

CHANGES IN IRAQ RELIEF AND
RECONSTRUCTION FUND
PROGRAM ACTIVITIES
OCTOBER THROUGH DECEMBER
2005

SIGIR-06-004
APRIL 28, 2006



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

April 28, 2006

MEMORANDUM FOR U.S. AMBASSADOR TO IRAQ

SUBJECT: Audit Report on Changes in Iraq Relief and Reconstruction Fund Program Activities – October through December 2005 (SIGIR-06-004)

We are providing this audit report for your information and use. We performed the audit in accordance with our statutory duties contained in Public Law 108-106, as amended, which requires that we provide for the independent and objective conduct of audits, as well as leadership and coordination of and recommendations on policies designed to promote economy, efficiency, and effectiveness in the administration of Iraq relief and reconstruction programs and operations and to prevent and detect waste, fraud, and abuse.

This report does not contain recommendations; therefore no written response to this report is required. We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Joseph T. McDermott at (703) 343-7926, or by email at joseph.mcdermott@iraq.centcom.mil; or Mr. Glenn Furbish at (703) 343-9254, or by email at glenn.furbish@iraq.centcom.mil. For the report distribution, see Appendix D.

A handwritten signature in black ink that reads "Stuart W. Bowen, Jr." with a period at the end.

Stuart W. Bowen, Jr.
Inspector General

cc: Distribution

Special Inspector General for Iraq Reconstruction

SIGIR-06-004

April 28, 2006

Changes in Iraq Relief and Reconstruction Fund Program Activities – October through December 2005

Executive Summary

In January 2006 we reported on the challenges faced by the Department of State in directing and supervising Iraq Relief and Reconstruction Fund (IRRF) program activities. That report focused on changes that occurred in the United State's original reconstruction plans between November 2003 and September 30, 2005. This report updates our earlier report to include project changes that occurred between October 1, 2005 and December 31, 2005.

Introduction. In November 2003, Congress appropriated \$18.4 billion for relief and reconstruction activities in Iraq and allocated the funds to specific sectors of Iraqi infrastructure and governance based on lists of project plans developed over the summer of 2003. In January 2006, we reported that reconstruction plans had changed significantly as evidenced by the large-scale movement of funds between sectors. For example, as of September 30, 2005, approximately \$3.46 billion had moved between sectors, and another \$2.1 billion had moved within sectors as a result of:

- dramatically increased spending for security needs
- strategy changes as the Department of State responded to the changing environment in Iraq
- needed increases in spending for sustainment
- the need to fund IRRF administrative expenses not considered in original planning
- plans made without a clear understanding of actual situational conditions

As a result, we reported that many of the original plans will not be fully achieved in some sectors. The largest dollar changes occurred in the Security and Law Enforcement sector and the Justice, Public Safety Infrastructure, and Civil Society sector indicating the higher priority accorded these sectors. The two service sectors, the Water Resources and Sanitation sector and the Electric sector provided the bulk of the funds. This report updates the changes that occurred between October 1, 2005 and December 31, 2005, in the Department of State's IRRF program plans.

Objectives. The objectives of this audit were (1) to determine the changes, if any, in the Department of State's Iraq relief and reconstruction plans between October 1, 2005 and December 31, 2005, and (2) to identify reasons, if any, for those changes.

Results. Significant adjustments to IRRF program plans continued through the last quarter with \$353.3 million in program changes. Altogether, \$195.3 million in funding moved between sectors, and another \$158 million moved within sectors. Non-construction programs in the Justice, Public Safety Infrastructure, and Civil Society sector; and the Education, Refugees, and Human Rights sector received the largest increases in funding, receiving \$154.3 million of the \$195.3 million that was reallocated between sectors. As shown in Table 1, the service sectors (Transportation and Telecommunications, Health Care, Electric, and Water Resources and Sanitation) were the source for most of the reallocated funds.

These were some of the results of the adjustments:

- Six transmission projects in the Electric sector were cancelled.
- Two expanded healthcare centers and eight primary healthcare centers in the Health Care sector were cancelled.
- Aircraft navigational aid and visual aid contracts and the national radar system contract were cancelled in the Transportation and Telecommunications sector.
- Three large water treatment projects in the Potable Water subsector were reduced from design-build contracts to design-only contracts because of limited funding.
- The last remaining project in the Irrigation and Drainage subsector was reduced to engineering design only.
- The scope of the Umm Qasr to Basr water channel renovation project was reduced to repairs of the original channel.

