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## MESSAGE FROM THE SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

I am pleased to submit the tenth Quarterly Report from the Office of the Special Inspector General for Iraq Reconstruction (SIGIR). This Report is the product of the collective efforts of SIGIR's auditors, inspectors, and investigators who continue to pursue SIGIR's important mission to advise upon and account for the use of the Iraq Relief and Reconstruction Fund (IRRF). Field work for the Report occurred principally in Iraq, where nearly 50 SIGIR personnel operate daily in perilous conditions to execute comprehensive oversight of the U.S. taxpayers' investment in Iraq.

The Report is divided into four sections. Section 1 presents SIGIR's observations on current issues affecting the U.S.-led program. Section 2 provides sector-by-sector updates on reconstruction progress. Section 3 lays out SIGIR's most recent audit, inspection, and investigative work. And Section 4 summarizes other agency oversight. This Report meets my expectations that SIGIR provide the most comprehensive and accurate reporting available on relief and reconstruction work in Iraq. While the program achieved progress this quarter, it remains a sobering reality that this progress occurred under the pall of an increasingly lethal security environment. There is no avoiding the fact that the fomenting of widespread sectarian conflict in Iraq threatens to significantly forestall progress.

This Report appears just past the midpoint of the Year of Transition in Iraq. In light of that important milestone, SIGIR stresses several key tasks in Section 1 that must be accomplished for transition to succeed: improve security, particularly in Baghdad; increase emphasis on infrastructure sustainment; multilateralize the reconstruction program through an international compact for financial support; control corruption in Iraq's ministries; and build governance capacity at the national and local levels.

The sector reviews in Section 2 include initial looks at the agriculture and private sector development programs. Significantly, Section 2 notes that outputs in the electricity and oil sectors rose above pre-war levels for the first time in over a year. SIGIR's audits and inspections in Section 3 include reviews of the Basrah Children's Hospital, U.S. support of Iraqi anticorruption programs, and an update on the Al Fatah pipeline projects. SIGIR completed its Lessons Learned Report on Iraq Contracting this quarter and will publish its next Lessons Learned Report addressing Program and Project Management later this year.

SIGIR remains committed to meeting the expectations of Congress, the Secretary of State, the Secretary of Defense, and the American taxpayer for timely and usable information on U.S. progress and performance in Iraq reconstruction. Although the IRRF is almost completely obligated, many challenges lie ahead. SIGIR intends to help the U.S. program meet and overcome those challenges.

Submitted on July 31, 2006.

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

Stuart W. Bowen, Jr.



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SIGIR SUMMARY OF PERFORMANCE  
FEBRUARY 1, 2004 – JULY 30, 2006

**AUDIT**

Reports issued	65
Recommendations issued	215
Dollars saved	\$10,900,000
Financial benefit of SIGIR Audits	\$405,140,000*

**INSPECTIONS**

Project assessments issued	56
Limited preliminary assessments issued	96
Satellite imagery reports issued	172
Financial benefit of SIGIR Inspections	\$1,362,900,000*

**INVESTIGATIONS**

Investigations initiated	236
Investigations closed or referred	154
Open investigations	82
Arrests	5
Convictions	2
Value of assets seized/recovered	\$13,011,304*

**HOTLINE CONTACTS**

Fax	12
Telephone	59
Walk-in	109
E-mail	272
Standard mail	24
Referrals	25
Total Hotline contacts	501

**NON-AUDIT PRODUCTS**

Congressional testimony	6
Lessons Learned reports issued	2

\*For details on financial benefits, see Appendix J.



# SIGIR Observations

YEAR OF TRANSITION: PUSHING THROUGH THE MIDPOINT

SECURITY: A LETHAL PROBLEM

CORRUPTION: ENDEMIC AND DESTRUCTIVE

RECONSTRUCTION LEADERSHIP: MORE COORDINATION NEEDED

CAPACITY BUILDING: KEYSTONE TO TRANSITION

THE NEXT PHASE: MULTILATERALIZING RECONSTRUCTION

NOTABLE SIGIR ACTIVITIES THIS QUARTER

FINANCIAL IMPACT OF SIGIR OPERATIONS

THE HUMAN TOLL

SECTION

1



This is the tenth Quarterly Report from the Special Inspector General for Iraq Reconstruction (SIGIR). During this reporting period, several positive effects of the U.S. reconstruction program became evident. Significantly, over the past six weeks, the production of both electricity and oil in Iraq climbed above pre-war levels. Electricity output nationwide now exceeds 5,000 megawatts, and oil production reached 2.5 million barrels per day. Both of these levels are the highest achieved in more than a year.

These accomplishments are critical as the U.S.-led phase of Iraq's relief and reconstruction moves towards its conclusion. The next

phase must be multilateralized, which means more international effort and investment. This multilateral phase will be energized by the development of a new international financial compact for Iraq, which is expected to generate broader support for reconstruction while requiring Iraq to meet specific political and economic milestones. The compact anticipates increased commitments from international donors, and thus it will serve as a bridge between the U.S.-led phase and a more extended and comprehensive reconstruction and recovery program, which Iraq itself must ultimately fund and execute. *See below, "The Next Phase: Multilateralizing Reconstruction."*

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## YEAR OF TRANSITION: PUSHING THROUGH THE MIDPOINT

By the end of June 2006, \$18.94 billion of the combined U.S. Iraq Relief and Reconstruction Fund (IRRF 1 and IRRF 2)<sup>1</sup> had been obligated, and \$14.85 billion had been expended. On September 30, 2006, the U.S. government's authority to obligate the IRRF will expire. Consequently, any unobligated IRRF dollars must be put under contract by the end of September, or the funds will revert to the U.S. Treasury.

In light of these circumstances, the Joint Contracting Command-Iraq and other contracting entities are currently focused on obligating all remaining IRRF dollars as rapidly as possible. Although the IRRF must be entirely obligated by September 30, funds may be

de-obligated and subsequently re-obligated after this date. Thus, there should be continuing oversight of plans to de-obligate and re-obligate funds to ensure that the IRRF continues to be used to meet Iraq's highest reconstruction priorities.

The U.S. Army Corps of Engineers-Gulf Region Division (GRD) and the Project and Contracting Office (PCO) plan to begin drawing down staff later this year based on projected workload reductions. Additionally, the Iraq Reconstruction Management Office (IRMO), a temporary agency funded by the IRRF, is slated to terminate in 2007. The Department of State (DoS), however, has requested funding for

IRMO in its FY 2007 budget so that it can continue to support capacity building and other reconstruction initiatives. SIGIR supports this decision and observes that sufficient personnel should remain with GRD, PCO, and IRMO until the IRRF is fully executed.

During this reporting period, the most significant event in the Year of Transition occurred: the first permanent, democratically elected government of Iraq took office with the inauguration of a new Prime Minister, the seating of a new assembly, and the appointment of a full complement of ministers. This is the third Iraqi government since the CPA transferred sovereignty back to Iraq on June 28, 2004. The war-weary Iraqi populace expects the new government to provide stability and security. However, the enormity of the violence in Iraq during the last quarter underscores the tenuous nature of this expectation.

Along with security, sustainment remains a critical challenge confronting the new Iraqi government. Sustainment means ensuring that Iraq has the capacity to manage and support the programs, projects, and assets that the U.S. will transfer to it. SIGIR raised sustainment as a significant concern last year, and U.S. reconstruction managers responded by developing new transition plans that more fully addressed the issue. IRMO commendably created an office to ensure adequate planning for the sustainment of IRRF projects. But concerns remain about Iraq's capacity to operate its expanded and modernized infrastructure. The lack of effective budgeting by Iraq to fund the operation and maintenance of its major infrastructure sectors is a continuing and potentially crippling weakness. SIGIR's audit of transition this quarter is summarized in Section 3 of this Report.

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## SECURITY: A LETHAL PROBLEM

Attacks, kidnappings, and threats against contractors and Iraqi officials continue to hinder reconstruction efforts. Moreover, the lethal environment in Iraq restricts the movement of U.S. government personnel, thus limiting the number of Americans working in Iraqi ministries. This inhibits U.S. efforts to build capacity within the Iraqi system. The deteriorating security situation has had a particularly deleterious effect on the establishment of the U.S. Provincial Reconstruction Teams (PRTs), only five of which have begun operations in Iraq. The PRT concept was developed to address the issue of inadequate government capacities at

the provincial level. *See below*, "Capacity Building: Keystone to Transition."

As U.S. and other coalition forces reduce their operational presence in certain areas, the burden of resolving the security problem is increasingly an Iraqi responsibility. In addition, budget constraints have limited the presence and effect of private security contractors. Iraqi ministries are spending more resources on security, which drains capital from other key reconstruction programs. SIGIR completed a classified audit on infrastructure security during this quarter.

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## CORRUPTION: ENDEMIC AND DESTRUCTIVE

There continues to be evidence of pervasive corruption within the Iraqi government. Transparency International ranks Iraq among the most corrupt countries in the world. The Deputy Prime Minister of Iraq recently told SIGIR that corruption “threatens the state.” The Inspector General for the Ministry of Health, who chairs the Iraq Inspectors General Council, recently estimated that corruption costs Iraq \$4 billion each year. And reports from other Iraqi inspectors general and the Commissioner of Public Integrity—who is pursuing more than 1,400 cases involving \$5 billion in suspected fraud and other criminal activity—substantiate the belief that corruption is a virtual pandemic in Iraq. A recent nationwide survey of Iraqis revealed that, over the past 12 months, one third of those polled had paid a bribe to obtain products or services. This survey also indicated a core mistrust of the police and army, who are believed to be unable or unwilling to enforce the rule of law.

Although some of Iraq’s anticorruption entities are gradually gaining strength, they need stronger support from the Iraqi government and a clearer division of responsibilities among them. Successfully addressing corruption in Iraq is indubitably a multi-generational process, but the severity of the current problem begs for a better-resourced effort. The Iraqi Prime Minister is exploring strategies to combat corruption, and expectations are that he will provide more direct support for this important effort. Significantly, in late July, the World Bank hosted an anticorruption workshop in Dubai that brought Iraqis and donors together to examine how the World Bank and others can more effectively assist in the fight against corruption. Finally, the U.S. Mission in Iraq concurred with the recommendations in a recent SIGIR audit on U.S. anticorruption capacity-building efforts. See Section 3 of this Report for a summary of that audit.

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## RECONSTRUCTION LEADERSHIP: MORE COORDINATION NEEDED

A SIGIR audit this quarter revealed that more coordination is needed among the various implementing agencies involved in transition. IRMO is responsible for setting the reconstruction program’s priorities, coordinating among the implementing agencies, central-

izing reporting on IRRF implementation, and managing the advisors to Iraq’s ministries. But IRMO has yet to bring all agencies together to effectively address transition issues such as sustainment and capacity building.

It remains unclear to what extent particular

Iraqi ministries have the capacity to manage and financially support the projects that are being transferred to them; SIGIR's audit of transition planning found a lack of coordination by U.S. entities. In the months ahead,

IRMO should be empowered to exercise greater authority in coordinating the work of all operating agencies engaged in the reconstruction program's transition.

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## CAPACITY BUILDING: KEYSTONE TO TRANSITION

The U.S. government continues to advance capacity-development programs in Iraq's ministries and provinces. For the past four decades, Iraq was a statist economy with a highly centralized administration. Baghdad drove budgeting and service delivery through ministries that funded the provinces. The decentralization of authority that followed the fall of Saddam's regime (and was encouraged by the Coalition Provisional Authority) had the effect of empowering inexperienced local officials to manage the delivery of provincial government services.

The consequences of this devolution in decision-making required the United States and other donors to establish programs aimed at developing local capacities. U.S. programs to

support these capacity-building efforts now have a high priority, but they must remain sensitive to the tensions that have arisen between national and provincial authorities in Iraq.

The leading U.S. capacity-building initiative outside Baghdad is the PRT program, which seeks to help local officials develop a sustained capacity to govern and promote security, rule of law, political participation, and economic development. SIGIR visited several of the PRTs this quarter and found that the program currently faces serious challenges, including security threats, insufficient staffing, and limited resources. Moreover, the program's implementation is behind schedule. SIGIR has announced an audit of the PRT program, which will be executed in the coming quarter.



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## THE NEXT PHASE: MULTILATERALIZING RECONSTRUCTION

At the request of the Iraqi Prime Minister, the United Nations recently began discussions aimed at helping Iraq negotiate a new financial compact with international donors. The compact anticipates increased donor support tied to commitments by Iraq that address economic development, security threats, political reform, and corruption. The compact is expected to energize the next phase of the reconstruction program as the U.S. role gradually diminishes and multilateral engagement increases. U.S. reconstruction officials have already taken significant steps to engage the Iraqi government in preparing for this next phase.

The compact is likely to require additional U.S. funding for the Iraq reconstruction effort. The World Bank and other international lending institutions typically include conditionality in their funding programs. In the same vein, future U.S. funding should impose enforceable conditions on the Iraqi government by applying clear and measurable performance milestones. This approach comports with standard U.S. foreign aid practices. Requiring Iraq to meet measurable milestones should motivate the Iraqis to make the difficult policy decisions (such as subsidy reductions) necessary for the nation's long-term growth and development.

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## NOTABLE SIGIR ACTIVITIES THIS QUARTER

In the course of performing its oversight mission this quarter, SIGIR issued 10 audits, which made 50 recommendations, and SIGIR's 13 project assessments presented numerous reconstruction-related findings. SIGIR investigations obtained guilty plea agreements this quarter, and SIGIR entered into a cooperative agreement with the FBI's Criminal Investigative Division that will strengthen SIGIR's investigative efforts in Iraq and the United States.

SIGIR has completed its second lessons

learned report, *Iraq Reconstruction: Lessons in Contracting and Procurement*. This report provides detailed insights into the U.S. government's contracting experience in Iraq, along with six recommendations for improving the U.S. government's approach to contracting during contingency operations. To its credit, the Department of Defense, after reviewing the report's draft recommendations, formed a task force to begin exploring methods to implement the recommendations.

## Audits

During this quarter, SIGIR completed 10 final audit reports, bringing to 65 the total number of SIGIR audits issued to date. The audits address a wide range of issues, including an examination of health sector projects and new reviews of security and anticorruption activities. SIGIR has 14 ongoing audits and has issued 2 draft reports for comment; 5 new audits are in the planning stages for next quarter. SIGIR performs audit work under generally accepted government auditing standards prescribed by the U.S. Comptroller General.

### **BASRAH CHILDREN'S HOSPITAL**

SIGIR reviewed the Basrah Children's Hospital Project, a USAID program that the contractor, Bechtel, originally agreed to complete by December 31, 2005. For a variety of reasons, including an increasingly hostile security environment, the project fell well behind schedule. On March 26, 2006, Bechtel informed USAID that the hospital could not be completed until July 31, 2007. In addition, the contractor reported that its estimated cost-to-complete had increased by 96%, and that final costs were projected to be more than 200% above the initial estimated cost for construction. In its review, SIGIR identified many reporting anomalies, including weak accounting systems and poor cost-projection processes.

## SECURITY

On the security front, SIGIR conducted a classified audit, "Review of Efforts To Increase Iraq's Capability To Protect the Energy Infrastructure," and an examination of the Advanced First Responder Network (AFRN) project. In the latter audit, SIGIR identified significant deficiencies in the AFRN, which was intended to provide an integrated, national communications system for security forces and first responders. The United States is currently closing out the AFRN project, and it will soon be turned over to the Multi-National Security Transition Command-Iraq and the Ministry of Interior. SIGIR's audit found that the AFRN project has yet to produce an effective, nationwide command-and-control communications system. And it does not provide an effective means to dispatch and direct first responders at the governorate level.

## ANTICORRUPTION

The U.S. government has been working with the Iraqi government to establish organizations, systems, and training to fight corruption and increase the transparency and accountability of government. SIGIR completed a review of these efforts this quarter and found that the U.S. government's expenditures on anticorruption activities have been quite modest when compared to the total expended on Iraq reconstruction. Less than .003% of total IRRF funding (approximately \$65 million) has been identified for ongoing and planned anticorruption activities.<sup>2</sup>

## Inspections

SIGIR completed 13 project assessments this quarter. To date, SIGIR has now completed 56 project assessments, 96 limited on-site inspections, and 172 aerial assessments. This quarter, SIGIR found that most IRRF projects evidenced high-quality workmanship and had good quality-control and quality-assurance programs in place. Contractor performance, however, continues to be an issue. SIGIR identified contractor design deficiencies at certain sites, including:

- The contractor failed to properly coordinate, plan, and execute the 50-kilometer pipeline project from Kirkuk to Al Fatah. As a result, the Iraqi government has been deprived of potential oil revenue.
- The U.S. government did not verify the quality of contractor work and the truth of contractor claims of completeness on the Riyadh and Zegeton canal crossing projects.

Except for the oil pipeline and canal crossing projects, the quality assurance conducted by the U.S. Army Corps of Engineers on the other nine projects visited by SIGIR this quarter met all requirements.

## Investigations

During the last quarter, SIGIR investigations opened 40 new preliminary and criminal investigations involving a variety of offenses, ranging from contract fraud, bribery, and larceny to kickbacks and gratuities. During the same time period, SIGIR unsubstantiated

and closed 25 cases. Currently, SIGIR has 82 open preliminary and criminal investigations. Twenty-five of those cases are currently awaiting prosecution at the Department of Justice (DoJ). Two of those cases have resulted in convictions and are pending sentence, and DoJ is reviewing two additional cases to determine whether to prosecute.

On July 7, 2006, DoJ entered a plea agreement with LTC Bruce Hopfengardner, USAR. LTC Hopfengardner agreed to plead guilty to conspiracy to commit wire fraud and money laundering. Hopfengardner allegedly conspired with CPA Comptroller and Funding Officer Robert Stein to steer millions of dollars worth of construction contracts to a company owned by Phillip Bloom. Under the plea agreement, the maximum penalty that may be imposed is 25 years in prison. A date for the court to accept the plea has not been set.

SIGIR recently entered into a partnership with the Federal Bureau of Investigation's (FBI) Criminal Investigations Division to enhance investigative operations in Iraq and the U.S. SIGIR investigators continue to work closely with Iraq's Commission on Public Integrity, the DoS Office of Inspector General, the Major Procurement Fraud Unit in the Office of Immigration and Customs Enforcement, the Internal Revenue Service Criminal Investigations, and other partners participating in the Special Investigative Task Force for Iraq Reconstruction.

## FINANCIAL IMPACT OF SIGIR OPERATIONS

SIGIR oversight has produced tangible financial benefits. SIGIR audits have saved \$10.9 million, recovered \$1.4 million, and improved the use of \$20.6 million. SIGIR has challenged payments of \$306.9 million, which included possible duplicate payments, overpayments, and payments for work that was not completed. SIGIR also made recommendations that improved property accountability valued at \$65.3 million.

The net potential beneficial impact of SIGIR audits is approximately \$405.1 million, as of

July 30, 2006. SIGIR inspections have produced recommendations that could potentially increase Iraqi oil revenues by \$1.277 billion annually. SIGIR investigations report that \$13 million in cash and assets has been seized or recovered in the course of SIGIR investigations. For the data supporting these benefits, see Appendix J.

The next table presents an overview of the issues in Iraq reconstruction raised by SIGIR since July 2005.

### SIGIR OBSERVATIONS, SUMMER 2005 – SUMMER 2006

	7/30/05	10/30/05	1/30/06	4/30/06	7/30/06
1. Cost-to-complete data was not gathered, analyzed, provided.	X	X	X		
2. The sustainability of U.S.-funded projects must be addressed.	X	X	X		
3. Enhance strategy/interagency coordination.	X	X	X		
4. Improve program management.	X	X	X		
5. Improve information systems management.		X	X		
6. Improve acquisition/contract management.	X	X			
7. Appropriate use of contracting.		X			
8. Human Resources lessons learned.	X	X			
9. Managing the security crisis.	X	X	X	X	
10. Identify and close the Reconstruction Gap.		X	X	X	X
11. Promote anticorruption in Iraq.		x	X	X	
12. Critical Issues for the Year of Transition.			X	X	
13. Protect the infrastructure.				X	X
14. Energize the oil and gas sector.				X	X
15. Encourage international aid and investment.				X	
16. Build the Iraq government's capacity to perform.					X
17. Multi-lateralize the relief and reconstruction program.					X
18. Tie future U.S. funding to conditionality.					X
19. Promote transparency in the repatriation of Iraqi assets.					X

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## THE HUMAN TOLL

The lethal environment in Iraq continues to take a deadly toll on those working to rebuild the nation. In many parts of the country, contractors and subcontractors face intimidation and violence on a daily basis. This quarter, the Department of Labor reported 56 new contractor death claims, which brings the total to 575 since March 2003. Moreover, DoS reports a total of 185 deaths of U.S. civilians in Iraq in the same time period.

Attacks on Iraqi civilians by insurgents, militias, and terrorists continued to rise in Iraq this quarter, according to the UN Assistance Mission for Iraq.<sup>3</sup> During May and June 2006, 5,818 civilians were reportedly killed, and at least 5,762 were wounded. On June 25, the Ministry of Health estimated that at least 50,000 persons have been killed violently in Iraq since 2003.



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# Status of Iraq Reconstruction

INTRODUCTION: SECTOR REPORTS

STATUS OF ELECTRICITY

STATUS OF OIL AND GAS

STATUS OF WATER

STATUS OF AGRICULTURE, DEMOCRACY, EDUCATION, AND PRIVATE  
SECTOR DEVELOPMENT

STATUS OF SECURITY AND JUSTICE

STATUS OF HEALTH CARE

STATUS OF TRANSPORTATION AND COMMUNICATIONS

CONTRACTS

SOURCES OF FUNDING

SECTION

2





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## INTRODUCTION

This is the third Report in which SIGIR provides a sector-by-sector review of Iraq reconstruction. In the January 2006 Report, SIGIR analyzed progress in the essential infrastructure sectors—electricity, oil and gas, and water. The April 2006 Report added four sectors: security and justice; health care; transportation and communications; and democracy, education, and private sector development. This quarter, SIGIR updates those seven sectors and adds new reviews of non-construction projects and the agriculture subsector.

To assess overall progress, SIGIR examines three aspects of reconstruction—activities,<sup>4</sup> outputs, and outcomes:

- *Activities*: reconstruction progress at the project level
- *Outputs*: results of the reconstruction projects
- *Outcomes*: effects of the project outputs for the people of Iraq

During this reporting quarter, electricity generation rose above pre-war levels for the first time in more than a year. Oil production improved as well, reaching the pre-war level of 2.5 million barrels per day (BPD) for one week in mid-June. Oil exports also increased, averaging 1.6 million BPD throughout this quarter. Exports ended the quarter at 1.67 million BPD for June, slightly above the Iraqi goal of 1.65 million BPD. The primary health care centers (PHCs) continue to face the challenges that SIGIR reported on last quarter. To date, only six PHCs have been handed over to Iraqi control out of a total of 142 PHCs funded by the Iraq Relief and Reconstruction Fund (IRRF) and the Commander's Emergency Response Program (CERP).

This section also provides updated information on IRRF contracts, the costs to complete reconstruction projects in Iraq, and a review of sources of funding.

## GENERAL CHALLENGES

Based on the detailed sector reviews in this section, SIGIR makes these general observations about the reconstruction program in Iraq:

1. The contracting phase of IRRF 2 is nearly complete. All of the funds have been allocated, 91% has been obligated to contracts, and nearly 70% has been expended. All IRRF funding must be obligated by the end of this fiscal year. With \$1.74 billion left to obligate, the focus this quarter has been on obligating funds, which must be completed by September 30, 2006. This impending deadline has created an urgency to obligate, which must be balanced by the need to responsibly expend U.S. taxpayer money.
2. More than 82% of U.S. projects have been completed, and less than 4% are left to start. Although nearly 70% of IRRF 2 is expended, many key projects are still not finished.
3. The importance of effectively transitioning U.S.-funded programs and projects to Iraqi control remains a significant issue. A SIGIR audit of transition released this quarter found no overall strategic plan for transitioning program control to the Iraqi government, although several working groups are addressing key issues. One of the groups—the Ministerial Coordination Team (MCT)—briefed SIGIR this quarter on the National Capacity Development (NCD) program.<sup>5</sup> The Iraq Reconstruction Management Office (IRMO) is leading this short-term phase (\$61.5 million) of the NCD while the U.S. Agency for International Development (USAID) is leading the medium-term phase (\$308 million), which includes institution-building and training programs.<sup>6</sup>
4. Security continues to be a major challenge in Iraq affecting all reconstruction sectors. Project funds and resources continue to be diverted to cover security costs. The dangerous environment makes it difficult to coordinate site logistics and personnel movements, slowing the progress of U.S.-funded activities and detracting from outputs and outcomes.
5. Corruption in Iraqi institutions remains a major challenge across sectors, diluting resources, discouraging international investment, and eroding trust in the government.

For an overview of reconstruction status, see Figure 2-1.

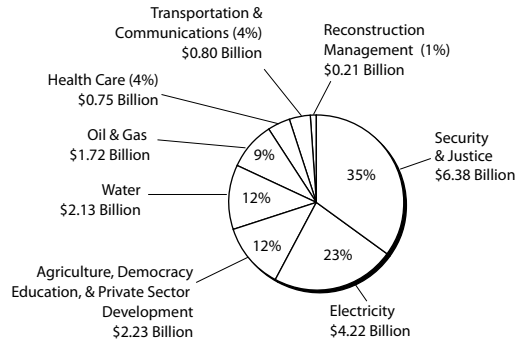
Figure 2-1

**OVERVIEW OF RECONSTRUCTION PROGRESS**

**SECTOR SHARES OF IRRF FUNDS**

% of \$18.44 Billion

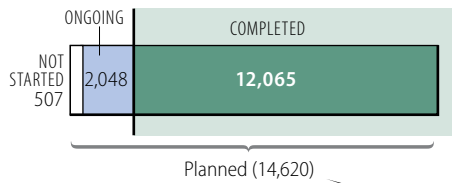
Source: DoS Iraq Weekly Status Report, 06/28/06



**STATUS OF IRRF PROJECTS**

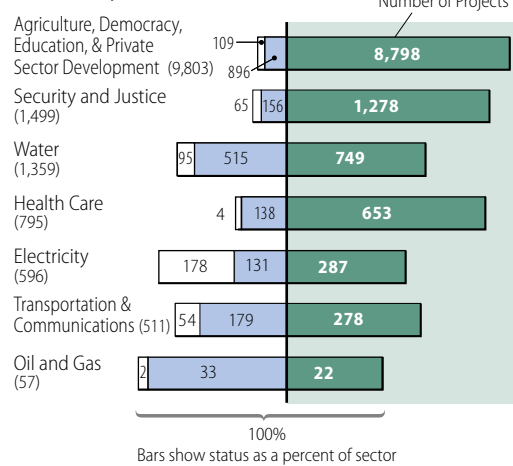
Source: IRMS-IRMO Rollup File, 06/30/06

& USAID Activities Report, 07/10/06



**Status of Projects by Sector**

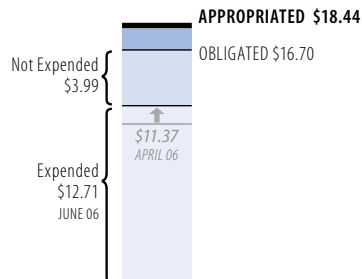
Number of Projects



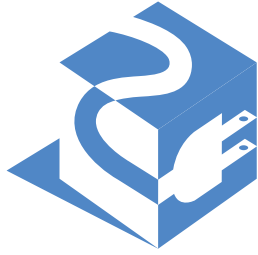
**STATUS OF IRRF FUNDS**

\$ Billions

Source: DoS Iraq Weekly Status Report, 06/28/06







## STATUS OF THE ELECTRICITY SECTOR

This review updates the status of U.S. reconstruction projects to restore Iraq's capacity to generate, transmit, and distribute electricity.

These are the highlights of the electricity sector report:

- By the end of last quarter, 48% of planned projects were complete, and 56% of the allocated funds were expended. More than \$740 million of the allocated \$4.22 billion must still be obligated by September 30, 2006. For the status of IRRF funds, see Figure 2-2.
- All projects in this sector are expected to be completed by January 2008. Figure 2-3 shows the location of completed and ongoing projects.
- U.S. projects have contributed 2,710 megawatts (MW) to Iraq's generation capacity, which climbed above pre-war levels (4,500 MW) to 5,042 MW, as of June 27, 2006. The average daily load served, however, is a better measure of how much power is reaching Iraqis. During this quarter, the load served topped 100,000 megawatt hours (MWh) for the first time since summer 2005.
- Iraqis outside of Baghdad continue to receive more hours of power than before the 2003 invasion (12.1 hours). In Baghdad, however, less power is available than before the war (8.1 hours), in part because power is now delivered more equitably throughout the country than it was during Saddam's era. Baghdad's electricity deficit also stems from an inability to transfer power from power plants in northern and southern Iraq to the capital.
- Slow progress in this sector can be attributed to many challenges: funding, rising demand, subsidies, insufficient operations and maintenance (O&M) programs for U.S. projects, fuel shortages, security, and the deteriorated infrastructure.

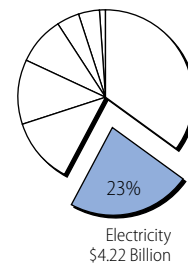


Figure 2-2  
**ELECTRICITY SECTOR AS A SHARE OF IRRF FUNDS**  
 % of \$18.44 Billion  
 Source: DoS *Iraq Weekly Status Report* 06/28/06



### IRRF-funded Activities in the Electricity Sector

In this sector, 178 projects (30%) have yet to begin, and 48% have been completed. GRD-PCO reports that all projects in this sector will be completed by January 2008.<sup>7</sup> Figure 2-4 shows the status of electricity projects by subsector.

All electrical generation projects have started, and 55% have been completed; however, more than a third of distribution and transmission projects have yet to start because these projects were added later in the reconstruction program. The remaining distribution and transmission projects are generally smaller and less complex than the large-scale generation projects.<sup>8</sup>

During this reporting period, \$320 million was expended in this sector—up from last quarter’s expenditure level of \$240 million—bringing total expenditures to \$2.35 billion. Although all other sectors are nearing full

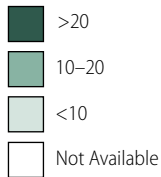
obligation, the electricity sector has more than \$740 million left to obligate. By law, all IRRF funds must be obligated by September 30, 2006. The Joint Contracting Command-Iraq must ensure that the need to quickly obligate this \$740 million in 60 days does not attenuate the use of best practices. Figure 2-5 shows the status of funds in the electricity sector, as of June 28, 2006.

### Key Projects Completed and Underway

The U.S. reconstruction program in the electricity sector has three major types of projects:

- *Generation facilities* produce power for the system.
- *Transmission networks* carry that power across the country.
- *Distribution networks* deliver the transmitted power to local areas, homes, and businesses.

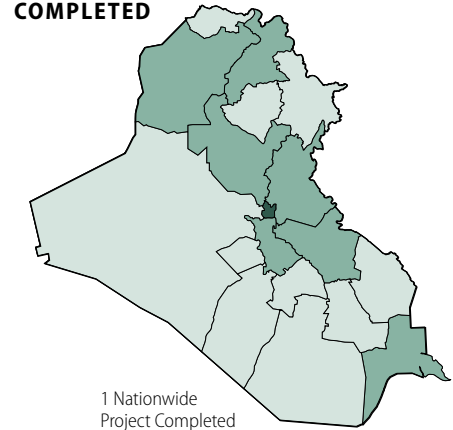
Figure 2-3  
**ELECTRICITY CONSTRUCTION PROJECTS BY GOVERNORATE**  
 Number of Projects  
 Source: IRMS-IRMO Rollup File, 06/30/06 & USAID Activities Report, 07/10/06



**ONGOING**



**COMPLETED**



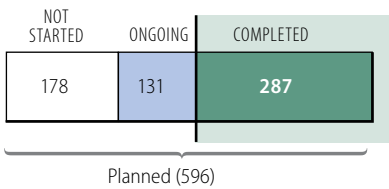


Figure 2-4  
**STATUS OF ELECTRICITY PROJECTS**  
Number of Projects  
Source: IRMS-IRMO Rollup File, 06/30/06 & USAID Activities Report, 07/10/06

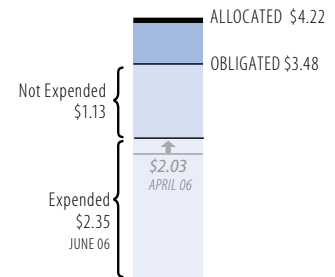
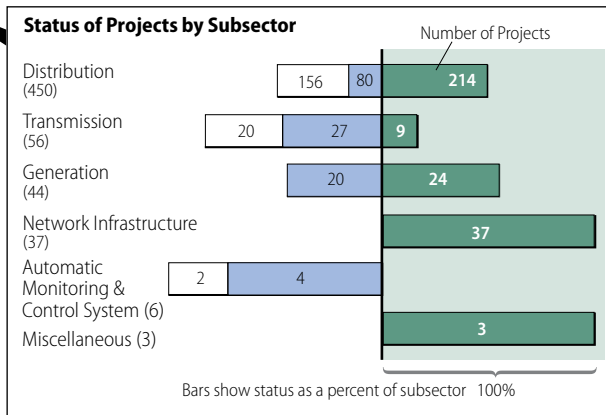


Figure 2-5  
**STATUS OF ELECTRICITY FUNDS**  
\$ Billions  
Source: DoS Iraq Weekly Status Report, 06/28/06

U.S. projects will provide an automatic monitoring and control system for the entire electric grid. This system is essential to reducing unplanned power outages. GRD-PCO reports that these highly technical and long-term automation and control projects are all on schedule.<sup>9</sup>

**GENERATION FACILITIES**

All remaining generation projects will be finished by January 2008. The Al-Doura power plant will add 280 MW to the power grid, serving more than 1.5 million people in the

Baghdad area.<sup>10</sup> This quarter, one Al Doura unit was commissioned, and a second is scheduled for commissioning in late 2006.<sup>11</sup> The Khor Al Zubair generation plant, which provides 246 MW of generation capacity, was finished in March 2006.<sup>12</sup>

Many of the sector’s remaining generation projects address sustainability, including training, maintenance, and other non-construction activities. Maintenance was completed at the Qudas power plant this quarter (costing \$27.7 million), which will help sustain the plant’s 400 MW of generation capacity. Similar work is nearly complete at the Baiji power plant



(\$59 million) to sustain 320 MW of generation capacity. Work at Baiji was estimated to be completed by June 6, 2006, but is still in progress.<sup>13</sup> Maintenance work (\$11 million) at the Shaubia power plant was completed, and currently two units are operating to produce 26 MW.<sup>14</sup>

An additional \$80 million is being spent on an O&M program for the electricity sector. The major contractor for long-term O&M was terminated this quarter for cause. IRMO reports that an agreement with a new contractor was finalized in July,<sup>15</sup> and a 30-day bridge contract was issued to allow for an effective transition.<sup>16</sup>

### TRANSMISSION NETWORKS

Only nine transmission projects have been completed to date, and more than a third have yet to begin. According to GRD-PCO, these projects were added later in the reconstruction program.<sup>17</sup> The subsector project highlights include:

- A transmission line between Haditha and Baiji was scheduled to be completed in March 2006, but it is delayed. GRD-PCO reports that the \$59 million transmission



Baiji Power Plant

project will be completed through direct contracting. The Haditha hydro-power unit was completed in mid-2004, providing 105 MW of generation capacity.<sup>18</sup>

- The Haditha to western Anbar transmission project is delayed because of security problems.<sup>19</sup>
- Several transmission substations were completed in Baghdad this quarter, including a substation at Baghdad West and substation extensions at Baghdad North and South.<sup>20</sup>





### ELECTRICITY DISTRIBUTION PROJECTS

REGION	COST	ESTIMATED COMPLETION DATE	CURRENT STATUS
North	\$159 million	August 22, 2006	95% complete
Baghdad Local Network Infrastructure	\$69 million	November 15, 2006	61% complete
Central	\$31 million	October 15, 2006	85% complete
Sadr City	\$92 million	December 26, 2006	35% complete
South	\$132 million	November 20, 2006	36% complete
Fallujah	\$45 million	November 30, 2006	45% complete

Source: GRD-PCO response to data call, June 19, 2006.

TABLE 2-1

### ELECTRICITY OUTPUT OF U.S. PROJECTS

CURRENT U.S. CONTRIBUTION, AS OF JUNE 30, 2006	TOTAL PLANNED U.S. CONTRIBUTION	U.S. PROGRESS TOWARD END-STATE GOAL
2,710 MW	3,710 MW	73%

Source: DoS, SIGIR Data Request, July 3, 2006.

TABLE 2-2

### DISTRIBUTION NETWORKS

Like transmission projects, more than a third of distribution projects have yet to start. This hinders progress in getting generated power into Iraqi homes. Ongoing projects are summarized by region in Table 2-1.

### The Outputs of IRRF-funded Electricity Projects

The outputs of U.S. electricity projects are measured by *generation capacity* added to the grid

in MW. Table 2-2 compares current U.S. contributions with the U.S. goal for contributions. U.S. reconstruction projects have contributed 2,710 MW of generation capacity—no change from last quarter. Although progress was made at various project sites, no generation projects were completed this quarter to contribute to the U.S. end-state goal of 3,710 MW.

### Outcomes of IRRF Projects

During this reporting period, the daily load served averaged nearly 94,000 MWh—an



increase over last quarter’s average of 89,000 MWh. In June 2006, the load served rose above 100,000 MWh for the first time since summer 2005. Current load served was nearly identical to the same quarter last year—107,000 MWh and 107,378 MWh for the last weeks of June 2005 and 2006, respectively.<sup>21</sup> As Figure 2-6 shows, the daily average load served during this quarter is back to levels reached a year ago.

Distributing power from generation facilities to Iraqi homes remains a major challenge. Table 2-4 indicates the hours of power available to Iraqis compared to pre-war levels. Although the goal of 12 hours of power per day has been met in areas outside Baghdad, power provided to Baghdad continues to lag below the 2006 summer goal, in part because

power is delivered more equitably throughout the country than it was before the war. Also, part of Baghdad’s electricity deficit stems from the inability to transfer power from plants in northern and southern Iraq.<sup>22</sup>

The Ministry of Electricity recently released a ten-year plan that covers generation, transmission, and distribution, needs.<sup>23</sup> In an interview with SIGIR, the Minister of Electricity observed that long-term planning had not been adequately accomplished during the previous transitions between successive interim governments.<sup>24</sup> A key capacity development project will support the Ministry by building expertise in project and program management and long-term planning.<sup>25</sup>

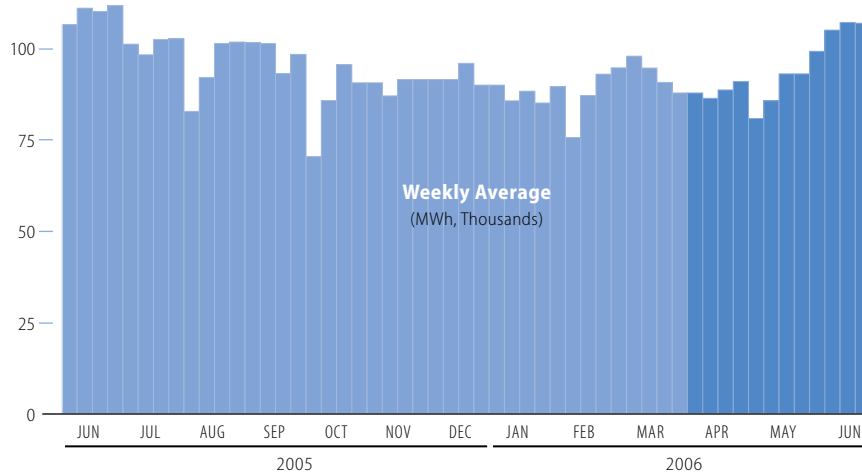


Figure 2-6  
**ELECTRICITY LOAD SERVED**  
 Megawatt Hours, Thousands  
 Source: DoS *Iraq Weekly Status Report*, IRMO  
 Weekly Status Report, 06/29/05–06/27/06



ELECTRICITY

### CURRENT OUTCOMES VS. PRE-WAR LEVELS AND GOALS

OUTCOME METRIC	PRE-WAR LEVEL	IRAQ GOAL FOR JULY 2006	DAILY AVERAGE, LAST WEEK IN JUNE 2006
Iraq Hours of Power/Day	4-8	12	12.1
Baghdad Hours of Power/Day	16-24	12	8.1

Sources:

Pre-war level: DoS Briefing by U.S. Embassy Baghdad, November 30, 2005.

Goals: Joint U.S.-Iraqi Electricity Action Plan, March 12, 2006, p. 2.

Current Status: DoS, *Iraq Weekly Status Report*, June 28, 2006, p. 12.

TABLE 2-4

## Challenges

Challenges in this sector include limited funding, rising demand, subsidies, sustaining U.S. projects through O&M programs, fuel shortages, security, and the deteriorated infrastructure.

## FUNDING

The estimated 2005 budget for the Ministry of Electricity was approximately \$380 million.<sup>26</sup> The Minister of Electricity told SIGIR that his budget was recently increased by the Ministry of Finance, but this increase still leaves the budget at only a fraction of what the Ministry needs per year.<sup>27</sup> Iraq needs to invest an estimated \$20 billion in this sector by 2010 to bring generation capacity to the goal of 18,000 MW.<sup>28</sup>

## RISING DEMAND

Demand for electricity, which amounts to an estimated 8,000 to 9,000 MW,<sup>29</sup> continues to surpass Iraq's total generation capacity, which amounts to about 5,000. This high demand is attributable to government subsidies, a growing economy, and a surge in the consumer purchases of appliances and electronics. Reforming the subsidy program and a better cost-collection system could reduce soaring demand. The U.S. Defense Reconstruction Support Office (DRSO) recently stated that improving electricity revenue collection would encourage efficient electricity use and thus reduce demand.<sup>30</sup>



Powerlines between Baiji and Kirkuk

### SUBSIDIES

Iraqis pay less than one cent per kilowatt-hour;<sup>31</sup> however, residents of Iran, Jordan, and Syria pay up to five cents per kilowatt-hour.<sup>32</sup> Government subsidies account for this low rate, and they contribute to the abnormal demand for electricity in Iraq.

In late 2005, the International Monetary Fund (IMF) approved its first Stand-By Arrangement (SBA) for Iraq, which provides about \$685 million in credit. As part of the arrangement, Iraq must reduce subsidies.<sup>33</sup> In response, petroleum prices are gradually being increased, but electricity prices have yet to change.

The Ministry of Electricity reports that a new set of rates is needed to provide more revenue and to help dampen demand.<sup>34</sup> The Ministry's ten-year strategic plan addresses

electricity sales, collection, and tariffs. However, the plan provides little detail on how the current pricing situation will be resolved; thus, subsidies appear likely to continue to burden the sector in the near term.<sup>35</sup>

### OPERATIONS AND MAINTENANCE

The sustainment of U.S. efforts after projects and programs transition to Iraqi control is a continuing challenge in the electricity sector. The Government Accountability Office (GAO) reported recently that the "Iraqis' capacity to operate and maintain the power plant infrastructure and equipment provided by the United States remains a challenge at both the plant and ministry levels."<sup>36</sup> GAO plans to assess the funding situation for O&M in the electricity sector to determine if adequate funds are available to sustain U.S. reconstruction projects.<sup>37</sup>

The sector's \$80 million O&M program will continue despite a change in contractors since the last quarter. This program will provide O&M services at thermal and gas turbine power plants.<sup>38</sup>

Ministerial capacity-development programs in the electricity sector are contributing to the sustainment of U.S. projects, focusing on critical infrastructure management and building expertise through training.<sup>39</sup> The Electricity Ministerial Advisory Team (EMAT) recently agreed to develop a specific scope of work for the capacity-development program within the Ministry of Electricity.



## FUEL SHORTAGES

U.S. reconstruction projects have installed 35 natural gas turbines in generation plants in Iraq. However, of the 35 gas turbines, 16 are using crude or heavy fuel oil instead of natural gas.<sup>40</sup> The DRSO estimated in 2005 that 1,300 MW of generation capacity was unavailable to the grid because the wrong fuel was used to fire gas turbines.<sup>41</sup> This causes a more rapid deterioration of parts, longer maintenance down times, and more pollution.<sup>42</sup> Additionally, using oil-based fuels costs more. IRMO estimates that using oil-based fuels costs \$1.25 billion per year.<sup>43</sup> Approximately 60% of all natural gas production in Iraq is flared off.<sup>44</sup> But if this excess gas could be diverted and used to operate the plants, costs would drop to only \$81.8 million per year.<sup>45</sup>

## SECURITY

The Minister of Electricity told SIGIR that security remains the biggest challenge for the electricity sector.<sup>46</sup> SIGIR Audit 06-009 found that a security program for the electricity sector—the Electrical Power Security Service (EPSS)—was unsuccessful and “barely got started before it was cancelled.”<sup>47</sup> Recently, a contractor suspended work on a non-IRRF project at the Al Mussaib power plant in part because of the security situation.<sup>48</sup>

IRMO officials report that the current security system for grid protection encourages corruption. Tribal chiefs are paid to protect transmission lines in their areas but are reportedly selling materials from downed lines and exacting tariffs for access to repair lines. IRMO is pushing to change the system so that tribes would be paid only for lines that remain operational for a specific period of time.<sup>49</sup>



**DETERIORATED INFRASTRUCTURE**

Figure 2-7 shows the installed capacity of Iraqi power stations compared to the age of stations, excluding those that have come online since the 2003 conflict. The data shows that there was a major gap in the 1990s, during which

no power stations were built. Thus, more than 90% of Iraq’s generation capacity was built before 1991 (9,848 MW before 1990; 1,046 MW after). The shortage of O&M funds in the 1990s needed to maintain older facilities contributed to the deterioration of most of the electrical infrastructure.

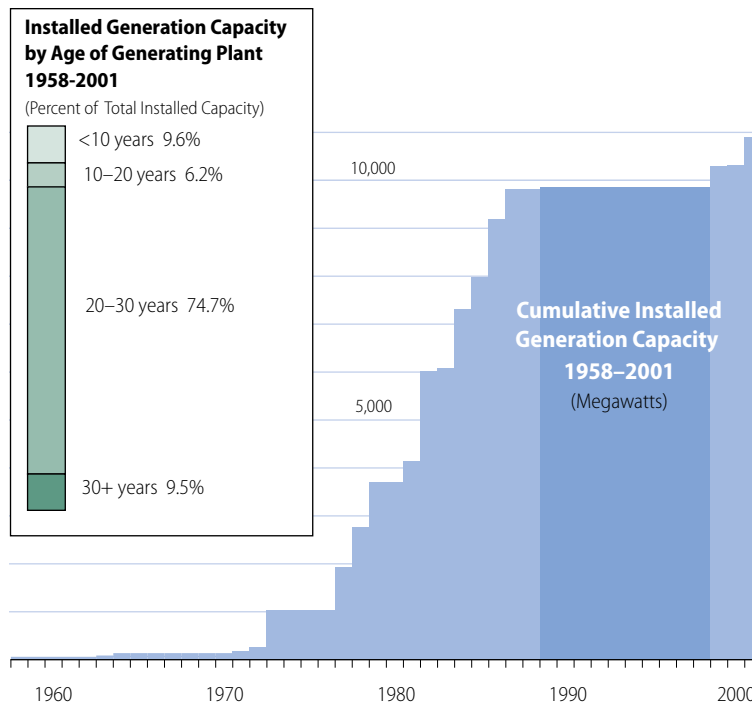


Figure 2-7  
**IRAQ PLANT GENERATION CAPACITY VS. AGE**  
Source: IRMO data e-mailed to SIGIR, June 30, 2006



## STATUS OF THE OIL AND GAS SECTOR

This review updates the status of U.S. reconstruction projects to increase Iraqi oil production and exports, improve natural gas production, and enhance critical fuel-refining capabilities. Project work in this sector is designed to maintain major production fields and to repair key facilities and infrastructure.

These are the highlights of the oil and gas sector report:

- More than 95% of the sector's allocation has been obligated, but less than 60% has been expended.
- Oil production, which hovered around 2 million barrels per day (BPD) throughout 2005 and most of the first half of 2006, reached 2.5 million BPD in mid-June. In the two weeks following this peak, however, production decreased to 2.35 and 2.23 million BPD, respectively.
- Exports averaged 1.6 million BPD throughout the quarter and closed at 1.67 million BPD for June, slightly above the end-state goal of 1.65 million BPD.
- The volatile security situation and limited provisions for sustainment continue to be challenges for developing the sector.
- Corruption threatens not only Iraq's capacity to fund new capital investment, but also its ability to sustain and increase production.

### Funding the Oil and Gas Sector

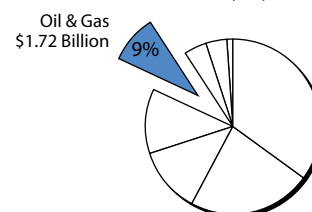
The IRRF allocation to this sector was \$1.72 billion. Figure 2-8 shows allocations in oil and gas sector funding as a percentage of total IRRF funding.

### IRRF-funded Activities in the Oil and Gas Sector

Critical oil and gas facilities are nearing completion, and U.S. reconstruction officials estimate that all construction in the sector will be complete by mid-January 2007.<sup>50</sup>

During this reporting period, \$180 million was expended, bringing the cumulative total to \$1 billion. Although more than 95% of the sector's allocation has been obligated, less than 60% has been expended. Figure 2-9 shows the status of funds in the oil and gas sector.

Figure 2-8  
**OIL AND GAS SECTOR AS A SHARE OF IRRF FUNDS**  
 % of 18.44 Billions  
 Source: DoS Iraq Weekly Status Report, 06/28/06





### IRRF-funded Project Status

The total number of planned projects in this sector increased to 181, including 124 non-construction and 57 Engineering, Procurement, and Construction (EPC) projects.<sup>51</sup> Figure 2-10 breaks down the status of construction projects in the oil and gas sector.

### Key Oil and Gas Projects Completed and Underway

IRRF-funded construction initiatives in the oil and gas sector have focused on production but have also helped rehabilitate transmission, refining, and gas facilities. Figure 2-11 shows oil and gas sector construction projects by governorate.

### CONSTRUCTION ACTIVITIES

The Al Basrah Oil Terminal (ABOT) task order, comprising 13 projects, was 39% complete as of June 30, 2006. Four of these projects have been completed, including repairs and refurbishments to four loading arms,<sup>52</sup> which will provide up to six million barrels of oil per day total loading capacity.<sup>53</sup> Although the export capacity of the terminal has been increased, GRD-PCO does not expect a significant increase in export volumes because pumping capacity to ABOT is limited; only two 48-inch pipelines feed the platform.<sup>54</sup>

The ABOT metering system project, which was reported to be 30% complete last quarter, made little progress this quarter because the subcontractor was delayed in mobilizing. As a result, the project is now 33% complete, and

it is scheduled to be finished by December 31, 2006.<sup>55</sup> The lack of progress implementing this metering system undermines the effort to combat corruption and smuggling in this economically crucial sector.

The Kirkuk to Baiji Pipeline Project—including the Al Fatah pipeline river crossing, three canal crossings, and 50 kilometers of a new 40-inch pipeline—is expected to add 300,000 barrels of production capacity per day. However, the project has experienced delays caused by security problems at the Zegeton and Riyadh canal crossings. Section 3 of this Report provides SIGIR inspections addressing progress at the Al Fatah River Crossing and at the Zegeton and Riyadh canal crossings.

The Qarmat Ali project is designed to provide treated water for injection wells to maintain reservoir pressure and help sustain production levels in one of Iraq's largest southern fields. Phase II of the Qarmat Ali task order is currently 41% complete.<sup>56</sup> The contractor has begun work on upgrades to the water treatment plant and nine Cluster Pump Station projects at the Qarmat Ali sites. This project will ultimately increase Iraqi oil production capacity by 200,000 BPD. GRD-PCO reported that the project is scheduled for completion on December 31, 2006.<sup>57</sup>

As of June 30, 2006, 12 gas-oil separation plants (GOSPs) were undergoing refurbishments throughout southern Iraq. Once completed they will increase oil processing capacity by 600,000 BPD. Also, 8 GOSP projects in the north have been completed, and they will increase processing capacity by 300,000 BPD.





