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## STABILIZING IRAQ

# Preliminary Observations on Budget and Management Challenges of Iraq's Security Ministries

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Highlights of [GAO-07-637T](#), a testimony before the Subcommittee on Oversight and Investigations, Committee on Armed Services, House of Representatives

### Why GAO Did This Study

In November 2005, the President issued the National Strategy for Victory in Iraq. According to the strategy, victory will be achieved when Iraq is peaceful, united, stable, secure, well integrated into the international community, and a full partner in the global war on terror.

To help Iraq achieve this, the U.S. is, among other efforts, helping strengthen the capabilities of the Iraq Ministries of Defense and Interior (police forces) so they can assume greater responsibility for the country's security. The United States has provided about \$15.4 billion to develop Iraqi security forces and institutions.

In this testimony, GAO discusses preliminary observations on (1) U.S. and Iraqi funding to develop and sustain the Iraqi security forces, and (2) key challenges the United States and Iraq face in improving the security ministries' operations and management.

This statement is based on prior GAO reports, recent fieldwork in Iraq and Department of Defense, U.S. Treasury and Embassy budget documents. GAO added information to this statement in response to comments from Multinational Security Transition Command-Iraq. We completed the work in accordance with generally accepted government auditing standards.

[www.gao.gov/cgi-bin/getrpt?GAO-07-637T](http://www.gao.gov/cgi-bin/getrpt?GAO-07-637T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Joseph A. Christoff at (202) 512-8979 or [christoffj@gao.gov](mailto:christoffj@gao.gov).

## STABILIZING IRAQ

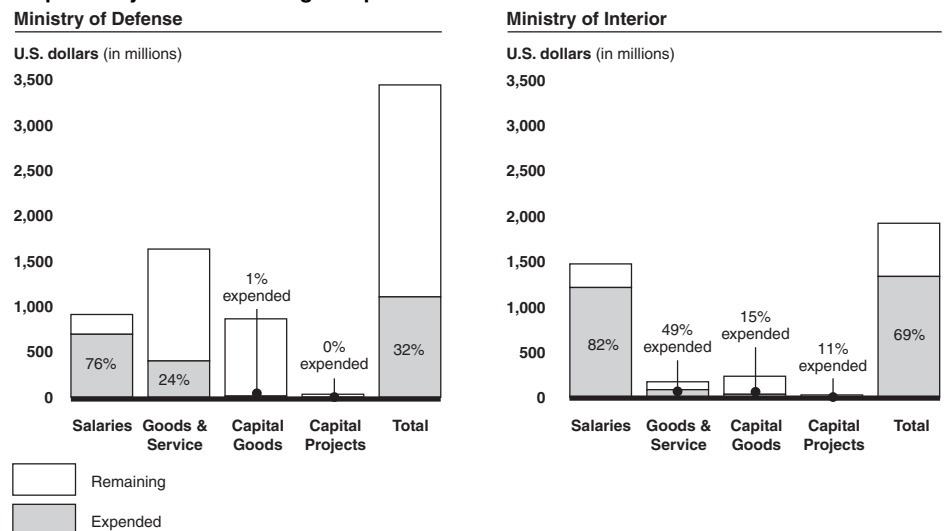
### Preliminary Observations on Budget and Management Challenges of Iraq's Security Ministries

#### What GAO Found

In March 2007, DOD reported that Iraq will increase its 2007 security budget from \$5.4 billion to \$7.3 billion (a 37-percent increase). DOD states this increase provides evidence of the country's growing self-sufficiency and commitment to security. However, our analysis shows that some of this increase is due to the appreciation of the Iraqi dinar against the dollar. Using a constant exchange rate, Iraq's 2007 security budget grows by 15 percent. Also, Iraq faced problems spending its 2006 security budget. As of November 2006, the Iraq Ministry of Defense had spent only about 1 percent of its capital goods budget for weapons, ammunition, and vehicles (see figure). DOD has requested \$5.8 billion in additional U.S. funds to help purchase these items for Iraq and provide assistance to its security ministries.

The United States and Iraq face personnel and logistical challenges in developing ministries that can sustain Iraq's growing security forces. For example, the ministries have inadequate systems to account for personnel and inexperienced staff with limited budgeting and technology skills. Also, both security ministries have difficulties acquiring, distributing, and maintaining weapons, vehicles, and equipment. The U.S.-led coalition has provided significant resources to develop Iraq's security forces and has 215 military and civilian advisors at the ministries. The United States signed a foreign military sales agreement with Iraq that, according to U.S. officials, allows Iraq to bypass its ineffective procurement systems to purchase equipment directly from the United States. Iraq has deposited \$1.9 billion into its account for foreign military sales. However, it is unclear whether this program will help improve the ministries' procurement and contracting capacity.

