

**INFORMATION ON GOVERNMENT OF  
IRAQ CONTRIBUTIONS TO  
RECONSTRUCTION COSTS**

**SIGIR 09-018**

**APRIL 29, 2009**

# Report Documentation Page

Form Approved  
OMB No. 0704-0188

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|  |                                    |                                     |                            |   |                                 |
|--|------------------------------------|-------------------------------------|----------------------------|---|---------------------------------|
| 1. REPORT DATE<br><b>29 APR 2009</b>   |                                    | 2. REPORT TYPE                      |                            | 3. DATES COVERED<br><b>00-00-2009 to 00-00-2009</b> |                                 |
| 4. TITLE AND SUBTITLE<br><b>Information on Government of Iraq Contributions to Reconstruction Costs</b>  |                                    |                                     |                            | 5a. CONTRACT NUMBER                                 |                                 |
|  |                                    |                                     |                            | 5b. GRANT NUMBER                                    |                                 |
|  |                                    |                                     |                            | 5c. PROGRAM ELEMENT NUMBER                          |                                 |
| 6. AUTHOR(S)   |                                    |                                     |                            | 5d. PROJECT NUMBER                                  |                                 |
|  |                                    |                                     |                            | 5e. TASK NUMBER                                     |                                 |
|  |                                    |                                     |                            | 5f. WORK UNIT NUMBER                                |                                 |
| 7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES)<br><b>Office of the Special Inspector General for Iraq Reconstruction, 400 Army Navy Drive, Arlington, VA, 22202-4704</b> |                                    |                                     |                            | 8. PERFORMING ORGANIZATION REPORT NUMBER            |                                 |
| 9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)  |                                    |                                     |                            | 10. SPONSOR/MONITOR'S ACRONYM(S)                    |                                 |
|  |                                    |                                     |                            | 11. SPONSOR/MONITOR'S REPORT NUMBER(S)              |                                 |
| 12. DISTRIBUTION/AVAILABILITY STATEMENT<br><b>Approved for public release; distribution unlimited</b>  |                                    |                                     |                            |   |                                 |
| 13. SUPPLEMENTARY NOTES  |                                    |                                     |                            |   |                                 |
| 14. ABSTRACT   |                                    |                                     |                            |   |                                 |
| 15. SUBJECT TERMS  |                                    |                                     |                            |   |                                 |
| 16. SECURITY CLASSIFICATION OF:  |                                    |                                     | 17. LIMITATION OF ABSTRACT | 18. NUMBER OF PAGES                                 | 19a. NAME OF RESPONSIBLE PERSON |
| a. REPORT<br><b>unclassified</b>   | b. ABSTRACT<br><b>unclassified</b> | c. THIS PAGE<br><b>unclassified</b> |                            |   |                                 |



# SIGIR

Special Inspector General for Iraq Reconstruction

## Summary of Report: SIGIR 09-018

### Why SIGIR Did This Study

The Congress has appropriated more than \$50 billion for Iraq reconstruction including the Iraq Relief and Reconstruction Fund, the Economic Support Fund, the Commander's Emergency Response Program, and the Iraq Security Forces Fund. Since the start of the U.S. reconstruction effort, the U.S. government has increased requests for the Government of Iraq (GOI) to assume a greater share of the costs of reconstruction. In October 2008, the Special Inspector General for Iraq Reconstruction (SIGIR) initiated an audit related to these requests. The objectives of this report are to provide:

1. Information on Executive Branch guidance for soliciting GOI contributions for U.S. development programs
2. Examples of GOI contributions to the U.S. reconstruction program.

This audit was done under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978.

### What SIGIR Recommends

SIGIR provides no recommendations.

### Management Comments

No agency comments were required because SIGIR did not make recommendations in this report. Nevertheless, USAID and the Multi-National Corps-Iraq provided technical comments, which we incorporated as appropriate. Additionally, USAID provided a copy of recently developed guidelines for Iraq cost sharing which we included in Appendix D.

April 29, 2009

## INFORMATION ON GOVERNMENT OF IRAQ CONTRIBUTIONS TO RECONSTRUCTION COSTS

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### What SIGIR Found

The United States and other international donors have identified the need for host-country participation as a central factor in effective developmental programs. Such participation takes many forms, including host-country financial and/or in kind contributions. The Department of State (DoS) points to Government of Iraq (GOI) budget expenditures for cost sharing, the Department of Defense (DoD) points to specific GOI expenditures for security requirements, and the U.S. Agency for International Development (USAID) points to GOI's direct support for individual programs. These agencies provided the following examples:

- According to DoS, the matching requirement only applies to six of its foreign assistance programs and the GOI capital budget for 2008 contained \$12 billion for these six programs, which more than matches U.S. assistance as required by legislation. Moreover, DoS reported that the GOI increased its total capital budgets from \$3.2 billion in 2004 to \$21.1 billion in 2008 and that 2008 GOI data indicate a budget execution rate of nearly 70 percent of the full appropriation.
- DoD noted that the GOI had spent more than \$8 billion to support its security and police forces from 2004 through 2008 and more than \$4 billion to purchase U.S. military equipment and supplies. The GOI also provided financial or in-kind support for individual U.S.-funded projects, such as the Sons of Iraq.
- USAID manages programs that incorporate cost-sharing elements at the project level.

The Congress recently expressed its desire that the GOI assume greater responsibility for Iraq's reconstruction. To that end, the Congress has directed U.S. agencies to obtain increased GOI contributions for specific programs, such as the Sons of Iraq and Economic Support Fund projects.

Until recently, DoD, DoS, and USAID did not have policies or procedures governing cost-sharing for Iraq, as they were not required to do so. USAID officials indicated that congressional guidance is unclear. To address this concern, DoS and USAID developed policy guidelines for obtaining GOI contributions. According to USAID officials, they submitted these guidelines to the Congress with the FY 2009 supplemental budget request. Their goal is to reach consensus on what the Congress wants and what DoS and USAID are expected to do.



