials and equipment required by the contracts. GRD transferred the responsibility to accept contractor deliveries of materials and equipment to Ministry of Water Resources personnel. This required the ministry to create a receiving committee to verify the delivery of materials and equipment from multiple contractors. However, according to the Mosul Dam manager, the Project and Contracting Office instructed him to sign for anything received from contractors.

GRD provided the dam manager with limited contract specifications for 13 of the 21 contracts prior to contractor deliveries of materials and equipment. For the contracts for which the ministry personnel did not have specifications, the receiving committee was forced to compare the actual delivered items against the contractors' invoice lists. In several cases, the ministry's receiving committee quickly documented and notified GRD that the contractor had not provided the correct materials and/or equipment. For example, when the contractor failed to provide the contract-specified submersible pumps, the ministry identified this error and reported it to GRD two days after delivery; nevertheless, the contractor was paid in full for delivering equipment that did not meet contract specifications.

According to GRD representatives, the 21 contracts were procurements for equipment, materials, and services—rather than construction contracts—even though the assembly of the stationary silos and mixing plants obviously required significant construction efforts. GRD was not aware of the inadequately installed foundation bolts, which leaves this structure in a potentially dangerous condition. In addition, there is no indication that anyone at GRD was tracking the project's completion progress as distinct from invoices paid. This was important because the project was significantly behind schedule. Consequently, the contractor was paid approximately 81% of the contract's value for the inadequately constructed partial structure when the Show Cause Order was issued.

Further, because no government representative was on site to verify contractor deliveries, SIGIR cannot determine if the deliveries were actually made. For example, one contractor submitted invoices for 1,017 steel pieces for the stationary silos; however, during the site visit, as many as 900 steel pieces were either unaccounted for or missing.

Many of the contracts addressed sustainability in the form of spare parts for pieces of the procured equipment. For instance, the mixing-plants contract required the contractor to provide 50% spare parts by delivering additional items for the single 100-m^3/hour grout-mixing plant (see site photo 5) and the four 30-m^3/hour grout-mixing plants.

Site Photo 5. View of the "modified" 100-m³/hour grout-mixing plant.

The spare parts were included to provide the ministry with additional equipment to keep the mixing plants operational if a specific item wore out. Even though the Material and Receiving Report indicated that the contractor delivered the spare parts, SIGIR could not locate any during the site visit. Although sustainability was addressed in many individual contracts, because of the numerous discrepancies between invoices from different contractors compared to what was actually received and because there was no government representative on site to verify each contractor's deliveries, there is no assurance that the spare parts actually arrived.

The execution of the 21 contracts, valued at $27 million, was not consistent with the original project objectives to provide the Mosul Dam and Ministry of Water Resources personnel with critically needed spare and replacement parts and the ability to conduct massive grouting or to fully implement enhanced grouting.

The procurement and delivery of spare and replacement parts for the ministry was partially consistent with the original objectives. Multiple contracts, valued at approximately $5.6 million, were awarded for materials and equipment to avoid any interruption of current grouting operations. Because of limited time at the site, SIGIR could not inspect every delivery to determine if it met contract requirements. Therefore, SIGIR relied on reviews of the contract files and interviews of ministry personnel to determine if the required equipment and materials had been delivered.

Multiple contracts were awarded to provide for materials and equipment; nevertheless, in several instances, what was delivered did not meet contract specifications. In addition, because no U.S. government representative was on site to verify the delivery of the materials and equipment, SIGIR could not be assured that all of the required equipment was delivered to the Mosul Dam. SIGIR identified several instances in which the delivered materials and equipment did not meet the contract

Site Photos 6 and 7. Interior views of an Integrated Analytical System unit.

specifications, but after discussions with Ministry of Water Resources personnel, it appears that most of the contractor-delivered materials and equipment were usable by the ministry to continue current grouting operations.

Approximately $19.4 million in multiple contracts were awarded for the massive and enhanced grouting programs. SIGIR observed an inadequately constructed partial stationary silo structure, which provides no usable benefit to the Ministry of Water Resources. In addition, because of the inability of the U.S. government's Evaluation Committee to notice the "CONCRETE BATCHING PLANT" cover pages on the contractor's submittals for the 100-m^3/hour and 30-m^3/hour grout-mixing plants, the contractor believed that he was to deliver concrete-mixing plants. This led to an increase in contract cost and time delays.

A contract modification of $920,000 was issued to "modify" the concrete-mixing plants into the required grout-mixing plants. To date, $324,000 has been paid to the contractor for attempts to modify the concrete-mixing plants into grout-mixing plants even though the 100-m^3/hour grout mixing plant is still inoperable, and the contract for the four 30-m^3/hour grout-mixing plants has been terminated. As a result, the three mixing plants currently provide no usable benefit to the ministry. Because the contract required the delivery of the five grout-mixing plants by July 2006, the massive grouting and enhance grouting programs are now more than one year behind schedule.

The Advanced Grouting System, a significant portion of the enhanced grouting program, is also non-operational. The system comprises the Intelligrout system and enhanced grouting equipment, valued at approximately $16.4 million. The three Integrated Analytical System units continue to experience a variety of significant problems, delaying their use (see site photos 6 and 7), and the enhanced grouting equipment remains unused because of a lack of comprehensive and relational diagram or schematic drawings to identify how the components are completely assembled and operate.

Consequently, at the time of SIGIR's site visit, approximately $19.4 million worth of equipment and materials delivered to the Mosul Dam for the implementation of the massive and enhanced grouting operations currently do not provide benefit to the Ministry of Water Resources.

