Transferring Iraq Relief and Reconstruction Fund Capital Projects to the Government of Iraq

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Transferring Iraq Relief and Reconstruction Fund Capital Projects to the Government of Iraq

Office of the Special Inspector General for Iraq Reconstruction, 400 Army Navy Drive, Arlington, VA, 22202-4704

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MEMORANDUM FOR U.S. AMBASSADOR TO IRAQ
DIRECTOR, IRAQ TRANSITION ASSISTANCE OFFICE
MISSION DIRECTOR-IRAQ, U.S. AGENCY FOR INTERNATIONAL
DEVELOPMENT
COMMANDING GENERAL, MULTI-NATIONAL SECURITY
TRANSITION COMMAND-IRAQ
COMMANDING GENERAL, U.S. ARMY CORPS OF ENGINEERS
GULF REGION DIVISION

SUBJECT: Transferring Iraq Relief and Reconstruction Fund Capital Projects to the
Government of Iraq (SIGIR-07-004)

This audit report is provided for your information and use. This report discusses our
review of the U.S. Mission-Iraq’s process for transferring completed Iraq Relief and
Reconstruction Fund projects to the Government of Iraq.

We considered comments received on the draft of this report from the Mission Director-
Iraq, U.S. Agency for International Development; the U.S. Army Corps of Engineers
Gulf Region Division; and the U.S. Embassy-Iraq when preparing the final report. The
comments are addressed in the report, where applicable, and the written responses are
included in the Management Comments section of this report.

We appreciate the courtesies extended to the staff. For additional information on this
report, please contact Mr. Glenn Furbish in Arlington, Virginia (glenn.furbish@sigir.mil
or 703-428-1058) or Mr. Robert B. Gabriel in Baghdad, Iraq (703-343-7921 /
robert.gabriel@iraq.centcom.mil). For the final report distribution, see Appendix D.

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

cc: See Distribution
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Executive Summary

Introduction

This report is one of a series issued by the Special Inspector General for Iraq Reconstruction (SIGIR) that addresses transferring completed projects funded by the Iraq Relief and Reconstruction Fund (IRRF) to the Government of Iraq (GOI). It focuses on the formal transfer of IRRF-funded capital assets¹ and follows up on prior SIGIR recommendations relating to capital asset transfer.

As of May 31, 2007, the Iraq Reconstruction Management Office (IRMO), the U.S. Agency for International Development (USAID), the Multi-National Security Transition Command-Iraq (MNSTC-I), and the U.S. Army Corps of Engineers Gulf Region Division (GRD) have managed the completion of 2,797 IRRF-funded capital construction projects valued at approximately $5.8 billion.

A capital project transfer process is essential to both the United States and Iraq for two main reasons. First, it allows the GOI to recognize its ownership of the project. Asset recognition is the point at which the GOI officially agrees that the project is complete, that all necessary project-specific documentation is in place,² and that the U.S. government has provided the necessary training and orientation to the local Iraqi staff who will be responsible to manage, operate, and maintain the new or refurbished facility. Second, it validates that the GOI is now responsible for project operation and maintenance (O&M) and capital replacement. As a result, ownership enables the Iraqi Ministry of Finance to leverage completed projects to obtain new financing for future initiatives from world markets, including the International Monetary Fund, the World Bank, and donor nations.

According to the National Security Presidential Directive 36, United States Government Operations in Iraq (May 11, 2004), the U.S. Ambassador to Iraq is the Department of State’s

¹ The Iraq Reconstruction Management Office’s Procedure for the Transfer and Recognition of USG-Funded Capital Assets to the Government of the Republic of Iraq, dated April 23, 2006, defines capital asset as “physically tangible property which cannot be easily converted into cash and which is expected to be held for a long period—generally five years or more—including buildings, real estate, equipment, etc.”

² Documentation includes such items as facility as-built drawings, preventive maintenance plans, spare parts lists, operations and maintenance plans, and cost estimates for annual operations and maintenance costs.
Chief of Mission at the U.S. Mission-Iraq and is responsible for the continuous supervision and general direction of all assistance for Iraq. This includes the direction, coordination, and supervision of all U.S. government employees, policies, and activities in country, except those under the command of an area military commander. The directive also created IRMO as a temporary organization within the U.S. Mission-Iraq to facilitate the transition in Iraq. On May 8, 2007, the President, by Executive Order 13431, created the Iraq Transition Assistance Office (ITAO) as the successor organization to IRMO.

Objectives

The overall objective was to determine whether IRMO, USAID, MNSTC-I, and GRD have developed and implemented plans for the transition of IRRF-funded projects to the GOI. To meet the objective, the audit addressed these questions:

1. Have U.S. agencies involved in IRRF-funded construction projects developed adequate procedures for transitioning completed projects to the Government of Iraq?
2. Have there been delays in transitioning projects to the Government of Iraq; if so, what have been the cause and impact of those delays?
3. What is the status of actions taken in responding to prior SIGIR recommendations on transition and sustainment?

The transition process comprises three steps: (1) asset recognition and transfer, (2) sustainment, and (3) capacity development. This audit focused on asset recognition and transfer. SIGIR is reporting on sustainment and capacity development in separate reviews and assessments.

Results

IRMO and its implementing partners—USAID, MNSTC-I, and GRD—have worked hard to put a process in place for handing over completed U.S.-built capital projects to the GOI and initially were successful in transferring projects. In December 2005, the four organizations and others formed the Asset Recognition and Transfer Working Group to build on earlier informal efforts to develop a common transfer process for all U.S. agencies to use. IRMO closely coordinated the asset transfer process with the Ministry of Finance because of the Ministry’s broad budgetary/financial responsibility and funding authority for the GOI, including providing funding for O&M costs for transferred assets. However, a new Minister of Finance was appointed in May 2006 who, according to IRMO staff, changed the GOI conditions on the asset transfer process, effectively halting further transfers at the national level in July 2006.