Figure 2-10  
**STATUS OF OIL AND GAS CONSTRUCTION PROJECTS**

Number of projects  
Source: IRMS – IRMO Rollup File, 06/30/06 & USAID Activities Report, 07/10/06

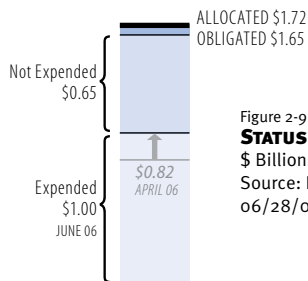
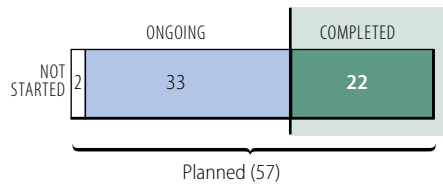


Figure 2-9  
**STATUS OF OIL AND GAS FUNDS**  
\$ Billions  
Source: DoS Iraq Weekly Status Report, 06/28/06

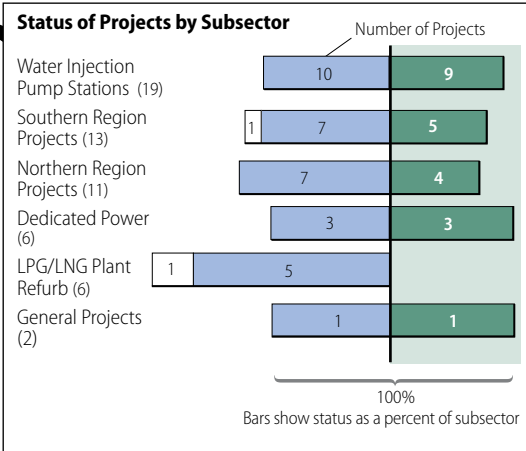
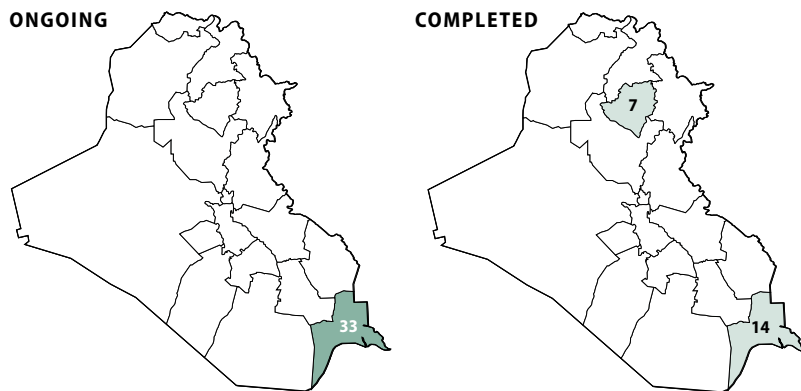


Figure 2-11  
**OIL AND GAS CONSTRUCTION PROJECTS BY GOVERNORATE**  
Number of projects  
Source: IRMS – IRMO Rollup File, 06/30/06 & USAID Activities Report, 07/10/06





A GOSP separates gas, water, and salts from crude oil produced from a well. This process must be accomplished before the oil can be transported or refined. The GOSP projects in the southern Iraq were 83% complete as of late June 2006 and are expected to be finished by October 3, 2006.<sup>58</sup>

Rehabilitation work continues on two natural gas liquids (NGL) plants, a liquefied petroleum gas (LPG) plant, and bulk storage facilities at North Rumaila, Khor Zubair, and Umm Qasr, respectively. The task order for this program is currently 65% complete and is expected to be finished by December 24, 2006. This program will help the oil and gas sector meet domestic demand for critical fuels and reduce dependence on imports.<sup>59</sup>

The refurbishment of the Shuaiba Refinery Power Plant in Basrah is nearly complete. The goal of this project is to improve the continuous long-term power supply to the Basrah

Refinery, which will minimize unscheduled shutdowns caused by power loss.<sup>60</sup>

### NON-CONSTRUCTION ACTIVITIES

Non-construction initiatives seek to maintain and sustain this sector's construction projects. They received 45% of oil and gas sector funding, which has been expended on administrative overhead, training, spare parts, long-term service agreements, and ministerial capacity development.<sup>61</sup>

The U.S. Trade and Development Agency (USTDA) has developed training initiatives for the Ministry of Oil and at each of the Iraqi state oil companies.<sup>62</sup> USTDA training addresses management techniques, business processes (which includes anticorruption training), technical concepts, and human resources.<sup>63</sup> The program, which began in December 2004, is funded with \$2 million of IRRF and \$500,000



Gas being flared at an oil facility



from USTDA funds. According to USTDA, the program's results are succeeding, with 600 Iraqis receiving training.<sup>64</sup>

GRD-PCO is also involved in non-construction initiatives addressing sustainment and ministerial capacity development. Ministry of Oil personnel are currently being trained to prepare and competitively tender long-term service agreements under international standards.

Iraqis are also being trained to use heavy equipment in Basrah. As of June 2006, 232 workers had been trained to use cranes, fuel trucks, tank trailers, international truck tractors, and other construction equipment. A new ministerial Capacity Development program is planned for March 2007.<sup>65</sup>

Another GRD-PCO program trains operating company personnel on how to use major equipment, such as turbines, compressors, switch gears, and instrumentation. Proper use of this equipment improves productivity and decreases maintenance costs. As of July 2006, GRD-PCO reported that 993 Iraqis had received this training, and an additional 430 are scheduled to receive training in the future.<sup>66</sup>

### Outputs of IRRF-funded Oil and Gas Projects

The Department of Energy reported that the Iraqi government is currently exploring ways to increase natural gas processing capabilities in Zubair and West Qurna, as well as finding ways to reduce the waste of natural gas.<sup>67</sup>

According to the Oil Ministry, approximately 60% of all natural gas production is flared off.<sup>68</sup> This gas could be captured to produce significant amounts of electricity with sufficient new investment.<sup>69</sup>

Low storage capacity has also been identified as a key issue. The Ministry of Oil is currently increasing storage capacity by an additional 1,250 million barrels of crude oil.<sup>70</sup>

Although the coalition did not originally focus on developing refineries, some minor work has recently been completed at existing refineries using IRRF funds. More important, the Iraqi government has begun to finance its own refurbishment projects for refineries and is constructing a new refining facility at Najaf.

### Outcomes of IRRF-funded Oil and Gas Projects

The 2006 Iraqi budget assumes a crude oil production average of 2.3 million BPD,<sup>71</sup> with a gradual increase in production to 2.5 million BPD by the end of next year. The overall capacity and production target for Iraq is 2.8 million BPD.<sup>72</sup>

In the first two months of this quarter, oil production hovered between 2.0 and 2.2 million BPD, spiking in mid-June to a high of 2.5 million BPD. This high production level, however, was subsequently followed by two weeks of lower production.<sup>73</sup> Table 2-5 presents oil and gas sector metrics and Figure 2-12 shows crude production since 2003.



## CURRENT OIL AND GAS PROJECT BENEFITS VS. PRE-WAR LEVEL AND GOAL

OUTCOMES METRICS	PRE-WAR LEVEL (2003)	CURRENT STATUS, AS OF JULY 2, 2006	U.S. END-STATE GOALS	IRAQI END-STATE GOALS
Oil Production Capacity (million BPD)	2.8	2.5	3.0	2.8
Oil Production (Actual) (million BPD)	2.58	2.23	Not Available	2.8
Export Levels (million BPD)	Not Available	1.67	2.2 (capacity)	1.65
Natural Gas Production (MSCFD)	Not Available	675	800	Not Available
LPG (TPD)	Not Available	1,320	3,000	Not Available

Sources: Pre-war numbers—DoE Country Analysis Brief, meeting with DoE officials on May 31, 2006. Current status—GRD-PCO data response to SIGIR data request, received on July 24, 2006 (production capacity); DoS *Iraq Weekly Status*, July 19, 2006 (oil production and exports); data response from GRD-PCO July 10, 2006 (natural gas production); DoS data response to SIGIR data request, July 24, 2006 (LPG production).

U.S. end-state goals—PCO, “The Oil Story of Iraq,” March 2006; GRD-PCO data response to SIGIR data request, July 24, 2006 (production capacity); DoS data response to SIGIR data request, received on July 24, 2006 (export capacity)

Iraqi end-state goals—meetings and discussions with DoS officials for April 2006 Quarterly Report.

TABLE 2-5

## EXPORTS

The oil and gas sector remains the economic mainstay of the economy: Iraq’s budget for 2006 projects \$28.8 billion, approximately 93% of which is expected to come from crude oil export.<sup>74</sup> Figure 2-13 shows a timeline of monthly exports and associated revenues.

In June 2006, exports reached 1.67 million BPD, slightly more than the coalition goal of 1.65 million BPD. This is a significant increase from the last Report. With oil prices continuing to climb, sustaining exports at these levels will produce revenue increases. The prospect of increased export activity through the northern pipeline system is an encouraging sign that Iraq’s oil industry is strengthening.

If insurgent attacks on the northern pipeline system continue to be a problem, however, the export burden will once again fall on the southern system. The southern system is limited by certain vulnerabilities, such as volatile weather conditions and low storage capacity.

## REFINING

Iraq’s refineries operate at capacities ranging from 50% to 75%.<sup>75</sup> The low domestic production levels of critical refined fuels have led to high demand for costly imports from abroad, particularly from Turkey, which has just recently resumed exporting fuel to Iraq after a six-month trade dispute.<sup>76</sup>



Figure 2-12  
**CRUDE OIL PRODUCTION**  
 Source: IRMO and DoS *Iraq Weekly Status Report*

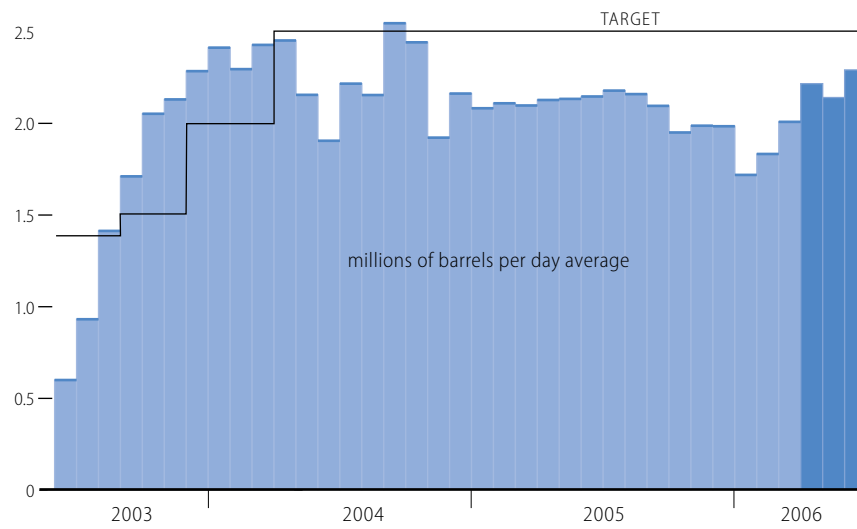
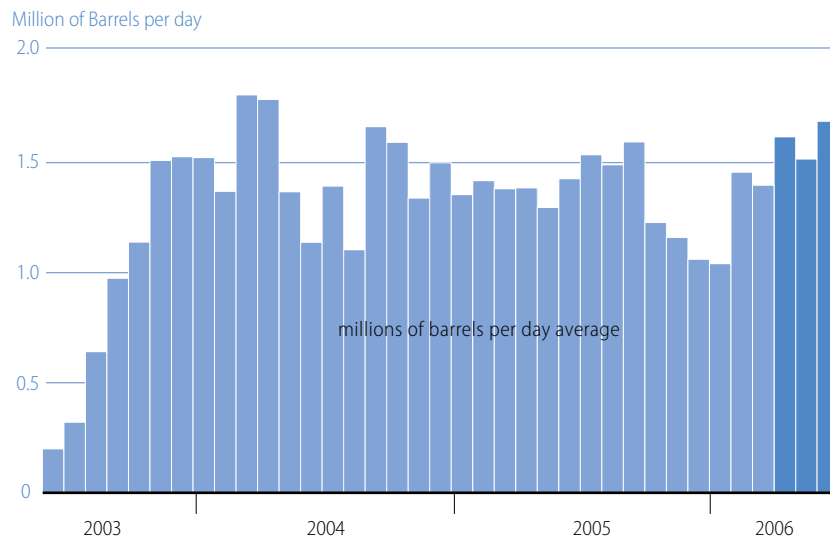


Figure 2-13  
**OIL EXPORTS**  
 Source: DoS *Iraq Weekly Status Report*, July 2006





Limitations on domestic refining of critical refined fuels remain a significant concern in the oil and gas sector because domestic demand is high. GAO reports that a “combination of insurgent attacks on crude oil and product pipelines, dilapidated infrastructure, and poor operations and maintenance have hindered domestic refining, and Iraq must import significant quantities of liquefied petroleum gas, gasoline, kerosene, and diesel.”<sup>77</sup> The Inspector General for the Ministry of Oil also attributes the drop in refining to attacks on crude pipelines, power supply interruptions, and the failure of operational units because of poor maintenance.<sup>78</sup> Figure 2-14 shows current inventories of refined fuels.

The goal is to provide adequate refined products for domestic consumption by allocating 500,000 BPD of crude oil to domestic refineries, rationing domestic refined products, and temporarily liberalizing private-sector fuel imports at the market rate.<sup>79</sup> In March 2006, in an attempt to reduce the incentive for corrup-

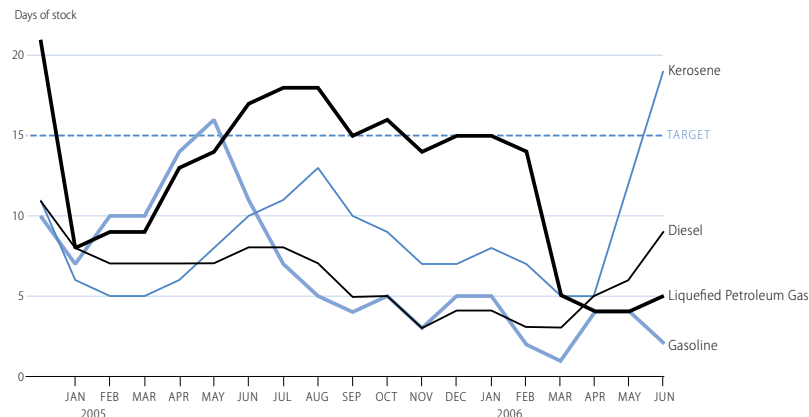
tion while also increasing fuel supplies, the Iraqi government ordered the Ministry of Oil to license private firms to import premium refined fuel products at full market price, tax-free, and without quantity restrictions.<sup>80</sup>

## Challenges

### SECURITY

In its April 2006 Quarterly Report, SIGIR noted that deteriorating facilities and sabotage have limited progress in the oil and gas sector.<sup>81</sup> During this quarter, the Minister of Oil told SIGIR that security remains the main problem, despite progress in bolstering infrastructure security.<sup>82</sup> According to DoS, the Ministry of Defense is responsible for guarding pipelines, and the Oil Protection Force, under the control of the Ministry of Oil, is tasked with guarding all other Iraqi oil industry assets.<sup>83</sup> The Ministry of Oil IG cited five reasons for the weakness of the security system:

Figure 2-14  
**INVENTORIES OF CRITICAL REFINED FUELS**  
Days of Stock  
Source: DoS *Iraq Weekly Status Report*





- lack of coordination among the entities given security tasks
- poorly equipped security forces
- staffing difficulties
- lack of a centralized planning authority for short- to long-term security initiatives
- a lack of investigations into sabotage operations<sup>84</sup>

### **SUSTAINMENT**

Sustaining U.S.-funded projects continues to be an important challenge for successfully developing the oil and gas sector. U.S. reconstruction agencies have been administering programs to bolster capacity development and improve O&M practices at oil and gas facilities. These agencies have launched a number of initiatives to address petroleum refining, project management, distribution and marketing, leadership, human resource management, and financial methods.

Additionally, the USTDA and Ministerial Advisory Team (MAT) training programs address some technical issues, but focus mostly on modern business methods. Finally, international oil companies are informally advising the Ministry of Oil on how to operate more efficiently.<sup>85</sup>

### **CORRUPTION AND SMUGGLING**

Corruption and smuggling continue to impede the development of Iraq's oil and gas sector. The Minister of Oil stated in late May 2006 that one of the "first priorities is to fight corruption

and oil smuggling."<sup>86</sup> In early July, the Minister stated that he would replace the management at the Oil Products Distribution Company, which was found to have engaged in corrupt activities.<sup>87</sup> Finally, a May 2006 survey found that 20% of Iraqis in 10 major cities have paid bribes to purchase gasoline.<sup>88</sup>

Corruption in the oil and gas sector exists, at least in part, because of the profitability of smuggling crude oil and refined fuels. The Ministry of Oil IG reported in April 2006 that smuggling includes sending imported oil products or stolen local crude to neighboring countries, transferring products supplied to government and non-government facilities to the black market, colluding with oil workers, and taking advantage of lax oversight at loading stations.<sup>89</sup> The lack of effective metering to monitor the transfer of custody of oil products throughout the distribution network hampers the fight against this significant problem.

According to the Ministry of Oil IG, this vast array of smuggling methods is made possible by five key factors:<sup>90</sup>

- Because Iraq subsidizes the price of oil, oil products are much less expensive in Iraq than in some neighboring countries.<sup>91</sup>
- There are weaknesses in monitoring and measuring oil product transactions, particularly from the southern harbors and at the northern and western borders.
- Legal procedures against alleged criminals are weak.
- Iraq is increasingly dependent on imported oil products, largely because of the lack of refining capacity.



Oil leak along the Baiji-to-Kirkuk pipeline

- Attacks on oil facilities and pipelines continue to hinder progress.

The DoS estimates that approximately 10% of refined fuels are sold on the black market and about 30% of imported fuels are smuggled out of Iraq.<sup>92</sup> In mid-June and early-July 2006, the Iraqi government raised fuel prices for diesel, kerosene, gasoline, and LPG,<sup>93</sup> implementing the subsidy reforms outlined in the December 2005 IMF Stand-By Arrangement. This step was part of a series of price adjustments slated to occur throughout the year to bring domestic fuel prices in line with the prices of the neighboring countries, thus diminishing the incentive to smuggle fuel.

## ENABLING LEGISLATION

The future of the oil and gas sector depends on new legislation and regulations that will encourage foreign investment to accelerate development in the sector. The legislation must resolve several controversial issues, including sharing oil revenues among the regions, determining ownership of regional resources, and designating the legal entity for brokering exploration and development deals with international oil companies. The Kurdish Regional Government has signed a number of agreements with international oil companies, which adds a new complication to this issue.

Coalition officials and other international experts are working with the Iraqi government to craft oil legislation that would promote an efficient, competent, transparent, and investor-friendly oil and gas sector to further develop all of Iraq and its economy.<sup>94</sup>





## STATUS OF THE WATER SECTOR

This review updates the status of U.S. reconstruction projects to increase access to clean water and sewerage services in Iraq and water-resource management capabilities.

These are the highlights of the water sector report:

- IRRF allocations to this sector amount to \$2.13 billion. Only 7% of projects have not yet started, and 55% are complete. Figure 2-15 shows the status of construction projects in this sector by governorate.
- \$450 million is yet to be obligated in the water sector. All funding must be obligated by September 30, 2006.
- The focus in this sector is now on completing all projects. The challenge is to ensure

that U.S. efforts are sustainable. The Water Sector Sustainment Program (WSSP) has provided \$110 million for sustainment activities.

- 4.2 million more people have access to clean water, up from 3.1 million at the end of last quarter. The end-state goal is 8.4 million more people served. Also, 5.1 million more people have access to sanitation services because of U.S. projects; the end-state goal is 5.3 million people.

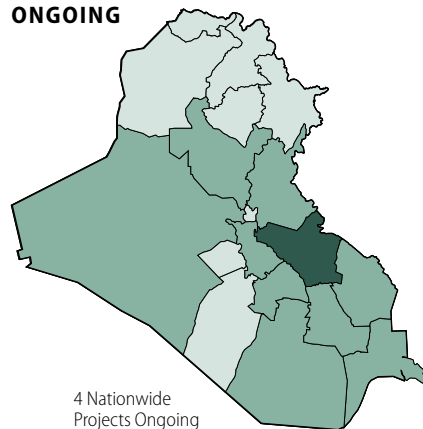
### IRRF-funded Activities in the Water Sector

More than half of the IRRF sewerage projects are finished, and 55% of potable water projects

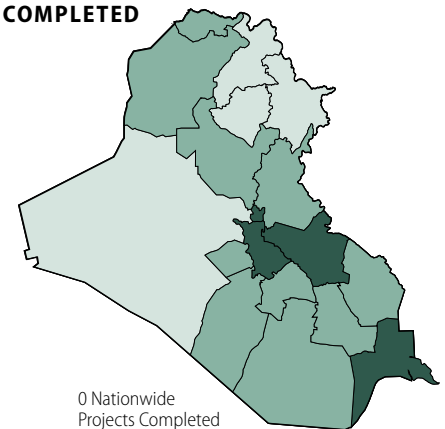
Figure 2-15  
**WATER CONSTRUCTION PROJECTS BY GOVERNORATE**  
 Number of Projects  
 Source: IRMS — IRMO Roll-up File, 06/30/06 & USAID Activities Report, 07/10/06



ONGOING



COMPLETED





are complete. Figure 2-18 shows the status of projects in the water sector.

This quarter, \$250 million was expended, keeping pace with previous quarters—\$202 million last quarter and \$295 million two quarters ago. Nearly 80% of sector funding has been obligated, but less than 54% has been expended. The remaining unobligated funds in the sector must be obligated by September 30, 2006. Figures 2-16 and 2-17 shows the status of funds in the water sector.

### Key Projects Completed and Underway

Most of the remaining large projects in the water sector are expected to be finished during 2006; all remaining small-scale projects will be completed in 2007.

One of the largest projects in this sector—the Erbil Water Treatment Plant<sup>95</sup>—was completed at the end of this reporting quarter. In December 2005, insurgents attacked a

16-truck convoy bringing parts for the project, delaying it beyond the original completion date of April 2006.<sup>96</sup> The \$201 million plant will provide 144,000 cubic meters (m<sup>3</sup>) of water per day to 333,000 residents of Erbil.<sup>97</sup>

The \$262 million Nassriya Water Treatment Plant project progressed from 70% complete last quarter to 89% complete this quarter.<sup>98</sup> The original completion date of June 2006<sup>99</sup> was pushed back to October 2006.<sup>100</sup> The completed water treatment plant will provide 240,000 m<sup>3</sup> of water per day for more than 555,000 people.<sup>101</sup>

The Rural Water Program is expected to provide 70 water treatment sites in underserved, rural areas of Iraq. When completed, the \$68 million project will serve 492,000 Iraqis nationwide. This quarter, 24 of 25 remaining rural water sites were completed.<sup>102</sup>

The Small Water Rehabilitation Program (PW-90), valued at \$63 million, will benefit 1.65 million Iraqis.<sup>103</sup> This quarter, 12 more

Figure 2-16  
**WATER SECTOR AS A SHARE OF IRRF FUNDS**  
% of \$18.44 Billions  
Source: DoS Iraq Weekly Status Report, 06/28/06

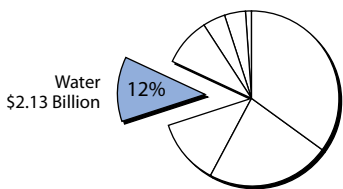


Figure 2-17  
**STATUS OF WATER FUNDS**  
\$ Billions  
Source: DoS Iraq Weekly Status Report, 06/28/06

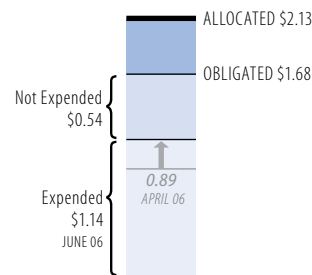
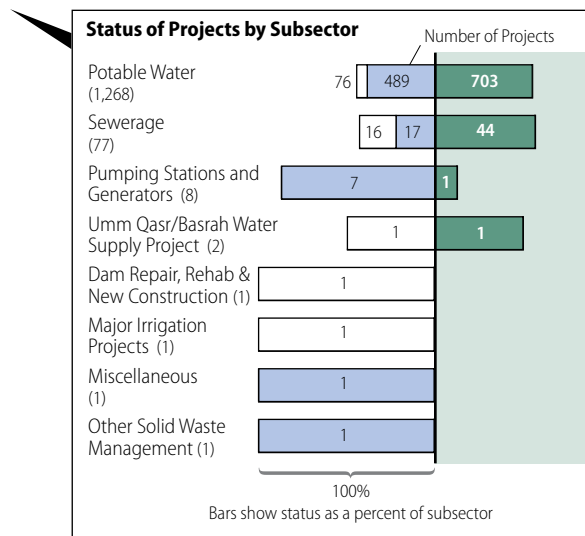
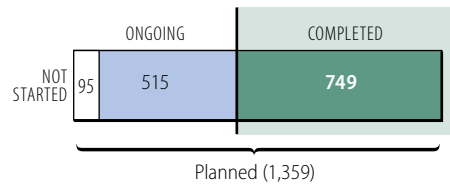




Figure 2-18  
**STATUS OF WATER PROJECTS**  
 Number of projects  
 Source: IRMS – IRMO Rollup File,  
 06/30/06 & USAID Activities Report,  
 07/10/06



of the 157 programmed PW-90 projects were completed.<sup>104</sup> To date, 131 projects have been completed.<sup>105</sup> An additional \$50 million has been earmarked for another 100 small water projects.<sup>106</sup>

**Outputs of IRRF-funded Projects**

As of June 30, 2006, the United States has repaired or rehabilitated 19 potable water treatment facilities and 9 centralized sewage treatment facilities.<sup>107</sup> The outputs of these IRRF-funded projects appear in Table 2-6, which shows the current capacity provided by completed U.S. water projects and the anticipated end-state capacity. With just under half of the water and sewerage projects still to be completed, it appears that the anticipated end-

state for water will be met and the end-state for sewerage may be exceeded.

**Outcomes of IRRF-funded Projects in the Water Sector**

To determine the outcome of U.S. projects, IRMO measures the number of people estimated to benefit from these projects. Table 2-7 summarizes data on the effects of U.S. projects relative to Iraqi access to water and sanitation services.

Before the war, it was estimated that somewhere between 9.5 and 14 million people had access to potable water.<sup>108</sup> U.S. projects have added an estimated 4.2 million people to this base—halfway to the anticipated end-state of an additional 8.4 million people. The United



WATER

**CURRENT U.S. WATER PROJECT OUTPUTS AND ANTICIPATED END-STATE**

OUTPUTS METRIC	CURRENT STATUS, AS OF 6/30/06	ANTICIPATED END-STATE (APRIL 2007)*
Water—Maximum Additional System Capacity	1.3 million cubic meters per day	2.5 million cubic meters per day
Sewage—Maximum Additional System Capacity	1.2 million cubic meters per day	1.2 million cubic meters per day

Sources: DoS, SIGIR data request, July 3, 2006.

\*The estimated end-state is based on the estimated date for completion of water projects. All planned PCO projects will be completed by April 2007 (IRMO, Information Memorandum from Acting IRMO Director to Deputy Chief of Mission, April 19, 2006).

TABLE 2-6

**CURRENT U.S. WATER PROJECT OUTCOMES AND ANTICIPATED END-STATE**

OUTCOME METRIC	CURRENT STATUS, AS OF 6/30/06	ANTICIPATED END-STATE
Water—additional people potentially served at a standard level of service, considering actual system conditions	4.2 million people	8.4 million people
Sewage—additional people potentially served at a standard level of service, considering actual system conditions	5.1 million people	5.3 million people

Sources: DoS, SIGIR data request, July 3, 2006.

Table 2-7

States has now completed 55% of planned potable water projects.

**Challenges**

SIGIR continues to track a major ongoing challenge in the water sector, namely, sustaining U.S.-funded projects. As programs shift to Iraqi control, sustaining the operation of new projects has become a priority for U.S. agencies and contractors.

**SUSTAINMENT**

A 2005 GAO audit noted the challenge of sustaining U.S. projects in the water sector,<sup>109</sup> and a SIGIR project assessment this quarter at the Umm Qasr Canal found no evidence of routine maintenance or emergency repairs. A summary of the SIGIR project assessment 06-028 is in Section 3 of this Report.

In response to this challenge, a new \$110 million sustainment program was initiated for 2006. The Water Sector Sustainment Program (WSSP) includes “both operations and maintenance support and assistance and capacity development activities to ensure that U.S.-funded assets are operated effectively in the near term, while creating favorable conditions for sustained operation by the Ministry of Municipalities and Public Works, the Ministry of Water Resources, and Amanat Baghdad (Mayoralty) over the long term.”<sup>110</sup>

The WSSP builds on these other completed sustainment projects:

- USAID’s Water Sector Institutional Strengthening Program (\$25 million)<sup>111</sup>
- GRD-PCO’s Management Systems training program (\$14.5 million) for the Ministry of Municipalities and Public Works.<sup>112</sup>



Shark Dijlah water treatment plant, second largest in Baghdad

The WSSP is just beginning, and the program is scheduled to be completed in March 2007.<sup>113</sup> Table 2-8 summarizes the types of assets that may be covered.

Ministerial capacity development is also a priority for sustaining U.S.-funded projects. The National Capacity Development (NCD) program covers ten ministries of the Iraqi

government, including the Ministry of Water Resources and the Ministry of Municipalities and Public Works. The NCD will include various training initiatives, including water law and international treaties, contingency planning, water quality monitoring, tariff reform, and management and human resources.<sup>114</sup>

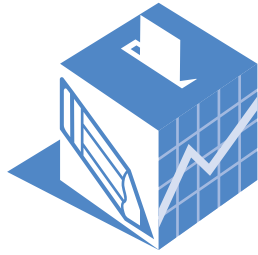
**CURRENT WSSP ASSETS THAT MAY BE COVERED**

ASSET CATEGORY	MMPW AND KURDISTAN REGIONAL GOVERNMENT	AMANAT BAGHDAD	MINISTRY OF WATER RESOURCES
Water Treatment Plants	22	4	0
Sewage Treatment Plants	6	3	0
Rural Water Projects	71	0	0
Pump/Lift Stations	19	TBD	0
Canals	0	0	1
Vehicles/Heavy Equipment	769	0	32
Generators	0	39	149
Learning Centers/Warehouses	24	0	0
<b>Total</b>	<b>911</b>	<b>46</b>	<b>182</b>

Sources: GRD-PCO, CY 2006 USG Water Sector Sustainment Program (WSSP), no date, p. 2.

TABLE 2-8





## STATUS OF AGRICULTURE, DEMOCRACY, EDUCATION, AND PRIVATE SECTOR DEVELOPMENT

These are the highlights of this sector review:<sup>115</sup>

- These subsectors have IRRF 2 allocations of \$2.23 billion (See Figure 2-19); \$1.74 billion has been expended.
- 90% of projects have been completed in this sector, and only 1% have yet to start. Figure 2-20 shows construction projects in this sector by governorate.
- The democracy subsector recently received an additional \$100 million in Emergency Support Funds (ESF) in the FY 2006 supplemental budget. This subsector continues to face challenges, particularly with the Provincial Reconstruction Teams (PRTs), which are intended to be the platform for many democracy activities throughout Iraq.
- In the education subsector, most project funding will be exhausted this quarter. Although several construction projects

were completed, security remains a constant challenge.

- Private sector development activities are focused on economic governance, trade, bank lending, capital markets, and microfinance activities.

### IRRF-funded Activities in Agriculture, Democracy, Education, and Private Sector Development

Nearly 8,800 projects have been completed (90%) in this sector. The project completion rate is not evenly distributed among subsectors: agriculture and refugee assistance programs lag behind the sector completion rate. Figure 2-22 shows the status of projects in the sector.

By the end of this quarter, more than 95% of the sector’s funding had been obligated, and

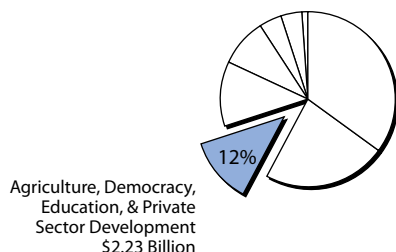


FIGURE 2-19  
**AGRICULTURE, DEMOCRACY, EDUCATION, AND PRIVATE SECTOR DEVELOPMENT SECTOR AS A SHARE OF IRRF FUNDS**

% of \$18.44 Billion  
Source: DoS Iraq Weekly Status Report, 06/28/06



**AGRICULTURE,  
DEMOCRACY, EDUCATION,  
AND PRIVATE SECTOR  
DEVELOPMENT**

78% had been expended. Figure 2-21 shows the status of funds in this sector.

## AGRICULTURE

Agriculture supports a rural population in Iraq of 7 million, provides employment to approximately 20% of the nation's population, and accounts for 8% of Iraq's GDP.<sup>116</sup> This subsector, however, had low pre-war productivity and negative growth rates caused by years of poor policy decisions, sanctions, isolation, and previous wars.<sup>117</sup>

Post-war looting damaged a variety of government and private agricultural production and service facilities, especially in central and southern Iraq.<sup>118</sup> USAID estimates that Iraq's grain yields are less than half the yields of

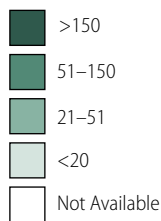
neighboring countries because of variable rainfall in the north, increasing soil salinity in the south, and years of poor planning.<sup>119</sup> Addressing the subsector's short- and medium-term needs would cost approximately \$3.03 billion, according to 2003 World Bank estimates.<sup>120</sup>

USAID is responsible for almost all IRRF funding for the agriculture subsector. The \$107 million Agriculture Reconstruction and Development Program for Iraq (ARDI) comprises the largest share of that funding. It is designed to help Iraqi farmers increase productivity and income. ARDI has four components:<sup>121</sup>

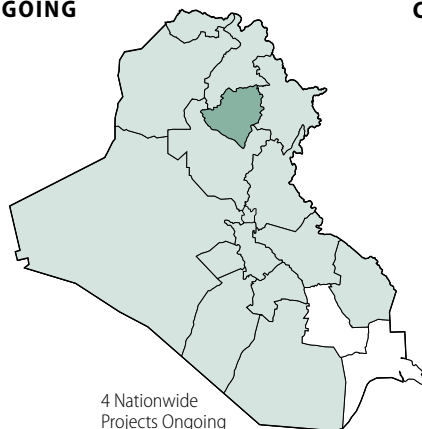
- revitalizing agricultural production
- generating income and employment through agro-enterprise and market development
- promoting rural finance

**FIGURE 2-20**  
**AGRICULTURE, DEMOCRACY, EDUCATION,**  
**AND PRIVATE SECTOR DEVELOPMENT**  
**CONSTRUCTION PROJECTS BY**  
**GOVERNORATE**

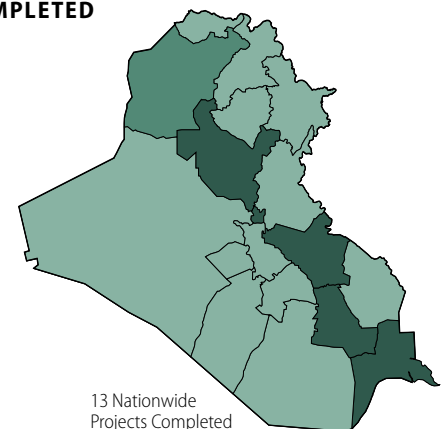
Number of Projects  
Source: IRMS – IRMO Rollup File, 06/30/06 &  
USAID Activities Report, 07/10/06



### ONGOING



### COMPLETED





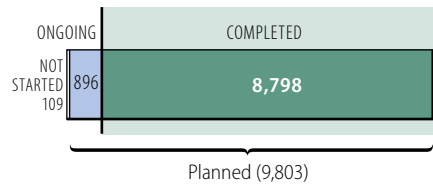
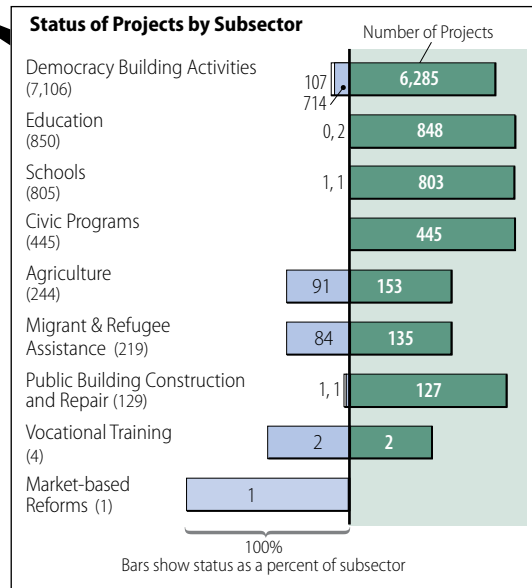
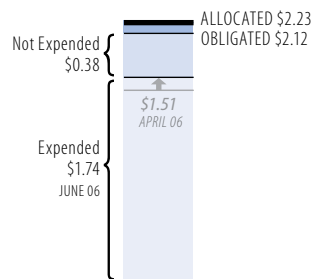


FIGURE 2-22  
**STATUS OF AGRICULTURE, DEMOCRACY, EDUCATION, AND PRIVATE SECTOR DEVELOPMENT PROJECTS**  
Number of Projects  
Source: IRMS – IRMO Rollup File, 06/30/06 & USAID Activities Report, 07/10/06

FIGURE 2-21  
**STATUS OF AGRICULTURE, DEMOCRACY, EDUCATION, AND PRIVATE SECTOR DEVELOPMENT FUNDS**  
\$ Billions  
Source: DoS Iraq Weekly Status Report, 06/30/06



- reclaiming and improving the management of soil and water resources

The original ARDI contract was awarded in October 2003 with IRRF 1 funds, and it was later extended with IRRF 2 funds. Approximately \$101 million of the total contract ceiling of \$107 million has been obligated, and the program is expected to conclude by the end of December 2006.<sup>122</sup> The entire \$4 million for the Iraq Marshlands Restoration Program has been

obligated and is expected to be fully expended by September 30, 2006. Multi-National Force-Iraq (MNF-I) is working with USAID to replicate and continue some ARDI programs, using CERP funding.<sup>123</sup>

**Agriculture Projects Completed and Underway**

This section presents some of the completed activities and ongoing projects to improve Iraq’s agriculture subsector. Current ARDI activities focus on increasing crop production,



AGRICULTURE,  
DEMOCRACY, EDUCATION,  
AND PRIVATE SECTOR  
DEVELOPMENT

## ARDI OUTPUTS:

Crop and Livestock Management	Demonstrated 40% average wheat-yield increases on one-hectare test plots in three northern governorates by using a cost-effective technical package. <sup>a</sup>
	Planted 43,500 date palm mother plants in 13 orchards. <sup>b</sup>
	Reconstructed 58 veterinary clinics serving more than 4.2 million animals and 118,500 breeders. <sup>c</sup>
Land Irrigation	As of May 1, 2006, IRMO reported that 31,000 hectares of land had been irrigated or drained; the U.S. target for the agriculture subsector is 422,000 hectares. <sup>d</sup>
	Rehabilitated irrigation infrastructure benefiting approximately 445,000 rural residents who occupy an estimated 320,000 acres of farmland. <sup>e</sup>
Training and Capacity Development	Trained Iraqi organizations to operate and maintain seed cleaners; these organizations use their new skills to operate the cleaners for Iraqi farmers in every governorate. This enabled more than 48,000 farmers to clean their saved seeds and treat them with fungicide to maintain seed health. This effort produced more than 31,500 tons of clean seed, which were then planted on more than 242,000 hectares of land. <sup>f</sup>
	Trained more than 215 mechanics, mostly in rural areas, as part of the tractor-repair program to improve infrastructure for repair and maintenance services for agricultural machinery. <sup>g</sup>
	Completed training for 12,600 farmers, public officials, and university staff in technologies for high-value cash crops, cereal grains, and livestock. <sup>h</sup>
	Ongoing and completed capacity development programs to train more than 800 public officials in strategy development, decision-making, and statistical surveys. <sup>i</sup>
Private Sector Development	Ongoing activities to develop and strengthen the capacity of 54 private associations, co-ops, and NGOs to implement programs benefiting the agriculture subsector, including training in strategic planning, project management and implementation, and business management. <sup>j</sup>
	Established a wholesale price information system in 18 major urban markets for dissemination to producers and merchants. <sup>k</sup>
Mechanical Repairs	Rehabilitated 3,170 tractors out of a goal of 5,000. <sup>l</sup>

<sup>a</sup> USAID Agriculture Fact Sheet, June 2006.

<sup>b</sup> USAID Agriculture Fact Sheet, June 2006.

<sup>c</sup> USAID Agriculture Fact Sheet, June 2006.

<sup>d</sup> IRMO, Water Sector Metrics, May 30, 2006.

<sup>e</sup> USAID, "Iraq Economic Growth Portfolio," March 17, 2006, p. 10.

<sup>f</sup> Portal Iraq, "Organizations in Iraq Learn about Agribusiness Planning," June 25, 2006.

<sup>g</sup> USAID vetting comments, July 18, 2006.

<sup>h</sup> USAID, "Iraq Economic Growth Portfolio," March 17, 2006; updated information provided to SIGIR from USAID on July 21, 2006.

<sup>i</sup> USAID Agriculture Fact Sheet, June 2006; follow-up data response from USAID to SIGIR on July 21, 2006, further explain these activities: "These activities include training Ministry of Agriculture extension agents (training of 172 agents from throughout Iraq complete and implementation of improved extension service underway); training MOA enumerators to conduct statistical surveys (several training courses and surveys completed throughout Iraq); working with multiple ministries to provide staff with training to implement an Agro-Ecological Zone mapping program and an improved Agro-meteorological network (training and implementation ongoing; activity touches all Iraq); and working with multiple Ministries to provide training and develop a Strategy for Water and Land Resources in Iraq (ongoing, activity touches all Iraq)."

<sup>j</sup> USAID, "Iraq Economic Growth Portfolio," March 17, 2006, p. 10; USAID follow-up data response, July 21, 2006.

<sup>k</sup> USAID Agriculture Fact Sheet, June 2006.

<sup>l</sup> USAID vetting comments, July 18, 2006.

TABLE 2-9



AGRICULTURE,  
DEMOCRACY, EDUCATION,  
AND PRIVATE SECTOR  
DEVELOPMENT

expanding market-oriented reforms, improving livestock management, and enhancing agriculture-related private sector development. These ARDI training activities promote efficient agricultural practices, cultivate an entrepreneurial spirit, and help Iraq's agriculture subsector evolve from a centralized model to one that is based on market principles.

#### **Outputs of IRRF-funded Agriculture Projects**

The ARDI program works directly with staff from the Ministry of Agriculture, presenting an "Iraqi face" and thus keeping security costs low.<sup>124</sup>

According to USAID officials, ARDI's grants program for employment and income expansion has directly benefited more than 1.6 million people.<sup>125</sup> The ARDI program also provides employment to an estimated 29,000 rural residents. Table 2-9 presents the outputs of ARDI activities.

#### **Outcomes of IRRF-funded Agriculture Projects**

It is difficult to assess project outcomes in the agriculture subsector because the effects of these activities will become apparent only in the long run. Iraqi officials and farmers will need to make decisions about how to make the most effective use of Iraq's agricultural resources. IRRF projects have demonstrated that notable improvements are possible—for example, a dramatic increase in wheat production per hectare at test plots in three northern governorates. Increasing wheat production would help Iraq reduce reliance on imported

wheat. However, the scarcity of operating equipment makes it difficult to markedly improve short-term agricultural productivity. Most of the equipment and infrastructure is outdated and has not been serviced in years. Therefore, recapitalization remains key to increasing productivity.

#### **Challenges**

##### ***Rehabilitating Agricultural Infrastructure and Productivity***

Security has accounted for only 5-8% of ARDI's total budget, partly because the program employs mostly Iraqis at its project sites. Nevertheless, the lethal environment has slowed the rate of investment in this subsector.<sup>126</sup>

##### ***Developing Market-friendly Laws and Policies***

During the previous regime, agriculture was centrally managed, which generated inefficiencies across the subsector. Moving to a market-driven system will require substantial training, coordination, capacity building, investment capital, and mercantile infrastructure development. This is being partly addressed as the Iraqi government moves to gradually reduce food subsidies, as required in its Stand-By Arrangement with the IMF.<sup>127</sup> Reducing these subsidies should help create a more rational market for agricultural products and allow farmers to respond to market demand by increasing production accordingly. An increase in employment in processing and packaging agricultural output should follow.<sup>128</sup>



AGRICULTURE,  
DEMOCRACY, EDUCATION,  
AND PRIVATE SECTOR  
DEVELOPMENT

## DEMOCRACY

The November 2005 *Strategy for Victory* calls for an Iraqi nation that can provide for its own security and eliminate radical Islamic terrorist groups. The July *Section 2207 Report* reports that just over \$1 billion from the IRRF 2 has been allocated to democracy-building activities, almost all of which has been obligated.<sup>129</sup>

The FY 2006 Supplemental awarded \$50 million in ESF to promote democracy, the rule of law, and reconciliation. An additional \$50 million in ESF was awarded to USAID for continued support of its Community Action Program (CAP) in Iraq, \$5 million of which will be made available for the Marla Ruzicka Iraqi War Victims Fund.<sup>130</sup>

### Democracy Projects

Most IRRF funds in this subsector have been used to support the national elections, the drafting of the constitution, and the conduct of the constitutional referendum. Concurrently, there has been an effort to strengthen Iraq's new democracy at the grassroots level by bolstering the legitimacy of the political system, developing institutional capacity, building an independent and professional media,<sup>131</sup> and strengthening civil society organizations.

This quarter, the United States continued to support IRRF-funded local democracy-building initiatives, working with the Iraqi Provincial Reconstruction Development Committees (PRDCs), which are supported by coalition Provincial Reconstruction Teams (PRTs). The PRDCs comprise local officials and community

leaders in 15 governorates who are empowered to make decisions about local reconstruction priorities. The PRTs help build the capacity of government officials to plan, execute, monitor, and evaluate government activities.<sup>132</sup>

Five PRTs are currently operating in Ninewa, Babylon, Tameem, Baghdad, and Anbar province.<sup>133</sup> Three more PRTs are expected to begin work over the next few months in Erbil, Thi-Qar, and Basrah under Korean, Italian, and British leadership, respectively.<sup>134</sup>

### Outputs of IRRF-funded Democracy Projects

Delays in deploying PRTs to all participating governorates have slowed efforts to develop provincial government capacity. The security situation continues to pose a significant challenge to deploying PRTs, especially in the areas that could benefit most from their presence.<sup>135</sup>

Efforts to engage at the local level of governance have been more successful. The CAP, for example, has operated throughout Iraq since 2003 to promote democracy and help mitigate conflict at the local level. This program has established more than 1,300 community action groups (CAGs) throughout the country, creating more than 2 million short-term jobs.<sup>136</sup> CAP emphasizes direct involvement by local Iraqis. CAGs of 10-12 citizens decide which projects should be implemented for their communities, overseeing the process with the assistance of outside advisors from the CAP program.

The Iraq Civil Society Program (ICSP) has issued 500 small grants, totaling more than \$7



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An Iraqi farmer working in his fields outside Samarra

million, for initiatives in civil society, human rights, civic education, anticorruption, and women's advocacy.<sup>137</sup> Many initiatives have focused on developing a more robust media in Iraq. For instance, 1,037 journalists, 20 media managers, and 9 journalist unions have received ICSP training to help improve their reporting capabilities.<sup>138</sup>

In mid-May 2006, the National Democratic Institute (NDI) trained parliament members and staff on basic parliamentary procedures and processes, committee structures, and issues related to federalism.<sup>139</sup> At the end of May 2006, NDI held a series of training seminars for Iraqi officials and NGO members.<sup>140</sup>

Like NDI, the International Republican Institute (IRI) has been engaged in a multi-

faceted democracy program in Iraq since 2003. During this quarter, IRI's civil society partners conducted national campaigns to promote national reconciliation, which included workshops, printed materials, and media interviews. IRI's governance program continued to support the Iraqi Council of Representatives.<sup>141</sup>

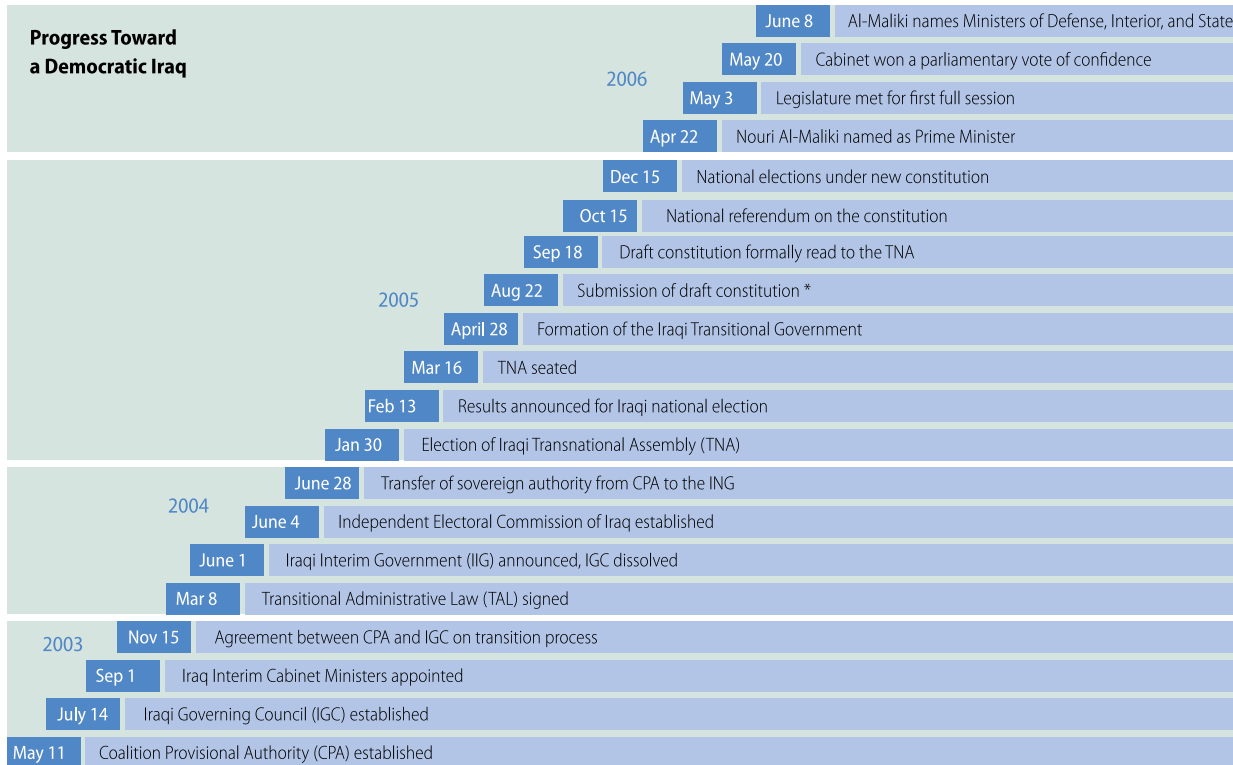
#### **Outcomes of IRRF-funded Democracy Projects**

At the end of 2005, Iraq had reached significant political milestones identified under the Transition Administrative Law, including:

- the election of the Iraqi Transitional National Assembly
- the national referendum on the constitution
- the December national elections<sup>142</sup>



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\*Pursuant to the TAL, the TNA extended the deadline from August 15 until August 22

FIGURE 2-23

**MILESTONES OF PROGRESS TOWARD A DEMOCRATIC IRAQ**

Source: 4/22, 5/20: DoD “Measuring Stability and Security in Iraq”, May 26, 2006, p. 8.  
5/3: DoS Iraq Weekly Status Report, May 3, 2006, p. 8.  
6/8: DoD Update on June 8, 2006, defenselink.mil.  
All Other Metrics DoD 9010 Report, February 2006.

Progress continued through last quarter and into this quarter: on April 22, the Council of Representatives elected the President and Vice Presidents, and the Presidency Council nominated the Prime Minister-designate.<sup>143</sup> On May 3, 2006, the legislature met for its first full session,<sup>144</sup> and on May 20, the Prime Minister-designate named his cabinet and received a parliamentary vote of confidence for all posi-

tions except the Ministers of Defense, Interior, and the State Minister of National Security.<sup>145</sup> These positions were filled on June 8, 2006.<sup>146</sup> Democracy programs funded by the United States and other donors significantly contributed to this progress. Figure 2-23 shows Iraq’s milestones in democratic progress.

The full effects of democracy-building activities will be apparent only in the long run.



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Future milestones include implementing the National Reconciliation Plan, passing enabling legislation, establishing a constitutional amendment process, and holding provincial elections.<sup>147</sup>

### **Challenge Areas**

#### ***Governing Effectively and Cooperatively***

Earlier this year, GAO cited five challenges that face the newly formed government: “building effective national and provincial governments, stemming corruption, disbanding militias, resolving disputes on boundaries, and ownership of future oil fields.”<sup>148</sup>

GAO also pointed out that, although strengthening “national and provincial institutions is a key step in improving governance and supporting efforts to build Iraqi self-reliance and defeat the insurgency,” coalition assessments show that Iraqi ministries have limited capacity to provide government services to the people. These assessments showed “limitations in managers’ skills and training, weak technical expertise, outdated work processes and procedures, and an inability to identify and articulate strategic priorities.” In addition, Iraqi provinces also have limited capacity to provide governmental services.<sup>149</sup>

#### ***Security***

The security situation has slowed progress in all IRRF-funded democracy efforts. Security for PRTs remains a major constraint to effective democracy-building activities throughout Iraq. For example, one contractor—tasked with

promoting civic participation in reconstruction and local development—was forced to leave Basrah on March 31, 2006, because of security threats to workers. NDI also reported that approximately one-third of its funding must go to security needs.<sup>150</sup>

### **EDUCATION**

This section presents the key projects, results, and challenges in the education subsector.