Post Delivery Support Plan

According to ITAO, the Ministry of Water Resources has used materials and equipment procured by the GOI, the U.S. government, and other international donors to improve its current traditional grouting operation; however, full implementation of the enhanced grouting operation is necessary to augment ministry efforts to improve dam grouting. ITAO representatives[435] are finalizing a detailed plan, the Post Delivery Support Plan, to provide the dam and the ministry with the required equipment and materials to improve current grouting operations and fully implement the enhanced grouting operation. For example, this plan calls for making the Integrated Analytical System units fully operational and procuring additional 30-m^3/hour grout-mixing plants. ITAO representatives express confidence that the plan will adequately resolve the outstanding issues and problems and facilitate the ultimate implementation of the enhanced grouting.

Recommendation

SIGIR shares the concerns expressed by USACE, the Commander of the Multi-National Force-Iraq, and the U.S. Ambassador regarding problems at the dam. In view of the issues raised by this assessment and the resultant lack of significant progress in improving basic grouting capability, as well as the fact that equipment for enhanced grouting and the Integrated Analytical System were delivered but are not operational, SIGIR recommends that the ITAO Director expedite implementation of the Post Delivery Support Plan.

Management Comments

SIGIR received comments on a draft report from the Deputy Chief of Mission for the U.S. Embassy-Iraq, advising that ITAO concurred with the report's general findings and recommendation. Specific comments were also provided to correct perceived errors and to suggest clarifications.

Subsequent to the issuance of the draft report, GRD provided additional information and documentation. GRD also requested and was granted an extension of time for formal comments on the draft report. GRD's formal comments concurred with the recommendation and provided clarifying information for the final report.

Two days after the receipt of GRD's formal comments, USACE and GRD representatives contacted SIGIR, indicating that they were concerned with the accuracy of the final report and that they wished to provide additional information. SIGIR subsequently contacted the GRD commander and further revised the report to address his concerns.

Evaluation of Management Comments

SIGIR appreciates the concurrence by ITAO and GRD with the recommendation to expedite implementation of the Post Delivery Support Plan.

SIGIR reviewed the information, documentation, and clarifying comments provided both formally and informally by ITAO, GRD, and USACE and revised the final report as appropriate. Comments received are provided verbatim in the final report.

Site Photo 8. General Electric Frame 9E turbine unit.

Indications of Potential Fraud

During this inspection, SIGIR found indications of potential fraud and referred these matters to the SIGIR Assistant Inspector General for Investigations, for such actions as deemed appropriate.

Qudas Power Plant Turbine Restoration, Baghdad, Iraq

SIGIR PA-07-101

Qudas Power Plant Expansion, Baghdad, Iraq

SIGIR PA-07-104

These project assessments were initiated as part of SIGIR's continuing assessments of selected reconstruction activities funded by the IRRF.

The objective of the Qudas Power Plant Turbine Restoration (SIGIR PA-07-101) project included requirements to inspect, evaluate, restore, convert to crude-oil firing, and start up two General Electric (GE), Frame 9E combustion gas turbine units (see site photo 8). In addition, the turbine unit restoration project included requirements to evaluate, restore, commission, and turn over four GE LM-6000 units (see site photo 9).

The Qudas Power Plant Expansion (SIGIR PA-07-104) project provided for the design, manufacturing, delivery to the site and off-loading, erection, painting, commissioning, start-up, testing, and turn over of two new GE Frame 9E open-cycle gas turbine units.

The restoration of the turbine units previously installed and addition of two new turbine units will strengthen the "Baghdad Ring,"[436] increasing the supply of available electricity by as much as 584 megawatts (MW). Turbine restoration, installation, and sustainment activities at the Qudas Power Plant are valued at approximately $238 million.

Assessment Objectives

The overall objective of these assessments was to provide timely relief and reconstruction project information to interested parties to enable appropriate action, when warranted.

In PA-07-101, SIGIR determined whether:

- the project was at full capability or capacity when accepted by the U.S. government, when transferred to Iraqi operators, and when observed by SIGIR inspectors
- sustainability for full capacity operations was adequately planned and likely to continue

In PA-07-104, SIGIR determined whether:

- project components were adequately designed before construction or installation
- construction or rehabilitation work complied with the design standards

Site Photo 9. General Electric LM-6000 turbine unit.

- contractor QC and U.S. government QA programs were adequate
- project outcome was consistent with original objectives
- project sustainability was adequately addressed in the contract or task order

Conclusions

These projects had two main objectives—the restoration of previously installed turbines and the ability to sustain operations and maintenance of the restored turbines and the expanded capacity of Qudas Power Plant.

Turbine Restoration. Qudas projects to restore turbine units and expand electricity generation capacity were adequately designed and either properly completed or progressing satisfactorily at the time of SIGIR's assessment. Specifically, the work required to restore four GE LM-6000 and two GE Frame 9E turbine units at Qudas Power Plant under the requirements of Task Order 0006 was satisfactorily completed on January 28, 2006.

In addition, work required under contract W91GXY-06-C-0094 to expand Qudas capacity by more than 200 MW (by installing two new GE Frame 9E units) was consistent with the objectives and progressing satisfactorily as of August 15, 2007. This occurred because project requirements were adequately specified in each contract or task order, and construction management practices enforced compliance with specifications and requirements. Also, contractor QC and the government's QA programs were satisfactory. As a result, approximately 584 MW of additional electricity will be available to the power grid.

Sustainability. Sustainability was adequately planned and addressed in applicable contracts or task orders. The U.S. government demonstrated a strong commitment to programs designed to mentor Ministry of Electricity personnel and to sustain operations in the short term. Specifically, contract W91GXY-06-C-0066 provided a program designed to mentor the ministry staff in the managerial skills and resources needed to properly operate and maintain Iraq's electric utility system.