**Iraq Security Ministries' Budget Expenditures Jan.-Nov. 2006**



Source: GAO analysis of Iraq's 2006 budget expenditures as of November 2006, provided by U.S. Treasury.

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss our preliminary observations on U.S. and Iraqi funding commitments and related challenges in strengthening the Iraqi Ministry of Defense (MOD) and Ministry of Interior (MOI). We are presently completing reviews of U.S. efforts to help the Iraqi government execute its budget and build capacity in its ministries. The November 2005 National Strategy for Victory in Iraq articulated the desired end-state for U.S. operations in Iraq: a peaceful, united, stable, and secure Iraq, well integrated into the international community, and a full partner in the global war on terrorism. To achieve this desired end state, the United States is, among other things, helping MOD and MOI play a greater role in managing and sustaining their security forces and assuming greater responsibility for the country's security. The President's fiscal year 2008 funding request states that the Iraqi government will be largely capable of sustaining its security forces by 2008. From 2003 through 2006, the United States provided about \$15.4 billion to develop Iraqi security forces and institutions.

My testimony discusses our preliminary observations on (1) U.S. and Iraqi funding to develop and sustain the Iraqi security forces, and (2) key challenges the United States and Iraq face in improving the security ministries' operations and management.

In developing this statement, we relied on prior GAO reports and, where appropriate, we updated data. To identify the U.S. and Iraqi government financial commitments for developing and sustaining the Iraqi security forces, we reviewed Department of Defense (DOD), Multinational Force-Iraq (MNF-I), and Multinational Security Transition Command-Iraq (MNSTC-I), and Treasury budget documents and requests. We also analyzed data on Iraq's 2006 and 2007 budgets and 2006 budget execution through November 2006, which were provided to us by the U.S. Treasury from Iraq's Ministry of Finance.<sup>1</sup> To identify the challenges the government of Iraq faces in developing the capacity of the Ministries of Defense and Interior, we reviewed MNF-I assessments of the capabilities of these ministries. We also conducted field work in Iraq and met with the MOD

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<sup>1</sup>We corroborated our analysis and findings with information from other U.S. agencies, the Iraqi government, and the International Monetary Fund. While we did not independently verify the precision of the data on Iraq's budget execution, we found that the data are sufficiently reliable to show the relative differences in budget execution across Iraq's ministries and budget categories (e.g., capital projects versus salaries).

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and MOI transition teams to obtain further information on the ministries' capabilities and to discuss U.S. and coalition efforts at the ministries. This work was conducted in accordance with generally accepted government auditing standards.

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## Summary

In March 2007, DOD reported that Iraq will increase its 2007 security budget from \$5.4 billion to \$7.3 billion (a 37-percent increase), which DOD cites as evidence of the country's growing self-sufficiency and commitment to security. However, our analysis shows that a portion of this increase is attributable to the recent appreciation of the Iraqi dinar against the dollar. Using a constant exchange rate, which reflects changes in Iraq's budget in its own currency, Iraq's 2007 security budget will grow by 15 percent. Moreover, the budget of the Ministry of Defense, which plays the lead role in conducting counterinsurgency operations, will grow by only 1 percent. To help assess whether Iraq's security ministries will be able to spend the 2007 budgets, we analyzed their 2006 budgets and spending. For example, between January and November 2006, the MOD had spent only about 1 percent of its \$864 million capital goods budget for weapons, ammunition, and vehicles. Overall, Iraq's security ministries spent a higher share of funds budgeted for salaries than funds budgeted for capital goods. DOD has requested \$5.8 billion for 2007 to 2008 to help purchase these critical items for Iraq and provide additional assistance to Iraq's security ministries.

The United States and Iraq confront personnel and logistical challenges in developing security ministries that are capable of sustaining Iraq's growing security forces. The security ministries have inadequate systems to account for their personnel, as well as inexperienced staff with limited budgeting and technology skills. However, in 2007, the ministries plan to recruit 60,000 to 70,000 additional personnel and assume financial responsibility for the 150,000 security guards currently protecting Iraq's 35 ministries and directorates. In addition, as we previously reported, both ministries have difficulties planning for, acquiring, distributing, and maintaining weapons, vehicles, and equipment.<sup>2</sup> In response to these problems, the coalition has provided significant resources to support Iraq's security ministries. In addition to financial assistance, the U.S.-led coalition has 215 military, civilian, and contractor personnel advising MOD

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<sup>2</sup>GAO, *Operation Iraqi Freedom: Preliminary Observations on Iraqi Security Forces' Logistical Capabilities*, GAO-07-582T (Washington, D.C.: Mar. 9, 2007).