Hoping to break this bottleneck, IRMO and its implementing U.S. partners are developing alternatives to achieve the objective of capital asset transfer to the GOI. They drafted a revised policy that moves formal recognition and acceptance of asset transfers at the national level from the Ministry of Finance to the individual line ministries (for example, electricity). IRMO, MNSTC-I, and GRD are prepared to unilaterally transfer to the GOI completed assets as a last resort if the line ministries are unwilling to formally recognize and accept them. In addition, IRMO officials told us that they have drafted a bilateral agreement on asset transfer to the GOI that is intended to be signed by the U.S. Ambassador to Iraq and the Iraqi Prime Minister. IRMO
could not provide a timeline for completion of the bilateral agreement: it depends on input from both the U.S. government participants and the GOI. ³

USAID is the one agency that has not used the Asset Recognition and Transfer Working Group’s common policy. In a previous recommendation, we stated that USAID should participate in this process, but it has thus far declined. Instead, USAID plans to execute its own agreement with each line ministry. The agreement will include all projects completed by USAID for that ministry and a commitment by the line ministry to sustain the completed projects.

Between April 23, 2006, and June 30, 2006, MNSTC-I and GRD transferred 435 completed IRRF-funded projects, valued at $501 million, to the GOI through the Ministry of Finance. No completed projects have been transferred to the Ministry of Finance since June 30, 2006. As of May 31, 2007, 2,362 completed U.S.-built projects, valued at $5.3 billion, await transfer and acceptance at the national level. Delays in transferring completed projects mean that fewer assets are available to the GOI as leverage for loans and could result in additional sustainment expenses for the U.S. government agencies that completed the projects. We previously identified problems in sustaining completed projects. ⁴

SIGIR has issued four asset transfer reports, each with one recommendation, on the transfer of completed projects to the GOI. ⁵ Each recommendation identified the need to develop a common transfer process. IRMO and its implementing partners have worked to put such a process in place but have been stymied by the GOI’s unanticipated reluctance to accept project responsibility and ownership. Thus, each recommendation remains open, and the implementing partners through the Asset Recognition and Transfer Working Group continue to develop a common transfer process acceptable to all parties, especially the GOI. We continue to maintain that asset transfer to the GOI is best accomplished through a single U.S. government process, rather than by each implementing agency independently negotiating its own agreement. Also, the U.S. government needs to establish an overall bilateral agreement with the GOI to include any agreed-upon procedures for the transfer of assets.

Recommendation
We recommend that the U.S. Ambassador to Iraq provide senior-level support to finalize a bilateral agreement between the United States and Iraq on asset transfer to the Government of Iraq.

³ GOI principals include the Prime Minister, Deputy Prime Minister, Minister of Finance, and the Minister of Planning.
⁴ Managing Sustainment for Iraq Relief and Reconstruction Fund Programs (SIGIR-05-022, October 24, 2005).
Management Comments and Audit Response

We received written comments from the U.S. Embassy-Iraq on a draft of this report. The Embassy concurred with the recommendation.

We also received written technical comments on the draft of this report from the U.S. Agency for International Development and the U.S. Army Corps of Engineers’ Gulf Region Division. These comments are addressed in the report where applicable.

In developing the bilateral agreement, the lead activity should consider the suggestion GRD made in its response to the draft of this report. GRD suggested a provision whereby when ministries take longer than 30 days to formally recognize and accept asset transfer, that there be a unilateral transfer procedure for completed projects in order to reduce delays in transfers. While SIGIR did not fully evaluate the suggestion, it appears to be one that should be considered.

We consider that all comments received are responsive to the intent of the recommendations and that technical corrections have been made to this final report as applicable. All comments are included in the Management Comments section of this report.
Introduction

Background

This report focuses on the formal transfer of completed capital construction projects funded by the Iraq Relief and Reconstruction Fund (IRRFF) to the Government of Iraq (GOI). On April 16, 2003, the United States (U.S.) Congress appropriated $2.48 billion through Public Law 108-11, commonly called IRRF 1, to finance reconstruction in Iraq. On November 6, 2003, it appropriated an additional $18.4 billion through Public Law 108-106, commonly called IRRF 2, to support security, relief, rehabilitation, and reconstruction projects in postwar Iraq. As of May 31, 2007, the Iraq Reconstruction Management Office (IRMO), the U.S. Agency for International Development (USAID), the Multi-National Security Transition Command-Iraq (MNSTC-I), and the U.S. Army Corps of Engineers Gulf Region Division (GRD) have managed the completion of 2,797 IRRF-funded capital construction projects valued at approximately $5.8 billion. It is expected that most of the remaining IRRF-funded projects will be completed by the end of 2007.

A capital project transfer process is essential to both the United States and Iraq. First, it allows the GOI to recognize its ownership of the project. Asset recognition is the point at which the GOI officially agrees that the project is complete, all necessary project-specific documentation is in place, and the U.S. government has provided the necessary training and orientation to the local Iraqi staff that will have responsibility to manage, operate, and maintain the new or refurbished facility. Second, it validates that the GOI is now responsible for project O&M and capital replacement. As a result, ownership enables the Iraqi Ministry of Finance to leverage completed projects to obtain new financing for future initiatives from world markets, including the International Monetary Fund, World Bank, and donor nations.

Responsibilities

Iraq Reconstruction Management Office (IRMO). According to National Security Presidential Directive 36, United States Government Operations in Iraq (May 11, 2004), the U.S. Ambassador to Iraq is the Department of State’s Chief of Mission at the U.S. Mission-Iraq and is responsible for the continuous supervision and general direction of all assistance for Iraq. This includes the direction, coordination, and supervision of all U.S. government employees, policies, and activities in country, except those under the command of an area military commander. The directive also created IRMO as a temporary organization within the U.S. Mission-Iraq to facilitate the transition in Iraq. On

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6 In December 2005, when GRD absorbed the Project and Contracting Office-Iraq, the organization became known as GRD-PCO. The PCO mission in Iraq officially ended on October 14, 2006.

7 Documentation includes items such as facility as-built drawings, preventive maintenance plans, spare parts lists, operations and maintenance plans, and cost estimates for annual operations and maintenance costs.
May 8, 2007, the President, by Executive Order 13431, created the Iraq Transition Assistance Office (ITAO) as the successor organization to IRMO.

