

Message from the Special Inspector General for Iraq Reconstruction

I am pleased to submit to the Congress the Quarterly and Semiannual Report of the Office of the Special Inspector General for Iraq Reconstruction (SIGIR). This Report complies with the reporting requirements of Public Law 108-106 and the Inspector General Act of 1978.

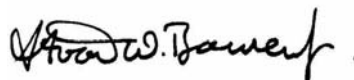
This is the first Report since our October 29, 2004 re-designation from the Coalition Provisional Authority Inspector General (CPA-IG) to the SIGIR. The uncertainty over the continuation of this office was resolved, and we are well on our way to reconstituting our capabilities to carry on this important and specialized oversight mission, now modified by law to focus on the programs and operations funded by the Iraq Relief and Reconstruction Fund (IRRF). This Report documents our progress since the October 30, 2004 Report and updates the status of reconstruction efforts with information from U.S. government entities engaged in Iraq. Contractual obligations of the IRRF have increased during this reporting period from 40.7% to 56.8%, and expenditures increased from 7.1% to 13.7%.

Even under the most favorable of conditions, rebuilding Iraq would be a job of daunting proportions. Security problems continue to be the most significant challenge to reconstruction progress. One cannot spend a day in Iraq without quickly gaining a profound respect for all engaged in this endeavor. Their work and sacrifice to rebuild Iraq make all the more crucial our success in promoting economy, efficiency, and effectiveness and in preventing fraud, waste, and abuse.

Among those engaged in this work in Iraq are SIGIR auditors, investigators, and administrative staff. I am proud of their professional accomplishments and personal dedication, as they work and live in extraordinarily dangerous conditions. Their record of achievement is superb. They continue to press ahead with our important mission, in the wake of a long period of uncertainty over the future of this office.

Without enactment of new law, our mission would have expired at the end of 2004, removing this independent, specialized oversight of Iraq reconstruction programs and operations. With the support of the Secretary of State and Secretary of Defense, to whom we now jointly report, the SIGIR is moving quickly to extend oversight of the entire investment made by America for the benefit of the Iraqi people.

Submitted on January 30, 2005.



Stuart W. Bowen, Jr.
Special Inspector General for Iraq Reconstruction

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1. Executive Summary

Overview

This is the first report of the new Office of the Special Inspector General for Iraq Reconstruction (SIGIR), which succeeded the Coalition Provisional Authority Inspector General (CPA-IG). The SIGIR is carrying on the work of the former CPA-IG with modified authorities. The CPA-IG provided oversight of the operations and programs of the Coalition Provisional Authority (CPA), and now the mandate of the SIGIR focuses on the programs and operations funded by the Iraq Relief and Reconstruction Fund (IRRF)¹. The SIGIR provides timely information to the Congress and the Secretaries of State and Defense.

In November 2003, the Congress created the CPA-IG by Public Law 108-106 (P.L. 108-106) to provide oversight of the CPA's operations and programs. Under this law, the CPA-IG worked to promote the efficient, legal, and effective use of billions of dollars of U.S. appropriated and other funds committed to Iraq relief and reconstruction by coordinating and conducting audits and investigations of the reconstruction effort. P.L. 108-375 re-designated the CPA-IG as the SIGIR on October 29, 2004.

The continuing insurgency remains the most significant challenge to the reconstruction of Iraq, according to the Department of State (DoS) Section 2207 Report of January 5, 2005. During this reporting period, the U.S. Mission Iraq continued to shift the focus of U.S. reconstruction efforts to address the need for improved security, to improve Iraq's economic and political environment, and to create jobs for Iraqis.

The shift began in September 2004, when the Administration's strategic spending plan review reallocated \$3.46 billion of the IRRF from the Electricity sector and the Water Resources and Sanitation sector to four other sectors. In December 2004, the U.S. Mission Iraq, in consultation with the Iraqi Interim Government, reprogrammed an additional \$457 million of IRRF funds to address Electricity sector projects that have exceeded initial cost estimates, and to boost short-term Iraqi employment through health, electricity, and water initiatives in Najaf, Samarra, Sadr City, and Fallujah. Together, the two adjustments reflect a significant change in U.S. spending priorities.

During this reporting period, Iraq's unsettled security environment continued to present grave risks for contractors and employees. As of December 31, 2004, claims have been filed for the deaths of 232 civilians working on U.S. contracts in Iraq

(both military and reconstruction), according to the Department of Labor. Since the SIGIR's October 30, 2004 Report, the number of death claims filed has increased by over 93%.

Security concerns also pose a challenge to the timely completion of reconstruction projects. According to the January 12, 2005 Project and Contracting Office report, 16.5% of IRRF construction projects in central Iraq and 14.8% in northern Iraq have been delayed for more than two weeks.

Amid the continuing insurgency, planning for Iraqi elections for the Transitional National Assembly (TNA) continued during this quarter. Once elected, the TNA will pursue these objectives:

- Serve as Iraq's national legislature until the election of a new government under a permanent constitution.
- Name a Presidency Council, comprising the President and two Deputy Presidents, which will appoint the Prime Minister.
- Draft Iraq's new constitution, which will be presented to the Iraqi people for their approval in a national referendum by October 15, 2005.

According to the DoS *Iraq Weekly Status* report of January 12, 2005, campaigning began on December 15, 2004, the voter registry contained more than 14.2 million names, ballots had been printed, 14 countries planned to host out-of-country voting, and the Independent Electoral Commission of Iraq planned to hire 194,000 poll workers.

SIGIR Status

When the CPA ceased operations on June 28, 2004, the termination clause for the CPA-IG was triggered, projecting the CPA-IG's closure on December 28, 2004. With only 7.1% of the \$18.4 billion IRRF disbursed by the end of FY 2005, however, there was a clear need for independent oversight to continue past December 28, 2004.

The Congress acted to continue reconstruction oversight with a provision in the FY 2005 Defense Authorization Act (P.L. 108-375), which re-designated the CPA-IG as the SIGIR. Among the provisions of the new law, the SIGIR now reports directly to the Secretary of Defense and Secretary of State and focuses oversight on the IRRF. On October 29, 2004, the President signed this law, which continues the organization's mission, powers, and authorities until ten months after 80% of the IRRF has been obligated.

Meanwhile, challenges to effective oversight continue in Iraq. The SIGIR has focused resources on high-value oversight issues to improve the Iraq reconstruction process. Since beginning operations in February 2004, the SIGIR has:

- initiated 23 audits and completed 15 final reports on the CPA's financial management, procurement practices, and management controls
- managed or coordinated 134 criminal investigations: 88 have been closed or referred to other U.S. agencies, and 46 remain open
- opened case files on 317 Hotline contacts received by email, telephone, and walk-in: 44 resulted in criminal investigations
- developed or pursued five strategic initiatives, including Lessons Learned/High-Risk Factors

During the last reporting period, the SIGIR continued its oversight work, with personnel in Baghdad and Washington, D.C., managing a reduction in staff in late 2004 that resulted from uncertainty about the organization's future. As of January 15, 2005, the SIGIR was operating with 39 staff members—9 in Baghdad and 30 in Washington, D.C.

The SIGIR staff reached a high of 63 people on July 31, 2004, and a low of 36 on January 3, 2005. The SIGIR is now increasing staff to meet the strategic objectives for the estimated 15-20 months continued operation. Also, the SIGIR uses contractor support in both Baghdad and Washington, D.C.

During this reporting period, the SIGIR:

- completed two audits and continued work on seven audits, with multiple audits in the planning stage
- closed or referred nine cases for investigation and opened 20 new cases
- received and processed 45 Hotline submissions and closed 25 cases in the United States and Iraq
- continued five SIGIR initiatives, including the Iraq Inspectors General Council (IIGC), Iraq Accountability Working Group (IAWG) in Baghdad, Reconstruction Lessons Learned/High-Risk Factors, Corporate Governance, and Security and Insurance
- installed a new investigative case management system and, to better coordinate with other law enforcement agencies, signed a memorandum of agreement with the Financial Crimes Enforcement Network to trace the financial trail of funds, financial activities, and financial assets information

Meeting the SIGIR Mission

To date, the SIGIR's organizational milestones include:

- deploying 35 auditors, investigators, and staff to Iraq and issuing the first comprehensive report to Congress on Iraq reconstruction within 45 days of becoming operational
- completing 15 audits within nine months, covering a broad range of Iraq reconstruction programs and CPA operational activities
- initiating the process to identify lessons learned and evaluate risk factors going forward for Iraq reconstruction
- making the transition from the CPA-IG to an interim structure after June 2004 without loss of management or operational continuity

Findings and Results

Since the October 30, 2004 Report, the SIGIR has issued two final reports of audits and continues work on seven ongoing audits. SIGIR investigators have opened 46 new cases and continue to work cases involving potential theft, procurement fraud, improper charging, and others.

These are summaries of the findings of two SIGIR audits during this reporting period:

- The CPA provided less than adequate controls for approximately \$8.8 billion of Development Fund for Iraq (DFI) funds provided to Iraqi ministries through the national budget process. The CPA did not establish or implement sufficient managerial, financial, and contractual controls to ensure that DFI funds were used in a transparent manner. Consequently, there was no assurance that the funds were used for the purposes mandated by United Nations Security Council Resolution 1483 (UNSCR 1483). UNSCR 1483 required that the DFI funds be used in a transparent manner to meet the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq's infrastructure, for the continued disarmament of Iraq, for the costs of Iraqi civilian administration, and for other purposes benefiting the people of Iraq.
- Kellogg Brown & Root, Inc., (KBR) did not provide the CPA with sufficiently detailed cost data to evaluate overall project costs or to determine whether specific costs for services performed were reasonable.

Neither the Logistics Civilian Augmentation Program (LOGCAP) III contract nor the associated Task Order 0044 required detailed cost data, and the LOGCAP contract was awarded to KBR even though the contractor did not have certified billing or cost-and-schedule reporting systems. As a result, the CPA did not receive sufficient or reliable cost information to effectively manage Task Order 0044. The SIGIR believes that Federal Acquisition Regulation Clause 52.216-26, Payments of Allowable Costs Before Definitization, should be enforced by the U.S. Army Field Support Command.

Report Objectives

This January 30, 2005 Report fulfills the requirements of the Inspector General Act of 1978 for semiannual reporting and of P.L. 108-106, as amended, for quarterly reporting to the Congress. The Report includes the following:

- a presentation of final audits completed and planned
- an overview of selected investigations and referrals
- updates on the SIGIR's five major initiatives: the Iraq Inspectors General Council, Iraq Accountability Working Group, Lessons Learned/High-Risk Factors, Corporate Governance, and Security and Insurance
- a narrative of reconstruction activities summarizing comments on legislation, and organization updates
- a detailed summary of Iraq funding data collected and analyzed by the SIGIR, including the sources and uses of funds
- key information on major Iraq reconstruction contracts

2. Special Inspector General for Iraq Reconstruction Activities

Overview

The Special Inspector General for Iraq Reconstruction (SIGIR) is the successor to the Inspector General of the Coalition Provisional Authority (CPA-IG). The redesignation and modification of authorities for the SIGIR were enacted in Public Law 108-375 (P.L. 108-375), the Ronald W. Reagan National Defense Authorization Act for FY 2005, on October 29, 2004. The Office of the CPA-IG was originally created by P.L. 108-106, the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004, to provide independent and objective oversight of the operations and programs under the Iraq Relief and Reconstruction Fund (IRRF). A copy of the amended statute is available in Appendix C.

The CPA-IG worked to oversee the activities of the Coalition Provisional Authority (CPA), which was responsible for Iraq's interim governance, rehabilitation, and reconstruction. The dissolution of the CPA and the transfer of governance authority to the Iraqi Interim Government, on June 28, 2004, triggered a provision of the law that required the CPA-IG to cease operations six months later, ostensibly on December 28, 2004. Through the passage of P.L. 108-375, the Congress acted to enable the CPA-IG to continue work as the SIGIR. Among the provisions of the new law, the SIGIR reports directly to the Secretaries of Defense and State and has oversight of the IRRF.

The SIGIR is required to report quarterly to the Congress on a set of specific matters related to the IRRF: Appendix A cross-references the pages and content of this Report that relate to these specific reporting requirements. The SIGIR is also required to report semiannually: Appendix B cross-references to the Inspector General Act of 1978. Most of the organization's activity during the past quarter focused on audits, investigations, initiatives, and the transition from the CPA-IG to the SIGIR. The following chapters provide details on these activities:

- **Chapter 3 – Audits:** summary of SIGIR audits completed, discontinued, current, and planned, as well as audits by other agencies
- **Chapter 4 – Investigations:** summary of investigations, activities coordinated with other federal agencies, and Hotline activity

- **Chapter 5 – SIGIR Initiatives:** summary of the Iraq Inspectors General Council, Iraq Accountability Working Group, Lessons Learned/High-Risk Factors, Corporate Governance, and Security and Insurance
- **Chapter 6 – Iraq Reconstruction Activities:** summary of highlights from organizations conducting Iraq reconstruction activities
- **Chapter 7 – Sources and Uses of Funding:** information about the sources, uses, and status of Iraq relief and reconstruction funding
- **Chapter 8 – Contracts:** data and analysis on Iraq reconstruction contracting activities

Duties

P.L. 108-106, as amended by P.L. 108-375, and the Inspector General Act of 1978 outline the duties of the SIGIR:

- Provide for the independent and objective conduct and supervision of audits and investigations of the programs and operations funded by the IRRF.
- 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 the programs and operations funded with amounts appropriated or otherwise made available to the IRRF.
- Prevent and detect fraud, waste, and abuse.
- Review relevant existing and proposed legislation and regulations and make appropriate recommendations.
- Maintain effective working relationships with other federal, state, and local governmental agencies, and non-governmental entities regarding the mandated duties of the Inspector General.
- Inform the Congress and the Secretaries of State and Defense of the necessity for and progress of corrective action.
- Comply with the audit standards of the Comptroller General, and avoid duplication of Government Accountability Office (GAO) activities.
- Report violations of federal criminal law to the U.S. Attorney General and report on the prosecutions and convictions that have resulted.
- Maintain records on the use of such funds to facilitate future audits and investigations of the use of such funds.
- Submit reports (Quarterly and Semiannual) to the Congress.

SIGIR Organization

The Office of the SIGIR succeeded the Office of the CPA-IG on October 29, 2004, the effective date of redesignation. As of January 15, 2005, the SIGIR had 39 auditors, investigators, and staff. In light of the recent reorganization, the SIGIR has accelerated the hiring, training, and deployment of auditors and investigators to Baghdad. To supplement staff efforts, the SIGIR uses contractual services.

The Office of the SIGIR is a unique organization within the inspector general community. A temporary organization with budgetary independence and a narrowly focused mission, the SIGIR addresses activities in a distant geographical location—beset with violence. The SIGIR must provide timely information to the Congress and the Secretaries of State and Defense about problems and deficiencies relating to the administration of Iraq reconstruction programs and operations and recommend corrective actions. The SIGIR organizational chart is shown in Figure 2-1.

SIGIR Organizational Chart, as of January 30, 2005

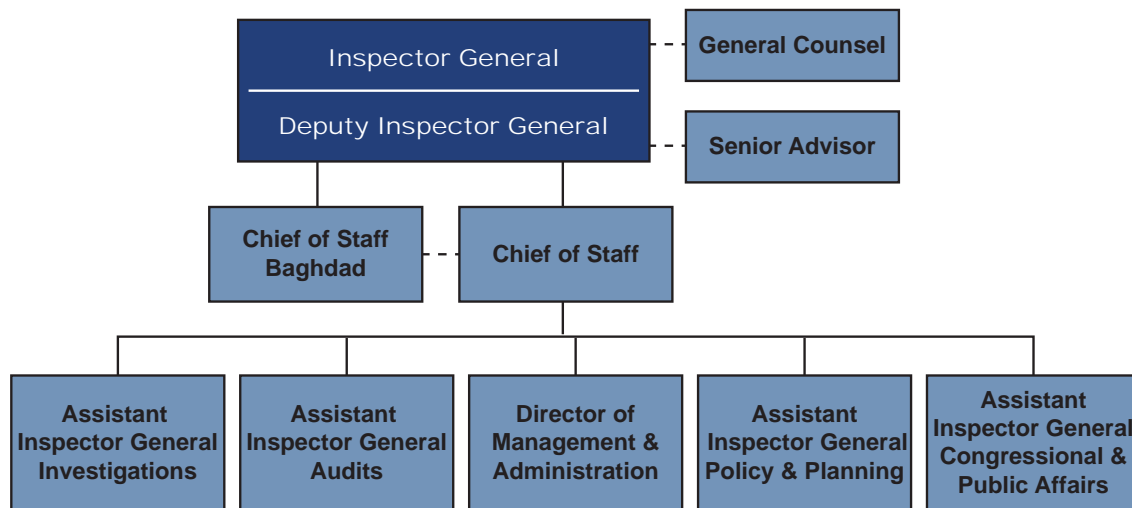


Figure 2-1

Accomplishments

The Office of the SIGIR has identified these accomplishments and those of its predecessor organization (CPA-IG):

- created a new organization with more than 100 staff and contractors at peak levels

- established operations in Baghdad and Washington, D.C.
- completed 15 audits containing 29 recommendations, of which 45% have been closed
- completed more than 88 investigations
- processed more than 300 Hotline contacts
- published 3 comprehensive reports to Congress
- launched website—more than 258,000 hits to date
- chartered the Iraq Inspectors General Council to coordinate among IGs of agencies participating or overseeing the reconstruction of Iraq
- chartered the Iraq Accountability Working Group to coordinate IG activities and issues in Baghdad
- coordinated start-up of Iraqi ministry IGs
- increased coordinated reporting of audit results and use of resources
- launched Lessons Learned/High-Risk Factors initiative

SIGIR Strategic Plan

The SIGIR Strategic Plan defines the organization's overarching goals and its near-term objectives. These are the principal goals of the SIGIR:

- prevent fraud, waste, and abuse in Iraq reconstruction
- monitor and review IRRF execution
- lead and coordinate oversight of the IRRF
- enhance communication to improve accountability

To accomplish these goals, the SIGIR has identified immediate priorities to:

- recruit staff and realign contract resources
- formalize internal policies, procedures, and budget execution planning
- conduct staff reorientation and training
- formalize key relationships and develop ongoing partnerships
- refocus the audit plan
- refine, refocus, and drive initiatives and reports
- complete move to new locations in Baghdad and Washington, D.C.

Operational Agreements

On January 10, 2005, the SIGIR concluded a Memorandum of Agreement (MOA) with the Department of State (DoS) that broadly defines the areas of coordination and cooperation between the SIGIR and the DoS and also establishes areas of support for the SIGIR. The MOA is intended to ensure the effective conduct and supervision of audits and investigations relating to DoS programs and projects funded by the IRRF. The MOA is provided in Appendix N.

The SIGIR is also developing agreements with the Department of Defense and the Secretary of the Army to provide administrative support to the SIGIR.

Legislation and Regulations

Section 4(a)(2) of the Inspector General Act of 1978, which was applied to the SIGIR by P.L. 108-106, as amended, requires the SIGIR to:

review existing and proposed legislation and regulations relating to programs and operations of [the office] and to make recommendations in the semiannual reports...concerning the impact of such legislation or regulations on the economy and efficiency in the administration of programs and operations administered or financed by such establishment or the prevention and detection of fraud and abuse in such programs and operations.

Legislation

The only legislation of significance to the SIGIR during this semiannual reporting period was the enactment of P.L. 108-375. This legislation is thoroughly discussed in this Report, and the full text is provided in Appendix C.

Regulation

There are no relevant regulations to review.

Website (www.iraqreconstructionig.org)

The updated SIGIR website continues to provide stakeholders and the public with all SIGIR reports. It also provides information on the SIGIR mission, as well as forms and contact information for reporting fraud, waste, and abuse.

Since January 1, 2004, the website has received more than 258,000 hits:

- The Reports to Congress page on the website has received more than 12,000 hits.
- The Audit Reports page on the website has received 7,200 hits since July 4, 2004, when the first completed audits were posted.

Maintained by the Defense Technical Information Center, the website is available at: <http://www.iraqreconstructionig.org>

3. Audits

Overview

Public Law 108-106 (P.L. 108-106), as amended, mandates the independent and objective conduct and supervision of audits relating to the programs and operations funded with amounts appropriated or otherwise made available to the Iraq Relief and Reconstruction Fund (IRRF). To meet that mandate, the Special Inspector General for Iraq Reconstruction (SIGIR) maintains a staff of auditors made up of Federal General Schedule detailed employees and excepted service employees from the Department of Defense Office of Inspector General (DoD OIG), Department of State Office of Inspector General (DoS OIG), U.S. Army Audit Agency (USAAA), Naval Audit Service, and U.S. Air Force Audit Agency.

Since the October 30, 2004 Report, the SIGIR has issued two final reports of audits addressing operational and financial controls and procedures. The SIGIR has seven audits ongoing. All of the audit work is performed under generally accepted government auditing standards prescribed by the U.S. Comptroller General. Table 3-1 provides a summary of audits completed from August 1, 2004, to January 30, 2005.

The audits issued during this quarterly reporting period do not contain any recommendations to management. Two management recommendations for this semiannual reporting period and 13 from previous semiannual reports remain open. The SIGIR is working with other agencies to implement all significant recommendations that remain from previously completed audits. This statement satisfies Section 5(a)(8) of the Inspector General Act of 1978.

As of January 15, 2005, the SIGIR had 12 auditors on staff, with 32 more audit positions in the process of being filled. Also, the SIGIR uses contractor support in both Baghdad and Washington, D.C. The audit staff has worked diligently to conduct audits and to issue reports that address Iraq reconstruction programs and operations. The number of SIGIR auditors has fluctuated in recent months because of past uncertainty about the Coalition Provisional Authority Inspector General's termination date. P.L. 108-375 extended the organization's life, and the SIGIR is currently adding audit staff through its hiring authority under U.S. Code, Title V, Section 3161.

Completed Audits

The SIGIR has completed two audits since the October 30, 2004 Report. Table 3-1 lists all audits completed from August 1, 2004, to January 30, 2005, including two recently completed audits.

Completed SIGIR Audits, as of January 30, 2005						
	Report Number	Audit Title	Date Issued	Recommendations		
				Total	Closed	Open
1	05-001 ^a	Coalition Provisional Authority Control of Appropriated Funds	10/22/04	0	-	-
2	05-002 ^a	Accountability and Control of Materiel Assets of the Coalition Provisional Authority in Kuwait	10/25/04	2	-	2
3	05-003	Task Order 0044 of the Logistics Civilian Augmentation Program III Contract	11/23/04	0	-	-
4	05-004	Oversight of Funds Provided to Iraqi Ministries through the National Budget Process	1/30/05	0	-	-

^a Audits reported as complete in the October 30, 2004 Report

Table 3-1

Task Order 0044 of the Logistics Civilian Augmentation Program III Contract Report No. 05-003, issued November 23, 2004

The original overall audit objective was to evaluate services provided under Task Order (TO) 0044. The SIGIR clarified that objective to determine whether Coalition Provisional Authority (CPA) management efficiently and effectively managed the Logistics Civilian Augmentation Program (LOGCAP) III contract to provide for logistics and life support for personnel assigned to the CPA mission. Specifically, the SIGIR sought to determine whether the CPA: (1) managed TO 0044 of the LOGCAP III contract to ensure that required items were properly authorized, performed, and/or received; (2) established policy to limit contract requirements and costs to only those specifically authorized, to include restricting current requirements to only those necessary for CPA use through June 30, 2004; and, (3) effectively managed the TO 0044 costs.

During the initiation of the audit's fieldwork, the SIGIR could not effectively address the overall audit objective because of weaknesses in the cost reporting process used by Kellogg, Brown and Root, Inc. (KBR) for TO 0044. The SIGIR narrowed this audit report to address that condition. Also, because of limited fieldwork and the more extensive and detailed planned and ongoing work by the USAAA and the Defense Contract Audit Agency (DCAA), the SIGIR terminated further audit work on LOGCAP III and TO 0044.

The SIGIR conducted this performance audit from May through July 2004, in accordance with generally accepted government audit standards. The SIGIR validated certain aspects of the contractor's cost reporting system and tested the controls for authorization, approval, and acceptance of work. The audit effort focused on Client Directives associated with TO 0044. The SIGIR used the KBR Bi-Weekly Cost Report for the period ending March 27, 2004, for cost reporting information. A senior government compliance manager at KBR also provided, on request, a sample spreadsheet of the detailed cost data available from KBR. That spreadsheet contained a list of equipment and material purchases and reflected the totals reported in the Bi-Weekly Cost Report.