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and MOI staff on planning, budgeting, personnel, and logistics issues. Furthermore, the United States signed a foreign military sales agreement with Iraq in 2006, that according to U.S. officials, will allow the security ministries to bypass their ineffective procurement systems and purchase equipment and supplies directly from the United States. Under this agreement, Iraq has deposited \$1.9 billion into its foreign military sales account and has requested to purchase helicopters, small arms, trucks, and light armored vehicles, among other items. However, in the long term, it is unclear whether Iraq's use of this program will contribute to the ministries' capacity to improve their own procurement and contracting systems.

The Multinational Security Transition Command-Iraq commented on a draft of this statement, stating that GAO did not give the government of Iraq and the security ministries credit for negotiating the 2007 budget responsibly and openly. The Command further stated that the government of Iraq clearly recognized its inability to responsibly make procurements for the military and police and thus entered into a foreign military sales agreement with the United States. We added information in the statement to reflect MNSTC-I's comments. Both DOD and GAO agree that it will take considerable time and resources to address the challenges the United States and Iraq face in developing security ministries and capable Iraqi forces.

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## Background

In August 2003, the Coalition Provisional Authority (CPA) dissolved the military organizations of the former regime, including the Ministry of Defense. In March 2004, the CPA established a new Ministry of Defense. The MOD was ultimately to be responsible for the overall management, direction, and control of the Iraqi armed forces, which now include the Iraqi Army, Air Force, and Navy. Responsible for an estimated 200,000 civil servants and military personnel, the MOD is expected to conduct all functions needed to sustain the armed forces, including developing plans, programs, and budgets; and procuring needed goods.

The CPA did not dissolve the Ministry of Interior. MOI's role is to manage more than 300,000 staff in the Iraqi police services, the National Police, the Border Enforcement, and other services. Managerial functions include setting qualifications and training for the forces, vetting all police and other employees, and conducting the budgeting and financing for MOI forces. The MOI directly controls the national police forces. However, the MOI exercises only limited administrative control over regular Iraqi police forces in the provinces, controlling issues such as recruiting standards and

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yearly budget allocations. Operational control of provincial police rests with the governor and his Council.

MNF-I leads U.S. and coalition military efforts in Iraq. Under the command of MNF-I, MNSTC-I is responsible for leading coalition efforts to train and equip Iraqi security forces and to build MOI and MOD capabilities. MNSTC-I helps develop MOI and MOD capabilities through Ministry Transition Teams and the Joint Staff Transition Team, which have a total of about 215 coalition advisors assigned to work with Iraqi officials at the ministries.

The Iraqi government and the coalition transition teams confront a challenging national environment to develop Iraq's security ministries. Corruption is reportedly widespread and poses a major challenge to building an effective government. A March 2007 DOD report states that the Prime Minister has committed to reforming the government beginning with his cabinet and the ministries. This commitment recognizes the government's failure to counter corruption and reduce sectarianism, which hampers the government's ability to perform.<sup>3</sup> In addition, capacity building efforts are taking place amid ongoing violence and sectarian tension, posing a threat to Iraqi government employees.

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## Although Iraq's Security Budget Has Grown, the United States Continues to Fund a Significant Portion of Iraq's Security Needs

The 2007 increase in Iraq's security budget is attributable to increases in planned expenditures and an appreciation of the Iraqi currency against the U.S. dollar. MOD and MOI spent the largest percentage of budgeted amounts on salaries but were less successful in spending funds on goods and services (e.g., food, uniforms, and fuel) and capital goods (e.g., weapons, ammunition, and vehicles). Given Iraq's continued difficulties in spending funds for these items, DOD has requested \$5.8 billion in additional funds to help purchase these critical items and provide other assistance to Iraq's security ministries.

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<sup>3</sup>DOD, *Measuring Stability and Security in Iraq: Report to Congress in Accordance with the Department of Defense Appropriations Act 2007*, Section 9010, Public Law 109-289 (Washington D.C.: Mar. 2, 2007).

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## Reported Increase in Iraq's 2007 Security Budget Is Partially Attributable to Exchange Rate Appreciation

DOD's March 2007 report to Congress stated that the 37-percent increase in Iraq's 2007 security budget is evidence of Iraq's growing self-sufficiency and commitment to security. However, our analysis of Iraq's 2007 budget shows that this reported increase is attributable to both increases in planned expenditures and an appreciation of the Iraqi currency against the U.S. dollar (Iraq's fiscal year begins on January 1 of each year). Iraq implemented a 14-percent exchange rate appreciation between November 1, 2006, and February 1, 2007, to reduce the rate of core (non-fuel) inflation. In 2006, inflation in Iraq averaged over 50 percent.<sup>4</sup>

Iraq's official budget is presented and executed in Iraqi dinars, not U.S. dollars. The percentage changes we calculated using a constant 2006 exchange rate are the same as those in the official budget based on Iraqi dinars. For example, MOD's 2007 budget shows a decline in the number of Iraqi dinars budgeted for goods and services compared with 2006. However, when converted to U.S. dollars at the new appreciated exchange rate, the budget shows an increase in planned expenditures. It is therefore important to know the source of changes in the budget. For imported products, the appreciated exchange rate (which means the Iraqi dinar exchanges for relatively more U.S. dollars than before) allows Iraq to buy relatively more imported products for the same number of dinars. However, for expenditures made in Iraq, especially salaries, the appreciated exchange rate may not best reflect changes in Iraq's budget expenditures. Thus, we present both calculations.

