MESSAGE FROM THE SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

I am pleased to submit to the Congress, Secretary Rice, Secretary Gates, and the American people the 14th Quarterly Report from the Special Inspector General for Iraq Reconstruction (SIGIR). This quarter, I visited Iraq for the 16th time since my appointment three and a half years ago to lead the oversight of the U.S. reconstruction effort in Iraq.

During my trip to Baghdad, I experienced first hand the dangers that affect everyone working in the “Green Zone.” As indicated by open sources, the number of rocket and mortar attacks targeting the Green Zone rose markedly over the past three months, increasing the threat to reconstruction contractors, U.S. government employees, and Iraqis. In June, the UN Secretary-General reported to the Security Council that the rise in attacks on the Green Zone is “a major development.”

This latest Quarterly Report from SIGIR provides reliable data on a range of issues confronting the U.S. reconstruction experience in Iraq, including:

- SIGIR’s first audit in a planned series of focused financial reviews of large Iraq Relief and Reconstruction Fund (IRRF) contractors, which looks at Bechtel’s $1.33 billion Phase II IRRF contract and finds a number of deficiencies in contract oversight.
- Another SIGIR audit on asset transfer that raises troubling concerns about the process that was designed to govern the transition of U.S. projects to Government of Iraq (GOI) control. This is SIGIR’s fourth look at this issue in two years, and my auditors found that the asset-transfer process is broken: since June 2006, the GOI has not formally accepted a single IRRF project.
- SIGIR’s review of GOI capital budget execution, which reveals that, although much progress has been made this year, the GOI still struggles with this issue, both at the ministerial and provincial levels.
- SIGIR’s update on last October’s Provincial Reconstruction Team (PRT) audit; the program has made much progress in overcoming the staffing, security, and resource challenges that hobbled the PRTs last year.
- SIGIR’s latest report on anticorruption, which finds that, despite some new support for Iraq’s anticorruption institutions, endemic corruption continues to afflict the GOI.
- SIGIR’s latest sustainment inspections, the most notable of which demonstrated that Iraq’s Ministry of Electricity inadequately maintained the U.S.-funded rehabilitation work at the Doura Power Station, a critical power source for Baghdad.

SIGIR investigations made significant progress on a number of fronts this quarter. Two more criminals caught in major bribery conspiracies uncovered by SIGIR were sentenced to prison. And several arrests were made in a significant new bribery case arising from the successful work of a law enforcement task force of which SIGIR is a part.

During the past quarter, SIGIR produced 8 new audit products, 5 on-the-ground project assessments, and made progress on 57 ongoing investigations into allegations of fraud, waste, and abuse. Since our last Quarterly Report was released in April, I have testified before three congressional hearings.
The 8 new audits bring to 94 the total number of audits produced over the past three years, and the 5 new inspections bring the total number of inspections to 95. Of SIGIR's 57 ongoing investigations, 28 are being prosecuted by the Department of Justice. To date, SIGIR's investigative work has produced 13 arrests, 5 convictions, 5 imprisonments, a 25-count indictment of 5 persons, and nearly $16 million in court-ordered restitution and seizures. A table listing all convictions for fraud related to reconstruction work in Iraq is contained in Section 1 of this Report.

SIGIR remains dedicated to providing the most comprehensive and accurate reporting on the use of taxpayer dollars for Iraq's relief and reconstruction. We are thankful for the support that we continue to receive from the Congress and the Departments of State and Defense.


Stuart W. Bowen, Jr.
Special Inspector General for Iraq Reconstruction
## SIGIR Summary of Performance

**February 1, 2004 – July 30, 2007**

### Audit

<table>
<thead>
<tr>
<th>Reports Issued</th>
<th>94</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommendations Issued</td>
<td>291</td>
</tr>
<tr>
<td>Dollars Saved or Recovered</td>
<td>$57,800,000</td>
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### Inspections

<table>
<thead>
<tr>
<th>Project Assessments Issued</th>
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<tbody>
<tr>
<td>Limited On-site Assessments Issued</td>
<td>96</td>
</tr>
<tr>
<td>Satellite Imagery Products Created</td>
<td>342</td>
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</table>

### Investigations as of June 30, 2007

<table>
<thead>
<tr>
<th>Investigations Initiated</th>
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<tbody>
<tr>
<td>Investigations Closed or Referred</td>
<td>249</td>
</tr>
<tr>
<td>Open Investigations</td>
<td>57</td>
</tr>
<tr>
<td>Arrests</td>
<td>13</td>
</tr>
<tr>
<td>Indictments Pending Trial</td>
<td>8</td>
</tr>
<tr>
<td>Convictions</td>
<td>5</td>
</tr>
<tr>
<td>Court-ordered Restitution/Forfeiture</td>
<td>$15,980,000</td>
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### Hotline Contacts as of June 30, 2007

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<tbody>
<tr>
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<tr>
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<td>E-mail</td>
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<tr>
<td>Total Hotline Contacts</td>
<td>589</td>
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</table>

### Non-Audit Products

<table>
<thead>
<tr>
<th>Congressional Testimony</th>
<th>19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lessons Learned Reports Issued</td>
<td>3</td>
</tr>
</tbody>
</table>
SIGIR Observations

FOCUSED FINANCIAL REVIEWS OF THE LARGEST IRAQ RECONSTRUCTION CONTRACTS
ASSET TRANSFER
IRAQI EMPOWERMENT
RECONSTRUCTION MANAGEMENT
PROGRESS ON THE INTERNATIONAL COMPACT WITH IRAQ
ANTICORRUPTION
BENCHMARKS
NOTABLE SIGIR ACTIVITIES THIS QUARTER
IMPACTS OF SIGIR OPERATIONS
THE HUMAN TOLL
This 14th Quarterly Report from the Special Inspector General for Iraq Reconstruction (SIGIR) provides comprehensive reporting on the $44 billion in taxpayer dollars that the United States Congress appropriated for the relief and reconstruction of Iraq. This $44 billion is part of the $99 billion in total Iraq reconstruction funding provided through U.S., Iraqi, and international donor sources since 2003. Section 2 of this Quarterly Report contains a complete review of funding sources and their uses within the reconstruction program. Section 3 provides details on SIGIR’s audits, inspections, and investigations this quarter; Section 4 summarizes other agency oversight work in Iraq.

FOCUSED FINANCIAL REVIEWS OF THE LARGEST IRAQ RECONSTRUCTION CONTRACTS

During the past quarter, SIGIR completed the first in a series of focused financial reviews of large contracts funded by the Iraq Relief and Reconstruction Fund (IRRF). These reviews will meet the “forensic audit” requirement that the Congress imposed upon SIGIR last December through the Iraq Reconstruction Accountability Act of 2006.

This initial review examined the work performed by Bechtel National, Inc. (Bechtel), under its Phase II IRRF contract. SIGIR selected Bechtel as the subject for this audit because it received the largest IRRF contract, a $1.33 billion cost-plus reconstruction contract issued by the U.S. Agency for International Development (USAID).

The Bechtel audit is emblematic of the many challenges faced by contractors in executing projects within the Iraq reconstruction program. The audit’s findings include:

- The government had insufficient contract oversight staff, resulting in a lack of consistent contract management, inadequate contractor direction, and ineffective performance assessments.
- The large number of subcontractors to Bechtel created the need for multiple layers of quality control and oversight, which weakened transparency, yielding poor outcomes in various projects.
- Approximately half the job orders performed under the contract did not meet stated objectives.

The problems addressed in the Bechtel audit include reduction in scope, cancellations, costs that outstripped planned budgets, and significant delays in the completion of projects. During the course of this review, SIGIR uncovered a contractual provision mandating
that all Bechtel invoices be paid within ten days of receipt, without exception. This decision was troubling because only two officials were assigned to review these invoices, raising concerns from an oversight perspective about the reliability of the receipt review process. Section 3 of this Report contains a detailed summary of the Bechtel audit.

SIGIR has announced the next round of focused financial reviews, which will include audits of the large contracts received by: Blackwater; FluorAMEC, LLC; Research Triangle Institute; Parsons Global Services, Inc.; Lucent; Development Alternatives, Inc.; Perini Corporation; and KBR.

**ASSET TRANSFER**

“Asset transfer” is the process by which U.S.-funded reconstruction projects are transferred upon completion to the Government of Iraq (GOI). Since the fourth quarter of 2005, SIGIR has tracked the asset-transfer process in Iraq, conducting three previous audits, each of which raised significant issues about various aspects of this important process.

SIGIR produced its fourth audit this quarter on the asset-transfer process, finding that the GOI has not accepted a single U.S-constructed project since July 2006. Although some local Iraqi officials are accepting projects, the national government is not. Moreover, SIGIR learned that the U.S. government is unilaterally transferring many projects to Iraq without GOI consent.

The failure of the asset-transfer program raises concerns about the continuing operation and maintenance of U.S.-constructed projects. In some cases, the United States has continued to pay for maintaining completed projects that have not been accepted by the GOI.

SIGIR’s new asset-transfer audit, summarized in Section 3, recommends that the U.S. Ambassador to Iraq finalize with his Iraqi counterpart a bilateral agreement on asset transfer between the United States and Iraq. The proposed bilateral agreement provides that asset transfer be accomplished through a single process, rather than through a variety of implementing agencies or expedient agreements.
SIGIR OBSERVATIONS

IRAQI EMPOWERMENT

Budget Execution
The U.S. funds for Iraq reconstruction are largely expended. The GOI thus has responsibility for managing the financing of Iraq’s national recovery.

This means that the GOI must effectively execute its capital budget, which it failed to do in 2006, spending just 22% of its capital budget.1 Last year’s ministry shortfalls included: the Ministry of Oil, which spent just 3% of its $3.5 billion capital budget;2 the Ministry of Water, which spent just under half its allocation; and the Ministry of Electricity, which spent only a third of its capital budget.

According to the President’s Interim Benchmark Assessment, released in mid-July, progress on budget execution by the GOI in 2007 has been satisfactory. The ministries have tripled execution rates so far this year. If this trend continues—though avowedly not linear in effect—the capital execution rate may reach 50% by the end of the year. The Ministry of Finance has already moved more than 21% of its capital budgets to individual ministries’ capital budget accounts.

The GOI Budget Execution Monitoring Unit (BEMU), under the leadership of Iraq’s Deputy Prime Minister, has helped ministers improve the budget execution process. The Ministry of Oil reportedly leads all ministries in total spending thus far in 2007, executing $538 million (or 23%) of its capital budget, followed by the Ministry of Public Works ($174 million or 52%) and the Ministry of Education ($87 million or 30%).3

A similar budget-execution problem confronts Iraq’s provincial governments. The provinces have received a 2007 capital budget allocation of approximately $5.4 billion. Every province (except Diyala) has established a separate capital budget account, and, by June 2007, every province had received the first 10% of its budget allocation.

Part of the progress in budget execution stems from the work of the Iraqi Procurement Assistance Centers (PACs), which have built the budget execution capacity of ministerial and provincial officials. Created by Iraq’s Minister of Planning, with the assistance of the U.S. Joint Contracting Command-Iraq/Afghanistan, the PACs train Iraqis in budget execution systems, including the proper drafting and documenting of budgets and the review and approval of spending requests.
PRT Update
On January 10, 2007, the President announced a new way forward in Iraq, calling for a surge in civilian and military personnel for provincial support and a doubling of the number of Provincial Reconstruction Teams (PRTs).

PRTs are civil-military teams designed to build capacity in local governance across Iraq through direct assistance to and training of provincial government personnel. As of June 2007, the United States had provided $1.924 billion to support the Iraq PRT program. Another $937 million has been requested in additional PRT funding for FY 2008.

The evolving PRT strategy will increase the number of PRTs from 10 to 25 and will double the total personnel working in PRTs to 700. The original 10 PRTs, established in 2006, will continue to operate at the provincial level, and an additional 15—called ePRTs—are embedding directly into brigade combat teams and deploying into urban neighborhoods. Initial indications reveal that ePRTs are more capable of operational movement. The existing PRTs, especially those in difficult security environments, are relatively restricted.

This Quarterly Report includes the second of three planned SIGIR audits on the PRT program. The audit reveals that the PRT program has made significant strides toward overcoming challenges that arose from the civil-military integration process, security support issues, and resource and staffing shortfalls. The audit concludes, however, that PRT planners should better define program objectives and develop an effective metric-based monitoring system to measure the program’s performance.

SIGIR is currently conducting fieldwork for the third PRT audit, which will review the effectiveness of the overall PRT program.

Capacity Development
U.S. agencies continue to carry out important capacity development initiatives in Iraq:

- USAID’s $165 million National Capacity Development (NCD) program, which began in August 2006, strengthens the GOI’s administrative functions and personnel.
- The U.S. Department of Treasury continues to support the development of a new financial management information system, new payment systems, as well as banking reform and restructuring.
- Since 2003, the New York Federal Reserve Bank and the International Monetary Fund (IMF) have provided regular technical assistance training to strengthen the capability of the Central Bank of Iraq.
- The Embassy Iraq Transition Assistance Office (ITAO) is implementing a program to improve the capacity of key ministries to carry out core functions, such as strategic planning, budgeting, training, and managing a personnel system.
- The new Coordinator for Economic Transi-
tion is leading the Embassy’s Budget Execution Initiative, a $20 million interagency program to manage U.S. support to the GOI on this key issue.5

O&M and Sustainment
SIGIR previously raised concerns about the sustainment of U.S.-funded infrastructure and systems after their transfer to the GOI. Pursuant to those concerns, SIGIR initiated a sustainment inspections regime to provide data on this matter.

In the last two Quarterly Reports, SIGIR observed limited progress on the sustainability of reconstruction programs and projects. In three of the four sustainment assessments conducted this quarter, SIGIR found facilities that the GOI was not effectively sustaining. This shortfall poses threats to the current use and future durability of these facilities.

The most notable sustainment problem was at the Doura Power Station. The United States paid Bechtel more than $90 million to rehabilitate two power-generating units at Doura. Although the work was supposed to be completed by April 2004, only one unit had been repaired by April 2006; the other has never been operational. If both were operational today, this key project in the electricity sector would add 7.5% more generated power to Iraq’s debilitated electricity grid, providing substantial increases in the power available to Baghdad.

When SIGIR visited this project in June 2007, neither of the refurbished units was operational. U.S. funds had paid for their repair, but the Iraq Ministry of Electricity failed to properly operate and maintain the units. For a summary of the inspection, see Section 3 of this Report.
This quarter, the U.S. reconstruction management structure in Iraq evolved. A presidential order terminated the Iraq Reconstruction Management Office (IRMO), and created ITAO to continue some of IRMO’s remaining work.

On July 18, 2007, the U.S. Embassy implemented a reorganization reflecting the “clustering” structure recommended by a recent Department of State (DoS) assessment. Under the reorganization, the Rule of Law Coordinator now has consolidated management of Rule of Law programs, including anticorruption efforts, police training under the DoS International Narcotics and Law Enforcement Bureau, and Department of Justice activities. The Embassy’s reorganization further consolidated all Mission economic and reconstruction funding under the Coordinator for Economic Transition in Iraq (CETI). CETI oversees the Economic Affairs section of the Embassy, ITAO, USAID, and the U.S. Departments of Treasury, Agriculture, Transportation, Energy, Commerce, and Labor.

Since the beginning of the Iraq reconstruction program, SIGIR has reported on the need for improving coordination among U.S. agencies. This new reorganization should help effect such improvement.

Section 3 has a summary of SIGIR’s new review of the roles and responsibilities of the various entities involved in Iraq reconstruction.

During this past quarter, the GOI and the UN launched the International Compact with Iraq, to carry out a comprehensive 5-year program of reform and investment with the support of the international community. The Compact was signed in May in Sharm El-Sheikh, Egypt, at a meeting of more than 30 foreign ministers.

On July 20, 2007, the GOI issued its first report on the implementation of the Compact. The report lists eight problems that must be resolved:
- insurgent and terrorist activity, which threatens all Iraqis
- high levels of corruption exacerbated by a weak accountability system
- political instability that inhibits progress, causing socially disruptive consequences
- divisions within the population on the
SIGIR OBSERVATIONS

SIGIR OBSERVATIONS

According to the U.S. Embassy’s Anti-Corruption Strategy, the endemic corruption problem in Iraq:

• contributes to capital flight and harms Iraq’s ability to obtain foreign investment
• significantly hinders economic growth by permitting black markets
• undermines public confidence in Iraq’s public institutions
• funds illegal actors and activities, including terrorism

Notwithstanding these continuing challenges, some progress has been made on several fronts to address the corruption epidemic, which SIGIR views as a “second insurgency.” This quarter saw the inception of the Joint Anti-Corruption Council (JACC)—created and managed by Iraqis.

The JACC comprises the three main anticorruption organizations—the Board of Supreme Audit (BSA), the Commission on Public Integrity (CPI), and the Iraqi Inspectors General (IGs), as well as other governmental representatives. The JACC’s weekly meetings are chaired by the General Secretary to the Iraq Council of Ministers, with the support of the Prime Minister.

Pursuant to the recent rule of law reorganization, the Embassy’s Office of Accountability and Transparency (OAT) has been placed under the direction of the Rule of Law Coordinator. The OAT, which began operating at the beginning of this year, comprises the senior consultants assigned to each of the three anticorruption entities. The OAT reflects staffing and organizational changes that SIGIR recommended in its earlier audit on anticorruption.
This quarter, SIGIR produced a letter audit identifying continuing challenges to the implementation of a coherent anticorruption effort:

- the absence of a program manager with the authority and support to coordinate the overall anticorruption effort
- the lack of a comprehensive, integrated plan that ties anticorruption programs to the overall U.S. Embassy-Iraq strategy

SIGIR’s audit followed up on 12 recommendations from the July 2006 audit and determined that 10 of the 12 remained open pending final action. Section 3 contains a summary of the audit.

The Iraqi IGs conducted a peer evaluation this quarter, reviewing 15 offices. Two IGs were relieved of duty as a result of a poor evaluation. A 90-day follow-up is planned for the remaining offices.

The CPI is pursuing hundreds of corruption cases, but institutional and legal hurdles continue to impede its efforts. CPI’s cases cover a wide range of alleged criminal activity, including illegal payments, unauthorized transfer of vehicles and apartments, stolen government funds, massive fraud, corruption in Iraqi ports, misspending, and the diversion of government funds to militias.

BENCHMARKS

There are two primary sources for benchmarks aimed at measuring GOI progress. The first is the set of 18 measures set forth in P.L. 110-28, passed by the Congress on May 25, 2007. The other is contained in an appendix to the International Compact for Iraq.

Table 1.1 shows the 18 benchmarks under P.L. 110-28, their comparable GOI-agreed commitments under the Compact, and the President’s assessment of the status of each benchmark.
Comparison of U.S. Statutory Benchmarks

<table>
<thead>
<tr>
<th>U.S. P.L. 110-28 Benchmarks</th>
<th>Compact Commitments by the GOI</th>
<th>President’s Interim Progress Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constitutional review completed. (i)</td>
<td>An inclusive constitutional review. (3.1.2)</td>
<td>Satisfactory: Constitutional Review Committee formed.</td>
</tr>
<tr>
<td>De-Ba’athification legislation enacted. (ii)</td>
<td>De-Ba’athification Committee will be restructured and divested of its political aspects. (3.3.1)</td>
<td>Unsatisfactory: A core U.S. priority, but it cannot be rushed.</td>
</tr>
<tr>
<td>Hydrocarbon law implemented. (iii)</td>
<td>Develop an energy sector that meets Iraq’s needs and maximizes the benefits of hydrocarbons for all Iraqis and reinforces national unity and institutions. (4.5)</td>
<td>Unsatisfactory: Self-imposed deadlines have elapsed.</td>
</tr>
<tr>
<td>Creating semi-autonomous regions. (iv)</td>
<td>No comparable benchmark because USG wants GOI to speed up consideration of the Constitution of Representatives (COR) October 2006 plan to address this issue in March 2008.</td>
<td>Unsatisfactory: Regions law has been passed and implementation will follow in March 2008.</td>
</tr>
<tr>
<td>Provincial election laws enacted and date set. (v)</td>
<td>The GOI will set a date for governorate and municipal elections for early to mid 2007. (3.1.2)</td>
<td>Unsatysfactory: Although a commission has been established, other key elements are lagging.</td>
</tr>
<tr>
<td>Addressing amnesty. (vi)</td>
<td>Proposed law and a series of confidence-building measures for a Disarmament, Demobilization, and Re-Integration (DDR) program, including an amnesty program consistent with accepted norms of transitional justice and appropriate to the Iraqi context. (3.2.3)</td>
<td>Mixed: Prerequisites for general amnesty are not present but current security circumstances may not make it near-term goal.</td>
</tr>
<tr>
<td>Legislation for militia disbandment, ISF accountable to central government. (vii)</td>
<td>Create political agreement and the legislative framework necessary for the disbanding of militias, including legislation to control the possession and proliferation of weapons (2.3.3)</td>
<td>Unsatisfactory: Prerequisites for a successful disarmament program are not present.</td>
</tr>
<tr>
<td>Baghdad security plan committees established (political, media, economic services). (viii)</td>
<td>Conduct outreach programs to ensure support and implementation of the Baghdad and Basrah security plans. (3.2.1)</td>
<td>Conditional Satisfactory: Requires monitoring over the next 60 days.</td>
</tr>
<tr>
<td>3 trained and ready brigades to support the Baghdad Security Plan (BSP). (ix)</td>
<td>Operation (BSP)—specific benchmark.</td>
<td>Satisfactory: Staffing levels continue to be a concern but the GOI has provided the equivalent of three brigades.</td>
</tr>
<tr>
<td>Security officers with tactical and operational independence from political interference. (a)</td>
<td>The effective enforcement of state authority will require de-politicized, impartial, accountable, transparent, and professional security forces, including the military and police. The government recognizes the important and urgent need to translate these principles into practical programs in the organization and operations of its security forces. (3.2.1)</td>
<td>Unsatisfactory: There remains “negative political influence at a variety of levels with evidence of sectarian behavior.”</td>
</tr>
<tr>
<td>Ensure ISF provide even-handed enforcement of law. (x)</td>
<td>The government will work with international partners to develop well-trained, disciplined, and capable Iraqi security forces that fully understand and respect human rights and the rule of law. (3.2.1)</td>
<td>Unsatisfactory: Progress has been made but the overall judgment is that an expansion of the embedding and partnership process with the ISF is necessary.</td>
</tr>
<tr>
<td>Assuring the BSP eliminates safe havens for “outlaws.” (xii)</td>
<td>Operation (BSP)—specific benchmark.</td>
<td>Satisfactory: U.S. commanders report overall satisfaction in their ability to target any extremist groups and has received support from the GOI. The PM, however, has “made the decision to delay targeting” one individual.</td>
</tr>
<tr>
<td>Sectarian violence reduced. (xiii)</td>
<td>As a priority of the GOI, a Disarmament, Demobilization, and Re-Integration (DDR) program, aimed at the dissolution and re-integration of militias. (3.2.3)</td>
<td>Mixed: Sectarian violence is reduced, but militia control over local security is unsatisfactory.</td>
</tr>
<tr>
<td>A plan for joint security stations in Baghdad neighborhoods. (xiv)</td>
<td>Operation (BSP)—specific benchmark.</td>
<td>Satisfactory: “With substantial Coalition assistance” progress has been made toward meeting this benchmark.</td>
</tr>
<tr>
<td>Increasing the number of independently capable ISF. (xv)</td>
<td>Developing and sustaining ISF to targeted and authorized strengths and capabilities with the aim of achieving self-sufficiency. (3.2.1)</td>
<td>Unsatisfactory: ISF performance generally adequate when partnered with MNF-I.</td>
</tr>
<tr>
<td>Protection for the political rights of minority parties. (xvi)</td>
<td>The government of Iraq will continue its efforts to expand the range of participation for groups interested in the [National Reconciliation] initiative, regardless of their ideological or political orientation, including establishment of inclusive, legitimate, and sustainable political institutions. (3.1)</td>
<td>Satisfactory: COR activities are consistent with the role of minority parties in a parliamentary democracy.</td>
</tr>
<tr>
<td>$10 billion of Iraq revenues spent on reconstruction. (xvii)</td>
<td>Commitment will ensure that legislation, regulation, systems, and processes are in place that will allow efficient and effective disbursement of budget resources. (5.3)</td>
<td>Conditional Satisfactory: The benchmark is aggressive, but the trend is positive.</td>
</tr>
<tr>
<td>Ensuring that political authorities do not undermine or make false accusations against the ISF (xviii)</td>
<td>The effective enforcement of state authority will require de-politicized, impartial, accountable, transparent, and professional security forces, including the military and police. The government recognizes the important and urgent need to translate these principles into practical programs in the organization and operations of its security forces. (3.2.1)</td>
<td>Unsatisfactory: Accusations that undermine the professionalism and non-sectarianism of the ISF have not been adequately addressed by the GOI.</td>
</tr>
</tbody>
</table>

Table 1.1
SIGIR OBSERVATIONS

NOTABLE SIGIR ACTIVITIES THIS QUARTER

In executing its oversight mission this quarter, SIGIR completed 8 new audits, which included 21 recommendations and 5 audit lessons learned. SIGIR issued 5 new project assessments, 3 of which highlighted Iraqi sustainment problems. SIGIR investigations continued to pursue all allegations of fraud, waste, and abuse in Iraq reconstruction spending.

Audits

To date, SIGIR has completed 94 audit products and continues work on 19 audits. SIGIR plans to start at least 9 more audits next quarter.

This quarter, SIGIR audit products addressed these specific requests:

- In responding to a congressional mandate, SIGIR released its first focused financial product, looking at USAID’s Phase II Iraq reconstruction contract with Bechtel National, Inc. This product highlights where the money went, the results of the investment, and lessons learned.
- As part of a U.S. Embassy Baghdad request, SIGIR reported on the need for improved government management controls over the efficiency and cost-effectiveness of the services paid for under Logistics Civil Augmentation Program (LOGCAP) Task Order 130.

SIGIR audit products this quarter also addressed these issues:

- the continuing misunderstanding as to the congressional requirement for the financial reporting of the cost to complete construction projects
- a look at the various sources of FY 2006 appropriations and funds, as well as the uses of these funds for Iraq relief and reconstruction
- the organizational complexity of U.S. government agencies and activities involved in Iraq relief and reconstruction and what each reports as its role and responsibility in Iraq

Inspections

SIGIR completed five project assessments, four of which were sustainment reviews. Since the Inspections program began in summer 2005, SIGIR has completed 95 project assessments, 96 limited on-site inspections, and 304 aerial assessments.

SIGIR’s sustainment reviews focus on whether the projects delivered to the Iraqis are being operated by Iraqis at the capacity planned in the original contract or task order objective.

In three of the four sustainment reviews completed this quarter, sustainment was not being properly carried out, posing threats to the condition and durability of the facilities and to health and safety.
Investigations
SIGIR has 57 ongoing investigations into fraud, waste, and abuse in Iraq reconstruction; 28 are currently under the prosecutorial control of DoJ.

This quarter, two more subjects of SIGIR investigations were sentenced to prison. And several new arrests were made arising from fraud investigations of which SIGIR is a part.

As of July 30, 2007, SIGIR investigations have resulted in 5 convictions, 13 arrests, and 5 pending trials on a 25-count indictment. SIGIR’s joint task force cases have engendered more than 30 search warrants executed by SIGIR agents. For an overview of all convictions resulting from the work of SIGIR and other agencies in Iraq, see Table 1.2.

Currently, 5 SIGIR agents work in Baghdad, and 14 are in Arlington, Virginia. SIGIR investigators work with the International Contract Corruption Task Force/Join Operation Center and the National Fraud Procurement Task Force, coordinating on a wide range of efforts to fight fraud. SIGIR agents are also working on a number of Civil False Claims Act matters, and SIGIR is supporting suspension and debarment actions against a variety of individuals and corporations.

The Lessons Learned Capping Report
SIGIR continues to advance a robust lessons learned effort, pursuant to SIGIR’s mandate from the Congress to provide recommendations that promote economy, efficiency, and effectiveness in the administration of the reconstruction program in Iraq. Three SIGIR lessons learned reports have already been released, and they already have prompted beneficial reforms within the executive branch, as well as new legislation implementing SIGIR’s recommendations.

The Lessons Learned Capping Report, which draws from all of SIGIR’s previous and ongoing work, aims to capture the key lessons from the overall Iraq reconstruction experience. These important lessons are aimed at prompting reforms of the post-conflict contingency relief and reconstruction systems in the U.S. government. The Congress and the Departments of State and Defense support SIGIR’s lessons learned efforts.
### Prosecutions of Fraud-related Cases in Iraq

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Contractor/Company/Agency</th>
<th>Charge</th>
<th>Plea</th>
<th>Date of Conviction</th>
<th>Sentence</th>
<th>Date of Sentence</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investigations Led by SIGIR</strong></td>
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<tr>
<td>Philip Bloom</td>
<td>Owner</td>
<td>Global Business Group, GBG Holdings &amp; GBG-Logistics Division</td>
<td>Conspiracy, Bribery, Money Laundering</td>
<td>Conspiracy, Bribery, and Money Laundering in Connection with a Scheme to Defraud the Coalition Provisional Authority-South Central Region (CPA-SC), during the occupation of Iraq</td>
<td>3/10/2006</td>
<td>46 months in prison; 2 years of supervised release; $3.6M in restitution and $3.6M in forfeiture</td>
<td>2/16/2007</td>
</tr>
<tr>
<td>LTC Bruce D. Hopfengardner</td>
<td>Special Advisor to the CPA-SC</td>
<td>U.S. Army Reserves</td>
<td>Conspiracy to Commit Wire Fraud, Money Laundering</td>
<td>Conspiracy in a scheme to defraud the CPA-SC in Hilla, Iraq, and conspiring to commit wire fraud and to launder funds in connection with a scheme to steal currency designated for the reconstruction of Iraq and to steer contracts to a contractor in exchange for money and property. Also, smuggling stolen currency into the United States.</td>
<td>8/25/2006</td>
<td>21 months in prison</td>
<td>6/25/2007</td>
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<td>Steven Merkes</td>
<td>DoD Civilian</td>
<td>U.S. Army</td>
<td>Accepting a Gratuity</td>
<td>Accepting illegal gratuities while serving as an operational support planner in the Future Operations Division of the U.S. Army Headquarters, Special Operations Command–Europe (HOSCEUR)</td>
<td>2/16/2007</td>
<td>12 months and 1 day in prison; $24,000 in restitution</td>
<td>6/1/2007</td>
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<tr>
<td>Faheem Mousa Salam</td>
<td>Interpreter</td>
<td>Titan Corporation</td>
<td>Violation of the Foreign Corrupt Practices Act (bribery)</td>
<td>One count of Violating the FCPAs Anti-bribery Provisions</td>
<td>8/4/2006</td>
<td>3 years in prison; 2 years of supervised release; 250 hours of community service</td>
<td>2/2/2007</td>
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<tr>
<td><strong>Led by Other Agencies</strong></td>
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<tr>
<td>Christopher Cahill</td>
<td>VP Middle East &amp; India</td>
<td>Eagle Global Logistics, Inc. (EGL)</td>
<td>Major Fraud</td>
<td>Major fraud against the United States</td>
<td>2/16/2006</td>
<td>30 months in prison; 2 years supervised release; $10,000 fine; $100 assessment (a civil settlement with EGL arising from the same facts resulted in settlement of $4M)</td>
<td>8/30/2006</td>
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<tr>
<td>Lomeli Chavez</td>
<td>Enlisted, Grade 05, Military Reservist</td>
<td>California Army National Guard/223rd Finance Detachment</td>
<td>Embezzlement</td>
<td>One count of Conspiracy to Commit Wire Fraud on Related Charges</td>
<td>11/13/2006</td>
<td>Re-scheduled for sentencing September 10, 2007</td>
<td></td>
</tr>
<tr>
<td>Derryl Hollier</td>
<td>Enlisted, Grade 05, Military Reservist</td>
<td>California Army National Guard/223rd Finance Detachment</td>
<td>Embezzlement</td>
<td>One count of Conspiracy to Commit Wire Fraud on Related Charges</td>
<td>11/13/2006</td>
<td>Re-scheduled for sentencing September 10, 2007</td>
<td></td>
</tr>
<tr>
<td>Shabbir Khan</td>
<td>Director Of Operations, Kuwait &amp; Iraq</td>
<td>Tamimi Global Co., Ltd (subcontractor for KBR)</td>
<td>Wire Fraud, Witness Tampering, Conspiracy to Commit Witness Tampering, Conspiracy to Commit Money Laundering, False Statements</td>
<td>Paying kickbacks to secure two military dining subcontracts, valued at $21.8 million dollars</td>
<td>6/23/2006</td>
<td>51 months in prison; 2 years supervised release; $10,000 fine; $133,860 in restitution; $1,400 assessment</td>
<td>12/1/2006</td>
</tr>
</tbody>
</table>
### Prosecutions of Fraud-related Cases in Iraq

| Name                  | Position                        | Contractor/ Company/ Agency                                      | Charge                                                                 | Plea                                                                 | Date of Conviction | Sentence                                                | Date of Sentence       |
|-----------------------|---------------------------------|------------------------------------------------------------------|                                                                      |                                                                      |                    |                                                        |                         |
| Jesse D. Lane         | Military Reservist              | California Army National Guard/223rd Finance Detachment           | Conspiracy                                                             | One count of Conspiracy and one count of Honest Services Wire Fraud   | 6/5/2007           | Re-scheduled for sentencing September 24, 2007         |                         |
| Anthony J. Martin     | Subcontract Administrator       | KBR                                                              | Kickbacks                                                              | Violating the Anti-Kickback Act in awarding a $4.67M subcontract to a Kuwaiti company in 2003 | 7/13/2007           | Pending                                                   |                         |
| Bonnie Murphy         | Contracting Officer's Representative (COR) | DoD-Defense Reutilization and Marketing Service (DRMS)      | Accepting Unlawful Gratuities and Unlawful Compensation               | Accepting Unlawful Gratuities                                        |                     | 1 year supervised release; $1,500 fine                 |                         |
| Gheevarghese Pappen   | Army Corps of Engineers (Civilian Employee, GS-12) | U.S. Army/Area Support Group, Host Nation Office, Camp Arifjan, Kuwait | Illegal Gratuities                                                   | Soliciting and accepting nearly $50,000 in illegal gratuities.         | 10/12/2006         | 2 years in prison                                      | 1/30/2007                |
| CWO Peleti Peleti, Jr. | Army's Food Service Advisor for Kuwait, Iraq & Afghanistan | U.S. Army                                               | Bribery                                                               | Accepting a $50,000 bribe to influence a foodservice supply contract, and trying to smuggle cash into the United States. | 2/9/2007           | Re-scheduled for sentencing August 17, 2007            |                         |
| Glenn Powell          | Subcontracts Manager            | KBR                                                              | Major Fraud, Violation of the Anti-Kickback Act                      | One count of Major Fraud against the United States and one count of Violation of the Anti-Kickback Act | 8/1/2005           | 15 months in prison; 3 years supervised release; $90,973.99 in restitution; $200 assessment | 11/18/2005              |
| Stephen Seamans       | Subcontracts Manager            | KBR                                                              | Major Fraud, Conspiracy to Commit Money Laundering                    | One count each of Wire Fraud and Money Laundering Conspiracy           | 3/1/2006           | 12 months and 1 day in prison; 3 years supervised release; $380,150 in restitution; $200 assessment | 12/1/2006                |
| Kevin A. Smoot        | Managing Director               | Eagle Global Logistics, Inc.                                     | Anti-Kickback Act False Statements                                   | Anti-Kickback Act False Statements                                    | 7/20/2007           | Pending                                                   |                         |

Table 1.2
IMPACTS OF SIGIR OPERATIONS

SIGIR oversight continues to produce tangible financial benefits for Iraq and the U.S. government. Through July 30, 2007, SIGIR audits have saved or recovered $57.8 million, and SIGIR investigations have recovered or seized $16 million in court-ordered restitution and forfeiture. For the data supporting these benefits, see Appendix C.

SIGIR’s work has also improved the U.S. capability to respond to future reconstruction efforts. SIGIR and the Government Accountability Office (GAO) identified a number of lessons learned and best practices in emergency contracting.

This quarter, the OMB Office of Federal Procurement Policy produced the Emergency Acquisitions Guide, which helps federal agencies plan for contingency operations, anti-terrorism activities, and national emergencies.

The guide made these specific recommendations, citing SIGIR’s lessons learned work:

- Designate a single unified contracting entity to coordinate all contracting activity in theatre.
- Clearly define, properly allocate, and effectively communicate essential contracting roles and responsibilities to all participating agencies.
- Develop deployable contracting and procurement systems before mobilizing for post-conflict efforts and test them to ensure that they can be effectively implemented in contingency situations.
- Emphasize contracting methods that support smaller projects in the early phases of a contingency reconstruction effort.
- Avoid using expensive design-build contracts to execute small-scale projects.
- Generally avoid using sole-source and limited-competition contracting actions.
THE HUMAN TOLL

Security problems in Iraq posed a continuing danger for reconstruction staff, management, and contractors. Attacks on the International Zone have grown more frequent and more deadly during this quarter. On June 5, the UN Secretary-General reported to the Security Council that “the major development in this reporting period was the increased threat of indirect fire into the International Zone.”

Throughout Iraq, contractors, journalists, and Iraqi citizens live and work in a dangerous environment:

- The Department of Labor (DoL) reported 79 new death claims this quarter for civilian contractors working on U.S.-funded projects in Iraq. Since Iraq reconstruction began, 1,001 such death claims have been filed. The reported deaths this quarter are 26.3% above the quarterly average since the beginning of Iraq reconstruction.
- DoS reports that 8 U.S. civilians died in Iraq this quarter. Since the beginning of the U.S. reconstruction effort, 232 U.S. civilian workers have died in Iraq.
- This quarter, 12 journalists were killed in Iraq; 112 Iraqi and other journalists have been killed since March 2003. Also, 40 media support workers have been killed in Iraq since hostilities began, including two this quarter, according to the Committee To Protect Journalists.
- Violence continues to force Iraqis to leave their homes. The UN High Commissioner for Refugees estimates that one out of every eight Iraqis has been displaced by the conflict in Iraq.

According to the Army Corps of Engineers’ Logistics Movement Control Center, attacks on contractor-protected supply convoys have tripled since June 2006, killing or wounding 206.
Sources and Uses of Funding for Iraq Reconstruction

Overview

Sources of U.S. Reconstruction Funds
- Iraq Relief and Reconstruction Fund (IRRF)
- Iraq Security Forces Fund (ISFF)
- Economic Support Fund (ESF)
- Commander’s Emergency Response Program (CERP)

Uses of U.S. Appropriations
- Security and Justice
- Provincial Reconstruction Teams
- Capacity Development
- Electricity
- Oil and Gas
- Water
- Health Care
- Transportation and Communications
- Democracy
- Economic Development
- Refugees, Human Rights, and Education
- International Support for Iraq Reconstruction
OVERVIEW

The Special Inspector General for Iraq Reconstruction (SIGIR) reports on the oversight and accounting of the obligation and expenditure of funds used for Iraq relief and reconstruction. This section presents an overview of the sources of funding for this effort and its uses in reconstruction programs, projects, and activities.

The reconstruction effort is funded by three sources: U.S. appropriations; Iraqi funds; and international donor support. As of June 30, 2007, funding for the entire reconstruction program totaled nearly $99.641 billion, including $44.538 billion in U.S. appropriated funds, $18.219 billion in international donor funds, and $36.884 billion in Iraqi funds. For an overview of these sources, see Figure 2.1.

U.S. Appropriated Funds ($44.538 billion)
The Congress appropriated U.S. support for Iraq’s relief and reconstruction to four major funds:
- Iraq Relief and Reconstruction Fund (IRRF)—$20.914 billion
- Iraq Security Forces Fund (ISFF)—$13.940 billion
- Economic Support Fund (ESF)—$3.149 billion
- Commander’s Emergency Response Program (CERP)—$2.506 billion
- Other Relief and Reconstruction Activities (subsumes 26 smaller accounts)—$4.029 billion

This section presents a detailed review of each of these sources and provides status reports of U.S. efforts in these areas:
- Security and Justice
- Provincial Reconstruction Teams
- Capacity Development
- Electricity
- Oil and Gas
- Water
- Health Care
- Transportation and Communications
- Democracy
- Economic Development
- Refugees, Human Rights, and Education

Appendix F and Appendix G include more comprehensive information about sources of U.S. appropriated funding, including IRRF apportionments, a historical perspective of relief and reconstruction accounts, operating expenses, and obligated and expended funding activities.
International Support for Iraq Reconstruction ($18.219 billion)
The overall success of the Iraq reconstruction program depends, in part, on assistance from the international community. The International Compact with Iraq—a five-year national plan to help Iraq achieve stability, sound governance, and economic reconstruction—is now the primary mechanism for coordinating international support for Iraq. The total amount of donor support pledged or provided to date is $18.219 billion.

Iraqi Funds ($36.884 billion)
Iraqi funds have been an important source for reconstruction efforts, particularly during the tenure of the Coalition Provisional Authority (CPA). As of June 30, 2007, these funds totaled $36.884 billion, including:

- vested (frozen) funds of $1.724 billion
- seized funds, including confiscated cash and property, of $927 million
- Development Fund for Iraq (DFI) funds, drawn primarily from oil proceeds and repatriated funds, of $9.339 billion. (Under UN Security Council Resolution 1483, this fund was created to meet the costs of Iraqi civilian administration, humanitarian needs, infrastructure repairs, economic reconstruction, and other purposes benefiting the people of Iraq)
- Iraqi capital budget funding of $24.894 billion from 2004 to 2007

For an accounting of seized funds, vested funds, and the DFI transition sub-account, see Appendix H.
Figure 2.1

Souces of Iraq ReConstruction Funding - $99.641 Billion

$ Billions

**TOTAL RECONSTRUCTION FUNDING**

$99.641

**INTERNATIONAL DONOR PLEDGES**

$18.219c, e

**IRAQI FUNDS** $36.884a, b

**U.S. Appropriated Funds** $44.538d

**Seized $0.927**

**Vested $1.724**

**DFI Transition Sub-account $2.339**

**DFI $7.0**

**Iraq Capital Budget 2004 - 2007 $24.894**

**CERP $2.506**

**ESF $3.149**

**ISFF $13.94**

**Other $4.029**

**DFI Under CPA $9.339**

**IRRF $20.914**

**ISFF $13.94**

**Total Reconstruction Funding**

$99.641

---

a. Includes August 11, 2004 transfer of $86 million cash from the Central Bank of Iraq for CERP at the authorization of the Ministry of Finance.
b. In previous Quarterly Reports, SIGIR reported approximately $20 billion in DFI cumulative deposits to fund Iraq government operations and reconstruction programs. This quarter, SIGIR has refined that number to reflect only reconstruction funding, which according to GAO audit 05-876 (July 28, 2005, p. 2) is approximately $7 billion.
c. May include humanitarian aid or other types of assistance.
d. Where Iraq-only appropriations are unavailable, SIGIR assigned 85% for Iraq based on historical trends.
e. International donor pledges are discussed in detail later in this section.
Under P.L. 108-106, Section 3001 (as amended), SIGIR is required to report on the oversight of and accounting for U.S. taxpayer funds expended on Iraq’s relief and reconstruction.