#### **Education Projects Completed and Underway**

USAID officials report that their non-construction education projects in Iraq ran out of funding in June 2006. The only programs that will continue are the Accelerated Learning Program and a youth education job skills program. As reported last quarter, education activities previously focused on building schools, training teachers, and distributing textbooks. With these programs complete, education activities will now shift to building the capacity of the ministry—part of the overall U.S. strategy.<sup>151</sup> Future funding and activities in this subsector will come indirectly through capacity development funding.

#### **Outputs of IRRF-funded Education Projects**

Until the 1980s, the education system in Iraq was a model for the region. However, the system deteriorated dramatically because of a lack of resources and the politicization of the system.<sup>152</sup>





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Before the 2003 conflict, there were more than 14,000 schools in Iraq; an estimated 11,000 of those needed repairs or refurbishments.

As of June 30, 2006, GRD-PCO had completed rehabilitation work on 803 schools. USAID reported that 741 schools have been completed to date with IRRF 2 funding, an increase of 156 from last quarter.<sup>153</sup> Thus, 1,544 schools have been completed with funding from IRRF 2, while 5,263 have been completed with funding from other sources (DFI, CERP, etc). See Table 2-10 for more information on these projects.

Training is a major component of education projects. Last quarter, USAID reported it had trained 47,695 teachers since 2003. Also, 60,754 teachers have been trained in this \$5.6 million program.<sup>154</sup> USAID has also provided hundreds of thousands of desks, chairs, and chalkboards, and more than 3 million school kits.<sup>155</sup>

### Challenges in the Education Subsector

This subsector faces several challenges:

- Security remains a constant challenge. The Ministry of Human Rights Inspector General said in an interview with SIGIR that 191 college professors have been killed and 85 have been kidnapped.<sup>156</sup>
- Coordinating the many agencies involved in education relief and reconstruction efforts—continues to be difficult.
- Most funding will expire this quarter as U.S. priorities shift the focus from education-specific programs to government-wide capacity development efforts.<sup>157</sup>

### REFUGEES, HUMAN RIGHTS, AND GOVERNANCE

After the war, more than 500,000 Iraqis were estimated to reside in neighboring countries, and more than one million Iraqis were internally displaced.<sup>158</sup> Through the IRRF, the United States allocated \$186 million for migration and refugee assistance. At the end of this quarter, \$167 million was obligated. The funding is being used to meet the needs of refugees and other conflict victims, including internally displaced persons.<sup>159</sup>

The UN High Commissioner for Refugees and the International Committee of the Red Cross are helping build the capacity of Iraqi institutions, including the Ministry of Migration and Displacement. This quarter, funding was approved for eight new projects totaling more than \$15 million. The projects will provide critical, life-sustaining assistance to refugees, returnees, and other displaced persons.<sup>160</sup>

The United States also has allocated \$10 million to support the Commission for the Resolution of Real Property Disputes.<sup>161</sup> The United States allocated \$15 million to promote human rights in Iraq; to date, \$13 million has been obligated.<sup>162</sup>

### PRIVATE SECTOR DEVELOPMENT

This section presents the key U.S. projects in private sector development and a general overview of the outputs of these projects.





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**Projects Completed and Underway**

\$805 million in IRRF 2 funds was allocated to private sector development, of which \$360 million was required to offset Iraqi debt forgiven by the United States.<sup>163</sup> Of the remaining \$445 million, more than \$100 million was allocated to the agriculture subsector, and the remainder went to economic governance and private sector development programs. USAID manages the vast majority of the funds in all three of these subsectors. USAID’s private sector development funds (other than agriculture) are concentrated in two major contracts: one for economic governance and one for private sector development.

The IRMO Office of Private Sector Development (OPSD), established under the CPA, was allocated \$64 million in IRRF 2 funds. Some of these funds have been used to support a micro-lending program, which has made 29,000 loans, totaling \$57 million, with less than a 1% delinquency rate. This office has also worked

on a number of other private sector initiatives, including the Iraq Securities Commission, Iraq Stock Exchange, and a study of economic zones.<sup>164</sup>

The Overseas Private Investment Corporation has provided \$100 million of its own funds for a middle-market loan program managed by an international NGO, which has expended \$22.1 million and has approved another \$10.7 million.<sup>165</sup>

**Economic Governance**

The USAID Economic Governance (EG) program is designed to help “create an enabling environment for private sector development.”<sup>166</sup> This is particularly important for an economy like Iraq’s, which has been constrained by government subsidies and state-owned enterprises for decades. The \$103 million contract for the program was intended to last through September 2007, but funding at the current rate of expenditure will run out in August 2006.<sup>167</sup>

**SCHOOLS REPAIRED BY U.S. RECONSTRUCTION PROJECTS**

TOTAL SCHOOLS (2003)	SCHOOLS NEEDING REPAIR (2003)	SCHOOLS COMPLETED	SCHOOLS IN PROGRESS	SCHOOLS NOT YET STARTED
14,121	11,000	2358 – USAID IRRF 1 741 – USAID IRRF 2 803 – PCO IRRF 2 1365 – MNF-I	N/A – USAID IRRF 1 77 – USAID IRRF 2 1 – (PCO) N/A – MNF-I	N/A – USAID IRRF 1 N/A – USAID IRRF 2 1 – PCO IRRF 2 N/A – MNF-I

Sources: Department of State, *Section 2207 Report Executive Summary*, July 2006, p. 17 (Total Schools and Schools Needing Repair, MNF-I data); IRMS data as of June 30, 2006 (PCO projects); USAID response to a SIGIR data call, July 21, 2006 (all other metrics).

TABLE 2-10



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The EG program involves working with Iraqi ministries to help them reform outdated macroeconomic policies—fiscal, tax, customs, budget, insurance, pensions, and others. The program also includes capacity development for Iraqi officials. These efforts feed into the overall goal of helping Iraq comply with the Stand-By Arrangement with the International Monetary Fund. The EG program involves 35 international advisors and more than 100 Iraqi advisors who work directly with ministry officials.<sup>168</sup> The new customs modernization plan, recently approved by the Iraqi Minister of Finance and ready for implementation by the General Commission for Customs, was largely the result of U.S. experts working with Iraqi counterparts under the EG program.<sup>169</sup>

### ***Private Sector Development Program (Izdihar)***

The private sector development program, also referred to as *Izdihar*,<sup>170</sup> focuses on trade policy, capacity building within business associations and the banking sector, investment promotion, accounting and auditing, capital markets, and microfinance activities. Similar to the EG program, *Izdihar* experts advise Iraqi ministers and staff.<sup>171</sup>

*Izdihar* has implemented programs to increase lending opportunities for Iraqis. It helped create the Iraq Company for Bank Guarantees (ICBG), which will offer loan guarantees to private banks. Thus far, *Izdihar* has awarded nearly \$9 million of \$17 million in grants to microfinance institutions.<sup>172</sup>

### **Outputs of U.S. Projects in Private Sector Development**

U.S. projects have generated some clear outputs in this subsector:

- The 2003 currency exchange in Iraq under CPA—a combined effort of Iraq, the United States, and the United Kingdom—was universally heralded as a success. As part of the EG contract, funded by IRRF 1, U.S. contractors handled much of the logistics for printing the currency, flying it in into the country, and distributing it to local banks.<sup>173</sup>
- Iraq continues to comply with the Stand-By Arrangement with the IMF, which calls for a series of economic reforms, including the gradual removal of subsidies on oil, electricity, and food. Experts in the EG and *Izdihar* programs have helped the Iraqi government develop strategies to meet the SBA requirements.<sup>174</sup>

Over the past three years, Iraq's per capita GDP has increased substantially, inflation is currently decreasing, and new business registrations are up. However, unemployment, one of the key targets of U.S. programs, remains high.

### **Challenges in Private Sector Development**

Stimulating the private sector is made more difficult by the same challenges facing the essential infrastructure sectors, namely security, changing leadership, and the antiquated fiscal and economic policies that these private sector development programs are attempting to reform.



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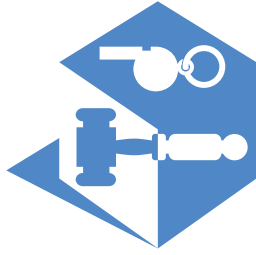


Crops along the Tigris

- The security situation affects private sector programs in the same way it affects infrastructure rehabilitation: contractors must travel in convoys to ministries and can become targets, which slows progress and increases costs. Security is also a drag on much-needed foreign investment and slows the movement of capital and labor inside the country as well.<sup>175</sup> USAID also reports a mass exodus of Iraqis from the business community, in part because of the security situation. These emigrants come from the educated middle class of Iraq; they are the primary partners and recipients of private sector development programs.<sup>176</sup>
- Constantly changing governments have made it difficult to sustain or implement hard-fought economic reforms. For example, a tax modernization plan that U.S. contractors helped develop was finalized in fall 2004 but still has not been implemented.



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## SECURITY AND JUSTICE

This sector review examines U.S. spending to support Iraq's military forces, police, and justice infrastructure. The rule of law is an essential component to the success of reconstruction efforts in Iraq. Iraq's ability to deploy cohesive military and police forces under the control of capable ministries is critical to the country's economic and political stability.

These are highlights of IRRF- and ISFF-funded activities in this sector:

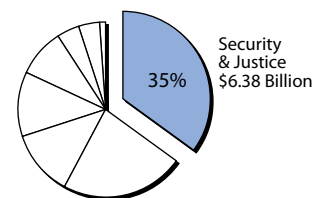
- More U.S. funds have been committed to security and justice than any other reconstruction sector. Almost \$12 billion in IRRF 2 and ISFF has been allocated.
- As of June 28, 2006, 85% of the \$6.38 billion IRRF allocation had been expended. Figure 2-24 shows sector funds as a percentage of the IRRF.
- As of June 25, 2006, only 52% of the \$5.39 billion ISFF allocation had been expended.
- An additional \$3.007 billion was appropriated to the ISFF in the FY 2006 Emergency Supplemental Appropriation. This funding will remain available until September 30, 2007.<sup>177</sup>
- More than 268,000 military and police personnel have reportedly been trained, equipped, and fielded.
- More than 1,200 facilities have been completed, including police stations, fire stations, courts, border forts, and army facilities.

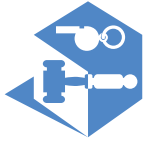
SIGIR has a number of ongoing audits related to activities in this sector, including one in response to a request from the Chairman of the U.S. Senate Armed Services Committee for a review of the Iraqi Security Forces logistics capability. SIGIR is also conducting a review of the Iraqi Police Training Program Support and Equipment under Task Order 0338.

### Activities in the Security and Justice Sector

As the number of trained and equipped Iraqi security forces approaches the targets set by coalition and Iraqi officials, activities in this

Figure 2-24  
**SECURITY AND JUSTICE SECTOR  
 AS A SHARE OF IRRF FUNDS**  
 % of \$18.44 Billion  
 Source: DoS *Iraq Weekly Status Report*, 06/28/06





## SECURITY AND JUSTICE

sector have shifted to improving logistical capabilities and leadership in the Ministries of Defense and Interior. Training Iraqi police forces will continue to be an important priority throughout 2006.

### Funding Status of the Security and Justice Sector

Approximately 85% of IRRF 2 funds for military and police forces has been expended. Only 52% of original ISFF funding has been expended, as of June 25, 2006. An additional \$3 billion was approved by Congress in the FY 2006 Supplemental for ISFF. See Figures 2-25 and 2-26 for the status of IRRF and ISFF sector funds.

### Programs and Activities Completed and Underway

IRRF 2 projects focus on facilities construction and refurbishment. For a detailed list of projects funded by IRRF 2, see Figure 2-27.

### MILITARY/POLICE FORCE DEVELOPMENT AND SUPPORT

Work in this sector has focused on building military and police forces. The effort has resulted in more than 268,000 trained and equipped military and police personnel.<sup>178</sup> The initial force generation plans for the Ministries of Interior and Defense are expected to be completed by the end of 2006 when the effort will shift to replacing force losses.<sup>179</sup>

Figure 2-25  
**STATUS OF ISFF FUNDS IN THE SECURITY AND JUSTICE SECTOR**  
 \$ Billions  
 Source: DoS Weekly Financial Update, 06/25/06

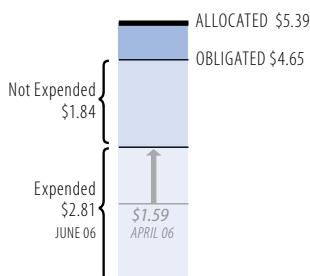
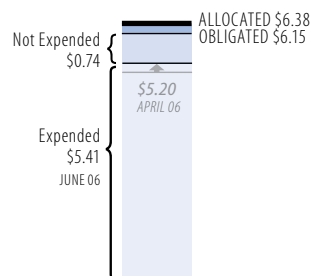


Figure 2-26  
**STATUS OF IRRF FUNDS IN THE SECURITY AND JUSTICE SECTOR**  
 \$ Billions  
 Source: DoS Iraq Weekly Status Report, 06/28/06



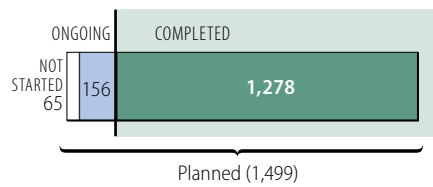
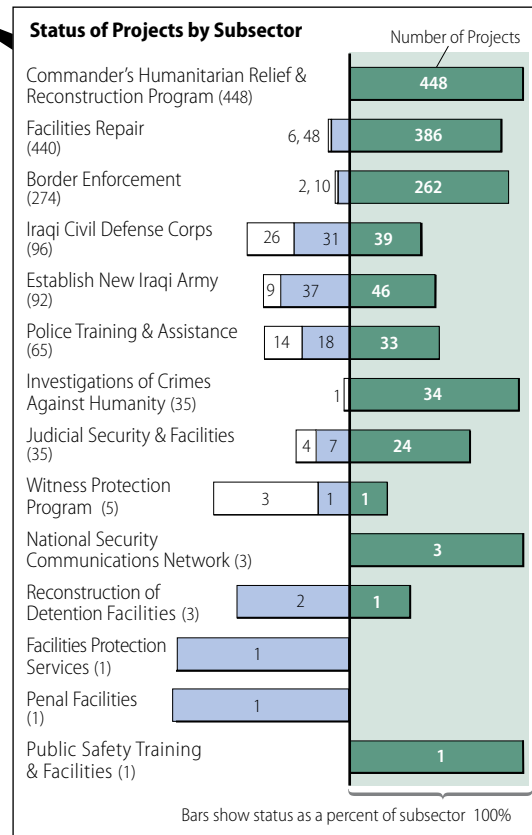
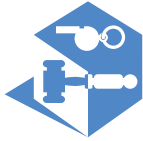


Figure 2-27  
**STATUS OF SECURITY AND JUSTICE PROJECTS**  
 Number of projects  
 Source: IRMS – IRMO Rollup File, 06/30/06 &  
 USAID Activities Report, 07/10/06





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**CONSTRUCTION**

IRRF 2 has funded construction and rehabilitation of border forts, fire stations, police stations, public safety training academies, prisons and corrections facilities, courthouses, and witness-protection facilities.<sup>180</sup> The last IRRF-funded construction project in the security and justice sector is scheduled to be completed by December 2007.<sup>181</sup> Figure 2-28 shows construction activity in this sector by governorate.

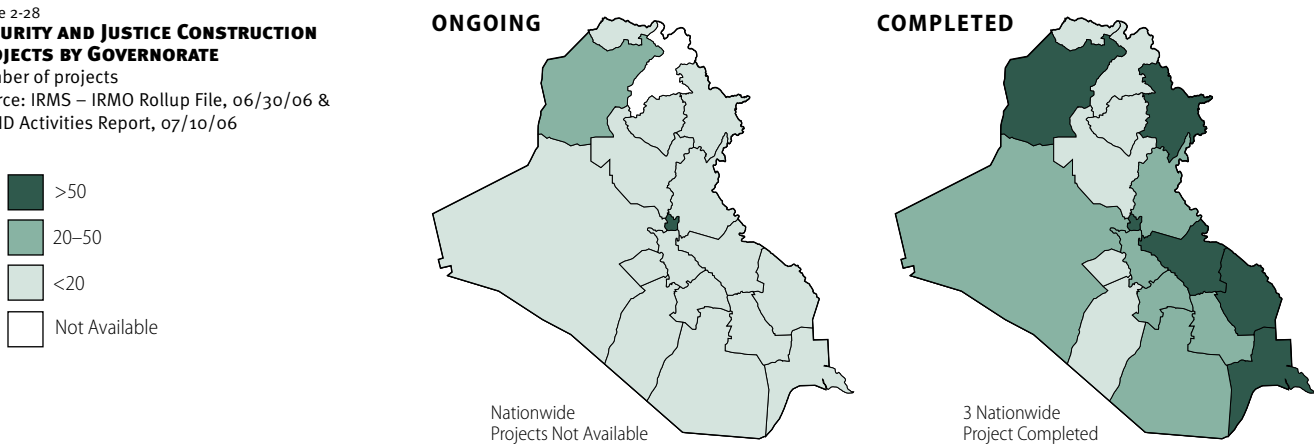
Construction on the Provincial Police Headquarters in Mosul has suffered major delays. The contractor failed to correct deficiencies and complete tasks outlined by the contract, which was recently suspended, pending a Termination for Default. In April, this project was reported to be 98% complete, but as of July 14, only 50% of work was reported as being finished.<sup>182</sup> Renovations at the Domies Police Station in Kirkuk were completed this

quarter,<sup>183</sup> providing increased security to an economically crucial oil-producing region.

Work on the Baghdad Police College (formerly the Baghdad Public Safety Training Academy) project was completed on June 7, 2006. Renovations on the Al-Zab Courthouse in Kirkuk, which began in October 2005, are now 99% complete.<sup>184</sup>

The Nasiriyah Correctional Facility, currently 38% complete, has encountered a variety of construction obstacles related to inadequate workforce levels, financial problems, and security concerns at the site. The facility was initially slated to have the capacity to hold 4,400 inmates, but that was later descope to a capacity of only 800, with the possibility of increasing to 1,200. This project was expected to be completed by August 2006, but that date has slipped to January 2007. The design-build contract for Nasiriyah was canceled in July 2006 and will be solicited again as a fixed-

Figure 2-28  
**SECURITY AND JUSTICE CONSTRUCTION PROJECTS BY GOVERNORATE**  
 Number of projects  
 Source: IRMS – IRMO Rollup File, 06/30/06 & USAID Activities Report, 07/10/06







price contract.<sup>185</sup> This correctional facility is the subject of a SIGIR inspection, summarized in Section 3 of this Report.

On December 24, 2004, construction work began at another prison, the Khan Bani Saad Correction Facility. The facility was designed to house at least 1,800 medium/maximum security inmates, with the potential to hold as many as 3,600 prisoners. In mid-June, GRD-PCO cancelled this design-build contract because of constant schedule delays and cost overruns.<sup>186</sup> Iraqi contractors will complete the Khan Bani Saad Facility through a fixed-price contract funded by the IRRF. It is expected to be completed in December 2007.<sup>187</sup>

To date, 262 border forts have been constructed, 10 are ongoing, and 2 have yet to begin. SIGIR limited on-site inspections revealed significant problems with the quality of work performed and the adequacy of maintenance for the facilities. These on-site inspections assessed 12 new border forts and 9 MNSTC-I border forts. For summaries, see Section 3 of this Report.

### **NON-CONSTRUCTION INITIATIVES**

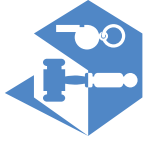
Several initiatives are in progress to promote oversight and transparency in the security and justice sector, including continued funding and development of the Commission on Public Integrity (CPI), which is tasked to detect and investigate alleged illegal activities and organizations. CPI is developing a capacity to combat corruption, with 180 active investigators, more than 1,000 personnel, and four provincial offices.<sup>188</sup>

The Department of Justice has been working with DoS to support the function and expansion of the Central Criminal Courts of Iraq (CCCI), in addition to advising and training Iraqi judges. In mid-June, the American Bar Association provided training in judicial leadership and case management to 20 judges and court administrators.<sup>189</sup>

Although the CPI has referred 1,370 cases to the CCCI, only 40 of these cases have yielded convictions; 106 cases were rejected, and CPI is currently appealing them.<sup>190</sup>

Together with DoS OIG, SIGIR initiated a survey of the Joint Anticorruption Program.<sup>191</sup> SIGIR found that the U.S. government has been working with the Iraqi government to establish organizations, systems, training, and an environment to increase trust and confidence in the Iraqi government and to increase the transparency and accountability of overall government operations. However, these efforts have not been focused or well-coordinated, and SIGIR notes that total funding for ongoing and planned U.S. government expenditures on anticorruption activities has been modest. Total funding for ongoing and planned anticorruption activities through June 15, 2006, was approximately \$65 million, or less than .003% of total IRRF 2 funding to date. This review is in Section 3 of this Report.

The Advanced First Responder Network (AFRN) is intended to support public security initiatives in Iraq. DRISO reports to SIGIR that the project has been turned over to the Ministry of Interior.<sup>192</sup> SIGIR's audit of the project, in Section 3 of this Report, indicates that the



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system is fundamentally flawed.<sup>193</sup> The AFRN project has not yet produced:

- an effective nationwide first-responder communication, command, and control system
- an efficient means to dispatch and direct first responders at the governorate level

### Outputs of Programs Funded by IRRF 2 and ISFF

More than 268,000 Iraqi military and police forces have been trained and equipped for security operations:

- 116,100 Iraqi Army, Navy, and Air Force personnel<sup>194</sup>
- 152,300 police, highway patrol, and other Ministry of Interior officers<sup>195</sup>

The coalition and the Iraqi Ministry of Interior intend to field 188,200 trained and equipped security personnel by the end of 2006.<sup>196</sup> The force-generation plan for Iraqi forces under the Ministry of Defense proposes an end-strength of approximately 137,500 soldiers.<sup>197</sup> To determine the readiness of Iraqi security and police forces, the coalition uses the Transition Readiness Assessment (TRA) process.<sup>198</sup>

As of June 26, 2006, 106 Iraqi Army combat and Special Operations battalions, 8 Strategic Infrastructure Battalions, and 28 police battalions were conducting counter-insurgency operations.<sup>199</sup> Despite these promising numbers, DoD reports that it will take time before a significant number of units can be assessed as fully independent.<sup>200</sup>

### TRAINING INITIATIVES

The 2006 Training Plan for the Ministry of Interior establishes common training standards and emphasizes human rights, ethics, and the rule of law. It is expected that the training academies will be turned over to Iraqi control by the end of 2006.<sup>201</sup> Iraqi police recruits currently receive 32 hours of human rights and rule-of-law training as part of the 10-week police basic course. For a status update of some of the training programs and initiatives currently underway, see Table 2-11.

The judicial training program is projected to reach 1,100 judges by January 2009—100 fewer than the number deemed necessary for Iraq.<sup>202</sup> Also, to mitigate threats to judges, U.S. marshals are training Iraqi security teams to protect members of the judiciary.<sup>203</sup>

### Outcomes of Programs Funded by IRRF and ISFF

Security remains by far the most significant challenge facing all sectors of Iraq reconstruction. Many donor countries have cited risks to staff and security costs as the main reasons for delays in carrying out their pledges.<sup>204</sup>

### MINISTERIAL CAPACITY DEVELOPMENT

As the initial force-generation plans for the Ministry of Defense and the Ministry of Interior approach completion, the emphasis has shifted to developing Iraq's institutional capacity to direct, support, and sustain security forces.<sup>205</sup> Developing the civilian functions in



the Ministry of Defense is essential if the Iraqi military hopes to operate and sustain itself without coalition support

According to DoD, “an integrated and coordinated effort to ensure that key ministerial functions develop commensurate with those of the Iraqi Armed Forces has made progress over this quarter.”<sup>206</sup> In February, MNSTC-I awarded a contract to build ministerial capacity. Although some progress was made, many external factors have slowed progress, leading to only modest success for this initiative. These factors were largely security-related, including the intimidation and assassination of Iraqi officials.

**ANTICORRUPTION**

The anticorruption initiatives of the U.S. Embassy in Iraq and the Iraqi government

have experienced several challenges—which are addressed in a SIGIR audit summarized in Section 3. The Inspector General for the Ministry of Human Rights explained to SIGIR officials that, although inspectors general are reducing corruption at the lower levels of ministries throughout the government, they still lack the strong laws and government to effectively combat corruption at higher levels.<sup>207</sup>

**INFRASTRUCTURE SECURITY**

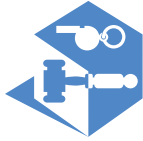
The establishment of Strategic Infrastructure Battalions (SIBs) has improved oil infrastructure security by providing some security presence along the northern oil pipelines to deter criminals and saboteurs. With the introduction of partnership arrangements with coalition and Iraqi Army Forces, the capability of the SIBs improved significantly during the last quarter.

**IRAQI POLICE TRAINING PROGRAMS**

PROGRAM	STATUS
Basic Police Academy (BPA)	More than 9,500 recruits completed the Basic Police Academy program (10 weeks) this quarter. Nearly 600 recruits graduated from the 3-week Transition Integration Program (TIP), which gives police officers who served under the Saddam regime skills training and instruction in human rights and rule of law.
6-month Police Officer Academy	For current police officers with higher education; 285 new police lieutenants graduated on March 30, 2006.
9-month Police Officer Academy	For current police officers; 336 new police lieutenants are enrolled in the course that started on April 16.
3-year Police Officer Academy	Will begin in October 2006 with up to 1,000 new officer candidates.
“Sergeants-to-Officer” Course	100 students graduated on March 30, 2006; a second course began in April 2006.
Former Officer Course (FOC)	One-month course that provides training in human rights, ethics, and counter-insurgency operations; 1,032 personnel expected to complete the course during this reporting period, and another 420 in the next reporting period.

Sources: DoS Section 2207 Report, Appendix 1, July 2006.

TABLE 2-11



## SECURITY AND JUSTICE

### Challenges

#### INSURGENCY AND GENERAL INSTABILITY

In late April, GAO reported that “[a]lthough it is difficult to quantify the costs and delays resulting from poor security conditions, both agency and contractor officials acknowledged that security costs have diverted a considerable amount of reconstruction resources and have led to canceling or reducing the scope of some reconstruction projects.”<sup>208</sup> The Inspector General of the Ministry of Human Rights told SIGIR in an interview that kidnappings, killings, corruption, and overall security are all getting worse.<sup>209</sup> This violence affects every aspect of the reconstruction effort. The UN reported that in May 2006, 22 doctors, nurses, and non-medical staff were killed, and another 50 were wounded. Continued attacks against teachers, professors, and students have resulted in a flight of academics and intellectuals from Iraq. The UN cites the High Judicial Council’s assessment that, since April 2003, at least 13 judges have been killed.

#### MILITIA INFILTRATION AND SECTARIAN TENSION

The destructive role that militia groups play in Iraqi society is emerging as a challenge to the nation’s stability. GAO reported in late April that:

According to a March 2006 State Department survey, Iraqis have become increasingly concerned that civil war may break out. Iraqis in Baghdad and the central and northern Sunni areas have lost confidence in the ability of Iraqi army and police to improve the security situation. At the same time, support for the armed resistance increased in some Sunni areas, and Iraqis in Shi’a areas expressed confidence in two large Shi’a militias, the Badr Organization and the Mahdi Army.<sup>210</sup>

On May 30, the Prime Minister declared that pro-government party militias would not be exempt from his plan to disband irregular armed forces. He offered favorable treatment to armed groups that resisted the former regime, over those that organized after March 2003.<sup>211</sup> A plan is reportedly in development to assist Iraqi leaders in addressing the militia challenge simultaneously at the local, provincial, and national levels.<sup>212</sup>

#### INFRASTRUCTURE SECURITY

Even though attack trends against critical infrastructure in the north are down, insurgent attacks and sabotage have taken a significant toll on the northern pipelines. SIGIR has produced a classified report on infrastructure security, detailing the challenges facing Iraq’s oil and electricity infrastructure and recommending steps to improve infrastructure security.



## HEALTH CARE SECTOR

U.S. reconstruction spending in this sector has focused on building, rehabilitating, and equipping medical facilities, as well as providing immunization, training, and other health services.

These are the highlights of the health care sector report:

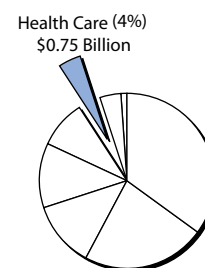
- The sector has received IRRF 2 allocations of \$750 million (see Figure 2-29), and more than 65% (\$490 million) had been expended by the end of this quarter. Figure 2-30 shows the location of ongoing and completed health care construction projects by governorate.
- More than 80% of projects have been completed, but progress has been significantly impeded by security and management problems.
- Of the originally planned 150 Primary Healthcare Centers (PHCs), 6 have been delivered, and only 2 are fully operational.<sup>213</sup>
- Of the 25 hospital rehabilitation projects planned, only 13 have been completed.<sup>214</sup> The design-build contract covering eight of the remaining projects was cancelled, and the work will be completed under a series of fixed-price contracts, which have been re-awarded to Iraqi firms.

### IRRF-funded Activities in the Health Care Sector

As of June 28, 2006, more than 88% of the sector's funding had been obligated, and 65% had been expended. Figure 2-31 shows the status of funds in the health care sector; 653 of 795 projects have been completed, with the majority classified as non-construction.<sup>215</sup> The project completion rate in this sector is ahead of several other sectors, but security delays and contractor failures have significantly limited progress.

The PHC program was the largest single construction program under IRRF 2, and it has been beset by problems. Only 6 of the

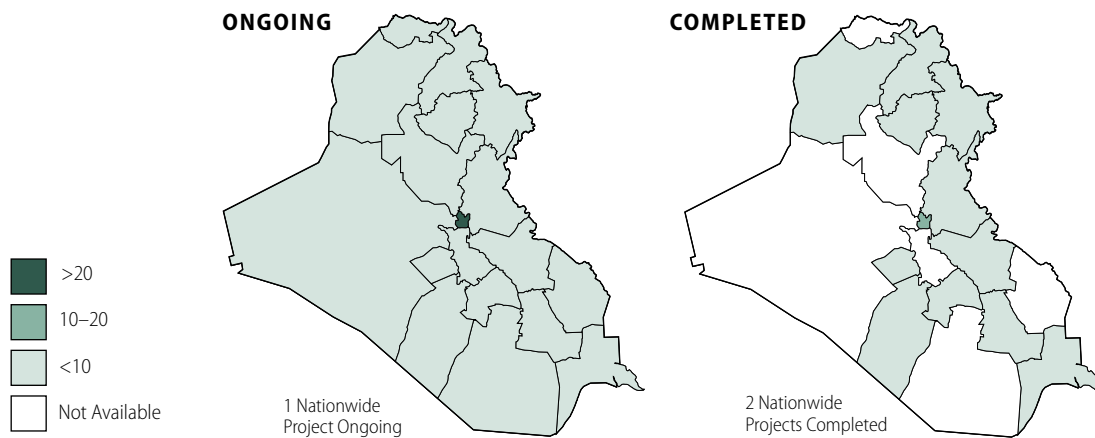
Figure 2-29  
**HEALTH CARE SECTOR AS A SHARE OF IRRF FUNDS**  
 % of \$18.44 Billion  
 Source: Dos Iraq Weekly Status Report, 06/28/06





HEALTH CARE

Figure 2-30  
**HEALTH CARE CONSTRUCTION  
 PROJECTS BY GOVERNORATE**  
 Number of projects  
 Source: IRMS—IRMO Rollup File, 06/30/06 &  
 USAID Activities Report 07/10/06



135 PHCs (descoped from 150) funded by IRRF 2 have been completed.<sup>216</sup> The majority of the design-build contracts for the PHCs were canceled this quarter and are being re-awarded to Iraqi firms under fixed-price contracts.

The July 2006 *Section 2207 Report* reflects the Administration's previous notification to Congress of its intent to increase funding in this sector by \$62.3 million primarily to address construction funding shortfalls.<sup>217</sup> Figure 2-32 shows the status of projects in the health care sector.

## Key Projects Completed and Underway

SIGIR reported last quarter that 150 PHCs were originally planned for Iraq using IRRF 2 funding, but because of cost increases, that planned total now stands at 142. After the PHC design-build contract was canceled, GRD pursued alternate funding to finish the partially completed PHCs. Seven of the remaining PHCs will be funded with the Commander's Emergency Response Program (CERP) funds, and the other 135 will be completed with remaining IRRF 2 funds. GRD-PCO planned to com-



HEALTH CARE

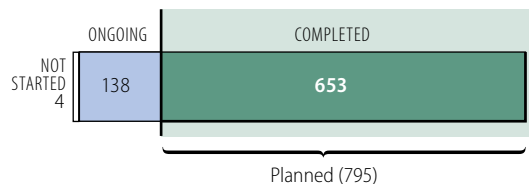
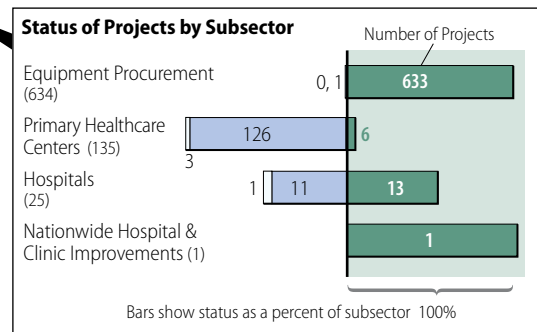
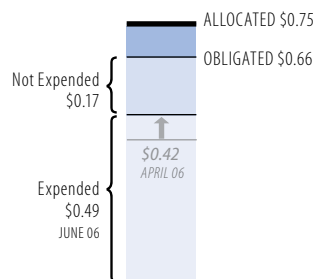


Figure 2-32  
**STATUS OF HEALTH CARE PROJECTS**  
Number of projects  
Source: IRMS—IRMO Rollup File, 06/30/06 & USAID Activities Report 07/10/06

Figure 2-31  
**STATUS OF HEALTH CARE FUNDS**  
\$ Billions  
Source: *Dos Iraq Weekly Status Report*, 06/28/06



plete 20 of the 135 PHCs under the original design-build contracts and the other 115 under new, fixed-price contracts.<sup>218</sup> GRD has issued solicitations for 106 of these fixed-price contracts.<sup>219</sup> Of the six delivered PHCs, only two are currently serving patients.<sup>220</sup> The estimated completion date for all of the PHCs is now June 2007.<sup>221</sup> Figure 2-33 shows the status of PHC construction.

The hospital rehabilitation program has also been problematic. The program's original goal was to renovate 17 maternity and children's hospitals, but this number was increased to 20 in December 2004.<sup>222</sup> Currently, the refurbishment of 20 hospitals is being overseen by GRD-PCO, while the construction of one additional hospital is being overseen by USAID.

In May 2006, GRD-PCO announced that the design-build contract for the hospitals had been partially terminated because of insufficient contractor progress and associated escalating costs, which had pushed the program's cost above available funding.<sup>223</sup> Although refurbishments have been completed at 11 hospitals, 8 hospital renovations have been descoped from the original design-build contract and will be completed through new fixed-price contracts. The GRD-PCO hospital renovation program is expected to be finished by April 2007.<sup>224</sup>

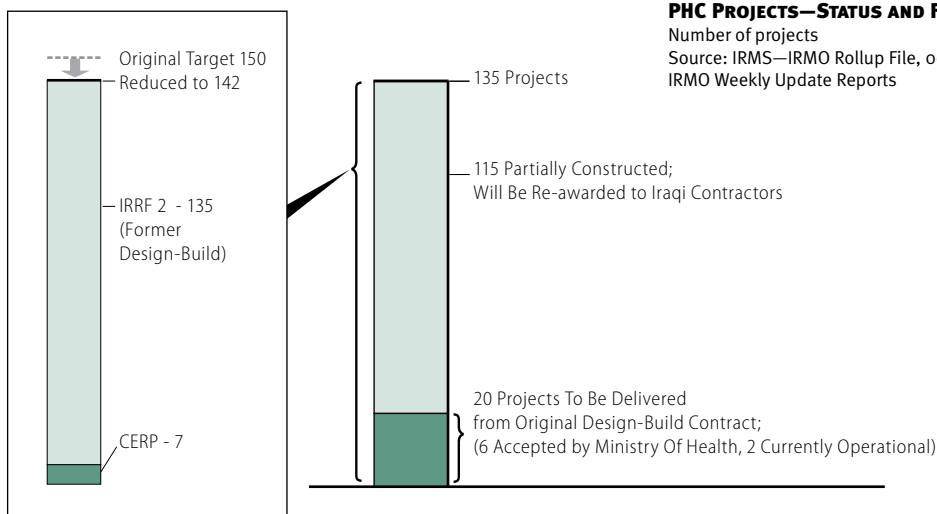
In November 2003, \$50 million from the IRRF was allocated for the Basrah Children's Hospital Project. USAID entered into a Memorandum of Understanding with Project HOPE,

wherein Project HOPE would provide a significant portion of the hospital's equipment and assume responsibility for training medical and administrative staff. At the request of the Iraqi Ministry of Health, USAID modified the scope of work in July 2005 to increase the number of beds to 94 and to upgrade the facility to include an oncology center.

The contract with Bechtel, the prime contractor, required that the hospital be completed by December 31, 2005. However, the completion date slipped several times, and on March 26, 2006, Bechtel informed USAID that the hospital would not be completed until July 31, 2007. A recent assessment identified several options for completing the hospital that ranged from \$90 million to \$131 million, not including medical equipment. The recommended option was to discontinue Bechtel as the prime

contractor and assign responsibility to USACE-GRD. This option has the potential to reduce costs to approximately \$90 million plus the cost of medical equipment. SIGIR has completed an audit of this project, which is summarized in Section 3 of this Report.<sup>225</sup>

USAID's non-construction activities in the health care sector will be completed by the end of the current reporting period,<sup>226</sup> with close-out expected by August.<sup>227</sup> These projects have focused on vaccination and training programs. USAID has dedicated \$10 million to capacity development activities for primary health care providers in the Ministry of Health<sup>228</sup> and \$4.5 million for training of ministry staff in technical and management areas to strengthen primary health care program planning, implementation, and oversight.<sup>229</sup>





## Outputs of IRRF-funded Health Care Projects

### HEALTH CARE FACILITIES

An IRRF contract directed the provision of medical and dental equipment sets for each of the 150 PHCs. Six sets of PHC equipment and consumables have been delivered to the six accepted PHCs. The sets for the remaining PHCs have been stored at Erbil and Abu Ghraib and will be used for the PHCs as they are completed.<sup>230</sup>

Although the number of PHCs was reduced, the U.S. government did not adjust the number of medical equipment sets on order. The contract's definitized costs of \$70,359,014 included contractor installation and testing of the equipment, training of clinic personnel in the use of the equipment, and provision of a 12-month warranty on the installed equipment. For a summary of SIGIR's audit of this contract, see Section 3 of this Report. Table 2-12 shows more information on construction projects in the health care sector.

### HEALTH CARE FACILITY CONSTRUCTION: CURRENT & PLANNED

HEALTH CARE FACILITIES	CURRENT STATE, AS OF 06/30/2006	IRRF PLANNED END-STATE
Hospitals Rehabilitated <sup>1</sup>	11	20
Hospitals Built <sup>2</sup>	In progress	1
Primary Healthcare Centers Rehabilitated <sup>2</sup>	147	147
Primary Healthcare Centers Equipped <sup>2</sup>	600	600
Small Primary Healthcare Centers Built and Equipped <sup>2</sup>	6	6
Model Primary Healthcare Centers Completed to Operational Stage <sup>1</sup>	2	135

Sources: IRMS data, as of 06/30/2006 (End-State of Model PHCs); DoS *Section 2207 Report*, Tab 5 (Selected Metrics), July 2006, p. 16 (all other data); <sup>1</sup>represents work overseen by GRD-PCO; <sup>2</sup>represents work overseen by USAID).

The current number of PHCs to be completed is 142. Of those: 20 will be completed through the original design-build contract; 115 will be completed through fixed-price contracts, including one PHC that was always slated to be completed through this contracting method; and seven will be done with CERP.

TABLE 2-12



**NON-CONSTRUCTION PROJECTS**

The United States has supported a broad range of non-construction activities, including vaccination campaigns for measles, mumps, rubella, and polio, as well as vaccine supplies to ensure the availability of routine immunizations. Table 2-13 shows the figures related to these programs.

Other non-construction projects include:

- providing vitamin A and iron folate to 2 million lactating mothers and young children<sup>231</sup>
- training health workers at more than 2,000 community child-care units to conduct growth monitoring and manage malnutrition, including screening of more than 1.3 million children<sup>232</sup>

**Outcomes of IRRF-funded Health Care Projects**

The original coalition strategy for the health care sector was to move Iraq from a hospital-based delivery system to a more localized primary health care system. The plan envisioned developing a more accessible health care system that relied on PHCs to improve services for all Iraqis, particularly those in remote and

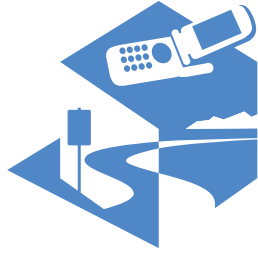
**VACCINATION AND TRAINING PROGRAMS**

OUTPUTS METRIC	STATUS, AS OF 6/30/2006
Vaccination Programs	<ul style="list-style-type: none"> <li>• 3.6 million children vaccinated against MMR (98% of target population)</li> <li>• 4.6 million children vaccinated against polio (97% of target population)</li> </ul>
Number of Ministry of Health Professionals Trained in Maternal and Child Health Service Delivery	3,707 [3,200 from IRRF 1]
Community Leaders and Other Non-ministry Personnel Trained in Health Promotion	3,100 [All IRRF 1 Funding]

Source: DoS, response to SIGIR Data Request, 07/03/2006.

TABLE 2-13

underserved areas.<sup>233</sup> The failure of the PHC and hospital programs to meet their schedules has limited progress in this sector. The vaccination campaigns, however, have had significant, positive results. Almost all Iraqi children have been inoculated against measles, mumps, polio, and rubella. From 2004 to 2005, lab-confirmed cases of measles in Iraq dropped by 90%, and there have been no recorded cases of polio since 2003.<sup>234</sup>



## STATUS OF THE TRANSPORTATION AND COMMUNICATIONS SECTOR

This section examines the progress of reconstruction in the transportation and communications (T&C) sector. Projects in this sector improve transportation systems in Iraq, such as ports, railways, roads, bridges, and airports. This sector also includes U.S.-funded telecommunications projects.<sup>235</sup>

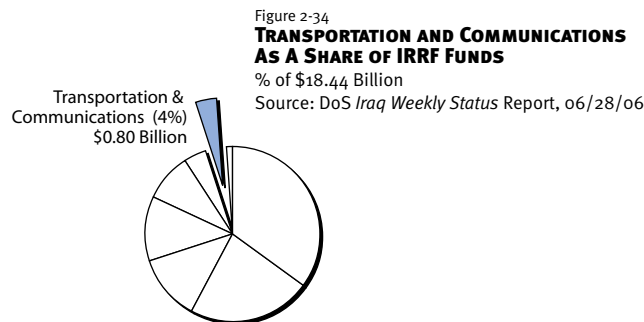
These are the highlights of this sector review:

- 54% of projects have been completed, and 60% of the \$803 million IRRF 2 allocation for this sector has been expended. This suggests that most of the larger projects are complete. Figure 2-34 shows sector funding as a portion of total IRRF 2 allocations.
- Projects at the Port of Umm Qasr on the Iraq-Kuwait border were 87% complete at

the end of this reporting quarter.

- U.S. projects have completed repairs at 82 of 98 railway stations, but the effects of these projects are not yet apparent. Although the weekly average increased during the quarter, because of continued security problems only a small number of trains continue to run nationwide.
- Landline and mobile phone services continue to expand. More than 7 million Iraqis now have access to mobile phone service.

Figure 2-35 shows construction projects in this sector by governorate.





TRANSPORTATION AND  
COMMUNICATIONS

## IRRF-funded Activities in the Transportation and Communications Sector

Projects in the T&C sector focus on five major areas:

- shipping
- railways
- air transportation
- roads and bridges
- telecommunications

GRD-PCO estimates that all projects will be completed in this sector by December 2008.<sup>236</sup> Figure 2-36 shows the status of projects in the T&C sector.

In 2003, the UN and World Bank estimated that transportation and telecommunications in Iraq would require \$3.38 billion of investment.<sup>237</sup> The T&C sector has been allocated more than \$800 million of IRRF funds. More than 92% of the sector's funding has been obligated, and \$480 million has been expended. (Figure 2-37 shows the status of funds in the T&C sector.)

### SHIPPING

#### Key Shipping Projects Completed and Underway

Projects in shipping have focused on the Port of Umm Qasr. \$45 million of IRRF 2 was allocated for rehabilitation work and new equipment at the port, with \$43 million obligated by the end of this reporting quarter.<sup>238</sup> GRD-PCO has completed four of eight projects at the port,<sup>239</sup> and the overall port construction program is 87% complete. It is expected to be finished in October 2006.<sup>240</sup>

#### Outputs of IRRF-funded Shipping Projects

As a result of U.S. projects, 16 docks are now functioning; only one dock was functioning at the end of the war.<sup>241</sup> Other port projects focus on increasing handling capacity, enhancing operational efficiency, and strengthening security, all of which will allow for increased movement of cargo in and out of the port.<sup>242</sup>

#### Outcomes of IRRF-funded Shipping Projects

Figure 2-38 shows the number of new ship berths at Umm Qasr from January 18, 2006, to June 27, 2006. The number of berths averaged more than 18 per week this quarter, which is an increase from the previous quarter's 14 per week.

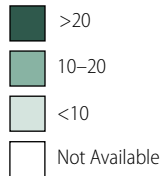
### RAILWAYS

#### Key Railway Projects Completed and Underway

Current allocations in this subsector amount to \$198 million, and \$183 million was obligated by the end of this quarter.<sup>243</sup> In large part, construction projects in this subsector have focused on railroad station rehabilitation. GRD-PCO has rehabilitated 82 of 98 railroad stations as part of the \$51 million program.<sup>244</sup> SIGIR visited the Baghdad Central Railway station this quarter. SIGIR's project assessment found the Baghdad railway station to be essentially complete and in good order except for limited punch-list items and some work added because of a pending modification. SIGIR also conducted a limited on-site inspection at Thi-Qar Railway Station and found that the only problem was a project delay. Summaries of the inspections are in Section 3 of this Report.



Figure 2-35  
**TRANSPORTATION AND COMMUNICATIONS CONSTRUCTION PROJECTS BY GOVERNORATE**  
 Number of Projects  
 Source: IRMS Rollup File, 06/30/06  
 USAID Activities Report, 07/10/06



### ONGOING



### COMPLETED

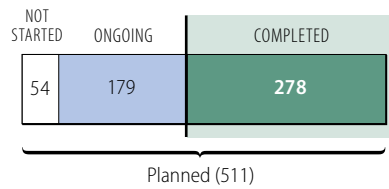
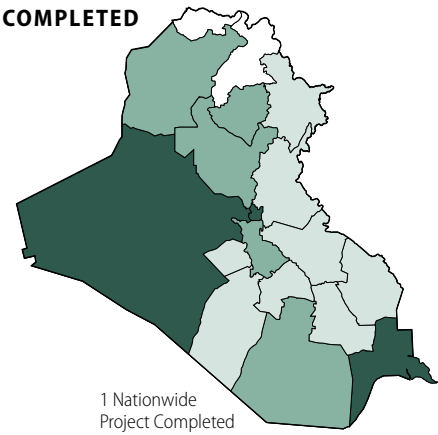
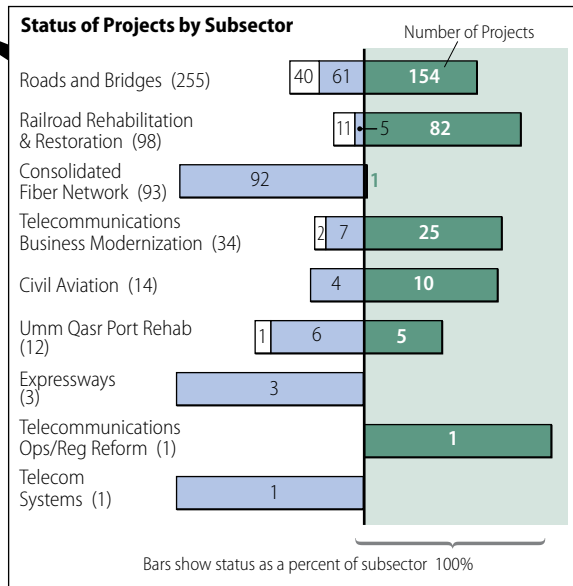
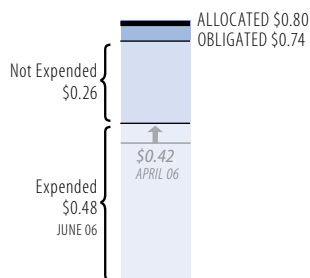


Figure 2-36  
**STATUS OF TRANSPORTATION AND COMMUNICATIONS PROJECTS**  
 Number of Projects  
 Source: IRMS-IRMO Rollup File, 06/30/06 &  
 USAID Activities Report, 07/10/06

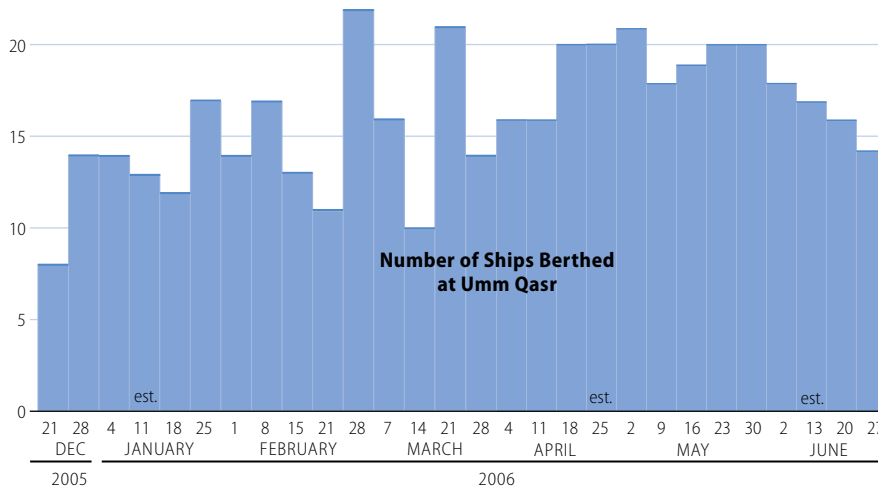
Figure 2-37  
**STATUS OF TRANSPORTATION AND COMMUNICATIONS FUNDS**  
 \$ Billions  
 Source: DoS Iraq Weekly Status Report, 06/28/06





**TRANSPORTATION AND COMMUNICATIONS**

Figure 2-38  
**SHIPS BERTHED AT UMM QASR**  
 Number of Ships  
 Source: IRMO Weekly Status Reports, 12/21/05-06/27/06



The bulk of expenditures in this subsector, \$125 million, is for non-construction material. Most of this funding has gone to track-maintenance machinery, spare parts, and tools and materials.<sup>245</sup> One of the largest projects provides communications for a train-control system, which is essential to running a viable railway. The \$60 million project is expected to be completed in 2007.<sup>246</sup> The United States is also helping the Iraqi Republic Railway (IRR) develop a long-term strategic business plan.

**Outputs of IRRF-funded Railway Projects**

U.S. projects have helped bring the number of operational locomotives up to 125 (from 25 immediately after the war).<sup>247</sup> As noted, though most funding has been allocated to non-construction projects, GRD-PCO is repairing 98 stations throughout Iraq.

**Outcomes of IRRF-funded Railway Projects**

Figure 2-39 shows weekly train traffic for 2006. This quarter, train movement averaged 15.2 trains per week—a slight increase over the previous quarter’s average of 13 per week.