USACE GRD has implemented additional programs to help ensure that generation assets received or will receive scheduled inspections and maintenance to enhance the likelihood

Site Photo 10. Newly constructed road with shoulders.

of sustainable operations in the short term. Further, ministry personnel, contractors, and U.S. government officials will need to continue to effectively coordinate and communicate to ensure program effectiveness. The long-term sustainability of generation assets will depend primarily on whether the Government of Iraq can implement and fund an effective electric power generation operations and maintenance program at the Qudas Power Plant.

Recommendations and Management Comments

SIGIR's report does not contain any negative findings or recommendations for corrective action. As a result, management comments are not required. However, USACE GRD reviewed the draft report and offered no additional information or comments.

Showairrej to Tak Harb Road Paving, Ninewa Governorate, Iraq

SIGIR PA-07-107

The objective of the project was to construct a new 11-kilometer (km) asphalt road, with shoulders, from the main rural road to the villages of Showairrej, Taq Meka'ael, and Tak Harb, in the Ninewa governorate. This road serves multiple villages with large indigenous populations, bringing emergency services, transportation, and opportunity for commerce to this underdeveloped area. The contract included specific requirements for adhering to Iraqi Building Codes. On September 13, 2006, a firm-fixed-fee contract of $1,439,175 was awarded to a local contractor for the road paving.

Project Assessment Objectives

The objective of this project assessment was to provide real-time relief and reconstruction project information to interested parties to enable appropriate action, when warranted. Specifically, SIGIR determined whether the project was operating at the capacity stated in the original contract. To accomplish the

Site Photo 11. Box culverts for new road.

objective, SIGIR determined if the project was at full capability or capacity when accepted by the U.S. government, when transferred to Iraqi operators, and during the site inspection on September 19, 2007.

Conclusions

The new asphalt road contributes to economic activity, emergency response, law enforcement, and safe pedestrian travel between Showairrej, Taq Meka'ael, and Tak Harb in the Mosul District of the Ninewa governorate (see site photos 10 and 11). It replaced a road that was impassable, especially during the rainy season. Adequate QM oversight by the contractor and the U.S. government enforced the contract's Statement of Work, ensuring construction quality and completeness.

In addition, a review of the contract file did not reveal any sustainability issues associated with the project turnover. There was no need for specialized equipment to be provided by the contract or for any maintenance manuals.

Recommendations and Management Comments

SIGIR's report does not contain any negative findings or recommendations for corrective action. As a result, management comments are not required. However, USACE GRD reviewed the draft report and offered no additional information or comments.

Bartilla New Road Paving, Ninewa Governorate, Iraq

SIGIR PA-07-108

The objective of the Bartilla New Road Paving project was to construct six new municipal road segments in the town of Bartilla, in the Ninewa governorate. On August 31, 2006, a firm-fixed-fee contract of $147,560 for road paving was awarded to a local contractor. The contractor was required to comply with the "Standard Specification for Roads and Bridges," issued by the Iraqi Ministry of Housing and Construction in 1983, as amended.

Project Assessment Objectives

The objective of this project assessment was to determine whether the project was operating

Site Photo 12. Road excavation, leveling, and rolling of the sub-grade (photo courtesy of USACE).

Site Photo 13. Aggregate base and concrete base pour (photo courtesy of USACE).

at the capacity stated in the original contract. To accomplish the objective, SIGIR determined whether the project was at full capability or capacity when accepted by the U.S. government, when transferred to Iraqi operators, and during the site inspection on September 19, 2007.

Conclusions

During SIGIR's visit to the site, the six municipal road segments operated as fully functioning roads, replacing the existing unpaved dirt roads (see site photos 12-14). The project was adequately designed prior to construction, and the contractor and U.S. government performed adequate QM oversight, which enforced the contract terms and ensured construction quality and completeness.

Additionally, a review of the contract file disclosed no sustainability issues associated with the project turnover. The contract did not require any specialized equipment or maintenance manuals.

Recommendations and Management Comments

SIGIR's report does not contain any negative findings or recommendations for corrective action. As a result, management comments are not required. However, USACE GRD reviewed the draft report and offered no additional information or comments.

Right Bank Drinking Water Treatment Plant Rehabilitation, Ninewa Governorate, Iraq

SIGIR PA-07-106

The objective of the project was to rehabilitate and upgrade the existing 182,000-cubic-meters-per-day (m^3/day) drinking water treatment plant, including the repair of pumps, mixers, settling tanks, pressure filters, and chlorine closing units. This project was needed to bring the residents of Mosul fresh, potable water to drink. Its secondary objective was to maximize rapid employment opportunities for local Iraqis. On September 30, 2005, a firm-fixed-fee contract of $1,714,233.43 was awarded to a local contractor.

Site Photo 14. Newly constructed road.

Site Photo 15. Settling tank (photo courtesy of USACE).

Project Assessment Objectives

The objective of this project assessment was to determine whether the project was operating at the capacity stated in the original contract. To accomplish the objective, SIGIR sought to determine if the project was at full capability or capacity when accepted by the U.S. government, when transferred to Iraqi operators, and during a site inspection. However, security conditions prevented the SIGIR assessment team from visiting the site.

Conclusions

SIGIR's assessment of the Right Bank Drinking Water Treatment Plant included review and analysis of the contract, related contract documentation, contract Statement of Work, design package (drawings and specifications), QC and QA reports, construction progress photos, final situation report, invoices, submittals, closeout documents, and aerial imagery of the site.