This legislation provided SIGIR with additional oversight authority over any U.S. funds made available for FY 2006 for the reconstruction of Iraq, regardless of how they are designated. Figure 2.2 identifies the funds associated with SIGIR’s new mandate, including the ISFF, ESF, CERP, and others. SIGIR’s authority now includes oversight of $31.817 billion in reconstruction funds. Figure 2.3 shows the expenditure status of funds under SIGIR oversight that have been contractually obligated. For a cross-reference of budget terms associated with these funding streams, see Appendix N.
Over the past four years, the Congress passed ten appropriations bills providing approximately $44.538 billion in Iraq relief and reconstruction funding. Nearly half of this funding went to the Iraq Relief and Reconstruction Fund, which was created in 2003. SIGIR has continuing oversight of the IRRF program.

Since SIGIR’s April Quarterly Report, the Congress added to reconstruction funding by passing the U.S. Troop Readiness, Veterans’ Care, Katrina Recovery, and Iraq Accountability Appropriations Act on May 25, 2007. This act provided:
- $3.842 billion for the Iraq Security Forces Fund (ISFF)
- $1.554 billion for the Economic Support Fund (ESF)
- $.350 billion for the Commander’s Emergency Response Program (CERP) in Iraq
- approximately $1.338 billion in additional U.S. reconstruction funding

Figure 2.4 shows the timeline for all major U.S. funds appropriated for relief and reconstruction to date. Table 2.1 provides additional detail about these funds.

In the absence of an internationally recognized definition of “relief and reconstruction,” Table 2.1 also includes 29 non-IRRF activities that present the most complete information available on U.S. appropriations.
### SOURCES OF U.S. RECONSTRUCTION FUNDS

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<td>DATE OF ENACTMENT</td>
<td>2/20/03</td>
<td>4/16/03</td>
<td>9/16/03</td>
<td>8/5/04</td>
<td>5/11/05</td>
<td>11/14/05</td>
<td>12/30/05</td>
<td>6/7/06 9/22/06 2/25/07</td>
</tr>
</tbody>
</table>

| **Iraq Relief and Reconstruction Fund (IRRF 2)** | $18,439,000,000 | $18,439,000,000 | $18,439,000,000 |
| **Iraq Security Forces Fund (ISFF)** | $5,391,000,000 | $3,007,000,000 | $3,842,300,000 |
| **Economic Support Fund (ESF)** | $40,000,000 | $30,000,000 | $60,390,000 |
| **Commander’s Emergency Response Program (CERP)** | $140,000,000 | $718,000,000 | $375,000,000 |
| **Iraq Relief and Reconstruction Fund (IRRF 1)** | $2,475,000,000 |
| **Coalition Provisional Authority (CPA)** | $908,000,000 |
| **Diplomatic and Consular Programs** | $65,695,000 | $56,908,000 | $750,000,000 |
| **Department of State, International Narcotics Control and Law Enforcement (DoS/INL)** | $91,400,000 | $150,000,000 | $261,400,000 |
| **Democracy Fund (State)** | $750,000,000 | $108,000,000 |
| **Iraqi Army** | $210,000,000 |
| **Project and Contracting Office (PCO/DoD)** | $200,000,000 |
| **International Disaster and Famine Assistance** | $143,800,000 | $100,000,000 |
| **Special Inspector General for Iraq Reconstruction (SIGIR)** | $24,000,000 | $35,000,000 |
| **USAID Administrative Expenses** | $24,400,000 | $124,400,000 |
| **Pl. 480 Title II Food Aid** | $200,000,000 | $108,000,000 |
| **Voluntary Peacekeeping Operations** | $37,000,000 | $17,000,000 |
| **Iraq Freedom Fund (Reconstruction and Rehabilitation only)** | $37,000,000 | $15,750,000 |
| **Migration and Refugee Assistance** | $45,000,000 | $45,000,000 |
| **Overseas Humanitarian, Disaster and Civic Aid** | $17,000,000 | $17,000,000 |
| **International Affairs Technical Assistance** | $13,000,000 | $15,750,000 |
| **United States Agency for International Development, Office of Inspector General (USAID OIG)** | $2,500,000 |
| **Nonproliferation, Anti-terrorism, Demining and Related Programs** | $7,000,000 | $7,000,000 |
| **DoD Office of the Inspector General** | $5,000,000 | $5,000,000 |
| **Combattent Commander Initiative Fund (CINC)** | $3,612,000 | $3,612,000 |
| **DoD, Office of Inspector General** | $1,000,000 | $2,300,000 |
| **U.S. Treasury (Salaries and Expenses)** | $1,800,000 | $1,800,000 |
| **Department of Justice; Litigation Support Services for SIGIR** | $1,680,000 | $1,680,000 |
| **Legal Activities and U.S. Marshals (Salaries and Expenses)** | $1,000,000 | $1,000,000 |
| **TOTAL** | $108,000,000 | $3,348,212,000 | $19,440,900,000 | $530,000,000 | $6,185,558,000 | $117,298,000 | $500,000,000 | $2,075,000,000 | $7,083,675,000 | $46,537,792,000 |

Note: This table does not include FY 2007 Continuing Resolution levels.

* $18.49 billion represents the amount appropriated by the Congress for Iraq programs in IRRF 2 under PL. 108-106, enacted in November 2003. The Congress had initially appropriated $18.649 billion to IRRF 2, but also earmarked $210 million to be transferred to other accounts for programs in Jordan, Liberia, and Sudan. Of the remaining $18.499 billion, the administration transferred out of the IRRF to other accounts roughly $562 million for Iraq-related programs that could be implemented only in other accounts, such as a $32 million Iraq bilateral debt forgiveness program to the United States that required funding in a Treasury account. The Congress was notified of all transfers out of the IRRF. In addition, in FY 2006 appropriations, the Congress earmarked $9.5 million to be transferred into the IRRF from the DoS Economic Support Fund account.

* $40 million from FY 2003 ESF base account that was not reimbursed; $10 million from PL. 108-11.

* SIGIR reports in Audit 07-006 that the Congress appropriated $823 million in FY 2006 for CERP activities in Iraq and Afghanistan. The Department of the Army allocated $724.5 million for use in FY 2006 and carried forward the balance of $98.5 million to FY 2007. The U.S. Central Command then allocated $510 million to MNC-I, with the remaining $214.5 million going to fund CERP projects executed by U.S. forces in Afghanistan.

* $150 million for Special Inspector General for Iraq Reconstruction under PL. 108-106.

* Includes Iraq Reconstruction Management Office salaries and expenses, mission travel, public diplomacy programs, and other operating expenses related to reconstruction.


* Where Iraq only appropriations unavailable, based on historical trends: SIGIR split 85% for Iraq and 15% for Afghanistan.

* SIGIR reports in Audit 07-006 that the Congress appropriated $823 million in FY 2006 for CERP activities in Iraq and Afghanistan. The Department of the Army allocated $724.5 million for use in FY 2006 and carried forward the balance of $98.5 million to FY 2007. The U.S. Central Command then allocated $510 million to MNC-I, with the remaining $214.5 million going to fund CERP projects executed by U.S. forces in Afghanistan.

* The Congress provided funding for PCO in other appropriations bills; more details will be available in future SIGIR reports.
IRAQ RELIEF AND RECONSTRUCTION FUND (IRRF)

In April 2003, the Congress created IRRF 1, appropriating $2.475 billion under P.L. 108-11 to support operations that provided immediate relief and reconstruction for the people of Iraq. The IRRF 1 allocation authorized the use of funds for reconstruction across five agencies: the U.S. Agency for International Development (USAID), Department of Defense (DoD), Department of State (DoS), Department of Treasury (Treasury), and the U.S. Trade and Development Agency. USAID received about two-thirds of the appropriation. Figure 2.5 shows the IRRF 1 breakdown by agency allocation. Virtually all of IRRF 1 has been expended.

In November 2003, the Congress created IRRF 2, providing $18.439 billion for Iraq’s relief and reconstruction. Figure 2.6 shows that most IRRF 2 funds were allocated to DoD.

The CPA hired 12 major contractors to design and build projects that improved large-scale infrastructure. Table 2.2 lists the 10 contractors that received the largest contracts.
As of June 27, 2007, approximately 97% of IRRF 2 funds had been obligated, and 86% had been expended. Almost $2 billion of IRRF 2 remains unexpended. For the status of IRRF 2 appropriations, see Figure 2.7.

The security and justice and electricity sectors received the largest allocation of these funds—57% of the total. Figure 2.8 shows the allocation of IRRF 2 funds, by sector.

This quarter, most reconstruction projects funded by IRRF 2 are complete.

For a cross-reference of how IRRF 2 sectors relate to SIGIR sectors, see Appendix D.

For the contracts funded by the IRRF, see Appendix E.

For IRRF apportionments, see Appendix G.
IRRF

Figure 2.7

**STATUS OF IRRF 2 FUNDS**

$ Billions


![Bar chart showing total obligated, total appropriated, and not expended funds.](source)

Note: Numbers are affected by rounding.

* DoS currently reports that $18.40 billion has been apportioned to IRRF 2—down from last quarter’s report of $18.44 billion. The change is a result of deobligations for future use in IRRF 2 programs. For a consistent financial summary of the IRRF 2 program, SIGIR measures sector-level apportionments of allocations against the $18.44 billion appropriated by the Congress.

Figure 2.8

**IRRF 2 CURRENT ALLOCATIONS BY SECTOR**

$ Billions, % of $18.44 Billion


![Pie chart showing sector-wise allocation.](source)

Notes:

1. Numbers are affected by rounding.
Iraq Security Forces Fund (ISFF)

In 2005, the ISFF was established under P.L. 109-13 to allow the Commander of the Multi-National Security Transition Command-Iraq (MNSTC-I) to provide assistance to the Iraqi Security Forces (ISF). Along with the IRRF, ISFF funds have trained, equipped, and built facilities for ISF. The central objective of these funds was to stand up a capable Iraqi force.

As of July 8, 2007, almost 83% of the $10.82 billion in FY 2005, FY 2006, and FY 2007 ISFF funds had been obligated, and approximately 61% had been expended. These ISFF funds will remain available until September 30, 2008. For the status of ISFF FY 2005, FY 2006, and FY 2007 funds, see Figure 2.9.

MNSTC-I manages the ISFF and awards approximately 90% of its construction contracts through the Air Force Center for Engineering and the Environment (AFCEE). AFCEE then issues task orders to U.S. prime contractors, who hire and manage Iraqi subcontractors to execute the projects. Consequently, almost all of the employees on these projects are Iraqis.

The remaining ISFF projects are contracted through Gulf Regional Division (GRD) and Joint Contracting Command-Iraq/Afghanistan (JCC-I/A); nearly all of these projects are directly awarded to local Iraqi firms. For non-construction contracts, JCC-I/A awards more than 50% of ISFF contracts directly to Iraqi firms.

MNSTC-I project/program managers provide oversight of the ISFF construction program. These managers review the project scope and cost changes to ensure compliance with mission requirements and resource availability. To manage cost overruns, MNSTC-I has a standard 15% contingency for all construction projects.

Of the total allocation for the Ministry of Defense, equipment and transportation comprise 43%, and training and operations only 3%. Training and operations receives the largest allocation (40%) of the support for the Ministry of Interior. For a breakdown of the use of funds directed toward projects under the Ministry of Defense and the Ministry of Interior, see Figure 2.10.

For the contracts funded by the ISFF, see Appendix E. Next quarter, SIGIR will list the top ten contractors under ISFF.
Figure 2.10

Allocations of ISFF Funds by Sector

$ Billions
Source: DoD, Secretary of the Army Update (7/8/2007)

Total Allocated $10.82 Billion

Defense Forces $6.15 Billion
- 36% Infrastructure $2.23
- 3% Training and Operations $.20
- 18% Sustainment $1.11

Interior Forces $4.22 Billion
- 25% Infrastructure $1.04
- 40% Training and Operations $1.70
- 24% Equipment and Transportation $1.03

Other * $.45 Billion
- 3% Sustainment $.11

Note: Numbers are affected by rounding.
* Includes Detainee Ops, Prosthetics Clinics, Quick Response Fund, and Other Training and Operations.
ECONOMIC SUPPORT FUND (ESF)

The Economic Support Fund (ESF) is a bilateral economic assistance account that is used to promote a variety of relief and reconstruction activities in Iraq.17

The FY 2006 Supplemental appropriated approximately $1.485 billion18 in bilateral economic assistance for ESF projects in Iraq.19 Many ESF programs and projects build on the efforts of the IRRF program. SIGIR performed a review of FY 2006 sources and uses of U.S. funding for Iraq reconstruction, which is contained in Section 3 of this Report.

Of the $1.485 billion appropriated by the supplemental appropriations bill, approximately 52% has been obligated,20 and 6% has been expended.21 Figure 2.11 shows the amounts of obligated and expended ESF funds compared to the appropriated amount.

Several of the ESF funding lines are managed through interagency agreements (IAAs),22 which “obligate” all the funds at the time of the agreement.23 For purposes of this section, however, SIGIR considers ESF “obligations” as funds committed. SIGIR generally reports amounts that have been contractually awarded as “obligated.”24 Table 2.3 shows the ten contractors that received the largest obligations (via contract) of ESF funds.
The PRTs and security and justice sector received approximately 53% of ESF FY 2006 supplemental funds. All of the ESF funds in the electricity ($228 million), water ($32 million), transportation and communications ($13 million), and health care ($12 million) sectors are part of ESF’s O&M Sustainment Program. The Capacity Development section of this Report includes more funding details of ESF’s Capacity Development and Technical Training Program. Figure 2.12 shows the allocation of ESF monies to each SIGIR-defined sector.

FY 2007 Funding
In the FY 2007 Supplemental (P.L. 110-28), which the President signed this quarter, no ESF FY 2007 funds can be obligated or expended until the President certifies that Iraq has made satisfactory progress on 18 specific benchmarks. The bill also includes a provision allowing the President to waive the requirement if he submits a written certification to the Congress setting forth a justification for the waiver, including a detailed report describing the actions being taken by the United States to...
bring the GOI into compliance with the benchmarks. On July 12, 2007, the President submitted such a report to the Congress, waiving $642.5 million of ESF FY 2007 funds from the requirement.27

Structure of ESF

These are the objectives of ESF:28

• strengthen the role of the private sector, reduce government controls over markets, enhance job creation, and improve economic growth
• develop and strengthen the institutions necessary for sustainable democracy
• strengthen Iraq’s capacity to manage the human dimension of the transition to democracy and a market-based economy while sustaining the neediest groups of the population

In line with the President’s New Way Forward for Iraq, ESF programs follow three tracks—security, political, and economic. The security track received approximately 63%29 ($932 million) of FY 2006 supplemental ESF funds, the economic track received 23%30 ($345 million), and the political track received 14%31 ($208 million). For a cross-reference table of ESF programs by SIGIR-defined-sector, see Appendix D. For a cross-reference of budget terms associated with the ESF, see Appendix N.

Executing ESF Funds

A SIGIR report this quarter found that it takes longer to move ESF funds from appropriation to field activities than CERP and ISFF funds. SIGIR’s fact sheet on FY 2006 sources and uses of U.S. funding reported:32

• ISFF funds were allotted to the field activities within 29 days of appropriation.
• CERP funds were allotted within 35 days.
• ESF funds took between 62 and 218 days.

SIGIR’s fact sheet noted that measuring the effectiveness of ESF-funded programs also is a challenge.33 Although United States Army Corps of Engineers (USACE) managed programs incorporate metrics into some of their IAAs, and USAID uses metrics in its Performance Management Plan, SIGIR did not find specific performance measures established or required for all ESF programs.34 Additionally, the Congress did not impose a reporting requirement for the ESF. DoS has been reporting on ESF funds since January 2007 in its Section 2207 Report.35 For a summary of SIGIR’s fact sheet on sources and uses, see Section 3 of this Report.
COMMANDER’S EMERGENCY RESPONSE PROGRAM (CERP)

CERP FY 2006 and FY 2007 funds total approximately $944 million—or about 2% of the total U.S. funds appropriated for Iraq reconstruction. Multi-National Corps-Iraq (MNC-I) has expended approximately 46% of the total CERP FY 2006 and FY 2007 funds. Figure 2.13 shows the status of that portion of funds already obligated.

CERP was created to allow U.S. military commanders in Iraq to respond rapidly to urgent humanitarian, relief, and reconstruction needs. The amount of CERP dollars expended in Iraq continues to increase as the IRRF program winds down. Figure 2.14 shows the allocation of CERP funds by reconstruction sector.

MNC-I is the program coordinator for CERP, and DoD regulates CERP funding. MNC-I’s major subordinate commanders have approval authority for contracts of up to $500,000. The MNSTC-I commander approves contracts greater than $500,000.

CERP projects are chosen based on how quickly they can be executed, how many Iraqis would be employed, how many Iraqis would benefit, and the visibility of the project. Figure 2.15 shows the status of CERP projects.

DoD established guidelines outlining 19 uses for CERP. SIGIR has announced an audit reviewing the scope and impact of CERP projects valued more than $400,000.

Figure 2.14
SECTOR SHARES OF CERP FY 2006 AND FY 2007 FUNDS
$ Billions, % of $944 Billion
Source: MNC-I, Response to SIGIR, 7/7/2007

- 3% Oil and Gas
- 4% Health Care
- 7% Security and Justice
- 14% Transportation and Communications
- 17% Electricity
- 19% Economic Development
- 10% Refugees, Human Rights, and Education
- 25% Water
- $0.235
- $0.029
- $0.041
- $0.068
- $0.133
- $0.161
- $0.179
- $0.094
- $0.513
- $0.431

Total Obligated: $944

Notes:
1. Allocation detail for CERP FY 2006 and FY 2007 is currently unavailable; therefore, the percentages in this graphic are calculated using dollars obligated.
2. For reporting consistency, CERP activities are mapped to SIGIR-defined sectors.
3. Numbers are affected by rounding.
Since 2004, military commanders have contracted 11,670 projects, 7,638 of which were funded with CERP FY 2006 and FY 2007 monies. Four of the six governorates with the most CERP FY 2006 and FY 2007 projects—Anbar, Baghdad, Salah al-Din, and Diyala—are also the governorates that DoD has identified as the most violent provinces in Iraq.39

In 2004, the average CERP project in Iraq was valued at approximately $67,000. In 2006, the average value of a CERP project was approximately $140,000. In total, 11 provinces have experienced yearly increases in average CERP project values from 2004 through 2006. Figure 2.16 shows the increase in the average value per CERP project, by governorate.

### Challenges to Executing the CERP Program

In three previous audits of the CERP, SIGIR reviewed the CERP and found that the program generally achieved success in employing Iraqis for projects at the local level;40 however, it is difficult to report on CERP results for two reasons:

- There is no mechanism in place to specifically measure the outputs and outcomes of CERP-funded projects.41
- The high turnover of personnel in Iraq results in a lack of continuity with respect to institutional knowledge of the CERP programs.42
As a SIGIR audit of CERP has documented, MNC-I has made progress since 2004 coordinating CERP projects with U.S. Embassy reconstruction management. For example, MNC-I shares information with USAID, and USAID provides development expertise to help guide CERP spending, as needed.

Last quarter, DoD reported to SIGIR that CERP project quality assurance is conducted during and at the completion of a project by outside engineering firms or engineers hired for project oversight. SIGIR also reported that "multiple monthly polls are conducted by contractors for MNF-I and MNC-I to gauge the impact of the Coalition efforts in Iraq." For a cross-reference of how sectors under CERP FY 2006 and FY 2007 funds relate to SIGIR-defined sectors, see Appendix D. SIGIR collects data on U.S. funding from different sources. For a cross-reference of budget terms associated with these funding streams, see Appendix N.
SIGIR reports here on the uses of the $44.5 billion in U.S. appropriated funds within these reconstruction programs:

- Security and Justice
- Provincial Reconstruction Teams
- Capacity Development
- Electricity
- Oil and Gas
- Water
- Health Care
- Transportation and Communications
- Democracy
- Economic Development
- Refugees, Human Rights, and Education
SECURITY AND JUSTICE

More than $17 billion of U.S. reconstruction funds have been appropriated to train, equip, supply, and provide for the infrastructure support of the ISF. The FY 2007 Supplemental provided 60.6% of Iraq reconstruction-related funds to the Iraq Security Forces Fund (ISFF).

The plan to provide for ISF readiness involved four phases of development:
- partnership between MNF-I and ISF
- Iraqi army-led operations and clearing of areas of insurgency
- Provincial Iraqi Control (PIC): Iraqi authorities assume control and responsibility for their respective provinces
- security self-reliance: the GOI operates and sustains security forces through the organs of the state

Escalating levels of violence and early ISF “lead” failures challenged the execution of this strategy. Increasing the end-strength of Iraqi army and police forces is essential to counter the insurgent and criminal activities. But threats to the integrity of the ISF force structure—including combat attrition, liberal leave arrangements, and sectarian and militia infiltration—have placed significant strain on the capacity of ISF to meet expanding end-state force requirements.

In July 2007, the President’s Initial Benchmark Assessment stated that the GOI “has made satisfactory progress toward establishing supporting political, media, economic, and services committees in support of the Baghdad Security Plan,” by establishing the Executive Steering Committee and related subcommittees. The Report further noted that the Administration will “continue to monitor and engage with the committees to produce a satisfactory effect over the next 60 days.”

Transition to Iraqi Control
Progress in the Coalition’s efforts to transition responsibility to the GOI has been slower than anticipated. This quarter, Missan became the fourth province to transfer to provincial Iraqi control.

Two other provinces that DoD had anticipated would have attained PIC status “by the spring of 2007”—Qadissiya and Ninewa—have not met the conditions required for transfer. On May 30, 2007, Dahuk, Erbil, and Suleymaniyyah were transitioned to “Regional Iraqi Control,” under the Kurdistan Regional Government (KRG).

In its most recent report on Iraq’s stability and security, DoD revised its forecast for transferring security control. DoD now expects
transition of all Iraqi provinces to PIC status “no later than March 2008.”

The process of transferring Forward Operating Bases (FOBs) to Iraqi control also has been affected by ongoing security operations. DoD reports that MNF-I turned over some FOBs to the Iraqis this quarter. But MNF-I also has established some new FOBs during 2007 to support the Baghdad Security Plan and “other elements in Iraq, including Coalition partners, Provincial Reconstruction Teams, Transition Teams, other supporting entities, and the Department of State.” As shown in Table 2.4, between November 2006 and June 2007, the number of FOBs in Iraq increased by 10.9%, from 110 to 122.

### U.S. Support

The security and justice sector has received the largest portions of the $44 billion in U.S. funds for Iraq’s relief and reconstruction—more than $17 billion. For the allocations of funding to security and justice by source, see Figure 2.17.

To date, $10.82 billion of the ISFF has been allocated to help meet the training and equipment requirements of the ISF, of which, 61% has already been expended. The security and justice sector was allocated 34% of the $18.44 billion in IRRF 2, and more than 93% of these IRRF funds have been expended. Of the total CERP funding for Iraq reconstruction, 7% was allocated to security and justice, and approximately 42% of these funds had been expended by the end of this quarter. For the status of the four funding streams, see Figure 2.18.

The ISFF funds part of the training, equipping, and fielding of the ISF. IRRF funding focused on large construction projects, but it has also provided funding for non-construction activities, such as arming the New Iraqi Army, training Iraqi police, assisting war victims, and supporting witness-protection programs. ESF has mainly funded infrastructure security efforts, and CERP has focused on condolence payments.

### RULE-OF-LAW INITIATIVES

Several initiatives are in progress to support the rule of law in Iraq and to strengthen the legal code, police force, judicial system, and correctional system. MNF-I, with support

### Transfer Rate of Forward Operating Bases

<table>
<thead>
<tr>
<th>9010 Rpt</th>
<th>Total FOBs</th>
<th>FOBs Transferred</th>
<th>Percent FOBs Transferred</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 2006</td>
<td>NA</td>
<td>34</td>
<td>-</td>
</tr>
<tr>
<td>Aug 2006</td>
<td>110</td>
<td>48</td>
<td>43.6%</td>
</tr>
<tr>
<td>Nov 2006</td>
<td>110</td>
<td>52</td>
<td>47.3%</td>
</tr>
<tr>
<td>Mar 2007</td>
<td>NA</td>
<td>NA</td>
<td>-</td>
</tr>
<tr>
<td>Jun 2007</td>
<td>122</td>
<td>61</td>
<td>50.0%</td>
</tr>
</tbody>
</table>

Table 2.4
from DoJ and DoS, has established the Law and Order Task Force to increase, among other things, the capacity of the Central Criminal Court of Iraq (CCCI).55

Security problems continue to hinder progress of the rule-of-law effort. For example, attacks and death threats have made some Iraqi judges reluctant to try cases related to terrorism or the insurgency. MNF-I thus established a Rule of Law Complex (ROLC) in Baghdad to “provide a secure location combining police, courts, forensic labs and corrections functions, and judicial housing and detention facilities.”56

This quarter, DoD reported that the first judicial proceeding at the ROLC was conducted before an Iraqi investigative judge on April 2, 2007. Nine Iraqi judges and 15 support personnel have been appointed to staff the new court since then.57 In addition, DoD assigned 67 judge advocates, paralegals, investigators, and intelligence officers to the Law and Order Task Force, scheduled to begin arrival on May 15, 2007.

**ISFF**

Of the 478 security projects funded by ISFF in FY 2005, FY 2006, and FY 2007, 51% are completed, and 9% have not started. For the status of ISFF projects, see Figure 2.19.
Training, Equipping, and Fielding ISF

Although the Coalition has trained and equipped significant numbers of Iraqis, their capacity to conduct widespread counterinsurgency operations remains in question. As shown in Figure 2.20, the goals for required ISF end-state force levels have increased almost 225% above the initial estimates of the CPA’s training programs. By the end of 2006, the number of trained forces met estimated end-state goals, and support efforts shifted to replacing force depletion and developing logistical capacities. But in early 2007, overall force requirements were again increased to a goal of 385,000 trained ISF personnel.

This quarter, the number of trained and equipped ISF personnel increased by 22,100 to 353,100:
- 158,900 Iraqi Army, Navy, and Air Force personnel
- 194,200 police, highway patrol, and other Ministry of Interior officers
Notwithstanding this extensive training, the *Initial Benchmark Assessment* questioned the capability of ISF units to operate independently, rating the GOI’s progress as “unsatisfactory.” The assessment stated that “the presence of Coalition partners and support remains necessary for ISF operations.”

Fielding and Equipping Trained Troops

As of May 14, 2007, 101 Iraqi Army (IA) combat battalions have become operational and are conducting operations at various levels of capability; 38 additional battalions are in the process. However, the actual present-for-duty number of Iraqi Army personnel continues to be lower than reported. DoD states that only 65% of authorized personnel are active on duty in fielded units at any given time.

To improve present-for-duty strength, MNSTC-I has funded training for 12,000 additional soldiers to bring combat unit levels to 110% of authorization. Initial training has already been completed for 10,300 of these new soldiers. In addition, MNSTC-I has funded the equipping of 18,000 new soldiers, who will serve as replacements for personnel losses.

Ministry of Defense forces are increasingly taking the lead in operations. As of May 14, 2007, 9 Division Headquarters and 31 Brigade Headquarters had been assessed as capable of leading counter-insurgency operations, and 95 Iraqi Army battalions are now in the lead—up from 93 battalions in February. Although DoD reported last quarter that the Iraqi Ground Forces Command (IGFC) was expected to gain control of all ten Army divisions by June 2007, MNC-I still has operational control over the fifth and seventh divisions as of May 14, 2007, and a complete transition is now expected by November 2007.

The logistics capability of the Ministry of Defense remains a key hindrance to the Iraqis’ ability to assume the mission from the Coalition. SIGIR has identified as “at risk” the MNF-I goal of a sustainable and manageable logistics operation at the Ministry of Defense by January 2008, the projected transition dates of some of the activities lapsed this quarter.

A joint Iraqi and Coalition forces board is evaluating progress to determine when the Ministry of Defense will assume maintenance tasks. The ministry has “agreed, in principle to fund the National Maintenance Contract through May 2008 using a (foreign military sales (FMS)) case.” Contractors continue to be used to sustain 2 support battalions and 80 Garrison Support Units that provide logistics and support for divisions.

Other U.S.-funded initiatives include training and equipping the Strategic Infrastructure Battalions (SIBs) and partnering Coalition forces with Iraq’s various energy infrastructure protection forces. The Ministry of Defense has established 17 SIBs, which go through a two-phased re-training and equipping process to transform into regular Iraqi Army battalions. This quarter, DoD reported that 13 SIBs are assessed to be capable of conducting operations side by side with Coalition forces.
Training Iraqi Police

Iraqi police level forces trained include:
- Iraqi Police Service (IPS)
- National Police (NP)
- Facilities Protection Service (FPS)
- Directorate of Border Enforcement (DBE)
  and Directorate of Ports of Entry (POE)

IPS comprises the majority of the Ministry of Interior Personnel, reaching its manning target of 135,000 last quarter. Approximately 89% of authorized critical equipment has been distributed to IPS, and the rest will be delivered by the end of 2007. A significant portion of the equipment may no longer be serviceable because of combat loss and attrition. Accountability for equipment transferred to IPS may also affect its availability for security uses.

In early 2004, the Coalition Police Assistance Transition Team (CPATT) was created to recruit, train, equip, and sustain IPS. However, because there was little distinction between Iraqi military forces and civilian rule-of-law police service, police were often trained by soldiers instead of police experts. As a result, some issues received less emphasis, including rule of law, human rights and treatment of suspects and prisoners, and policing in a democracy.

Currently, 222 Police Transition Teams (PTTs) are operating throughout Iraq to assist the development of IPS. Each team has 12 to 15 members. Most of these members are military personnel, and two to four team members are civilian International Police Liaison Officers (IPLO), who provide civilian law enforcement expertise in technical aspects of criminal investigation and police station management.

In its March report to the Congress, DoD noted that, “costs and risk preclude deploying enough PTTs to cover all of Iraq’s police stations; at any time, only 5 of Iraq’s 18 provinces have sufficient PTTs to conduct the full range of activities …[coaching, joint patrolling, evaluating performance].” Since March, the Ministry of Interior conducted an initiative to assess performance and effectiveness of Iraqi police stations, inspecting 44 of Baghdad’s 47 stations.

Managing the National Police has been a problem for the Ministry of Interior. Thus, in October 2006, MNSTC-I implemented a four-phased National Police Transformation Program to redirect the program toward police functions. Phase 2 includes emphases on human rights, rule of law, and police ethics. As of June 27, 2007, approximately 26,300 members of the NP have completed retraining.

The integrity of the NP, however, remains questionable. There have been numerous accusations that the NP are functioning as death squads, committing murder, torture, and kidnapping. In the past seven months, 7 of the 9 National Police Brigade Commanders and 16 battalion commanders have been replaced because of concerns about sectarian activities.

Similar to the PTTs, 39 National Police Transition Teams (NPTTs) now support the
development of National Police units by mentoring, training, and facilitating communication with Coalition forces, and they assess the operational readiness of the National Police.83

The FPS protects infrastructure and facilities controlled by their respective 27 ministries. The FPS has also been a problem, with allegations of involvement in violent crimes and other illegal activity. Reform and centralization of FPS operations have been a stated objective since mid-2006.84 But the Ministry of Finance has not yet centralized funding with the Ministry of Interior, and thus, the status of FPS personnel and equipment apparently remains aligned with their respective ministries.85 Once consolidated, FPS personnel will total 98,000, down from 145,000 reported in 2006.86

IRRF PROJECTS

By the end of June 2007, approximately 89% of IRRF-funded projects had been completed in the security and justice sector. For a list of IRRF projects and status, see Figure 2.21.

IRRF has funded the construction and rehabilitation of border forts, fire stations, police stations, public-safety training academies, prisons and corrections facilities, courthouses, and witness-protection facilities.87 Past SIGIR inspections have reviewed border forts, police stations, courthouses, and prisons, with mixed results. For example, SIGIR’s inspection of the border forts at Sulaymaniyyah found design flaws that the contractors subsequently corrected.

Construction at the Khan Bani Saad Correctional Facility was scheduled for completion in late November 2007; however, construction work at this project site was terminated on June 30, 2007 due to “impact of severe security issues and slow rate of progress by the contractor.”88 The new construction of the Zarka Rehabilitation Center in Dahuk was completed on June 20, 2007.89

The 800-bed Nassiriya Correctional Facility is estimated to be completed by November 2007, a month behind what was reported last quarter.90 In mid-2006, a SIGIR inspection of the facility found the quality of work and sustainability elements to be at acceptable levels, although project slippage and cost overruns resulted in the scope of work being reduced from a 4,400-inmate facility.91 Currently, the project is 62% complete.92

In addition to IRRF, the FY 2006 supplemental appropriated $91.4 million in International Narcotics Control and Law Enforcement (INL) funding, of which $82 million was for prison construction.93 According to GRD, which is responsible for overseeing construction of the prison projects, most projects are in the pre-award stage under this program.94 The last IRRF-funded security and justice construction project, the Al Hillah Courthouse, is scheduled to be completed in late August 2008.95

This quarter, SIGIR project assessments found that the Al Rasheed Brigade Base and the Iraqi Ministry of Defense Building met design standards and are both fully operational. Construction at the Iraqi C-130 Base also met contract requirements, but generator sustainability was a problem. For additional information on these assessments, see Section 3 of this Report.
### Figure 2.21

**Status of IRRF 2 Projects - Security and Justice**  
**Total Number of Projects: 3,169**  

<table>
<thead>
<tr>
<th>Project Type</th>
<th>Not Started</th>
<th>Ongoing</th>
<th>Completed</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ma’ria Ruzicka Iraq War Victims Fund</td>
<td>169</td>
<td>1,104</td>
<td>1,273</td>
<td></td>
</tr>
<tr>
<td>Commanders Humanitarian Relief and</td>
<td>1</td>
<td>602</td>
<td>603</td>
<td></td>
</tr>
<tr>
<td>Reconstruction</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Facilities Repair</td>
<td>9</td>
<td>426</td>
<td>435</td>
<td></td>
</tr>
<tr>
<td>Border Enforcement</td>
<td>2</td>
<td>1</td>
<td>270</td>
<td>273</td>
</tr>
<tr>
<td>Focused Stabilization</td>
<td>123</td>
<td>115</td>
<td>238</td>
<td></td>
</tr>
<tr>
<td>Establish New Iraqi Army</td>
<td>2</td>
<td>9</td>
<td>76</td>
<td>87</td>
</tr>
<tr>
<td>Iraqi Civil Defense Corps</td>
<td>4</td>
<td>7</td>
<td>72</td>
<td>83</td>
</tr>
<tr>
<td>Police Training and Assistance</td>
<td>9</td>
<td>5</td>
<td>60</td>
<td>74</td>
</tr>
<tr>
<td>Judicial Security and Facilities</td>
<td>6</td>
<td>31</td>
<td>37</td>
<td></td>
</tr>
<tr>
<td>Investigations of Crimes Against Humanity</td>
<td>1</td>
<td>34</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>2</td>
<td>7</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Reconstruction of Detention Facilities</td>
<td>3</td>
<td>2</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Witness Protection Program</td>
<td>4</td>
<td>1</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>National Security Communications Network</td>
<td>3</td>
<td></td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Penal Facilities</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Public Safety Training and Facilities</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Facilities Protection Services</td>
<td>2</td>
<td></td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Security and Law Enforcement</td>
<td>1</td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>17</strong></td>
<td><strong>342</strong></td>
<td><strong>2,810</strong></td>
<td><strong>3,169</strong></td>
</tr>
</tbody>
</table>

*By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.

Note: Numbers are affected by rounding.
ESF PROJECTS
Approximately 21% of the ESF FY 2006 Supplemental was appropriated to the security sector. USACE entered into an interagency agreement that fully committed the $277 million programmed to Infrastructure Security Protection (ISP), which represents approximately 88% of ESF funds in this sector. Of the programmed amount for ISP, GRD has obligated approximately $34.42 million and expended $2.09 million. SIGIR has requested review of the problem presented by infrastructure security, and this ESF funding has helped address that problem.

Examples of ISP projects include:
- **Exclusion Zones**: protected areas to provide security to linear infrastructure, typically comprising fencing, setbacks, towers, berms, and ditches
- **Intrusion Detection Systems**: electronic sensors to detect perimeter breaches
- **Identity**: biometric vetting and creation of the Iraq National ID Card program, which provides a basic foundation to identify and vet Iraqi citizens and foreign nationals
- **Infrastructure Hardening**: such as chain-link fence, razor wire, guard towers, and barriers to better protect critical infrastructure against interdiction attempts and security breaches

The ISP projects are typically designed for facilities hardening, improved lighting, communications, and improvements to forward-operating bases used by the Iraqi Army to protect critical infrastructure. Most of these projects are for oil pipeline exclusion zones and electrical transmission towers and will be solicited, awarded, and administered by GRD. Figure 2.22 shows the status of ESF projects in the security and justice sector.

CERP
CERP FY 2006 and FY 2007 funds represent less than 1% of the total U.S. funds for security projects in Iraq and 7% of the total CERP FY 2006 and FY 2007 funds for reconstruction in Iraq.

As of early July, 1,019 of the 1,400 planned projects have been completed, and 381 are ongoing. CERP security projects include repairs of civic and cultural facilities, restoration of damage resulting from military opera-
tions, rule-of-law and governance projects, and condolence payments. Infrastructure-hardening projects were also completed last year using CERP funds.\textsuperscript{100} See Figure 2.23 on CERP-funded project status.

Since 2004, CERP security projects have averaged approximately $40,000 per project. From 2004 to 2006, the Baghdad province experienced an increase in the average value per security project from approximately $18,000 in 2004 to approximately $68,000 in 2006. Figure 2.24 shows the change in the average value per project for years 2004, 2005, and 2006.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure223.png}
\caption{Status of CERP FY 2006 and FY 2007 Projects - Security and Justice}
\end{figure}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure224.png}
\caption{Average Value per CERP Security Project by Governorate}
\end{figure}
PROVINCIAL RECONSTRUCTION TEAMS

The Provincial Reconstruction Team (PRT) program is the most important nationwide capacity-building program in Iraq. It is a civil-military undertaking that provides a platform to help develop the capacity of Iraq’s provincial governments.

A PRT has a mix of civilian and military staff, numbering from 30 to 100 members, including locally employed Iraqis. PRTs work to build provincial governance capacity in each of Iraq’s 18 provinces and seek to facilitate the integration of the operational connections between the central government and the provincial governments.

According to SIGIR’s new audit of the PRT program, the mission of the PRTs is a four-year effort, with the first two years focused on providing provincial governments necessary capacity development. As the provincial governments demonstrate increased capability to govern and manage their security environment, the PRT mission will transition to a more traditional USAID training program focused on developing governance capacity below the provincial level. For more information about SIGIR’s audit of the PRT expansion program, see Section 3.

Embedded PRTs

The President’s January 2007 plan to surge the number of PRTs in conjunction with the military surge was implemented this quarter. In mid-April 2007, an additional ten PRTs were deployed, and full staffing of civilian personnel for the new PRTs is anticipated by December 2007. As of July 12, 2007, approximately half of the scheduled 300 additional PRT personnel have been deployed.

The original ten PRTs continue to operate in permanent locales at the provincial level. The new PRTs, however, are mobile units, embedded within Brigade Combat Teams (BCTs) and working at the district and municipal levels. The embedded PRTs (ePRTs) have a current primary mission of supporting counterinsurgency operations. They include four core members: team leader, senior development specialist, civil affairs officer, and bilingual-bicultural adviser.

This embedded structure provides organic security for the ePRTs, allowing them to operate in more difficult security environments. The first ten ePRTs were deployed to unstable, yet strategically significant, areas: six in Baghdad, three in Anbar, and one in northern Babylon.

In June 2007, the decision was made to add four additional ePRTs—three in Baghdad, one in southern Diyala—to support arriving
BCTs. Plans are evolving to embed the Wassit Provincial Support Team members in a brigade headquarters in Kut.¹¹² These developments will increase the total number of PRTs to 25 (10 original PRTs, 10 ePRTs, and the recently added 5 ePRTs), with a combined staff of about 700.¹¹³

The expanded PRT program will "double the U.S. civilian presence in the provinces and decentralize efforts to accelerate transition to Iraqi self-reliance."¹¹⁴ Figure 2.25 shows the location of the PRTs and ePRTs throughout Iraq.

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Figure 2.25

**Provincial Reconstruction Team (PRT) Program Expansion**

PRT Challenges

SIGIR previously reported that PRTs faced challenges in resources and staffing. DoS is introducing a different assignment cycle to address the staffing problem. The DoS Director of Human Resources stated on June 19, 2007, “In order to continue to effectively meet the challenge we face in staffing Embassy Baghdad and the Iraq PRTs with qualified officers, [DoS has] introduced a first-ever, country-specific, special assignments cycle for Iraq. This new cycle will ensure that we once again fully staff our mission in Iraq for next year…before any other Foreign Service staffing decisions are made.”

Additionally, the three-phase expansion program has a plan for the timing of the staffing of PRTs. Figure 2.26 provides an overview of the PRT program in Iraq and shows the timeline of staffing of PRTs throughout the three phases of the PRT expansion program.

As of July 20, 2007, DoD deployed 70 specialists for the second phase. DoD plans to deploy an additional 34 specialists by the end of August 2007. USAID, the U.S. Department of Agriculture (USDA), and DoS plan to have in place an additional 32 specialists by September.

Additional staffing challenges have emerged with the transition of PRT support responsibilities from IRMO to the Office of Provincial Affairs (OPA), which has oversight of the PRTs. The Embassy has had difficulty staffing critical positions and establishing continuity during the transition. SIGIR recommended that OPA develop a workforce plan to fill vacancies of critical staff managing the PRT program.

SIGIR’s audit on the PRT program reported that measuring the effectiveness of the PRTs remains a challenge. Only two of the original
ten PRTs in operation have submitted work plans to OPA, making it difficult to determine what the PRTs aim to accomplish. SIGIR has recommended that the U.S. Ambassador to Iraq and MNF-I develop a performance monitoring system.\textsuperscript{119} Section 3 of this Report provides additional information about SIGIR’s audit of the PRT expansion program.

