

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's chest is covered by a shield with vertical stripes. Above the eagle's head is a sunburst with stars. The seal contains text in both English and Arabic. The English text includes "INSPECTOR GENERAL" at the top and "RECONSTRUCTION" at the bottom. The Arabic text includes "المفتش العام" at the top and "إعادة إعمار العراق" at the bottom.

**KEY RECURRING MANAGEMENT
ISSUES IDENTIFIED IN AUDITS OF
IRAQ RECONSTRUCTION EFFORTS**

**SIGIR-08-020
JULY 27, 2008**



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

July 27, 2008

MEMORANDUM FOR SECRETARY OF STATE
SECRETARY OF DEFENSE
ADMINISTRATOR, UNITED STATES AGENCY FOR
INTERNATIONAL DEVELOPMENT

SUBJECT: Key Recurring Management Issues Identified in Audits of Iraq Reconstruction Efforts (SIGIR-08-020)

We are providing this audit report for your information and use. The report summarizes the key recurring management issues identified in many of the 121 audit reports issued during the existence of the Coalition Provisional Authority Inspector General (CPA-IG) and its successor agency, the Special Inspector General for Iraq Reconstruction (SIGIR). More specifically, it summarizes key issues from these reports, and actions that might be considered to help avert similar situations in any future contingencies. The audits were performed in accordance with the statutory duties contained in Public Law 108-106, as amended which mandates the conduct of audits relating to the treatment, handling, and expenditure of funds by the CPA or its successor entities in Iraq reconstruction, and of the programs, operations, and contracts carried out in using Iraq reconstruction funds. This review was conducted as project 8004.

For more information on this report, please contact Mr. Glenn Furbish, Deputy Assistant Inspector General for Audits, at (703) 428-1058 or via email at glenn.furbish@sigir.mil.

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

Stuart W. Bowen, Jr.
Inspector General

cc: See Distribution

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Key Recurring Management Issues Identified In Audits of Iraq Reconstruction Efforts

SIGIR-08-020

July 27, 2008

Executive Summary

Introduction

May 2003 marked the end of U.S. combat operations to defeat Saddam Hussein's military forces and the beginning of U.S. efforts to provide reconstruction assistance to Iraq. The Coalition Provisional Authority (CPA) was created as the interim managing body for governance and reconstruction activities. The U.S. Congress initially appropriated about \$3.45 billion for initiatives to reconstruct Iraq; of this amount, \$2.475 billion was provided by Public Law 108-11 to establish the Iraq Relief and Reconstruction Fund (IRRF). In November 2003, the Congress passed the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan (Public Law 108-106). The act provided additional funding for reconstruction activities and also created the Coalition Provisional Authority (CPA) Inspector General, which became the Special Inspector General for Iraq Reconstruction (SIGIR).

Since the initial congressional appropriation, other appropriated funds have financed a broad array of reconstruction activities—from building hospitals to improving the capacity of the Iraqi ministries to govern, manage their finances, and maintain and sustain U.S. reconstruction projects. As of July 2008, the U.S. Congress had appropriated approximately \$50 billion for all relief and reconstruction activities.

As of July 2008, SIGIR and its predecessor have issued 122 audit reports. SIGIR has reported on the management and implementation of almost every aspect of reconstruction, including building projects, anticorruption programs, and the development of a financial management information system to support ministry decision-making. A number of these reports have identified important lessons learned to apply to future reconstruction efforts and recommendations to improve ongoing activities. To date, SIGIR has also issued three special reports presenting lessons learned in human capital management, contracting and procurement, and program management.

After five years of reconstruction and during a critical year in which many completed reconstruction projects will be transferred to the Government of Iraq (GOI), SIGIR evaluated its overall body of audit work to identify additional steps to consider that would be useful to the Executive Branch and the Congress for managing reconstruction activities. Therefore, this report looks across the totality of SIGIR audit reports and identifies the broad, key, recurring management issues that—if better understood—may help guide improvements in the ongoing Iraq reconstruction efforts. Further, without adequate advance preparation to address them, these issues could continue to be problems if the U.S. government becomes involved in similar reconstruction efforts in the future.

Results

SIGIR identified four broad recurring issues that were the key contributing causes to the deficiencies noted in the body of SIGIR's audit work:

- The need to better understand the problems associated with implementing reconstruction programs in an unstable security environment.
- The impact of not having an integrated management structure to provide clear lines of authority on program coordination and successful delivery of projects.
- The importance of anticipating staffing needs and reducing staff turnover.
- Recognition of how essential working closely with host governments is to the long-term success of U.S. investments in reconstruction projects.

Understanding these issues is critical to avoid repeating them in the future, under similar contingencies. Their prevalence in Iraq contributed significantly to reduced program effectiveness and increased the potential for fraud, waste, and abuse. The following further illustrates issues identified in SIGIR's work.

Security

The U.S. government did not fully anticipate or plan for working in the unstable security environment that faced U.S. managers when reconstruction began in Iraq. Security issues have continuously permeated and hampered reconstruction efforts across much of Iraq. From the beginning of reconstruction in 2003, U.S. agencies have incurred high costs for security—spending billions of dollars for protection—which has diverted funds from reconstruction projects.

The unstable security environment had other consequences as well, including the sabotage of basic oil and electric infrastructure while the United States was investing to improve the capacity of these industries. SIGIR reported that because of poor security \$560 million was wasted resulting from costly repairs to these facilities. In addition, SIGIR reported at one point that contractors spent an average of almost 12.5% of their reconstruction contract dollars for security. In one case, SIGIR found that 53% of the expenditures to create a financial management information system for GOI were reportedly used for security. SIGIR reports have also identified other consequences of poor security. For example, SIGIR found many instances in which the threat of violence prevented U.S. officials from performing quality assurance functions and hampered the work of some Provincial Reconstruction Teams. It was not always clear why the government chose to continue a project that was being significantly disrupted by security problems. Nor was it clear who was responsible for the decision to continue, and what information was available to support the decision. SIGIR believes that a more deliberate and documented process for supporting the government's decisions is needed.

Organizational Structure and Processes

Throughout Iraq reconstruction, poor interagency coordination and frequently changing, fragmented organizational structures contributed to delays, increased costs, terminated projects, and completed projects that did not meet program goals. The Department of State, Department

of Defense, and U.S. Agency for International Development used their own management structures and decision-making processes. Some of these problems were made worse because the U.S. government changed its organizational structures and shifted program responsibility to other organizations. For example, SIGIR reported in April 2006 that CPA had spent more than \$104.1 million on programs to secure Iraqi oil and electrical infrastructure but the U.S. had difficulty accomplishing this goal for two reasons. First, three organizations were responsible for program implementation, but none was clearly in charge. Second, changes to the program structure during implementation resulted in changed priorities and program terminations. In another example, multiple agencies are currently implementing programs in ministerial capacity development, economic development, anticorruption, and asset transfer. In each area, agencies implement their own programs—often with little prioritization of projects or cross-agency planning. Without a carefully integrated set of programs to support the transfer of these assets, the risk that the U.S. investment will be wasted is very high, as SIGIR has reported many times.

Staffing Concerns

Problems in U.S. program and project management were exacerbated by two factors:

- not having the right number of people with the right skills to manage the contracting and program management workload
- the rapid turnover of personnel, which resulted in the loss of institutional knowledge

The U.S. government did not come prepared to manage this large construction workload, which led to weak oversight of project management and inadequate quality assurance of projects. In a \$1.8 billion contract, for example, USAID did not have enough personnel to oversee construction progress, so they contracted with the U.S. Army Corps of Engineers (USACE) to do the job. Even USACE did not have the skilled people to conduct inspections of the quality of contractor construction against contract specifications. At the mid-point of contract execution, both organizations were staffed at only about half of their planned numbers. This lack of quality assurance raises the risk that funds will be wasted performing costly rework.

Working with Host Governments

Finally, SIGIR work shows that U.S. agencies often made many decisions about investments without ascertaining Iraqi needs or obtaining the views and buy-in of Iraqi officials. For example, early in the reconstruction program, the CPA decided that the Iraqi ministries needed a financial management information system, but U.S. planners did not identify Iraqi ministry user requirements. The program stopped when the contractor's project leader was kidnapped. The program was suspended at that time—largely because of a lack of support from GOI officials. In January 2008, USAID officials and the GOI reached agreement to resume implementation of the system. In another example, managers of the CERP program are concluding that projects are more successful when Iraqi ministries have been involved throughout the lifecycle of the project. Of the projects reviewed in SIGIR audits, there is a clear correlation between the inability of the U.S. to transfer control of projects, and the lack of Iraqi input in project selection or execution. When a host nation participates and buys in to reconstruction projects from their inception, projects are more likely to be successfully transferred and maintained. Collectively, these problems have placed the attainment of many U.S. reconstruction goals at risk.