Because of increased insurgent activity in the Mosul area during the two weeks when the inspection team was there, the private security contractors and the U.S. Army could not honor the inspection team's requests for escort to the Right Bank Drinking Water Treatment Plant. Consequently, the assessment team was unable to perform a site assessment and had to rely on USACE documentation and aerial imagery. However, USACE documentation confirmed that contract provisions were met, and the drinking water treatment plant was operational at the time of turnover to the Mosul Water Company (see site photo 15). In addition, USACE documentation showed that the contractor and the U.S. government performed adequate QM oversight, which enforced contract provisions and ensured construction quality and completeness.

Recommendations and Management Comments

SIGIR recommended that the Commander, GRN, send representatives to visit the site when security conditions become more stable to determine the current condition of rehabilitated and upgraded equipment and facilities. The Commander, GRD, concurred with the recommendation agreeing to have GRN representatives visit the site when security conditions permit. SIGIR appreciates the prompt response from GRD and agreed with the suggested corrective action.

Bartilla Booster Pump Station Repair, Ninewa Governorate, Iraq

SIGIR PA-07-109

The project objective was to repair the booster pump station to provide potable water, at a rate of 200-m^3/hr, to the residents of Bartilla, in the Ninewa governorate. The contract included

Site Photo 16. General maintenance on the interior of the booster pump room.

specific requirements that materials and equipment were to be replaced with equipment that met the original design intent of the facility. In addition, where new material or equipment was specified, new items should adhere to British or the equivalent international codes and standards. On August 31, 2006, a firm-fixed-fee contract of $237,500 for the booster pump station repair was awarded to a local contractor.

Project Assessment Objectives

The objective of this project assessment was to provide real-time relief and reconstruction project information to interested parties to enable appropriate action, when warranted. Specifically, SIGIR determined whether the project was operating at the capacity stated in the original contract. To accomplish the objective, SIGIR determined if the project was at full capability or capacity when accepted by the U.S. government, when transferred to Iraqi operators, and during the site inspection on September 19, 2007.

Conclusions

SIGIR's assessment of repairs at the Bartilla Booster Pump Station included a review and analysis of the contract, related contract documentation, contract Statement of Work, design package (drawings and specifications), QC and QA reports, construction progress photos, final situation report, invoices, submittals, and closeout documents.

Because of increased insurgent activity in the Mosul area during the two weeks when the inspection team was there, escort to the Bartilla Booster Pump Station by the private security contractor was delayed for five days. When an escort finally could be provided, no interpreter was available and the escort limited the assessment team to an expedited site visit. The assessment team observed that there was no electrical power available at the time of the site visit, and the pump station was not operating. The assessment team could not communicate with the two Iraqis at the station; consequently, SIGIR could not determine the reason the station was not operational on the day of the site visit. Further, the assessment team could

not determine the post-turnover equipment operations and maintenance management and facility/building maintenance practices by the Directorate of Ninewa Water personnel.

USACE documentation confirmed that contract provisions were met and that the Bartilla Booster Pump Station was operational at the time of turnover to the Directorate of Ninewa Water (see site photo 16). The documentation also showed that the contractor and the U.S. government performed adequate QM oversight, which enforced contract provisions and ensured construction quality and completeness.

Recommendations and Management Comments

SIGIR recommended that the Commander, Gulf Region North, send representatives to visit the site when security situations become more stable to determine why the booster pump station was not operational on September 19, 2007. The Commander, Gulf Region Division concurred with the recommendation agreeing to have Gulf Region North representatives visit the site when security conditions permit. SIGIR appreciates the prompt response from GRD and agreed with the suggested corrective action.

Aerial Image 1. Imagery overview of the Shasheed Shazad Power Plant taken on July 6, 2007.

Aerial Image 2. Imagery taken on August 3, 2007, of the Al Mawsil Bedoush dam site, a proposed backup dam for the Mosul Dam, which was assessed this quarter in SIGIR PA-07-105.

Aerial Project Survey Program

The SIGIR Satellite Imagery Group, based in Arlington, Virginia, has been conducting aerial assessments of U.S.-funded reconstruction project sites throughout Iraq since November 2005. SIGIR satellite imagery analysts provide up-to-date imagery, imagery-based intelligence, and map products to the SIGIR Inspections, Audit, and Investigations directorates. This has enabled SIGIR to provide current information on remote site locations and to track construction progress at project sites throughout Iraq.

This quarter, SIGIR imagery analysts created 46 imagery products using satellite imagery and limited available contract information on 35 reconstruction projects. The imagery obtained provides visual assessment of progress at reconstruction site locations throughout Iraq. SIGIR shares its imagery products with government contracting agencies to update their project information and to identify any obvious deficiencies. SIGIR imagery analysts assessed and reviewed the CERP projects evaluated this quarter and 17 other sites:

Imagery Products, not including CERP projects:

- 5 border forts
- 4 satellite dishes
- 3 military bases
- 2 municipal locations
- 2 dams
- 1 power substation

CERP projects:

- 5 water treatment facilities
- 5 schools
- 4 hospitals
- 3 road segments
- 1 power station

Imagery support products—including site overviews, project site break-outs, and site

Aerial Image 3. Imagery overview of the Right Bank Drinking Water Treatment Plant taken on February 27, 2007.

Aerial Image 4. Overview of the Mosul Dam, which SIGIR inspectors visited this quarter.