For additional information on changes within each sub-sector, see appendix B.

**Table 1: Iraq Relief and Reconstruction Funding Allocation Changes
October 1, 2005 through December 31, 2005
(Dollars in millions)**

Sectors	Allocation as of October 2005	Allocation as of December 2005	Change in Dollars	Percent Change
Sectors with Increases				
Justice, Public Safety Infrastructure & Civil Society	\$2,242.5	\$2,349.8	\$107.3	4.8%
Education, Refugees & Human Rights	363.0	410.0	47.0	12.9%
Security & Law Enforcement	5,017.6	5,036.0	18.4	<1.0%
Oil Infrastructure	1,723.0	1,735.6	12.6	<1.0%
Private Sector Development ¹	443.0	453.0	10.0	1.3%
--Iraq Debt Forgiveness	352.3	352.3	0	0
Sectors with Decreases				
Electric	\$4,309.8	\$4,220.0	\$(89.8)	(2.1%)
Health Care	786.0	739.0	(47.0)	(6.0%)
Transportation & Telecommunication	508.5	465.5	(43.0)	(8.5%)
Water Resources & Sanitation	2,146.6	2,131.1	(15.5)	(<1.0%)
Sectors with No Changes				
Roads, Bridges & Construction	\$333.7	\$333.7	\$0	0%
Administrative ²	213.0	213.0	0	0%
Totals	\$18,439	\$18,439	\$(0.0)	0

Source: SIGIR analysis of Department of State and Office of Management and Budget data.

¹The Private Sector Development sub-sector also includes \$352.3 million for Iraq Debt Forgiveness. Because debt forgiveness is not an actual program, we have subtracted it from the sub-sector to provide a clearer picture on how sector programs changed.

²An additional \$601.3 million was used to cover the FY2004 and 2005 operating expenses of the Coalition Provisional Authority and its successor, and the implementation costs of the implementing agencies. These costs are not identified and are spread across the sectors. Total FY2005-2005 administrative costs are actually \$785.3 million.

The January 2006 *Section 2207 Report* generally cites emerging needs as the basis for the program changes that occurred during the quarter. For example, the report identifies:

- The need to train Iraqi officials in key ministries in the modern techniques of civil service policies, requirements based budget processes, information technology standards, and logistics management systems as the basis for the new Ministerial Capacity Development program.
- Other new programs are intended to expand local government, community, and election support; and address issues such as the criminal justice system, corrections, public prosecutors, intellectual property rights and property rights legislation; and boost the capacity of the Iraqi ministries.

These changes would indicate a continuation of the prior strategy shift toward non-construction programs intended to establish security, increase employment and diversification in the private sector, and strengthen local and provincial government, and away from construction projects.

Our earlier report, “Challenges Faced in Carrying Out Iraq Relief and Reconstruction Fund Activities,” (SIGIR-05-029, January 26, 2006) contained no recommendations because the Department of State was developing or refining metrics for all sectors in response to a Government Accountability Office report¹ on the Water Resources and Sanitation sector. This report follows up on our prior report and, similarly, contains no recommendations.

¹ *Rebuilding Iraq: U.S. Water and Sanitation Efforts Need Improved Measures for Assessing Impact and Sustained Resources for Maintaining Facilities*, GAO-05-872 (September 7, 2005).

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Introduction

In January 2006 we reported on the challenges faced by the Department of State in directing and supervising Iraq Relief and Reconstruction Fund (IRRF) program activities². That report focused on changes that occurred in the United State's original reconstruction plans between November 2003 and September 30, 2005. This report updates our earlier report to include project changes that occurred between October 1, 2005 and December 31, 2005.

Background

Public Law 108-106, the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, appropriated \$18.439 billion for security, relief, rehabilitation, and reconstruction in Iraq. The appropriation, known as the Iraq Relief and Reconstruction Fund (IRRF), was allocated among 10 sectors of Iraqi infrastructure and governance. According to a Congressional report, the provision of basic services, such as electricity, clean water, sewage treatment and disposal is urgently needed to give Iraqis hope for a better future.³

Section 2207 of Public Law 108-106 requires the Director of the Office of Management and Budget to submit a quarterly report, *Section 2207 Report*, to the Senate and House Committees on Appropriations, on the initial obligation of IRRF funds on a project-by-project basis, the distribution of duties and responsibilities regarding IRRF projects among the agencies of the U.S. government, funds provided by foreign governments and international organizations, and revenues from seized or frozen foreign assets. The Office of Management and Budget prepared these reports from January 2004 through July 2004. The U.S. Mission in Iraq, through its Iraq Reconstruction Management Office, has prepared the reports since October 2004. The U.S. Ambassador to Iraq is the Department of State's Chief of the U.S. Mission in Iraq.

