

The seal of the Office of the Special Inspector General for Iraq Reconstruction is a large, circular emblem in the background. It features an eagle with wings spread, holding an olive branch and arrows. The eagle is positioned over a shield with vertical stripes. The seal is surrounded by text in both English and Arabic. The English text reads "INSPECTOR GENERAL" at the top and "RECONSTRUCTION" at the bottom. The Arabic text reads "مفتش العام" at the top and "إعادة إعمار العراق" at the bottom.

TRANSITION OF IRAQ RELIEF AND  
RECONSTRUCTION FUND  
PROJECTS TO THE IRAQI  
GOVERNMENT

**SIGIR-06-017**  
**JULY 28, 2006**



## SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

July 28, 2006

MEMORANDUM FOR U.S. AMBASSADOR FOR IRAQ  
DIRECTOR, IRAQ RECONSTRUCTION MANAGEMENT  
OFFICE

SUBJECT: Transition of Iraq Relief and Reconstruction Fund Projects to the Iraqi  
Government (SIGIR-06-017)

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 such programs and operations and to prevent and detect waste, fraud, and abuse.

We considered management comments from the Iraq Reconstruction Management Office on a draft of this report when preparing the final report. Their comments are addressed in the report where applicable, and a copy of their comments is included in the Management Comments section of this report.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Joseph T. McDermott at (703) 343-7926, or by email at [joseph.mcdermott@iraq.centcom.mil](mailto:joseph.mcdermott@iraq.centcom.mil); or Mr. Clifton Spruill at (703) 343-9275, or by email at [clifton.spruill@iraq.centcom.mil](mailto:clifton.spruill@iraq.centcom.mil); or Mr. Glenn Furbish at (703) 343-7921, or by email at [glenn.furbish@iraq.centcom.mil](mailto:glenn.furbish@iraq.centcom.mil). For the report distribution, see Appendix C.

A handwritten signature in black ink that reads "Stuart W. Bowen, Jr." followed by a period.

Stuart W. Bowen, Jr.  
Inspector General

cc: Distribution

# Special Inspector General for Iraq Reconstruction

SIGIR-06-017

July 28, 2006

## Transition of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government

### Executive Summary

**Introduction.** This report discusses the transition of completed projects funded by the Iraq Relief and Reconstruction Fund (IRRF) to the Iraqi government. In January 2006, the Special Inspector General for Iraq Reconstruction (SIGIR) reported that 2006 would be a year of transition for the U.S. reconstruction program in Iraq. This focus on transition followed SIGIR's October 2005 Report<sup>1</sup> on the issue of sustainment programs for IRRF assets. SIGIR noted that progress had been hampered by the absence of a centralized sustainment office with the authority and responsibility to manage the effort across the jurisdictional boundaries of the operating agencies. In response, the Iraq Reconstruction Management Office (IRMO) established a coordinating sustainment office.

By September 30, 2006, all IRRF funds will either be obligated to a contract or they will no longer be available to support relief and reconstruction projects in Iraq. As more projects are completed, the U.S. agencies and organizations that currently manage and implement the U.S. reconstruction effort should prepare to implement strategies for transitioning assets, projects and programs to the Iraqi government.<sup>2</sup> A critical element of attaining end-state objectives for U.S. funded projects is a strategic plan to ensure that (1) completed projects and related assets are turned over to the appropriate Iraqi officials and (2) the Iraqi government has the capacity and resources necessary to sustain them.

IRMO and the Project and Contracting Office (PCO) are the two principal organizations that are managing, overseeing and implementing the IRRF. Established as temporary organizations under National Security Presidential Directive No. 36 (May 11, 2004), IRMO's principal responsibility was "to facilitate the transition in Iraq," while PCO was established to provide acquisition and project management support. Both organizations are scheduled to sunset on May 10, 2007.

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<sup>1</sup> *Managing Sustainment for Iraq Relief and Reconstruction Fund Programs*, Special Inspector General for Iraq Reconstruction, SIGIR-05-022, October 24, 2005.

<sup>2</sup> U.S. agencies and organizations include the Iraq Reconstruction Management Office (IRMO); the U.S. Army Corps of Engineers, Gulf Region Division-Project and Contracting Office (GRD-PCO); the U.S. Agency for International Development (USAID); and the Multi-National Security Transition Command-Iraq (MNSTC-I). In December 2005, the Project and Contracting Office was folded into the Gulf Region Division to form GRD-PCO.

This review looked narrowly at IRRF-funded assets including their transfer and short-term sustainment. It also looked at the support provided to the Iraqi government to enhance its capacity to manage and operate the assets (through capacity development level 5).<sup>3</sup> Agencies that will remain in Iraq after the completion of IRRF-funded work will have a longer-term role in capacity-development and infrastructure sustainability as U.S. support of reconstruction efforts in Iraq shifts from grants to foreign assistance programs managed by the Department of State (DoS) and the U.S. Agency for International Development (USAID). This report discusses U.S. plans to accomplish this transition.

**Objectives.** The objectives of this audit were to answer these questions:

1. Do each of the U.S. government management offices in Iraq have a strategic plan in place for transitioning their respective reconstruction programs and projects?
2. Are sufficient resources to operate and maintain new U.S. provided plants and equipment are available?
3. Has the Iraqi government sufficiently planned and budgeted for essential operations and maintenance of the U.S.-provided infrastructure?
4. How will the pace of reconstruction and project completion affect transition planning and completion?

**Results.** As of July 16, 2006, approximately 579 projects valued at \$765 million have been transferred to the Iraqi Ministry of Finance. According to an IRMO official, this represents about 18% of the total number of completed IRRF construction projects. Generally, our review indicated that while IRRF implementing organizations have formed a number of working groups that are addressing key transaction issues, coordinated processes for the transfer of IRRF assets to the Iraqi government, including sustainment and capacity-building, have not been finalized. Until these plans are completed it is uncertain if sufficient resources exist to support the assets. We estimate that the Iraqi government would need approximately \$828 million to fund its share of the sustainment costs for U.S. projects in calendar year 2007. The Iraqi government's commitment to supporting the assets also remains uncertain heightening the risk that the end-state objectives will not be met. Specifically:

(1) There is no overall strategic plan for transitioning IRRF-funded reconstruction projects and assets to the Iraqi government. An asset transfer process has been developed, but plans for sustainment and capacity-development activities remain in draft and provide few details to guide agencies. Additionally, USAID has chosen not to participate in the DoS-led asset transfer process creating additional risk that assets will not be turned over in time for the Iraqis to plan for their support.

