

CHALLENGES FACED IN CARRYING  
OUT IRAQ RELIEF AND  
RECONSTRUCTION FUND  
ACTIVITIES

**SIGIR-05-029**  
**JANUARY 26, 2006**



## SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

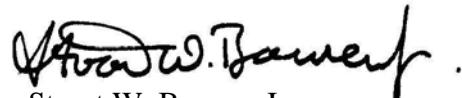
January 26, 2006

### MEMORANDUM FOR U.S. AMBASSADOR FOR IRAQ

**SUBJECT:** Challenges Faced in Carrying Out Iraq Relief and Reconstruction Fund Activities (SIGIR-05-029)

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.

This report does not contain recommendations; therefore no written response to this report is required. We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Clifton Spruill by email at [clifton.spruill@iraq.centcom.mil](mailto:clifton.spruill@iraq.centcom.mil) or at (703) 343-8817, or Mr. Glenn Furbish by email at [glenn.furbish@iraq.centcom.mil](mailto:glenn.furbish@iraq.centcom.mil) or at (703) 343-8817. For the report distribution, see Appendix M.



Stuart W. Bowen, Jr.  
Inspector General

# **Special Inspector General for Iraq Reconstruction**

**SIGIR-05-029**

**January 26, 2006**

## **Challenges Faced in Carrying Out Iraq Relief and Reconstruction Fund Activities**

### **Executive Summary**

This report discusses the challenges faced by the Department of State in directing and supervising Iraq Relief and Reconstruction Fund (IRR) program activities.

**Introduction.** On November 6, 2003 Congress appropriated \$18.4 billion for relief and reconstruction activities in Iraq, and allocated the funds to specific sectors of Iraqi infrastructure and governance. The allocations were based on project lists prepared by the Coalition Provisional Authority in the summer of 2003. In June 2004, the CPA transferred power to a sovereign Iraqi government and the Department of State, through its U.S. Mission in Iraq, assumed the duties and responsibilities of the CPA. On October 18, 2005, the Special Inspector General for Iraq Reconstruction (SIGIR) Stuart W. Bowen, Jr. testified before the House Government Reform Subcommittee on National Security, Emerging Threats, and International Relations. In this testimony, the Inspector General highlighted a growing area of concern—the reconstruction gap, or the difference between the number of projects that the United States originally proposed to build in Iraq and the number of projects that the United States will ultimately complete. This report discusses the scope and effect of this reconstruction gap.

**Objectives.** The objectives of this audit were to determine (1) the effectiveness of U.S. agencies in carrying out plans for Iraq reconstruction activities, and (2) to identify the reasons, if any, for changes in the plans.

**Results.** Although significant progress has been made in developing Iraq's infrastructure, the United States will not complete all of the projects it originally planned to construct through its Iraq Relief and Reconstruction program. For example, only 49 of 136 projects in the Water Resources and Sanitation sector will be completed, and only about 300 of 425 planned projects in the Electric sector will be completed. The completion of planned projects has been affected by a number of factors including:

- dramatically increased spending for security needs
- strategy changes as the Department of State has responded to the changing environment in Iraq
- needed increases in spending for sustainment
- the need to fund IRRF administrative expenses not considered in initial planning
- plans made without a clear understanding of actual situational conditions

Data are available on the impact of some, but not all, of these factors. For example, strategy changes have resulted in the reallocation of \$5.6 billion dollars in IRRF monies from their originally planned purposes; the unbudgeted administrative costs of the IRRF

implementing agencies has resulted in \$400.6 million in project changes; and unbudgeted sustainment costs have resulted in approximately \$425 million in project changes, with another \$350 million currently budgeted for additional sustainment activities. However, other factors, such as unforeseen security costs and unexpected conditions at many planned job sites, affected the projects but are less measurable. Table 1 shows changes between the CPA's original November 2003 IRRF allocations, its allocations as of October 2005, and some indication of how these factors have cumulatively impacted U.S. plans.

**Table 1: Iraq Relief and Reconstruction Funding Allocation Changes  
November 2003 to October 2005 (Dollars in millions)**

Sectors	Congressional Allocation November 2003	Current Allocation October 2005	Change in Dollars	Percent Change
<b>Sectors with Increases</b>				
Private Sector Development <sup>1</sup>	153.0	443.0	290.0	190%
--Iraq Debt Forgiveness	No allocation	352.3	352.3	
Justice, Public Safety Infrastructure & Civil Society	1,318.0	2,242.5	924.5	70.1%
Security & Law Enforcement	3,243.0	5,017.6	1,774.6	54.7%
Education, Refugees & Human Rights	280.0	363.0	83.0	29.6%
Transportation & Telecommunication	500.0	508.5	8.5	1.7%
Administrative <sup>2</sup>	No allocation	213.0	213.0	0.0%
<b>Sectors with Decreases</b>				
Water Resources & Sanitation	4,332.0	2,146.6	(2,185.4)	(50.4%)
Electric	5,560.0	4,309.8	(1,250.2)	(22.5%)
Oil Infrastructure	1,890.0	1,723.0	(167.0)	(8.8%)
Roads, Bridges & Construction	370.0	333.7	(36.3)	(9.8%)
Health Care	793.0	786.0	(7.0)	(<1.0%)
<b>Totals</b>	<b>18,439</b>	<b>18,439</b>	<b>(0.0)</b>	<b>0</b>

Source: SIGIR analysis of Department of State and Office of Management and Budget data.

<sup>1</sup>In September 2004, Private Sector Development received \$352.3 million for Iraq Debt Forgiveness.

Because debt forgiveness is not a program, it has been reported separately to provide a clearer picture on how sector programs changed.

<sup>2</sup>An additional \$601.3 million was used to cover FY2004 and 2005 operating expenses of the CPA and its successor, and the implementation costs of the implementing agencies. These costs are not identified and are spread across the sectors. Total FY2004-2005 administrative costs are actually \$785.3 million.

The Iraq reconstruction programs have shown tangible results; however, the large-scale program changes mean that some of the original goals will not be fully achieved in some sectors. As shown in Table 1, the Water Resources and Sanitation sector and the Electric sector incurred the largest reduction of funds. How this funding reduction affects the sectors' original plans is not entirely certain, however, because the CPA established broad sector goals and did not link individual projects to these goals. Moreover, there was a lack of detailed and accurate data on the actual status of some sectors before the start of reconstruction activity.

For example, a recent Government Accountability Office report on progress in the Water sector reported that the original CPA program planners did not have good data on the number of Iraqis with access to water before the war.<sup>1</sup> Similarly, Electric sector officials recently acknowledged that the CPA underestimated the decrepit state of Iraq's electric infrastructure before the war. In responding to the Government Accountability Office's report, the Department of State acknowledged its lack of metrics and responded that it was in the process of refining performance metrics in the water sector and in all other sectors. Because the Department of State was still working on this issue at the time of our audit, we focused our review on information in the Office of Management and Budget's and Department of State's Section 2207 Reports and interviews with sector officials. For the two sectors with the largest change, Water and Electric, we identified the following changes:

- Water Resources and Sanitation—about 60% of the originally planned water resource and sanitation sector projects were not implemented. Potable water projects and water pumping stations and generators retained the largest number of projects, while the sewerage sub-sector; the irrigation and drainage sub-sector; the major irrigation sub-sector; and the dams sub-sector had most of their projects terminated. Nonetheless, the Department of State currently reports that Iraq's water treatment capacity will be increased by 2.25 million cubic meters per day.
- Electric—The CPA originally planned for about 425 projects in the Electric sector, and will complete approximately 300. The largest change will occur in the generation sub-sector, which will only add about 2,109 megawatts of additional power rather than the originally planned 3,400 megawatts.

Additional analyses of how the original ten sectors and 67 sub-sectors have changed are in Appendices B through K of this report.

This report contains no recommendations because the Department of State is developing or refining metrics for all sectors in response to the Government Accountability Office's report on the Water Resources and Sanitation sector.

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<sup>1</sup> Rebuilding Iraq: U.S. Water and Sanitation Efforts Need Improved Measures for Assessing Impact and Sustained Resources for Maintaining Facilities; GAO-05-872, (Sep. 7, 2005).

# **Table of Contents**

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<b>Executive Summary</b>	i
<b>Introduction</b>	
Background	1
Objectives	2
<b>Findings</b>	
Challenges in Implementing the IRRF Program	3
Measures for Determining Project Impact	10
<b>Appendices</b>	
A. Scope and Methodology	11
B. Security and Law Enforcement Sector	12
C. Justice, Public Safety Infrastructure and Civil Society Sector	15
D. Electric Sector	18
E. Oil Infrastructure Sector	20
F. Water Resources and Sanitation Sector	21
G. Transportation and Communications Sector	24
H. Roads, Bridges, and Construction Sector	26
I. Health Care Sector	27
J. Private Sector Development Sector	28
K. Education, Refugees, Human Rights, and Governance Sector	29
L. Acronyms	31
M. Report Distribution	32
N. Audit Team Members	34

# **Introduction**

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## **Background**

On November 6, 2003, Congress enacted Public Law 108-106, the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan and appropriated a total of \$18.649 billion. An appropriation of \$18.439 billion was for security, relief, rehabilitation, and reconstruction in Iraq, and \$210 million was designated for assistance for Jordan, Liberia, and Sudan. The appropriation to Iraq, known as the Iraq Relief and Reconstruction Fund (IRRF), was allocated among 10 sectors of Iraqi infrastructure and governance. According to a Congressional report,<sup>2</sup> the provision of basic services, such as electricity, clean water, sewage treatment and disposal is urgently needed to give Iraqis hope for a better future.