The IRRF program projects include both construction and non-construction projects. Construction projects are those in which the U.S. is building or renovating Iraqi infrastructure facilities, such as border forts, military posts, electric generation plants, water and sewerage plants, and roads and bridges. Approximately \$12.5 billion was originally allocated for infrastructure construction and renovation with the majority of it in six sectors; security and law enforcement, electricity, water, oil, transportation, and roads and bridges. Non-construction projects focus on the procurement of services, materiel and training outside the scope of the construction projects, and on democracy building activities.

In some sectors the non-construction projects provide the complimentary equipment sets and training as clinics or facilities are refurbished using construction dollars. For example, water purification chemicals and spare parts would be non-construction expenses in the potable water sub-sector although most expenses would be related to the construction of water purification facilities. In other sectors, the non-construction projects focus more on providing intermediate support or emergency relief equipment until additional capacity is brought on-line via a corresponding construction project.

² *Challenges Faced in Carrying Out Iraq Relief and Reconstruction Fund Activities*, SIGIR-05-029 (January 26, 2006).

³ House Committee on Appropriations Report 108-312 (October 14, 2003).

Public education and outreach programs for Iraqi citizens, and support and training for Iraqi leaders are also important non-construction activities. Approximately \$5.9 billion was initially allocated for non-construction activities, principally in the security, justice, and oil sectors. Table 2 categorizes each IRRF sub-sector by its primary activity.

**Table 2: Construction and Non-Construction Sub-Sectors
(based on primary activity)**

Sector	Construction sub-sectors	Non-construction sub-sectors
Security and Law Enforcement	<ul style="list-style-type: none"> • Iraqi Armed Forces Facilities • Iraqi National Guard Facilities 	<ul style="list-style-type: none"> • Police Training & Technical Assistance • Border Enforcement • Facilities Protection Service • Iraqi Armed Forces Equipment • Iraqi Security Forces Quick Response Program • Iraqi Armed Forces Training & Operations • Iraqi National Guard Operations & Personnel • Iraqi National Guard Equipment • (New) Non-proliferation, Export Control, and Border Security • (New) Focused Stabilization • Commander's Humanitarian Relief and Reconstruction Program
Justice, Public Safety Infrastructure and Civil Society	<ul style="list-style-type: none"> • Reconstruction and Modernization of Detention Facilities • Penal Facilities • Judicial Security and Facilities 	<ul style="list-style-type: none"> • Technical Investigative Methods • Witness Protection Program • Facilities Repair, Fire Service, & De-mining • Public Safety Training & Facilities • First Responder Network • Rule of Law in Iraq • Investigations of Crimes Against Humanity • Democracy Building Activities • U.S. Institute for Peace
Electric	<ul style="list-style-type: none"> • Generation • Transmission • Network Infrastructure • Automated Monitoring & Control Systems 	<ul style="list-style-type: none"> • Security
Oil	<ul style="list-style-type: none"> • Oil Infrastructure 	<ul style="list-style-type: none"> • Emergency Supplies of Refined Petroleum Products

Sector	Construction sub-sectors	Non-construction sub-sectors
Water Resources & Sanitation	<ul style="list-style-type: none"> • Potable Water • Water Conservation • Sewerage • Solid Waste Management • Pumping Stations & Generators • Irrigation & Drainage • Major Irrigation Projects • Dam Repair, Rehabilitation and New Construction • Umm Qasr to Basra Water Supply Project • Basra Channel Flushing 	
Transportation & Telecommunication	<ul style="list-style-type: none"> • Civil Aviation • Umm Qasr Port Rehabilitation • Railroad Rehabilitation & Restoration • Iraq Telecommunications Systems • Consolidated Fiber Network 	<ul style="list-style-type: none"> • Iraq Telecommunications & Postal Corporation • Iraq Communications Operations
Roads, Bridges & Construction	<ul style="list-style-type: none"> • Public Buildings Construction & Repair • Roads & Bridges 	
Health Care	<ul style="list-style-type: none"> • Nationwide Hospital & Clinic Improvement • Pediatric Facility in Basra 	<ul style="list-style-type: none"> • Equipment Procurement & Modernization
Private Sector Development		<ul style="list-style-type: none"> • Expand Network of Employment Centers • Vocational Training • Business Skills Training • Micro-Small-Medium Enterprises • Institutional Reforms • Agriculture • Market-Based Reforms • Iraq Debt Forgiveness
Education, Refugees, Human Rights, Democracy, & Governance		<ul style="list-style-type: none"> • Migration & Refugee Assistance • Property Claims Tribunal • Governance • (New) Ministerial Capacity Development • Banking System Modernization • Human Rights • Education • Civic Programs