(2) Available U.S. resources for supporting the short-term operation and maintenance of IRRF-funded plant assets after transition to Iraqi authority may be insufficient to meet requirements, particularly if delays occur in the receipt and recognition of assets by the Iraqi government. Sustainment funding must also be

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<sup>3</sup> We did not examine sustainment where capacity development in programs was the objective of IRRF and other U.S. funds. We also did not examine the sustainment budget for Iraqi armed forces, police and other security-related personnel. However, we believe the cost to sustain the employment and equipment of the Iraqi Security Forces will be a large part of the new Iraqi budget.

linked to capacity-development activities to ensure funds are available to support the projects until the Iraqi ministries are prepared to fund and assume this role.

(3) The adequacy of U.S. resources for Iraqi government capacity-development activities remains uncertain until IRMO completes its ongoing assessment of the Iraqi ministries' capabilities. The resources required will be determined by the scope of programs required to develop ministerial capacity.

(4) The Iraqi government's commitment to sustaining IRRF-funded assets remains uncertain because the Iraqi government has not finalized its calendar year 2007 budget. Finalizing a budget is difficult because of the absence of a comprehensive understanding of the operations and maintenance requirements associated with the assets.

(5) A completion schedule for remaining projects has not been established, and DoS is considering extending the life of the organizations currently managing, overseeing, and implementing the IRRF. Information on project completion and the agencies that will be responsible for transition is needed to fully assess transition plans and resources.

Through 2006 and 2007, the majority of remaining IRRF projects are expected to be completed and transitioned to the Iraqi government. The number of remaining projects, however, is unknown. The final tally may extend beyond 2007 because non-IRRF funds may be used to augment IRRF-related projects. After completion of the IRRF infrastructure projects, U.S. reconstruction agencies will be either closing or transitioning to new responsibilities:

- USAID's infrastructure program will be reorganized under a new Strategic Objective, "Improve the Capacity of National Government Institutions."
- MNSTC-I will transition into an Office of Security Cooperation.
- GRD-PCO's mission will gradually draw down and shift from IRRF projects to military construction and Commanders Emergency Response Program activities. The PCO portion of GRD will close out its office and transition its work to other organizations. In March 2006, GRD-PCO issued a strategic plan to guide this effort, and our review found it thorough and flexible, allowing for mission changes and the possibility of program slippage.
- IRMO will close out its office and transition its work to other organizations. IRMO has not prepared a transition plan.

The status of the temporary organizations IRMO and PCO—while defined in National Security Presidential Directive No. 36 as terminating in May 2007—may be extended for up to an additional two years (2009).

**Recommendations.** We recommend that the U.S. Ambassador to Iraq direct the Director of IRMO to:

1. Develop a single, uniform process for asset recognition and transfer of all completed projects to the Iraqi government. This process should be followed by all of the IRRF-implementing agencies, and sufficient resources should be made available to implement the process in time for the Iraqi government's use in budget planning.
2. Provide a bi-weekly report to the Deputy Chief of Mission on the progress and impediments to the implementation of the asset recognition and transfer process.

3. Develop a sustainment plan to guide U.S. activities past June 2007 emphasizing capacity-development activities to ensure that established infrastructure management processes are in place in the Iraqi ministries.
4. Complete an assessment to determine the capacity of the Iraqi government for maintaining the IRRF projects.
5. Formulate and implement a plan as part of the Joint Campaign Plan, with clear goals and objectives for developing the capacity of the Iraqi ministries.
6. Ensure the capacity-development plan is linked to and supported by the necessary sustainment funding to ensure the viability of all IRRF-funded projects. This plan should include the \$134 million requested for this purpose in the U.S. budget for fiscal year 2007. It should also identify any shortfalls and the impacts of the shortfalls on the IRRF investment.

**Management Comments and Audit Response.** We received written comments on a draft of this report from IRMO officials who concurred with our findings and recommendations. Actions are planned or underway to implement the recommendations. The comments received were fully responsive. IRMO also provided technical comments which we have incorporated in the report where appropriate.

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# Introduction

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## Background

As of June 30, 2006, more than \$16.7 billion of the \$18.4 billion Iraq Relief and Reconstruction Fund (IRRF) has been obligated for reconstruction activities and over 2,100 projects have been completed. The United States expected that the Iraqis would be able to run the newly constructed facilities and provide for their long-term operation and funding. However, some early projects failed at handover, or shortly thereafter, creating a growing concern that the Iraqis may lack the resources or skills to sustain the long-term operation of complex facilities.<sup>4</sup> As a result, most projects now provide funding for some level of operations and maintenance training, as well as the supplies sufficient to maintain projects for approximately 90 days.

This review discusses transition, or those actions necessary to ensure that completed projects are turned over to the appropriate Iraqi officials who have the training and budgetary resources necessary to sustain them. It looks at three planning steps in the transition process: (1) asset recognition and transfer, (2) sustainment, and (3) capacity-development.

**Asset Recognition and Transfer.** According to the asset recognition and transfer procedures, each executing agency or department will hand over control of capital assets to the responsible Iraqi government entity for its beneficial use, operation, management, control, and protection using its own policies and procedures.<sup>5</sup> The executing agency or department will also formally transfer capital assets to the Iraqi government, as represented by the Ministry of Finance and the relevant line ministry (e.g. electricity). Such transfers will be conducted in coordination with the Iraq Reconstruction Management Office (IRMO).

Planning the transfer process is essential to both the United States and the Iraqi government. First, it allows the Iraqi government to recognize its ownership of the project. Secondly, it leads to the recognition that the Iraqi government is now responsible for project operation and maintenance and any capital replacement. Recognition of the transfer process is also the point at which the Iraqi government officials agree that the project is complete and that all the necessary project-specific documentation is in place.<sup>6</sup> The transfer process should also serve as Iraq's concurrence that the U.S. government has provided the necessary training and orientation to the local Iraqi staff that will have responsibility to manage, operate, and maintain the new or refurbished facility.

**Sustainment.** In this report, "sustainment" refers to the operations and maintenance drivers, at the facility level, that contribute to sustaining operations. It includes such things as spare parts, consumables, and training. Identifiable budgetary outlays provide evidence of sustainment programs.

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<sup>4</sup> Managing Sustainment for Iraq Relief and Reconstruction Fund Programs; SIGIR 05-022, Oct. 24, 2005.

<sup>5</sup> Procedure for the Transfer and Recognition of the USG Funded Capital Assets to the Government of the Republic of Iraq; IRMO, Mar. 1, 2006.