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

April 29, 2009

MEMORANDUM FOR U.S. AMBASSADOR TO IRAQ  
COMMANDING GENERAL, MULTI-NATIONAL FORCE-IRAQ  
COMMANDING GENERAL, MULTI-NATIONAL SECURITY  
TRANSITION COMMAND-IRAQ  
COMMANDING GENERAL, MULTI-NATIONAL CORPS-IRAQ  
COORDINATOR FOR ECONOMIC TRANSITION IN IRAQ  
DIRECTOR, OFFICE OF IRAQ RECONSTRUCTION, U.S.  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
DIRECTOR, IRAQ TRANSITION ASSISTANCE OFFICE

SUBJECT: Information on Government of Iraq Contributions to Reconstruction Costs  
(SIGIR-09-018)

We are providing this audit report for your information and use. It discusses our review of cost-sharing between the United States and the Government of Iraq for the reconstruction of Iraq. This audit was conducted as Special Inspector General for Iraq Reconstruction (SIGIR) project 8034. It was performed under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978.

This report does not contain recommendations; accordingly, the addressees were not required to provide comments. However, the U.S. Agency for International Development and the Multi-National Force-Iraq provided technical comments, which we incorporated as appropriate.

We appreciate the courtesies extended to our staff. For additional information on this report, please contact Mr. Glenn Furbish ([glenn.furbish@sigir.mil](mailto:glenn.furbish@sigir.mil), 703-428-1058, or Ms. Nancee Needham ([nancee.needham@iraq.centcom.mil](mailto:nancee.needham@iraq.centcom.mil), 240-553-0851, ext 3793).

Stuart W. Bowen, Jr.

Inspector General

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# Introduction

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The United States (U.S.) and other international donors have identified the need for host country participation as a central factor in effective developmental programs. Such participation takes many forms, including host country financial and/or in-kind contributions. The “Paris Declaration on Aid Effectiveness,” which was endorsed by the United States and other donor and recipient nations, identifies the need, and steps to take, to make aid more effective. It requires donors and recipient nations to work together more collaboratively and requires that host countries exercise leadership over their development policies and strategies. The U.S. Agency for International Development’s (USAID) Global Development Alliance encourages partnering with entities such as host-country governments and indigenous nongovernmental organizations to mobilize the strengths and participation of the host country and enhance the developmental impact of the assistance. When such relationships are forged, USAID expects the partner to make financial and/or in-kind contributions to increase the impact and sustainability of development efforts.

The Congress has appropriated more than \$50 billion for Iraq reconstruction including the Iraq Relief and Reconstruction Fund, the Economic Support Fund (ESF), the Commander’s Emergency Response Program (CERP), and the Iraq Security Forces Fund (ISFF) to support Iraq reconstruction. The Congress has increased requests for the Government of Iraq (GOI) to assume a greater share of reconstruction costs.

This review was done under the authority of Public Law (P.L.) 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. The objectives of this report are to provide:

1. Information on Executive Branch guidance on soliciting GOI contributions for U.S. development programs
2. Examples of GOI contributions to the U.S. reconstruction program

For a discussion of the audit scope and methodology, see Appendix A. For a description of the legislation addressing support from the GOI, see Appendix B. For financial information on those U.S. government ESF programs requiring GOI matching contributions, see Appendix C. For the Department of State and USAID guidelines on obtaining GOI contributions to U.S. reconstruction efforts, see Appendix D. For acronyms used, see Appendix E, and for a list of the audit team members, see Appendix F.

# **Cost Contributions Take Many Forms, Depending on Funding Guidance**

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Until recently, the Departments of State (DoS) and Defense (DoD) and USAID had provided little guidance on obtaining contributions from the GOI for the U.S. reconstruction effort. Nevertheless, agency officials in Iraq point to a number of different forms in which the GOI contributes to the costs of U.S. efforts in Iraq. According to DoS, the matching requirement of Public Law 110-252 only applies to six of its foreign assistance programs and the GOI capital budget for 2008 contained \$12 billion for these six programs, which more than matches U.S. assistance as required by the legislation. Moreover, DoS reported that the GOI increased its total capital budget from \$3.2 billion in 2004 to \$21.1 billion in 2008 and that 2008 GOI data indicate a budget execution rate of nearly 70 percent of the full appropriation.

DoD points to GOI's expenditures for security requirements, such as equipment purchases, as a measure of cost-sharing. DoD notes that the GOI has spent more than \$4 billion to purchase military equipment and supplies. Additionally, DoD stated that GOI support for individual DoD programs, such as the Sons of Iraq (SOI), is another indicator of cost sharing. On the other hand, USAID pointed to GOI's direct support for individual USAID-sponsored programs as its principal means of obtaining GOI contributions. USAID officials stated that they have obtained Iraqi support for a number of individual programs and that Iraq will soon assume control for their management and funding.

## **Guidance on Host Government Contributions to Reconstruction Costs**

The U.S. government enacted legislation governing U.S. foreign assistance programs and legislation specific to Iraq reconstruction that provide overall guidance for U.S. agencies to seek contributions from the GOI to fund U.S. development efforts in Iraq. Moreover, in the case of Iraq, the Congress recently expressed its desire that the GOI assume greater responsibility for Iraq's reconstruction. To that end, the Congress directed U.S. agencies to obtain from GOI increased contributions for specific programs, such as the SOI, and for the ESF and CERP, which are used for Iraq reconstruction projects.<sup>1</sup>

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<sup>1</sup> See Appendix B for a description of legislation addressing cost-sharing.

## **Executive Branch Direction on Sharing Costs**

The Executive Branch may provide direction through the President or in agency policy on host government support for U.S. foreign assistance. During the course of our review, DoD, DoS, and USAID officials informed us that they had not developed specific guidance for obtaining GOI support for U.S. assistance programs. We requested and reviewed documents governing U.S. reconstruction in Iraq and did not find a specific policy governing Iraqi support for U.S. efforts. According to USAID officials, their agency-wide cost-sharing requirement is not applicable to Iraq. The guidance requires cost-sharing for those programs funded from the Development Assistance and Child Survival accounts, which is not used in Iraq. As such, they seek Iraqi support “to the extent that it makes sense.” For example, if they sign an agreement with a nongovernmental organization (NGO) to implement a specific program, they would not likely seek GOI support at the national level as the GOI might then try to take over and direct the NGO. The NGO would, however, work with local government entities or community groups to obtain their support, which is usually provided through in-kind contributions.

