

MANAGEMENT OF IRAQ RELIEF AND  
RECONSTRUCTION FUND PROGRAMS

COST-TO-COMPLETE ESTIMATE  
REPORTING

**REPORT NUMBER SIGIR-05-021**  
**OCTOBER 24, 2005**



## SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

October 24, 2005

### MEMORANDUM FOR DIRECTOR, IRAQ RECONSTRUCTION MANAGEMENT OFFICE

SUBJECT: Management of Iraq Relief and Reconstruction Fund Programs –  
Cost-to-Complete Estimate Reporting (Report No. SIGIR-05-021)

We are providing this report for your information and use. We performed the audit in accordance with our statutory duties contained in Public Law 108-106, as amended, which mandates the independent and objective conduct of audits relating to the programs and operations funded with amounts appropriated or otherwise made available to the Iraq Relief and Reconstruction Fund. Public Law 108-106, as amended, requires that we provide for the independent and objective leadership and coordination of and recommendations on policies designed to promote economy, efficiency, and effectiveness in the administration of such programs and operations and to prevent and detect waste, fraud, and abuse.

We considered comments from the Iraq Reconstruction Management Office on a draft of this report when preparing the final report.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Joseph T. McDermott at [joseph.mcdermott@sigir.mil](mailto:joseph.mcdermott@sigir.mil) or at (703) 428-1100, or Mr. James Carrera at [james.carrera@sigir.mil](mailto:james.carrera@sigir.mil) or at (703) 428-1100. For the report distribution, see Appendix D.

Stuart W. Bowen, Jr.  
Inspector General

# Special Inspector General For Iraq Reconstruction

Report Number SIGIR-05-021

October 24, 2005

(Project No. SIGIR-2005-08.1)

## Management of Iraq Relief and Reconstruction Fund Programs – Cost-to-Complete Estimate Reporting

### Executive Summary

This report discusses the ongoing process to develop procedures used to estimate and report the cost-to-complete projects funded with Iraq Relief and Reconstruction Funds (IRRF) as well as the progress made by the Iraq Reconstruction Management Office (IRMO) to meet the requirements of Section 2207, Public Law 108-106. This law requires a quarterly report to Congress that includes estimates of the cost required to complete each IRRF project.

**Introduction.** In November 2003, \$18.6 billion was appropriated under the Emergency Supplemental Appropriations Act for Defense and the Reconstruction of Iraq and Afghanistan (Public Law 108-106). The law created the IRRF and designated \$18.4 billion of the appropriation for Iraq reconstruction. Section 2207 requires a report to Congress every three months that provides updates on the use of all IRRF funds on a project by project basis, including estimates of the cost required to complete each project. The report, entitled “Section 2207 Report on Iraq Relief and Reconstruction,” is compiled by the Department of State’s Iraq Reconstruction Management Office from information provided by the Department of State, the Department of Defense, and the U.S. Agency for International Development.

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

**Results.** The three organizations responsible for IRRF projects—the Project and Contracting Office, the U.S. Agency for International Development, and the Multi-National Security Transition Command-Iraq—have been required, since January 2004, to report cost-to-complete information for their Iraq Relief and Reconstruction Fund projects in quarterly reports to the Congress. However, these organizations did not begin providing reasonably comprehensive cost-to-complete data to IRMO until recently.

Since January 2005, the Special Inspector General for Iraq Reconstruction has raised concerns about the lack of accurate cost-to-complete data. The State Department shared this concern and deployed an interagency assessment team to Baghdad in March 2005 to address the information shortfall. The assessment team’s work resulted in an action-plan to provide cost-to-complete data, with data on all projects over \$6.5 million, covering 151 projects. That plan, however, was not efficiently tracked until recently, after a second assessment team traveled to Iraq in August to reenergize the data collection effort. IRMO’s recent efforts indicate that cost-to-complete data, effective as of September 30, 2005, will be available on October 15, 2005. We hope that future reports will include information on changes in project baselines due to reprogrammings, deobligations, and transfers among projects.