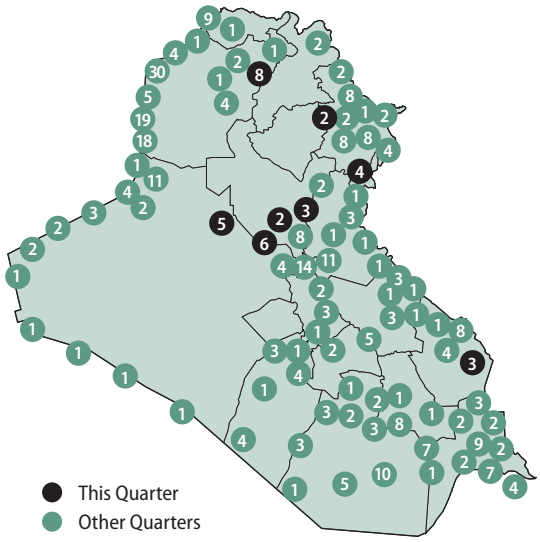
assessments—are used to prepare for inspection site visits and to identify possible problems (See aerial images 1, 2, 3, and 4).

Six Iraq overview maps and two satellite images of the International Zone in Baghdad were provided to other SIGIR directorates this quarter. One of these maps required research of four separate sites and was custom-made for use in an audit report. An imagery product of a U.S. facility was provided to the Investigations Directorate.

In partnership with the National Geospatial-Intelligence Agency and the National Ground Intelligence Center, SIGIR imagery analysis has resulted in 388 cumulative satellite imagery assessments and products (Figure 3.2).

Figure 3.2

Aerial Imagery Assessments



SIGIR INVESTIGATIONS

This quarter, SIGIR Investigations continued its work with a wide range of U.S. agency partners to pursue allegations of fraud, waste, and abuse in Iraq reconstruction. SIGIR currently has 52 open investigations, 30 of which are under the prosecutorial control of the U.S. Department of Justice (DoJ). Six SIGIR agents are in Baghdad, and 13 are in Arlington, Virginia.

As of October 30, 2007, SIGIR investigations have produced these results: 5 people have been convicted and sentenced, 13 have been arrested, and 8 will be tried in 2008. To date, SIGIR has opened 332 cases and closed or referred 275. SIGIR investigations have resulted in $17.242 million in court-ordered restitutions, forfeitures, and recoveries.

SIGIR and Its Investigative Partners

This quarter, SIGIR investigators were aggressively engaged with a number of U.S. agencies and joint agency task forces in Iraq and the United States. In Iraq, SIGIR worked closely with these agencies:

- U.S. Army Criminal Investigation Command, Major Procurement Fraud Unit (CID-MPFU)
- U.S. Agency for International Development Office of Inspector General (USAID OIG)
- Defense Criminal Investigative Service (DCIS)
- Federal Bureau of Investigation (FBI)

SIGIR continues its work on the **International Contract Corruption Task Force** (ICCTF), a joint agency task force comprising SIGIR, CID-MPFU, DCIS, FBI, Department of State Office of Inspector General (DoS OIG), and USAID OIG. The ICCTF coordinates the work of all of the U.S. agencies in theater, including SIGIR.

SIGIR also participates in other joint agency task forces, including the **National Procurement Fraud Task Force** (NPFTF), created by DoJ in October 2006. SIGIR is a major participant on several subcommittees of the NPFTF, most notably on the **International Working Committee** (IWC). The IWC links DoJ and federal law enforcement agencies and provides a venue to discuss investigative and prosecutorial issues.

In addition to the ICCTF agencies, SIGIR also regularly works with these agencies in the United States:

- LOGCAP (Logistics Civil Augmentation Program) Taskforce
- Immigration and Customs Enforcement (ICE)
- Internal Revenue Service, Criminal Investigation Division (IRS-CID)
- U.S. Army Suspension and Debarment
- DoJ Commercial Litigation Section, Civil Division

This quarter, SIGIR continued its participation with the ongoing Defense Finance and Accounting Service project in Rome, New

York. DCIS initiated this project to detect fraud involved with payments made by the U.S. Army to support the war effort in Iraq.

The LOGCAP Taskforce in Rock Island, Illinois, continued to prosecute a wide variety of cases of fraud and other criminal conduct related to U.S. reconstruction activities in Iraq. The taskforce includes the U.S. Attorney's Office, Central District of Illinois; FBI; IRS; DCIS; and U.S. Army CID-MPFU. Although not a member of this group, SIGIR reports the taskforce's cases to show the overall picture of fraud in Iraq. For details on convictions and indictments, see Table 3.4.

Legal Actions this Quarter

This quarter, the largest bribery case to date in Iraq continued to progress through the legal system. In September, Major John Cockerham; his wife, Melissa Cockerham; and his sister, Carolyn Blake, were charged in an indictment that superseded the original July 23, 2007 complaint alleging more than $9.6 million in bribes received from Iraqi contractors. This case has been scheduled for trial in April 2008 in San Antonio. CID-MPFU led the investigation, and SIGIR, DCIS, ICE, IRS, and FBI supported this work.

SIGIR continues to refer cases to the U.S. Army for debarment and suspension. Since the last Quarterly Report, the Army has suspended five individuals and companies, proposed five more for debarment, and debarred three for allegations of fraud and misconduct connected to U.S. reconstruction activities in Iraq. As of October 30, 2007, a total of 17 individuals and contractors have been debarred. Figure 3.3 lists the debarments and suspensions that occurred this quarter. For details on debarments and suspensions and debarments, see Appendix K.

