



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

January 29, 2012

LETTER FOR U.S. AMBASSADOR TO IRAQ

SUBJECT: The Department of State's Process To Provide Information on Reconstruction Projects to the Government of Iraq (SIGIR 12-009)

This letter addresses the Special Inspector General for Iraq Reconstruction's (SIGIR) concerns regarding the Department of State's (DoS) process for providing information on completed and transferred reconstruction projects to the Government of Iraq (GOI). Specifically, we found that because DoS' Iraq Strategic Partnership Office (ISPO) uses a more narrowly focused definition of a reconstruction project, the GOI receives only a partial inventory of all completed and transferred reconstruction projects. Also, DoS obtains its project information from a database that SIGIR has previously reported contains incomplete and inaccurate information.

In our last asset transfer report¹ we found that each U.S. agency was using its own procedures for turning over completed projects to the Iraqis. As a result of these disparate processes, the GOI and its ministries responsible for planning the sustainment and integration of assets generally had incomplete information on what the United States government had provided. SIGIR has also reported that the data system that was intended to be the central repository of reconstruction information did not contain complete project information. The extent of these problems has not been determined, but incomplete data prevents the Congress and the public from obtaining a complete accounting of how and for what purposes U.S. funds have been used. SIGIR initiated this audit to determine how DoS is accounting for tens of thousands of completed projects and is providing information on these projects to the GOI.

In written comments on a draft of this report, the U.S. Embassy in Iraq did not concur with SIGIR's recommendation that it develop criteria for selecting and reporting projects to the GOI that better reflect the large volume of projects completed by the U.S. government. The U.S. Army Corps of Engineers (USACE) also provided technical comments on this report, which SIGIR incorporated as appropriate. The agencies' comments are provided, in full, in Appendices E and F.

SIGIR performed this audit under the authority of Public Law 108-106, as amended, which incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. We conducted our work from August 2011 through January 2012 in Baghdad, Iraq and Arlington, Virginia.

¹ *Asset Transfer Process for Iraq Reconstruction Projects Lacks Unity and Accountability*, SIGIR 09-016, 4/26/2009.

Background

Since 2003, U.S. government agencies have obligated billions of dollars for construction projects in Iraq. Over the past six years, SIGIR has repeatedly reported on problems in (1) identifying what has been accomplished through the U.S. reconstruction effort and (2) transferring completed projects to the GOI. SIGIR has noted that accurately accounting for projects not only provides transparency of U.S. reconstruction efforts in Iraq to the Congress and the American people, but also enables the GOI to better plan for long-term project sustainment after U.S. funding ceases. In past reports, SIGIR also identified limited Iraqi buy-in or acceptance of projects, and the inability to secure Iraqi funding for operations and maintenance as potential impediments to project sustainability. To address these concerns, SIGIR recommended that the U.S. government establish procedures to provide the GOI project information to help its ministries budget for the sustainment of completed projects.

Since 2004, DoS reconstruction management offices, to include the Iraq Reconstruction Management Office, the Iraq Transition Assistance Office, and later ISPO², have served as the U.S. government's primary reconstruction management liaison offices with the GOI. These offices have also been responsible for coordinating reconstruction efforts among the other U.S. government agencies.

Memorandum of Understanding Provides Criteria for Information Sharing on Reconstruction Projects

Previous SIGIR reports have noted some early reconstruction projects failed at handover, or shortly thereafter, due to limited Iraqi acceptance at the local level and a lack of resources or skills to sustain the operations of complex reconstruction projects. On April 23, 2006, the Iraq Reconstruction Management Office, the USACE, and other government agencies involved in reconstruction activities finalized procedures for transferring U.S.-funded capital assets to the GOI. The purpose of these new procedures was to gain the GOI's official recognition that projects were now its responsibility and in so doing, to remedy issues of Iraqi acceptance and sustainment of projects.³ The agreement defined a capital asset as "physical tangible property which cannot be easily converted to cash and which is expected to be held for a long period – generally five years or more." The transfer procedures established that each implementing agency would utilize its own rules and policies to complete and turn over projects and corresponding documentation, and provide the GOI Ministry of Finance and relevant line ministries with formal notification of project completion. However, the U.S. agencies stopped using these procedures in July 2006, after the newly appointed Minister of Finance proposed that U.S. agencies follow the Ministry's procedures. At that time, the Ministry had not established any specific transfer requirements which left a vacuum in how assets were to be turned over.⁴

In December 2008 and again in May 2009, the GOI proposed that a memorandum of understanding be established that would outline the U.S. Embassy's rules and procedures for

² ISPO took over the responsibilities of the DoS offices previously tasked with reconstruction management in Iraq; the Iraq Reconstruction Management Office (2004-2007) and the Iraq Transition Assistance Office (2007-2010).

³ Official recognition of reconstruction projects would enable the GOI to account for completed projects, and adequately budget for their operations and maintenance.

⁴ See *Transferring Iraq Relief and Reconstruction Fund Capital Projects to the Government of Iraq*, SIGIR-07-004, 7/25/2007.

transferring projects and provide an inventory of U.S.-funded reconstruction projects and information related to their maintenance. The resulting November 10, 2009 memorandum of understanding⁵ between the U.S. Embassy and the GOI's Ministry of Planning and Development Cooperation (MOPDC), declares that "in the view of the large volume of projects funded by the [U.S. government] it is necessary to put together appropriate procedures and mechanisms to document and inventory those projects and exchange information concerning their operation and maintenance."