Table 1 shows how the projected growth rate of Iraq's security budget varies with the foreign exchange rate used to convert Iraqi dinars into U.S. dollars. When using an appreciated exchange rate, Iraq's security budget grows by 37 percent in 2007. The budget of MOD, which plays a key role in conducting counterinsurgency operations, grows by 20 percent. However, when using a constant exchange rate to facilitate a more direct comparison of the planned increases in budgeted dinars, Iraq's security budget grows by 15 percent in 2007 to \$6.2 billion (constant exchange rate), which represents 18 percent of Iraq's total 2007 budget of \$34.5 billion. Thus, the increase in Iraq's budget in U.S. dollars is due to the actual increases in planned expenditures and an appreciation of the currency.

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<sup>4</sup>The 2006 and 2007 Iraqi budgets are prepared in nominal (not inflation-adjusted) Iraqi dinars. We have not adjusted them for inflation either because this would require predicting the level of inflation in Iraq in 2007. However, a high inflation rate would reduce the purchasing power of the budget.

**Table 1: Budget Projections for Ministry of Defense and Interior, 2006-2007 (Millions of U.S. dollars)**

Budget Category	2006 (constant) exchange rate			2007 (appreciated) exchange rate	
	2006 budget	2007 budget	Percentage change from 2006	2007 budget	Percentage change from 2006
<b>Ministry of Defense</b>					
Salaries	912	1,201	32%	1,429	57%
Goods and services (e.g., food, uniforms, fuel, medicine, maintenance)	1,966	1,800	-8%	2,143	9%
Non-financial assets (e.g, capital goods such as weapons, ammo, vehicles)	530	438	-17%	521	-2%
Capital projects	33	40	20%	48	43%
Other expenditures	...	...	0%	1	19%
<b>Total</b>	<b>\$3,442</b>	<b>\$3,479</b>	<b>1%</b>	<b>\$4,141</b>	<b>20%</b>
<b>Ministry of Interior</b>					
Salaries	\$1,465	\$2,130	45%	2,536	73%
Goods and services (e.g., food, uniforms, fuel, medicine, maintenance)	200	230	15%	274	37%
Non-financial assets (e.g, capital goods such as weapons, ammo, vehicles)	225	262	16%	312	38%
Capital projects	27	33	25%	40	49%
Other expenditures	3	17	570%	21	698%
<b>Total</b>	<b>\$1,919</b>	<b>\$2,673</b>	<b>39%</b>	<b>3,182</b>	<b>66%</b>
<b>Total Security Budget (Both Ministries)</b>					
<b>Total</b>	<b>\$5,362</b>	<b>\$6,152</b>	<b>15%</b>	<b>7,323</b>	<b>37%</b>

Note: The 2006 exchange rate used to convert Iraq dinars into dollars was 1500/\$1. Using the same exchange rate to convert both the 2006 and 2007 budgets to U.S. dollars retains the same percentage change between the two years as is found when comparing the change between the two years in dinars. The U.S. Treasury uses an exchange rate of 1260/\$1 for the 2007 Iraq budget (the appreciated exchange rate in the table), reflecting the recent exchange rate appreciation of the Iraqi dinar relative to the U.S. dollar. Totals may not add due to rounding. Budget classification scheme is based on the 2007 budget. “...” refers to values that are less than one half of one million dollars.

Source: GAO analysis of Iraq’s 2006 and 2007 budgets, provided by the U.S. Treasury.

Although MOD’s overall budget will grow in 2007, its budget for several critical items needed to wage counterinsurgency operations will decline in 2007. For example, the Ministry of Defense’s 2007 budget for capital goods—including weapons, ammunition, and vehicles—will decrease



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whether using a constant exchange rate (17 percent) or appreciated exchange rate (2 percent).

In contrast to MOD, MOI's 2007 budget shows positive growth rates in all major categories. For example, the Ministry of Interior's 2007 budget for capital goods—including weapons, ammunition, and vehicles—will increase regardless of which exchange rate is used, by 16 percent using a constant exchange rate or by 38 percent using the appreciated exchange rate. The MOI is receiving increased budget support for its law enforcement responsibilities. However, the additional budget support will be provided to a ministry prone to militia infiltration. For example, in November 2006, the Director of the Defense Intelligence Agency stated that the Ministry of Interior and the police were heavily infiltrated by militia members of the Badr Organization and the Mahdi Army. In addition, the MOI's national police—a paramilitary force of about 24,000 personnel—had conducted counterinsurgency operations in the past, but the Iraqi government decided in late 2006 to transform it into a civil society force due to frequent allegations of abuse and other illegal activities.