On the project execution level, security continues to hinder PRT efforts. At the provincial level, the ongoing violence makes it difficult to retain local staff and to visit project sites, according to USAID.\textsuperscript{120}

**U.S. Support**

As of June 2007, the United States has appropriated $1.924 billion to support the PRT program; an additional $937 million was requested for FY 2008.\textsuperscript{121} Approximately 67%\textsuperscript{122} of the $1.924 billion are ESF funds.

Table 2.5 shows the U.S. support for the PRT program for FY 2006 to FY 2008.

ESF FY 2006 supplemental funds totaled $470 million, of which USAID obligated $155 million and, as of July 18, 2007, has not made any expenditure.\textsuperscript{123} GRD obligated $110.16 million and expended $6.95 million. As of July 12, 2007, the ESF FY 2007 Supplemental has yet to be released.\textsuperscript{124} The status of ESF FY 2006 supplemental monies is shown in Figure 2.27.

CERP projects work to “pacify the local populations where PRTs reside.”\textsuperscript{125} PRTs will continue to be a critical component to U.S.-funded efforts. Non-U.S. funding sources include the Development Fund for Iraq, Coalition partners, non-governmental organizations (NGOs), and donor nations.\textsuperscript{126}

**ESF**

PRTs help implement many U.S. efforts through CERP, IRRF, and ESF funds in partnership with the Provincial Reconstruction Development Committees (PRDCs). However, two programs—PRT/PRDC Projects and PRT Local Government Support—have allocated amounts specifically for PRT projects. Approximately 50%\textsuperscript{127} of the ESF FY 2006 Supplemental allocated to the ESF security track went to GRD’s PRT/PRDC Projects and USAID’s PRT Local Government Support. Combined appropriated funds for these two programs increased from $470 million in FY 2006 to

<table>
<thead>
<tr>
<th>PRT Funding Category</th>
<th>FY 2006 Supplemental</th>
<th>FY 2007 Supplemental</th>
<th>Total</th>
<th>FY 2008 Budget Requested</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational Funding</td>
<td>$230\textsuperscript{a}</td>
<td>$414</td>
<td>$644</td>
<td>$679</td>
</tr>
<tr>
<td>Program Funding from ESF</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PRT/PRDC Projects</td>
<td>315</td>
<td>720</td>
<td>1,035</td>
<td>160</td>
</tr>
<tr>
<td>PRT Local Government Program</td>
<td>155</td>
<td>90</td>
<td>245</td>
<td>98\textsuperscript{a}</td>
</tr>
<tr>
<td>Total ESF</td>
<td>470</td>
<td>810</td>
<td>1,280</td>
<td>258\textsuperscript{a}</td>
</tr>
<tr>
<td>Grand Total</td>
<td>$700</td>
<td>$1,224</td>
<td>$1,924</td>
<td>$937</td>
</tr>
</tbody>
</table>


Notes:
\begin{itemize}
  \item \textsuperscript{a} None of the operating funds from FY 2006 were obligated or expended in FY 2006; they were carried forward into FY 2007.
  \item \textsuperscript{b} Includes $33 million base and $65 million in Global War on Terror (GWOT) funding. (Source: USAID, response to SIGIR, July 18, 2007.)
  \item \textsuperscript{c} Includes $93 million in base agency funding and $165 million in GWOT funding.
\end{itemize}
$810 million from the FY 2007 Supplemental, an increase of approximately 72%.\textsuperscript{128} Figure 2.28 shows the status of ESF-funded projects for these two programs.

**PRT/PRDC Projects**

PRTs and PRDCs work at the local level to support reconstruction decision-making by provincial Iraqi officials. The shift to a more decentralized process means that the PRDC method for awarding projects has also evolved. USACE has implemented an interagency agreement that provides procedures for the submission of projects through Iraqi-led PRDCs and the approval of projects through the National Embassy Team (NET).

Under the process, PRDCs, PRTs, and the Provincial Council work together to nominate projects and obtain approval through NET.\textsuperscript{129} For example, in Anbar, "procedural details to develop project lists have been worked between the Governor and Provincial Council Chairman. The Anbar PRT is actively engaged in this process by bringing the Governor and Provincial Council Chairman to Baghdad to report on their project list development status."\textsuperscript{130}

As of June 28, 2007, the Iraqi PRDCs have submitted a list of 304 prioritized projects totaling approximately $432 million to the ITAO office at the U.S. Embassy in Baghdad for consideration.\textsuperscript{131} As of July 2, 2007, NET has approved 198 projects, of which 100 projects have been awarded with a total value of more than $130 million.\textsuperscript{132} Approximately 41% of the available $315 million has been awarded.
Figure 2.29 shows the values of the projects that have been approved by PRDCs, the total cost approved by NET, and the total awarded since September 2006.

The following activities were reported for individual provinces through this quarter:
- 41 contracts totaling $71.7 million have been awarded for PRDC projects in Baghdad; approximately 61% of the $118 million was allocated to Baghdad.133
- An additional $12.2 million in funding has been requested by the Anbar PRDC.134
- Six provinces with combined ESF allocations of approximately $84.7 million have not awarded a PRDC project.135

Figure 2.30 presents a distribution of NET-approved and awarded projects by governorate.

**PRT Local Government Support**

ESF’s Local Governance Program (LGP) complements the efforts of PRTs by supporting provincial and local government policy reform, a decentralized mode of governance, government to citizen services, economic development, and transparency and accountability support. USAID obligated the entire $155 million of FY 2006 ESF Supplemental under the existing LGP contract. In the six months before June 2007, LGP reported these outputs:136
- 2,779 people were trained to strengthen their local government skills and capacities.
- 16 Provincial Councils and 64 lower-level councils received performance improvement assistance.
- 560 people in government were trained to strengthen transparency.

Additionally, through the PRTs, the funds will help build the capacity of local administrators to direct services in a number of areas. One of the LGP efforts was the USAID’s conference on “Strengthening Public Participation in Babil [Babylon] Local Government.” Babylon Provincial Council members delivered presentations on the structure of local government and its authority within its framework to more than 250 attendees—representatives from NGOs, community action groups, university professors, and council members.138
Iraqi Support

PRTs track Iraqi expenditures in the provinces and provide OPA with updates on the progress of Iraqi involvement in capacity development efforts at the provincial level.

The total funding available for provincial budgets in 2007 is approximately $5.4 billion:139

- Iraq put $2.4 billion toward provincial spending.140
- Ministry funds provide $2 billion.141
- Remaining provincial funds from 2006 total $1 billion.142

Based on monthly PRT data, most Iraqi provinces executed more than 50% of their 2006 budgets:143

- Seven provinces reported 100% of their 2006 budget contracted.
- Five provinces reported more than 90% of their 2006 budget contracted.

DoS reports that "though the FY 2006 Budget Law allocated funds ‘to be expended until [December 31, 2006];’ subsequently, GOI has allowed the provinces to continue to expend those FY 2006 monies in 2007."144 Several provinces continue to struggle with budget execution and tracking. Provincial budgets are a new idea; under Saddam, provinces had no spending authority.145 According to the U.S. Treasury, the provinces’ limited capacity to understand and implement the contracting
Anbar also has been experiencing budget difficulties because of a cash shortage. Without the cash to pay its contractors, Anbar is limited in its ability to execute its budget. For this reason, only 56% of Anbar’s 2006 budget has been expended, and none of its 2007 budget.

Table 2.6 shows the status of the capital budgets of Iraq’s provinces in 2006 and year-to-date 2007. The bottom row shows total budgets, total obligated amounts, and the national average percentage of budgets executed in Iraq for each year.
Capacity development must be an essential part of the U.S. strategy to strengthen Iraq’s public sector. Capacity development activities facilitate the transfer of knowledge, skills, and abilities across a range of GOI functions.\(^{153}\)

In October 2005, SIGIR reported on a growing recognition within the U.S. government that the GOI was not prepared to assume the near- or long-term management and funding of the infrastructure developed through U.S.-managed IRRF projects.

As a result, IRMO and USAID began planning to provide more capacity development support to Iraqi ministries and executive institutions.

U.S. support targets three key areas:
- improving budget preparation and execution
- improving the ability to support and sustain critical infrastructure projects
- improving the management capacity of the Iraqi ministries and civil service

The lack of an integrated capacity development strategy has inhibited U.S. efforts since the inception of the reconstruction program.

Budget Execution
Iraq’s 2006 budget totaled $34 billion; its 2007 budget is $41 billion.\(^{154}\) But only 22% of the 2006 capital budget was spent last year.\(^{155}\) By contrast, ministry execution rates of administrative budgets (salaries) were at 99%.\(^{156}\)

The GOI failed to spend any of its January 2007 $0.8 billion capital expenditures\(^{157}\) because the 2007 budget was not approved until February 2007. Passage of the budget cleared the way for an increase in budget expenditure, and in February 2007, $2.454 billion of the budget was spent.\(^{158}\) No budget execution data has been reported for March 2007.\(^{159}\)

The GOI continues to face many challenges in meeting its goal to fully execute the 2007 budget within the year. “Sustaining progress through September to meet this benchmark at year-end requires accelerated spending and procurement activity, which are challenging tasks in the face of capacity constraints and security problems.”\(^{160}\)

The unpredictable nature of Iraq’s revenue adds to these concerns. Iraq’s 2007 budget depends largely on revenue that fluctuates with the price of oil. It is difficult to predict the
GOI’s 2007 income without a clear idea of the cost per barrel.161

PROCUREMENT PROCESS
The complicated procurement process is one cause of capital budget execution delays. GAO reported that “the lack of agreed-upon procurement and budgeting rules causes confusion among ministry officials and creates opportunities for corruption and mismanagement.”162

The Iraqi procurement process is complex:163
1. Contracts for more than $5 million are reviewed/approved by High Contracts Committee.
2. The spending ministry awards the contract to its chosen vendor.
3. The spending ministry applies for a letter of credit (L/C).
4. The application is submitted through the Ministry of Finance.
5. The Ministry of Finance passes the application to the Trade Bank of Iraq (TBI).
6. The Ministry of Finance authorizes the Central Bank of Iraq to release funds equal to 100% of the total value of the L/C to J.P. Morgan (JPM).
7. TBI sends the L/C application electronically to JPM.
8. JPM sends the L/C application to a Consortium Bank.

ADDRESSING THE CHALLENGES TO BUDGET EXECUTION
The GOI has formed a Budget Execution Monitoring Unit (BEMU), run by the Deputy Prime Minister, in an effort to address budget execution challenges. The unit is tasked with improving Iraqi budget processes. Treasury reports that the BEMU will ultimately take over Treasury’s role in reporting on Iraqi budgets.164

In February, the Ministry of Finance issued the early release of 10% of each budget in an effort to increase efficient budget execution.165 In addition, as reported last quarter by SIGIR, the GOI has instituted a new budgetary policy: any ministry that fails to obligate 25% or more of its budget by the end of June 2007 will risk losing some of that budget. The Ministry of Finance is authorized to reallocate these unused ministry funds.166

The Ministry of Planning, in association with the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A), has formed a Procurement Assistance Center (PAC) to train ministry procurement officers in writing spending requests.167 The PAC defines its mission as follows: “Assist the Government of Iraq to execute its capital budget by developing professional people, end-to-end processes, and enabling technology.”168 Some of the PAC’s short-term objectives include:169
- create standard forms for budget process
- conduct initial training for ministries and provinces
- create a PAC website and help desk
The U.S. government has been working closely with the GOI to address budget execution challenges. In April 2007, DoS authorized DoD to offer commodities and services to the GOI to ease budget execution problems, according to GAO. This aid would be provided on an “advance-of-funds basis,” which would require the GOI to issue an official request for the U.S. government’s services.170

These organizations are working in coordination with the GOI to improve the national budget process:171
- DoD Task Force To Improve Business and Stability Operations (TF-BSO)
- JCC-I/A
- Treasury
- DoS

TF-BSO has two teams working with the Ministry of Planning on budget execution. One of these teams operates from Baghdad, and the other works with the Kurdistan Regional Government (KRG) from a satellite office.172

The Ministry of Defense and the Ministry of Interior have also been seeking experts to help them execute their 2007 budgets through U.S. Foreign Military Sales (FMS).173 The Defense Security Cooperation Agency defines FMS as “the government-to-government method for selling U.S. defense equipment, services, and training.”174

The GOI has provided $1.7 billion for FMS services, including aid for budget execution.175 The DoS FY 2008 budget anticipates that Iraq will spend an estimated $1 billion in FMS services per year for 2007 and 2008.176

Despite difficulties in budget execution in 2006, the GOI’s security budget for 2007 will increase from $5.4 billion to $7.3 billion. DoD reports that this budget increase is evidence of the GOI’s independence and increased focus on security. However, GAO’s report on Iraq’s security budget and management raises questions about the ability of the GOI to effectively execute this larger budget. GAO warns: “As the U.S. government transfers more of its security responsibilities to the Iraqi government, it is important that the Iraqi government demonstrate that it can execute its approved budget more effectively.”177

**U.S. Support**

In addition to supporting improved budget execution, U.S. activities in this sector focus on building other capacities across the GOI. Efforts in this area range from O&M training at the individual project level up to the ministries. Specialized U.S. agencies178 provide targeted support directly to the Iraqis and in collaboration with other international donors. For more information on international donor efforts, see International Support for Iraq Reconstruction later in this section.

**FUNDING STATUS**

Capacity development has been allocated $165 million in total ESF FY 2006 funding, which is more than 11% of overall ESF funds.179 These U.S. agencies received funding for capacity-development programs:
• $60 million went to USAID for Ministerial Capacity Development.
• $45 million went to IRMO (now ITAO) for Ministerial Capacity Development.
• $60 million went to GRD for Plant-Level Capacity Development and Technical Training.180

Of the $124.12 million that has been obligated to date, approximately 17.3% ($21.43 million) has been expended.181 For the status of funds in the capacity development sector, see Figure 2.31.

ESF is funding 59 projects across 2 areas—Ministerial Capacity Development (USAID and ITAO) and Capacity Development and Technical Training (GRD). In Ministerial Capacity Development, there is one ongoing project. In Capacity Development and Technical Training, almost 75% of projects have not started and 25% are ongoing.182 Figure 2.32 shows the status of ESF projects in the capacity development sector.

**Short-term Initiatives**
ITAO is tasked with short-term initiatives, which use teams to strengthen policy functions across the GOI. It supports training in procurement and contracting, budget assistance, English language, and the Financial Management Information System (FMIS). The office also provides support to bilingual and bicultural advisors, as well as the development of the Ministry of Electricity’s master plan.183

**Medium-term and Long-term Initiatives**
USAID’s $165 million National Capacity Development (NCD) Program is working to strengthen the GOI’s policy functions and personnel.184 Approximately $65 million of NCD has been obligated since the program began in August 2006.185

The NCD, also known as Tatweer, operates in the Ministries of Oil, Electricity, Finance, Water, Health, Education, Justice, Planning and Development Cooperation, Agriculture, and Public Works. In addition, the program works with the Prime Minister’s Office and the Council of Ministers’ Secretariat.186

Tatweer offers ministerial support and provides guidance to foster sustainable policy mechanisms, regulations, and personnel development.187 Public Management Advisors (PMAs) work in the ministries to assist with “development planning and implementation.”188 Currently, PMAs are staffed in seven of

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**Obligations to Capacity Development**
$ Billions, $.124 Billion Total


<table>
<thead>
<tr>
<th></th>
<th>Expended</th>
<th>Not Expended</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESF $.124(^b)</td>
<td>$.0214</td>
<td>$.1027</td>
</tr>
</tbody>
</table>

Note: Numbers are affected by rounding.

a. By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.
b. FY 2006 Supplemental Funds (PL. 109-234).
the ten targeted ministries, except for the Ministries of Finance, Justice, and Education. Tatweer has also established a scholarship program that enables Iraqi civil servants to earn advanced degrees in public administration; renovated Iraq’s National Center for Consultation and Management Development building; set up regional offices in Erbil and Mosul; and developed training programs in procurement, information technology, financial management, policy development, and administration.

In May 2007, Tatweer awarded 75 scholarships for Iraqi public servants. The students (36% female) come from 11 provinces and “represent 14 central government institutions, plus the Kurdish Regional Government.” In July 2007, USAID reported that 80 scholarships had been awarded.

Metrics

Metrics for the NCD program were reviewed in July. Measuring outcomes, however, is difficult because of the nature of the program and the time required for tangible results.

The initial target of training 1,500 civil servants has been revised to reflect time constraints and the difficulty “finding Iraqi training institutions able and willing to roll out the newly designed courses.” Proposals from Iraqi institutions are expected by the end of July.

The overall goals of NCD remain the same: improving administrative systems, strengthening institutions, and providing training.

From November 2006 to July 3, 2007, Tatweer conducted 53 classes, ranging from the Fundamentals of Project Management, Cash Management, Government Procurement, Human Resources, Leadership, Test of English as a Foreign Language (TOEFL) Competency...
to Anticorruption. More than 800 people have participated in the training sessions. Most participants come from the Ministries of Planning and Agriculture; the most-attended classes are on procurement, budgeting, project management, leadership, and anticorruption.

**Sector-focused Initiatives**

In the electrical, transportation and communications, health care, and water and sanitation sectors, GRD administers $60 million in FY 2006 ESF Economic track funds for capacity development. Of that amount, GRD reported $22 million in contractual obligations—nearly 37% of the total programmed amount. Approximately $5.8 million has been expended. See Table 2.7 for sector funding data.

These are examples of GRD capacity-building activities that were not funded by ESF this quarter:

- conducting two basic training classes on contracting, with the support of JCC-I/A, “to assist potential Iraqi contractors with understanding the procedures associated with responding to tenders”
- signing a Grant Agreement for Nassriya Drainage Pump Station with the Minister of Water Resources, which allows GRD “to provide procurement, administration, construction, management, and quality assurance for agreed-upon construction projects”
- organizing the Business Networking Day, with co-sponsors, “to provide vetted Iraqi firms quality networking time with U.S. firms...so that they can establish a working relationship”

<table>
<thead>
<tr>
<th>Sector</th>
<th>Programmed Amount</th>
<th>Total Obligated</th>
<th>Unobligated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>$25</td>
<td>$16</td>
<td>$9</td>
</tr>
<tr>
<td>Health</td>
<td>12</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>Transportation and Communications</td>
<td>8</td>
<td>2.5</td>
<td>5.5</td>
</tr>
<tr>
<td>Water</td>
<td>15</td>
<td>3.5</td>
<td>11.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$60</strong></td>
<td><strong>$22</strong></td>
<td><strong>$38</strong></td>
</tr>
</tbody>
</table>


**Table 2.7**
Since 2003, the electricity sector has received the second-largest investment of Iraq reconstruction funds, amounting to more than $4.6 billion. Despite this major investment, which funded the repair and rehabilitation of generation facilities, transmission lines, and distribution networks, the Iraqi electric grid remains fragile and vulnerable. Thus, the power generated does not meet demand.\textsuperscript{203}

This quarter, electricity output declined for the month of May, but rebounded in mid-June.\textsuperscript{204} Actual peak generation\textsuperscript{205} this quarter averaged approximately 4,230 megawatts (MW) of power per day, which is above the previous quarter’s output but 1,750 MW below the reconstruction goal of 6,000 MW generated per day. Actual peak demand this quarter was 8,120 MW per day.\textsuperscript{206} Table 2.8 and Table 2.9 compare production and output this quarter with the same period last year and pre-war production levels.

**Baghdad**

This quarter, Baghdad received an average of 8.1 hours of power\textsuperscript{207} per day, almost 4 hours less than the rest of the country but higher

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**Current Actual Peak Production vs. Past Production Levels (megawatts)**

<table>
<thead>
<tr>
<th>OUTPUT METRIC</th>
<th>DAILY AVERAGE, LAST WEEK OF JUNE 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual Peak Power Generated (MW)</td>
<td>4,230</td>
</tr>
<tr>
<td>% Change, Previous Quarter (3,872 MW)</td>
<td>9%</td>
</tr>
<tr>
<td>% Change, June 2006 (4,201 MW)</td>
<td>1%</td>
</tr>
<tr>
<td>% Change, Pre-war Level (4,500 MW)</td>
<td>-6%</td>
</tr>
</tbody>
</table>


**Current Total Available Production vs. Past Production Levels (megawatts)**

<table>
<thead>
<tr>
<th>OUTPUT METRIC</th>
<th>DAILY AVERAGE, LAST WEEK OF JUNE 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Available Capacity (MW)</td>
<td>4,558</td>
</tr>
<tr>
<td>% Change, Previous Quarter (4,068 MW)</td>
<td>12%</td>
</tr>
<tr>
<td>% Change, June 2006 (4,517 MW)</td>
<td>1%</td>
</tr>
<tr>
<td>% Change, Pre-War Level (n/a)</td>
<td>n/a</td>
</tr>
</tbody>
</table>


Note: Total Available Capacity = Actual Peak Capacity (MW) + Iraq Import (MW).

**Table 2.8**

**Table 2.9**
than last quarter. Baghdad averaged the same amount of hours of power in the same period last year.

Available power in Baghdad continues to lag behind pre-war levels for these reasons:
- The U.S. reconstruction strategy in this sector focused on providing power more equitably throughout the country.
- Power lines that feed the capital continue to be attacked.
- Transferring power to the capital from large plants in northern and southern Iraq has been compromised by local political manipulation of the power grids.

Table 2.10 compares the hours of power for Baghdad with the measure for the first quarter of this year, the quarter ending in June 2006, and pre-war levels.

Baghdad has never had enough power plants to meet its own demand, and thus it must import power from other regions. Building new plants is part of the GOI’s long-term power-generation plan.

ITAO reports that improper “fuel supplies continue to be a major setback for increasing the amount of electricity in the country and the Baghdad Ring.”

As SIGIR has noted in previous reports, 16 of the 35 gas turbines installed by the United States are currently using less than optimum fuel—such as diesel, crude, or heavy fuel—instead of the natural gas for which they were designed. This practice greatly increases maintenance requirements and decreases overall capacity.
Transmission lines continue to be the target of saboteurs.\textsuperscript{209} As of June 30, 2007, eight of the twelve 400-kV lines were out of service.\textsuperscript{210} Three transmission lines feed power to Baghdad from the north, and two of these lines were out of service during the past quarter.\textsuperscript{211} In the south, three of the four transmission lines that feed Baghdad were out of service during this quarter.

Iraq’s power system “remains very fragile and experiences frequency drops that result in breakers tripping and blackouts.”\textsuperscript{212} The Ministry of Electricity’s National Dispatch Center is supposed to manage electricity usage for the provinces based on demand. But this quarter, blackouts were caused by the “refusal of the provinces to follow the allocations from the Ministry of Electricity.”\textsuperscript{213}

One key to providing more power to the Baghdad ring is “get[ting] control of distribution circuit breakers and the substations in the outer provinces.”\textsuperscript{214} In May, Baghdad consumed an average of 15% of Iraq’s total electricity generation—12% below its allocation from the National Dispatch Center.\textsuperscript{215} The GOI must continue to develop control over the substations that operate and maintain the local grids because these stations are essential to supplying more power to Baghdad.

**Outside Baghdad**

Outside Baghdad, hours generated of electrical power for the last week in June 2007 (nearly 12 hours per day) was greater than before the U.S.-led invasion but 13% below the measure of hours of power for the same period last year. See Table 2.11 for the measure of hours of power compared to pre-war levels.

### Hours of Power outside Baghdad

<table>
<thead>
<tr>
<th>Output Metric</th>
<th>Daily Average, Last Week of June 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iraq Hours of Power/Day</td>
<td>11.85</td>
</tr>
<tr>
<td>% Change, Previous Quarter (14 hours)</td>
<td>-15%</td>
</tr>
<tr>
<td>% Change, June 2006 (13.6 hours)</td>
<td>-13%</td>
</tr>
<tr>
<td>% Change, Pre-war Level (4-8 hours)</td>
<td>48%</td>
</tr>
</tbody>
</table>


*Table 2.11*
Figure 2.33 indicates that demand for electricity—8,120 MW on average this quarter—continues to significantly surpass Iraq’s average peak generation capacity. Iraq imported slightly more than 300 MW per day this quarter, bringing total available capacity to 4,550 MW per day.

Blackouts happen frequently across Iraq because of local breakdowns at key power-transfer points. Insurgents are also targeting the smaller, more local 132-kV lines that direct power across the provinces. These lines are often controlled by local substations.

This quarter, Anbar province generated more power than the governorate demands because of the increased production at a provincial hydroelectric plant. However, Anbar has been reluctant to share excess power with the national grid.216

### U.S. Support for Electricity

The United States has allocated approximately $4.61 billion to the electricity sector in Iraq through three major funds. See Figure 2.34. U.S. electricity projects have contributed 2,700 MW to Iraq’s generation capacity.217

To boost capabilities, the U.S. reconstruction program funded three major types of projects in the electricity sector:
- Generation facilities produce power for the
system. Reprogrammings of the IRRF reduced electricity sector funding by $1 billion, leaving 23% of the IRRF 2 allocated to electricity.

As of June 27, 2007, nearly 82% of electricity sector IRRF obligations had been expended.\textsuperscript{218} See Figure 2.35 for the status of all U.S. funds obligated in the electricity sector.

**IRRIF**

**Allocations to Electricity**

$\text{Billions, of $4.61 Billion}$

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
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<th></th>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CERP</td>
<td>$0.161</td>
<td></td>
</tr>
<tr>
<td>ESF</td>
<td>$0.228</td>
<td></td>
</tr>
<tr>
<td>IRRF 2</td>
<td>$4.05</td>
<td></td>
</tr>
</tbody>
</table>

Note: Numbers are affected by rounding.

\begin{itemize}
  \item Allocation detail at the sector and subsector level for CERP is currently unavailable; therefore, the percentages for CERP are calculated using FY 2006 and FY 2007 dollars obligated.
  \item FY 2006 and FY 2007.
\end{itemize}

\begin{itemize}
  \item FY 2006 Supplemental Funds (P.L. 109-234).
\end{itemize}

**Obligations for Electricity**

$\text{Billions, $4.33 Billion Total}$

<p>| | |</p>
<table>
<thead>
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<th></th>
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<tr>
<td>CERP</td>
<td>$0.161</td>
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<tr>
<td>ESF</td>
<td>$0.228</td>
</tr>
<tr>
<td>IRRF 2</td>
<td>$4.05</td>
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Note: Numbers are affected by rounding.

\begin{itemize}
  \item Allocation detail at the sector and subsector level for CERP is currently unavailable; therefore, the percentages for CERP are calculated using FY 2006 and FY 2007 dollars obligated.
  \item FY 2006 and FY 2007.
\end{itemize}

\begin{itemize}
  \item FY 2006 Supplemental Funds (P.L. 109-234).
\end{itemize}
SIGIR conducted an inspection of the Doura project this quarter. SIGIR inspectors found that in August 2006, equipment was removed from Unit 6 as it neared operational status and placed into Unit 5 to expedite its restart after catastrophic failure. Ministry of Electricity officials decided to swap the exciter from Unit 6 to Unit 5 to minimize outage time and to quickly restore electric power to the Baghdad grid as a short-term solution. However, Unit 5 failed, and Unit 6 was rendered inoperable because of the switch. Therefore, 320 MW of electricity was unavailable to the Baghdad grid. For details on this inspection, see section 3.

- **Qudas Expansion Project (180-MW capacity).** The Qudas Power Plant has eight gas turbine generators, four of which are offline because of maintenance and fuel shortages. The project end-date is scheduled for January 2008, which is later than planned because orders of equipment were placed late.

- **Khor al-Zubair Generation Plant (250-MW capacity).** The United States funded generation work at this power plant. A SIGIR inspection reported that the plant was functioning properly as of April 2006. The plant’s six gas turbine generators remain operational.

- **Baiji Power Plant (320-MW capacity).** The United States funded repairs to mobile engines and inspections of three gas turbine generators. Three of Baiji’s four gas turbine generators are working, but all eight small mobile generators are offline.

- **Substations.** The United States funded repairs to the Baghdad West substation and extensions in the north and south. SIGIR inspections have reported positive outcomes on work at five substations in Basrah.
The IRRF funded the Supervisory Control and Data Acquisition network (SCADA), which was expected to help maximize the availability of electricity across Iraq by automating the distribution of power across Iraq. However, GRD reported to SIGIR this quarter that the SCADA projects were terminated because of budget overruns.

According to GRD, “there is no firm commitment to complete this work with IRRF funds; however, ITAO may continue to complete the system using alternative means.”

In April, DoS reported that the Ministry of Electricity will be provided with “drawings, equipment and material, a detailed list of what equipment has been installed and tested and a list of equipment and testing that remains to be completed.”

**CERP**

CERP FY 2006 and FY 2007 funds represent 3% of the total U.S. funds allocated for electricity reconstruction in Iraq and 17% of the total CERP funds allocated for reconstruction in Iraq. MNC-I has undertaken 741 electricity projects with CERP FY 2006 and FY 2007 funds. CERP-funded projects support local efforts to repair electrical distribution and transmission systems to ensure that power reaches Iraqi homes. Figure 2.37 shows the status of sector projects funded by the CERP.

According to GRD, 21 CERP electricity projects, totaling $33.8 million, have been programmed in Baghdad. In Babylon, nearly $700,000 of the CERP is being used to repair the Mussayib Electrical Network. This project has the potential to provide an electrical network to 5,000 homes. In Ramadi, CERP is
funding a $3 million project that will install a 132-kV circuit at the regional substation.\textsuperscript{225}

As IRRF funding in this sector has been expended, CERP funds have taken on an increasingly significant role. Since 2004, the average value of CERP electricity projects in Iraq rose from $94,000 in 2004 to $194,000 in 2006.\textsuperscript{226} In 12 provinces, CERP FY 2006 electricity projects averaged more than $100,000 in value, including Basrah and Kerbala, where the average CERP electricity project was valued at more than $500,000.

This quarter, SIGIR announced that it is undertaking an audit of CERP projects in Iraq valued at more than $400,000. Figure 2.38 shows the average value of electricity projects from 2004 to 2006.

**ESF**

Electricity projects received approximately $228 million of ESF FY 2006 supplemental funds through the O&M Sustainment program.\textsuperscript{227} Approximately 80\%\textsuperscript{228} of the total amount programmed for ESF’s O&M Sustainment program was allocated to electricity projects.\textsuperscript{229}

USACE GRD is the implementing agency for this program. GRD has completed 43 statements of work, initiated procurement actions for 39 of 62 O&M sustainment projects, and awarded contracts for 6 sustainment efforts, totaling $83.6 million.\textsuperscript{230} Figure 2.39 shows the status of the ESF O&M Sustainment projects for electricity.

O&M is particularly important for the Ministry of Electricity. DoS reports that “the long-term success of reconstruction relies heavily on the ability of the [Ministry] to execute an effective O&M program.”\textsuperscript{231} SIGIR’s inspection of the Doura Power Plant showed that sustainable operations of generators cannot be reasonably assured “unless the Ministry of
Electricity’s O&M practices improve.” SIGIR inspectors also noted that “too often, the ministry has operated improperly or insufficiently maintained equipment in environments where equipment failure was likely.”

Since last quarter, the Ministry of Electricity has completed one of two planned O&M contracts for support training. A contractor has been mobilized to support education in engineering and machine-specific training. The second contract, which has not yet been completed, has been hindered by problems obtaining visas and passports for trainees.232

The ESF Capacity Development and Technical Training program also provides an additional $25 million for electricity projects.

---

The Iraqi power grid remains very fragile and susceptible to attacks and breakdown.

---

**Figure 2.39**

**Status of ESF* Projects - Electricity**

* Funded by the ESF FY 2006 Supplemental.

![Status of ESF Projects - Electricity](image)
Oil and Gas

Oil production in Iraq has been on the rise since January 2007. Notwithstanding this recent rise, long-term output remains "constrained by security problems and persistent underinvestment." Oil production this quarter averaged 2.09 Million Barrels per Day (MBPD), a decrease of 6% compared to this same period last year, but an increase from the last quarter (1.9 MBPD). Oil production in Iraq has trended upward since a fall off in January. Oil export output (1.57 MBPD) fell 6% below export levels for this same period last year but are up for 2007. Table 2.12 presents an overview of production output.

Quarterly export levels are affected by the operational status of the northern export pipeline (ITP) that links the Kirkuk oil fields to the Ceyhan terminal in Turkey. This line is regularly attacked by insurgents.

Over the last two quarters, because of attacks, the ITP has not been able to contribute in any meaningful way to the country's total exports. In May, the ITP pumped only approximately 200,000 barrels of crude oil before acts of sabotage by insurgents knocked the pipeline out of service. Only 2% of oil exports went through Ceyhan last quarter, contributing to an output that was below the Iraqi export target of 1.65 bpd. When the northern export lines are not operating, Iraq depends...
Oil and Gas Infrastructure by Governorate

Source: CIA Country Profile Map

Figure 2.40

Oil Field
Oil Pipeline
Operational Refinery
Tanker Terminal

Kirkuk
East Baghdad
Halfaya
Majnun
West Qurnah
Rumaylah
North
Nahr ‘Umar
Rumaylah
South
### Current Oil and Gas Production vs. Pre-war Level and Goal

<table>
<thead>
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<th></th>
<th>Outcomes</th>
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<tr>
<td><strong>Current Oil Production—Capacity</strong>*</td>
<td>3.00 MBPD</td>
</tr>
<tr>
<td>% change, same period last year** (2.50 MBPD)</td>
<td>20%</td>
</tr>
<tr>
<td>% change, Pre-war Level (2.80 MBPD)</td>
<td>7%</td>
</tr>
<tr>
<td>Goal (2.80 MBPD)</td>
<td>107%</td>
</tr>
<tr>
<td><strong>Current Oil Production—Actual</strong></td>
<td>2.09 MBPD</td>
</tr>
<tr>
<td>% change, same period last year (2.23 MBPD)</td>
<td>-6%</td>
</tr>
<tr>
<td>Pre-war level (2.58 MBPD)</td>
<td>-23%</td>
</tr>
<tr>
<td>Goal (2.64 MBPD)</td>
<td>79%</td>
</tr>
<tr>
<td><strong>Export Levels</strong></td>
<td>1.57 MBPD</td>
</tr>
<tr>
<td>% change, same period last year (1.67 MBPD)</td>
<td>-6%</td>
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<tr>
<td>Goal (1.65 MBPD)</td>
<td>95%</td>
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<tr>
<td><strong>Natural Gas Production Capacity (MSCFD)</strong></td>
<td>800 MSCFD</td>
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<tr>
<td>% change, same period last year (675 MSCFD)</td>
<td>19%</td>
</tr>
<tr>
<td>Goal (800 MSCFD)</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Liquefied Petroleum Gas Production Capacity (TPD)</strong></td>
<td>3,000 TPD</td>
</tr>
<tr>
<td>% change, same period last year (1,320 TPD)</td>
<td>44%</td>
</tr>
<tr>
<td>Goal (3,000 TPD)</td>
<td>100%</td>
</tr>
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</table>


*Oil Production Capacity, Natural Gas Production Capacity and Liquefied Petroleum Gas Production Capacity are not measured in quarterly average but total capacity available.

**Same period last year comparison refers to quarterly output as reported by SIGIR in July 2006.

**TABLE 2.12**
heavily—almost exclusively—on the Al Basrah Oil Terminal (ABOT), the southern export node. Figure 2.41 shows the status of crude oil production by northern and southern region.

**GOI Fuel Subsidies**

In accordance with the IMF Stand-By Arrangement (SBA), Iraq’s Ministry of Oil raised the prices this quarter of gasoline, blended gasoline, and diesel. Iraq has been phasing in a significant increase in domestic fuel prices, which reduces the government subsidies for many fuel products. Table 2.13 compares IMF goals for refined fuel increases with actual price increases.

Pursuant to the SBA, Iraq’s 2007 budget allocates significantly less money ($300 million) to the subsidy of fuel imports than it did in 2006; however, the Ministry of Oil continues to subsidize gas, diesel, and other domestically produced refined products because Iraq lacks the domestic capacity to meet demand for refined fuels. Consequently, although it is one of the largest producers of crude oil in the world, Iraq must still import kerosene, gasoline, diesel, and liquefied petroleum gas (LPG).

Figure 2.42 shows the status of Iraq’s refined fuel production this quarter compared to performance over the last three years.

**Price Increases for Refined Fuels ($ per gallon)**

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Regular Gasoline</td>
<td>$0.05</td>
<td>$0.26</td>
<td>$0.33</td>
<td>$0.26</td>
<td>$0.40</td>
<td>$0.45</td>
<td>$0.45</td>
<td>$0.45</td>
<td>$0.54</td>
<td>$0.68</td>
</tr>
<tr>
<td>Premium Gasoline</td>
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<td>$0.64</td>
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<td>$0.90</td>
<td>$1.03</td>
<td>$0.90</td>
<td>$1.23</td>
<td>$0.95</td>
</tr>
<tr>
<td>Blended Gasoline</td>
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<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Kerosene</td>
<td>$0.01</td>
<td>$0.06</td>
<td>$0.13</td>
<td>$0.06</td>
<td>$0.19</td>
<td>$0.19</td>
<td>$0.23</td>
<td>$0.19</td>
<td>$0.31</td>
<td>$0.20</td>
</tr>
<tr>
<td>Diesel</td>
<td>$0.03</td>
<td>$0.23</td>
<td>$0.28</td>
<td>$0.23</td>
<td>$0.32</td>
<td>$0.32</td>
<td>$0.40</td>
<td>$0.38</td>
<td>$0.48</td>
<td>$0.41</td>
</tr>
</tbody>
</table>

*Sources: IMF, Country Report No. 07/115, March 2007; Conversion rates: IMF, response to SIGIR, July 19, 2007. Note: Prices have been converted from Iraqi dinars per liter to U.S. dollars per gallon. These are the conversion rates used, by date: December 2005—1,474 ID/$, March 2006—1,476 ID/$, June 2006—1,477 ID/$, September 2006—1,475 ID/$, December 2006—1,391 ID/$, June 2007—1,250 ID/$.*

*Table 2.13*
Crude Oil Production by Region
Millions of Barrels per Day, Quarterly Average
Source: ITAO,* Monthly Import, Production, and Export (June 2007)

* By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.

Summer Fuel Refinery Production 2004 - 2007
Millions of Liters
Source: ITAO,* Monthly Import, Production, and Export Report (June 2007)
Hydrocarbon Legislation

The *Initial Benchmark Assessment* noted that "the Government of Iraq has not met its self-imposed goal of May 31, 2007, for submitting the framework hydrocarbon and revenue sharing laws to the [Council of Representatives]." GAO reported this quarter that "until this legislation is enacted and implemented, it will be difficult for Iraq to attract the billions of dollars in foreign investment it needs to modernize the sector."[244]

Since September 2006, the GOI and U.S. government sources have been reporting on the impending finalization of the hydrocarbon legislation. Despite previous reports of imminent passage in September 2006, December 2006, February 2007, and June 2007, the legislation has yet to be fully addressed by Iraq’s Council of Representatives (COR).

DoS recently expressed confidence that the hydrocarbon legislation was "weeks rather than multiple months" away from passage.

The hydrocarbon legislation is a series of four separate laws, establishing:

- a framework for lines of authority
- revenue sharing
- a national oil company
- a regulatory role for the Ministry of Oil

Without this legislation, development in the oil sector will remain stalled.

This quarter, Iraqi oil workers went on strike over unmet demands, including representation in the hydrocarbon law’s drafting process.[247] The main impact of the strike was the shutdown of two oil product pipelines feeding Baghdad.[248]

Report on Corruption

SIGIR previously reported on the detrimental effects of oil smuggling on Iraq’s vital source of revenue. In a recent report, GAO confirms that "about 10% to 30% of refined fuels is diverted to the black market or smuggled out of Iraq and sold for profit."[249] GAO also reported that "as much as 70% of the fuel processed at Baiji was lost to the black market, possibly as much as $2 billion a year."[250]

U.S. Support

IRRF and CERP projects in Iraq have supported the continued development of oil production facilities and export infrastructure. For the distribution of funding in this sector, see Figure 2.43. Figure 2.44 shows the status of U.S. funds in the sector.

This quarter, GRD reports that projects met their program goals.[251] These goals included:

- increasing Iraqi oil production capacity to 3 million barrels per day (MBPD)
- increasing liquefied petroleum gas (LPG) capacity to 3,000 metric tons per day
- increasing natural gas production capacity to 800 standard cubic feet (SCF)
Sector progress continues to face several familiar challenges. The impact of slow budget execution and poor O&M inhibit growth. Iraqi Ministry of Oil officials face significant challenges in developing an effective contracting and procurement process. The contracting rules are reportedly so constricting that when conducting oversight on the rules, Iraqi inspectors "wreaked havoc with charges of corruption."²⁵²

As of July 7, 2007, the Ministry of Oil reported that it had spent 23% of its $2.4 billion 2007 capital budget.²⁵³ A review of last year’s Iraqi capital budget revealed a very poor capital expenditure rate in the oil sector; the Ministry of Oil has committed to improving budget execution in this sector.

IRRF

Just 9% of IRRF 2 funds were allocated to oil and gas reconstruction in Iraq. As of June 27, 2007, approximately $1.46 billion of the sector’s $1.72 billion IRRF allocation had been expended.²⁵⁴ U.S. reconstruction officials reported that all IRRF construction projects in this sector are complete, and only infrastructure security projects remain underway (see Figure 2.45).²⁵⁵

IRRF construction projects included well workovers and gas oil separation plants (GOSPs) in the Rumaila oil fields, near Basrah. The IRRF also funded oil services projects in Iraq through the procurement of materials (such as water injection pumps for the southern oil fields), training, spare parts, service agreements, and capacity development.
The major completed and ongoing IRRF-funded projects include:

- **Qarmat Ali**: Engineering and procurement work provided treated water for injection wells to maintain oil reservoir pressure.
- **Al Basrah Oil Terminal (ABOT)**: Meter installation work continues, and work on the loading-arm refurbishment at berths 1-4 is complete. Last quarter, SIGIR inspected ABOT and found that refurbishment and repair work met the original objectives.
- **Gas Oil Separation Projects**: In the south, 12 gas oil separation plants were refurbished, with the potential to increase capacity by 600,000 BPD. In the north, eight were refurbished, with the potential to increase capacity by 300,000 BPD.
- **Shuaiba Refinery Power Plant**: Completed last year, this plant provides long-term power supply to Basrah Refinery.
- **South Well Workover**: Work is complete at 30 wells in the Basrah governorate to

Although it is one of the largest producers of crude oil in the world, Iraq must import kerosene, gasoline, diesel, and liquefied petroleum gas.
increase oil production capacity by more than 300,000 BPD.