Among other items, the memorandum of understanding establishes the following:

- The U.S. Embassy is to compile an inventory of reconstruction projects funded by the U.S. and documented in a series of lists—referred to as annexes—to include the project's name, cost, location, purpose, beneficiary ministry, description, and an estimate of annual costs to sustain the project.
- The U.S. is to provide information, such as operation and maintenance manuals and warranty documents, to facilitate the effective and sustained function of those projects.
- The beneficiary ministries are to be committed to allocate funds in their operating budgets for the projects normal operation, and to respond positively to requests for project site visits from the U.S. Embassy.
- No financial obligations result from the project transfers, as the projects are provided by the U.S. government as gifts from the U.S. taxpayers for the benefit of the Iraqi people.

Databases Used To Track Reconstruction Projects in Iraq

Congress required U.S. agencies to account for and report on the use of U.S. reconstruction funds from the early stages of the Iraq war. In Public Law 108-106,⁶ enacted in November 2003, Congress required that U.S. agencies submit quarterly reports detailing the use of Iraq Relief and Reconstruction Funds (IRRF) on a project-by-project basis. In late 2004, USACE developed the Iraq Reconstruction Management System (IRMS) to enable U.S. agencies to meet these reporting requirements by logging and tracking IRRF-funded projects.⁷ Some of IRMS' initial objectives were to:

- provide a single, unified management information system with a common data dictionary that would present a common operating picture of the Iraq reconstruction effort; and
- serve as a vehicle for transferring information on U.S. reconstruction projects to the GOI.

IRMS's focus was subsequently expanded to incorporate projects funded by the Iraq Security Forces Fund (ISFF), Commander's Emergency Response Program (CERP), and Economic Support Fund (ESF). SIGIR's previous reports on transferring reconstruction projects and on efforts to enhance project sustainment highlighted that IRMS' data was inaccurate and

⁵ See Appendix B for a copy of the memorandum of understanding.

⁶ Public Law 108-106, as amended, created the Office of the Inspector General for the Coalition Provisional Authority, SIGIR's predecessor, to provide oversight and account for the obligation and expenditure of Iraq reconstruction funds.

⁷ Five agencies received appropriations for IRRF: the Department of Defense, the Department of State, the U.S. Agency for International Development, the Department of Treasury, and the U.S. Institute of Peace.

incomplete.⁸ According to USACE officials, IRMS was shut down on September 1, 2010 as a result of the high costs of maintaining the system, the completion of a great majority of reconstruction projects in Iraq, and DoS' decision to use an alternate method for reporting on remaining projects. At that time, IRMS contained information on about 73,000 U.S.-funded projects valued at \$30.2 billion.⁹

Prior to shutting down IRMS, ISPO used the system to obtain information on completed projects that had been transferred to local Iraqi control. Since the shut down, ISPO has used two other databases to collect information on completed reconstruction projects: the Iraq Status of Construction database (ISOC) and the Combined Information Data Network Exchange (CIDNE). USACE created ISOC to track all reconstruction projects for which it was a construction manager, including projects previously turned over to the Iraqis that were included in IRMS. ISOC then became ISPO's primary database to track projects to include information on completed projects that were still in progress at the time IRMS was terminated. USACE provides ISPO with updated ISOC information on a weekly basis. To a lesser extent, ISPO also tracks projects in CIDNE, a classified DoD system that contains information on projects in both Iraq and Afghanistan. According to ISPO and USACE officials, CIDNE incorporates project information from IRMS along with data on projects completed since IRMS was shut down.

Roles and Responsibilities for Transferring Projects and Providing Project Information to the GOI

Several U.S. agencies are involved in transferring projects and providing information to the GOI. Once a project is complete, USACE physically turns over projects to Iraqi officials at the local level and documents project completion in ISOC. USACE and the respective GOI ministry inspect the project, and USACE provides the ministry with the information necessary for the GOI to operate and maintain the asset.¹⁰ USACE also provides a weekly Iraq Status of Construction report to ISPO and conducts bi-weekly briefings with the Assistant Chief of Mission for Transition Assistance on the status of projects, including upcoming project completions and the status of transfers.

ISPO independently searches ISOC for completed projects and lists them in Excel spreadsheets (which ISPO calls annexes) along with the estimated annual sustainment cost of each project. ISPO then provides these annexes to the GOI's MOPDC. This Ministry serves as the GOI's representative to the U.S. on reconstruction management. The MOPDC is then expected to pass the information to the responsible GOI ministry so it can budget for operations and maintenance. It is not clear why this second notification occurs because USACE informs the relevant ministry in its turnover process. However, this second notification was requested by the GOI. ISPO also responds to inquiries about completed and transferred projects and works closely with USACE to address issues raised by the GOI during the projects' warranty periods. According to USACE

⁸ USACE officials state that its Gulf Region Division and successor organizations have made considerable progress to improve data reliability since SIGIR's last report. SIGIR did not verify that these improvements had been made.