The total number of staff reportedly employed by the Ministries of Defense and Interior will grow from about 538,000 in 2006 to 608,000 employees in 2007 (see table 2). However, these numbers should be interpreted with some caution. As we reported in January 2007,<sup>5</sup> ghost employees comprise about 20 to 30 percent of Ministry of Interior staff, according to U.S. officials. Also, as of February 2007, the Iraqi government has yet to complete a census of all government employees, as required by the International Monetary Fund.

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<sup>5</sup>GAO, *Securing, Stabilizing, and Rebuilding Iraq: Key Issues for Congressional Oversight*, GAO-07-308SP (Washington, D.C.: Jan. 9, 2007).

**Table 2: Estimated Number of Ministry of Defense and Interior Employees, 2006 and 2007**

	2006	2007	Percentage change from 2006
Ministry of Defense	160,000	200,000	25%
Ministry of Interior	378,000	408,000	8%
<b>Total security forces and civilian personnel</b>	<b>538,000</b>	<b>608,000</b>	<b>13%</b>

Source: GAO analysis of Iraq 2006 and 2007 budgets provided by the U.S. Treasury.

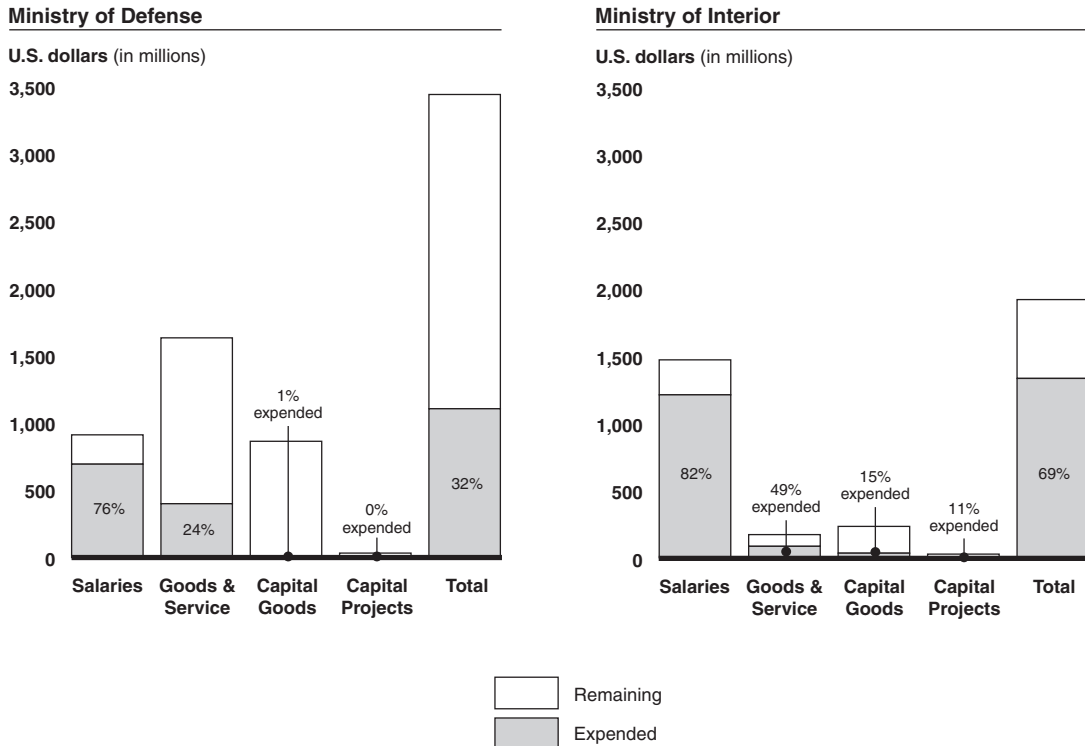
### In 2006, Ministries of Defense and Interior Spent Budgets on Salaries but Not Capital Items

To help assess whether Iraq’s security ministries will be able to spend the 2007 budgets, we analyzed the security ministries’ 2006 budgets and spending. Figure 1 shows the total amounts budgeted and expended by funding category. In terms of their budgets, the MOD had both a larger budget (\$3.4 billion compared with \$1.9 billion) and a larger portion of its budget targeted at goods and services and capital goods, compared with the MOI. For the MOI, salaries dominated the budget in 2006.