**CERP**

CERP FY 2006 and FY 2007 oil projects represent a small fraction of both total U.S. funds and total CERP funds spent in the oil sector in Iraq. Specifically, the sector received approximately $30 million of CERP FY 2006 and FY 2007 funds—2% of the funds allocated to the oil sector in Iraq. This sector received only 3% of total CERP FY 2006 and FY 2007 funds.

Because all IRRF-funded construction projects in this sector are complete and IRRF funding for oil projects in Iraq is nearly expended, CERP represents a potential source of new U.S. funding for projects in the oil and gas sector. As Figure 2.46 shows, many CERP oil projects in Iraq average more than $100,000 in value.

In 2005, four provinces had CERP oil and gas projects valued at more than $200,000. In 2006, this proportion decreased slightly to three, although project values averaged more
than $500,000. This quarter, SIGIR announced a review of large CERP projects in Iraq, specifically those valued at more than $400,000.

CERP FY 2006 and FY 2007 monies funded 56 oil projects across Iraq. The largest CERP oil projects occur in Basrah. Figure 2.47 shows the average value per CERP oil project by governorate in Iraq over the past three years.

Figure 2.47

**Average Value per CERP Oil Project by Governorate**

![Image of map showing average value per CERP oil project by governorate]

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<thead>
<tr>
<th>Year</th>
<th>No Data</th>
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<th>$50,000 - $99,999</th>
<th>$100,000 - $199,999</th>
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<tr>
<td>2006</td>
<td></td>
<td></td>
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</tbody>
</table>

Note:
Data is compiled using FY 2004, FY 2005, and FY 2006 CERP funds. The years indicated correspond to the actual start dates of the projects.
Before the 1991 Gulf War, most Iraqis had access to potable water—95% in urban areas and 75% in rural communities—and most urban areas had sanitation service. Access to clean water and sewerage declined after 1991, as a result of war damage and poor maintenance.256

By 2003, Iraq’s irrigation network required extensive rehabilitation “after years of insufficient maintenance and funding.”257 A 2003 UN/World Bank assessment estimated that reconstruction for Iraq’s water and sewerage systems would cost more than $6.8 billion,258 and more than $1.5 billion for irrigation.259

Today, progress in the water sector is impeded by violence, a lack of trained facility workers, and inadequate maintenance practices. In Mosul, approximately 60% of homes and businesses have access to potable water.260 Although 75% of homes in Basrah have access to raw water, potable water must still be purchased.261 Although the goal for Baghdad is to provide potable water for all homes and businesses, only 30% are connected to water distribution lines.262

Iraq’s sewerage system also requires improvement: many cities lack updated sewerage systems and rely on septic systems. In Kirkuk263 and Samarra,264 streets and alley-ways are used for open drainage. In Falluja, raw sewage spills out onto the streets and thus into water sources.265 In Najaf, 40% of homes are connected to sewage lines,266 and 50% of homes in Basrah are connected.267

This quarter, SIGIR conducted an inspection of the $4.23 million Sadr City Al Qana’at Raw Water Pump Station project, which provides raw water for agricultural uses. This station will also be linked to a potable water plant. SIGIR found no construction deficiencies and determined that the project’s quality control and quality assurance mechanisms were operating effectively. For more information on the assessment, see SIGIR Inspections in Section 3.

Al Qana’at Raw Water Pump Station.
U.S. Support

The water sector has received approximately $2.38 billion in overall U.S. reconstruction funds. Water projects have received:

- 11.4% of all IRRF 2 funds
- nearly 25% of FY 2006 and FY 2007 CERP funds
- approximately 2% of FY 2006 ESF

For the allocation of funds in this sector, see Figure 2.48.

IRRF 2 has provided $2.11 billion for water projects, improving access to potable water, sewerage, and irrigation. As of June 27, 2007, nearly 93% of IRRF 2 funding had been obligated, and 82% for water projects had been expended.

Of the $944 million in FY 2006 CERP, $235 million fund water projects. CERP money contributes 10% of the overall funding for the water sector.

ESF’s O&M Sustainment program allocated approximately $32 million for water. GRD entered into an interagency agreement that fully committed 100% of the $32 million. GRD reported $6.29 million in contractual obligations for water.

Note: Numbers are affected by rounding.

a. Allocation detail at the sector and subsector level for CERP is currently unavailable; therefore, the percentages for CERP are calculated using FY 2006 and FY 2007 dollars obligated.
b. FY 2006 Supplemental Funds (PL.109-234).
obligations, of which $0.32 million has been expended. For the status of funds in this sector, see Figure 2.50.

The ESF Capacity Development and Technical Training program provided an additional $15 million for water and sanitation projects. Although progress has been made completing planned water projects, measuring the direct impact of U.S.-funded projects remains a challenge.

IRRF
As of June 29, 2007, a total of 1,095 IRRF water projects have been undertaken, with about 90% complete, 9% ongoing, and 1% yet to begin. For the status of projects in the water sector, see Figure 2.50.

Potable Water
U.S. projects valued at more than $1.7 billion have provided “capacity for supplying potable water to approximately 2.5 million citizens who previously did not have access.” As of July 1, 2007, potable water projects provided

![Figure 2.50](image-url)
approximately 1.72 million m³/day in additional system capacity, which is nearly 73% of the end-state goal. The outputs of these IRRF-funded projects appear in Figure 2.51 which shows the current and anticipated capacity provided by completed water projects.

The goal of U.S. efforts is to provide potable water to 8.38 million Iraqis. To date, U.S. projects have provided capacity to supply potable water access to an estimated 5.86 million people—an increase from last quarter’s 5.6 million and more than half the anticipated end-state. Figure 2.52 shows the additional capacity expected from these IRRF projects.

The United States continues to work to add capacity to the potable water system:

- **Ba’quba Water Treatment Plant Sludge Pump Station** serves 300,000 Iraqis in Diyala province.
- **Two water compact units in Ramadi and one in Salah al-Din province** provide clean, potable water to approximately 41,500 residents.
- **Talha reverse osmosis water treatment plant** in Basrah province serves more than 40,000 residents of the Talha district.

- In Kirkuk province, the **Tal Adi Dhahab Water Project** provides water to the city of Jubari, and the **Nassir and Qahara Water Project** supplies water to 1,500 residents.

SIGIR reported in the April 2007 Quarterly Report that the **Nassriya Water Treatment Plant** project (estimated to cost $276 million) would not be turned over to the Ministry of Municipalities and Public Works until enough Iraqis were trained to operate the facility. As of July, the Ministry had not yet trained a sufficient number of employees to operate the facility. During performance testing in June, the plant produced 2,100 m³/hour—only 21% of its 10,000 m³/hour capacity.

SIGIR previously has highlighted the **Small Potable Water Program**, which is aimed at boosting potable water capacity in rural areas. Although 41 small water projects have been completed by local Iraqi companies, the target of 87 projects has not yet been achieved because security problems have hindered access to work sites.
Sewerage

U.S. projects continue to produce at 1.20 million m³/day, which is 2% short of achieving the U.S. goal for additional sewage capacity. Figure 2.53 shows the current and anticipated status of additional sewerage capacity that U.S. projects have contributed to the system.

The United States has now completed 55 of 67 planned sewerage projects (82%). Three projects have yet to begin, and nine are ongoing.

By July 13, 2007, 5.1 million additional people have been served by U.S. funded sewerage projects—100,000 short of the goal. The anticipated end-state for service has been altered slightly since last quarter, which was revised from 5.3 million people to 5.2 million people. Figure 2.54 illustrates the current number of people served, compared with the new goal.

Last quarter, SIGIR noted that work on the Falluja Wastewater System was vulnerable because of the unstable security environment. The project, valued at $49 million, will include a wastewater treatment plant and several pump stations. Although ITAO reports that the project will serve 228,000 people, GRD estimates that only 75,000 people will be served initially. GRD says that reaching this quarter’s construction goal is unlikely because of a “security shutdown and the impact of delayed approval of DFI invoices by GOI.”

Irrigation

On March 1, 2007, USACE handed construction of the Nassriya Drainage Pump Station over to the Ministry of Water Resources, with an estimated completion date of December 31, 2007. Until the March handover, the United States had invested approximately $80 million in the project.

As part of the transition of responsibility to the Iraqis, GRD and the Ministry signed a grant agreement in June 2007 with $20 million in IRRF funding, which will partially support the project’s remaining work. GRD reported that the agreement “allows the Iraqi Ministry to execute the procurement, administration, construction, management and quality assurance, under the oversight of GRD, for agreed-upon construction projects.” The arrangement is “structured such that the Ministry will
The water sector has received approximately $2.38 billion in U.S. reconstruction funds.

be reimbursed for work completed according to a table of earned values previously agreed upon by both the Ministry and GRD.299

The Eastern Euphrates Drain Project is associated with the Nassriya Drainage Pump Station. It is partially funded by a grant agreement with the Ministry of Water Resources. Approximately 9% of the project is complete. The 15% completion target was not achieved because of issues arising from land disagreements.300

The anticipated target for additional irrigated or drained land is 387,000 hectares. The United States has reached 8% of that goal.301 Figure 2.55 illustrates the anticipated end-state and current status of irrigation projects, measured in hectares.

CERP

CERP FY 2006 and FY 2007 water projects received approximately $235 million—nearly 10% of the total ($2.38 billion) reconstruction funds allocated for Iraq’s water sector and 24% of the total FY 2006 and FY 2007 CERP funds ($944 million).

As IRRF projects finish and IRRF funding is expended, CERP-funded projects are taking on a greater role in the water sector. The Multi-National Corps-Iraq (MNC-I) has undertaken 1,209 water projects with CERP FY 2006 and FY 2007 funds. Over the past three years in Iraq, the average value of CERP water projects has increased from approximately $90,000 in 2004 to $260,000 in 2006.

Figure 2.55

Output of U.S. Irrigation Projects

Hectares

Source: ITAO,* Weekly Status Report (7/10/2007)

* By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.
In 2005, a major reprogramming of IRRF dollars shifted money out of the water sector and into non-construction sectors. As a result, CERP FY 2006 and FY 2007 funds have been used to pay for water projects in Iraq. As the maps below show, 12 governorates have experienced a consistent increase in the average value of CERP water projects between 2004 and 2006. Baghdad has experienced the most consistent increase, from $122,000 in 2004 to approximately $450,000 in 2006. Anbar, Muthanna, Tameem, Babylon, Diyala, and Salah al-Din provinces also experienced consistent increases.

For the average value of CERP water projects by governorate, see Figure 2.56.

CERP water expenditures fund potable water, sanitary sewage, and storm-water systems projects in Iraq. As of July 7, 2007, CERP FY 2006 and FY 2007 has funded 420 ongoing and 789 completed projects. For the status of CERP water projects, see Figure 2.57.

**ESF**

As IRRF infrastructure projects near completion, the focus turns to building Iraq’s capacity to maintain completed projects. ESF sustainment projects aim to strengthen Iraq’s ability to maintain facilities and equipment. ESF is funding a total of 23 projects. None has been completed, nearly 22% are ongoing, and more than 78% have yet to start.

---

**Karte:**

*Average Value per CERP Water Project by Governorate*

*Source: IRMS, CERP Excel Workbook (6/29/2007)*

2004

2005

2006

No Data < $49,999 $50,000 - $99,999 $100,000 - $199,999 > $200,000

Note:

Data is compiled using FY 2004, FY 2005, and FY 2006 CERP funds. The years indicated correspond to the actual start dates of the projects.
shows the status of O&M Sustainment projects in the water sector. The ESF-funded Provincial Reconstruction Team (PRT) program also conducts water projects.

**Challenges in Sustainment**

The inability of Iraq’s water ministries to sustain projects continues to limit progress in the sector. The security situation is the “number one challenge faced by ministries today in executing their work.” Deteriorating conditions are “increasingly affecting the ability of both the Ministry of Water Resources and the Ministry of Municipalities and Public Works to operate and has reached a crisis stage.” Employees have vacated Baghdad buildings in dangerous locations, and “Ministry of Municipalities and Public Works officials estimate that less than half the remaining staff (those who have not fled the country) are showing up for work every day.”

The GOI has not allocated sufficient money for operations and maintenance (O&M); this affects sustainability. Iraqi ministries tend to focus on building facilities rather than maintaining them. For example, O&M was budgeted at 9% of the total funds ITAO recommended to the Ministry of Municipalities and Public Works in 2005 and 2006. Overall, however, the Ministry of Water Resources has adequate capacity to execute capital projects.

Other factors hindering progress in the water sector include the lack of a well-established fee for service and the lack of a strong, customer-oriented focus. Performance could be improved by providing more funding for ministerial capacity development, an improved worker-compensation system, increased transparency and accountability, development of higher-quality services, and improved O&M.

Another issue related to sustainability is the Water Sector Sustainment Program.
(WSSP), which continues this quarter. Phase II was anticipated to be complete last quarter; GRD reports that Phase II is still ongoing but nearing completion. Phase III is beginning and continues to support the program’s emphasis on O&M in water and wastewater facilities and rural water projects. On June 5, 2007, GRD awarded contracts for O&M support and training programs. Phase III will also add new projects coordinated by ITAO and in conjunction with Iraq’s water ministries.
Before the war in 2003, Iraq had approximately 240 hospitals and 1,200 health clinics. For the previous two decades, the Iraqi health care system had been poorly managed, and no new hospitals had been built. More than half of the public health centers had deteriorated and closed before 2003.314

U.S. reconstruction in this sector has focused on building, rehabilitating, and equipping medical facilities, as well as providing immunization, training, and other health services.

Activities in this sector were initially hindered by both design-build contractor performance shortfalls and mismanagement in overseeing the reconstruction contracts. These issues most adversely affected the primary healthcare center (PHC) program.315

In addition, insurgent attacks have slowed construction of PHCs. GRD noted that two PHC sites were bombed this quarter.316 Last quarter, four PHCs were bombed, and construction at these sites was brought to a halt.317 Security issues are the major impediments for Iraqis seeking access to medical attention, and health care professionals are threatened with kidnappings and other intimidation.

U.S. Support

Figure 2.59 shows the allocations of U.S. funding in the health care sector. IRRF activities in this sector include constructing and refurbishing PHCs and hospitals throughout Iraq, as well as supplying those facilities with medical equipment and training medical practitioners and government officials. Past activities in this sector also included nationwide vaccination programs. CERP activities are smaller-scale projects, including the provision of medical supplies, training, and other health services.

**Figure 2.59**

**Allocations to Health Care**

$Billions, % of $87 Billion

94% IRRF 2 $82

5% CERP a $0.82

1% ESF b $0.041

0.12

Note: Numbers are affected by rounding.

a. Allocation detail at the sector and subsector level for CERP is currently unavailable; therefore, the percentages for CERP are calculated using FY 2006 and FY 2007 dollars obligated.
b. FY 2006 Supplemental Funds (PL 109-234).
ESF projects have provided support to the health care sector through the Capacity Development and O&M Sustainment programs. In addition, ESF projects have helped keep medical facilities and vehicles operational.

![ESF projects in the health care sector have helped keep needed medical facilities and vehicles operational.](image)

At the end of this quarter, 82% of IRRF sector funding had been expended. Almost 46% of the CERP funds for the sector had been expended, and more than 12% of the ESF sector total. Figure 2.60 shows the status of all U.S. funds that have been obligated in the health care sector.

![Figure 2.60: Obligations for Health Care](image)

**Obligations for Health Care**

<table>
<thead>
<tr>
<th></th>
<th>$0.67</th>
<th>$0.09</th>
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<tr>
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<tr>
<td>CERP</td>
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<tr>
<td>ESF</td>
<td>$0.0029 b</td>
<td>$0.0014</td>
</tr>
</tbody>
</table>

Note: Numbers are affected by rounding.

b. FY 2006 Supplemental Funds (P.L. 109-234).
53% of IRRF projects in the health care sector are complete, as shown in Figure 2.61.

Last quarter, GRD reported that construction of more than 70 PHCs would be completed before July 2007; however, as of June 30, 2007, only 44 of 142 planned PHCs have been completed. Of the completed PHCs, 20 have been turned over to the Ministry of Health, but only 8 are currently open. Construction at eight other PHCs was stopped last quarter because of security concerns or subcontractor problems. This quarter, GRD reported that six of these eight PHCs “have been deprogrammed due to security issues” and that work at the other two sites will resume, pending completion of contract modifications and re-awards.

This is the status of unfinished PHC projects:

- 64 are 90–100% complete.
- 20 are 75–90% complete.
- 8 are at various stages of completion, ranging from 40–75%.

The remaining portion of the PHC program will be finished by January 2008. SIGIR audits in 2006 of the PHC construction contract and the PHC supplies contract uncovered weak oversight and poor accountability.

GRD continues to oversee the refurbishment of 20 hospitals (which were originally under a single design-build contract but have subsequently been re-awarded to Iraqi firms) and the construction of the Basrah Children’s Hospital (previously managed by USAID). Last quarter, GRD stated that all rehabilitation work in its hospital program was expected to be completed by June 2007 however, six construction rehabilitation projects have not yet been completed. One project was delayed because of security issues, and contractor
problems delayed the other five projects. The hospital refurbishment program is now scheduled for completion by September 2007.

On September 30, 2006, GRD awarded a new fixed-price contract on the Basrah Children’s Hospital. Construction is now scheduled to be completed in July 2008, and medical equipment integration is scheduled for completion in November 2008, followed by a phased opening starting in early 2009. GRD reported this quarter that the project is 55% complete, as of June 30, 2007—up from 45% reported last quarter. SIGIR previously issued an audit of this project in July 2006, which found insufficient government oversight of the contract.

U.S.-funded projects have allocated $205 million to procuring health care equipment, modernization, and training. Medical equipment, consumables, and furniture were delivered and installed at nine completed PHCs. In addition, $22 million of the $23.5 million in medical equipment was delivered to and installed in 18 renovated hospitals.

**CERP**

FY 2006 and FY 2007 CERP funds represent 5% of all U.S. funds for health care reconstruction in Iraq and 4% of CERP funds across all sectors. MNC-I oversees CERP projects in this sector, and Figure 2.62 shows their status.

As IRRF projects finish out and funding is expended, CERP funds have taken on a greater significance in this sector. MNC-I has programmed 447 projects in this sector to be completed with CERP FY 2006 and FY 2007 funds.
**Figure 2.63**

AVERAGE VALUE PER CERP HEALTH CARE PROJECT BY GOVERNorate


**Figure 2.64**

STATUS OF ESF* PROJECTS - HEALTH CARE

Total Number of Projects: 13

Source: IRMS, ESF Project Tracker (6/29/2007)

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<th>Status</th>
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<tr>
<td>Not Started</td>
<td>8</td>
</tr>
</tbody>
</table>

* Funded by the ESF FY 2006 Supplemental.

ESF

Health care projects received approximately $12 million from the $285 million for the O&M Sustainment program. Figure 2.64 shows the status of ESF O&M projects in the health care sector.

Examples of health care O&M projects include procurement of spare parts for U.S.-donated medical equipment, vehicles for repair technicians and O&M personnel, and diagnostic and repair tool sets for biomedical and facility equipment.333

The ESF Capacity Development and Technical Training program also provides an additional $12 million for health care projects. The status of this program's funds is updated in the Capacity Development sector discussion earlier in this section.

Figure 2.63 shows the progression of CERP health care project values awarded over the last three years. Five provinces have health care projects that averaged more than $100,000 in 2006.
TRANSPORTATION AND COMMUNICATIONS

In 2003, the UN and World Bank estimated that transportation and communications in Iraq would require a $3.38 billion investment.\textsuperscript{334} Security continues to pose a significant threat to reconstruction in this sector. In the telecommunications subsector, the most significant development this quarter is the Iraqi Media Communication Commission’s announcement of a national mobile phone license auction.

Shipping
The number of vessels berthed at the Umm Qasr Port averaged 26 per week this quarter, a significant increase from the weekly average of 18.5 reported last quarter.\textsuperscript{335}

Railway
Poor security conditions continue to hinder the flow of rail traffic in Iraq, particularly in the important Latifiyah area south of Baghdad. There has been no traffic over the Latifiyah Bridge since its repair last quarter,\textsuperscript{336} and on July 4, 2007, insurgents struck the bridge.\textsuperscript{337}

Aviation
Total non-military take-offs and landings at Iraqi airports this quarter averaged 2,389 per week.\textsuperscript{338} From May 2006 to May 2007, the average for civilian take-offs and landings in Iraq was 2,734 per week—a significant increase from 1,537 per week in the previous 12-month period. Most of the air traffic is directed by Iraqi controllers at four civilian airports: Baghdad, Basrah, Erbil, and Sulaymaniya.\textsuperscript{339}

Roads and Bridges
The security situation poses a major threat to road and bridge projects. In Baghdad, five bridges were damaged by insurgent attacks between April and June. As a result, the GOI has prohibited oil tankers and other heavy trucks from crossing 11 of Baghdad’s 13 bridges.\textsuperscript{340}

Telecommunications
The GOI is currently preparing for an auction of three national mobile phone licenses. The auction is now scheduled to occur in Amman, Jordan, in mid-August.\textsuperscript{341} The private sector has invested more than $1 billion in wireless telecommunication; however, "investors
remain wary due to poor security and the continuing need for a strong legal framework.342

In addition, the State Company for Internet Services (SCIS) has invited leading Internet service providers to participate in an investment license to provide dial-up, DSL, wireless, voice-over IP, and WiMax access.343

U.S. Support

Construction projects in this sector aim to improve transportation systems in Iraq, such as ports, railways, roads, bridges, and airports. This sector also includes U.S.-funded telecommunications projects. Figure 2.65 shows the sources of funding in this sector.

As of June 27, 2007, 73% of the $798 million in IRRF funds allocated to this sector had been expended. Of the $1.3 billion in total CERP allocations, 54% has been expended. Of the $285 million programmed for O&M sustainment from ESF’s FY 2006 Supplemental funding, approximately 5% ($13 million) was allocated for projects in transportation and communications. GRD has committed 100% of these funds, obligated 21%, and expended 3%.344 The ESF Capacity Development and Technical Training program also provides an additional $8 million for transportation and communication projects.

Figure 2.66 shows the status of all sector funds that have been obligated to date.
TRANSPORTATION AND COMMUNICATIONS

IRRF
IRRF construction in this sector is expected to be completed by December 2008. Of the total sector projects, 90% are currently complete. For the status of projects funded by IRRF 2, see Figure 2.67.

Shipping Projects
The IRRF shipping program was originally scheduled to be completed by February 2007; however, the last port project is now expected to be complete in September 2007. A SIGIR project assessment found that security upgrades at the Port of Umm Qasr met construction standards.

This quarter, GRD reported that all port projects have been completed except for the RO-RO (roll-on, roll-off) berth facility and providing the electrical supply to the Nelcon cranes. As of June 30, 2007, the Nelcon cranes refurbishment project was 97% complete. In addition, construction of the RO-RO berth facility is still in progress, and completion is expected by September 3, 2007. A RO-RO berth allows ships to quickly berth and offload cargo from its ramps without cranes. This project encountered early delivery delays of equipment from outside the country.

Railway Projects
U.S. projects have completed repairs at 96 of 98 railway stations, as of June 30, 2007. For the railway station projects by location, see Figure 2.68.

In other construction activities, rehabilitation of the Basra Railway Station, valued at $187,000, was completed on June 13, 2007. The project scope included rehabilitation throughout the building.

In July 2006, a SIGIR project assessment

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**Figure 2.67**

**STATUS OF IRRF 2 PROJECTS - TRANSPORTATION AND COMMUNICATIONS**

**TOTAL NUMBER OF PROJECTS: 546**

**Sources:** IRMS, ITAO* Rollup (6/29/2007); USAID, Activities Report (7/12/2007)

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<tr>
<td>Consolidated Fiber Network</td>
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<td>95</td>
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<td>Civil Aviation</td>
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<td>Expressways</td>
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<tr>
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<tr>
<td><strong>Total</strong></td>
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<td><strong>48</strong></td>
<td><strong>494</strong></td>
<td><strong>546</strong></td>
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* By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.
Figure 2.68

**Railroad Station Rehabilitation Projects by Governorate**


<table>
<thead>
<tr>
<th>Governorate</th>
<th>Ongoing</th>
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<th>Total</th>
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<tr>
<td>Anbar</td>
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<tr>
<td>Salah al-Din</td>
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<tr>
<td>Thi-Qar</td>
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<td>Babylon</td>
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<td>Basrah</td>
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<td>Tameem</td>
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<tr>
<td>Qadissiya</td>
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<td>Baghdad</td>
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<td>2</td>
<td>3</td>
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<tr>
<td><strong>Total</strong></td>
<td>2</td>
<td><strong>96</strong></td>
<td><strong>98</strong></td>
</tr>
</tbody>
</table>

* By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.

Total Number of Projects Nationwide: 98

Total Number of Projects by Governorate:

- >20
- 10-20
- <10
- No Data

Railroad Line

Major Hub Location
at the Baghdad Railway Station found that although most project components met standards, the construction design was not complete.\(^352\)

In addition to railway station rehabilitation, funding allocated to this subsector has been used for materials and equipment. Phase I of the Communications-Based Train Control System (CBTC) will provide the Iraq Republic Railway with a train-control system to track the movement of all locomotives on the rail system. The project is currently 90% complete and is expected to be finished by September 2007. Phase II, which is 88% complete, will provide a $41.6 million Digital Microwave Radio Communications Network (also referred to as the CBTC-backbone). This phase is scheduled to be completed by May 31, 2008.\(^353\)

### Aviation Projects

The Air Systems Commissioning Flight Inspection has been completed at the Baghdad International Airport (BIAP), allowing flights to land and depart with less-than-visual flight conditions. After 18 months of outage, radar service was restored, and training for the first class of BIAP air traffic controllers was completed last quarter.\(^354\) However, a SIGIR project assessment last quarter found that of the 17 new generator sets, valued at $11.8 million, 10 were not operational.\(^355\)

This quarter, construction projects continued at the Basrah International Airport (BIA). The terminal and tower renovation project is 95% complete.\(^356\) The remaining BIA projects are scheduled to be delivered by September 2007, except for the new radar system, which is expected to be complete in February 2008 because of longer-than-anticipated manufacturing time for the radar.\(^357\)

Last July, a SIGIR project assessment found that although construction of the terminal and tower renovation at BIA met contract requirements, the stated objective was not met.\(^358\)

Table 2.14 summarizes the work done at the Baghdad, Basrah, and Mosul airports.

### Roads and Bridges

U.S.-funded projects in this subsector are on schedule to finish in December 2008. The projects have focused on small village roads, several key highways, and bridges.\(^359\)

The highway between Baghdad and Kirkuk will be upgraded to four lanes by December
TRANSPORTATION AND COMMUNICATIONS

2008. Also, Diwaniya and Samarra will be connected by an upgraded four-lane highway. This $15.5 million project is scheduled to be completed in January 2008. The project is now 38% complete.

The Village Roads Program, budgeted at $38.5 million, plans to improve 424 miles of roads throughout 15 governorates in Iraq. Originally scheduled to be completed by August 2006, the program completion was delayed because of security problems and a shortage of fuel and bitumen. This quarter, GRD reported further delays, and the current estimated completion date for the program is now December 31, 2007.

Previously, SIGIR project assessments found that both the Ninewa Village Roads Segment 3 and the Muthanna Village Roads Segment 4 were not adequately designed, but the Thi-Qar Village Roads Segment 3 project was adequately completed to contract specifications.

Of the 56 Provincial Reconstruction Development Committee (PRDC) projects in this sector, valued at $56.5 million, 33 have been completed, as of June 30, 2007. GRD reported that eight PRDC projects, including three road projects and five street projects, have been completed since last quarter.

Telecommunications

The Iraq Telecommunications and Postal Commission (ITPC) modernization effort includes 34 projects to construct and renovate post offices. These projects were scheduled to finish in July 2007, but GRD reported this quarter that one post office project will not be completed until August 30, 2007.

Personnel from the Iraqi Telephone and Postal Company concluded a five-day training program in the United Arab Emirates, sponsored by ITAO. The program included training in international postal organizations, operations and policies, parcel inspections and delivery, postal management, and auditing.

The Iraqi Telecommunications System was allocated $47 million from the IRRF. The funding has been used to construct a primary switching facility at Al-Maimouna and a wireless broadband network (WBBN). As of June 30, 2007, the $26 million switch facility was 22% complete and was estimated to be finished by September 2007. However, GRD later reported that a 200-day extension was issued for the project, and the estimated project completion date is now February 2008. The WBBN project, valued at $1.9 million, was completed in March 2007.

To modernize the Iraq telecommunications operations system and to support a new regulatory agency, the Communications and Media Commission (CMC) was allocated $20 million. Phase 1 of the Strategic Development Training for CMC staff, valued at $2.4 million, began in January 2007 and is 10% complete. In addition, purchase and installation of the High-speed Data Network for the CMC ($4.7 million) is 40% complete.

This quarter, USAID released an audit report on the Consolidated Fiber Network (CFN) project. Valued at $46.1 million, the project was intended to provide fiber-optic
material and construction equipment, employ 1,000 Iraqis, and improve the voice transmission network to benefit approximately 10 million Iraqis. The audit found that, although USAID provided equipment, there was not sufficient documentation to demonstrate that 1,000 Iraqis were employed. In addition, the goal of serving 10 million people was not reached because the Ministry of Electricity and the ITPC had not made full use of the CFN.376

**CERP**

CERP FY 2006 and FY 2007 funds represent 14% of the total U.S. funds for transportation and communication reconstruction in Iraq and 13% of the total CERP funds for reconstruction in Iraq. These sources fund 840 transportation projects and 116 telecommunications projects overseen by MNC-I. For the status of CERP-funded projects, see Figure 2.69.

In Falluja this quarter, 15 CERP projects are programmed to spend more than $5 million to improve commerce in the city, including 4 railway projects to repair track and ties.377 In Mosul, 4 ongoing CERP projects are improving the transportation system, and 52 projects, valued at $3.8 million, have been completed.378

In Samarra, $1.4 million of the CERP is used for the transportation system, and in Kirkuk, more than $5 million is used for transportation projects.379 In Ramadi, $672,000 of CERP funds are being used to construct Riverside Road, which runs along the Euphrates River.

In addition, two railway projects funded by CERP are currently in construction in Falluja to repair tracks and railroad ties. The projects are 44% and 38% complete, respectively, and both are scheduled to finish in September 2007.380

As the project profile of CERP grows within the U.S. reconstruction program in Iraq, so has the average dollar value per CERP transportation and communications project. Figure

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**Figure 2.69**

**Status of CERP FY 2006 and FY 2007 Projects - Transportation and Communications**

**Total Number of Projects:** 956

**Source:** MNC-I, Response to SIGIR (7/7/2007)

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Figure 2.70

**Average Value per CERP Transportation and Communications Project by Governorate**


2.70 shows that the average value per project has steadily increased since 2004. In 2006, the average value per CERP transportation and communications project reached $135,000—nearly double the average value in 2004.

**ESF**

Figure 2.71 shows the status of ESF O&M Sustainment projects in transportation and communications that are funded from FY 2006 supplemental appropriations.

An example of an O&M sustainment effort in the telecommunication sector is the CFN Southern Euphrates fiber O&M project, a $1.7 million effort that will provide fiber network O&M support to the ITPC. Also related to telecommunications, the $1 million dollar contract to provide spare parts to the Ministry of Communications/ITPC for a fiber backbone was awarded on May 28, 2007.381

Other ESF-funded projects in this sector include on-the-job training for the BIAP area control, on-the-job training for air traffic control, and O&M for BIAP navigation aids.382

Figure 2.71

**Status of ESF* Projects**

**Transportation and Communications**

**Total Number of Projects: 10**

Source: IRMS, ESF Project Tracker (6/29/2007)

* Funded by the ESF FY 2006 Supplemental.
The broad objectives for U.S. support of Iraqi democratic governance are outlined in the President’s National Strategy for Victory in Iraq:383

- Isolate enemy elements from those who can be won over to the political process by countering false propaganda and demonstrating to all Iraqis that they have a stake in a democratic Iraq.
- Engage those outside the political process and invite in those willing to turn away from violence through ever-expanding avenues of participation.
- Build stable, pluralistic, and effective national institutions that can protect the interests of all Iraqis and facilitate Iraq’s full integration into the international community.

The current U.S. strategy to achieve these objectives includes “bottom-up reconciliation,” which involves “working at the local and provincial level, seeking local political accommodations, and getting more Iraqis to invest in the future of a united and democratic Iraq.”384 The Provincial Reconstruction Teams (PRTs) are critical components of strengthening governance capacity. Additionally, several capacity-development initiatives, including USAID’s National Capacity Development (NCD) Program, focus on building government capacity in Iraq.

“The Government of Iraq is currently working toward reviewing the Constitution. The process is likely to be a long and careful one, as consideration needs to be given to the interests of each of the major political groups. Issues to be addressed include federalism, the sharing of oil revenues, de-Ba’athification reform, and provincial elections.”385 On July 8, Iraq’s Council of Representatives (COR) voted to extend the current term through July 31, 2007, working six days per week from July 16, 2007, to July 31, 2007.386
In this sector, both the IRRF 2 and ESF FY 2006 Supplemental provide funding for projects (see Figure 2.72). Approximately $1 billion of the IRRF 2 was allocated for democracy-building activities, of which 93% has been expended.\textsuperscript{387} As IRRF funding approaches depletion, new funding for democracy projects is coming from the ESF, which contributes approximately 8% of the funding for this sector.\textsuperscript{388} Of the nearly $63 million in ESF FY 2006 supplemental monies obligated in the democracy sector, nearly 13% has been expended.\textsuperscript{389}

Figure 2.73 shows the status of U.S. funding in this sector. ESF-funded programs aim to establish grassroots civil-society efforts through community action groups and through the efforts of the PRTs. For a discussion of additional projects aimed at strengthening civil-society organizations through PRTs, see the Provincial Reconstruction Teams discussion in this section.
IRRF

Most of the IRRF funds in the democracy sector were used to support the national elections, draft the constitution, and conduct the constitutional referendum in 2005. Figure 2.74 shows the status of IRRF 2 projects in this sector.

These are some examples of recent IRRF democracy-building efforts reported in the DoS Section 2207 Report from April 2007:

- printing and distributing 2,000 illustrated booklets detailing the role of Iraqi women in the reconciliation process
- completing training for 12 political parties on federalist democratic perspectives
- training 1,750 Iraqis in 50 Civic Coalition for Free Elections workshops in five southern provinces on the significance of national reconciliation in the Iraqi political process
- broadcasting, on Al Mahaba station, 16 radio talk shows produced by Rafadin’s Women’s Coalition, focusing on national reconciliation and the role of leaders and clerics in the national reconciliation process

Additionally, USAID helped the Kirkuk Provincial Council to launch its own website to provide information about the council’s work in the province. This effort was facilitated by the Local Governance Program, which is discussed in greater detail in the PRT section of this Report.
ESF

Figure 2.75 shows a status of democracy projects funded by the ESF FY 2006 Supplemental. For a cross-reference of the ESF programs categorized by SIGIR sector, see Appendix D.

Community Action Program

The Community Action Program (CAP) promotes grassroots democracy and works to establish better local governance through representative and participatory community action groups. The CAP, implemented by USAID and also funded by the IRRF, has been allocated $50 million in ESF FY 2006 supplemental funds, of which $5 million is included for the Marla Ruzicka Iraq War Victims Fund, which was transferred to the IRRF. Only approximately $560,000 of ESF supplemental funds allocated to this program has been expended. As of May 17, 2007, USAID reports these highlights of the CAP since its inception in 2003:

- mobilization of more than 1,450 community action groups in all 18 governorates
- creation of more than 2.7 million days of employment
- creation of 34,000 long-term jobs, of which 43% have gone to women
- USAID commitment of more than $271 million to 6,000 CAP projects; Iraqi contributions of more than $74 million

From January to April 2007, 158 projects were completed, valued at $9.2 million. These projects created 204 long-term jobs.

To improve the tracking of results achieved by CAP, USAID has completed and approved the Baseline Survey and Performance

<table>
<thead>
<tr>
<th>Project Type</th>
<th>Not Started</th>
<th>Ongoing</th>
<th>Completed</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Action Program</td>
<td>256</td>
<td>161</td>
<td>417</td>
<td></td>
</tr>
<tr>
<td>Civil Society</td>
<td>2</td>
<td></td>
<td>2</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>258</strong></td>
<td><strong>161</strong></td>
<td><strong>419</strong></td>
<td></td>
</tr>
</tbody>
</table>

* Funded by the ESF FY 2006 Supplemental.
Monitoring Plan. The web-based Project Reporting System, which unifies the data collected from the five NGOs implementing CAP activities, aims to improve the measurement and reporting of CAP programs. The five partner agencies maintain and update the PRS database.

The CAP launched a women’s literacy campaign in Missan, Qadissiya, and Wassit, with anticipated expansion to Basrah. Thousands of women have taken advantage of the two-part program. The first phase focuses on reading and writing; the second phase provides lessons in Arabic, mathematics, and social sciences. For example, the literacy program in the Missan governorate benefited approximately 2,500 Iraqi women. The project also resulted in the employment of previously unemployed Iraqi teachers and the refurbishment of classrooms used for the literacy campaign.

Democracy and Civil Society

The Democracy and Civil Society programs conducted these activities:

- meetings with PRT representatives and other democracy-promotion organizations to brainstorm areas of potential collaboration for future electoral events
- continued assessment of the current election administration’s preparedness
- detailed training agenda for the staff of the Independent Election Commission of Iraq
- identified priorities and objectives under the Draft National Operations Plan for the conduct of a 2007 electoral event

Approximately $50 million of the FY 2006 ESF supplemental funds support Democracy and Civil Society programs. These projects support COR efforts to address key governance issues and to enhance the participation of women and minorities in the political process.

USAID has obligated $8 million to an existing contract for its Civil Society and Independent Media program. IRRF funding for civil society and independent media programs ended on September 30, 2006, as reported by SIGIR last quarter. Through ESF funding, USAID has continued supporting the media program activities, which include training media sector employees and providing market research and equipment. Media program activities were funded from “carry over ESF, which was reprogrammed from an obligation to the World Food Program in FY 2006,” according to USAID.

USAID obligated $10 million to an existing agreement for its IFES Election Support program. IFES staff has conducted meetings with democracy-building organizations, including PRTs, to identify areas of collaboration for future elections.
There were some signs of economic progress in Iraq this year.

Inflation improved, dropping from 65% at the end of 2006 to approximately 37% by the end of February 2007, but it subsequently increased, reaching 46% by the end of June. The primary cause of the spike was shortage of refined fuel products. Overall, inflation remains lower than at the end of last year but is still above IMF targets.

Iraq’s Central Office for Statistics and Information Technology measured unemployment at 18% and underemployment at 38% in its November 2006 annual employment survey. However, current estimates of Iraq’s unemployment rate range from 25–40%.

Dormant state-owned enterprises (SOEs) exacerbate the unemployment situation. As reported by the Deputy Undersecretary of Defense for Business Transformation, an estimated 500,000 employees of SOEs are not included in the unemployment statistics and continue to receive only about 40% of their pay.

The security crisis also constrains private sector development. According to the IMF, “if the level of violence can be reduced, the government investment program, including in the oil sector, could be implemented and private sector activity could begin to recover.”

U.S. Task Force To Improve Business and Stability Operations

Economic activity in Iraq was prompted this quarter by a series of factory restarts by the U.S.-funded Task Force to Improve Business and Stability Operations (TF-BSO).

As of July 5, 2007, TF-BSO had conducted assessments of more than 64 major industrial operations and selected 19 factories for restart in 2007. The President’s revised FY 2007 supplemental request of March 9, 2007, stated that TF-BSO will “help re-start over 140 Iraq factories during the next 6 to 18 months, employing up to 150,000 people.” As of July 5, 2007, six factories have restarted production operations.

TF-BSO reported that less than $200 million is required to restart most of these factories; however, it has only $50 million in appropriated funds. To close the gap in funding, TF-BSO has attempted to negotiate with the Ministry of Finance and the Ministry of Industry and Minerals to establish a low-interest-rate loan program through state-owned banks.
IMF Stand-By Arrangement (SBA)

The IMF’s SBA stipulates specific measures that Iraq must implement to resolve problems with balance of payment, subsidies, and other economic issues. According to the President’s Initial Benchmark Assessment, Iraq is on track to meet the SBA’s requirements; however, to benefit from a planned follow-on IMF program, Iraq must continue to increase its fuel prices.

An IMF progress report on the SBA in March 2007 found that Iraq has made advances in implementing many required economic and structural reforms, including:

- launching a new national payments system
- agreeing on a comprehensive bank reform and restructuring program to promote financial soundness and provide essential services to the population
- establishing budgetary targets, especially on capital investment
- implementing monetary policies aimed at decreasing inflation

As required by the SBA, the Central Bank of Iraq (CBI) has tightened monetary policy and adopted a policy of gradual appreciation of the dinar through incremental increases to relieve inflationary pressures. Since November 2006, the dinar has appreciated 17%. The current exchange rate is 1,249 dinars to the dollar, as of July 12, 2007. A year ago, the rate was 1,472 dinars to the dollar. Figure 2.76 shows the historical trend for the exchange rate.

During the past quarter, Iraqi authorities have taken steps to comply with the requirements of the bank restructuring program, which they agreed to with the IMF last March. In particular, the Iraqis have focused on restructuring the two largest state-owned banks—Rafidain and Rasheed—under the SBA program as follows:

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**Figure 2.76**

**Currency Exchange Rate**

Currency (Auction Selling Price Dinar/$1 USD)

Source: Central Bank of Iraq

---

**Figure 2.76**

**Currency Exchange Rate**

Currency (Auction Selling Price Dinar/$1 USD)

Source: Central Bank of Iraq

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• In March 2007, the economic committee of the Council of Ministers approved memoranda of understanding (MOUs) for operational restructuring of both state-owned banks and a financial institution restructuring of the Rasheed bank.
• The CBI set up a bank Restructuring Oversight Committee.
• An international auditor was selected in early June to conduct an operational and financial audit of both banks and will be appointed shortly.

These measures are important elements of the more comprehensive bank restructuring program called for by the committee’s MOUs. The IMF noted that progress was sufficient to justify extending the SBA to September 2007. The next SBA staff review is expected to take place in August, when the IMF will review progress through June 2007.

U.S. Support
Approximately 71% of U.S. allocations to this sector are from IRRF 2. Figure 2.77 shows the sources of U.S. funds for projects in the economic development sector.

All of the IRRF allocated to economic development has been obligated, and approximately 97.5% has been expended. As IRRF comes to an end, U.S.-funded efforts to promote economic development will continue through ESF and CERP. Approximately 16% of funds in the economic development sector are from CERP, and 13% are from ESF. Figure 2.78 shows the status of U.S. funds that have been obligated in this sector.
This quarter, the FY 2007 supplemental appropriations bill provided $57.4 million of ESF funds to be made available to nongovernmental organizations (NGOs) in Iraq for economic and societal development programs. Additionally, the supplemental appropriation provided $50 million to be made available to the TF-BSO through the Iraq Freedom Fund.