In sum, we are pleased that IRMO has made important progress in securing improved reporting on cost-to-complete data and has an action plan in place to provide such data on a continual basis. Finally, we hope that a formal cost-to-complete reporting policy will be in place soon.

**Management Actions.** IRMO has taken corrective action to implement a more rigorous procedure to collect and compile the cost-to-complete information required by Section 2207 of Public Law 108-106. The procedure is now in place and IRMO informed us that the first report would be submitted to the Office of Management and Budget by October 15, 2005.

**Recommendation.** We recommend that the Director of the IRMO formalize its cost-to-complete action plan by issuing a formal policy that finalizes consistent procedures across all supporting IRRF organizations for the collection and compilation of the cost-to-complete information required by Section 2207 of Public Law 108-106.

**Management Comments and Audit Response.** IRMO officials concurred with the recommendation, and provided more recent information on activities that had occurred since the preparation of a draft of this report. We agreed and changed our report accordingly.

We plan to perform a follow-up audit later this year to determine if the new IRMO procedure provides timely, accurate, and consistent cost-to-complete information.

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# Introduction

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## Background

In November 2003, \$18.6 billion was appropriated under the Emergency Supplemental Appropriations Act for Defense and the Reconstruction of Iraq and Afghanistan (Public Law 108-106). The law created the Iraq Relief and Reconstruction Fund (IRRF) of which \$18.4 billion of the appropriation was designated for Iraq.

**Section 2207 Report** Section 2207 of Public Law 108-106 requires a report to Congress every three months that updates the proposed uses of all IRRF funds on a project by project basis, including estimates of the cost required to complete each project. Specifically, the law says the 2207 Report shall contain information “on the proposed uses of all funds under this heading on a project by project basis...including estimates by the CPA of the costs required to complete each such project.” The most recent report, titled Section 2207 Report on Iraq Relief and Reconstruction (Section 2207 Report) was posted to its website by the Department of State on October 12, 2005. The information contained in the Section 2207 Report is collated by IRMO from data provided by the Department of State, the Department of Defense, and the U.S. Agency for International Development (USAID).

**Iraq Reconstruction Management Office (IRMO)** National Security Presidential Directive 36, “United States Government Operations in Iraq,” May 11, 2004, delegated responsibility for the continuous supervision and general direction of all assistance for Iraq to the Secretary of State. The Directive also authorized the U.S. Mission in Baghdad and an office in the Department of State to assume from the Coalition Provisional Authority, those authorities and responsibilities that continue after the Coalition Provisional Authority terminated on June 28, 2004. Parts of the Coalition Provisional Authority’s responsibilities were delegated to IRMO which was also established in Directive 36. IRMO is responsible for managing and reporting on the IRRF funds.

**Project and Contracting Office (PCO)** National Security Presidential Directive 36, “United States Government Operations in Iraq,” May 11, 2004, established the PCO, assigned all PCO personnel to serve under the authority of the Chief of Mission, and directed the PCO to provide acquisition and project management support to the Chief of Mission for activities in Iraq. On June 22, 2004, the Deputy Secretary of Defense established the PCO within the Department of the Army and directed the PCO to provide support for all activities associated with financial, program, and project management for both construction and non-construction IRRF activities.

**Multi National Security Transition Command - Iraq (MNSTC-I)** MNSTC-I is a component of the US Central Command’s Multi National Force - Iraq Command. MNSTC-I’s general mission is to help Iraq organize, train, equip, and mentor Iraqi Security Forces in order to transition security tasks to Iraqi control. The Coalition Military Assistance Training Team trains and mentors the provision of garrison support services at eight major division and brigade bases throughout Iraq. Provision of services includes constructing/refurbishing facilities, life support, communications, force protection, and medical support. The Civilian Police Assistance Training Team staffs, equips, organizes, trains, and mentors the Iraqi Police Service forces and Department of Border Enforcement forces.