The SIGIR reviewed whether the Administrative Contract Officer (ACO) was provided sufficient cost data to give management effective cost-related decision information. The SIGIR used sample work orders to validate the information typically contained in each step of the process, from contractor work request to invoice.

During the audit, the SIGIR identified several problems concerning cost data submitted by KBR to the CPA for work performed under TO 0044. First, KBR did not provide the ACO with sufficiently detailed cost data to evaluate overall project costs or to determine whether specific costs for services performed were reasonable. This occurred for two reasons:

- Neither the basic LOGCAP contract nor TO 0044 required detailed cost data.
- The LOGCAP contract was awarded to KBR even though the contractor did not have certified billing or cost-and-schedule reporting systems.

As a result, the ACO did not receive sufficient or reliable cost information to effectively manage TO 0044. Second, the lack of certified billing or cost and schedule reporting systems hampered the ACO from effectively monitoring contract costs. Third, because the contractor did not provide detailed cost information to support actual expenses incurred, resource managers were unable to accurately forecast funding requirements to complete TO 0044.

Based on limited audit work, the SIGIR also believes that Federal Acquisition Regulations (FAR) Clause 52.216-26, Payments of Allowable Costs Before Definitization, should be enforced because of the lack of definitization for TO 0044.

A DCAA memorandum, "Implementation of FAR Clause 52.216-26, Payments of Allowable Costs before Definitization, LOGCAP Contract DAAA09-02-D-0007," of August 16, 2004, informed the U.S. Army Field Support Command (AFSC) that it had identified significant unsupported costs in KBR LOGCAP price proposals and encouraged the Principal Contracting Officer to implement FAR 52.216-26 payment limitations until KBR submitted adequate price proposals on all of its proposals deemed inadequate.

In addition, the U.S. Army Materiel Command, in response to USAAA Audit Report No. A-2004-0438-AML, "Definitization of Task Orders-Audit of Logistics Civil Augmentation Program," of August 12, 2004, stated, "As USAAA has noted, FAR 52.216-26 permits the withholding of 15% on invoices submitted by the contractor pending definitization. The AFSC should enforce this contract provision to encourage the timely submission of fully supported proposals allowing for timely definitization."

The SIGIR agreed with the positions of the DCAA and U.S. Army Materiel Command. As a result of additional audit work performed by the DCAA and the USAAA, the SIGIR deleted the recommendations issued in an earlier draft of this audit report.

Audit of Oversight of Funds Provided to Iraqi Ministries through the National Budget Process

Report No. 05-004, issued January 30, 2005

The objective of the audit was to review the procedures and controls for Development Fund for Iraq (DFI) funds provided to the Iraqi Interim Government (IIG) through the national budget process. Specifically, the SIGIR determined whether the CPA established and implemented adequate managerial, financial, and contractual controls over DFI disbursements provided to interim Iraqi ministries through the national budget process.

The SIGIR found that the CPA provided less than adequate controls for approximately \$8.8 billion of DFI funds provided to Iraqi ministries through the national budget process. The CPA did not establish or implement sufficient managerial, financial, and contractual controls to ensure that DFI funds were used in a transparent manner. Consequently, there was no assurance that the funds were used for the purposes mandated by United Nations Security Council Resolution

1483 (UNSCR 1483). UNSCR 1483 required that the DFI funds be used in a transparent manner to meet the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq's infrastructure, for the continued disarmament of Iraq, for the costs of Iraqi civilian administration, and for other purposes benefiting the people of Iraq.

While acknowledging the extraordinarily challenging threat environment that confronted the CPA throughout its existence and the number of actions taken by the CPA to improve the IIG budgeting and financial management, the SIGIR believes that CPA management of Iraq's national budget process and oversight of Iraqi funds was burdened by severe inefficiencies and poor management. Although formal recommendations were not made, the SIGIR believes that the results of this audit dictate that lessons learned studies should be performed to address not only the planning for specific managerial, financial, and contractual controls in future situations of this nature, but also the national planning aspects necessary for the overall management of these type of endeavors should they occur in the future. Other organizations have initiated lessons learned studies on financial and logistics issues, and the SIGIR will be consolidating such studies.

The CPA Administrator and the Director, Defense Support Office-Iraq disagreed with the audit finding, stating that the report did not acknowledge the difficult operational context in which the CPA was operating and did not recognize the actions taken to improve weaknesses in the Iraqi budgeting and financial management. The SIGIR revised the audit report to address the comments from the CPA Administrator regarding the situation that the CPA found in Iraq when it assumed control. However, these comments did not change the SIGIR's conclusion that the CPA did not establish or implement sufficient managerial, financial, and contractual controls to ensure that DFI funds were used in a transparent manner or that the funds were used for the purposes mandated by UNSCR 1483.

Discontinued Audits

The SIGIR did not discontinue any audits during this reporting period.

Current and Future Audits

Currently, the SIGIR has seven ongoing audits.

Current Audits

Audit of U.S. Army Corps of Engineers (USACE) Indefinite Delivery Indefinite Quantity (IDIQ) Contracts and/or Construction-Related Services Available for Use or Used by the Coalition Provisional Authority for Iraq Relief and Reconstruction

(Project No. D2004-DCPAAC-0012)

The objectives of this audit are to determine whether contracts were awarded in compliance with the Federal Acquisition Regulations; whether the USACE awarded contracts reasonably, economically, and efficiently; whether internal controls are in place to ensure compliance with the original intent of contracts; and whether task orders conformed to contract statements of work.

Administration of Development Fund for Iraq-Funded Contracts

(Project No. D2004-DCPAAF-0033)

The overall objective of this audit is to determine whether the Iraq Project and Contracting Office (PCO), which replaced the Program Management Office, complied with the Iraqi Minister of Finance memorandum, "Administration of Development Fund for Iraq (DFI)-Funded Contracts," of June 15, 2004. Specifically, the SIGIR will determine whether the Director, PCO, effectively implemented the assigned responsibilities under the memorandum to monitor and confirm contract performance, certify and/or make payments, and administer contracts or grants funded with monies from the DFI.

Cash Controls Over Disbursing Officers in Southern Iraq

(Project No. D2004-DCPAAF-0034)

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

Audit of Electrical Transmission and Distribution for the Erbil Governorate under Task Order 003 of Contract Number W914NS-04-D-0010

(Project No. D2004-DCPAAC-0035)

The overall objective of this audit is to determine whether the contractors for the Erbil Electrical Transmission and Distribution Project are complying with the terms

of the Task Order. The SIGIR will also evaluate the effectiveness of the monitoring and control exercised by the PCO.

Audit of Compliance with Contract No. W911S0-04-C-0003 Awarded to Aegis Defence Systems Limited

(Project No. D2004-DCPAAC-0036)

The overall objective of this audit is to determine whether the contractor is complying with the terms of the contract. Specifically the SIGIR will determine whether the contractor is providing adequate services, valid documentation, and proper invoices.

Audit of Contract Administration of Iraq Relief and Reconstruction Fund Contracts

(Project No. D2004-DCPAAC-0037)

The overall objective of the audit is to evaluate whether contracts awarded by the PCO for Iraq relief and reconstruction efforts contain adequately prepared statements of work, clearly negotiated contract terms, and specific contract deliverables. The SIGIR will also evaluate the PCO administrative processes and controls related to contract execution, distribution, reporting, and disposition of files.

Commanders' Emergency Response Program (CERP)

(Project No. D2005-DCPAAF-0001)

The overall objective of this audit is to evaluate the adequacy of controls over the CERP. Specifically, the SIGIR will determine if fund allocation procedures were adequate, funds were used for intended purposes, and financial records were accurately maintained and supported.

Future Audits

The next phase of SIGIR audits will continue to focus on the Iraq relief and reconstruction programs managed by the DoD and the DoS. The SIGIR will conduct audits of the program and project management and execution systems and procedures used by the PCO, the administration and payment of selected IRRF contracts, and the management, administration, and execution of selected IRRF projects.

Other Agency Audits

In addition to SIGIR audits, Iraq Inspectors General Council (IIGC) members have also performed audits. The SIGIR formed the IIGC to aid in coordinating the oversight of Iraq relief and reconstruction programs. For more information about the IIGC, see Chapter 5 – SIGIR Initiatives. This section outlines the IIGC audit updates with information from IIGC member agencies.

Department of Defense

From October to December 2004, the DoD OIG performed audits covering a range of topics related to Iraq, including Navy manpower and readiness in support of Operation Iraqi Freedom. The DoD OIG did not complete any audits on Iraq reconstruction during this reporting period.

Current Audits and Assessments

DoS/DoD Joint Evaluation of Iraqi Police Training

(Project No. D-2005-DIP0E1-0034.000)

On October 7, 2004, in conjunction with the DoS, the DoD OIG announced a joint project to assess the Iraq Police Training Program. The review is evaluating all phases of the training effort for Iraqi police forces, including recruitment, screening, and selection of trainees; training curriculum, standardization, results/effectiveness; and follow-on procedures, such as assignment of trained forces, refresher training, leadership development, retention rates, and mentoring. The review is also assessing progress toward equipping the police forces and the internal control measures to monitor training and equipment accountability. The audit team plans to travel to Amman, Jordan, and Baghdad, Iraq, from February 21 through March 18, 2005.

Department of State

The DoS OIG has five auditors in Washington, D.C., assigned on a full or part-time basis to IRRF-funded activities. Fieldwork for three audits was completed in the period covered by this report.

Current Audits

The first audit relates to an inventory of contracts and grant funding, both IRRF-funded and non-IRRF-funded. There were no recommendations.

The second audit was requested by the Bureau of International Narcotics and Law Enforcement Affairs (INL), which estimated that in providing fuel to the INL-administered police academy in Amman, Jordan, the DynCorp company may have overcharged as much as \$600,000. The DoS OIG's audit of the contract confirmed INL's estimate of overcharges and found a basis for an additional claim of \$85,000.

In addition, the DoS OIG reviewed a proposal from Blackwater Security Consultants, Inc., to definitize a contract for security services. The review disclosed differences in various expense and cost rates. If used in the contract for the level of services proposed, the adjusted rates in the DoS OIG report will provide substantial savings to the DoS.

All three reports are expected to be issued on or about February 1, 2005.

Completed Audits

In October and November, DoS OIG inspectors conducted fieldwork for an assessment of the off-site support provided to Embassy Baghdad by the Iraq Support Units in Kuwait and Amman. The report was issued in December. It contains eight formal and five informal recommendations for corrective actions.

U.S. Agency for International Development

The U.S. Agency for International Development Inspector General (USAID OIG) has several ongoing audits and investigations of USAID programs related to Iraq relief and reconstruction. These efforts are being accomplished in Iraq and Washington, D.C. The USAID OIG continued to monitor DCAA audits that are being conducted at the request of the USAID OIG. As of December 31, 2004, these audits were ongoing:

- The USAID's Compliance with Federal Regulations in Awarding the Contract for Security Services in Iraq to Kroll Government Services International
- USAID/Iraq's Health Care Activities
- USAID/Iraq's Community Action Program

The audits are examining whether the USAID complied with federal regulations in awarding the security contract and whether intended outputs are being achieved for USAID's Health Care Activities and Community Action Program.

Government Accountability Office

The Government Accountability Office (GAO) did not complete any audits on Iraq reconstruction during this reporting period. The GAO reported nine ongoing audits relating to the Iraq reconstruction effort.

Current Audits

Private Security Contractors

This work is in response to congressional interest related to the reliance of the U.S. government and its contractors on private security contractors (PSCs) to provide security in the U.S. Central Command's area of responsibility, including Iraq.

The DoD and its contractors, civilian government agencies, and non-governmental organizations in the Persian Gulf and Central Asia rely to varying extents on private firms to provide security. This audit will determine:

- What are the number, role, and cost of private companies providing security?
- What oversight of private security companies does the government perform?
- What is the command-and-control relationship between the PSCs and the military, and what responsibility does the military have to the PSCs?
- Has the increasing use of PSCs had a negative impact on military retention?
- How does the U.S. government handle acts of serious misconduct by contractors?

The uncertain security environment in Iraq has led federal agencies and prime contractors responsible for rebuilding Iraq to employ private security companies to guard property and people. More than 20,000 people are believed to be providing security services, and some reports indicate that nearly half of reconstruction contract dollars are being used to pay for security.

- What management controls did agencies establish to provide visibility on security providers and on security-related expenses?
- What actions have been taken to improve the agencies' capability to manage security providers?

Use of Funds in Support of the Global War on Terrorism

To support the Global War on Terrorism (GWOT) since September 11, 2001, the Congress has appropriated almost \$200 billion in emergency supplemental appropriations to the DoD. Spending is running about \$6 billion per month, based on July data.

- What are the military services purchasing in support of the GWOT?
- To what extent has DoD provided guidance on the use of GWOT supplemental funding?
- To what extent are controls in place for GWOT spending?

Improving Iraq's Security

As of March 2004, the United States had obligated about \$58.5 billion to stabilize the security situation in Iraq—about \$57.3 billion for U.S. military operations and \$1.2 billion for Iraqi security forces.

- What are the trends in the security situation in Iraq, and how is the security situation affecting the cost and progress of military and civilian operations?
- What is the current multinational force and Iraqi strategy for coordinating their security operations and for transferring security missions to Iraqi institutions and a possible United Nations or other international force?
- What progress has been made in training and equipping Iraqi forces?

The Army's Progress in Improving the Management and Oversight of Logistics Support Contracts

Since 1997, the GAO has issued three reports on the U.S. Army's use of logistics support contracts to provide supplies and services in support of major contingencies that collectively show difficulties in controlling the costs of these contracts and ensuring that services are provided economically and efficiently.

- What progress has the U.S. Army made in improving the management and oversight of its logistics support contracts?
- Are there other continuing impediments to using logistics support contracts effectively?

Insurance Issues in Iraq

The Defense Base Act (DBA) requires all U.S. government contractors and subcontractors to obtain workers' compensation insurance for employees working in Iraq. In addition, contracting officers must require all contractors to maintain appropriate liability insurance and other types of insurance. As an enticement to work in Iraq, many contractors provide supplemental insurance benefits to

employees assigned to that country. For contractors performing work for the federal government in Iraq:

- What are the requirements and cost to the government of coverage purchased under the DBA insurance program?

Iraq's Elections

The President has identified U.S. support of free elections as a key step in helping achieve democracy in Iraq. By the time the first elections are held, the United States will likely have spent over \$700 million toward this effort.

- What is the nature and extent of U.S. support for Iraqi elections, including U.S. funding and technical assistance?
- To what extent are U.S. assistance efforts in support of Iraqi national elections meeting their performance goals?
- How are the USAID and the DoD ensuring that funds expended in support of Iraqi national elections are spent for the intended purposes?

Iraq Water and Sanitation

Since the fall of Saddam Hussein's regime, the U.S. has recognized improved essential services as critical for achieving a stable Iraq. With the proposed reallocation of funds, \$2.2 billion is earmarked for water and sanitation.

- What are the U.S. government's goals for rehabilitating Iraq's Water Resources and Sanitation sector?
- What is the status of the reconstruction effort in the Water Resources and Sanitation sector?
- How are U.S. government agencies ensuring that project and program goals are being met?
- What provisions have U.S. government agencies made to assist the sustainability of completed projects?

Reconstruction Efforts in Iraq

The U.S. committed more than \$24 billion to reconstruction in Iraq. This engagement will focus on reconstruction of essential and social services sectors: power, oil, health, education, transportation, and communications. The GAO will also track U.S. funding.

- What have U.S. and international organizations identified as the relief and reconstruction needs for essential and social services sectors in Iraq?

- What are the CPA and current U.S. relief and reconstruction goals for the essential and social services sectors?
- What progress has the U.S. program made toward these goals in the essential and social services sectors?
- Which factors have affected the U.S. relief and reconstruction program, and how they have been addressed?

Post-Transition Management of Iraq Reconstruction

Since Iraq regained governance authority in June 2004, the Secretary of State has assumed responsibility from the DoD and the CPA for setting requirements and priorities, and managing the U.S. reconstruction program in Iraq, including the \$18.4 billion in the IRRF. GAO is determining:

- How is the U.S. government organized to supervise and direct the reconstruction effort in the post-transition phase?
- How are program management contracts used to manage and support the reconstruction effort in Iraq?
- What factors are challenging U.S. efforts to rebuild Iraq, and how are they being addressed?

Defense Contract Audit Agency

The DCAA plans and performs work on a fiscal year basis. Table 3-2 shows both the Iraq-related audits closed during FY 2004 and the audits closed, opened, and planned in FY 2005 (as of December 31, 2004).

DCAA's services include professional advice to acquisition officials on accounting and financial matters to assist them in the negotiation, award, administration and settlement of contracts.

DCAA Audits Related to Iraq for FY 2004 and FY 2005, as of December 31, 2004				
Description of Audit Area	FY 2004 Closed	FY 2005		
		Closed	Open	Planned
Price Proposals ^a	128	40	17	3
Agreed-Upon Procedures Price Proposal ^b	113	15	3	6
Other Special Requested Audits ^c	123	30	209	29
Incurring Cost ^d	1	0	16	16
Labor Timekeeping ^e	59	22	28	33
Internal Controls ^f	47	10	66	70
Pre-award Accounting Survey ^g	30	7	4	5
Purchase Existence and Consumption ^h	15	5	14	16
Other ⁱ	51	12	71	42
Total	567	141	428	220

Notes:

^a Price Proposals—Audits of price proposals submitted by contractors in connection with the award, modification, or repricing of Government contracts or subcontracts

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

^c Other Special Requested Audits—Audit assistance provided in response to special requests from the contracting community based on identified risks

^d Incurring Cost—Audits of costs charged to Government contracts to determine whether they are allowable, allocable, and reasonable

^e Labor Timekeeping—Audits to determine if the contractor consistently complies with established timekeeping system policies and procedures for recording labor costs

^f Internal Controls—Audits of contractor internal control systems relating to the accounting and billing of costs under Government contracts

^g Pre-award Accounting Survey—Preaward audits to determine whether a contractor's accounting system is acceptable for segregating and accumulating costs under Government contracts

^h Purchase Existence and Consumption—The physical observation of purchased materials and services and related inquiries regarding their documentation and verification of contract charges

ⁱ Other—Significant types of other audit activities, including financial capability audits and Cost Accounting Standards compliance audits

Table 3-2

U.S. Army Audit Agency (USAAA)

The USAAA currently does not have any auditors working in Iraq. However, the USAAA plans to send two or three auditors to Iraq on the Audit of Fund Accountability for Iraq Relief and Reconstruction Fund 2 (IRRF 2). Ten auditors are currently assigned to Iraq review efforts.

Completed Audits

Accountability over Vested and Seized Assets

(Project No. A-2004-FFG-0316.000)

The Assistant Secretary of the Army for Financial Management and Comptroller requested this audit. These were some of the objectives of the audit:

- Were adequate procedures and controls in place and operating to properly secure and account for vested and seized assets?
- Did adequate audit trails exist to support the on-hand balance of the vested and seized accounts?

The USAAA recently received the positions of the Department of Army and the Comptroller of the Office of the Secretary of Defense on this audit and plans to issue a final report by February 4, 2005. The SIGIR provided in-country support to this audit.

Current Audits

Program Management in Support of Iraq Reconstruction

(Project No. A-2004-AMA-0606.000)

The Acting Secretary of the Army requested this audit. The overall objective is to determine whether the U.S. Army and PCO have put controls and sound business processes in place to mitigate previously identified high-risk areas, including:

- contracting plans for awarding task orders against existing contracts
- acquisition plans for obligating the remaining IRRF and measuring obligation rates
- PCO efforts to mitigate risks and cost growth on undefinitized contracts
- PCO plans to oversee reconstruction contracts (for example, contractors overseeing contractors)

The USAAA issued the draft report for comment on December 15, 2004. In summary, the audit found that the U.S. Army and the PCO have put many controls

in place to mitigate previously identified high-risk areas. However, these additional actions are needed to strengthen controls:

- The PCO and USACE were awarding task orders within the scope and performance period of existing contracts.
- Although the PCO established controls for monitoring and measuring obligations, additional controls were needed to account for all DoD obligations and to measure the progress of the FY 2004 IRRF program.
- The PCO established controls to help definitize contracts in a timely manner, but those controls were not fully effective.
- PCO controls for using program management support contractors were generally effective, but additional controls were needed to reduce the risks associated with contractor performance of inherently governmental functions, real or perceived conflicts of interests with contractors overseeing contractors, and award fee plans.

Addressing these additional actions should give the U.S. Army better assurance that it is properly controlling and executing the FY 2004 IRRF program.

Commanders' Emergency Response Program (CERP) and Quick Response Fund (QRF)

(Project No. A-2005-ALE-0191.000)

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

- Were funds for the CERP and the QRF received, accounted for, and reported according to applicable laws and regulations?
- Were disbursements consistent with the intent of the charter or implementing guidance?

The USAAA completed its field work on December 10, 2004, and is now preparing its report. The USAAA reached positive conclusions on both objectives. The initial conclusion to the objective on whether funds were disbursed according to the intent of the charter and implementing regulations was negative. This happened because command did not retain copies of key documents (receiving reports and payment vouchers). However, command personnel working with the local finance office were able to obtain properly signed copies of receiving reports and disbursement vouchers attesting that command received contracted goods and services according to contract specifications and that contractors signed for payment and certifying officials approved the payments. The USAAA personnel verified the accuracy of

the local records by comparing local copies with those on file with Defense Finance and Accounting Service at Rome, New York.

Audit of Fund Accountability for Iraq Relief and Reconstruction Fund-2 (IRRF 2)

(Project No. A-2005-ALA-0240.000)

The Acting Secretary of the Army requested this audit. The audit will focus on fund control and accountability over the IRRF 2 for reconstruction activities, and also for Operation and Maintenance, Army funds for PCO administrative expenses. The overall objective is to ensure that the U.S. Army and PCO have effective controls and sound business processes in place to properly account for that portion of the \$18.4 billion in IRRF 2 that DoD activities execute. Specific objectives include:

- Do PCO financial management system and processes have the controls needed to ensure that commitments, obligations, and disbursements are accurately recorded? This includes ensuring that the PCO used and recorded the funds for the proper sector.
- Does the PCO have adequate controls in place to ensure that operating costs and program costs are properly allocated and recorded?
- Can the PCO financial management system and processes accommodate U.S. Army and PCO plans to decentralize contract award and project management?

Logistics Civil Augmentation Program (LOGCAP) Operations in Support of Operation Iraqi Freedom

(Project No. A-2005-ALS-0340.000)

The Commander, Multi-National Force-Iraq requested this audit. The USAAA coordinated this request with SIGIR officials. Preliminary audit planning began on January 3, 2005, and, to date, specific objectives have not been established. The audit will focus on evaluating the adequacy of the LOGCAP throughout the Iraq area of operations and will require work in Iraq, in Kuwait, and in the Continental United States (CONUS). In anticipation of starting work in Iraq in April 2005, the USAAA has started work with DoD and U.S. Army CONUS activities involved in managing and overseeing the program.

International Advisory and Monitoring Board for the Development Fund for Iraq

The International Advisory and Monitoring Board (IAMB) comprises representatives of the United Nations, Arab Fund for Economic and Social Development, International Monetary Fund, and World Bank. The IAMB operates under the mandate of United Nations Security Council Resolution 1483, October 2003 (UNSCR 1483). The principal role of the IAMB is to help ensure that:

- the DFI is used in a transparent manner for the benefit of the people of Iraq
- export sales of petroleum, petroleum products, and natural gas from Iraq are made consistent with prevailing international market best practices

For this purpose, the IAMB functions like an audit oversight board.

UNSCR 1546 (July 2004) requested that IAMB continue its oversight role of the DFI through a period ending no later than December 31, 2005.

Completed Audits

On October 14, 2004, the IAMB released three Reports of Factual Findings and a Statement of Cash Receipts and Payments covering the period of January 1, 2004, to June 28, 2004—just as the SIGIR’s October 30, 2004 Report was readied for publication. On December 14, 2004, the IAMB released a summary report of its oversight of the DFI from May 22, 2003–June 28, 2003.