<sup>6</sup> Documentation includes items such as facility as-built drawings, preventive maintenance plans, spare parts lists, operations and maintenance plans, and cost estimates for annual operations and maintenance costs.



**Capacity Development.** Capacity development is a prerequisite for sustainment, enabling individuals, organizations, or groups of individuals to perform functions efficiently and in a manner that leads to sustainable operations. Capacity development is an activity or multiple activities that lead to the transfer knowledge, skills, and abilities across a range of functions. From enabling sustainment mores at the highest level of government (e.g. understanding the requirement of O&M budgeting) to providing technical expertise to operators (e.g. training maintenance staff), capacity development is a critical component in assuring life-cycle maximization of the U.S. investment in Iraq.

IRMO has defined five levels of sustainable capacity development for IRRF-implementing organizations<sup>7</sup>:

**Level 5 - Infrastructure:** Providing targeted training and mentoring to Iraqis at the plant or facility level to enable them to operate and maintain new or renovated facilities, systems, and processes in accordance with design requirements. Contractors lead Level 5 capacity development activities under the supervision and direction of the contract customer (GRD-PCO, USAID, or MNSTC-I<sup>8</sup>).

**Level 4 - Iraqi Ministries:** Establishing functional business and organizational systems within each ministry/sector necessary to support a sustainable infrastructure. USAID, with the support of DoS would have the lead for Level 4 capacity development actions since many of the Level 4 activities are longer-term actions.

**Level 3 - Inter-Organizational:** Developing and instituting the systems and processes by which all public and private sector Iraqi stakeholders work toward the common goal of creating a sustainable infrastructure. DoS with the support of USAID, would take the lead for Level 3 actions.

**Level 2 - Laws and Regulations:** Establishing drivers and requirements that support a sustainable infrastructure. Organizations can function effectively only if the appropriate laws, regulations, and policies are in place at the appropriate level of government. DoS with the support of USAID, would take the lead for Level 2 actions.

**Level 1 - Policy:** Establishing the strategic policy, vision and commitment at the highest levels of the Iraqi government structure to enable, facilitate, and promote sustainable capacity development frameworks and activities at the implementation level. The lead for this level of intervention would come primarily from DoS.

**Responsibilities.** National Security Presidential Directive No. 36, (*United States Government Operations in Iraq*, May 11, 2004), provides the Chief of the U.S. Mission in Iraq, under guidance from the Secretary of State, responsibility for the direction, coordination, and supervision of all United States government employees, policies, and activities in country, except those under the command of an area military commander. This responsibility includes the continuous supervision and general direction of all assistance for Iraq. The directive also created the Iraq Reconstruction Management

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<sup>7</sup> *Iraq Reconstruction Program: a Framework for Sustainable Operations*, Iraq Reconstruction Management Office, Strategic Sector Programs, May 21, 2005.

<sup>8</sup> U.S. Army Corps of Engineers, Gulf Region Division-Project and Contracting Office (GRD-PCO), U.S. Agency for International Development (USAID), Multi-National Security Transition Command-Iraq (MNSTC-I).

Office (IRMO), a temporary organization within DoS, “to facilitate the transition in Iraq.”

Three IRRF-implementing agencies—GRD-PCO, MNSTC-I and USAID—are described below:

- GRD-PCO is a Department of Army activity that reports to both the Multi-National Force-Iraq and the Chief of Mission. The PCO was created by the same Presidential directive that assigned responsibility for IRRF projects to DoS. The PCO is a temporary Department of Defense (DoD) agency with staff assigned under Chief of Mission authority. The PCO provides engineering and contract-related services for DoD contracts and for contracts managed by the DoS and other departments and agencies. In December 2005, PCO merged with the Gulf Region Division, U.S. Army Corps of Engineers.
- MNSTC-I is a DoD operation reporting through Multi-National Force-Iraq to the U.S. Central Command. Along with DoD, DoS, and other U.S. agencies, MNSTC-I provides support in training police and other security forces. The MNSTC-I mission is to organize, equip, and mentor Iraqi security forces to support Iraq’s ultimate goal of a unified, stable, and democratic Iraq that provides a representative government for its people.
- USAID, under the direction of DoS, undertakes projects to restore Iraq’s vital infrastructure and provide technical assistance and training in the areas of electricity, water/sewage, hospitals/health care, education, communications, and transportation.

## Objectives

The objectives of this audit were to answer these questions:

1. Do each of the U.S. government management offices in Iraq have a strategic plan in place for transitioning their respective reconstruction programs and projects?
2. Are sufficient resources to operate and maintain new U.S. provided plants and equipment are available?
3. Has the Iraqi government sufficiently planned and budgeted for essential operations and maintenance of the U.S.-provided infrastructure?
4. How will the pace of reconstruction and project completion affect transition planning and completion?

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

# **A Strategic Plan for Transitioning IRRF Projects and Programs Has Not Been Developed**

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There is no overall strategic plan for transitioning IRRF funded reconstruction programs and projects to the Iraqi government. IRRF-implementing organizations, however, have formed a number of working groups that are individually addressing the key transition issues, including (1) an asset recognition and transfer working group, (2) a sustainment working group, and (3) a capacity-development working group.

Overall our assessment found that the asset recognition and transfer working group has developed an adequate process with the Iraqi Minister of Finance for formally transferring completed IRRF projects. Plans for sustainment and capacity-development activities, however, remain in draft. These works-in-progress provide few details to guide agency operational goals and objectives in developing short-term capacity-development activities, metrics for measuring progress against goals, or budgets that match planned activities.

Coordination of effort between the organizations participating in the transition of IRRF assets is essential to avoid duplication of effort, conflicting strategies, and gaps. In prior reports we have discussed the management of transition activities and the need for explicit centralized leadership to provide a common vision and approach. For example, in April 2006, we reported on USAID's management of the transfer of IRRF projects and stated that USAID was participating in three working groups to develop a common policy and process for facilitating the legal, financial, and logistical transfer of assets to the Iraqi government.<sup>9</sup> However, after six months the working groups have been unable to achieve a consensus.

The Iraqi Ministry of Finance's recognition of U.S.-funded IRRF projects is an essential step before budgeting and planning for their long-term support can be ensured. Most agencies, with the assistance of IRMO and the U.S. Treasury Attaché's office, have worked with the Ministry to develop an asset recognition process that is currently being used to successfully transfer assets. However, it has become increasingly clear that USAID will not be participating in these processes and no USAID projects have been recognized by the Ministry. The inability to achieve consensus among the IRRF-implementing agencies on the transition of capital assets to Iraq's control does not bode well for the coordination of other transition activities.