Steps For The Government To Consider

SIGIR reports have highlighted many lessons learned from specific projects and programs that should be considered in planning reconstruction efforts to help reduce the extent of fraud, waste, and abuse while emphasizing program success. Actions to address the broader recurring management issues identified in this report would also be important to consider. Depending on the facts and circumstances of a contingency operation, a number of steps may be needed in key areas to avoid a repetition of the problems identified in this report, including:

Security

- Develop plans to secure basic infrastructure—such as oil, gas, and water—until the capabilities of the host government can be developed.
- Develop guidance on project risk for managers to assess the merits of funding a project faced with security threats.
- Evaluate the practicality of proceeding quickly with large-scale construction projects when the risk of sabotage may divert funds from construction to security and threaten the effectiveness of the investment.
- Prepare a comprehensive and independent government estimate for high-risk construction projects that accurately identifies the costs associated with the project—particularly those costs associated with the security risk. This information should be a mandatory part of the contract file.
- Proceed with the project only when senior management specifically determines that strategic objectives outweigh the risks of project failure if government oversight and surveillance activities are impeded to any significant degree by security concerns.

Organizational Structures and Processes

- Clearly define the management roles, responsibilities, authority and accountability for program decision-making and ensure management continuity.
- Develop an integrated organizational structure for contingency reconstruction efforts that clearly recognizes the complicated interrelationships between program elements and the success of U.S. program goals. When multiple agencies are participating, the Secretary of State, Secretary of Defense, the Director of USAID, and other agencies as applicable should delineate which lead agency will be in charge of each program element and which agency will be in charge of the overall management and execution of programs.
- Frame an organizational structure that can withstand an extended duration, if needed, to minimize the resulting disruptions and loss of management continuity. An assessment may be appropriate to understand the reasons for the many organizational changes associated with reconstruction efforts and identify actions that may be taken to reduce them in a future contingency operation.
- Ensure management controls over the expenditure of U.S. funds by requiring integrated financial management information systems to support managerial decision-making and to provide the Congress with better information about how U.S. funds are being spent.

- Require that all agencies spending reconstruction monies from any source provide agreed-on contracting information into a single management information system.

Staffing Concerns

- Develop criteria for determining staffing needs so that agencies start with the right people and the right skills.
- Take steps that contain high staff turnover to the extent practical and implement processes to ensure appropriate transfer of program knowledge when turnovers do occur to better ensure program continuity. This is another area where a more detailed assessment of personnel turnovers in advance of a contingency may be needed to more effectively deal with this issue.

Working with Host Governments

- At the outset of reconstruction efforts, implement procedures that enable close coordination with the host government to help ensure that reconstruction projects are consistent with needs and to maximize buy-in resulting in acceptance and maintenance of donor-funded projects.
- Obtain initial project buy-in from and systematically work with host-government officials through construction and preparations for transfer to the host government.

SIGIR presents these steps as actions that may be needed or considered—not as specific recommendations. Currently, SIGIR is completing a more comprehensive report on the history and evolution of planning for and management of Iraq reconstruction, which will be issued later this year. The report will provide a number of specific recommendations related to planning for and implementing reconstruction activities in a contingency environment.

Management Comments and Audit Response

The U.S. Ambassador, Iraq, in commenting on a draft of this report, expressed agreement with the issues identified in the report and steps to be considered for the future to avoid repetition of the problems identified. The Ambassador noted, as did the SIGIR report, the impact of an unstable security environment on reconstruction project management. At the same time he expressed concern about the absence of information in the report concerning limitations in the capacity of Iraqi governmental institutions to deal with all aspects of project planning and execution and security; and a lack of coverage of steps the U.S. government has taken to improve interagency coordination and deal with the transfer of completed reconstruction projects to the GOI. Although this report does not address GOI capacity issues in-depth, it does address challenges related to asset transfer issues, some of which SIGIR recognizes as being capacity-related, as well as the need for improved coordination among all affected parties. SIGIR has reported separately on capacity building and asset transfer issues and plans additional reporting in the future on steps being taken in these areas. The Ambassador's comments are included in their entirety at the end of this report.

Introduction

May 2003 marked the end of U.S. combat operations that were designed to defeat Saddam Hussein's military. It also marked the beginning of U.S. efforts to manage the reconstruction of Iraq. The U.S. Congress initially appropriated about \$3.34 billion for initiatives to reconstruct Iraq. Of this amount, \$2.475 billion was provided under Public Law 108-11 to establish the Iraq Relief and Reconstruction Fund (IRRF). In May 2003, the Coalition Provisional Authority (CPA) was created to provide temporary governance of Iraq and to oversee reconstruction efforts, including the expenditure of U.S.-appropriated and Iraqi funds.

To support the evolving U.S. mission in Iraq, the U.S. Congress appropriated an additional \$18.4 billion in IRRF funds in November 2003 in the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan (Public Law 108-106). This legislation also created the CPA Inspector General. Upon dissolving the CPA and the establishment of the U.S. Mission to Iraq, the CPA Inspector General duties were reauthorized through the National Defense Authorization Act of 2005 (Public Law 108-375)¹ to continue as the Special Inspector General for Iraq Reconstruction (SIGIR). Much of SIGIR's work to date has focused on construction projects funded through IRRF, based on its legislative authority. Recent legislation has broadened SIGIR's oversight responsibilities and it now includes the Iraq Security Forces Fund (ISFF), the Economic Support Fund (ESF) (as it relates to Iraq), the Commander's Emergency Response Program (CERP) fund, and other funds across multiple years of appropriations that support reconstruction activities in Iraq. It should be noted that reconstruction includes construction projects such as building hospitals, but it also includes other activities such as anticorruption, governance, economic development, and asset transfer activities. To date, SIGIR has issued 122 reports covering projects and programs involving Iraq reconstruction.

Since the early days of the CPA, the United States has engaged in a long-term effort to stabilize and reconstruct basic infrastructures throughout Iraq. Very early in this effort, the United States determined that the infrastructure of basic services such as electricity, water, and sanitation was badly aging and poorly maintained. Compounding this situation was and still is an Iraqi government that has a limited capacity to manage its budgets and translate those budgets into the delivery of essential services and government functions such as electricity, water, sanitation, police and military forces.

As of July 2008, the U.S. Congress had appropriated approximately \$50 billion for all relief and reconstruction activities. Of this amount, \$46.455 billion went to four accounts, as shown in Table 1.

¹ Title III, Section 3001 of Public Law 108-375 authorizes the creation of the CPA Inspector General.

Table 1—Appropriated Funds

Fund Name	Fund Acronym	Appropriation (Billions)
Iraq Relief and Reconstruction Fund	IRRF	\$20.86
Iraq Security Force Fund	ISFF	\$17.94
Economic Support Fund	ESF	\$ 3.74
Commander's Emergency Response Program	CERP	\$ 3.49
Other Funding		\$ 4.43
Total		\$50.46

Source: SIGIR Quarterly Report, July 2008,

Iraq Relief and Reconstruction Fund

The Iraq Relief and Reconstruction fund was established in November 2003, under Public Law 108-106 to fund Iraq reconstruction requirements that had been identified by the Coalition Provisional Authority (CPA) during the summer and fall of 2003. The CPA identified thousands of projects within various infrastructure sectors in Iraq, such as electricity, water, oil, health care, transportation, and education. IRRF funding covers both construction projects and non-construction requirements. Non-construction requirements include equipment, supplies, training, and materials to support the reconstruction of Iraq's infrastructure.

Iraq Security Forces Fund

The Iraq Security Forces Fund (ISFF) was originally established in May 2005 under Public Law 109-13 to allow the Commander of the Multi-National Security Transition Command-Iraq (MNSTC-I) to fund the development of Iraqi security forces.² This fund is spent on training, equipping, and sustaining these forces. It also supports infrastructure projects for Iraqi troops.

Economic Support Fund

The Economic Support Fund (ESF) is authorized by the Foreign Assistance Act. This act recognizes that under special economic, political, or security conditions, the President may furnish assistance to countries and organizations, on such terms and conditions as he may determine, to promote economic or political stability. ESF funds for Iraq are justified based on a need to stabilize strategic Iraqi cities through rehabilitation of community infrastructure, job training and vocational education, youth programs, and micro-loans. Among other things, the ESF fund provides resources to support the war on terror, help countries provide basic education and health services to their population, aid countries in their transition to democracy, and finance economic stabilization programs.

² The Emergency Supplemental Appropriations Act For Defense, The Global War on Terror, and Tsunami Relief for 2005 originally funded ISFF. Subsequent acts have continued to increase funding for training of Iraqi security forces.

Commander's Emergency Response Program

In June 2003, the Coalition Provisional Authority authorized the operation of the CERP³ which was designed to give commanders in the field the ability to respond to urgent humanitarian relief and reconstruction needs in their areas of responsibility. These commanders could execute a variety of non-construction and construction activities that would immediately assist the local population. Projects funded through the program were intended for small-scale, urgent humanitarian relief and reconstruction projects for the immediate requirements of relatively low-cost procurements. Projects eligible for funding under CERP included civic cleanup, education, electricity, health care, and food.

Objectives

After five years of reconstruction and during a critical year for the transfer of many completed reconstruction projects, SIGIR decided to evaluate its overall body of audit work seeking to identify additional lessons learned believing it would be useful to the Executive Branch and the Congress. Therefore, SIGIR looked across the totality of its audit reports and identifies the broad key recurring management issues that, without adequate advance preparation to address them, could be problematic should the U.S. government become involved in similar reconstruction efforts in the future. This effort is derived from SIGIR audit work completed through July 2008.

For a discussion of the audit scope and methodology, see Appendix A. For a listing of all prior SIGIR reports see Appendix B. For a list of acronyms used in this report see Appendix C. For a list of audit team members, see Appendix D.