**IRRDFunded initiatives have been key elements in the promotion of Iraq’s economic development. IRRF funds have spanned multiple areas of economic growth promotion—from expanding the microfinance industry to providing advice on the implementation of financial systems. ESF funds are continuing many IRRF projects. Figure 2.79 shows the status of IRRF-funded projects in this sector.**

**Agriculture Industry Development**

USAID has been responsible for almost all IRRF funding for the agriculture subsector through the $100 million Agriculture Reconstruction and Development Program for Iraq (ARDI), which focused on production, infrastructure, and capacity-building projects. The program officially closed in December 2006.

The ESF-funded Inma Agribusiness Program is expected to continue USAID’s efforts in these areas, under a contract with a ceiling value of $343 million. To date, $37.5 million has been allocated, and the contract includes two option years.

USDA and Texas A&M University (TAMU) agreed to a work plan for the Iraq Agriculture Extension Revitalization Project, and the project money will be transferred to TAMU for implementation. The University Consortium, comprising five U.S. universities (led by Texas A&M), and six Iraqi universities, will conduct a series of two-week trainings for extension specialists on farming, poultry production, crop production, and other topics.
Economic Governance
Despite security issues, the USAID Economic Governance (EG) II Project team continues to supply technical assistance to the GOI to facilitate fiscal and monetary management through a contract valued at approximately $225 million. As of July 9, 2007, approximately $161.7 million of these funds had been obligated, and $131.3 million had been expended.435

Implementation of the Financial Management Information System (FMIS) has been suspended indefinitely for security reasons.436 Before the suspension, several technological updates were made to the FMIS. New software was configured and installed on the system to accommodate revised accounting rules, and the Government Financial Statistics-compliant Chart of Accounts was entered into the system.437 To date, USAID reported that it obligated approximately $18 million (including security costs) for the FMIS.438 The figure does not include what ITAO has spent on FMIS-related modules. ESF funds are intended to complete the rollout of FMIS.439

SIGIR currently is conducting an audit to review the effectiveness of the FMIS contract. As of April 2007, with the assistance of the U.S. Treasury, the connection of the CBI to the Real Time Gross Settlement (RTGS) and Automated Clearing House (ACH) systems was completed.440 Additionally, four more private banks were accepted as users of the RTGS and ACH systems, bringing the total population of users to 11 banks and the CBI.441

Private-sector Development Program (Izdihar)
The existing Izdihar Private Sector Development contract ends on September 30, 2007.443 Izdihar’s activities currently span multiple areas, including investment promotion, trade policy and market access, business management services, capital market development, small and medium enterprise development, and sustainable microfinance development.

Trade Policy and Market Access
Progress on Iraq’s accession into the World Trade Organization (WTO) occurred this quarter. On May 25, the Iraqi delegation to the WTO Working Party held bilateral meetings with U.S., Arab, and European delegations. As a follow-up discussion to this meeting, advisors from the Izdihar program met with the Minister of Trade, who attended the WTO meeting, to discuss several key priorities for Iraq’s accession. One of the key priorities is to complete and submit the Legislative Action Plan to the WTO Secretariat.444 These steps, supported by USAID, continue to drive economic reform in the key areas of trade, customs, and intellectual property rights as part of the WTO accession process.445
Small and Medium Enterprise Development
As of July 2007, the Iraq Company for Bank Guarantees (ICBG) had approved 18 loan guarantees with a total value of $344,279.44. In November 2006, ICBG started its operations to improve access to credit and to develop profitable portfolios for qualified small and medium-sized enterprises. The program also aims to strengthen the cash-flow-based lending practices of qualified participating banks. Bolstered by a $5 million grant from USAID through Izdihar, 11 private Iraqi banks subscribed $3.7 million in initial equity as of April 1, 2007.

Sustainable Microfinance Development
Since U.S.-funded microfinance efforts began in August 2003, a total of more than $100 million in loans has been issued in 16 of 18 provinces. There are $23 million in outstanding loans to more than 18,000 clients, and the repayment rate is more than 98%. Izdihar began microfinance efforts in November 2006.

ESF
Two ESF FY 2006 Supplemental programs are categorized in the economic development sector. Figure 2.80 depicts the status of ESF-funded projects in this sector. Some ESF projects are a continuation of the efforts started by IRRF-funded activities.

Community Stabilization Program in Strategic Cities
The Community Stabilization Program (CSP) was scheduled to end on September 30, 2008, but it has been extended to September 30, 2009, with the FY 2007 obligation. The program is in the initial phase for assessment of additional cities.

Figure 2.80

<table>
<thead>
<tr>
<th>Project Type</th>
<th>Not Started</th>
<th>Ongoing</th>
<th>Completed</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Stabilization Program</td>
<td>59</td>
<td>49</td>
<td>23</td>
<td>131</td>
</tr>
<tr>
<td>Policy and Regulatory Reforms</td>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>59</strong></td>
<td><strong>50</strong></td>
<td><strong>23</strong></td>
<td><strong>132</strong></td>
</tr>
</tbody>
</table>
As of April 2007, DoS reports that CSP has:

- expanded to Kirkuk, Mosul/Telafar, and Falluja/Anbar
- planned expansion to Basrah
- conducted security assessments in Kirkuk, Mosul, and Falluja

USAID has obligated, via a cooperative agreement, all of the $135 million of the ESF allocated for the CSP. The CSP pursues economic development incentives and provides employment support to discourage young Iraqis from participating in violent conflict. The program comprises these major components:

- public works and small infrastructure projects
- vocational training and apprenticeship programs
- business development programs for micro-small-medium enterprises
- youth activities

As of June 25, 2007, USAID’s average daily Iraqi employment total was 63,377. The total increased to 68,183 as of July 3, 2007. Table 2.15 lists the average number of daily employees per work-week for the week prior to July 3, 2007, for several U.S.-funded employment programs.

Table 2.16 shows the average daily number of people employed by the CSP in several Iraqi cities. Additionally, USAID reports that approximately 8,000 people, of which 532 people are employed in infrastructure projects, have benefited from CSP in the Ninewa Province.

### Table 2.15

<table>
<thead>
<tr>
<th>Employment Program</th>
<th>Iraqis Employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>USAID</td>
<td>68,183</td>
</tr>
<tr>
<td>GRD (includes MILCON/OMA)</td>
<td>18,758</td>
</tr>
<tr>
<td>CERP</td>
<td>4,320</td>
</tr>
<tr>
<td>MNSTC-I</td>
<td>11,788</td>
</tr>
<tr>
<td>IRRF Non-construction</td>
<td>8,855</td>
</tr>
<tr>
<td>Totals</td>
<td>111,904</td>
</tr>
</tbody>
</table>

Note: For work-week prior to July 3, 2007.


**Policy and Regulatory Reforms**

U.S.-funded projects continue to assist the GOI in **Policy and Regulatory Reforms**, which include support to the CBI for improving monetary policy and macroeconomic analysis activities. The focus of these efforts, funded by $20 million, includes assistance with bank restructuring, banking supervision, reserve requirement, Iraqi treasury bill auctions, and information technology management. The program also assists the Ministry of Finance in developing an integrated annual budget, using the IMF classification system. This budget planning assistance will help the ministry prepare the national budget in accordance with the requirements of the SBA.

In their efforts to help the GOI comply with terms of the SBA and meet the requirements of the IMF Safeguards Assessment, USAID and Treasury also performed these activities:

- working with CBI to ensure that the reconciliation of the Net International Reserves is accomplished to meet IMF Safeguard Assessment requirements
- assisting the GOI in amending the existing approved Prudential Regulations to ensure consistency and compliance with international best practices
- helping the GOI gain approval of draft Secured Transaction legislation from the Shura Council and Ministry of Finance

ESF-funded efforts are continuing many of these activities started by IRRF funds.

**Provincial Economic Growth (PEG) Program**

USAID anticipates that the **Provincial Economic Growth (PEG) Program** will provide $10 million in loan and operational capital to microfinance institutions during each of its first two years of operations. PEG aims to increase access to finance and promote growth for selected Iraqi manufacturing and service sectors. It has three main components:

- developing the private sector
- strengthening Iraqi business to grow selected sectors of the economy
- expanding commercial lending to increase access to finance

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**Average Number of People Employed Daily by the CSP**

<table>
<thead>
<tr>
<th></th>
<th><strong>Baghdad</strong> (June 24 – 30)</th>
<th><strong>Anbar</strong> (June 24 – 30)</th>
<th><strong>Mosul</strong> (June 10 – 16)</th>
<th><strong>Kirkuk</strong> (June 10 – 16)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term Employment (&lt; 3 months)</td>
<td>32,210</td>
<td>10,172</td>
<td>6,711</td>
<td>1,920</td>
</tr>
<tr>
<td>Long-term Employment (&gt; 3 months)</td>
<td>11,216</td>
<td>99</td>
<td>296</td>
<td>801</td>
</tr>
</tbody>
</table>


Note: Not all cities in which the CSP has operations are represented in the table.

*Table 2.16*
The President’s 2007 supplemental and 2008 budget requests sought $45 million for PEG; $125 million for Inma Agribusiness development; and $75 million for Economic Governance II. PEG follows up on USAID’s previous private-sector development project (Izdihar).

**CERP**

CERP FY 2006 and FY 2007 economic development projects were allocated approximately 16% of the total reconstruction funds for the economic development sector and 19% of total FY 2006 and FY 2007 CERP funds in Iraq. CERP economic development projects include civic cleanup activities; economic, financial, and management improvements; agriculture, irrigation, food production, and distribution projects; and civic support vehicles (see Figure 2.81).

In Baghdad, nearly $1 million of CERP funds are used to employ Iraqis to rehabilitate Mustansiriya University, including the repair of buildings, telephone systems, and sanitation services. More than $400,000 in CERP funding is being used to employ local Iraqis to reconstruct Al Nasir School in Babil.

As IRRF projects in this sector finish, and IRRF funding is expended, CERP projects and funding are taking on a greater significance.

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**Figure 2.81**

**Status of CERP FY 2006 and FY 2007 Projects - Economic Development**

**Total Number of Projects 1,676**

*Source: MNC-I, Response to SIGIR (7/7/2007)*

<table>
<thead>
<tr>
<th>Project Type</th>
<th>Ongoing</th>
<th>Completed</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civic Cleanup Activities</td>
<td>280</td>
<td>345</td>
<td>625</td>
</tr>
<tr>
<td>Other Humanitarian or Reconstruction Projects</td>
<td>221</td>
<td>374</td>
<td>595</td>
</tr>
<tr>
<td>Economic, Financial, and Management Improvements</td>
<td>78</td>
<td>70</td>
<td>148</td>
</tr>
<tr>
<td>Agriculture</td>
<td>60</td>
<td>87</td>
<td>147</td>
</tr>
<tr>
<td>Irrigation</td>
<td>30</td>
<td>61</td>
<td>91</td>
</tr>
<tr>
<td>Food Production and Distribution</td>
<td>23</td>
<td>30</td>
<td>53</td>
</tr>
<tr>
<td>Civic Support Vehicles</td>
<td>3</td>
<td>14</td>
<td>17</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>695</strong></td>
<td><strong>981</strong></td>
<td><strong>1,676</strong></td>
</tr>
</tbody>
</table>
MNC-I has undertaken 1,676 economic development projects with CERP FY 2006 and FY 2007 funds, completing 981 of them. In 2004, the average CERP economic development project was valued at nearly $40,000. In 2006, this average had increased to approximately $120,000, and nine provinces had CERP economic development projects that averaged more than $100,000 in value, as shown in Figure 2.82.

Figure 2.82

**AVERAGE VALUE per CERP Economic Development Project by Governorate**


Note:
Data is compiled using FY 2004, FY 2005, and FY 2006 CERP funds. The years indicated correspond to the actual start dates of the projects.
Since 2003, more than 4 million Iraqis have been forced to leave their homes. Of these, 2.4 million Iraqis have fled the country as refugees, and 1.9 million Iraqis remain in the country as internally displaced persons (IDPs). More than half of Iraq’s 18 governorates are hindering displaced persons from moving from one province to another.

This quarter, the UN High Commissioner for Refugees (UNHCR) released a report that identifies Iraq as the second-leading country of origin for refugees. The UNHCR expects that Iraq will have 2.3 million IDPs by the end of 2007, a 15% increase from 2006 to 2007. The number of refugees leaving Iraq is also increasing. In anticipation of the number of Iraqis being uprooted, UNHCR has doubled its Iraqi assistance budget this year to $123 million.

Figure 2.83 shows the number of Iraqis crossing into Turkey, Syria, Lebanon, Jordan, Egypt, and Iran.

U.S. Support

U.S. funds have been supporting programs and projects for refugees, human rights, and education in Iraq. This is the status of major U.S. funding streams in this sector:

- Of the $410 million allocated to these groups through IRRF 2, $400 million has been obligated, and $370 million has been expended.
- Of the $94 million of CERP FY 2006 and FY 2007 funds that have been obligated, $51 million has been expended.

Much of the U.S. effort is supported by the Migration and Refugee Assistance Fund, which is provided under the authority of the Migration and Refugee Assistance Act of 1962, as amended. Through this fund, “the United States contributes to the programs of the office of UNHCR, the International Committee of the Red Cross, the International Organization for Migration, and other international and non-governmental organizations that provide protection and assistance to refugees, internally displaced persons, and victims of conflict.”

Previous SIGIR Quarterly Reports have noted the following U.S. funding focused on refugee assistance in Iraq:

- FY 2004—$105 million in IRRF funds was allocated to life-sustaining assistance for conflict victims, including refugees and IDPs, as part of the Migration and Refugee Assistance Fund.
Movement of Internally Displaced Iraqis and Iraqi Refugees

- 40,000 Iraqis to Lebanon
- 1,200,000 Iraqis to Syria
- 750,000 Iraqis to Jordan
- 100,000 Iraqis to Egypt
- 325,000+ Returnees from Iran since 2003
- 54,000 Iraqis to Iran
- 1,000,000 Iraqis to Syria
- 10,000 Iraqis to Turkey

Internally Displaced Persons (IDPs) in Iraq: 1,908,400

Iraqi Refugees: 2,354,000

Population, as of July 2007: 27,499,638

Returnees in Iraq, as of October 2006:

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>401</td>
</tr>
<tr>
<td>2005</td>
<td>55,267</td>
</tr>
<tr>
<td>2004</td>
<td>191,645</td>
</tr>
<tr>
<td>2003</td>
<td>50,524</td>
</tr>
<tr>
<td>2002</td>
<td>1,142</td>
</tr>
<tr>
<td>Total</td>
<td>298,979</td>
</tr>
</tbody>
</table>

Note: Numbers may not total due to rounding.

b. ITAO, Weekly Status Report, June 19, 2007. By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.

Figure 2.8
• FY 2005—an additional $54 million was allocated to Migration and Refugee Assistance through IRRF funds.479

• FY 2006—an additional $27 million in IRRF funds brought the total allocation to $186 million.480

New funding for refugees includes:
• FY 2007—Emergency Supplemental funding in April 2007 provided $45 million for Iraq through the Migration and Refugee Assistance Fund.481

• FY 2007—DoS reports that $8.6 million (originally allocated for Iraqi electricity generation) has been reallocated to Migration and Refugee Assistance "to provide additional funding for life-sustaining assistance to meet the immediate needs of refugees and other conflict victims, including internally displaced persons."482

• FY 2008—The Administration requested $35 million for Iraq refugee aid in the FY 2008 supplemental.483

IRRF funds have supported voluntary return and reintegration assistance for an estimated 150,000 newly returned Iraqi refugees, helping with health, water and sanitation, shelter, and primary education issues.484

In addition to U.S. support, the UN Children’s Fund (UNICEF) has requested $42 million to provide water and sanitation services for Iraqi children, as well as education services for Iraqi refugee children in Jordan and Syria.485 DoS has reported that UNICEF also plans to fund nearly 8,000 vaccinators across Iraq to prevent a potential measles outbreak.486

REFUGEES
USAID has reported progress in programs for refugees this quarter. These programs include:487
• provision of relief commodities in Baghdad and Diyala province
• completion of long-term Office of U.S. Foreign Disaster Assistance projects
• preparation of concept papers focused on the "ongoing emergency needs for IDP beneficiaries and anticipated host community needs to improve water, health, sanitation, and income generation conditions for recently displaced populations"

In April 2007, UNHCR conducted the International Conference on Addressing the Humanitarian Needs of Refugees and Internally Displaced Persons inside Iraq and in Neighboring Countries. The objective of the conference was "to sensitize the international community to the humanitarian impact of the violence and conflict in Iraq, to seek commitments to address the immediate and foreseeable needs, and to identify targeted responses to specific problems."488

HUMAN RIGHTS
Of the $15 million of IRRF that was allocated to promote human rights in Iraq, $13 million has been expended.489 These are quarterly highlights of some U.S.-funded project results aimed at reducing human rights violations:490
• coordination of human rights workshops for officials from the Baghdad University and the Ministries of Human Rights, Environment, and Civil Society
• development of a mission statement, code of conduct, working plan, and timetable for the Human Rights Defenders Network, which comprises 18 nongovernmental organizations from Iraqi provinces
• training for the Iraqi Parliamentary Human Rights Committee on forced migration and roles and responsibilities of a parliamentary human rights committee

EDUCATION
IRRF also funded the construction of 809 schools and 6 public building construction and repair projects in Iraq. According to a June 29, 2007 IRMO report, all of these funds have been expended, and all 815 of the projects are completed.491

CERP FY 2006 and FY 2007 has funded 1,153 education projects in Iraq. To date, 799 of these programs have been completed, and 354 are ongoing as of July 2007.492
The International Compact with Iraq (Compact) will shape future donor assistance to Iraq. It was formally launched on May 3, 2007, by the Iraqi Prime Minister and UN Secretary-General in Sharm el-Sheik, Egypt.

The Compact supports Iraq’s five-year National Development Strategy (NDS) and includes mutual commitments from both Iraq and the international community, aimed at helping Iraq achieve political stability, improve security, and economic recovery.

The Compact requires the GOI to improve security, to address the corruption problem, to create a more efficient oil sector, to develop a solid budgetary framework, and to improve governance. Donors have already offered more than $20 billion in debt relief within the terms of the Compact. They also have pledged more than $11 billion in new grants and loans, which brings the estimate of total of international grants and loans for Iraq to $18.2 billion. Of those pledges, an estimated $3.6 billion has been committed, and $1.4 billion has been disbursed, according to the GOI.

The International Compact’s Agenda

The Compact focuses on four areas for reform and investment: public resource management, governance and institutions, economic reforms, and social sector reform.

Progress in these areas will significantly enhance Iraq’s capacity to:

- mobilize resources
- attract foreign investment and aid
- use resources in an efficient, transparent, and accountable manner

To assist with implementation of the Compact, the GOI has asked the international community for:

- financial assistance, including loans and loan guarantees, to support major investments in basic services that are currently beyond the GOI’s financial and technical capacity to execute because of its volatile oil revenue stream
- debt relief to reduce non-Paris Club debt, reparations, and the remaining 20% of Paris Club debt
- managerial and technical assistance, particularly to government ministries that need enhanced capacity to manage public investment
• assistance with a private-sector development strategy and promotion of private investment
• institutional strengthening and capacity building of government and civil society institutions
• assistance with accession to international agreements and development of new regional and international initiatives

The Compact Secretariat issued the first report on the implementation of the Compact on July 20, 2007. This report serves as a baseline for measuring progress and includes current achievements and continuing challenges.498

IRAQ’S ECONOMIC PRIORITIES OUTLINED IN THE COMPACT

The GOI has developed the National Development Strategy (NDS) for reform and investment over the next five years (2007-2011). Iraq’s reform, reconstruction, and development needs are spelled out in the NDS and the Compact, identifying these four pillars for sustainable development in Iraq:

1. Strengthen the foundations of economic growth, including a stable macro-economic framework in accordance with the IMF-supported Stand-By Arrangement (SBA).
2. Revitalize the private sector, particularly through the creation of an enabling environment.
3. Improve the quality of life, starting with the provision of basic services.
4. Strengthen good governance and security and combat corruption.499

The Compact seeks to achieve this by outlining goals in specific sectors.

Public Resource Management

The GOI plans to develop macro-economic and monetary policies to insulate the economy from the detrimental impacts of oil price fluctuations and to encourage diversified and sustainable development. It will also align its public finance management with sound international practices, including:
• promoting budget transparency and oversight
• improving the monitoring of international aid and assistance
• carrying out and publishing audits of GOI finances
• implementing international practices in budget execution and public procurement procedures across regions
• making the Financial Management Information System (FMIS) operational across all ministries and provinces

Strengthening Institutions and Improving Governance

The GOI’s goals in this area include:
• building consensus on economic reforms through dialogue and engagement with civil society
• mobilizing Iraq’s social capital in the process of development
• developing a legal framework and building
institutional capacity to deter corruption at all levels of government

- establishing a civil service corps on the principles of professionalism, integrity, and non-partisanship

**Economic Reform**

The GOI seeks to create an enabling environment for investment—public and private, domestic and foreign—as a driver for sustainable and diversified economic growth and job creation. It also plans to maximize the benefits from foreign aid and investment and integration into the global economies. This includes subsidy reform, private sector development and investment promotion, regional and international economic integration, and financial sector restructuring.

**Energy (Oil, Gas, and Electricity)**

The GOI plans to establish a regulatory and institutional framework on the basis of the pending hydrocarbon legislation, consistent with its constitution and based on sound international practice, with these goals:

- clarifying mandates between the national and sub-national levels
- separating policy making, regulation, and execution/operation function
- developing a national hydrocarbon strategy, policy, and regulatory framework
- building the capacity of the Ministry of Oil to carry out new policies
- consolidating national infrastructure and marketing of petroleum
- restructuring and commercializing upstream operations
- liberalizing downstream operations
- promoting foreign investment and private sector involvement on the basis of risk/reward pricing, transparency in contract execution and administration, consistency and transparency in the application of legal and regulatory frameworks, and an international arbitration option for investment disputes
- establishing a coherent, transparent, and predictable hydrocarbon fiscal regime
- improving monitoring and control, including metering at all stages
- implementing safeguards for the protection of the environment throughout the energy cycle, including a program for reduction, capture, and efficient use of flared gas

**Agriculture and Water Management Strategy**

The GOI plans to develop a stable, competitive, and sustainable agriculture sector to enhance food security and rural incomes, generate rural employment, diversify economic growth, and protect the natural environment, including:

- creating an environment for a market-oriented, private-sector driven, competitive, and profitable agriculture sector backed by appropriate GOI policy and institutional and infrastructure support
- developing a cohesive agricultural policy that integrates with food policy, trade policy, industrial policy, water policy, environment and natural resource management policy, and financial market development policy
- developing a financing plan, including public and private sources, to support agriculture sector policies and institutional and infrastructural reforms

**DEBT RELIEF**

By the end of 2006, the GOI’s external debt was estimated at $89 billion, down from the estimated $120 billion in 2004. The GOI’s current debt is nearly twice the size of its economy and continues to inhibit the country’s ability to attract investment to finance its economic reconstruction.500

Debt relief is a major component of the Compact. Within the framework of the Compact, four countries have announced plans to relieve the GOI of some of its debt.501 Table 2.17 shows a breakdown of debt relief resulting from the official launch of the Compact.

The reduction of Iraq’s external debt is mainly due to Paris Club debt cancellation. In 2004, the 18 Paris Club502 creditors agreed to forgive 80% of the $36 billion debt owed to Paris Club members. The United States forgave 100% of Iraq’s outstanding debt, totaling $4.1 billion.
The debt reduction plan is structured in three phases and is to be completed after three years of satisfactory performance under the SBA.\textsuperscript{503} As of the end of 2006, approximately $19 billion (36%) of the $36 billion Paris Club debt has been written off.\textsuperscript{504}

Progress has been slower with non-Paris Club sovereign debt, which accounts for $69 billion (77%) of Iraq’s external debt. The GOI has had better success with commercial creditors: Iraq has completed debt and cash exchanges with its commercial creditors on terms comparable to the Paris Club deal. All of the eligible large commercial creditors accepted Iraq’s debt exchange offer, and many smaller creditors accepted cash for debt, rather than new debt.\textsuperscript{505} By the end of 2006, Iraq had resolved 80% ($20 billion) of claims submitted by private creditors through debt and cash exchanges.\textsuperscript{506} Figure 2.84 shows a breakdown of Iraq’s external debt.

**GRANTS AND LOANS FROM INTERNATIONAL DONORS**

Total funds for Iraq reconstruction by international donors since 2003 are estimated to be $18.2 billion—including $13.5 billion in Madrid pledges and nearly $5 billion in new pledges since the Madrid Conference. This figure includes nearly $700 million in grants and loans that was pledged by countries within the context of the Compact.\textsuperscript{507} See Table 2.18 for a list of Compact pledges. The total pledge figure does not include pledges by the United States—a $10 million Madrid pledge and a $10.7 billion Compact pledge.

According to the Development Assistance Database (DAD), approximately $4.3 billion has been committed, and nearly $1.4 billion has been disbursed.\textsuperscript{508} For information on total donor assistance to Iraq, see Table 2.19 and Figure 2.85.\textsuperscript{509}

Of the original Madrid pledges, $8 billion came from individual countries, and the remainder came from the World Bank and UN. Approximately $10 billion of Madrid pledges were loans, and approximately $4 billion were grants from other countries. Of the total amounts pledged, $1.72 billion has funded projects in Iraq through the International Reconstruction Fund Facility for Iraq (IRFFI).
### Donor Grants and Loans to Iraq (U.S. dollars)

<table>
<thead>
<tr>
<th>Donor</th>
<th>Pledged*</th>
<th>Committed*</th>
<th>Disbursed*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>$104,168,111</td>
<td>$40,253,296</td>
<td>*</td>
</tr>
<tr>
<td>Austria</td>
<td>5,700,000</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Belgium</td>
<td>11,815,789</td>
<td>3,803,351</td>
<td>2,473,396</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>1,300,000</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Canada</td>
<td>286,085,242</td>
<td>178,238,910</td>
<td>106,082,427</td>
</tr>
<tr>
<td>China</td>
<td>38,000,000</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Croatia</td>
<td>333,000</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Cyprus</td>
<td>120,000</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>14,700,000</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Denmark</td>
<td>103,082,297</td>
<td>18,042,189</td>
<td>3,135,259</td>
</tr>
<tr>
<td>Estonia</td>
<td>80,000</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Finland</td>
<td>8,834,500</td>
<td>8,834,500</td>
<td>*</td>
</tr>
<tr>
<td>France</td>
<td>32,288</td>
<td>32,288</td>
<td>*</td>
</tr>
<tr>
<td>Germany</td>
<td>12,820,513</td>
<td>807,660</td>
<td>586,276</td>
</tr>
<tr>
<td>Greece</td>
<td>5,414,458</td>
<td>3,614,458</td>
<td>*</td>
</tr>
<tr>
<td>Hungary</td>
<td>1,667,005</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Iceland</td>
<td>3,200,000</td>
<td>2,700,000</td>
<td>*</td>
</tr>
<tr>
<td>India</td>
<td>11,000,000</td>
<td>7,500,000</td>
<td>*</td>
</tr>
<tr>
<td>Iran</td>
<td>1,020,000,000</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Ireland</td>
<td>3,534,300</td>
<td>1,234,568</td>
<td>*</td>
</tr>
<tr>
<td>Italy</td>
<td>273,753,133</td>
<td>35,732,540</td>
<td>5,266,564</td>
</tr>
<tr>
<td>Japan</td>
<td>5,000,000,000</td>
<td>1,529,643,666</td>
<td>1,024,431,900</td>
</tr>
<tr>
<td>Jordan</td>
<td>1,500,000</td>
<td>75,000</td>
<td>*</td>
</tr>
<tr>
<td>Kuwait</td>
<td>516,200,000</td>
<td>10,000,000</td>
<td>*</td>
</tr>
<tr>
<td>Lithuania</td>
<td>30,000</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>2,563,298</td>
<td>2,323,298</td>
<td>*</td>
</tr>
<tr>
<td>Malta</td>
<td>270,000</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Netherlands</td>
<td>21,929,596</td>
<td>15,929,596</td>
<td>2,482,916</td>
</tr>
<tr>
<td>New Zealand</td>
<td>7,178,378</td>
<td>3,378,378</td>
<td>*</td>
</tr>
<tr>
<td>Norway</td>
<td>24,018,692</td>
<td>23,186,046</td>
<td>8,313,911</td>
</tr>
<tr>
<td>Oman</td>
<td>3,000,000</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Pakistan</td>
<td>2,500,000</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Portugal</td>
<td>600,000</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Qatar</td>
<td>100,000,000</td>
<td>5,000,000</td>
<td>*</td>
</tr>
<tr>
<td>Russia</td>
<td>8,000,000</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>1,000,000,000</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Singapore</td>
<td>$1,700,000</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Slovenia</td>
<td>420,000</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>South Korea</td>
<td>460,000,000</td>
<td>$168,334,627</td>
<td>$132,017,457</td>
</tr>
<tr>
<td>Spain</td>
<td>270,000,000</td>
<td>188,406,287</td>
<td>62,251,729</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>75,500</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Sweden</td>
<td>58,424,464</td>
<td>47,450,978</td>
<td>5,819,693</td>
</tr>
<tr>
<td>Switzerland</td>
<td>11,000,000</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Taiwan</td>
<td>4,300,000</td>
<td>*</td>
<td>*</td>
</tr>
</tbody>
</table>
INTERNATIONAL SUPPORT FOR IRAQ RECONSTRUCTION

Donor Grants and Loans to Iraq (U.S. dollars)

<table>
<thead>
<tr>
<th>Donor</th>
<th>Pledged*</th>
<th>Committedb</th>
<th>Disbursedb</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>50,000,000</td>
<td>1,300,000</td>
<td>98,442</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>215,000,000</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1,537,037,037</td>
<td>450,063,185</td>
<td>82,042,828</td>
</tr>
<tr>
<td>Vietnam</td>
<td>700,000</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>11,200,787,601</td>
<td>2,745,884,821</td>
<td>1,435,002,798</td>
</tr>
<tr>
<td>European Commission</td>
<td>968,757,000</td>
<td>669,680,000</td>
<td>1,786,621</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>12,169,544,601</td>
<td>3,415,564,821</td>
<td>1,436,789,419</td>
</tr>
</tbody>
</table>

International Financial Institutions

<table>
<thead>
<tr>
<th>Institution</th>
<th>Pledged</th>
<th>Committed</th>
<th>Disbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMF (low range)</td>
<td>2,550,000,000</td>
<td>714,000,000</td>
<td>*</td>
</tr>
<tr>
<td>World Bank (low range)</td>
<td>3,000,000,000</td>
<td>164,240,000</td>
<td>76,014</td>
</tr>
<tr>
<td>Islamic Development Bank</td>
<td>500,000,000</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>6,050,000,000</td>
<td>164,240,000</td>
<td>76,014</td>
</tr>
<tr>
<td>Total International Donor Assistance</td>
<td>$18,219,544,601</td>
<td>$3,579,804,821</td>
<td>$1,436,865,433</td>
</tr>
</tbody>
</table>

* No data available.
* This loan is from the Stand-By Arrangement. The GOI has stated that it is not likely to draw on these funds. Source: IRFFI, World Bank Operation in Iraq Data Sheet, June 30, 2007, www.irffi.org.
* This figure does not include the $10 million Madrid pledge and the $10.7 billion Compact pledge from the United States. Note: Data not formally reviewed, audited, or verified.

Table 2.19

International Reconstruction Fund Facility for Iraq

A portion of donor assistance is administered by the IRFFI. Twenty-six donors have committed $1.72 billion510 to the two IRFFI funds—the World Bank Iraq Trust Fund (WB ITF) and the UN Development Group Iraq Trust Fund (UNDG ITF).

Nearly all IRFFI commitments have been deposited (99%). Of the total IRFFI funds, approximately $1.1 billion has been contracted, and $742 million has been disbursed.511

World Bank Iraq Trust Fund

In January 2004, donors authorized the World Bank to administer the World Bank ITF, which began receiving funds in March 2004. As of June 30, 2007, 17 donors pledged approximately $462.1 million to the World Bank ITF; $459.6 million has been deposited. Of that amount, $320 million has been contracted, and $108 million has been disbursed:

- The World Bank ITF finances 16 projects, valued at $437 million.
- The GOI directly implements 13 of the 16 projects, valued at $428.2 million.512
- The World Bank implements the remaining two projects ($8.5 million) in capacity...
building and technical assistance.
• Two World Bank projects financed by the ITF—the First Capacity Building Project and the Emergency Textbook Provision Project—are completed and closed.  

Figure 2.86 reflects the status of World Bank ITF funds through June 30, 2007.

UN Development Group Iraq Trust Fund
The United Nations Development Programme (UNDP) administers the UNDG ITF. As of May 31, 2007, 25 donors have committed $1.18 billion to the ITF, of which $1.17 billion has been deposited. Sixteen UN agencies are implementing 151 projects with more than $1 billion in funding. UNDP has the most funding ($297 million), followed by the UN Office for Project Services ($177 million) and UNICEF ($139 million):
• $741 million (72%) has been contracted.
• $634 million (62%) has been disbursed.
• 25 projects have been completed.  

For the status of UNDG ITF funds through May 31, 2007, see Figure 2.87.

Examples of Donor-funded Projects
According to the DAD, donors have funded 647 projects totaling more than $5 billion across 11 sectors. There are many challenges to obtaining and verifying donor data because there is no single, unified and populated reporting system for all donors. Although the DAD is intended to provide that vehicle, the capacity of the Iraqi Ministry of Planning to coordinate a wide variety of multilateral, bilateral, and international organization data is still evolving. Therefore, the information listed in Table 2x is not a complete view of donor assistance. According to the DAD, the Governance and Democracy sector had the largest number of donor-funded projects (20%). The Infrastructure sector, however, is the largest donor-funded sector in terms of project costs (30%). See Table 2.20 for examples of projects by sector.

THE FUTURE OF DONOR ASSISTANCE
In March 2007, the IMF Executive Board completed the third and fourth reviews under the SBA. At that meeting, the period covered by the SBA was also extended by six months through September 2007. Discussions on the fifth and final review under the current SBA and on the 2007 Article IV consultation are scheduled to begin this summer. Iraqi authorities have also indicated that they intend to request a successor arrangement to cover the period needed to reach the last stage of the Paris Club debt reduction agreement by December 2008. The GOI will continue to work on reaching debt reduction agreements with non-Paris Club creditors.
INTERNATIONAL SUPPORT FOR IRAQ RECONSTRUCTION

Donor Fund Projects, as of 7/5/2007 (U.S. dollars)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of Projects</th>
<th>Project Cost</th>
<th>Types of Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Food, and Fishing</td>
<td>33</td>
<td>$205,850,397</td>
<td>Japan is the largest sovereign donor in this sector, with four projects totaling nearly $20 million. Many of the projects in this sector are irrigation projects and training.</td>
</tr>
<tr>
<td>Economic Development</td>
<td>16</td>
<td>$226,951,262</td>
<td>The IMF has conducted 18 workshops for senior technical experts and executives from the Central Bank, Ministry of Finance, and State-owned banks. The workshops have covered monetary and fiscal policy, central bank operations and accounting, balance of payments, banking supervision, and bank reform and restructuring. The United Kingdom sponsored a capacity-building project to help the Ministry of Finance lead and manage a comprehensive macroeconomic reform program.</td>
</tr>
<tr>
<td>Education, Science, and Culture</td>
<td>67</td>
<td>$478,370,285</td>
<td>According to the DAD, the UNDG ITF has funded the most projects in this sector, 21 projects costing $145.5 million. Typical projects in this sector include rehabilitating schools, training educators, and providing educational materials to educational facilities.</td>
</tr>
<tr>
<td>Energy</td>
<td>1</td>
<td>$1,500,000</td>
<td>According to the DAD, the United Kingdom is the only donor other than the United States to fund an energy project. The United Kingdom spent $1.5 million to refurbish a Petrochemical Works Reverse Osmosis Unit.</td>
</tr>
<tr>
<td>Enterprise and Industry</td>
<td>1</td>
<td>$17,000,000</td>
<td>According to the DAD, Spain is the only donor other than the United States to fund an Enterprise and Industry project. Spain supplied $17 million worth of industrial equipment.</td>
</tr>
<tr>
<td>Environment</td>
<td>42</td>
<td>$555,580,127</td>
<td>The WB ITF funded 3 projects totaling $180 million. Many of the projects in this sector focus on water and sewage treatment. There are also technical assistance projects.</td>
</tr>
<tr>
<td>Governance and Democracy Development</td>
<td>130</td>
<td>$510,675,058</td>
<td>The UNDG ITF has funded the most projects (33), with a total cost of $232 million. Many projects in this sector have focused on elections, civil society development, and refugees and internally displaced people assistance.</td>
</tr>
<tr>
<td>Health</td>
<td>86</td>
<td>$586,267,252</td>
<td>According to the DAD, Japan has financed 37 projects in this sector, with costs totaling $242 million. Typical projects include medical facility rehabilitation, medical equipment, and training for health care workers.</td>
</tr>
<tr>
<td>Housing, Labor, and Social Affairs</td>
<td>95</td>
<td>$727,062,722</td>
<td>The WB ITF has funded 4 projects in this sector, with a total cost of more than $200 million. The DAD includes refugee and water treatment projects in this sector.</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>103</td>
<td>$1,530,334,754</td>
<td>Japan and the World Bank have funded the most projects in this sector, according to the DAD. Japan has funded 43 projects totaling $523 million, and the World Bank has funded 8 projects totaling $336 million. Many of the projects in this sector focus on electricity generation and the building of roads.</td>
</tr>
<tr>
<td>Security</td>
<td>37</td>
<td>$132,679,708</td>
<td>Only 2.6% of total project costs were spent in this sector, according to the DAD. Most of this funding came from Japan, which funded 11 projects totaling $80 million. The typical project in this sector provides training and equipment for the police and military.</td>
</tr>
<tr>
<td>Unspecified/Unclassified</td>
<td>25</td>
<td>$42,901,570</td>
<td>Since the Compact, donors are providing more technical assistance to Iraq. For example, the World Bank, IMF, EU, and UK are coordinating efforts to provide technical assistance to Iraq for economic reform.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>647</strong></td>
<td><strong>$5,065,730,314</strong></td>
<td>Note: Data not formally reviewed, audited, or verified.</td>
</tr>
</tbody>
</table>

Table 2.20
SIGIR Oversight

SIGIR Audits
SIGIR Inspections
SIGIR Investigations
SIGIR Hotline
SIGIR Website
Legislative Update
SIGIR AUDITS


This quarter, SIGIR audits addressed a wide range of issues:

- an assessment to determine whether the U.S. government is receiving the services paid for under Logistics Civil Augmentation Program (LOGCAP) Task Order 130 and whether the support provided is reasonable, efficient, and cost-effective
- a review of the process of transferring completed construction projects to the Government of Iraq (GOI) is working
- status of the U.S. Embassy-Iraq anticorruption initiative and a follow-up of actions taken on recommendations made in SIGIR’s July 2006 audit report
- SIGIR’s first focused financial review, which looks at the U.S. Agency for International Development’s (USAID’s) Phase II Iraq reconstruction contract with Bechtel National, Inc. (Bechtel)
- financial-related reviews, including the status of the financial reporting of the cost to complete ongoing IRRF-funded construction projects and a look at the sources and uses of FY 2006 funds for Iraq relief and reconstruction
- a report on the roles and responsibilities of the U.S. government agencies and activities involved in Iraq relief and reconstruction
- an assessment of the status of the Provincial Reconstruction Team (PRT) program expansion

SIGIR has 19 ongoing audits, and at least 9 more are planned to start next quarter. SIGIR performs audit work under generally accepted government auditing standards. Details on SIGIR audits are presented throughout this Report:

### SIGIR Final Audit Products, since April 30, 2007

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Table 3-1
For the titles of the eight audit products issued final during this reporting period, see Table 3-1.

For information on all SIGIR audit work completed as of July 30, 2007, and for the full text of all final audit products, see Appendix I and the SIGIR website: www.sigir.mil.

During the quarter, SIGIR helped develop many informational papers to respond to congressional requests. SIGIR provided information on contracting procedures and processes, progress of the Iraqi Security Forces logistics support program development, forensic auditing, and recovery audits.

On June 23, 2007, SIGIR chaired a meeting of the Iraq Accountability Working Group (IAWG). IAWG’s coordination complements the ongoing coordination provided by the Iraq Inspectors General Council (IIGC) in Arlington, Virginia. The forward-deployed audit staffs of the various federal agencies in Iraq use the IAWG to coordinate audits, share data relative to Iraq relief and reconstruction, minimize audit disruption to clients, and avoid duplicative efforts.

SIGIR audits generally have four distinct phases:
- **engagement planning** to evaluate the adequacy and effectiveness of controls built into a project or program and establish detailed plans for fieldwork in a design matrix
- **fieldwork** to conduct detailed examinations, tests, and analyses to collect appropriate and adequate data
- **reporting** of results and recommendations
- **audit closure and follow-up** on the implementation of the audit recommendations

The implementation of audit recommendations is crucial. SIGIR auditors regularly follow up on all accepted recommendations until they are fully implemented. Recommendations that are not accepted are resolved through the applicable resolution process of each organization, normally at the deputy level.

This quarter, as congressionally mandated by the Inspector General Act of 1978, as amended, SIGIR includes its semiannual report on the status of the implementation of SIGIR recommendations. In Appendix I, SIGIR reports on the recommendations closed since the last Quarterly and Semiannual Report and the recommendations that remain open.

**Final Audit Products**

**Logistics Civil Augmentation Program Task Order 130: Requirements Validation, Government Oversight, and Contractor Performance**

(SIGIR-07-001, JUNE 22, 2007)

**Introduction**

Established in 1985, the Logistics Civil Augmentation Program (LOGCAP) is a U.S. Department of the Army (Army) program that preplans for the use of global corporate resources in support of worldwide contingency operations. If U.S. forces deploy, contractor support is then available to a commander as an option. LOGCAP has two objectives:
- Provide combat support and combat service support augmentation to both combat-
ant and component commanders, primarily during contingency and other operations (including reconstitution and replenishment within reasonable cost).

- Facilitate the management and physical responsibility to support deployment, site preparation, set preparation, modules operations and maintenance (O&M), redeployment, and transportation requirements for the force provider.

Examples of the type of support available include supply operations, laundry and bath, food service, sanitation, billeting, maintenance, fuel services, power generation and distribution, and transportation. LOGCAP has been used to support U.S. forces in operations in Somalia, Haiti, and Bosnia, and it is currently being used to support operations in Afghanistan, Kuwait, and Iraq. The use of LOGCAP to support U.S. troops in Iraq is the largest effort in the history of LOGCAP.