From May 2003 to June 2004, the Coalition Provisional Authority (CPA), led by the United States and the United Kingdom, was the UN-recognized coalition authority that was responsible for the temporary governance of Iraq and for overseeing, directing, and coordinating the reconstruction effort. On June 28, 2004, the CPA disbanded and transferred power to a sovereign Iraqi government. When the CPA terminated, responsibility for the direction, coordination and supervision of all assistance for Iraq shifted to the U.S. Chief of Mission in Iraq, under the guidance of the Secretary of State.

Section 2207 of Public Law 108-106 requires the Director of the Office of Management and Budget (OMB), in consultation with the Administrator of the CPA, to submit a quarterly report to the Senate and House Committees on Appropriations, on the initial obligation of IRRF funds on a project-by-project basis, the distribution of duties and responsibilities regarding IRRF projects among the agencies of the U.S. government, funds provided by foreign governments and international organizations, and revenues from seized or frozen foreign assets. The Office of Management and Budget prepared these reports from January 2004 through July 2004. The U.S. Mission in Iraq, through its Iraq Reconstruction Management Office, has prepared the reports since October 2004.

### **Department of State (DoS) Program Responsibilities.**

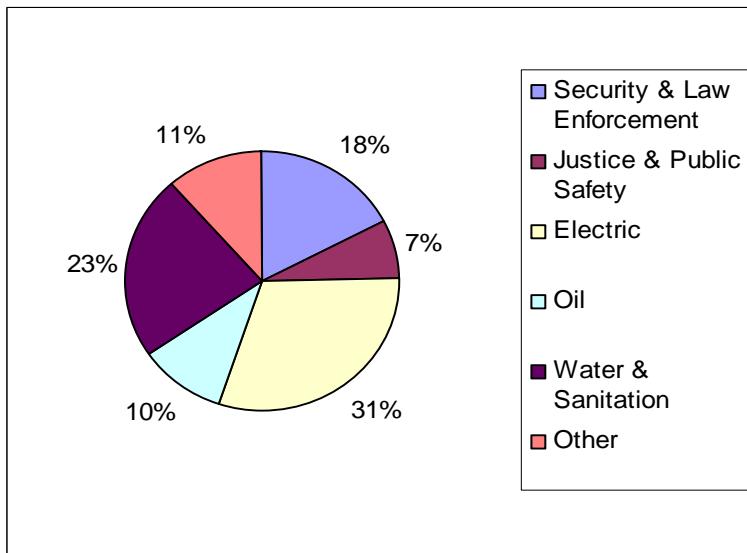
The U.S. Ambassador to Iraq is the DoS's Chief of the U.S. Mission in Iraq and is responsible for the continuous supervision and general direction of all assistance for Iraq according to National Security Presidential Directive 36, [United States Government Operations in Iraq, May 11, 2004](#). This includes the direction, coordination, and supervision of all United States government employees, policies, and activities in country, except those under the command of an area military commander. The DoS's activities to rebuild Iraq are primarily funded through the Iraq Relief and Reconstruction Fund as codified in Public Law 108-11 and Public Law 108-106.

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<sup>2</sup> House Committee on Appropriations Report 108-312, dated October 14, 2003.

**Funding by Sector.** Congress allocated the funds based in part on a request developed by the CPA. The funds were allocated among 10 sectors. The sectors and their allocations are shown below as a percent of the total IRRF allocation. Appendices B through K identify the allocations to the sub-sectors.

Figure 1: November 2003 Funding Allocations by IRRF Sector



Source: Office of Management and Budget and Department of State Section 2207 Reports

Although Public Law 108-106 allocated specific amounts to the 10 designated sectors of spending, it authorized the President to reallocate up to 10 percent of any of the allocations subject to the proviso that the total for the sector receiving such funds could not be increased by more than 20 percent. However, it also allowed one sector to be increased by an additional 20 percent in the event of unforeseen or emergency situations.

## Objectives

The objectives of this audit were to determine (1) the effectiveness of U.S. agencies in carrying out plans for Iraq reconstruction activities, and (2) to identify the reasons, if any, for changes in the plans.

# **Challenges in Implementing the IRRF Program**

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The United States faced significant challenges in planning and carrying out reconstruction activities in Iraq as evidenced by the large amounts of money that were reallocated between and within the various project sectors. The biggest change is reallocation to support development of Iraq's security forces. DoS officials have reported that the original CPA planners envisioned a much more permissive security environment than that experienced in 2004 and 2005. The Iraq insurgency has directly affected the cost of reconstruction projects, increased the cost of materials, and created project delays.

Security problems alone, however, are not responsible for all of the challenges DoS is facing in its reconstruction program. Other unforeseen problems, such as initial plans that were hurriedly put together with little knowledge of actual conditions at proposed project sites, needed increases in spending for sustainment, and the need to fund the administrative expenses of the IRRF implementing agencies and the U.S. Mission in Iraq have also utilized funds intended for projects. Both Congress and the Office of Management and Budget were well aware that the original slate of projects was likely to change. Congress gave the President the authority to reallocate money between sectors, and in each of its Section 2207 Reports to the Congress, the Administration has emphasized the need to maintain flexibility in its reconstruction plans.

## **Security Costs Have Been Higher Than Anticipated**

The cost of providing security for IRRF projects has been a significant contributor to program change, increasing costs by an estimated 9 percent over original budget estimates, to approximately 16 to 22 percent. The U.S. Agency for International Development and the Project and Contracting Office, two of the project implementing agencies, report that intimidation of local workers has delayed projects, while the insecure environment has driven away critically needed foreign technicians in the essential services sectors. As a result, security costs for private security forces protecting construction sites, workers, and convoys have increased dramatically, thereby significantly adding to reconstruction overhead costs.

While some projects have no security costs, others have significant costs. According to DoS, when the program was developed in 2003, the security environment in Iraq was much more permissive than that experienced in 2004 and 2005. DoS officials report that the CPA's original planning was based on the 2003 environment and thus assumed a much more permissive security environment; that is construction activities could be undertaken largely without interference from insurgent attacks on the facilities or intimidation of workers or authorities by insurgents.

While the cost of security depends upon the project type, location, and who is doing the work, the original budgeted cost for security was set at a nominal 8 percent to 13 percent of project estimates for large design-build projects. Because of the increase in insurgency activities, contractors have had to include better site protection, hardened vehicles for personnel transportation and trained security teams with special communications capability. In a May report, DoS stated that of \$9 billion allocated to the Project and Contracting Office for construction activities, approximately \$2 billion has been forecast as attributable to costs associated with security, or 22 percent. Of this \$2 billion, direct costs were estimated at \$1.46 billion (16 percent) and additional costs (the rework of damaged facilities, replacement of damaged materials, and construction delays) added an additional \$.56 billion (6 percent).

## **Strategy Changes Have Had a Large Impact on Iraq Plans**

The biggest change in IRRF plans has been the result of strategy changes as the CPA and its DoS successor responded to the changing Iraq environment. Altogether, we estimate that the CPA and DoS have reallocated \$5.6 billion in IRRF funding (30 percent of total IRRF dollars) between sectors in response to changing strategies and priorities as of September 30, 2005. The largest of these changes, known as the IRRF Strategic Spending Review, occurred in late summer of 2004 and reallocated \$3.46 billion between the sectors. Reallocations occurred both between sectors and within sectors, and reallocations occurred frequently. For example, we identified 185 separate funding reallocations between January 2004 and October 2005.

As we were preparing this report Ambassador Khalilzad, the current U.S. Ambassador to Iraq, designated an additional \$1 billion in IRRF funding to be held back to support DoS priorities as well as projects of the new Iraqi government. This report does not analyze or discuss this latest change in strategy.

**IRRF Strategic Spending Review.** As stated earlier, the CPA terminated on June 28, 2004, and IRRF program direction and supervision shifted to the U.S. Mission in Iraq under Ambassador Negroponte. Almost immediately, the Ambassador initiated an examination of the priorities and programs funded by the IRRF. According to DoS's October 2004 Section 2207 Report, the review was conducted in close consultation with the Iraqi government, and all U.S. government implementing agencies. The objective was to re-prioritize funding from projects that would not begin until mid to late 2005, and use those funds to target key high-impact projects, which would in turn support longer-term reconstruction efforts. The result was a plan to reallocate \$3.46 billion between sectors, focusing on improving security, increasing Iraqi employment, and supporting democratic transition in Iraq. This plan was announced to Congress on September 14, 2004.

Table 2 shows the changes resulting from the strategic review. As shown, the Security and Law Enforcement sector received the largest increase, with the Electric and the Water Resources and Sanitation sectors providing all of the funds.