**U.S. Army Corps of Engineers Gulf Region Division (GRD).** GRD provides planning, design, and construction management support for military and civil infrastructure construction in the Iraq combat theater to Multi-National Force-Iraq, the Department of State, and USAID.

**Multi-National Security Transition Command-Iraq (MNSTC-I).** As a component of the U.S. Central Command’s Multi-National Force-Iraq, MNSTC-I assists in building the capability of Iraqi Security Forces through a program of recruitment, training, equipping, mentoring, and monitoring. Its Coalition Military Assistance Training Team organizes, trains, and equips the Iraqi armed forces. The Civilian Police Assistance Training Team staffs, equips, organizes, trains, and mentors the Iraqi Police Service, Iraqi National Police, Department of Border Enforcement forces, and other supporting forces.

**U.S. Agency for International Development (USAID).** To facilitate the reconstruction of Iraq, the USAID Mission-Iraq implements specific programs in coordination with the United Nations, World Bank, International Monetary Fund, coalition country partners, nongovernmental organizations, and private sector partners. The USAID programs are in education, health care, food security, infrastructure reconstruction, economic growth, community development, local governance, and transition initiatives.

**Objectives**

The overall objective was to determine whether IRMO, USAID, MNSTC-I, and GRD have developed and implemented plans for the transition of IRRF-funded projects to the GOI. To meet the objective, the audit addressed these questions:

1. Have U.S. agencies involved in IRRF-funded construction projects developed adequate procedures for transitioning completed projects to the Government of Iraq?
2. Have there been delays in transitioning projects to the Government of Iraq; if so, what have been the cause and impact of those delays?
3. What is the status of actions taken in responding to prior SIGIR recommendations on transition and sustainment?

The transition process comprises three steps: (1) asset recognition and transfer, (2) sustainment, and (3) capacity development. This audit focused on the asset recognition and transfer portion of the transition process. SIGIR is reporting on sustainment and capacity development in separate reviews and assessments.

For a discussion of the audit scope and methodology, see Appendix A. For the summary of open SIGIR recommendations, see Appendix B. For the acronyms used in this report, see Appendix C. For the report distribution, see Appendix D. For a list of the audit team members, see Appendix E.
Asset Transfer Procedures

IRMO and its implementing partners—USAID, MNSTC-I, and GRD—have worked hard to put a process in place for handing over completed U.S.-built capital projects to the GOI. Initially, they were successful in transferring projects. In December 2005, the four organizations and others formed the Asset Recognition and Transfer Working Group to build on earlier informal efforts to develop a common transfer process for all U.S. agencies to use. IRMO closely coordinated the asset transfer process with the Ministry of Finance because of the ministry’s broad budgetary/financial responsibility and funding authority for the GOI, including providing funding for O&M costs for transferred assets. However, a new Minister of Finance was appointed in May 2006 who, according to IRMO staff, changed the GOI conditions on the asset transfer process, effectively bringing further transfers to a halt in July 2006.

Hoping to break this bottleneck, IRMO and its implementing partners are developing alternatives to achieve the objective of capital asset transfer to the GOI. They have drafted a revised policy that moves formal recognition and acceptance of asset transfers at the national level from the Ministry of Finance to the individual line ministries. IRMO, MNSTC-I, and GRD are prepared to unilaterally transfer to the GOI completed assets as a last resort if the line ministries are unwilling to formally recognize and accept them. In addition, IRMO officials told us that they have drafted a bilateral agreement on asset transfer to the GOI that is intended to be signed by the U.S. Ambassador to Iraq and the Iraqi Prime Minister. IRMO could not provide a timeline for completion of the bilateral agreement because it depends on input from both the U.S. government participants and the GOI.8

IRMO, USAID, MNSTC-I, and GRD recognize the importance of an effective, formal capital asset transfer process; through the Asset Recognition and Transfer Working Group, they have been collaborating to develop, improve, and implement policies and procedures to achieve that goal. Over a four-month period, the group developed a procedural document for transferring completed projects. Issued on April 23, 2006, the Procedure for the Transfer and Recognition of USG-Funded Capital Assets to the Government of the Republic of Iraq, laid out a three-step process:

1. The implementing agency or department that finances a project involving production or improvement of a capital asset will utilize its own rules, policies, and procedures to complete such project.

2. Using its own policies and procedures, each implementing agency or department will hand over control of capital assets to the responsible GOI entity for its beneficial use, operation, management, control, and protection. Documentation of this turnover will include, where applicable, all designs, drawings, operations and maintenance manuals, warranty information, and other information in the implementing agency’s possession and transmitted to IRMO where feasible.

8 GOI principals include the Prime Minister, Deputy Prime Minister, Minister of Finance, and the Minister of Planning.
3. The implementing agency or department will formally transfer capital assets to the GOI, as represented by the Ministry of Finance and the relevant line ministry (e.g., electricity). Such transfers will be conducted in coordination with IRMO and will be documented using a standardized transfer letter. Each implementing agency or department will forward copies of the transfer document to IRMO.

A key organization in the asset transfer process is the Asset Recognition and Transfer Operations Group (ARTOG), established in early 2006 by IRMO and GRD in coordination with the Iraqi Ministry of Finance. The ARTOG staff included Ministry of Finance employees responsible for coordinating with the Ministry of Finance’s Budget, Accounting, and Real Estate Departments on any asset transfer documentation received from the implementing agencies. Between April and June 2006, the ARTOG successfully transferred 435 projects, valued at $501 million, to the Ministry of Finance using the April 23, 2006, procedures developed by the Asset Recognition and Transfer Working Group.

In May 2006, a new Iraqi government was elected, and a new Minister of Finance was appointed. Unfortunately, there was no formal written agreement with the Ministry of Finance to continue the ARTOG operation in the event of changes in key Iraqi personnel or governments. According to an IRMO official, the new minister was not supportive of the established ARTOG transfer process and requested changes. Among the changes, the new minister wanted to develop new Ministry of Finance asset transfer procedures and, in the interim, wanted the U.S. government to get a transfer acceptance document signed by the relevant line ministry before he would accept the transfer. According to the IRMO official, the ARTOG chose to work with the Ministry of Finance to develop new procedures. However, the Minister of Finance appears to have given the development of those procedures a low priority; as of May 31, 2007, no progress had been made. As a result, no capital assets were formally recognized and accepted by the GOI at the national level between July 1, 2006, and May 31, 2007.