Additionally, LOGCAP support is authorized for other U.S. military services, coalition forces, other government agencies, and non-governmental organizations. The basic contract requires the contractor, unless indicated otherwise, to adhere to functional Army regulations and to gather operational performance data required by regulations or the contract’s required list of deliverables.

Awarded on December 14, 2001, the LOGCAP contract (DAAA09-02-D-0007) comprises a series of task orders that commit the contractor to provide support services and the government to pay for those services. Task orders under this contract can be either fixed-price or cost-reimbursable. In Iraq, the total cost of all 149 task orders issued under the LOGCAP contract is approximately $22.5 billion, as of March 4, 2007.

The focus of this review is LOGCAP Task Order 130, which was awarded on April 27, 2006, to Kellogg Brown and Root Services, Inc. (KBR) to provide services necessary to support, operate, and maintain the Chief of Mission and Multi-National Force-Iraq (MNF-I) staffs at the U.S. Embassy-Iraq and at other Chief of Mission sites in Baghdad, Basrah, Hilla, and Kirkuk. The task order has an estimated value of about $243 million. Scheduled to expire on April 7, 2007, the task order was extended for up to 90 days.

This task order is a continuation of services previously awarded under Task Order 100 and Task Order 44, which were awarded on November 5, 2004, and March 6, 2003, respectively. Because these task orders provided support to both the Department of Defense (DoD) and Department of State (DoS) missions in Iraq, DoD and DoS reached an agreement that the reimbursement of costs associated with the three task orders would be shared 60% by DoS and 40% by DoD. The total cost associated with these three task orders is approximately $1.3 billion.

These are the primary government offices involved with the operation of Task Order 130 in Iraq:

- The DoS Embassy Management Office—headed by the Counselor for Management Affairs, U.S. Embassy-Iraq—is responsible
for the day-to-day support of Chief of Mission (COM) operations in Iraq.

- The DoD Joint Area Support Group-Central (JASG-C) in the International Zone is the MNF-I military component that provides administrative and logistical services and coordinates military support to the U.S. Mission-Iraq.
- The Baghdad office of the Defense Contract Management Agency (DCMA) provides onsite monitoring of the contractor.
- The U.S. Army Sustainment Command is responsible for administering the LOGCAP program. The Procuring Contracting Officer, the LOGCAP Program Manager, and the Logistical Support Element Office—established to help customers in Iraq with LOGCAP requirements—are assigned to this command.
- The Defense Contract Audit Agency (DCAA) provides its expertise in reviewing the contractor's financial management system and ensuring that costs claimed by the contractor are reasonable, allowable, and allocable.

**Objectives**

SIGIR performed this review at the request of the Management Counselor, U.S. Embassy-Iraq. The broad objectives of this review were to determine whether the U.S. government is receiving the services paid for under LOGCAP Task Order 130 and whether the support provided is reasonable, efficient, and cost-effective. This report specifically addresses three issues:

- Does the government have a process in place that ensures that requirements are properly validated?
- Did KBR’s performance meet contractual requirements in an effective and efficient manner?
- Is the government performing adequate oversight of KBR’s performance?

This partial review of Task Order 130 specifically examined elements of contractor operations conducted in the International Zone for services in four areas: fuel operations, food service, billeting, and morale/welfare/recreation services.

On October 26, 2006, SIGIR issued an interim report, “Inappropriate Use of Proprietary Data Markings by the Logistics Augmentation Program (LOGCAP) Contractor” (SIGIR-06-035). This report discussed KBR’s practice of routinely marking information provided to the government as “KBR Proprietary Data” and KBR’s initial refusal to provide data that SIGIR requested in its native electronic format.

SIGIR plans to issue additional reports on other elements of LOGCAP Task Order 130.

**Results**

DoS and JASG-C have a process in place to ensure that all new requirements, including those initiated by the contractor, are properly validated. However, the standard operating procedure guide that describes the process is not current. At the time of this report, a DoS/JASG-C working group was in the process of revising this guide to reflect the current
procedures for new requirements validation. As of May 31, 2007, a revised guide had not been issued.

Customer survey results suggest that KBR satisfactorily supplied the required services, but SIGIR identified several areas in which contractor services and government oversight could be improved. Specifically, improvement can be made to the U.S. government oversight of KBR's performance and in the management and use of government resources. Independent quality assurance reviews were not conducted on KBR's internal controls, and reviews were not conducted of KBR's compliance with applicable government policies and Army regulations. However, during the SIGIR review, U.S. government activities initiated several actions to improve the monitoring and delivery of KBR's services, such as appointing Contracting Officer's Technical Representatives (COTRs) and improving the oversight of the billeting tracking system.

Fuel Operations. SIGIR found weaknesses in KBR's fuel receiving, distributing, and accountability processes of such magnitude that SIGIR was unable to determine an accurate measurement of the fuel services provided. These weaknesses were material and identified a high risk of a potential improper use of fuel. SIGIR also determined that government monitoring was not particularly strong during this period because of the lack of qualified staff to perform oversight for this technical area. However, during SIGIR's ongoing discussions with KBR management, corrective action was implemented to improve controls and reduce the high risk of unauthorized use or improperly recorded issuances of fuel supplies. The government has also appointed a COTR as a government monitor with the necessary technical skills to improve the government's oversight.

Food Service. SIGIR found that during FY 2006, the food service subsistence account was overspent by $4.5 million when compared to the Army's Basic Daily Food Allowance (BDFA) and the recorded level of service provided. Moreover, the government oversight participants had not clearly understood or established oversight of the account. Officials from the Management Counselor's Office told SIGIR that they were not aware of the applicable food service guidance provided in Army Regulation 30-22 relating specifically to the operations of LOGCAP dining facilities. Consequently, these requirements associated with government management and oversight were not being followed under the contract terms and Task Order 130. DCMA told SIGIR that there were two reasons that the subsistence account was overspent:

- The menu used to support the COM dining facilities may have provided a significant number of higher cost food items from the standard Army dining facility menu published by the Army's Center of Excellence, Subsistence.
- The government did not have the requisite number of qualified personnel to properly oversee the headcount in accordance with applicable guidance.

KBR cited similar reasons for the overspent status.
However, for the first reason, SIGIR could not determine who gave this order to use more of the higher-cost food items. SIGIR could not find any documentation authorizing KBR to exceed the normal B DFA meal allowance costs, and nothing in the current LOGCAP contract or statement of work (SOW) for Task Order 130 authorizes the contractor to procure subsistence for meals for the dining facilities supporting the COM in excess of the established Army standard B DFA rate for Iraq. DoS staff told SIGIR that they did not believe the Army’s guidance applied to them.

Management Counselor officials told SIGIR that they were unaware of the requirement; therefore, they did not appoint a disinterested inventory officer to oversee the semiannual subsistence (food) inventory, which is conducted in March and September. As a result, before SIGIR pointed out the requirement for an independent inventory, the contractor was performing self-oversight of the acquisition and use of food. In September 2006, the government conducted a proper FY 2006 inventory with the appropriately appointed government staff.

**Billeting.** SIGIR found many errors in KBR’s automated billeting tracking tool, which were caused primarily by poor procedures for in-processing and out-processing for housing allocations. This resulted in less-than-optimal use of available trailers. Trailers are to be assigned as single or shared occupancy—according to rank, grade, or status—and properly relinquished on out-processing for subsequent allocation. Furthermore, although both DoS and JASG-C billeting guidance require trailers for COM and MNF-I contractors to have shared occupancy, SIGIR found housing disparities because the government allowed KBR to manage its own separate billeting area (Camp Hope). In most cases, KBR employees (749 of 835, or 90%) are housed as single occupants in trailers—a higher standard than for those they support.

DoS officials told SIGIR that they were generally unaware of their ability to control KBR’s billeting practices. SIGIR’s review of the contract and task order showed that the contractual language in this area is vague, and SIGIR found no fault with KBR’s actions. However, SIGIR could not identify a specific reference in the contract or task order that relieved the government of its oversight function with regard to KBR billeting or allowed KBR to establish its own standard. As a matter of economy and an effective use of limited housing, SIGIR questions the difference in standards given that the government pays all costs associated with KBR’s billeting. Adherence to the current COM and JASG-C billeting policy could have the potential of a 45% reduction in housing requirements of the LOGCAP contractor for Task Order 130. Further, there may also be opportunities for COM and JASG-C to use any excess billeting space now in full control of the contractor.

**Morale, Welfare, and Recreation Services.** SIGIR found no significant problems with KBR’s performance or government oversight in this area. A COTR has been appointed.

**Government Oversight.** The examples
cited support for what SIGIR considers to be two key weaknesses in the government’s oversight of the LOGCAP contract. First, the oversight process did not carefully examine the contractor’s internal controls over the services being provided. Second, the oversight to ensure economy and efficiency in the use of the LOGCAP contract was limited. The SIGIR review identified that DCMA’s oversight processes tended to focus too heavily on the delivery of service under the contract without focusing sufficiently on whether adequate controls were in place to protect the access to and use of government resources. For example, SIGIR found numerous problems with the contractor’s fuel receiving and disbursing processes that were not identified by DCMA’s fuel services quality assurance (QA) reviews. Instead, DCMA staff conducted their QA reviews in conjunction with the contractor’s QA auditors using a QA checklist based on KBR’s internal procedures. As a result, DCMA’s QA reviews focused on KBR’s operational processes—not on its internal controls. SIGIR believes that this flawed QA review methodology led to material weaknesses that were not identified by the government. The reviews were also documented on the contractor’s forms marked as proprietary, limiting their use to the government and questioning the independence of the government’s participation in these reviews.

SIGIR determined that part of the DCMA’s shortfalls in performing adequate oversight can be attributed to problems its staff described as identifying and appointing qualified COTRs. Typically, the customer provides subject matter experts to assist DCMA in its administrative contracting officer duties. COTRs are an important element in effective oversight. However, SIGIR found that no COTRs were appointed until September 2006 during the SIGIR review. From September 2006 to December 2006, DCMA identified and appointed 18 COTRs to this task order from JASG-C and DoS. SIGIR believes that if these appointments had been made earlier, many of the control shortfalls identified in the fuel and food service area may have been detected earlier.

SIGIR also determined that there was no formal government-led process that actively pursued economy and efficiency in the use of contractor-provided services, except in the new requirements validation and approval process. Although the primary customers—DoS and JASG-C—had a process for approving requirements and ensuring that adequate funds were available, they did not always determine for each category of services provided: (1) the appropriateness of the day-to-day services, (2) the level of services being provided, and (3) the economy and efficiency with which the services are being provided. The government has not conducted customer-based reviews that focus on these attributes. These reviews would have increased the likelihood of identifying issues SIGIR found, such as the difference in the application of billeting standards between KBR employees and contractors affiliated with COM and DoD. SIGIR believes that the first-line responsibility for defining the level of sup-

SIGIR OVERSIGHT
port in any contract belongs to the customer, who should periodically evaluate each category of contracted service for potential savings and improved service delivery.

SIGIR also noted that on April 6, 2006, the Headquarters, U.S. Army Field Support Command, sent a letter delegating the Administrative Contracting Officer (ACO) functions to DCMA. This letter defined the administrative support functions, including such functions as ensuring that the contractor performs in accordance with the statement of work and the basic terms and conditions of the contract. The letter also stated that DCMA was to ensure the efficient use of contractor personnel, but it did not specifically direct DCMA to ensure that the contract was performed in a cost-efficient and effective manner. SIGIR believes that if the delegation letter had been more specific, DCMA may have performed its oversight beyond compliance to delivery of services. SIGIR will report on the overall program management aspects of the full task order in a future review.

**Government and Contractor Management Actions**

During the review, COM, JASG-C, DCMA, and the contractor all took actions to address several of the U.S. government management-control weaknesses discussed in this report.

In September 2006, the DoS Management Office and JASG-C established a working group to revise the standard operating procedure guide to reflect current procedures for validating new requirements. However, as of May 31, 2007, a revised guide had not been issued.

- For *ongoing services* being performed, DCMA identified and appointed staff from both COM and JASG-C as COTRs to monitor all services required under this task order.
- For *fuel*, KBR had taken positive actions to address weaknesses in the control over the receipt, issuance, and accountability of fuel noted during the SIGIR review. KBR also modified the fuel database to add data integrity controls and exception reports to ensure that data is entered accurately and to identify attempts to enter data that is outside of acceptable parameters.
- For *food services*, during the SIGIR review, DCMA appointed, as required, a disinterested, independent government representative to oversee the September 2006 FY-end subsistence (food) accountability inventory.
- For *billeting services*, the DoS Management Office, U.S. Embassy-Iraq, and JASG-C took action during the course of this review to verify the billeting assignments under COM/JASG-C control and, in coordination with KBR, took action to update and correct the information in the automated billeting tracking tool. This verification did not include the separate KBR-controlled housing. However, at SIGIR’s recommendation, the Procuring Contracting Officer under the U.S. Army Sustainment Command said that he drafted proposed contract modification language stating that KBR’s billeting is subject to government billeting oversight. He said he will consider this new language in future LOGCAP task orders.
• Further, the U.S. Army Sustainment Command, in response to the SIGIR interim report on KBR’s propriety data markings on documents, took immediate action by adding modification P00018 (October 30, 2006) to the basic LOGCAP contract. The modification added specific language to the contract that SIGIR had recommended on government proprietary information and electronic submission directions. In response to discussions on a draft of this report, the U.S. Army Sustainment Command made several contract management changes to the SOW for the successor to Task Order 130 (Task Order 151) to improve oversight in food service, fuel operations, and billeting operations.

Recommendations
SIGIR recommends that the Counselor for Management Affairs, U.S. Embassy-Iraq:
1. Continue working with JASG-C to revise the standard operating procedures to include requirements for validating new work under Task Order 130 and successor task orders.
2. Continue working with JASG-C to verify billeting assignments and ensure proper assignment of billets based on published criteria.
3. Develop and issue, in coordination with JASG-C, a process and procedure for central in-out processing. This process should be added to a standard process for personnel arriving into and departing from billets in Iraq supported by Task Order 130. All personnel (military, federal civilian employees, contractors, etc.) should be required, as part of the departure process, to present a sign-off from billeting that they have cleared billeting before permanently departing from Iraq and that they no longer have a recurring need for bed space under Task Order 130 and successor task orders.
4. Continue working with JASG-C to improve management controls over food services, including developing proper controls to ensure that there is an accountability process for tracking the personnel using the dining facilities and that those personnel are properly authorized to receive food services subsistence.
5. Work with Army and DoS representatives to clearly define each government entity’s responsibilities in overseeing Task Order 130 and successor task order activities. If the determination is made that additional assistance is needed from either organization to oversee key activities, then the Management Counselor should formally request specific assistance.

SIGIR recommends that the LOGCAP Procuring Contracting Officer take these actions:
6. Amend the delegation letter for the ACO duties to include:
   a. Examining the contractor’s internal control practices, including contractor reporting data integrity, to ensure that basic and proper internal controls are established and adhered to and that the services are performed
efficiently and cost-effectively.
b. Developing DCMA-specific QA criteria, procedures, and reports to conduct an independent government review.

7. Reinforce its delegation for DCMA to ensure that qualified COTRs are formally identified, appointed, and assigned, as necessary, to assist DCMA-Baghdad in reviewing technical aspects of the contractor’s functions.

8. In accordance with Army Regulation 30-22 (May 10, 2005) render a procuring contracting officer’s determination as to the reasons why the overspent status occurred and take appropriate action in accordance with the LOGCAP contract terms.

Because of the potential for improving the use of housing resources and reducing costs of the LOGCAP contractor life-support services, SIGIR recommends that the LOGCAP Procuring Contracting Officer, in coordination with the overall LOGCAP Program Management Office, take these actions:

9. Address the appropriateness of any LOGCAP contractor controlling its own billeting assignments/standards during negotiations for any future task orders that may be issued under the current LOGCAP contract, as well as during negotiations for the follow-on LOGCAP contracts. As a matter of public policy, these two issues should be addressed:
   a. Should a LOGCAP contractor be permitted to define its own billeting standards (for its own employees) that are above the established standards for other contractors and/or federal military and civilian personnel whom the contractor supports, and be reimbursed for the full cost?
   b. Should a LOGCAP contractor be permitted to have exclusive control of billeting assignments for its own employees? If so, what are the proper controls needed to ensure that LOGCAP billeting is operating in an economical and efficient manner as determined by the appropriate government oversight entity?

Management Comments and Audit Response
SIGIR received written management comments on a draft of this report from the DoS Management Counselor’s Office and technical comments from DCMA. Actions have been taken to meet the intent of the recommendations. Although both organizations stated that they believe there had always been adequate oversight on Task Order 130, each organization (1) acknowledged the need for changes in their contract management processes and (2) listed specific actions taken in response to each of the issues that SIGIR brought to their attention during the review. SIGIR extended the comment period to accommodate the time required by DCMA to respond to the draft report. Copies of these responses are included in the final report.

The U.S. Army Sustainment Command gave SIGIR oral comments that generally concurred with the findings and recommendation. Further, U.S. Army Sustainment Command used
several of the verbal recommendations made during the audit to revise the SOW for the successor to Task Order 130 (Task Order 151) to improve oversight in food service, fuel operations, and billeting operations. SIGIR did not receive written comments from the U.S. Army Sustainment Command.

Cost-to-complete Reporting for Iraq Reconstruction Projects (SIGIR-07-003, JULY 2007)

Summary
As of the quarter ending March 31, 2007, DoS has yet to meet its mandate to provide the Congress with information on the uses of all Iraq Relief and Reconstruction Fund (IRRF) monies on a project-by-project basis, including the cost to complete each project. SIGIR was told that systems limitations related to automating the data have continued to result in unreliable data. In a written response to a SIGIR inquiry as to why cost-to-complete reports were not being submitted to the Congress, a senior official of the DoS Bureau of Near Eastern Affairs (NEA) said that NEA did not submit the required cost-to-complete information to the Congress because, over the course of two and a half years, the Congress had not requested it.

However, during the review, SIGIR found that the Gulf Region Division (GRD) of the U.S. Army Corps of Engineers prepares and reports project status to the Iraq Reconstruction Management Office (IRMO) Deputy Director, and these reports contain detailed project-level cost-to-complete information. Since May 8, 2007, GRD has provided these reports to IRMO’s successor, the Iraq Transition Assistance Office (ITAO). SIGIR believes that this project status information meets the intent of what the Congress has requested, yet neither IRMO nor ITAO has forwarded the GRD reports to NEA. SIGIR also believes that using this project status report would not impose any additional reporting requirement on GRD—the organization with project oversight for most of the ongoing IRRF-funded reconstruction projects.

Follow-up on Prior Report Recommendations
In previous reports on this subject, SIGIR made 20 recommendations for improving cost-to-complete reporting—5 to IRMO and 15 to the three implementing agencies: GRD, the U.S. Agency for International Development (USAID), and the Multi-National Security Transition Command-Iraq (MNSTC-I). Two recommendations remain open because of actions not taken:

- IRMO did not provide data to the Congress on the adequacy of cost-to-complete methodologies in sectors other than the Facilities and Transportation sector. This recommendation remains applicable to ITAO, which is to continue coordination, oversight, and reporting on remaining IRRF funds under Presidential Executive Order 13431.
- GRD has not reported significant scope changes to projects in its cost-to-complete reports, but it has included this requirement in its Standard Operating Procedure No. PR-128, “Developing Cost to Complete Reports” (April 4, 2006).
Background
The Congress established a requirement in Section 2207 of Public Law (P.L.) 108-106, Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004, to report quarterly estimates of cost to complete on a project-by-project basis for all projects funded by IRRF. This report, known as the Section 2207 Report, is currently compiled by NEA from information provided by the principal agencies involved in Iraq relief and reconstruction—USAID, GRD, and MNSTC-I (formerly through IRMO). The requirement for the Section 2207 Report expires on October 1, 2008.

According to the October 2005 Section 2207 Report, DoS advised the Congress that the cost-to-complete information would be reported as a companion document to the Section 2207 Report. The format for this report was developed in late 2005 by an interagency assessment team sent to Baghdad in March 2005 to address the information shortfall. The assessment team's work resulted in an action plan to provide cost-to-complete data in a Project Assessment Report (PAR) format on all projects valued at more than $6.5 million, for a total of 151 projects.

SIGIR has issued three reports on cost-to-complete reporting:

- In July 2005, SIGIR reported that the agencies responsible for preparing the cost-to-complete information were not reporting cost-to-complete estimates or did not have adequate internal controls in place to provide accurate and transparent cost-to-complete information.

- In October 2005, SIGIR reported that IRMO was not receiving the required information to submit to the Congress, but IRMO was making progress in securing improved reporting from the implementing agencies.

- In January 2006, SIGIR reported that MNSTC-I had not submitted a report for the quarter ending September 30, 2005, and that GRD and USAID submitted reports with errors that were significant enough to undermine users’ confidence in the reporting. SIGIR further reported that GRD and IRMO were taking actions to improve the reporting.

All three SIGIR reports included recommendations to IRMO and the three implementing agencies. The recommendations to IRMO focused on the need to develop, formalize, and provide guidance to the three principal agencies to ensure that the agencies report consistent cost-to-complete information. The recommendations to the implementing agencies primarily related to their developing methodologies to ensure that they report accurate cost-to-complete information.

Findings
In its June 29, 2007 Program Review Board, GRD reported that it had more than $2.2 billion in IRRF-funded construction projects remaining. This includes an estimated $2.2 billion for 372 IRRF projects started but not completed, and for 11 projects awarded but not started. GRD also reported $934.2 million in IRRF unliquidated obligations. In the same
report, MNSTC-I data included nine projects started but not completed, and nine projects awarded but not started. These projects have an estimated cost of approximately $16.8 million. Also, MNSTC-I has only $5 million in unliquidated obligations. As of June 29, 2007, USAID did not have any IRRF-funded projects.

SIGIR continues to believe that the lack of complete, accurate reporting of cost-to-complete information on a project-by-project basis deprives the Congress and senior decision-makers of the ability to make informed judgments on resource priorities. At this point, however, most IRRF-funded projects are complete, and GRD is managing most of the remaining projects. Rather than expend further effort to correct problems with the current PAR format, an alternative may be to use the existing project status report that GRD uses to brief the ITAO Deputy Director. This report contains project-level information and would provide the information expected by the Congress without imposing an additional reporting requirement on GRD.

IRMO and GRD review the projects using monthly cost-to-complete reports that have more detail and are prepared with more direct involvement from the GRD sectors than the PAR. It is clear that IRMO, GRD, USAID, and MNSTC-I recognized the value of accurate, complete cost-to-complete reporting and placed considerable emphasis in this arena, particularly with respect to their monthly cost-to-complete sector reviews conducted by IRMO and briefed to the Deputy Director of IRMO. Further, SIGIR’s review of the GRD monthly cost-to-complete reports showed that data was reported at the project-by-project level, which is more aligned with the requirements of Section 2207. The SIGIR comparison of the PAR data fields to those of the monthly cost-to-complete report shows that the two reports have 27 data fields in common, including all the data fields used in computing the project’s cost to complete. However, SIGIR also identified ten additional miscellaneous fields that the two reports do not share, but it should be a minimal effort for management to review and consolidate. Finally, based on this review, SIGIR raises the question regarding potentially duplicative preparation and reporting of cost-to-complete information—with the PAR being less responsive to the legislative requirement.

**New Iraq Funding and Cost-to-complete Reporting**

The Congress has appropriated an additional $10.2 billion for Iraq through the Economic Support Fund (ESF) and the Iraq Security Forces Fund (ISFF). Neither law included a requirement for cost-to-complete reporting. IRMO reported the accomplishments for ESF construction and non-construction projects in Appendix III of the January 2007 Section 2207 Report and did not plan to report cost-to-complete information for ESF-funded construction projects. MNSTC-I also reports accomplishments for ISFF-funded projects in Iraq through the quarterly Section 9010 Report to the Congress, which does not require information on the cost to complete projects.
Recommendations

To comply with the project level cost-to-complete reporting requirements of Section 2207 of P.L. 108-106, SIGIR makes these recommendations:

1. The Commanding General, GRD, should direct GRD management to submit its project level cost-to-complete report to ITAO for the quarter ending September 30, 2007, as a replacement for its current quarterly cost-to-complete PAR report.

2. The Director, ITAO, should use the GRD project-level cost-to-complete report as a replacement for the current PAR report and submit it quarterly to NEA to accompany the Section 2207 Report to the Congress.

3. The Principal Deputy Assistant Secretary of NEA should ensure that the GRD cost-to-complete report is submitted with the Section 2207 Report to the Congress beginning with the quarter ending September 30, 2007.

Lessons Learned

DoS should have asked for clarifying instructions of the congressional requirement for reporting on cost to complete. According to a senior NEA official, NEA did not submit more detailed information beyond that provided in the Section 2207 Report because over the course of two and a half years, the Congress had not requested it. Nonetheless, IRMO and the implementing agencies put forth a considerable effort to gather the data and forward it to NEA; SIGIR believes that NEA was well aware of this effort. For NEA to have allowed this effort to continue without either providing the reports to or seeking clarification from the Congress was wasteful. The lesson learned is that when there is confusion about a congressionally directed requirement, agencies should seek clarification from the Congress rather than ignore the requirement, waste resources, and hamper congressional oversight.

Congress should consider requiring agencies to provide the methodology that will be used to meet required reports. During SIGIR’s four reviews of the progress being made in reporting the cost to complete IRRF-funded projects, agency officials responsible for preparing the required reports questioned the definition of “project.” Even as late as June 2007, senior managers at NEA questioned the definition of project cost to complete, yet did not seek clarification. If the Congress had required a methodology or even a report on how the IRRF-implementing organizations were going to satisfy the reporting requirement, this would have been identified early on and most likely been resolved. As a result, in April 2006, more than two years after the congressional requirement became law, GRD issued its standard operating procedure that responds to the congressional intent.

Management Comments and Audit Response

A draft of this report was provided to GRD, ITAO, and NEA. SIGIR received written comments from GRD and ITAO. Both of the respondents concurred with recommendation 1. Neither agreed with recommendations 2 or 3, each generally interpreting the requirements of Section 2207 of P.L. 108-106 as not requiring that project-level, cost-to-complete informa-
tion—in any type of report—accompany the quarterly *Section 2207 Report to the Congress.* SIGIR disagrees with this interpretation. Both P.L. 108-106 and an October 17, 2005 memorandum from the IRMO Director discuss the inclusion of project-level, cost-to-complete information with the quarterly submission of the *Section 2207 Report to the Congress.* According to the IRMO Director, the mechanism to comply with the law was the PAR report. SIGIR, therefore, is supporting recommendation 2.

NEA did not provide comments.

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

(SIGIR-07-004, JULY 2007)

**Introduction**

This report is one of a series issued by SIGIR that addresses transferring completed projects funded by the IRRF to the GOI. It focuses on the formal transfer of IRRF-funded capital assets and follows up on prior SIGIR recommendations relating to capital asset transfer.

As of May 31, 2007, IRMO, USAID, MNSTC-I, and GRD have managed the completion of 2,797 IRRF 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, 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 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 DoS 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 GOI?
2. Have there been delays in transitioning projects to the GOI; if so, what have been the causes and impacts 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 SIGIR 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.

USAID is the one agency that has not used the Asset Recognition and Transfer Working Group’s common policy. In a previous recommendation, SIGIR 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. SIGIR previously identified problems in sustaining completed projects.\textsuperscript{525}

SIGIR has issued four asset transfer reports, each with one recommendation, on the transfer of completed projects to the GOI.\textsuperscript{526} 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. SIGIR continues 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**

SIGIR recommends 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 GOI.

**Management Comments and Audit Response**

SIGIR received written comments on a draft of this report from the U.S. Embassy-Iraq, USAID, and GRD. The Ambassador to Iraq concurred with the recommendation. USAID and GRD have provided technical comments about asset recognition and acceptance for SIGIR consideration. These comments are addressed in the final report as appropriate. SIGIR considers all comments received responsive to the intent of the recommendations.

**Fact Sheet on Sources and Uses of U.S. Funding Provided in Fiscal Year 2006 for Iraq Relief and Reconstruction** (SIGIR-07-005, JULY 2007)

**Background**

In November 2003, the Congress enacted Public Law (P.L.) 108-106, which created the IRRF 2 and appropriated $18.439 billion for security, relief, rehabilitation, and reconstruction in Iraq. The funds were allocated to specific sectors of Iraqi governance and society.
Section 2207 of the law also required that the Office of Management and Budget (OMB), in consultation with the Coalition Provisional Authority (CPA) Administrator, submit quarterly reports to the House and Senate Committees on Appropriations on the proposed uses of IRRF funds on a project-by-project basis, including cost-to-complete estimates. This reporting requirement is currently the responsibility of DoS. These reports were required to be submitted to the Congress until October 2007; however, P.L. 109-234, enacted in June 2006, extended the date for submitting the reports until October 2008.

In addition to creating IRRF 2, P.L. 108-106 also created the CPA’s Office of Inspector General (CPA-IG) to conduct, supervise, and coordinate audits and investigations of the CPA’s treatment, handling, and expenditure of IRRF funds and of the programs, operations, and contracts carried out utilizing IRRF funds. The CPA-IG was also required to submit quarterly reports summarizing the activities of CPA-IG and CPA, including a detailed statement of all obligations, expenditures, and revenues associated with reconstruction and rehabilitation activities in Iraq. In June 2004, the CPA was terminated, and its responsibilities were transferred to the U.S. Mission-Iraq. At the same time, the CPA-IG was re-designated as the Special Inspector General for Iraq Reconstruction (SIGIR). In FY 2007, P.L. 109-440 expanded the duties of SIGIR to include the oversight of all funds appropriated or otherwise made available in FY 2006 for the relief and reconstruction of Iraq, regardless of how they are designated.

**Summary**

The Congress appropriated about $5.4 billion in additional, non-IRRF funding made available for FY 2006 to four separate funds for various relief and reconstruction projects in Iraq. Between 29 and 230 calendar days elapsed from the time the funds were made available by the Congress until they reached the field-level implementing organizations through a series of agency apportionment, allotment, allowance, and other funding transactions.

Two programs, however, were outside the range of calendar days it took for the funds to be made available to the implementing activities in Iraq. These programs were not considered in estimating the range of days because of special circumstances concerning these programs or their appropriations:

- **$2 million for the Democracy and Rule of Law program for Iraq and Afghanistan, funded by the Economic Support Fund, in P.L. 109-234.** As of June 14, 2007, this amount had not yet been allotted because the Congress had not resolved a decision on whether the funds should go to Iraq or Afghanistan.
- **$375 million CERP funds provided for Iraq programs in P.L. 109-148, of which a portion of the budget authority was made available pursuant to the Continuing Resolution, approved on September 30, 2005.** However, the Congress did not enact the appropriation legislation to make the funds available for use until December 30, 2005.
The laws that enacted the additional, non-IRRF funds do not impose the same quarterly reporting requirements as contained in P.L. 108-106 although some imposed other reporting requirements.

Funds were appropriated in FY 2006 under these laws:

- P.L. 109-148, Department of Defense, Emergency Supplemental Appropriations To Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act, 2006, enacted December 30, 2005

The FY 2006 appropriations funded:

- Iraq Security Forces Fund—$3.007 billion made available to assist the Iraqi Security Forces
- Economic Support Fund—$1.545 billion made available by appropriations to assist Iraq relief and reconstruction efforts in the security, economic, and political areas
- Commander’s Emergency Response Program—$510 million for Iraq made available through two appropriations to enable local U.S. military commanders in Iraq to respond to urgent humanitarian relief and reconstruction requirements in their areas of responsibility
- International Narcotics Control and Law Enforcement funding—$91.4 million ($82 million for prison construction) made available to DoS

**Objective**

The overall objective of this review was to identify the sources and uses of the funds made available by the Congress in FY 2006 for Iraq relief and reconstruction.

The information reported in this fact sheet is as of March 31, 2007. This fact sheet was organized by fund type, under these categories:

- **Legislative Authority:** discusses the legislation that appropriated the funds
- **Reports Required by Law:** defines the reporting requirements established by the Congress
- **Other Reports:** defines the reporting requirements established by other activities
- **Fund Availability and Use:** describes when and for what purpose the activities in Iraq began using the funds
- **Control and Oversight:** describes how control over funds and performance is monitored and maintained
- **Performance Measures:** identifies the metrics that have been established to assess the success or failure of the funded programs

Each of the principle components reviewed and concurred with how SIGIR compiled and presented its information. Because information provided by OMB was completely documented, SIGIR did not ask OMB to validate its input to this fact sheet.
Status of U.S. Government Anticorruption Efforts in Iraq
(SIGIR-07-007, JULY 2007)

This report discusses the results of the SIGIR assessment of U.S. government anticorruption efforts in Iraq and follows up on an earlier review to determine the U.S. Embassy’s progress in implementing SIGIR’s prior recommendations.

Summary

Addressing the issue of corruption remains a top Embassy priority for Iraq. SIGIR’s analysis generally shows two levels of effort—one aimed at economic, financial, and public integrity reforms and one aimed at technical and law enforcement reforms.

Nevertheless, since the July 2006 audit report, several challenges impeded the progress in implementing a coherent anticorruption program:

- The absence of a program manager with the authority and support to provide the necessary leadership and coordination of the overall anticorruption effort is a major challenge to success.

- Although several organizations are conducting many individual programs in Iraq, there is no comprehensive, integrated plan with metrics that ties these programs to an overall U.S. Mission-Iraq strategy or that provides a baseline to measure progress. All of these programs are attempting to address the complex development and institutional issues surrounding corruption, but SIGIR believes that greater synergy among these programs could be achieved by having a plan that links programs to specific objectives of the overall strategy. Although the Embassy planned to create an inventory of programs and activities and then assess each against goals and objectives, neither has been accomplished as of June 1, 2007.

- The absence of an overall strategy makes it difficult to assess the adequacy of funding to meet the desired end state.

On balance, there has been some progress by individual initiatives. For example, in January 2007, the Embassy established the Office of Accountability and Transparency (OAT), which works to strengthen the Iraqi anticorruption institutions—the Board of Supreme Audit (BSA), the Office of the Inspector General (IG) at each ministry, and the Commission on Public Integrity (CPI). This new office has already accomplished a number of noteworthy achievements, including:

- providing a full-time advisor for the Iraqi IGs
- providing a full-time advisor for the BSA
- assisting in the development of a charter for the Joint Anticorruption Council (On May 16, 2007, the Joint Anticorruption Council charter was signed, and Iraqi charter members have already held meetings.)

Another initiative to address corruption is the development of a financial management tool, the Iraqi Financial Management Information System (FMIS). This system is intended to help the GOI provide financial transparency and accountability in its fiscal operations. Besides reducing corruption, this compre-
hensive, fiscal automated recordkeeping process should provide for open and reliable accounting and financial reporting and help restore the Iraqi citizens’ confidence in their government. However, because of security and safety issues, the contractor has suspended work on this project.

**Follow-up on Prior Report Recommendations**
In July 2006, SIGIR issued a report on the U.S. Embassy-Iraq’s anticorruption program, which identified a number of problems, including a lack of coordination and leadership in anticorruption activities. SIGIR recommended that DoS appoint a senior leader to direct the program to provide continuity in program administration and made 11 other recommendations for program improvement. As of June 30, 2007, limited progress has been made implementing these recommendations.

**Recommendations**
Based on the assessment of U.S. government anticorruption efforts, SIGIR recommends that the U.S. Ambassador to Iraq take these actions:
1. Re-emphasize and re-address the recommendations made in SIGIR’s July 2006 audit report. As part of re-addressing the prior recommendations:
   a. Include in the corrective actions plans an estimated completion date for implementing each recommendation.
   b. Complete the inventory of anticorruption programs, activities, and initiatives.
   c. Complete the assessments of the major program initiatives that are supporting the Embassy’s Anticorruption Strategy.

**Management Comments and Audit Response**
SIGIR requested and received consolidated comments from the U.S. Embassy-Iraq on a draft of this report. The Embassy stated that it supported and was committed to pursuing the recommendations of this report and provided additional information on actions underway on SIGIR’s previous recommendations. SIGIR also received and considered technical comments, where appropriate, in the preparation of the final report. SIGIR considers the comments and actions taken to be responsive to the report.

**Fact Sheet on the Roles and Responsibilities of U.S. Government Organizations Conducting IRRF-funded Reconstruction Activities**
(SIGIR-07-008, JULY 2007)
From May 2003 through June 2004, the CPA was responsible for overseeing, directing, and coordinating the relief and reconstruction effort in Iraq. The Project Management Office (PMO) was established to prioritize and manage projects and provide contract support for U.S.-funded reconstruction projects.

In May 2004, to successfully meet the “new and formidable challenges” after the termination of the CPA and the reestablishment of a sovereign government in Iraq, the President issued National Security Presidential Directive-36 (NSPD-36). NSPD-36 stated that after the transition of sovereignty to the Iraqi government, DoS would be responsible for all U.S. activities in Iraq through the Ambassador to Iraq. DoD would be responsible for all U.S. efforts related to security and military...
operations. On June 28, 2004, when power transferred to the sovereign Iraqi Interim Government, CPA was officially dissolved. The PMO split into two organizations: IRMO was responsible for coordinating the reconstruction effort, and the Project and Contracting Office (PCO) assumed PMO’s project construction/execution responsibilities.

The presidential directive also established two temporary offices:

- **IRM O**, under DoS, facilitated and coordinated U.S. reconstruction efforts in Iraq. IRMO’s responsibilities included strategic planning, prioritizing requirements, monitoring spending, and coordinating with the military commander. On May 8, 2007, the President, by Executive Order 13431, created the Iraq Transition Assistance Office as the successor organization to IRMO. This fact sheet refers to IRMO’s tenure.

- **PC O**, under DoD, facilitated acquisition and project management support for U.S.-funded reconstruction projects. PCO’s responsibilities included contracting for and delivering infrastructure, related services, and supplies. On December 4, 2005, the positions of Director-PCO and Commanding General, USACE GRD, merged to form the consolidated GRD/PCO organization, under the DoD Assistant Secretary of the Army for Acquisition, Logistics and Technology (ASA(ALT)). At the end of FY 2006, PCO in Baghdad stood down, and the remaining elements of the organization became functional areas of GRD. On October 14, 2006, the mission of the PCO in Iraq officially ended, and GRD was formally identified as the successor organization to PCO when it expired in May 2007. On May 11, 2007, the PCO-Washington office was closed. This fact sheet refers to PCO’s tenure.

In May 2005, the Deputy Secretary of Defense established the Defense Reconstruction Support Office (DRSO) to provide a single DoD focal point for coordinating operational support of reconstruction in Iraq and Afghanistan. In this role, DRSO:

- represented DoD in interagency forums on operational matters
- provided support to senior officials in meetings, briefings, and testimony before the Congress
- prepared the quarterly report to the Congress required under Section 9010 of the DoD Appropriations Act for 2006 (the Section 9010 Report, Measuring Stability and Security in Iraq)

In January 2007, the Under Secretary of Defense for Policy assumed DRSO’s functions, including:

- preparing the Section 9010 Report
- monitoring Development Fund for Iraq (DFI) activities through the UN International Advisory and Monitoring Board
- providing support to Global War on Terror activities

This report discusses the leadership and management of Iraq reconstruction projects funded by IRRF appropriations in P.L. 108-11 and P.L. 108-106.
P.L. 108-11, The Emergency Wartime Supplemental Appropriations Act (April 16, 2003) appropriated $2.47 billion “for necessary expenses for humanitarian assistance in and around Iraq and to carry out the purposes of the Foreign Assistance Act of 1961 for rehabilitation and reconstruction in Iraq.” Known as IRRF 1, the fund was designed to enable CPA, the transitional government in Iraq, and coalition partners to meet the needs of an expected humanitarian crisis in the aftermath of Operation Iraqi Freedom. For managing the expenses and overseeing the assistance effort, OMB apportioned the funds directly to the organizations conducting Iraq reconstruction activities, including DoS, DoD, USAID, and Treasury.

P.L. 108-106, The Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan (November 6, 2003) appropriated $18.649 billion for relief and reconstruction activities in Iraq and Afghanistan, of which $18.439 billion was specifically for Iraq. These funds are known as IRRF 2. OMB apportioned the IRRF 2 funds directly to the organizations conducting Iraq reconstruction activities, including DoS, USAID, DoD, and Treasury.

The roles and responsibilities of the major government organizations participating in the Iraq effort are described in the individual summaries in this report. These summaries present how officials view their authority and responsibilities, as well as their coordination with other organizations. SIGIR did not validate those authorities, roles, and interface efforts: this was not in the scope of the review.

**Review of Bechtel’s Spending under Its Phase II Iraq Reconstruction Contract (SIGIR-07-009, JULY 2007)**

**Introduction**

One of the principal U.S. government agencies involved in Iraq reconstruction is USAID, which received $4.6 billion of the funds that the Congress appropriated for Iraq relief and reconstruction. Under its Iraq Infrastructure Reconstruction Program, USAID awarded two successive Iraq reconstruction contracts—referred to as Phase I and Phase II—to Bechtel National, Inc. (Bechtel). The Phase I contract (EEE-C-00-03-00018-00) was designed to repair, rehabilitate, or rebuild vital elements of Iraq’s infrastructure. This contract was funded with part of the $2.5 billion that the Congress appropriated in the Emergency Wartime Supplemental Appropriations Act, P.L. 108-11, which created IRRF 1 to be used for a broad range of humanitarian and reconstruction activities in Iraq. On April 17, 2003, the contract was awarded for $680 million; on September 30, 2003, it was modified and increased to approximately $1.03 billion. The contract ended on February 28, 2006.

To expand the reconstruction effort, USAID awarded to Bechtel the competitively bid Phase II contract (SPU-C-00-04-00018-00). This contract was funded with part of the $18.4 billion appropriated in the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, P.L. 108-106, for security, relief, rehabilitation, and reconstruction of Iraq (IRRF 2). Under the cost-plus fixed-fee Phase II contract, Bechtel
was to provide engineering, procurement, and construction services. To obtain technical expertise, USAID and USACE signed a Participating Agency Service Agreement to have USACE provide construction oversight of Bechtel.

The Phase II contract was awarded on January 5, 2004, for $1.8 billion. On March 31, 2007, the contract ended, and the total estimated cost reported was $1.33 billion. This report focuses on the Phase II contract and the 24 job orders through which the contracted work was accomplished. The 24 job orders were allocated to sectors as follows: 14 in water and sanitation, 8 in power, 1 in telecommunications, and 1 in buildings.