USAID cost-sharing guidance is built-in for some project agreements. For example, USAID seeks host government support for individual programs that benefit the host government. Consequently, many USAID projects include cost-sharing elements because this helps obtain the host country's buy-in. These cost-sharing arrangements take a number of forms from memorandums of understanding to joint program planning. Technical and programmatic considerations determine which type of cost-sharing, if any, is appropriate for a given USAID project or assistance award. USAID has no set formula for cost-sharing, and it may take many forms, such as in-kind and cash contributions.

USAID officials informed us that DoS’s Legal Bureau, in conjunction with USAID’s General Counsel, reviewed legislation regarding cost sharing with the GOI and provided guidance for its implementation. However, USAID noted that it found varying interpretations on what was legislatively required. To respond to congressional concerns and provide clarification for U.S. government civilian agencies implementing assistance programs, DoS and USAID drafted an Iraq-specific cost-sharing policy statement. USAID notes that this statement is based on its worldwide host country contribution policy for Development Assistance and Child Survival funds. According to USAID, DoS and USAID submitted these guidelines with their fiscal year (FY) 2009 supplemental budget request.

## **GOI Matching Support for U.S. Funding**

On September 8, 2008, DoS certified that Iraq was making dollar-for-dollar contributions in accordance with P.L. 110-252, Section 1402(e). The act required that the Secretary of State certify to the Committees on Appropriations, not later than September 30, 2008, and 180 days thereafter, that the GOI had committed to obligate matching funds on a dollar-for-dollar basis. The Deputy Secretary of State certified “that the Government of Iraq has committed to obligate



funds matching funds appropriated in Title I, Chapter 4 of the Act for assistance for Iraq, on a dollar-for-dollar basis.” The accompanying memorandum of justification cited a letter from the Deputy Prime Minister of Iraq, who was also the Chairman of the Economic Affairs Committee, to the U.S. Ambassador to Iraq in which he affirmed the GOI’s commitment to meet and exceed the matching funds required by the act.

DoS quantified GOI’s support in its *Report to Congress on Status of Obligations and Expenditures by the Government of Iraq to Match Foreign Assistance Funds*, which was sent to the Congress on October 7, 2008. The report reiterated the DoS certification letter of September 8, 2008, identified six U.S. government programs covered under the act, and presented a list of similar programs budgeted for and expended against in the GOI 2008 budget. From the reported \$948 million in U.S. foreign assistance aid for Iraq in FY 2008, the report identified \$496.5 million that the GOI was required to match dollar for dollar. According to the DoS report, the GOI had budgeted more than \$12 billion and expended more than \$3 billion for initiatives the DoS determined to be similar to U.S. programs, including:

- Provincial Reconstruction Team Programs
- Community Stabilization Program
- Operation and Maintenance of U.S. Government-Funded Infrastructure
- Provincial Economic Growth
- National Capacity Development for Critical Ministries
- Criminal Justice and Rule of Law

Our analysis of the data DoS reported indicates that about two-thirds of the GOI funds expended were for grants to provincial governments to support provincial and municipal reconstruction efforts, such as small-scale infrastructure projects.

As of March 31, 2009, U.S. government agencies had reported obligating nearly \$273 million in four of five ESF programs that require GOI matching support and expending more than \$48 million, mostly for USAID’s Community Stabilization Program.<sup>2</sup>

DoD data show that between 2004 and 2008, the GOI contributed more than \$8 billion to support the Ministries of Defense and Interior. Most of these funds—\$6.7 billion—went to support the Ministry of Defense forces, primarily for life support and maintenance (\$2.9 billion) and equipment and weapons (\$3.3 billion). Much smaller amounts supported construction

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<sup>2</sup> See Appendix C for allotments, obligations, and disbursements for the five U.S. government ESF programs that require GOI matching support.

(\$395 million) and training (\$47 million). The Ministry of the Interior received \$1.5 billion during the time period. Life support and maintenance, and equipment received the bulk of the funding, \$779 million and \$693 million, respectively.

Some believe that the earliest source of GOI support for reconstruction efforts was the use of the Development Fund for Iraq (DFI). The DFI was the primary financial vehicle to channel revenue from ongoing Iraqi oil sales, unencumbered Oil for Food deposits, and repatriated national assets to the relief and reconstruction efforts for Iraq.<sup>3</sup> United Nations Security Council Resolution 1483, passed in 2003, assigned responsibility for managing the DFI to the Coalition Provisional Authority. Resolution 1483 noted that the DFI funds should be disbursed at the direction of the Coalition Provisional Authority in consultation with the Iraqi interim administration. In addition, it required that the DFI funds be used in a transparent manner for the following purposes: to meet the humanitarian needs of the people, for economic reconstruction and repair of infrastructure, for continued disarmament, for the costs of civilian administration, and for other purposes benefiting the people of Iraq.

## **GOI Support for Military Development through Foreign Military Sales Purchases and Budget**

U.S. officials stated that they view GOI purchases of military equipment and training through the Foreign Military Sales program as a GOI contribution to the U.S. reconstruction effort. The Foreign Military Sales program is the government-to-government method for selling U.S. defense equipment, services, and training. Using their own funds, foreign militaries make their purchases through the U.S. military rather than directly from a U.S. company. The purpose of this program is to foster responsible arms sales that further national security and foreign policy objectives by strengthening bilateral defense relations, supporting coalition building, and enhancing interoperability between U.S. forces and militaries of friends and allies.

Since April 2005, Multi-National Security Transition Command-Iraq has helped the GOI execute 121 Foreign Military Sales procurement cases with sales valued at more than \$4.5 billion. These procurements range from basic military equipment to M1A1 tanks and C-130J aircraft. Additionally, 14 cases, totaling \$707 million, have been signed and are awaiting funding from GOI.