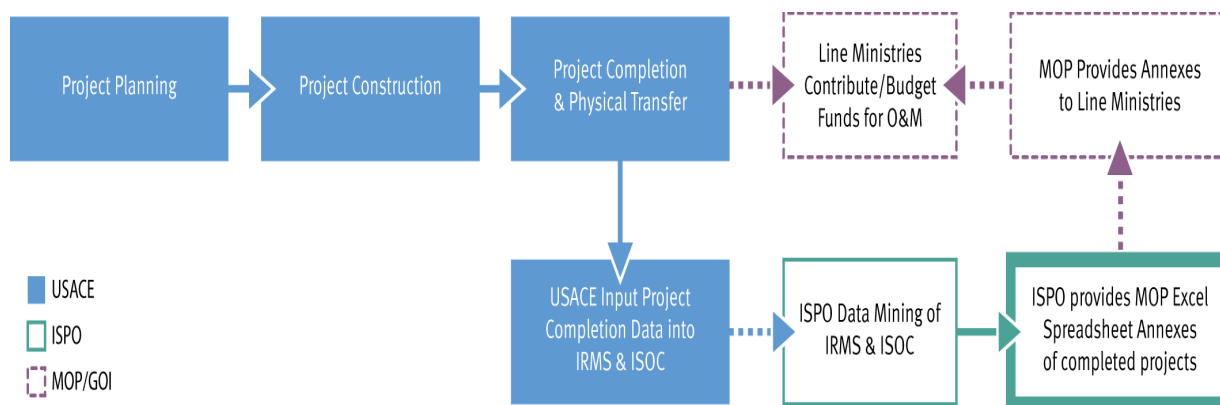
⁹ When IRMS was shut down, it contained 73,000 U.S.-funded projects plus 2,760 projects valued at approximately \$1.6 billion funded by the Government of Iraq through the Development Fund for Iraq and the Iraq-Commander's Emergency Response Program.

¹⁰ These items include specialized keys, operations and maintenance manuals, as-built project drawings, site plans, and warranty information.

officials, ISPO does not normally have an active role in the handoff process but assists USACE when it has difficulty gaining project acceptance.

Figure 1 shows how ISPO gathers and provides information on completed and transferred project to the GOI.

Figure 1—Project Transfer Process Flow



Source: SIGIR interviews with ISPO, November 2011.

ISPO Provides Information on Large Reconstruction Projects

The 2009 memorandum of understanding required the U.S. Embassy to provide the MOPDC with information on the “large volume” of completed and transferred projects. However, SIGIR’s review found that ISPO has established a more narrow definition of its reporting requirements. Foremost, ISPO is reporting only “capital assets,” defined as tangible property¹¹ that cannot easily be converted into cash. Additionally, ISPO requires that eligible capital asset projects

(1) have a value of \$250,000 or more, (2) have an expected life of five years or more, and 3) be funded by one of the four major U.S. reconstruction funds (IRRF, ISFF, CERP, and ESF). Using these criteria, ISPO has provided the MOPDC with information on 5,289 projects valued at approximately \$15 billion as of June 30, 2011. As mentioned, when IRMS was shut down it contained information on about 73,000 U.S.-funded projects valued at \$30.2 billion. To date, the U.S. has provided \$61.83 billion in reconstruction assistance to Iraq.

SIGIR asked ISPO officials to provide their rationale for developing reporting criteria different from that in the memorandum of understanding. The ISPO officials currently stationed at the U.S. Embassy-Baghdad stated that the criteria predated their arrival, and as of the publishing of this report, ISPO has been unable to provide this rationale.

In SIGIR’s view, ISPO’s decision to report only projects costing \$250,000 or more seems somewhat arbitrary. Foremost, cost may not be the best criteria to gauge the importance of a project. For example, we found 14 capital asset projects valued at \$249,000 each that were not

¹¹ Tangible property may be more commonly described as “brick and mortar” structures.

reported. The projects include schools, police stations, and health clinics. It is unclear why projects costing less than the \$250,000 threshold would not be of interest to the GOI.

Secondly, using cost as criteria fails to recognize the significant security costs that can be incurred, and how these costs can vary by location. A 2005 SIGIR examination of nine major construction firms that were awarded IRRF contracts found that security costs accounted for up to 16.7 percent of the contract price. More significantly, however, is that costs can vary widely by location. For example, security costs in the northern provinces can be a fraction of security costs in the more violent central and southern provinces. Thus, identical projects can have widely varying costs depending on location.

SIGIR's final issue is that we identified a number of projects that have not been reported. For example, a large-scale CERP initiative at the Baghdad International Airport—called the Baghdad Economic Zone—cost a total of \$35.5 million. The initiative actually comprised 46 CERP projects. Twenty-two of the projects cost more than \$250,000, but only 10 of these were reported to the GOI. As a result, significant components of the Baghdad Economic Zone initiative were not reported, including a \$4 million hotel, \$1.4 million in trash equipment, and a \$1.4 million electrical generator project.

Compiling a Complete and Accurate Account of Reconstruction Projects Is Hampered by Unreliable Data and Other Data Entry Problems

While IRMS was the only source of aggregate data on the activities and accomplishments of the multiple agencies supporting the U.S. government's reconstruction efforts in Iraq, the information it contained was incomplete. SIGIR has repeatedly recommended that U.S. agencies improve their processes for inputting information, tracking, and reporting on reconstruction projects. A July 2008 SIGIR report on IRMS¹² identified problems with the "consistency, accuracy, and completeness" of IRMS data; SIGIR reported that IRMS contained \$25.08 billion out of approximately \$35.3 billion (71 percent) in obligations made to IRRF, ISFF, CERP, and ESF funds. These problems have grown over time. As of September 30, 2011, the total value of projects listed in IRMS and ISOC as a percent of obligations was about 58 percent, or \$27.1 billion of the \$46.9 billion of obligations for IRRF, ISFF, CERP and ESF projects.¹³ Thus, about \$19.8 billion is not captured in either IRMS or ISOC.