Debarments and Suspensions this Quarter

Debarred	
Bloom, Philip H.	8/8/2007
Global Business Group S.R.L.	8/8/2007
Stein, Robert J., Jr.	8/16/2007
Proposed for Debarment	
Reviewer Management International Limited (RMI)	9/10/2007
Raggio, Robert A.	9/10/2007
Barton, Eric Wayne	9/14/2007
Hopfengardner, Bruce D. (LTC, USAR)	8/8/2007
Merkes, Steven	8/15/2007
Suspended	
Rivard, John Allen (MAJ, USAR)	8/10/2007
Blake, Carolyn	8/15/2007
Cockerham, John L. (MAJ, USA)	8/15/2007
Cockerham, Melissa	8/15/2007
Key, Austin (CPT, USA)	8/27/2007

Figure 3.3

Convictions and Indictments

Name	Position	Contractor/Company/Agency	Charges	Date of Conviction	Sentence	Date of Sentence
Investigations Led by SIGIR						
Philip Bloom	Owner	Global Business Group, GBG Holdings & GBG-Logistics Division	Conspiracy, bribery, and money laundering	3/10/2006	46 months in prison; 2 years of supervised release; $3.6 million in restitution and $3.6 million in forfeiture	2/16/2007
LTC Bruce D. Hopfengardner	Special Advisor to the CPA-SC	U.S. Army Reserves	Conspiracy and conspiring to commit wire fraud and money laundering, and smuggling currency	8/25/2006	21 months in prison, $144,500 forfeiture, 3 years supervised release	6/25/2007
Steven Merkes	DoD Civilian	U.S. Army Reserves	Accepting illegal gratuities	2/16/2007	12 months and 1 day in prison; $24,000 in restitution	6/1/2007
Faheem Mousa Salam	Interpreter	Titan Corporation	Violating the FCPA's Anti-Bribery Provisions	8/24/2006	3 years in prison; 2 years of supervised release; 250 hours of community service	2/2/2007
Robert Stein	CPA-SC Comptroller and Funding Office	CPA	Felon in possession of a firearm, possession of machine guns, bribery, money laundering, and conspiracy	2/2/2006	9 years in prison; 3 years of supervised release; $3.5 million in restitution and $3.6 million in forfeiture	1/29/2007
Curtis G. Whiteford	Colonel	U.S. Army Reserves	Conspiracy, bribery, and wire fraud	n/a		
Michael B. Wheeler	Lieutenant Colonel	U.S. Army Reserves	Conspiracy, bribery, wire fraud, interstate transportation of stolen property, bulk cash smuggling	n/a		
Debra M. Harrison	Lieutenant Colonel	U.S. Army Reserves	Conspiracy, bribery, money laundering, wire fraud, interstate transportation of stolen property, smuggling cash, preparing false tax return	n/a		
William Driver	(Husband of Debra Harrison)		Money laundering	n/a		
Michael B. Morris	Businessman		Conspiracy, wire fraud	n/a		
Led by Other Agencies						
Jennifer Anjakos	Military Reservist	California Army National Guard/ 223rd Finance Detachment	Conspiracy to commit wire fraud	11/13/2006	3 years probation; $100 assessment; $86,557 restitution	9/17/2007
Christopher Cahill	VP, Middle East & India	Eagle Global Logistics, Inc. (EGL)	Major fraud against the United States	2/16/2006	30 months in prison; 2 years supervised release; $10,000 fine; $100 assessment (a civil settlement with EGL arising from the same facts resulted in a settlement of $4 million)	8/30/2006
Lomeli Chavez	Enlisted, Grade 05, Military Reservist	California Army National Guard/ 223rd Finance Detachment	Conspiracy to commit wire fraud	11/13/2006	3 years probation; $100 assessment; $28,107 restitution	9/17/2007
Derryl Hollier	Enlisted, Grade 05, Military Reservist	California Army National Guard/ 223rd Finance Detachment	Conspiracy to commit wire fraud	11/13/2006	3 years probation; $100 assessment; $83,657.47 restitution	9/19/2007
Shabbir Khan	Director of Operations, Kuwait & Iraq	Tamimi Global Co., Ltd (subcontractor for KBR)	Bribery	6/23/2006	51 months in prison; 2 years supervised release; $10,000 fine; $133,860 in restitution; $1,400 assessment	12/1/2006
Jesse D. Lane	Military Reservist	California Army National Guard/ 223rd Finance Detachment	Conspiracy and honest services wire fraud	6/5/2007	30 months prison; $323,228 restitution; 3 yrs supervised release	10/15/07
Luis Lopez	Enlisted, Grade 05, Military Reservist	California Army National Guard/ 223rd Finance Detachment	Conspiracy to commit wire fraud	11/13/2006	3 years probation; $100 assessment; $66,865 restitution	9/17/2007
Anthony J. Martin	Subcontract Administrator	KBR	Violation of the Anti-Kickback Act	7/13/2007	Pending	Pending
Bonnie Murphy	Contracting Officer's Representative (COR)	DoD Defense Reutilization and Marketing Service (DRMS)	Accepting unlawful gratuities	11/7/2006	1 year supervised release; $1,500 fine	March 2007
Gheevarghese Pappen	Army Corps of Engineers (Civilian Employee, GS-12)	U.S. Army/Area Support Group, Host Nation Office, Camp Arifjan, Kuwait	Soliciting and accepting illegal gratuities	10/12/2006	2 years in prison; $28,900 restitution; one year of supervised release	1/30/2007