## **An Asset Transfer Process Is In Place but Other Transition Plans Are Still Evolving**

No strategic plan for transitioning assets has been written. However, our review of the asset transfer process procedures and the sustainment and capacity-development draft plans, together with interviews with knowledgeable officials, generally shows that the plan in the essential services sectors is to provide financial sustainment support for select critical infrastructure projects for up to one year, while conducting capacity-development initiatives to enhance the Iraqi's capability to sustain the projects themselves.<sup>10</sup> In the

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<sup>9</sup> *U.S. Agency for International Development's Management of the Transfer of Iraq Relief and Reconstruction Projects to the Iraqi Government*; Special Inspector General for Iraq Reconstruction, SIGIR 06-007, Apr. 29, 2006.

<sup>10</sup> The essential services sectors are electricity, oil, water, transportation, communication, and health care.

security and law enforcement sectors the plan is to work with the Iraqis to develop an infrastructure management process. Senior officials at MNSTC-I told us that they do not intend to provide direct financial support for security or law enforcement sector projects.

**Asset Transfer.** On April 23, 2006, the Asset Transfer Working Group issued a procedure for transferring U.S.-built assets to the Iraqi government. The “Procedure for the Transfer and Recognition of USG (U.S. government)-Funded Assets to the Government of the Republic of Iraq,” set forth uniformly agreed-upon guidance for use by all executing agencies and departments that complete projects in Iraq” for transferring capital assets. The procedure laid out a three-step process for transferring assets:

1. The executing agency or department that finances a project involving production or improvement of a capital asset will utilize its own rules, policies, and procedures to complete such project.
2. Using its own policies and procedures, each executing agency or department will hand over control of capital assets to the responsible Iraqi government entity for its beneficial use, operation, management, control, and protection. Documentation of this turnover will include, where applicable, all designs, drawings, operations and maintenance manuals, warranty information, and other information in the executing agency’s possession and transmitted to IRMO where feasible.
3. The executing agency or department will formally transfer capital assets to the Iraqi government, as represented by the Ministry of Finance, the Ministry of Planning, and the relevant line ministry (e.g., electricity). Such transfers will be conducted in coordination with IRMO and will be documented using a standardized transfer letter. Each executing agency or department will forward copies of the transfer document to IRMO.

According to the U.S. Embassy’s Treasury Attaché, the significance of this process is the involvement of the Iraqi government in its development. He stated that recognition of IRRF assets by the Iraqi Ministry of Finance is a prerequisite before planning and budgeting for their support. Consequently, the process was developed with senior officials in the Iraqi Ministry of Finance, and the asset transfer office is staffed by Ministry of Finance personnel.

As of July 16, 2006, approximately 579 projects valued at \$765 million have been transferred to the Iraqi Ministry of Finance. According to an IRMO official, this represents about 18% of the total number of completed IRRF construction projects. All of the IRRF-implementing agencies are participating in the asset transfer process except USAID.

**Sustainment.** As discussed here, “sustainment” refers to the direct operations and maintenance support the United States is providing for IRRF projects. It is a necessary component of Iraqi government sustainability and capacity-development. IRMO and MNSTC-I have taken several actions to address this issue:

### ***IRMO***

On March 14, 2006, the IRMO Director issued a memorandum identifying the U.S. government plan for providing short-term support for projects funded by the IRRF in the essential services sectors. The memo directed several immediate actions to implement the plan. In summary, the plan is to provide limited operations and maintenance support for select critical infrastructure, provide the Iraqi government with funding estimates to

sustain the remainder of the infrastructure being handed over, and garner support from the Iraqi government to fund the sustainment of all remaining assets funded by the IRRF. This plan covers the selected critical infrastructure assets through mid-2007. Additional funding has been requested in DoS fiscal year 2007 budget that will be used to provide targeted assistance past mid-2007.

The concept of select sustainment means that the U.S. government will fund the operations and maintenance and capacity-development costs for only certain projects. According to a briefing report on select sustainment, the projects to be sustained will be selected by sector experts based on their knowledge of Iraqi capabilities and determination of key, yet vulnerable, infrastructure. Each sector's program will include an operations and maintenance component, and a technical capacity-development component.

Sustainment estimates will be based on the original equipment manufacturer recommendations, operating history, past experience, and fuel type (where applicable). The briefing report provided the following information about possible selected projects:

- **Electricity.** Selected projects in the electric sector would be generation focused, and include 9 gas turbines and 3 thermal units. Projects selected would not include transmission and distribution infrastructure because substantial spares and technical capacity building would be included in ongoing projects.
- **Water and Sanitation.** Selected projects in the water and sanitation sector would focus on 95 water treatment plans, 10 wastewater treatment plants, and 8 pumping stations. Projects selected would not include over 1,500 smaller compact water treatment units.
- **Health.** Selected projects in the health care sector would focus on facilities' mechanical systems, and would include health care clinics and hospitals. It would not include the operations and maintenance costs of medical equipment inside the facilities.
- **Transportation.** Selected projects in the transportation sector would focus on ports and aviation sub-sectors. It would not include sustainment of railways and some aviation and ports because substantial spares, training, and technical capacity are included in on-going projects for 2006.
- **Communications.** Selected projects in the communication sector would be focused on 23 postal facilities, the wireless broadband network, and technical capacity-development for telecommunication and postal operations.

### *MNSTC-I*

MNSTC-I<sup>11</sup> has taken a different approach to sustaining its projects. MNSTC-I does not intend to provide direct financial assistance to its Iraqi counterparts in support of U.S.-constructed defense- and police-related projects. Rather, it is working with the Iraqi Minister of Defense to develop an infrastructure-management process. Based on our limited review of the MNSTC-I's infrastructure management assistance program in the Iraqi Ministry of Defense, we believe this could serve as a "leading practice" for sustainment in other ministries. However, MNSTC-I has experienced problems working with the Ministry of Interior and as a result a system and process for managing infrastructure for that ministry is not in place.

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<sup>11</sup> MNSTC-I is responsible for organizing, training, equipping, and mentoring Iraqi Security Forces, including the defense force and the police force.

MNSTC-I's infrastructure management assistance program in the Ministry of Defense has four objectives:

1. Identify the facilities and infrastructure on-hand.
2. Develop a Ministry infrastructure master plan.
3. Develop an infrastructure management program budget with a multi-year forecast.
4. Maximize funds to sustain and modernize existing facilities and restore damaged infrastructure.