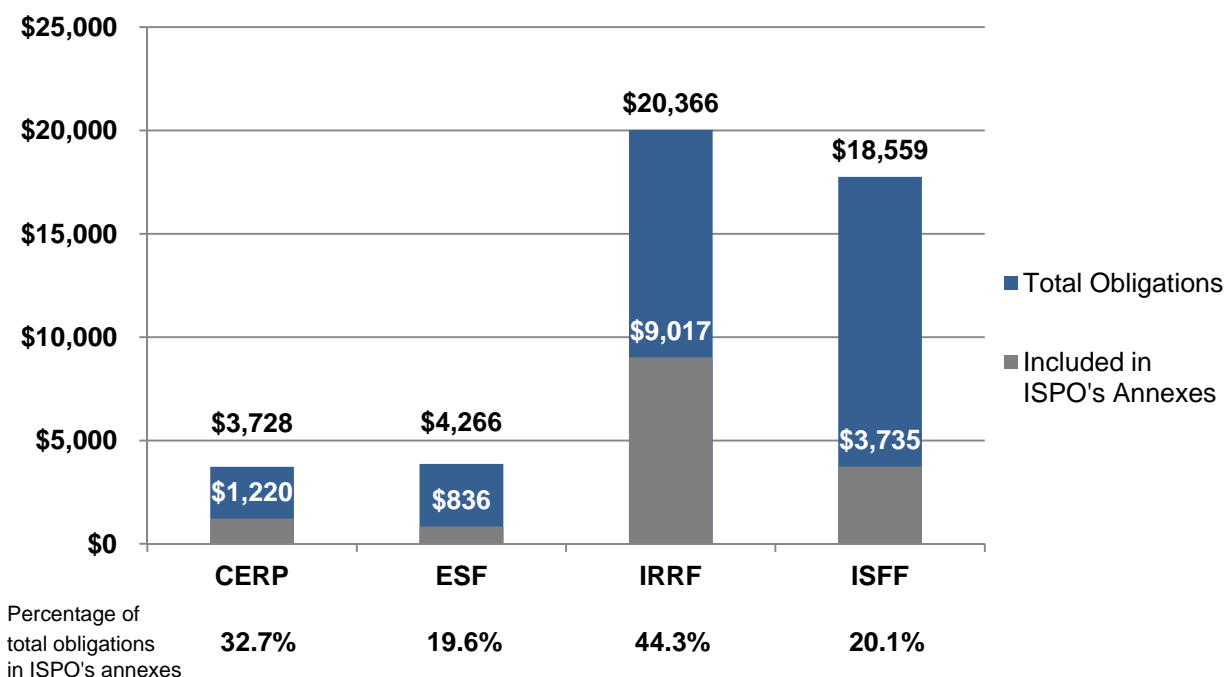
Previous SIGIR reports identified a number of reasons why IRMS is incomplete and inaccurate. First, no agency had the authority to compel other Iraq reconstruction agencies to use the system. For example, SIGIR reported in 2010 that USAID and DoS used their own management systems to track reconstruction projects in Iraq, and therefore did not enter project information into IRMS.

¹² *Comprehensive Plan Needed To Guide the Future of the Iraq Reconstruction Management System*, SIGIR 08-021, July 26, 2008.

¹³ SIGIR's estimate is based on \$26.7 billion in IRMS and \$4 billion in ISOC. ISOC contains data on \$16.2 billion in projects, \$15.8 billion of which was already contained in IRMS.

We added the total value of all the projects reported to the MOPDC through September 30, 2011 by fund, and compared that to the total amount of U.S. reconstruction by fund. As shown in Table 1, projects reported to the GOI ranged in value from 20 percent of Economic Support Funds to 44 percent of Iraq Relief and Reconstruction Fund assistance.

Table 1—Percent of Four Major U.S. Reconstruction Funds Reported by ISPO to the MOPDC, as of September 30, 2011 (in millions)



Source: Special Inspector General for Iraq Reconstruction, Quarterly Report to the United States Congress, 10/30/2011, and SIGIR analysis of ISPO annexes.

Conclusions

It is not clear why DoS decided to report only large capital projects valued at \$250,000 or more to the Iraq government since the memorandum of understanding required it to report on the “large volume” of completed and transferred projects. Logically the GOI’s interest would be focused on projects with significant sustainment costs. However, using dollar value as the primary criteria to select these projects seems arbitrary given the poor quality of information that exists on most projects, and the widely varying costs that can be incurred depending on project location. Coupled with the fact that there is no central database that captures the complete picture of all projects in Iraq that were funded by DoS, USAID, and the Department of Defense, there are likely significant limitations in U.S. reports to the GOI and in accounting for the U.S investment.

Because of this lack of transparency, SIGIR will be conducting a comprehensive overview of how U.S. dollars were spent in Iraq and expects to report in the summer of 2012.