**U.S. Agency for International Development (USAID)** USAID assists Iraqis in reconstructing their country by working with Iraq's interim government. USAID programs are implemented in coordination with the United Nations, World Bank, International Monetary Fund (IMF), Coalition country partners, nongovernmental organizations (NGOs), and private sector partners. The USAID Mission in Iraq carries out programs in education, health care, food security, infrastructure reconstruction, airport and seaport management, economic growth, community development, local governance, and transition initiatives.

**Cost-to-Complete Estimates** The cost to complete a project may be defined as the total estimated cost of the project less the total actual cost of work performed to date:

- The estimated cost of a project is the actual direct cost, plus indirect costs or allocable costs to the contract, plus the estimate of costs (direct and indirect) for authorized work remaining.
- The actual cost of work performed to date is the cost (direct and indirect) to date of completed work packages and the completed portion of work packages begun and not yet completed.

A process for reporting cost-to-complete estimates is an essential component for managing contract performance. Cost-to-complete estimates should be developed as follows:

- Determine the progress toward contract completion to date.
- Determine the cost of the contract work completed to date.
- Estimate the amount of work remaining to be completed.
- Estimate the cost of the work remaining to be completed.
- Calculate variances between the estimated value of work remaining and the remaining budget.
- Determine the reasons for variances from initial estimates and take appropriate action to correct the causes for the variances.

## **Objective**

The objective of this audit was to determine if procedures and processes used to estimate and report the costs to complete for projects funded with Iraq Relief and Reconstruction Funds are adequate.

For a discussion of the audit scope, methodology, and a summary of prior coverage, see Appendix A. For definitions of the acronyms used in this report, see Appendix C. For a list of the audit team members, see Appendix E.

# **Cost-to-Complete Estimates for Iraq Relief and Reconstruction Fund Projects**

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Since January 2005, the Special Inspector General for Iraq Reconstruction (SIGIR) has raised concerns about the lack of accurate cost-to-complete data. The State Department shared this concern and deployed an interagency assessment team to Baghdad in March 2005 to address the information shortfall. The assessment team's work resulted in an action-plan to provide cost-to-complete data, providing data on all projects over \$6.5 million which equaled 151 projects. That plan, however, was not efficiently tracked until recently, after a second assessment team traveled to Iraq in August to reenergize the data collection effort. IRMO's recent efforts indicate that cost-to-complete data, effective as of September 30, 2005, will be available on October 15, 2005. To date, cost-to-complete data has not been reported in the Section 2207 Report, notwithstanding the statutory requirement to report such. IRMO has responded to SIGIR concerns about the lack of cost-to-complete data by developing a plan to provide it. This cost-to-complete data will provide important project visibility essential for reconstruction management to enhance project budgeting and will allow the assessment of the likelihood of cost-overruns.

## **Availability of Cost-to-Complete Data and Status of Reports**

Our review found that cost-to-complete data is readily available from the contract performance status reports, which are required in all cost type construction contracts. Information in these reports includes total project budget, total costs incurred to date, and the estimated costs at completion. A cost-to-complete estimate is the difference between the costs incurred to date and the estimate at completion. Variances between cost-to-complete and remaining budget identify projected overruns/underruns for management action.

## **Project and Contracting Office**

In December 2004, IRMO contacted PCO about obtaining accurate cost-to-complete data. Concerns about obtaining complete cost-to-complete data reports prompted the Special Advisor to the Secretary of State on Iraq to deploy an assessment team to Iraq in February 2005 to assess availability of funds to complete projects. The Special Inspector General for Iraq Reconstruction had raised concerns about the lack of cost-to-complete data in January 2005, and SIGIR subsequently initiated an audit in March 2005, with the results reported in our July 26, 2005 report, "Cost-to-Complete Estimates and Financial Reporting for the Management of the Iraq Relief and Reconstruction Fund," Audit Report Number SIGIR-05-011. During that audit, the Project and Contracting Office (PCO) maintained it could not provide meaningful cost-to-complete estimates because: (1) project data was not sufficiently mature to develop reasonable estimates at completion; and (2) they could not consolidate information from their management information systems because the systems were not integrated. These limitations have since been overcome and PCO provided an official cost-to-complete report to IRMO on July 19, 2005. PCO is continuing to refine its cost-to-complete reporting processes to include non-construction projects in its August 2005 reporting.