Objectives
This is the first in a series of focused financial reviews of large contractors funded by IRRF. The objectives of this audit were to determine the costs that Bechtel incurred performing work funded by the IRRF, as well as the methods used to record and report associated costs. Specifically, SIGIR addressed these questions:

1. What cost detail is contained in the invoices and supporting documentation submitted to the government by Bechtel?
2. What costs did Bechtel incur in carrying out its contracted tasks, including cost of material, labor, overhead, security, subcontracts, and all other costs?
3. How many layers of subcontracts did Bechtel have in performing the contracted work?
4. What types of contracts (firm-fixed-price, cost-plus, or other arrangement) were used for subcontracts; at each layer of subcontracting, what costs were billed to the next level of subcontractor?
5. What were USAID’s administrative fees?

Subsequently, in the January 30, 2007 Quarterly Report and Semiannual Report, SIGIR further elaborated on the objectives to include a discussion of contract outcomes, contract administration, and other items.

Results
Overall, the Phase II contract accomplished a substantial amount of work that contributed to the reconstruction of Iraq, particularly in the electricity and water and sanitation sectors. However, the results on individual projects were mixed: some were completed as originally envisioned, others were cancelled, and still others were partially completed and were transferred to other organizations for completion.

SIGIR analyzed the 24 job orders to determine if the original objectives were achieved, and determined that:

- 11 of the job orders clearly met their original objectives.
- 10 did not achieve their original objectives as stated in the original scope of work.
- For 3 job orders, SIGIR was either unable to determine what their original objectives were or the achievements were unclear.
SIGIR believes that the experience gained in the course of the Phase II contract provides important insights into Iraq reconstruction and lessons for future reconstruction in Iraq and elsewhere.

SIGIR encountered many obstacles in trying to measure the relationship between requirements, cost, and output/outcomes, including these:
• The requirements or deliverables were not always specific in the job orders.
• The scope of work and funds available changed over time.
• The budget estimates in the job orders did not include all costs.
• Unanticipated delays, such as land ownership issues, delayed schedules.
• The ever-changing security situation in Iraq caused schedule delays, resulting in increases to support and direct construction costs.

SIGIR also determined that USAID and USACE staffing was considerably below authorized levels. As of April 5, 2006, in the middle of contract execution, USAID Mission-Iraq had filled only 170 of 251 total authorized positions, and USACE had filled only 18 of 37 authorized positions to provide the agreed-on assistance to USAID.

More specifically, USAID had only two people directly involved in contract administration of the Phase II contract—the administrative contracting officer and the cognizant technical officer. According to USAID’s July 20, 2007 response to our draft of this report, others also provided contract management assistance, including U.S. contractors and locally engaged engineers. However, during the SIGIR review, USAID officials also told SIGIR that contract administration was under-staffed, which limited site visits to corroborate conditions claimed by contractors. USAID contract administration officials in Iraq stated that they would have preferred to have two full-time contracting officers, supported by two seasoned negotiators—one for document control, one for administration.

Another factor that limited USAID’s oversight was that USAID had agreed in its contract with Bechtel to review and pay Bechtel’s vouchers within ten days of submittal. Based on SIGIR’s discussions with USAID comptroller officials involved in the voucher review process, it appeared that USAID did not perform a detailed analysis of the costs being incurred because of the limited time available for review. Also, under the Phase II contract, cost analysis was not a task specifically assigned to the administrative contracting officer or the cognizant technical officer. Furthermore, the task of thoroughly examining Bechtel’s summary cost schedules—which sometimes comprised hundreds of pages of documentation—would have required a significant amount of time.

However, to balance the limited review time and staff shortage, USAID also had an agreement with the Defense Contract Audit Agency (DCAA) to conduct reimbursable cost-incurred audits of Bechtel’s contract costs to determine their reasonableness, allowability, and allocability. DCAA audited Bechtel’s accounting system and reported that Bechtel
had in place adequate systems and controls to accurately capture costs. As of March 2007, DCAA reviewed about $1 billion in Bechtel's recorded costs incurred from January 5, 2004, through October 31, 2006, and questioned less than 1% of the costs claimed. The purpose of the DCAA incurred cost audits are to determine whether costs claimed are allowable, allocable, and reasonable in accordance with the contract and applicable government acquisition regulations.

Bechtel's direct physical reconstruction costs were about 59% of overall costs; as a result, the remainder would be support costs of about 41%. According to reporting by SIGIR and the U.S. Government Accountability Office (GAO), this support-cost percentage is in line with the support costs incurred by other major contractors—both in Iraq and in the United States. SIGIR determined that support costs are important to reconstruction, as are the direct physical reconstruction costs, because they provide the management framework and life support within which reconstruction occurs. However, all costs should be incurred in an efficient and effective manner.

Bechtel's contract was geared toward the use of subcontractors as indicated in its USAID-approved subcontracting plan, which stated that Bechtel would subcontract approximately 90% of the direct reconstruction costs. Of Bechtel's subcontracts, 39% were awarded to Iraqi firms. SIGIR identified a total of 168 subcontracts—66 awarded by Bechtel and 102 awarded in turn by some of Bechtel's subcontractors. All but two of these subcontracts were fixed-price contracts. Bechtel had procedures that it used to manage its subcontractors, but multiple layers of subcontract management made oversight complex, and neither USAID nor Bechtel had information on all subcontracts down to the lowest tier.

USAID's administrative costs were funded directly from IRRF, not taken from Bechtel contract funds. According to the agency’s accounting records, USAID has obligated $157 million from IRRF 2 to fund its overall administrative expenses for the entire USAID/Iraq Mission. USAID did not segregate its overall administrative costs by individual contract. Further, through November 30, 2006, USAID paid $23.5 million to USACE for assistance in managing the Bechtel contract.

**Lessons Learned**

This report contains no recommendations, but SIGIR identified three important lessons to be learned from the contracting, execution, and oversight of the Phase II contract for future reconstruction in Iraq and elsewhere.

- **Strong contract administration and adequate staffing are critical to success.** In the Phase II contract, the clarity of job orders was mixed: some were clearly written, and others were vague, potentially causing costs to rise. USAID had a relatively small contract administration staff—two full-time, in-country staff—to oversee a contract valued at more than $1 billion, with 24 job orders throughout Iraq. Bechtel provided USAID with voluminous detailed information on the status of work, but USAID and USACE
were staffed substantially below authorized levels. SIGIR has previously reported in a review of one of the projects under the Phase II contract that although USAID had an effective process in place for tracking the project, the information it received was not adequately analyzed and reported. It is essential that agencies provide enough staff to monitor contracts commensurate with their size and complexity and to ensure that there is strong contract administration and project management.

- A clear understanding and review of costs is also important to contract management. USAID contractually committed itself to processing invoices within ten days of receipt, which limited its ability to thoroughly review them before payment. Although Bechtel captured detailed cost data in its accounting system and provided it to USAID, there was still a large miscellaneous category, amounting to $250 million, categorized as Other within the largest cost category. Other was for subcontracts and other services. Miscellaneous or other costs should not be allowed to exceed a contractually defined ceiling—such as 10% of costs—to prevent the loss of visibility that accompanies large miscellaneous categories, and contractors should be directed to develop additional cost categories to capture costs in accounting systems when miscellaneous costs exceed that set ceiling.

- Minimizing support costs makes more money available for reconstruction. In future contracts, managers need to determine how heavily to rely on primes or subcontractors that do little of the actual work but represent more than a quarter of the costs. Also, it is important to achieve a clear understanding of how they add to costs and what is the value added. Government contract managers and program/project managers need to be attentive to the support-costs aspects of any contract and remain vigilant for opportunities to reduce this cost.

Management Comments and Audit Response

This report contained no recommendations; therefore, no written response was required. We provided a draft of this report to DoS and USAID. Each provided technical comments, which were considered and addressed, where appropriate, in the final report.

Future SIGIR Work

SIGIR plans to conduct a series of focused financial reviews of contractors receiving funds for Iraq relief and reconstruction. Consequently, SIGIR plans to identify systemic issues and report at the end of the series on the challenges of relief and reconstruction in Iraq and lessons learned that address systemic issues and leading practices across these multiple contracts.

Status of the Provincial Reconstruction Team Program Expansion in Iraq

(SIGIR-07-014, JULY 2007)

Introduction

On January 10, 2007, President Bush announced a “New Way Forward” to accelerate
Iraq’s transition to self-reliance. The strategy called for a surge of civilian and military personnel into the provinces and a doubling of the number of provincial reconstruction teams (PRTs) and personnel to support and sustain the transition to Iraqi control. Though still evolving, plans as of the end of June called for the number of PRTs to grow from 10 to 25 and the staff strength to double to 700. The original 10 PRTs will continue to operate at the provincial level, but an additional 15—called ePRTs—will embed directly into brigade combat teams (BCTs) to deploy in neighborhoods and work at the district and municipal levels. The goal is to create areas where moderates will have political space to operate and anti-Iraqi forces are brought under control.

Objectives
The objectives of this audit, the second of three in a series on PRTs, were to determine the status of the U.S. government’s plan to expand the number of PRTs and supporting staff in Iraq. Specifically, SIGIR addressed these questions:

- What human resources and funding have U.S. government organizations identified to support the PRT expansion?
- What performance measures or metrics are used to evaluate the effectiveness of PRTs?
- What actions were taken to address previous recommendations made in SIGIR’s October 2006 report?

SIGIR is in the process of conducting fieldwork for the third audit, examining the effectiveness of the PRT Program, and will report the findings in September 2007.

Results
The PRT Program is currently in phase two of a three-phase expansion program and is on course to meet the Administration’s goal of doubling the number of PRTs and supporting staff in Iraq:

- Phase I (January-March 2007): ten 4-person ePRT core members were successfully embedded with BCTs in the strategically important provinces of Baghdad, Anbar, and northern Babylon.
- Phase II (April-August 2007): 136 specialists will join the advance ePRT teams and several priority PRTs. These specialists will work in city management, business development, agribusiness, and other areas. As of July 20, 2007, DoD had deployed 70 of 104 specialists committed to the program and expects to have the remaining 34 in place by the end of August 2007. DoS, the Department of Agriculture, and USAID are expected to provide the remaining 32 specialists. These specialists have been identified and will begin training on August 27, 2007, in the Washington, D.C. area and are expected to be in Iraq in September.
- Phase III (September-December 2007): an additional 142 specialists are to be deployed to support the work plans of all of the existing PRTs and the new ePRTs. Specialists from DoS, USAID, and the Departments of Justice, Agriculture, and Commerce will deploy to all PRTs and backfill DoD spe-
specialists whose one-year deployment terms conclude in February 2008. Full implementation of Phase III depends on the release of the FY 2007 Iraq emergency supplemental appropriations.

As of June 2007, the United States has provided $1,924 million to support the Iraq PRT Program, and DoS has requested additional funding of $937 million in FY 2008.

The Office of Provincial Affairs (OPA) is a key component of the program that requires additional development and support. In May 2007, the Chief of Mission established OPA at the minister-counselor level to support the PRT program. Under the leadership of an ambassador-level coordinator, OPA is charged with synchronizing governance, reconstruction, security, and economic development assistance to the PRTs. Despite the importance of this new office, however, the Embassy has not been able to fill critical staff vacancies to establish continuity of leadership and experience in managing the PRT program.

In October 2006, SIGIR recommended that the Secretaries of State and Defense take action to define PRT objectives and performance measures and to develop milestones for achieving program objectives. To date, OPA and MNF-I have not clearly defined PRT objectives and performance measures. Therefore, SIGIR cannot easily report on what the PRTs and ePRTs are accomplishing, individually or collectively. In late May 2007, DoS officials told SIGIR that, in response to the new strategy and surge in Iraq, OPA was reassessing performance indicators with an interagency team in Washington.

In addition to the recommendation to define the PRT objectives and performance measures, SIGIR's October 2006 report made six other recommendations. Most notably, SIGIR recommended that the Secretaries of State and Defense issue a joint statement reaffirming that the PRT initiative is a DoS/DoD priority, clearly defining the mission, and delineating the lines of authority and coordination between civilian and military personnel. The remaining recommendations called for specifying the skill-set needed for civil affairs personnel, which will enable better training, selection, and assignment. Also, SIGIR recommended improved reporting of attack incident data for PRTs located at military forward-operating bases to better maintain visibility over civilian personnel and provide PRTs with critical intelligence. SIGIR found that actions were taken to address the intent of these recommendations and considers the recommendations closed.

Recommendations
SIGIR recommends that the U.S. Ambassador to Iraq and the Commanding General, MNF-I, take these actions:
1. Develop a performance monitoring system to determine what the PRTs are accomplishing, including clearly defined objectives and performance measures, and milestones for achieving stated objectives.
2. Require PRTs to submit work plans for accomplishing objectives within established milestones.
3. Develop a workforce plan for OPA to fill critical staff vacancies and ensure continu-
ity in leadership and experience managing the PRT Program.

Management Comments and Audit Response
DoD and the U.S. Embassy-Iraq provided written comments on a draft of this report, generally concurring with SIGIR’s recommendations, and MNF-I responded in an e-mail that it concurred with the recommendations. SIGIR considers that all comments received are responsive to the intent of the recommendations and that technical corrections, as applicable, were made to the final report.

Ongoing Audits
SIGIR is currently working on these ongoing audits:
• SIGIR-6006: Review of the Close-out Processes and Procedures for Iraq Relief and Reconstruction Fund Contracts
• SIGIR-6026: Review of Iraq Relief and Reconstruction Fund Unliquidated Obligations
• SIGIR-7010: Review of the Effectiveness of U.S. Government Contracts To Enable Budgeting and Financial Management Capabilities by the Iraqi Ministries
• SIGIR-7011: Review of Spending of U.S. Government Funds under Parsons Corporation’s Iraq Reconstruction Contracts (Focused Financial Review)
• SIGIR-7013: Review of the Use of Sector Project and Contracting Office Contractors (SPCOCs) in Managing Relief and Reconstruction Projects
• SIGIR-7014: Continuing Review of Logistics Civil Augmentation Program (LOGCAP) Task Order 130
• SIGIR-7018: Review of Spending under Blackwater Contracts in Support of Iraq Relief and Reconstruction (Focused Financial Review)
• SIGIR-7019: Review of Construction Projects under the Commander’s Emergency Response Program (CERP) in Iraq
• SIGIR-7021: Review of the Effectiveness of the Provincial Reconstruction Team Program in Iraq

Focused Financial Reviews
The Congress has required SIGIR to perform a “forensic audit.” By agreement, this requirement will be met through focused financial reviews:
• SIGIR-7022: FluorAMEC Joint Venture (electric and public works/water sectors)
• SIGIR-7023: Research Triangle Institute
• SIGIR-7024: Parsons Iraq Joint Venture (oil sector)
• SIGIR-7025: Lucent Technologies (facilities & transportation sector)
• SIGIR-7026: Development Alternatives, Inc.
• SIGIR-7027: Perini Corporation (electric sector)
• SIGIR-7028: KBR (oil sector)

The overall objectives of each of these reviews are to determine the provisions, costs, oversight, and accomplishments of the identified contractor and/or their subsidiaries/joint venture partners on Iraq relief and reconstruction contracts with the U.S. government in the identified sector. Specifically, for each contract, SIGIR intends to answer these questions:

• What was the request for proposal (RFP) process, and what were the key requirements and provisions of the procurement?
• What was the contracting process, and what are the key requirements and provisions of the contracts, including amendments, modifications, and task orders?
• What are the costs and funding sources of the contracts?
• How were the contracts administered to provide oversight?
• How did the prime contractor perform oversight of the subcontractors?
• What did the contract accomplish?
• Did the contractor meet the original and final performance requirements?
• What is the agency’s position on the contractor’s performance?

Planned Audits
SIGIR will conduct performance audits that assess the economy, efficiency, effectiveness, and results of Iraq reconstruction programs and operations as necessary. These audits will be accomplished through individual reviews of specific issues, as well as audit series evaluating several components of related topics. Each of these audits will be announced before the start of any audit field work. For the full text of the audit plan, see the SIGIR website: [www.sigir.mil](http://www.sigir.mil).

These audits are planned to be announced during the next two quarters:

• Review of U.S. Government Organizations’ Efforts To Execute Job-producing Programs in Iraq
• Review of U.S. Government Efforts To Expand the Micro-loan Program
• Assessment of the Status of Activities for Capacity Development of Government of Iraq
• Survey of the Project and Contracting Office Logistics Supply Management Program
• Review of the Multi-National Security Transition Command-Iraq Program for Iraq Relief and Reconstruction

These are the focused financial reviews that SIGIR will perform in response to congressional direction:

• Review of the BearingPoint Contracts in Iraq Related to Support of Iraq Relief and Reconstruction
• Review of Aegis Contracts in Iraq Related to Support of Iraq Relief and Reconstruction
• Review of Washington International Contracts (electric sector) in Iraq Related to Support of Iraq Relief and Reconstruction
• Review of Triple Canopy Contracts in Iraq Related to Support of Iraq Relief and Reconstruction
• Review of Washington International Group/Black & Veatch Joint Venture Contracts (public works/water sectors) in Iraq Related to Support of Iraq Relief and Reconstruction

SIGIR has also started research on the largest ISFF-funded contracts. The following contractors have been identified as potential candidates for a focused financial review:

- AECOM
- AMEC Earth and Environment
- CH2M Hill Construction
- Environmental Chemical Corp. (ECC)
- Ellis World Alliance Corp.
- Innovative Technical Solution, Inc. (ITSI)
- Laguna Construction
- Tetra Tech-FW Inc.
- Toltest Inc.
- URS Group
- Washington Group
- Weston Solutions

Appendix I lists completed SIGIR audits and updates the status of SIGIR audit recommendations.
Since the SIGIR inspections program began in 2005, SIGIR has completed 95 project assessments, 96 limited on-site inspections, and 342 aerial assessments.

During this quarter, SIGIR visited, assessed, and reported on five projects. Four of the five assessments were sustainment assessments. SIGIR found that sustainment was not being properly carried out in three of these assessments, posing threats to the condition and durability of the facilities and to the health and safety of those who work and live in them.

Security problems continue to impede SIGIR assessments. This quarter, personal security details for SIGIR advised that land travel in the Baghdad area was not safe. They escorted SIGIR inspectors to three of the five sites via helicopter.

**Sustainment Reviews**

SIGIR’s sustainment reviews focus on whether the projects delivered to the Iraqis are operating at the capacity planned in the original contract or task order objective. For example, SIGIR found that insufficient fuel was provided to the **Al Rasheed Brigade Base** to operate the generators that refrigerate food storage units and lift wastewater from the dining facility to the sewer system. The inability to refrigerate food and remove wastewater from the facility has resulted in health problems. For example, 300 Iraqi soldiers were hospitalized for intestinal illness caused by spoiled food, according to a representative from the Multi-National Brigade-Baghdad.

In view of the sustainment problems identified this quarter and last quarter, sustainment of completed reconstruction projects is clearly a problem for the GOI. Consequently, SIGIR continues to caution that the value of the U.S. investment in Iraq reconstruction is at risk.

**Construction Reviews**

This quarter, SIGIR conducted one construction review. SIGIR found renovation work at the **Sadr City Al Qana’at Raw Water Pump Station** met the standards of the contract’s Statement of Work (SOW). The contractor provided a QC plan for this project. The contractor appropriately used its QC plan to ensure the quality and performance of the work being done. The U.S. Army Corps of Engineers (USACE) Gulf Region Central (GRC) project QA personnel demonstrated that a QA program was in place.

**Project Assessments: Findings at a Glance**

**Doura Power Station Units 5 and 6** ($90.80 million)

- Sustainable operations at full capacity after start-up of Units 5 and 6 cannot be reasonably assured unless the Ministry of Electricity’s O&M practices improve.
- Too often, the ministry has operated improperly or insufficiently maintained equipment in environments where equipment failure was likely. For example, in April 2007, simple dust and oil film accumulated in the rotor-end windings and
rectifier wheel areas of the exciter, which caused a short circuit, flashover, and complete failure of Unit 5.

- Bypassing and intentionally overriding automatic controls has caused system imbalance and catastrophic failure of power plant equipment.
- Electricity was being illegally tapped directly from the power plant using ad hoc cable taps throughout the facility.

**Sadr City Al Qana’at Raw Water Pump Station ($4.23 million)**

- This project did not alter the original design of the Sadr City Al Qana’at Raw Water Pump Station (RWPS). It provided for the rehabilitation or replacement of the ten pumps and motors and stipulated that all replacement pumps and motors must be the same or similar (dimensionally and functionally) to the original pumps constructed in 1981.
- The renovation quality was adequate and should meet the objectives of rehabilitating the raw water pump station. SIGIR did not identify construction deficiencies.
- The contractor’s QC and GRC’s QA programs were in place and operating effectively.
- Sustainability should not be an issue in the success of this project.
- When completed, the Sadr City Al Qana’at RWPS should meet its intended objective of providing required water levels to the Sadr City and Shark Dijala water-treatment plants.

**Al Rasheed Brigade Set ($64.01 million)**

- The task order required the contractor to plan and construct the Al Rasheed Brigade facilities to support the Iraqi National Guard. That objective was met.
- The Al Rasheed Brigade facilities appeared to operate as a fully functioning brigade facility, housing Iraqi and American military personnel.
- The project was adequately designed before construction and demonstrated quality management (QM) oversight by the contractor and the U.S. government.
- SIGIR found that Al Rasheed base personnel appeared to be conducting effective post-turnover practices for building operations and maintenance (O&M).
- SIGIR was told that the inability to operate electrical generators because of insufficient fuel supplies resulted in health problems caused by the failure to properly refrigerate food and dispose of wastewater.

**Iraqi C-130 Base ($30.80 million)**

- Key construction met contract requirements, and the facility appeared to have operated at full capacity when accepted by the U.S. government and when observed.
- If the equipment and facility are not properly used and maintained, the operability and sustainability of some of the improvements to the facility might not be realized over the long term.
- According to available documentation, generator sustainability was a problem.
• The sewer collection system functioned; however, the nearby storm-water collection pond and connected drainage ditch contained sewage. The holding tank design allows sewage removal only by pump. Therefore, it appeared that the waste-removal truck pumped the sewage from the collection tanks into the drainage ditch.

• SIGIR found a number of documented malfunctions of the reverse osmosis (RO) system. Regular filter changes had not been performed, chlorine dosing did not meet requirements, and the RO system pressures were not within the recommended range. Additionally, filters, anti-scaling chemicals, testing kits, and other various maintenance items were not available on site.

Iraqi Ministry of Defense Building
($31.46 million)
• The original intent of the Ministry of Defense Headquarters building project was to renovate and improve the building to provide adequate working space for approximately 450 ministry personnel.

• The facility appeared to operate as a fully functioning office building, with a capacity of more than 3,000 personnel.

• This occurred because the project was adequately designed before construction, the contractor performed quality and detailed workmanship, and the QM oversight by the contractor and the U.S. government was adequate.

• The post-turnover management of equipment O&M and maintenance practices by ministry personnel appeared to be effective.

• Consequently, sustained, full-capacity operations over the long term will likely result if ministry personnel continue to properly use and effectively maintain the equipment and the facility.
SIGIR OVERSIGHT

FIVE PROJECTS ASSESSED THIS QUARTER (MILLIONS)

<table>
<thead>
<tr>
<th>Project ID</th>
<th>Project Name</th>
<th>Assessment Type</th>
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<th>Budgeted Total Cost</th>
<th>Executing Agency</th>
<th>Contractor</th>
<th>GRD Region</th>
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<tr>
<td>04-503</td>
<td>Doura Power Station Units 5 and 6</td>
<td>Sustainment</td>
<td>Baghdad</td>
<td>$90.8</td>
<td>GRD</td>
<td>Bechtel National, Inc.</td>
<td>Central</td>
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<td>Construction</td>
<td>Baghdad</td>
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<td>AFCEE</td>
<td>Toltest, Inc.</td>
<td>Central</td>
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</tbody>
</table>

Table 3.2

FIGURE 3.1
Approximate locations of the 95 projects where inspections were conducted, analyzed, and reported to date.

SIGIR Project Assessments
This section provides summaries of SIGIR project assessments this quarter. For the full reports, see the SIGIR website: www.sigir.mil.

For a list of the project assessments completed this quarter, see Table 3.2. For a complete list of project assessments from previous quarters, see Appendix J. Figure 3.1 shows the approximate location of each project assessed.

DOURA POWER STATION UNITS 5 AND 6, BAGHDAD, IRAQ
SIGIR PA-07-103

On April 17, 2003, key electricity sector projects throughout Iraq were included in a basic contract that the U.S. Agency for International Development (USAID) issued to Bechtel National, Inc. (Bechtel), valued at $1.03 billion. On January 4, 2004, electricity sector reconstruction work continued through a
second USAID basic contract with Bechtel; the contract was valued at $1.82 billion. Job Orders (JOs) approved and issued by the U.S. government were used to carry out specific reconstruction activities. Two JOs were particularly relevant to the Doura Power Station rehabilitation and long-term operability:

- JO-03-037-08 was approved for $90.8 million to rehabilitate Doura Power Station Units 5 and 6.
- JO-04-503-03 was approved for $80 million to provide O&M assistance and training for Ministry of Electricity personnel.

The primary role of the O&M contractor was to coordinate with the Ministry of Electricity to make its O&M organization fully functional and to develop effective daily operations, while simultaneously performing effective O&M services. Although the main service requirement focused on the O&M of the generation assets, some managerial and maintenance support was required for the transmission and distribution systems.

The contractor was required to coordinate services with the Ministry of Electricity and to provide proactive support to attain the highest achievable level of performance and instill international standards and industrial best practices. The contract included provisions for a nationwide O&M plan—including staffing eight sites, engineering support, emergency maintenance support, critical spare parts support, and other key components. The program was not established to operate and maintain plants; it was created to mentor the ministry staff and provide the tools to allow the ministry to properly operate and maintain the utility system. Doura was one component of the O&M program.

What SIGIR Found
On June 10, 2007, SIGIR conducted a site visit, with the assistance of GRD Electricity Sector personnel. SIGIR observed the current condition of Units 5 and 6 and other related equipment and systems required to start up and continue operation. Inspectors conducted detailed discussions with onsite GRD Electricity Sector engineers, who provided day-to-day technical supervision and implementation management of GRD’s plan to bring Units 5 and 6 online. GRD Electricity Sector managers also provided sufficient follow-up information and detailed explanations in response to specific inquiries from SIGIR.

U.S. government contractors had previously completed SOW requirements to rehabilitate Doura Power Station Units 5 and 6; however, neither unit was operational when observed by SIGIR, for reasons beyond the direct control of the U.S. government and its contractors. Operational control was under the authority of the Ministry of Electricity when Unit 5 (commissioned in April 2006) experienced catastrophic failure in August 2006 and again in April 2007. Unit 5 shut down twice because of exciter flashover, which was the result of repeated “hard tripping” caused by power surges.
However, most hard tripping could have been avoided if the Ministry of Electricity’s operational procedures would have allowed plant operators to isolate the generator unit and to protect it from frequent deterioration of the incoming 132-kilovolt (kV) line to the Doura switchyard. During the 12 months that preceded the final Unit 5 failure in April 2007, Unit 5 tripped approximately 100 times.

At the time of SIGIR’s site visit, Unit 6 had not been operational since rehabilitation. In August 2006, the exciter was removed from Unit 6 as it neared operational status, and the exciter was placed into Unit 5 to expedite restarting Unit 5 following its catastrophic failure. Before its failure in August 2006, Unit 5 was operational for approximately 4 months. Ministry of Electricity officials decided to swap the exciter from Unit 6 to Unit 5 to minimize outage time and to quickly restore electric power to the Baghdad grid as a short-term solution. Because Unit 5 failed, and Unit 6 was rendered inoperable, much-needed long-term electricity was not available to the Baghdad grid. However, under the current task order, Doura Power Plant Unit 5 should be operational by mid-July 2007, and Unit 6 by early August 2007. GRD’s rehabilitation and start-up plans appeared on track, as of June 16, 2007.

Sustainable operations at full capacity cannot be reasonably assured unless the Ministry of Electricity’s O&M practices improve. To date, the ministry has operated ineffectively or has insufficiently maintained equipment.
For example, in April 2007, simple dust and oil film accumulated in the rotor-end windings and rectifier wheel areas of the exciter, causing a short circuit and flashover, followed by complete failure of Unit 5. Based on the site inspection, SIGIR came to these conclusions:

- The Ministry of Electricity should implement operational procedures to effectively manage power generation and distribution as an integrated activity. The ministry should ensure that bypassing and intentionally overriding automatic controls throughout the generation and distribution systems are not allowed.
- The ministry should implement a formal maintenance program, including procedures to inspect equipment, schedule necessary non-emergency maintenance, and expedite more critical repairs. In addition, the ministry should authorize plant-level managers and plant engineers to perform emergency maintenance or repairs to prevent large-scale system failure.
- As part of an overall program to manage and control electricity generation and distribution, Ministry of Electricity officials should ensure that unauthorized tapping of electricity directly from the power plant is discontinued and that all ad hoc cable taps are removed.

**Recommendations**

GRD’s plans should correct the deficiencies noted. Specifically, GRD’s plans to restart Units 5 and 6 and to continue an O&M program targeted at mentoring and working with the Ministry of Electricity seem practical and well-fitted for the case at hand. Specific goals of the O&M contract include a plan to develop a local training program designed to provide
classroom and on-the-job training for worker-level O&M personnel. Further, Provincial Reconstruction Team activities that focus on training mid-level personnel should reinforce GRD’s plans. Accordingly, SIGIR did not request management comments.

Sadr City Al Qana’at Raw Water Pump Station, Baghdad, Iraq
SIGIR PA-07-096

The Sadr City Al Qana’at Raw Water Pump Station in north Baghdad provides raw water to the non-potable water piping network in East Baghdad for agricultural purposes. In addition, the Sadr City Al Qana’at RWPS provides raw water to the Shark Dijala potable water treatment plant. When the pump station is operating at 100% capacity, it will also provide water to the Sadr City Russafa 3 water treatment plant. The Sadr City Al Qana’at RWPS will provide six million people with raw or treated water. The Iraq Relief and Reconstruction Fund (IRRF) supply contract for the RWPS, to install and rehabilitate the pumps and motors, was awarded to the Comet Company.

The Sadr City Al Qana’at RWPS houses 10 vertical turbine pumps with below-floor discharges. The original pumps included eight large and two smaller units. At the time of the SIGIR assessment, four large pumps were operational; two had previously been rehabilitated.

What We Found
In March 2007, SIGIR visited the Sadr City Al Qana’at RWPS. The team met with the RWPS manager and the area manager of the Shark Dijala water treatment plant. The facility was being used to provide non-potable water to Sadr City and was reported to be operating at 60% capacity. The contract required rehabilita-
tion of four pumps and five motors, as well as the replacement of six pumps and five motors. At the time of the site visit, the team observed that spare parts for the rehabilitation of the pumps and motors were on hand and that rehabilitation work was ongoing.

**Project Progress**
The Amanat (Baghdad City Government) requested the Sadr City Al Qana'at RWPS project and required that all replacement or rehabilitation of the pumps be dimensionally and functionally accurate and similar to the original pumps and motors. GRC stated that the project was first delayed when supply shipments took from October through December 2006 to arrive from across the border. The work was delayed another 45 days while the Amanat verified the inventory of spare parts to ensure that they were the correct parts. In early February 2007, the Amanat gave final approval for the rehabilitation work, and project work began immediately.

**Sustainability**
Because the Amanat requested identical replacement equipment, sustainability should not be an issue in the success of this project. The current contract requires the contractor to provide O&M manuals and drawings for the new pumps and motors. The Amanat office provided drawings for the original 1981 pumps. According to the contract, drawings and manuals will be supplied with the replacement motors.

**Recommendations**
The report did not contain any negative findings or recommendations for corrective action. Therefore, management was not required to and did not provide comments.
The Al Rasheed Brigade Set is in Baghdad, southeast of the International Zone. When construction began, the site consisted of rubble. According to the contractor, the area had been cleared of unexploded ordnance.

The objective of this project was to plan and construct the Al Rasheed Brigade facilities to support the Iraqi National Guard. The diagram above shows the planned layout for the new construction to house the Iraqi National Guard. The contract’s SOW required the contractor to identify and comply with all applicable Iraqi statutes and the International Building Code.

During SIGIR’s site assessment, the Al Rasheed Brigade facility was occupied by the Iraqi and the American militaries.

The civil engineering drawings for the Al Rasheed Brigade facilities included details showing the utility distribution systems for the site, on the ground and underground. Also, the civil engineering drawings showed the storm-water collection and disposal through the concrete-lined open channels, as well as the internal major and minor paved-road network. The design package also included the mechanical design drawings featuring air-handling units, duct network, air-flow diagrams, and system layouts. The electrical design drawings included a power production plant, one line diagram for a bulk distribution system, control panels, automatic transfer switches, and a detailed design for each building and floor.

The design submittals appeared to be satisfactory for the new construction work. In addition, it appeared that the construction project was well planned and designed.

On June 6, 2007, SIGIR performed an
on-site assessment of the Al Rasheed Brigade facilities project, accompanied by a Multi-National Security Transition Command-Iraq (MNSTC-I) management analyst, two contractor representatives, the Multi-National Brigade-Baghdad representative for Al Rasheed, and the Iraqi Brigadier General/Chief of Staff for the 9th Division of the Iraqi Army. During the site visit, SIGIR inspectors observed the Al Rasheed Brigade personnel conducting day-to-day business at the facility.

**What SIGIR Found**

The task order required the contractor to plan and construct the Al Rasheed Brigade facilities to support the Iraqi National Guard; the objective of the task order was met. During SIGIR’s site visit, the Al Rasheed Brigade facilities, which housed Iraqi and American military personnel, appeared to operate as a fully functioning facility. This occurred because the project was adequately designed before construction and because the contractor and U.S. government conducted adequate QM oversight. In terms of construction quality and completeness, the contractor’s SOW was enforced.

In addition, the post-turnover equipment and building O&M practices by the Al Rasheed base personnel appeared effective. Consequently, if the Al Rasheed base personnel continue to properly use and effectively maintain the equipment and the facility, sustained full capacity operations over the long term will likely result.

However, during SIGIR’s site visit, the Al Rasheed Brigade facilities were not receiving electrical power from the city grid and were
operating on the contract-furnished genera-
tors. SIGIR inspectors observed that not all
electrical generation equipment could be used
because the fuel supplied by the Iraqi life sup-
port contractor was grossly insufficient. SIGIR
was told that the inability to operate electrical
generators has resulted in health problems
caused by food refrigeration equipment and
wastewater lift pumps not operating. SIGIR
learned of one dramatic incident, in which 300
Iraqi soldiers were hospitalized for intestinal
illness caused by eating spoiled food.

Without fuel, the Al Rasheed base func-
tions are not being used to their full potential;
the underutilization of the equipment at the
Al Rasheed base will affect the equipment’s
performance and life expectancy.

**Recommendations**

SIGIR recommended that the Director, Iraq
Transition Assistance Office (ITAO), coor-
dinate with officials from the Iraqi Ministry
of Oil and Ministry of Finance to emphasize
the need to provide the Ministry of Defense
with a sufficient and continuous supply of
fuel to avoid the detrimental impact on the
health of Iraqi soldiers and on the long-term
sustainment of equipment and facilities at the
Al Rasheed Brigade base.

**Response to Recommendations**

The Director, ITAO, agreed to refer the report
to the appropriate U.S. government senior
consultants to share with their counterparts
in the ministries as a specific example of the
damaging impact resulting from the lack of
adequate power and fuel resources.

**Iraqi C-130 Base, Baghdad, Iraq**

SIGIR PA-07-099

The objective of this project was the recon-
struction of the New Al Muthana Air Base
for C-130 aircraft of the Iraqi Air Force at the
Baghdad International Airport (BIAP).

The pre-construction state of the Iraqi
C-130 base needed major renovations. Before
construction, the site included a set of basic
buildings in poor condition needing extensive
repair. For example, in its pre-construction
state, Building 230—used for officer billeting—
required work on the walls, floor, ceiling, roof,
doors, and windows.

The largest structure included in the renova-
tion work, the aircraft hangar, measures 80.55
by 135.86 meters. The pre-construction hangar needed new metal sheeting and roofing, as well as renovation of the attached surrounding offices.

With the assistance of representatives of MNSTC-I, the Air Force Center for Engineering and the Environment (AFCEE), and the project’s prime contractor, SIGIR conducted a site visit on May 31, 2007. At the time of the site visit, the GOI had not signed turnover documentation for any part of the Iraqi C-130 base. The facility was turned over to MNSTC-I officials in October 2005. Turnover took place in 25 steps, beginning with the warehouses (buildings 270, 271, and 273) on May 17, 2005, and ending with the streetlights and road network on October 11, 2005.

In addition to the site visit and review of available contract and quality management documentation, SIGIR conducted discussions with available personnel on site.

**What SIGIR Found**

Key construction met contract requirements, and the facility appeared to have operated at full capacity when accepted by the U.S. government and when observed by SIGIR inspectors. This success was partly the result of an effective
QM system and adequate documentation of QM during the construction process. Additionally, there was effective communication during the construction process.

The operability and sustainability of some of the improvements to the facility may not be realized over the long term if the equipment and facility are not properly used and maintained.

- According to available documentation, generator sustainability was a problem. Of the eight generators at the Iraqi C-130 base, two operated during the site visit, three were broken, and three were not functioning for unknown reasons. Two generators had been moved from their original locations, and one of the broken generators had parts removed on October 27, 2006.
- Past instances of flooding of the sewage holding tanks and runoff of sewage into the storm-water collection pond were documented on February 18 and March 3, 2006; however, the problem was subsequently solved. At the time of the site visit, it appeared that the sewer collection system functioned, but the nearby storm-water collection pond and drainage ditch contained sewage. The holding tank design allowed sewage removal only by pump; therefore, the waste-removal truck must have pumped the sewage from the collection tanks into the drainage ditch.
- SIGIR found a number of documented malfunctions of the reverse osmosis (RO) system. During the warranty period, the prime contractor reported that the regular filter changes had not been performed, chlorine dosing did not meet requirements, and the RO system pressures were not within the recommended range. The prime contractor also reported that filters, anti-scaling chemicals, testing kits, and other various maintenance items were not available on site. During the site visit, SIGIR noted that the total dissolved solids meter registered out of the recommended range, and the on-site maintenance workers did not appear to have followed recommended maintenance and testing procedures. Spare parts were not readily available on site.
- The Ministry of Defense provided an O&M contract for the Iraqi C-130 base. The sustainment problems with the RO system that SIGIR noted were caused by poor O&M practices by the ministry’s O&M contractor.

**Recommendations**

Although this report identifies sustainment problems, SIGIR is not making any recommendations for corrective action because MNSTC-I is currently producing a master plan for the Iraqi C-130 base that will address problematic sustainment issues. For example, MNSTC-I is researching the use of a simple packaged water chlorination process for producing potable water, which would replace the current RO system that requires daily maintenance. MNSTC-I is also working specifically on a contract designed for O&M of Ministry of Defense
generators across Iraq. Accordingly, SIGIR did not request management comments.

Iraqi Ministry of Defense Building,
Baghdad, Iraq
SIGIR PA-07-102

The objective of this project was to renovate and improve the Ministry of Defense Headquarters (HQ) complex in Baghdad. The SOW required the contractor to identify and comply with all applicable Iraqi statutes and the International Building Codes.

The HQ complex—an H-shaped building with entrance and exit foyers—is next to the International Zone. Construction of the building began in 1957 and was completed in 1961. During 2003, the complex suffered catastrophic damage from the Joint Direct Attack Munition bombing barrage of Baghdad, and the facility was subsequently looted.

The renovation project was intended to provide working space for approximately 450 personnel.

During the SIGIR site visit, the facility was occupied by ministry personnel.

The dilapidated condition of the HQ complex required the renovation of most of the building’s interior. New construction focused on creating additional working space:

- an air-conditioning system
- construction of the third floor
- a sanitary sewer-collection system
- an electrical power distribution system

The civil engineering drawings for the HQ complex included details showing the water, sewer, and electrical utility distribution systems for the site. The design package also included the mechanical design and the electrical distribution system design—with flow diagrams and system layouts.

What SIGIR Found
On June 9, 2007, SIGIR performed an on-site assessment of the HQ complex, accompanied by the MNSTC-I management analyst, the Ministry of Defense infrastructure advisor, and a representative of the contractor, Laguna Construction. During the site visit, SIGIR inspectors observed ministry HQ complex personnel conducting day-to-day business in the facility.

The original intent of the HQ complex project was to renovate and improve the building to provide adequate working space for approximately 450 ministry personnel. During SIGIR’s site visit, the facility appeared to operate as a fully functioning office building.
with a capacity of more than 3,000 personnel. This occurred because the project design was adequate before construction, the contractor performed quality and detailed workmanship, and the contractor and the U.S. government conducted adequate QM. In terms of construction quality and completeness, the contract’s SOW was enforced.

In addition, the post-turnover practices for equipment O&M management and facility/ building maintenance appeared effective. Consequently, sustained full capacity operations over the long term will likely result if ministry personnel continue to properly use and effectively maintain the equipment and the facility.

**Recommendations**

The report did not contain any negative findings or recommendations for corrective action. Therefore, management was not required to and did not provide comments.

**Aerial Project Survey Program**

Since November 2005, the SIGIR Satellite Imagery Group has been conducting aerial assessments of U.S.-funded reconstruction project sites throughout Iraq. Based in Arlington, Virginia, SIGIR’s imagery group comprises one imagery analyst and one imagery data analyst; they are responsible for providing imagery and imagery-related data to SIGIR personnel in both Iraq and the United States.

The imagery provided is used to identify and verify project locations and to obtain follow-up information on previously inspected reconstruction sites. This process enables SIGIR personnel to obtain a visual basis to evaluate reconstruction progress and provides graphics to be used in project assessment reports, which help to determine if projects are being built according to contract specifications. The Satellite Imagery Group also assists other SIGIR directorates by providing imagery products as needed.

**NATIONAL GEOSPATIAL-INTELLIGENCE AGENCY AND NATIONAL GROUND INTELLIGENCE CENTER SUPPORT**

Initially, SIGIR worked very closely with and relied on the capabilities of two larger government agencies—the National Geospatial-Intelligence Agency (NGA) and the National Ground Intelligence Center (NGIC)—for additional imagery and analysis to support SIGIR's
mission and invaluable guidance helping SIGIR develop its internal imagery analysis program. During the past several quarters, there has been limited support and input from these two agencies because of SIGIR's growing capabilities and NGIC's and NGA's mission obligations. SIGIR continues to work closely with NGA and will continue to collaborate on necessary mission requirements.