³ Congress passed the first appropriation for CERP as part of Public Law 108-106, the "Emergency Supplemental Appropriations Act for Defense and for the reconstruction of Iraq and Afghanistan, 2004." Section 1110 of Pl. 108-106 made \$180 million available for CERP in Iraq.

Implementing Reconstruction Programs in an Unstable Security Environment

The United States assumed that reconstruction would take place in a relatively stable environment with little threat from insurgents and other groups. This assumption proved wrong. The costs and consequences of this situation were not clearly understood, nor is there a clear understanding today about the precise impact on costs and project attainment associated with doing business in an unsecure environment. However, SIGIR believes it is significant based on individual project examples. SIGIR audit reports provide some indications of the impact of poor security on reconstruction performance from the beginning of reconstruction activities to current initiatives. The lack of security, for example, resulted in a higher risk of sabotage to critical Iraqi infrastructures such as oil and electrical systems, significantly increased reconstruction costs, and created impediments to effective construction and project management. SIGIR reports for example, identified the following specific major consequences of the poor security:

- Over \$104.1 million was spent in an unsuccessful attempt to train Iraqi security forces to protect critical infrastructures.⁴
- The United States had to adjust its priorities and reallocate over \$1.78 billion in IRRF reconstruction funds to provide for security and law enforcement programs.⁵
- About \$560 million was wasted because construction efforts were sabotaged and had to be rebuilt and were delayed.⁶
- Government officials were precluded from performing their quality control functions.⁷
- Provincial Reconstruction Teams were often unable to have face-to-face contacts with local officials, a critical objective of the program.⁸

⁴ *Review of Task Force Shield Programs*, SIGIR-06-009, April 28, 2006.

⁵ *Challenges Faced in Carrying Out Iraq Relief and Reconstruction Activities*, SIGIR-05-029.

⁶ *Challenges Faced in Carrying Out Iraq Relief and Reconstruction Activities*, SIGIR-05-029.

⁷ *Management of the Primary Healthcare Centers Construction Projects*, SIGIR-06-011, April 29, 2006.

⁸ *Status of The Provincial Reconstruction Team Program in Iraq*, SIGIR-06-034, October 29, 2006.

The Unstable Security Environment Led to Concerns That Critical Infrastructure Was Vulnerable to Sabotage

With an unstable security environment in Iraq, the CPA recognized that part of the cost of reconstruction would include protecting Iraq's oil production capabilities and their electrical grid from sabotage. A CPA Infrastructure Security Working Group concluded that Iraq could not prosper without the uninterrupted export of oil and the reliable delivery of electricity. In April 2006, SIGIR reported that this conclusion led to an effort to train security forces to protect these assets; that effort started in September 2003 unfortunately proved difficult. Protecting these assets was also important because the United States had planned to spend over \$7 billion to improve the capacities of both the oil and electric sectors. The CPA established the coalition Joint Task Force-Shield with the mission of training and equipping over 20,000 guards; 14,400 for the Oil Ministry and 6,000 for the Ministry of Electricity. Attempting to protect this infrastructure was no small feat, since there were approximately 340 key installations, 7,000 kilometers of oil pipelines, and 14,000 kilometers of electricity transmission lines. SIGIR determined that the United States had spent about \$104 million as of September 2004 to improve Iraq's capability to protect its oil and electric infrastructure. However, when SIGIR reviewed the issue in the January to April 2006 timeframe, after training about 11,400 guards, there was little information to determine if the guards that were trained were doing their job of protecting this vital infrastructure. The program was subsequently discontinued.

The Unstable Security Environment Increased Costs and Degraded Efforts to Supervise and Ensure Quality Control Over Construction Projects

The Iraq insurgency greatly affected the U.S. reconstruction efforts, as has been well documented in numerous SIGIR reports. SIGIR reported in January 2006 that from a strategic standpoint, increased spending for security needs and strategy changes brought about by the changing environment in Iraq were major contributors to a significant shift in the U.S. reconstruction strategy. Altogether, SIGIR reported in 2006 that approximately \$1.78 billion had been moved from infrastructure construction and renovation projects, principally from the water and electricity sectors, into security and law enforcement projects to address security issues.⁹

As a result of the insurgency, hundreds of planned projects intended to benefit the Iraqi people were not provided. Our reports have similarly identified the large-scale effects security issues have had on reconstruction activities at the individual personnel level. Since 2003, 1,181 death claims for civilian contractors have been filed with the Department of Labor, and thousands more contractors have been injured.¹⁰ In addition, according to a May 2005 State Department (DoS) report, of \$9 billion allocated for construction activities, approximately \$2 billion, or 22% of the total, had been forecast as attributable to costs associated with security. Of this \$2 billion, direct security costs were estimated at \$1.46 billion and an additional \$560 million was attributed

⁹ *Challenges Faced in Carrying Out Iraq Relief and Reconstruction Fund Activities*, SIGIR-05-029, January 26, 2006.

¹⁰ Casualty figure as of April 2008.

to the rework of damaged facilities, replacement of damaged materials, and construction delays. Put another way, \$560 million was wasted because of poor security.¹¹

SIGIR reported on security costs associated with IRRF funded reconstruction projects. We obtained data on security costs incurred from nine major contractors being paid with IRRF funds. As of August or September 2006 (each contractor provided its most current data as of one of these months), these contractors reported that security costs as a percentage of the total contract price ran between 7.6% and 16.7%. The average percentage of security costs to total costs was 12.5% for all contractors. Contract expenditures total about \$4.6 billion of which about \$510.8 million was paid for security.¹²

In one of the most dramatic examples of very large security costs as a percentage of total costs was the USAID contract to develop a financial management information system for Iraqi ministries. As of May 2007, the contractor cost estimate was \$22.1 million related to the Iraqi Financial Management Information System. Under the contract terms, the prime contractor was not required to report a cost breakdown for its billed costs. SIGIR asked USAID for a cost breakdown, but it gave us the contractor's estimate instead. According to the contractor's estimate, over \$11.6 million, or 53% of the total costs were for security. Finally, SIGIR reported that in the worst case scenario, the contract project manager who was leading the team to develop the Iraqi Financial Management Information System and his security team were kidnapped. The entire project was halted for some time as a result.¹³

Despite this adverse security environment, the government adopted a high-risk strategy and pushed forward with its relief and reconstruction activities and, as discussed above, experienced some level of project failure and waste. While government officials were clearly aware of the risk, SIGIR's audit work found little guidance on how project managers were to factor security risk into their project planning. Consequently, it was often difficult to understand why the risks associated with some of the projects were accepted. For example, in a report on projects in the security and justice sector, SIGIR identified security as a significant issue associated with a project to build a prison facility in Kahn Bani Sa'ad.¹⁴ The prison was originally scheduled to be built in two years, but after two years and one month the contract was terminated. According to the contractor, security issues significantly complicated the project. The project was continued with another contractor, but after an additional year of effort the project was abandoned. A total of \$40 million was disbursed on this project. What is not clear from the contract file, however, is an understanding of why the government chose to continue this project, who was responsible for the decision to continue, and what information was available to support the decision. At this point, the prison is not complete and \$40 million has been wasted unless the U.S. can convince the Iraqi government to take possession of a partially completed facility. Given that \$40 million was disbursed on this project, SIGIR believes that a more deliberate and documented process for supporting the government's decisions was needed.¹⁵

¹¹ *Challenges Faced in Carrying Out Iraq Relief and Reconstruction Fund Activities*, SIGIR-05-029, January 26, 2006.

¹² *Fact Sheet on Major U.S. Contractor's Security Costs Related to Iraq Relief and Reconstruction Fund Contracting Activities*, SIGIR-06-042, January 30, 2007.

¹³ *Efforts to Implement A Financial Management Information System in Iraq*, SIGIR-08-007, January 25, 2008.

¹⁴ *Outcome, Cost, and Oversight of the Security and Justice Contract with Parsons Delaware, Inc.*, SIGIR 08-019, July 2008.

¹⁵ *Outcome, Cost, and Oversight of the Security and Justice Contract With Parsons Delaware, Inc.*, SIGIR-08-019, July 2008.

Further, this security environment made site visits for inspections of progress and quality difficult. It has also created problems in defining project requirements and in some cases prevented project site selection. For example, SIGIR found that the Corps of Engineers was limited in its ability to conduct regular and frequent site visits because of security concerns and limited availability of personnel security detail assets. Further, many of the construction projects were in restricted areas where U.S. government personnel were either not allowed or had limited access.¹⁶

Security has been a significant problem in implementing the Provincial Reconstruction Team (PRT) program. This program was and is important because it provides grassroots support in the development of local provincial governments' abilities to govern, increase security and rule of law, and promote political and economic development, among other objectives. SIGIR found that because of security concerns, face-to-face meetings between provincial government officials and PRT personnel were often limited and, in some cases did not occur at all.¹⁷ The security challenges were limiting the teaching, coaching, and mentoring that form the core of the PRT capacity-development mission. PRT members are at particular risk when traveling to and from their engagements with their Iraqi counterparts, as are provincial government officials and local Iraqi staff working with the PRT. All are equally at risk if they are identified as cooperating with the U.S. government. Although no one was responsible for recording and reporting security incidents, security officials with the U.S. Embassy expressed concern for the overall physical safety of unarmed civilians and cautioned that the security situation could deteriorate as coalition forces withdraw and turn over areas to the Iraqi government.