## **Multi National Security Transition Command - Iraq**

On June 4, 2005, Multi National Security Transition Command -Iraq (MNSTC-I) informed us that they had a previous arrangement with the former IRMO Director exempting them from providing cost-to-complete data. MNSTC-I maintained that their total construction program required approximately \$5.0 billion of funding, \$3.7 billion in

excess of its IRRF construction apportionment. Since MNSTC-I would expend its entire IRRF apportionment and would address shortfalls with Department of Defense supplemental funding, they considered cost-to-complete reporting for IRRF funds meaningless. During our review, MNSTC-I agreed to provide IRMO with cost-to-complete reports beginning in September 2005.

### **U.S. Agency for International Development**

U.S. Agency for International Development's (USAID) \$2.9 billion apportionment provides \$1.5 for construction and \$1.4 for non-construction support to education, health care, food security, airport and seaport management, economic growth, community development, local governance, and transition initiatives. USAID's Supervisory Program Officer informed us that detailed information required in the contract performance status reports from its contractor provides readily available cost-to-complete information that would be provided to IRMO if requested.

### **Cost-To-Complete Report Data**

Program managers and the Congress require accurate, timely, and comprehensive information in order to make informed decisions involving mid-course programmatic adjustments that will insure the most effective use of IRRF resources. We were advised by IRMO officials that they will provide cost-to-complete data to the Office of Management and Budget (OMB) on October 15, 2005.

## **Management Actions**

During the course of this review, we recommended to IRMO that it take action to develop procedures for eliciting cost-to-complete information. IRMO agreed and commenced a series of discussions with PCO, USAID, and MNSTC-I to develop a formal process that will provide the necessary cost-to-complete reports on a monthly basis. IRMO now has in place a process for reporting cost-to-complete data and, as reported in the latest 2207 Report, IRMO stated that it would provide comprehensive cost-to-complete data by October 15, 2005.

We also recommended and came to an agreement with IRMO that the reports be consistent in format and content. Appendix B contains the data fields IRMO intends to populate for cost-to-complete reporting purposes together with IRMO's definitions for such data. These data fields were developed as a result of the discussions with officials from OMB, IRMO, and SIGIR during the course of this review.

## **Conclusion**

The three organizations responsible for IRRF projects—the Project and Contracting Office, the U.S. Agency for International Development, and the Multi-National Security Transition Command-Iraq—have been required, since January 2004, to report cost-to-complete information for their Iraq Relief and Reconstruction Fund projects in quarterly reports to the Congress. However, these organizations did not begin providing reasonably comprehensive cost-to-complete data to IRMO until recently. IRMO's recent efforts indicate that cost-to-complete data, effective as of September 30, 2005, will be available on October 15, 2005. We hope that future reports will include information on changes in project baselines due to reprogrammings, deobligations, and transfers among projects.

In sum, we are pleased that IRMO has made important progress in securing improved reporting on cost-to-complete data and has an action plan in place to provide such data on a continual basis. Finally, we hope that a formal cost-to-complete reporting policy will be in place soon.

## **Recommendation, Management Comments, and Audit Response**

**We recommend that the Director of the IRMO formalize its cost-to-complete action plan by issuing a formal policy that finalizes consistent procedures across all supporting IRRF organizations for the collection and compilation of the cost-to-complete information required by Section 2207 of Public Law 108-106.**

**Management Comments.** IRMO officials concurred with the recommendation, and provided more recent information on activities that had occurred since the preparation of a draft of this report.