Source: SIGIR analysis of Department of State data.

Objectives

The objectives of this audit were (1) to determine the changes, if any, in the Department of State's Iraq reconstruction plans between October 1, 2005 and December 31, 2005, and (2) to identify the reasons, if any, for changes in the plans.

For a discussion of the audit scope, methodology, and a summary of prior coverage, see Appendix A. For definitions of the acronyms used in this report, see Appendix C. For a list of the audit team members, see Appendix E.

Changes in the IRRF Program - October through December 2005

Between October 1, 2005 and December 31, 2005, \$353.3 million in changes were made to IRRF program plans with \$195.3 million in funding moving between sectors, and another \$158 million moving within sectors. Thirty of 67 sub-sectors (45 percent) had funding changes, with 6 sub-sectors experiencing changes (increases or decreases) greater than 25 percent of their October allocation. Three new sub-sectors were created.

As shown in Table 3, programs in the Justice, Public Safety Infrastructure, and Civil Society sector; and the Education, Refugees, and Human Rights sector received the largest increases in funding, receiving \$154.3 million (79 percent) of the \$195.3 million that was reallocated between sectors; while programs in the service sectors (Transportation and Telecommunications, Health Care, Electric, and Water Resources and Sanitation) were the source for all \$195.3 million of the reallocated funds.

**Table 3. Iraq Relief and Reconstruction Funding Allocation Changes
October 1, 2005 through December 31, 2005 (Dollars in millions)**

Sectors	Allocation as of October 2005	Allocation as of December 2005	Change in Dollars	Percent Change
Sectors with Increases				
Justice, Public Safety Infrastructure & Civil Society	\$2,242.5	\$2,349.8	\$107.3	4.8%
Education, Refugees & Human Rights	363.0	410.0	47.0	12.9%
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--Iraq Debt Forgiveness	352.3	352.3	0	0
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Electric	\$4,309.8	\$4,220.0	\$(89.8)	(2.1%)
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Transportation & Telecommunication	508.5	465.5	(43.0)	(8.5%)
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Sectors with No Changes				
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Administrative ²	213.0	213.0	0	0%
Totals	\$18,439	\$18,439	\$(0.0)	0

Source: SIGIR analysis of Department of State data.

¹The Private Sector Development sub-sector also includes \$352.3 million for Iraq Debt Forgiveness. Because debt forgiveness is not an actual program, we have subtracted it from the sub-sector to provide a clearer picture on how sector programs changed.

²An additional \$601.3 million was used to cover FY2004 and 2005 program implementation costs and the FY2005 operating expenses of the Coalition Provisional Authority and its successor agency. These costs are not identified and are spread across the sectors. Total FY2004-2005 administrative costs are actually \$785.3 million. This does not include project overhead.

Programs receiving the largest increases. As shown in Table 3, the Justice, Public Safety Infrastructure, and Civil Society sector had the largest change, receiving \$107 million in additional funding (4.8 percent). In our January 2006 report, this sector was identified as the second largest beneficiary of reallocated funds, having gained \$924.5 million, primarily for Democracy Building Activities. Democracy Building focuses on

assisting the Iraqis in building a legitimate government nationally and regionally, supporting the development of democratic, competitive political parties, and ensuring open and transparent elections, and growth in this sector illustrates the growing emphasis being placed on improving the economic and political environment.

The \$107.3 million increase this quarter is again partly attributable to an increase in Democracy Building Activities, along with similar non-construction activities in the Rule of Law in Iraq program. According to the January *Section 2207 Report*; Democracy Building will increase by \$38.5 million to expand local government, community, and election support programs. Similarly, the Rule of Law in Iraq program's funding will increase by \$53.6 million to address issues such as the criminal justice system, corrections, public prosecutors, intellectual property rights and property rights legislation. Finally, the Mine Removal program will increase by \$13.2 million to fund the existing National Mine Action Program to minimize the impact of landmines and unexploded ordnance, mine detection dog training, and support for the Iraqi Mine Clearance Organization.