**Table 2: Summary of Changes to Sector Allocations as a Result of the July 2004 IRRF Strategic Spending Plan Review (Dollars in millions)**

Sector	July 2004 Allocation	Increase	Decrease	October 2004 Allocation
Security & Law Enforcement	\$3,235.0	\$1,809.6		\$5,044.6
Justice, Public Safety Infrastructure, & Civil Society	1,484.0	460.5		1,944.5
Electric	5,464.5		(1,074.6)	4,390.0
Oil Infrastructure <sup>1</sup>	1,701.0	450.0	(450.0)	1,701.0
Water Resources & Sanitation	4,246.5		(1,935.6)	2,310.9
Transportation & Telecommunications	499.5			499.5
Roads, Bridges & Construction	367.5			367.5
Health Care	786.0			786.0
Private Sector Development <sup>2</sup>	183.0	660.0		843.0
Education, Refugees, Human Rights, Democracy & Governance	259.0	80.0		339.0
Administrative	213.0			213.0
<b>Total</b>	<b>\$18,439.0</b>	<b>\$3,460.1</b>	<b>\$(3,460.1)</b>	<b>\$18,439.0</b>

Source: DoS Section 2207 Report, October 5, 2004.

<sup>1</sup> The strategic review moved \$450 million between two project lines within the oil sector. As a result there is no net change in the amount of IRRF funds dedicated to the oil sector.

<sup>2</sup> This includes \$352.3 million for Iraq Debt Forgiveness.

**Other Strategy Changes Reallocated \$2.1 Billion.** Since January 2004 Congress has received eight quarterly reports on the planned use of funds made available for Iraq Relief and Reconstruction activities. In total, these reports have identified \$2.128 billion in IRRF fund reallocations as a result of strategy changes that are in addition to the \$3.460 billion discussed above. These reallocations were made from the earliest days of the IRRF reconstruction activity, with \$857 million moving between sectors between the time Congress enacted Public Law 108-106 on November 6, 2003, and the Office of Management and Budget's first Section 2207 Report in January 2004. Other changes occurred regularly thereafter with the second largest reallocation, \$504 million, occurring in December 2004 when DoS reallocated IRRF funds to address near-term needs of the Electric sector and to expedite delivery of essential services to four key post-battle cities.

Table 3 shows the amounts reallocated as reported in the Section 2207 quarterly reports. As stated, these reallocations are in addition to the \$3.46 billion reallocated by the IRRF Strategic Spending Plan Review.

**Table3: IRRF Fund Reallocations as a Result of Strategy Changes**

<b>Section 2207 Report</b>	<b>Amounts Reallocated as a Result of Strategy Changes</b>
January 2004	\$857 million
April 2004	\$179 million
July 2004	\$42 million
October 2004	\$50 million
January 2005	\$504 million
April 2005	\$356.5 million
July 2005	\$76.5 million
October 2005	\$63 million
<b>Total</b>	<b>\$2,128 million</b>

Source: OMB and DoS Section 2207 Reports.

**Reconstruction Priorities Changed Frequently.** The reallocation of the \$5.6 billion in IRRF funding (\$3.460 billion in the IRRF Strategic Spending Plan Review and \$2.128 billion in additional changes) was accomplished through 185 separate sub-sector funding changes, further illustrating the frequent changes under which the reconstruction programs operated. In the October 2005 Section 2207 Report, we identified 67 sub-sectors within the original 10 sectors, of which 11 were new sub-sectors that had been added since January 2004. Of the remaining 56 sub-sector, 18 (32 percent) had experienced cumulative funding changes (increases or decreases) greater than 50 percent of their original allocation. Eight additional sub-sectors (14 percent) had cumulative funding changes (increases or decreases) greater than 25 percent of their original allocation.

As shown in Table 4 below, the Private Sector Development sector received the largest percentage increase (190 percent) growing from \$153 million to \$443 million. The sector also received \$352.2 million to pay for the budget costs of forgiving approximately \$4 billion in bilateral debt that Iraq owes the U.S. Because debt forgiveness is not a Private Sector Development program, we have reported it separately to provide a clearer picture of the changes in that sector's programs. The Security and Law Enforcement sector received the largest dollar increase, gaining \$1.775 billion. The Justice, Public Safety, and Civil Society sector received the second largest percentage increase (70.1 percent) and the second largest increase in dollars of nearly \$925 million.

Sectors that incurred the biggest decreases were the Water Resources and Sanitation sector which was reduced from \$4.3 billion to \$2.1 billion (-50.4 percent), and the Electric sector, which was reduced from \$5.560 billion to \$4.309 billion (-22.5 percent).

**Table 4: Iraq Relief and Reconstruction Funding Allocation Changes  
November 2003 to October 2005 (Dollars in millions)**

Sectors	Congressional Allocation November 2003	Current Allocation October 2005	Change in Dollars	Percent Change
<b>Sectors with increases</b>				
Private Sector Development <sup>1</sup>	153.0	443.0	290.0	190.0%
--Iraq Debt Forgiveness	No allocation	352.3	352.3	
Justice, Public Safety Infrastructure, & Civil Society	1,318.0	2,242.5	924.5	70.1%
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Administrative <sup>2</sup>	No allocation	213.0	213.0	0.0%
<b>Sectors with decreases</b>				
Water Resources & Sanitation	\$4,332.0	\$2,146.6	\$(2,185.4)	(50.4%)
Electric	5,560.0	4,309.8	(1,250.2)	(22.5%)
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Health Care	793.0	786.0	(7.0)	(<1.0%)
<b>Totals</b>	<b>\$18,439</b>	<b>\$18,439</b>	<b>\$(0.0)</b>	<b>0</b>

Source: OMB and DoS Section 2207 Reports.

<sup>1</sup>In September 2004, Private Sector Development received \$352.3 million for Iraq Debt Forgiveness.

Because debt forgiveness is not an actual program, we have reported it separately to provide a clearer picture on how the sector changed.

<sup>2</sup>An additional \$601.3 million was used to cover FY2004 and 2005 program implementation costs and the FY2005 operating expenses of CPA's successor organization. These costs are not identified and are spread across the sectors. Total FY2004-2005 administrative costs are actually \$785.7 million.

## The Need for Large-Scale Sustainment Activities Was Not Foreseen.

In the October 30, 2005, SIGIR Quarterly Report to Congress, we discussed sustainment, or the ability of the Iraqi government to support IRRF-funded projects and facilities for an extended period of time after U.S. financial, managerial, and technical assistance is terminated. That report pointed out that the need to sustain projects after turnover to the Government of Iraq was largely unforeseen and activities to develop the capacity of the Iraqi government to support and budget for sustaining projects had not been included in the CPA's reconstruction plans. DoS had identified the problem, and two of its implementing agencies, the Project and Contracting Office and the U.S. Agency for International Development, had taken steps to prepare their projects for turnover to the

Iraqi government. At the time of our report, the two implementing agencies reported that they reallocated a combined \$425 million for sustainment and capacity building activities. Additionally, DoS budget officials identified an additional \$350 million in IRRF funds that could be used to pay for sustainment activities. According to a DoS budget official, as of January 9, 2006, the additional sustainment funds have been committed and are awaiting contract action.

## **Some IRRF Administrative Expenses Were Not Considered in Initial Plans**

Altogether, \$785.3 million in IRRF funding has been used to cover the administrative costs of the agencies implementing the IRRF program, and the operating expenses of the CPA and its successor organization. The use of these funds is authorized by the FY 2004 Supplement Appropriations Act. However, CPA planners did not factor \$400.6 million of these costs into their program and project plans. Consequently, the use of these funds has reduced the level of funding that can be provided for specific relief and reconstruction activities in Iraq, and altered U.S. plans.

The FY 2004 Supplemental Appropriations Act allowed agencies, other than the CPA, who are managing or administering IRRF funds, to use “up to 10 percent” of those funds to pay for administrative expenses, and allowed the CPA to take up to 1 percent of the appropriation to cover its operating expenses. In April 2004, the Office of Management and Budget (the agency writing the Section 2207 Report at the time) reported that it would be using this authority, and in July 2004 reported that \$290.4 million in IRRF funds would be used to cover fiscal year 2004 expenses of the five agencies implementing the IRRF. The Office of Management and Budget also reported that an additional \$184 million in IRRF funds would be used to cover the FY 2004 operating expenses of the CPA. In October 2004, DoS reported on how it intended to fund FY 2005 expenses. According to the report, \$94.3 million in IRRF funds would be used to cover the administrative expenses of three of the implementing agencies, and \$184 million in IRRF funds would be allocated to cover the operating expenses of the successor to the CPA. Finally, in July 2005 AID revised its security costs and received an additional \$32.6 million in IRRF funds. Thus, in Fiscal Years 2004 and 2005, \$785.3 million was allocated for IRRF administrative and operating expenses.

While the law permits IRRF funds to be used for administrative and operating expenses, \$400.6 million of these expenses, comprised of the \$184 million in FT2004 operating expenses, the \$184 million in FY2005 operating expenses, and the \$32.6 million transferred to USAID in July 2005, were not considered in developing the original September 2003 list of IRRF projects. According to the April 2004 Section 2207 Report, taking this money will “reduce slightly the level of funding that CPA and its successor can provide for specific relief and reconstruction projects in Iraq.” The specific sectors and sub-sectors that lost funding in FY2004 are identified in the July 2004 Section 2207 Report. The sectors and sub-sectors that lost funding to cover the FY 2005 administrative and operating expenses, however, are not identified in the October 2004 report. Instead, a DoS official told us the implementing agencies were permitted to allocate their share of the administrative expenses across their sectors and sub-sectors without identifying which sub-sectors lost money.