**Audit Response.** We agreed and changed our report accordingly.

## Appendix A. Scope and Methodology

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In March 2005, we initiated an audit to determine whether the information systems used by U.S. government organizations result in effective and reliable program management information. This audit report is the third in a series of these information systems reviews. It discusses procedures and processes used to develop and report cost-to-complete estimates for Iraq Relief and Reconstruction Fund (IRRF) projects.

To gain an understanding of each entity's operations and processes for developing and reporting cost-to-complete information, we interviewed management personnel from IRMO, PCO, MNSTC-I, and USAID. We also reviewed organization charts and websites to obtain background information and responsibilities.

We met with IRMO management, PCO Project Management, USAID Directors, and MNSTC-I commanders to discuss the contractual requirements and agency methodologies used to determine project status and to calculate cost-to-complete estimates. We also held discussions with OMB and IRMO on management requirements of cost to complete. Appendix B represents the agreement of IRMO, OMB, and the Special Inspector General for Iraq Reconstruction as to the data fields needed to ensure complete and transparent reporting of cost to complete.

We reviewed available procedures, both formal and in-progress, that described the processes, methodology, responsibilities, documentation standards, and formats for cost-to-complete reporting.

We met with representatives from the Army Corps of Engineers-Gulf Region Division and the Air Force Center of Engineering Excellence to review contract management procedures. We also reviewed a judgmentally selected sample of contracts managed by each agency to understand cost-to-complete and earned value reporting processes.

We performed this audit from May 14, 2005 through September 30, 2005, in accordance with generally accepted government auditing standards.

**Use of Computer-Processed Data.** We did not use computer-processed data to perform this audit.

**Prior Coverage.** Special Inspector General for Iraq Reconstruction Audit Report Number SIGIR-05-011, dated July 26, 2005, "Cost-to-Complete Estimates and Financial Reporting for the Management of the Iraq Relief and Reconstruction Fund", included a review of PCO's input to the April 2005 Section 2207 Report and found that PCO did not provide cost-to-complete information to IRMO for the Section 2207 Report. PCO maintained that (1) project data was not sufficiently mature to develop reasonable estimates at completion; and (2) they could not consolidate information from their management information systems because they were not integrated.

## Appendix B. Cost-to-Complete Data Fields and Definitions of Reporting Terms

<b>Data Element</b>	<b>Data Element Definition</b>
URI	Unique Requirements Code
Project Number	Assigned Project Number
Project Name	Name of Project
Sector	2207 report sector
Sub-Sector	2207 sub-sector
Project Description	Name of project and a short description of it, including goal where possible (ie. Add 20 MWs, etc.)
Original Start Date	Original date when project was supposed to begin under the original PIF [project identification form] or original estimate
Actual Start date	Date by which project is currently scheduled to begin (the two different dates will help us to see schedule slips)
Original Target completion date	Original date by which project was to have been mechanically completed (when project was first designed)
Current projected completion date	Current date by which project is projected to be mechanically complete (the two different dates will help us to see schedule slips)
Design % Complete	Please specify the DESIGN % of the project complete, as measured against the baseline schedule, cost and scope
Build % Complete	Please specify the BUILD % of the project complete, as measured against the baseline schedule, cost and scope
Original PIF Value	Amount budgeted for project when the original PIF was completed (for the first 2207 report)
Most Recent Estimate Date	The date of the most recent estimate
\$ Value of Most Recent Budget Estimate	The dollar amount budgeted for the project, according to the most recent estimate (if no new estimate has been done from the original PIF, leave blank)
Definitized Yes/No Date of Definitization	Yes, if a project has been completely definitized