The Education, Refugees, and Human Rights sector received the second largest increase in funding this quarter, growing by \$47 million, or 12.9 percent. All of the money was directed at two non-construction programs; Migration and Refugee Assistance, and Ministerial Capacity Building. The Migration and Refugee Assistance program was increased by \$27 million to fund assistance to meet the immediate needs of refugees and other conflict victims. Ministerial Capacity Building is a new \$20 million initiative designed to train Iraqi officials in key ministries in the modern techniques of civil service policies, requirements based budget processes, information technology standards and logistics management systems.

Security and Law Enforcement programs increased by \$18.4 million, primarily due to two new programs, (1) Nonproliferation, Export Control and Border Security; and (2) Focused Stabilization. Nonproliferation, Export Control and Border Security is a new \$3 million program to inhibit proliferation of Iraq's weapons expertise through payment of regular stipends to approximately 150 key Iraqi weapons development personnel, the provision of career transition assistance in the form of workshops, seminars and collaboration with western counterparts, and the funding of science-based projects proposed by program participants. The Focused Stabilization program is a \$30 million program that will fund community infrastructure and essential services programs, employment generation programs, and small-medium-enterprise expansion programs. Funding for three security programs was slightly reduced to partially offset the costs of these new programs.

Programs receiving the largest decreases. Projects in four service sectors were reduced or eliminated to provide the funding for the new activities. The Electric Sector, Health Care, Transportation and Telecommunications, and Water Resources and Sanitation were reduced by a combined \$195.3 million with the Electric sector incurring the largest decrease (\$89.8 million). All of the Electric Sector's decrease came from the Transmission sub-sector, where six transmission projects were cancelled. The second largest decrease came from the Health Sector (\$35 million) as a result of project cancellations related to inefficiencies caused by security concerns and low productivity. Among the projects cancelled were two expanded healthcare centers, and eight primary healthcare centers. In the Transportation and Telecommunications Sector, the civil aviation sub-sector was reduced by \$38 million. Aircraft navigational aid and visual aid contracts and national radar system contract were deferred.

A major reprogramming occurred in the Water Resources and Sanitation Sector, with four sub-sectors receiving large funding increases and three sub-sectors receiving large funding decreases. Altogether, the Water sector funding decreased \$15.5 million during this quarter. Pumping Stations and Generators; Sewerage; Dam Repair; and Major Irrigation projects received a combined \$127.7 million increase, with all of the money coming from Potable Water, Irrigation and Drainage, and the Umm Qasr to Basr Water Pipeline. Three large water treatment projects in the Potable Water sub-sector were reduced from design-build contracts to design only due to limited funding, the last remaining project in the Irrigation and Drainage sub-sector was reduced to engineering design only, and the Umm Qasr to Basr water channel renovation project was reduced to repairs of the original channel.

Reasons for Changes in Sector Programs

The Department of State's January 2006 *Section 2207 Report* generally cites emerging needs as the basis for the program changes that occurred during the quarter. However, strategic changes to the IRRF program that were begun in the late summer of 2004 appear to continue to influence IRRF program plans.

For example, the report identifies the need to train Iraqi officials in key ministries in the modern techniques of civil service policies, requirements based budget processes, information technology standards, and logistics management systems as the basis for the new Ministerial Capacity Development program. Other new programs are intended to expand local government, community, and election support, and address issues such as the criminal justice system, corrections, public prosecutors, intellectual property rights and property rights legislation, and boost the capacity of the Iraqi ministries. Other program changes are identified as a reprioritization of activities.

Our analysis of this quarters changes generally indicate that the changes are a continuation of the strategic program changes begun in June 2004. At that time, a strategic review of the IRRF spending plan resulted in a reprioritization of funding from projects that would not begin until late in the program to key, high-impact projects that would support longer-term reconstruction efforts. The strategic review shifted \$3.46 billion, principally from the water and electric sectors to security activities and to projects intended to strengthen local and provincial government, and to elections activities. This quarter appears to continue that trend with another \$153.3 million moving from construction programs in the service sectors into local government, community, and election support programs, and on programs intended to address issues in the criminal justice system, corrections, intellectual property rights and property rights legislation.