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<sup>3</sup> SIGIR Audit 08-012, "Attestation to Development Fund for Iraq Cash in the Possession of the Joint Area Support Group-Central," 3/13/2008.

## **GOI Support for U.S.-Sponsored Assistance Programs**

DoD and USAID provided the following programs as examples of the GOI's partnering with the United States either to achieve a specific reconstruction goal or to share the financial burden.

### ***Government of Iraq Commander's Emergency Response Program (I-CERP)***

The GOI established and first funded the I-CERP in April 2008 when it transferred \$270 million to the Multi-National Corps-Iraq. The I-CERP is modeled after the CERP. The GOI has notified U.S. officials that it intends to provide an additional \$250 million to the U.S. government. According to DoD officials, this is both an example of the GOI's sharing costs of activities and a training opportunity. The intent is that, over time, the I-CERP will strengthen the capacity of local governments to meet constituents' needs and execute budgets to deliver essential services so that the management of the I-CERP-funded projects will be transferred to the Iraqi Security Force and provincial government counterparts. However, SIGIR was informed that, as of April 6, 2009, the GOI had not yet transferred to the U.S. government the promised \$250 million in additional funding.

### ***Sons of Iraq***

The U.S. established the SOI program at the national level in June 2007 as a means to help quell violence and restore order by enhancing security in unstable locations throughout Iraq. In September 2008, the GOI began to assume responsibility for nearly 94,000 SOI personnel. The first transfer of the SOI responsibility occurred in October 2008 when the United States transferred more than 50,000 SOI personnel in the Baghdad area to the GOI. As of March 2009, more than 80,000 SOI personnel had been transferred to GOI control. Through January 2009, the U.S. government had invested more than \$400 million in the program with a median monthly cost of more than \$21 million, peaking at nearly \$39 million in March 2008. However, with increased GOI support and management of these forces, U.S. costs dropped significantly, to nearly \$9 million in January 2009. DoD explained that the GOI had pledged to assume fiscal responsibility for all the SOI personnel by April 2009 and control for SOI personnel by May 1, 2009.

### ***Community Stabilization Program***

USAID officials stated that the Community Stabilization Program has evolved over the years as the Iraqi Security Forces assumed more control of the country. Originally, the program was developed to follow U.S. forces into an area impacted by insurgent activity. According to USAID, its assistance helped the U.S. forces provide stability to communities while building the foundation for long-term development. The program has done so by creating jobs and providing vocational and life skills and educational programs and opportunities and by revitalizing business districts, refurbishing youth centers, and supporting youth clubs and sports teams that offer creative outlets for young Iraqis.

As the Iraqi military has assumed greater control of the country, USAID agreements and support have switched from support to the U.S. military to support for the Iraqi military. Currently, USAID implements this program through cooperative agreements with the Iraqi government at both the national and local levels. The agreements generally include a cost-sharing requirement equaling 14 percent of the total value of the award; the specifics of individual projects under this program, as well as cost-sharing arrangements, are worked out at the local level where the project is to take place. For example, in Haditha, the Community Stabilization Program implemented a \$450,000 project to rehabilitate seven shops in a popular market area. USAID informed us that the local council proposed a contribution of \$110,000 worth of labor and equipment, but USAID did not inform us whether this contribution was in fact made.

USAID officials further stated that this program is scheduled to end in the fall 2009 and that in the past year the GOI had developed a comparable program.

### ***Community Action Program II***

According to USAID officials, this program is also evolving as local Iraqi governments assume greater responsibility. Community action Program II helps communities identify and prioritize local needs—such as school renovations, literacy programs, neighborhood cleanups, and water and sewerage system rehabilitations—and then develops and implements projects that address those needs. This USAID program is implemented through a cooperative agreement with an NGO (implementing partner), which requires that local entities contribute 7 percent of the total value of the award. The implementing partner works with local community action groups to design projects and determine Iraqi contributions. Local community and governmental organizations (lower than the provincial level) enter into cost-sharing arrangements through written letters of commitment with the neighborhood councils and community groups, who are responsible for implementing the program. These implementing partners are responsible for verifying cost-sharing contributions after each project is finished. Cost-sharing contributions may be in the form of cash, land, salaries, supplies, labor, materials, and supplies.

### ***Quick Response Fund/Iraq Rapid Assistance Program***

This USAID Program is implemented through a contract with a private development company. The Quick-Response Fund/Iraq Rapid Assistance Program contract allows Provincial Reconstruction Teams and embedded Provincial Reconstruction Teams to provide grants to support economic and social development programs and civil society conflict-mitigation efforts. The grants range from \$25,000 to \$500,000. The grants do not specifically require local entities to contribute to the cost of the projects. Nevertheless, according to USAID officials, grantees that have provided assistance generally do so in an on an in-kind basis as opposed to cash, and they track all cost-sharing—whether cash or in-kind—provided by Iraqi entities (GOI or NGOs, such as neighborhood councils and community groups). USAID estimates that such contributions are generally equal to nearly 2 percent of the costs.

## **GOI Support for U.S.-Funded Infrastructure Projects**

DoD has obtained specific agreements with the GOI to fund a portion of selected U.S.-funded projects. We did not attempt to determine the full extent of such agreements because information is contained in individual project files. Nevertheless, SIGIR's inspections of U.S.-constructed projects provide some examples of how such agreements work.

### ***Erbil Police Academy***

The U.S. Army Corps of Engineers awarded a firm-fixed price design and construction contract with 21 contract line item projects totaling nearly \$21.2 million for which the U.S. government prioritized and exercised 10 contract line items valued at more than \$10 million. As part of a cost-sharing agreement between the U.S. government and the Kurdistan regional government, the Kurdistan regional government funded 7 of the 21 contract line items at a cost of more than \$5.4 million. For example, the U.S. government was responsible for funding an education building priced at more than \$2.4 million, while the Kurdistan regional government was responsible for a management building priced at more than \$1.6 million.<sup>4</sup>

### ***Kirkuk to Baiji Pipeline Exclusion Zone***

To complement the U.S. government's approximately \$34.4 million investment, the GOI agreed to contribute approximately \$12.3 million to the pipeline project. The GOI-awarded contract provided extra security by constructing 185 guard towers, 16 Iraqi Army company headquarters, and 4 Iraqi Army battalion headquarters. The GOI also provided troops to staff the guard towers.<sup>5</sup>

### ***Falluja Waste Water Treatment System***

The Falluja Waste Water Treatment System (system) was originally planned to cost \$32.5 million, be completed in January 2006 (18 months) by one contractor, and serve the entire city of Falluja. In October 2008, SIGIR Inspections reported that the project was two years behind schedule, had been de-scoped, and had tripled in cost.