Report on the Statement of DFI Cash Receipts and Payments

Issued September 2004

The report can be found at this URL:

<http://www.iamb.info/auditrep/CashReceipt101204.pdf>

Report of Factual Findings in Connection with Export Sales, Development Fund for Iraq

Issued September 2004

The report can be found at this URL:

<http://www.iamb.info/auditrep/export101204.pdf>

Report of Factual Findings in Connection with the Oil Proceeds Receipts Account, Development Fund for Iraq

Issued September 2004

The report can be found at this URL:

<http://www.iamb.info/auditrep/oilproc101204.pdf>

Report of Factual Findings in Connection with Disbursements, Development Fund for Iraq

Issued September 2004

The report can be found at this URL:

<http://www.iamb.info/auditrep/disburse101204.pdf>

Current Audits

As of January 30, 2005, the IAMB has two ongoing audits in concert with the terms of reference of the respective government representatives:

- With the concurrence of the Iraqi Interim Government, an audit of the resources and disbursements of the DFI and of oil export sales from June 29, 2004, to December 31, 2004, is expected to be completed by March 2005.
- As proposed by the U.S. government, a special audit of sole-sourced contracts using DFI resources covering the period up to the dissolution of the CPA is expected to be completed by April 2005.

Both of the current IAMB audits address concerns raised in the IAMB's Report of Factual Findings.

4. Investigations

Overview

The Special Inspector General for Iraq Reconstruction (SIGIR) investigates potential violations of law associated with the management and execution of:

- appropriated and Iraqi funds by the Coalition Provisional Authority (CPA) and its successor organization in Iraq
- programs, operations, and contracts carried out using these funds

Since its redesignation as the SIGIR, the organization has been transitioning the focus of its criminal investigations and processes. To achieve staffing goals, the SIGIR is currently hiring, training, and deploying additional criminal investigators. Working in conjunction with the U.S. Army Civilian Personnel Online, the SIGIR developed job announcements for Criminal Investigator (GS-1811) positions. The hiring process yielded more than 50 applicants. To strengthen investigative procedures, report formats, and other administrative requirements, the SIGIR is revising a manual for its Special Agents.

The SIGIR has also established a memorandum of agreement with the Financial Crimes Enforcement Network. This relationship will allow the SIGIR to access information that will help in:

- understanding and coordinating other law enforcement interest in investigative matters
- tracing the financial trail of funds, financial activities, and financial assets

The SIGIR is finalizing the adoption of an online case management system, provided by the National Aeronautical Space Administration (NASA), Office of the Inspector General, at nominal or no cost. Hosted by NASA, the case management system will allow criminal investigators to directly input case information from Iraq and Washington, D.C. The information can be monitored and reviewed from the Office of the SIGIR in Washington, D.C.

SIGIR Investigative Activity and Analysis

As of January 11, 2005, the SIGIR had received 134 potential criminal cases. Of these, 63 have been closed, 25 referred to other investigative agencies, and 46 are

still open. Since October 30, 2004, the SIGIR closed 7 cases, referred 2 to other investigative agencies, and opened 20 new cases.

Table 4-1 organizes the 46 open cases by investigative categories.

Case Summaries, as of January 11, 2005		
Title	Pending Cases	Definition
Theft	11	Theft is the wrongful taking of another's property.
Bribery/ Kickbacks/ Gratuities	7	Bribery, kickbacks, and gratuities involve giving, offering, promising, soliciting, demanding, receiving or accepting directly or indirectly, with wrongful or dishonest intent, anything of value, to or by a public official to influence an official act or public official to commit fraud or violate the law; or testimony as a public official, in return for being influenced to perform such actions.
Cost Mischarging/ Product Substitution	6	Cost mischarging involves charging costs improperly to government cost-type contracts or charging cost overruns from one contract to other contracts. Product substitution involves introducing counterfeit material and other forms of unauthorized product substitution into the procurement system.
Procurement Fraud	6	Procurement fraud includes cost/labor mischarging, defective pricing, defective parts, and price fixing.
Public Corruption (Iraq)	4	Public corruption is using the advantage of a position or authority for gain.
Bid Rigging	2	Bid rigging is an activity to suppress and eliminate competition on contracts that reasonably restricts trade and commerce.
Computer Crimes	2	Computer crimes are deliberate actions to steal, damage, or destroy computer data without authorization, as well as accessing a computer system without authority.
Embezzlement	2	Embezzlement is the fraudulent appropriation of property or money for personal use or benefit.
False Claims	1	False claims involve knowingly presenting a false or fraudulent claim for payment or using a false record or statement to conceal, avoid, or decrease an obligation to pay money or transmit property to the government.
Standards of Conduct Violation	1	These standards expand on the Code of Ethics by providing specific statements of behavior in support of each element of Code.
Other Cases	4	Some cases either defy categorization or are still in the preliminary investigations stage. In the preliminary stage, it is often difficult to determine the exact allegation or violation.

Table 4-1

Pending Matters

The SIGIR is following up on these pending investigative matters:

- *Embezzlement*: Was an Iraqi bank exchanging worthless dinars for U.S. dollars?
- *Embezzlement*: Were monies delegated to the Iraqi Ministry of Youth improperly diverted?
- *Cost Mischarging*: Were telecommunications services over-billed?

Systemic Issues

The operational environment in Iraq has continued to hamper the investigative process by restricting the movement of criminal investigators. The SIGIR is exploring alternative methods to obtain and verify investigative information in order to focus investigative resources on independently verified allegations.

Iraq's cash-based society, outdated business system, and unstable security environment pose unique challenges to traditional criminal investigative processes. These systemic problems have burdened the investigative effort in Iraq:

- Contractors providing goods and services to the U.S. and Iraqi governments are typically paid in U.S. currency, not electronic fund transfers. This practice leads to inadequate fiscal controls and provides an easier vehicle for fraudulent activity.
- The environment, travel restrictions, and requisite security measures make it difficult for all parties to determine whether the goods and services have been delivered. Consequently, allegations of impropriety or alleged criminal activity outside the Green Zone are difficult to verify and investigate.
- Security requirements are causing a great increase in contracting costs.

Coordination with Other Federal Agencies

The SIGIR regularly coordinates with other government agencies conducting investigations in Iraq. The SIGIR asked for and received information from the Federal Bureau of Investigation (FBI), United States Agency for International Development (USAID), Defense Criminal Investigative Service (DCIS), and Department of State Office of Inspector General (DoS OIG). Because most of this information is sensitive, only the information below can be released.

Federal Bureau of Investigation

The FBI reported five open and pending cases involving activities associated with Iraq. Two cases involve fraud, and three involve public corruption. During the reporting period, the FBI has not closed or referred any cases to other law enforcement agencies.

United States Agency for International Development

The USAID has one special agent stationed in Iraq. During this reporting period, the USAID opened two new cases and closed an investigation about personnel integrity. The personnel integrity investigation was concluded, and a report was forwarded to USAID management for action. During this reporting period, the USAID has not referred any investigations to the Department of Justice and currently has eight ongoing investigations.

Defense Criminal Investigative Service

As of December 30, 2004, the DCIS has 10 open cases, 32 closed cases, and 1 open project. The DCIS investigated these matters of misconduct:

- The DCIS received information that several contractor employees were selling narcotics on the premises. The DCIS initiated an investigation that required several witness interviews and the execution of several search warrants. Three subjects eventually confessed to either distributing or possessing narcotics on the premises. The employment of the two U.S. citizens was terminated, and they were ordered to return to the United States. The employment of the third, an Iraqi citizen, was terminated, and the individual was removed from the Green Zone. The DCIS initiated and closed three separate investigations to capture investigative activity.
- The DCIS received information about the improper release of classified documents. An investigation determined that a military member, in preparing a briefing for his unit, attempted to print documents from a computer on the classified network. Because technical difficulties prevented the documents from being printed, the individual downloaded the briefing material to a personally owned, non-classified portable drive and took the drive to a computer workstation outside the classified network to print the material. The individual printed the documents but unknowingly left a duplicate set on the printer. The military member was punished. This case is closed.
- The DCIS received information about several Iraqi nationals improperly using computers. The DCIS conducted interviews, obtained additional

information, and forwarded the case to the Coalition Provisional Authority–Counter-Intelligence (CPA-CI) office.

- The DCIS received information about individuals involved in an altercation with three U.S. active duty military members. The allegation charged that during the altercation, the individuals brandished a weapon at the military members. At the request of the DoS, the DCIS assisted in conducting interviews of those allegedly involved. The information was forwarded to the Commander, Multi-National Force-Iraq.

A Department of Defense (DoD) hotline report alleged that a contractor violated contract rules and exceeded authority by improperly signing contracts, collecting cash to pay contracts, and arranging business partnerships with contractors. Interviews with the subject’s supervisor and co-workers failed to substantiate the allegations. No further investigation will be conducted.

Department of State Office of Inspector General

During this reporting period, the DoS OIG did not conduct any investigations of activities funded by the Iraq Relief and Reconstruction Fund.

Coordination with Iraqi Organizations

Since the transfer of governance authority to the Iraqi Interim Government (IIG) on June 28, 2004, the SIGIR has referred several issues to the Iraqi Commission on Public Integrity and to the police advisors of the Ministry of Interior. The IIG has established Offices of Inspector General (OIGs) in each of the 26 ministries. Four of these OIGs have received referrals from the SIGIR that may result in joint investigations. The SIGIR has also been assisting the development of training programs for Iraqi OIG investigators. The cooperation between the Iraqi law enforcement community and the SIGIR is fostering professional development and combating fraud, waste, and abuse in government programs.

Hotline

Overview

During this reporting period, the SIGIR Hotline (formerly the Coalition Provisional Authority Inspector General Hotline) remained colocated with the Department of Defense Office of Inspector General (DoD OIG) Hotline. The DoD OIG Hotline exercises operational control over the SIGIR Hotline as part of a Memorandum of Agreement designed to maximize efficiency of Hotline operations.

The SIGIR Hotline facilitates the reporting of fraud, waste, abuse, mismanagement, and reprisal in all programs associated with Iraq reconstruction efforts funded by the American taxpayer. The SIGIR Hotline receives walk-in, telephone, mail, fax, and online contacts from people in Iraq, the United States, and throughout the rest of the world. Currently, the SIGIR Hotline has a staff of four.

Fourth Quarter Reporting

As of December 31, 2004, the SIGIR Hotline has initiated 317 Hotline cases. A summary of these cases is provided in Table 4-2.

Disposition of Hotline Cases, as of December 31, 2004				
Disposition of Cases	Open		Closed	
	Quarter 1 FY 2005	Total	Quarter 1 FY 2005	Total
Admin. Investigation	45	81	7	57
Transfer	0	0	0	52
Referral	0	0	14	39
Assist	0	0	3	25
Dismiss	0	0	1	9
FOIA Referral	0	0	0	3
Admin. Investigation Totals	45	81	25	185
Criminal Investigations	0	18	0	26
Audits	0	1	0	6
Totals	45	100	25	217

Table 4-2

During the fourth quarter in 2004, the SIGIR Hotline received 45 new cases and closed 25 cases. Of the 45 new cases:

- 14 were related to contracting fraud, waste, abuse, or mismanagement.
- 7 related to abuse.
- 4 related to fraud.
- 3 related to waste.
- 3 related to potential reprisal.
- 14 were categorized as “other,” most of which were assist cases.

New Cases Received through the Website

Of the 45 new cases, 24 were received via the SIGIR Hotline website. This summary shows the distribution of the 24 cases:

- 8 cases from the website were related to fraud, mostly contract fraud.
- 4 related to waste.
- 3 related to abuse.
- 3 requested assistance.
- 1 related to reprisal.
- 5 were categorized as “other.”

Closed Cases

Of the 25 case closures, 8 were related to contracting. This summary shows the distribution of closed cases:

- 14 were closed by referrals.
- 7 were closed by administrative investigations.
- 3 were closed by assists.
- 1 was dismissed for lack of sufficient information.

Of the seven cases closed by administrative investigations, five were substantiated. Of those five cases, three were related to abuse, and two were related to “other” categories of assistance. Because of insufficient information, two investigation cases involving contracting abuse could not be substantiated.

These are highlights of some of the cases closed by administrative investigations:

- CPA000281 was closed on December 5, 2004. After consulting with the Project and Contracting Office Director, the complainant’s employment termination was reevaluated and withdrawn. The supervisor placed the complainant on the Performance Improvement Plan (PIP). To date, there has been no reoccurrence of “substandard performance.”
- CPA000291 was closed on December 17, 2004. Received as a Baghdad walk-in, the contact was related to employment termination for refusing to provide personal security support. The complainant was employed as a static guard trainer and medic, but on arrival was told to provide personal security support or be sent home. The allegation could not be substantiated.
- CPA000301 was closed on December 3, 2004. The complainant alleged that DoS personal security contractor personnel were engaging in dangerous weapons practices in the warehouse and residential area. After a meeting with the appropriate DoS personnel, the unsafe practices were stopped.

Referred Cases

This is the breakdown of the 14 referrals, the most prominent form of closure in the fourth quarter:

- 4 were sent to the Multi-National Force-Iraq IG.
- 4 were sent to the DoS OIG.
- 3 were sent to the Department of the Army IG.
- 1 was referred to the Iraqi Ministry of Higher Education IG.
- 1 was referred to the U.S. Army Criminal Investigation Command.
- 1 was referred to the Iraqi Commission of Public Integrity.

These are highlights of some of the cases closed by referral:

- CPA000274 was closed on December 28, 2004. The complainant alleged waste and abuse of government funds by a military service member who was ordering unnecessary vehicle parts and products and stockpiling them. The case was closed by referral to the Department of the Army IG.
- CPA000275 was closed on November 1, 2004. The complainant alleged that the repairs made to a government facility were below standard and also used inferior components. The complainant also alleged that the inferior components were billed at an inflated rate and that a subcontractor and a contracting office staff member kept the difference in cost. The case was closed by referral to the DoS OIG.
- CPA000288 was closed on November 10, 2004. The contact was received through the Hotline phone system. The case related to an alleged sexual assault by a service member and a subsequent cover-up by the alleged perpetrator's chain of command. The case was closed by referral to the U.S. Army Criminal Investigation Command at Fort Belvoir, Virginia.

5. Special Inspector General for Iraq Reconstruction Initiatives

Overview

The Special Inspector General for Iraq Reconstruction (SIGIR) has continued to pursue several initiatives begun by the Coalition Provisional Authority Inspector General (CPA-IG). Each of these initiatives advances the SIGIR's goals of promoting interagency communication and cooperation and of combating fraud, waste, and abuse in the execution of Iraq reconstruction funds. This section provides an update on:

- Iraq Inspectors General Council
- Iraq Accountability Working Group
- Lessons Learned/High-Risk Factors Initiative
- Corporate Governance Initiative
- Security and Insurance Initiative

Iraq Inspectors General Council

The SIGIR continues to coordinate oversight activities for Iraq reconstruction programs through the Iraq Inspectors General Council (IIGC). Established by the CPA-IG on March 15, 2004, the IIGC provides a forum for discussion and collaboration among the inspectors general and staff at the many agencies involved in using and overseeing the Iraq Relief and Reconstruction Fund (IRRF).

At IIGC meetings, representatives from member organizations exchange details of current and planned audits. This helps to identify opportunities for collaboration and to minimize duplication of oversight efforts. Members also update each other on their Iraq staffing plans and share personal insights into the logistical challenges of performing oversight work in Iraq.

On November 4, 2004, the most recent IIGC meeting was held in Arlington, Virginia. The next meeting is scheduled for February 2005.

Members

These are the members of the IIGC:

- Special Inspector General for Iraq Reconstruction (Chair)

- Department of State Inspector General (Co-Vice Chair)
- Department of Defense Inspector General (Co-Vice Chair)
- Department of the Army Inspector General
- U.S. Agency for International Development Inspector General
- Department of the Treasury Inspector General
- Department of Commerce Inspector General
- Department of Health and Human Services Inspector General
- Defense Contract Audit Agency
- U.S. Army Audit Agency
- Government Accountability Office (Observer Member)
- International Advisory and Monitoring Board (Observer Member)

Audit information from IIGC members is included in Chapter 3 – Audits.

Iraq Accountability Working Group

The Iraq Accountability Working Group (IAWG) was assembled by the CPA-IG Assistant Inspector General for Audits to provide coordination of audit efforts in Baghdad, in addition to the ongoing coordination provided by the IIGC in Arlington, Virginia. The IAWG informs the forward-deployed staff engaged in oversight of the IRRF about ongoing and planned audits.

The most recent meeting of the IAWG was held in Baghdad on January 15, 2004, at the Republican Presidential Palace. These are some of the organizations that sent representatives to the meeting:

- Special Inspector General for Iraq Reconstruction
- Department of State Office of Inspector General
- U.S. Agency for International Development, Office of Inspector General
- Defense Contract Audit Agency
- U.S. Army Corp of Engineers Gulf Region Division Audit Office

Some of the audit organization members of the IIGC do not have offices in Baghdad; therefore, not all IIGC member organizations are represented in the IAWG.

At IAWG meetings participants share their audit plans and provide updates on Iraq-related audits being planned by U.S.-based auditors. Attendees also share their experiences in dealing with the rigors of auditing in Iraq and discuss their policies for handling audit procedures.

Lessons Learned / High-Risk Factors

Overview

The Lessons Learned/High-Risk Factors (LL/HRF) team continues to gather key lessons learned and identify high-risk factors in Iraq relief and reconstruction. The SIGIR will use this knowledge to refine audit strategy to provide the most efficient oversight of the \$18.4 billion IRRF. Also, the SIGIR will make this information available to enhance the economy, efficiency, effectiveness, and planning for a wide range of organizations involved in relief and reconstruction.

The LL/HRF team's initial efforts have identified many preliminary areas of interest in the successful planning and execution of Iraq relief and reconstruction operations, including:

- *Personnel*: What staffing levels, training, and personnel management and administration policies are required for successful relief and reconstruction operations?
- *Logistics management*: What changes in policy, procedures, and execution are required to effectively manage transportation, supplies, and equipment?
- *Organizational coordination*: What are the requirements for effective coordination within and between organizations?
- *Contracting procurement and oversight*: How should organizations refine their approach to acquisition planning, execution, and administration of contracts?
- *Financial management*: What modifications in financial management organization, policy, and procedures will provide for more flexible and timely distribution and execution of funds, while ensuring proper administration and accountability of funds?
- *Knowledge of the country*: What do organizations need to know about the infrastructure, political system, and culture?
- *Security*: What security measures and policies are necessary to ensure success?
- *Strategic communications*: How can organizations enhance their communication strategies to gain support from the local population?

Specific Objectives

The LL/HRF team is leveraging the unique capabilities and resources of the SIGIR to accomplish these specific objectives:

- serve as a repository and coordination vehicle for future U.S. government-sponsored reconstruction efforts
- provide planning guidance for SIGIR oversight activities
- identify and prioritize lessons learned and high-risk factors
- identify areas of interest that require further research
- develop recommendations and best practices in selected areas of interest

Serve as a Repository and Coordination Vehicle for Future U.S. Government-sponsored Reconstruction Efforts

The LL/HRF team is assembling a repository of information on Iraq reconstruction and nation-building, primarily from these sources:

- internal and external interviews
- individual data collection (IDC)
- articles and reports

The LL/HRF team is interviewing key personnel involved in Iraq reconstruction and gathering interviews conducted by the CPA historian and the United States Institute for Peace (USIP). In addition, the team began a comprehensive IDC effort to gather the knowledge and experiences of people involved with Iraq relief and reconstruction. The team has also collected and reviewed articles and reports on Iraq reconstruction from government and non-governmental organizations, including the Congress, the CPA, contractors engaged in reconstruction operations, the Department of Defense (DoD), the Department of State (DoS), the U.S. Agency for International Development (USAID), coalition partners, and others.

Provide Planning Guidance for SIGIR Oversight Activities

The SIGIR has begun to factor the initial results of the LL/HRF initiative into current and future audit and strategic planning.

Identify and Prioritize Lessons Learned / High-Risk Factors

The SIGIR will compile a master list of lessons learned—successes and challenges—based on the IDC, interviews, reports, and articles, as well as input from issues addressed by CPA regulations, orders, and memorandums. The LL/HRF team will then provide a comprehensive prioritization and a detailed assessment and quantification of the impact of each issue.

Identify Areas of Interest that Require Further Research

To direct future information gathering for those areas of operations not being reviewed by other government entities, the SIGIR will use the master list of problem areas to conduct a gap analysis.

Develop Recommendations and Best Practices in Selected Areas of Interest

Based on the information gathered and analyzed during the LL/HRF initiative, the SIGIR will make recommendations and suggest best practices to guide future stabilization and reconstruction operations. The SIGIR will also use this knowledge to direct future audits and initiatives.

Figure 5-1 presents an overview of the LL/HRF initiative:

Overview of the Lessons Learned/High-Risk Factors Initiative

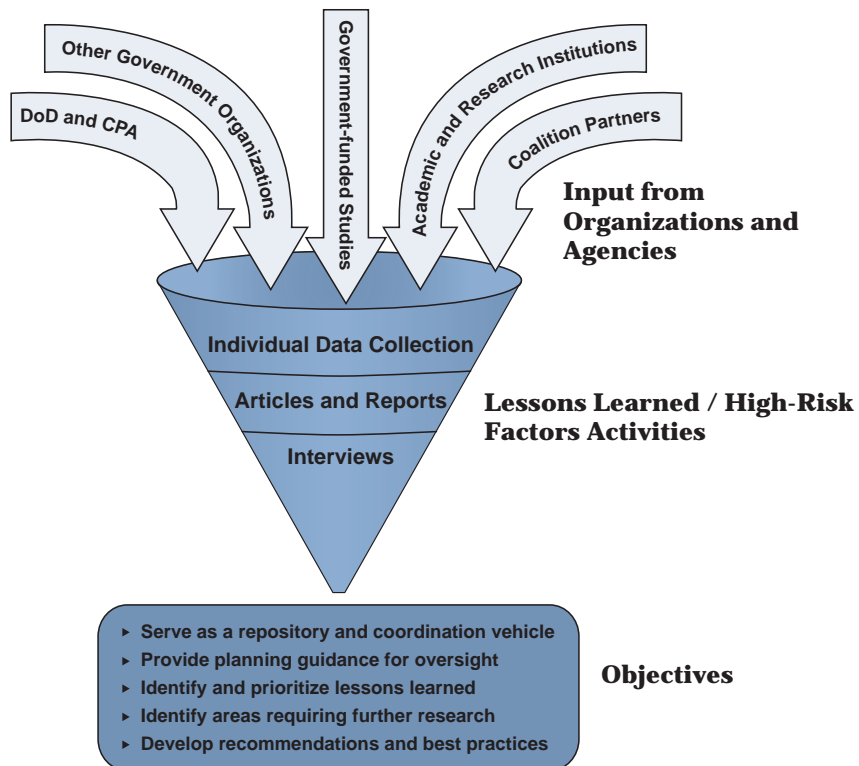


Figure 5-1

Data Collection Activities

This section provides details of the LL/HRF team's activities to gather information for the initiative.

Internal and External Interviews

As part of the overall LL/HRF initiative, the SIGIR is interviewing personnel involved with the relief and reconstruction of Iraq and collecting information from interviews conducted by outside organizations.

The CPA Historian conducted interviews in Iraq with people involved in diverse aspects of relief and reconstruction. The nearly 200 interviews conducted between Spring 2003 and Summer 2004 provide a variety of viewpoints on a wide array of projects. These interviews will be an integral part of the SIGIR data collection effort.

The USIP contracted with the Association for Diplomatic Studies and Training to interview key U.S. officials who worked in Iraq from the beginning of relief and reconstruction efforts until the transfer of governance authority to the Iraqi Interim Government (IIG) on June 28, 2004. These USIP interviews will provide information on reconstruction, security, and governance.

The SIGIR will work in conjunction with the CPA Historian to continue interviewing senior officials of organizations involved in relief and reconstruction in Iraq. All interviews and transcripts will become part of the national historical record.

Individual Data Collection Effort

The SIGIR has begun to gather the knowledge and experiences of people on all organizational levels of the CPA and other organizations working to support the CPA mission. In its initial phase, the LL/HRF team mailed a questionnaire to more than 300 people from the CPA and supporting organizations. The questionnaire asks recipients to record the challenges faced, successes achieved, and descriptions of the most significant lessons learned during their service to the CPA. The questionnaire is targeted to:

- identify the high-risk factors that must be mitigated to enhance Iraq relief and reconstruction operations
- help planners deal with micro-level problems that can impact operations

Article and Report Compilation Effort

The LL/HRF team has compiled more than 180 articles and reports on relief and reconstruction efforts in Iraq and tabulated their data. The material comes from a range of sources, including the U.S. government, independent studies by organizations receiving funding from the U.S. government, coalition-affiliated organizations, and academic institutions.