Appendix B of this report identifies specific sub-sector changes and, where we could identify them, the reasons for the changes.

Appendix A. Scope and Methodology

We initiated this audit in March 2006 (Project No. 6010) to review the changes that occurred between October 1, 2005 and December 31, 2005, in the Department of State's Iraq Relief and Reconstruction Fund (IRRF) program plans. To determine the changes, we reviewed reports submitted to meet the requirements of Section 2207 of Public Law 108-106. These reports, which have been submitted every three months since January 2004, identify ten sectors of Iraqi infrastructure and governance, and identify how IRRF funds have been allocated between those sectors. The reports also identify any changes that have occurred in a sector's allocation since the previous quarter. We tracked these changes to determine how funds moved between the sectors, and to identify, where possible, the reasons for the changes. We then identified the primary reasons for the changes, and aggregated the amount of funding moved for each of the primary reasons we had identified.

To identify reasons for changes in U.S. plans, we also reviewed the *Section 2207 Reports*. In the body of the *Section 2207 Reports*, reasons were generally given as to why funding changes were made. We then summarized these changes for the report.

We conducted this audit between January and March 2006, in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We did not use computer-processed data to perform this audit.

Prior Coverage.

SIGIR. SIGIR reported on January 26, 2006, in "Challenges Faced in Carrying Out Iraq Relief and Reconstruction Fund Activities" (SIGIR-05-029), that the United States would not complete all of the projects it originally planned to construct through its Iraq Relief and Reconstruction program because of:

- dramatically increased spending for security needs
- strategy changes as the Department of State responded to the changing environment in Iraq
- needed increases in spending for sustainment
- the need to fund IRRF administrative expenses that were not considered in initial planning
- plans made without a clear understanding of actual situational conditions

Appendix B: Summary of Changes in Sub-sector Programs

The following significant increases and decreases occurred in IRRF program sub-sectors between October 1, 2005 and December 31, 2005:

**Table 1: Sub-Sector Allocation Increases October 2005 through December 2005
(Dollars in millions)**

	Allocation as of October 2005	Allocation as of December 2005	Change	Percent change
Sub-Sectors with Increases				
Pumping Stations & Generators (Water)	\$123.0	\$179.9	\$56.9	46.3%
Rule of Law in Iraq (Justice)	56.2	109.8	53.6	95.4%
Democracy Building Activities (Justice)	995.3	1,033.8	38.5	3.9%
Sewerage (Water)	234.7	271.4	36.7	15.6%
Focused Stabilization (Security)	New program	30.0	30.0	
Migration & Refugee Assistance (Education)	159.0	186.0	27.0	17.0%
Dam Repair, Rehabilitation, & Construction (Water)	61.5	82.6	21.1	34.3%
Ministerial Capacity Building (Education)	New program	20.0	20.0	
Oil Infrastructure (Oil)	1,697.0	1,713.1	16.1	<1.0%
Facilities Protection, Mine Removal, Fire Service (Justice)	274.0	287.2	13.2	4.8%
Major Irrigation Projects (Water)	53.4	66.4	13.0	24.3%
Iraqi National Guard Facilities (Security)	358.5	365.5	7.0	2.0%
Institutional Reforms (Private Sector)	80.0	85.0	5.0	6.3%
Agriculture (Private Sector)	100.0	105.0	5.0	5.0%
Business Skills Training (Private Sector)	37.0	40.2	3.2	8.6%
Nonproliferation & Export Control and Border Security (Security)	New Program	3.0	3.0	
Reconstruction & Modernization of Detention Facilities (Justice)	165.0	167.0	2.0	1.2%
Iraqi Armed Forces Training & Operations (Security)	429.3	430.9	1.6	<1.0%
Generation (Electric)	1,607.8	1,608.2	.4	<1.0%

Source: Department of State *Section 2207 Report*, January 2006.

Programs with Increases Greater Than \$10 Million

Pumping Stations and Generators. The sub-sector received \$56.9 million to fully fund the Nassriya Drainage Pumping Station. Nassriya was one of the original planned projects. However, the original cost estimate of \$38 million was imprecise.

Rule of Law in Iraq. The Rule of Law in Iraq program received \$53.6 million in additional funding. The program had previously focused on police training but was reorganized to include additional issues, such as the criminal justice system, corrections, public prosecutors, intellectual property rights and property rights legislation. Democracy Building programs were expanded to include local government, community, and election support programs.