## **Initial Plans Were Imprecise**

The April 2005 Section 2207 Report states that the CPA had significantly underestimated the damage done to the basic infrastructure from decades of neglect and warfare and, as a result, more time and resources are required to stand-up and maintain systems than originally thought. The state of Iraq's infrastructure was further degraded by looting and sabotage following the war. One DoS sector advisor told us that the original CPA assessments had under-estimated the decrepit state of Iraq's infrastructure and overestimated the management capabilities of the Iraqi ministries. Obtaining more accurate information, however, would have been difficult prior to the end of combat operations. While we could not precisely determine costs associated with planning difficulties, the Section 2207 Reports contain numerous citations about unforeseen changes. Examples include:

- A port rehabilitation project in Umm Qasr had to spend money that was planned for other work on critical structural and pier side repairs of berths as a precursor to conducting dredging operations.
- The discovery of unexploded ordnance at Tallil Military Base prolonged the site preparation and construction there.
- Facilities planned to serve as headquarters for the Council of Judges, the Court of Cassation, and the Central Criminal Court of Iraq were deemed inappropriate due to ownership problems.
- After completing initial inspection of nearly half of the schools in nine provinces, the Ministry of Education revised its estimate of the number of schools needing rehabilitation from 930 to 1,047.

## **Measures for Determining Project Impact**

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The United State's reconstruction efforts have shown tangible results in improving the Iraqi infrastructure. However, the significant funding change means that many of the originally planned projects will not be completed. The biggest change will occur in two sectors; Water Resources and Sanitation, and Electric, which had funding reductions of 50 and 22 percent respectively. A precise measure of how these funding reductions affected the sectors' original goals is unavailable, however, because the CPA established broad goals for the sector, but did not link the individual projects to these goals.

Moreover, there is a lack of detailed and accurate baseline data on the actual status of these sectors prior to the start of reconstruction activity. The lack of detailed and accurate data was identified in a recent Government Accountability Office report on progress in the Water sector that reported that program planners did not have good data on the number of Iraqis with access to water before the war.<sup>3</sup> Similarly, a recent Electric sector report stated that the CPA underestimated the decrepit state of Iraq's electric infrastructure prior to the war. In responding to the Government Accountability Office's report, DoS acknowledged the lack of metrics and responded that it was in the process of refining performance metrics in the Water Resources and Sanitation sector and in all other sectors.

As a result, we will not be making a recommendation to establish or refine program metrics. Since at the time of this audit DoS was still working on this issue, we focused our review on information in OMB and DoS's Section 2207 Reports and interviews with key sector officials. For the two sectors with the largest change, Water Resources and Sanitation and Electric, we identified the following changes:

- Water Resources and Sanitation—about sixty percent of the originally planned water sector projects will not be completed. The potable water sub-sector and water pumping stations and generators sub-sector retained the largest number of projects, while the sewerage sub-sector, the irrigation and drainage sub-sector, the major irrigation sub-sector, and the dams sub-sector had most of their projects cancelled. Nonetheless, DoS reports that Iraq's water treatment capacity will be increased by 2.25 million cubic meters per day.
- Electric—DoS originally planned about 425 projects in the electric sector, and will complete approximately 300. The largest change will occur in the generation sub-sector, which will only add about 2,109 megawatts of additional power rather than the originally planned 3,400 megawatts.

For additional analyses of how the original ten sectors and sub-sectors have changed, see Appendices B through K.

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<sup>3</sup> Rebuilding Iraq: U.S. Water and Sanitation Efforts Need Improved Measures for Assessing Impact and Sustained Resources for Maintaining Facilities; GAO-05-872, (Sep. 7, 2005).

## **Appendix A. Scope and Methodology**

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We initiated this audit in October 2005 (Project No. SIGIR-2005-23). To determine the effectiveness of U.S. agencies in carrying out plans for Iraq reconstruction activities, we reviewed reports submitted to meet the requirements of Section 2207 of Public Law 108-106. These reports, which have been submitted every three months since January 2004, identify ten sectors of Iraqi infrastructure and governance, and identify how Iraq Relief and Reconstruction Funds (IRR) have been allocated between those sectors. The reports also identify any changes that have occurred in a sector's allocation since the previous quarter. We tracked these changes for a two year period to determine how funds moved between the sectors, and to identify, where possible, the reasons for the changes. We then identified the primary reasons for the changes, and aggregated the amount of funding moved for each of the primary reasons we had identified.

To identify reasons for changes in U.S. plans, we also reviewed the Section 2207 Reports. In the body of the Section 2207 Reports, reasons were generally given as to why funding changes were made. In our research to identify how and where funding moved to satisfy objective one of this report, we identified the sub-sectors that incurred funding changes greater than 25 percent. For each sub-sector with a change greater than 25 percent, we then looked up reasons for the change and summarized it for the report.

We conducted this audit between October 2005 and January 2006, 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.**

**SIGIR.** SIGIR reported on October 24, 2005, in "Managing Sustainment for Iraq Relief and Reconstruction Fund Programs" (SIGIR-05-022), that progress had been made in identifying the challenges of sustaining the IRRF projects. However, there is a growing recognition that the Iraqi government is not yet prepared to take over the near- or long-term management and funding infrastructure developed through the IRRF projects. We reported that we believe progress has been hampered by the absence of a centralized sustainment office with the authority and responsibility to manage this effort across the jurisdictional boundaries of the operating agency organizations. We identified the Iraq Reconstruction Management Office as the primary DoS entity involved in managing IRRF projects and deemed it responsible for coordinating sustainment. We made several recommendations that direction be provided for a common sustainment vision and to plan and manage sustainment activities.

**Government Accountability Office.** Rebuilding Iraq: U.S. Water and Sanitation Efforts Need Improved Measures for Assessing Impact and Sustained Resources for Maintaining Facilities; GAO-05-872, (Sep. 7, 2005).

## **Appendix B. Security and Law Enforcement Sector**

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The Security and Law Enforcement Sector Increased by \$1.775 Billion, or 54.7 Percent.

**Table5: Security and Law Enforcement Funding Allocation Changes November 2003 to October 2005 (Millions of Dollars)**

	Congressional Allocation November 2003	Allocation as of October 2005	Change	Percent change
<b>Security &amp; Law Enforcement</b>	<b>\$3,243.0</b>	<b>\$5,017.6</b>	<b>\$1,774.6</b>	<b>54.7%</b>
Police Training & Technical Assistance	950.0	1,808.4	858.4	90.4%
Border Enforcement	150.0	436.8	286.8	191.2%
Facilities Protection	67.0	53.0	(14.0)	(20.9%)
Iraqi Armed Forces Facilities	745.0	730.8	(14.2)	(1.9%)
Iraqi Armed Forces Equipment	879.0	628.6	(250.4)	(28.5%)
Iraqi Armed Forces Operations & Training	375.0	429.3	54.3	14.5%
Iraqi National Guard Operations and Personnel	58.0	224.6	166.6	287.2%
Iraqi National Guard Equipment	17.0	91.6	74.6	438.8%
Iraqi National Guard Facilities	Not identified	358.5	358.5	0.0%
Iraqi Security Forces Quick Response Program	Not identified	170.0	170.0	0.0%
Commander's Humanitarian Relief & Reconstruction Program	Not identified	86.0	86.0	0.0%

Source: OMB and DoS Section 2207 Reports.

The Security and Law Enforcement sector funds the establishment of trained Iraqi security forces under firm civilian control and imbued with respect for political and human rights. In terms of the funds available for sector activities, Security and Law Enforcement originally ranked third behind the Electric and Water Resources and Sanitation sectors. However, after two years the Security and Law Enforcement sector is now the largest sector, increasing by approximately \$1.8 billion over its original allocation (an increase of about 54.7 percent). Moreover, Security and Law Enforcement activities also received a \$5.7 billion appropriation through Public Law 109-13 to fund the provision of equipment, supplies, services, training, facility and infrastructure repair, renovation, and construction for Iraqi security forces, further illustrating the growing priority of U.S. projects and activities in this sector.<sup>4</sup> The Department of Defense controls this appropriation, known as the Iraq Security Forces Fund.

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<sup>4</sup> Public Law 109-13 Iraqi Security Forces Fund, (May 2005).

As shown in Table 5, there are eleven sub-sectors in this sector. Of these eleven sub-sectors, five had funding changes greater than 25 percent of their original allocation. The three sub-sectors that make up the Iraqi National Guard program registered the largest percentage increases, growing by a combined 800 percent (from \$75 million to \$600 million), while two of the sub-sectors in the police training program registered the largest dollar increases, increasing by about \$1.145 billion. The Iraqi Armed Forces decreased by \$211 million, although only one sub-sector, Iraqi Armed Forces Equipment, decreased by more than 25 percent. This decrease probably reflects the additional funding made available through the Iraq Security Forces Fund rather than any lessening in priority. Finally, two new sub-sectors were established, the Iraqi Security Forces Quick Response Program sub-sector in July 2005, and the Commander's Humanitarian Relief and Reconstruction Program sub-sector in October 2005. Both sub-sectors were created to provide a means to rapidly respond to emergent requirements.