**SIGIR IMAGERY ASSESSMENTS**

This quarter, the SIGIR Imagery Analysis Group conducted an analysis on border forts throughout Iraq, concentrating on the construction and sustainment status. SIGIR used available contract data, and the contractor provided standard blueprints for assessment criteria. The goal of the analysis was to verify that border forts were constructed in the remote regions where site visits were extremely difficult or impossible because of location, travel costs, and security concerns. These are
the findings of this quarter’s SIGIR review of the 27 border forts:

- 15 sites appeared to be complete and showed no signs that they did not meet contract requirements.
- 3 sites were identified and geo-location confirmed them, but the status of the sites could not be assessed because of imagery limitations.
- 2 sites could not be located using the provided geo-coordinates.
- 4 sites did not exactly match the contractor-provided blueprint/diagrams for a “Class C style” border fort. However, this does not necessarily mean that it did not meet contract specifications: exceptions are allowed, with contractor approval, to the design and construction of the border forts.
- 1 site was missing a perimeter wall/security berm.
- 1 site could not be identified because of inferior image quality.
- 1 site appeared to still be under construction.

The SIGIR Imagery Analysis Group, in partnership with NGA and NGIC, has created imagery products of 121 border forts throughout Iraq.

**SIGIR IMAGERY ANALYSIS**

This quarter, SIGIR imagery analysts created 35 imagery products using satellite imagery and limited available contract information. Figure 3.2 shows the approximate locations of cumulative Aerial Imagery Assessments. Three projects were not located at the site coordinates provided. This imagery provides visual assessments of progress at reconstruction site locations throughout Iraq. SIGIR shares the imagery products with government contracting agencies to update their project information and to identify any obvious deficiencies. SIGIR assessed and reviewed these facilities during the reporting period:

- 27 border posts
- 4 government buildings
- 2 military bases
- 1 military barracks
- 1 power station

Imagery support products—including site overviews, project site break-outs, and site assessments—are used to prepare for site visits and to identify possible problems. Information
gathered from site analysis is passed to appropriate personnel for further analysis. Imagery analysis confirms site location and approximate construction progress.

**SIGIR SUPPORT**

This quarter, SIGIR imagery analysts supplied imagery to the SIGIR Congressional Affairs and Audit Directorates. These imagery products provided valuable oversight to section briefings and reports. SIGIR teams work closely together to put out the best mission-essential information.

In partnership with NGA and NGIC during the past six quarters, SIGIR imagery analysis has resulted in 342 cumulative satellite imagery assessments and products.
SIGIR INVESTIGATIONS

SIGIR Investigations pursues reports of potential criminal or civil violations and works with a wide range of investigative agencies to bring cases before the criminal justice system.

SIGIR has 57 ongoing investigations, 28 of which are currently under the prosecutorial control of the Department of Justice (DoJ). As of July 30, 2007, SIGIR investigations have produced the following results: 5 people have been convicted and sentenced, 13 have been arrested, and 5 are pending trial in February 2008 on a 25-count indictment. SIGIR’s joint agency cases have generated more than 30 search warrants. To date, SIGIR has opened more than 300 cases.

Currently, SIGIR has 5 agents in Baghdad and 14 in Arlington, Virginia. Investigative resources and assets from Iraq have been weighted to concentrate on substantial existing and spin-off investigations in the United States. As more complex and extensive investigations have been identified, some of the targets and subjects have left Iraq and returned to the United States. Additionally, some partner agencies have increased their complement of personnel in Iraq or Kuwait, and SIGIR now works on many substantive investigations in joint task forces.

Legal Actions this Quarter

During the past quarter, two individuals were sentenced for their roles in the Bloom-Stein conspiracy, an egregious kickback and bribery scheme, involving more than $10 million in reconstruction funds. Lt. Col. Bruce Hopfen-gardner was sentenced to 21 months; Steven Merkes was sentenced to one year and one day.

In April 2005, Merkes took official acts to benefit Philip Bloom, a U.S. citizen who operated and controlled construction and service companies in Romania and Iraq that did business with the U.S. government. Shortly thereafter, Merkes accepted a job offer and $24,000 from Bloom, knowing that the job and the money were for official acts he had agreed to perform for Bloom.

In addition, Maj. John Cockerham and his wife, Melissa were arrested in San Antonio, Texas, on July 23, 2007. They were charged in a Criminal Complaint that alleges bribery, conspiracy to commit bribery, and money laundering during Major Cockerham’s tenure as an Army contracting officer. Records obtained in the case indicate that Cockerham may have received up to $9.6 million in bribe payments from at least eight contractors in Iraq and Kuwait and anticipated receiving as much as $5.4 million more.

On July 24, 2007, Carolyn Blake was arrested in Sunnyvale, Texas, on the same criminal complaint as her brother, Maj. Cockerham. SIGIR is one of the partner agencies conducting the investigation with the U.S. Army’s Criminal Investigative Division (CID) Major Procurement Fraud Unit, Defense Criminal Investigative Service (DCIS), IRS, and Federal Bureau of Investigation (FBI).

SIGIR also refers cases to the U.S. government’s administrative debarment and suspension processes. To date, the competent over-
mbers, debarred 14, and are considering debarring another 7, using established rules that preserve due process. For details on suspensions and debarments, see Appendix K.

Investigative Task Forces
SIGIR has developed task-force relationships with other agencies involved in oversight in Iraq, including the DoD Office of Inspector General (DoD OIG), DoS OIG, Defense Criminal Investigation Command (DCIS), U.S. Agency for International Development OIG (USAID OIG), and Immigration and Customs Enforcement.

More than two years ago, SIGIR formed the Special Investigative Task Force for Iraq Reconstruction (SPITFIRE), which combined the efforts of the Internal Revenue Service, Department of Homeland Security, Immigration and Customs Enforcement office, FBI, and DoS OIG. SPITFIRE effectively pursued the Bloom-Stein conspiracy and continues to work a number of leads that arose from that case.

The International Contract Corruption Task Force/Joint Operation Center recently relocated from SIGIR Headquarters in Arlington to offices next to FBI headquarters in Washington, D.C. Efforts to expand those coordination services continue. Along with SIGIR, the ICCTF includes the CID Major Procurement Fraud Unit, DCIS, FBI, DoS OIG, and USAID OIG.

SIGIR is part of the National Fraud Procurement Task Force, a DoJ initiative with many contributing agencies. The initiative has brought coordinated efforts and significant DoJ resources to address waste, fraud, and corruption. During the next two quarters, these efforts are expected to provide significant results in search warrants, indictments, arrests, and convictions.

SIGIR is an active participant in related fraud procurement matters involving U.S. citizens or companies using appropriated U.S. dollars in Iraq. SIGIR investigators work closely with three DoJ divisions as a part of this work:

- Anti-Trust Division
- Civil Division, Commercial Litigation
- Criminal Division: Fraud, Public Integrity, and Money Laundering

In collaboration with DoJ’s Commercial Litigation section, SIGIR is assisting on eight qui tam cases (whistle-blower allegations that could potentially lead to False Claims Act prosecutions on behalf of the government) and several civil cases.

The LOGCAP Taskforce in Rock Island, Illinois, also continues to prosecute cases of fraud and other criminal conduct related to Iraq reconstruction. Members include the U.S. Attorney’s Office, Central District of Illinois; FBI; IRS; DCIS; and U.S. Army CID. Although not a member of this group, SIGIR includes the taskforce’s cases to illustrate the overall picture of fraud in Iraq.

To coordinate efforts in oversight in Iraq, SIGIR formed the Iraq Inspectors General Council (IIGC) three years ago, which brings together every agency with oversight authority in Iraq for quarterly meetings. The objective of the IIGC is to deconflict and coordinate the member agencies’ oversight efforts in Iraq.
SIGIR HOTLINE

The SIGIR Hotline facilitates the reporting of fraud, waste, abuse, mismanagement, and reprisal in all programs associated with Iraq reconstruction efforts funded by the U.S. taxpayer. Cases received by the SIGIR Hotline that are not related to the Iraq Relief and Reconstruction Fund (IRRF) or to programs and operations of the former Coalition Provisional Authority (CPA) are transferred to the appropriate entity. The SIGIR Hotline receives walk-in, telephone, mail, fax, and online contacts from people in Iraq, the United States, and throughout the world.

Second Quarter Reporting
As of June 30, 2007, SIGIR Hotline had initiated 589 cases, and 57 are currently open. For a summary of these cases, see Table 3.3.

New Cases
During this reporting period, the SIGIR Hotline received 22 new complaints, for a cumulative total of 589 Hotline cases. The new complaints were classified in these categories:
- 15 involved contract fraud.
- 3 involved personnel issues.
- 3 involved miscellaneous issues.
- 1 involved mismanagement.

The SIGIR Hotline receives most reports of perceived instances of fraud, waste, abuse, mismanagement, and reprisal by electronic mail. The SIGIR's 22 new Hotline complaints were received from these sources:
- 19 by electronic mail
- 1 by SIGIR Hotline phone call
- 1 by SIGIR Hotline fax
- 1 by conventional mail

Summary of SIGIR Hotline Cases, as of June 30, 2007

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<thead>
<tr>
<th>Open Cases</th>
<th>1st Qtr 2007</th>
<th>2nd Qtr 2007</th>
<th>Cumulative*</th>
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</tr>
<tr>
<td>Audit</td>
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<td>0</td>
<td>8</td>
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<td>Total Open</td>
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<td></td>
<td>57</td>
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</table>

<table>
<thead>
<tr>
<th>Closed Cases</th>
<th>1st Qtr 2007</th>
<th>2nd Qtr 2007</th>
<th>Cumulative*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freedom of Information Act</td>
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<td>4</td>
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<tr>
<td>OSC Review</td>
<td>0</td>
<td>0</td>
<td>2</td>
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<tr>
<td>Assists</td>
<td>0</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Dismissed</td>
<td>5</td>
<td>6</td>
<td>106</td>
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<tr>
<td>Referred</td>
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<td>219</td>
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<tr>
<td>Inspections</td>
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<td>79</td>
</tr>
<tr>
<td>Investigations</td>
<td>3</td>
<td>0</td>
<td>69</td>
</tr>
<tr>
<td>Audit</td>
<td>0</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>Total Closed</td>
<td>16</td>
<td>16</td>
<td>532</td>
</tr>
</tbody>
</table>

Cumulative* Open & Closed: 589

*Cumulative totals cover the period since the SIGIR Hotline began operations—from March 24, 2004, to June 30, 2007.

Table 3.3

Closed Cases
During this quarter, 16 Hotline cases were closed:
- 10 were referred to other inspector general agencies.
- 6 were dismissed for lack of sufficient information or were outside of SIGIR's investigative purview.

Referred Complaints
After a thorough review, 10 complaints were referred to outside agencies for proper resolution:
- 2 were sent to the Joint Contract Command-Iraq/Afghanistan.
- 4 were sent to the U.S. Agency for International Development.
- 4 were sent to the Multi-National Force-Iraq Inspector General.
SIGIR OVERSIGHT

SIGIR WEBSITE

During this reporting period, the SIGIR website (www.sigir.mil) recorded these activities:

- Almost 1,100 users visited the SIGIR website per day.
- Most users were from within the United States (87%). The remaining 13% were from 162 different countries, mainly in Western Europe (4%), Asia (3%), and the Middle East (2%).
- The Arabic language section of the site received more than 850 visits.
- A significant percentage of visitors to the SIGIR website were from government agencies, most notably DoD, DoS, and the U.S. House of Representatives.
- Users visited the SIGIR Reports section most often.
- The most frequently downloaded documents were SIGIR’s most recent Quarterly Reports.
LEGISLATIVE UPDATE

New Legislation Enacted
On May 25, 2007, the President signed into law Public Law (P.L.) 110-28, which appropriated $35 million to SIGIR for its operating budget, to remain available until January 31, 2008.

Other Legislation
- **Fraud relating to military action, relief, or reconstruction:** On May 15, 2007, Senator Leahy, chairman of the Committee on the Judiciary, reported S. 119, “to prohibit profiteering and fraud relating to military action, relief, and reconstruction efforts, and for other purposes” (Senate Report 110-66). The committee report discusses the March 20, 2007 testimony of the Special Inspector General for Iraq Reconstruction (SIGIR), Stuart W. Bowen, Jr., before the committee.

- **Authority of SIGIR and related matters—appropriations measures:** On June 22, 2007, the House of Representatives passed H.R. 2764, “making appropriations for the Department of State, foreign operations, and related programs for the fiscal year ending September 30, 2008, and for other purposes.” H.R. 2764 contains a provision, section 696, which further amends section 3001 of P.L. 108-106, as amended, to
  (1) provide that the Special Inspector General for Iraq Reconstruction may exercise authorities of section 3161 of Title 5, United States Code (U.S.C.), without reference to certain limitations contained therein,
  (2) provide that funds appropriated or otherwise made available for fiscal years 2007 and 2008 be taken into account in determining the termination date of the Office of the Special Inspector General for Iraq Reconstruction,
  (3) add a rule of construction that for the purposes of carrying out the duties of the Inspector General, any United States funds appropriated or otherwise made available for fiscal years 2006 through 2008 for the reconstruction of Iraq, irrespective of the designation of such funds, shall be deemed to be amounts appropriated or otherwise made available for the Iraq Relief and Reconstruction Fund, and
  (4) amend section 1054(a) of P.L. 109-364 to make an amendment similar to that of (3), above.

- **Authority of SIGIR and related defense authorization measures:** On May 17, 2007, the House passed H.R. 1585, “to authorize appropriations for fiscal year 2008 for military activities of the Department of Defense, for military construction, and for defense activities of the Department of Energy, to prescribe military personnel strengths for such fiscal year, and for other purposes.” H.R. 1585 contains a provision, section 1221, which amends section 3001 of P.L. 108-106, as amended, to replace references in section 3001 to
the “Iraq Relief and Reconstruction Fund” with references to “amounts appropriated or otherwise made available for the reconstruction of Iraq.”

The act provides this definition for those words: “ amounts appropriated or otherwise made available for any fiscal year—(A) to the Iraq Relief and Reconstruction Fund, the Iraq Security Forces Fund, and the Commander’s Emergency Response Program authorized under section 1202 of the National Defense Authorization for Fiscal Year 2006 (Public Law 109-163; 119 Stat. 3455-3456); or (B) for assistance for the reconstruction of Iraq under— (i) the Economic Support Fund authorized under chapter 4 of part II of the Foreign Assistance Act of 1961 (22 U.S.C. 2346 et seq.); (ii) the International Narcotics Control and Law Enforcement account authorized under section 481 of the Foreign Assistance Act of 1961 (22 U.S.C. 2291); or (iii) any other provision of law.”

As described in the committee report, House Report 110-146 (page 404), the change would extend the responsibilities of SIGIR by including all reconstruction funding provided regardless of source or fiscal year. Currently, authority relating to certain reconstruction funds provided for Iraq in FY 2005 is unclear; as of the date of this Quarterly Report, authority does not extend to any reconstruction funding for FY 2007 or beyond.

Congressional Appearances

During the first six months of 2007, SIGIR officials appeared on these 12 occasions before committees of the Congress:

1. January 18, 2007—House Committee on Armed Services—Hearing on “Review of Iraq Reconstruction.” The SIGIR provided an update on ongoing and recently completed audits, inspections, and investigations of the Iraq reconstruction program.

2. January 30, 2007—House Committee on Appropriations, Subcommittee on Defense—Briefing on “Contracting in Iraq.” The SIGIR discussed recent audit findings and the functioning of the Iraqi security forces.

3. February 6, 2007—House Committee on Oversight and Government Reform—Hearing on “U.S. Involvement in Iraq Reconstruction.” The SIGIR presented a summary of a 2005 audit of the Coalition Provisional Authority’s (CPA) controls over Iraqi funds maintained in the Development Fund for Iraq (DFI).

4. February 8, 2007—House Committee on Appropriations, Subcommittee on State, Foreign Operations, and Related Programs—Hearing on “Review of Iraq Reconstruction Oversight.” The SIGIR provided an overview of current and ongoing audits, inspections, investiga-
tions, and lessons learned reports, and he discussed coordination with other oversight organizations in the Iraq Inspectors General Council.

5. February 15, 2007—House Committee on Oversight and Government Reform—Hearing on “U.S. Contracting in Iraq.” The SIGIR reviewed oversight of the Iraq reconstruction program, including a look at shortcomings in the contract award fee process, the failure to complete construction of 150 planned public health centers, and the problems encountered with the Basrah Children’s Hospital and Baghdad Police College projects.

6. March 9, 2007—House Committee on Armed Services, Subcommittee on Oversight and Investigations—Hearing on “Iraqi Security Forces.” The Deputy Inspector General discussed the findings of two audits: one of Iraqi Security Forces (ISF) logistics plans that found shortcomings in capacity at the Iraqi Ministry of Defense and the Ministry of Interior, and an audit of ISF weapons that found that DoD had not fully complied with a requirement to register the serial numbers of weapons purchased for Iraq.

7. March 20, 2007—Senate Committee on the Judiciary—Hearing on “SIGIR Investigations in Iraq.” The SIGIR provided an overview of SIGIR’s investigative work in Iraq and discussed whether enough is being done to combat fraud in Iraq.

8. March 22, 2007—Senate Committee on Homeland Security and Government Affairs—Hearing on “SIGIR Lessons Learned: Program and Project Management.” The SIGIR released SIGIR’s third lessons learned report, which focused on program and project management. Key recommendations include congressional consideration of a reform measure like “Goldwater-Nichols” to promote better integration among DoD, DoS, and the USAID; clarifying who is in charge of post-conflict reconstruction; and integrating local populations and practices at every level of the planning and execution process.

9. March 27, 2007—House Committee on Foreign Affairs, Subcommittees on International Relations, Human Rights, and Oversight and on the Middle East and South Asia—Hearing on “Can Iraq Pay for Its Own Reconstruction?” The SIGIR reviewed some of the key variables at play in Iraq’s reconstruction, including corruption, budget execution, and Iraqi government capacity, concluding that it will take some time before Iraq has the financial and technical resources to undertake a fast-paced reconstruction on its own.
10. May 10, 2007—House Committee on Appropriations, Subcommittee on Defense—Hearing on “Contracting in Iraq Reconstruction.” SIGIR’s Assistant Inspector General for Audit examined the challenges of contracting in Iraq reconstruction, provided an overview of lessons learned and recommendations to improve contracting processes and execution, and presented a series of case studies from SIGIR audits and inspections.

11. May 22, 2007—House Committee on Foreign Affairs—Hearing on “Iraq: Is Reconstruction Failing?” The SIGIR, who had recently returned from his 16th visit to Baghdad, provided an updated assessment on conditions there. In addition to an overview of current reconstruction and oversight efforts in Iraq, the testimony examined future relief and reconstruction funding and recommendations for improved accountability.

12. June 19, 2007—House Committee on the Judiciary, Subcommittee on Crime, Terrorism, and Homeland Security—Hearing on “War Profiteering and Other Contractor Crimes Committed Overseas.” The SIGIR provided an overview of corruption in Iraq and of U.S. government support for the development of key anticorruption initiatives of the GOI. SIGIR also provided an overview of its ongoing investigative work and discussed proposed congressional legislation on “war profiteering.”
INTRODUCTION

In March 2004, SIGIR formed the Iraq Inspectors General Council (IIGC) to provide a forum for discussion of oversight in Iraq and to enhance collaboration and cooperation among the IGs of the agencies that oversee Iraq reconstruction funds. Representatives of member organizations meet quarterly to exchange details about current and planned audits, identify opportunities for collaboration, and minimize redundancies.

The most recent meeting was held on May 15, 2007, at the SIGIR office in Arlington, Virginia. The organizations in attendance included:

- Department of Defense Office of Inspector General (DoD OIG)
- Department of State Office of Inspector General (DoS OIG)
- U.S. Army Audit Agency (USAAA)
- U.S. Agency for International Development Office of Inspector General (USAID OIG)
- Government Accountability Office (GAO)
- Defense Contract Audit Agency (DCAA)
- Defense Intelligence Agency Office of the Inspector General
- Department of Army Office of the Inspector General
- SIGIR

Each quarter, SIGIR requests updates from member organizations on their completed, ongoing, and planned oversight activities. This section summarizes the audits and investigations reported to SIGIR this quarter by DoD OIG, DoS OIG, USAID OIG, GAO, DCAA, and USAAA. For DCAA updates, see Appendix L. The U.S. Department of the Treasury and the U.S. Department of Commerce did not complete or initiate any new audits this quarter.
OTHER AGENCY OVERSIGHT

OTHER AGENCY AUDITS

This section updates the audits that IIGC member agencies reported to SIGIR:

- For recently completed oversight report activity, see Table 4.1.
- For ongoing oversight report activity of other U.S. agencies during this reporting period, see Table 4.2.
- For more information on other agency audits, including audit summaries, see Appendix L.
- For a complete historical list of audits and reviews on Iraq reconstruction by all entities, see Appendix M.

Recently Completed Oversight Reports of Other U.S. Agencies, as of 6/30/2007

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<td>5</td>
<td>DoD</td>
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<td>Audit Research on DoD Contracts Awarded to Parsons Corporation and Its Subsidiaries</td>
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<td>8</td>
<td>GAO</td>
<td>GAO-07-827T</td>
<td>5/9/2007</td>
<td>Stabilizing and Rebuilding Iraq: Coalition Support and International Donor Commitments</td>
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<td>GAO</td>
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<td>5/10/2007</td>
<td>Defense Acquisitions: Improved Management and Oversight Needed to Better Control DOD's Acquisition of Services</td>
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<td>10</td>
<td>GAO</td>
<td>GAO-07-677</td>
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<td>Rebuilding Iraq: Integrated Strategic Plan Needed to Help Restore Iraq's Oil and Electricity Sectors</td>
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<td>11</td>
<td>GAO</td>
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<td>5/18/2007</td>
<td>Global War on Terrorism: Reported Obligations for the Department of Defense</td>
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Table 4.1
## Ongoing Oversight Activities of Other U.S. Agencies, as of 6/30/2007

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<td>D-2007-D000FB-0198.000</td>
<td>6/19/2007</td>
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<td>6/18/2007</td>
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<td>4/13/2007</td>
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<td>DoD</td>
<td>D2007-DINT01-0092.001</td>
<td>6/14/2007</td>
<td>Review of Intelligence Resources at the Joint Intelligence Task Force Combating Terrorism and Special Operations Command in Support of Operation Enduring Freedom and Operation Iraqi Freedom</td>
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<td>7</td>
<td>DoD</td>
<td>D2006-DIPOE3-0038.001</td>
<td>4/19/2007</td>
<td>Assessment of DoD Support to Iraqi Security Forces (MOD and MOI) OIGs</td>
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<td>8</td>
<td>DoD</td>
<td>D2006-DIPOE2-0137</td>
<td>7/24/2006</td>
<td>DoD/Department of Veterans Affairs (VA) Inspectors General Interagency Care Transition Project</td>
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<td>9</td>
<td>DoD</td>
<td>D2006-D000LQ-0254.000</td>
<td>9/5/2006</td>
<td>Audit of Potable and Nonpotable Water in Iraq</td>
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<td>10</td>
<td>DoD</td>
<td>D2006-D000LH-0246.000</td>
<td>8/30/2006</td>
<td>Audit of the Inspection Process of the Army Reset Program for Equipment for Units Returning from Operation Iraqi Freedom</td>
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<td>DoD</td>
<td>D2006-D000AE-0225.000</td>
<td>7/31/2006</td>
<td>Audit of the Conditional Acceptance and Production of the Army Medium Tactical Vehicles in Support of the Global War on Terror</td>
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<td>DoD</td>
<td>D2006-D000AE-0241.000</td>
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<td>Audit of the DoD Use of GWOT Supplemental Funding Provided for Procurement and Research, Development, Test, and Evaluation</td>
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<td>13</td>
<td>DoD</td>
<td>D2006-D000FL-0208.000</td>
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<td>Audit of Internal Controls over Out-of-Country Payments</td>
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<td>14</td>
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<td>Audit of Supplemental Funds Used for Medical Support for the Global War on Terror</td>
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<td>16</td>
<td>DoD</td>
<td>D2007-D000LA-0054.000</td>
<td>11/9/2006</td>
<td>Audit of Procurement, Distribution and Use of Body Armor in the Department of Defense</td>
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<td>DoD</td>
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<td>12/14/2006</td>
<td>Audit of Hiring Practices Used to Staff the Iraqi Provisional Authorities</td>
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<td>20</td>
<td>DoD</td>
<td>D2006-DIPOE3-0256.000</td>
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<td>Interagency Iraqi Anticorruption and Principled Governance Initiative</td>
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<td>21</td>
<td>DoD</td>
<td>D2006-D000LD-0062.000</td>
<td>12/15/2005</td>
<td>Supply Chain Management of Clothing, Individual Equipment, Tools and Administrative Supplies</td>
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## OTHER AGENCY OVERSIGHT

### Ongoing Oversight Activities of Other U.S. Agencies, as of 6/30/2007

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<thead>
<tr>
<th>#</th>
<th>AGENCY</th>
<th>PROJECT NUMBER</th>
<th>DATE INITIATED</th>
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<td>22</td>
<td>DoD</td>
<td>D2007-D000FD-0145.000</td>
<td>3/5/2007</td>
<td>Internal Controls over Air Force General Funds Cash and Other Monetary Assets</td>
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<td>23</td>
<td>DoD</td>
<td>D2007-D000FN-0142.000</td>
<td>2/27/2007</td>
<td>Internal Controls over Navy General Fund, Cash and Other Monetary Assets Held Outside the Continental United States</td>
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<tr>
<td>25</td>
<td>DoD</td>
<td>D2007-D000FP-0122.000</td>
<td>2/9/2007</td>
<td>Internal Controls over Army Cash and Other Monetary Assets Held Outside the Continental United States</td>
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<td>27</td>
<td>DoD</td>
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<td>2/16/2007</td>
<td>Audit Research on DoD Contracting Issues Related to the Global War on Terror</td>
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<td>National Endowment for Democracy Grant Audit</td>
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<td>29</td>
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<td>12/13/2005</td>
<td>INL Invoicing for Jordan International Police Training Center Audit</td>
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<td>Review of Procurement Competition: NEC Compound Baghdad</td>
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<td>31</td>
<td>GAO</td>
<td>350947</td>
<td>November 2006</td>
<td>FY2007 Global War on Terrorism Costs</td>
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<td>32</td>
<td>GAO</td>
<td>351016</td>
<td>March 2007</td>
<td>Joint IED Defeat Organization (JIEDDO) Processes to Coordinate Counter-Improvised Explosive Devices (IED) Intelligence Support</td>
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<tr>
<td>33</td>
<td>GAO</td>
<td>351017</td>
<td>March 2007</td>
<td>Joint IED Defeat Organization (JIEDDO) Organization Management Support Capabilities</td>
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<tr>
<td>34</td>
<td>GAO</td>
<td>320484</td>
<td>May 2007</td>
<td>Budget Expenditures of Key Iraq Ministries</td>
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<tr>
<td>35</td>
<td>GAO</td>
<td>320511</td>
<td>June 2007</td>
<td>18 Iraq Benchmarks</td>
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<td>36</td>
<td>GAO</td>
<td>350994</td>
<td>February 2007</td>
<td>Army and Marine Corps Implementation of Equipment Reset Strategies</td>
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<td>37</td>
<td>GAO</td>
<td>320411</td>
<td>March 2006</td>
<td>U.S. Accountability for Equipment Provided to Iraqi Forces</td>
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<td>38</td>
<td>GAO</td>
<td>350853</td>
<td>September 2006</td>
<td>Army and Marine Corps Readiness</td>
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<td>39</td>
<td>GAO</td>
<td>320424</td>
<td>July 2006</td>
<td>Iraq Ministry Capacity</td>
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<td>40</td>
<td>GAO</td>
<td>120596</td>
<td>November 2006</td>
<td>Restore Iraqi Oil Settlement</td>
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<td>41</td>
<td>GAO</td>
<td>350948</td>
<td>December 2006</td>
<td>Factors Affecting U.S. Support for the Iraqi Security Forces</td>
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<td>42</td>
<td>GAO</td>
<td>320437</td>
<td>August 2006</td>
<td>Insurgents, Militias, and Other Armed Groups in Iraq</td>
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<td>43</td>
<td>GAO</td>
<td>320461</td>
<td>October 2006</td>
<td>Efforts to Stabilize Iraq and Achieve Conditions to Allow the Drawdown of U.S. Troops</td>
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<td>46</td>
<td>USAAA</td>
<td>A-2007-ALL-0329</td>
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<td>Audit of U.S. Army Contracting Command Southwest Asia-Kuwait</td>
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<td>Audit of Office of Foreign Disaster Assistance Program in Iraq</td>
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<td>49</td>
<td>USAID</td>
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<td>Not Reported</td>
<td>Audit of Provincial Reconstruction Teams in Iraq</td>
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<td>Not Reported</td>
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<td>Not Reported</td>
<td>Audit of Sustainability of USAID/Iraq's Electric Power Sector Activities</td>
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Table 4.2
OTHER AGENCY INVESTIGATIONS

SIGIR regularly coordinates with other government agencies conducting investigations in Iraq. For statistics of investigative activities from other agencies, see Table 4.3.

**STATUS OF INVESTIGATIVE ACTIVITIES FROM OTHER U.S. AGENCIES, AS OF 6/30/2007**

<table>
<thead>
<tr>
<th>AGENCY</th>
<th>INVESTIGATORS IN IRAQ</th>
<th>INVESTIGATORS IN KUWAIT</th>
<th>OPEN/ONGOING CASES</th>
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<td>DCIS</td>
<td>2</td>
<td>2</td>
<td>76</td>
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<td>DoS OIG</td>
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<tr>
<td>FBI</td>
<td>2</td>
<td>1</td>
<td>40</td>
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<td>USAID</td>
<td>2</td>
<td>0</td>
<td>8</td>
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<tr>
<td>CID/MPPU*</td>
<td>7</td>
<td>4</td>
<td>85</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>13</strong></td>
<td><strong>7</strong></td>
<td><strong>198</strong></td>
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</tbody>
</table>

* Major Procurement Fraud Unit (MPFU)

TABLE 4.3
ENDNOTES

2. GAO, Testimony of International Affairs and Trade Director Joseph A. Christoff Before the Subcommittee on the Middle East and South Asia and the Subcommittee on International Organizations, Human Rights, and Oversight, Committee on Foreign Affairs, House of Representatives, July 18, 2007.
3. MNF-I, GOI Budget Execution Monitoring Unit, “Ministry Budget Execution,” July 7, 2007. However, U.S. officials reported that Iraq’s Ministry of Oil “has simply moved funds from out of the central ministry to subsidiaries like the state oil marketing organization (SOMO)” in order to report its current budget execution rate of 23%. The Ministry of Oil reported 23% of its capital budget executed in July 2007.
14. The Congress appropriated $60.39 million to the ESF for Iraq (of which $4.95 million was transferred to IRRF) in the FY 2006 budget. According to the DoS April 2007 Section 2207 Report, DoS obligated ESF FY 2006 funds of approximately $56 million in ESF funds to the National Democratic Institute (NDI) and the International Republican Institute (IRI) for democracy-building activities. SIGIR’s fact sheet released this quarter noted that the first disbursement of these funds for DoS’s Democracy, Governance, and Rule of Law Program was on June 15, 2006. SIGIR does not have additional details about the project-level breakdown of these obligations.
18. SIGIR Fact Sheet 07-005, “Fact Sheet on Sources and Uses of U.S. Funding Provided in Fiscal Year 2006 for Iraq Relief and Reconstruction,” July 2007, p. 23.
19. SIGIR Fact Sheet 07-005, “Fact Sheet on Sources and Uses of U.S. Funding Provided in Fiscal Year 2006 for Iraq Relief and Reconstruction,” July 2007, p. 45.
40. SIGIR, Quarterly Report and Semiannual Report to Congress, January 2007, p. 3.
42. ASA, FS&M, response to SIGIR, March 1, 2007.
44. USAID, response to SIGIR, June 21, 2007.
47. The White House, Initial Benchmark Assessment, July 12, 2007, p. 15.
58. DoS, Iraq Weekly Status, June 27, 2007, p. 7. These numbers are further broken down as approximately 156,900 soldiers, 900 Air Force personnel, and 1,100 Navy personnel.
59. DoS, Iraq Weekly Status, June 27, 2007, p. 7. These numbers are further broken down as approximately 135,000 police officers, 26,300 National Police, and 32,900 other Ministry of Interior forces.
63. DoD assesses Iraqi Forces at four different levels of readiness. At level two, units are “in the lead”—the units are capable of conducting counterinsurgency operations. At level two, however, the Iraqi units are operating alongside Coalition enablers.
69. OSD reported that the Strategic Infrastructure Battalions (SIBs) have been changed to Iraqi Army Infrastructure Battalions; SIGIR continues to use SIB to be consistent with DoD’s 9010 Report. OSD, response to SIGIR, July 19, 2007.
73. DoD, Measuring Stability and Security in Iraq, June 7, 2007, p. 34.
88. GRD, response to SIGIR, July 24, 2007.
89. GRD, response to SIGIR, July 9, 2007.
90. GRD, response to SIGIR, July 19, 2007.
93. SIGIR Fact Sheet 07-005, “Fact Sheet on Sources and Uses of U.S. Funding Provided in Fiscal Year 2006 for Iraq Relief and Reconstruction,” July 2007.
94. GRD, response to SIGIR, July 17, 2007.
95. GRD, response to SIGIR, July 19, 2007.
100. NEA, response to SIGIR, July 18, 2007.
103. SIGIR Audit 07-014, “Status of the Provincial Reconstruction Team Program Expansion in Iraq,” July 2007, p. 3.
120. USAID, response to SIGIR, June 21, 2007.
122. Calculation: ($470 million + $810 million) / $1.924 billion.
123. USAID, response to SIGIR, July 18, 2007.
132. The total cost of NET-approved projects is the current project value, which may differ from the project value initially approved by the NET.
140. SIGIR, Testimony of Inspector General Stuart Bowen, Jr., testimony before the U.S. House Committee on Foreign Affairs' Subcommittee on International Relations, Human Rights, and Oversight and the Subcommittee on the Middle East and South Asia, March 27, 2007, p. 3.
156. MNF-I, Iraqi Budget execution presentation, Slide 1, May 9, 2007.
159. MNF-I, Provincial Budget Execution presentation comments, July 18, 2007.
166. PAC website homepage, July 18, 2007.
180. SIGIR Audit 06-045, “Status of Ministerial Capacity Development in Iraq,” January 30, 2007, p. 13. The audit states the other U.S. agencies and departments involved in capacity development include “…U.S. Embassy’s officers (Justice, Treasury, and Economic Affairs) and MNSTC-I’s embedded advisors at the security ministries (Defense and Interior).”
188. USAID, response to SIGIR, July 5, 2007.
202. GRD, response to SIGIR, July 6, 2007. GRD provided information on eleven activities.
203. ITAO, response to SIGIR, June 15, 2007.
204. ITAO, Weekly Status Report, June 12, 2007, p. 5.
205. Actual peak production capacity is a measurement of domestically available electricity production capacity. ITAO also compiles “total available capacity,” which includes domestically available electricity production plus imports of electricity from outside of Iraq.
206. Demand is equal to the measure reported by ITAO from April 17, 2007, to June 30, 2007.
207. GRD, response to SIGIR, July 19, 2007, notes that ITAO reports “hours of power equivalent,” which differentiates the measurement from hours received at typical Iraqi households, which is often much less.
211. NEA, response to SIGIR, July 13, 2007.
214. IRMO electricity expert, SIGIR interview, May 3, 2007, p. 2
217. USACE, response to SIGIR, July 9, 2007.
219. GRD, response to SIGIR, April 18, 2007, notes that “4,500 MW represents a short-term peak and that the full pre-war average for 2002 was 4,300 MW.”
221. GRD, response to SIGIR, July 19, 2007, p. 9.
233. IRMO, response to SIGIR, April 13, 2007, notes that crude oil production is measured in gross and net amounts. Gross production does not include oil re-injection, and net production subtracts crude oil re-injection. Oil re-injection occurs when oil is pumped back into the ground because of a lack of storage capacity. IRMO/ITAO and NEA/I report gross production. DOE/EIA reports net production.
238. The Economist Intelligence Unit, Country Report: Iraq, June 2007, p. 27.
251. USACE, response to SIGIR, July 9, 2007, p.7.
252. ITAO oil expert, response to SIGIR, June 12, 2007, p.2.
264. GRD, Bi-Weekly Strategic Cities Report, June 19, 2007, p. 3.
266. GRD, Bi-Weekly Strategic Cities Report, June 19, 2007, p. 16.
278. NEA, response to SIGIR, July 13, 2007.
293. GRD, response to SIGIR, July 19, 2007.
305. NEA, response to SIGIR, July 13, 2007.
308. NEA, response to SIGIR, July 13, 2007.
310. GRD, response to SIGIR, July 9, 2007.
311. GRD, response to SIGIR, July 9, 2007.
313. GRD, response to SIGIR, July 9, 2007.
316. GRD, response to SIGIR, July 9, 2007.
319. GRD, response to SIGIR, April 19, 2007.
320. GRD, response to SIGIR, April 19, 2007.
321. GRD, response to SIGIR, July 9, 2007.
322. GRD, response to SIGIR, July 9, 2007.
325. GRD, response to SIGIR, April 18, 2007.
326. GRD, response to SIGIR, July 9, 2007.
327. GRD, response to SIGIR, April 18, 2007.
328. GRD, response to SIGIR, April 7, 2007; GRD, response to SIGIR, July 9, 2007.
333. GRD, response to SIGIR, July 9, 2007.
334. Transportation was estimated to need $2 billion; telecommunications was estimated to need $1.38 billion. UN/World Bank, “Joint Iraq Needs Assessment,” October 2003, pp. 26, 28.
347. GRD, response to SIGIR, July 9, 2007.
348. GRD, response to SIGIR, July 9, 2007.
351. GRD, response to SIGIR, July 9, 2007.
353. GRD, response to SIGIR, April 18, 2007; GRD, response to SIGIR, July 9, 2007.
356. GRD, response to SIGIR, July 9, 2007.
357. GRD, response to SIGIR, April 18, 2007.
359. GRD, response to SIGIR, October 4, 2006.
360. GRD, response to SIGIR, July 9, 2007.
361. GRD, response to SIGIR, April 18, 2007.
363. GRD, response to SIGIR, January 4, 2007; GRD, response to SIGIR, April 7, 2007.
364. GRD, response to SIGIR, July 9, 2007.
367. GRD, response to SIGIR, July 9, 2007.
368. GRD, response to SIGIR, April 18, 2007.
369. GRD, response to SIGIR, July 9, 2007.
371. GRD, response to SIGIR, April 7, 2007; GRD, response to SIGIR, July 9, 2007.
373. GRD, response to SIGIR, July 9, 2007.
378. GRD, Bi-Weekly Strategic Cities Report, June 19, 2007, p. 3.
380. GRD, response to SIGIR, July 9, 2007.
382. GRD, response to SIGIR, July 9, 2007.
387. Calculation: $930 million/$1,000 million.
388. Calculation: $90 million/$1,090 million.
389. Calculation: $8 million/$63 million.
401. Approximately $56 million was allocated to democracy and civil society programs in the FY 2006 ESF budget.
433. USDA, response to SIGIR, July 2, 2007.
434. USDA, response to SIGIR, April 5, 2007.
438. This does not include what ITAO has spent on FMIS-related modules. USAID, response to SIGIR, July 18, 2007.
442. USAID, response to SIGIR, July 9, 2007.
447. The $100 million figure includes CPA/IRMO DFI funds provided before Izdihar began microfinance efforts in November 2006. USAID, response to SIGIR, July 18, 2007.
448. USAID, response to SIGIR, July 9, 2007.
450. USAID, response to SIGIR, July 9, 2007.
452. USAID, response to SIGIR, July 18, 2007.
502. The Paris Club creditors are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, South Korea, Netherlands, Russian Federation, Spain, Sweden, Switzerland, United Kingdom, and the United States.
507. The United States pledged $10.7 billion to Iraq within the framework of the Compact.
509. The source for the International Donor Pledges figure is the same as Donor Grants and Loans to Iraq table, table note a.
515. Donor-funded project sectors are defined by the GOI through the Ministry of Planning Development Assistance Database.
520. On May 8, 2007, by Executive Order 13431, the President established the Iraq Transition Assistance Office (ITAO) as the successor to the Iraq Reconstruction Management Office (IRMO).
521. Section 9010 of the Department of Defense Appropriations Act, 2007 (Public Law 109-289) requires quarterly reports from the Secretary of Defense to the Congress on the military operations of the Armed Forces and DoD’s reconstruction activities in Iraq.
522. 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.”
523. 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.
524. GOI principals include the Prime Minister, Deputy Prime Minister, Minister of Finance, and the Minister of Planning.

ENDNOTES
530. On July 20, 2007, USAID told SIGIR that it cannot determine the final cost of the contract at this time, as Bechtel has not yet submitted its final invoice and the contract costs have not been audited.
531. For a detailed discussion of the startup of the PRT Program in Iraq, see SIGIR Audit 06-034, “Status of the Provincial Reconstruction Team Program in Iraq,” October 29, 2006.
533. IIGC members: SIGIR (Chair), DoS OIG (Co-Vice Chair), DoD IG (Co-Vice Chair), Army IG, USAID IG, Treasury IG, DoC IG, DCAA, USAAA, GAO (observer member), USACE Chief Audit Executive (observer member).
Beginning with the July 2007 Quarterly and Semiannual Report, SIGIR will no longer include a CD of appendices with the printed version. The appendices and the official version of the Report now appear on the SIGIR website: www.sigir.mil.

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<td><strong>Appendix F:</strong> U.S. Appropriated Funds</td>
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<td><strong>Appendix G:</strong> Iraq Relief and Reconstruction Fund Apportionments by Agency</td>
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<td><strong>Appendix I:</strong> Completed SIGIR Audits</td>
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<td><strong>Appendix K:</strong> Suspensions and Debarments</td>
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<td><strong>Appendix L:</strong> Detailed Summary of Other Agency Oversight</td>
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<tr>
<td><strong>Appendix M:</strong> Summary of U.S. Oversight in Iraq</td>
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<td><strong>Appendix N:</strong> Cross-reference of Budget Terms</td>
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ACRONYMS AND DEFINITIONS

This section contains all of the abbreviations and acronyms found in the SIGIR Quarterly Report to the Congress.

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<th>Acronym</th>
<th>Definition</th>
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<td>ABOT</td>
<td>Al Basrah Oil Terminal</td>
</tr>
<tr>
<td>ACO</td>
<td>Administrative Contracting Officer</td>
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<tr>
<td>ACH</td>
<td>Automated Clearing House</td>
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<tr>
<td>AFCEE</td>
<td>Air Force Center for Engineering and the Environment</td>
</tr>
<tr>
<td>ARDI</td>
<td>Agriculture Reconstruction and Development Program for Iraq</td>
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<td>Army</td>
<td>U.S. Department of the Army</td>
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### ACRONYMS AND DEFINITIONS

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