Additional funding was obtained in late 2005 and early 2006 to complete a portion of the project. Included in the additional funding were \$18 million in DFI and \$9 million in the CERP funds. The use of separate funding sources required a greater level of integration and coordination of the multiple contracts required to manage the overall project. By early April 2007, contractor invoices were outstanding for the four construction DFI contracts totaling more than \$3 million. Despite U.S. and Iraqi government attempts to obtain payment on the invoices, on December 31,

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<sup>4</sup> SIGIR Inspection PA-07-115, "Erbil Police Academy –Under the Iraq Security Forces Fund," 1/22/2008.

<sup>5</sup> SIGIR Inspection PA-08-137, "Kirkuk to Baiji Pipeline Exclusion Zone – Phase 3," 7/24/2008.

2007, the four DFI contracts still had outstanding balances of more than \$2 million. As a result of the lack of payments, some of the DFI-funded construction contractors stopped work because some of the contractors responsible for equipment procurement refused to execute their contracts. The subsequent work stoppages and lack of equipment impacted progress on the contracts and contributed to the delays in completing the system.<sup>6</sup>

At the time of the SIGIR assessment, the costs of the system had increased to approximately \$98 million, of which \$18.7 million had been expended under a delivery order and \$79.3 million had been obligated for 45 subsequent contracts to complete the System. Furthermore, the System would be only partially completed in April 2009 (56 months) and serve only 38 percent of the city of Falluja.

## **Conclusion**

As illustrated in the preceding sections, agencies have identified many differing arrangements for GOI to share reconstruction costs. The Congress, in recent legislation, provided guidance related to cost sharing for ESF programs, and DoS and USAID have developed policy guidelines for implementing cost-sharing arrangements for civilian-funded U.S. assistance programs. Congressional reaction to that policy remains to be seen. In the absence of a cost-sharing policy for the other Iraq reconstruction programs, cost-sharing will likely continue to be achieved by the varying arrangements in use.

## **Management Comments and Audit Response**

No management comments were required because SIGIR did not make recommendations. Nevertheless, USAID and the Multi-National Force-Iraq provided technical comments, which we incorporated as appropriate. Additionally, USAID provided a copy of recently developed guidelines for GOI financial participation in U.S. government-funded civilian foreign assistance programs. We included these guidelines in Appendix D.

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<sup>6</sup> SIGIR Inspection PA-08-144 to 08-148, “Falluja Waste Water Treatment System,” 10/27/2008.

## Appendix A—Scope and Methodology

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SIGIR initiated this audit in October 2008 to develop information on GOI contributions that support U.S. reconstruction efforts in Iraq.

To include information on legislative guidance, SIGIR's General Counsel reviewed public laws and other documents related to cost-sharing.

To provide information on Executive Branch guidance on soliciting Iraq contributions to U.S. development programs, we:

- Met with officials from Multi-National Security Transition Command-Iraq, Multi-National Corps-Iraq, DoS, and USAID
- Requested and reviewed related policies, procedures, and other documents to determine whether the documentation provided any direction or guidance on obtaining GOI support for the reconstruction effort
- Spoke with USAID officials from their Washington, D.C., headquarters
- Reviewed DoS reports on GOI contributions to reconstruction

To provide examples of GOI contributions to the U.S. reconstruction effort, we:

- Interviewed appropriate DoD, DoS, and USAID officials in Iraq about existing formal and informal arrangements to obtain Iraqi contributions to the reconstruction effort
- Requested and obtained information on specific projects to which either the GOI at the national or local level or community groups had contributed to the U.S. reconstruction effort

SIGIR's intent was not to provide a comprehensive inventory of the GOI's support for U.S. projects or the reconstruction effort as a whole. Nor did we attempt to verify the data on cost estimates that agencies provided us.

We performed this audit under authority of P. L. 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978, as amended. We conducted this review between October 2008 and April 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **Use of Computer-Processed Data**

We did not rely on computer-processed data to perform this audit.

## **Internal Controls**

We identified and reviewed internal controls, or the policies and procedures, for DoD, DoS, and USAID cost sharing with GOI as part of our audit objective to provide information on Executive Branch guidance on soliciting GOI contributions for U.S. development programs. The results of this review are incorporated in the body of the report.

## **Related Reports by SIGIR**

- SIGIR-09-012, “The U.S. Has Reduced Its Funding for the Iraqi Security Forces, but Continued Support Will Be Necessary,” 1/26/2009.
- SIGIR PA-08-144 to 08-148, “Falluja Waste Water Treatment System,” 10/27/2008.
- SIGIR-08-022, “Government of Iraq Increasingly Funding Iraqi Security Forces Infrastructure Development, but Substantial U.S. Support Remains,” 7/26/2008. The report was revised on 8/11/2008.
- SIGIR PA-08-137, “Kirkuk to Baiji Pipeline Exclusion Zone–Phase 3,” 7/24/2008.
- SIGIR-08-006, “Commander’s Emergency Response Program in Iraq Funds Many Large-Scale Projects,” 1/25/2008.
- SIGIR PA-07-115, “Erbil Police Academy–Under the Iraq Security Forces Fund,” 1/22/2008.