DoS's broad goal in this sector was to establish four security organizations: the Iraqi Police Services, Border Police Services, the Facilities Protection Service, and the Iraqi Civil Defense Corps, and to establish the new Iraqi Army to provide for the legitimate territorial defense of Iraq. As of October 2005, DoS was reporting that both the Ministry of Defense and the Ministry of Interior have made substantial progress in developing their security forces, but continue to experience problems with their institutional capability to support fielded forces.

## **Sub-sectors That Changed by More Than 25 Percent**

**Police Training Increased \$858.4 Million, or 90.4 Percent.** The Police Training sub-sector increased by \$858.4 million or 90.4 percent. Creating a safe and secure environment is vital for the success of Iraq's reconstruction, and rebuilding the Iraqi police force is an important part of this goal. Some of the major changes in this sub-sector were (1) a decision to provide training and equipment for an additional 45,000 police (bringing the total number of trained Iraqi Police Service personnel to 135,000); (2) supporting construction and/or repair of over 650 police station facilities; (3) the creation of a Civil Intervention Force, a specialized organization designed to provide a national-level, high-end, rapid-response capability to counter large-scale civil disobedience and insurgency activities and the construction of nine bases to support the force; and (4) a decision to consolidate funding for construction of training academies and training equipment for the Iraqi Police Service, the Department of Border Enforcement, and the Facilities Protection Service in this line. A decision was also made to provide specialized police training (counter-terrorism, criminal investigations, intelligence, etc.) at a specialized training center in Baghdad.

**Border Enforcement Increased by \$286.8 Million, or 191.2 Percent.** The Border Enforcement sub-sector increased by \$286.8 million, or 191.2 percent. Some of the major changes in this sub-sector were (1) a decision to train and equip an additional 16,000 Border Enforcement personnel including border police, customs police, and immigration officials; and (2) the construction of 99 border forts and corresponding access roads as well as other border enforcement infrastructure such as regional training bases and their operating costs; and (3) the purchase of basic technology for control and screening at major ports of entry, including items such as x-rays, metal detectors, and grid sensors.

**Iraqi Armed Forces Equipment Decreased by \$250.4 Million, or 28.5 Percent.** The Iraqi Armed Forces Equipment sub-sector incurred a funding decrease of \$250.4 million,

or 28.5 percent of its original allocation. However, the Section 2207 reports do not identify any changes in plan as a result of the reallocation. Again, we believe that no effects are identified because of the availability of the \$5.7 billion Iraq Security Forces Fund.

**Iraqi National Guard Operations and Personnel Increased by \$166.6 Million, or 287.2 Percent.** The Iraqi National Guard Operations and Personnel sub-sector had a funding increase of \$166.6 million, or a 287.2 percent increase over its original allocation. The Iraqi National Guard, originally named the Iraqi Civil Defense Corps, is a constabulary force to assist coalition forces in bringing stability to Iraq. In conjunction with coalition forces, the Guard will conduct foot patrols, search for remnants of the former regime, and perform other civic duties. The increase is primarily attributable to a decision to increase the size of the force. The CPA's original plan called for creating 18 National Guard battalions. However, the plan underwent two major changes. In January 2004 a decision was made to create 36 battalions, and in October 2004, following Ambassador Negroponte's Strategic Review of IRRF spending, a decision was made to add an additional 20 battalions along with a National Guard Division and Brigade headquarters.

**Iraqi National Guard Equipment Increased by \$74.6 Million, or 438.8 Percent.** The Iraqi National Guard Equipment sub-sector increased by \$74.6 million, or 438.8 percent. The large scale increase in the size of the Iraqi National Guard created a commensurate increase in equipment costs.

**Iraqi National Guard Facilities Was Established as a New Sub-sector.** DoS did not identify Iraqi National Guard facilities as a separate sub-sector in its original plan. Rather, funding for the support of Guard facilities was identified as part of the operations and personnel program. As plans to increase the size of Guard force developed, a decision was made in October 2004 to construct supporting facilities. National Guard Facilities was established as a separate sub-sector, and \$358.5 million was made available for the sub-sector.

**Iraqi Security Forces Quick Response Program Was Established as a New Sub-sector.** The Iraqi Security Forces Quick Response sub-sector was established in July 2004 to allow the Multi-National Security Transition Command-Iraq to respond to emerging requirements, including force protection, facilities repair, communications equipment, and other needs of the various Iraqi security forces. The July 2004 report allocated \$40 million for the sub-sector, and in October 2004 and January 2005 an additional \$130 million was added.

**Commander's Humanitarian Relief and Reconstruction Program Was Established as a New Sub-sector.** The Commander's Humanitarian Relief and Reconstruction Program sub-sector was established in October 2004, to provide urgent, essential water and sewage services to Iraqi citizens with a primary focus on Baghdad. The sub-sector was funded at \$86 million and remains unchanged.

## **Appendix C. Justice, Public Safety Infrastructure, and Civil Society Sector**

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The Justice, Public Safety Infrastructure, and Civil Society Sector Increased By \$924.5 Million, or 70.1 Percent.

**Table 6: Justice, Public Safety Infrastructure, and Civil Society Funding Allocation Changes November 2003 to October 2005 (Millions of Dollars)**

	Congressional Allocation November 2003	Current Allocation October 2005	Change	Percent change
<b>Justice, Public Safety, &amp; Civil Society</b>	<b>\$1,318.0</b>	<b>\$2,242.5</b>	<b>\$924.5</b>	<b>70.1%</b>
Other Technical Investigative Methods	10.0	5.0	(5.0)	(50.0%)
Witness Protection Program	75.0	37.0	(38.0)	(50.7%)
Penal Facilities	100.0	87.0	(13.0)	(13.0%)
Reconstruction and Modernization of Detention Facilities	109.0	165.0	56.0	51.4%
Facilities Protection, Mine Removal, Fire Service	400.0	274.0	(126.0)	(31.5%)
Public Safety Training and Facilities	199.0	219.5	20.5	10.3%
National Security Communications Network	90.0	106.5	16.5	18.3%
Rule of Law in Iraq	Not identified	56.2	56.2	0.0%
Investigations of Crimes against Humanity	75.0	128.0	53.0	70.7%
Judicial Security and Facilities	150.0	159.0	9.0	6.0%
Democracy Building Activities	100.0	995.3	895.3	895.3%
U.S. Institute for Peace	10.0	10.0	0	0.0%

Source: OMB and DoS Section 2207 Reports.

The Justice, Public Safety Infrastructure, and Civil Society sector funds programs such as the protection of the judiciary, assistance for law enforcement personnel, and the reconstruction of penal institutions to international standards. The sector was initially the fourth largest in funding but has since moved ahead of Water Resources and Sanitation into third position. Overall, Justice, Public Safety and Civil Society sub-sectors have increased by \$924.5 million or 70.1 percent over their original allocation. Almost all of this increase occurred in one sub-sector, Democracy Building Activities, which funds activities intended to establish the democratic foundations of a new Iraq. As shown in

Table 6, there are 12 sub-sectors in this activity, of which 6 had funding changes greater than 25 percent of their original allocation. One new sub-sector, Rule of Law in Iraq, was added.

## **Sub-sectors That Changed by More Than 25 Percent**

### **Other Technical Investigative Methods Decreased by \$5 Million, or 50 Percent.**

Other Technical Investigative Methods was funded at \$10 million, but the CPA reduced sub-sector funding in January 2004 to \$5 million. The sub-sector supports the use of technical measures, such as recording devices, to develop prosecutable cases against terrorists and organized crime members. The reduction in this sub-sector was reported in OMB's first Section 2207 Report largely before program activity began.

### **Witness Protection Program Sub-sector Decreased by \$38 Million, or 50.7 Percent.**

The Witness Protection Program sub-sector lost approximately half of its funding, going from a \$75 million sub-sector to a \$37 million sub-sector. As with the Other Technical Investigative Methods sub-sector, the decision to reduce this sub-sector was made by the CPA in January 2004 before program activity began. The sub-sector supports the establishment of a witness protection program to allow victims as well as criminals who become government witnesses to testify without fear of being killed by the members of the organization against whom they are testifying.

### **Reconstruction of Detention Facilities Increased by \$56 Million, or 51.4 Percent.**

The Reconstruction of Detention Facilities sub-sector increased by \$56 million or 51.4 percent. Originally the plan was to reconstruct or modernize 25 adult facilities and one juvenile rehabilitation facility. This goal was later revised to provide for one large regional detention center instead of rehabilitating numerous facilities. Additionally, a decision was made to hire approximately 100 civilian contractors to serve as trainers and mentors for prison employees.

### **Facilities Repair, Fire Service, and De-mining Decreased by \$125 Million, or 31.5 Percent.**

Congress provided \$400 million for this sub-sector. Subsequently, \$125 million was transferred to other projects--a 31.5 percent decrease in funding. As with several other sub-sectors, the funds were reallocated by the CPA in January 2004, prior to program activity beginning.