¹⁶ *Management of the Primary Healthcare Centers Construction Projects*, SIGIR-06-011, April 29, 2006.

¹⁷ *Status of the Provincial Reconstruction Team Program in Iraq*, SIGIR-06-034, October 29, 2006.

Impact of Not Having an Integrated Management Structure To Provide Clear Lines of Authority on Program Coordination and Successful Delivery of Projects

The U.S. government was not efficiently organized to accomplish and manage its reconstruction programs in Iraq. From the beginning of reconstruction activities to the present, fragmented organizational structures and management information systems have resulted in poor interagency coordination, management oversight, and program implementation. These problems contributed to the failure of projects and/or the failure to meet program goals and therefore, in a number of cases, have led to wasteful expenditures. Since 2004, SIGIR reports have highlighted many of these problems and recommended corrective actions.

At least five major U. S. contracting and program management organizations have managed reconstruction programs within Iraq. The Departments of State and Defense and the U.S. Agency for International Development each brought their own management, contracting structures, management information systems, and decision-making processes to the reconstruction effort. Within the Department of Defense, the Joint Contracting Command-Iraq/Afghanistan and the Army Corps of Engineers/Gulf Region have independent contracting authority. In addition, the Multinational Security Transition Command-Iraq (MNSTC-I) and the Multi-National Corps-Iraq also have program management responsibilities. SIGIR found that there has been a lack of coordination and overlap of leadership between and among these organizations. These problems were sometimes exacerbated as the U.S. government periodically changed its organizational structures and shifted program responsibility to other organizations. The lack of an integrated management information system left managers and the Congress with fragmented data on how funds were being spent. At the direction of the Congress, a limited system that tracked IRRF expenditures, the Iraq Reconstruction Management System, was developed. It has since been expanded to also track the expenditure of funds from ISFF, ESF, and CERP.

Early Attempts at Securing Iraqi Infrastructure Were Impeded in Large Part Because of Fragmented U.S. Agency Organizational Responsibilities

At the beginning of reconstruction activities, the CPA spent over \$104.1 million on priority programs to secure Iraqi oil and electrical infrastructure but had difficulty accomplishing its goal. The program was impeded primarily because three organizations were responsible for program implementation but none was clearly in charge, and changes made to the program structure during implementation resulted in changed priorities and program terminations.¹⁸ The original contract and management responsibility belonged to the CPA, whose senior oil advisor had contractual responsibility. The Combined Joint Task Force-7 (CJTF-7), which reported to the Central Command, was responsible for security in general and was expected to integrate oil

¹⁸ *Review of Task Force Shield Programs*, SIGIR-06-009, April 28, 2006.

security forces into the overall force. Finally, Task Force Restore Iraqi Oil, a Corps of Engineers organization, was tasked with responsibility to refurbish the Iraqi oil infrastructure and provide operational supervision of security forces. Changes to organizational responsibilities complicated fragmented organizational issues.

The CPA was disbanded in June 2004 and its responsibilities were transferred to the U.S. Mission Iraq. A new but temporary organization called the Iraq Reconstruction Management Office (IRMO) was created and continued to function within the Mission. The office's function was to facilitate the transition to a democratically elected Iraq, and this included playing a key role in deciding not to continue the security forces project. Also, CJTF-7 was replaced by the Multinational Force-Iraq (MNF-I), thus leaving only one of the original organizations with responsibility for this effort intact. Responsibility for this program was again moved from MNF-I to the Multinational Corps-Iraq (MNC-I) in April 2005, at which time the program was effectively disbanded.¹⁹

Current Asset Transfer and Anticorruption Programs are at High Risk of Waste Because they Lack Program Management Accountability, Centralized Leadership, and Authority

Multiple agencies implement ministerial capacity development, anticorruption, economic development, and asset transfer programs. These programs should be closely interconnected and coordinated. However, if U.S. capacity development, anticorruption, and asset transfer programs fail, reconstruction projects worth billions are at a high risk of being wasted. In each area, SIGIR found that agencies implement their own programs, and there is little prioritization of projects or overall planning among the agencies. Individual ministerial capacity development programs, for example, are managed by the State Department through the U.S. Mission, USAID, the U.S. Army Corps or the Multinational National Security Transition Command-Iraq (MNSTC-I). Most of these programs have been directed by individual agencies rather than being integrated into an overarching U.S. government capacity-building plan or program that defines roles and responsibilities, goals, objectives, and milestones. One critical function of capacity-development is preparing the Iraqis to accept and maintain transferred U.S. reconstruction assets, a function which has faced major challenges.²⁰

SIGIR noted in July 2006 that U. S. anticorruption programs were being implemented by the Department of Justice, USAID, the Department of the Treasury, MNF-I, and MNSTC-I. SIGIR reports have noted repeatedly that anticorruption activities lack coordination and leadership²¹ SIGIR has noted that the programs lack focus and no inventory of anticorruption activities has been done.²² More specifically, SIGIR found that the Embassy lacked a comprehensive, integrated plan that tied anticorruption activities to an overall U.S. Mission-Iraq strategy and a baseline to measure progress. Nevertheless, SIGIR found in its January 2008 report that the U.S.

¹⁹ Ibid.

²⁰ *Transition of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government*, SIGIR-06-017. Also see *Transferring Iraq Relief and Reconstruction Fund Capital Projects to the Government of Iraq*, SIGIR-07-004.

²¹ *Joint Survey of the U.S. Embassy-Iraq's Anticorruption Program*, SIGIR-06-021, July 28, 2006.

²² *Status of U.S. anticorruption Efforts in Iraq*, SIGIR-07-007, July 24, 2007.

Mission had developed an anticorruption plan that, if implemented appropriately, would address all SIGIR recommendations²³

The management of the asset transfer process is fragmented among four organizations. Through IRMO, MNSTC-I, Corps of Engineers, and USAID, the State Department was responsible for transferring to the Iraqi government assets that were built by their respective organizations.²⁴ In May 2007, a Presidential Executive Order established another new but temporary U.S. mission organization called the Iraq Transition Assistance Office (ITAO) as a successor organization to IRMO.²⁵ According to the Executive Order, ITAO was responsible for the coordination, oversight, and reporting concerning remaining IRRF monies. This gave the office oversight of about \$6 billion in assets that were ready for transfer. However, monies from three other appropriated funds have produced \$2.2 billion in assets that are also ready for transfer to the Iraqis. SIGIR reported that ITAO has taken some steps to improve the asset transfer process by developing and getting agreement to a Memorandum of Understanding (MOU) with each agency as to the general process for asset transfers. Under this agreement, each agency will provide the Iraqi government with applicable designs, drawings, operation and maintenance manuals, and warranty information. However, SIGIR found that agencies are still stovepiped and implement individual policies and procedures that may not comply with even the general guidance in the agreement. A significant problem has been what is called the unilateral transfer of assets. This happens when the Iraqis will not accept or acknowledge the asset. For example, SIGIR found that MNSTC-I unilaterally transferred 388 projects valued at \$1 billion as of December 2007 to the GOI. Some capacity development programs have targeted appropriate Iraqi officials to be trained in sustaining the assets but again the activities are fragmented among multiple agencies without overarching strategy or leadership. This is a critical omission to the continued sustainment of reconstruction assets by the GOI.

An Integrated U.S. Agency Management Information System to Support Reconstruction Programs Is Lacking

In the early years of the reconstruction program, the United States lacked an integrated management information system for reporting contracting, financial, and construction management data for reconstruction projects and programs managed by multiple U.S. government agencies. This type of system could have facilitated program and project management coordination and decision-making.²⁶ Multiple automated reports were required from each participating agency, but no overall system was created. USAID, the Army Corps of Engineers, the State Department, the MNC-I, and MNSTC-I had their own systems. Congress however, directed that such a system be developed.

The November 2003 Emergency Supplemental Appropriations Act for Defense and the Reconstruction of Iraq (Public Law 108-106) provided funding for IRRF. The act also established congressional reporting and monitoring requirements for expenditures from IRRF.

²³ *U.S. Anticorruption Efforts In Iraq: Sustained Management Commitment is Key To Success*, SIGIR-08-008, January 24, 2008.

²⁴ *Transferring Reconstruction Projects to the Government of Iraq: Some Progress Made But Further Improvements Needed to Avoid Waste*, SIGIR-08-017, April 28, 2008.

²⁵ "Establishment of Temporary Organization to Facilitate United States Government Assistance for Transition in Iraq," Executive Order 13431, May 9, 2007.

²⁶ Management of Iraq Relief and Reconstruction Fund Program, the Evolution of the Iraq Reconstruction Management system, SIGIR-06-001.

Attempts to develop an integrated reporting system, called the Iraq Reconstruction Management System (IRMS) to meet the legislative requirements began about January 2004, and after 20 months of development, there was still no fully functioning system. By June 2007, IRMS had achieved limited functionality. As SIGIR pointed out, rapidly developing a management information system to support an \$18.6 billion program is difficult under controlled conditions. Efforts to develop this system in Iraq where not even the most basic off-the-shelf solutions were available and skilled IT managers were reluctant to go was a challenging system development effort.