**Alternatives Proposed for Transfer Process and Agreements**

After the Minister of Finance rejected the ARTOG process, IRMO and its implementing partners drafted a revised policy that moves formal recognition and acceptance of asset transfer at the national level from the Ministry of Finance to the individual line ministries. Copies of all relevant documentation, including cost sustainment information, will still be provided to the Ministry of Finance; however, Ministry of Finance personnel will not be required to sign the asset transfer acceptance documents. IRMO, MNSTC-I, and GRD are prepared to unilaterally transfer completed assets as a last resort if the line ministries are unwilling to formally recognize and accept them.

In addition, IRMO officials told us that they have drafted a bilateral agreement on asset transfer between the GOI and the U.S. government. According to an IRMO official, the agreement emphasizes the need to ensure that capital assets produced or improved with U.S. government funds are properly transferred to the GOI for its continued use and ongoing responsibility pursuant to transfer. It recognizes the unique needs of the
sovereign government and helps clarify the GOI’s support for the recognition, accounting, protection, and sustainability of transferred capital assets. Finally, the agreement is designed to address and clarify the current issues faced by the ARTOG. This agreement is intended to be signed by the U.S. Ambassador to Iraq and the Iraqi Prime Minister. IRMO could not provide a completion timeline because it depends on input from both the U.S. government participants and the GOI. The absence of this type of agreement that includes formal Iraqi participation in the process has impeded U.S. government efforts to formally transfer capital assets to the GOI in a timely manner.

USAID’s Transfer Process

Although USAID is a member of the Asset Recognition and Transfer Working Group, it has chosen not to fully participate in the common asset transfer process. USAID endorses and uses steps 1 and 2 of the Procedure for the Transfer and Recognition of USG-Funded Assets to the Government of the Republic of Iraq: it uses its own rules, policies, and procedures to complete each project and hand over control of the asset. However, USAID does not support obtaining formal recognition and acceptance of completed assets from the Ministry of Finance and relevant line ministries through the ARTOG process. That step, USAID maintains, does not ensure that the GOI will sustain the asset. Although the ARTOG transfer process provides asset sustainment information to the Ministry of Finance, USAID believes that the U.S. government should obtain a formal, binding commitment on asset sustainment. If the GOI declines to make such a formal commitment, then the U.S. government can explore the option of a nonbinding commitment through a memorandum of understanding or similar agreement. At present, USAID plans to execute one agreement with each line ministry. The agreement will include all projects completed for that ministry and a commitment by the line ministry to sustain the completed projects. The agreement includes signature blocks for the line minister and the Minister of Finance.

USAID officials told us that it has a standard procedure used in other countries to negotiate a bilateral agreement with the host country before initiating aid projects. The agreements spell out the responsibilities of each party, including how the asset will be transferred and the host country’s role in supporting and sustaining the project. A bilateral agreement was not negotiated in Iraq because there was no Iraqi government in the early stages of the reconstruction effort. On September 27, 2006, USAID management approved procedures for obtaining formal recognition and a commitment to sustain capital assets from the GOI,9 and a USAID official told us that it plans to begin discussions in the near future with individual ministries to obtain their commitments. USAID has completed all of its 97 IRRF-funded projects, valued at $1.4 billion; however, the GOI has not formally recognized and accepted a single project, as of May 31, 2007.

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Progress Transferring Completed Capital Projects

The U.S. government’s progress transferring completed capital projects to the GOI has been slow. MNSTC-I, GRD, and USAID have completed 2,797 IRRF-funded projects, valued at $5.8 billion, as of May 31, 2007. However, only 1,576 completed projects (valued at $2.6 billion) have been transferred to, and formally accepted by, GOI officials at the local level. Of those 1,576 projects, only 435 (valued at $501 million) have been transferred to, and formally accepted by, GOI officials at the national level. For the status of projects transferred to and accepted by local and national government officials as of May 31, 2007, see the table below.

Between April 23, 2006, and June 30, 2006, MNSTC-I and GRD transferred 435 completed IRRF-funded projects, valued at $501 million, to the GOI through the Ministry of Finance. No completed projects have been transferred to the Ministry of Finance since June 30, 2006. However, 2,362 (of 2,797) completed projects, valued at $5.3 billion, are available for transfer and acceptance at the national level, as of May 31, 2007. Delays in transferring completed projects at the national level mean that fewer assets are available to the GOI as leverage for loans and could result in additional sustainment expenses for the U.S. government agencies that completed the projects. We previously identified problems in sustaining completed projects.10

On May 29, 2007, USAID reported to SIGIR the completion of all of its 97 IRRF-funded projects, valued at approximately $1.4 billion. However, USAID does not report projects in the same manner as MNSTC-I and GRD: the 97 projects reported as completed include multiple facilities or sub-projects. Further, USAID considers all projects transferred to and accepted by both local and national level GOI officials, without any signed documents that acknowledge acceptance of the projects. USAID considers a project to be transferred and accepted once the GOI takes custody and control of the project. None of the USAID projects have been formally recognized and accepted by the GOI at the national level, as of May 31, 2007. USAID plans to obtain recognition and acceptance of its completed projects at the national level by executing one agreement with each line ministry. USAID does not have a timeline for accomplishing the national recognition and acceptance of its completed projects.