Security continues to hinder the flow of rail traffic in Iraq. No trains have operated along the Baghdad-Basrah-Umm Qasr route since February 2006.<sup>248</sup>

**AIR TRANSPORTATION**

**Key Air Transportation Projects**

**Completed and Underway**

\$56 million of the \$67 million in IRRF 2 allocations for civil aviation has been obligated.<sup>249</sup> U.S. projects have focused on bringing the three major international airports in Iraq up to International Civil Aviation Organization standards: Baghdad (BIAP), Basrah (BIA), and

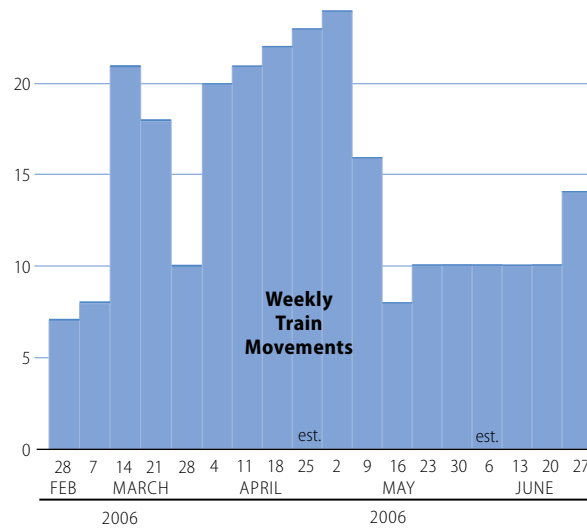


Figure 2-39  
**VOLUME OF RAIL TRAFFIC**  
 Number of Weekly Train Movements  
 Source: IRMO Weekly Status Reports, 02/28/06-06/27/06

Mosul.<sup>250</sup> None of these airports was operating at the end of the 2003 war,<sup>251</sup> but now each has ongoing commercial operations. Operations are also active at the Kirkuk and Erbil airfields.<sup>252</sup>

Table 2-14 summarizes the work done at BIAP, BIA, and Mosul and shows that U.S.-led reconstruction efforts in this subsector are near completion. Work at BIA was originally scheduled to be completed by May 2006,<sup>253</sup> but the estimated completion date has been pushed back. SIGIR completed a project assessment of BIA, concluding that the contract work at Basrah was consistent with contract requirements (although the original objectives had not been achieved at the time of SIGIR’s assessment). For a summary of the assessment, see Section 3 of this Report.

**Outputs of IRRF-funded Air Transportation Projects**

U.S. projects have helped rehabilitate five Iraq airports that were not functioning at the end of the war.<sup>254</sup> The projects primarily focused on infrastructure improvements at the three national airports—Baghdad, Basrah, and Mosul—completion expected by August 2006. The work performed meets the minimum standards of the International Civil Aviation Organization.<sup>255</sup>

**Outcomes of IRRF-funded Air Transportation Projects**

During this quarter, BIAP averaged 414 civil aviation operations per week—an increase from last quarter’s 371 per week. Figure 2-40 shows the number of daily commercial flights at BIAP from April 4 to June 27, 2006.



**TRANSPORTATION AND COMMUNICATIONS**

## STATUS OF U.S.-LED PROJECTS AT IRAQI AIRPORTS

AIRPORT	CONTRACT SIZE	NUMBER OF PROJECTS	ESTIMATED COMPLETION DATE	STATUS AS OF 6/19/06
Baghdad (BIAP)	\$17 million	6	August 2006	85% complete
Basrah (BIA)	\$7 million	7	July 2006	96% complete
Mosul	\$10 million	1	August 2006	89% complete

Source: GRD-PCO, SIGIR Data Request sent by DoS, Excel spreadsheet, June 19, 2006; Updated by GRD-PCO, vetting response, July 18, 2006.

TABLE 2-14

## ROADS AND BRIDGES

### Key Road and Bridge Projects Completed and Underway

U.S.-funded projects in this sector will not be completed until December 2008. The projects have focused on smaller village roads, several highways important for commerce and general transportation, and bridges.<sup>256</sup> By the end of this quarter, \$189 million of the \$209 million of the IRRF had been obligated.<sup>257</sup>

Iraq's roads were in poor condition at the end of the 2003 conflict—not as a result of U.S. military operations, but because of continued neglect of Iraq's infrastructure. The UN and World Bank estimated that only 50% of highways and 20-30% of secondary and village roads were in "good" condition in 2003.

The highway between Baghdad and Kirkuk will be upgraded to four lanes by December 2008 at a cost of \$27.9 million; the project is 6% complete. Diwaniyah and Semawa will also be connected by an upgraded four-lane highway. This \$15.5 million project, scheduled to be

completed in January 2008, is 24% complete.<sup>258</sup>

Projects to reconstruct five bridges are 13% complete and will be finished in January 2008.

Work on small roads appears to be lagging behind schedule because of fuel and asphalt shortages.<sup>259</sup> The Village Roads Program, budgeted at \$38 million, will improve 263 miles (424 kilometers) of roads throughout 15 governorates in Iraq.<sup>260</sup> The project was estimated to be finished by August 2006<sup>261</sup> but is now estimated to be finished by March 2007. At the end of this quarter, 135 miles were complete.<sup>262</sup> A SIGIR project assessment completed this quarter found that the Muthanna Village Roads Segment 4 project is 50% complete but is five months past the original completion date of the project. Security conditions prevented the assessment team from visiting the project site, suggesting that security has hindered progress on the project. SIGIR also conducted a limited on-site inspection of a road construction project in Basrah and found the work to be consistent with design requirements.





Projects being issued through the Provincial Reconstruction Development Committees (PRDCs) are moving forward. PRDCs, which have been budgeted \$52 million for roads, prioritize projects in their respective provinces.<sup>263</sup> At the end of last quarter, 59 projects—valued at \$49.2 million—had been approved.<sup>264</sup>

**Outputs of IRRF-funded Road and Bridge Projects**

U.S.-led road and bridge projects will repair and pave 405 miles of road, including 263 miles of village roads, 125 miles of city carriageways, and 17 miles of major roads.<sup>265</sup> Ten bridges will be repaired by the end of the reconstruction program—five from IRRF funding and five from DFI funding.<sup>266</sup>

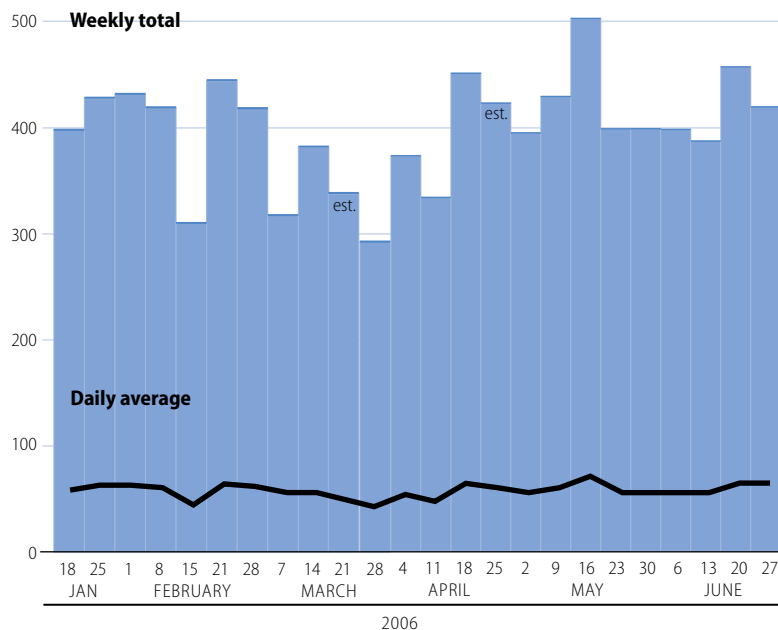
**TELECOMMUNICATIONS**

This subsector continues to generate successful outcomes: the number of Iraqis with telephone access is rising, largely because of private sector development.

**Key Telecommunications Projects Completed and Underway**

The \$70-million Consolidated Fiber Network (CFN) was completed and commissioned this quarter.<sup>267</sup> The project was finished ahead of schedule and under budget. The CFN extended the fiber network of the Iraqi Telephone and Postal Company’s (ITPC), a government agency under the Ministry of Communica-

Figure 2-40  
**FLIGHTS FROM BAGHDAD INTERNATIONAL AIRPORT**  
 Number of Flights  
 Source: IRMO Weekly Status Reports, 01/18/06-06/27/06





## TRANSPORTATION AND COMMUNICATIONS

tions. This will allow Ministry of Electricity officials to monitor and control their electrical grid from a central location and help reduce blackouts and uncontrolled disruptions. To ensure a sustainable system, the CFN effort included extensive training for ministry staff in the operation and maintenance of the new equipment.<sup>268</sup>

\$21 million in IRRF was allocated to modernize the ITPC, and \$19 million has been obligated to date.<sup>269</sup> This includes 34 projects, valued at approximately \$3 million, focused on constructing and renovating post offices. At the end of this quarter, the projects were 60% complete, up from 41% last quarter.<sup>270</sup> When finished, the projects will provide mail service for one million Iraqis.<sup>271</sup>

The Iraqi Telecommunications System has been allocated \$48 million from IRRF, and almost all had been obligated by the end of this quarter.<sup>272</sup> Funding is being used to construct a primary switching facility at Al-Mamoom and a wireless broadband network. The \$26 million Al-Mamoom switch facility is 8% complete and is estimated to be complete by July 2007.<sup>273</sup>

A \$15 million project to establish a wireless broadband network in Baghdad is providing high-capacity data and voice communications to 35 government sites in Baghdad. The network is currently operational and is being considered for providing secure communications for the Iraqi government.<sup>274</sup>

The Advanced First Responder Network (AFRN) is an enormous project intended to provide emergency communications for

first responders, but it has failed to meet expectations. SIGIR completed an audit of this project, and it is summarized in Section 3 of this Report.

### **Outputs of IRRF-funded Telecommunications Projects**

USAID used IRRF 1 funds to repair the 12 landline telephone switching stations that were knocked out of service during the war.<sup>275</sup> In late 2003, the Iraq Ministry of Telecommunications granted three two-year licenses for Global System for Mobile Communications (GSM).<sup>276</sup> Late last year, a request for applications for new cell phone licenses went out, and ten responses were received in January 2006. The two-year license periods expired at the end of 2005 and were extended to June 2006.<sup>277</sup> Recently, they were extended again to September 2006.<sup>278</sup>

### **Outcomes of IRRF-funded Telecommunications Projects**

Table 2-15 compares the current number of telephone subscribers with pre-war numbers. Mobile phone subscribers continue to increase at a rapid pace, from 5.3 million last quarter to 7 million this quarter. Most of the development for the mobile phone infrastructure has come from the private sector. Although the United States provided funding for wireless licenses, the huge increase in subscribers cannot be directly attributed to IRRF-funded projects.

Currently, about 208,000 Internet subscribers in Iraq use State Company for Internet Services (SCIS). Most Iraqis continue to gain



**CURRENT TELEPHONE SUBSCRIBERS VS. PRE-WAR LEVELS**

OUTPUTS METRIC	PRE-WAR LEVEL (2003)	LAST QUARTER STATUS AS OF 3/28/06	CURRENT STATUS AS OF 6/27/06
Landline Subscribers	833,000	1,036,854	1,250,000
Mobile Phone Subscribers	80,000	5,261,789	7,046,526

Sources:

Pre-war Levels: Economist Intelligence Unit, Country Profile 2005-Iraq, 2005, p. 34; International Telecommunication Union, World Telecommunication/ICT Indicators, no date, p. A-30. Available online at [http://www.itu.int/ITU-D/ict/statistics/at\\_glance/cellular03.pdf](http://www.itu.int/ITU-D/ict/statistics/at_glance/cellular03.pdf).

Last Quarter Status: IRMO, Weekly Status report, March 28, 2006, p. 19.

Current Status: IRMO, Weekly Status report, June 27, 2006, p. 18.

TABLE 2-15

access through cafes and hotels.<sup>279</sup> Hundreds of thousands of Iraqis use Internet cafes and other public Internet access points in Iraq, which were not funded by the United States.<sup>280</sup>

**Challenges Facing the T&C Sector**

Security is the major challenge that hinders transportation in Iraq. Most trains are not operating because of security concerns. Additionally, DoS maintains travel warnings about

using civil aviation in and out of Iraq and for vehicular travel throughout the country.<sup>281</sup>

IRMO reports that a major challenge is providing training to international standards for Civil Aviation Authority personnel. Obtaining permission from the Ministry of Transportation to travel and arranging visas to the countries where training is conducted has been difficult.<sup>282</sup> The rail sector faces a similar challenge.



## TRANSPORTATION AND COMMUNICATIONS

## CONTRACTS

This quarter, \$400 million of the Iraq Relief and Reconstruction Fund (IRRF 2) was obligated, raising cumulative obligations to \$16.7 billion. Cumulative expenditures rose by \$1.34 billion, to \$12.71 billion.

To account for these cumulative totals this quarter, SIGIR has taken a new approach for recording contract data in the SIGIR Iraq Reconstruction Information System (SIRIS). Previously, contracting actions were fed into SIRIS from either electronically scanned documents or from manual data entry, using facsimile copies of the contract documents as the source. Incomplete electronic contract records and a lack of real-time updates prevented substantial reporting of IRRF 2 project infor-

mation. To address the shortfall, SIGIR issued data calls to the major federal agencies responsible for execution of IRRF 2 funds. The data call responses were consolidated and recorded in SIRIS, which currently accounts for approximately 80% of the reported IRRF 2 obligations and expenditures for the quarter.

To date, SIGIR has compiled more than 6,000 contracting actions for \$13.45 billion in obligations and \$9.99 billion in expenditures. SIGIR will continue its efforts to account for all IRRF 2-funded activities. Table 2-16 compares the IRRF 2 financial summary reported by DoS, for the month ending June 2006, to the roll-up of IRRF 2-funded contracts in SIRIS.

**SIRIS IRRF 2 TOTALS VS. ACTUAL IRRF 2 TOTALS**

<b>SOURCE</b>	<b>OBLIGATED</b>	<b>EXPENDED</b>
IRRF 2 Financial Summary	\$16,704,070,000.00	\$12,710,220,000.00
SIRIS: GRD-PCO	\$10,708,346,576.99	\$7,824,842,302.17
SIRIS: USAID	\$2,742,375,813.28	\$2,162,904,361.10
<b>SIRIS Total</b>	<b>\$13,450,722,390.27</b>	<b>\$9,987,746,663.27</b>
<b>Unaccounted for by SIRIS</b>	<b>\$3,253,347,609.73</b>	<b>\$2,722,473,336.73</b>

TABLE 2-16

**Contractor Analysis**

Table 2-17 shows the top 10 contractors, sorted by obligation amount, reported in SIRIS. Bechtel contract SPU-C-00-04-00001-21 reports the largest obligation total, which exceeds \$1 billion. More than 75% of this total has been expended. The activities under

this contract are spread across the electricity, water, and transportation and communications sectors. Kellogg Brown & Root Services, Inc., (KBR) and Parsons Iraq Joint Venture (PIJV) report the greatest percentage of unexpended funding in a number of ongoing projects in the oil and gas sector.

**TOP 10 CONTRACTORS**

CONTRACTOR	OBLIGATED	EXPENDED	UNEXPENDED	% UNEXPENDED
Bechtel	\$1,197,911,678.00	\$919,352,791.00	\$278,558,887.00	23%
FluorAMEC, LLC	\$957,718,894.82	\$776,346,176.34	\$181,372,718.48	19%
Parsons Global Services, Inc.	\$788,360,471.09	\$588,783,695.02	\$199,576,776.07	25%
Kellogg Brown and Root Services, Inc.	\$578,960,491.43	\$335,894,549.03	\$243,065,942.40	42%
Parsons Iraq Joint Venture	\$547,259,610.80	\$331,183,783.48	\$216,075,827.32	39%
Washington Group International	\$460,875,943.78	\$360,259,633.04	\$100,616,310.74	22%
Environmental Chemical Corporation	\$351,891,619.00	\$344,651,135.73	\$7,240,483.27	2%
Development Alternatives, Inc.	\$345,019,836.50	\$336,374,960.71	\$8,644,875.79	3%
Anham Joint Venture	\$259,132,716.23	\$258,207,373.19	\$925,343.04	.004%
RTI	\$235,228,451.21	\$166,068,970.88	\$69,159,480.33	29%

TABLE 2-17

## Contract Summary

Table 2-18 breaks out contracting actions by obligation value. Although the number of contracting actions valued at more than \$5 million represents the smallest percentage of the total number of contracts, these large contracts account for 80% of IRRF 2 funds obligated.

### CONTRACT SUMMARY

DOLLAR RANGE	QUANTITY	OBLIGATED	% OF TOTAL OBLIGATED	% OF TOTAL CONTRACTS
>=\$5 Million	440	\$10,789,050,000.25	80%	7%
>=\$1 Million and <\$5 Million	786	\$1,814,609,550.78	13%	12%
>=\$500 Thousand and <\$1 Million	550	\$400,471,709.94	3%	8%
>=\$250 Thousand and < \$500 Thousand	648	\$236,185,251.92	2%	10%
>\$0 and <\$250 Thousand	3,425	\$210,405,877.38	2%	52%
N/A	737	n/a	n/a	11%
<b>Total</b>	<b>6,586</b>	<b>\$13,450,722,390.27</b>	<b>100%</b>	<b>100%</b>

TABLE 2-18



**Terminated Contracts**

As of June 30, 2006, 62 actions had been terminated. Most were in the oil and gas sector, under the KBR contract. Table 2-19 shows all of the terminations recorded in SIRIS.

As required in P.L. 108-106, Section 3001 (i)(1)(F), as amended, Appendix H lists contracting actions funded by the IRRF that have been recorded in SIRIS.

**TERMINATED CONTRACTS**

CONTRACT NUMBER	TASK ORDER	CLIN	CONTRACTOR
<b>ELECTRICITY</b>			
W91GXY-06-D-0003	n/a	n/a	Iraqi Contractor – 4254
W91GXY-06-M-0052	n/a	n/a	Iraqi Contractor – 4732
W91GXY-06-C-0046	n/a	n/a	United Services
<b>OIL</b>			
W9126G-04-D-0001	1	all	KBR
W9126G-04-D-0001	2	all	KBR
W9126G-04-D-0001	5	all	KBR
W9126G-04-D-0001	7	2	KBR
W9126G-04-D-0001	7	3	KBR
W9126G-04-D-0001	7	4	KBR
W9126G-04-D-0001	7	5	KBR
W9126G-04-D-0001	9	all	KBR
W9126G-04-D-0001	12	13	KBR
W9126G-04-D-0001	12	14	KBR
W9126G-04-D-0001	12	15	KBR
W9126G-04-D-0001	12	16	KBR
W9126G-04-D-0001	12	17	KBR
W9126G-04-D-0001	12	18	KBR
W9126G-04-D-0001	12	19	KBR
W9126G-04-D-0001	12	20	KBR
W9126G-04-D-0001	12	21	KBR
W9126G-04-D-0001	12	22	KBR
W9126G-04-D-0001	12	23	KBR
W9126G-04-D-0001	18	all	KBR
W9126G-04-D-0001	19	all	KBR
W9126G-04-D-0001	21	2	KBR
W9126G-04-D-0001	21	3	KBR



CONTRACT NUMBER	TASK ORDER	CLIN	CONTRACTOR
W9126G-04-D-0001	21	4	KBR
W9126G-04-D-0001	21	5	KBR
W9126G-04-D-0001	21	6	KBR
W9126G-04-D-0001	24	all	KBR
W9126G-04-D-0001	25	all	KBR
W9126G-04-D-0001	26	2	KBR
W9126G-04-D-0001	26	3	KBR
W9126G-04-D-0001	26	4	KBR
W9126G-04-D-0001	26	5	KBR
W9126G-04-D-0001	26	6	KBR
W9126G-04-D-0001	26	7	KBR
W9126G-04-D-0002	7	n/a	PIJV
W9126G-04-D-0002	20	n/a	PIJV
W9126G-04-D-0002	18	4	PIJV
W9126G-04-D-0002	18	11	PIJV
W9126G-04-D-0002	18	12	PIJV
W9126G-04-D-0002	10	3	PIJV
W9126G-04-D-0002	11	5	PIJV
W9126G-04-D-0002	13	3	PIJV
W914NS-05-M-0045	n/a	n/a	DIMA Universal Company
<b>WATER</b>			
W914NS-04-D-0007	5	n/a	Washington International/Black & Veatch
W914NS-04-D-0007	6	n/a	Washington International/Black & Veatch
W914NS-04-D-0007	7	n/a	Washington International/Black & Veatch
W914NS-04-D-0007	10	n/a	Washington International/Black & Veatch
W914NS-04-D-0007	11	n/a	Washington International/Black & Veatch
W914NS-04-D-0008	3	n/a	FluorAMEC
W914NS-04-D-0008	12	n/a	FluorAMEC
W914NS-04-D-0022	4	n/a	FluorAMEC
W914NS-04-D-0022	5	n/a	FluorAMEC
W917BG-05-C-0029	0	n/a	Blackburn and Associates
<b>HEALTH</b>			
W914NS-04-D-0009	n/a	n/a	Parsons
W914NS-04-D-0006	3	n/a	Parsons
W914NS-04-D-0006	6	n/a	Parsons
W914NS-04-D-0006	8	n/a	Parsons
W914NS-04-D-0006	9	n/a	Parsons
W914NS-04-D-0006	10	n/a	Parsons
W914NS-04-D-0006	13	n/a	Parsons

TABLE 2-19

## COST-TO-COMPLETE

Cost-to-complete (CTC) data helps identify reconstruction sectors that are under-funded and helps to avoid exhausting budgets before project completion. U.S. agencies executing reconstruction projects are mandated by Section 2207 of P.L. 108-106 to produce reliable cost-to-complete data. To develop this data, agencies must subtract cumulative expenditures from the estimated cost at completion. To assess whether available funding is adequate, agencies must compare the estimate at completion with the authorized amount.

This CTC summary is derived from the June 30, 2006 Project Assessment Reports (PAR) for GRD-PCO and USAID. For the first time, it includes data from the Multi-National Security Transition Command-Iraq (MNSTC-I). In January 27, 2006, SIGIR reported<sup>283</sup> that MNSTC-I did not submit a PAR report for the September 30, 2005 Project Activity Report, which contains the CTC data. Also, MNSTC-I had not provided CTC reports for subsequent periods until the PAR for the period ending June 30, 2006. MNSTC-I's CTC data increases the comprehensiveness of the PAR, reporting authorized funds of \$1.651 billion, with an estimate at completion of the same amount and a cost-to-complete of \$160 million.

The PAR report does not include information on the source of project funding. Although SIGIR was able to establish that most projects were funded with IRRF, it is possible that the PAR also includes projects funded from other appropriations.

These are the current highlights reflected in the consolidated CTC information from PAR reports, as of June 30, 2006:

- Overall, the total CTC for all sectors as of June 30, 2006, is \$3.769 billion—40% of authorized funds.
- The total estimate at completion exceeds the total authorized amount by \$187 million, with a \$246 million deficit in the oil and gas sector, a \$74 million deficit in the electricity sector, and a \$63 million deficit in the health care sector. The other sectors have estimated costs to complete that are within their authorized funding.
- The total variance between the authorized amount and the estimate at completion has been reduced slightly from the second quarter total of \$199 million to \$187 million this quarter.
- The electricity sector shows a decrease of \$65 million in authorized funds from the second quarter, but the estimated cost of completion has increased by \$94 million.
- There is a large increase in the security and justice sector from last quarter's reporting. The sector total rose to \$2.279 billion from \$1.059 billion because MNSTC-I has begun to report project information.

Table 2-20 provides the approximate consolidation of data reported by USAID and GRD-PCO into SIGIR progress report sectors.

**CONSOLIDATED COST-TO-COMPLETE INFORMATION: GRD-PCO, USAID, AND MNSTC-I PROJECT ASSESSMENT REPORTS, AS OF JUNE 30, 2006 (IN MILLIONS)**

SECTOR	(A) AUTHORIZED AMOUNT	(B) ESTIMATE-AT- COMPLETION (EAC)	(A-B) VARIANCE	(C) CUMULATIVE EXPENDITURES	(B-C) COST-TO- COMPLETE (CTC)
Electricity	\$3,540	\$3,614	(\$74)	\$1,896	\$1,718
Water	1,793	1,722	71	995	727
Oil and Gas	961	1,207	(246)	553	654
Security and Justice	2,279	2,206	73	1,882	324
Transportation and Communications	396	345	51	181	164
Agriculture, Democracy, Education, and Private Sector Development	109	108	1	104	4
Health Care	420	483	(63)	305	178
<b>Total</b>	<b>\$9,498</b>	<b>\$9,685</b>	<b>(\$187)</b>	<b>\$5,916</b>	<b>3,769</b>

Source: Summarized by SIGIR from June 30, 2006 Project Assessment Reports obtained from IRMO for GRD-PCO, USAID, and MNSTC-I.

<sup>1</sup>Dollar totals are grouped by SIGIR defined sectors.

<sup>2</sup>Estimate-at-completion—an estimate of what the project is expected to cost when completed.

<sup>3</sup>Cost-to-complete—the total estimated cost of the project less the actual cost of work performed to date.

Note: SIGIR found an error in the MNSTC-I PAR on the CEFMS authorized amount total shown as \$1,610,090,494, which should be \$1,651,034,749. Also, in the GRD-PCO PAR for Project Code 62000, Water, the EAC was shown as \$136,190,696 but actually calculates to \$86,476,914. Both of these corrections are reflected in the table.

TABLE 2-20

## SOURCES OF FUNDING FOR IRAQ RECONSTRUCTION

SIGIR is required to report on the oversight of and accounting for funds expended in Iraq relief and reconstruction, under Public Law (P.L.) 108-106, Section 3001 (as amended). In addition to the IRRF, three funding sources support reconstruction and relief activities:

- other U.S. appropriated funds
- international donor funds
- Iraqi funds

As of June 30, 2006, SIGIR has identified \$36.206 billion in *U.S. appropriated funds* for Iraq as “relief and reconstruction.” This total includes \$20.914 billion in IRRF funding and \$15.292 billion in other U.S. appropriated funds. In the absence of an internationally recognized definition of “relief and reconstruction,” SIGIR includes 26 non-IRRF activities that are related to relief and reconstruction, such as the construction of U.S. military installations that will eventually be turned over to the Iraqis.

Table 2-21 presents the best information available for U.S. appropriated funding but does not provide a complete picture of all U.S. relief and reconstruction activities. SIGIR does not have information on funding for narrowly focused programs of some agencies, or the use of agency operating funds for projects in Iraq. Finally, SIGIR made some estimates for select

accounts, which are reflected in the footnotes on the table.

As of June 30, 2006, *international donor funds* totaled \$14.576 billion—\$13.593 billion pledged at the Madrid Conference and \$983 million in post-Madrid pledges. About 25% of these pledges—\$3.5 billion—have been expended.

*Iraqi funds* comprise vested and seized funds, the Development Fund for Iraq (DFI), and the Iraq Capital Budget. Iraqi funds have been an important source for reconstruction efforts, particularly during the CPA’s tenure. As of June 30, 2006, these funds total \$34.576 billion, including:

- vested (frozen) funds of \$1.724 billion
- seized funds, including confiscated cash and property, of \$926 million
- DFI funds (including the DFI Transition sub-account), drawn primarily from oil proceeds and repatriated funds of \$17.164 billion
- budgeted Iraqi funding of \$14.762 billion since 2004 to 2006 (although much less has actually been expended)

Figure 2-41 provides an overview of all sources of Iraq reconstruction funding. More details are provided in Appendices C, D, and E.

### U.S. Appropriated Funding

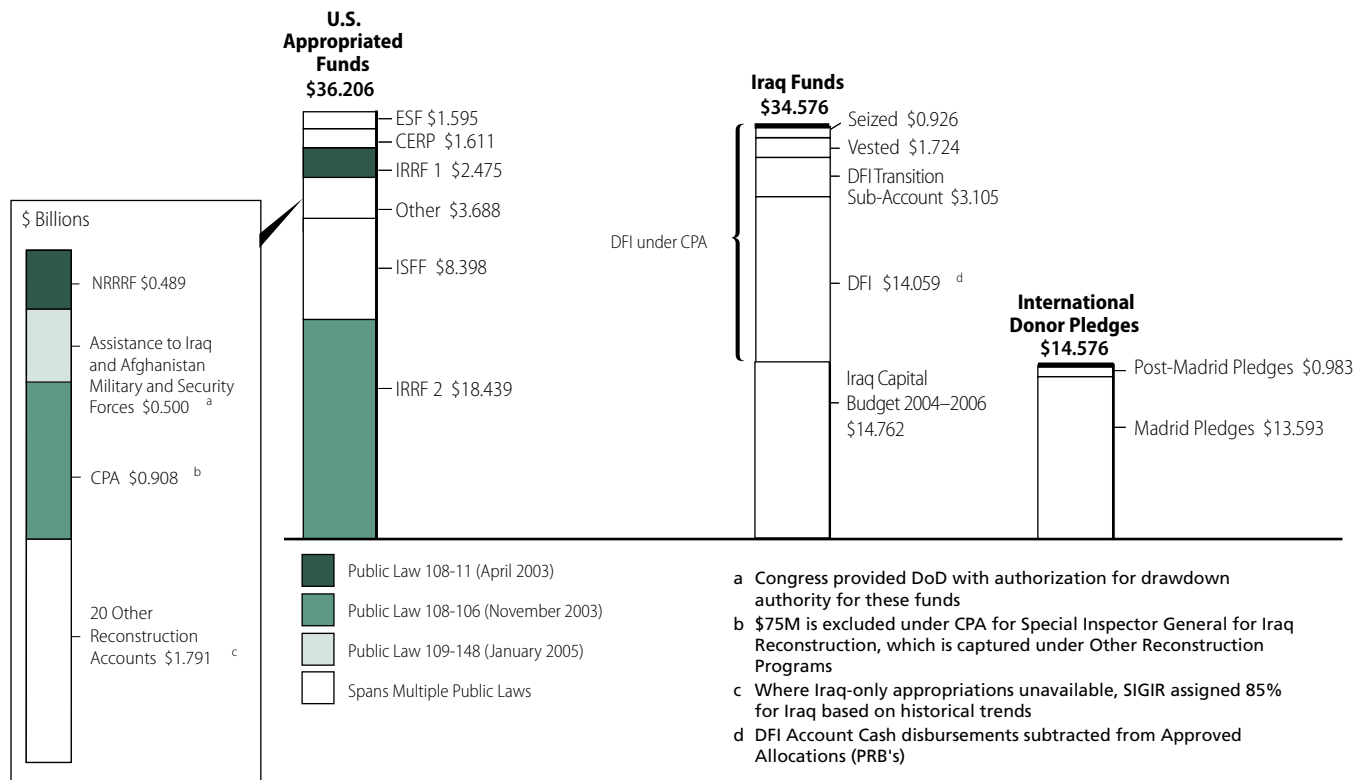
Since the 2003 conflict began, Congress has passed seven bills that provided more than \$36.2 billion in Iraq reconstruction funding. On June 15, the President signed an emergency supplemental appropriation (P.L. 109-234) of more than \$5.3 billion for Iraq reconstruction. For more information about P.L. 109-234, see the Legislative Update section in this Report.

Over the last three years, more than half of U.S. reconstruction funding has come from the

Iraq Relief and Reconstruction Fund (IRRF 1 and IRRF 2), created under P.L. 109-11 and P.L. 108-106.

U.S. agencies involved with the administration of reconstruction funding include the Department of Defense, Department of State, the U.S. Agency for International Development, and others. The appropriated funds are highlighted in Table 2-21, with projects ranging from infrastructure development to refugee and migration assistance.

FIGURE 2-41  
**SOURCES OF IRAQ RECONSTRUCTION FUNDING—\$83.358 BILLION**  
 \$ BILLIONS



Note: Non-U.S. funds are not subject to audit and cannot be verified. Program numbers affected by rounding

# SECTOR SUMMARIES

FUNDING MECHANISM	PL 108-7 7/JAN-03	EMERGENCY SUPPLEMENTAL APPROPRIATIONS ACT, 2003	EMERGENCY WARTIME SUPPLEMENTAL APPROPRIATIONS ACT, 2003	EMERGENCY APPROPRIATIONS ACT FOR THE DEFENSE AND FOR THE RECONSTRUCTION OF IRAQ AND AFGHANISTAN, 2004	PL 108-106 6/NOV-03	DEPARTMENT OF DEFENSE APPROPRIATIONS ACT, 2005	EMERGENCY SUPPLEMENTAL APPROPRIATIONS ACT FOR DEFENSE, THE GLOBAL WAR ON TERROR, AND TSUNAMI RELIEF, 2005	PL 109-13 11/MAY-05	APPROPRIATIONS FOR THE DEPARTMENT OF DEFENSE, FY 2006	PL109-148 4/JAN-05	APPROPRIATIONS FOR THE DEPARTMENT OF STATE, FY 2006	EMERGENCY SUPPLEMENTAL APPROPRIATIONS FOR FY 2006	TOTAL APPROPRIATIONS
Iraq Relief and Reconstruction Fund (IRRF 2)				\$18,439,000,000			\$5,391,000,000					\$3,007,000,000	\$18,439,000,000
Iraq Security Forces Fund (ISFF)													\$8,398,000,000
Iraq Relief and Reconstruction Fund (IRRF 1)		\$2,475,000,000											\$2,475,000,000
Commander's Emergency Response Program (CERP)				\$140,000,000			\$718,000,000		\$408,000,000			\$345,000,000	\$1,611,000,000
Economic Support Fund (ESF) <sup>a</sup>	\$40,000,000	\$10,000,000							\$60,390,000			\$1,485,000,000	\$1,595,390,000
Coalition Provisional Authority (CPA) <sup>b</sup>				\$908,000,000									\$908,000,000
Assistance to Iraq and Afghanistan Military and Security Forces <sup>c</sup>									\$500,000,000				\$500,000,000
Natural Resources Risk Remediation Fund (NRRRF)		\$489,300,000										\$34,900,000	\$489,300,000
Military Construction <sup>d</sup>						\$210,000,000			\$341,900,000				\$376,800,000
New Iraqi Army <sup>e</sup>												\$210,000,000	\$210,000,000
Project and Contracting Office (PCO/DoD)												\$200,000,000	\$200,000,000
International Disaster Assistance		\$143,800,000											\$143,800,000
Combatant Commander Initiative Fund (CINC Initiative Fund) <sup>f</sup>		\$29,750,000		\$12,750,000		\$21,250,000	\$21,250,000	\$21,250,000	\$21,250,000			\$21,250,000	\$127,500,000
USAID Administrative Expenses		\$21,000,000				\$24,400,000						\$79,000,000	\$124,400,000
Department of State, International Narcotics Control and Law Enforcement (DoS/INL)		\$20,000,000										\$91,400,000	\$111,400,000
Diplomatic and Consular Programs <sup>g</sup>							\$49,659,000		\$56,908,000				\$106,567,000
Special Inspector General for Iraq Reconstruction (SIGIR) <sup>h</sup>				\$75,000,000								\$24,000,000	\$99,000,000
Child Survival and Health		\$90,000,000											\$90,000,000
PL 480 Title II Food Aid		\$68,000,000											\$68,000,000
Voluntary Peacekeeping Operations		\$50,000,000											\$50,000,000
Emergency Refugee and Migration Assistance		\$37,000,000											\$37,000,000
Overseas Humanitarian, Disaster and Civic Aid <sup>i</sup>				\$17,000,000									\$17,000,000
International Affairs Technical Assistance												\$13,000,000	\$13,000,000
United States Agency for International Development, Office of Inspector General (USAID OIG)		\$3,500,000		\$1,900,000			\$2,500,000						\$7,900,000
DoD Office of the Inspector General												\$5,000,000	\$5,000,000
Department of Treasury (Salaries and Expenses)												\$1,800,000	\$1,800,000
Department of State Office of Inspector General												\$1,000,000	\$1,000,000
Legal Activities and U.S. Marshals (Salaries and Expenses)												\$1,000,000	\$1,000,000
<b>TOTAL</b>	<b>\$108,000,000</b>	<b>\$3,369,350,000</b>	<b>\$19,453,650,000</b>	<b>\$371,250,000</b>	<b>\$6,206,809,000</b>	<b>\$117,298,000</b>	<b>\$1,271,150,000</b>	<b>\$53,309,350,000</b>	<b>\$536,206,857,000</b>				

<sup>a</sup> \$40M from FY 2003 ESF base account that was not reimbursed; \$10M from P.L. 108-11  
<sup>b</sup> Excludes \$75M for Special Inspector General for Iraq Reconstruction under P.L. 108-11  
<sup>c</sup> Congress provided DoD with authorization for drawdown authority under P.L. 108-106  
<sup>d</sup> As identified in GRD bi-weekly reports and P.L. 109-234  
<sup>e</sup> Where Iraq-only appropriations unavailable, based on historical trends SIGIR split 85% for Iraq and 15% for Afghanistan  
<sup>f</sup> Congress provided funding for PCO in other appropriations bills; more details will be available in future SIGIR reports.  
<sup>g</sup> Includes Iraq Reconstruction Management Office salaries and expenses, mission travel, public diplomacy programs, and other operating expenses related to reconstruction  
<sup>h</sup> CPA Operating Expenses under P.L. 108-106

TABLE 2-21

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## INTERNATIONAL DONOR FUNDS

Total funds pledged by non-U.S. donors after the war remained at \$14.58 billion this quarter. Total expenditures are believed to be somewhat above last quarter's estimated \$3.5 billion, but precise numbers have been difficult to obtain. The World Bank was asked to update the status of expenditures of Madrid pledges but has not received sufficient reporting from donors to provide a more specific figure. Table 2-22 provides information on these pledges.

The most significant development this quarter is the Iraqi government's request to the UN for help negotiating a "compact" with the international community. Under the compact, Iraq would pledge to undertake reforms in exchange for political and economic support. "The purpose of the compact is to achieve a National Vision for Iraq, which aims to consolidate peace and pursue political, economic, and social development over the next five years. The primary focus will be to build a framework for Iraq's economic transformation and integration into the region and the global economy," stated UN Deputy Secretary-General, Mark Malloch-Brown, at a July 6, 2006 press conference in Baghdad.

Senior U.S. officials have been working to generate support for the compact. Iraqi diplomacy has also intensified: in recent weeks, Prime Minister Maliki traveled to the United States, Great Britain, Saudi Arabia, Kuwait, and the United Arab Emirates to garner support for his government. He argued before the United

Nations General Assembly for support for the compact. It is hoped that the parties can agree on the compact's text by fall 2006, followed by a major donors conference that would generate significant financial pledges for Iraq's further reconstruction and development.

Meanwhile, the Donor Committee for the International Reconstruction Fund Facility for Iraq (IRFFI)—created at the 2003 Madrid Donors Conference and managed by the World Bank and UN—is still active. On May 24, 2006, donors met in Amman, Jordan, to review the results of external assessments of the management of the two trust funds. The assessors gave these trust funds positive marks and noted that the speed of donor disbursements to them had been relatively high. Table 2-23 shows the IRFFI committee members.

The UN, which implements many relatively small projects through 800 local staff, was praised for transparency; nevertheless, the UN agreed to put Iraqis and other donors on the steering committees for various cluster programs to ensure consistency with Iraqi priorities and better coordination among donors. The UN also agreed to streamline its cluster system. They noted that implementing through local staff, although inefficient in some ways, brought enormous cost savings. The World Bank confirmed plans to place a country director in Baghdad to intensify the policy dialogue with the Iraqi government and to have decision-making authority on implementation issues.

# SECTOR SUMMARIES

## PLEDGES OF RECONSTRUCTION AID TO IRAQ BY COUNTRY, AS OF JUNE 30, 2006

DONOR	ORIGINAL MADRID PLEDGE OCTOBER 2003	ADDITIONAL PLEDGES SINCE MADRID CONFERENCE	TOTAL PLEDGES JUNE 2006
Australia	\$ 45,590,974	\$ 31,000,000	\$ 76,590,974
Austria	5,478,165		5,478,165
Belgium	5,890,500		5,890,500
Bulgaria	640,000		640,000
Canada	187,466,454		187,466,454
China	25,000,000		25,000,000
Cyprus	117,810		117,810
Czech Republic	14,659,023		14,659,023
Denmark	26,952,384	40,000,000	66,952,384
Estonia	82,467		82,467
Finland	5,890,500		5,890,500
Germany	-	10,000,000	10,000,000
Greece	3,534,300		3,534,300
Hungary	1,237,005		1,237,005
Iceland	2,500,000		2,500,000
India	10,000,000		10,000,000
Iran	5,000,000	5,000,000	10,000,000
Ireland	3,534,300		3,534,300
Italy	235,620,020		235,620,020
Japan	4,914,000,000	50,000,000	4,964,000,000
South Korea	200,000,000		200,000,000
Kuwait	500,000,000	65,000,000	565,000,000
Lithuania	-	30,000	30,000
Luxembourg	2,356,200		2,356,200
Malta	27,000		27,000
Netherlands	9,424,801		9,424,801
New Zealand	3,351,975	990,000	4,341,975
Norway	12,867,617		12,867,617
Oman	3,000,000		3,000,000
Pakistan	2,500,000		2,500,000
Qatar	100,000,000		100,000,000
Saudi Arabia	500,000,000		500,000,000
Slovenia	419,382		419,382
Spain	220,000,000		220,000,000
Sri Lanka	-	75,500	75,500
Sweden	33,000,000		33,000,000
Turkey	50,000,000		50,000,000
United Arab Emirates	215,000,000		215,000,000
United Kingdom	452,326,416		452,326,416
United States	10,000,000		10,000,000
Vietnam	-	700,000	700,000
<b>Subtotal</b>	<b>7,807,467,293</b>	<b>202,795,500</b>	<b>8,010,262,793</b>
European Commission	235,620,000	480,000,000	715,620,000
<b>Subtotal</b>	<b>8,043,087,293</b>	<b>682,795,500</b>	<b>8,725,882,793</b>
<b>International Financial Institutions</b>			
IMF (low range)	2,550,000,000		2,550,000,000
World Bank (low range)	3,000,000,000		3,000,000,000
Islamic Development Bank	-	300,000,000	300,000,000
<b>Subtotal</b>	<b>5,550,000,000</b>	<b>300,000,000</b>	<b>5,850,000,000</b>
<b>Total Donor Assistance</b>	<b>\$13,593,087,293</b>	<b>\$982,795,500</b>	<b>\$14,575,882,793</b>

Source: U.S. Department of State

Note: Data not formally reviewed, audited, or verified.

Pre-Madrid pledges for humanitarian assistance are not included in this table.

TABLE 2-22



**DONOR COORDINATION**

Improved donor coordination continues to be a top priority for the United States and other donors as the major U.S. reconstruction funding is expended and the outline of a more international effort comes into focus. The Baghdad Coordination Group and sector working groups continue to meet with progressively stronger Iraqi leadership. The future shape of donor coordination awaits the negotiation of the new compact.

The Ministry of Planning continues to populate the Donor Assistance Database (DAD), adding another \$100 million in projects since SIGIR's April 2006 Quarterly Report. According to the third report on the DAD, the total is \$8.61 billion as of May 5, 2006—only 38% of

the grants pledged from 2003-2006. The World Bank and UN trust funds, Japan, and small bilateral donors have provided data on most of their projects to the DAD. Larger bilateral donors have been slower to participate. Only 32% of U.S. and 52% of United Kingdom (UK) pledges have been reported to the DAD. The data is accurate in terms of the sector of assistance, but about 25% of the projects do not include a specific location or province for the project or program. The Iraqis will need to further improve data collection before the DAD can be used to fully monitor, analyze, and prioritize aid to the Iraqi government.

The Ministry of Planning and the UN Development Program (UNDP) are working with the Ministries of Finance, Electricity, Education, Public Works, and Health and

**INTERNATIONAL RECONSTRUCTION FUND FACILITY  
FOR IRAQ DONOR COMMITTEE MEMBERS**

Canada (Chair)	Kuwait
United Kingdom	Iran
Italy	Norway
India	Korea
Turkey*	Qatar
Sweden	Spain
Finland*	European Commission
Japan	United States
Australia	Denmark

\*Rotating members

Table 2-23

Municipalities to teach staff to use the DAD. A pilot project in Basrah will initiate regional inputs for the DAD, and there are also plans to incorporate loans, grants, and projects from Iraq's National Budget.

**MAJOR BILATERAL AND MULTILATERAL PROGRAMS**

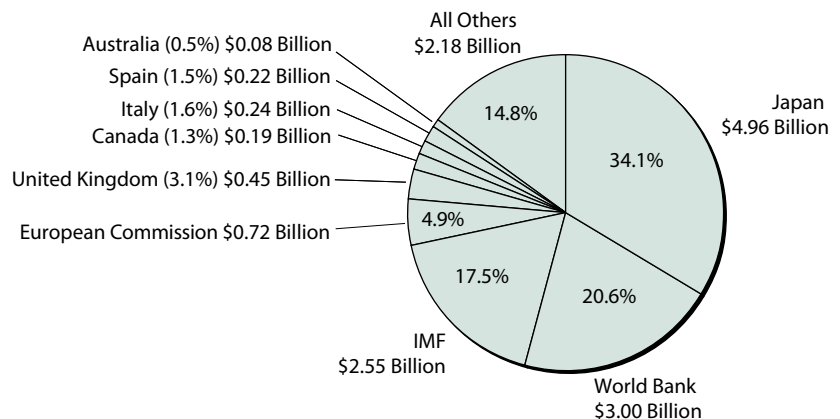
The April 30, 2006 SIGIR Quarterly Report outlined the programs of major bilateral donors. The United States continues to encourage other donors to implement their Madrid pledges. The next sections focus on the significant changes in Japan, UK, and European Commission (EC) programs this quarter. Figure 2-42 provides information on donor pledges.

**Japan**

Of Japan's pledge of \$5 billion at Madrid, the \$1.5 billion in grants (plus an additional \$50 million) was completely obligated more than a year ago. \$911 million went to direct assistance, including technical assistance, \$490 million through IRFFI trust funds, \$116 million directly through international organizations such as UNDP, \$27 million through Non-Governmental Organizations (NGO), and \$10 million to the International Finance Corporation. The sectors covered were Electricity, Water and Sanitation, Health, Roads and Bridges, Education and Culture, and Security.

Japanese officials continue work with Iraqi officials to develop projects for the \$3.5 billion in concessional loans. This quarter, Japan and Iraq agreed on a \$28 million project for bridges

FIGURE 2-42  
**PLEDGES FROM OTHER NATIONS—\$14.58 BILLION**  
 As of June, 2006  
 Source: U.S. Department of State  
 Billions



and roads in Samawah. Projects are currently underway to rehabilitate the Port of Umm Qasr (\$259 million), improve irrigation channels (\$81 million), and rehabilitate the Al-Musaib thermal power plant (\$315 million).<sup>284</sup>

#### United Kingdom

Total UK pledges to Iraq, including both Madrid (\$452 million) and pre-war humanitarian contributions (\$468 million), remain at \$920 million. With an estimated \$904 million expended as of July 2006, the UK is close to fulfilling its obligation. Table 2-24 shows UK expenditures by program. The UK Department for International Development (DFID), which is responsible for implementing UK pledges, has been involved in many of the same types of projects that the United States is funding, but on a smaller scale and focused more in the south:

- rehabilitating power and water infrastructure

#### UK DONOR PLEDGES, AS OF JULY 24, 2006 (IN MILLIONS)

DFID Bilateral Program	\$475
IRFFI Trust Funds	\$127
Contribution to EC Program	\$113
FCO Programs	\$64
Global Conflict Prevention Pool	\$66
MoD Quick Impact Projects	\$59
<b>Total</b>	<b>\$904</b>

Source: email from DFID, July 24, 2006; exchange rate used: \$1.69 per pound sterling.

TABLE 2-24

- organizing the Prime Minister's office and the governors' offices in the south
- training for the Government Communications Directorate
- planning and budgeting for strategic development in the southern provinces
- intergovernmental coordination
- macro-economic and budget reform
- strengthening independent broadcasting
- developing civil society

The UK also has a quick-impact program financed by the Ministry of Defense, which has a similar mission to that of the Commander's Emergency Response Program (CERP).

DFID reports similar challenges: security, constantly changing government counterparts, and weak overall government capacity. DFID's program for 2006-2007 will focus on economic reform, delivering power and water improvements in the south, governance and institution-building in Baghdad and the south, support for civil society and political participation, and capacity building in the Ministry of Interior. DFID funds a World Bank advisor in Baghdad to speed up engagement in oil and electricity issues and to help the Iraqi government develop a plan for the energy sector.<sup>285</sup>

#### European Commission

Pledges of humanitarian and reconstruction assistance by the European Union now total \$840 million, including the recent pledge for \$240 million for 2006. The EC reports that all

## TOTAL IRFFI DONOR CONTRIBUTIONS AND WORLD BANK IRAQ TRUST FUND ALLOCATIONS, AS OF JUNE 30, 2006

DONOR	COMMITMENTS		DEPOSITS	
	WORLD BANK	UNITED NATIONS	WORLD BANK	UNITED NATIONS
AUSTRALIA	\$16,400,000	\$16,775,000	\$16,100,000	\$16,775,000
AUSTRALIA (DEPT OF IMMIGRATION)	-	3,292,000	-	3,292,000
AUSTRIA	-	-	-	-
BELGIUM	-	1,321,000	-	1,321,000
CANADA	22,300,000	46,400,000	22,300,000	46,400,000
DENMARK	-	10,666,000	-	10,666,000
FINLAND	2,600,000	6,234,000	2,600,000	6,234,000
GREECE	-	3,630,000	-	3,630,000
ICELAND	1,000,000	500,000	1,000,000	500,000
INDIA	5,000,000	5,000,000	5,000,000	5,000,000
IRAN	-	-	-	-
IRELAND	-	1,226,000	-	1,226,000
ITALY	-	29,782,000	-	29,782,000
JAPAN	130,000,000	360,951,000	130,000,000	360,951,000
SOUTH KOREA	4,000,000	11,000,000	4,000,000	11,000,000
KUWAIT	5,000,000	5,000,000	5,000,000	5,000,000
LUXEMBOURG	-	200,000	-	200,000
LUXEMBOURG (EURO)	-	2,119,000	-	2,119,000
NETHERLANDS	6,200,000	6,697,000	6,200,000	6,697,000
NEW ZEALAND	-	3,365,000	-	3,365,000
NORWAY	6,700,000	7,009,000	6,700,000	7,009,000
QATAR	5,000,000	5,000,000	2,500,000	5,000,000
SPAIN	20,000,000	20,000,000	20,000,000	20,000,000
SPAIN (EURO)	-	2,380,000	-	2,380,000
SWEDEN	5,400,000	10,622,000	5,800,000	10,622,000
TURKEY	1,000,000	200,000	1,000,000	200,000
UNITED KINGDOM	71,400,000	55,542,000	71,400,000	55,542,000
UNITED STATES	5,000,000	5,000,000	5,000,000	5,000,000
EUROPEAN COMMISSION (RRM)	3,700,000	24,978,000	-	24,978,000
EUROPEAN COMMISSION (HUMAN RIGHTS)	-	7,307,000	-	6,937,000
EUROPEAN COMMISSION	149,800,000	283,724,000	149,800,000	266,805,000
<b>TOTAL NON U.S. DONOR ASSISTANCE</b>	<b>\$460,500,000</b>	<b>\$935,920,000</b>	<b>\$454,400,000</b>	<b>\$918,631,000</b>

Source: www.irffi.org

TABLE 2-25

financial resources allocated to date have been committed to projects. This does not include the \$240 million for 2006.

In July 2006, the EC appointed the head of its newly established European Commission Delegation in Iraq, reinforcing the EC presence and paving the way for deeper engagement in reconstruction and political issues. The EC, the second-largest donor to the IRFFI Trust Funds after Japan, continues to be a strong advocate for multilateral assistance for Iraq. Most of the EC's 2006 pledge is expected to be channeled through the UN trust fund although its bilateral programs will also be expanding. The 2006 program will focus on promoting longer-term stability in Iraq and establishing solid institutions that can benefit all Iraqi citizens. Iraqi ownership and partnership will be the guiding principle of the program, which will include:

- assisting in an inclusive constitutional review and implementation (\$48 million)
- promoting good governance through civil service reform, rule of law, and sound management of public finances (\$48 million)
- supporting the exploitation of natural gas reserves (\$48 million)
- rehabilitating services (\$132 million)

The EC plans to pay particular attention to institutional strengthening in trade and energy. To be able to adjust quickly to new government priorities, the EC plans to keep a \$12 million reserve.<sup>286</sup> (See Table 2-26 and Figure 2-43.)