Recommendation

To ensure that the U.S. government is identifying all major projects, we recommend that the U.S. Ambassador to Iraq develop criteria for selecting projects that are to be reported to the GOI that better reflect the numerous variables that have been identified in this report.

Management Comment and Audit Response

In written comments on a draft of this report, the U.S. Embassy in Iraq did not concur with SIGIR's recommendation that it develop criteria for selecting and reporting projects to the GOI that better reflect the large volume of projects completed by U.S. government. The Embassy stated that the purpose of the 2009 MOU negotiated with the GOI was to create an asset transfer process that would better enable the GOI to focus its limited resources on sustainment of infrastructure and other large capital projects done through U.S. reconstruction efforts. However, SIGIR's concern is that the process the Embassy selected does not facilitate GOI efforts to best determine where it should focus its resources. Rather, the Embassy chose an arbitrary cost ceiling that may eliminate projects more important to the GOI than the projects listed, and complex major construction projects whose costs may have comprised multiple smaller and cheaper projects. Without more comprehensive knowledge about reconstruction projects the GOI will not be in a position to maximize the use of its resources.

The USACE also provided written comments to the draft of this report in which it took issue with a number of SIGIR statements regarding the purpose and accuracy of the IRMS database. USACE stated that IRMS was not designed to be a full financial management or project management system that captures all Iraq reconstruction costs.

We do not agree with USACE's explanation of the purpose of the IRMS database. IRMS was developed to meet the requirement in Public Law 108-106 for quarterly reports detailing the use of Iraq Relief and Reconstruction Funds (IRRF) on a project-by-project basis. SIGIR has found nothing in the law, or in any other law or Congressional direction, that has changed the requirement for a full accounting of how IRRF was spent. The multiple reports that SIGIR has issued on IRMS since 2005 have clearly pointed out that the missing project data in IRMS is the result of a failure on the part of all of the U.S. agencies involved in Iraq reconstruction to fulfill this mandate. It was not the result of differing interpretations of the reporting requirement.

Accounting for projects funded from later reconstruction appropriations, such as ISFF, CERP, and ESF, had similar short-comings to those for IRRF reporting. SIGIR acknowledges that there was no requirement in the later appropriations for reports on how funds were used on a project-by-project basis. Nonetheless, U.S. reconstruction agencies decided to enter some information on projects funded by these appropriations into IRMS. SIGIR's research again shows that only a portion of projects were entered and, as with IRRF-funded projects, it is unclear what criteria was used in selecting the projects that were entered. In SIGIR's view, it makes little sense to enter partial data without some clear explanation of the criteria used to select the data because it leaves one wondering about what was left out and why.

SIGIR also does not agree with USACE's concern that SIGIR's comparison of the total value of projects funded under four major U.S. funds captured in IRMS and ISOC (\$27.1 billion) with the

total funding obligated for these funds (\$46.9 billion) may not be valid. Approximately \$19.8 billion in projects obligated from these funds is missing from IRMS and ISOC. Without complete information on the projects funded by this \$19.8 billion, the DoS cannot be sure that it has provided the Government of Iraq with an accounting of completed projects regardless of the dollar threshold selected.

We appreciate the courtesies extended to the SIGIR staff. For additional information on the report, please contact Jim Shafer, Deputy Assistant Inspector General for Audits (Washington, DC), (703) 604-0894/ fred.j.shafer.civ@mail.mil, or Dan Haigler, Deputy Assistant Inspector General for Audits (Baghdad), (240) 553-0581 ext.2988/ haiglerwd@state.gov.

A handwritten signature in black ink, appearing to read "Stuart Bowen, Jr.", followed by a period.

Stuart W. Bowen, Jr.
Inspector General

Appendix A–Scope and Methodology

Scope and Methodology

In August 2011, the Special Inspector General for Iraq Reconstruction (SIGIR) initiated Project 1111 to address our concerns regarding the Department of State’s process for providing information on completed and transferred reconstruction projects to the Government of Iraq (GOI). The objective of this audit was to determine Department of State’s (DoS) processes for accounting for completed reconstruction projects and providing the GOI with information on the projects. This audit was performed under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978, as amended. SIGIR conducted its review from August 2011 through January 2012 in Baghdad, Iraq and Arlington, Virginia.

To determine how DoS is accounting for completed and transferred projects and providing this information to the GOI, SIGIR interviewed ISPO officials to understand the processes, procedures, and criteria used to compile project information. To supplement the knowledge gained from the interviews, we obtained and reviewed diplomatic cables between the GOI and the U.S. Embassy; the 2009 memorandum of understanding establishing an information sharing process between the two countries; and ISPO’s annexes of completed and transferred projects sent to the GOI. Using ISPO’s stated criteria for capturing project information, we also reviewed projects captured in the Iraq Reconstruction Management System (IRMS) and Iraq Status of Construction (ISOC) databases to determine if ISPO’s annexes were accurate and complete.

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Use of Computer-processed Data

We used computer-processed data contained in IRMS and, to a lesser extent, ISOC. Our prior work has assessed IRMS and reported on its weaknesses. USACE officials state that its Gulf Region Division and successor organizations have made considerable progress to improve data reliability since SIGIR’s last report. In the course of this audit, SIGIR did not verify that these improvements had been made. Given USACE comments and the limited sources of Iraq reconstruction data, SIGIR acknowledges that the IRMS database is the best source available for purposes of our review. Where we used this data for analysis, we identified associated limitations.