While the IRMS system was originally designed to meet the legislative requirement to report on the expenditure of IRRF funds, it has been expanded to include tracking ongoing reconstruction efforts of the ISF, ESF, and CERP with management data being entered and used by seven agencies. Each of these agencies uses its specific data to track and report on the funds and projects it is responsible for managing. Although IRMS is the only system that attempts to capture comprehensive data, not all agencies enter their data and so IRMS does not provide a complete or consistent picture of reconstruction activities in Iraq.²⁷

²⁷*Comprehensive Plan Needed to Guide the Future of the Iraq Reconstruction Management System*, SIGIR-08-021, July 2008.

Importance of Anticipating Staffing Needs and Reducing Staff Turnover

U.S. agencies that participated in reconstruction activities in Iraq did not anticipate the large and long-term staffing needs required to effectively manage such a large and prolonged reconstruction effort. Program and project management offices were significantly understaffed even after major reconstruction projects were well under way, and existing staff often lacked the right skills to manage the contracting and program management workload. Exacerbating this problem, as highlighted in a number of SIGIR reports, was a high turnover of staff that left already understaffed offices regularly trying to bring new employees up to speed on the progress and problems with projects. SIGIR reports have identified these problems and the associated consequences of these personnel practices. Staffing shortages and a high turnover of staff can be disruptive and may result in waste and inefficiency. These problems contributed to poor contract administration and resulted in many contract management problems.

Early in the reconstruction process, USAID, with technical support from USACE, was to provide government review and oversight of an estimated \$1.8 billion contract with Bechtel National, Inc., for construction of multiple facilities in Iraq. The original contract was awarded on January 5, 2004, and on March 31, 2007 the contract ended. The final total estimated cost of the construction projects was \$1.33 billion. Under this contract, 24 job orders were issued for work in the following sectors: 14 in water and sanitation, eight in power, one in telecommunications, and one to build the Basrah Children's Hospital.

USAID was responsible and accountable for the overall implementation of all its reconstruction activities and for providing technical and management oversight of the work to be performed by Bechtel. To help accomplish these responsibilities, USAID signed a Participating Agency Service Agreement for USACE to provide construction oversight of Bechtel. Under the agreement, USACE was to provide technical assistance to USAID and be responsible for monitoring the quality control, quality assurance, schedule, performance, environmental issues, de-mining of unexploded ordnance, and safety programs of Bechtel. SIGIR reviewed the resourcing of both USAID and USACE personnel at about the midpoint of the contract execution. According to an April 5, 2006, roster, as noted in a July 24, 2007, SIGIR report, just under half (18 of 37) of the required USACE positions were filled. At the same time, USAID had filled only 170 of 251 authorized positions.²⁸

Further, in a SIGIR review of the construction of health care facilities in Iraq, USACE's Gulf Region Division (GRD) reported that in the southern region of operations, it was responsible for managing 400 projects but employed fewer than 40 military and civilian field engineers and construction inspectors.²⁹ According to GRD, 5% to 8% of these individuals were on rest and recuperation leave at any one time. As an indicator of the severe shortage of these inspectors,

²⁸ *Review of Bechtel's Spending Under its Phase II Iraq Reconstruction Contract*, SIGIR-07-009, July 24, 2007.

²⁹ *Outcome, Cost, and Oversight of Iraq Reconstruction Contract W914NS-04-0006*, SIGIR-08-010, January 28, 2008.

GRD informed SIGIR that it was trying to hire and train 115 Iraqi engineers to compensate for GRD personnel shortages³⁰

As a microcosm of the general problems with shortages of contract and program management staff, SIGIR points to staff shortages complicating problems at the Basrah Children's Hospital project.³¹ At the time of our audit, SIGIR could not identify a program manager or program management team that managed the project. Instead, we were told that Bechtel, the overall construction contractor, managed the contract for USAID. Having an independent government management team should have been a critical USAID internal control over the program.

High Turnover of Contract And Program Management Personnel Have Degraded Contract Management in Iraq

The shortages in contracting and program management personnel in Iraq have been exacerbated by a high turnover of government personnel in these areas, which resulted in a lack of staff continuity and contributed to a perception that government officials were inexperienced.³² By example, SIGIR reported on January 28, 2008, that on one contract involving Parsons Delaware, Inc., the contractor estimated that it was overseen by 17 different contracting officers between March 2004 and April 2006, the two years of the contract.³³ While the effect of this turnover on the project is difficult to quantify, in a draft memorandum addressing the contractor's performance, GRD stated that the significant turnover of personnel in support of the contract contributed significantly to a perception of inexperience and unresponsiveness.

In another major contract with the Perini Corporation to build electrical transmission and distribution facilities in southern Iraq, a high turnover of government contracting officials also impacted contract management throughout the contract. For example, SIGIR found that between March 2004, when the contract was issued, to September 2006, 14 contracting officers were assigned. This averages out to a new contracting officer every 65 days. The causes of high reconstruction program turnover included the uncertain length of rotations, high work volume, intense operational tempo, limited incentives, high-risk environment, and shortfalls in qualified personnel. A former Program Contracting Office electricity sector official stated that the turnover of contracting officers and contracting officer representatives negatively impacted the Perini contract because it undercut the effectiveness and efficiency of the contract administration function.

These shortages of personnel and high turnover contributed to many contracting problems. Contractors had poorly defined statements of work, and the government failed to take timely action to remedy problems and in many cases was unaware of contractor progress and expenditures. For example, SIGIR found that in a DoS contract to build facilities for a police training program, poor contract administration by the State Department's Bureau of International Narcotics and Law Enforcement Affairs (INL) and the DoS Office of Acquisition Management resulted in millions of dollars being put at risk of waste. The DoS paid about \$43.8 million for

³⁰ Ibid

³¹ *Review of the U.S. Agency For International Development's Managements of the Basrah Children's Hospital Project*, SIGIR-06-026.

³² *Management of the Primary Healthcare Centers Construction Projects*, SIGIR-06-011, April 29, 2006.

³³ *Outcome, Cost, and Oversight of Iraq Reconstruction Contract W914NS-04-0006*, SIGIR-08-010, January 28, 2008.

manufacturing and temporary storage of a residential camp that was not being used. This amount included \$4.2 million for unauthorized work.³⁴ In another contract review SIGIR determined that high contracting officer turnover and high contracting officer workload due to personnel shortages resulted in a lack of resolution of serious construction deficiencies. Construction deficiencies were not identified in writing but SIGIR found that major plumbing and structural problems were not corrected.³⁵

³⁴ *Review of DynCorp International, LLC, Contract Number S-LMAQM-04-0030, Task Order 0338, For the Iraqi Police Training Program Support*, SIGIR-06-029, January, 30, 2007.

³⁵ *Outcome, Cost, and Oversight of the security and Justice Contract with Parsons Delaware, Inc.*, SIGIR-08-019, July 2008.

Working Closely with Host Governments Is Essential to the Long-Term Success of U.S. Investments in Reconstruction Projects

U.S. agencies often made decisions about investments in Iraq reconstruction projects without obtaining the views and buy-in of Iraqi officials. This pattern began with decisions that the CPA made in 2003 to develop a financial management information system and continue today with the completion of many reconstruction projects that the U.S. government cannot transfer to the Iraqi government. The failure to attain host government agreement on projects, and U.S. efforts to foster a functioning democracy, can lead to the waste of U.S. investments.

Early in the reconstruction process, the CPA recognized the need for the Iraqi government to have a financial management information system. SIGIR reported however, that according to USAID officials, the CPA made a policy decision to not identify Iraqi ministry user requirements. This decision was made despite the fact that studies by both the International Monetary Fund and the World Bank stated that a sound information technology project design is predicated on the identification of user requirements.³⁶ SIGIR concluded that the Iraqi Financial Management Information System (IFMIS) development appeared to have been driven by U.S. reconstruction policy decisions, CPA guidance, and BearingPoint work plans. SIGIR found, however, that the project was suspended for reasons related principally to the lack of GOI commitment, and that user commitment should be a prerequisite for any system development.³⁷ In November 2007, USAID began initiatives to ensure GOI support for the system in the future. In mid-January 2008, five years after the initial decision to develop the system, the Iraqi Minister of Finance and Acting Mission Director of USAID signed a MOU to restart the system. This agreement, however, by no means guarantees the extent to which the GOI will fully implement the system.

Similarly, the U.S. government also faces difficulty in transferring completed projects to the GOI, at times because the Iraqis had not agreed to, or were unaware of, their existence. For example, Iraqi Ministry of Defense officials informed SIGIR in March 2008 that many U.S. funded projects were at risk of deterioration because the GOI did not even know of their construction. The absence of GOI support for these projects is demonstrated by the experiences of officials from USAID, the GRD and MNSTC-I; they stated that U.S. reconstruction agency officials may search for any Iraqi official willing to sign for and accept projects at myriad levels, including ministries, provinces, and local communities. MNSTC-I resorted to “unilaterally” transferring assets to ministries via a letter stating that the sustainment of these facilities was now the ministries’ responsibility.³⁸

Projects funded under the CERP have also been implemented without first seeking Iraqi support. Overall program guidance for implementing CERP projects is published in an MNC-I document

³⁶ *Efforts to Implement A Financial Management Information System in Iraq*, SIGIR-08-007, January 25, 2008.

³⁷ *Interim Report on Efforts and Further Actions Needed to Implement a Financial Management System in Iraq* SIGIR-08-001, October 24, 2007.