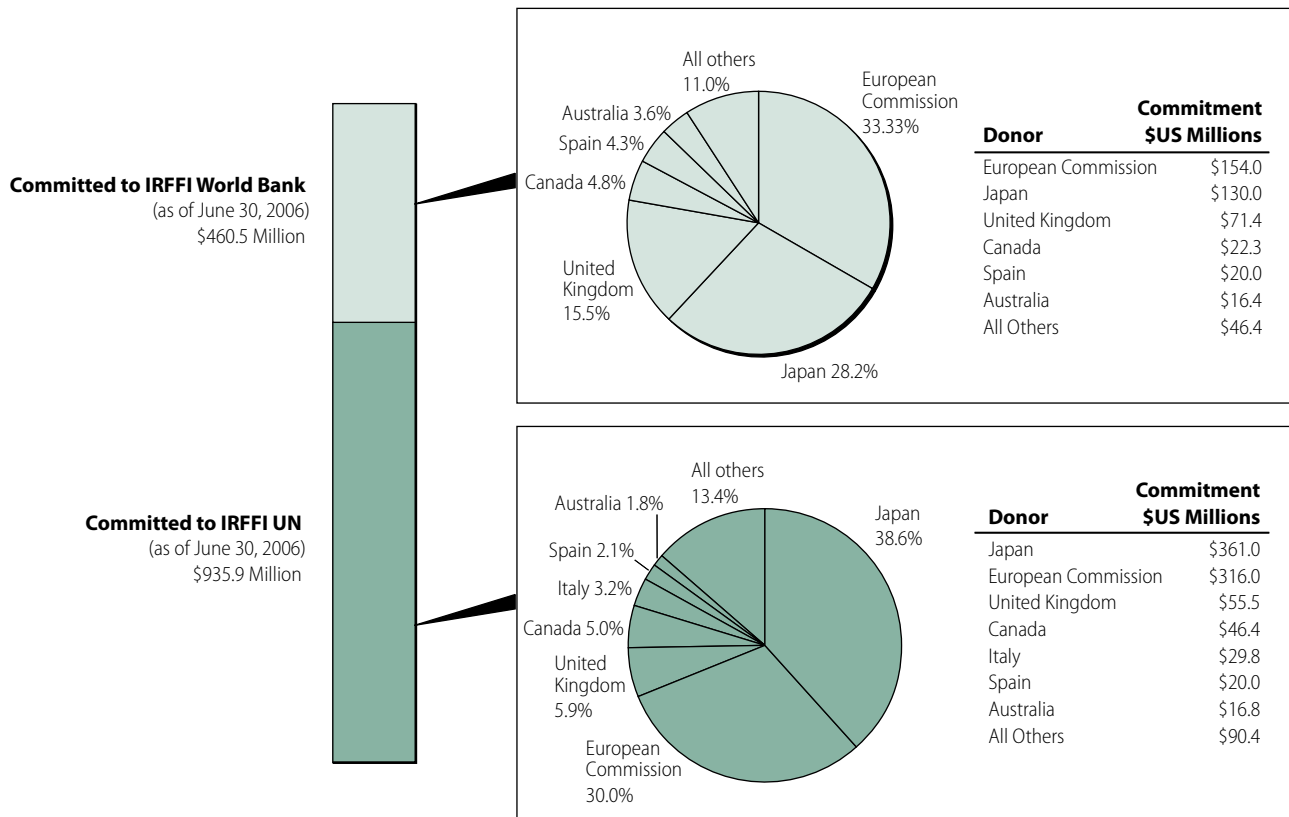
#### **World Bank**

As of June 30, 2006, the World Bank trust fund has received \$454 million from 17 donors. The trust fund is financing 12 projects for a total of \$400 million, about half of these funds (\$193 million) are under contract or tendered. Trust fund expenditures total about \$64 million. In June, the World Bank approved a \$135 million International Development Association (IDA) credit for Iraq for an Emergency Road Rehabilitation Project. This is in addition to the \$100 million credit for the Third Emergency Education Project approved last November. \$265 million of the IDA concessional loans pledged at Madrid remain to be programmed.

World Bank projects continue to be approved by the Iraqi Strategic Review Board (ISRB). The World Bank is actively recruiting a country director and a small number of expatriate staff for its office in the International Zone to enable more decisions on project priorities to be made in Baghdad and to deepen the dialogue with the Iraqi government. The Baghdad-based country director is not expected to significantly affect the rate of expenditure on projects, which depends primarily on Iraqi staff operating outside the International Zone.

Repeated shifts in ministry staffs continue to pose a major challenge to more rapid implementation, but this problem should abate as new ministers of the permanent government settle in. The World Bank has invested heavily in training the Iraqis, who implement their projects most often in Amman or elsewhere in

FIGURE 2-43  
**INTERNATIONAL DONOR CONTRIBUTIONS TO IRFFI**  
 As of June, 2006  
 Source: www.irffi.org



the region. In cooperation with the Ministry of Planning, the World Bank has been preparing briefing books for new ministers.

The World Bank has learned that some early project designs were too complicated and needed to be simplified—for example, in water and irrigation. To assist monitoring, the World Bank hired an Iraqi audit firm that uses

local inspectors from neighborhoods near the projects for verification. This helps minimize convoy travel for Iraqi staff.

Recognizing that systemic corruption in Iraq adds to the risk for international donors as they work to implement their programs, the World Bank has put in place various measures to mitigate corruption. These measures have

slowed its procurement process in some cases. The World Bank also hosted an anticorruption conference for Iraq in Dubai in late July.<sup>287</sup>

World Bank’s priorities for the coming months include anticorruption efforts, coordinating more closely with the U.S. program to avoid duplication, pressing for progress in the oil sector, and building capacity, which requires close coordination with the U.S. Ministry Advisory Teams. To use resources most efficiently, the World Bank believes that the Iraqis and all donors need to agree on sector plans.<sup>288</sup>

**United Nations**

Total deposits in the UN trust fund currently amount to \$919 million from 24 donors. Donors can earmark their contributions to the UN trust fund. Support for the electoral process (24%) and infrastructure rehabilitation

(22%) are the most popular clusters among donors. Of the approved funding that goes through the ISRB, 25% has supported the electoral process, and 18% has gone to infrastructure rehabilitation. Other popular sectors among donors and Iraqis include Agriculture, Education, and Health.

Sixteen UN agencies are implementing 93 projects with \$802 million in funding. UNDP has the most approved funding (28%), followed by the UN Office for Project Services (16%) and United Nations International Children’s Emergency Fund (UNICEF) (9%). Of this approved funding, \$622 million (77%) has been obligated, and \$503 million (63%) has been expended. Fourteen projects have been completed.

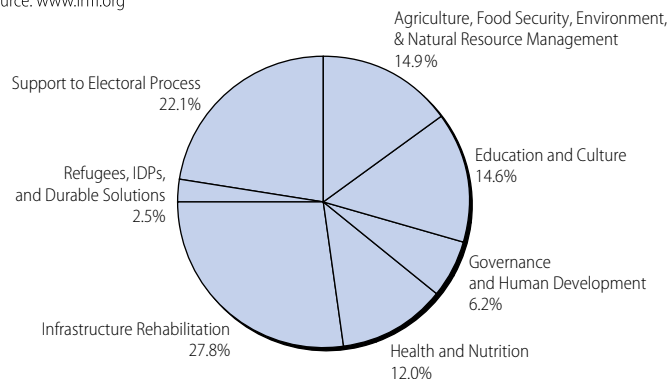
The UN Web site posted \$459 million in contract awards: 15% went to Japan, 14% to Iraq, 12% to the UK, and 10% to China. U.S.

FIGURE 2-44

**UNDG Iraq Trust Fund**

Approved and Funded Projects by UN Cluster as of 6/30/06

Source: www.irffi.org



firms account for less than 5% of these contracts. A recent outside audit of the UN program found no financial problems but recommended ways to make the cluster organization and project approval process more efficient. The results of the audit will be made public.<sup>289</sup>

UN staff continues to operate in Amman, Kuwait, and Cyprus, and offices have been opened in Basra and Erbil. Also, a small assistance staff is now part of the UN mission quota in Baghdad. UN officials observe that the need to use primarily Iraqi staff has cut personnel costs to about 5% of total program costs—down from 30%, when international staff was engaged. The UN plans to consider this model for other countries.<sup>290</sup>

In July, the UN Deputy Secretary-General traveled to Iraq to discuss the new government's interest in establishing a compact with the international community to build a framework to transform Iraq's economy and integrate it into the regional and global economy. The Deputy Secretary-General and the Deputy Prime Minister will co-chair the preparatory group for the compact.<sup>291</sup>

The chairman of the IRFFI Donors Committee also visited Baghdad to discuss the future of the IRFFI trust funds. It was agreed that these funds should continue to be a funding mechanism for rapid delivery of basic services, but they should begin to focus more on supporting Iraqi institutions that will implement the reforms resulting from the compact. It was also agreed that the mandate of the trust

funds should be re-examined and revitalized to support the new government's priorities. The Donor Committee Chair will be part of the preparatory group for the compact.<sup>292</sup>

Figure 2-44 shows the UN Development Group (UNDG) Iraq Trust Fund by UN cluster.

#### **International Monetary Fund**

IMF funding of \$1.15 billion remains available for balance of payments support:

- \$430 million from the Emergency Post-conflict Assistance (EPCA) package
- \$685 million from the Stand-By Arrangement (SBA)

Thus far, Iraq has not drawn against any of these funds. The next review of Iraq's performance under the SBA is scheduled for August 2006. This review is particularly significant because successful performance is a condition for moving forward with Paris Club debt relief. The IMF continues to train Iraqi economic and finance officials.<sup>293</sup>

#### **IRAQI FUNDS**

Last quarter, SIGIR estimated that the Iraqi contribution to reconstruction after the CPA period was \$14.762 billion—the sum of the 2004-2006 capital budgets. SIGIR has no further information about how much of these funds have been expended. The Iraqi government is now beginning to plan the 2007 budget.



### **LOANS FROM INTERNATIONAL DONORS**

Loans available from international donors have not changed from SIGIR's April Quarterly Report:

- Japan: \$3.5 billion (\$683 million of which have been allocated)
- Saudi Arabia: \$1 billion in trade credits and loans
- World Bank: \$3-5 billion in loans, \$500 million of which is in concessional loans (\$235 million of the concessional loans has been allocated).

### **COMMERCIAL BORROWING**

Although there has been considerable progress settling Saddam-era debt, Iraq's debt continues to constrain its ability to borrow international funds. Iraq's creditors fall into three categories:

Paris Club debt, non-Paris Club sovereign debt, and commercial debt. As of late July 2006, 18 of the 19 Paris Club creditors had signed agreements implementing the November 2004 commitment to forgive at least 80% of Iraq's debt. The one remaining Paris Club creditor, Russia, is expected to sign an agreement soon.

Progress has been slower with non-Paris Club sovereign debt, especially with Saudi Arabia, Qatar, Kuwait, and the United Arab Emirates. Iraqi Prime Minister Maliki undoubtedly had the debt issue on his agenda during his recent trip to the Gulf, and U.S. diplomacy on debt relief is intensifying in anticipation of the negotiations for the compact. If Iraq meets the agreed-on conditions, about \$30 million of sovereign debt will be forgiven.

Commercial creditors have settled about \$20 billion of an estimated \$22 billion. This will reduce Iraq's debt by approximately \$16



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# SIGIR Oversight

SIGIR AUDITS  
SIGIR INSPECTIONS  
SIGIR INVESTIGATIONS  
SIGIR HOTLINE  
SIGIR LESSONS LEARNED INITIATIVE  
LEGISLATIVE UPDATE

SECTION

3



## SIGIR AUDITS

This quarter, SIGIR audits continued to apply a balanced approach to provide insight, foresight, and oversight through audit and non-audit activities assisting executing organizations in Iraq and those who support these organizations outside Iraq.

- SIGIR's *insight* efforts advise the leadership on governance issues, with the emphasis on creating an environment of accountability, rule of law, and public trust in Iraq.
- SIGIR's *foresight* efforts continue to focus on end-state issues, such as transition, sustainment, and capacity building.
- SIGIR's *oversight* efforts, its traditional focus, ensure maximum return on the U.S. taxpayer investment and promote transparency and accountability of the U.S. administration of any Iraqi resources used.

SIGIR performance audits also evaluate the economy, efficiency, and effectiveness of Iraq relief and reconstruction projects.

On average, 26 SIGIR auditors work in Baghdad, and an additional 11 auditors work at the headquarters office in Arlington, Virginia. The audit team consists of auditors, evaluators, management and program analysts, contract specialists, and program acquisition specialists. SIGIR also has the capability by contract or by special authority to add expertise to each audit team for any area under review.

From May 1, 2006, to July 31, 2006, SIGIR audits completed ten final reports, bringing the total number of completed SIGIR audits to 65. This quarter, SIGIR audits addressed a wide range of issues, including reviews of cash

controls, two of the most significant projects in Iraq to evaluate the development of Iraqi infrastructure security capabilities, and anticorruption initiatives.

SIGIR also issued two draft reports and has 14 ongoing audits. Five more are planned for next quarter. SIGIR performs audit work under the generally accepted government auditing standards prescribed by the U.S. Comptroller General.

SIGIR audits continue to find that security remains a challenge in the management and oversight of many projects. However, a larger barrier to effective management is the lack of a single organization responsible for the overall IRRF program. SIGIR continues to observe and report on project or program failures that sometimes are a direct result of not having consistent policy and process across all U. S. government entities.

SIGIR-06-017, "Transition of the Iraq Relief and Reconstruction Fund Projects to the Iraqi Government," reports that despite the Iraqi government acceptance of a common policy on asset transfer, there is no commonly accepted process among U.S. entities for recognizing and transferring assets to the Iraqi government. Further, in SIGIR-06-026, "Review of the U.S. Agency for International Development's Management of the Basrah Children's Hospital Project," SIGIR found that the U.S. Agency for International Development (USAID) did not provide adequate visibility of its programs to the Iraq Reconstruction Management Office (IRMO), which is responsible for facilitating management information and oversight for the

U.S. Ambassador to Iraq. With funding now a critical resource, a single accountable organization is even more necessary, and decisions must be based on Iraq’s national priorities—not individual entities.

Several of the audits SIGIR conducted this quarter were requested by members of Congress, the Ambassador, and senior leadership of both the U.S. Embassy-Iraq and subordinate commands of the Multi-National Force-Iraq (MNF-I). SIGIR chaired two meetings of the Iraq Accountability Working Group; the liaisons of many organizations, fellow auditors, and internal management evaluators met to discuss ongoing efforts and emerging issues. SIGIR has two joint reviews underway with the Department of Defense Inspector General

(DoD IG) and the Department of State Inspector General (DoS IG). Also, SIGIR is coordinating several other efforts with the Government Accountability Office (GAO) and the various accountability organizations of MNF-I and the Multi-National Security Transition Command-Iraq (MNSTC-I).

## Final Audit Products

### Review of Efforts To Increase Iraq’s Capability To Protect Its Energy Infrastructure

SIGIR-06-014, JULY 2006

This review was performed in response to a commitment by the Inspector General at a hearing of the U.S. Senate Committee on Foreign Relations on February 8, 2006, to report on the capacity of the Iraqi government to pro-

### SIGIR FINAL AUDIT PRODUCTS, SINCE APRIL 30, 2006

REPORT NUMBER	REPORT TITLE	DATE ISSUED	RECOMMENDATIONS		
			TOTAL	CLOSED	IN-PROCESS
06-014	Review of Efforts To Increase Iraq’s Capability To Protect Its Energy Infrastructure (Classified)	July 2006	7	0	0
06-017	Transition of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government	July 2006	6	0	6
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	3	1	2
06-019	Review of the Use of Definitization Requirements for Contracts Supporting Reconstruction in Iraq	July 2006	2	0	0
06-020	Review of the Advanced First Responder Network Project	July 2006	5	0	4
06-021	Joint Survey of the U.S. Embassy-Iraq’s Anticorruption Program	July 2006	14	0	2
06-023	Changes in Iraq Relief and Reconstruction Fund Program Activities—January through March 2006	July 2006	0	0	0
06-024	Joint Cash Count: Iraq National Weapons Card Program	July 2006	0	0	0
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	July 2006	7	0	7
06-026	Review of the U.S. Agency for International Development’s Management of the Basrah Children’s Hospital Project	July 2006	6	0	6

TABLE 3-1

tect its infrastructure. This report is classified. For information on this report, please contact the SIGIR Security Manager at 703.428.0442, or at: [stanley.pettermon@sigir.mil](mailto:stanley.pettermon@sigir.mil).

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

SIGIR-06-017, JULY 2006

**Introduction.** This report discussed the transition of completed projects funded by the Iraq Relief and Reconstruction Fund (IRRF) to the Iraqi government. In January 2006, 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>294</sup> on 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 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>295</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) ensure that 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 managing, overseeing, and implementing IRRF. They were established on May 11, 2004, as temporary organizations under National Security Presidential Directive No. 36. IRMO's principal responsibility was "to facilitate the transition in Iraq," and PCO was to provide acquisition and project management support. Both organizations are scheduled to sunset on May 10, 2007.

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. 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 DoS and USAID. This report discusses U.S. plans to accomplish this transition.

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

1. Do all 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 available to operate and maintain new U.S.-provided plants and equipment?

3. Has the Iraqi government sufficiently planned and budgeted for essential operations and maintenance of U.S.-provided infrastructure?
4. How will the pace of reconstruction and project completion affect transition planning and completion?

**Findings.** 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, the review indicated that IRRF-implementing organizations have formed a number of working groups that are addressing key transaction issues; nevertheless, 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 whether there are sufficient resources to support the assets. SIGIR estimates that the Iraqi government will 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.

These are the audit’s more specific concerns:

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. Also, 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 (C&M) of IRRF-funded plant assets after transition to Iraqi authority may not be sufficient to meet requirements, particularly if delays occur in the receipt and recognition of assets by the Iraqi government. Sustainment funding must also be linked to capacity-development activities to ensure that 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 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 needed 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 (C&M) 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, most 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 Commander’s 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 SIGIR’s 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 IRMO and PCO as temporary organizations—although defined in National Security Presidential Directive No. 36 as terminating in May 2007—may be extended for up to two years (2009).

**Recommendations.** SIGIR recommended that the U.S. Ambassador to Iraq direct IRMO to take these actions:

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 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 that the capacity-development plan is linked to and supported by the necessary sustainment funding to ensure the viabil-

ity of all IRRF-funded projects. This plan should include the \$134 million requested for this purpose in the U.S. budget for FY 2007. It should also identify any shortfalls and the impacts of the shortfalls on the IRRF investment.

**Management Comments.** *U.S. Embassy-Iraq Chief of Mission and IRMO officials concurred with the findings and recommendations. Actions are underway to implement the recommendations. The comments received are fully responsive.*

### **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**

SIGIR-06-018 (DOS OIG REPORT NO. AUD/IQO-06-06-30), JULY 2006

**Introduction.** This report presents the results of the joint survey of funding for Iraq-related activities of the DoS Bureau of International Narcotics and Law Enforcement Affairs (INL), conducted by SIGIR and the DoS Office of Inspector General (DoS OIG). This survey was performed in support of continuing DoS OIG responsibility for assisting management through independent reviews of DoS operations. The primary objectives were to: (1) identify funding received and expended by INL that was earmarked for Iraq, and (2) evaluate INL accounting procedures for those funds. The survey scope covered funding received, obligated, and expended from October 1, 2002, through December 31, 2005.

**Objectives.** The overall objective of the survey was to identify and compile funding earmarked for INL use in Iraq and to review INL accounting procedures for the receipt, transfer, and reporting of funds. The scope covered \$1,489.7 million that INL received from three emergency supplemental appropriations specifically for Iraq-related activities.

**Findings.** According to the DoS Bureau of Resource Management (RM), as of December 31, 2005, DoS received more than \$1.3 billion from two IRRF emergency supplemental appropriations that provided program funding specifically supporting Iraqi-related activities.<sup>296</sup> Of that amount, INL received about \$957.5 million, or 74% of the total amount received by DoS for foreign assistance projects under IRRF. In addition, the Department of Defense (DoD) provided about \$532.2 million to assist programs managed by INL,<sup>297</sup> for a total of about \$1,489.7 million available to INL.

As of December 31, 2005, INL had obligated about \$1,312.2 million, or about 88% of the funding received. As a result, INL had about \$177.5 million left to obligate for programs in Iraq if the funds remain available before their statutory expiration at the end of FY 2006. In addition, INL had expended about \$1 billion of its current obligations through December 31, 2005, and about \$300 million remained unliquidated for various program activities in Iraq. These latter funds can be spent or liquidated for up to five years after the period of availability for obligation expires.

INL was able to track Iraq-related funds received and allotted to major programs and procurement actions. Overall, INL accounted

for obligated funds and monitored expenses and liquidations. Although extracting information from INL's accounting system on funds for Iraq by program, contract, or other governmental or private recipient was cumbersome, the financial information forwarded to RM was generally accurate.

Nevertheless, some funding recipients, primarily the Department of Justice (DoJ) and its independent agencies, did not provide adequate financial information on the status of the expenditure of funds received from INL through memoranda of agreement. According to an INL official, this situation has continued despite INL's efforts to work with DoJ to correct these deficiencies. The survey team recommended that INL modify existing and future memoranda of agreement so that recipients' financial reports would better inform INL of the actual financial status of a program. The team also recommended that INL make electronic backups of its supplementary accounting records at least once each quarter and more thoroughly document accruals and other temporary accounting adjustments.

**Conclusion.** At the conclusion of the survey, a senior INL official agreed that recipients should comply fully in reporting the status of funds and their plans for obligating and expending those funds.

In response to a discussion draft of this report, in April 2006 a senior INL budget officer stated that he had been working with DoJ officials to incorporate accrual reporting into their required quarterly reports. The INL official also reported that RM counterparts were

fully informed about the discrepancies and that official DoS and INL supplementary accounting records had been corrected, as well as the *Section 2207* Reports. DoS OIG and SIGIR agree that these are appropriate corrective measures but suggest that INL adopt more formal policies and procedures to ensure that INL's summary accounting records better document such activities in the future. DoS recipients of Iraq funding may wish to follow suit.

Overall, DoS OIG concluded that INL can track Iraq-related funds received and allotted to major programs and procurements. However, DoS OIG found that INL's supplementary accounting records in Excel spreadsheets were continuously updated for expenditures and could not produce "as of" reports for previous periods. That inability to produce prior-period reports is a serious accounting weakness because INL would find it difficult to respond to requests for financial information or to recover from a computing mishap. Currently, the historical record comprises only paper copies of reports supporting its *Section 2207 Reports* to RM.

**Recommendations.** DoS OIG and SIGIR recommend that the Bureau of International Narcotics and Law Enforcement Affairs:

1. Establish policies and procedures to document management decisions about accounting or reporting of Iraq funding, including coordination with other DoS entities, such as the Bureau of Resource Management.
2. Modify existing and future memoranda of agreement with non-DoS funding recipients to provide quarterly reports that contain

sufficient information so, if necessary, INL can add accruals to its supplementary accounting records. Thus, reports prepared by INL can more accurately reflect the actual financial status of a program sector.

3. At a minimum, electronically save a copy of the supplementary accounting records for DoS funds for Iraq reconstruction at the close of each *Section 2207 Report* period.

**Management Comments.** *INL officials concurred with the findings and recommendations. Actions were taken to address the third recommendation, and it is considered closed. Actions are underway to implement the remaining two recommendations. The comments received are fully responsive.*

### Review of the Use of Definitization Requirements for Contracts Supporting Reconstruction in Iraq

SIGIR-06-019, JULY 2006

**Introduction.** Congress appropriated \$18.4 billion for security, relief, rehabilitation, and reconstruction in Iraq. The appropriation is known as the Iraq Relief and Reconstruction Fund (IRRF). Overall, as of April 2006, \$16.4 billion in IRRF funds had been obligated. Funds are obligated for contracts, grants, local purchases, and agency operating expenses. Regarding contracts, as of April 2006, the United States awarded 1,678 contracts valued at nearly \$12.1 billion from IRRF. Of these, the Department of Defense (DoD), mostly through the Department of the Army, has awarded 1,647 contracts with a value of nearly \$7.5 billion. Other activities funded through

IRRF—such as grants, local purchases, and agency operating expenses—were outside the scope of this report.

A variety of contract actions were used in awarding IRRF reconstruction contracts to meet this mandate, including those defined as *undefinitized* by the Defense Federal Acquisition Regulation Supplement (DFARS). The Federal Acquisition Regulation (FAR), from which the DFARS is based, refers to these actions as *letter contracts*.<sup>298</sup> This type of action is used when agreement on the contract terms, specifications, or price has not occurred before performance is begun.<sup>299</sup> An *undefinitized contract action* is used in two cases: (1) when there is insufficient time to negotiate for a definitive contract to meet the government's needs and (2) when the government's interest demands that a binding commitment be given so that contract performance can begin immediately.<sup>300</sup>

The DFARS requires that definitization must occur (agreement on the contract terms, specifications, and price) the earlier of these two dates: (1) 180 days after the issuance of an *undefinitized contract action* or (2) the date on which the amount of funds obligated under the contract action is equal to more than 50% of the not-to-exceed price.

**Objective.** The overall objective of this audit was to determine whether the definitization process for contracts (including letter contracts and task orders) funded by the IRRF complied with applicable regulations, policies, and procedures and whether such contracts were being definitized quickly enough. Although DoS and USAID award contracts using IRRF, neither

identified contracts subject to definitization. Therefore, SIGIR’s review focused on contracts awarded by DoD.

**Findings.** There was a lack of clarity about whether the regulatory requirement for definitization of task orders applied to contracts classified as Indefinite-Delivery/Indefinite-Quantity (IDIQ) by the U.S. Army organizations involved in awarding and administering contracts for Iraq reconstruction. Army procurement officials with the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A), GRD-PCO, and the Assistant Deputy Assistant Secretary of the Army for Policy and Procurement-Iraq/Afghanistan (ADASA P&P-I/A) all agreed that the DFARS regulation for definitization did not apply to task orders issued under IDIQ contracts. The basis of this interpretation was the lack of specific language in either the DFARS or the FAR to associate an IDIQ contract as subject to the provisions for an *undefinitized contract action*. As such, the application of definitization requirements to task orders issued under IDIQ contracts has been voluntary.

On June 2, 2006, as a result of this audit and discussions with Army officials about the DFARS requirement for definitization, the Office of the Army General Counsel, in conjunction with the ADASA P&P-I/A, has re-examined this issue and now agrees that DFARS Subpart 217.74 “is the prescription for *undefinitized contract actions*, which would include task orders, if the terms, specifications, or price are not agreed upon before performance is begun under the task order.”

SIGIR was unable to determine whether

the Army was definitizing in a timely manner contracts identified as *undefinitized contract actions*. A SIGIR review of the Iraq Reconstruction Management System (IRMS) and the Project Assessment Report (PAR) databases—both used to track IRRF contract actions—found that as of March 31, 2006, 194 task orders (valued at \$3.4 billion) were classified as *undefinitized contract actions*, and all were associated with IDIQ contracts. However, the content of these databases, including the fields established to record definitization status, was incomplete. Most of the fields necessary for monitoring and determining whether definitization occurred were not populated in the databases, including when it occurred, what the definitized value was, and whether this occurred within the 180-day requirement. This is contrary to a September 20, 2005 directive from IRMO that requires all agencies with IRRF-funded projects to load and update IRMS with complete and accurate information.

**Recommendations.** SIGIR recommended that the ADASA P&P-I/A take these actions:

1. Issue written clarification regarding the applicability of DFARS for definitizing task orders issued under IDIQ contracts in alignment with the opinion of the Office of the Army General Counsel.
2. Consistent with the IRMO September 20, 2005 directive that all agencies currently spending IRRF dollars load all IRRF-funded project data in IRMS, issue a directive to JCC-I/A and GRD-PCO requiring each to populate the IRMS and PAR databases with complete and accurate information to monitor *undefinitized contract actions*, and

requiring each to ensure that the definitization of *undefinitized contract actions* occurs within established timeframes.

**Management Comments.** *ADASA officials—addressing only the contracting actions of JCC-I/A—generally concurred with the findings and recommendation 1, but they did not concur with recommendation 2 that the IRMS or PAR databases be updated because JCC-I/A maintains its own contract database. SIGIR also received similar technical comments from GRD-PCO that it also maintains other databases that contain undefinitized projects and scheduled completions. SIGIR disagrees with the non-concurrences and has referred to the September 2005 directive—issued by IRMO to all agencies that have IRRF funds and projects—that requires populating IRMS and PAR databases with complete and accurate information. The comments received for recommendation 1 are fully responsive.*

### Review of the Advanced First Responder Network Project

SIGIR-06-020, JULY 2006

**Introduction.** Recognizing the prevailing security environment in Iraq in April 2004, the Coalition Provisional Authority (CPA) initiated a project to deploy a communications network to enable interoperable communications for Ministry of Interior security and safety forces throughout Iraq. This project, commonly referred to as the Advanced First Responder Network (AFRN), was intended to address the limited communication capabili-

ties of Iraq's police, firefighters, and emergency medical personnel. The AFRN design-build project, first-responder radio procurement, and subsequent sustainment efforts will cost a total of \$218.5 million by the end of FY 2006. Funding for this project came from three sources: \$181.8 million from the IRRF,<sup>301</sup> \$20 million from the Iraq Security Support Fund (ISSF), and \$16.7 million from the Development Fund for Iraq (DFI).

**Objectives.** This report addressed whether responsible personnel efficiently and effectively managed the AFRN project, which was created to provide Iraqi police, fire, and emergency medical units with a national communication, command, and control system for public safety. More specifically, the report addressed these questions:

- Does AFRN provide effective emergency communications for the citizens of Iraq; the police, fire, and emergency medical departments; and related command and control organizations?
- Were the radios purchased for distribution to the Iraqi police, fire, and emergency medical organizations properly accounted for, controlled, supported, and transferred to the Iraqi Ministry of Interior?
- Were U.S. government plans and funding in place to sustain the AFRN, pending the Iraqi government's assumption of those responsibilities, and did U.S. officials provide the responsible Iraqi ministry with sufficient information on O&M support requirements?
- Were AFRN task orders properly



definitized, and were related equipment purchases and contractor services within the scope of the contract?

**Findings.** U.S. implementing agencies did not efficiently and effectively manage the AFRN project. The conditions limiting the effectiveness are fundamental and significant on both the governorate and national levels of the AFRN system, which spans Iraq from Basrah in the south to Mosul in the north. The AFRN limitations resulted predominantly from the U.S. government’s assumption that the existing fiber optic and electrical infrastructure could readily support the communications requirements of the AFRN project. There is no connectivity between the three zones of the AFRN system. Further, emergency calls from citizens cannot be received at most first-responder dispatch centers. Also, there is no network performance monitoring for two of the zones, and there are not enough backup generators to power the various system elements when commercial power is unavailable. Further, even if the fiber optic and electric infrastructure conditions can be effectively resolved, the system would operate inefficiently because there are not enough trained personnel to fully staff and operate all nine of the first-responder dispatch centers. As a result, the AFRN project has not yet produced:

- an effective nationwide communication, command, and control system for first responders
- an efficient means to dispatch and direct first responders at the governorate level

- the ability to escalate incidents to the national level

Although the AFRN project has increased communication capability among first-responder organizations, Iraqi citizens cannot use their cellular or regular telephones to call into the AFRN system to request police, fire department, or emergency medical assistance from seven of the nine governorate dispatch centers.

Also, there were insufficient property controls to effectively manage more than 30,000 radios, valued at more than \$24 million, to provide reasonable assurance that all assets were accounted for, controlled, and properly transferred to the Iraqi government. For example, property records show a significant shortage of one type of radio and a large overage of another type.

Further, U.S. agencies did not anticipate the O&M funding requirements to sustain the AFRN until the Iraqi government was prepared to assume this role. However, once identified, corrective action was taken to address the funding shortfall. Contract management officials stated that these sustainment funds came from various funding sources (DFI and ISSF). SIGIR was also told that this included funding for future training of additional personnel to staff AFRN dispatch centers. Although insufficient funding was allocated, the task orders issued from the design-build contract and the integration contract contained provisions to develop the Iraqi government’s ability to maintain the AFRN system. In addition, the U.S.

agencies provided the Iraqi government with information that an estimated \$16.7 million would be required to address annual O&M costs for the AFRN.

During the review, SIGIR determined that the AFRN task orders were properly definitized, and related equipment purchases and contractor provided services were within the scope of the contract requirements and terms.

**Material Management Control Weaknesses.** The SIGIR review disclosed a material management control weakness regarding U.S. government property accountability for the 30,000 radios purchased during the AFRN project.

**Management Actions.** U.S. government officials initiated two actions during the course of this review. First, officials in JCC-I/A, GRD-PCO, and MNSTC-I included a requirement in the new DFI sustainment contract for the new contractor to assess and provide a “state of the network” report on the AFRN system. Second, SIGIR notified responsible officials on the MNSTC-I Civilian Police Assistance Training Team (CPATT) that the documentation they provided did not accurately account for the transfer of first-responder radios to the Ministry of Interior. As a result, the officials began action to identify any missing documents evidencing transfers of radios to the Ministry of Interior. CPATT personnel requested and received copies of transfer and receipt documents from the Ministry and subsequently provided copies of these records to SIGIR. However, the additional documentation did

not resolve the accountability issues described in this report.

**Recommendations.** SIGIR recommended this management corrective action to address fiber optic network connectivity and capacity required to achieve inter-zone operation of the AFRN:

- The Commanding General, MNSTC-I, should ensure that the contractor conducting the AFRN assessment is required to coordinate with the Ministry of Interior and Ministry of Communications Iraq Telephone and Postal Company to diagnose and resolve the specific technical reason or reasons why connectivity between the three AFRN zones does not exist.

SIGIR also recommended these management corrective actions to address the accountability of radios purchased for the AFRN:

1. The Commanding General, MNSTC-I, should direct these actions:
  - Request that the Ministry of Interior provide current inventory information, by model type, for its first-responder radios.
  - Direct CPATT personnel to conduct a physical inventory, by model type, of any radios not yet transferred to the Ministry of Interior.
  - Reconcile the Ministry of Interior and CPATT inventories to the record of all radios purchased, documenting the results.
  - Initiate actions to comply with applicable U.S. government policies for



properly accounting for and controlling all radios.

**Management Comments.** *SIGIR received written comments on a draft of this report from MNSTC-I and IRMO. SIGIR received technical comments from JCC-I/A and the U.S. Army Corps of Engineers-Gulf Region Division.*

*MNSTC-I officials did not concur with the first recommendation (for jurisdictional reasons) but did concur with the second. SIGIR agrees with MNSTC-I's contention that the IRMO Communications Sector was responsible for the AFRN project, as evidenced by the original CPA tasking order; however, SIGIR's recommendation was appropriately addressed to MNSTC-I for two reasons. First, the AFRN system transferred to control of the Iraq Ministry of Interior on June 26, 2006. Second, MNSTC-I assumed responsibility for coalition force liaison to the Ministry of Interior in October 2005. Although officials did not specifically concur with the first recommendation, SIGIR believes that the substance of their comments fully satisfy the recommendation's intent. Corrective actions are either in progress or planned. MNSTC-I also provided technical comments for this report. SIGIR reviewed those comments and incorporated changes into the final report where appropriate.*

*IRMO suggested that SIGIR add a recommendation to "get all nine AFRN Governorate Dispatch Centers operating and in service with fully trained staff to realize the full potential of the system." Although SIGIR recognizes the importance of the Governorate Dispatch Centers*

*to the AFRN system, SIGIR did not include this recommendation because the DFI sustainment contract includes training, as discussed in this report.*

*JCC-I/A and the U.S. Army Corps of Engineers-Gulf Region Division also provided technical comments for this report. SIGIR reviewed these comments and incorporated changes into the final report where appropriate.*

*All comments received were fully responsive.*

### **Joint Survey of the U.S. Embassy-Iraq's Anticorruption Program**

SIGIR-06-021, JULY 2006

**Introduction.** Corruption siphons resources from needed government services and reduces the willingness of international investors. It has been identified as a major barrier to establishing citizens' trust and confidence in their government and to establishing economic growth and prosperity. Without reforms, the political stability of the new government may be in jeopardy. In a current survey—the Corruption Perception Index, compiled by Transparency International<sup>302</sup>—Iraq ranks 21<sup>st</sup> in countries perceived as most corrupt in the world. The U.S. Embassy-Iraq has identified assisting the Iraqi government in its efforts to reduce corruption as one of its highest priorities.

SIGIR and DoS IG jointly initiated this survey of the U.S. Embassy-Iraq's Anticorruption Program at the request of the U.S. Ambassador to Iraq. The work was primarily performed in Iraq and Washington, D.C. This product reports SIGIR's position on the results of the joint work to address the survey objectives.

**Objectives.** These were the objectives of the survey:

1. Which U.S. government agencies are participating in the anticorruption program in Iraq, and do they have a coordinated strategic plan with identified goals?
2. Have program outcomes and metrics been established to measure progress and success?
3. Have organizational roles and responsibilities been clearly identified and resources provided to meet the program goals?

In addition, the survey was to identify international leading practices from other organizations that have successfully reduced corruption. SIGIR did not compare the U.S. Embassy-Iraq initiatives to the lessons learned from these leading practices because the joint U.S.-Iraq Anticorruption Working Group is still in the formulation stage. SIGIR will do this comparison in a future review. SIGIR also provides other observations that relate to the anticorruption program.

**Findings.** Since the CPA began operations in June 2004, the U.S. government has been working with the Iraqi government to establish organizations, systems, training, and an environment to increase citizens' trust and confidence in the Iraqi government and to increase the transparency and accountability of overall government operations. However, because of many other priorities, these efforts have not been focused, and adequate leadership resources have not been provided. These conditions have been recognized, and the U.S. Embassy-Iraq has initiated action

to address the shortfalls.

SIGIR identified that U.S. government expenditures on anticorruption activities has been modest when compared to the total spent for Iraq reconstruction. Total funding for ongoing and planned anticorruption activities through June 15, 2006, was approximately \$65 million—less than .003% of total IRRF funding to date. However, SIGIR also did not identify, nor has the U.S. Embassy-Iraq made a case for, more funding beyond that needed to improve staffing for overall leadership and program continuity.

In late 2005, the U.S. Embassy-Iraq reconstituted its Anticorruption Working Group (ACWG), releasing its strategic plan for reducing corruption in Iraq in December 2005. The ACWG comprises these organizations:<sup>303</sup>

- Economic Counselor, U.S. Embassy-Iraq (ACWG chairman)
- Political Affairs Section, U.S. Embassy-Iraq
- Political-Military Affairs Section, U.S. Embassy-Iraq
- Public Affairs Section, U.S. Embassy-Iraq
- Foreign Commercial Service, U.S. Embassy-Iraq
- IRMO Liaison to the Commission on Public Integrity
- U.S. Department of Justice
- USAID
- Bureau of International Narcotics and Law Enforcement Affairs, DoS
- U.S. Department of the Treasury
- MNF-I Inspector General
- Strategic Effects, MNF-I
- MNSTC-I

ACWG's strategic plan focuses on three areas: market reforms, financial transparency, and public integrity. At the time of this report, ACWG was considering adding a fourth area—technical and law-enforcement measures. The plan also establishes specific goals for each area. For example, some market reforms aim to reverse the trend of capital leaving the country and to assist the market economy through market pricing of goods and services. Examples of strategic goals in the other areas include establishing transparent budget and procurement procedures and increasing the number of anticorruption investigations.

In support of its strategy, ACWG has established indicators for measuring the progress of its planned activities. For example, for financial transparency, the first year's work will center on the Iraqi government's development of the ability to monitor financial transactions within the public and private sectors. The indicator is the government-wide installation of a financial management information system. In general, the review of the indicators for the individual goals and objectives found that they are well-defined and measurable. However, indicators for measuring the outcomes of the overall ACWG strategic activities (for example, the reduction of corruption across Iraqi society) have not yet been established.

At present, a clear delineation of each participating U.S. organization's roles and responsibilities is pending development while ACWG gathers data on each organization's ongoing programs and projects. Many participating agencies had anticorruption activities ongoing

when ACWG was revitalized, and ACWG is conducting an inventory of all ongoing anticorruption activities to identify areas of duplication and to determine where additional coordination is needed. For example, three ACWG members have outreach programs that may be redundant. According to the ACWG Chairman, delineating roles and responsibilities and coordinating activities are somewhat hampered by a lack of cooperation and the unwillingness of some members to share information on programs and projects. Some members also lack a commitment to a common strategy and goal.

Although there has been some improvement in sharing information and cooperation, mainly through the efforts of the ACWG Chairman, more could be done. Currently, no single office has the authority or responsibility for oversight and for ensuring that all anticorruption efforts run efficiently with a focused, common goal. The lack of a single point of contact for U.S. government agencies will become more problematic as the Iraqi government consolidates its anticorruption efforts. It is important that the wide range of initiatives being undertaken by ACWG members—MNF-I, MNSTC-I, and the U.S. Embassy-Iraq—are fully coordinated with the Iraqi government. This includes presenting a coherent set of programs to the Prime Minister and staff designated to work the issue.

**Recommendations.** Based on the findings of the survey, SIGIR made these recommendations to the U.S. Ambassador to Iraq:

1. In response to the request from the U.S.

Embassy-Iraq's Economic Counselor, provide the necessary resources to have sufficient direction and oversight of the U.S. Embassy-Iraq's anticorruption program, including a senior leader from DoS and a senior officer from MNF-I. Both positions should be filled by personnel with experience in providing value to these specific initiatives.

2. Continue the ongoing efforts to recruit an Iraqi staff member to provide support to the full-time Anticorruption Program Manager. This person should have the necessary skills and position to be instrumental in forging joint U.S.-Iraqi anticorruption initiatives.
3. Establish a joint executive steering group chaired by the Anticorruption Program Manager, with oversight on all U.S. government anticorruption programs, to ensure that all initiatives are working efficiently and effectively toward a common goal.
4. Direct the joint executive steering group to provide to the Deputy Chief of Mission periodic reports (at least quarterly) on progress, barriers, funding needs, etc.
5. Establish a policy that will require all participating organizations to vet new anticorruption initiatives through the new joint executive steering group.
6. Direct the joint executive steering group to conduct a complete review of each U.S.-funded anticorruption program and assess how that program helps achieve the U.S. government's strategic goals for anti-corruption.
7. Direct the members of ACWG to develop action plans for each activity's program in concert with the overall strategic goals.
8. For each anticorruption program, establish a baseline to aid the measure of progress.
9. For each anticorruption program, establish interim and long-term objectives that are consistent with the overall anticorruption program strategy.
10. Engage the new Iraqi anticorruption counterparts within the new government and establish the joint U.S.-Iraq Anticorruption Working Group.
11. Encourage the new Iraqi government to establish its own working groups with regional and international partners.

**Prior report and management actions related to recommendations made on anti-corruption initiatives.**

In October 2005, DoS IG issued a report of inspection, "Inspection of Rule-of-Law Programs, Embassy Baghdad." The report made 21 recommendations for rule-of-law initiatives. Recommendation 20 in the report directly addressed anticorruption:

"Embassy, Baghdad, in coordination with the Bureau of International Narcotics and Law Enforcement Affairs, should seek and support Iraqi efforts to design and establish a training facility for anticorruption personnel from, and with the support of, all three institutions of the Iraqi anticorruption structure."

These institutions are the Board of Supreme Audit (BSA), ministry inspectors general, and the Commission on Public Integrity (CPI).

The U.S. Embassy responded that this recommendation “generally supports this concept. However, this proposal requires agreement among several entities of the Iraqi government, as well as significant commitments of funds and personnel. Embassy will continue to evaluate the viability of this concept and its likely benefits vis-à-vis other proposals.”

SIGIR’s review disclosed that although the Iraqi government has provided initial funds to CPI to establish this initiative, the recommendation continues to be evaluated by the U.S. Embassy-Iraq, and no further progress has been made in obtaining a facility for all three anticorruption institutions.

**Recommendations.** Based on this prior review and the results of this anticorruption survey, SIGIR added these recommendations to the U.S. Embassy-Iraq:

1. Develop and implement an action plan to:
  - Identify the training requirements of the Commission on Public Integrity, Board of Supreme Audit, Central Criminal Court of Iraq, and Ministry Inspectors General, with special emphasis on requirements that apply to all four institutions.
  - Prioritize the identified training requirements.
  - Identify training solutions for those requirements that can cut across multiple institutions to avoid duplication and maximize resources.

**Management Comments.** *SIGIR received comments from the U.S. Embassy-Iraq, which concurred with these findings and recommendations. Actions are being planned or are underway to implement the recommendations. The Embassy staff is appointing a senior Foreign Service officer to supervise the anticorruption program, and establishing a joint executive steering group that will have oversight of all U.S. government anticorruption programs. SIGIR considers the Embassy’s comments to be fully responsive to the SIGIR report.*

### Changes in Iraq Relief and Reconstruction Fund Program Activities— January through March 2006

SIGIR-06-023, JULY 2006

In January 2006 and April 2006, SIGIR reported on the challenges faced by the Coalition Provisional Authority (CPA) and its successor, the Chief of Mission in Iraq, in directing and supervising IRRF program activities. The first SIGIR report focused on changes that occurred in the original U.S. reconstruction plans between November 2003 and September 30, 2005. In April 2006, SIGIR issued a second report to update project changes that occurred between October 1, 2005, and December 31, 2005. This report includes changes that occurred between January 1, 2006, and March 31, 2006.

**Introduction.** In November 2003, Congress appropriated \$18.4 billion for Iraq relief and reconstruction and allocated the funds to specific sectors of Iraqi infrastructure and governance based on lists of project plans developed

over the summer of 2003. SIGIR's January and April reports addressed the significant changes in reconstruction plans, evidenced by the large-scale movement of funds between sectors. Together, the reports identified \$3.655 billion that had moved between sectors, and another \$2.258 billion that had moved within sectors. According to the reports, the money moved for a number of reasons:

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

As a result, SIGIR reported that many of the original plans will not be fully achieved in some sectors. The largest changes occurred in the Security and Law Enforcement sector and the Justice, Public Safety Infrastructure, and Civil Society sector, indicating the higher priority accorded these sectors. The bulk of the funding was transferred from the Electric and Water Resources and Sanitation sectors.

**Objectives.** The objectives of this audit were (1) to determine the changes, if any, in DoS's Iraq relief and reconstruction plans between January 1, 2006, and March 31, 2006, and (2) to identify reasons for those changes.

**Findings.** Sector funding remained fairly constant through the last quarter. Only \$15.9 million in funding moved between sectors, and \$107.8 million moved between IRRF projects. Only 4 of 72 ongoing projects had funding changes greater than \$10 million, and one new project was initiated (bringing the number of ongoing projects to 73). IRRF also grew by \$4.95 million during the quarter, increasing from \$18.439 billion to \$18.444 billion. The additional funding was added by P.L. 109-102, which transferred money from the DoS FY 2006 Economic Support Fund. The \$4.95 million was earmarked for the Marla Ruzicka War Victims Fund.

The minor adjustments to project activities are likely attributable to the fact that 88.4% of IRRF dollars have been obligated as of the end of the quarter (\$16.3 billion of the \$18.4 billion appropriated). Moreover, 54% of the funds that were moved during the quarter (\$58.6 million of the \$107.8 million moved) resulted from administrative moves rather than changes in project activities. For example, \$38.6 million was moved from the Rule-of-Law in Iraq project to the Reconstruction and Modernization of Detention Facilities project because the money was inadvertently placed in the wrong account in the prior quarter. Similarly, \$20 million was moved from the Democracy Building Activities project to give the Marla Ruzicka Iraq War Victims Fund greater visibility. The remaining \$49.2 million was moved between sectors.

**Recommendations.** SIGIR made no recommendations in this report.

## Joint Cash Count: Iraq National Weapons Card Program

SIGIR-06-024, JULY 2006

The Director of the Iraq National Weapons Card Program (INWCP) requested assistance from the Treasury Attaché, U.S. Embassy-Iraq, for the transfer to the Iraqi government of INWCP funds that had been collected for weapons registration. Consequently, the Treasury Attaché, U.S. Embassy-Iraq, asked SIGIR to conduct a count of INWCP funds that were under the supervision of the INWCP Director. SIGIR was also asked to reconcile the funds, to the extent possible, to weapons registration card records held by the INWCP Director. SIGIR was joined by a representative of the Multi-National Security Transition Command-Iraq (MNSTC-I) to conduct this review.

### **Iraq National Weapons Card Program.**

The INWCP was created in response to the concerns of the Iraqi Interim Government (IIG) and CPA about the large number of individuals possessing and carrying weapons in Iraq without obtaining appropriate registration and authorization through the Ministries of Interior and Trade. IIG and CPA were also concerned about the unregistered weapons carried by private security companies (PSCs) and their employees in Iraq. To address the problem, CPA Memorandum 17 required weapons to be registered with and regulated by the Ministry of Interior.<sup>304</sup>

CPA Memorandum 17 gave PSCs a mechanism to be registered, regulated, and vetted within Iraq. PSCs were to apply to the Ministry of Trade for a business license and to the

Ministry of Interior for an operating license. With an approved operating license, the PSCs could then apply to the Ministry of Interior for weapons cards authorizing their employees to bear arms as part of their duties.

Under the INWCP, the fee for registering an individual weapons card was 50,000 Iraqi Dinar (ID). However, according to the INWCP Director, certain IIG offices were provided with free or discounted weapons cards. For example, the Offices of the Iraqi President and Vice Presidents, the Office of the Prime Minister, and each Iraqi minister received 20 free weapons cards. Also, each Iraqi deputy minister received 10 free weapons cards. IIG offices that exceeded the free allotment of weapons cards were charged 25,000 ID for each additional card. In January 2006, the responsibility for the program, including issuing registration cards and collecting fees, was transferred to the newly elected Iraqi government. The INWCP Director collected no cash after December 2005.

**Records Reconciliation.** SIGIR determined that the available records generally support the amount of INWCP funds in the Director's possession as of May 19 and 20, 2006. According to INWCP records, 6,247 weapons card were issued, including cards that were discounted or issued for free. The INWCP Director told SIGIR that he was the collection point for the registration fees, but he did not try to reconcile amounts received against the number of weapons cards issued.

SIGIR's review of the available records found that an inventory of weapons cards was



not kept as a numbered or controlled item. SIGIR also found that records were not maintained documenting the number of weapons cards printed or issued to each Iraqi ministry. Without documentation to support the number of cards printed and distributed to the various ministries, SIGIR could not determine whether the funds in the hands of the INWCP Director represented a complete accounting of all program activities. Therefore, records of the funds available to the INWCP could not be fully reconciled.

**Cash Count.** On May 19 and 20, 2006, under the supervision of the INWCP Director, SIGIR and MNSTC-I conducted a cash count of the INWCP funds that had been collected under the responsibility of the Director through the end of December 2005 for registration of weapons cards. SIGIR determined that the INWCP Director was in possession of 305,575,000 ID—the equivalent of \$207,882.67 in U.S. dollars.<sup>305</sup> The reconciliation showed a difference between the projected amount for registering all 6,247 weapons cards at full cost and the records provided by the INWCP Director. Both values were compared with the results of the count of the actual amount of cash that was in the possession of the INWCP Director.

SIGIR did not consider either of the differences identified in the cash count as material or unreasonable for two reasons. First, both differences vary by less than 1%. Second, some indeterminate amount of the 6,247 weapons cards were provided free or at a reduced rate.

On June 7, 2006, SIGIR held an exit conference with the Treasury Attaché at the U.S.

Embassy Annex in Baghdad to present the results of the joint cash count and to discuss transfer of the monies to the Iraqi government. The Ministry of Finance requested that the funds be transported to the Rasheed Bank Branch in the Rasheed Hotel, where the bank branch manager would take custody of and deposit the money, in Iraqi dinars, into the Ministry of Finance's account at the Central Bank of Iraq.

The transfer of funds occurred on June 19, 2006, at the Rasheed Bank Branch. During the transfer and count of funds, the bank branch manager identified three counterfeit bills<sup>306</sup> amounting to 40,000 ID. The bank branch manager removed the three bills and returned them to SIGIR's custody. The bank branch manager accepted and signed for 305,535,000 ID. Disposition of the three counterfeit notes was discussed with the Special Agent in Charge-Baghdad of SIGIR Investigations. He recommended that the SIGIR audit team retain the counterfeit notes as part of the SIGIR files pertaining to this audit.

**Recommendations.** SIGIR made no recommendations in this report.

**Review of the Medical Equipment Purchased for the Primary Healthcare Centers Associated with Parsons Global Services, Inc., Contract Number W914NS-04-D-0006**  
SIGIR-06-025, JULY 2006

**Introduction.** On March 25, 2004, contract W914NS-04-D-0006, a cost-plus award fee contract, was awarded to Parsons Delaware, Inc. On April 8, 2005, the executing



contractor's name was changed by a contract amendment to Parsons Global Services, Inc., (Parsons). Under this contract, Parsons was required to construct 150 primary healthcare centers (PHCs) and provide and install 151 medical and dental equipment sets for each of the 150 PHCs and a medical training academy. The total definitized cost of the equipment was approximately \$70 million. In April 2006, SIGIR reported on the construction phase of this contract<sup>307</sup> and issued an interim report<sup>308</sup> to alert responsible U.S. government management to concerns about the accountability for and use of the medical equipment shortly after this audit began. These were the key concerns:

1. There were no written plans for the acceptance, storage, and use of the 131 medical equipment sets to be delivered by Parsons in April 2006. These sets were in excess of the current PHC needs because the number of PHCs to be constructed was descoped from 150 to 20, and the non-construction of the medical training academy (whose construction was not part of the Parsons contract).
2. The U.S. government needed to ensure accountability of the equipment on delivery to the Iraqi Ministry of Health warehouse in Erbil, Iraq, by Parsons.
3. The U.S. government was not able to ensure proper protection and accountability of equipment to be stored in an Iraqi warehouse.