MNSTC-I, GRD, and USAID have had better success obtaining acknowledgement of receipt from local Iraqi representatives. This often involved identifying a local official who had some responsibility for managing the project or had played a role in local governance and having that individual sign for the project. The process was complicated by the inability to identify a local official with the authority to sign for the project, missing facility documentation (O&M manuals and as-built drawings), a general unwillingness to accept responsibility for the asset, and other factors. Nonetheless,

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10Managing Sustainment for Iraq Relief and Reconstruction Fund Programs (SIGIR-05-022, October 24, 2005).
MNSTC-I, GRD, and USAID formally transferred 1,576 projects valued at $2.6 billion to local officials.\textsuperscript{11}

Table—Status of Completed IRFF-funded Construction Projects, as of May 31, 2007

\begin{table}
\centering
\begin{tabular}{|l|c|c|c|c|}
\hline
\textbf{Agency} & \textbf{Completed Projects} & \textbf{Transferred to and Accepted by GOI Local Official} & \textbf{Transferred to and Accepted by GOI National Official} \\
\hline
& Number & Value\textsuperscript{a} & Number & Value\textsuperscript{a} & Number & Value\textsuperscript{a} \\
\hline
GRD\textsuperscript{b} & 1,969 & $3,140 & 1,247\textsuperscript{c} & $1,440 & 427\textsuperscript{e} & $497 \\
MNSTC-I\textsuperscript{b} & 731 & 1,224 & 289\textsuperscript{d} & 376 & 8\textsuperscript{e} & 4 \\
\hline
\textbf{GRD/MNSTC-I Total} & 2,700 & $4,364 & 1,536 & $1,816 & 435 & $501 \\
\hline
USAID\textsuperscript{f} & 97 & 1,405 & 40 & 775 & 0 & 0 \\
\hline
\textbf{Grand Total} & 2,797 & $5,769 & 1,576 & $2,591 & 435 & $501 \\
\hline
\end{tabular}
\end{table}

\textsuperscript{a} Dollars are expressed in millions.

\textsuperscript{b} MNSTC-I and GRD data was obtained from the Iraq Reconstruction Management System on June 13, 2007.

\textsuperscript{c} GRD provided transfer documents to local Iraqi authorities for 1,531 projects valued at about $1,537 million but was able to obtain document signatures for only 1,247 projects.

\textsuperscript{d} MNSTC-I provided transfer documents to local Iraqi authorities for 542 projects valued at about $1,046 million but was able to obtain document signatures for only 289 projects.

\textsuperscript{e} A representative of the Iraqi Ministry of Finance signed transfer documents for these projects.

\textsuperscript{f} USAID considers all of its IRFF-funded infrastructure projects transferred to the GOI. Unlike GRD and MNSTC-I, USAID considers a project to be transferred and accepted once the GOI takes custody and control of the project. The basis for the 40 projects transferred to GOI local officials are signed DD-1149, \textit{Requisition and Invoice/Shipping Documents}, in which Iraqi officials have accepted materials and equipment used on a project. No formal project recognition and acceptance documents had been signed by GOI officials, as of May 31, 2007.

Delays in asset transfers can have serious ramifications. Generally, completed projects are handed over to local Iraqi representatives to occupy, operate, and maintain—whether or not they sign a project acceptance document. In USAID’s view, there is no requirement for either local or national Iraqi officials to sign documents recognizing the transfer of IRFF-funded projects to the GOI. However, USAID acknowledges there are valid reasons why the U.S. government should seek the GOI’s formal recognition and ownership of transferred projects at the national level—primarily to help ensure that they are properly accounted for, protected, and sustained for the benefit of the Iraqi people. Delays can also lead to unrecognized GOI budget shortfalls, not only for O&M, but for future capital replacement.

\textsuperscript{11} MNSTC-I and GRD consider the transfer as formal because a document is signed by a local official.
Follow-up on Open SIGIR Recommendations

SIGIR has issued four previous reports, with one recommendation in each report, addressing the recognition and transfer of capital assets to the Government of Iraq:

1. **GRD-PCO Management of the Transfer of IRRF-funded Assets to the Iraqi Government** (SIGIR 05-028, January 24, 2006)
4. **Transition of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government** (SIGIR 06-017, July 28, 2006)

Each report recommended the development of a common policy and process to be used by IRMO and its implementing partners that would facilitate the transfer of completed IRRF-funded project assets to the GOI. As a result of this recommendation, IRMO, USAID, MNSTC-I, and GRD participated in the Asset Recognition and Transfer Working Group to develop a common capital asset transfer policy and procedure. On April 23, 2006, IRMO issued *Procedure for the Transfer and Recognition of USG-Funded Capital Assets to the Government of the Republic of Iraq*, which sets forth uniformly agreed-upon guidance for transferring capital assets. The policy is intended to be used by all executing agencies and departments that complete projects in Iraq.

GRD and MNSTC-I agreed to use the common policy. USAID had concerns about the viability of the common policy and opted to use its own formal agreements with individual line ministries to accomplish the formal recognition of the transfer of the capital assets under its control.

The common policy and process achieved only limited success in obtaining the formal recognition and transfer of IRRF-funded capital assets to the GOI and is currently being reassessed by the Asset Recognition and Transfer Working Group. USAID continues to participate in the Working Group while attempting to obtain formal agreements with the individual ministries. None of USAID’s IRRF-funded capital assets had been formally recognized and accepted by the GOI, as of May 31, 2007.

All four recommendations remain open. Appendix B addresses the SIGIR recommendations for each report and actions taken to date.
Conclusion and Recommendation

Conclusion

Successfully transferring completed IRRF-funded capital projects to a GOI that is prepared to accept the assets and provide for their long-term management and use is a difficult task that requires close coordination between all the participating U.S. government agencies and the GOI.

IRMO, USAID, MNSTC-I, and GRD recognize the importance of an effective, formal capital asset transfer process. Through the Asset Recognition and Transfer Working Group, they have been collaborating to develop, improve, and implement policies and procedures to achieve that goal. Their collaboration resulted in a common policy and process to transfer IRRF-funded capital assets to the GOI that took effect in April 2006. As a result of this common policy and process, 435 capital assets valued at $501 million were transferred to the GOI through the Ministry of Finance through June 30, 2006. However, the transfer process began to falter in May 2006 when a newly elected GOI took office. No capital assets have been formally recognized at the national level between July 2006 and May 2007.

Currently, while the U.S. government agencies are reassessing their common asset transfer policies and procedures, IRMO is developing a bilateral agreement between the United States and Iraq to provide a definitive framework for the asset transfer process. The absence of this type of agreement that provides for formal Iraqi participation in the process has impeded U.S. government efforts to formally transfer capital assets to the GOI in a timely manner.