These summaries illustrate the range of topics and viewpoints that the LL/HRF team is gathering and analyzing:

“Defense Science Board 2004 Summer Study on Transition to and from Hostilities,” by the Defense Science Board (DSB), December 2004

This report presents a two-dimensional vision of how the United States can be more effective in nation-building. The first dimension highlights the need to extend management discipline (currently focused on combat operations) across the government, including peacetime activities, stabilization and reconstruction operations, and intelligence. The second dimension calls for the enhancement of certain fundamental capabilities that are critical to stabilization and reconstruction. The DSB recommends quality planning and preparation for nation-building in the years before the outbreak of hostilities, including a significant expansion of the role and resources of the DoS.

The DSB is a senior advisory body for the Secretary of Defense that annually undertakes large-scale studies on matters of national importance.

http://www.acq.osd.mil/dsb/reports/2004-12-DSB_SS_Report_Final.pdf

“After Saddam: Assessing the Reconstruction of Iraq”; by Kenneth M. Pollack; *Foreign Affairs*; January 12, 2004

For Iraq to have the best chance of emerging as a successful nation, the United States must remain steadfast in its long-term commitment to the Iraqi people and the stabilization of their nation, argues Kenneth M. Pollack in *Foreign Affairs*. The article addresses the recent past and the future outlook of the reconstruction effort in Iraq.

Mr. Pollack is currently the Director of Research, Brookings Institution-Saban Center for Middle East Policy. He has served on the National Security Council and in the Central Intelligence Agency.

<http://www.foreignaffairs.org/20040109faupdate83175/kenneth-m-pollack/after-saddam-assessing-the-reconstruction-of-iraq.html>

“Iraq Contracting Lessons Learned”; Joint Briefing to General Paul Kern by the Professional Services Council and Army Materiel Command; September 30, 2004

The Commanding General of the Army Materiel Command (AMC) requested this briefing on lessons learned, which is the culmination of three industry/DoD working groups chartered to identify key concerns and challenges in contracting, acquisition infrastructure and processes, and contractor deployment issues. The briefing presents recommended changes and process improvement developed independently and solely by the Professional Services Council (PSC) staff.

The PSC is a professional trade organization representing a diverse base of commercial firms heavily involved in Iraq reconstruction and supporting contracts with the U.S. Army, USAID, and other government agencies. The PSC serves as a principal industry voice and liaison on a range of contracting issues and has conducted several “situational analysis” briefings with the Congress, executive branch leadership, and oversight community.

<http://www.pscouncil.org>

“Compromised Accountability in a Streamlined, Outsourced Government”; by Professor Steven L. Schooner; *Stanford Law & Policy Review*; Vol. 16, No. 2, 2005

In this policy paper, Professor Steven L. Schooner urges the Congress to intervene to improve the current state of federal public procurement. The paper makes two major recommendations:

- “The federal government must devote more resources to contract administration, management, and oversight.”
- “The proliferation of interagency indefinite-delivery contract vehicles, and the perverse incentives that derive from these fee-based procurements, have prompted troubling pathologies that require correction and constraint.”

Professor Schooner is the Co-Director of the Government Procurement Law Program, George Washington University Law School.

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=605367

“Iraq Healthcare: The Road to Recovery from Decades of Neglect,” Iraqi Ministry of Health - Coalition Provisional Authority, October 2004

This report outlines the challenges faced during the transition of the Iraqi Ministry of Health from coalition to Iraqi management. Advance elements of the coalition health affairs team found few resources for CPA medical professionals and their Iraqi counterparts to leverage. After the end of combat operations and facing the threat of a large-scale humanitarian crisis, members of the Ministry were actively involved in planning the reconstruction of an Iraqi medical system devastated by the war and years of neglect.

The report is a published lessons-learned product developed by Dr. James Haveman and his team of coalition and Iraqi health care professionals that formed the CPA Ministry of Health.

<http://mx.ha.osd.mil/pickup.aspx?id=346287c4-0533-44b9-92b8-d97d3430f6f7>

“CETO Quick Look: Dealing with Civilian Populations in Post-Saddam Iraq”; U.S. Marine Corps Warfighting Laboratory; Center for Emerging Threats and Opportunities (CETO); February 6, 2003

In January 2003, the Marine Corps Warfighting Laboratory conducted a “Fast Train” war-gaming exercise to examine U.S. procedures for managing local populations during and immediately following combat operations, with a focus on post-Saddam Iraq. Participants leveraged prior experiences, such as the Marine Corps Combined Action Program (CAP) in Vietnam and more recent Marine Corps-supported operations in Somalia, the Balkans, and Afghanistan. CETO sponsored the workshop.

<http://www.ceto.quantico.usmc.mil/studies/Post-SaddamIraq.pdf>

“Select Committee on Defence–Third Report”; by the Defence Committee of the House of Commons, United Kingdom Parliament; March 3, 2004

Section 13 of this report, “Transition and Reconstruction,” provides detailed summaries of testimony before the House of Commons on reconstruction and relief efforts in Iraq. The report includes excerpts from the Iraqi Ministry of Defense, Department for International Development, and non-governmental organizations.

<http://www.publications.parliament.uk/pa/cm200304/cmselect/cmdfence/57/5717.htm>

“Progress or Peril? Measuring Iraq’s Reconstruction,” The Post-Conflict Reconstruction (PCR) Project, Center for Strategic and International Studies (CSIS), directed by Frederick Barton and Bathsheba Crocker, September 2004

This report concludes that Iraq reconstruction efforts have not reached critical tipping points for any of the areas of security, governance and participation, economic opportunity, services, or social well-being. The report also argues that efforts are not moving toward any of these tipping points, so Iraq cannot be viewed as moving toward self-sustainability. Security and economic problems overshadow and negatively affect all other issues. Although Iraqis remain realistic about their expectations and are “guardedly optimistic” about the future, the need for a stronger Iraqi voice and presence in the U.S. efforts is vital to sustainable improvements.

The PCR Project pursues reforms within the government to enhance the U.S. effort to rebuild post-conflict areas. PCR Project experts have traveled to Iraq to conduct first-hand research. They gathered information from the media, public sources, public opinion polls, and interviews conducted by trained Iraqi researchers, among other sources.

http://www.csis.org/isp/pcr/0409_progressperil.pdf

“Rebuilding Iraq: Resource, Security, Governance, Essential Services, and Oversight Issues”; by the Government Accountability Office (GAO); June 2004

This GAO report concludes that several issues greatly influence the rate and cost of reconstruction: an unstable security environment, the evolving capacity of Iraqi institutions to govern and secure the country, the availability and coordination of international assistance, and the need for adequate oversight. The report provides information on each topic area.

<http://www.gao.gov/new.items/d04902r.pdf>

“Reconstructing Iraq”; by the International Crisis Group (ICG); September 2, 2004

This report cites a number of missteps by the United States and the Iraqi governing body during Iraq reconstruction and concludes that the most critical problem—security—is hindering progress in other areas, most notably economic. The report makes recommendations for the IIG and future Iraqi governments,

the U.S. government, the donor community, Iraq's creditors, and official war-reparation claimants.

The ICG is an independent, non-profit, multinational organization, with more than 100 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

[http://www.icg.org/library/documents/middle east north africa/iraq iran gulf/30 reconstructing iraq.pdf](http://www.icg.org/library/documents/middle%20east%20north%20africa/iraq%20iran%20gulf/30_reconstructing_iraq.pdf)

Corporate Governance Initiative

Effective corporate governance programs are crucial to deterring fraud, waste, and abuse. Contractors that implement effective corporate governance programs tend to manage programs more efficiently and remain in compliance with applicable laws and regulations. To emphasize the importance of these programs, the SIGIR is pursuing a strategy of integrating corporate governance assessments with many audits of contractors and sub-contractors. Any high-risk issues the auditors identify during these reviews will provide a basis for further review and action.

The most recent reporting period provides an example of this process in action. SIGIR auditors are in the process of conducting a performance audit of a major construction project in northern Iraq. The auditors observed and documented the contractor's governance practices for a task order under one contract. The auditors found evidence of a generally elevated level of attention to internal controls issues, including established procedures for validating that controls are being followed at the job site. Specifically, the auditors spot-checked a wide range of site policies and procedures, including:

- safety
- subcontractor flow-down requirements
- documented assurance of compliance with statutory requirements
- work plan development consistency

As the pace of construction activities in Iraq increases, SIGIR auditors will continue to integrate reviews of governance programs into audits.

Security and Insurance Initiative

Security

Iraq's unsettled security environment continues to present grave risks for contractors and employees. As of December 31, 2004, 232 civilians working on U.S. contracts in Iraq have been killed, according to the Department of Labor. The challenging security environment hinders the ability of contractors to perform daily work and complete projects on time. On January 12, 2005, the Project and Contracting Office reported that in central Iraq, 16.5% of IRRF construction projects are delayed for more than two weeks; in northern Iraq, 14.8% of reconstruction projects are delayed. Attacks on sites, employees, and convoys related to IRRF reconstruction projects averaged 22 per week in this reporting period ending January 3, 2005.

The continuing increase in project starts in 2005 highlights the need for:

- personal protection
- project site security
- enforcement of legal requirements for workers' compensation insurance for those employed directly and indirectly by U.S. funds

According to the DoS Section 2207 Report of January 5, 2005, "Security costs for private security forces protecting construction sites, workers, and convoys have increased dramatically, therefore significantly adding to reconstruction overhead costs. The success of our reconstruction efforts and the longer-term political and economic development of Iraq depend upon establishing a secure environment."

Insurance

The GAO is reviewing issues related to the insurance requirements of the Defense Base Act (DBA). The SIGIR continues to discuss these issues with the GAO but is not directly supporting the work.

The U.S. Army Corps of Engineers (USACE) formalized a solicitation for a contract pilot program on January 31, 2005, and set March 2, 2005, as the estimated response date. These are the goals of the USACE pilot program:

- to address concerns about providing the best overall value to the nation in meeting the legal requirements of the DBA

- to encourage effective competition and assured availability and affordability of DBA insurance

In promoting a centrally managed program, the USACE has identified several impediments to economically and efficiently providing DBA insurance. The CPA-IG's July 30, 2004 Report highlighted many of the same concerns.

As of December 31, 2004, 1,778 DBA claims have been submitted for civilians working on U.S. contracts in Iraq. This number includes 232 deaths and 728 claims for employees missing more than four days of work. There have also been several hundred reported incidents in Kuwait, where companies involved in Iraq reconstruction have logistics and support operations. The source of this information is the U.S. Department of Labor, Division of Longshore and Harbor workers' compensation.

Since September 29, 2004:

- The overall number of claims grew by 85%, to 1,778 claims.
- The number of claims for those missing work more than four days rose 61.8%, to 728 claims.
- The number of claims for death increased by 93.3%, to 232 deaths.

6. Iraq Reconstruction Activities

Overview

Public Law 108-106, as amended, requires the Special Inspector General for Iraq Reconstruction (SIGIR) to report on Iraq reconstruction activities funded with amounts appropriated or otherwise made available to the Iraq Relief and Reconstruction Fund (IRRF). During this reporting period, the continuing insurgency remained the most significant challenge to the reconstruction of Iraq, according to the Department of State (DoS)². The U.S. Mission Iraq continued to shift the focus of U.S. reconstruction efforts to address the need for improved security, to improve Iraq's economic and political environment, and to create jobs for Iraqis before the January 30, 2005 Iraqi elections.

The shift in priorities began in September 2004, when the Administration's strategic spending plan review reallocated \$3.46 billion of the IRRF from the Electricity sector and the Water Resources and Sanitation sector to four other sectors:

- Security and Law Enforcement
- Justice, Public Safety, Infrastructure, and Civil Society
- Private Sector Development
- Education, Refugees, Human Rights, and Governance

In December 2004, the U.S. Mission Iraq—in consultation with the Iraqi Interim Government (IIG)—reprogrammed an additional \$457 million of IRRF funds to address projects in the Electricity sector that have exceeded initial cost estimates and to boost short-term Iraqi employment through health, electricity, and water initiatives in Najaf, Samarra, Sadr City, and Fallujah.

Together, the two adjustments reflect a significant change in spending priorities.

Adjusted Spending Priorities

The September 2004 Strategic Spending Plan Review

In September 2004, the strategic spending plan review allocated more funds to institutionalize Iraqi security and law enforcement capacity. The Security and Law Enforcement sector is now the largest single sector of IRRF spending—27.4% of total allocations. The strategic review also emphasized creating jobs for Iraqis and

building Iraqi governance capacity. Between January 2004 and January 2005, allocations for the Employment Development sector increased by 358.2%, and allocations for the Justice, Public Safety, Infrastructure, and Civil Society sector increased by 32.3%.

As a result of the strategic review, allocations to both the Electricity sector and Water Resources and Sanitation sector were significantly reduced. In the original IRRF allocations, these sectors comprised 53.6% of planned spending. After the strategic review, the Electricity sector was reduced by \$1.07 billion, and the Water Resources and Sanitation sector was reduced by \$1.93 billion. Collectively, this represents 36.1% of current IRRF allocations, as of December 31, 2004.

Figure 6-1 shows the history of IRRF sector allocations from January 2004 to January 2005 and illustrates the changes in sector allocations.

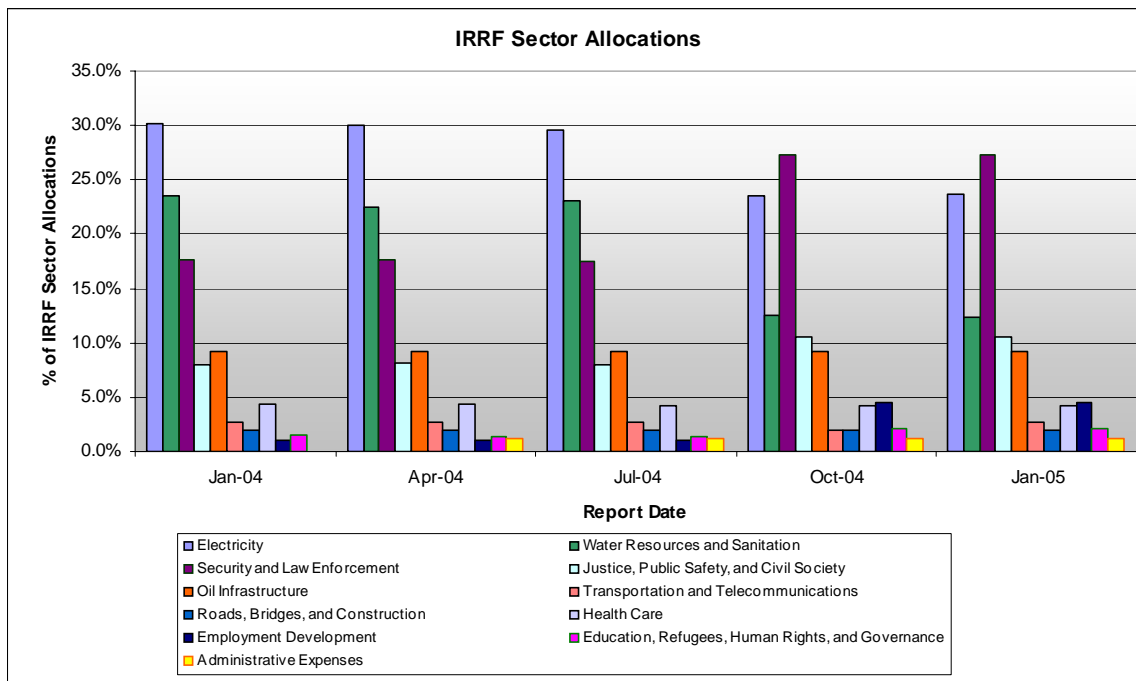


Figure 6-1

Appendix J provides additional details on IRRF sector reallocations.

The December 2004 Reprogramming

In December 2004, the DoS reallocated an additional \$457 million of IRRF funds to meet short-term needs. According to the Section 2207 Report of January 5, 2005, this change was intended to address near-term needs in the Electricity sector

(\$211 million) and to restore essential services in Najaf, Samarra, Sadr City, and Fallujah (\$246 million).

According to data that the Iraq Project and Contracting Office (PCO) provided to the SIGIR, four projects were cancelled to provide the \$211 million for reallocations in the Electricity sector. These areas received the reallocated funds:

- 59.6% of the Electricity sector reallocations will address escalating project costs in generation and transmission projects.
- 23.7% of the changes will fund the Rapid Recovery Program to stabilize electricity generation.
- 16.6% of the changes will fund a requirement for spare parts.

A more detailed description of the reallocations can be found in Chapter 7 - Sources and Uses of Funding for Iraq Reconstruction.

Other Reconstruction Efforts

The IRRF reallocations may be offset by a number of other funding efforts. The DoS reports that it is collaborating with the relevant Iraqi ministries to re-prioritize projects in the Electricity sector and Water Resources and Sanitation sector to address these funding reductions. According to the PCO Director and the Section 2207 Report of January 5, 2005, large-scale, long-range projects have been de-emphasized in favor of projects that more closely reflect current priorities. These new priorities include more local projects that will visibly impact Iraqi communities before the January 30, 2005 Iraqi national election.

Other entities may assume funding responsibility for projects that have been postponed or cancelled based on changes in IRRF allocations. The Section 2207 Report of January 5, 2005, states that the IIG has agreed to fund some of the postponed projects from Iraqi funding sources. The Report also notes that the United States and the IIG are looking at repackaging some postponed projects into programs that will attract international donor support.

Two non-IRRF programs are also working to build infrastructure and improve the quality of life in Iraq—often side by side with IRRF-funded efforts:

- The Accelerated Iraq Reconstruction Program (AIRP) is funded by Iraqi resources.
- The Commanders' Emergency Response Program (CERP) is funded by the Department of Defense (DoD).

These programs are designed to have an immediate impact on critically needed services by jump-starting local reconstruction efforts and creating jobs for Iraqis. The AIRP has been implemented in cities at risk for insurgent activity.³

Economic Indicators

Iraqi Employment

U.S.-funded reconstruction projects are being reprioritized to increase Iraqi employment.⁴ Reconstruction agencies are postponing long-term, capital-intensive projects in favor of labor-intensive local projects and security and law enforcement training.⁵ Both are intended to produce an immediate increase in Iraqi employment.

The *Iraq Weekly Status* reports, issued by the DoS, show that the number of Iraqis employed on U.S.-funded projects grew from approximately 80,000 to more than 147,000 during this reporting period. Changes in reporting policies seem to account for most of the increase. During November 2004, the DoS *Iraq Weekly Status* changed its methodology to include Iraqi employment associated with non-construction jobs reported by the PCO and also to include Iraqi employment associated with the CERP and the Multi-National Security Transition Command-Iraq. These additions account for a weekly average of 44.8% of reported Iraqi employment totals after November 17, 2004.

Figure 6-2 shows Iraqi reconstruction employment trends reported by the DoS in the *Iraq Weekly Status* reports from August 11, 2004, to January 12, 2005.

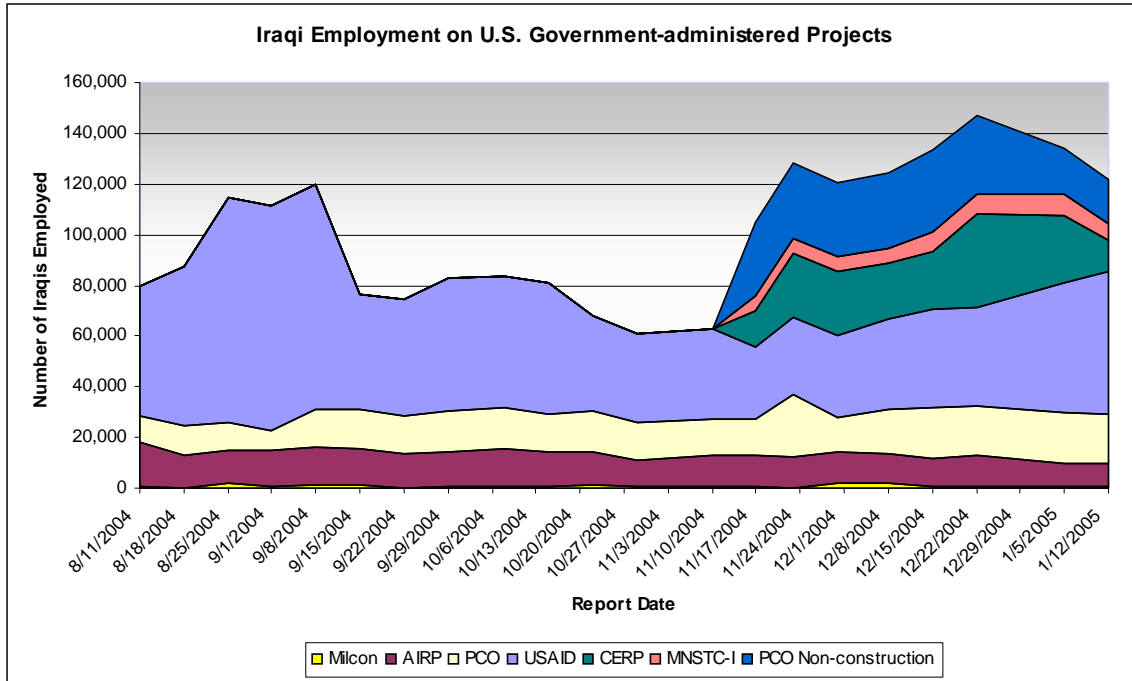


Figure 6-2

Iraqi Oil Production

Increasing Iraqi national revenue through increased oil production is another goal of reconstruction efforts.⁶ Crude oil production and exports continue to fall short of targets set by the Iraqi Ministry of Oil.⁷ Average oil output at the end of 2004 is below the levels achieved during the beginning of the year, according to oil production totals reported in the *Iraq Weekly Status* reports issued by the DoD and DoS. The Section 2207 Report of January 5, 2005, identifies repeated sabotage of oil pipelines as the primary reason that Iraq’s oil output has not yet returned to its pre-war capacity. Iraq’s long-term capacity of 3 million barrels per day (MBPD) was last achieved before the first Gulf War, according to the DoS. Figure 6-3 shows Iraq’s weekly average oil output for 2004.

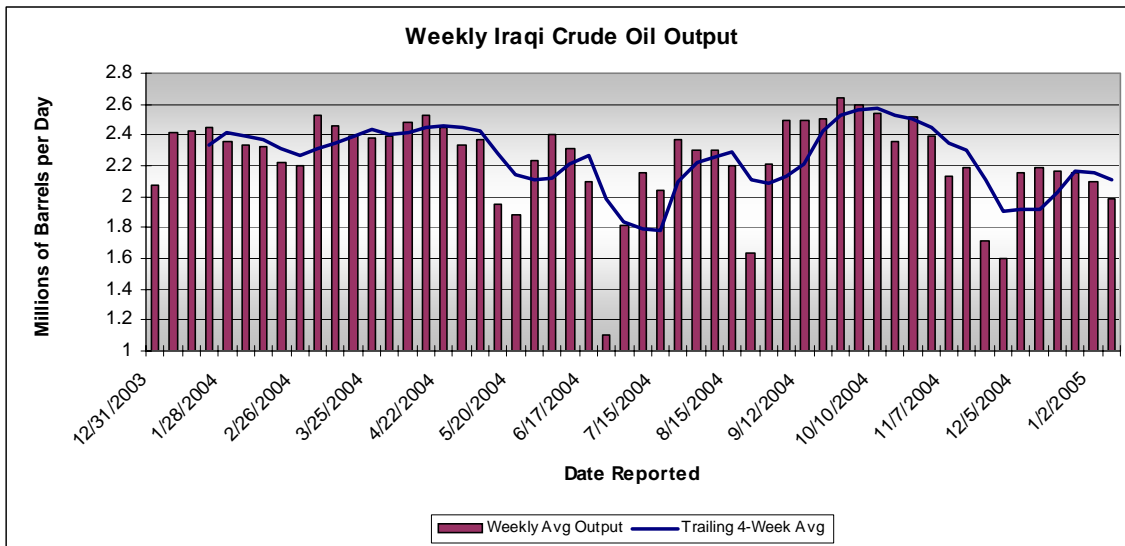


Figure 6-3

Constrained crude oil output has restricted Iraq’s potential for oil export income. Iraq achieved its peak, post-war export total of 1.8 MBPD in March 2004. Since that time, exports have declined; peak exports during this reporting period were 1.6 MBPD. The DoS estimates that Iraq lost approximately \$887 million of oil export revenue during the first quarter of FY 2005 because of attacks on the oil infrastructure.⁸ Figure 6-4 shows Iraq’s crude oil export volume since June 2003, as reported in the DoS *Iraq Weekly Status* report.