<b>Data Element</b>	<b>Data Element Definition</b>
Definitized Value	The dollar amount budgeted for the project, according to the definitization of the project
Estimate at completion	An estimate of what the project is expected to cost when completed.
Project Contingency \$ Used	Contingency (Y/N): Please specify whether the current project estimate (PIF, revised estimate or definitized amount) includes built-in contingency amount. If so, please specify the amount or percent (if percent, percent of what?)
Project Contingency \$ Amount	
Program Contingency \$ Used	Program Contingency: Specify any other program contingency (security, strategic, floating, etc.) that is not included in current project estimate but is allocated against each specific project. If such a contingency is not allocated by project, but by sector or administrative task order (ATO), add a separate line item to data call, labeling as a program contingency.
Associated close-out costs	Please give the current estimate of project close-out costs, or contract close-out costs that will be booked against each project.
Demobilization costs	Please give the current estimate of project demobilization costs, or contractor demobilization costs that will be booked against each project.
Project O&M Costs (\$ Amt)	Operational and maintenance costs
Committed to Date	Amount committed to project.
Obligated to Date	Amount of all contracts awarded to date
Disbursed to Date	Amounts disbursed to date

## **Appendix C. Acronyms**

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IRMO	Iraq Reconstruction Management Office
IRRF	Iraq Relief and Reconstruction Fund
MNSTC-I	Multi-National Security Transition Command-Iraq
OMB	Office of Management and Budget
PCO	Project and Contracting Office
PIF	Project Identification Form
SIGIR	Special Inspector General for Iraq Reconstruction
USAID	U.S. Agency for International Development

## **Appendix D. Report Distribution**

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### **Department of State**

Secretary of State

Senior Advisor to the Secretary and Coordinator for Iraq

U.S. Ambassador to Iraq

Director, Iraq Reconstruction Management Office

Inspector General, Department of State

### **Department of Defense**

Secretary of Defense

Deputy Secretary of Defense

Director, Defense Reconstruction Support Office

Under Secretary of Defense (Comptroller)/Chief Financial Officer

Deputy Chief Financial Officer

Deputy Comptroller (Program/Budget)

Inspector General, Department of Defense

### **Department of the Army**

Assistant Secretary of the Army for Acquisition, Logistics, and Technology

Principal Deputy to the Assistant Secretary of the Army for Acquisition,

Logistics, and Technology

Deputy Assistant Secretary of the Army (Policy and Procurement)

Director, Project and Contracting Office

Commanding General, Joint Contracting Command – Iraq/Afghanistan

Assistant Secretary of the Army for Financial Management and Comptroller

Chief of Engineers and Commander, U.S. Army Corps of Engineers

Commander, Gulf Region Division

Auditor General of the Army

### **U.S. Central Command**

Commanding General, Multi-National Force – Iraq

Commanding General, Multi-National Security Transition Command – Iraq

Commander, Joint Area Support Group – Central

### **Other Defense Organizations**

Director, Defense Contract Audit Agency

## **Other Federal Government Organizations**

Director, Office of Management and Budget

Comptroller General of the United States

Inspector General, Department of the Treasury

Inspector General, Department of Commerce

Inspector General, Department of Health and Human Services

Inspector General, U.S. Agency for International Development

Mission Director – Iraq, U.S. Agency for International Development

## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

### **U.S. Senate**

Senate Committee on Appropriations

Subcommittee on Defense

Subcommittee on State, Foreign Operations and Related Programs

Senate Committee on Armed Services

Senate Committee on Foreign Relations

Subcommittee on International Operations and Terrorism

Subcommittee on Near Eastern and South Asian Affairs

Senate Committee on Homeland Security and Governmental Affairs

Subcommittee on Federal Financial Management, Government Information and International Security

Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia

### **U.S. House of Representatives**

House Committee on Appropriations

Subcommittee on Defense

Subcommittee on Foreign Operations, Export Financing and Related Programs

Subcommittee on Science, State, Justice and Commerce and Related Agencies

House Committee on Armed Services

House Committee on Government Reform

Subcommittee on Management, Finance and Accountability

Subcommittee on National Security, Emerging Threats and International Relations

House Committee on International Relations

Subcommittee on Middle East and Central Asia

## **Appendix E. Audit Team Members**

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The Office of the Assistant Inspector General for Auditing, Office of the Special Inspector General for Iraq Reconstruction, prepared this draft report. The staff members who contributed to the report include:

James Carrera

Timothy Baum