Further, without this formal recognition and acceptance by the GOI at the national level, the U.S. government cannot be assured that its investment in completed capital projects—approximately $5.8 billion—is properly accounted for, protected, and sustained. In addition, delays can lead to unrecognized GOI budget shortfalls, not only for O&M, but also for future capital replacement. In summary, the lack of a bilateral agreement on asset transfer may impact the success of the U.S. reconstruction effort in Iraq.

Recommendation

We recommend that the U.S. Ambassador to Iraq provide senior-level support to finalize a bilateral agreement between the United States and Iraq on asset transfer to the Government of Iraq.
Management Comments and Audit Response

We received written comments from the U.S. Embassy-Iraq on a draft of this report. The Embassy concurred with the recommendation.

We also received written technical comments on the draft of this report from the U.S. Agency for International Development and the U.S. Army Corps of Engineers’ Gulf Region Division. These comments are addressed in the report where applicable.

In developing the bilateral agreement the lead activity should consider the suggestion GRD made in its response to the draft of this report. GRD suggested a provision whereby when ministries take longer than 30 days to formally recognize and accept asset transfer, that there be a unilateral transfer procedure for completed projects in order to reduce delays in transfers. While SIGIR did not fully evaluate the suggestion it appears to be one that should be considered.

We consider that all comments received are responsive to the intent of the recommendations and that technical corrections have been made to this final report as applicable. All comments are included in the Management Comments section of this report.
Appendix A—Scope and Methodology

The Special Inspector General for Iraq Reconstruction (SIGIR) initiated this study on January 23, 2007 (Project 7004), specifically to answer these questions:

1. Have U.S. agencies involved in IRRF-funded construction projects developed adequate procedures for transitioning completed projects to the Government of Iraq?
2. Have there been delays in transitioning projects to the Government of Iraq; if so, what have been the cause and impact of those delays?
3. What is the status of actions taken in responding to implementing prior SIGIR recommendations on transition and sustainment?

The transition process includes three steps: (1) asset recognition and transfer, (2) sustainment, and (3) capacity development. This audit focuses on asset recognition and transfer. SIGIR is reporting on sustainment and capacity development in separate reviews and assessments.

To determine if agencies involved in IRRF-funded construction projects had developed adequate procedures for transferring completed projects to the GOI, we obtained and reviewed their formal policies and procedures regarding the recognition and transfer of capital assets, including:

- U.S. Army Corps of Engineers Gulf Region Division Standard Operating Procedure no. CN-118, *Final Inspection, Acceptance, and Transfer of Construction* (Revision 2), February 1, 2006
- U.S. Army Corps of Engineers Gulf Region Division, *Asset Recognition & Transfer Execution Plan*, October 2006

We interviewed responsible U.S. government officials to answer questions we developed arising from our review of the procedures.
To determine if there have been delays in transferring projects to the GOI and, if so, the cause and impact of those delays, we obtained schedules from each U.S. government agency showing the number of completed projects and the number of those projects that were transferred to the GOI at the local and national levels. We provided a questionnaire to officials at each agency requesting reasons for delays in obtaining Iraqi acceptance of completed projects. We reviewed the completed questionnaires and interviewed the responsible officials to clarify their responses.

To determine the status of actions taken in responding to implementing prior SIGIR recommendations on asset recognition and transfer, we reviewed the previously discussed policies and procedures to determine if they met the intent of the recommendations and discussed them with the responsible officials.

We conducted this audit from January through June 2007 in accordance with generally accepted government auditing standards.

**Use of Computer-processed Data**

To perform this audit, we used data provided by GRD and MNSTC-I that was obtained from the Iraq Reconstruction Management System. We did not validate the data but recognize that this data is used by management in its own reporting of the number and value of projects completed, transferred, and/or awaiting transfer. We did not test any of the general and application controls of the automated system utilized.

**Prior Coverage**

We reviewed applicable reports issued by SIGIR. These reports can be obtained at www.sigir.mil:

- *Managing Sustainment for Iraq Relief and Reconstruction Fund Programs* (SIGIR-05-022, October 24, 2005)
- *Transition of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government* (SIGIR-06-017, July 28, 2006)
Appendix B—Summary of Open SIGIR Recommendations

SIGIR issued four asset transfer reports between October 2005 and July 2006, each with one recommendation, on the transfer of completed IRRF-funded capital assets to the Government of Iraq (GOI):

**GRD-PCO Management of the Transfer of IRRF-funded Assets to the Iraqi Government (SIGIR 05-028, January 24, 2006)**

This audit report discusses GRD’s management of the transfer of IRRF-funded assets to the GOI. The audit determined that GRD policies and procedures were geared toward asset transfer to GOI representatives at the local level and did not address the information needs of the Iraqi ministries responsible for planning the integration and sustainment of completed projects.

**Recommendation:** The Commanding General, Gulf Region Division, U.S. Army Corps of Engineers, direct the GRD-PCO, in coordination with the Iraq Reconstruction Management Office, to complete the development of common policy and process facilitating the transfer of completed project assets to the Government of Iraq. That process should, at a minimum, provide formal notification of the project asset transfer to the Iraqi Ministry of Planning, Ministry of Finance, and the appropriate operating ministry central headquarters (Electricity, Water, Oil, Health, Education, Transportation, Roads, Communications, Justice, Interior and Defense). Notification should also include, at a minimum, relevant data such as operation start date, asset cost, estimated short-term and long-term sustainability costs, terms of warranties, and the location of maintenance and systems manuals and instructions.

**Action taken:** GRD concurred with the recommendation. It recognized the need for formal asset recognition and transfer policies and procedures and participated in the Asset Recognition and Transfer Working Group to develop a common policy and process to facilitate the legal, financial, and logistical transfer of assets to the GOI. On April 23, 2006, the Iraq Reconstruction Management Office issued a procedure developed by the Working Group for transferring U.S.-built assets to the GOI. The “Procedure for the Transfer and Recognition of USG (U.S. government)-Funded Assets to the Government of the Republic of Iraq” set forth uniformly agreed-upon guidance for use by all executing agencies and departments that complete projects in Iraq for transferring capital assets. However, these procedures are currently being revised by the working group.