To establish the infrastructure management assistance program, MNSTC-I is working with the Ministry of Defense to develop a real property management program. MNSTC-I is taking these key steps:

1. Help the Ministry define its authorized installation facilities.
2. Document major changes in facilities and facility use through a recurring facility-inspection and capitalization program.
3. Identifying facility deficiencies or excesses to what is authorized.
4. Manage real property transactions, such as land acquisitions or disposals, to maintain authorized facility levels.

MNSTC-I is also helping the Ministry develop a Capital Investment Plan (CIP) that identifies key infrastructure requirements needed by each installation or base to support future assigned units or missions. The plan is managed by the Ministry of Defense's Infrastructure Directorate, with strategic guidance from the Ministry's Joint Headquarters. Finally, key requirements are also forecasted into a long-range CIP for Ministry of Defense budget programming.

In addition to helping the Ministry of Defense understand and prioritize its needs, MNSTC-I is supporting the Ministry's advocacy of a healthy, multi-year budget for infrastructure management. Processes for identifying and budgeting for the sustainment needs of each base or facility have been developed based on age, condition, and value. By helping Ministry officials understand the importance of facility operations and maintenance on mission capability and performance, they advance the prospects that fiscal year budgets will include sufficient sustainment funding.

The final step in MNSTC-I's program is establishing a facility management structure within the Ministry of Defense's Base Management Directorate. This office will review operations and maintenance budget execution reports, rewarding excellent management of sustainment funds at the base level.

MNSTC-I has not been able to replicate this process with the Iraqi Ministry of Interior. According to a senior MNSTC-I official, the Ministry does not have a complete inventory list of its infrastructure, and systems and processes for managing infrastructure are not in place. MNSTC-I has made developing a process for Ministry of Interior as one of its priorities. It expects to have one in place by September 2007. However, there is also recognition that uncertainty of property ownership and insurgency (the constant rebuilding of projects due to damage and destruction caused by insurgents) are obstacles. Further, we believe the lack of progress may be rooted in the Ministry's political difficulties—not a lack of effort by MNSTC-I.

## Capacity Development Efforts Need Improvement

**Capacity Development at Level-5.** This report discusses capacity-development activities of the IRRF implementing agencies, primarily at level 5. Activities at this level provide training and mentoring to workers at the plant or facility level. Level 5 capacity development would enable the Iraqis to operate and maintain new or renovated facilities, systems, and processes in accordance with design requirements. IRMO and the other IRRF-implementing agencies have been working on the development of a sustainment and capacity-development plan since late 2005 and are currently vetting two draft documents intended to guide the implementing agencies. However, our review of these draft documents found that they would not meet their intended expectation, raising questions about their usefulness as guidelines.

As of June 11, 2006, IRMO was reviewing a draft document entitled, “Framework for Iraq Infrastructure Sustainability.” According to the draft, “the framework guides the capacity-development and sustainability-related activities as the parties work toward completion of the IRRF projects.” It also states that the framework provides the methods and processes under which these U.S. government organizations cooperate, interface, and combine their efforts to prepare and equip the Iraqi government and its ministries to assume responsibility for management, operation, and maintenance of the infrastructure facilities, systems, and equipment constructed or refurbished under the IRRF. The framework states that it is only intended to guide the agencies until May 2007 when IRMO and PCO are slated to sunset. Organizations remaining past that point are expected to continue their work under a separate plan or guidelines that may be developed. The second draft, dated May 8, 2006, titled “Consolidated Implementation Plans to Ensure Iraq Relief and Reconstruction Fund Asset Sustainment,” contains plans that address how each of the organizations will ensure sustainment of IRRF assets as they are transferred to the Iraqi government.

Our review of these documents shows that they identify capacity-development principles and discuss the importance of ensuring that the Iraqis obtain the knowledge, skills, and abilities necessary to sustain the IRRF-funded projects. The two documents focus on broad principles without providing guidance or direction on what the implementing agencies are expected to do. To illustrate, the documents do not define or identify the level-5 activities that the agencies are to implement, the goal or objectives for the activities, the amount of time the activities are to run, or the metrics that are to be used to measure progress against the goal. Instead, each organization is left to define for itself what it wants its activities to accomplish. Only one organization, GRD/PCO, provided any metrics or timelines for measuring or evaluating progress.

Although we believe the IRRF-implementing agencies could improve their capacity-development efforts by sharpening the focus of individual activities, they are conducting a wide range of noteworthy level-5 capacity development projects:

- Since May 2005, USAID has a water sector institutional-strengthening program that provides operating supplies, materials, and support services to promote water and sewage sustainability at seven water treatment plants and four sewage treatment plants.
- USAID has a power plant maintenance program in the electric sector since March 2004. This program provides operations and maintenance support for the 19 major electric power generation plants, including training and spare parts provision. It is scheduled to end in September 2006.

- Sustainment programs are also ongoing in the health care and communications sectors.
- MNSTC-I also has noteworthy capacity-development activities ongoing, with these expected outcomes: (1) an inventory of all ministerial capital assets; (2) an assessment of the age and condition of each asset; and (3) a process for calculating operating and maintenance expenses.

These types of clearly focused activities and measurable outcomes provide a solid basis for guiding the implementing agencies and measuring their progress.

In another example, the U.S. Trade and Development Agency (USTDA) provides training for management techniques for business processes (which includes anticorruption training), technical concepts, and human resources development. This program, which began in December 2004, is funded by \$2 million of the IRRF, as well as an additional \$500,000 from USTDA core funding. USTDA reported to SIGIR that this training program was developed based on energy sector discussions during the second U.S.-Iraq Joint Economic Consortium meeting in December 2004. This is how funding was distributed for the three groupings:

- \$1 million of the IRRF for management training, including management/leadership skills, financial management and commercial operations, and legal/regulatory compliance.
- \$1 million of the IRRF funding for technical training, including drilling/pipeline operations and maintenance, well logging, and environmental control/mitigation.
- \$500,000 in USTDA core funds for human resources development/management, including change management, workforce productivity, and professional development.