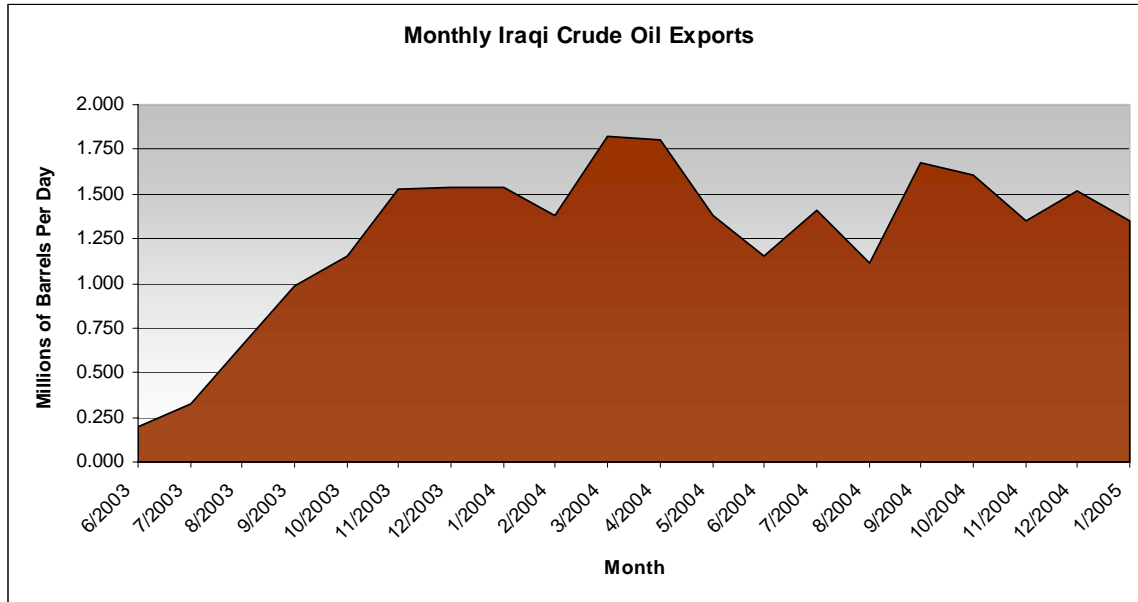


Figure 6-4

Refined petroleum products were scarce in Baghdad during this reporting period. The DoS attributes this decline to an apparent strategy by insurgents to disrupt fuel supplies to Baghdad.⁹ Despite its extensive oil and gas reserves, Iraq has been importing fuel because its oil pipeline and refinery infrastructure cannot produce sufficient output to meet internal demand.¹⁰

Agencies Implementing Iraq Reconstruction

Many U.S. government organizations are working together to execute projects funded by the IRRF. The DoS coordinates the overall U.S. effort in Iraq under U.S. Mission Iraq. The Iraq Reconstruction Management Office (IRMO) is a temporary DoS organization that provides a coordination umbrella for all of the agencies implementing Iraq reconstruction. These implementing agencies include both DoD and DoS entities, as well as the Department of the Treasury.

The PCO is the temporary DoD organization that manages construction projects funded by the approximately \$12 billion of IRRF funds apportioned to DoD. The PCO provides project management and contract administration services for construction projects and logistical coordination for reconstruction supplies and equipment moving around Iraq.

The U.S. Army Corps of Engineers (USACE) Gulf Regional Division (GRD) provides engineering services to the Multinational Force-Iraq and the PCO,

including planning, design, and construction management support for military and civil infrastructure construction. The GRD is headquartered in Baghdad, with area and resident offices throughout Iraq.

The U.S. Agency for International Development (USAID) is responsible for \$2.9 billion of funds on projects to restore Iraq's infrastructure, to support healthcare and education initiatives, to expand economic opportunities for Iraqis, and to foster improved governance. With support from the PCO and the USACE, the USAID coordinates projects through the IIG, non-governmental organizations, and private entities.

Reconstruction Activity Highlights

Reconstruction efforts include both construction activity and non-construction activities, such as training and election support. As of January 5, 2005, the PCO reports that 1,464 construction projects have moved from the design phase to the construction phase since the beginning of reconstruction. The PCO also reports initiating a Capacity Development Plan to ensure proper operation, maintenance, and sustainability of reconstruction projects.

This section describes allocations in the IRRF sectors since the SIGIR's October 30, 2004 Report and reviews progress of construction and capacity-building activities from January 2004 to January 2005.

Security and Law Enforcement

The unstable security environment in the post-invasion period is a significant impediment to reconstruction operations in Iraq.¹¹ The effort to establish and sustain a credible law enforcement operation continues. Police training programs have significantly increased the number of officers in the police force; however, transforming them into a disciplined, professional force will take time.¹²

The September 2004 strategic spending review reallocation of \$1.8 billion of IRRF resources into the Security and Law Enforcement sector reflects the increasing emphasis on using Iraqi personnel and institutions to provide security. After the September 2004 reallocation, the Security and Law Enforcement sector is now the largest IRRF sector, with \$5 billion allocated—27.4% of total IRRF allocations as of January 2005.

The reallocation of IRRF resources to the sector has increased law enforcement and national security allocations by \$987 million (74.2%) and \$728 million (38.1%), respectively. The September 2004 strategic review recommended providing

military commanders with IRRF resources for the Commanders Humanitarian Relief and Reconstruction Projects (CHRRP); \$86 million was reallocated for this purpose. The CHRRP fund is to be directed to small business grants, as well as water, sewer, and irrigation rehabilitation programs.¹³

Figure 6-5 shows the sub-sector allocations within the Security and Law Enforcement sector.

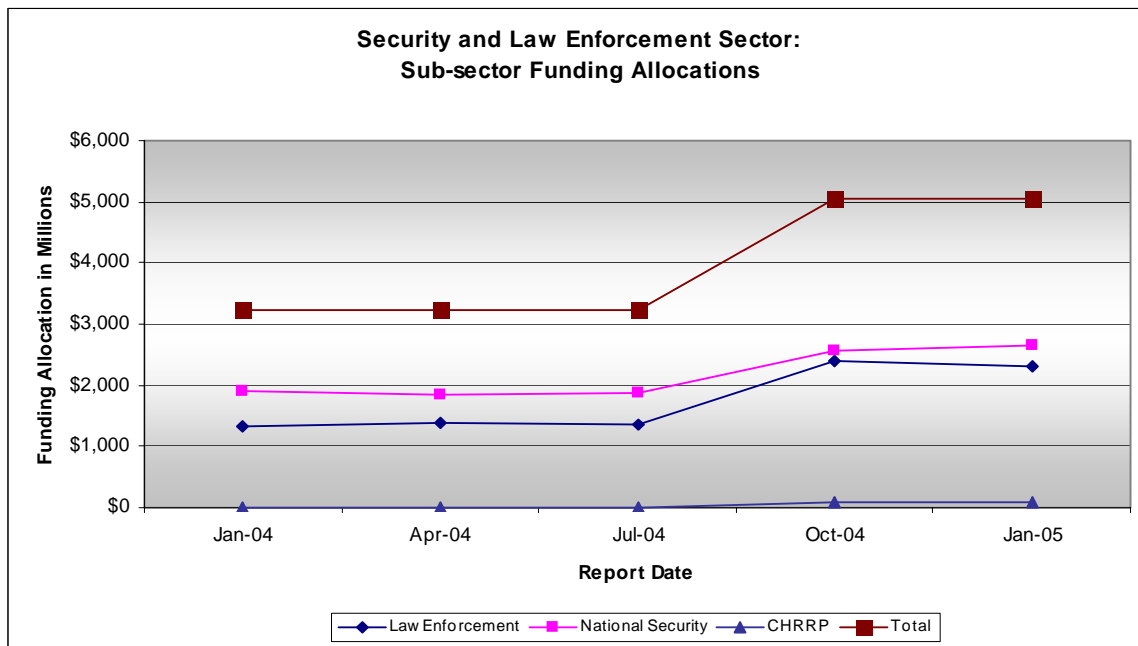


Figure 6-5

The September 2004 reprogramming of funds to this sector has expanded funding for police training, border security, and guards. Personal protection equipment, weapons, and vehicles, as well as related training and mobilization facilities (training schools, border forts, police stations) are also major recipients of reallocated funds.¹⁴ This summary shows how the increase in national security funds was allocated:

- \$448 million (65.5%) for Iraqi armed forces and Iraqi National Guard facilities¹⁵
- 16.4% for operations, personnel, and training¹⁶
- 6.7% for equipment¹⁷
- 11.7% for the Iraq Security Forces Quick Response Program¹⁸

Electricity

The production and distribution of electricity is a critical economic enabler that was a significant focus of IRRF allocations (30.2%, as of January 2004). In increasing the allocation for the sector, the Congress and reconstruction administrators recognize that reliable electricity is essential to the progress of reconstruction and rehabilitation. Continued difficulty with generation and transmission has limited the number of hours of electricity available to most Iraqis.

Current IRRF managers do not see the realigned funding allocations—aimed at supplanting long-term projects with short-term job creation activities—as a change in overall objectives. Officials have consistently indicated that long-term goals in the sector will be met with funds from Iraq, donor nations, and international lending institutions. Two factors, however, have led to changes in electricity sector funding allocations:

- the reprogramming of funds to support cities with significant combat-related damage
- a response to the generation crisis shaped by rapid demand growth and insurgent attacks on key infrastructure¹⁹

Generally, funding has focused on generation, transmission, and distribution, with materially smaller amounts (less than 3.7% of the sector total) allocated to a Monitoring and Control System and to security. The sector reallocation led to a 20.8% decline in funds between January 2004 and January 2005—from \$5.6 billion to \$4.4 billion. Figure 6-6 shows the sub-sector allocations within the Electricity sector.

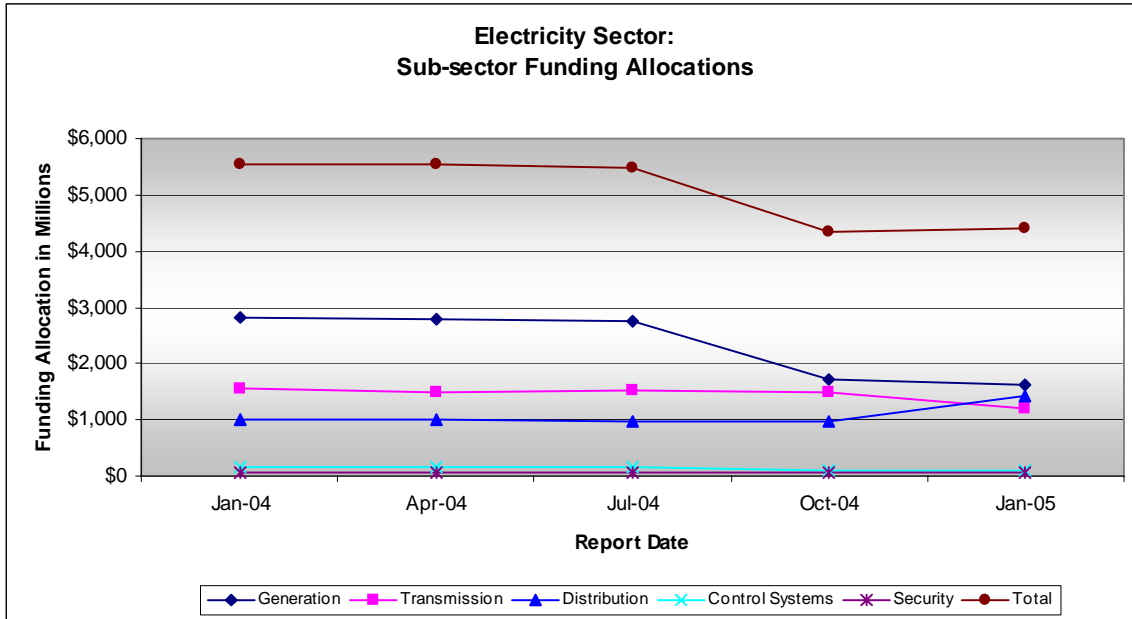


Figure 6-6

As the allocation of funds to the sector declined, the relative allocation of funds for generation facilities in the first quarter declined from 50.5% in 2004 to 36.9% in 2005. Conversely, over the same period, the relative proportion of funds for distribution projects increased from 18.0% to 32.4%. Funds allocated for transmission remained relatively static—30.7% to 31.5%. This redistribution of funds within the sector appears to be generally consistent with the stated management objective of de-emphasizing longer-term development projects as funds are shifted toward more immediately realizable goals. Figure 6-7 shows how the relative distribution of the major Electricity sub-sectors has changed over the past year.

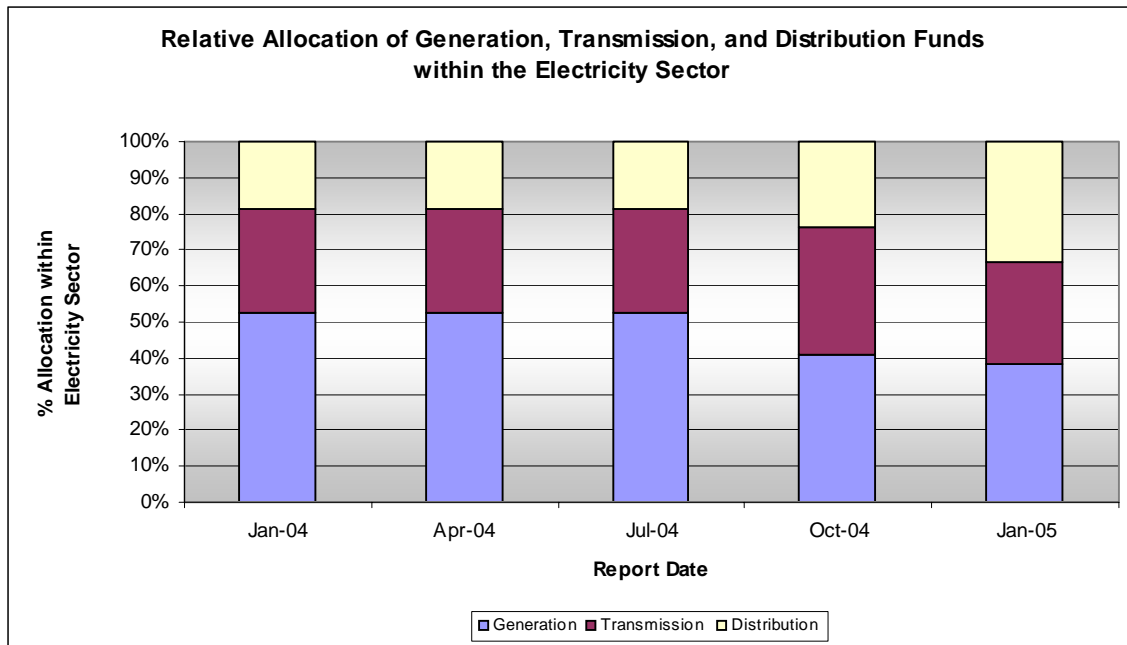


Figure 6-7

The reallocation of generation resources led to the deferral of 35.3% (1,200 MW) of initially planned generation capacity.²⁰ U.S. officials are working with the Iraqi Ministry of Electricity to re-prioritize remaining IRRF funds and to identify Iraqi and external funds to meet long-term generation needs. The IRMO has launched a \$50 million Rapid Recovery Program with the Iraqi Ministry of Electricity.²¹

The Rapid Recovery Program:

- helps the IIG complete IRRF-funded projects that were handed over unfinished from the GRD to the IIG because of insufficient funds and cost increases
- initiates an operations and maintenance program
- creates an emergency reaction program to respond to attacks on electricity-related infrastructure

Water Resources and Sanitation

Before the U.S.-led invasion, Iraq's potable water and sanitary wastewater systems were significantly degraded. In the post-invasion period, the country's intermittent production of electrical power further undermined the fragile water and wastewater infrastructure. Although the Coalition Provisional Authority (CPA) generally managed to oversee the return of the water system to pre-war levels, the country's widely failing sewage management infrastructure and sporadic availability of

potable water continue to pose health threats and tarnish overall impressions of reconstruction achievements.²²

Initial plans to rehabilitate large portions of the country's water and wastewater system through the IRRF have been curtailed. Water Resources and Sanitation sector funds have been reallocated to security, governance, debt relief, and efforts to boost Iraqi employment opportunities. Generally, IRRF fund managers provided for the transition of significant long-term development of water resources and sanitation needs to the IIG shortly after the June 28, 2004 transfer of governance authority.²³ The United States is also helping Iraqi ministries repackage previously postponed projects to garner international donor assistance.

IRRF-funded efforts are focused on creating local water and wastewater projects to stimulate Iraqi employment and deliver needed services to high-risk areas.²⁴ The DoS reports that re-prioritized projects focus on smaller-scale potable water development activities with the prospect of employing large numbers of Iraqis. Capacity-building projects are intended to ensure that Iraqis can maintain existing systems. A standardized design for small to medium-sized wastewater treatment facilities is being introduced to complement a competitive bidding process that will serve as a requirement for funds made available for these construction projects in FY 2005.²⁵

Funding for the Water Resources and Sanitation sector has been driven by potable water projects—65.3%-69.8% of sector funds. Sewage and water resources projects represent 27.9%–33.5% of sector funding. Other projects in the sector represent a materially smaller portion of allocated funds—less than 2.3%. Figure 6-8 shows the sub-sector allocations within the Water Resources and Sanitation sector. The allocation of IRRF funds to the sector declined 48.1% between January 2004 and January 2005 because of requested funds reprogramming.

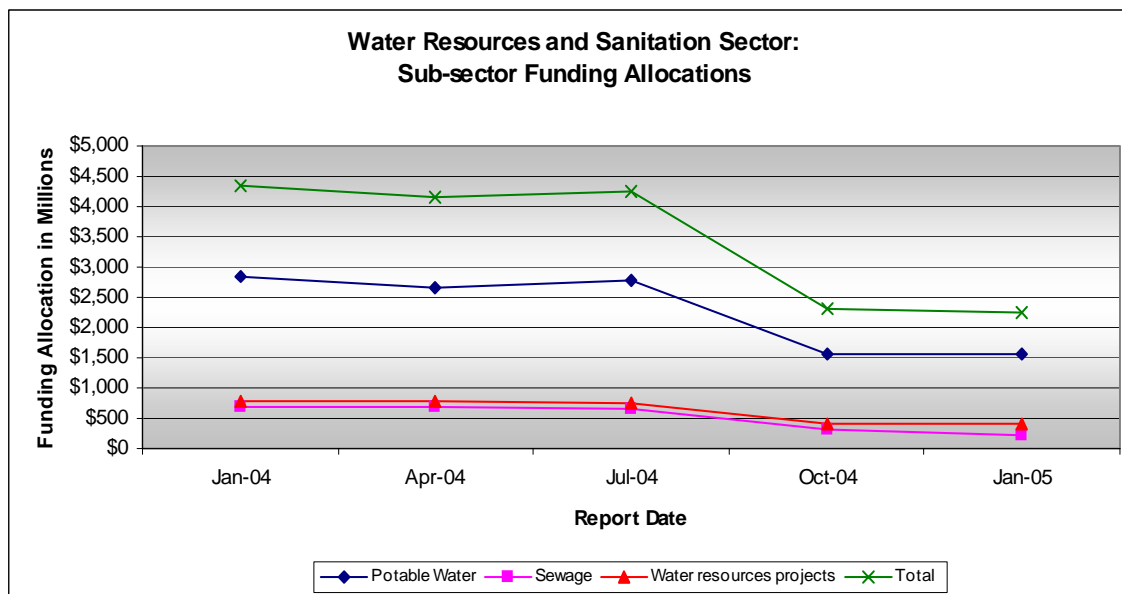


Figure 6-8

Justice and Public Safety

Efforts to strengthen civil society and public safety are the focus of the Justice and Public Safety sector. After the September 2004 strategic spending plan review, this sector's share of IRRF funding allocations grew to the fourth-largest. The Justice and Public Safety sector now represents 10.6% of all IRRF allocations as of January 2005—a 32.3% increase over the same period last year.

Democracy-building activities, the focus of considerable effort in advance of the planned January 30, 2005 Iraqi elections, account for 79.7% of the increase in allocations during the past year. Driven by the U.S. Mission Iraq's strategy to "support Iraq's efforts to evolve into a nation that holds legitimate and transparent elections and possesses strong democratic institutions,"²⁶ allocations in the reporting period were directed to:

- local governance programs
- support of Iraqi self-government
- electoral support and voter education programs
- the assurance of legitimate elections
- civil society and media programs
- democratic institution capacity-building programs

Additionally, during this reporting period, these Justice and Public Safety sector programs were begun or continued:

- witness protection programs

- auditor training
- penal code development
- facilities improvements
- rule of law training
- women's democratic infrastructure development
- financial management and budgeting processes
- community-based development projects, including those aimed at developing the physical infrastructure

Another Justice and Public Safety program, the Advanced First Responders Network, is scheduled for completion in January 2005, according to a January 12, 2005 PCO briefing to the Secretary of the Army. This program is building a nation-wide radio communications system for Iraqi police and emergency workers. The \$198.3 million project is a key component to rapid reaction response support for law enforcement and security personnel.

Oil Infrastructure

Oil is the resource that defines Iraq's economic potential. The exploitation and monetization of the country's known reserves is key to both its successful reconstruction and near-term economic success. The allocation of 9.2% of IRRF funds to support the nation's oil infrastructure has not been impacted by inter-sector reallocations.

Because oil is critical to the advancement of civil society and governance in Iraq, the oil infrastructure has become a target of choice for insurgents.²⁷ While overall oil production and exports have remained relatively consistent over the past year (although falling behind both anticipated production and dollar-value exports), the infrastructure has fallen prey to regular and repeated attacks. U.S. government analysts have also noted an apparent strategy to stop the flow of crude oil before it is refined and to disrupt Baghdad's supply of refined fuels, according to the Section 2207 Report of January 5, 2005.

Support for the oil sector into January 2005 is reflected in the robust coordination of projects funded by the IRRF and the Iraqi Ministry of Oil to:

- repair and enhance plant facilities, network infrastructure, and extraction processes
- address emergency response requirements

Numerous gas-oil separation plants, liquefied petroleum gas projects, and refined fuel distribution developments are definitized and slated for work in early 2005. To support these efforts, \$450 million (26.5% of the sector total) that was formerly

earmarked for procuring emergency supplies of refined petroleum products has been reprogrammed to support the oil infrastructure.

Transportation and Telecommunications

Many ongoing projects aimed at strengthening the country's aviation, maritime, rail, and postal systems continue—2.8% of IRRF allocations as of January 2005. Recent apportionment adjustments from outside and inside the sector have reduced funding for the Railroad Rehabilitation and Restoration sub-sector by 8.6% and reduced funding for the Iraqi Communications System by 48.9%.

A new activity, funded with \$70 million, will create a fiber network to support command and control systems for both the electricity and rail industries—13.6% of sector resources. During the last reporting period, this project was awarded under an existing indefinite delivery indefinite quantity contract (IDIQ).

A \$5 million increase was allocated for port rehabilitation at Um Qasr—12.5% of sector resources. Vessel traffic is reported to be increasing as port dredging continues and gantry cranes, Ro-Ro berths, and other maritime equipment are installed.