**Rule of Law in Iraq Was Established as a New Sub-sector.** The Rule of Law in Iraq sub-sector is a new \$30 million sub-sector designed to provide rule of law training to judicial, prosecutorial, and attorney officials and staff, policy support for the Ministry of Justice and High Juridical Council, and assistance to increase public access to justice and legal assistance.

### **Investigations of Crimes against Humanity Office Increased by \$53 Million, or 70.7 Percent.**

The Investigations of Crimes against Humanity sub-sector increased by \$53 million, or 70.7 percent. Assistance for investigations of crimes against humanity includes (1) bringing in and supporting international investigators; (2) evidence handling; (3) local capacity-building; (4) prosecutorial and judicial support; (5) forensic support through evidentiary exhumations of mass graves; and (6) infrastructure and security for the Iraqi Special Tribunal. The \$53 million increase was needed to meet fiscal year 2005 costs to complete exhumation of four mass gravesites that are linked to a certain set of defendants whom the Iraqi Special Tribunal is expected to bring to trial.

**Democracy Building Activities Increased by \$895.3 Million, or 895 Percent.** The Democracy Building Activities sub-sector had the largest percentage growth of any Iraq Relief and Reconstruction Fund sub-sector, growing by 895 percent, or \$895.3 million. The sub-sector funds basic institutions essential to democracy such as assisting Iraq's highly centralized ministries to make the transition to a more decentralized power-sharing system; supporting civil society building and national civic education programs; and establishing core procedures and processes for the Governing Council. Congress provided \$100 million for this sub-sector. The CPA identified a need for additional funding almost immediately, adding \$359 million in January 2004 alone. According to the January 2004 Section 2207 Report, the CPA and the Iraqi Governing Council agreed to accelerate the transition to full Iraqi sovereignty. This accelerated transition required an increased emphasis on activities such as democracy-building. Some of the additional money funded conflict mitigation activities which spur short-term employment activities; support the development of local and provincial government; electoral technical assistance to the Independent Election Commission of Iraq in preparation for Iraq's Transitional National Assembly elections in January 2005; elections monitoring; and support for the Interim Government of Iraq.

## **Appendix D. Electric Sector**

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The Electric Sector Decreased by \$1.250.2 Billion, or 22.5 Percent.

**Table 7: Electric Sector Funding Allocation Changes  
November 2003 to October 2005 (Millions of Dollars)**

	Congressional Allocation November 2003	Allocation as of October 2005	Change	Percent change
<b>Electric Sector</b>	<b>\$5,560.0</b>	<b>\$4,309.8</b>	<b>\$1,250.2)</b>	<b>(22.5%)</b>
Generation	2,810.0	1,607.8	(1,202.2)	(42.8%)
Transmission	1,550.0	1,241.6	(308.4)	(19.9%)
Network Infrastructure	1,000.0	1,289.4	289.4	28.9%
Automated Monitoring & Control System	150.0	127.0	(23.0)	(15.3%)
Security	50.0	44.0	(6.0)	(12.0%)

Source: OMB and DoS Section 2207 Reports.

The Electric Sector funds new generation capacity, the rehabilitation of some existing generating units, and the reconstruction of most high-voltage transmission lines. Immediately following the war, the electrical power infrastructure of Iraq was in perilous condition. Early coalition efforts restored power generation to the same level as available before the war. However, the system is inadequate to meet Iraq's growing demand and lacks any measure of reliability. Blackouts, unplanned outages and other failures continue to occur on a frequent basis. The Electric sector was originally the largest sector in terms of funding, but presently ranks second behind Security and Law Enforcement, having lost \$1.25 billion in funding. As shown in Table 7, there are 4 sub-sectors in this sector: Generation, Transmission, Network Infrastructure, and Security. The majority of change in this sector occurred in the Generation sub-sector, which lost \$1.2 billion.

### **Sub-sectors That Changed by More Than 25 Percent**

**Generation Decreased by \$1.2 Billion, or 42.8 Percent.** The Generation sub-sector experienced the second largest funding decrease of all Iraq Relief and Reconstruction sub-sectors, losing \$1.2 billion, or 42.8 percent of its original allocation. Initially, the U.S. goal was to create a system that could generate 6,000 megawatts of power daily; an increase of 3,400 megawatts. The plan entailed building 12 new generation plants that would produce an additional 1,685 megawatts of power, and 12 rehabilitation and maintenance projects that were expected to add an additional 1,144 megawatts. This was later reduced to a goal of increasing power generation by 2,109 megawatts instead of 3,400 megawatts. This change, announced to Congress in September 2004, was part of Ambassador Negroponte's Strategic IRRF Review whose objective was to re-prioritize funding from projects not beginning until mid to late 2005 and use these funds to target key high-impact projects, which would, in turn, support longer-term reconstruction efforts. The plan reallocated \$1.046 billion from Generation. The cuts include four gas powered stations in Anbar, Basra, Al-Methane and Dados; a diesel power plant in Babylon; and Baja steam turbines 4 and 5 in Salah-Ad Din.

**Network Infrastructure Increased by 289.4 Million, or 28.9 Percent.** The distribution network sub-sector was funded by Congress at \$1.0 billion and received an additional \$289.4 million in funding, a 28.9 percent increase. Distribution networks deliver power carried over the transmission networks to local areas. The distribution networks were relatively unaffected by the recent war but were in a highly deteriorated condition beforehand. Equipment is operating without adequate electrical protection and is generally overloaded. The distribution network program includes the construction of over 150 new or rehabilitated 33 kilovolt substations, and several hundred 11 kilovolt substations countrywide. The additional funding was principally added to support electrical distribution in Fallujah, Najaf, and Sadr City as part of a \$246 million post-battle reconstruction initiative.

## **Appendix E. Oil Infrastructure Sector**

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The Oil Infrastructure Sector Decreased by \$167 Million, or 8.8 Percent.

**Table 8: Oil Infrastructure Funding Allocation Changes November 2003 to October 2005 (Millions of Dollars)**

	Congressional Allocation November 2003	Allocation as of October 2005	Change	Percent change
<b>Oil Infrastructure</b>	<b>\$1,890.0</b>	<b>\$1,723.0</b>	<b>\$(167.0)</b>	<b>(8.8%)</b>
Infrastructure	1,200.0	1,697.0	497.0	41.4%
Emergency Supplies of Refined Petroleum Products	690.0	26.0	(664.0)	(96.2%)

Source: OMB and DoS Section 2207 Reports.

The Iraqi oil infrastructure was damaged at the beginning of the war and extensively looted soon afterwards. Oil is the most abundant natural resource in Iraq and the mainstay of the Iraqi economy. There are two sub-sectors in the Oil Infrastructure sector: Infrastructure and Emergency Supplies of Refined Oil Petroleum Products. As shown in Table 8, the Infrastructure sub-sector increased by \$497 million while the Emergency Supplies of Refined Petroleum Products sub-sector was essentially eliminated.

### **Sub-Sectors That Changed by More Than 25 Percent**

**Infrastructure Increased by \$497 Million, or 41.4 Percent.** The Infrastructure sub-sector funds (1) the repair of the oil infrastructure, (2) projects to counter the terrorist threat to protect the current investments, and (3) projects to compensate for losses that are a direct result of previous terrorist attacks. Once production is stabilized, funds will then be used to continue to improve the Iraqi petroleum production systems with the ultimate goal of restoring pre-war capacity levels of about 3 million barrels per day. The program grew by \$497 million, or 41.1 percent, over its original allocation. Approximately \$450 million of the increase occurred as a part of Ambassador Negroponte's IRRF Strategic Spending Review in October 2004. The additional investment is targeted to increase Iraqi oil production and will be used to cover cost overruns on previously started projects, caused in part by the large number of pipelines sabotaged.

**Emergency Supplies of Refined Petroleum Decreased by \$664 Million, or 96.2 Percent.** The Emergency Oil Supply sub-sector's funding was essentially terminated, incurring a \$664 million reduction, or 96.2 percent of its original funding. Originally the sub-sector was created because war damage, looting, poor maintenance, and sabotage had created interruptions to the flow of crude to the refineries. Difficulties due to outdated technology and poor maintenance at the refineries themselves and interruptions to the flow of refined products to the cities further added to the need to import petroleum products. Before the program began, however, the CPA decided to use Iraqi budget resources for these needs. Consequently, the money was moved primarily to the oil infrastructure sub-sector.

## Appendix F. Water Resources and Sanitation Sector

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The Water Resources and Sanitation Sector Decreased by \$2,185.4 Billion, or 50.4 Percent.