**Capacity Development at Levels 1 – 4.** Although this report focuses mainly on the IRRF-implementing agencies' activities at level 5, there are a large number of activities ongoing at capacity development levels 1 through 4. DoS has established Provincial Reconstruction Teams to help Iraq's provincial governments develop the capability to govern properly and respond to its citizens.<sup>12</sup> The provincial teams are intended to work with the provincial governments to build governance structures enabling effective interaction with the Baghdad central government and develop confidence among the Iraqis that their local government is responsive to local needs. Provincial teams will complement ongoing engagement with the Provincial Reconstruction and Development Councils, which are now active in 17 of 18 governorates. Also, DoS has established a Ministerial Coordination Team, and a National Coordination team to synchronize governance, reconstruction, and economic development assistance.<sup>13</sup> Further, IRMO briefed us on its plans for the use of Ministerial Advisory Teams at 10 key ministries. Other organizations are working on long-term capacity-development issues, but we could not clearly determine how the entire effort is coordinated.

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<sup>12</sup> Provincial Reconstruction Teams facilitate achievement of coalition goals in Iraq by enhancing the capabilities of provincial governments, with emphasis on capacity building and sustainability.

<sup>13</sup> The Ministerial Coordination Team assists both the short-term Ministerial Advisory Team initiatives and the longer-term National Capacity Development initiative by serving as a central coordination point. The National Coordination Team synchronizes governance, reconstruction, and economic development assistance, and provides coordination and de-confliction of provincial efforts with efforts of the U.S. Mission, coalition partners, and the Iraqi government.



## Resources to Sustain U.S.-Provided Infrastructure

IRMO estimates that the sustainment cost for all IRRF-funded assets is approximately \$1.2 billion annually. At present, IRMO has about \$372 million available for sustainment support in calendar year 2007, leaving about \$828 million to be funded by the Iraqi government. The \$372 million of identified U.S. resources would fund the short-term operations and maintenance costs for spare parts, consumables, and contracted support. It will also fund other activities related to the performance of routine, preventive, predictive, scheduled, and unscheduled actions aimed at preventing equipment failure or decline. This would include training and other capacity development activities at levels 4 and 5.

Our calculation of \$372 million for calendar year 2007 sustainment is based on an IRMO analysis conducted by the Office of the Chief Financial Officer. The analysis showed that approximately \$181 million was already included in the IRRF program for sustainment activities. Additionally, DoS received \$295 million in its Fiscal Year 2006 Supplemental. This gave DoS a total of \$476 million to fund sustainment for the remainder of Fiscal Year 2006 and Fiscal Year 2007. We assumed that half of this money (\$238 million) would be available for calendar year 2007 activities. DoS has also requested \$134 million in Fiscal Year 2007 sustainment funds, which would give it a total of \$372 million for calendar year 2007 activities. Table 1 shows DoS's planned sustainment funding.

**Table 1: Estimated annual operations and maintenance costs for IRRF projects by sector as of April 2006**

Sector	Already included in IRRF program	Fiscal Year 2006 Supplemental	Total Available for Sustainment (2006 & 2007)	Estimated Amount of Total Available for Calendar Year 2007
Electricity Sector*	\$61,445,000	\$288,555,000	\$350,000,000	\$175,000,000
Health Care	7,222,000		7,222,000	3,611,000
Transportation		1,625,000	1,625,000	812,500
Communications	2,300,000	4,820,000	7,120,000	3,560,000
Water Resources and Sanitation**	110,000,000		110,000,000	55,000,000
<b>TOTAL</b>	<b>\$180,967,000</b>	<b>\$295,000,000</b>	<b>\$475,967,000</b>	<b>\$237,983,500</b>
<b>Fiscal Year 2007 Funding Request</b>				<b>\$134,000,000</b>
<b>TOTAL</b>				<b>\$371,983,500</b>

Source: IRMO, Office of the Chief Financial Officer

\* Electricity Includes IRRF I & II

\*\* Water includes Fuels & Employee Costs

MNSTC-I is actively participating in each of the IRMO-led working groups, but has planned for sustainment and capacity-development separately from IRMO. MNSTC-I does not intend to provide direct financial assistance to their Iraqi counterparts to support U.S.-constructed projects. Rather, it is working with its Iraqi counterparts to develop an infrastructure management process. As noted earlier, the process involves helping the Iraqis develop facilities and infrastructure inventory, a base master plan, operations and maintenance budgeting and forecasting processes, and budget prioritization processes. MNSTC-I's efforts with the Ministry of Defense provide an excellent model for making the Iraqis self sufficient in supporting their infrastructure. However, MNSTC-I has been less successful working with the Ministry of Interior.

# Iraqi Government Sustainment Plans and Funding

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The Iraqi government's calendar year 2007 budget has not been developed. Consequently, its plans and commitment to support U.S.-transferred assets remains unknown. In cases where IRRF-implementing agencies have not participated in joint asset transfer processes, Iraqi government budgeting for any sustainment resources is unlikely to occur.

As discussed, we estimate that the Iraqi government would need approximately \$828 million to fund its share of the sustainment costs for U.S. projects in calendar year 2007. Iraq's ability to support the U.S.-provided infrastructure is almost totally dependent on the oil sector. According to the U.S. Embassy's Treasury Attaché, oil accounts for about 90% of Iraq's exports and government revenues. Revenues associated with the country's oil exports remain volatile as a result of uneven production and international oil prices.

Even if anticipated revenues were realized, the commitment of the Iraqi government to sustainment is questionable.<sup>14</sup> According to the senior U.S. advisor to one of the ministries, help was provided in preparing the operations and maintenance budget for the ministry in 2006. However, the ministry received only 20% of what had been requested. Similarly, a senior U.S. advisor to another key ministry stated that the ministry does not support operations and maintenance funding and that calendar year 2006 funding was one-third of what was required. Another Embassy official also expressed reservations about the Iraqi's ability to execute a sustainment program, even if funds were available. He stated that most of the ministries lack the capacity and the international contacts to contract for services. The prior regime did not have a need for contract support or any expertise as the regime provided everything without regard to contract administration. As a result, the ability to contract for services is likely to vary by ministry.

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<sup>14</sup> The GAO reports that U.S. reconstruction effort has encountered difficulties in maintaining new and rehabilitated infrastructure, resulting in some U.S.-funded projects becoming damaged or inoperable after being turned over to the Iraqis. *Rebuilding Iraq: More Comprehensive National Strategy Needed to Help Achieve U.S. Goals* (GAO-06-788, July 11, 2006)

## **Pace of Reconstruction and Transition Support**

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Our analysis of transition planning focused on GRD-PCO and IRMO because both organizations are scheduled to sunset on May 10, 2007. USAID and MNSTC-I will have a continuing presence in Iraq beyond the completion and transfer of projects funded with IRRF.