**Status:** Open, actions underway.

This audit report discusses MNSTC-I’s management of the transfer of completed reconstruction projects to the GOI. The audit determined that MNSTC-I had developed an adequate process for transferring defense-related assets to the Ministry of Defense, but a lack of capability in the Ministry of Interior was impeding the transfer of police-related assets. In addition, MNSTC-I was working, in conjunction with IRMO, to complete the development of a common policy and process facilitating the transfer of completed projects to the Iraqi Ministry of Finance and Ministry of Planning and Development.

**Recommendation:** The Commanding General, MNSTC-I, continue to support the evolving policies and procedures for transferring completed projects to the Iraqi Ministries of Finance and Planning and, once those procedures are finalized, ensure sufficient resources are made available to fully implement the procedures in sufficient time that the information can be used by the Iraqi government in formulating its calendar year 2007 budget.

**Action taken:** MNSTC-I concurred with the recommendation. It recognized the need for formal asset recognition and transfer policies and procedures and participated in the Asset Recognition and Transfer Working Group to develop a common policy and process to facilitate the legal, financial, and logistical transfer of assets to the GOI. On April 23, 2006, IRMO issued *Procedure for the Transfer and Recognition of USG-Funded Assets to the Government of the Republic of Iraq*, which set forth uniformly agreed-upon guidance for use by all executing agencies and departments that complete projects in Iraq for transferring capital assets. However, relatively few projects have been transferred using this guidance. The Asset Recognition and Transfer Working Group is in the process of revising the document.

**Status:** Open, actions underway.

U.S. Agency for International Development Management of the Transfer of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government (SIGIR 06-007, April 29, 2006)

This audit report discusses USAID’s management of the transfer of completed reconstruction projects to the GOI.

**Recommendation:** The USAID Mission Director-Iraq, in coordination with IRMO, complete the development of a common policy and process facilitating the transfer of completed project assets to the Iraqi government. That process should, at a minimum, provide formal notification of the project asset transfer to the Iraqi Ministry of Finance, Ministry of Planning, and the appropriate operating ministry central headquarters (Electricity, Water, Oil, Health, Education, Transportation, Roads,
Communications, Justice, Interior and Defense). Notification of completed assets should also include, at a minimum, relevant data, such as operation start date, asset cost, estimated near and long-term sustainability costs, terms of warranties, and the location of maintenance and systems manuals and instructions.

**Action taken.** USAID did not concur with the recommendation. Although USAID worked with the Asset Recognition and Transfer Working Group to develop a common asset transfer policy and process, it did not use the final procedure as developed. USAID maintained that the procedure failed to ensure that a key objective of the asset transfer and recognition process will be met—the GOI’s sustainment of U.S. government-funded capital assets. Although the established process provides asset sustainment information to the Ministry of Finance, USAID believes that the U.S. government should obtain a formal, binding commitment from the GOI to sustain U.S. government-funded capital assets. If the GOI declines to make such a formal commitment, the U.S. government can explore the option of a nonbinding commitment through a memorandum of understanding or similar agreement.

Procedures to obtain formal recognition and a commitment to sustain capital assets from the GOI were approved by USAID management on September 27, 2006. USAID plans to execute one agreement with each line ministry. The agreement will include all projects completed for that ministry and a commitment by the line ministry to sustain the completed projects. The agreement includes signature blocks for the line minister and the minister of finance. USAID told us it plans to begin discussions in the near future with individual ministries to obtain their commitments. USAID also continues to participate in the Asset Recognition and Transfer Working Group.

**Status:** Open, actions underway.

*Transition of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government (SIGIR 06-017, July 28, 2006)*

This report discusses the transition of completed projects funded by the Iraq Relief and Reconstruction Fund. It looked at three planning steps in the transition process: (1) asset recognition and transfer, (2) sustainment, and (3) capacity development.

**Recommendation.** The IRMO Director develop a single, uniform process for asset recognition and transfer of all completed projects to the Iraqi government. This process should be followed by all of the IRRF-implementing agencies, and sufficient resources should be made available to implement the process in time for the Iraqi government’s use in budget planning.

**Action taken.** On April 23, 2006, IRMO issued *Procedure for the Transfer and Recognition of USG-Funded Assets to the Government of the Republic of Iraq*, which set forth uniformly agreed-upon guidance for use by all executing agencies and departments that complete projects in Iraq for transferring capital assets. However,
relatively few projects have been transferred using this guidance, and the Asset Recognition and Transfer Working Group is in the process of revising the document. In addition to reassessing the current transfer policies and procedures, IRMO, in coordination with members of the Asset Recognition Transfer and Working Group, is developing a bilateral agreement between the United States and Iraq that addresses this issue.

**Status:** Open, actions underway.
### Appendix C—Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>ARTOG</td>
<td>Asset Recognition and Transfer Operations Group</td>
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<tr>
<td>GOI</td>
<td>Government of Iraq</td>
</tr>
<tr>
<td>GRD</td>
<td>U.S. Army Corps of Engineers Gulf Region Division</td>
</tr>
<tr>
<td>IRMO</td>
<td>Iraq Reconstruction Management Office</td>
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<tr>
<td>IRRF</td>
<td>Iraq Relief and Reconstruction Fund</td>
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<tr>
<td>ITAO</td>
<td>Iraq Transition Assistance Office</td>
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<tr>
<td>MNSTC-I</td>
<td>Multi-National Security Transition Command-Iraq</td>
</tr>
<tr>
<td>SIGIR</td>
<td>Special Inspector General for Iraq Reconstruction</td>
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<td>U.S.</td>
<td>United States</td>
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<tr>
<td>USAID</td>
<td>U.S. Agency for International Development</td>
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Appendix D—Report Distribution

Department of State
Secretary of State
- Senior Advisor to the Secretary and Coordinator for Iraq
- Director of U.S. Foreign Assistance/Administrator, U.S. Agency for International Development
- Director, Office of Iraq Reconstruction
- Assistant Secretary for Resource Management/Chief Financial Officer, Bureau of Resource Management
- U.S. Ambassador to Iraq*
- Director, Iraq Transition Assistance Office*
- Mission Director-Iraq, U.S. Agency for International Development*
- Inspector General, Department of State
- Inspector General, U.S. Agency for International Development
- Regional Inspector General-Iraq, U.S. Agency for International Development