Democracy Building. The Democracy Building program received \$38.5 million, bringing total funding for this sub-sector to \$1.03 billion. The money will be used to fund Provincial Reconstruction Team local government support and community support programs.

Sewerage. The Sewerage sub-sector received \$36.7 million. The money will be used to fund the Sewerage Infrastructure Sustainment Program and the Fallujah Sewerage Phase 2 project.

Focused Stabilization. Focused Stabilization is a new \$30 million project in the Security sector that will fund community infrastructure and essential services, employment generation, small-medium enterprise expansion, and micro-enterprises.

Migration and Refugee Assistance. The Migration and Refugee Assistance program received \$27 million to meet the immediate needs of refugees and other conflict victims.

Dam Repair, Rehabilitation, and New Construction. Dam Repair received \$21 million to fully fund the Mosul Dam repair project. According to the Senior Advisor to the Ministry of Water Resources, the original estimates for this project were inaccurate and more money was required to complete the planned work.

Ministerial Capacity Building. Ministerial Capacity Building is a new \$20 million program in the Education, Refugees, Human Rights, Democracy, and Governance sector. The program is intended to train Iraqi officials in key ministries in the modern techniques of civil service policies, requirements based budget processes, information technology standards and logistics management systems.

Oil Infrastructure. The Oil Infrastructure program increased by \$16.1 million to fund repairs for the Al Fatha crossing, and to fund an infrastructure sustainment program.

Facilities Protection, Mine Removal, and Fire Service. The Facilities Protection, Mine Removal, and Fire Service sub-sector received a \$13.2 million increase to fund (1) the existing National Mine Action Program to minimize the impact of landmines and unexploded ordnance on Iraq, (2) mine detection dog training, and (3) the Iraqi Mine Clearance Organization.

Major Irrigation Projects. The Major Irrigation Projects sub-sector received \$13 million. According to the Senior Advisor to the Ministry of Water Resources, the original estimates for this project were inaccurate and more money was required to complete the planned work.

**Table 2: Sub-Sector Allocation Decreases October 2005 through December 2005
(Dollars in millions)**

	Allocation as of October 2005	Allocation as of December 2006	Change	Percent change
Sub-Sectors with Decreases				
Transmission (Electric)	\$1,241.6	\$1,151.8	\$(89.8)	(7.2%)
Umm Qasr to Basra Water Pipeline & Treatment Plant (Water)	110.7	35.4	(75.3)	(68.0%)
Civil Aviation (Transportation)	113.7	75.7	(38.0)	(33.4%)
Potable Water (Water)	1,483.0	1,445.9	(37.1)	(2.5%)
Nationwide Hospital & Clinic Improvements (Health)	439.0	404.0	(35.0)	(8.0%)
Irrigation & Drainage Systems (Water)	38.4	7.6	(30.8)	(80.2%)
Iraqi Armed Forces Equipment (Security)	628.6	614.4	(14.2)	(2.3%)
Equipment Procurement & Modernization (Health)	297.0	285.0	(12.0)	(4.0%)
Iraqi Security Forces Quick Response Program (Security)	170.0	163.0	(7.0)	(4.0%)
Iraqi Communications Operations (Transportation)	25.0	20.0	(5.0)	(20.0%)
Emergency Supplies of Refined Petroleum Products (Oil)	26.0	22.5	(3.5)	(13.5%)
Micro-Small-Medium Enterprises (Private Sector)	44.0	40.8	(3.2)	(7.3%)
Police Training and Technical Assistance (Security)	1,808.4	1,806.4	(2.0)	(<1.0%)
Security (Electric)	44.0	43.6	(0.4)	(<1.0%)

Source: Department of State *Section 2207 Report*, January 2006.

Programs with Decreases Greater Than \$10 Million

Transmission. The Transmission sub-sector sub-sector was reduced by \$89.8 million. Six projects were removed from Transmission. Three transmission over head line projects, removed from the program, will be completed by the Ministry due to their importance to the local region.

Umm Qasr to Basra Water Supply Project. The Umm Qasr to Basra Water Supply Project was intended to provide higher quality water to Basra, the second largest city in Iraq. Umm Qasr, historically the recipient of poor quality, highly saline water would also benefit. The project planned to line the existing canal with concrete thereby reducing saline infiltration and reducing evaporation. However, the project plan has been reduced to repairs of the original canal, a 68 percent reduction in allocated funds.