³⁸ *Transferring Reconstruction Projects to the Government of Iraq: Some Progress Made But Further Improvements Needed to Avoid Waste*, SIGIR-08-017, April 28, 2008.

called Money as a Weapon System. It is a policies and procedures manual that directs program execution and establishes the goals for CERP funding.³⁹ This manual was updated in June 2007 to recognize that coordination with local officials is critical to ensure that the project meets a perceived need by the population, is appropriate to the culture, and will be maintained in the future. It also states that Coalition forces have built numerous projects that did not meet the projects' intended purpose due to lack of coordination with the local officials. Further, in response to a SIGIR questionnaire, officials observed that the transition of CERP projects to the GOI has been successful when local GOI ministries have been involved throughout the life cycle of the project.

Host government support and buy-in is also essential to create conditions for a functioning democracy. SIGIR's anticorruption reports have noted that a long term and sustained commitment is needed by both the United States and GOI to achieve any measurable improvement in the pervasive corruption the country faces. In its latest report, SIGIR recommends that the U.S. efforts be based on assurances that the GOI supports the U.S. approach, and that there are measurable indicators of progress. Absent such assurances, the U.S. programs are vulnerable to waste.⁴⁰

³⁹ *Commander's Emergency Response Program in Iraq Funds Many Large-Scale Projects*, SIGIR-08-006, January 25, 2008.

⁴⁰ *Anticorruption Efforts in Iraq: U.S. and Iraq Take Actions but Much More Remains to Be Done*, SIGIR 08-023, July 2008.

Conclusions

The United States was not prepared for the major reconstruction effort that was needed in Iraq. Although the U.S. military was attempting to control the violence, it was not prepared to protect critical Iraqi infrastructures and U.S. reconstruction sites. SIGIR's reports lead to a series of lessons learned that if addressed could result in significantly improved management and oversight of reconstruction programs. Their implementation could also contribute to reducing reconstruction costs, improving quality controls over contracting and contractor performance, and help increase the likelihood that reconstruction projects can be successfully transferred to the host government. Addressing these issues is critical because individually, and often collectively, they significantly reduced program effectiveness, increased reconstruction costs, and increased the likelihood of fraud, waste, and abuse.

Steps For The Government To Consider

SIGIR reports have highlighted many lessons learned from specific projects and programs that should be considered in planning reconstruction efforts to help reduce the extent of fraud, waste, and abuse while emphasizing program success. Actions to address the broader recurring management issues identified in this report would also be important to consider. Depending on the facts and circumstances of a contingency operation, a number of steps may be needed in key areas to avoid a repetition of the problems identified in this report, including:

Security

- Develop plans to secure basic infrastructure—such as oil, gas, and water—until the capabilities of the host government can be developed.
- Develop guidance on project risk for managers to assess the merits of funding a project faced with security threats.
- Evaluate the practicality of proceeding quickly with large-scale construction projects when the risk of sabotage may divert funds from construction to security and threaten the effectiveness of the investment.
- Prepare a comprehensive and independent government estimate for high-risk construction projects that accurately identifies the costs associated with the project—particularly those costs associated with the security risk. This information should be a mandatory part of the contract file.
- Proceed with the project only when senior management specifically determines that strategic objectives outweigh the risks of project failure if government oversight and surveillance activities are impeded to any significant degree by security concerns.

Organizational Structures and Processes

- Clearly define the management roles, responsibilities, authority and accountability for program decision-making and ensure management continuity.

- Develop an integrated organizational structure for contingency reconstruction efforts that clearly recognizes the complicated interrelationships between program elements and the success of U.S. program goals. When multiple agencies are participating, the Secretary of State, Secretary of Defense, the Director of USAID, and other agencies as applicable should delineate which lead agency will be in charge of each program element and which agency will be in charge of the overall management and execution of programs.
- Frame an organizational structure that can withstand an extended duration, if needed, to minimize the resulting disruptions and loss of management continuity. An assessment may be appropriate to understand the reasons for the many organizational changes associated with reconstruction efforts and identify actions that may be taken to reduce them in a future contingency operation.
- Ensure management controls over the expenditure of U.S. funds by requiring integrated financial management information systems to support managerial decision-making and to provide the Congress with better information about how U.S. funds are being spent.
- Require that all agencies spending reconstruction monies from any source provide agreed-on contracting information into a single management information system.

Staffing Concerns

- Develop criteria for determining staffing needs so that agencies start with the right people and the right skills.
- Take steps that contain high staff turnover to the extent practical and implement processes to ensure appropriate transfer of program knowledge when turnovers do occur to better ensure program continuity. This is another area where a more detailed assessment of personnel turnovers in advance of a contingency may be needed to more effectively deal with this issue.

Working with Host Governments

- At the outset of reconstruction efforts, implement procedures that enable close coordination with the host government to help ensure that reconstruction projects are consistent with needs and to maximize buy-in resulting in acceptance and maintenance of donor-funded projects.
- Obtain initial project buy-in from and systematically work with host-government officials through construction and preparations for transfer to the host government.

SIGIR presents these steps as actions that may be needed or considered—not as specific recommendations. Currently, SIGIR is completing a more comprehensive report on the history and evolution of planning for and management of Iraq reconstruction, which will be issued later this year. The report will provide a number of specific recommendations related to planning for and implementing reconstruction activities in a contingency environment.

Management Comments and Audit Response

The U.S. Ambassador, Iraq, in commenting on a draft of this report, expressed agreement with the issues identified in the report and steps to be considered for the future to avoid repetition of the problems identified. The Ambassador noted, as did the SIGIR report, the impact of an unstable security environment on reconstruction project management. At the same time he expressed concern about the absence of information in the report concerning limitations in the capacity of Iraqi governmental institutions to deal with all aspects of project planning and execution and security; and a lack of coverage of steps the U.S. government has taken to improve interagency coordination and deal with the transfer of completed reconstruction projects to the GOI. Although this report does not address GOI capacity issues in-depth, it does address challenges related to asset transfer issues, some of which SIGIR recognizes as being capacity-related, as well as the need for improved coordination among all affected parties. SIGIR has reported separately on capacity building and asset transfer issues and plans additional reporting in the future on steps being taken in these areas. The Ambassador's comments are included in their entirety at the end of this report.

Appendix A — Scope and Methodology

In March 2008, SIGIR initiated this audit (Project No. 8004) to identify systemic issues based on its 121 reports issued from June 2004 through July 31, 2008. It was not SIGIR’s objective to re-audit the subject matter of the original audit reports.

We conducted our work in the Washington, D.C., office of SIGIR, with assistance from our Baghdad audit staff. We did not sample any item for this project, relying instead on our previous audit workpapers and reports. Using all the reports listed on SIGIR’s web site, we conducted limited interviews with field auditors and audit management in Washington, D.C. and Baghdad. During the course of our fieldwork, we did not develop any problems with the evidentiary material requiring explanation, nor did we encounter any scope impairments or data limitations. Finally, there were no significant omissions from the audit work, no major areas not reviewed, and no limitations on the audit because of time or resource constraints.

Before our review and evaluation of the 121 published audit reports, we identified common themes that emerged from multiple reports. We also reviewed the audit reports and augmented “current thinking” with the addition and review of current, relevant GAO, USAID, State Department Inspector General, and DoD Inspector General audit reports. In addition, we asked SIGIR field auditors and audit management to comment on any pertinent issues affecting prior audits, if any. Using these themes we next developed a set of questions against which we analyzed SIGIR reports. The purpose of the analysis was to identify examples relating to the questions that provided lessons learned for future reconstruction activities in a contingency environment.

The questions we used to analyze the reports included the following:

- What are the logical consequences of the high cost of security?
- What fostered poor interagency coordination and contributed to projects’ failure?
- What can the United States do to mitigate the lack of quality project management control that places it at risk of wasting funds to perform costly rework?
- Did the United States come prepared to effectively and efficiently manage \$47 billion in Iraq reconstruction programs?
- What needs to happen before the United States can craft an integrated set of programs to support the transfer of reconstruction assets, avoiding the potential waste of U.S. investments?
- Going forward, what can be done to secure the “buy-in” of GOI officials and ministries?

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions as they relate to our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions they relate to our audit objectives.

This audit was performed under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978, as amended.

Internal Controls

Because we are auditing and commenting on prior audit reports, we did not independently assess or re-assess the overall systems of management controls. Instead, we relied on the assessments of systems of internal control performed and discussed in the original audits. The original audits more fully explain the significant internal controls assessed, the scope of the assessment work, and any significant deficiencies found during the review. Further, the issued reports identify management control weaknesses and make recommendations or highlight lessons learned that would improve the management control problems. In addition to being developed in the findings and recommendations section of the original audit reports, we fully developed all reportable conditions identified during the course of our current review.

Reliability of Data from Computer-Based Systems

To perform this audit, we did not rely on data from computer-based systems. Our audit focused on published SIGIR audit reports and discussions with responsible officials. We used audit reports whose data originated in CEFMS, RMS, IRMS, the USAID Iraq database, the Joint Contingency Contracting System, and the DoS accounting system. To achieve the original audit assignment's objective, we examined computer-processed data contained in the above databases. Our review of system controls in many cases casted doubt on the data's completeness and accuracy.

Compliance with Laws and Regulations

Because this audit is a compilation of other reported audit activity, this audit does not include an evaluation of agencies or programs' compliance with laws and regulations. Those compliance issues would be addressed in the individual published audit reports. All significant findings of noncompliance that were individually or collectively material were reported in the Findings and Recommendations section of the original audit reports.