**Objectives.** The main objectives of the audit were to determine whether PHC medical equipment under Parsons Contract Number W914NS-04-D-0006 was properly accounted for and to identify the impact of the descoping of PHC construction. Specifically, the report addressed these questions:

- Where are the medical equipment sets, and which organizations maintain physical control of the assets?
- How and when will the U.S. government transfer the equipment?
- What are the “lessons learned” from the management and execution of the non-construction process and practices related to this contract?

**Findings.** Twenty of the 151 medical equipment sets procured were located at the sites of 20 PHCs that were fully or partially constructed by Parsons. On March 15, 2006, medical equipment sets for 6 of these PHCs were transferred with the facilities to the Iraqi government. The remaining 14 medical equipment sets at the PHC sites are still in the custody of the U.S. government. GRD-PCO, in coordination with JCC-I/A, decided not to store any medical equipment sets in the Ministry of Health warehouse, but to require Parsons to deliver all 131 extra equipment sets to the U.S. government-controlled warehouse in Abu Ghraib, Iraq, which is operated by a contractor, Public Warehousing Company Logistics (PWC). This decision alleviated the concern raised in SIGIR's Interim Report about the security of the equipment if stored in an Iraqi warehouse.

On May 10, 2006, SIGIR conducted a physical inventory of the medical equipment sets that Parsons had delivered to the PWC warehouse. Therefore, this report discusses the number and condition of the 71 medical equipment sets that SIGIR verified during the inventory. Although Parsons had delivered 71 full or partial medical equipment sets to the warehouse in Abu Ghraib, SIGIR found that the U.S. government had not implemented proper accountability procedures for the receipt, acceptance, or storage of these medical equipment sets on arrival at the warehouse. Neither JCC-I/A nor GRD-PCO took appropriate actions to ensure that an authorized U.S. government representative properly inventoried, inspected, receipted, and accounted for Parsons medical equipment on delivery to the PWC Logistics warehouse.

Neither JCC-I/A nor GRD-PCO delegated receipt and acceptance authority for the Parsons contract to any authorized U.S. government representative. As a result, no official U.S. government receipt, inspection, and acceptance function was performed when the equipment arrived at the warehouse. Thus, the U.S. government had physical custody of 71 full or partial PHC medical equipment sets delivered by Parsons to the warehouse, as of May 10, 2006, but the U.S. government never established proper accountability for the equipment and does not fully know the type, quantities, and condition of equipment items that had been received.

SIGIR observed that 33 of 71 equipment sets (46%) received and stored at the ware-

house had some type of visual damage or other discrepancy noted by PWC on arrival. Because the crates were not opened or inspected, it is not known whether equipment inside the crates is damaged. As of June 11, 2006, the PWC Logistics automated warehouse system indicated that Parsons had delivered 115 full or partial medical equipment sets to the warehouse in Abu Ghraib.

IRMO has coordinated with JCC-I/A and GRD-PCO to obtain funding for continued construction on the additional PHCs not completed by Parsons. The medical equipment sets are intended for use in these PHCs once they are completed. IRMO expects that the medical equipment sets stored in the warehouse will be first allocated to these remaining PHCs after construction has been completed; any remaining equipment sets will be distributed to Iraqi health centers or hospitals as needed. No formal detailed written plan yet exists that lays out the specific distribution for all 131 equipment sets to be delivered to the PWC Logistics warehouse.

This report discusses a significant lesson learned for future contract actions. The impact of changes to contract terms on the operational and accountability requirements must be considered carefully. This report also addresses concerns about the medical equipment warranties, the training on new equipment provided by Parsons, and the accuracy of financial information on equipment-related expenditures recorded in the U.S. Army Corps of Engineers Financial Management System (CEFMS).

**Management Actions.** Management has taken steps to address some of the issues that SIGIR identified during this audit:

- On April 4, 2006, GRD-PCO, in coordination with JCC-I/A, made a decision not to have Parsons deliver any medical equipment sets to the Ministry of Health warehouse in Erbil, Iraq.
- IRMO continues to coordinate with JCC-I/A and GRD-PCO to obtain funding for continued construction of the remaining PHCs and to develop a plan for the distribution of the 131 medical equipment sets to be stored in the PWC Logistics warehouse.

**Recommendations.** SIGIR made these recommendations:

1. The Director, IRMO, should continue to work with GRD-PCO to develop a comprehensive, written utilization and transfer plan for all of the 131 medical equipment sets stored in the warehouse.
2. The Commanding General, Gulf Region Division, U.S. Army Corps of Engineers, should take these actions:
  - In coordination with JCC-I/A, arrange for a complete inventory and inspection of all of the medical equipment currently stored in the PWC Logistics warehouse as soon as possible. When completed, prepare a list of missing and damaged items.
  - In coordination with JCC-I/A, arrange for a knowledgeable Parsons or equipment manufacture representative to be present during the inspection of the

condition of the equipment because of the sensitive and specialized nature of medical equipment.

- Arrange for the proper recording of inventoried medical equipment into the appropriate government property management system.
3. SIGIR also recommended that the Commanding General, JCC-I/A:
    - In coordination with GRD-PCO, arrange for the official inspection, inventory, and receipt of Parsons medical equipment still being delivered to the PWC Logistics warehouse.
    - In coordination with GRD-PCO, obtain the completed inventory list of all medical equipment items currently stored in the PWC warehouse and take appropriate actions to recoup from Parsons the cost of all items found to be missing or damaged.
    - In coordination with GRD-PCO, work with appropriate equipment manufacturers and secondary warranty grantors to clarify the status of the equipment warranties.

**Management Comments.** *IRMO, JCC-I/A, and GRD-PCO officials generally concurred with the findings and recommendations. Technical comments received to a draft of this report were also received and addressed in the final report, as appropriate. Actions are underway to implement the recommendations, and the comments received were fully responsive.*

## Review of the U.S. Agency for International Development's Management of the Basrah Children's Hospital Project

SIGIR-06-026, JULY 2006

**Introduction.** As part of the Iraq relief and reconstruction program, USAID was tasked with the construction of a modern, 50-bed pediatric facility in Basrah to improve the quality of care and life expectancy for the women and children of Iraq. In November 2003, Congress authorized \$50 million for this project from IRRF. USAID, in turn, established a memorandum of understanding with Project HOPE. Under the agreement, Project HOPE would take the lead in providing a significant portion of the hospital equipment and would be responsible for training medical and administrative staff. At the request of the Ministry of Health, the scope of work was modified in July 2005 to increase the number of beds to 94 and to upgrade the facility to be an oncology center. No additional IRRF funding was requested, and this modification did not result in extending the schedule.

USAID issued a job order for construction of the hospital in August 2004 to Bechtel National, Inc. (Bechtel). Bechtel began initial activities, including site preparation, and awarded a design-build subcontract for \$37 million in mid-October 2004. The job order required that Bechtel complete the hospital by December 31, 2005. Completion of the project slipped several times during the next year. The purpose of this review was to determine the effectiveness of the U.S. government project management and contracting teams in the

performance of this project.

**Objectives.** This review was announced on April 12, 2006, to assess IRMO's and USAID's management of the Basrah Children's Hospital project. These were the objectives of the audit:

- Does USAID have effective policies, procedures, and management controls in place to achieve expected project outcomes?
- Does USAID have adequate financial controls in place to effectively monitor the project and to collect and report on cost to complete?
- Do USAID and IRMO have effective management reporting processes in place to ensure effective transparency of project cost, schedule, and performance?

On March 26, 2006, Bechtel reported to USAID that the estimated completion date had slipped to July 31, 2007, and that the estimated cost at completion had grown to approximately \$98 million because of project delays and a revision in the allocation of indirect costs. SIGIR learned of this project status after the review began and modified the objectives to determine the reasons for the project slippage and increased costs. Therefore, SIGIR's review was adjusted to answer these questions:

- Does USAID have effective processes in place for tracking and reporting the schedules of the Basrah Children's Hospital project?
- Does USAID have effective processes in place for tracking and reporting the cost of the Basrah Children's Hospital project to Congress and the Chief of Mission?

- Do USAID and IRMO have effective policies, procedures, and management controls in place to achieve expected project outcomes?

**Findings.** The project status reports received by USAID from its dedicated U.S. Army Corps of Engineers (USACE) on-site engineer and Bechtel, its prime contractor, regularly identified slippages in the Basrah Children’s Hospital project. However, this information was not effectively analyzed or included in DoS *Section 2207* Reports or the Project Assessment Reports.<sup>309</sup> Specifically:

- Because of subcontractor performance concerns, Bechtel announced in October 2005 that it was conducting a special assessment of the project schedule.
- In late December 2005, the USACE on-site engineer reported the project as 111 days behind schedule, and the prime contractor was reporting a delay of 45 days. However, USAID reported no delays with the project in either the DoS January 2006 *Section 2207* Report or the Project Assessment Report.
- From January 2 to March 22, 2006, Bechtel reported schedule impacts ranging from 25 days to 77 days. The number of delay days fluctuated as Bechtel worked with the subcontractor to establish recovery plans.
- In March 2006, GRD-PCO conducted a “no-notice assessment” of the Basrah Children’s Hospital. Around March 14, 2006, they estimated a completion date of June 2007.
- On March 26, 2006, Bechtel released its

special assessment, which described the project as 273 days behind schedule—a slip of 197 days from the delay noted in its report of March 22, 2006.

- In March 2006, the USAID on-site manager reported schedule concerns. In the April 2006 *Section 2207 Report* however, USAID reported no problems with the project schedule.
- Two weeks later, in its April 2006 Project Assessment Report, USAID finally reported the project as delayed by 273 days, with an estimated completion date of July 31, 2007.

According to a USAID contracting official, the delays, which were caused by such factors as subcontractor design flaws, lack of subcontractor focus on critical path activities, and security concerns, were not reported because the contractor had produced several recovery plans. Consequently, USAID believed that the estimated completion date could still be met. However, according to USAID documents, the contractor had issued three recovery plans by December 2005, but none of them succeeded in recovering the lost time. Yet, USAID did not report any concerns as the project continued to fall behind schedule.

Although USAID is responsible for construction of the hospital, USAID has not included the installation of medical equipment in its estimated project completion schedule or costs. According to a Project HOPE official, the final installation of some medical equipment will not start until construction is com-

pleted, further delaying the commissioning of the hospital. The USAID Mission Director-Iraq did not believe that USAID was required to track or report on the medical equipment. Project HOPE is to provide approximately \$30 million in equipment and training and, as of June 25, 2006, reported that it was prepared to meet all commitments for equipment on time and with the quality and quantity required to support a state-of-the-art tertiary care pediatric center. USAID is responsible for keeping Congress and the Chief of Mission accurately apprised of the hospital's status. The Deputy Chief of Mission reported being unaware that completion date reported by USAID did not reflect delivery of a turnkey operation, including medical equipment.

USAID's accounting systems and processes are inadequate and failed to accurately identify and report hospital project costs to the Chief of Mission and to Congress. As of the April 2006 *Section 2207* Report to Congress, USAID reported the hospital project cost at completion as \$50 million, even though Bechtel had estimated the cost as at least \$98 million. USAID reported the lower number because it believed that there was no requirement to include an estimated \$48 million in indirect contractor costs in its reports. Although SIGIR did not audit USAID's financial records, it is possible that other cost elements have not been reported, which could drive the costs higher. These elements include an appropriate share of the cost of the Participating Agency Service Agreement, established in May 2003 between USAID and USACE.

Based on cost data SIGIR obtained from USAID, under the current management and contracting structure, the actual turnkey cost for the project will be about \$149.5 million to \$169.5 million—including costs for medical equipment, integrating the equipment into the hospital, training hospital staff and administration, funding initial sustainment, and initial acquisition of consumable medical supplies. A June 2006 study contracted by USAID explored other future management and contracting options that have the potential to reduce costs. SIGIR believes that exploring alternative contracting methods also could reduce costs.

Further, SIGIR believes that the project will require \$69.5 million to \$89.5 million of additional funds to complete. This is based on an estimated cost to complete of \$149.5 million to \$169.5 million, minus the \$50 million IRRF allocation and \$30 million from Project HOPE. However, SIGIR also cautions that there is still no clear picture of schedule control, security, construction quality, and the use of alternative contract and management options that will impact the true cost to complete.

Oversight and management of the Basrah Children's Hospital project schedule and cost has been hampered by the lack of effective program management and oversight by DoS and USAID. The Chief of Mission is responsible for the supervision and direction of all U.S. assistance programs but did not establish a management structure for carrying out that responsibility. USAID similarly did not establish an appropriate program management

structure. Specifically, to oversee its entire \$1.4 billion IRRF construction program of approximately 20 projects across 8 sectors,<sup>310</sup> USAID relied on one administrative contracting officer and one cognizant technical officer; USAID never appointed a program manager with sole responsibility for the hospital project and never established a hospital program management office.

**Management Actions.** In May and June 2006, the Deputy Chief of Mission and the IRMO Director took a number of actions to get control of the contract. On May 19, 2006, the Acting IRMO Director instructed USAID to issue a stop-work order to its contractor. On June 6, 2006, the Deputy Chief of Mission directed USAID and IRMO to provide specific information on (1) the true cost and schedule to complete the project (the Deputy Chief of Mission defined “completion” as a fully functioning hospital); (2) what would be accomplished with the \$50 million that was allocated when the costs against this \$50 million would be fully incurred; and (3) what options are available to complete the project, including options for funding, contracting, project management, and oversight. On June 14, 2006, the IRMO Director again instructed USAID to “issue an order to Bechtel National, Inc., to immediately cease construction work other than that necessary to place the site in caretaker status and to begin demobilization from the job site.”

**Recommendations.** SIGIR recommended that the U.S. Ambassador to Iraq take these actions:

1. Direct the USAID Mission Director-Iraq to:

- Issue a stop-work order to Bechtel and its subcontractors until sufficient plans, resources, and processes are in place to ensure a successful project.
  - Report on the total project, including Project HOPE’s activities in the *Section 2207 Report*.
  - Provide the IRMO Director with timely, accurate, and complete information as deemed necessary to ensure that the project has independent oversight.
2. Direct the IRMO Director and the USAID Mission Director-Iraq to take these actions:
- Promptly report on the answers to the Deputy Chief of Mission’s questions provided on June 6, 2006.
  - Consider alternative forms of contracting and project management to complete the project.
  - Develop a management structure to ensure the success of this project.

SIGIR plans to conduct a review of USAID’s overall Bechtel contract and all IRRF projects managed by USAID to determine if similar reporting has occurred.

**Management Comments.** *SIGIR received a consolidated response from the U.S. Mission-Iraq on a draft of this report. The Mission concurred with all of these recommendations and reported that the Ambassador has created and chairs a Reconstruction Core Group, which includes all U.S. Mission agencies involved in reconstruction. The Reconstruction Core Group has devised a plan to complete the project in which program and project management for the Basrah Chil-*



*dren's Hospital is transferred from USAID to the GRD-PCO. GRD plans to establish:*

- *a GRD-led special project office in Basrah with USAID and Project HOPE representatives*
- *a GRD-provided hospital and equipment integrator to ensure synchronization of effort*
- *program management additions at GRD Headquarters to ensure adequate controls during execution*

*SIGIR considers this action and other planned actions to be fully responsive to the SIGIR report.*

## Draft Reports Issued

SIGIR had issued two draft audit reports as of the reporting date.

### Fact Sheet: U.S. Government Organizations' Roles and Responsibilities for Iraq Relief and Reconstruction Activities

SIGIR-06-022

The objective of this review was to identify the roles and responsibilities for each principal U.S. government organization that has programmatic, operational, and/or financial stewardship for relief and reconstruction activities in Iraq. SIGIR's objectives were to identify:

- which U.S. government organizations were authorized to perform a role in Iraq relief and reconstruction activities; how their roles related to other organizations; and how policies, procedures, and activities are coordinated among the organizations

- which U.S. government organizations did not have a principal role but provided staff in the effort
- the amount and type of funding for each organization and for what purpose
- performance reporting of each organization
- whether organizations have developed cessation or transition plans

### Contracting in Iraq Reconstruction: Design-build vs. Direct Contracting

SIGIR-06-027

The objective of this assessment was to understand how the major construction contracts have been implemented in Iraq. SIGIR compared the two major project delivery systems used in Iraq—design-build and direct contracting—to U.S. industry-leading practices to identify the circumstances that enhance or limit their successes.

### Ongoing Audits

#### Review of Administrative Task Orders for Iraq Reconstruction Contracts

SIGIR 2005-19

This audit was initiated to evaluate the effectiveness of project management and the monitoring and controls exercised by administrative contract officers. Specifically, the objectives of the audit are to determine the extent to which:

- ATOs varied from one design-build contractor to another
- ATOs accomplished the intended purpose—to capture the design-build contractors' fixed administrative costs



- increased or decreased periods of contract and task order performance impacted the value of ATO cost
- the de-scoping of projects impacted the necessity for certain of the administrative costs included in the ATO

#### **Review of Close-out Processes and Procedures for IRRF Contracts**

SIGIR-6006

This audit will determine whether contracts funded by IRRF (including task orders, grants, and cooperative agreements) are being closed out on time and whether they comply with the Federal Acquisition Regulation (FAR) 4.804 1(a) and other applicable regulations, policies, and procedures.

#### **Review of DynCorp, Inc., Contract Number S-LMAQM-04-C-0030, Task Order 0338: Iraqi Police Training Program Support and Equipment**

SIGIR-6017

This review will concentrate primarily on these questions:

- What are the obligations, costs, and potential liabilities associated with Task Order 0338, and what controls are in place?
- What is the status of property purchased under Task Order 0338?
- What is the status of construction of facilities to support provincial police training programs?

#### **Review of the Planning and Process Followed To Protect the U.S. Government Investment When Deciding To Terminate the Parsons Primary Healthcare Centers Program**

SIGIR-6018

This review will evaluate planning and execution actions taken by the U.S. government relating to the termination of the Parsons Primary Healthcare Centers program in terms of effective, efficient, and economical decision-making. SIGIR will also address any lessons learned. This is a change in the original review objectives of the project announcement. This adjustment was made to provide the most effective review and recommendations to the U.S. government manager responsible for this program.

#### **Review of the Accountability of the Interim Iraqi Government Fund**

SIGIR-6019

This review will identify the origin of the fund, the historical usage, status, and who is the current U.S. government custodian. SIGIR will also assess the adequacy of accountability procedures and management controls over the fund.

#### **Review of the Iraqi Security Forces Logistics Capability**

SIGIR-6020

The Chairman of the Senate Armed Services Committee requested that the Government Accountability Office (GAO) and SIGIR review the Iraqi Security Forces (ISF) logistics capabil-

ity. SIGIR's plans and responsibilities in this area, as well as the complexity of this issue and the number of potential entities involved in undertaking this review of ISF logistics program and training, require SIGIR and DoD IG to conduct this review jointly, in coordination with GAO.

Within DoD, this review is also being coordinated with the Under Secretary of Defense for Logistics and Material Readiness, U.S. Central Command, Multi-National Force-Iraq Inspector General, and the Multi-National Security Transition Command-Iraq audit staff. As directed by the committee chairman, and agreed to with the above organizations, this review will be coordinated to the maximum extent possible to ensure optimal use of resources and minimize duplication of effort by the review teams.

## **Review of the Iraqi Security Forces Weapons Provided by the U. S. Department of Defense**

SIGIR-6021

This review was requested by the Chairman of the United States Senate Armed Services Committee. The objectives of this review are to (1) determine the types, quality, and quantity of weapons provided to ISF that are funded with IRRF and (2) determine the extent to which the ISF can independently maintain these weapons.

## **Follow-up on Corrective Actions Related to SIGIR Recommendations Concerning the Development Fund for Iraq (DFI) Accountability**

SIGIR-6025

This follow-up review will assess the actions taken by U.S. government representatives on the recommendations made in prior SIGIR audit reports on the accountability for contracts, grants, and cash transactions using the DFI. SIGIR will also review the work performed under contract W91GXQ-05-C-0014, which was let in response to SIGIR's recommendations to capture DFI-related contract and financial records and associated documentation. The results of this follow-up will be documented in an audit product and briefed to the International Advisory and Monitoring Board for Iraq.

## **Iraq Relief and Reconstruction Fund (IRRF) Financial Review: Unliquidated Obligations**

SIGIR-6026

The overall objective of this audit is to determine the amount of IRRF unliquidated obligations and whether the U.S. government agencies responsible for reconstruction projects in Iraq have established adequate management controls over IRRF 1 and IRRF 2 unliquidated obligations. SIGIR intends to answer these questions:

- How much IRRF monies remain as unliquidated obligations?
- Have unliquidated obligations or monies committed to complete projects been deob-

ligated, decommitted, and moved to cover unfunded requirements?

- What management controls are in place to monitor unliquidated obligations?

### **Iraq Relief and Reconstruction Fund (IRRF) Financial Review: Unmatched Disbursements**

SIGIR-6027

The overall objective of this audit is to determine the amount of IRRF unmatched disbursements and whether the U.S. government agencies have established adequate management controls over IRRF 1 and IRRF 2 unmatched disbursements. SIGIR intends to answer these questions:

- How much IRRF monies have been identified as unmatched disbursements?
- How often are unmatched disbursements reviewed by government officials, and who makes the determination that the disbursement was an IRRF expenditure?
- Have IRRF unmatched disbursements subsequently been identified to other IRRF projects?
- What management controls are in place to eliminate and resolve unmatched disbursements?

### **Review of Spending Under the USAID Bechtel Contract and the Recording and Reporting of Associated Costs**

SIGIR-6028

The objective of this review is to determine, in detail, the costs incurred by the contractor in performing work under selected contracts with

USAID for reconstruction projects in Iraq, as well as the methods used to record and report associated costs. SIGIR intends to answer these questions:

- What cost detail is contained in the invoices and supporting documentation submitted to the government by Bechtel?
- What costs did Bechtel incur in carrying out its contracted tasks, including cost of material, labor, overhead, security, subcontracts, and all other costs?
- How many layers of subcontracts did Bechtel have in performing the contracted work?
- What types of contracts (firm fixed-price, cost plus, or other arrangement) were used for subcontracts; at each layer of subcontracting, what costs were billed to the next level of subcontractor?
- What administrative fees were charged by the contracting agency?

### **Review of Logistics Civil Augmentation Program (LOGCAP) Task Order 130**

SIGIR-6029

This review was requested by the Office of the Chief of Mission, U.S. Embassy-Iraq. The overall objective is to determine whether the U.S. government is receiving the services paid for under Logistics Civil Augmentation Program (LOGCAP) Task Order 130 and whether the support provided is reasonable, effective, and cost-effective. Task Order 130 was awarded to provide services necessary to support, operate, and maintain Chief of Mission and MNF-I staffs at the U.S. Embassy-Iraq. SIGIR

will review two service areas in particular: (1) vehicle service and maintenance and (2) fuel procurement, delivery, and pricing. The audit will answer these questions:

- Are all requirements, including those initiated by the contractor, properly validated?
- Is a proper and adequate review process in place for all work?
- Does the contractor present auditable invoices?
- Is all work properly evaluated against criteria?
- Do proper controls exist for the property associated with this task order?
- What are the “lessons learned” from the management and execution of the service contract process and practices related to this task order?

In addition, SIGIR will assess the suitability of continuing a LOGCAP-type contract arrangement for selected services when the U.S. Embassy-Iraq moves into its new compound. For comparative purposes, SIGIR will look at similar services performed, associated costs incurred, and which U.S. government agencies were responsible for each area under prior LOGCAP contracts, as well as similar life-support services provided under other contracts in Iraq.

## **Review of U.S. Government Organizations’ Efforts to Establish Provincial Reconstruction Teams in Iraq**

SIGIR-6031

The overall objectives are to (1) determine whether Provincial Reconstruction Teams (PRTs) are fully empowered, staffed, and resourced to meet their mission and (2) identify any other barriers impeding achievement of the PRT mission. Specifically, the audit will answer these questions:

- Are there sufficient financial and human resources to support the PRT mission?
- How are security concerns affecting PRT operations?
- Are the participating organizations effectively planning and coordinating their programs and operational support?

## **Lessons Learned from Management and Organizational Challenges of the Iraq Relief and Reconstruction Fund**

SIGIR-6032

This continues the review, SIGIR 6012, on how the roles and responsibilities have been assigned for the management of IRRF. This study will identify leading practices that may be used to guide future multi-organizational interaction for managing similar relief and reconstruction initiatives. The objective of this study is to answer these questions:

- What is the ideal structure of the Reconstruction Management Office, in terms of roles and responsibilities, as it goes from training and planning to support deployment, pre-deployment actions, actual deployment, and re-deployment?
- What should the skill set of the organization be as it goes through these phases?
- What is the ideal size during each of these phases and most especially during the full deployment phase?

### Planned Audits

SIGIR will conduct performance audits that assess the economy, efficiency, effectiveness, and results of Iraq reconstruction programs and operations as necessary. These audits will be accomplished through individual audit projects of specific issues, as well as an audit series that will evaluate several components of related topics. Each of these audits will be announced before the start of any audit field work. For the full text of the audit plan, see the SIGIR Web site: [www.sigir.mil](http://www.sigir.mil).

### STATUS OF SIGIR AUDIT RECOMMENDATIONS, AS OF JUNE 30, 2006

REPORT NUMBER	REPORT TITLE	DATE ISSUED	RECOMMENDATIONS		
			TOTAL	CLOSED	IN-PROCESS
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	April 4, 2006	0	0	0
06-015	Iraqi Armed Forces Seized Assets Fund: Review of Contracts and Financial Documents	April 28, 2006	4	1	3
06-013	Briefing to the International Advisory and Monitoring Board for Iraq: Management Controls Over the Development Fund for Iraq	April 28, 2006	0	0	0
06-012	Development Fund for Iraq Cash Accountability Review: Joint Area Support Group-Central/Falluja	April 28, 2006	0	0	0
06-011	Management of the Primary Healthcare Centers Construction Projects	April 29, 2006	7	0	7
06-010	Review of the Multi-National Security Transition Command-Iraq Reconciliation of the Iraqi Armed Forces Seized Assets Fund	April 28, 2006	1	1	0
06-009	Review of Task Force Shield Programs	April 28, 2006	8	4	4
06-008	Development Fund for Iraq-Cash Accountability Review: Joint Area Support Group-Central	April 28, 2006	3	0	3
06-007	U.S. Agency for International Development: Management of the Transfer of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government	April 29, 2006	1	0	1

REPORT NUMBER	REPORT TITLE	DATE ISSUED	RECOMMENDATIONS		
			TOTAL	CLOSED	IN-PROCESS
06-006	Multi-National Security Transition Command-Iraq: Management of the Transfer of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government	April 29, 2006	1	0	1
06-005	Follow-up on Recommendations Made in SIGIR Audit Reports Related to Management and Control of the Development Fund for Iraq	April 28, 2006	0	0	0
06-004	Changes in Iraq Relief and Reconstruction Fund Program Activities-October through December 2005	April 28, 2006	0	0	0
06-003	Review of Data Entry and General Controls in the Collecting and Reporting of the Iraq Relief and Reconstruction Fund	April 28, 2006	9	0	9
06-002	Prompt Payment Act: Analysis of Expenditures Made from the Iraq Relief and Reconstruction Fund	February 3, 2006	1	0	1
06-001	Management of Iraq Relief and Reconstruction Fund Program: The Evolution of the Iraq Reconstruction Management System	April 24, 2006	3	0	3
05-029	Challenges Faced in Carrying Out Iraq Relief and Reconstruction Fund Activities	January 26, 2006	0	0	0
05-028	GRD-PCO Management of the Transfer of IRRF-funded Assets to the Iraqi Government	January 24, 2006	1	0	1
05-027	Methodologies for Reporting Cost-to-complete Estimates	January 27, 2006	14	0	14
05-026	Fact Sheet on the Use of the \$50 Million Appropriation to Support the Management and Reporting of Iraq Relief and Reconstruction Fund	January 27, 2006	0	0	0
05-025	Management of the Commander's Emergency Response Program for Fiscal Year 2005	January 23, 2006	5	0	5
05-024	Management of the Mansuria Electrical Reconstruction Project	January 23, 2006	0	0	0
05-023	Management of Rapid Regional Response Program Contracts in South-Central Iraq	January 23, 2006	3	2	1
05-022	Managing Sustainment for Iraq Relief and Reconstruction Fund Programs	October 24, 2005	4	0	4
05-021	Management of Iraq Relief and Reconstruction Fund Programs	October 24, 2005	1	0	1
05-020	Management of the Contracts, Grant, and Micro-Purchases Used To Rehabilitate the Karbala Library	October 26, 2005	4	0	4
05-018	Acquisition of Armored Vehicles Purchased Through Contract W914NS-05-M-1189	October 21, 2005	5	0	5
05-017	Award Fee Process for Contractors Involved in Iraq Reconstruction	October 25, 2005	4	0	4
05-016	Management of the Contracts and Grants Used To Construct and Operate the Babylon Police Academy	October 26, 2005	3	0	3
05-015	Management of Rapid Response Program Grants in South-Central Iraq	October 26, 2005	3	1	2
05-011	Cost-to-complete Estimates and Financial Reporting for the Management of the Iraq Relief and Reconstruction Fund	July 26, 2005	5	0	5
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	July 26, 2005	5	0	5

REPORT NUMBER	REPORT TITLE	DATE ISSUED	RECOMMENDATIONS		
			TOTAL	CLOSED	IN-PROCESS
05-008	Administration of Contracts Funded by the Development Fund for Iraq	April 30, 2005	6	3	3
05-007	Administration of Iraq Relief and Reconstruction Fund Contract Files	April 30, 2005	7	0	7
05-006	Control of Cash Provided to South-Central Iraq	April 30, 2005	6	5	1
05-002	Accountability and Control of Materiel Assets of the Coalition Provisional Authority in Kuwait	October 25, 2004	3	1	2
04-011	Audit of the Accountability and Control of Materiel Assets of the Coalition Provisional Authority in Baghdad	July 26, 2004	2	1	1
04-001	Coalition Provisional Authority Coordination of Donated Funds	June 25, 2004	2	2	0

TABLE 3-2





## SIGIR INSPECTIONS

This quarter, SIGIR Inspections continued its mission to protect the interests of U.S. taxpayers and the people of Iraq. SIGIR inspectors and engineers conducted assessments of relief and reconstruction projects throughout Iraq to determine if they have been adequately planned and constructed.

SIGIR assessed a number of high-quality projects. These projects tended to have good quality control (QC) and quality assurance programs (QA) in place. Some sectors showed marked improvement. Nevertheless, SIGIR found that contractor performance continues to be a problem. Contractor quality control (QC) plans and U.S. government quality assurance (QA) programs at several sites were inadequate. Some projects lacked adequate designs, and some lacked adequate oversight.

The visibility of SIGIR's inspections across Iraq continues to have a positive impact on reconstruction. The contracting community has learned that any project may be the target of a SIGIR on-site project assessment—with limited advance notice. SIGIR has completed 56 project assessments, 96 limited on-site inspections, and 172 aerial assessments, increasing government oversight of relief and reconstruction projects.

### Project Assessments: Findings at a Glance

#### Oil Infrastructure Canal Crossings and Pipeline Construction (\$86.9 million)

- The project will not meet objectives.
- The U.S. government's processes to independently verify project completeness and

quality were ineffective.

- Contractor QC was inadequate.
- U.S. government QA was inadequate.
- Oil leakage from decaying pipelines presents potential safety issues.

#### Umm Qasr Water Scheme (\$15.6 million)

- The original objectives and the de-scoped objectives will not be met.
- Maintenance issues with the Ministry of Water Resources have not been resolved.
- Contractor QC and government QA programs were adequate.

#### Basrah International Airport—Tower and Terminal Rehabilitation (\$4.92 million)

- The water treatment facility is not operational, but other objectives have been met.
- The design was sufficient.
- Contractor QC and government QA programs were adequate.

#### Basrah International Airport—Air Side Power Supply (\$27.8 million)

- Design reports were sufficient.
- Contractor QC and government QA programs were adequate.

#### Police Station—Safwan Iraqi Highway Patrol 404 (\$2.5 million)

- A structural analysis of the facility is required to ensure that the design of load-bearing walls is adequate to support the structure.
- This project should meet its objectives.

## **Nasiriyah Fire Station (\$0.5 million)**

- The project design was not complete and lacked sufficient detail.
- Contractor QC and government QA were adequate.
- This project met its objectives.

## **Nasiriyah Prison Facility (\$49.1 million)**

- Contractor QC and government QA were adequate.
- Design was sufficient.

## **Muthanna Village Roads—Segment 4 (\$2.9 million)**

- The project design was not complete and lacked sufficient detail.
- Contractor QC and government QA were adequate.

## **609 Iraqi National Guard Battalion Garrison (\$10.7 million)**

- The design was sufficient.
- Contractor QC and government QA were adequate.
- This project met its objectives.

## **Baghdad Railway Station (\$5.9 million)**

- Design was sufficient.
- Contractor QC and government QA were adequate.
- This project met its objectives.

## **Limited On-site Inspections**

### **12 New Border Forts**

- SIGIR is concerned about the quality of the concrete.
- Some border forts lacked retaining walls.
- 11 of 12 lacked perimeter security.
- Roads were difficult to access in rain and snow.
- The quantity of water is insufficient for operational requirements.
- There are numerous cracks in interior and exterior walls from foundation settling.

### **9 MNSTC-I Border Posts**

- No documentation is available on the contracts, statements of work, or designs.
- Eight of the nine projects show no signs of recent maintenance.
- Renovation was of poor quality in all nine border posts.
- Septic tanks were full, overflowing, or not operational.
- The quantity of water is insufficient for operational requirements.

### **4 Medical Facilities**

- Three of the four projects had no significant deficiencies.
- The remaining project was of poor quality, with water leaks and damage, peeling paint, and low-quality doors and locks.

### **1 Electrical Project**

- SIGIR found no significant deficiencies.

### 13 Public Safety Projects

- SIGIR found many electrical, plumbing, and finishing deficiencies.

### 2 Transportation Projects

- SIGIR found no significant deficiencies.

## Approach to Assessment

During this quarter, SIGIR teams assessed 12 project sites, summarized in Table 3-3. The teams gathered contractual specifications, traveled to the project sites, examined on-site progress, and reviewed their findings with reconstruction managers. Each assessment team comprised an engineer and an auditor.

While the assessment teams were conducting project assessments and summarizing the results of limited ground project surveys, other SIGIR personnel were conducting preliminary assessments of 41 additional construction projects. SIGIR shares this information with project management staff to select projects for more in-depth assessments.

During the second quarter of 2005, SIGIR established a satellite imagery operation to conduct analyses using satellite imagery on projects that are remote or inaccessible because of security concerns. This operation also assists the project assessment teams with preliminary research of site progress. SIGIR continued to expand its satellite imagery operation this quarter and has been working with the National Geospatial-Intelligence Agency (NGA) to produce imagery products and assessments. This quarter, SIGIR created 33 imagery products and provided 14 imagery assessments, and NGA has produced 27 imagery assessments for SIGIR.

## Planning

SIGIR selected a cross-section from each of the major reconstruction sectors to assess, survey, and analyze:

- projects involving water, electricity, oil facilities, and transportation
- projects involving large and small contract amounts
- projects of different general contractors
- projects in different sections of the country
- projects in programs of each of the major U.S. agencies
- projects that were fully completed and partly completed
- construction and non-construction projects

## On-site Project Assessment Program Approach

SIGIR Inspections has completed 56 project assessments, including 13 during this quarter. These have been the general objectives of the project assessments:

- Were project components adequately designed before construction or installation?
- Did construction or rehabilitation adequately meet the standards of the design?
- Were the contractor's QC plan and the U.S. government's QA program adequately carried out?
- Were project sustainability and operational effectiveness adequately addressed?
- Were project results consistent with the original objective?

Table 3-3 lists project assessments completed this quarter. Table 3-4 lists project assessments completed in previous quarters. Figure

Aerial view of Zegeton Canal Crossing (with old pipelines visible)



3-1 shows the approximate location of each project.

## SIGIR Project Assessments Kirkuk to Baiji Pipeline Project and the Kirkuk Oil Pipeline Canal Crossings 2 and 3, at Riyadh and Zegeton, Iraq

SIGIR PA-06-063  
SIGIR PA-05-013  
SIGIR PA-05-014

SIGIR performed an assessment of the oil sector projects associated with the construction of the new 40-inch pipeline from Kirkuk to Baiji, focusing on the past work administered by the U.S. Army Corps of Engineers (USACE) in 2003 and continuing into June 2006. The SIGIR assessment reviewed the program, project, and contract documentation back to 2003; interviewed key personnel involved in the planning, design, and construction of the pipeline; and assessed three critical canal crossings. These efforts provided an accurate three-year historical

account of the oil sector projects and decisions made by the United States and Iraqi government entities that impacted the completion of the pipeline from Kirkuk to Baiji.

The project to remove and install new pipe for the 50-km replacement of the 40-inch Kirkuk-to-Baiji<sup>311</sup> pipeline had two objectives:

1. Increase the oil flow rate from approximately 500,000 to approximately 800,000 barrels per day—an increase of 300,000 barrels per day. When the decision to replace the pipeline was made in 2003, the 40-inch pipeline was approximately 15 years old—the end of its design life. Three critical canal crossings were included with the 50-km pipeline: the Kirkuk Irrigation Canal, Riyadh Canal, and Zegeton Canal.
2. Eliminate oil leaks from the pipeline—a major environmental concern, particularly for the local communities surrounding the pipeline.



Aerial view of oil leakage along the existing Kirkuk-to-Baiji Pipeline

The entire 50-km pipeline project, including the three canal crossings, was originally set to be completed by March 31, 2004. USACE Southwestern Division (USACE-SWD) issued Task Order 006 to Kellogg, Brown and Root (KBR) for design, construction, and quality management services in the construction of the pipeline. At the request of the Ministry of Oil, the scope of the task order included using horizontal directional drilling (HDD) methods for the three canal crossings. The task order also required KBR to use HDD to construct pipelines under the Tigris River at Al Fatah. For most of the 50-km pipeline, USACE-SWD allowed the Iraq State Company for Oil Projects<sup>312</sup> (SCOP) to construct the pipeline. The Coalition Provisional Authority and the

Ministry of Oil wanted SCOP to construct the pipeline project as part of their strategy “to help the Iraqis fix their own infrastructure, not to do it for them,” according to a GRD Project Contracting Office (PCO) official. Task Order 006 also required KBR to provide technical and QC support to SCOP during the construction of the pipeline.

USACE-SWD asked KBR to complete the HDD project at Al Fatah before starting work on the three pipeline canal crossings. This decision expanded the period of performance from 4 months to 12 months.

In June 2004, USACE-SWD eliminated KBR’s limited responsibility for oversight of SCOP’s construction work on the 40-inch pipeline and reallocated money to other require-





Welded pipe string at the Zegeton Canal

ments of Task Order 0006. As a result, the U.S. government has no reliable data on the quantity and quality of the overall pipeline project.

In August 2004, USACE-SWD terminated the entire KBR task order because the \$75.7 million allocated for the Al Fatah HDD River Crossing project was exhausted with only 28% of the drilling complete. In November 2004, PCO awarded the completion of the river crossings at Al Fatah and the three canal crossings to Parsons Iraq Joint Venture (PIJV). The three canal crossings were scheduled to be completed by November 2005 under this contract. However, the Kirkuk Irrigation Canal Crossing was not completed until April 2006, and the Riyadh and Zegeton Canal Crossings have yet to be completed.

SIGIR found no reasonable assurance that project construction for the Riyadh and Zegeton Canal Crossings will meet the standards of the design because the contractor's QC plan

and the U.S. government's QA program have not been effective. As a result, conformity with the design standards and overall construction quality and completion have not been properly validated. Also, the status of both sites is reported differently by the PCO oil sector and the USACE Resident Management System. The PCO oil sector believes that the sites are 80% complete, and the Resident Management System lists the Riyadh Crossing at 40% complete and the Zegeton Crossing at 38% complete. However, personnel from the USACE Kirkuk Area Office who visited Zegeton in June 2006 estimated that the crossing was only about 10% complete.

According to PCO oil officials, although the previous four subcontractors have been unsuccessful in completing the remaining two canal crossings, PIJV has identified a fifth subcontractor, from the Republic of Georgia, that is willing to complete the projects. PIJV sent a

proposal to PCO oil sector officials stating that the firm will do the work if coalition forces provide security. A PCO oil official recently stated that a limited Notice to Proceed was given to the Georgian firm to begin mobilization to the site. PIJV, PCO oil, and the USACE Kirkuk Area Office are optimistic that this contractor will be able to complete both canal crossings by September 2006.

On June 1, 2004, the U.S. government eliminated KBR's responsibility for quality management of SCOP's construction work. As a result, little is known about the quantity and quality of the non-canal crossing portion of the 50-km pipeline. According to Iraq Reconstruction Management Office (IRMO) officials, Iraq's Northern Oil Company (the end user and operator of the pipeline) believes that the remaining portion of the pipeline is complete and operational. This has not been validated, but a PCO oil document indicated that the Northern Oil Company has identified at least 14 defects in the pipeline that require repair. The entire completed pipeline must also undergo these tests:

- flushing out rubbish from the pipe
- filling the line with water
- pressurizing the line
- identifying, digging out, and repairing any faulty welds

According to a PCO oil representative, the Northern Oil Company will be required to perform substantial work before the pipeline becomes operational.

Construction delays with the canal cross-

ings and pipeline resulted in the loss of approximately \$14.8 billion<sup>313</sup> of potential revenue for the Iraqi government because the increased capacity for moving oil was unavailable. Cash resources from oil revenue are essential to improve and stimulate the Iraqi economy in the short term while enhancing the potential long-term stability of the Iraqi government. These projects are critical to repair the oil infrastructure and to reestablish continuous pipeline operations.

#### **Management Comments**

*GRD-PCO did not agree with all of the draft report conclusions, suggesting significant editing of the report to “accurately represent the effectiveness and efficiency of the execution of the three canal crossing projects being performed by PIJV, GRD-PCO, and USACE.” However, GRD-PCO did concur with the report’s recommendations.*

*SIGIR believes that the report presented an accurate picture of the execution of the entire 50-km pipeline, including the three canal crossings. The GRD-PCO comments, while lengthy, did not adequately address the significant issues raised in the draft report. For example, GRD-PCO did not explain the reason for the discrepancy in reporting—between the PCO oil, USACE Resident Management System, and USACE Kirkuk Area Office—on the completion percentage for the Zegeton and Riyadh Canal Crossings.*

*In the final report, SIGIR responds in detail to each GRD-PCO comment to reinforce the findings in the report. SIGIR will work with the*



Exterior view of the terminal building

*GRD-PCO representatives to resolve areas of dispute. However, it remains indisputable that the original completion date, March 31, 2004, for the entire 50-km pipeline project, including the three canal crossings, has not been met. As of July 2006, the pipeline is still not complete.*

## **Basrah International Airport Terminal and Tower Renovation Basrah, Iraq**

SIGIR-PA-06-049

The Basrah International Airport Terminal and Tower Renovation project is funded at \$5,044,988 to renovate facilities at the Basrah International Airport (BIA). One of Iraq's three major airports, BIA was originally designed to handle three million passengers per year. Although completed in 1987, the airport has never been fully operational. Because of wars, sanctions, and embargos, the facilities have suffered from neglect, looting, and a gen-

eral lack of maintenance. Before the project, BIA was reportedly below the health and safety standards for the traveling public, as well as for airport operations personnel.

The project scope of work included renovating the air-traffic control tower, fire station, plant facility, and main passenger terminal. Renovation activities included cleaning and painting; repairing water and sewer lines; repairing elevators and escalators; replacing electric lights; and replacing and repairing heating, ventilation, and air-conditioning units (HVAC). The objective was to bring facilities to an acceptable level of comfort, safety, and functionality.

### **What We Found**

SIGIR concluded that the contract work was completed and was consistent with contract requirements although the original objectives had not been achieved at the time of the





Renovated baggage claim area

site assessment. The water treatment facility, which generates the required processed water for the HVAC systems and potable water for the airport, was not operational at the time of the assessment. The water treatment plant, renovated through a USAID project in 2003, had many equipment and operations issues. Upgrading the water treatment system was not included in the Basrah Tower Renovation project. Although USACE identified that “poor quality processed water places \$2.5 million of chiller work in jeopardy” in an Airport Status Meeting presentation on April 10, 2005, there was no budgeted project to repair the water

treatment facility at the time of the assessment.

SIGIR recommended that GRD-PCO and IRMO develop a comprehensive, coordinated effort, including scope and funding requirements and funding requests. The effort should ensure that BIA has a functioning water treatment facility to provide potable water for the passenger terminal and processed water for the HVAC systems.

GRD-PCO did not agree with our conclusion and recommendation. They agreed that the operation of the water treatment plant is a valid observation, but that it should be discussed as a separate issue from the assessment



Ticket-counter renovation

of the terminal renovation. IRMO agreed that a properly operating water treatment plant is required to support equipment repairs and to make the buildings habitable at BIA (rest-room, HVAC, water, and health). Solicitation for the repair of the water treatment plant was completed in 2005; however, funding was reallocated from IRMO Transportation (Aviation). Currently, IRMO has a usable scope of work, but it must identify at least \$3.5 million in funding to repair the water treatment plant. Water plant repairs are an IRMO transportation priority in FY 2007 if funding becomes available. IRMO agreed that the issue is quite critical because the use of untreated water in the chillers will damage sensitive equipment.



Three pairs of cooling towers for HVAC system of main passenger terminal



Exterior view of IHP barracks buildings

### **Police Station–Safwan IHP-404 Basrah Governorate, Iraq**

SIGIR-PA-06-051

The Safwan Iraqi Highway Patrol (IHP)-404 project was designed to construct an operational facility for Iraqi Highway Patrol administrative functions and barracks in the Basrah governorate. The project is funded with \$2,550,841. Part of the Ministry of Interior, IHP is projected to employ approximately 6,300 personnel to carry out its mission of providing law enforcement and security along the highways and major roadways of Iraq.

The contract scope of work required the new construction of two barracks facilities; perimeter walls, lighting, and guard towers; force protection for vehicle search area; fuel

point; water well with filtration and water distribution network; sidewalks and roads; and covered and uncovered parking areas.

#### **What We Found**

All of the work that SIGIR observed was consistent with contract requirements. The objectives of the project were met, and the USACE QA program ensured adherence to contract, design, and specification requirements. Sustainability was addressed through the contractual requirement for the supply of manuals and on-site training for personnel on generators, the water system, and other equipment.

One area of concern is the design of the



Dining facility inside barracks

two barracks facilities. Structural reinforced concrete columns and beams are commonly used for construction to support the weight of the reinforced concrete floor and roof. The design for the IHP barracks required the structural supporting walls to be made of brick to support reinforced concrete beams and required reinforced concrete floor and roof slabs for the two-story structures. Specifications for the required properties (compression strength) of the bricks were not included in the design submittals. USACE-Gulf Region South (GRS) did not request or review a structural-



Light poles, perimeter walls, and covered parking area

design analysis as part of the design submittal and approval process. Therefore, SIGIR could not determine if the use of brick instead of reinforced concrete columns will adequately support the two barracks facilities.

SIGIR recommended that USACE-GRS district, area, and resident offices ensure that a design analysis of the facilities is completed. USACE-GRD concurred with the recommendation and completed a structural analysis of the facility.



### Basrah International Airport–Air Side Power Supply to NAVAIDS and VISAIDS Basrah, Iraq

SIGIR-PA-06-050

The Air Side Power Supply to Navigational Aids (NAVAIDS) and Visual Aids (VISAIDS) was a \$383,043 project at BIA. The electrical distribution systems were not operational because the systems had not been properly maintained throughout the previous regime, and the electrical systems had been damaged, looted, and cannibalized.

The objective was to define the scope and costs of future construction activities required

to provide reliable power to the medium-voltage (MV) electrical network, special equipment to be installed during upcoming aviation projects, and other critical aviation infrastructure at BIA. In addition, the stated intent of this project is to test, assess, and perform engineering and cost analysis of the 33-kilovolt (kV) and 11-kV distribution network at BIA to provide reliable power to aviation facilities for certification by the International Civil Aviation Organization.

This project was for assessment and design services and did not include a construction component.



Missing electronic equipment at runway substation

#### What We Found

The review of the interim, draft, and final preliminary design reports show that they are consistent with the contract requirements. The preliminary design reports, associated photos, test data, and schematics appear detailed and specific enough to guide future contracting actions and to meet the stated objectives. No recommendations were included in the project assessment report, and USACE concurred with SIGIR's findings.

### Umm Qasr Water Scheme Basrah Governorate, Iraq

SIGIR-PA-05-028

The Umm Qasr Water Scheme project in southeast Iraq was funded with \$15,247,831. Also referred to as the Sweetwater Canal, the 238-km system transports water from south of the city of Kut to the city of Basrah, where the water source has elevated total dissolved solid

salt levels. The canal system has sections of concrete-lined and unlined open channels, pumping stations, and crossing points.

The contract scope of work (SOW) was intended to:

- provide immediate repairs to the Sweetwater Canal
- provide permanent power supply to Pump Station #2
- develop the capability of local ministry staff to take responsibility for canal maintenance
- develop and implement part of the intermediate-term solution (ten years) for the canal
- make maximum use of contractors, suppliers, craftsmen, and laborers in the areas where the work is executed

### What We Found

Because of substantial de-scoping of the project, the permanent power supply to Pump Station #2 was not completed (design only), and the implementation of the intermediate solution was de-scoped to a geotechnical survey of the 20-km section of deteriorated canal. In addition, although substantial equipment and training was supplied to Ministry of Water Resources personnel, SIGIR observed no evidence of maintenance activities. The original objectives and the de-scoped objectives do not appear to have been met. The design submittals appeared adequate to guide the limited construction activities completed through this contract and the future installation of a permanent power supply.



General location map of the Sweetwater Canal

All work observed appeared to be consistent with the intent of the project. The field work portion of this project was completed before the site assessment; therefore, verification of the emergency repairs of the canal was based on QC reports and photo logs. Although the canal shows signs of continued deterioration, this could be attributed to the lack of ongoing maintenance. Overall, the QA program was adequate.

The Ministry of Water Resources received heavy equipment, and the contractor provided training on emergency repair procedures for canal heavy equipment, Nissan Bus W41, generators, and fuel tanker trucks. The heavy equipment and training received by the Ministry of Water Resources enabled it to perform emergency repairs and routine maintenance on the canal.

During the site visit, the SIGIR assessment team did not see any routine maintenance being performed or any evidence of emer-



Pump Station #2, Umm Qasr Canal

gency repairs. A principal part of the contract was to perform capacity building to ensure that the Ministry of Water Resources had the equipment and training necessary to perform ongoing maintenance of the canal. Although substantial equipment and training were supplied, it was not apparent that maintenance activities were being accomplished.

SIGIR recommended that IRMO determine which Iraqi ministry is currently responsible for maintaining the Umm Qasr Water Canal and inquire why the equipment provided for maintaining the canal is not being used for its intended purpose. USACE generally concurs with the conclusions of this report; nevertheless, it stated that the canal failures were

significantly reduced, allowing for continuous operation at flow rates above five cubic meters per second, up from one to two meters per second. USACE noted that an alternative water scheme had been suggested as a replacement for the Umm Qasr Canal.

IRMO reiterated the USACE comments about the increase in flow produced, commenting:

*In addition, installation of a permanent power supply for Pump Station #2, although deleted from the contract SIGIR assessed, will be completed under a separate task order. Approximately \$4.2 million in heavy equipment was purchased for the Ministry, and training on emergency repair procedures was conducted in*



Water flowing out of all three pipelines from Pump Station #2 into the Umm Qasr Canal



Example of under-cutting of canal

September 2005. Additional training on maintenance and use of the heavy equipment was conducted under the same contract from January 2006 to June 2006. Although continued improvements in the Ministry capability are required, the objective to improve the Ministry's capabilities has been substantially achieved. The Ministry has taken other steps to increase its capabilities to perform routine maintenance on the canal, including establishment of an office that is responsible for the daily O&M [operations and

maintenance] of the canal. The Ministry is also accumulating clay material for repairs at the deteriorated section of the canal. The Ministry has demonstrated its readiness to perform both routine maintenance and emergency repairs on the canal. In December 2005, the Ministry successfully completed an emergency repair of a canal breach, where its staff that had been trained by the U.S. government participated in these repairs while using equipment provided by the U.S. government. The Ministry is currently



*removing accumulated sediments at the storage area at the downstream end of the canal in order to provide emergency supply of raw water (3-5 days supply to Basrah).*

*IRMO also recommended and SIGIR concurred that, as part of its field work, a meeting should be conducted with representatives of the relevant ministries to discuss these types of issues directly with the responsible authorities.*

### **Nasiriyah Fire Station Thi-Qar Governorate, Iraq**

SIGIR PA-06-053

The objective of the Nasiriyah Fire Station project was to construct a fire station in the city of Nasiriyah to accommodate 20 firefighters and 11 daytime administrative staff members for the Iraq Civil Defense Directorate. USACE-GRD executed a firm fixed-price contract for \$508,800 to design and construct the fire station. At the time of the SIGIR assessment, the project was essentially complete: only punch-list items remained.