Figure 1 also shows that the ministries have had difficulty expending some categories of their budgets. For example, MOD and MOI spent about 76 and 82 percent, respectively, of the \$912 million and \$1,471 million budgeted for salaries as of November 2006.<sup>6</sup> In contrast, MOD and MOI spent 1 and 15 percent, respectively, of the \$864 million and \$233 million budgeted for capital goods (e.g., weapons, ammunition, and vehicles). The inability or unwillingness of Iraq’s security ministries to spend budgeted funds on critical items raises questions about the priorities and capabilities of Iraq’s government to fund its security requirements. 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 budgets more effectively.

<sup>6</sup>The budget figures for these categories are based on Iraq’s 2006 budget. The budget figures presented in table 1 for both 2006 and 2007 are based on Iraq’s 2007 budget categories. Since the composition of some categories changed, the values in the table do not necessarily correspond to the values in figures 1 and 2.

**Figure 1: Percentage of Budgeted Amounts Expended, by Funding Category, Ministry of Defense and Ministry of Interior, January through November 2006**



Source: GAO analysis of Iraq's 2006 budget expenditures as of November 2006, provided by U.S. Treasury.

Note: Budget classification scheme is based on the 2006 budget and does not directly correspond to the figures provided in table 1. The values in this figure were provided to us by the U.S. Treasury from Iraq's Ministry of Finance. The limited spending by various Iraqi ministries in certain areas, such as capital projects, is a known issue and receiving attention from U.S. advisors. However, we have not independently verified the precision of these values and they are likely to change as Iraq's expenditure data for the remainder of the year become available. We provide this information for the purpose of demonstrating the relative differences in Iraq's ability to expend its budget across ministries and budget categories.

While Iraq's security ministries have encountered difficulties in spending budgets for weapons, equipment, vehicles, food, fuel, and other items needed to mount counterinsurgency campaigns, the U.S. government anticipates providing additional support to these two ministries at least through the end of fiscal year 2008. DOD has asked for an additional \$5.8 billion to develop the Iraqi security forces in its fiscal year 2007 supplemental request and the fiscal year 2008 Global War on Terror budget request (see table 3).

**Table 3: Request for Additional Funds to Develop Iraqi Security Forces (dollars in millions)**

Category	2007 Supplemental				2008 Global War on Terror Budget Request			Total
	MOD	MOI	Not Specified	Subtotal	MOD	MOI	Subtotal	
Infrastructure	264.8	205.0	0	469.8	0	0	0	<b>469.8</b>
Equipment and Transportation	1,584.3	373.6	0	1,957.9	1,043.0	245.0	1,288.0	<b>3,245.9</b>
Training and Operations	51.7	52.9	0	104.6	77.0	500.0	577.0	<b>681.6</b>
Sustainment	1,079.6	72.9	0	1,152.5	135.0	0	135.0	<b>1,287.5</b>
Related Activities	0	0	157.5	157.5	0	0	0	<b>157.5</b>
<b>Total</b>	<b>2,980.4</b>	<b>704.4</b>	<b>157.5</b>	<b>3,842.3</b>	<b>1,255.0</b>	<b>745.0</b>	<b>2,000.0</b>	<b>5,842.3</b>

Source: Fiscal Year 2008 Security Forces Fund, Justification for Iraq Security and Afghan Security Forces Fund, February 2007.

Of this amount, about \$3.25 billion (about 56 percent) would purchase equipment and transportation for the Iraqi security forces. DOD is also requesting about \$682 million for training and operations, including efforts to develop senior management capabilities within the Ministries of Defense and Interior, and to provide increased training for MOD intelligence operations, communications operations, and resource management.

## Iraq Faces Personnel and Logistical Challenges in Developing its Security Ministries' Management Capabilities

Iraq's security ministries face numerous challenges if they are to more effectively direct and sustain Iraq's security forces. DOD reports and our February 2007 fieldwork in Iraq found that the security ministries face two key challenges: (1) managing a growing workforce while developing effective personnel systems, and (2) improving the limited ability of MOD and MOI to manage their logistics operations. Coalition advisors are working with the security ministries to improve their planning, budgeting, personnel, and logistical systems. In addition, a 2006 Foreign Military Sales (FMS) agreement with Iraq will enable the security ministries to bypass their ineffective procurement systems and purchase needed equipment and supplies directly from the United States, according to U.S. officials.

## MOD and MOI Have a Growing Workforce and Weak Personnel Management Systems

Planned changes in the size and composition of the security forces will complicate MOD and MOI efforts to effectively manage their personnel. The security ministries plan to add 60,000 to 70,000 staff to their rolls in 2007. In addition, in December 2006, the Iraqi Prime Minister directed the MOI to assume responsibility for paying most of the Facilities Protection Service (FPS), a 150,000-strong ministry guard force currently working for

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27 ministries and 8 independent directorates.<sup>7</sup> According to DOD reporting, the FPS lacks a coherent force structure and standardized equipment, and its personnel are often untrained, unreliable, and sometimes responsible for violent crimes. According to a senior coalition advisor, FPS personnel will be paid by the MOI but remain under the day-to-day supervision of the ministries, agencies, or provincial governments to which they are assigned.