Civil Aviation. The Civil Aviation sub-sector was reduced by \$38 million. Aircraft navigational aid and visual aid contracts and the national radar system contract were deferred.

Potable Water. The Potable Water sub-sector was reduced by \$37.1 million. Three large water treatment projects in the Potable Water sub-sector were reduced from design-build contracts to design only due to limited funding.

Nationwide Hospital and Clinic Improvements. The Hospital and Clinic Improvement sub-sector was reduced by \$35 million as a result of project cancellations related to inefficiencies caused by security concerns and low productivity. Among the projects cancelled were two expanded healthcare centers, and eight primary healthcare centers.

Irrigation and Drainage. The Irrigation and Drainage sub-sector was reduced by \$30.8 million. The last remaining project in this sub-sector, the Kut Betera Drainage project, was terminated with an engineering design only.

Iraqi Armed Forces Equipment. Armed Forces Equipment decreased by \$14.2 million. However, the *Section 2207 Report* does not identify any change in plans as a result of the reallocation. We believe that no effects are identified because of the availability of the \$5.7 billion Iraq Security Forces fund.

Equipment Procurement & Modernization. Health Care equipment procurement was reduced by \$12 million. The reduction in health care facilities caused a commensurate reduction in the amount of equipment needed.

Appendix C. Acronyms

IRRF
SIGIR

Iraq Relief and Reconstruction Fund
Special Inspector General for Iraq Reconstruction

Appendix D. Report Distribution

Department of State

Secretary of State

Senior Advisor to the Secretary and Coordinator for Iraq

U.S. Ambassador to Iraq

Director, Iraq Reconstruction Management Office

Mission Director-Iraq, U.S. Agency for International Development

Inspector General, Department of State

Department of Defense

Secretary of Defense

Deputy Secretary of Defense

Director, Defense Reconstruction Support Office

Under Secretary of Defense (Comptroller)/Chief Financial Officer

Deputy Chief Financial Officer

Deputy Comptroller (Program/Budget)

Inspector General, Department of Defense

Director, Defense Contract Audit Agency

Director, Defense Finance and Accounting Service

Director, Defense Contract Management Agency

Department of the Army

Assistant Secretary of the Army for Acquisition, Logistics, and Technology

Principal Deputy to the Assistant Secretary of the Army for Acquisition,

Logistics, and Technology

Deputy Assistant Secretary of the Army (Policy and Procurement)

Director, Project and Contracting Office

Commanding General, Joint Contracting Command-Iraq/Afghanistan

Assistant Secretary of the Army for Financial Management and Comptroller

Chief of Engineers and Commander, U.S. Army Corps of Engineers

Commanding General, Gulf Region Division

Auditor General of the Army

U.S. Central Command

Commanding General, Multi-National Force-Iraq

Commanding General, Multi-National Security Transition Command-Iraq

Commander, Joint Area Support Group-Central

Other Federal Government Organizations

Director, Office of Management and Budget

Comptroller General of the United States

Inspector General, Department of the Treasury

Inspector General, Department of Commerce

Inspector General, Department of Health and Human Services

Inspector General, U.S. Agency for International Development

President, Overseas Private Investment Corporation

President, U.S. Institute for Peace

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

U.S. Senate

Senate Committee on Appropriations

Subcommittee on Defense

Subcommittee on State, Foreign Operations and Related Programs

Senate Committee on Armed Services

Senate Committee on Foreign Relations

Subcommittee on International Operations and Terrorism

Subcommittee on Near Eastern and South Asian Affairs

Senate Committee on Homeland Security and Governmental Affairs

Subcommittee on Federal Financial Management, Government Information and International Security

Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia

U.S. House of Representatives

House Committee on Appropriations

Subcommittee on Defense

Subcommittee on Foreign Operations, Export Financing and Related Programs

Subcommittee on Science, State, Justice and Commerce and Related Agencies

House Committee on Armed Services

House Committee on Government Reform

Subcommittee on Management, Finance and Accountability

Subcommittee on National Security, Emerging Threats and International Relations

House Committee on International Relations

Subcommittee on Middle East and Central Asia

Appendix E. Audit Team Members

This report was prepared and the audit work was conducted under the direction of Joseph T. McDermott, the Assistant Inspector General for Audit, Office of the Special Inspector General for Iraq Reconstruction. The staff member who contributed to this report:

Glenn D. Furbish