Exterior view of the front of the fire station (photo provided by USACE)

### **What We Found**

The SOW required the contractor to design and build the fire station based on floor-plan layouts provided by USACE-GRS. However, the contractor's design was not complete and lacked sufficient detail. In addition, the SIGIR assessment team did not find any record of the design review and approval by GRD-PCO or USACE-GRS.

Despite the insufficient design and review process, the government QA program effectively monitored the contractor's QC program and construction of the fire station. A government QA deficiency log was successfully maintained to monitor the construction process. During the early phases of construction, deficiencies were noted in the concrete work. The GRS Contracting Officer issued a stop-work order, and the contractor made the necessary corrections.

During the project, the USACE QA representative and project engineer ensured that potential construction deficiencies were detected, evaluated, and properly corrected in a timely manner. The management program effectively ensured that the project results were consistent with the original contract objective.

SIGIR recommended that on future projects, USACE-GRD should ensure the adequacy of the design and maintain a record of the design review and approval process. USACE-GRD concurred with the recommendation.

## Sustainability

Sustainability was addressed in the contract requirements. The contract statement of work required the contractor to provide and certify warranties in the name of the appropriate ministry for all equipment, including any mechanical, electrical and electronic devices, and all operations for 12 months after issuance of the Taking-Over Certificate. The contractor also provided an operations and maintenance manual for the building's 50-kV-amp (kVA) electrical generator.

## Nasiriyah Prison Thi-Qar Governorate, Iraq

SIGIR PA-06-054

The objective of the project was to increase the number of beds in the Iraqi Corrections Service for the Ministry of Justice by building a new prison. The specific objective included the design and construction of a new maximum/minimum security prison facility for up to 4,400 inmates in southeastern Iraq, complete with all furniture, fixtures, equipment, and buildings required for sustained operation.

Task Order 008 of Contract W914NS-04-D-0009 was issued to Parsons Global Services, Inc., on May 11, 2004, to design and build the prison. Subsequent de-scoping caused by cost constraints reduced the holding capacity to an 800-bed prison that could be expanded by another 400 beds.

The prison site is located in the Thi-Qar governorate, approximately 10 km southwest of the City of Nasiriyah in a sparsely populated area. Utilities were not available to the prison

site; therefore, the SOW included designing and building an on-site plant to generate electricity, a water treatment plant, and a package wastewater treatment facility.



Prison perimeter wall, interior fencing, and guard towers at the Nasiriyah Prison

## What We Found

When SIGIR inspected the project site on April 10, 2006, the GRD-PCO database listed a start date of November 2, 2004, and a completion date of August 30, 2006. At the time of the assessment, the project was only 28% complete, although the construction of the perimeter wall, guard towers, and security fencing internal to the perimeter wall was substantially complete.



Kitchen and laundry building structural frame



One of the prison inmate housing units under construction

All project buildings and facilities were adequately designed before constructing the prison in accordance with the contract's scope of work. Further, the plans and specifications provided an accurate depiction and adaptation of the design to site conditions. Also, the design considered architectural compatibility of the prison facilities and future plans for prison expansion.

The government QA program effectively monitored the contractor's QC program. The USACE QA representative also supplemented the daily reports with detailed photographs that reinforced the narrative information provided in the reports. The contractor's QC plan was sufficiently detailed to effectively guide the contractor's quality management

(QM) program. Further, the contractor's daily QC reports contained the required project and work activity information to document construction progress and identify problems and required corrective actions. The contractor also maintained nonconformance reports to document problems noted with construction and renovation activities.

All of the construction work associated with the prison met the standards of the design. The Nasiriyah Prison design and construction workmanship to date were consistent with the task order requirements. The USACE project engineer took a very active role in managing the project to ensure quality and compliance with the task order SOW requirements.

## **Contracting Actions Subsequent to the SIGIR Assessment**

The Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) issued a Show Cause letter to Parsons Global Services, Inc., on June 16, 2006 for lack of construction progress, schedule adherence, and cost control. Subsequent to the Show Cause letter, JCC-I/A announced on July 12, 2006, that it was terminating the contract with Parsons Global Services, Inc., for the Nasiriyah Prison. Their decision was based on the contractor's failure to achieve critical completion dates resulting in an unaffordable increased cost. Construction delays during the course of the project resulted in a 410-day schedule slippage and a projected cost overrun of \$23 million.

Construction on the prison will continue via a bridge-contract awarded by JCC-I/A directly to the onsite Iraqi firm doing the majority of construction for Parsons Global Services, Inc.

## **Muthanna Village Roads Segment 4 Governorate of Muthanna, Iraq**

SIGIR PA-06-055

The objective of the Segment 4 project was to construct 34 kilometers of paved village roads north of Samawah in the northern part of the Muthanna governorate. This project location was on an Iraqi State Commission on Roads and Bridges (SCRB) list of prioritized unpaved roads requiring upgrade because of the needs of local farmers who were experiencing difficulty transporting their crops to Samawah.

The 365-day project was originally contracted at \$2,888,268. At the time of the SIGIR assessment, the project was approximately 50% complete, but the contractor was almost five months past the original completion date of the project. Security conditions prevented the assessment team from visiting the project site and observing any on-site construction.

## **What We Found**

Based on the SIGIR assessment team's review of the contract file and interviews with USACE-GRS area and resident office personnel, the construction appeared to be consistent with the intent of the project. The government QA program was effective in monitoring the contractor's QC program. The contractor's



Construction of a box culvert (photo provided by USACE)

QC plan was sufficiently detailed, although the contractor did not submit QC reports or maintain deficiency logs to document problems noted with construction and renovation activities.

Information about the design did not appear to be flowing properly between the Muthanna Resident Engineer and the GRD-PCO Facilities and Transportation Sector. The design provided to the Muthanna Resident Engineer lacked details about box culverts constructed with reinforced concrete, and the Resident Engineer was not given centerline and profile drawings for the project length.

SIGIR recommended that on current and future village road projects, GRD-PCO should provide field offices with the appropriate centerline and profile drawings prepared by SCRB and detailed drawings of standard or project-specific reinforced concrete box culverts. GRD-PCO concurred with the recommendation.

Notwithstanding the contractor's schedule delays, if the GRD Muthanna Resident Office continues the current level of oversight, the completed project should meet the original contract objectives and provide the local population with 34 kilometers of paved, two-lane roads.

### **609th Iraqi National Guard Battalion Garrison Thi-Qar Governorate, Iraq**

SIGIR PA-06-056

The objective of this project was to construct a garrison for the 609th Iraqi National Guard Battalion in the Thi-Qar governorate. The

garrison, one of three similarly constructed battalion garrisons in southern Iraq, will help the Iraqi security forces defend against internal and external security threats. At the time of the SIGIR assessment, the garrison was essentially complete, except for punch-list items and pending modification work. The contractor was issued a firm fixed-price task order for \$9,665,485 to construct this garrison.

#### **What We Found**

SIGIR's assessment team reviewed the design for the 609<sup>th</sup> Iraqi National Guard Battalion garrison and determined that the project components were adequately designed before construction. The garrison complex features perimeter security protection, water and sanitation facilities, and an electric generator system. Specific building requirements for the garrison construction included enlisted and officer barracks, company offices, a dining facility for officers and enlisted personnel, an administration building, laundries, a mosque, a medical center, an armory, and a vehicle maintenance and logistics center.

The assessment team concluded that the project was capably managed by the USACE Thi-Qar Resident Office. The project's quality management effectively ensured the construction of the garrison. Although the utility drawings were not updated at construction to reflect the most current requirements, the contractor built most of the garrison facilities using the original set of design drawings and specifications.





609th Iraqi National Guard garrison facilities

The 609<sup>th</sup> Iraqi National Guard Battalion garrison project results were consistent with the original task order objectives. The completed project work resulted in a fully functional garrison for the Iraqi military, with additional garrison facilities for up to 850 soldiers.

### **Sustainability**

Sustainability was addressed in the contract specifications. The contract specifications required O&M training for all systems furnished under the contract, provided by the system manufacturer. The contract also included the normal one-year warranty on individual items, equipment, and systems.



Two sets of booster pumps for circulating potable water throughout the garrison

## Baghdad Railway Station Rehabilitation Baghdad, Iraq

SIGIR PA-06-057

The objective of the project was to rehabilitate the Baghdad Railway Station to restore the sanitary system and other utility systems for health, safety, operations, and public convenience. Constructed more than 50 years ago, the Baghdad Railway Station is the principal station for all rail service in Iraq. It also houses offices of the Ministry of Transportation and the Iraq Republic Railway (IRR). All train movements (passenger and freight) and all administrative functions of the national system are monitored, controlled, and coordinated from the Baghdad Railway Station.

The Baghdad Railway Station was constructed between 1948 and 1953. The H-

shaped station building features a main entrance, which opens into a central rotunda with four interconnecting wings. The station was not significantly damaged during Operation Iraqi Freedom; however, it suffered from years of neglect, deferred maintenance, vandalism, and looting—particularly in the last 30 years, when the former regime diverted funds to other priorities. Consequently, the station, while structurally sound, required significant rehabilitation:

- Pipes in the walls, ceilings, and under the floors had ruptured or leaked, causing serious interior water damage.
- Most of the bathroom fixtures were vandalized or looted, and what remained did not function properly.
- The pumps for pumping sewage into the

Baghdad Railway  
Station (photo  
provided by USACE)





View of interior partitions before refurbishment (photo courtesy of USACE)



View of new interior partitions

municipal collection system did not function. As a result, raw sewage had backed up through most of the basement to a height of four feet, which seriously damaged building components and equipment.

- The electrical system was in disrepair, with inoperable lights, outdated distribution system panels, and temporary wiring hanging loose in public areas.
- The HVAC system was non-functional, with many critical components missing.
- The architectural components of the building exterior (roof, windows, and doors) leaked and required substantial renovation work to waterproof and restore them to their original conditions. Interior walls, floors, and ceilings needed extensive rehabilitation to restore functionality.

The cost of the rehabilitation project was approximately \$5.9 million.

### What We Found

The SIGIR assessment team made three site visits to the Baghdad Railway Station. At the time of the SIGIR assessments, the project was essentially complete except for punch-list items and added work associated with a

pending modification. The assessment team concluded that all observed work met the standards of the design, although some renovated components (gardens, train platform drainage, and basement utilities) were not evaluated by SIGIR because the design was inadequate for these areas. In addition, SIGIR found that the staff at the USACE Resident Office disagreed about the submittal process and functional responsibilities for review and approval. SIGIR recommended that the two entities involved with the work at the railway station meet to clarify roles and responsibilities for the submittal, review, and approval processes. GRD-PCO concurred with the recommendation.

The contractor's QC plan was sufficiently detailed to effectively guide the contractor's QC program. The contractor submitted daily QC reports, which were reviewed by the USACE Deputy Resident Engineer. The government QA program effectively monitored the contractor's QC program. The USACE Local National Quality Assurance Representative maintained daily QA reports that documented any deficiencies noted at the site. The SIGIR assessment team found the QA reports to be sufficiently complete, accurate, and timely. The QA representative did main-



tain a deficiency log, and the Deputy Resident Engineer and the QA representative ensured that deficiencies cited during QA inspections were corrected.

The project results were consistent with the original contract objectives. As a result of the renovation, IRR has work spaces that offer a much safer and healthier environment for employees and visitors. Further, the station’s structures and utility systems have been modernized to basic levels to support IRR services and operations.

**Sustainability**

Sustainability was addressed in the contract requirements. The contract scope of work required a one-year warranty on all materials and workmanship. The contract also required lists of spare parts, preventive maintenance plans, and operations and maintenance manuals for major equipment components. Commissioning, including training, has been provided to IRR personnel on the major utility systems, including boilers, chillers, and generators.

**THE 12 PROJECTS ASSESSED THIS QUARTER (DOLLARS IN THOUSANDS)**

PCO ID	PROJECT NAME	GOVERNORATE	BUDGETED TOTAL COST	EXECUTING AGENCY	CONTRACTOR	GRD REGION
NA	Kirkuk to Baiji Pipeline*	Tameem	\$3,445**	Multiple	Multiple	North
21278	Baghdad Railway Station Rehabilitation	Baghdad	\$6,385	PCO	Foreign	Central
18169	Military Base—609th ING	Thi-Qar	\$7,634	GRD	Foreign	South
17840	Muthanna Village Roads Segment 4	Muthanna	\$2,888	PCO	Foreign	South
4514	Prison Facility—Nasiriyah	Thi-Qar	\$49,087	PCO	Parsons Global Services	South
10072	Fire Station—Nasiriyah	Thi-Qar	\$627	PCO	Foreign	South
19988	Police Station—Safwan, IHP 404	Basrah	\$2,472	PCO	Foreign	South
22060	Basrah International Airport—Air Side Supply	Basrah	\$580.5	PCO	Foreign	South
12036	Basrah International Airport—Terminal and Tower	Basrah	\$5,045	PCO	NANA Pacific	South
1438	Umm Qasr Water Supply Canal	Basrah	\$15,600	PCO	Washington International	South
19606	Riyadh Canal Crossing	Tameem	\$635.5	PCO	PIJV	North
19607	Zegeton Fatah Canal Crossing	Tameem	\$658.1	PCO	PIJV	North

\* Assessment of multiple oil sector pipeline projects from Kirkuk oil fields to Baiji Refinery  
 \*\* Does not include Development Fund for Iraq monies used on these pipeline projects  
 \* Table does not include Summary Report Ground Project Surveys

TABLE 3-3

## THE 42 PROJECTS ASSESSED IN OTHER QUARTERS (DOLLARS IN THOUSANDS)

PCO ID	PROJECT NAME	GOVERNORATE	BUDGETED TOTAL COST	EXECUTING AGENCY	CONTRACTOR	GRD REGION
19158	Hilla SWAT Facility	Babil	\$2,219	GRD	Foreign	South
18427	Seif Sa'ad Police Station	Babil	\$153	GRD	Foreign	South
12883	Border Post—As Sul #37, Bnawasuta-Issawa	Sulaymaniyah	\$272	GRD	Parsons Delaware	North
12787	Border Post—As Sul #29, Kuralau Bnaw-Azmik	Sulaymaniyah	\$275	GRD	Parsons Delaware	North
12840	Border Post—As Sul #20, Marwa	Sulaymaniyah	\$272	GRD	Parsons Delaware	North
12855	Border Post—As Sul #23, Bargurd-Safrah	Sulaymaniyah	\$272	GRD	Parsons Delaware	North
18638	Military Base Umm Qasr—Ammo Supply Point	Basrah	\$253	GRD	Foreign	South
21196	Operation Center and Security	Basrah	\$1,175	GRD	Foreign	South
21304	Port of Umm Qasr Security Upgrades	Basrah	\$3,747	GRD	Foreign	South
19071	Project Phoenix—Restore Qudas Gas Turbines	Baghdad	\$11,391	PCO	Fluor Amec	Central
Life Support Contract	Hilla Police Academy—CN W914NS-0-C-9046	Babil	\$9,135*	JCC-I/A	SBIG Logistics & Technical Services	South
4 DFI Contracts	Kerbala Library	Kerbala	\$1,294	CPA (South Central)	Global Business Group	South
3532	Al Wahda Water Treatment Plant	Baghdad	\$4,712	PCO	Fluor Amec	Central
3529	Al Wathba Water Treatment Plant	Baghdad	\$8,698	PCO	Fluor Amec	Central
18462	Al Nahrwan Water Supply Project	Baghdad	\$348	GRD	Foreign	South
18079	Al Sumelat Water Network	Baghdad	\$764	PCO	SIMA International	Central
1654	Al Hakamia Substation	Basrah	\$5,934	PCO	Perini Corporation	South
1657	Hamdan Substation	Basrah	\$5,001	PCO	Perini Corporation	South
1655	Al Kaffat Substation	Basrah	\$5,934	PCO	Perini Corporation	South
1656	Al Seraji Substation	Basrah	\$5,709	PCO	Perini Corporation	South
1659	Shut Al Arab Substation	Basrah	\$5,298	PCO	Perini Corporation	South
18183	Al Fatah Pipe Crossing	Tameem	\$29,715	PCO	Parson PJIV	North
18185	Kirkuk Canal Crossing	Tameem	\$2,088	PCO	Parson PJIV	North
19604	Al Fatah River Crossing Tie-ins	Tameem	\$8,156	PCO	Parson PJIV	North
19250	Al Balda Police Station	Babil	\$135	GRD	Foreign	South
13607	Hilla Maternity and Children's Hospital	Babil	\$7,414	PCO	Parsons Global Services	South
11812	Al Imam Primary Care Center	Babil	\$533	PCO	Parsons Delaware	South
21950	Babil Railway Station	Babil	\$274	PCO	Foreign	South

PCO ID	PROJECT NAME	GOVERNORATE	BUDGETED TOTAL COST	EXECUTING AGENCY	CONTRACTOR	GRD REGION
DFI	Horizontal Drilling	Tameem	\$75,500	GRD-PCO	KBR	North
12637	Mosul Airport—ATC Tower Rehab	Ninewa	\$10,329	GRD	Foreign	North
17846	Ninewa Village Roads Segment 3	Ninewa	\$920	GRD	Foreign	North
6176	Ainkawa Fire Station	Erbil	\$1,392	GRD	Parsons Global Services, Inc.	North
5623	Erbil City Transformers	Erbil	\$3,372	GRD	Washington International, Inc.	North
18922	Sheile Primary School	Dahuk	\$401	GRD	Foreign	North
19144	Zakho—Military Academy	Dahuk	\$5,591	GRD	Foreign	North
11937	PHC Type A at Shiqaq Hai Musalla	Tameem	\$608	GRD	Parsons Delaware, Inc.	North
11936	PHC Type A at Hai Alhajjaj	Tameem	\$608	GRD	Parsons Delaware, Inc.	North
11940	PHC Type A at Hai Alasra Wa Al Mafqoodeen	Tameem	\$648	GRD	Parsons Delaware, Inc.	North
11939	PHC Type A at Hai Al Wasity	Tameem	\$648	GRD	Parsons Delaware, Inc.	North
11938	PHC Type B at Hai Tis'een	Tameem	\$734	GRD	Parsons Delaware, Inc.	North
23160	New Second Brigade Base	Tameem	\$114,000	AFCEE	Environmental Chemical Corporation	North
20645	Aviation Base Building	Tameem	\$13,200	AFCEE	Environmental Chemical Corporation	North

\* Table does not include PA-06-048 Summary Report Ground Project Surveys

TABLE 3-4

**PROJECT ASSESSMENTS**

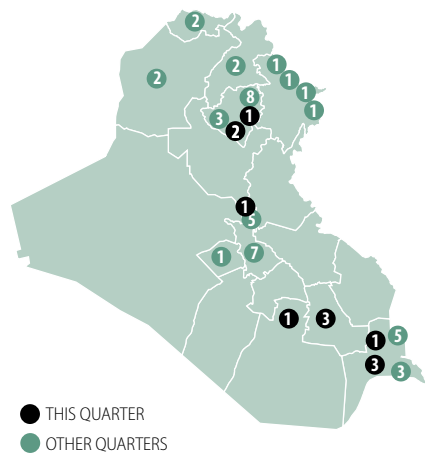


Figure 3-1  
**APPROXIMATE LOCATIONS OF THE 54 PROJECTS WHERE INSPECTIONS WERE CONDUCTED, ANALYZED, AND REPORTED TO DATE**



### Limited On-site Inspection Program (Ground Project Surveys)

The limited on-site inspection program is the second component of SIGIR’s construction inspection work at specific sites. The program continues to be an important part of SIGIR’s efforts to ensure the broadest possible coverage of all construction sites in Iraq.

The limited on-site inspection program involves conducting more general on-site inspections of project construction sites, noting deficiencies, assessing overall progress, and taking photographs. The information is then analyzed for contract compliance, shared with program management, and used to identify locations for more detailed engineering assessments.

Since the program began in September 2005, SIGIR has conducted limited on-site inspections of 96 projects. This section summarizes and analyzes the 41 limited on-site inspections that were completed last quarter. This is the last quarter that SIGIR is planning to complete limited on-site inspections. Personnel involved with this successful program will be conducting more comprehensive assessments in the future.

The 41 projects analyzed and reported this quarter include 21 border posts, 1 electrical substation, 4 medical facility projects, 13 public-safety projects, and 2 transportation projects in northeast Iraq and throughout southeast Iraq. Figure 3-2 shows the approximate locations of all 96 projects assessed.

#### LIMITED ASSESSMENTS

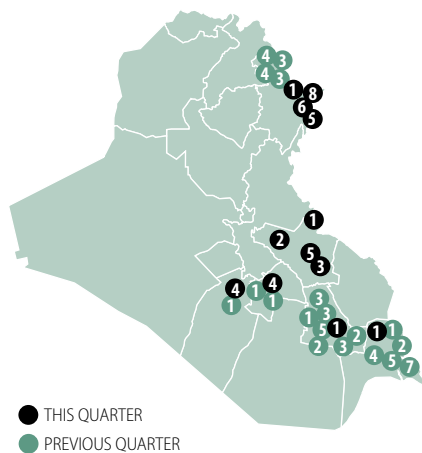


Figure 3-2  
**APPROXIMATE LOCATIONS OF THE 96 PROJECTS WHERE SURVEYS WERE CONDUCTED, ANALYZED, AND REPORTED**

## THE 41 PROJECTS SURVEYED, ANALYZED, AND REPORTED THIS QUARTER

PCO Project Number	Project Name	Governorate
12827	Border Post—Sulaymaniyah #16	Sulaymaniyah
12836	Border Post—Sulaymaniyah #19	Sulaymaniyah
20570	Border Post—Sulaymaniyah #40	Sulaymaniyah
20571	Border Post—Sulaymaniyah #49	Sulaymaniyah
12831	Border Post—Sulaymaniyah #17	Sulaymaniyah
20573	Border Post—Sulaymaniyah #62	Sulaymaniyah
12835	Border Post—Sulaymaniyah #18	Sulaymaniyah
20575	Border Post—Sulaymaniyah #41	Sulaymaniyah
18362	Police Station—Al Kut HQ	Wassit
21263	Thi-Qar Railway Station Rehabilitation (Nassriyah)	Thi-Qar
19187	Police Station—Al Kut Traffic Police HQ	Wassit
19189	Police Station—Al Kut	Wassit
19181	Police Station—Checkpoint HQ Khanzarah	Wassit
19179	Police Station—Al Kut Emergency Swat	Wassit
12786	Border Post—Sulaymaniyah #06	Sulaymaniyah
20558	Border Post—Sulaymaniyah #48	Sulaymaniyah
12809	Border Post—Sulaymaniyah #32	Sulaymaniyah
12834	Border Post—Sulaymaniyah #34	Sulaymaniyah
12884	Border Post—Sulaymaniyah #26	Sulaymaniyah
19111	Police Station—Al Uropa W020	Wassit
19227	Police Station—Al Hayy HQ W015	Wassit
19779	Police Station—Qadisiyah HQ Q117	Qadissiya
20576	Border Post—Sulaymaniyah #54	Sulaymaniyah
12807	Border Post—Sulaymaniyah #12	Sulaymaniyah
20572	Border Post—Sulaymaniyah #59	Sulaymaniyah
20577	Border Post—Sulaymaniyah #61	Sulaymaniyah
16124	Najaf Teaching Hospital—Phase I Parsons	Najaf
11913	Construct clinic in Najaf—Al Uroba	Najaf
18334	Police Station—Jamhuri Q075	Qadissiya
20324	Police Station—Babail Special Missions Units Q128	Qadissiya
19117	Police Station—Attika Jail Q125	Qadissiya
19873	Najaf Teaching Hospital—GRS Portion Phase II	Najaf
10309	Maternity and Pediatric Hospital—Al-Najaf	Najaf
19175	Police Station—Al Hayferiyah W005	Wassit
12826	Border Post—Wassit #06	Wassit
19230	Police Station—Bashier W047	Wassit
17789	Basrah Village Roads	Basrah
1861	Al Hasheme Substation	Wassit
12855	Border Post—Sulaymaniyah #23	Sulaymaniyah
12850	Border Post—Sulaymaniyah #22	Sulaymaniyah
20574	Border Post—Sulaymaniyah #43	Sulaymaniyah

TABLE 3-5

## THE 55 PROJECTS SURVEYED, ANALYZED, AND REPORTED PREVIOUS QUARTER

PCO PROJECT NUMBER	PROJECT NAME	GOVERNORATE
11943	Clinic in Thi-Qar at Sukkar	Thi-Qar
19220	Police Station Checkpoint—Islah Shebayish D 409	Thi-Qar
19218	Police Station Checkpoint—Suk Ash Shuyuck D408	Thi-Qar
19219	Police Station Checkpoint—Tallil Lahem D407	Thi-Qar
19990	Police Station—Suk Al Shiyook D144	Thi-Qar
10630	School #1800425, Al-Shatrah School	Thi-Qar
10613	School #1800809, Intifadha	Thi-Qar
10588	School #1800869, Al-Salam School	Thi-Qar
17867	Thi-Qar Village Roads, Segment 3 Hahin Al Dukhi (7.1 km)	Thi-Qar
11941	Clinic in Thi-Qar Al Zahra	Thi-Qar
10072	South Site Fire Station New Nasiriyah	Thi-Qar
10318	Maternity & Pediatric Hospital Al-Nasirayah	Thi-Qar
12781	Border Post—As Sulaymaniyah #03	Sulaymaniyah
20560	Border Post—As Sulaymaniyah #53	Sulaymaniyah
12787	Border Post—As Sulaymaniyah #29	Sulaymaniyah
20567	Border Post—As Sulaymaniyah #57	Sulaymaniyah
20568	Border Post—As Sulaymaniyah #65	Sulaymaniyah
20565	Border Post—As Sulaymaniyah #45	Sulaymaniyah
12840	Border Post—As Sulaymaniyah #20	Sulaymaniyah
12141	Border Post—Basrah #14, Al Mutawwi'ah	Basrah
12144	Border Post—Basrah #12, Kut Al Bandar	Basrah
12801	Border Post—As Sulaymaniyah #10	Sulaymaniyah
12145	Border Post—Basrah #11, Khut Abu Ikaab Reno	Basrah
12842	Border Post—As Sulaymaniyah #21	Sulaymaniyah
12161	Border Post—Basrah #04, Kut Ubayd	Basrah
20569	Border Post—As Sulaymaniyah #64, Sele	Sulaymaniyah
12802	Border Post—As Sulaymaniyah #11	Sulaymaniyah
1270	Al Diwaniyah Maternity & Children's Hospital	Qadissiya
17783	Basrah Village Roads—Segment 2 Talha (3.5 km)	Basrah
12800	Border Post—As Sulaymaniyah #9	Sulaymaniyah
12856	Border Post—As Sulaymaniyah #24	Sulaymaniyah
12142	Border Post—Basrah #13, Anajin E Divan	Basrah

THE 55 PROJECTS SURVEYED, ANALYZED, AND REPORTED PREVIOUS QUARTER

PCO PROJECT NUMBER	PROJECT NAME	GOVERNORATE
12149	Border Post—Basrah #10, Ras Al Bishah	Basrah
11897	Clinic in Najaf—Hai Kinda	Najaf
19217	Police Station—Checkpoint, Tampa, Jackson, D405	Thi-Qar
20347	Police Station—TSU Barracks, Phase I-D414	Thi-Qar
18243	Police Station—Al Huwayr, Al Madinah, B044	Basrah
20333	Police Station—Al Nassiriyah, Anti-Crime IPA, D156	Thi-Qar
19222	Police Station—Checkpoint, Nasir, D411	Thi-Qar
18346	Police Station—Diwaniya, Traffic Police, Q066	Qadissiya
19114	Police Station—Al Nassiriyah, Police Intelligence, D145	Thi-Qar
19221	Police Station—Checkpoint, Nassiriyah Prison, D410	Thi-Qar
12137	Border Post—Basrah #17, Al Haddidayah	Basrah
18241	Police Station—Al Midaina, B029	Basrah
19480	Police Station—Al Quibla, B043	Basrah
18263	Police Station—Al Zubayr, B038	Basrah
21251	Basrah Railway Station Rehabilitation	Basrah
11866	Clinic in Basrah—Hai Al Hussein	Basrah
19223	Police Station—Checkpoint, Fajr, D412	Thi-Qar
18248	Police Station—Al Qurnah, Police Station, B024	Basrah
12138	Border Post—Basrah #16, Kushk	Basrah
18268	Police Station—Al Faw, B033	Basrah
18223	Police Station—Abu-Al-Khasib, B032	Basrah
18273	Police Station—Safwan, B040	Basrah
20562	Border Post—As Sulaymaniyah #39, Awakurti	Sulaymaniyah

TABLE 3-6

## Ground Project Surveys

SIGIR-PA-06-052

From November 19, 2005, to February 21, 2006, SIGIR conducted 41 limited on-site inspections. Most were in the Facilities and Transportation sector, including border control, education, medical, and public-safety facilities, roads, and railways. One inspection focused on a substation facility completed in the Electrical Sector. The overall objectives of these limited on-site inspections were to provide summary information on overall project progress and to identify any deviations from contract requirements.

SIGIR QC and QA teams produced and

forwarded a brief summary report to a SIGIR engineer/auditor team for review. The review of those reports, as well as contracting documents, provided the basis for the conclusions presented in the summary report, SIGIR-PA-06-052.

**Location coordinates.** At each site, SIGIR determined the coordinates of the project and compared them with the project locations submitted by GRD-PCO. Although the survey project locations were substantially more accurate than those presented in the previous SIGIR ground survey report, the grid coordinates provided by GRD-PCO were not always accurate. Of the 41 project sites:



Exterior view of border fort



- 35 were within 300 meters of the GRD-PCO locations.
- 2 were 1–3 km from the GRD-PCO locations.
- 4 were 3 km from the GRD-PCO locations.

**Border Posts.** SIGIR conducted ground project surveys of 21 border forts along the Iraq-Iran border. Twelve of the border forts were constructed through a single contract; nine were through another contract.

Contract requirements for 12 of the 21 border forts were to include an exterior compound wall with vehicle gate, four elevated guard posts, perimeter lighting, one operations building with three offices, secured arms room, communications room, toilet/shower room, kitchen/dining area, electrical generators,

water storage, and septic system. At the time of the ground survey, all 12 were complete or near complete and occupied by Iraqi border patrol personnel. However, only one of the 12 border forts had perimeter security systems, gates, berms, or walls installed.

Most of the border forts had difficult access roads, especially during rain or snow. Many sites lacked retaining walls to prevent degradation of the embankments created by site leveling. The ground survey teams noted numerous cracks in the building foundations, exterior walls, and interior walls. Cracks appear to be signs of differential settling of the foundation systems, which could create structural integrity problems. In addition, signs of down-gradient slope movement were observed, caused by the lack of retaining walls.



Crack in overhang of border post



Sewer outfall behind border post at MNSTC-I border post

In discussions with local border post police personnel, SIGIR found that the day-to-day users of the facility were unaware of a plan for maintenance and logistical support. In addition, they received little, if any, training on maintaining the generator and septic systems. Water delivery and other essential logistical requirements were lacking at most of the border posts. Reports claim that because water is scarce, personnel are reportedly not authorized to use the shower facilities during their 15-day shifts.

SIGIR requested copies of contract documentation for the remaining nine border forts included in the survey. MNSTC-I was unable to identify or locate the contracts for these projects. As a result, SIGIR was unable to determine the project objectives, scope of work, or design requirements.

The construction of all nine border forts was of extremely poor quality, and eight of

the nine showed no signs of any recent maintenance. Water was normally obtained from springs with questionable water quality, and filtration for the water was not available on-site. Septic systems were full, overflowing, or not operational. Personnel at the border forts were unaware of a plan for emptying the septic tanks. Although small generators were located on-site, fuel storage was not available. Several generators were not operational. Electricity and plumbing systems were consistently either not operational or needed repairs. SIGIR will evaluate these projects further.

**Medical Facilities.** SIGIR conducted limited on-site inspections of four medical facility projects in Najaf: two teaching hospital projects at the same location, one maternity and pediatric hospital project, and one clinic. The overall objectives of the maternity and pediatric hospital project were to repair, replace, or provide new prioritized building systems and



Front exterior of border post



Ceiling damage caused by water leaks at teaching hospital (Phase I)

to provide new authorized equipment. The overall objective of the clinic project was to provide for the design and construction of a standard, model health care center.

At the time of the SIGIR site visits, renovation was ongoing at both hospitals. The maternity and pediatric hospital noted no significant deficiencies. The teaching hospital had two projects through different contractors: Phase I and Phase II.

The ground project survey of work on the Phase I project noted numerous discrepancies:

- Suspending ceilings showed signs of water damage.
- Standing water from pipe leaks was observed adjacent to the exterior.
- Painted walls were blistering, possibly because of improper preparation or low-quality paint.

- Water pipes in the basement were leaking, causing water to accumulate on the concrete floor.
- Bathrooms showed signs of water leakage and tile damage.
- Low-quality interior doors and locks were used.

Hospital staff told SIGIR that the hospital's engineering team and the contractor had many disagreements about the quality of work performed. The ground project survey of the Phase II project work noted no deficiencies, and the quality of work was reported to be better than the previous contractor's.

New construction was in progress at the one primary health care center where limited on-site inspections were conducted. Structural concrete beams, columns, and slabs were com-

plete, and electrical and mechanical systems were being installed. Based on the review of the project surveys, SIGIR noted no significant deficiencies.

**Electrical Substation.** SIGIR conducted a limited on-site inspection of one electrical substation. GRD-PCO was unable to provide the task order associated with the project; therefore, SIGIR could not determine the project objective, statement of work, design, and specifications for the project. The ground survey team verified construction of the substation building, sidewalks, perimeter security and guard house, entrance gate, and generator shed. Two exterior transformers were observed mounted on concrete pads, and switchgears were observed inside the main building. Air-conditioning compressor units were mounted on the roof of the main building, and exterior light poles were located throughout the facility. No discrepancies were reported at this location.

**Public Safety Facilities.** SIGIR conducted limited on-site inspections of 13 public safety projects—12 police stations and one police checkpoint facility. The projects were or will be completed under various contracts awarded to Iraqi contractors. The overall objective for the police station projects was to renovate the facilities or construct new facilities.

The scope of work (SOW) for the facilities required new construction or renovation of buildings and facilities located on an existing or new site. The construction included a masonry security wall around the compound, berms, vehicle and personnel gates, guard tow-

ers, driveways and a parking area, sidewalks, plumbing, electrical and mechanical work, roof, ceiling, door, windows, walls, floors, and interior and exterior painting, as well as the purchase and installation of a diesel-powered back-up generator.

SIGIR observed completed or ongoing renovation and new construction work at all of the locations surveyed. SIGIR determined that the quality of electrical, plumbing, and finishing work at most projects surveyed was deficient. Also, many facilities had severe cracks in the exterior walls, probably from differential settling of the foundations.

**Transportation Projects.** SIGIR conducted limited on-site inspections of two transportation projects: one road construction project in Basrah and one railway station rehabilitation in Thi-Qar.

The overall objective of the road construction project was to construct 3.3 kilometers of paved, rural village roads in the governorate of Basrah. At the project location, the survey team verified that road construction was in progress. Installation of the sub-base and asphalt surface appeared to be consistent with the design requirements. Additional road surface and shoulder work was still required at the time of the visit. SIGIR did not note any major discrepancies. SIGIR noted that the villagers in the area are “very appreciative for the efforts, because it made a big impact on their daily life after it was paved.”

The Thi-Qar Railway Station renovation project was in progress at the time of the limited on-site inspection. SIGIR observed

interior renovation, including ceiling replacement, installation of electrical lights and wiring, painting of interior walls, and replacement of doors. The exterior renovation included replacing brickwork and installing security lighting. SIGIR did not note any major discrepancies. The railway station manager stated that the only defects were delays and work stoppages by the contractor.

### **Aerial Project Survey Program**

For the past three quarters, the SIGIR Satellite Imagery Group has contributed to the SIGIR mission by conducting aerial assessments

of U.S.-funded reconstruction project sites throughout Iraq. SIGIR provides the information and analyses to the project assessment teams in Iraq to help them evaluate project sites that are inaccessible because of security concerns or because they are remotely located. Based in Arlington, Virginia, the Satellite Imagery Group also verifies project locations and provides follow-up information on reconstruction sites previously evaluated in SIGIR's limited on-site inspections. SIGIR shares the information obtained through aerial assessments with the responsible U.S. government contracting officials in Iraq.

Corner guard tower with perimeter wall of police station



## **NATIONAL GEOSPATIAL-INTELLIGENCE AGENCY SUPPORT**

This quarter, SIGIR imagery analysts have been working with the National Geospatial-Intelligence Agency (NGA) to provide imagery analysis of Iraqi reconstruction projects. To date, this continuing relationship has resulted in analysis of 51 sites and 5 road segments. This quarter, 27 project sites were completed—3 analyses were extremely time-sensitive. NGA’s quick turnaround and assistance proved essential in efficiently carrying out SIGIR’s mission in Iraq. These are some of NGA’s notable findings provided to SIGIR this quarter:

- 20 sites appeared to be completed.
- Two border posts were completed but appeared to be much smaller than a typical border fort.
- Two sites could not be identified because of poor geo-coordinates and lack of project information.
- Two clinics were still under construction.
- One clinic showed no evidence of new construction.

SIGIR and NGA’s partnership leverages greater resources to meet mission requirements. NGA’s assistance increases the number of projects that can be reviewed and helps SIGIR provide a more accurate picture of Iraq’s reconstruction progress.

## **SIGIR IMAGERY GROUP ANALYSIS**

This quarter, SIGIR imagery analysts completed 14 imagery assessments and created 33 imagery products using commercial satel-

lite imagery. This imagery has been used to provide visual assessments of progress at construction sites. SIGIR shares the imagery products with government contracting agencies to update their project information and to identify any obvious deficiencies. SIGIR assessed and reviewed these sites during the reporting period:

### **Imagery Assessments**

- Six police stations
- Five border posts
- Two clinics
- One electrical substation

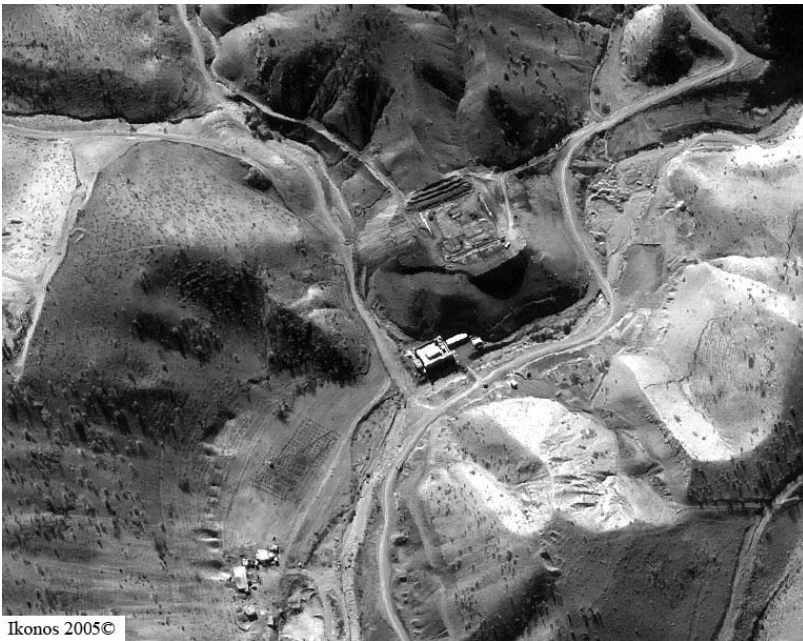
### **Imagery Products**

- Ten border posts
- Eight police stations
- Three hospitals/health clinics
- Three building sites
- Two railway stations
- Two prisons
- One electrical substation
- One landfill site
- One warehouse
- One oil refinery
- One courthouse

### **SIGIR Assessments**

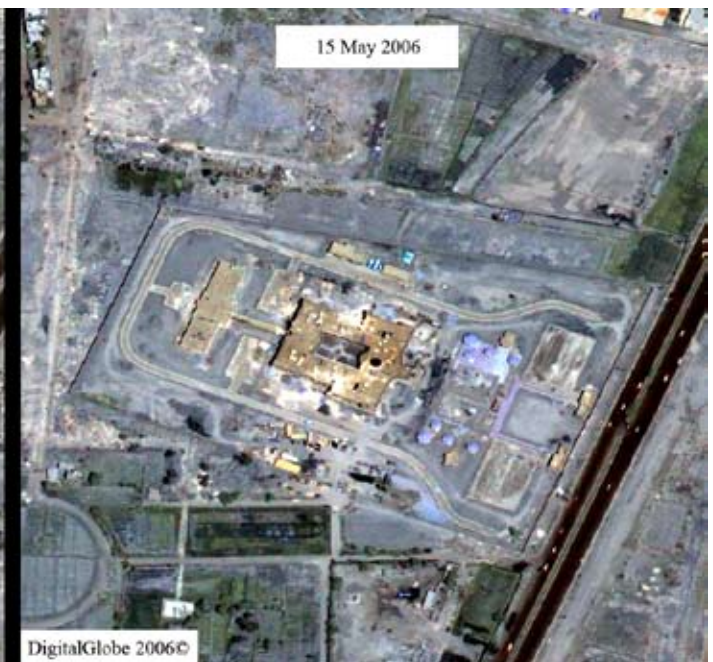
This quarter, SIGIR completed 14 imagery assessments based on satellite imagery and limited on-site inspection reports. These assessments have been helpful in reviewing the accuracy of inspection reports, providing a visual assessment and verification of project progress. Geo-coordinates from limited





Imagery taken on December 9, 2005, shows an overview of the Bargurd border fort—Visual assessment confirms the geo-coordinate location of the Bargurd border post. A review of imagery shows what appears to be a completed and functional border post. Visible structures include border-post main building, storage building, covered parking, and generator shed. Visible problems include the lack of perimeter wall and retaining walls, which would prevent erosion and avalanche damage during snow and rain. Poor location makes this site difficult for defense and for monitoring border activities. Imagery supports the inspection team’s report finding.

Ikonos 2005©



DigitalGlobe 2005©

DigitalGlobe 2006©

Imagery taken between November 3, 2005, and May 15, 2006, shows progress made during construction of an Iraqi courthouse. There are no visible signs that this project does not or will not meet contract requirements.

## AERIAL IMAGERY ASSESSMENTS

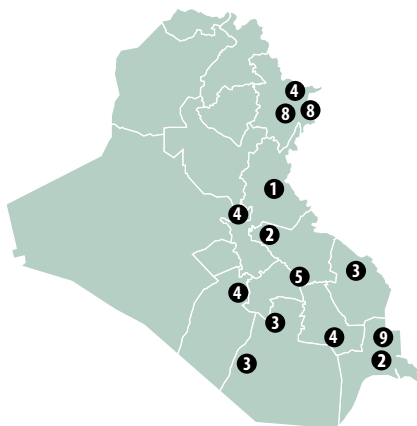


Figure 3-3  
**APPROXIMATE LOCATIONS OF  
 AERIAL IMAGERY ASSESSMENTS  
 (2ND QUARTER 2006)**

on-site inspection reports are used to locate imagery of each project site. Information on project progress reported in the limited on-site inspection reports is compared to the satellite imagery to verify accuracy and to ensure that projects are being completed to project specifications.

These are some of the notable findings from imagery assessments this quarter:

- Seven sites appeared to be functional and to meet project requirements.
- Two border forts did not have perimeter walls.
- One border fort did not have a perimeter wall or retaining walls that would provide protection against soil erosion and avalanches during rain and snow.
- One border fort did not appear to meet standard design requirements and lacked a retaining wall.
- One border fort was located in a poor strategic position, with a poor view of the border and a less defensible position. Also, it did not have a perimeter wall.
- One site was still under construction.
- One site could not be positively identified based on available imagery.

These findings are provided to the responsible government agencies in Iraq who conduct further reviews of project contract status and plan follow-up project assessments for future quarters.

### Imagery Products and Support

This quarter, SIGIR has created imagery products of 33 sites throughout Iraq. The imagery is used to create imagery assessments, build a visual record of project sites, and provide imagery to support SIGIR's mission. Any visual deficiencies are reported when the imagery is reviewed.

In partnership with the National Geospatial-Intelligence Agency and the National Ground Intelligence Agency over the past three quarters, SIGIR imagery analysis has resulted in the completion of 172 cumulative satellite imagery assessments and products—60 completed this quarter.



## SIGIR INVESTIGATIONS

SIGIR has the largest number of U.S. criminal fraud investigators in Iraq; SIGIR's Arlington, Virginia, headquarters provides essential support to its investigations in Iraq. During this quarter, SIGIR Investigations opened 40 new cases, including preliminary and criminal investigations. During the same period, 25 cases were closed.<sup>314</sup> To date, SIGIR has opened 236 preliminary and criminal cases and has either referred or unsubstantiated 154 of those cases. Though not all allegations can be substantiated, SIGIR continues to investigate aggressively all allegations of wrongdoing.

Currently, SIGIR has 82 open preliminary and criminal investigations. Twenty-five of those cases are at the Department of Justice (DoJ), and many are in the final stages of prosecution. Two cases have resulted in convictions and are currently pending sentence. Fifteen are the direct result of the Bloom/Stein conspiracy discussed in the SIGIR April 2006 Quarterly Report. Convicted defendants, Philip Bloom and Robert Stein—along with other public officials, including several U.S. Army officers—conspired to rig bids on federally funded contracts awarded by the Coalition Provisional Authority.

As that conspiracy continues to unravel, SIGIR investigators are working closely with DoJ prosecutors, identifying scores of potential witnesses and persons of interest. SIGIR recently presented two additional cases to DoJ that are not related to the Bloom/Stein conspiracy. SIGIR agents are currently investigating the remaining 55 cases in cooperation with investigative partners.

### Raid in International Zone Produces Weapons, Ammunition, and Cash

On May 14, 2006, a house in the International Zone was raided based on information that SIGIR provided. The raid led to the seizure of approximately \$120,000 in cash, automatic weapons, computers, documents, and handguns. On May 24, 2006, another raid netted more than 100 AK 47s, explosives, mortars, and many other automatic weapons and ammunition.

### SIGIR Partners with FBI

SIGIR is currently formalizing a partnership with the FBI Headquarters Public Corruption/Government Fraud Unit to combine SIGIR investigative resources in Iraq with the FBI's extensive field operations. This partnership serves several significant purposes:

- The availability of the national and international network of FBI offices and resources will allow SIGIR-initiated cases to reach prosecution more quickly.
- Colocating FBI agents and SIGIR investigators in both the Arlington, Virginia, and Baghdad offices will increase work product.
- The FBI will initially work side by side with SIGIR and independently take over significant long-term cases that may not result in adjudication until after SIGIR ceases to operate.

DoS OIG, Defense Criminal Investigative Service, and the U.S. Army Major Procurement Fraud Unit have also agreed to partner with

SIGIR and FBI in investigative matters. This task force is being chartered under congressional mandate to address the entire war on terror effort and will be formalized in a memorandum of understanding among the charter members.

During his deployment to Iraq this quarter, the SIGIR Assistant IG for Investigations escorted supervisory special agents from the FBI Headquarters Public Corruption/Governmental Fraud Unit. The FBI has developed a tentative plan to assign two full-time agents in Iraq dedicated solely to corruption and fraud. Additionally, the FBI is planning to send agents to Iraq, Kuwait, and Kandahar on 120-day temporary duty rotations in support of this mission.

The FBI has assigned one Supervisory Special Agent and two full-time analysts in Washington, D.C., to handle all investigations related to Iraq and the global war on terror.

### Centralized Criminal Intelligence

SIGIR and FBI are also developing a centralized intelligence-gathering capability at the U.S. Embassy in Baghdad. This new initiative will counter corruption and fraud carried out by U.S. citizens. As part of this initiative, SIGIR is hiring a criminal intelligence analyst to gather and analyze information and liaison with SIGIR criminal investigators, FBI, and other law enforcement agencies of Iraq, the United States, and other nations.

### SIGIR Assists in Seizure of Alleged Saddam Regime Vehicle

Working with U.S. Immigration and Customs Enforcement agents, SIGIR assisted in the voluntary seizure of a Mercedes Benz that was allegedly the property of Saddam Hussein's regime. A U.S. soldier claimed to have purchased the automobile in Iraq and shipped it to his home, where it was seized. The seizure was based on allegations of false statements, antiquities violations, and smuggling.

### U.S. Army Officer Agrees to Plead Guilty

On July 7, 2006, DoJ entered a plea agreement with LTC Bruce Hopfengardner, USAR. LTC Hopfengardner agreed to plead guilty to conspiracy to commit wire fraud and money laundering. He allegedly conspired with Comptroller and Funding Officer Robert Stein to direct millions of dollars in construction contracts to a company owned by Phillip Bloom.



Damage to bullet-proof glass on seized vehicle

Hopfengardner gave Bloom material information to ensure that his company received the contracts. In return for the information, Bloom rewarded Hopfengardner with several enticements, including first-class plane tickets, watches and other jewelry, alcohol, cigars, and promises of future employment. In addition, Hopfengardner and Stein allegedly received an initial \$100,000 bonus and \$10,000 per month in exchange for the contracts. Under the plea agreement, a maximum penalty of 25 years in prison may be imposed. A date for the court to accept his plea has not been set.

### **Debarments and Suspensions**

The U.S. Army's Suspension and Debarment Program is at the forefront of efforts to ensure that contracts are awarded to and performed by contractors who are honest, ethical, and have the ability to perform successfully.

This quarter, the Army Procurement Fraud Program has taken action to debar one individual and two companies from contracting with the U.S. government in Iraq and Kuwait. Since December 2005, the Army has taken action to suspend or debar 11 individuals and 5 companies awarded contracts for Iraq reconstruction or Army support contracts in

Iraq and Kuwait. In addition, the Procurement Fraud Unit is working on additional cases with SIGIR, DoJ, Army Criminal Investigative Division, and other agencies to prevent contractors who engage in fraudulent activity from receiving additional work on Iraq reconstruction and support contracts.

### **Seizures, Forfeitures, and Cost Savings/Avoidance**

As a result of successful criminal investigations and other actions, SIGIR has seized and recovered assets valued at \$13,011,304. SIGIR investigators are also responsible for cost savings and cost avoidance in the use of \$4,828,464 of reconstruction funds. Cost savings are benefits realized by eliminating a planned expenditure, such as a budgeted or contractual expense. Cost avoidance realizes the benefits of avoiding a relatively certain future expenditure although the projected expenditure has not been budgeted or obligated. In the January 2006 Report, SIGIR began detailing these seized and criminally forfeited assets, including vehicles, cash, jewelry, watches, real estate, an airplane, cameras, commemorative coins, weapons, presentation boxes, and associated military equipment.



Airplane seized as proceeds of Bloom/Stein conspiracy



Seized Mercedes



Seized vehicle, purchased by Bloom for Hopfengardner

### Crime Trends

SIGIR continues to track crime trends in reported violations. Table 3-7 presents the 82 ongoing cases and preliminary investigations by investigative category.

### Other SIGIR Partners

#### DoS OIG

The DoS OIG Office of Investigations is one of SIGIR’s principal investigative partners. As part of a plan to improve communication between agencies, DoS is the first agency to colocate at SIGIR headquarters, facilitating better case coordination and information sharing.

### COMMISSION ON PUBLIC INTEGRITY

This quarter, SIGIR investigators have been working closely with Iraq’s Commission on Public Integrity (CPI). CPI’s mission is to prevent and investigate corruption on all levels of Iraqi government and to promote open, honest, and accountable government through public education and awareness programs. SIGIR closely coordinates with CPI investigators on a wide range of investigations and continues to share information about alleged criminal activity.

#### CASE ALLEGATIONS OPENED OR CONVERTED SINCE APRIL 2006

INVESTIGATIVE CATEGORY	VIOLATIONS
Theft/Larceny	19
Bribery/Kickbacks/Gratuities	21
False Claims/Improper Billing	8
Embezzlement	5
Contract Fraud/Contract Irregularities	17
Computer Crimes	1
Suspicious Death(s)	1
Proprietary Information	2
Waste and Abuse	2
Other	6
<b>Total</b>	<b>82</b>

TABLE 3-7

## SIGIR HOTLINE

The SIGIR Hotline facilitates the reporting of fraud, waste, abuse, mismanagement, and reprisal in all programs associated with Iraq reconstruction efforts funded by the U.S. taxpayer. Cases received by the SIGIR Hotline that are not related to the Iraq Relief and Reconstruction Fund (IRRF) or to programs and operations of the former Coalition Provisional Authority (CPA) are transferred to the appropriate entity. The SIGIR Hotline receives walk-in, telephone, mail, fax, and online contacts from people in Iraq, the United States, and throughout the world.