Internal Controls

We reviewed the processes, procedures, and criteria that ISPO established to capture information on completed and transferred projects and how ISPO provided that information to the GOI.

Prior Coverage

Plans To Preserve Iraq Reconstruction Program and Contract Records Need To Be Improved, SIGIR 10-021, 7/30/2010.

Commander's Emergency Response Program: Projects at Baghdad Airport Provided Some Benefits, but Waste and Management Problems Occurred, SIGIR 10-013, 4/26/2010.

Department of State Contract To Study the Iraq Reconstruction Management System, SIGIR 10-010, 1/26/ 2010.

Asset-transfer Process for Iraq Reconstruction Projects Lacks Unity and Accountability, SIGIR 09-016, 4/26/2009.

Comprehensive Plan Needed To Guide the Future of the Iraq Reconstruction Management System, SIGIR 08-021, 7/25/2008.

Transferring Reconstruction Projects to the Government of Iraq: Some Progress Made but Further Improvements Needed to Avoid Waste, SIGIR 08-017, 4/28/2008.

Transferring Iraq Relief and Reconstruction Fund Capital Projects to the Government of Iraq, SIGIR 07-004, 7/25/2007.

Transition of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government, SIGIR 06-017, 7/28/2006.

Audit Report on U.S. Agency for International Development Management of the Transfer of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government, SIGIR 06-007, 4/29/2006.

Audit Report on Multi-National Security Transition Command-Iraq Management of the Transfer of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government, SIGIR 06-006, 4/29/2006.

GRD-PCO Management of the Transfer of IRRF-funded Assets to the Iraqi Government, SIGIR 05-028, 1/23/2006.

Appendix B—Memorandum of Understanding

Memorandum of Understanding

On the Procedures to Document the Transfer of Ownership of Projects Funded by the United States Government

Between the Ministry of Planning and Development Cooperation

And the Embassy of the United States of America

The Government of Iraq (“GOI”) and the Government of the United States of America (“USG”) (hereinafter “the Participants”) declare their desire to set forth a joint understanding for the process to document the transfer of ownership of projects funded by the USG as part of the campaign for the reconstruction of Iraq that was launched on 9 April 2003.

In view of the large volume of projects funded by the USG it is necessary to put together appropriate procedures and mechanisms to document and inventory those projects and exchange information concerning their operation and maintenance.

This MOU is based on and reaffirms the principles in the Council of Ministers’ Decree number 444 of 16 December 2008, as restated in January 12, 2009, which instructs the Ministry of Planning and Development Cooperation to prepare a memorandum of understanding to set forth appropriate mechanisms for receiving the projects in coordination with the U.S. Embassy. This MOU also reaffirms the principles stated in the exchange of diplomatic notes between the USG and the GOI, dated May 18, 2009, and May 24, 2009.

The Government of Iraq, represented by Ministry of Planning and Development Cooperation herein after referred to as “the Ministry of Planning,” and the Government of the United States, represented by the U.S. Embassy in Iraq herein after referred to as “the US Embassy,” hereby state the following understandings they have reached regarding the process for documenting and transferring projects provided as a gift by the USG and for ensuring their management and operation for the benefit of the Iraqi people.

Procedures and Principles:

1. Projects funded by the USG are to be inventoried and documented in a series of lists (hereafter referred to as “Annexes”), showing as appropriate, the name of the project, the project’s cost to the USG, location, the beneficiary entity, the purpose, a description of each project, and an estimated annual cost of sustaining the project’s normal operations, as well as a project serial number.

2. The US Embassy is to provide the Ministry of Planning with the Annexes referred to in Paragraph 1 on a routine basis as the projects are completed and the relevant information is compiled. The first Annex of completed projects is attached to this MOU. The Annexes and project information may be modified as mutually determined by the participants in writing.
3. The Annexes are to also include any further information to facilitate the effective and sustained operation of those projects by the beneficiary ministries and entities of the Iraq government. This information may include, where appropriate and available, the operation and maintenance manuals and warranty documents for the equipment as part of each project.
4. Title to all projects procured with USG funds and identified in Annexes described in Paragraph 1 is held by the GOI, which is then solely responsible for the control, operation, and maintenance of such projects. No financial obligations result from this memorandum between the Government of Iraq and the Government of the United States concerning projects listed in the Annexes or the costs shown for each project. Furthermore, there are to be no financial claims against the United States concerning any of the projects in the Annexes.
5. After each Annex is provided to the Ministry of Planning, the designated beneficiary is to form a technical committee to conduct a project inventory based on the projects' actual condition. The Ministry of Planning is to assume a coordinating role for the purpose of follow-up and expediting the activities of those committees, with the exception of projects in which the Ministry of Planning is the beneficiary.
6. The ministries and beneficiary entities are to accept the transfer of the projects listed in the Annexes in their current condition, including the projects associated with some problems which are to be recorded upon acceptance and according to official acceptance reports.
7. Upon confirmation of receipt of the projects, the beneficiary ministries and other entities are to be committed to allocate the necessary funds for their operation as part of the operating budgets.
8. The Government of Iraq is to respond positively to any requests from the US Embassy for conducting visits or evaluating the level of implementation for the projects that were added to the Annexes mentioned in Paragraph 1 above, including any information required for the evaluation process.
9. The Government of Iraq intends to use any funds derived from any re-export, transfer, loan or sale of any project or any part of a project under this MOU solely for the benefit of the Iraqi people.