The exact date that GRD-PCO will cease operations in Iraq is uncertain. GRD-PCO manages projects funded with IRRF and projects funded through other sources, such as the Commander's Emergency Response Program. GRD-PCO's funding is drawn from the contracts it manages, so its presence and the size of its presence is dependent on the number of projects it manages. According to a senior GRD-PCO official, the division has a plan to gradually draw down its staff based on its workload. GRD-PCO also has the following draft plans currently under management review: a contract and financial close-out plan; a capacity-development and sustainment plan; and, a logistics close-out plan. According to the December 31, 2005, Project Acquisition Report, the GRD-PCO has 122 projects scheduled for completion past December 31, 2006, of which 75 are scheduled for completion by June 2007. Only 47 projects will continue past June, with 20 of those scheduled for completion in July and August 2007.

IRMO is funded by IRRF and Economic Support Funds and its directed authority is scheduled to end on May 11, 2007, once all IRRF and Economic Support Funds are expended. According to a senior IRMO official, DoS was to take over liaison responsibilities with the Iraqi ministries and IRMO had a plan to gradually draw down its staff. However, the official said that a transition to DoS may be delayed. IRMO has recently been assigned a number of long-range projects, such as Ministerial Capacity Development, and DoS has requested funding for IRMO in its fiscal year 2007 budget. Consequently, the exact date that IRMO will cease operations remains uncertain. Once clearer direction is provided, the IRMO official stated that a transition plan would be developed.

Through 2006 and 2007, the majority of remaining IRRF projects are expected to be completed and transitioned to the Iraqi government. The number of remaining projects, however, is unknown. The final tally may extend beyond 2007 because non-IRRF funds may be used to augment IRRF-related projects. After completion of the IRRF infrastructure projects, U.S. reconstruction agencies will be either closing or transitioning to new responsibilities:

- USAID's infrastructure program will be reorganized under a new Strategic Objective, "Improve the Capacity of National Government Institutions."
- MNSTC-I will transition into an Office of Security Cooperation.
- GRD-PCO's mission will gradually draw down and shift from IRRF projects to military construction and Commanders Emergency Response Program activities. The PCO portion of GRD will close out its office and transition its work to other organizations. In March 2006, GRD-PCO issued a strategic plan to guide this effort, and our review found it thorough and flexible, allowing for mission changes and the possibility of program slippage.
- IRMO will close out its office and transition its work to other organizations. IRMO has not prepared a transition plan.

The status of the temporary organizations IRMO and PCO—while defined in National Security Presidential Directive No. 36 as terminating in May 2007—may be extended for up to an additional two years (2009).

# Conclusion and Recommendations

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## Conclusion

Successfully transitioning completed IRRF-funded projects to an Iraqi government that is prepared to accept the assets and provide for their long-term management and use is a complex effort that requires close coordination between all of the participating agencies. DoS, through IRMO and the Gulf Region Division-Project and Contracting Office, has done a good job of pulling the agencies together into working groups to coordinate the issues involved. These individual working groups now need to resolve the remaining coordination issues and ensure that the end state objectives are achieved.

However, regardless of the best U.S. efforts, the transition of completed assets to the Iraqi government is and will remain at risk until the Iraqi government's capabilities mature to the point that the individual ministries can budget, manage, and direct the operations and maintenance of the projects. IRMO is assessing the basic needs of each ministry. Once finished, a clearer picture of what it will take in time and effort to develop self-supporting ministries should be the outcome. Further, given the pace of transition so far, we believe that a successful transition process will involve a multi-year effort that will most likely require continuing U.S., Iraqi, and other resources to accomplish.

## Recommendations

We recommend that the U.S. Ambassador to Iraq direct the Director of IRMO to:

1. Develop a single, uniform process for asset recognition and transfer of all completed projects to the Iraqi government. This process should be followed by all of the IRRF-implementing agencies, and sufficient resources should be made available to implement the process in time for the Iraqi government's use in budget planning.
2. Provide a bi-weekly report to the Deputy Chief of Mission on the progress and impediments to the implementation of the asset recognition and transfer process.
3. Develop a sustainment plan to guide U.S. activities past June 2007 emphasizing capacity-development activities to ensure that established infrastructure management processes are in place in the Iraqi ministries.
4. Complete an assessment to determine the capacity of the Iraqi government for maintaining the IRRF projects.
5. Formulate and implement a plan as part of the Joint Campaign Plan, with clear goals and objectives for developing the capacity of the Iraqi ministries.
6. Ensure the capacity-development plan is linked to and supported by the necessary sustainment funding to ensure the viability of all IRRF-funded projects. This plan should include the \$134 million requested for this purpose in the U.S. budget for fiscal year 2007. It should also identify any shortfalls and the impacts of the shortfalls on the IRRF investment.

## **Management Comments and Audit Response**

We received written comments on a draft of this report from IRMO officials who concurred with the findings and recommendations. Actions are planned or underway to address the recommendations. The comments received were fully responsive. IRMO also provided technical comments which we have incorporated in the report where appropriate. IRMO's comments are included in their entirety in the Management Comments Section of this report.

## **Appendix A. Scope and Methodology**

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We initiated this audit in January 2006 (Project No. 6003), to determine (1) if each of the U.S. government management offices in Iraq has a strategic plan in place for transitioning their respective reconstruction programs and projects; (2) if sufficient resources to operate and maintain new U.S.-provided plants and equipment are available; and (3) if the Iraqi government has sufficiently planned and budgeted for the essential operations and maintenance of the new U.S.-provided infrastructure.

To determine if the U.S. government management offices in Iraq have strategic plans in place for transitioning their respective reconstruction programs and projects, we interviewed representatives from all the implementing agencies including DoS's Iraq Reconstruction Management Office; the U.S. Army Corps of Engineers Gulf Region Division-Project and Contracting Office; the U.S. Agency for International Development (USAID); and, the Multi-National Security Transition Command-Iraq to determine the status of their planning. At each of these offices we discussed their plans, the guidance they received (if any), and their current transition activities. The Iraq Reconstruction and Management Office had established working groups to address key transition issues including an asset recognition and transfer working group, a sustainment working group, and a capacity-development working group. We also attended numerous meetings of these working groups to ascertain progress towards achieving a unified plan of action.

To determine if sufficient resources to operate and maintain new U.S.-provided facilities are available we researched reports submitted to meet the requirements of Section 2207 of Public Law 108-106. Specifically, we looked at Project Assessment Reports, which identify the sustainment costs for each IRRF-funded project. We also obtained information from IRMO officials working on sustainment and reviewed sustainment estimates they had developed in conjunction with their senior ministers. Finally, we met with the Senior U.S. Advisors to the Iraqi Ministries of Electricity, Water Resources, and Oil to determine the sustainment costs for their respective sectors. We then compared these estimates to numbers developed by the Special Inspector General for Iraq Reconstruction (SIGIR) in October 2005 to determine if there were variances.