Although the ministries are significantly expanding their workforces, DOD reports that MOD and MOI cannot accurately account for the personnel they currently have on their payrolls. DOD notes that about 65 percent of authorized personnel in fielded units are present for duty at any time, but this figure is based on unreliable data.<sup>8</sup> Similarly, MOI also has no reliable data to indicate how many personnel are still serving with the ministry, so it is unknown how many of the more than 300,000 employees on the MOI payroll are present for duty. MNSTC-I estimates that the number of employees present for duty is less than 70 percent. DOD reports that payments for pensions, medical care, and death benefits are currently included in security ministry payrolls. Thus, the security ministries' personnel figures may include retired, wounded, or deceased personnel. DOD also found that corruption inflates both security ministries' personnel figures, as corrupt leaders often collect pay and other compensation designated for non-existent soldiers and policemen on the unit rolls.

In addition, a February 2007 MNF-I assessment stated that development of MOD's personnel management system was hindered in 2006 by poor leadership, low morale, and reliance on coalition counterparts. MNSTC-I commented that higher level leadership within MOD did not allow knowledgeable managers to implement personnel reforms and overruled their decisions. U.S. government documents and coalition officials also cited problems at MOI with militia infiltration that complicated reform efforts. Our recent work in Iraq also found that the ministries' lack of skilled or experienced staff presents a challenge. Some coalition officials noted that the lack of trained staff hindered efforts to improve MOD

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<sup>7</sup>DOD reported that the directive transferring responsibility to MOI did not include FPS forces at the Ministry of Oil, the Ministry of Electricity, and the Higher Juridical Council.

<sup>8</sup>According to MNSTC-I, the introduction of a human resources management system at the end of March 2007 will enable MOD to know more precisely how many serving and non-serving military and civilian staff it is paying.

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budget formulation, noting that only two or three members of the 30-person budget office were capable of producing budget spreadsheets on a computer. Furthermore, these advisors stated that most ministry staff lack basic computer and information technology skills, are unwilling to make decisions, and often refer problems to higher levels.

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### Ministries Face Significant Challenges in Logistics Management

DOD's March report stated that the most significant shortcoming in MOD and MOI forces capabilities is in planning and executing logistics and sustainment requirements. The report noted that the factors underlying this deficiency include inadequate levels of sustainment stocks, such as vehicle fuel pumps and filters. Also identified as a challenge was the limited capacity of MOD and MOI to plan for, acquire, distribute, and maintain needed items. In addition, the security ministries have difficulties in accounting for their equipment. For example, MOI's immature equipment accountability system cannot track what police weapons and vehicles remain in service or how much equipment authorized by the provincial governors MOI has purchased for their staff, which had been. Our fieldwork found that MOD and MOI units maintain equipment accountability through the use of hand receipts and manual ledgers. As GAO previously testified, both MOD and MOI have significant logistics management issues to overcome before they are capable of independently sustaining their security forces.<sup>9</sup>

Our recent fieldwork also found that developing the security ministries' logistics capacity remains a major challenge, particularly at MOI. U.S. officials noted that MOI cannot sustain the wide variety of equipment donated by the coalition. For example, GAO previously testified that the MOD had difficulty maintaining 21 different types of light trucks. Similarly, MOI has been unable to maintain the 17 makes of vehicles it has received for use by its personnel. According to coalition officials, the cost and difficulty of obtaining spare parts for these diverse vehicle fleets results in using some vehicles for spare parts and not repairing others. Moreover, the MOI has not approved the draft logistics concept proposed by the coalition, in part because it has yet to gain the agreement of the provinces and is still negotiating with them on the national warehouse system.

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<sup>9</sup>See GAO, *Operation Iraqi Freedom: Preliminary Observations on Iraqi Security Forces' Logistical Capabilities*, [GAO-07-582T](#) (Washington, D.C.: Mar. 9, 2007).

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## Coalition Efforts to Address Problems at the Iraqi Security Ministries

The coalition devotes significant resources to develop capacity at Iraq's security ministries. As of March 2007, the U.S.-led coalition had assigned 215 military, civilian, and contracting personnel to advise Iraqi staff at the MOD and MOI on establishing plans and policies, budgeting, and managing personnel and logistics. In comparison, the Ministries of Oil and Electricity had 10 and 18 advisors, respectively.

The 111 coalition advisors at the MOD are embedded with staff from a number of offices, including Plans and Policies and the Iraqi Joint Staff. According to the advisors, they work with their Iraqi counterparts to improve their planning processes and capabilities. For example, a senior advisor to the joint staff helped MOD develop its counter insurgency strategy. He provided them with a planning template, reviewed their work, and suggested they add details such as the source of the threat, the risk level, and the forces required to counter the threats. He was uncertain as to whether his Iraqi counterparts had taken ownership of the process.