Appendix B — Audit Reports Issued Since Inception through July 2008 by SIGIR and its Predecessor, the CPA IG

Report No.	Report Title	Report Date
04-001	Coalition Provisional Authority Coordination Of Donated Funds	6/25/04
04-002	Management Of Personnel Assigned To The Coalition Provisional Authority In Baghdad, Iraq	6/25/04
04-003	Federal Deployment Center Forward Operations At The Kuwait Hilton	6/25/04
04-004	Task Orders Awarded By The Air Force Center For Environmental Excellence In Support Of The Coalition Provisional Authority	7/28/04
04-005	Award Of Sector Design-Build Construction Contracts	7/23/04
04-006	Corporate Governance For Contractors Performing Iraq Reconstruction Efforts	7/21/04
04-007	Oil For Food Cash Controls For The Office Of Project Coordination In Erbil, Iraq	7/26/04
04-008	Coalition Provisional Authority Control Over Seized And Vested Assets	7/30/04
04-009	Coalition Provisional Authority Comptroller Cash Management Controls Over The Development Fund For Iraq	7/28/04
04-011	Audit Of The Accountability And Control Of Materiel Assets Of The Coalition Provisional Authority In Baghdad	7/26/04
04-013	Coalition Provisional Authority's Contracting Processes Leading Up To And Including Contract Award	7/27/04
05-001	Coalition Provisional Authority Control Of Appropriated Funds	10/22/04
05-002	Accountability And Control Of Materiel Assets Of The Coalition Provisional Authority In Kuwait	10/25/04
05-003	Task Order 0044 Of The Logistics Civilian Augmentation Program III Contract	11/23/04
05-004	Oversight Of Funds Provided To Iraqi Ministries Through The National Budget Process	1/30/05
05-005	Compliance With Contract No. W911S0-04-C-0003 Awarded To Aegis Defence Services Limited	4/20/05
05-006	Control Of Cash Provided To South-Central Iraq	4/30/05
05-007	Administration Of Iraq Relief And Reconstruction Fund Contract Files	4/30/05
05-008	Administration Of Contracts Funded By The Development Fund For Iraq	4/30/05
05-009	Reconciliation Of Reporting Differences Of The Source Of Funds Used On Contracts After June 28, 2004	7/8/05
05-010	Interim Briefing To The Project And Contracting Office - Iraq And The Joint Contracting Command – Iraq On The Audit Of The Award Fee Process	7/26/05
05-011	Cost-To-Complete Estimates And Financial Reporting For The Management Of The Iraq Relief And Reconstruction Fund	7/26/05

Report No.	Report Title	Report Date
05-012	Policies And Procedures Used For Iraq Relief And Reconstruction Fund Project Management - Construction Quality Assurance	7/22/05
05-013	Controls Over Equipment Acquired By Security Contractors	9/9/05
05-014	Management Of Commanders' Emergency Response Program For Fiscal Year 2004	10/13/05
05-015	Management Of Rapid Regional Response Program Grants In South-Central Iraq	10/25/05
05-016	Management Of The Contracts And Grants Used To Construct And Operate The Babylon Police Academy	10/26/05
05-017	Award Fee Process For Contractors Involved In Iraq Reconstruction	10/25/05
05-018	Management of Iraq Relief and Reconstruction Fund Program: Acquisition of Armored Vehicles Purchased Through Contract W914NS-05-M-1189	10/21/05
05-019	Attestation Engagement Concerning The Award Of Non-Competitive Contract Daca63-03-D-0005 To Kellogg, Brown, And Root Services, Inc.	9/30/05
05-020	Management Of The Contracts, Grant, And Micro-Purchases Used To Rehabilitate The Karbala Library	10/26/05
05-021	Management Of Iraq Relief And Reconstruction Fund Programs: Cost-To-Complete Estimate Reporting	10/24/05
05-022	Managing Sustainment For Iraq Relief And Reconstruction Fund Programs	10/24/05
05-023	Management Of Rapid Regional Response Program Contracts In South-Central Iraq	1/23/06
05-024	Management Of The Mansuria Electrical Reconstruction Project	1/23/06
05-025	Management Of The Commander's Emergency Response Program For Fiscal Year 2005	1/23/06
05-026	Fact Sheet On the Use of the \$50 Million Appropriation to Support the Management and Reporting of the Iraq Relief and Reconstruction Fund	1/27/06
05-027	Methodologies For Reporting Cost-To-Complete Estimates	1/27/06
05-028	GRD-PCO Management Of The Transfer Of IRRF-Funded Assets To The Iraqi Government	1/24/06
05-029	Challenges Faced In Carrying Out Iraq Relief And Reconstruction Fund Activities	1/26/06
06-001	Management Of Iraq Relief And Reconstruction Fund Program: The Evolution Of The Iraq Reconstruction Management System	4/24/06
06-002	Prompt Payment Act: Analysis Of Expenditures Made From The Iraq Relief And Reconstruction Fund	2/3/06
06-003	Review Of Data Entry And General Controls In The Collecting And Reporting Of The Iraq Relief And Reconstruction Fund	4/28/06
06-004	Changes In Iraq Relief And Reconstruction Fund Program Activities - October Through December 2005	4/28/06
06-005	Follow-Up On Recommendations Made In SIGIR Audit Reports Related To Management And Control Of The Development Fund For Iraq	4/28/06

Report No.	Report Title	Report Date
06-006	Multi-National Security Transition Command-Iraq Management Of The Transfer Of Iraq Relief And Reconstruction Fund Projects To The Iraqi Government	4/29/06
06-007	U.S. Agency For International Development Management Of The Transfer Of Iraq Relief And Reconstruction Fund Projects To The Iraqi Government	4/29/06
06-008	Development Fund For Iraq Cash Accountability Review: Joint Area Support Group-Central	4/28/06
06-009	Review Of Task Force Shield Programs	4/28/06
06-010	Review Of The Multi-National Security Transition Command-Iraq Reconciliation Of The Iraqi Armed Forces Seized Assets Fund	4/28/06
06-011	Management Of The Primary Healthcare Centers Construction Projects	4/29/06
06-012	Development Fund For Iraq Cash Accountability Review: Joint Area Support Group-Central/Falluja	4/28/06
06-013	Briefing To The International Advisory And Monitoring Board For Iraq: Management Controls Over The Development Fund For Iraq	4/28/06
06-014	Review Of Efforts To Increase Iraq's Capability To Protect Its Energy Infrastructure (Classified)	7/27/06
06-015	Iraqi Armed Forces Seized Assets Fund Review Of Contracts And Financial Documents	4/28/06
06-016	Interim Audit Report On The Review Of The Equipment Purchased For Primary Healthcare Centers Associated With Parsons Global Services, Contract Number W914NS-04-D-0006	4/4/06
06-017	Transition of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government	7/28/06
06-018	Survey Of The Status Of Funding For Iraq Programs Allocated To The Department Of State's Bureau Of International Narcotics And Law Enforcement Affairs As Of December 31, 2005	July 2006
06-019	Review Of The Use Of Definitization Requirements For Contracts Supporting Reconstruction In Iraq	7/28/06
06-020	Review Of The Advanced First Responder Network	7/28/06
06-021	Joint Survey Of The U.S. Embassy-Iraq's Anticorruption Program	7/28/06
06-023	Changes in Iraq Relief and Reconstruction Fund Program Activities - January through March 2006	7/28/06
06-024	Joint Cash Count: Iraq National Weapons Card Program	7/26/06
06-025	Review Of The Medical Equipment Purchased For The Primary Healthcare Centers Associated With Parsons Global Services, Inc., Contract Number W914ns-04-D-0006	7/28/06
06-026	Review Of The U.S. Agency For International Development's Management Of The Basrah Children's Hospital Project	7/31/06
06-028	Review Of Administrative Task Orders For Iraq Reconstruction Contracts	10/23/06
06-029	Review Of Dyncorp International, LLC, Contract Number S-LMAQM-04-C-0030, Task Order 0338, For The Iraqi Police Training Program Support	1/30/07