Department of Defense
Secretary of Defense
- Deputy Secretary of Defense
- Under Secretary of Defense (Comptroller)/Chief Financial Officer
  - Deputy Chief Financial Officer
  - Deputy Comptroller (Program/Budget)
- Deputy Assistant Secretary of Defense-Middle East, Office of Policy/International Security Affairs
- Inspector General, Department of Defense
- Director, Defense Contract Audit Agency
- Director, Defense Finance and Accounting Service
- Director, Defense Contract Management Agency

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Assistant Secretary of the Army for Acquisition, Logistics, and Technology
  - Principal Deputy to the Assistant Secretary of the Army for Acquisition, Logistics, and Technology
  - Deputy Assistant Secretary of the Army (Policy and Procurement)
  - Commanding General, Joint Contracting Command-Iraq/Afghanistan
- Assistant Secretary of the Army for Financial Management and Comptroller
- Chief of Engineers and Commander, U.S. Army Corps of Engineers
  - Commanding General, Gulf Region Division*
  - Chief Financial Officer, U.S. Army Corps of Engineers
- Auditor General of the Army

U.S. Central Command
Commanding General, Multi-National Force-Iraq
  - Commanding General, Multi-National Corps-Iraq
  - Commanding General, Multi-National Security Transition Command-Iraq*
  - Commander, Joint Area Support Group-Central

*Recipient of the draft audit report
Other Federal Government Organizations
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Comptroller General of the United States
Inspector General, Department of the Treasury
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Inspector General, Department of Health and Human Services
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  Permanent Subcommittee on Investigations

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  Subcommittee on Government Management, Organization, and Procurement
  Subcommittee on National Security and Foreign Affairs
House Committee on Foreign Affairs
  Subcommittee on International Organizations, Human Rights, and Oversight
  Subcommittee on the Middle East and South Asia
Appendix E—Audit Team Members

This report was prepared and the review was conducted under the direction of Joseph T. McDermott, 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:

Karen D. Bell
Ronald J. Bonfilio
Glenn D. Furbish
Robert B. Gabriel
Clifton E. Spruill
MEMORANDUM
UNCLASSIFIED

TO: Special Inspector General for Iraq Reconstruction
FROM: The Ambassador

SUBJECT: Ambassador’s Response to SIGIR recommendation – “Transferring Iraq Relief and Reconstruction Fund Capital Projects to the Government of Iraq”

I concur with the SIGIR recommendation to establish a bilateral agreement on transfer and recognition of IRRF Capital assets to Government of Iraq (GOI)
Management Comments
Mission-Iraq, U.S. Agency for International Development (USAID)

July 8, 2007

Mr. Stuart Bowen
Inspector General
Special Inspector General for Iraq Reconstruction
400 Army Navy Drive
Arlington, VA 22202-4704

Dear Mr. Bowen:

Thank you for the opportunity to comment on the draft audit report "Transferring Iraq Relief and Reconstruction Fund Capital Projects to the Government of Iraq", Report 07-004. Currently, USAID is implementing its capital asset transfer policy with Government of Iraq (GOI) line ministries. USAID recently distributed asset transfer Memoranda of Agreement (MOAs) to the relevant ministries for review and signature. These MOAs describe with specificity the capital assets previously transferred to the ministry, the dollar value of the assets, and the estimated costs to the GOI of maintaining the assets for five years. The MOAs ask for a commitment by the ministry to sustain the assets for, at a minimum, five years. Once the ministry signs, USAID will execute the MOA and provide an informational copy to the Ministry of Finance.

In consultation with the Asset Recognition and Transfer Working Group, USAID elected not to make these MOAs formally legally binding documents. A promise that purported to be legally binding would likely be impossible to enforce and it is unlikely the ministries would be willing to sign such a document. It is also essential to be clear that the U.S. Government is not making any additional commitments or promising additional funds. What is important is that the ministries will go on record as acknowledging the benefit received from USAID and being committed to sustaining the assets on an ongoing basis into the future.

We believe this transfer process as currently being implemented will address the concerns raised in the SIGIR report and help ensure accountability for the valuable assets the U.S. Government transferred to the GOI.

Sincerely,

Hilda Arellano
Mission Director

SUBJECT: SIGIR Draft Audit Report – Transferring Iraq Relief and Reconstruction Fund Capital Projects to the Government of Iraq (Project 7004)

1. This memorandum provides the U.S. Army Corps of Engineers, Gulf Region Division response to the subject draft project assessment report.

2. The Gulf Region Division concurs with the information presented in the draft report and provides additional comments in the enclosure.

3. Thank you for the opportunity to provide our written comments for incorporation in the final audit report.

4. If you have any questions, please contact Mr. Milton Naumann at (540) 665-5021 or his email milton.l.naumann@tac01.usace.army.mil.

Encl

MICHAEL J. WALSH
Brigadier General, USA
Commanding
COMMAND REPLY

SIGIR Draft Audit Report – Transferring Iraq Relief and Reconstruction Fund Capital Projects to the Government of Iraq Report 07-004 (Project 7004)

Command Comments

GRD Overall Comment: A finalized bilateral agreement between the United States and the Government of Iraq will facilitate efforts by U.S. agencies to transfer completed projects to the Government of Iraq. The policy should recognize the change in formal recognition and acceptance of asset transfers at the national level. The agreement should include a provision to use unilateral transfer procedures for completed projects when Ministries take longer than thirty days to formally recognize and accept asset transfer. This provision will help to reduce delays in transitioning projects to the Government of Iraq.

Additional Comments

On page 5, bottom paragraph, 4th line from the end of paragraph, it states “... official told us told us it ...” Please remove duplicate “told us”.
SIGIR’s Mission

Regarding the U.S. reconstruction plans, programs, and operations in Iraq, the Special Inspector General for Iraq Reconstruction provides independent and objective:
- oversight and review through comprehensive audits, inspections, and investigations
- advice and recommendations on policies to promote economy, efficiency, and effectiveness
- deterrence of malfeasance through the prevention and detection of fraud, waste, and abuse
- information and analysis to the Secretary of State, the Secretary of Defense, the Congress, and the American people through Quarterly Reports

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