Convictions and Indictments

Name	Position	Contractor/Company/Agency	Charges	Date of Conviction	Sentence	Date of Sentence
CWO Peleti Peleti, Jr.	Army's Food Service Advisor for Kuwait, Iraq & Afghanistan	U.S. Army	Bribery and smuggling cash	2/9/2007	Pending	Pending
Glenn Powell	Subcontracts Manager	KBR	Major fraud and violating the Anti-Kickback Act	8/1/2005	15 months in prison; 3 years supervised release; $90,973.99 in restitution; $200 assessment	11/18/2005
Stephen Seamans	Subcontracts Manager	KBR	Wire fraud, money laundering, and conspiracy	3/1/2006	12 months and 1 day in prison; 3 years supervised release; $380,130 in restitution; $200 assessment	12/1/2006
Kevin A. Smoot	Managing Director	Eagle Global Logistics, Inc.	Violating the Anti-Kickback Act, false statements	7/20/2007	Pending	Pending
John Allen Rivard	Major	U.S. Army Reserves	Bribery, conspiracy, money laundering	7/23/2007	120 months in prison; 3 years supervised release; $5,000 fine; $1 million preliminary order of forfeiture	Pending
Samir Mahmoud	Employee of U.S. Construction Company		False statement, violating the Anti-Kickback Act	11/3/2006	Pending	Pending
Maj. John Lee Cockerham	Contracting Officer	U.S. Army	Bribery, conspiracy, money laundering	n/a		
Melissa Cockerham	(Wife of John Cockerham)		Conspiracy, money laundering	n/a		
Carolyn Blake	(Sister of John Cockerham)		Conspiracy, money laundering	n/a		
CPT Austin Key	Contracting Officer	U.S. Army	Bribery	n/a		
Ali Hijazi	Kuwaiti Businessman		Major fraud against the United States and wire fraud			
Jeff Alex Mazon	Subcontractor Employee	KBR	Major fraud against the United States and wire fraud			
Zubair Khan	Contractor	Tamini Global Co. Ltd	Conspiracy to commit money laundering/witness tampering, obstruction of justice and making false statements	n/a		
Wallace Ward	Contractor	KBR - Afghanistan	Conspiracy to commit fraud, false claim			
James Sellman	Contractor	KBR - Afghanistan	Conspiracy to commit fraud, false claim			

Table 3.4

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 the Iraq Relief and Reconstruction Fund (IRRF), to funds appropriated or otherwise made available for FY 2006 for the reconstruction of Iraq or to programs and operations of the former Coalition Provisional Authority (CPA) are transferred to the appropriate entity. The SIGIR Hotline receives walk-in, telephone, mail, fax, and online contacts from people in Iraq, the United States, and throughout the world.

Third Quarter Reporting

As of September 30, 2007, the SIGIR Hotline had initiated 601 cases; 542 of those cases have been closed. To date, 59 cases remain open. For the status of SIGIR Hotline cases, see Table 3.5.

New Cases

During this reporting period, the SIGIR Hotline received 12 new complaints for a cumulative total of 601 Hotline cases. The new complaints were classified in these categories:

- 7 involved contract fraud.
- 3 involved personnel issues.
- 2 involved miscellaneous issues.

Summary of SIGIR Hotline Cases, as of September 30, 2007

Open Cases	
Investigations	50
Audits	9
Total Open	**59**

Closed Cases	1st Qtr 2007	2nd Qtr 2007	3rd Qtr 2007	Cumulative*
Freedom of Information Act	0	0	0	4
OSC Review	0	0	0	2
Assists	0	0	0	44
Dismissed	5	6	2	108
Referred	8	10	8	226
Inspections	0	0	0	79
Investigations	3	0	1	70
Audits	0	0	0	9
Total Closed	**16**	**16**	**11**	**542**
Cumulative* Open & Closed				**601**

*Cumulative totals cover the period since the SIGIR Hotline began operations—from March 24, 2004, to September 30, 2007.

Table 3.5

The SIGIR Hotline receives most reports of perceived instances of fraud, waste, abuse, mismanagement, and reprisal by electronic mail. The SIGIR's 12 new Hotline complaints were received by these means:

- 10 by electronic mail
- 2 by SIGIR Hotline phone call

Closed Cases

During this quarter, 10 Hotline cases were closed:

- 8 were referred to other Inspector General agencies.
- 1 was closed by SIGIR Investigations.

- 1 was dismissed for lack of sufficient information.

Referred Complaints

Following a thorough review, 8 complaints were referred to outside agencies for proper resolution:

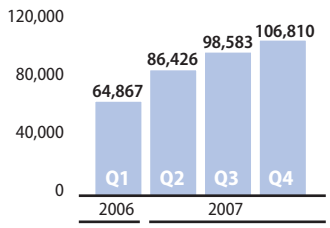
- 1 was sent to the U.S. Army Inspector General.
- 1 was sent to the Joint Contracting Command-Iraq/Afghanistan.
- 1 was sent to the U.S. Agency for International Development.
- 5 were sent to the Multi-National Force-Iraq Inspector General.

SIGIR WEBSITE

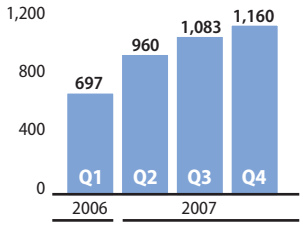
During this reporting period, the SIGIR website (www.sigir.mil) recorded these activities:

- The site had almost 107,000 visitors this quarter—just under 1,200 users per day. User access has increased 220% from a year ago.
- Most users were from within the United States (85%). The remaining 15% were from 163 different countries, mainly in Western Europe (4%), Asia (2%), and the Middle East (2%).
- The Arabic language section of the site received more than 1,047 visits, up 30% from last year.
- A significant percentage of visitors to the SIGIR website were from government agencies, most notably DoD, DoS, and the U.S. House of Representatives.
- Users visited the SIGIR Reports section most often.
- The most frequently downloaded documents were SIGIR's most recent Quarterly Reports.
- Website feeds were added this past reporting period to keep users informed of various reports as they are made public. They were among the top three pages visited.