## Appendix B—Congressional Guidance on Obtaining Government of Iraq Support

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### Congress Restricts Use of Economic Support Fund for Iraq Reconstruction

The Congress appropriated \$3.54 billion to the Economic Support Fund (ESF) for reconstruction projects in Iraq. However, in a report accompanying the FY 2008 appropriations bill for the State Department’s foreign operations and related programs (H.R. 2764),<sup>7</sup> the House Appropriations Committee noted that it had recommended that the Department of State’s ESF include no funds for programs in Iraq, which was \$298,000,000 below the requested amount.<sup>8</sup> The Committee said that it believed the Government of Iraq (GOI) should assume more responsibility “for the reconstruction of Iraqi infrastructure and the provision of essential services.”<sup>9</sup> As enacted,<sup>10</sup> the bill stated that none of the funds appropriated or otherwise available under the act could be used for assistance for Iraq except for specified purposes, for example, to aid Iraqi scholars and war victims, refugees, and internally displaced persons.<sup>11</sup>

The Congress addressed this issue again in the 2008 supplemental appropriations act.<sup>12</sup> While appropriating additional ESF for use in Iraq, the act stipulated that none of the funds appropriated for infrastructure maintenance activities in Iraq could be used until the Secretary of State certifies and reports to the Committees on Appropriations that the governments of the

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<sup>7</sup> H.R. REP. NO. 110-197 (2007).

<sup>8</sup> H.R. REP. NO. 110-197 at 72 (2007). ESF is formally requested by the administration in a lump sum subject to a detailed justification document indicating the intended uses of the funds. It is appropriated in a lump sum, subject to certain statutory earmarks and restrictions.

<sup>9</sup> *Ibid.* The Committee also said that “funds provided [for Iraq] in the fiscal year 2007 Supplemental Appropriations Act” should be “fully obligated” before it would consider requests for additional funds. *Ibid.*

<sup>10</sup> Consolidated Appropriations Act, 2008, Pub. L. No. 110-161, 121 Stat. 1844 (12/26/2007).

<sup>11</sup> *Ibid.*, Pub. L. No. 110-161, Sec. 699K, 121 Stat. 1844, 2373.

<sup>12</sup> Supplemental Appropriations Act, 2008, Pub. L. No. 110-252, Ch. 4, 122 Stat. 2323, 2328 (6/30/2008).

United States and Iraq have an agreement that the GOI will maintain the U.S.-funded infrastructure in Iraq.<sup>13</sup>

The act also requires that funds appropriated to the Department of State (DoS) and foreign operations for assistance to Iraq will be made available only to the extent that the GOI matches the assistance on a dollar-for-dollar basis.<sup>14</sup> The Economic Support Fund would fall under this restriction. The 2008 supplemental appropriations act provides no further explanation about how the matching requirement should be implemented. In the FY 2009 omnibus appropriations act, the Congress extended the matching requirement of the 2008 supplemental to apply to assistance for Iraq in FY 2009 (again without further elaboration).<sup>15</sup>

## **Congress Imposes Restrictions on the Use of Additional Program Funds for Iraq Reconstruction**

The FY 2009 defense authorization act<sup>16</sup> places additional limitations, prohibitions, and other requirements on the following categories of assistance to Iraq:

**Commander's Emergency Response Program (CERP):** The act caps at \$2,000,000 any CERP-funded project in Iraq that is begun after the law was enacted (10/14/2008).<sup>17</sup> Further, no CERP project begun after the law's enactment may exceed \$1,000,000 unless the Secretary of Defense certifies that the project addresses "urgent humanitarian relief and reconstruction requirements that will immediately assist the Iraqi people."<sup>18</sup> The act expresses the sense of the Congress that the GOI should assume greater responsibility for funding and carrying out projects

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<sup>13</sup> *Ibid*, Pub. L. No. 110-252, Sec. 1402(a)(1), 122 Stat. 2323, 2334.

<sup>14</sup> *Ibid*, Pub. L. No. 110-252, Sec. 1402(e)(1), 122 Stat. 2323, 2335. Section 1402(e)(2) provides limited exceptions to the matching requirement for democracy and human rights programs and certain humanitarian assistance.

<sup>15</sup> Omnibus Appropriations Act, 2009, Pub. L. No. 111-8, Sec. 7042(b) (3/11/2009).

<sup>16</sup> Duncan Hunter National Defense Authorization Act for Fiscal Year 2009, Pub. L. No. 110-417, 122 Stat. 4356 (10/14/2008).

<sup>17</sup> *Ibid*, Pub. L. No. 110-417, Sec. 1214(c), 122 Stat. 4356, 4631. This section permits the Secretary of Defense to waive the \$2,000,000 limit if "required to meet urgent humanitarian relief and reconstruction requirements that will immediately assist the Iraqi people" and the Secretary so notifies Congress. *Ibid*.

<sup>18</sup> *Ibid*, Pub. L. No. 110-417, Sec. 1214(d), 122 Stat. 4356, 4632.

that the United States currently funds through CERP and “should assume all costs associated with the Sons of Iraq program as expeditiously as possible.”<sup>19</sup>

**Iraq Security Forces Fund (ISFF):** The act requires the U.S. government to “take actions to ensure” that Iraq funds are used to pay the costs of the salaries, training, equipping, and sustainment of Iraqi Security Forces.<sup>20</sup> No funds authorized for the ISFF appropriations or for any purpose in the FY 2009 defense bridge fund appropriations provided for in the 2008 supplemental appropriations act may be obligated or spent for the acquisition, conversion, rehabilitation, or installation of facilities in Iraq for the use of the GOI or its forces.<sup>21</sup>

**Cost-Sharing Agreement:** The act requires the U.S. government to negotiate with the GOI on an agreement to share the costs of combined operations of the GOI and the Multi-National Force-Iraq undertaken as part of Operation Iraqi Freedom.<sup>22</sup>

In reporting the Senate version of the bill that (with amendments) became the 2009 defense authorization act, the Senate Armed Services Committee commented that the amount authorized for the ISFF would be dramatically reduced from the FY 2008 level<sup>23</sup> in light of the Iraqi

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<sup>19</sup> *Ibid*, Pub. L. No. 110-417, Sec. 1214(e), 122 Stat. 4356, 4632.