**Table 9: Water Resources and Sanitation Funding Allocation Changes November 2003 to October 2005 (Millions of Dollars)**

	Congressional Allocation November 2003	Allocation as of October 2005	Change	Percent change
<b>Water Resources &amp; Sanitation</b>	<b>\$4,332.0</b>	<b>\$2,146.6</b>	<b>\$(2,185.4)</b>	<b>(50.4%)</b>
Potable Water	2,830.0	1,483.0	(1,347.0)	(47.6%)
Water Conservation	30.0	31.0	1.0	3.3%
Sewerage	675.0	234.7	(440.3)	(65.2%)
Other Solid Waste Management	22.0	10.9	(11.1)	(50.5%)
Pumping Stations & Generators	150.0	123.0	(27.0)	(18.0%)
Irrigation & Drainage Systems	130.0	38.4	(91.6)	(70.5%)
Major Irrigation Projects	130.0	53.4	(76.6)	(58.9%)
Dam Repair, Rehabilitation, & Construction	125.0	61.5	(63.5)	(50.8%)
Umm Qasr to Basra Water Pipeline & Treatment Plant	200.0	110.7	(89.3)	(44.7%)
Basra Channel Flushing	40.0	0	(40.0)	(100.0%)

Source: OMB and DoS Section 2207 Reports.

The Saddam regime's misuse and mismanagement of Iraq's water resources left large sections of the country with polluted water, saline-saturated croplands and malfunctioning or missing water supply and sewage control facilities. Clean water resources were extremely limited and were a high priority to sustain stability in the country and ensure long-term economic growth and preservation of life. The Water Resources and Sanitation sector addresses these needs. The sector consists of ten sub-sectors meant to increase public access to potable water and waste management systems; manage Iraq's water resources; and irrigate Iraq's farmland. While the significance of projects within this sector remains high, the sector has incurred the largest reduction in funding of any sector, losing \$2.185 billion, or 50.4 percent of its original allocation. In terms of size, the sector has fallen from the second largest sector in November 2003, behind only the Electric Sector, to the fourth largest sector, behind Security and Law Enforcement; Electric; and the Justice, Public Safety Infrastructure, and Civil Society sectors.

## **Sub-Sectors That Changed by More Than 25 Percent**

**Potable Water Decreased by \$1.347 Billion, or 47.6 Percent.** In January 2004, about 40 percent of the population of Iraq lacked access to safe, clean water. The goals of the potable water sub-sector were to bring new potable water access to an additional 15 percent (about 4 million people) and to raise the quantity and quality of potable water access to generally accepted minimum international standards for another 15 percent of the Iraqi population. Therefore, projects were expected to benefit an additional 8 million people. As shown in Table 9, the potable water program was funded at \$2.830 billion, but lost \$1.343 billion, or 47.6 percent of its original allocation. According to a DoS official, approximately 57 projects were cut or deferred. The effect these project cuts had on the water sector's goals, however, is difficult to measure.

According to a September 2005 Government Accountability Office report, the CPA's goals for providing essential services in Iraq were unrealistic because they were set without having baseline data on the condition of Iraq's water and sanitation infrastructure.<sup>5</sup> Additionally, there is a lack of sound performance data and measures for gauging progress, such as measures of water quality and water metering systems that can measure water availability. In the absence of such measures, program officials track the number of projects started and completed. For example, DoS officials report that they currently have 27 IRRF-funded potable water projects planned or completed. Altogether, Water Sector officials project that an additional 2.75 million Iraqis will be served by U.S. funded potable water projects.

**Sewerage Decreased by \$440.3 Million, or 65.2 Percent.** Problems similar to those discussed in the potable water sub-sector also existed in the sewerage sub-sector. As shown in Table 9, the Sewerage sub-sector has lost \$440.3 million of its funding, a 65.2 percent decrease. Before the war, there were only 9 sewage treatment plants in 8 of the 15 southern governorates. Even where sewer lines existed, broken lines and components were a major health hazard throughout the country. There was standing sewage in hundreds of municipalities, often in or next to schools, clinics, or public food markets. There are about 250 cities in Iraq, with only 6 percent of the population covered by treatment plants; the rest of the population depends on individual septic tanks and other means of disposal, which are often highly unsanitary. The CPA's initial goal was to increase the sewerage service in cities by 5 percent to 11 percent of the population. However, as with water there is a lack of measures of both pre-war access to sewerage systems and how U.S. projects have improved the availability of sanitation services. Only two of ten originally planned projects will be completed. Nonetheless, DoS officials believe that approximately 4.5 million additional Iraqis are being served by U.S. funded sewerage projects.

**Other Solid Waste Management Decreased by \$11 Million, or 50 Percent.** The Other Solid Waste Management sub-sector consisted of one project that was terminated because geotechnical testing on the proposed site determined the water table was unacceptably close to the surface; there was a lack of secure access to the site; and squatters were still living on the property. Congress allocated \$22 million for this project, and some equipment was purchased before the project was terminated. The purchased equipment will be turned over to the Kirkuk Governorate for use at their new landfill facility.

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<sup>5</sup> Rebuilding Iraq: U.S. Water and Sanitation Efforts Need Improved Measures for Assessing Impact and Sustained Resources for Maintaining Facilities, GAO-05-872, (Sep. 7, 2005).

**Irrigation and Drainage Systems Decreased by \$92 Million, or 70.5 Percent.** The Irrigation and Drainage sub-sector envisioned three projects to rehabilitate old operating irrigation and drainage systems to improve water use efficiency and water quality, however, the program was largely terminated. The existing systems needed major rehabilitation to improve the efficiency and reliability of water use, and the goal was to allow the irrigation of 900,000 hectares.<sup>6</sup> Approximately \$92 million of the originally allocated \$130 million was reallocated to higher priority projects, and the one remaining project was de-scoped to engineering and design studies only.

**Major Irrigation Projects Decreased by \$76.6 Million, or 58.9 Percent.** The Major Irrigation Projects program envisioned five projects to complete the construction of major, ongoing irrigation and drainage projects. This was largely dropped, and only one of the five projects will be undertaken, and this project has been de-scoped to an engineering and design study only. Congress allocated \$130 million for the five projects, and the current budget forecast is \$53.4 million will be spent; a reduction of \$76.6 million.

**Dam Repair, Rehabilitation, and New Construction Decreased by \$63.5 Million, or 50.8 Percent.** The original goal of the Dam Repair Rehabilitation, and New Construction sub-sector was to construct six new dams in three governorates needed to provide water for villages and livestock; and to repair six dams with critical safety issues. Ultimately, only one repair project was completed. Engineering and design studies were completed for three other projects. Congress funded this program at \$125 million, but only \$61.5 million is currently budgeted, a 50.8 percent reduction.

**Umm Qasr/Basra Water Supply Project Decreased by \$89.3 Million, or 44.7 Percent.** Congress allocated \$200 million for the Umm Qasr/Basra Water Supply Project, but the CPA almost immediately adjusted its cost estimate for this project to \$114 million. The project entails maintenance to the canal that provides water to the city of Basra. The project is ongoing.

**Basra Channel Flushing Decreased by \$40 Million, or 100 Percent.** The Basra Channel Flushing sub-sector was a \$40 million program to flush canals extending throughout the city of Basra of stagnant water and debris. The program was dropped when the Interim Iraqi government decided to complete the work using its own resources.

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<sup>6</sup> A hectare is a metric unit of area equal to 2.471 acres.

## **Appendix G. Transportation and Communications Sector**

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The Transportation and Communications Sector Increased by \$8.5 Million, or 1.7 Percent.

**Table 10: Transportation and Communications Funding Allocation Changes November 2003 to October 2005 (Millions of Dollars)**

	Congressional Allocation November 2003 <sup>1</sup>	Allocation as of October 2005	Change	Percent change
<b>Transportation &amp; Communications</b>	<b>\$500.0</b>	<b>\$508.5</b>	<b>\$8.5</b>	<b>1.7%</b>
Civil Aviation	115.0	113.7	(1.3)	(1.1%)
Umm Qasr Port Rehab	40.0	45.0	5.0	12.5%
Railroad Rehab & Restoration	210.0	189.3	(20.7)	(9.9%)
Iraq Telecom & Postal Corporation	20.0	20.0	0	0.0%
Iraqi Communications Systems	90.0	45.5	(44.5)	(49.4%)
Consolidated Fiber Network	Not identified	70.0	70.0	0.0%
Iraqi Communications Operations	25.0	25.0	0	0.0%

Source: OMB and DoS Section 2207 Reports.

Note<sup>1</sup>: Congress reduced funding for transportation and communications sector programs by \$280 million but did not identify which sub-sectors should be reduced. Consequently, we used the CPA's January 2004 allocation as our starting point.

The Transportation and Communications sector has changed very little from its original allocation. Funding changes shown in the table largely represent the removal of the Consolidated Fiber Network project from the Iraqi Communications Systems sub-sector, in order to establish it as an independent sub-sector. Other sub-sectors are identified as essential for Iraq to make a transition to a functioning market based economy, such as increasing cargo handling volume and speed, increasing the effective capacity of the railroad, and enabling passenger and cargo traffic at Iraq's three main airports. The sector was funded at \$500 million and received a modest \$8.5 million (1.7 percent) increase in funding.

### **Sub-sectors That Changed by More Than 25 Percent**

**Iraq Communications Systems Decreased by \$44.5 Million, or 49.4 Percent.** The Iraq Communications Systems sub-sector decreased by \$44.5 million. However, the bulk of this change was the result of transferring the consolidated fiber network project into its own sub-sector line in order to consolidate and eliminate redundancies from three project codes that had separate fiber optic networks planned. Other projects in this sector are new switching and transport systems for wide-area voice and data traffic.