Our recent field work at the MOI found that 104 coalition advisors are working with Iraqi officials. Among other efforts, they are helping MOI develop processes for vetting Iraqi security forces, including collecting and storing biometric data; establishing an identification card system; and establishing a personnel management database that will house inventory, payroll, human resource, financial, and budget data. However, U.S. advisors stated that MOI staff has resisted efforts to computerize their manual processes because of the increased transparency it would provide.

Finally, MNSTC-I personnel are also assisting the MOD and the MOI in purchasing needed equipment from the United States through the Foreign Military Sales (FMS) program.<sup>10</sup> Under FMS, the U.S. government agrees to sell defense articles or services (including training) to eligible foreign countries or international organizations. The articles or services usually come from DOD stocks or through purchase under DOD-managed contracts. In December 2006, the government of Iraq transferred \$1.9 billion into an Iraqi account for FMS purchases. According to a November 2006 DOD report, Iraq's use of the FMS program is intended to provide a way for both MOD and MOI to spend their money on complete

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<sup>10</sup>Under FMS, defense articles or services may be sold or leased to a country or international organization only if the President, in accordance with the Arms Export Control Act, as amended, determines that the country or organization is eligible. The President determined that Iraq was eligible to participate in the FMS program on July 21, 2004.

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procurement packages without risking the loss of funds to the corruption and mismanagement that hampers Iraqi government contracting. In the latter part of 2006, DOD notified Congress of a number of possible foreign military sales to Iraq, including:

- Up to \$900 million on intelligence, surveillance, and reconnaissance aircraft, as well as related support equipment, training, spare and repair parts, publications and technical data, and other elements of logistics support;
- Up to \$750 million for troop transport helicopters, small arms, ammunition, vehicles, and associated logistics support; and
- Up to about \$460 million for trucks, vehicles, including light armored vehicles, and trailers, as well as associated equipment and services.

According to a March 2007 DOD report,<sup>11</sup> MOD also plans to fund a \$160 million maintenance contract through the FMS program from April 2007 through March 2008.

U.S. and coalition officials stated that the FMS agreement would allow both MOD and MOI to bypass their ineffective procurement systems and procure equipment and supplies more quickly and efficiently. However, in the long term, it is unclear whether Iraq's use of the FMS program will contribute to the ministries' capacity to improve their inefficient procurement and contracting systems.

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## Conclusion

DOD expects that the Iraqi government will be capable of sustaining its security forces by 2008. This expectation may not be met given the security ministries' past problems in spending their capital budgets and current personnel and logistical weaknesses.

In addition, as we previously reported, the United States and the Iraqi security ministries are supporting Iraqi forces that have divided loyalties, varying capabilities, high absenteeism, and questionable dependability.<sup>12</sup>

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<sup>11</sup>DOD, *Measuring Security and Stability in Iraq*.

<sup>12</sup>GAO, *Stabilizing Iraq: Factors Impeding the Development of Capable Iraqi Security Forces*, [GAO-07-612T](#) (Washington, D.C.: Mar. 13, 2007).



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Mr. Chairman, this concludes my statement. I would be pleased to answer any questions that you or other members may have at this time.

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## Agency Comments

The Multinational Security Transition Command-Iraq provided comments on a draft of this statement. The head of the Command stated, “The GAO testimony fails to give the government of Iraq and the two security ministries any credit for recognizing their financial vulnerabilities and for progressing far beyond the opaque and irresponsible business practices of previous interim governments. The 2007 GOI budget was negotiated responsibly and openly. Though the security budget may represent ‘only’ a 15-percent increase from the previous year in purchasing power, it is nearly a 20-percent share of the national budget. The government of Iraq has clearly recognized its inability to responsibly make procurements on behalf of its military and police forces and so has entered into a \$1.7 billion Foreign Military Sales Agreement with 2006 funding. We anticipate that another \$1.55 billion investment into United States FMS this calendar year.”

We added information in this statement to reflect MNSTC-I’s comments. However, both DOD and GAO agree that it will take considerable time and resources to address the challenges the U.S. and Iraqi governments face in developing fully functioning security ministries and capable Iraqi forces.

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## GAO Contact and Acknowledgments

For questions regarding this testimony, please call Joseph A. Christoff at (202) 512-8979 or [christoffj@gao.gov](mailto:christoffj@gao.gov). Other key contributors to this statement were Nanette Barton, Daniel C. Cain, Lynn Cothorn, Mattias Fenton, Elisabeth Helmer, B. Patrick Hickey, Bruce Kutnick, Stephen M. Lord, Judy McCloskey, Tetsuo Miyabara, Mary Moutsos, and Timothy Wedding.

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