The Memorandum is signed in duplicate in both Arabic and English.

This memorandum becomes operative upon signature by the authorized representatives of both participants. This memorandum may be modified with the written consent of the participants.

For the Ministry of Planning & Development Cooperation

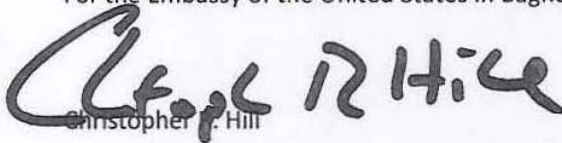


Ali Ghalib Baban

Minister of Planning & Development Cooperation

Date: / /2009

For the Embassy of the United States in Baghdad



Christopher F. Hill

U.S. Ambassador to Iraq

Date: / /2009 *Nov. 10, 2009*

Appendix C–Acronyms

Acronym	Description
CERP	Commander's Emergency Response Program
CIDNE	Combined Information Data Network Exchange
DoD	Department of Defense
DoS	Department of State
ESF	Economic Support Fund
GOI	Government of Iraq
MOPDC	Ministry of Planning and Development Cooperation
IRMS	Iraq Reconstruction Management System
IRRF	Iraq Relief and Reconstruction Fund
ISFF	Iraq Security Forces Fund
ISOC	Iraq Status of Construction
ISPO	Iraq Strategic Partnership Office
SIGIR	Special Inspector General for Iraq Reconstruction
USACE	United States Army Corps of Engineers
USAID	United States Agency for International Development

Appendix D—Team Members

This report was prepared and the audit conducted under the direction of Glenn D. Furbish, Assistant Inspector General for Audits, Office of the Special Inspector General for Iraq Reconstruction.

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

Arthur Granger

Scott Harmon

Joshua Moses

Tinh Nguyen

James Shafer

Appendix E—Management Comments from the U.S. Embassy in Iraq



*Embassy of the United States of America
Baghdad, Iraq*

January 18, 2012

Mr. Glenn D. Furbish
Assistant Inspector General for Audits
Special Inspector General for Iraq Reconstruction

Dear Mr. Furbish,

Thank you for the opportunity to comment on SIGIR’s audit on the “Department of State’s Process to Transfer Reconstruction Projects to the Government of Iraq” (SIGIR 12-009). We appreciate the efforts that have gone into this report as well as SIGIR’s previous work on this process in SIGIR’s audit report, “Asset Transfer Process for Asset Reconstruction Projects Lacks Unity and Accountability” (SIGIR 09-016).


The Embassy respectfully non-concurs with SIGIR’s recommendation, “that the U.S. Ambassador to Iraq develop criteria for selecting projects that are to be reported to the GOI that better reflect the numerous variables that have been identified in this report”. As identified in SIGIR’s last audit in 2009 and the DoS response, the purpose of an MOU and creation of an asset transfer process was to better enable the Government of Iraq (GOI) to focus its limited resources on sustainment of infrastructure and other large capital projects done through U.S. reconstruction efforts. This recommended MOU was in fact negotiated with the GOI in 2009 and has guided the asset transfer process. The Iraq Reconstruction effort is now in its very last stages, and all remaining capital projects will be reported through the asset transfer process, or have already been reported in an earlier iteration to the Government of Iraq.

While we agree that IRMS is an incomplete database, it does capture the vast majority of reconstruction projects and there is no other alternative that captures more. IRMS is only as good as the information each individual agency provides and was not created to be the sole repository of all reconstruction data. Each U.S. Government agency has a responsibility to maintain accountability of funds expended in furtherance of the Iraq Reconstruction effort. The Asset Transfer Process does not supplant those responsibilities. IRMS also includes a large

number of contracts for supply purchases, equipment, training, life support, security, and other non-capital projects. While this type of information was and is useful for individual ministries and shared when appropriate, it did not fall under the guidelines of the negotiated asset transfer process which was intended to enable the GOI to better sustain capital facilities.

We would also note that focusing exclusively on the process, dollar amounts, and projects transferred, fails to account for the transformation of the GOI - USG relationship. The USG no longer carries out reconstruction projects for the Government of Iraq, but rather with the Government of Iraq. The GOI, through individual ministries, remains closely involved in all aspects of reconstruction projects and carries out reporting requirements and sustainment planning per GOI regulations. The Embassy will continue to work closely with the GOI to ensure a robust asset transfer process which enables the GOI to maximize sustainability and use of reconstruction projects.

Sincerely,



Ambassador Peter W. Bodde

Assistant Chief of Mission for Assistance Transition

Appendix F—Management Comments from U.S. Army Corps of Engineers



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
U.S. ARMY CORPS OF ENGINEERS
441 G STREET, NW
WASHINGTON, DC 20314-1000

CEIR

19 January, 2012

MEMORANDUM FOR SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION
Attn: Jim Shafer, Principal Deputy Assistant-IG-Audits (SIGIR),
2530 Crystal Drive, Arlington, Virginia 22202

SUBJECT: The Department of State's Process to Provide Information on Reconstruction
Projects to the Government of Iraq (SIGIR12-009)

1. Reference SIGIR memorandum dated 9 January 2012, requesting management to provide comments on subject report.
2. The USACE reply is attached.
3. If you have any questions concerning our comments, please contact Alicia S Matias at 202-761-4573.