To determine if the Iraqi government has sufficiently planned and budgeted for the essential operations and maintenance of the new U.S.-provided infrastructure we interviewed the U.S. Embassy Iraq's Treasury Attaché, and reviewed assessments from the World Bank, and the Center for Strategic and Budgetary Analysis.

We conducted this audit from January 2006 through June 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.**

### **Special Inspector General for Iraq Reconstruction (SIGIR).**

SIGIR reported on January 24, 2006, in “GRD-PCO Management of the Transfer of IRRF Funded Assets to the Government of Iraq” (SIGIR-05-028), that the GRD-PCO has recognized the need for formal asset recognition and transfer policies and procedures, and is working to resolve the issue. The GRD-PCO is participating in two working groups to develop a common policy and process for facilitating the legal, financial, and logistical transfer of assets to the Iraqi government.

On October 24, 2005, SIGIR reported in “Managing Sustainment for Iraq Relief and Reconstruction Fund Programs” (SIGIR-05-022), progress has been made in identifying the challenges of sustaining the IRRF projects, which directly affects the larger challenges of sustaining a democratic and viable government in Iraq. There is a growing recognition that the Iraqi government is not prepared to take over the near- or long-term management and funding of the infrastructure developed through IRRF projects and that a potential gap exists between the funding necessary to provide adequate sustainment and the amounts available. Further, we also believe that progress has been hampered by the absence of a centralized office with the authority and responsibility to manage this effort, we identified the Iraq Reconstruction Management Office (IRMO) as the primary Department of State and Embassy entity involved in managing IRRF projects and deemed it responsible for coordinating sustainment.



## **Appendix B. Acronyms**

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CPA	Coalition Provisional Authority
DoD	Department of Defense
DoS	Department of State
GRD-PCO	Gulf Region Division-Project and Contracting Office
IRMO	Iraq Reconstruction Management Office
IRRF	Iraq Relief and Reconstruction Fund
MNSTC-I	Multi-National Security Transition Command-Iraq
SIGIR	Special Inspector General for Iraq Reconstruction
USAID	U.S. Agency for International Development
USTDA	U.S. Trade and Development Agency

## **Appendix C. Report Distribution**

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### **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 D. Audit Team Members**

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The Office of the Assistant Inspector General for Audit, Office of the Special Inspector General for Iraq Reconstruction, prepared this audit report. The staff members who contributed to the report include:

Karen Bell  
Glenn D. Furbish  
Frank Gulla

# Management Comments

## Iraq Reconstruction Management Office



Embassy of the United States of America  
Baghdad, Iraq

July 23, 2006

### INFORMATION MEMORANDUM

#### UNCLASSIFIED

TO: SIGIR

THROUGH: Chargé d'Affaires – Margaret Scobey

FROM: IRMO Chief of Staff – William Lynch

SUBJECT: Response to "Transition of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government" Report No. 06-017

The following are IRMO's responses to the Recommendations on page iii & iv of the subject SIGIR Report. The italicized text is pulled directly from the SIGIR Report.

**SIGIR Recommendations.** *SIGIR recommends that the U.S. Ambassador to Iraq direct the Director of IRMO to:*

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

IRMO concurs. All implementing agencies now make available to the Government of Iraq their respective asset data on completed projects as part of IRMO Procedure 001.

2. *Provide a bi-weekly report to the Deputy Chief of Mission on the progress and impediments to the implementation of the asset recognition and transfer process.*

IRMO concurs. Data on progress, along with any impediments, will be briefed to the Deputy Chief of Mission on a bi-weekly basis.

3. *Develop a sustainment plan to guide U.S. activities past June 2007, emphasizing capacity-development activities to ensure that established infrastructure management processes are in place in the Iraqi ministries.*

IRMO concurs. The US Mission in Iraq established a National Capacity Development (NCD) program whose goals include developing programs which ensure that established infrastructure management processes are in place in the Iraqi ministries.

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4. *Complete an assessment to determine the capacity of the Iraqi government for maintaining the IRRF projects.*

IRMO concurs and a complete assessment of Iraqi government capacity is under development whose results will be used as a baseline for comparing NCD progress over the long-term.

5. *Formulate and implement a plan as part of the Joint Campaign Plan, with clear goals and objectives for developing the capacity of the Iraqi ministries.*

IRMO concurs. The NCD is linked to the Joint Campaign Plan. The Senior Executive Steering Group, as well as the Capacity Development Working Group, monitors NCD progress, milestones, and effectiveness.

6. *Ensure the capacity-development plan is linked to and supported by the necessary sustainment funding to ensure the viability of all IRRF-funded projects. This plan should include the \$134 million requested for this purpose in the U.S. budget for fiscal year 2007. It should also identify any shortfalls and the impacts of the shortfalls on the IRRF investment.*

IRMO concurs. IRMO believes that the USG NCD program links Ministerial program objectives to the capability of the Government of Iraq (GOI) to sustain a viable infrastructure for governance.

Comments on other sections of the report:

Page 8. In paragraph titled, "*Capacity Development at Level-5*", under the section titled "*Capacity Development Efforts Need Improvement*" implies that the USG is not engaged in Level-5 efforts. However, the USG is spending \$60 M to provide Level-5 training to the Iraqis in operation and maintenance for completed and turned over IRRF projects.

Page 10. The last sentence of the paragraph asserts that "Other organizations are working on long-term capacity-development issues, but we could not clearly determine how the entire effort is coordinated." In fact, the Senior Executive Steering Group and the Capacity Development Working Group both engage in coordinated efforts in NCD.

Page 13. In the third paragraph under the section titled "*Iraqi Government Sustainment Plans and Funding*", subsequent sentences do not support the first sentence's assertion, "Even if anticipated revenues were realized, the commitment of the Iraqi government to sustainment is questionable." The subsequent sentences show that the Iraqi government committed to fund sustainment at 20-33% of what was requested. No discussion was provided as to the level of revenues that the Iraqi government actually has available.

Page 14. Economic Support Fund (ESF) should be added to the first sentence of the third paragraph under the section titled "*Pace of Reconstruction and Transition Support*". The sentence should read, "IMRO is funded by IRRF and ESF and its directed authority is scheduled to end on May 11, 2007, once all IRRF and ESF funds are expended."

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