As part of continuing airport rehabilitation in Baghdad, Basra, and Mosul, navigation and visual aid equipment is being installed, and new air traffic controllers are being trained. Rail rehabilitation, station refurbishment, and spare parts purchases continued during the most recent period, notwithstanding the “significant impact of the insurgency on the railroad sector.”²⁸

Private Sector Employment Development

To stimulate labor-intensive employment and encourage debt relief for Iraq, the Private Sector Employment Development sector received a substantial reallocation of IRRF funds that resulted from the September 2004 reprogramming. As of January 2005, the sector's 4.6% allocation of IRRF resources was a \$659 million (358.2%) increase over the same period last year. After the strategic review's reallocation of \$286 million, the USAID reported that short-term Iraqi employment in high-risk communities and cities was projected to peak at 38,000. Additionally, the reprogramming of \$360 million to provide for the relief of Iraqi debt owed the United States established a baseline for the 19 Paris Club nations and other countries to forgive up to 80% of Iraq's debt.

Education, Refugees, Human Rights, and Governance

The Education, Refugees, Human Rights, and Governance sector experienced significant activity during this reporting period, in advance of the planned January 2005 elections. Representing 2.1% of IRRF funds as of January 2005, the sector has seen a 35.4% overall increase in allocations since the same period last year. The strategic review provided an additional \$40 million for governance initiatives and \$70 million to support internally displaced persons. Both categories in the sector have seen significant ongoing operations in the latest quarter in preparation for the planned January 30, 2005 Iraqi elections and as a result of the wide-spread evacuation of Fallujah.

These activities have been funded in preparation for Iraq's elections:

- training for domestic election monitors
- voter registration programs and information
- counsel and other support for democratically oriented parties
- opinion polling

Other Sectors

As of January 2005, these sectors accounted for 7.4% of IRRF allocations:

- Health Care
- Roads, Bridges, and Construction
- Administration

During the reporting quarter, construction began on a National Children's Hospital in Basra. Also, the Roads, Bridges, and Construction sector saw the withdrawal of the prime design-and-build road contractor from Iraq, reportedly because of concern for personnel and site security. The Section 2207 Report of January 5, 2005, noted that the prime contractor had been "demobilized," and that a shift in the sector "in favor of [a] direct local contracting program"²⁹ had occurred.

Iraqi Inspector General System Development

Guided by CPA Order 57, the Iraq Inspector General system was initiated in February 2004 and continues to develop. All of the 26 Iraqi ministries have an Office of Inspector General, as well as the City of Baghdad, Central Bank of Iraq, and Department of Religious Affairs. During this quarter, the Iraqi inspectors general focused their efforts on building their staffs and improving their capabilities to perform audits, inspections, and investigations.

The SIGIR has helped the IGs develop their staffs by providing technical training advice and by coordinating tailored training programs in management, leadership, audit, inspection, and investigation. During November and December 2004, more than 640 Iraqi auditors, inspectors, and investigators from the IG system and the Iraqi Board of Supreme Audit (BSA) completed week-long seminar courses in Cairo, Egypt.

Also during November 2004, all of the Iraqi IGs and all senior officials of the BSA attended three weeks of special leadership and management training courses in Egypt and the United Kingdom. Coordinated by the SIGIR, these high-level supervisory programs were tailored to teach the IGs up-to-date management and leadership techniques, metrics, and tools. In late November and early December, the SIGIR coordinated two trips to the United States for the President of the BSA and 12 of his Senior Audit Managers.

The IGs meet every two weeks and have created committees to research specific issues that can benefit the entire group of IGs. They are working to cement their relationship with the Commissioner of the Commission on Public Integrity (CPI) and the President of the BSA. In January 2005, the Commissioner of the CPI announced the formation of a Program Review Committee to oversee the development of the Academy of Principled Governance.

Further Reading

For details on Iraq reconstruction activities, see the DoS Section 2207 Report of January 5, 2005. This document can be found at:

<http://www.state.gov/m/rm/rls/2207/jan2005/pdf/>

Previous Section 2207 Reports are archived by the Office of Management and Budget at:

<http://www.whitehouse.gov/omb/legislative/>

The January 12, 2005 *Iraq Weekly Status* report is included in this Report as Appendix M. The *Iraq Weekly Status* reports can be found at:

http://www.export.gov/iraq/bus_climate/

The USAID posts its weekly updates on Iraq reconstruction at:

<http://www.usaid.gov/iraq/>

The PCO posts updates on construction starts and Iraqi employment at:
<http://www.rebuilding-iraq.net/>

The January 12, 2005 PCO weekly briefing to the Secretary of the Army is included in this Report as Appendix L.

7. Sources and Uses of Funding for Iraq Relief and Reconstruction

Overview

Under law, the Special Inspector General for Iraq Reconstruction (SIGIR) must report on the use of funds for Iraq relief and reconstruction. The U.S. Congressional Budget Office estimated the cost of Iraq relief and reconstruction in the medium term at \$50-100 billion. As of December 31, 2004, approximately \$60.3 billion has been provided for Iraq relief and reconstruction from U.S. appropriated funds, Iraqi funds, and funds contributed by donor nations:

- *U.S. appropriated funds*: \$24.1 billion, used primarily for Iraq reconstruction
- *Iraqi funds*: \$32.8 billion, used primarily for the daily operations of the Iraqi government, but also for reconstruction projects and the relief of the Iraqi people
- *Donor funds*: \$3.4 billion in contributions and firm commitments by donor countries and international organizations (\$849 million in humanitarian aid and \$2.6 billion of the \$13.5 billion pledged at the Madrid International Donors Conference for Iraq Reconstruction)

Figure 7-1 provides an overview of the sources of funds.

U.S. Appropriated Funds

The United States has appropriated \$24.1 billion toward the relief and reconstruction of Iraq. As of December 31, 2004, approximately \$15.9 billion (65%) has been obligated, and \$6.8 billion (28%) has been expended. The \$6.8 billion in expenditures include spending on infrastructure rehabilitation, security and social services, the Coalition Provisional Authority (CPA), the Iraq Reconstruction Management Office (IRMO) operations, governance initiatives, relief, and administration.

The Congress appropriated funds for the reconstruction of Iraq in two supplemental appropriations acts and, most recently, the FY 2005 Defense Appropriations Act:

- Public Law 108-11 (P.L. 108-11), the Emergency Wartime Supplemental Appropriations Act, 2003

- P.L. 108-106, the Emergency Supplemental Appropriations Act for the Defense and Reconstruction of Iraq and Afghanistan, 2004
- P.L. 108-287, the FY 2005 Defense Appropriations Act

Sources of Funds for Iraq Relief and Reconstruction, as of December 31, 2004

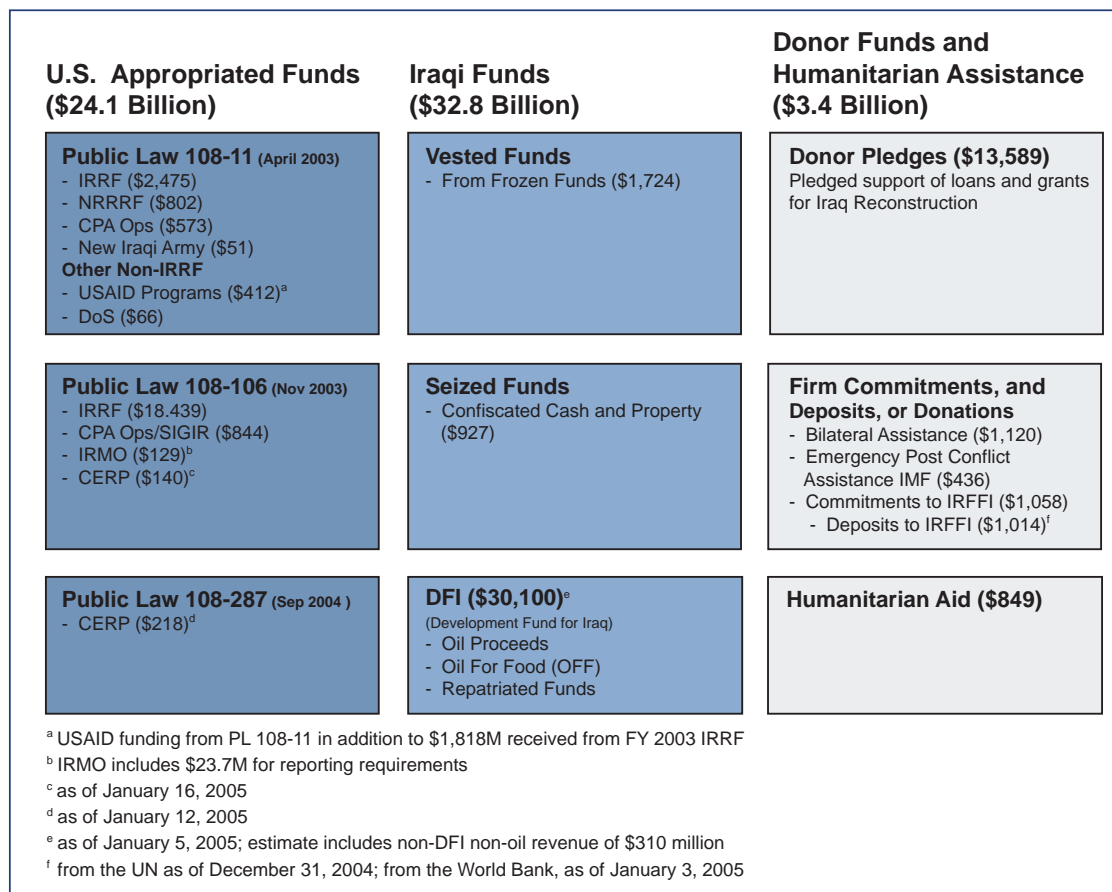


Figure 7-1

Public Law 108-11

P.L. 108-11 created the Natural Resources Risk Remediation Fund (NRRRF), the Iraq Relief and Reconstruction Fund (IRRF), and the Iraq Freedom Fund (IFF).

The Act established the NRRRF “for expenses necessary, in and around Iraq, to address emergency fire fighting, repair of damage to oil facilities and related infrastructure, and preserve a distribution capability.” As of December 31, 2004, \$802 million of the NRRRF funding has been apportioned, \$800.6 million has been

committed and obligated, and \$674 million has been expended. For more information, see Table 7-1.

P.L. 108-11 established the Iraq Relief and Reconstruction Fund 1 (IRRF 1) “for necessary expenses for humanitarian assistance in and around Iraq and to carry out the purposes of the Foreign Assistance Act of 1961 for rehabilitation and reconstruction in Iraq.” As of December 31, 2004, the Office of Management and Budget (OMB) has apportioned 100% of the \$2.475 billion IRRF 1 funds among the United States Agency for International Development (USAID), Department of Defense (DoD), Department of State (DoS), and the Department of the Treasury (Treasury). As of December 31, 2004, of the \$2.475 billion in IRRF1, \$2.473.2 billion (99%) has been obligated (including \$1.8 million de-obligated from the September 30, 2004 total), and \$2.017 billion (81%) has been expended. Funds from P.L. 108-11 were available for obligation through September 30, 2004.

- Table 7-1 shows the status of P.L.108-11 supplemental appropriation funds related to Iraq relief and reconstruction.
- Table 7-2 shows the P.L. 108-11 funding status by program and by USAID strategic objectives for IRRF 1 funds.
- Table 7-3 shows the P.L. 108-11 funding status by program and by USAID strategic objectives for NRRF and non-IRRF 1 funds.

P.L. 108-11 also established the IFF “for additional expenses for ongoing military operations in Iraq...for stability operations...and for other costs.” These funds were used to provide CPA operating expenses, and \$300 million was transferred to the NRRRF. Other sections of the Act funded additional relief and reconstruction activities of the DoS (\$66 million) and the USAID (\$412 million).

Status of Supplemental Appropriation, P.L. 108-11, as of December 31, 2004 (in millions)				
Source	Agency	Apportioned	Obligated	Expended
NRRRF	DoD	\$802.0	\$800.6	\$674.2
IRRF	USAID	1,818.6	1,818.5	1,464.0
	DoD IRRF1	518.3	518.3	458.6
	DoS	125.4	125.4	90.1
	Treasury	6.0	6.0	4.2
	USTDA	5.0	5.0	1.0
	Subtotal	2,473.3	2,473.2	2,017.9
Non-IRRF P.L. 108-11	USAID	412.2	410.7	381.0
	DoS	66.0	66.0	50.0
	Subtotal	478.2	476.7	431.0
IFF	CPA-OPS	573.7	573.6	484.7
	New Iraqi Army	51.1	51.1	49.6
	Subtotal	624.8	624.7	534.3
Total		\$4,378.3	\$4,375.2	\$3,657.4
Note: Data not formally reviewed or audited.				

Table 7-1

The Act also funded the daily operations of the CPA until P.L. 108-106 was passed in November 2003. Although the CPA ceased operations on June 28, 2004, contractual payment obligations resulting from contracts awarded by the CPA during its tenure are still being fulfilled. At the end of the fiscal year, totals for amounts authorized and obligated for CPA operations were adjusted.

Most of the funds allocated in P.L. 108-11 (55%) were used for the rehabilitation of Iraq infrastructure—primarily oil production and electricity generation. Other major uses include relief, governance initiatives, and health and social services.

Status of P.L. 108-11 IRRF 1 Funds by Program and by USAID Strategic Objectives, as of December 31, 2004 (in millions)				
Agency	Program Name	Apportioned	Obligated	Expended
IRRF 1 Funds				
USAID	Restore Critical Infrastructure	\$1,124.3	\$1,124.3	\$838.4
	Improve Efficiency & Accountability of Gov't	174.7	174.7	174.7
	Food Aid: Office of Food for Peace	160.0	160.0	122.8
	Support Education Health and Social Services	118.5	118.5	102.7
	Relief: Office of Foreign Disaster Assistance	72.2	72.2	64.1
	Office of Transition Initiatives	70.0	69.9	67.0
	Expand Economic Opportunity	65.9	65.9	63.1
	Program Support & Development of Gulf Region	18.0	18.0	17.4
	Administrative Expenses	15.0	15.0	13.8
	<i>Subtotal</i>	<i>1,818.6</i>	<i>1,818.5</i>	<i>1,464.0</i>
DoD	Restore Iraq Electricity (RIE)	300.0	300.0	299.5
	Restore Iraq Oil (RIO)	166.0	166.0	158.3
	First Responder Network/ DIILS	52.3	52.3	0.8
	<i>Subtotal</i>	<i>518.3</i>	<i>518.3</i>	<i>458.6</i>
DoS	Police/Prison Programs	61.5	61.5	37.5
	Relief Efforts	27.0	27.0	19.9
	Law Enforcement	24.6	24.6	20.4
	Humanitarian Demining	12.3	12.3	12.3
	<i>Subtotal</i>	<i>125.4</i>	<i>125.4</i>	<i>90.1</i>
Treasury	Technical Assistance	6.0	6.0	4.2
	<i>Subtotal</i>	<i>6.0</i>	<i>6.0</i>	<i>4.2</i>
U.S. Trade and Dev. Agency	Technical Assistance, Training	5.0	5.0	1.0
	<i>Subtotal</i>	<i>5.0</i>	<i>5.0</i>	<i>1.0</i>
Total IRRF 1 Funds		\$2,473.3	\$2,473.2	\$2,017.9
Note: Data not formally reviewed or audited.				

Table 7-2

Status of P.L. 108-11 NRRRF and Non-IRRF 1 Funds by Program and by USAID Strategic Objectives, as of December 31, 2004 (in millions)				
Agency	Program Name	Apportioned	Obligated	Expended
NRRRF Funds				
DoD	Restore Iraq Oil (RIO)	\$802.0	\$800.6	\$674.2
Total NRRRF Funds		\$802.0	\$800.6	\$674.2
Non-IRRF 1 Funds				
USAID	Food Aid: Office of Food for Peace	\$138.2	\$136.8	\$114.0
	USDA ^a	106.8	106.8	106.8
	Restore Critical Infrastructure	51.6	51.6	51.6
	Support Education Health and Social Services	34.0	34	33.1
	Relief: Office of Foreign Disaster Assistance	33.4	33.3	30.4
	Operating Expenses	23.8	23.8	20.8
	Program Support & Development of Gulf Region	10.5	10.5	10.4
	Improve Efficiency & Accountability of Government	8.9	8.9	8.9
	Expand Economic Opportunity	5.0	5.0	5.0
	<i>Subtotal</i>	<i>412.2</i>	<i>410.7</i>	<i>381.0</i>
DoS	Coalition Support	66.0	66.0	50.0
	<i>Subtotal</i>	<i>66.0</i>	<i>66.0</i>	<i>50.0</i>
Total Non-IRRF 1 Funds		\$478.2	\$476.7	\$431.0
^a Funds appropriated to U.S. Department of Agriculture, then transferred to USAID Note: Data not formally reviewed or audited.				

Table 7-3

Public Law 108-106

P.L. 108-106 appropriated \$18.4 billion for relief and reconstruction activities in Iraq and established the Iraq Relief and Reconstruction Fund 2 (IRRF 2). These funds are available for obligation until September 30, 2006.

In addition to creating IRRF 2, the Act authorized \$983 million for the operations of the CPA, including \$75 million for the CPA-IG and \$50 million to support CPA

reporting requirements. After the CPA ceased operations on June 28, 2004, \$105.75 million was transferred to the DoS to fund U.S. Mission Iraq operations, including the IRMO. The Act also authorized the use of \$180 million of Defense Operations and Maintenance (O&M) funds for the Commanders' Emergency Response Program (CERP) in Iraq and Afghanistan. The DoD allocated \$140 million of the \$180 million for CERP activities in Iraq. As of December 31, 2004, \$138.6 million (99%) of the \$140 million allocated for CERP in Iraq has been obligated, and \$108.1 million (78%) has been expended. Table 7-4 is an updated overview of P.L. 108-106 funds.

Status of Supplemental Iraq Reconstruction Funding, P.L. 108-106, as of December 31, 2004 (in millions)					
Source	Appropriated	Apportioned	Committed	Obligated	Expended
IRRF 2	\$18,439.0	\$16,602.0	\$13,950.0	\$10,371.0	\$2,421.0
CPA-OPS/IG	843.8	843.8	843.7	790.9	599.8
IRMO Transfer ^a	129.5	129.5	129.5	104.9	61.0
Total	\$19,412.3	\$17,575.3	\$14,923.2	\$11,266.8	\$3,081.8
Note: Data not formally reviewed or audited.					
^a includes \$23.7 million for reporting requirements					

Table 7-4

Iraq Relief and Reconstruction Fund 2

The \$18.4 billion IRRF 2 appropriation was divided among 11 sectors, based on the CPA's request for supplemental funding, developed in October 2003. Changes in these sector allocations beyond prescribed limits require congressional approval.

The December 2004 Reprogramming

In December 2004, the DoS moved to reprogram and reallocate an additional \$457 million of IRRF 2 funds to meet short-term needs. According to the Section 2207 Report of January 5, 2005, this change was intended to address near-term needs in the Electricity sector (\$211 million) and to restore essential services in Najaf, Samarra, Sadr City, and Fallujah (\$246 million). On December 27, 2004, the DoS notified the U.S. Congress of \$170 million that was subject to notification. Table 7-5 provides an overview of the December 2004 reprogramming and reallocation.

According to data that the Iraq Project and Contracting Office (PCO) provided to the SIGIR, the Hartha generation plant was cancelled and a planned upgrade and parts of two other projects were cancelled to provide the \$211 million for

reallocations in the Electricity sector. These are the areas that received the reallocated funds:

- 59.6% of the Electricity sector reallocations will address escalating project costs in generation and transmission projects.
- 23.7% of the changes will fund the Rapid Recovery Program to stabilize electricity generation.
- 16.6% of the changes will fund a requirement for spare parts.

An overview of the \$246 million Post-Battle Reconstruction Initiative reprogramming and reallocation illustrates the focus on short-term projects in areas that have been at high risk as a result of engagements between insurgents and security forces.

December 2004 IRRF 2 Reprogramming and Reallocation		
Objectives	Amount	Transfer
Project Cost Adjustments and Emergency Needs		
Project Cost Adjustments (generation)	\$125,529,481	Within Sector
Rapid Response	50,000,000	Within Sector
Spare Parts (generation)	35,000,000	Within Sector
<i>Subtotal</i>	<i>\$210,529,481</i>	
Post-Battle Reconstruction		
Sadr City (Electricity)	\$121,420,300	Within Sector/External Sector
Najaf (Electricity, Water, Health)	55,000,000	Within Sector/External Sector
Samarra (Electricity, Water, Health)	38,820,500	Within Sector
Fallujah (Electricity, Water, Health)	31,000,000	Within Sector/External Sector
<i>Subtotal</i>	<i>\$246,240,800</i>	
Total December 2004 Reprogramming	\$456,770,281	
Note: Data not formally reviewed or audited.		Source: Iraq Project and Contracting Office

Table 7-5

The new totals with corresponding commitments, obligations, and expenditures for IRRF 2 are outlined in Table 7-6. Approximately \$9.4 billion (51.2%) of the funds have been apportioned to construction projects and \$7.1 billion (38.8%) toward non-construction. As of January 5, 2005:

- \$16.6 billion (90.0%) has been apportioned

- \$13.9 billion (75.7%) has been committed
- \$10.3 billion (56.2%) has been obligated
- \$2.4 billion (13.1%) has been expended

As of December 15, 2004, the OMB has apportioned these IRRF 2 funds:

- DoD, \$12.0 billion (65.2% of the \$18.4 billion total)
- USAID, \$2.9 billion (16.1%)
- DoS, \$1.2 billion (6.4%)
- U.S. Treasury, \$39 million (.2%)

Appendix D shows detailed IRRF 2 apportionments by agency.

IRRF 2 Program Status, as of January 5, 2005 (in millions)					
Sector	2207 Report Spending Plan	Apportioned	Committed	Obligated	Expended
Security and Law Enforcement	\$5,045	\$5,045	\$4,356	\$3,232	\$1,182
Electricity Sector	4,350	3,627	3,328	2,703	581
Water Resources and Sanitation	2,311	1,373	1,308	891	42
Oil Infrastructure	1,701	1,701	1,266	920	97
Justice, Public Safety, and Civil Society	1,121	1,120	865	591	115
Democracy	832	832	696	581	190
Private Sector Employment Development	843	843	403	327	69
Health Care	786	786	750	417	16
Transportation and Telecommunications Projects	499	512	475	322	24
Education, Refugees, Human Rights, Democracy, and Governance	379	379	179	171	43
Roads, Bridges, and Construction	359	355	295	187	33
Administrative Expense	213	29	29	29	29
Total by Sector	\$18,439	\$16,602	\$13,950	\$10,371	\$2,421
Construction	11,306	9,542	8,444	6,360	1,239
Non-construction	6,301	6,228	4,810	3,430	992
Democracy	832	832	696	581	190
Total by Program	\$18,439	\$16,602	\$13,950	\$10,371	\$2,421
Note: Data not formally reviewed or audited.					

Table 7-6

CERP-Appropriated Funds—Public Law 108-287

In addition to the \$140 million of U.S. appropriated funds authorized for the CERP Program in FY 2004, P.L. 108-287 authorized another \$300 million for CERP activities in Iraq and Afghanistan. P.L. 108-447 increased this amount to \$500 million. These funds were authorized for use in both FY 2004 and FY 2005,

and \$218 million from this source has been made available to military commanders in Iraq. As of January 12, 2005, \$150.3 million has been committed (69%), \$133.8 million has been obligated (61%), and \$43.8 million has been disbursed (20%).

CPA and U.S. Mission Iraq Operating Funds

CPA daily operations were funded from the IFF from April to November 6, 2003. As of December 31, 2004, \$573.7 million has been allocated, \$573.6 million has been obligated, and \$484.7 million has been disbursed. From November 6, 2003, to June 28, 2004, CPA operations were funded from P.L. 108-106. Table 7-7 is an update of the status of those funds as of December 31, 2004. The Congress appropriated the funding of CPA-IG operations with \$75 million from P.L. 108-106. As the U.S. Mission Iraq became operational and its IRMO component assumed some of the duties of the CPA, \$105.75 million was transferred from the CPA's P.L. 108-106 appropriation to the DoS to fund IRMO operations. The status of these transferred funds is included as a line item in Table 7-7.