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06-030	Status Of Medical Equipment And Other Non-Construction Items Purchased For Primary Healthcare Centers	1/30/07
06-031	Management Of The Iraqi Interim Government Fund	10/27/06
06-032	Iraqi Security Forces: Review Of Plans To Implement Logistics Capabilities	10/28/06
06-033	Iraqi Security Forces: Weapons Provided By The U.S. Department Of Defense Using The Iraq Relief And Reconstruction Fund	10/28/06
06-034	Status Of The Provincial Reconstruction Team Program In Iraq	10/29/06
06-035	Interim Audit Report On Inappropriate Use Of Proprietary Data Markings By The Logistics Civil Augmentation Program (LOGCAP) Contractor	10/26/06
06-036*	Follow-Up On SIGIR Recommendations Concerning The Development Fund For Iraq (DFI)	1/29/07
06-037	Interim Audit Report On Improper Obligations Using The Iraq Relief And Reconstruction Fund (IRRF 2)	9/22/06
06-038	Unclassified Summary Of SIGIR's Review Of Efforts To Increase Iraq's Capability To Protect Its Energy Infrastructure	9/27/06
06-039	Review Of USAID/Bechtel National, Inc., Property Management Controls For Contract SPU-C-00-04-00001-00	1/29/07
06-040	Improper Obligations Using The Iraq Relief And Reconstruction Fund (IRRF 2)	1/30/07
06-042	Fact Sheet On Major U.S. Contractor's Security Costs Related To IRRF Contracting Activities (Restricted Distribution)	1/30/07
06-043	Review Of Iraq Relief And Reconstruction Fund Unmatched Disbursements	1/30/07
06-044	Fact Sheet On Major U.S. Contractors' Security Costs Related To Iraq Relief And Reconstruction Fund Contracting Activities	1/30/07
06-045	Status Of Ministerial Capacity Development In Iraq	1/30/07
07-002	Status Of The Advanced First Responder Network	4/25/07
07-003*	Cost-To-Complete Reporting For Iraq Reconstruction Projects	7/26/07
07-004	Transferring Iraq Relief And Reconstruction Fund Capital Projects To The Government Of Iraq	7/25/07
07-005	Fact Sheet On Sources And Uses Of U.S. Funding Provided In Fiscal Year 2006 For Iraq Relief And Reconstruction	7/27/07
07-006	Management Of The Commander's Emergency Response Program In Iraq For Fiscal Year 2006	4/26/07
07-007	Status Of U.S. Government Anticorruption Efforts In Iraq	7/24/07
07-008	Fact Sheet On The Roles And Responsibilities Of U.S. Government Organizations Conducting IRRF-Funded Reconstruction Activities	7/26/07
07-009*	Review Of Bechtel's Spending Under Its Phase II Iraq Reconstruction Contract	7/24/07
07-010*	Agency Management Of The Closeout Process For Iraq Relief And Reconstruction Fund Contracts	10/24/07
07-011	Controls Over Unliquidated Obligations In The Iraq Relief And Reconstruction Fund	10/23/07

Report No.	Report Title	Report Date
07-012	Review Of Iraq Relief And Reconstruction Fund Unmatched Disbursements At The Department Of State	4/26/07
07-013	Sustainment Of The Advanced First Responder Network (Restricted)	4/27/07
07-014	Status Of The Provincial Reconstruction Team Program Expansion In Iraq	7/25/07
07-015	Review Of The Effectiveness Of The Provincial Reconstruction Team Program In Iraq	10/18/07
07-016	Interim Review of DynCorp spending Under its Contract for the Iraqi Police Training Program	10/23/07
08-001	Interim Report On Efforts And Further Actions Needed To Implement A Financial Management Information System In Iraq	10/24/07
08-002	Logistics Civil Augmentation Program Task Orders 130 And 151: Program Management, Reimbursement, And Transition	10/30/07
08-003*	Review Of The Use Of Contractors In Managing Iraq Relief And Reconstruction Projects	10/29/07
08-004*	Outcome, Cost, And Oversight Of Reconstruction of Taji Military Base And Baghdad Recruiting Center	1/15/08
08-005	Differences In Services And Fees For Management And Administration Of Iraq Reconstruction Contracts	1/29/08
08-006	Commander's Emergency Response Program In Iraq Funds Many Large-Scale Projects	1/25/08
08-007*	Efforts To Implement A Financial-Management Information System In Iraq	1/25/08
08-008	U.S. Anticorruption Efforts In Iraq: Sustained Management Commitment Is A Key To Success	1/24/08
08-009*	Appropriate Award-Fee Conversion Scales Can Enhance Incentive For Contractor Performance	1/24/08
08-010*	Outcome, Cost, And Oversight Of Iraq Reconstruction Contract W914NS-04-D-0006	1/28/08
08-011*	Outcome, Cost, And Oversight Of Electricity-Sector Reconstruction Contract With Perini Corporation	4/29/08
08-012	Attestation To Development Fund For Iraq Cash In The Possession Of The Joint Area Support Group-Central	3/13/08
08-013	Interim Report On Iraq Reconstruction Contract Terminations	4/28/08
08-014	Progress On Recommended Improvements To Contract Administration For The Iraqi Police Training Program	4/22/08
08-015	Interim Analysis Of Iraqi Security Force Information Provided By The Department Of Defense Report, Measuring Stability And Security In Iraq	4/25/08
08-016	U.S. Anticorruption Efforts In Iraq: Progress Made In Implementing Revised Management Plan	4/24/08
08-017*	Transferring Reconstruction Projects To The Government Of Iraq: Some Progress Made But Further Improvements Needed To Avoid Waste	4/28/08
08-018*	Outcome, Cost, and Oversight of Water Sector Reconstruction Contract with FluorAMEC, LLC	7/15/08

Report No.	Report Title	Report Date
08-019	Outcome, Cost, and Oversight of the Security and Justice Contract with Parsons Delaware, inc.	7/28/08
08-020	Key Recurring Management Issues identified in Audits of Iraq reconstruction efforts	7/25/08
08-021	Comprehensive Plan Needed to Guide the Future of the Iraq Reconstruction Management System	7/26/08
08-022	Government of Iraq Increasingly Funding Iraq Security Force Infrastructure Development, but Substantial U.S. Support Remains	7/26/08
08-023	Anticorruption Efforts in Iraq: U.S. and Iraq Take Actions but Much Remains to be Done	July 2008
08-024	Information on a Special Department of Defense Program to Foster Economic Recovery in Iraq	July 2008

* SIGIR reports with specific "lessons learned" sections in them. (Not all of them would have been used in the 3 SIGIR lessons learned reports.)

Appendix C — Acronyms

Acronym	Description
AFCEE	Air Force Center for Engineering and the Environment
CEFMS	Corps of Engineers Financial Management System
CERP	Commander's Emergency Response Program
CPA	Coalition Provisional Authority
DoD	Department of Defense
DoS	Department of State
EG	Economic Governance
ESF	Economic Support Fund
FAR	Federal Acquisition Regulation
GOI	Government of Iraq
GRD	Gulf Region Division
IFMIS	Iraqi Financial Management Information System
IMF	International Monetary Fund
IRMO	Iraq Reconstruction Management Office
IRMS	Iraq Reconstruction Management System
IRRF	Iraq Relief and Reconstruction Fund
ISFF	Iraq Security Forces Fund
ITAO	Iraq Transition Assistance Office
JCC-I/A	Joint Contracting Command – Iraq/Afghanistan
MNC-I	Multi-National Corps – Iraq
MNSTC-I	Multi-National Security Transition Command – Iraq
RMS	Resident Management System
SIGIR	Special Inspector General for Iraq Reconstruction
USACE	U.S. Army Corps of Engineers
USAID	U.S. Agency for International Development

Appendix D — Audit Team Members

This report was prepared and the review was conducted under the direction of David R. Warren, Assistant Inspector General for Audit, Office of the Special Inspector General for Iraq Reconstruction. The staff members who contributed to this report include:

James Shafer

Glenn Furbish

Samson Wright

Management Comments

U.S. Embassy-Iraq



Embassy of the United States of America

The Ambassador

Baghdad, Iraq
July 21, 2008

Mr. Stuart Bowen
Inspector General
Special Inspector General for Iraq
Baghdad, Iraq

Dear Mr. Bowen,

Thank you for the opportunity to comment on the SIGIR management report on Iraqi reconstruction efforts. I appreciate the attention you have called to this important matter, as well as the recommendations you have provided. I think they are the right ones, but also offer the following comments.

The report notes the impact of an unstable security environment on reconstruction projects and the importance of preparing security costs in advance to control budgets and hedge against potential fraud, waste, and abuse. As you know, the security situation here is very fluid and changes frequently, often hindering and/or halting reconstruction projects. Projecting out costs is nearly impossible against this scenario. While a project in one area may appear free of security risk today that may not be the case next year when a planned project kicks off. Recent overall improvement in security has made this somewhat easier, but accurate predictions in the period in which you focused were really not possible.

Security, infrastructure, social, and political problems in Iraqi society have introduced many challenges and obstacles in our reconstruction efforts. The capacity of Iraqi governmental institutions to deal with all aspects of project planning and execution and security was, and still is, severely limited, a fact not noted in the report. To deal with these challenges and improve our own internal processes, we established the Asset Recognition and Transfer Operations Group (ARTOG) on April, 2006. Under chief of mission authority, the ARTOG, comprised of our

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stakeholder agencies, conducts asset transfers and develops coordinated solutions to problems. This system works well and has markedly improved cross-agency coordination and cooperation. In addition, interagency coordination on reconstruction projects is also carried out at regular Embassy staff meetings, through the Coordinator for Economic Transition in Iraq, and other mechanisms, none of which are cited in your report.

As Iraqi governmental institutions mature, and their capacity to manage reconstruction projects increases, we should see marked improvement overall. Of course, we will continue to fine tune our own processes, and work with our Iraqi partners to coordinate all steps in the reconstruction process.

Sincerely,



Ryan C. Crocker

SIGIR's Mission	<p>Regarding the U.S. reconstruction plans, programs, and operations in Iraq, the Special Inspector General for Iraq Reconstruction provides independent and objective:</p> <ul style="list-style-type: none"> oversight and review through comprehensive audits, inspections, and investigations advice and recommendations on policies to promote economy, efficiency, and effectiveness deterrence of malfeasance through the prevention and detection of fraud, waste, and abuse information and analysis to the Secretary of State, the Secretary of Defense, the Congress, and the American people through Quarterly Reports
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