Total Number of Visitors per Quarter
Source: Web Trends Analytics
(10/1/2006 - 10/1/2007)



Average Number of Visitors per Day
Source: Web Trends Analytics
(10/1/2006 - 10/1/2007)



LEGISLATIVE UPDATE

During this quarter, the Congress had several matters relating to SIGIR's authorities under active consideration, and SIGIR officials provided information to the Congress on several occasions, including four formal appearances before congressional committees.

Authority of SIGIR and Related Matters—Appropriations Measures

On September 6, 2007, the Senate passed an amendment to H.R. 2764, "making appropriations for the Department of State, foreign operations, and related programs for the fiscal year ending September 30, 2008, and for other purposes."

The amendment contains a provision, section 683, which further amends section 3001 of P.L. 108-106, as amended, to (1) provide that funds appropriated or otherwise made available for FY 2007 and FY 2008 for Iraq reconstruction be used when calculating when SIGIR will terminate, and (2) add a rule of construction that SIGIR shall have jurisdiction over any U.S. funds appropriated or otherwise made available for fiscal years 2006 through 2008 for the reconstruction of Iraq, without regard to the designation of such funds.

The Senate asked for a conference on this amendment and appointed conferees.

Authority of SIGIR and Related Matters—Authorization Measures

On October 1, 2007, the Senate passed an amendment to H.R. 1585, "to authorize appropriations for fiscal year 2008 for military activities of the Department of Defense, for military construction, and for defense activities of the Department of Energy, to prescribe military personnel strengths for such fiscal year, and for other purposes." The House has not responded to this request. The Senate amendment to H.R. 1585 contains these provisions relating to SIGIR:

(1) A provision, section 1540, which (a) modifies existing law to provide that SIGIR will terminate 90 days after the [expended] balance of funds appropriated or otherwise made available for the reconstruction of Iraq is less than $250,000,000; (b) establishes, through a rule of construction, that SIGIR shall have jurisdiction over funds appropriated or otherwise made available for fiscal years 2006 through 2008 for the reconstruction of Iraq, irrespective of the designation of such funds; and (c) permits SIGIR to use certain personnel authorities, specified within section 3161 of title 5, United States Code, during the life of SIGIR.

(2) A provision, section 1539, which (a) establishes a "Commission on Wartime Contracting," to be started within 90 days after the date of the enactment of the Act and to exist for approximately two years;

during which time SIGIR, notwithstanding section 3001 of Public Law 108-106, will continue to exist; and (b) provides that SIGIR shall "in collaboration with the Inspector General of the Department of Defense, the Inspector General of the Department of State, and the Inspector General of the United States Agency for International Development, conduct a series of audits to identify potential waste, fraud, abuse, or mismanagement in the performance of—

(A) Department of Defense contracts and subcontracts for the logistical support of coalition forces in Operation Iraqi Freedom and Operation Enduring Freedom; and

(B) Federal agency contracts and subcontracts for the performance of security and reconstruction functions in Operation Iraqi Freedom and Operation Enduring Freedom."

(3) A provision, now part of section 1043, providing for a non-profit organization to conduct a study of the national security interagency system. As amended, the bill requires that the study address "the interagency coordination and integration of the United States Government for the planning and execution of overseas post-conflict contingency relief and reconstruction operations."

(4) A provision, now part of section 861, relating to the definition of agencies, the disclosure to which of certain information by "whistleblowers" would be protected. The definition is intended to bring SIGIR within its mandate.

(5) A provision, section 1542, establishing a new agency to oversee U.S. government reconstruction activities in Afghanistan. The provision states that the new agency should operate in a manner similar to SIGIR. It also provides, but does not require, that the Special Inspector General for Iraq Reconstruction may be appointed to head the new agency.

The Senate asked for a conference on this amendment and appointed conferees.

Congressional Appearances

Since the last SIGIR Quarterly Report, SIGIR officials appeared before congressional committees on four occasions:

1. July 31, 2007—House Committee on the Budget—Hearing on "The Costs of Military Operations and Reconstruction in Iraq and Afghanistan." The Inspector General (IG) provided an overview of the $44.5 billion in U.S. funds dedicated to relief and reconstruction programs in Iraq. In addition, the IG provided snapshots of recent audits and inspections that examined asset transfer, Provincial Reconstruction Teams, sustainment, and other issues. The Inspec-

tor General also provided an overview of SIGIR's first focused financial review—on the work of Bechtel National, Inc., under its Phase II IRRF contract.

2. September 5, 2007—House Committee on Armed Services, Subcommittee on Oversight and Investigations—Hearing on "The Role of the Department of Defense in Provincial Reconstruction Teams." The Deputy Inspector General (Deputy IG) reported on the development and operation of the Provincial Reconstruction Team (PRT) program in Iraq. Drawing on the results of two audits completed in October 2006 and July 2007, the Deputy IG looked at key operational challenges facing PRTs, including staffing, civil-military integration, security, and coordination. She also discussed the progress of a civilian surge that aimed to double the number of staff at the 25 PRTs throughout Iraq, and she provided insight into future challenges facing the program.

3. October 4, 2007—House Committee on Oversight and Government Reform—Hearing on "Assessing the State of Iraqi Corruption." The Inspector General provided testimony reviewing U.S. anticorruption assistance in Iraq and assessing the Government of Iraq's progress fighting corruption—the "second insurgency."

4. October 18, 2007—House Committee on Armed Services, Subcommittee on Oversight and Investigations—Hearing on "Measuring and Increasing the Effectiveness of Provincial Reconstruction Teams." The IG testified on SIGIR's third audit on PRTs, "Review of the Effectiveness of the Provincial Reconstruction Team Program in Iraq."