CPA Operating Expenses PL108-106, as of December 31, 2004 (in millions)					
Title/Description of Requirement	Funded	Obligated	Expended	Obligated	Expended
Personnel	\$92.677	\$92.677	\$61.239	100%	66%
Security	183.417	183.417	147.798	100%	81%
External Direct Support	2.367	2.367	1.925	100%	81%
Logistics	363.658	363.658	306.476	100%	84%
Baghdad Facilities and Furnishings	1.936	1.936	0.021	100%	1%
Communications/IT	95.737	95.609	54.408	99.9%	57%
Iraq Media Network	0.000	0.000	0.000	0%	0%
Reporting	26.207	26.207	15.634	100%	59%
Other Activities	\$2.837	\$2.837	\$1.305	100%	46%
Total FY 2004 Supplemental	\$768.836	\$768.708	\$588.806	100%	76%
CPA-IG	\$75.000	\$22.189	\$11.000	29%	14%
IRMO Transfer ^a	\$105.750	\$104.932	\$61.000	99%	58%

^a Does not include \$23.7 million for reporting requirements.
Note: Data not formally reviewed or audited.

Table 7-7

Iraqi Funds

Iraqi funds available for reconstruction can be grouped into several categories, including seized funds, vested funds, and funds deposited in the DFI, as shown in Figure 7-1. *Seized funds* were former Iraqi regime monies confiscated by coalition forces. *Vested funds* were Iraqi funds in U.S. banks that were frozen by executive order, vested in the U.S. Treasury, and authorized for use to benefit the people of Iraq. In May 2003, UNSCR 1483 noted the establishment of the DFI, which contains proceeds from Iraqi oil sales, repatriated assets from the United States and other nations, and deposits from unencumbered Oil for Food (OFF) program funds. Since the transfer of governance authority to the Iraqi Interim Government (IIG) on June 28, 2004, total deposits to the DFI can only be estimated, because the SIGIR does not have access to information on the status of DFI funds now under IIG control. DFI information on funds obligated and disbursed are not available. The DFI funds the Iraqi National Budget, primarily from current oil sales.

In 2003 and 2004, Iraqi funds supported two U.S. military assistance programs that initiate reconstruction projects and provide humanitarian assistance:

- the Commanders' Emergency Response Program (CERP)
- the Commander's Humanitarian Relief and Reconstruction Program (CHRRP)

Iraqi funds also were used for the Accelerated Iraq Reconstruction Program (AIRP), which is designed for high-impact, high-visibility projects that offer employment to Iraqis.

Seized Funds

Coalition military forces have seized \$926.7 million from the former Iraqi regime. As of December 31, 2004, the Defense Finance and Accounting Service (DFAS) accounting systems show that \$856 million (92.4%) has been obligated, and \$837.9 million (90.4%) has been disbursed. In addition to the activity captured by the Army accounting systems that feed the DFAS, other projects have been funded in Baghdad with the approval of the appropriate U.S. and Iraqi officials. The bulk of the unpaid allocations comprises four large projects, as reported in the SIGIR's October 30, 2004 Report:

- funding the Iraqi ministry offices of Inspector General
- providing new offices for the senior officials of the IIG
- assisting in the re-integration of militia
- providing information technology and security support to the IIG compound

Additional projects totaling \$8.3 million have recently been authorized. This lowers the total of unallocated seized funds to all but \$.7 million of the \$926.9 million seized (.08%).

The U.S. government has adopted a strict policy prohibiting any new obligations from seized assets after the June 28, 2004 governance authority change, without the approval of the IIG. The IIG has allowed the U.S. government to maintain the financial administration for projects approved before the change of governance authority and for the recent projects (\$8.3 million). The uncommitted balance of \$.7 million will be spent with the approval of the Iraqi government.

The bulk of seized assets were used for:

- non-ministry repairs and humanitarian assistance
- Iraqi ministry operations
- the Regional Rapid Response Program (RRRP)
- the CERP
- fuel products (diesel, heating oil, etc.) for the Iraqi people

Appendix E provides a detailed listing of the uses of seized funds.

Vested Funds

In response to a UN resolution passed after the first Gulf War, the United States froze Iraqi assets (UNSCR 661, August 1990; Presidential Executive Order 12817 of October 23, 1992). On March 20, 2003, the United States vested \$1.724 billion (81%) of the \$2.120 billion of the frozen Iraqi assets in the U.S. Treasury (Presidential Executive Order 13290) and facilitated its transfer to the CPA. During the initial stages of post-conflict operations, these vested funds provided a vital source of money for relief and reconstruction.

From April 10, 2003, to October 19, 2003, \$1.724 billion in vested funds were transferred from the Federal Reserve Bank in New York to CPA control in Baghdad. As of December 31, 2004, DFAS records indicate \$1.703 billion (99%) has been obligated, and \$1.687 billion (98%) has been expended. Local records of the Joint Area Support Group Central in Baghdad show \$1,702.3 million (99%) in total disbursements for vested funds and \$1.7 million in uncommitted funds, as of December 31, 2004.

While vested funds have been virtually expended, the remaining small balance, unlike seized assets, remains under the control of the U.S. government. This is consistent with a legal ruling that determined the Secretary of Defense authorization

to administer the vested assets that remained after the change in governance authority. The current balance is \$1.7 million.

Vested funds were primarily used for:

- Iraqi civil servant salaries, pensions, and individual relief payments
- Iraqi ministry operations
- repair and reconstruction

Appendix F provides a more detailed listing of expenditures from vested funds.

While the bulk of frozen Iraqi assets in the United States was vested and sent to Iraq, a balance of \$396.6 million remained. The United States government has transferred \$208.6 million to the DFI and allowed execution of perfected judgments of \$128 million. The amount of frozen assets remaining in the U.S. is currently \$44.9 million (down from \$60 million), largely because of a reconciliation of blocked tangible Iraqi assets.

Development Fund for Iraq

In May 2003, the CPA established the DFI to serve as the primary financial vehicle to channel revenue from Iraqi oil sales, unencumbered OFF deposits, and repatriated Iraqi assets to Iraq relief and reconstruction efforts.

From June 28, 2004, to January 5, 2005, Iraq realized \$9.03 billion in oil revenues, from which the IIG has received \$8.58 billion, with \$451.7 million (5%) deposited with the UN for compensation of damages arising from Iraq's occupation of Kuwait during the Gulf War. On June 30, 2004, the DFI received an additional \$500 million from unexecuted letters of credit from the UN Oil for Food program. In addition, the 2005 Iraqi National Budget lists non-oil revenue at \$310.8 million during 2004. Adding these amounts to the \$20.7 billion in revenue received by the DFI from its inception until June 28, 2004, yields an estimated revenue total of \$30.1 billion.

The DFI is the primary funding mechanism for the operation of the IIG. Appendix I includes a draft copy of the 2005 Iraqi National Budget.

DFI Sub-account

Before the IIG assumed governance authority, the administration of contracts awarded by the CPA from DFI funds before the transition to Iraqi rule was delegated to the U.S. government. A separate sub-account, the "Central Bank of Iraq/Development Fund for Iraq/Transition," was created at the Federal Reserve Bank of New York to enable payment for work on those contracts. In addition to

the Federal Reserve funds, cash has been provided to enable payment in Iraq for those projects that require this method of payment.

On June 15, 2004, the Iraqi Minister of Finance designated the Director of the Program Management Office (PMO), now the PCO, to administer and make payments on those DFI contracts entered into before June 28, 2004, and not secured by a letter of credit, up to a limit of \$800 million. This initial amount was intended as a first step toward ensuring the continuity of the execution for these contracts, because it was known that the overall liability would substantially exceed this amount. The Ministry of Finance was empowered to increase the amount provided to the DFI sub-account to meet contract obligations at his discretion. The payment limits have been increased, as shown in Table 7-8.

DFI Sub-account Deposits, as of December 31, 2004 (in millions)		
Transfer/ Deposit	Date	Amount
Cash on hand	June 28, 2004	\$217.7
Beginning Transfer/Balance	June 28, 2004	800.0
Additional replenishment	September 20, 2004	400.0
Additional replenishment	November 23, 2004	800.0
Additional replenishment	December 24, 2004	800.0
Total		\$3,017.7
Note: Data not formally reviewed or audited.		

Table 7-8

When the transfer of governance authority occurred, \$217.7 million of DFI cash in the possession of CPA officials was retained for payment of DFI obligations. The Iraqi Ministry of Finance has authorized payment from the DFI sub-account through the end of February 2005.

To quantify the unfunded liabilities outstanding for the DFI sub-account, a compilation of those organizations with DFI sub-account contracts was created with an estimated award amount. Table 7-9 provides the list with a total contract award amount of \$3.504 billion. Since the Iraqi Minister of Finance has advanced \$3.017 billion in payment authority as of December 31, 2004, the current unfunded liability is approximately \$486.8 million.

Estimate of Outstanding DFI-Related Liabilities, as of December 1, 2004				
Ministry	# of Contracts	Award Amount	Paid	Unpaid
Ministry of Electricity	62	\$907,656,491	\$680,874,053	\$226,782,437
Ministry of Interior	385	662,798,939	266,339,093	396,459,846
Restore Iraq Oil	1	624,235,126	204,235,126	420,000,000
Ministry of Defence	192	329,994,328	99,795,646	230,198,682
Rapid Regional Response Program	1,438	282,147,392	46,897,314	235,250,077
Ministry of Oil	20	220,493,972	178,195,603	42,298,368
Oil for Food Program	45	151,315,827	5,830,652	145,485,175
Ministry of Interior (Air Force Center for Environmental Excellence)	TBD	120,000,000	0	120,000,000
Ministry of Finance	20	94,408,739	73,471,159	20,937,579
Accelerated Iraqi Reconstruction Program	44	34,190,138	0	34,190,138
Commanders' Emergency Response Program	92	28,712,133	0	28,712,133
Baghdad Central	10	18,937,947	13,282,932	5,655,015
Ministry of Housing and Construction	2	15,900,116	14,056,135	1,843,981
Ministry of Transportation	8	4,089,468	2,497,082	1,592,386
Ministry of Municipalities and Public Works	4	3,401,454	951,770	2,449,683
Ministry of Higher Education and Scientific Research	9	2,564,127	0	2,564,127
Grants provided via PRB	3	1,693,186	0	1,693,186
Ministry of Culture	2	974,729	384,675	590,053
Coalition Police Assistance Training Team	3	668,055	0	668,055
Ministry of Communication	3	260,126	260,126	0
Office of the Environment	1	21,470	0	21,470
Ministry of Justice	0	0	0	0
Ministry of Water Resources	0	0	0	0
Totals	2,344	\$3,504,463,763	\$1,587,071,366	\$1,917,392,391
Note: Data not formally reviewed or audited.				

Table 7-9

Commanders Assistance Programs

Overview

Since April 2003, local military units have, at the discretion of their commanders, been actively involved in the reconstruction of Iraq. Military units dispersed throughout the country can effectively ascertain local reconstruction requirements and establish relationships with local Iraqi government entities.

The key to any military program designed to initiate reconstruction projects is to provide the necessary funds for its execution. The original military reconstruction program was the CERP. Initially funded by assets seized from the former regime, the CERP received money from both the DFI and U.S. funds appropriated in November 2003 by P.L. 108-106. The success of the CERP has led to the creation of the Commanders Humanitarian Relief and Reconstruction Program (CHRRP), as well as the funding of the IIG Military Assistance Program, which is managed by the MNF-I.

Commanders' Emergency Response Program

The CERP is a program that coalition military commanders can use to quickly direct money to meet humanitarian, relief, and reconstruction needs in their geographic areas of responsibility. Typical projects include:

- repairing and refurbishing water and sewer lines
- cleaning up highways by removing waste and debris
- transporting water to remote villages
- purchasing equipment for local police stations
- upgrading schools and clinics
- purchasing school supplies
- removing ordnance from public places, including schools
- refurbishing playgrounds, youth centers, libraries, other recreational facilities, and mosques

The DoD allocated \$140 million of the \$180 million from FY 2004 Defense-wide O&M funds (P.L. 108-106) for CERP activities to the Iraqi program. The Defense Appropriations Act (P.L. 108-287) of August 5, 2004, authorized \$300 million for the CERP programs for Afghanistan and Iraq (expenditures were authorized for both FY 2004 and FY 2005). The Consolidated Appropriations Act, 2005 (P.L. 108-447), which was passed on December 9, 2004, increased the authorization of CERP funds from \$300 million to \$500 million. On December 15, 2004, the total for the Iraqi CERP program from P.L. 108-287 was increased from \$140 million to \$218 million. Table 7-10 provides summary CERP information by source of funds, as of January 12, 2005.

Iraq CERP Program Totals, as of January 12, 2005			
Source	Total Program Funding	Cumulative Funds Obligated	Cumulative Funds Disbursed
Seized Assets	\$177,612,634	\$177,612,634	\$175,881,412
U.S. Appropriated P.L. 108-106	140,000,000	138,600,093	108,175,760
U.S. Appropriated P.L. 108-287	218,000,000	133,802,583	43,794,950
DFI	363,263,143	361,032,828	343,026,697
Total	\$898,875,777	\$811,048,138	\$670,878,819
Note: Data not formally reviewed or audited.			

Table 7-10

CERP projects are typically used for small-scale, less costly, short-term employment oriented to emergency and high-visibility projects. CERP projects are not required to adhere to formal Federal Acquisition Regulations (FAR). The SIGIR's October 30, 2004 Report included a summary table of CERP project types through October 2004. Table 7-11 provides a more detailed summary of how local commanders have spent CERP resources for those projects begun in FY 2005.

FY 2005 CERP Projects, as of December 31, 2004		
Sector	# Projects	Obligations
Water Resources and Sanitation	248	\$22,568,815
Education, Refugees, Human Rights, Democracy, and Governance	538	16,051,905
Roads, Bridges, and Construction	279	15,222,546
Private Sector Development	238	15,027,996
Security and Law Enforcement	161	4,481,629
Justice, Public Safety, and Civil Society	132	3,782,473
Healthcare	78	2,439,364
Electric	62	1,762,277
Transportation and Telecommunication	27	1,418,556
Oil	25	1,396,198
Totals	1788	\$84,151,759
Note: Data not formally reviewed or audited.		

Table 7-11

Commanders Humanitarian Relief and Reconstruction Program

The CHRRP was created to allow for the use of IRRF 2 funds for military assistance reconstruction programs in Iraq. After the assumption of governance authority on June 28, 2004, the IIG was asked to continue providing Iraqi funds for CERP programs. The IIG agreed to this request with the proviso that the United States match Iraqi grants, and CHRRP was created. The CHRRP is funded by the initial match of IIG funds of \$86 million. CHRRP projects are similar to those in the CERP program, but they are not exempt from the FAR, and they must adhere to the reporting requirements of the IRRF. CHRRP projects are typically much larger than those of the CERP program. Table 7-12 provides a summary CHRRP data. CHRRP projects are funded from the IRRF 2 authorization.

CHRRP Funds, as of January 12, 2005 (U.S. funds–IRRF 2)			
	Total Program Funding	Cumulative Funds Obligated	Cumulative Funds Disbursed
CHRRP Projects	\$86,000,000	\$34,054,971	\$0
Note: Data not formally reviewed or audited.			

Table 7-12

IIG Military Reconstruction Assistance Program

In response to a U.S. request for Iraqi assistance with CERP projects, the IIG initially authorized \$86 million to fund projects. On December 30, 2004, the IIG increased its funding by an additional \$50 million. IIG projects must be selected from an approved project list agreed to by the IIG and the MNF-I. Table 7-13 is a status of the IIG military assistance program as of January 12, 2005.

IIG Funds, as of January 12, 2005 (Iraqi Funds)			
	Total Program Funding	Cumulative Funds Obligated	Cumulative Funds Disbursed
IIG Projects	\$136,000,000	\$62,057,360	\$0
Note: Data not formally reviewed or audited.			

Table 7-13

Accelerated Iraq Reconstruction Program (AIRP)

The AIRP was designed to provide funds for high-impact, high-visibility projects in selected cities and areas that offered a high level of employment opportunity for Iraqis. Approved in April 2004, the program received \$383.8 million in DFI funds and used the money to fund projects from various programs, including the Rapid Regional Response Program, the Local Governance Fund, the PMO, as well as CERP projects not already funded directly through CERP allocations. The larger AIRP projects (more than \$100,000) have typically been associated with improvements in potable water access, sanitation, health, education, and transportation. As of late December 2004, more than 360 projects valued at more than \$324 million are under contract, and 172 projects valued at more than \$26 million have been completed. As of January 5, 2005, 9,233 Iraqis were employed on AIRP projects. Many of these projects were awarded directly to local Iraqi firms for design and construction. They will be completed by late Spring 2005, although several of the larger projects will not be completed until December 2005.

Other Iraqi Potential Repatriated Funds

With the transfer of governance authority to the IIG on June 28, 2004, the IIG assumed primary responsibility for seeking worldwide recovery, in accordance with UN resolutions, of Iraqi assets frozen in response to past actions of the former regime. The U.S. government continues to actively assist the IIG in its search and recovery effort, but no longer has access to information on recovered asset balances.

Oil for Food

Table 7-14 provides a summary by category of the OFF program financial activity (applicable deposits or expenditures) from December 1996 until December 2002. CPA included a more detailed description of the OFF program in the CPA-IG July 30, 2004 Report to Congress. A UN release of financial information with applicable balances for 2003 is pending.

Table 7-14 outlines the percentage of oil sales designated for the various OFF escrow accounts and the total amount deposited in those accounts since the beginning of the program until December 2002, which is the most current UN information.

The program's last oil sales were in March 2003, just before Operation Iraqi Freedom began. Food distribution was interrupted during hostilities. On May 22, 2003, the UN lifted its sanctions and gave the OFF program six months to conclude operations. On November 21, 2003, the UN OFF program officially ended.

UN Oil for Food Program (in millions)		
Individual Escrow Account	Percentage of Oil Revenues	Total Expenditures (or deposits)
South and Central Iraq	59.0% ^a	\$34,385
Compensation Fund	25.0% ^b	\$17,183
Three Northern Governorates	13.0%	\$6,065
UN Administrative Costs	2.2%	\$765
UNMOVIC	0.7%	\$445
UNSCR 778	n.a. ^c	\$200

^a Percentage for South and Central Iraq originally 53%; raised to 54%, then 59% in 2000.
^b Compensation fund percentage originally 30%; lowered to 25% in 2000.
^c Repayment of UNSCR 778 funds was set at \$10 million per quarter (suspended December 1999 - December 2000).
Note: Data not formally reviewed or audited.

Table 7-14

The UN OFF program remits surplus uncommitted OFF funds to the DFI when unexecuted letters of credit expire, freeing up previously obligated amounts. As of June 30, 2004, \$8.6 billion has been transferred to the DFI from the OFF Program (\$8.1 billion while under U.S. control). Oversight of OFF contracts is now the responsibility of the IIG. It will decide which contracts will be allowed to expire unexecuted or partially executed and which will be honored with the delivery of goods and services already paid for by OFF past revenues.

Iraq National Budget

Since the change of governance authority on June 28, 2004, the IIG fully controls the Iraq National Budget. A draft copy of the 2005 budget is included in Appendix I.

Donor Funds

In response to the relief and reconstruction requirements in Iraq, aid has been donated by a large number of countries, as well as several international organizations. Periodic donor conferences are held to coordinate international activities. The first was in Madrid in October 2003, and the latest was in Tokyo on October 14-15, 2004. The next donors conference is scheduled for Jordan, in Spring 2005. At the Madrid Donor Conference, non-U.S. donor nations and international

organizations pledged \$13.5 billion for the medium-term reconstruction of Iraq (2004-2007). Appendix H provides a comprehensive list of those pledges. Individual donor nations pledged approximately \$8 billion. This aid can be grouped into three categories: immediate humanitarian aid, bilateral assistance, and internationally distributed aid.

In the immediate wake of Operation Iraqi Freedom, various countries and UN organizations provided \$849 million in humanitarian aid through December 2003 (excluding U.S. and OFF assistance). This aid was not counted as part of the Madrid Donor Conference reconstruction pledge amounts.

Bilateral project aid is provided directly from a donor country to the Iraqi people or its government. As of January 5, 2004, the DoS estimates that approximately \$1.12 billion in bilateral project assistance has been donated to Iraq. Much of it has been donated by Japan, the largest non-U.S. donor country. Highlights of individual donor country activities are included in Appendix 2 of the DoS Section 2207 Report, of January 5, 2005. Japan's contributions have included:

- rehabilitating 3 power plants, 8 general hospitals, and 271 schools
- providing 27 mobile electricity substations
- supplying 30 compact water treatment units
- donating more than 1,000 vehicles (police, fire, and armored vehicles)
- repairing roads

The United Kingdom (U.K.) has made substantial bilateral project donations to Iraq, contributing more than \$90 million in direct projects for reconstruction, governance and economic capacity building, and support to the justice sector and civil service. Other major bilateral project donors include Spain and Canada.

The majority of assistance pledged by individual nation states is currently being channeled through international organizations. The Madrid conference established the International Reconstruction Fund Facility for Iraq (IRFFI) to give donor countries a multilateral channel for their assistance to Iraq. The IRFFI has two trust funds, one administered by the World Bank and the other by the United Nations Development Group (UNDG). These two trust funds are the primary delivery mechanisms for aid to Iraq. Appendix G is a detailed summary of international trust fund commitments and deposits by country.

Current commitments to the two trust funds are \$1.06 billion: the World Bank's commitments total \$394 million, and the UNDG's commitments total \$663.6 million. Deposits to those two organizations total \$1,014 million: \$386.4 million was deposited with the World Bank, and \$627.8 million was deposited with

the UNDG. A more detailed description of the organization of the IRFFI and its constituent trust funds is included in Appendix G of this report.

The IRFFI World Bank trust fund currently has either completed or has plans for projects worth \$365.6 million. Table 7-15 includes a list of the projects as of January 2005. As of late December 2004, \$9 million under the Emergency Textbook project has been disbursed and the Capacity Building I project is complete, with \$3.57 million in project costs.

World Bank Iraqi Trust Fund Projects, as of December 31, 2004 (in millions)	
Ongoing Projects	
Operation	Projected Costs
Water Supply and Sanitation – other than Baghdad	\$90.0
Water Supply and Sanitation – Baghdad	65.0
Emergency School Rehabilitation	60.0
Private Sector Development	55.0
Emergency Textbooks	40.0
Emergency Health	25.0
Emergency Rural Infrastructure	20.0
Capacity Building II	7.0
Completed Projects	
Operation	Actual Costs
Capacity Building I	3.6
Total	\$365.6
Note: Data not formally reviewed or audited.	

Table 7-15

The IRFFI UNDG trust fund has developed a strategic planning framework, organized in 11 “clusters,” with various UN specialized agencies working together under a cluster lead agency in each. Table 7-16 outlines the UN clusters with approved project amounts by cluster (only nine have received funding) as of October 14, 2004. The UN is currently updating its cluster financial information, but has not released information more current than the October data.

UNDG Iraqi Trust Fund Cluster Totals for Approved Projects, as of October 14, 2004	
Cluster	Amount
Infrastructure and Housing	\$115,921,443
Health	66,944,083
Education and Culture	62,261,341
Agriculture, Water Resources, and Environment	59,582,636
Support to the Electoral Process	46,078,944
Water and Sanitation	30,762,094
IDPs and Refugees	16,867,515
Governance and Civil Society	3,464,224
Poverty Reduction and Human Development	321,000
Total	\$402,203,280
Note: Data not formally reviewed or audited.	

Table 7-16

As of October 2004, the UN has developed more than 40 projects, valued at more than \$400 million, all approved for implementation by the Iraqi government. The first UN projects under the IRFFI are ongoing, including the provision of school supplies, vaccines, and support for internally displaced persons and refugees.

Although current commitments to the IRFFI total slightly more than \$1 billion, donor nations pledged more than \$8 billion at the Madrid Donor Conference. For the top 10 donor countries, the differences between IRFFI deposits and Madrid pledges total approximately \$7 billion. Just over half of this amount represents the pledge by the government of Japan to extend \$3.5 billion in concessionary loans for Iraq reconstruction. Another approximately \$1.12 billion is the bilateral aid provided by Japan, the U.K., Spain, Canada, and other countries. Approximately \$2 billion in unrealized pledge amounts comes from eight of the top ten pledged countries (less Japan and the U.K.). These countries are primarily Persian Gulf nations with large Iraqi debt holdings. The time period applicable for Madrid pledges was 2004-2007. The change of Iraqi governance authority on June 28, 2004, has led several of the Persian Gulf nations to start discussions with Iraqi authorities about disbursing their Madrid pledges.

Appendix G provides more detailed information about both the UNDG and World Bank trust funds.