**Consolidated Fiber Network Was Established as a New Sub-sector .** The Consolidated Fiber Network project was removed from the Iraqi Communications Systems sub-sector and established as a new independent sub-sector. Funding was set at \$70 million; \$44 million of which came from the Iraq Communications Systems program. The sub-sector consolidates three separate fiber optic projects and eliminates redundancies. When completed, the network will provide a communications network that will support the electricity, railroad, and telecommunications sectors.

## **Appendix H. Roads Bridges and Construction Sector**

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The Roads, Bridges, and Construction Sector Decreased by \$36.3 Million, or 9.8 Percent.

**Table 11: Roads, Bridges, and Construction Funding Allocation Changes November 2003 to October 2005 (Millions of Dollars)**

	Congressional Allocation November 2003	Allocation as of October 2005	Change	Percent change
<b>Roads, Bridges, and Construction</b>	\$370.0	\$333.7	\$(36.3)	(9.8%)
Public Building Construction & Repair	130.0	127.0	(3.0)	(2.3%)
Roads & Bridges	240.0	206.7	(33.3)	(13.9%)

Source: OMB and DoS Section 2207 Reports.

The Roads, Bridges, and Construction sector changed very little, decreasing by only \$36.3 million. Sector projects include the reconstruction and rehabilitation of public buildings to include four ministry headquarters buildings and the rehabilitation of 60 school buildings. It will also fund a small portion of Iraq's overall requirement for road and bridge improvements. As shown in Table 11, there are two sub-sectors in this sector; Public Building Construction and Repair, and Roads and Bridges. Congress allocated \$370 million for the sector and it has incurred only a 9.8 percent change.

No Roads, Bridges, and Construction sub-sectors had a funding change of more than 25 percent.

## **Appendix I. Health Care Sector**

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The Health Care Sector Decreased by \$7 Million, or 1 Percent

**Table 12: Health Care Funding Allocation Changes  
November 2003 to October 2005 (Millions of Dollars)**

	Congressional Allocation November 2003	Allocation as of October 2005	Change	Percent change
<b>Health Care</b>	<b>\$793.0</b>	<b>\$786.0</b>	<b>\$(-7.0)</b>	<b>(&lt;1.0%)</b>
Nationwide Hospital & Clinic Improvements	443.0	439.0	(4.0)	(<1.0%)
Equipment Procurement & Modernization	300.0	297.0	(3.0)	(<1.0%)
Pediatric Facility in Basra	50.0	50.0	0	0.0%

Source: OMB and DoS Section 2207 Reports.

The Health Care sector incurred only minor changes in its funding. The sector funds improvements to the Iraqi health system, which had deteriorated as a result of years of neglect and mismanagement by Saddam's regime. The Congress allocated \$793 million to purchase needed medical equipment, repair and modernize 15 hospitals and construct new primary healthcare centers in every governorate, and train over 5,000 medical and other primary care staff to support the restoration of Iraq's health care system. As shown in Table 12, there are three sub-sectors in the Health Care sector, each of which maintained its funding. The \$7 million in funding that was reallocated occurred in July 2004 when money was withdrawn to cover the operating expenses of the U.S. mission in Iraq.

No health care sector sub-sectors had a funding change of more than 25 percent.

## **Appendix J. Private Sector Development Sector**

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The Private Sector Development Sector Increased by \$290 Million, or 190 Percent

**Table 13: Private Sector Development Funding Allocation Changes  
November 2003 to October 2005 (Millions of Dollars)**

	Congressional allocation November 2003	Allocation as of October 2005	Change	Percent change
<b>Private Sector Development<sup>1</sup></b>	<b>153.0</b>	<b>443.0</b>	<b>290.0</b>	<b>+ 190.0%</b>
Expand Network of Employment Centers	8.0	8.0	0	0.0%
Vocational Training <sup>2</sup>	63.0	75.1	12.1	19.2%
Business Skills Training <sup>1</sup>	37.0	37.0	0	0.0%
Micro-Small-Medium Enterprises	45.0	44.0	(1.0)	(2.2%)
Institutional Reforms	Not identified	80.0	80.0	0.0%
Agriculture	Not identified	100.0	100.0	0.0%
Market-Based Reforms	Not identified	98.9	98.9	0.0%
<i>Iraq Debt Forgiveness<sup>1</sup></i>	<i>Not identified</i>	<i>352.3</i>	<i>352.3</i>	<i>0.0%</i>

Source: OMB and DoS Section 2207 Reports.

<sup>1</sup>Section 2207 Reports show the sector received \$795.3 million. However, this includes \$352.3 million for Iraq Debt Forgiveness. Because Iraq Debt forgiveness is not an actual program, we excluded it from the total to provide a clearer picture of program change within the sector.

<sup>2</sup>Congress allocated \$100 million for training but did not identify how much was to go to vocational training and business skills training. We used information in the body of the Section 2207 report to make the allocation.

The Private Sector Development sector was originally intended to open employment centers to match the needs of the public and private sector. However, in September 2004 Ambassador Negroponte conducted a strategic review of spending plans to free up funds to target key high-impact projects and support longer-term reconstruction efforts. The Private Sector Development sector was a key recipient of those funds, and three new sub-sectors were created to encourage diversification in the Iraqi economy and to develop a competitive sector; Institutional Reforms; Agriculture; and Market-Based Reforms.

These programs received \$278.9 million. Additionally, Congress authorized the use of IRRF funds to pay for the budget cost of forgiving approximately \$4 billion in bilateral debt that Iraq owes the U.S. This brings the total change within this sector as a result of the strategic review to \$639 million. In our earlier tables, we subtracted Iraq Debt Forgiveness from the Private Sector Development totals, because Iraq Debt Forgiveness is not an actual program and including it skews the actual program changes that occurred within this sector.

Other than the three new sub-sectors added no Private Sector Development sub-sectors had funding changes greater than 25 percent.

## **Appendix K. Education, Refugees, Human Rights, and Governance Sector**

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The Education, Refugees, Human Rights, and Governance Sector Increased by \$83 Million, or 29.6 Percent.

**Table 14: Education, Refugees, Human Rights, and Governance Funding Allocation Changes November 2003 to October 2005 (Millions of Dollars)**

	Congressional Allocation November 2003	Allocation as of October 2005	Change	Percent change
<b>Education, Refugees, Human Rights &amp; Governance</b>	\$280.0	\$363.0	\$83.0	29.6%
Migration & Refugee Assistance	105.0	159.0	54.0	51.4%
Property Claims Tribunal	30.0	10.0	(20.0)	(66.7%)
Governance	Not identified	40	40	0.0%
Banking System Modernization	30.0	30.0	0	0.0%
Human Rights	15.0	15.0	0	0.0%
Education	90.0	99.0	9.0	10.0%
Civic Programs	10.0	10.0	0	0.0%

Source: OMB and DoS Section 2207 Reports.

Projects in this sector address a variety set of issues, including meeting the needs of refugees, reforming Iraq's banks, supporting the works of the Property Claims Commission, improving human rights, and supporting the development of education. As shown in Table 14, the sector consists of seven sub-sectors and experienced an overall gain of \$83 million, or a 29.6 percent increase. One new sub-sector, Governance, was created.

### **Sub-Sectors That Changed by More Than 25 Percent**

**Migration and Refugee Assistance Increased by \$54 Million, or 51.4 Percent.** The Migration and Refugee Assistance sub-sector received an additional \$70 million as a result of Ambassador Negroponte's IRRF Strategic Review in October 2004 to provide emergency relief assistance to over 100,000 Arabs and 50,000 Kurds, resettlement assistance to 300,000 Kurds, and establish a contingency capability to respond quickly to sudden population displacement due to violence or natural disasters. The sub-sector subsequently lost \$16 million, but no effect was identified in the Section 2207 Reports.

**Property Claims Tribunal Decreased by \$20 Million, or 66.7 Percent.** The original intent of this sub-sector was to create a process to resolve the many real property disputes created by the Arabization campaign and other confiscatory practices of Saddam's

regime. Iraq's Governing Council planned to create a Property Claims Commission to adjudicate the claims, and the U.S. planned to fund the establishment of offices, staffing, and equipment for the Commission, and contribute \$20 million for the compensation fund. A compensation fund, however, was included in the revised 2004 Iraqi budget, and the \$20 million was reallocated.

**Governance Was Established as a New Program .** Governance is a new \$40 million sub-sector whose focus is on building the capacity of parties, and coalitions of parties, to respond to the challenge of the first national elections of the post-Saddam era. DoS engaged with the National Endowment on Democracy, the International Republican Institute, and the National Democratic Institute for International Affairs to develop programs to support democratic political parties and to support the democratic political process leading up to the January 2005 elections and beyond.

## **Appendix L. Acronyms**

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CPA	Coalition Provisional Authority
DoS	Department of State
IRRF	Iraq Relief and Reconstruction Fund
SIGIR	Special Inspector General for Iraq Reconstruction

# **Appendix M. 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  
Commanding General, 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 N. Audit Team Members**

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This audit report was prepared and the audit work was conducted under the direction of Joseph T. McDermott, the Assistant Inspector General for Auditing, Office of the Special Inspector General for Iraq Reconstruction. The staff member who contributed to the report:

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