<sup>20</sup> *Ibid*, Pub. L. No. 110-417, Sec. 1508(c)(1), 122 Stat. 4356, 4652. The phrase “take actions to ensure” implies the absence of a requirement that U.S. funds immediately or at any particular time cease being used to pay the costs mentioned. Section 1508(c)(2) of the act requires periodic reports on progress toward meeting the requirement of section 1508(c)(1), a further indication that the act does not require immediate changes in the practices of the U.S. government.

<sup>21</sup> *Ibid*, Pub. L. No. 110-417, Sec. 1508(a)(1), 122 Stat. 4356, 4651-4652. This prohibition does not apply to authorized CERP projects, certain Title 10 U.S. military construction, and technical assistance to the Government of Iraq to carry out facilities projects on its own behalf. *Ibid*, Pub. L. No. 110-417, Sec. 1508(a)(2), 122 Stat. 4356, 4652.

<sup>22</sup> *Ibid*, Pub. L. No. 110-417, Sec. 1508(b)(1), 122 Stat. 4356, 4652.

<sup>23</sup> The Committee had recommended an authorization of an additional \$200,000,000 for the FY 2009 ISFF. See S. REP. NO. 110-335 at 428 (2008). As enacted, the 2009 defense authorization act did not provide additional ISFF funding but did authorize the previously appropriated amount of \$1 billion for ISFF that had been part of the defense bridge fund appropriations contained in the 2008 supplemental appropriations act. The requirements of the authorization act thus became effective with respect to the previously-appropriated funds. See Duncan Hunter National Defense Authorization Act for Fiscal Year 2009, Pub. L. No. 110-417, Sec. 1501(a) (citing the Supplemental Appropriations Act, 2008, Pub. L. No. 110-252, Title IX,

government's ability to finance its own security forces from the significant increases in Iraqi oil revenues and the large balances of unspent Iraqi funds. The Committee said that funding authorized for this program is intended only for areas where the United States is in a position to make a unique contribution to Iraqi security, particularly in the area of training, and that no funds are authorized for infrastructure programs for the Iraqi security forces for FY 2009. The Committee also said that it believes the Iraqi government is well able to finance its own infrastructure needs at this point.<sup>24</sup>

## **Congress Requires Reporting of GOI Contributions**

Recent legislation mandating reporting on GOI cost-sharing (P.L. 110-252 and P.L. 110-417) further supports congressional intent on the need for the GOI to provide a greater share of funds for reconstruction. To illustrate, P.L. 110-252 requires the DoS to certify and report on Iraq's matching funds<sup>25</sup> and requires the Department of Defense (DoD) to report to the Congress regarding CERP funds.<sup>26</sup> The DoS report was due to the Congress not later than September 30, 2008, and 180 days thereafter.<sup>27</sup> The DoD is to report "...a comprehensive set of performance indicators and measures for progress toward military and political stability in Iraq."<sup>28</sup> DoD responded to the requirements of the act in the September 2008 quarterly report to the Congress. P.L. 110-417 established additional quarterly reporting requirements on all CERP projects exceeding \$500,000, including the amount of funds provided by the GOI, and a description of the plan to turn over the project to Iraq and a plan for sustaining the projects.<sup>29</sup>

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Ch. 2, 122 Stat. 2323, 2405-2414 (June 30, 2008)), and Sec. 1505, 122 Stat. 4356, 4649, 4651 (10/14/2008).

<sup>24</sup> S. REP. NO. 110-335 at 428 (2008).

<sup>25</sup> Pub. L. No. 110-252, Sec. 1402(e)(3), 122 Stat. 2323, 2335.

<sup>26</sup> Pub. L. No. 110-252, Sec. 9104(b), 122 Stat. 2323, 2404.

<sup>27</sup> Pub. L. No. 110-252, Sec. 1402(e)(3), 122 Stat. 2323, 2335.

<sup>28</sup> Pub. L. No. 110-252, Sec. 9204(a), 122 Stat. 2323, 2410.

<sup>29</sup> Pub. L. No. 110-417, Sec. 1214(b)(3), 122 Stat. 4356, 4630.

# Appendix C—Financial Data Reported by U.S. Agencies for Funds Subject to P.L. 110-252, Section 1402(e) Requirements

## Allotments, Obligations and Disbursements as of March 31, 2009 (\$ millions)

| Program <sup>1</sup>                        | Allotment      | Obligation     | Disbursement  |
|---|----------------|----------------|---------------|
| Provincial Reconstruction Team Programs     |                |                |               |
| Quick Response Fund (OPA/USAID)             | \$ 87.0        | \$ 67.3        | \$13.6        |
| Local Governance Program (USAID)            | 87.0           | 87.0           | 1.1           |
| Community Stabilization Program (USAID)     | 132.5          | 33.5           | 33.5          |
| Operation & Maintenance (ITAO) <sup>2</sup> | 10.0           | 0              | 0             |
| Provincial Economic Growth (USAID)          | 25.0           | 25.0           | 0             |
| Capacity Development (USAID/ITAO)           | 70.0           | 59.8           | 0             |
| <b>Total</b>                                | <b>\$411.5</b> | <b>\$272.6</b> | <b>\$48.2</b> |

Notes:

<sup>1</sup> Each of these programs incorporates prior year money. These programs are funded by the Economic Support Fund; the table does not include the Criminal Justice/Rule of Law program, which is funded through a different source.

<sup>2</sup> The \$10 million will not be released for obligation until asset transfer agreements are finalized.

Source: Iraq Transition Assistance Office.

# Appendix D—Department of State and USAID Policy Guidelines for Government of Iraq Contributions to U.S. Reconstruction Efforts

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USAID provided the following guidelines.

## **Guidelines for Government of Iraq (GOI) Financial Participation in U.S. Government (USG)-Funded Civilian Foreign Assistance Programs and Projects**

### **GOI Counterpart Participation**

The USG will seek the maximum GOI counterpart financial participation in U.S.-funded civilian foreign assistance programs and projects. This financial participation can take the form of operating or capital costs, including but not limited to cash; direct budgetary support; capital goods; counterpart personnel; services and studies that support attainment of the program, project, or activity; rental or purchase of materials for operations or construction; administrative costs; land contributed to attainment of the program, project, or activity; and costs related to the above items.