World Bank, International Monetary Fund, and Donor Loan Programs

The World Bank and International Monetary Fund (IMF) have announced potential assistance packages to Iraq worth between \$5.5–9.25 billion. Aid to Iraq from Japan, the largest non-U.S. benefactor, is primarily in the form of a loan (\$3.5 billion). The World Bank currently envisions an initial lending envelope of \$500 million from the International Development Association (IDA) and \$500 million from the International Bank for Reconstruction and Development (IBRD) during FY 2004 and FY 2005. In the second week of December 2004, the World Bank country director for Iraq received a written request for IDA funding. On December 16, 2004, Iraq cleared its arrears to the World Bank. As part of the negotiation of IDA assistance, an interim strategy note is currently under development to provide a framework for priority sectors and projects to be covered by the IDA. In addition, the scope of non-lending services, such as technical assistance, policy advice, and studies, will be established.

The IMF has pledged assistance to Iraq in the form of an initial \$850 million in emergency post-conflict assistance, with follow-up assistance loans of \$850 million–\$1.7 billion. On September 29, 2004, the executive board of the IMF approved a disbursement of approximately \$436.3 million, denominated in special drawing rights (SDR).³⁰ This initial granting of emergency post-conflict assistance occurred after Iraq settled its arrears to the fund of SDR 55.3 million (approximately \$81 million U.S.) on September 22, 2004. In addition to settling its IMF arrears, Iraq has paid for an increase in its quota under the IMF's Eleventh General Review of Quotas. Iraq's quota has increased from SDR 504 million (\$740.1 million U.S.) to SDR 1.19 billion (\$1.75 billion U.S.). This quota increase was a combination of a payment of \$251 million in cash and a non-interest bearing promissory note for the balance (total payment of \$1.08 billion U.S.). Iraq can draw on its quota with the concurrence of the IMF leadership.

Although the World Bank expects to lend an additional \$2–4 billion by 2009 beyond its initial set of loans, subsequent lending is “predicated on an optimistic scenario of improvements in political stability and security, rapid economic recovery (including the oil sector), and generous debt relief,” according to the 2003 World Bank interim strategy report. The IMF shares the same concerns and may not provide the full amount pledged in Madrid without a sound macroeconomic framework and government commitment to key structural reforms in place, according to the IMF report.

Iraqi Debt Relief

Iraq's external debt has been estimated at between \$120-125 billion. In its Debt Sustainability Analysis (DSA) of May 2004, the IMF assessed this high level of debt (more than 500% of GDP) as unsustainable. Failure to reduce this debt will affect Iraq's ability to secure additional donor loans from the World Bank and the IMF, create internally generated investment funds, and seriously impede national budget requirements.

The Paris Club, a group of 19 donor countries, has taken the lead in negotiating reduction of Iraq's external debt. On November 21, 2004, the Paris Club reached agreement to reduce by 80% on a net present value (NPV) basis the \$38.9 billion Iraq owed its members. Under the terms of the agreement, 30% of the debt was forgiven immediately. Another 30% of the debt is to be forgiven upon approval of an IMF standby arrangement program (SBA), probably in 2005. Another 20% of debt, bringing the total debt reduction to 80%, is to be forgiven upon completion of the last IMF board review of three years of implementation of standard IMF programs. This agreement also provides immediate payment relief. For the first three years (2005-2007), interest that accrues will be capitalized and for the next three years most, but not all, of the interest will be capitalized. No interest will be paid on the capitalized interest. The term of the rescheduling is 23 years, with a 6-year grace period on principal repayment.

This debt restructuring agreement is a major advance in the quest for Iraqi debt relief. Under the Paris Club agreement, Iraq has committed to seek comparable treatment from its other external creditors. The vast majority of those other creditors are official bilateral creditors (primarily Gulf States) estimated by the IMF to hold \$67.4 billion in Iraqi debt. In addition to public debt, Iraq owes approximately \$15 billion to private sources, including commercial banks. Iraq is also obligated to seek terms comparable to those agreed by the Paris Club from those creditors.

On September 29, 2004, the executive board of the IMF approved a disbursement of SDR 297.1 (or approximately \$436.3 million) for granting Emergency Post Conflict Assistance (EPCA). As a condition for granting EPCA, the IIG signed a Memorandum of Economic and Financial Policies for 2004-2005. This memorandum provides targets for international currency reserves, budget deficits, currency issuance, government lending, and new external debt. In addition, the IIG pledged to reduce subsidies for oil derivative products, restructure state-owned enterprises, and rationalize the food distribution system. Other conditions include:

- developing a monetary survey
- establishing an automatic payroll system for government employees
- developing government monthly fiscal accounts

- issuing bank regulations
- enacting a payments systems law
- adopting a plan to overhaul the tax and customs administration

The terms of the Stand-By Arrangement (SBA) that Iraq intends to pursue in 2005 will be negotiated separately from the EPCA and will take into account performance under the EPCA.

U.S. Iraqi Debt Relief

As a member of the Paris Club, the United States supported the group's decision to reduce Iraqi debt by 80%. However, as a display of leadership and to provide additional support for Iraq reconstruction, the United States has forgiven all Iraqi debt to the U.S. government. On December 17, 2004, the United States signed an agreement forgiving \$3.914 billion in Iraqi debt to the U.S. government (the vast majority to the U.S. Department of Agriculture for commodity credits and a small portion to the Export-Import Bank of the United States). The budgetary cost of this debt reduction was \$352.2 million. This amount will be transferred from the \$360 million allocated under the IRRF 2 appropriation for debt reduction. The budgetary cost of the debt represents the net present value of the amount that the creditor agencies expected to receive from their Iraqi debt.

Sources and Uses of Funding for Iraq Relief and Reconstruction Data Clarification

The SIGIR compiled data on the sources, uses, and status of Iraq reconstruction funds from the OMB, DFAS, U.S. Army, DoS, USAID, Treasury, IMF, World Bank, and U.S. Trade and Development Agency. The SIGIR analyzed the data for reasonableness and consistency across sources of data. The SIGIR did not review or audit the processes, controls, or systems in place at the providing agency or organization. The SIGIR accepted the validity of the data provided. The SIGIR believes that the presentation of Sources and Uses of Funds in this Report is a reasonable compilation of the status of Iraq relief and reconstruction funding through December 31, 2004 (unless an alternative date is noted).

8. Contracts

Overview

Under law, the Special Inspector General for Iraq Reconstruction (SIGIR) must report all major contracting actions (more than \$5 million) to rebuild Iraq's infrastructure, reestablish Iraq's societal or political infrastructure, or provide products or services to the Iraqi people. For all major contracting actions issued for any of these purposes, the SIGIR must report:

- the amount of the contract
- the scope of work
- the method used to identify and solicit contractors
- type of competition used to bid contracts
- the justification and approval documents for using other than full and open competition

Some contracts reviewed by the SIGIR are indefinite delivery indefinite quantity (IDIQ) contracts. The total value of an IDIQ contract is based on a "ceiling" amount. The ceiling defines the maximum that a contractor may receive; however, the actual payments are based on work performed under task orders obligated under the IDIQ contract. For IDIQ contracts, the SIGIR tracks both obligated and ceiling values.

Data on major contracts that the SIGIR has verified—as required by Public Law 108-106 (P.L. 108-106), as amended—is provided in Appendix K.

Competition and Contracting Action Analysis

To examine the contracting data, the SIGIR focused on two parameters:

- the number of contracts issued
- the dollar value of contracting actions taken

In the first quarter of FY 2005, the SIGIR reviewed more than 500 contracting actions issued by the Project and Contracting Office (PCO), U.S. Air Force Center for Environmental Excellence (AFCEE), U.S. Army Tank-Automotive and Armaments Command (TACOM), U.S. Agency for International Development (USAID), and the Department of State. Of the contracting actions reviewed, 35 were valued at more than \$5 million: 7 new contracts, 2 modifications to

previously issued contracts or task orders, and 26 task orders. The SIGIR received electronic data on contracts awarded by the U.S. Army Corps of Engineers (USACE) but could not verify the actual contract files in time to be included in this Report. The SIGIR also received information on contracting activity that occurred before this reporting period.

Of the 35 major contracting activities during this quarter, all of the non-USACE contracts awarded used full and open competition. The SIGIR was not able to verify the method of competition used to award the USACE contracting actions because USACE was unable to provide this information in time to be included in this Report. The SIGIR will continue to work with USACE to verify these actions.

During the past two quarters, all of the major contracting actions that the SIGIR verified were awarded using full and open competition, as shown in Table 8-1.

Total Value of Major Contracts by Competition Type, as of December 31, 2004 (in millions)					
Competition Type	Total FY 2003	Quarter 4 FY 2004	Total FY 2004	Quarter 1 FY 2005	Total
Full and Open	\$2,765	\$1,736	\$17,825	\$368	\$20,959
Sole Source	7,290	0	1,344	0	8,634
Limited Competition	958	0	736	0	1,694
Unverified	0	0	0	123	123
Total	\$11,014	\$1,736	\$19,905	\$491	\$31,410

Note: Summary totals are affected by truncation, and the values above represent the potential "ceiling" value of contracts. The right-hand column is the total value of FY 2003, FY 2004 and Quarter 1 of 2005.

Table 8-1

In the July 30, 2004 Report, the SIGIR identified 14 contracts that could not be located. SIGIR auditors have continued to research these missing files and have located 13. SIGIR auditors will continue efforts to locate and verify the file for a contract awarded on December 31, 2003.

Contract Data and Analysis

Of the contracting actions reviewed this quarter, only 35 had a total value of \$5 million or more; in the fourth quarter of FY 2004, there were 66. This seems to be a developing trend: when compared with the larger IDIQ contracts, contracting actions in the fourth quarter of FY 2004 and the first quarter of FY 2005 decreased

in value but were awarded more frequently to meet situation-specific needs. This change may be attributable to the current trend in Iraq of awarding fixed-price supply and build contracts and task orders, instead of the large IDIQ contracts, as were initially awarded. Table 8-2 outlines the major contracting activities that the SIGIR examined for this reporting period.

Major Contracts Awarded (by Contracting Office) for Quarter 1 of FY 2005, as of December 31, 2004					
Agency	No.	Total Value	Amount Obligated	% of Total Value	% of Total Contracts
U.S. Air Force Center for Environmental Excellence (AFCEE)	10	\$263,237,144.00	\$263,237,144.00	53.5%	28.6%
U.S. Army Corps of Engineers (USACE)	14	123,606,368.95	123,606,368.95	25.1	40.0
Project and Contracting Office (PCO)	6	55,081,491.10	55,081,491.10	11.2	17.1
U.S. Army Tank-Automotive and Armaments Command (TACOM)	5	50,060,011.00	23,192,932.00	10.2	14.3
Total	35	\$491,985,015.05	\$465,117,936.05	100.0%	100.0%
Note: Summary percentages may be affected by truncation.					

Table 8-2

Initially, large IDIQ contracts were issued in anticipation of the Iraq reconstruction effort. Because the IDIQ contracts do not obligate money, the total value of contracts issued was dramatically higher than the amount obligated. The SIGIR's analysis of the contract data shows that through the first three quarters of FY 2004, the actual amount of money obligated was only 30% of the total value of the contracts. In the last quarter of FY 2004, the total value of the contracts rose to 58%; in the first quarter of FY 2005, to 95%. This trend is not remarkable because of the large number of IDIQ contracts issued before the first half of FY 2004.

During the first quarter of FY 2005, 74% of the major contracting actions that the SIGIR verified were task orders to previously awarded contracts—a dramatic increase over previous periods. Most of the task orders issued were fixed price, obligating money against the previously issued IDIQ contracts.

Table 8-3 breaks down the contracting data by the total value of contract awards (the ceiling value) and the amount obligated and presents a ratio of the number of task orders issued relative to total contracting actions for that period. Table 8-3 also reflects an increase in contracting actions that issue task orders. Through the third quarter of FY 2004, 26% of contracting actions were task orders; the number grew to 74% in the most recent quarter.

Analysis of Major Contracting Actions, as of December 31, 2004			
	Through 6/30/04	Q4 FY 2004	Q1 FY 2005
Obligated	\$8,978,321,100	\$1,000,357,837	\$465,117,936
Total Contract Value	\$29,534,779,124	\$1,736,119,216	\$491,985,015
Percent of Total Value Obligated	30%	58%	95%
Task Orders	62	33	26
Total Major Contracting Actions	234	66	35
% of Major Contracting Actions that Are Task Orders	26%	50%	74%

Table 8-3

Contracts Awarded to Iraqi Contractors

In addition to tracking major contracting activity, the SIGIR also tracked the number and value of contracts awarded to Iraqi contractors in the first quarter of FY 2005. This analysis included both supply and build contracts, but did not include subcontracting awards to Iraqi companies.

More than 40% of SIGIR-verified contracting actions were awarded to Iraqi companies. The PCO issued more than 240 contracts to Iraqi contractors, totaling just under \$99 million. These contracts were awarded to renovate schools and police stations, build roads, and requisition supplies.

Estimate to Complete

P.L. 108-106, as amended, requires that each calendar quarter the SIGIR must submit to the appropriate committees of Congress a report of the estimate of the costs to complete Iraq reconstruction projects and programs. At this time, the PCO does not have an estimate of the costs to complete, but it is currently working to define them.

The PCO has made progress in fully defining the cost of task orders under the Iraq Relief and Reconstruction Fund (IRRF) program. When a task is definitized, the contractor and the PCO have a defined contract that outlines the project's cost, schedule, and performance. This defined, cost-type contract may be modified to reflect continuing assessments and refinements of cost, scope, and schedule.

The PCO continues to define and refine the costs of IRRF-funded projects. These are some of the current issues that inhibit the PCO's ability to confirm all project costs:

- The security situation has slowed the pace of both initiating and executing projects. These delays have resulted in unanticipated costs; the full effect on the estimated costs to complete projects is not yet known.
- Processes and procedures have been established to more efficiently track estimated and actual costs and schedules. As projects are definitized, this information will be used to provide subsequent program and project cost-to-complete reports.
- Task orders are being modified to accommodate the needs of the U.S. Mission Iraq, the Iraqi people, and the Iraqi Interim Government (IIG).
- In response to the willingness of the IIG to share costs, projects are being modified to include tasks that were previously excluded.
- The Administration previously reprogrammed \$3.4 billion to security efforts from funds allocated for construction projects. Also, the Section 2207 Report of January 5, 2005, and separate congressional notifications requested the significant reprogramming of funds. These reprogramming actions continue to require the PCO to re-prioritize tasks and projects.

Acronyms and Definitions

Acronyms and Definitions	
Acronyms	Definitions
1483	UN Security Council Resolution 1483 (2003)-United Nations Security Council recognizes the "Authority," CPA.
2207	Section 2207 P.L. 108-106 requires Quarterly Reports from CPA.
3001	Section 3001 P.L. 108-106 requires Quarterly Reports from CPA-IG, also establishes the CPA-IG.
ACO	Administrative Contract Officer
AFCEE	United States Air Force Center for Environmental Excellence
AFSC	United States Army Field Support Command
AIRP	Accelerated Iraq Reconstruction Program
AMC	United States Army Materiel Command
Baghdad Central	Baghdad Central
BSA	Board of Supreme Audit
CAP	Combined Action Program
CERP	Commanders' Emergency Response Program
CETO	Center for Emerging Threats and Opportunities
CHRRP	Commanders Humanitarian Relief and Reconstruction Projects
CONUS	Continental United States
CPA	Coalition Provisional Authority
CPA-CI	Coalition Provisional Authority - Counter-Intelligence
CPAF	Cost Plus Award Fee
CPA-IG	Coalition Provisional Authority Inspector General
CPATT	Coalition Police Assistance Training Team
CPFF	Cost Plus Fixed Fee
CPI	Commission on Public Integrity
CSIS	Center for Strategic and International Studies
DBA	Defense Base Act
DSA	Debt Sustainability Analysis
DCAA	Defense Contract Audit Agency
DCIS	Defense Criminal Investigative Service
DCMA	Defense Contract Management Agency
DFAS	Defense Finance and Accounting Service

Acronyms	Definitions
DFI	Development Fund for Iraq
DoD	Department of Defense
DoD OIG	Department of Defense Office of Inspector General
DoS	Department of State
DoS OIG	Department of State Office of Inspector General
DSB	Defense Science Board
Enviro	Office of the Environment
EPCA	Emergency Post Conflict Assistance
FAR	Federal Acquisition Regulation
FBI	Federal Bureau of Investigation
FFP	Firm Fixed Price
FOIA	Freedom of Information Act
FY	Fiscal Year
GAO	Government Accountability Office
Grant	Grants provided via PRB
GRD	Gulf Regional Division
GWOT	Global War on Terrorism
H. R. 4200	National Defense Authorization Act of 2005
IAMB	International Advisory and Monitoring Board
IAWG	Iraq Accountability Working Group
IBRD	International Bank for Reconstruction and Development
ICG	International Crisis Group
IDA	International Development Association
IDC	Individual Data Collection
IDIQ	Indefinite Delivery-Indefinite Quantity
IFF	Iraq Freedom Fund
IFWG	Iraq Financial Working Group
IG	Inspector General
IIG	Iraqi Interim Government
IIGC	Iraq Inspectors General Council
IMF	International Monetary Fund
INCSF	Iraqi National Congress Support Foundation
INL	International Narcotics and Law Enforcement Bureau
IRFFI	Iraq Reconstruction Fund Facility for Iraq

Acronyms	Definitions
IRMO	Iraq Reconstruction Management Office
IRRF	Iraq Relief and Reconstruction Fund
IRRF 1	Iraq Relief and Reconstruction Fund-\$2.4 B IRRF set up in P.L. 108-11
IRRF 2	Iraq Relief and Reconstruction Fund-Funded with \$18.6 B (\$18.4 B after subtracting \$210 M fund assistance for Jordan, Liberia, and Sudan) in PL 108-106
JCOA-LL	Joint Center for Operational Analysis - Lessons Learned Division
KBR	Kellogg, Brown & Root Incorporated
LGF	Local Governance Fund
LL/HRF	Lessons Learned/High-Risk Factors
LOGCAP	Logistics Civilian Augmentation Program
MANPADS	Man-Portable Air Defense Systems
MBPD	Million Barrels per day
MHESR	Ministry of Higher Education and Scientific Research
MILCON	Military Construction
MNF-I	Multi-National Force-Iraq
MNSTC-I	Multi-National Security Transition Command-Iraq
MOA	Memorandum of Agreement
MOC	Ministry of Culture
MoComm	Ministry of Communication
MOD	Ministry of Defence (this is the correct spelling in Iraq)
MOE	Ministry of Electricity
MOF	Ministry of Finance
MOH	Ministry of Housing and Construction
MOI	Ministry of Interior
MOI (AFCEE)	Ministry of Interior (Air Force Center for Environmental Excellence)
MOJ	Ministry of Justice
MOMPW	Ministry of Municipalities and Public Works
MOO	Ministry of Oil
MOT	Ministry of Transportation
MOWR	Ministry of Water Resources
NASA	National Aeronautical Space Administration
NGO	Non-Governmental Organization
NPV	Net Present Value

Acronyms	Definitions
NRRRF	Natural Resources Risk Remediation Fund
O&M	Operations & Maintenance
OIF	Operation Iraqi Freedom
OIG	Office of Inspector General
OFF	Oil for Food Program
OMA	Operations & Maintenance, Army
OMB	Office of Management and Budget
Operation Iraqi Freedom	Official title for the Military Operation in Iraq begun in March 2003
ORHA	Office of Reconstruction and Humanitarian Assistance
P.L.	Public Law
P.L. 108-106	As amended by P.L. 108-375, mandates the independent and objective conduct and supervision of audits relating to the programs and operations funded with amounts appropriated or otherwise made available to the Iraq Relief and Reconstruction Fund
P.L. 108-375	The Ronald W. Reagan National Defense Authorization Act for FY 2005, enacted on October 29, 2004
PCO	Project and Contracting Office
PCR	Post-Conflict Reconstruction
PDF	Portable Document Format
PIP	Performance Improvement Plan
PMO	Program Management Office
Program	A functional grouping of projects with a common goal
Project	A series of tasks undertaken by the CPA with clearly defined objectives and deliverables
PSC	Professional Services Council
PSC	Private Security Contractor
Public Law 108-106 (P.L. 108-106)	\$87.5 B appropriation measure passed 11/6/03 that includes CPA-IG creation & \$18.6 B (\$18.4 B after subtracting \$210 M fund assistance for Jordan, Liberia, and Sudan) Iraq Relief & Reconstruction Fund
Public Law 108-11 (P.L. 108-11)	First \$74 B appropriation measure that included the \$2.475 B Iraq Relief and Reconstruction Fund
P.L. 108-207	Fiscal Year 2005 Defense Appropriations Act

Acronyms	Definitions
QRF	Quick Response Fund
R3P	Rapid Regional Response Program
Resolution 1483	Security Council Resolution 1483
Restore Iraqi Oil (RIO)	Restore Iraq Oil
RIE	Restore Iraqi Electricity
RIO	Restore Iraqi Oil
RRRP	Rapid Regional Response Program
SIGIR	Special Inspector General for Iraq Reconstruction
T&M	Time & Materials
TACOM	United States Army Tank-Automotive & Armaments Command
TNA	Transitional National Assembly
TO	Task Order
TRIB	Technology Investment Review Board
UNCT	UN Country Team
UNDG	United Nations Development Group
UNDG ITF	UNDG Iraq Trust Fund
UNDP	United Nations Development Program
UNEP	United Nations Environment Program
UNESCO	United Nations Educational, Scientific and Cultural Organization (since 1945; Paris, France)
UNFPA	United Nations Population Fund (formerly United Nations Fund for Population Activities)
UNHABITAT	United Nations Centre for Human Settlements
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UNMOVIC	United Nations Monitoring, Verification and Inspection Commission
UNMIR	United Nations Mission in Iraq
UNOPS	United Nations Office for Project Services
UNSCR 1483	United Nations Security Council Resolution 1483
USAAA	United States Army Audit Agency
USACE	United States Army Corps of Engineers
USAID	United States Agency for International Development

Acronyms	Definitions
USAID OIG	United States Agency for International Development Office of Inspector General
USDA	United States Department of Agriculture
USIP	United States Institute for Peace
USJFCOM	United States Joint Forces Command
USTDA	United States Trade and Development Agency
WBIF	World Bank Iraq Trust Fund
WHO	World Health Organization
WTO	World Trade Organization

Endnotes

1. In this report, unless otherwise noted, IRRF refers to the \$18.4 billion of funds appropriated under Title II of the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004 (P.L. 108-106). The SIGIR's statutory duties are directly linked to this appropriation, which is funding current relief and reconstruction programs and operations in Iraq. It is distinguished from the \$2.475 billion appropriation to IRRF under the Emergency Wartime Supplemental Appropriations Act, 2003 (P.L. 108-11). This appropriation is identified in this Report as IRRF (2003).
2. Section 2207 Report, January 2005, Executive Summary, p. 2
3. Project and Contracting Office (PCO) Update, July 15 2004; Ibid p. 3
4. Section 2207 Report, October 2004, Executive Summary, pp. 6, 7
5. October 7, 2004, Pentagon Briefing by PCO and IRMO
6. Section 2207 Report, January 2004, p. 7
7. As reported in DoS and DoD weekly updates (November and December, 2004 and January 2005)
8. Section 2207 Report January 2005, Executive Summary, p.4.
9. Ibid.
10. Ibid.
11. Ibid., p. 2
12. Ibid
13. Section 2207 Report, January 2005, Appendix I, pp. I-25, 26
14. Ibid., pp. I-1 - I-26
15. Ibid., pp. I-14, I-22, I-23
16. Ibid., pp. I-17, I-20
17. Ibid., pp. I-16, I-21
18. Ibid., p. I-24
19. Ibid., p. I-65
20. Section 2207 Report, October 2004, p. I-42
21. 2207 January 2005, p. I-65
22. Center for Strategic and International Studies, Progress or Peril? Measuring Iraq's Reconstruction, September 2004
23. October 7, 2004 Briefing, op.cit.
24. Ibid., 2207 Jan 2005 Executive Summary, pp. 1, 8
25. 2207 January 2005, p. I-83
26. Ibid, p. I-45
27. 2207 January 2005, Executive Summary, p.4
28. 2007 January 2005, pp. I-96 - I-100 (all references)
29. Ibid., p. I-111
30. Special drawing rights: the unit of account for countries at the IMF, based on a weighted value of the U.S. dollar, euro, Japanese yen, and British pound.