BRENDA L. MAYES
Deputy Chief
HQs USACE Internal Review Office

MEMORANDUM FOR: Headquarters, United States Army Corps of Engineers, ATTN: CEIR, 441 G St. NW, Washington, DC 20314-1000

SUBJECT: SIGIR Draft Audit Report "The Department of State's Process to Provide Information on Reconstruction Projects to the Government of Iraq: (SIGIR 12-009, Project 1111), Dated 9 January 2012

SIGIR FINDINGS

1. Page 3, paragraph 3. "SIGIR's previous reports on information regarding the transfer of reconstruction projects and on efforts to enhance project sustainment highlighted that IRMS' data was inaccurate and incomplete. As a result of these deficiencies and the high costs of maintaining the system, USACE shut down IRMS on September 1, 2010. At that time, IRMS contained information on about 73,000 U.S. funded projects."

USACE Response: The draft report repeats statements regarding the quality and accuracy of the data in IRMS which is based on a SIGIR report from July 2008. The draft report assumes without any further assessment that there was no improvement in data reliability. While there are gaps in data provided by other agencies, our Gulf Region Division and successor organizations made considerable progress to improve data reliability.

USACE disagrees with the reasons stated for the shutdown of IRMS stated in the draft report. The quality of data was not a consideration. The major factors were: the high cost of maintaining a system that had already exceeded its expected design life and associated warranties; the completion of the great majority of reconstruction projects in Iraq; and the decision by DoS to use a simpler approach to reporting the remaining projects.

At that time of the shutdown of IRMS, the system contained information for over 76,000 U.S. funded projects.

2. Page 5, paragraph 1. "A recent SIGIR analysis found that when IRMS was shut down, it contained over 73,000 U.S. funded projects valued at \$30.2 billion. To date, the U.S. has provided \$61.83 billion in reconstruction assistance to Iraq."

USACE Response: When IRMS was shut down, it contained over 76,000 U.S. funded projects valued at more than \$31.8 billion. The intended comparison between the value of projects in IRMS and the funding provided in reconstruction assistance is highly misleading as the IRMS was never intended to cover all the activities included in the

\$61.83 billion. For example, the funding figure includes agency operating costs as well as multiple other categories of expenditure not related to reconstruction projects.

3. Page 5, paragraph 3. "It is unclear why projects costing \$1,000 more would be of less interest to the GOI."

USACE Response: The sentence should read "projects costing less than \$1,000 would be of less interest to the GOI".

Page 6, Paragraph 2: "A July 2008 SIGIR report on IRMS identified problems with the "consistency, accuracy, and completeness" of IRMS data; SIGIR reported that IRMS contained \$25.8 billion out of approximately \$35.8 billion (72 percent) in obligations made to IRRF, ISFF, CERP and ESF funds. These problems have grown over time. As of September 30, 2011, the total value of projects listed in IRMS and ISOC as a percent of obligations was about 60 percent, or \$28.2 billion of the \$46.9 billion of obligations for IRRF, ISFF, CERP and ESF projects.¹² Thus, about \$18.7 billion is not captured in either IRMS or ISOC."

USACE Response: The statement confuses the intended use of IRMS. The primary goal of IRMS was to provide a unified common operating picture of reconstruction programs in Iraq. The system was never designed to be a full financial management or project management system that would reconcile with total obligations. The SIGIR comparison of the total value of projects in IRMS with total obligations is not a valid metric for determining the gaps in IRMS as they are not measuring the same thing. For example, IRMS includes the construction value of projects but it does not include USACE's Supervision and Administrative costs which are reported in the USACE Financial Management System (CEFMS).

In addition, the final IRMS list of projects totals over \$31.8 billion, so it is not clear how SIGIR arrive at a figure of \$28.2 billion for IRMS and ISOC combined.

Point of contact for this action is Ms. Melinda G. Gibbs, Internal Review, DSN 265-2921, or Melinda.g.gibbs@usace.army.mil.

Appendix G—SIGIR Mission and Contact Information

SIGIR’s Mission

Regarding the U.S. reconstruction plans, programs, and operations in Iraq, the Special Inspector General for Iraq Reconstruction provides independent and objective:

- oversight and review through comprehensive audits, inspections, and investigations
- advice and recommendations on policies to promote economy, efficiency, and effectiveness
- deterrence of malfeasance through the prevention and detection of fraud, waste, and abuse
- information and analysis to the Secretary of State, the Secretary of Defense, the Congress, and the American people through Quarterly Reports.

Obtaining Copies of SIGIR Reports and Testimonies

To obtain copies of SIGIR documents at no cost, go to SIGIR’s Web site (www.sigir.mil).

To Report Fraud, Waste, and Abuse in Iraq Relief and Reconstruction Programs

Help prevent fraud, waste, and abuse by reporting suspicious or illegal activities to the SIGIR Hotline:

- Web: www.sigir.mil/submit_fraud.html
- Phone: 703-602-4063
- Toll Free: 866-301-2003

Congressional Affairs

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