Different means of financial participation may be appropriate for different types of programs or projects, depending upon whether the support is primarily to the central government, other government entities, non-governmental organizations, civil society organizations, or private sector entities.

For programs that directly benefit or involve the Iraqi central government, or that are in its direct interest, the USG will require financial participation on the part of the GOI equivalent to at least 50 percent of total program or project costs, as defined below. Programs requiring such GOI financial participation include assistance that directly finances the costs of a government ministry or of contracts to deliver goods, technical assistance, or training to a government ministry.

Exceptions to the financial participation requirement are summarized below. However, even in these excepted cases, the USG to the maximum extent possible will seek financial participation and/or evidence of GOI or other Iraqi counterpart financial commitment to the program or project.

These guidelines apply to all new programs or projects using funds appropriated after the date these guidelines are issued. The USG will also apply these guidelines to the extent possible to ongoing activities and to obligations of funds that were appropriated prior to the date of the adoption of these guidelines.

### **Timing of Financial Participation**

The 50-percent GOI financial participation must be made during the life of the program or project. In cases where program activities are not designed and described to the degree necessary to determine the total cost at the time of the initial agreement, the implementing agency will recalculate the total cost and amount of GOI financial participation required as new funds are obligated.

In some cases, it may be desirable to allow for a level of GOI financial participation that gradually increases over the life of the program or project. This could allow Iraq to reconfigure its expenditure pattern, better position itself to assume responsibility for operations and maintenance costs, and raise additional revenues without delaying the implementation of the program while providing reasonable assurance that Iraq will eventually assure its share of expenditures to ensure the success of the program. This type of variation

in the level of funding over the course of a project is permissible as long as the GOI's financial participation over the life of the program is at least 50-percent.

#### Calculation of Total Program or Project Costs

A significant portion of USG funding covers security and other special costs of operating in Iraq, such as extraordinary "life support" and force protection costs. Such costs shall be excluded from the basis for calculating the counterpart requirement since it is not reasonable in these circumstances to expect the Iraqis to contribute to these costs. The GOI financial participation required would therefore be at least 50 percent of the total program or project costs, excluding USG security and related extraordinary costs of providing assistance in Iraq.

#### Valuation of Iraq's Financial Participation

The cost of in-kind financial participation is to be estimated at fair market value at the time the estimation is made and converted to dollars for budgetary purposes at the prevailing exchange rate. Cash contributions in local currency are valued in the same way at the time the contribution is identified and described.

#### GOI Undertaking

In order to assess compliance with these guidelines, a written document will be compiled describing the types of financial participation that the GOI will provide to the program or project in order to meet the 50-percent participation requirement, before the obligation of U.S. assistance funds

This document will state the total cost of the program, project, or activity and the cost basis, excluding security and other special operating costs specific to Iraq. The financial participation must be described and quantified in the document. In addition, the MOU or other document will include a GOI undertaking to participate financially in the USG-funded program or project, including a plan for transitioning the responsibility for the program or project to the GOI or another Iraqi counterpart.

The USG intends to withhold additional funding for a program or project if counterparts do not participate financially in the program or activity outlined in the document.

#### Reporting, Monitoring and Compliance

The written document setting forth the financial participation of the GOI counterpart must include a requirement for the GOI counterpart to report at least semi-annually on their participation. In addition, the USG implementing agency may require contractors and grantees to track and report on financial participation by the GOI.

At a minimum, the USG must review these financial participation reports and evaluate if the GOI's financial participation level is reasonable in relation to the program or project, staffing progress, and other factors. The USG may take additional steps to ascertain if the GOI is adequately participating in financing the program or activity. These may include periodic site visits, reviews, evaluations, or audits of the GOI's financial inputs. Additionally, as this process will be subject to USG audits, programs should be set up to track and report on the GOI's financial participation.

The Chief of Mission will chair a semiannual inter-agency meeting at which all agencies report on GOI financial participation and progress toward program transition to the GOI.

Exceptions and Waivers

As noted above, the requirement for GOI financial participation applies to USG-funded civilian foreign assistance programs, with these exceptions: (a) democracy and human rights programs, including rule of law and anti-corruption activities and programs that support women and other vulnerable groups; (b) the Community Assistance Program and other assistance through civil society organizations and non-governmental organizations; (c) conflict prevention programs; (d) support to the private sector; (e) humanitarian demining, weapons destruction, anti-terrorism, and non-proliferation; (f) assistance for refugees, internally displaced persons, and civilian victims of military operations; and (g) programs designed to assess the effectiveness of USG programs.

For all other assistance to Iraq, including programs that support national capacity development and economic governance and policy reform, the guidelines above will apply.

The Department of State will have the authority to decide that any U.S. foreign assistance program or project will go forward, absent an Iraqi contribution on that specific program or project, upon the recommendation of the Chief of Mission that it is in the national interest to do so.

Washington DC

April 9, 2009



## Appendix E—Acronyms

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| <b>Acronym</b> | <b>Description</b>  |
|----------------|---|
| CERP           | Commander's Emergency Response Program                    |
| DFI            | Development Fund for Iraq                                 |
| DoD            | Department of Defense                                     |
| DoS            | Department of State                                       |
| ESF            | Economic Support Fund                                     |
| FY             | fiscal year   |
| GOI            | Government of Iraq  |
| I-CERP         | Government of Iraq Commander's Emergency Response Program |
| ISFF           | Iraq Security Forces Fund                                 |
| ITAO           | Iraq Transition Assistance Office                         |
| NGO            | Nongovernmental organization                              |
| OPA            | Office of Provincial Affairs                              |
| P.L.           | Public Law  |
| SIGIR          | Special Inspector General for Iraq Reconstruction         |
| SOI            | Sons of Iraq  |
| U.S.           | United States   |
| USAID          | U.S. Agency for International Development                 |

## **Appendix F—Audit Team Members**

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This report was prepared and the audit conducted under the direction of David R. Warren, Assistant Inspector General for Audit, Office of the Special Inspector General for Iraq Reconstruction.

The staff members who conducted the audit and contributed to the report include:

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Walt R. Keays

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|   |  |
|---|--|
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