### Second Quarter Reporting

As of June 30, 2006, the SIGIR Hotline had initiated 501 Hotline cases; 55 are currently open. A summary of these cases is provided in Table 3-8.

### New Cases

During this reporting period, the SIGIR Hotline received 31 new complaints, classified in these categories:

- 14 on fraud
- 2 on abuse
- 6 on mismanagement
- 9 on miscellaneous/personnel issues

The SIGIR Hotline receives most reports of perceived instances of fraud, waste, abuse, mismanagement, and reprisal by electronic mail. The SIGIR's 31 new Hotline complaints were received by these means:

- 24 by electronic mail
- 4 by SIGIR Hotline phone calls
- 2 by conventional mail
- 1 by walk-in (Baghdad)

### Closed Cases

During this quarter, 25 Hotline cases were closed:

- 14 referred to other Inspector General agencies
- 6 dismissed for lack of sufficient information
- 5 closed because of information received from SIGIR Investigations

#### SUMMARY OF SIGIR HOTLINE CASES

OPEN CASES	
Investigations	32
Inspections	15
Audits	8
<b>Total Open</b>	<b>55</b>

CLOSED CASES	1 <sup>ST</sup> QTR - 2006	2 <sup>ND</sup> QTR - 2006	CUMULATIVE*
FOIA	0	0	4
OSC Review	0	0	2
Assists	0	0	43
Transferred	0	0	115
Dismissed	2	6	78
Referred	13	13	71
Inspections	0	1	78
Investigations	1	5	51
Audits	0	0	4
<b>Total Closed</b>	<b>16</b>	<b>25</b>	<b>446</b>
<b>Cumulative* Open and Closed</b>			<b>501</b>

\*Cumulative totals cover the period since the SIGIR Hotline began operations—from March 24, 2004, to June 30, 2006.

TABLE 3-8

## Referred Complaints

After a thorough review, 14 complaints were referred to outside agencies for proper resolution:

- 5 sent to the OIG, Multi-National Force-Iraq
- 3 sent to the OIG, Joint Contract Command-Iraq/Afghanistan
- 2 sent to the DoD OIG
- 2 sent to the DoS OIG
- 1 sent to the U.S. Army OIG
- 1 sent to the USAID OIG

## SIGIR LESSONS LEARNED INITIATIVE

SIGIR's Lessons Learned Initiative focuses on three areas of the U.S. relief and reconstruction program in Iraq:

- human capital management
- contracting and procurement
- program and project management

Through expert forums and research, this initiative has been identifying significant challenges facing the U.S. reconstruction mission in Iraq. SIGIR's goal is to develop actionable recommendations for enhancing ongoing efforts in Iraq and to inform future U.S. reconstruction and stabilization operations.

### Human Capital Report

In February 2006, SIGIR released *Iraq Reconstruction: Lessons in Human Capital Management*. The report is the product of SIGIR audits, other research, and a Lessons Learned forum held in September 2005 at Johns Hopkins University's Washington, D.C., campus. The document identifies and discusses four key components of effective human resource management:

- policy alignment
- workforce planning
- recruitment
- continuity

The full report is available at the SIGIR Web site: [www.sigir.mil](http://www.sigir.mil).

### Contracting and Procurement Report

In December 2005, SIGIR hosted two Lessons Learned forums to evaluate the procurement and contracting processes associated with Iraq reconstruction. The first panel—held at the George Washington School of Law in Washington, D.C.—gathered senior officials from key U.S. government agencies and distinguished members of the academic and independent research communities. SIGIR hosted a second panel of executives from a broad spectrum of industry service providers supporting the reconstruction mission in Iraq; this meeting was held at the Professional Services Council in Arlington, Virginia.

The SIGIR report, *Iraq Reconstruction: Lessons in Contracting and Procurement*, will be released in August 2006 and examines the evolution of the U.S. contracting process in Iraq to identify challenges in planning, systems, policies, and procedures.

The report offers six recommendations for improving the U.S. government's capacity to support and execute contracting and procurement in contingency environments:

- Explore the creation of an enhanced Contingency Federal Acquisition Regulation (CFAR).
- Pursue the institutionalization of special contracting programs.
- Include contracting staff at all phases of planning for contingency operations.



- Create a deployable reserve corps of contracting personnel who are trained to execute rapid relief and reconstruction contracting during contingency operations.
- Develop and implement information systems for managing contracting and procurement in contingency operations.
- Pre-compete and pre-qualify a diverse pool of contractors with expertise in specialized reconstruction areas.

### **Program and Project Management Report**

The third and final Lessons Learned report focuses on program and project management during the U.S.-led reconstruction mission,

capturing the evolution of the key agencies chartered to oversee the effort. A forum of experts gathered on April 12, 2006, at the National Defense University in Washington, D.C., to discuss this issue and provide recommendations for improving the U.S. government's capacity to manage programs and projects in contingency environments. The panel included senior U.S. government officials, academics, and industry executives. SIGIR researchers are incorporating the panelists' comments into the report and completing their research for this initiative. The final report, *Iraq Reconstruction: Lessons in Program and Project Management*, is expected to be released during fall 2006.

## LEGISLATIVE UPDATE

The Inspector General Act of 1978 [Section 4(a)(2)], which was applied to the Special Inspector General for Iraq Reconstruction (SIGIR) by P.L. 108-106, as amended, requires SIGIR to:

review existing and proposed legislation and regulations relating to programs and operations of the office and to make recommendations in the semiannual reports... concerning the impact of such legislation or regulations on the economy and efficiency in the administration of programs and operations administered or financed by such establishment or the prevention and detection of fraud and abuse in such programs and operations.

Appendices A and B provide cross-references of this Report to P.L. 108-106, as amended, and the Inspector General Act of 1978.

### Legislation

On June 15, 2006, President Bush signed into law the *Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006*. The FY 2006 supplemental appropriation included \$94.5 billion for the war effort, hurricane recovery in the Gulf Coast, pandemic flu preparation, border security, levee repair and flood control projects. Title I, Chapter 6, of the Act provides \$24 million to support SIGIR oversight of Iraq reconstruction:

...For an additional amount for “Office of Inspector General” \$25,300,000, to remain available until September 30, 2007, of which \$24,000,000 shall be transferred to the Special Inspector General for Iraq Reconstruction

for reconstruction oversight: Provided, That the amount provided under this heading is designated as an emergency requirement pursuant to section 402 of H. Con. Res. 95 (109th Congress), the concurrent resolution on the budget for fiscal year 2006.

The availability of funds originally provided to the Iraq Relief and Reconstruction Fund (IRRF) by P.L. 108-106 would have expired at the end of FY 2006. The FY 2006 Supplemental Appropriation extends the availability of IRRF by one year, provided that the funds have been obligated by the end of FY 2006. This allows reconstruction management to de-obligate and re-obligate these funds until the end of FY 2007. Funds not obligated by the end of FY 2006 will be expired funds, subject to the limitations of expired funds.

The FY 2006 supplemental appropriation also provided an additional \$5 million of funding to be merged with the IRRF for the Marla Ruzicka Iraqi War Victims Fund.

In addition, Iraq reconstruction efforts received additional appropriations totaling \$5.3 billion in the FY 2006 Supplemental through other funds. Those funds are listed in the table provided in Appendix C.

The FY 2006 Supplemental also included a provision in Section 1603 authorizing agencies to provide the same benefits to individuals on official duty in Iraq as those received by members of the foreign service.

## Pending Legislation

On June 15, an amendment offered and agreed to in the Senate to the John Warner National Defense Authorization Act for FY 2007 (NDAA)(S. 2766) addresses the SIGIR mission.

### **SEC. 1054. STRENGTHENING THE SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION.**

For purposes of discharging the duties of the Special Inspector General for Iraq Reconstruction under subsection (f) of section 3001 of the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004 (5 U.S.C. 86 note), and for purposes of determining the date of termination of the Office of the Special Inspector General under subsection (o) of such section, any funds appropriated or otherwise made available for Fiscal Year 2006 for the reconstruction of Iraq, regardless of how such funds may be designated, shall be treated as amounts appropriated or otherwise made available for the Iraq Relief and Reconstruction Fund.

If passed into law, this measure would authorize SIGIR oversight of FY 2006 funding for Iraq reconstruction, regardless of whether the funds were designated to the IRRF. The termination date for SIGIR has been estab-

lished in law as “10 months after the date...on which 80% of the amounts appropriated or otherwise made available to the IRRF...have been expended.” Under the provision of this amendment, the additional funds appropriated in FY 2006 for the reconstruction of Iraq, although not designated to the IRRF, would have the effect of extending the SIGIR mission by increasing the amounts considered for purposes of determining the office’s termination. Current projections estimate SIGIR would otherwise terminate during mid-to-late FY 2007.

The amendment, sponsored by Senator Russ Feingold, with Senators Patrick Leahy, Joseph Lieberman, Carl Levin, Susan Collins, and Ken Salazar as co-sponsors, is part of the NDAA passed by the Senate on June 22, 2006.

## SIGIR Testimony to Congress

On February 7, 2006, the Inspector General testified before the Senate Committee on Armed Forces, Subcommittee on Readiness and Management Support. On February 8, 2006, he testified before the Senate Committee on Foreign Relations. On June 8, 2006, he testified before the House Committee on International Relations. For transcripts of these testimonies, see Appendix K.



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# Other Agency Oversight

OTHER AGENCY AUDITS  
OTHER AGENCY INVESTIGATIONS

SECTION

4



## INTRODUCTION

The Special Inspector General for Iraq Reconstruction (SIGIR) formed the Iraq Inspectors General Council (IIGC)<sup>315</sup> in March 2004 to provide a forum to discuss oversight in Iraq and to enhance the collaboration and cooperation among the inspectors general of agencies overseeing the Iraq Relief and Reconstruction Fund. Representatives of member organizations meet quarterly to exchange details about current and planned audits, identify opportunities for collaboration, and minimize redundancies.

The most recent meeting was held on May 16, 2006, at SIGIR headquarters in Arlington, Virginia. The organizations in attendance included:

- Department of Army Inspector General (Army IG)
- Department of Defense Office of Inspector General (DoD OIG)
- Department of State Office of Inspector General (DoS OIG)
- U.S. Agency for International Development Office of Inspector General (USAID OIG)
- Government Accountability Office (GAO)
- Defense Contract Audit Agency (DCAA)
- U.S. Army Audit Agency (USAAA)
- U.S. Army Corps of Engineers (USACE)
- Department of the Treasury
- International Advisory and Monitoring Board for Iraq (IAMB)
- SIGIR

In 2004, SIGIR also formed the Iraq Accountability Working Group (IAWG) to provide coordination of all audit efforts in Iraq. IAWG is a means by which the forward-

deployed audit staffs of the various federal agencies with audit presence in Iraq coordinate audits, share data relative to Iraq relief and reconstruction, minimize audit disruption to clients, and avoid duplicative efforts.

IAWG met on May 14, 2006, in the former Republican Presidential Palace in Baghdad, Iraq, which currently houses the U.S. Mission Iraq. Member organizations included:

- U.S. Agency for International Development, Regional Office of the Inspector General
- U.S. Army Corps of Engineers-Gulf Region Division, Audit Office
- Multi-National Security Transition Command-Iraq, Office of Internal Audit
- U.S. Joint Forces Command, Joint Center for Operational Analysis (Forward)
- Multi-National Force-Iraq, Office of Inspector General
- DCAA
- Joint Contracting Command Iraq
- Iraq Reconstruction Management Office
- SIGIR

During the meeting, representatives from each agency reported on their audit programs and shared the objectives, scope, and tentative start dates for planned audits. The group then held general discussions on several topics, including the planned work, coordination, and primary audit contact personnel.

Each quarter, SIGIR requests updates from member organizations on their completed, ongoing, and planned oversight activities. This section summarizes the audits and investigations reported to SIGIR this quarter.

## OTHER AGENCY AUDITS

This section provides updates on the audits that IIGC member agencies reported to SIGIR. Table 4-1 lists recently completed oversight report activity, and Table 4-2 lists ongoing oversight report activity of other U.S. agencies

during this reporting period. For more information, including summary of the audits, see Appendix L. For a complete historical list of audits and reviews on Iraq reconstruction by all entities, see Appendix G.

### RECENTLY COMPLETED OVERSIGHT REPORTS OF OTHER U.S. AGENCIES, AS OF JUNE 30, 2006

AGENCY	REPORT NUMBER	REPORT DATE	REPORT TITLE	
1	DoS OIG	AUD/IQO-06-06-30	June 2006	Survey of 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
2	GAO	GAO-06-697T	April 25, 2006	Rebuilding Iraq: Governance, Security, Reconstruction, and Financing Challenges
3	GAO	GAO-06-330	April 25, 2006	United Nations: Lessons Learned from Oil-for-Food Program Indicate the Need To Strengthen UN Internal Controls and Oversight Activities
4	GAO	GAO-06-711T	May 1, 2006	United Nations: Oil-for-Food Program Provides Lessons Learned for Future Sanctions and Ongoing Reform
5	GAO	GAO-06-865T	May 13, 2006	Rebuilding Iraq: Actions Still Needed To Improve Use of Private Security Providers
6	GAO	GAO-06-274	May 22, 2006	Defense Logistics: Lack of a Synchronized Approach between the Marine Corps and Army Affected the Timely Production of Marine Corps Truck Armor
7	USAAA	A-2006-0083-ALL	March 21, 2006	Retrograde Operations (Task Order 87) – Audit of Logistics Civil Augmentation Program Operations in Support of Operation Iraqi Freedom
8	USAAA	A-2006-0091-ALL	April 4, 2006	Theater Transportation Mission (Task Order 88) – Audit of Logistics Civil Augmentation Program Operations in Support of Operation Iraqi Freedom
9	USAAA	A-2006-0099-ALL	April 25, 2006	Program Management in the Iraq Area of Operations – Audit of Logistics Civil Augmentation Program Operations in Support of Operation Iraqi Freedom

TABLE 4-1



## ONGOING OVERSIGHT REPORTS OF OTHER U.S. AGENCIES, AS OF JUNE 30, 2006

AGENCY	ID NUMBER	DATE INITIATED	REPORT TITLE
1 DoD OIG	D2006-D000LA-0092.00	N/A	Audit of Equipment Status of Deployed Forces within U.S. Central Command
2 DoD OIG	D2006-D000LA-0139	N/A	Information Operations in Southwest Asia
3 DoD OIG	D2005FD-0300	N/A	Antideficiency Act Investigation of the Operation and Maintenance Appropriation
4 DoD OIG	D2006LH-0184	N/A	Audit of Iraq Security Forces Fund
5 DoD OIG	D2006FL-0208	N/A	Audit of Internal Controls over Out-of-country Payments
6 DoD OIG	D2006CK-0210	N/A	Audit of Procurement Policy for Armored Vehicles
7 DoD OIG	D2005LH-0232	N/A	The Army Small Arms Program that Relates to Availability, Maintainability, and Reliability of Small Arms Support for the Warfighter
8 DoD OIG	D2006AS-0069	N/A	Audit of the Acquisition of the Pacific Mobile Emergency Radio System
9 DoD OIG	IPO2004-C005	N/A	Detainee Abuse Oversight Review
10 DoD OIG	D2004-DINT01-0174	N/A	Review of Detainee/Prisoner Abuse Investigations and Reviews
11 DoD OIG/DoS OIG	DOD: IE-2005-002 /DOS: ISP-IQO-05-72	N/A	Follow-up to Department of State/Department of Defense Interagency Assessment of Iraqi Police Training
12 DoD OIG	D2006-DIP0E3-0038.000	N/A	DoD OIG Support to the Iraqi Ministry of Defense OIG
13 DoD OIG	D2005-DINTEL-0122	N/A	Review of the United States Government's Relationship with the Iraqi National Congress
14 DoS OIG	N/A	N/A	Agreed-upon Procedures Related to Selected DynCorp Invoices
15 DoS OIG	06AUD3026	N/A	Audit of the National Endowment for Democracy
16 GAO	290437	October 2005	Mental Health Care for Veterans
17 GAO	120547	March 2006	Contract Award Procedures for Iraq Reconstruction Contracts
18 GAO	350829	March 2006	DoD's Health Care Policies and Benefits for Civilians Deployed to Afghanistan and Iraq
19 GAO	N/A	April 2006	Iraqi Contract Cost Questioned or Unsupported
20 GAO	350810	March 2006	Army's Prepositioning Program
21 GAO	320383	November 2005	Iraq Energy
22 GAO	320401	December 2005	National Strategy for Iraq
23 GAO	320402	December 2005	Management of Iraq Reconstruction
24 GAO	320366	September 2005	U.S. Efforts To Stabilize Iraq and Develop Security Forces
25 GAO	350739	September 2005	Use of Contractors on the Battlefield

AGENCY	ID NUMBER	DATE INITIATED	REPORT TITLE
26 GAO	350732	September 2005	Vetting Processes Used by Contractors Who Support Deployed Forces
27 GAO	350742	September 2005	Logistics Support for the Stryker Vehicle and Stryker Brigade
28 GAO	350737	November 2005	Accountability, Maintenance, Utilization, and Strategy for OIF Stay-Behind Equipment
29 GAO	350770	November 2005	Securing Sensitive Sites Containing High Explosives
30 GAO	350790	February 2006	Iraqi Support Capabilities
31 GAO	350794	February 2006	Improving Joint Force Protection Capability for Deployed Ground Forces
32 GAO	320411	March 2006	Accountability for Equipment Provided to Iraqi Forces
33 GAO	350801	March 2006	Global War on Terrorism Funding
34 GAO	350853	April 2006	Army and Marine Corps Readiness
35 USAAA	A-2005-ALS-0340.000	N/A	Audit of Logistics Civil Augmentation Program (LOGCAP)
36 USAID	N/A	N/A	Audit of USAID/Iraq's Local Governance Activities
37 USAID	N/A	N/A	Audit of USAID's Transition Initiatives in Iraq
38 USAID	N/A	N/A	Audit of USAID/Iraq's Agriculture Reconstruction and Development Program
39 USAID	N/A	N/A	Audit of USAID/Iraq's Civil Society Activities

TABLE 4-2

## OTHER AGENCY INVESTIGATIONS

SIGIR regularly coordinates with other government agencies conducting investigations in Iraq. Table 4-3 provides statistics of investigative activities from other U.S. agencies. For more information on these investigations, see Appendix L.

### STATUS OF INVESTIGATIVE ACTIVITIES FROM OTHER U.S. AGENCIES, AS OF JUNE 30, 2006

AGENCY	NUMBER OF INVESTIGATORS IN IRAQ	NUMBER OF CLOSED CASES	NUMBER OF OPENED/ONGOING CASES
1 USAID	N/A	3	10
2 DCIS	4	0	2
3 DoS OIG	0	2	0
4 FBI	N/A	0	1

TABLE 4-3



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## ENDNOTES

1. In this Report, unless otherwise noted, IRRF refers to the \$18.4 billion of funds appropriated under Title II of the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004 (P.L. 108-106). The SIGIR's statutory duties are directly linked to this appropriation, which is funding current relief and reconstruction programs and operations in Iraq. It is distinguished from the \$2.475 billion appropriation to the IRRF under the Emergency Wartime Supplemental Act, 2003 (P.L. 108-11). This appropriation is identified in this Report as IRRF (2003).
2. The SIGIR April 2006 Quarterly Report incorrectly reported the figure of \$365 million allocated to anticorruption because of a calculation error.
3. Human Rights Report, UN Assistance Mission for Iraq, June 30, 2006, p. 3.
4. The data supporting figures and analysis for projects has been extracted from two sources: the Iraq Reconstruction Management System (IRMS), for GRD-PCO projects, and the USAID activities report. Last quarter, SIGIR used the IRMS as the source for both GRD-PCO and USAID project data. This quarter, USAID advised SIGIR not to use IRMS as an official record of its activities. A comparison of last quarter's project data to information in this report is not recommended.
5. The NCD is a joint initiative of the Iraq Reconstruction Management Office (IRMO) and U.S. Agency for International Development (USAID) that focuses on targeted ministerial training and broader multi-layer capacity development. MCT coordinates and supervises the Ministerial Advisory teams (MATs) that advise the ten key Iraqi ministries (Finance, Oil, Electricity, Water, Utilities and Public Works, Justice, Agriculture, Health, Planning, and Education).
6. Ministerial Coordination Team, Briefing to SIGIR, No Date, slides 3, 8, and 16.
7. GRD-PCO vetting response, April 20, 2006. GRD-PCO notes that this does not include the Ambassador's deferred and reinstated projects and projects currently funded from contract cost savings.
8. GRD-PCO vetting response, July 18, 2006.
9. GRD-PCO vetting response, July 18, 2006.
10. USACE-GRD, "Reconstruction Continues in Iraq," October 2, 2005.
11. IRMO vetting response, July 20, 2006.
12. GRD-PCO response to SIGIR data call, June 19, 2006.
13. GRD-PCO response to SIGIR data call, June 19, 2006.
14. IRMO vetting response, July 20, 2006.
15. IRMO vetting response, July 20, 2006.
16. GRD-PCO vetting response, July 18, 2006.
17. GRD-PCO vetting response, July 18, 2006.
18. GRD-PCO response to SIGIR data call, June 19, 2006.
19. GRD-PCO response to SIGIR data call, June 19, 2006.
20. Department of State, *Section 2207 Report*, July 2006, p. I-65.
21. Department of State, *Iraq Weekly Status*, June 29, 2005, p. 10; IRMO, *Weekly Status*, June 27, 2006, p. 3.

## ENDNOTES

22. Department of State, *Section 2207 Report*, July 2006, pg. I-60.
23. Iraqi Ministry of Electricity, Master Plan 2006-2015, no date.
24. SIGIR interview with Ministry of Electricity, July 10, 2006.
25. IRMO vetting response, July 20, 2006.
26. Ministry of Finance, The State General Budget for 2005, December 27, 2004, p. 30; ID-USD Exchange rate: Department of State, *Iraq Weekly Status*, June 29, 2005, p. 16.
27. SIGIR interview with Ministry of Electricity, July 10, 2006.
28. Department of Energy, "Iraq Country Analysis Brief," December 2005. Available online at <http://www.eia.doe.gov/emeu/cabs/Iraq/Electricity.html>.
29. GRD-PCO vetting response, July 18, 2006.
30. Defense Reconstruction Support Office, "Summary and Technical Report Iraqi Electricity Sector," April 22, 2005, p. 35.
31. World Bank, "Rebuilding Iraq: Economic Reform and Transition," February 2006, p. 7.
32. Glenn Zorpette, "Re-Engineering Iraq," IEEE Spectrum, February 2006, p. 3.
33. International Monetary Fund, press release no. 05/307, "IMF Executive Board Approves First Ever Stand-By Arrangement for Iraq," December 23, 2005.
34. SIGIR interview with Ministry of Electricity, July 10, 2006.
35. Iraqi Ministry of Electricity, Master Plan 2006-2015, no date.
36. GAO 06-697T, "Testimony Before the Subcommittee on National Security, Emerging Threats, and International Relations; Committee on Government Reform, House of Representatives," April 25, 2006, pp. 23-24.
37. GAO 06-697T, "Testimony Before the Subcommittee on National Security, Emerging Threats, and International Relations; Committee on Government Reform, House of Representatives," April 25, 2006, pp. 23-24.
38. GRD-PCO vetting response, July 18, 2006.
39. Ministerial Coordination Team, briefing to SIGIR, no date, Slide 10.
40. IRMO vetting response, July 20, 2006.
41. Defense Reconstruction Support Office, Summary and Technical Report Iraqi Electricity Sector, April 22, 2005, p. 3.
42. Reda, M., N. Saied et al, "Iraq Electrical Power Infrastructure – Past, Present and Future Developments and Expectations," Published by IEEE, No Date, pp. 2-4.
43. GAO, 06-697T, "Testimony Before the Subcommittee on National Security, Emerging Threats, and International Relations; Committee on Government Reform, House of Representatives," April 25, 2006, pp. 23-24.
44. Department of Energy, "Iraq Country Analysis Brief," June 2006, p. 9.
45. The natural gas estimate does not include initial capital expenditures and also assumes that the cost of flared natural gas is zero. GAO, 06-697T, "Testimony Before the Subcommittee on National Security, Emerging Threats, and International Relations; Committee on Government Reform, House of Representatives," April 25, 2006, pp. 23-24.

46. SIGIR interview with Ministry of Electricity, July 10, 2006.
47. SIGIR Audit 06-009, April 28, 2006, p. i.
48. Southeast Texas Industrial Services, Inc., memo to Ministry of Electricity, May 18, 2006.
49. GAO, 06-697T, “Testimony Before the Subcommittee on National Security, Emerging Threats, and International Relations; Committee on Government Reform, House of Representatives,” April 25, 2006, pp. 12-13.
50. USACE-GRD, “Bi-Weekly Situation Report,” June 24, 2006, p. 9.
51. For EP data: USACE-GRD, “Bi-Weekly Situation Report,” June 24, 2006, p. 9; for EPC data: Iraq Reconstruction Management System, as of July 10, 2006.
52. GRD-PCO vetting response, July 18, 2006.
53. Department of State *Section 2207 Report*, Appendix 1, July 2006, p. 72.
54. GRD-PCO vetting response, July 18, 2006.
55. GRD-PCO response to SIGIR data call, July 10, 2006.
56. GRD-PCO vetting response, July 18, 2006.
57. GRD-PCO vetting response, July 18, 2006.
58. GRD-PCO vetting response, July 18, 2006; follow-up data request received from GRD-PCO on July 18, 2006.
59. GRD-PCO vetting response, July 18, 2006.
60. GRD-PCO vetting response, July 18, 2006.
61. GRD-PCO vetting response, July 18, 2006.
62. USTDA, “Iraq Oil Training Program – IRRF II Funds,” July 3, 2006, p. 2.
63. USTDA reported to SIGIR that this training program was developed based on energy sector discussions in December 2004 during the second U.S.-Iraq Joint Economic Consortium meeting. These are the three funding groups: \$1 million in IRRF funding for management training, including management/leadership skills, financial management, commercial operations, and legal/regulatory compliance; \$1 million in IRRF funding for technical training, O&M for drilling and pipelines, well logging, and environmental control/mitigation; and \$500,000 in USTDA core funds for human resources development/management, including change management, workforce productivity, and professional development.
64. SIGIR interview with USTDA officials, June 21, 2006.
65. GRD-PCO response to SIGIR data request, June 28, 2006.
66. GRD-PCO vetting response, July 18, 2006.
67. Department of Energy, “Iraq Country Analysis Brief,” June 2006, p. 9.
68. Department of Energy, “Iraq Country Analysis Brief,” June 2006, p. 9.
69. “Strategic Integration and Investment Planning of Electricity and Oil and Gas,” presentation by Jim Hicks, former Senior Advisor for the Electric Sector under the Coalition Planning Authority, delivered on June 7, 2006, in Washington, D.C.
70. Department of State, *Section 2207 Report*, Appendix 1, July 2006, p. 72.

71. International Monetary Fund; “Iraq: Request for Stand-By Arrangement—Staff Report, Staff Supplement, Press Release on the Executive Board Discussion, and Statement by the Executive Director for Iraq;” January 2006, p. 3.
72. Department of State, *Section 2207 Report*, Tab 5 (Selected Metrics), July 2006, p. 11.
73. Department of State, *Iraq Weekly Status*, July 5, 2006, p. 18.
74. GAO 06-697T, “Rebuilding Iraq: Governance, Security, Reconstruction, and Financing Challenges—Statement of David M. Walker, Comptroller General of the United States,” April 25, 2006, p. 8.
75. Department of Energy, “Iraq Country Analysis Brief,” June 2006, p. 9. Note: As of July 5, 2006, DoS reported Iraq’s supply of critical refined fuels for the quarter: 7 days for diesel, 12 days for kerosene, 3 days for gasoline, and 4 days for LPG. The goal is a 15-day supply. (DoS, *Iraq Weekly Status*, July 5, 2006, p. 21)
76. “News in Brief,” *Petroleum Economist*, July 12, 2006.
77. GAO 06-697T, “Rebuilding Iraq: Governance, Security, Reconstruction, and Financing Challenges—Statement of David M. Walker, Comptroller General of the United States,” April 25, 2006, p. 19.
78. Iraqi Ministry of Oil Inspector General, “Summary of the Annual Reports for 2005,” April 2006, p. 6.
79. “Energy Sector Action Plan Summer Targets—Electricity and Oil,” March 12, 2006, p. 13.
80. Department of Defense, “Measuring Stability and Security in Iraq,” May 26, 2006, p. 18.
81. World Bank, “Rebuilding Iraq: Economic Reform and Transition,” February 2006, p. 7.
82. SIGIR Interview with Minister of Oil Husayn al Sharistani, July 15, 2006.
83. Department of State, *Iraq Weekly Status*, March 7, 2006, p. 6.
84. Inspector General of the Iraqi Ministry of Oil, “Summary of the Annual Reports for 2005,” April 2006, p. 12.
85. Data response from government energy expert, July 5, 2006.
86. “Control from the Centre,” *Middle East Economic Digest*, May 26, 2006.
87. “Iraqi Fires Fuel Distribution Company Management over Corruption,” *Platts Commodity News*, July 10, 2006.
88. *Comprehensive Survey in Iraq—10 Key City Data*, June 2006, pp. 3 and 5.
89. Inspector General of the Iraqi Ministry of Oil, “Second Transparency Report: Smuggling Crude Oil and Oil Products,” April 2006, p. 4.
90. Inspector General of the Iraqi Ministry of Oil, “Second Transparency Report: Smuggling Crude Oil and Oil Products,” April 2006, p. 6.
91. According to the “Second Transparency Report,” (p. 8) the level of subsidies to imported oil products is approximately 80% after the December 2005 price increase, and the value of this governmental support is expected to surpass the \$5 billion mark for 2006 (having reached \$4.3 billion in 2005).
92. GAO 06-697T, “Rebuilding Iraq: Governance, Security, Reconstruction, and Financing Challenges—Statement of David M. Walker, Comptroller General of the United States,” April 25, 2006, p. 12.
93. Department of State, *Iraq Weekly Status Report*, July 5, 2006, p. 4.



94. SIGIR interview with U.S. government energy expert, conducted by telephone on June 29, 2006. IRMO vetting response, July 20, 2006, indicated that a “smaller piece of legislation on fuel import liberalization has been passed by the Council of Ministers and should be at the Council of Representatives. It is unclear whether the draft legislature passed through the ‘Ashura’ council, which sits at the Ministry of Justice, for constitutional review before it went to the Council of Representatives.”
95. Also referred to as the Erbil City-Ifraz Main Water Supply Project and the Erbil Ifraz Water Supply Project.
96. USACE-GRD, “Bi-Weekly Situation Report,” February 20, 2006, p. 11.
97. USACE-GRD, “Bi-Weekly Situation Report,” March 17, 2006, p. 12; USACE-GRD, “Bi-Weekly Situation Report,” April 1, 2006, p. 14.
98. USACE-GRD, “Bi-Weekly Situation Report,” April 1, 2006, p. 14; GRD-PCO, data call to SIGIR, June 19, 2006.
99. USACE-GRD, “Bi-Weekly Situation Report,” February 20, 2006, p. 10.
100. IRMO, Information Memorandum from Acting IRMO Director to Deputy Chief of Mission, April 19, 2006.
101. USACE-GRD, “Bi-Weekly Situation Report,” March 17, 2006, p. 12.
102. Department of State, *Section 2207 Report*, July 2006, p. I-78.
103. GRD-PCO, SIGIR Data Request, Excel spreadsheet. email from DoS, March 24, 2006.
104. GRD-PCO, vetting response to SIGIR, received on July 24, 2006.
105. Department of State, *Section 2207 Report*, July 2006, p. I-76.
106. GRD-PCO vetting response, April 20, 2006.
107. Department of State, response to SIGIR data request, March 24, 2006, p. 6.
108. GAO estimated that, by 2003, the production level of water was 60% in urban areas and 50% in rural areas—enough to serve 14 million people. GAO noted that much of the water was lost because of leakage and contamination (GAO 05-872, “Rebuilding Iraq: U.S. Water Efforts Need Improved Measures for Assessing Impact and Sustained Resources for Maintaining Facilities,” September 2005, p. 5.) GRD-PCO cited these same figures in “History of the Water Sector,” received on January 13, 2006. USAID estimated that 50% of the population was served by water treatment plants (USAID, *Vision for Post-Conflict Iraq*, February 2003, p. 3). The UN and World Bank estimated that pre-war water levels declined in some governorates by as much as 50% since 2000. In 2000, roughly 19 million people had access to water; 9.5 million people had access under the worst-case scenario of all governorates decreasing by 50% (UN/World Bank, “Joint Needs Assessment,” October 2003, p. 21). The U.S. Embassy in Iraq reported a pre-war level of 5.5 million people, which appears to be an outlier from the other figures (Department of State, “Reconstruction Progress in Iraq,” November 30, 2005).
109. GAO 05-872, “Rebuilding Iraq: U.S. Water Efforts Need Improved Measures for Assessing Impact and Sustained Resources for Maintaining Facilities,” September 2005, p. 25.
110. GRD-PCO, CY 2006 USG Water Sector Sustainment Program (WSSP), received via email on June 27, 2006, p. 1.
111. USAID response to SIGIR data request, Excel spreadsheet, email from DoS, March 24, 2006.
112. GRD-PCO response to SIGIR data request, Excel spreadsheet, email from DoS, March 24, 2006.
113. GRD-PCO response to SIGIR data call, June 19, 2006.

## ENDNOTES

114. Ministerial Coordination Team, briefing to SIGIR, no date, slide 10.
115. For definitions of these and other sectors, see Appendix H.
116. United Nations/World Bank Joint Iraq Needs Assessment, October 2003, p. 36.
117. Onur Ozlu and Anthony Cordesman, "Iraqi Economic Reconstruction and Development," Center for Strategic and International Studies, April 21, 2006, p. 32; IRMO agriculture expert vetting comments.
118. *Ibid.*
119. USAID Agriculture Fact Sheet, June 2006.
120. UN/World Bank Joint Needs Assessment for Iraq Reconstruction, October 2003, p. 38; According to the report, short-term assistance should aim to reconstruct damaged and degraded agriculture facilities and reestablish and improve the efficiency of key agricultural services. Medium-term priorities would gradually transition the subsector toward a market-oriented rural economic system with a significant, competitive, and sustainable private sector. p. 37.
121. Vetting comments received from IRMO Agriculture official on July 19, 2006.
122. USAID agriculture officials, SIGIR interview, June 29, 2006; USAID also reported to SIGIR on July 20, 2006 that ARDI was approved for a no-cost extension on June 6, 2006.
123. USAID agriculture experts, SIGIR interview, June 29, 2006; the CERP-funded program is intended to extend existing production assistance programs and agribusiness development initiatives to other areas of the country
124. USAID agriculture experts, SIGIR interview, June 29, 2006.
125. USAID response to SIGIR data request, July 21, 2006; USAID informed SIGIR that a "direct benefit is defined as a measurable increase in the beneficiary's ability to improve production."
126. USAID agriculture experts, SIGIR interview, June 29, 2006.
127. Onur Ozlu and Anthony Cordesman, *op. cit.*, p. 33.
128. Joint Chiefs of Staff (C4), "Agriculture Sector to Appendix 5 (Help Iraq Strengthen its Economy) to Annex C to the Joint Campaign Plan," April 9, 2006, p. 10.
129. Department of State *Section 2207 Report*, Appendix I, July 2006, p. 37.
130. Public Law 109-234, "Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006," June 15, 2006, p. 433.
131. USAID vetting comments, July 18, 2006.
132. USAID vetting comments, July 18, 2006.
133. Department of State, *Section 1227 Report*, July 6, 2006, p. 6.
134. USAID reconstruction officials, SIGIR interview, May 31, 2006; vetting comments received from USAID on July 18, 2006.
135. USAID reconstruction officials, SIGIR interview at USAID, May 31, 2006.
136. USAID response to SIGIR data request, July 10, 2006.
137. USAID Capacity Building Office vetting comments, July 20, 2006.
138. USAID/ANE/Office of Iraq Reconstruction, Democracy and Governance Sector; data form input; March 15, 2006.

139. National Democratic Institute, “NDI–Iraq Weekly Update,” May 12, 2006; NDI vetting comments, July 18, 2006.
140. National Democratic Institute, “NDI–Iraq Weekly Update,” May 26, 2006.
141. IRI information, received by SIGIR on July 19, 2006.
142. Department of State, *Iraq Weekly Status*, March 15, 2006, p. 3.
143. Department of Defense, “Measuring Stability and Security in Iraq,” May 26, 2006, p. 8.
144. Department of State, *Iraq Weekly Status*, May 3, 2006, p. 8.
145. Department of Defense, “Measuring Stability and Security in Iraq,” May 26, 2006, p. 8.
146. Department of Defense Update on June 8, 2006, [www.defenselink.mil](http://www.defenselink.mil).
147. Department of State, *Section 1227 Report*, July 6, 2006, p. 5.
148. GAO 06-697T, “Rebuilding Iraq: Governance, Security, Reconstruction, and Financing Challenges; Testimony of David Walker, Comptroller General of the United States,” April 25, 2006, p. 9.
149. GAO 06-697T, “Rebuilding Iraq: Governance, Security, Reconstruction, and Financing Challenges; Testimony of David Walker, Comptroller General of the United States,” April 25, 2006, p. 10.
150. NDI reconstruction officials, SIGIR interview, June 15, 2006.
151. USAID official, SIGIR interview, June 5, 2006.
152. UN/World Bank, “Joint Needs Assessment for Education,” October 2003, p. 14.
153. USAID response to SIGIR data request, July 19, 2006; USAID also reported to SIGIR that the number of schools has been slightly “up-scoped” since the last quarter.
154. USAID response to a SIGIR data request, July 18, 2006.
155. USAID, *Weekly Status Report*, March 17, 2006, p. 8.
156. Ministry of Human Rights Inspector General, SIGIR interview, July 8, 2006.
157. USAID official, SIGIR interview, June 5, 2006.
158. Coalition Provisional Authority, *FY 2004 Supplemental Request to Rehabilitate and Reconstruct Iraq*, September 2003, p. 48.
159. Department of State, *Section 2207 Report*, July 2006, p. I-123.
160. Department of State, *Section 2207 Report*, July 2006, pp. I-115-116.
161. Department of State, *Section 2207 Report*, July 2006, pp. I-118-119.
162. Department of State, *Section 2207 Report*, July 2006, p. I-123.
163. IRMO, *Weekly Status Report*, June 27, 2006, pp. 9-13.
164. IRMO-Office of Private Sector Development and Strategic Investment, email to SIGIR, July 15, 2006.
165. IRMO-Office of Private Sector Development and Strategic Investment, email to SIGIR, July 14, 2006.
166. USAID, *Economic Growth Portfolio Review–PowerPoint Presentation*, March 17, 2006, slide 2.
167. USAID, *Economic Growth Portfolio Review–PowerPoint Presentation*, March 17, 2006, slide 5.
168. USAID official, SIGIR interview, June 7, 2006.
169. USAID, *Iraq Reconstruction Weekly Update*, March 3, 2006, p. 2.

## ENDNOTES

170. Izdihar, which means “prosperity” in Arabic, refers to the contractors for the private sector development program.
171. USAID vetting comments, July 18, 2006.
172. USAID, Fact Sheet: Promoting Microfinance and Bank Lending to Small Businesses, March 2006, p. 1.
173. USAID official, SIGIR interview, June 7, 2006.
174. USAID official, SIGIR interview, June 7, 2006.
175. USAID official, SIGIR interview, June 7, 2006.
176. USAID vetting response, July 18, 2006.
177. The 2006 Emergency Supplemental Appropriations Act (P.L. 109-234, p. 423) provided that \$3.007 billion of the ISFF will remain available until September 30, 2007.
178. Department of State, “Iraq Weekly Status Report,” June 14, 2006, p. 7.
179. Department of Defense, “Measuring Stability and Security in Iraq,” May 26, 2006, p. 4.
180. PCO, “Facilities and Transportation Sector—GRD-PCO Historical Narrative [DRAFT],” received from PCO on March 21, 2006.
181. GRD-PCO response to SIGIR data request, July 20, 2006.
182. GRD-PCO, “Bi-weekly Situation Report,” July 14, 2006, p. 3.
183. GRD-PCO data response, July 7, 2006.
184. GRD-PCO vetting comments, July 18, 2006.
185. GRD-PCO vetting comments, July 18, 2006; U.S. Army Corps of Engineers, “Termination of Parsons Global Services, Inc., Prison Contract Announced,” July 12, 2006.
186. Kimberly Mielcarek, “Termination of Parsons Global Services, Inc., Prison Contract Announced,” USACE Press Release, June 19, 2006.
187. GRD-PCO response to SIGIR data request, July 20, 2006.
188. Department of Defense, “Measuring Stability and Security in Iraq,” May 26, 2006, p. 15.
189. Department of State *Section 2207 Report*, Appendix 1, July 2006, pp. 31-32.
190. IRMO consultant to CPI, SIGIR interview, June 4, 2006.
191. Inspectors General. Joint Survey of the U.S. Embassy-Iraq’s Anticorruption Program (SIGIR-06-021),
192. DRSO response to SIGIR data request, July 17, 2006.
193. SIGIR Review of the Advanced First Responder Network (Audit 06-020)
194. Department of State, *Iraq Weekly Status*, July 5, 2006, p. 7; these numbers are further broken down as approximately 114,700 soldiers, 600 Air Force personnel, and 800 Navy personnel.
195. Department of State, *Iraq Weekly Status*, July 5, 2006, p. 7; these numbers are further broken down as approximately 107,000 police and highway patrol officers, with an additional 45,300 “other Ministry of Interior forces.”
196. Department of State, *Section 2207 Report*, Appendix 1, July 2006, p. 1.
197. Department of Defense, “Measuring Stability and Security in Iraq,” May 26, 2006, p. 51.

198. Department of Defense, “Measuring Stability and Security in Iraq,” July 2005, p. 13; According to DoD: “MNF-I has also implemented, in partnership with the Ministry of Defense, a program to embed Military Transition Teams at the battalion, brigade, and division level. These teams provide Transition Readiness Assessments (TRAs) to Multi-National Corps-Iraq (MNC-I) identifying areas of progress and shortcomings, ultimately leading to those individual units being ready to assume independent control of their area of responsibility. These assessments take into account a variety of criteria similar to but not identical to what the U.S. Army uses to evaluate its units’ operational readiness by focusing on personnel, command and control, training, sustainment/logistics, equipment, and leadership.” Overall, operational units are assessed as capable of planning, executing, and sustaining counterinsurgency operations independent of coalition forces (Level 1); capable of planning, executing, and sustaining counterinsurgency operations with coalition enablers (Level 2); or capable of conducting counterinsurgency operations only when operating alongside Coalition units (Level 3); Level 1, 2, and 3 units are all engaged in operations against the enemy.
199. Department of State, *Section 2207 Report*, Appendix 1, July 2006, pp. 1, 3.
200. Department of Defense, “Measuring Stability and Security in Iraq,” May 26, 2006, p. 47.
201. Department of State, *Section 2207 Report*, Appendix 1, July 2006, p. 1.
202. Department of Defense, “Measuring Stability and Security in Iraq,” May 26, 2006, p. 13.
203. DRSO staff, SIGIR interview, June 5, 2006.
204. Department of Defense, “Measuring Stability and Security in Iraq,” May 26, 2006, p. 17.
205. Department of Defense, “Measuring Stability and Security in Iraq,” May 26, 2006, p. 46.
206. Department of Defense, “Measuring Stability and Security in Iraq,” May 26, 2006, p. 51.
207. Inspector General Mucklous of the Ministry of Human Rights, SIGIR interview, July 8, 2006.
208. GAO Report 06-697T, “Rebuilding Iraq: Governance, Security, Reconstruction, and Financing Challenges—Statement of David M. Walker, Comptroller General of the United State, to the Subcommittee on National Security, Emerging Threats, and International Relations,” April 25, 2006, p. 22.
209. Inspector General Mucklous of the Ministry of Human Rights, SIGIR interview, July 8, 2006.
210. GAO Report 06-697T, “Rebuilding Iraq: Governance, Security, Reconstruction, and Financing Challenges – Statement of David M. Walker, Comptroller General of the United State, to the Subcommittee on National Security, Emerging Threats, and International Relations,” April 25, 2006, p. 17.
211. Department of State, *Iraq Weekly Status*, May 31, 2006, p. 8.
212. Department of State *Section 1227 Report*, July 6, 2006, p. 26.
213. The current number of PHCs to be completed is 142. Of those: 20 will be completed through the original design-build contract; 115 will be completed through fixed-price contracts, including one PHC that was always slated to be completed through this contracting method; and seven will be done with CERP. IRMO and GRD-PCO have reported to SIGIR that only one PHC is funded through CERP, and the rest are funded through IRRF 2. According to IRMS data as of June 30, 2006, however, seven PHCs are being constructed with CERP, including one that was destroyed last quarter in the Anbar governorate. SIGIR uses IRMS as its primary data source for project completion rates.

## ENDNOTES

214. The number of hospital projects does not represent the number of facilities being rehabilitated, but rather the number of rehabilitation activities pertaining to hospitals. The Department of State July 2006 *Section 2207 Report* indicates that refurbishments at 20 hospitals will be overseen by GRD-PCO and the construction of one hospital will be overseen by USAID (Selected Metrics, p. 16).
215. IRMS and USAID project data for June 30, 2006.
216. IRMS and USAID project data for June 30, 2006; the 135 planned PHCs will all be completed with IRRF funding, while an additional seven PHCs will be completed with CERP.
217. Department of State, *Section 2207 Report*, Appendix 1, July 2006, p. 95.
218. GRD-PCO vetting comments, July 18, 2006.
219. IRMS data as of June 30, 2006; GRD-PCO Bi-weekly Situation Report, May 27, 2006, p. 15.
220. GRD-PCO response to SIGIR data request, June 22, 2006. The GRD-PCO weekly Iraq Reconstruction Report of 07/07/06 indicated that two IRRF-funded PHCs were open for patients as of 07/01/06.
221. GRD-PCO response to SIGIR data request, June 21, 2006.
222. Department of State, *Section 2207 Report*, Appendix 1, July 2006, p. 96.
223. Erich Langer, "Partial Termination of Parsons Global Services, Inc., Hospital Contract Announced," GRD-PCO Press Release, May 12, 2006.
224. GRD-PCO response to SIGIR data request, June 21, 2006; follow-up information received from GRD-PCO, July 7, 2006.
225. SIGIR identified many reporting anomalies in its audit, including the apparent inadequacy of USAID's accounting systems and processes to accurately identify and report hospital project costs to the Chief of Mission (Iraq) and to Congress (in *Section 2207 Reports*). The audit also raises questions about the method of recording indirect costs under USAID's IRRF-cost accounting processes.
226. USAID official, SIGIR interview, June 5, 2006.
227. Department of State, *Section 2207 Report*, July 2006, p. I-98.
228. USAID, email to SIGIR, April 7, 2006.
229. USAID vetting comments, July 18, 2006.
230. GRD-PCO, "Bi-weekly Situation Report," May 27, 2006, pp. 15-16.
231. USAID vetting comments, July 18, 2006.
232. USAID vetting comments, July 18, 2006.
233. NEA-USAID-PCO data call.
234. Department of State response to SIGIR data request, March 30, 2006.
235. This report combines two subsectors of the Department of State (DoS) *Section 2207 Report*: Transportation and Communications; and Roads, Bridges, and Construction. For information about the definitions of these and other sectors, see Appendix H.
236. GRD-PCO, Vetting comments to SIGIR, July 18, 2006.
237. Transport was estimated to need \$2 billion; Telecommunication was estimated to need \$1.38 billion. United Nations/World Bank, "Joint Iraq Needs Assessment," October 2003, pp. 26, 28.



238. Department of State, *Section 2207 Report*, July 2006, p. I-87.
239. GRD-PCO, SIGIR Data Request sent by DoS, Excel spreadsheet. Received via email June 19, 2006.
240. GRD-PCO, Vetting comments to SIGIR, Received via email July 18, 2006.
241. Department of State, *Section 2207 Report – Selected Metrics*, July 2006, pp. 14-15.
242. GRD-PCO, SIGIR Data Request sent by DoS, Excel spreadsheet. Received via email June 19, 2006.
243. Department of State, *Section 2207 Report*, July 2006, p. I-88.
244. GRD-PCO, SIGIR Data Request sent by DoS, Excel spreadsheet. Received via email June 19, 2006; Figures updated by GRD-PCO, Vetting comments to SIGIR, received on July 18, 2006. \*Note: Last quarter SIGIR reported 97 railway stations completed based on the data request received from IRMO. In vetting comments to SIGIR this quarter, IRMO reported 97 stations completed with 7 additional stations to be awarded. The information presented in text was provided to the SIGIR data request by GRD-PCO.
245. GRD-PCO, “Response to SIGIR request dated February 25, 2006,” March 29, 2006, p. 10.
246. GRD-PCO, Vetting comments to SIGIR, received on July 18, 2006.
247. IRMO, Vetting comments to SIGIR, received on July 20, 2006.
248. IRMO, Information Memorandum from Acting IRMO Director to Deputy Chief of Mission, April 19, 2006.
249. Department of State, *Section 2207 Report*, July 2006, p. I-86.
250. GRD-PCO, SIGIR Data Request sent by DoS, Excel spreadsheet. Received via email June 19, 2006.
251. Department of State, email to SIGIR, March 31, 2006.
252. Economist Intelligence Unit, *Country Profile 2005 – Iraq*, 2005, p. 33.
253. GRD-PCO, Response to SIGIR data request, received on March 29, 2006.
254. Department of State, email to SIGIR, March 31, 2006.
255. GRD-PCO, Vetting comments to SIGIR, received on July 18, 2006.
256. GRD-PCO, SIGIR Data Request sent by DoS, Excel spreadsheet. Received via email June 19, 2006.
257. Department of State, *Section 2207 Report*, July 2006, p. I-93.
258. GRD-PCO, SIGIR Data Request sent by DoS, Excel spreadsheet. Received via email June 19, 2006. Updated by GRD-PCO, Vetting comments to SIGIR, received on July 18, 2006.
259. IRMO, Vetting comments to SIGIR, received on July 20, 2006.
260. GRD-PCO, Vetting comments to SIGIR, received on July 18, 2006.
261. GRD-PCO, SIGIR Data Request sent by DoS, Excel spreadsheet. Received via email June 19, 2006.
262. GRD-PCO, Vetting comments to SIGIR, received on July 18, 2006.
263. Project Contracting Office, *Facilities and Transportation Summary*, email to SIGIR on March 24, 2006, p. 8.
264. GRD-PCO, SIGIR Data Request sent by DoS, Excel spreadsheet. Received via email March 29, 2006.
265. GRD-PCO, “Response to SIGIR request dated February 25, 2006,” March 29, 2006, p. 8.
266. Department of State, email to SIGIR, March 31, 2006.

## ENDNOTES

267. Department of State, email to SIGIR, July 12, 2006.
268. USAID, Vetting comments to SIGIR, received on July 18, 2006.
269. Department of State, *Section 2207 Report*, July 2006, p. I-89.
270. GRD-PCO, Vetting comments to SIGIR, received on July 18, 2006.
271. GRD-PCO, SIGIR Data Request sent by DoS, Excel spreadsheet. Received via email June 19, 2006.
272. Department of State, *Section 2207 Report*, July 2006, p. I-89.
273. GRD-PCO, Vetting comments to SIGIR, received on July 18, 2006.
274. IRMO, Vetting comments to SIGIR, received on July 20, 2006.
275. USAID, Completed Projects: Telecommunications, December 29, 2005. Available online at <http://www1.usaid.gov/iraq/accomplishments/telecom.html>.
276. Economist Intelligence Unit, Country Profile 2005 – Iraq, 2005, pp. 34-35.
277. IRMO, Information Memorandum from Acting IRMO Director to Deputy Chief of Mission, April 19, 2006.
278. Department of State, email to SIGIR, July 12, 2006.
279. IRMO, Weekly Status Report, June 27, 2006, p. 18.
280. Department of State, *Section 2207 Report – Selected Metrics*, July 2006, p. 15.
281. Department of State, Travel Warning – Iraq, December 29, 2005. Available online at [http://travel.state.gov/travel/cis\\_pa\\_tw/tw/tw\\_921.html](http://travel.state.gov/travel/cis_pa_tw/tw/tw_921.html)
282. IRMO, Vetting comments to SIGIR, received on July 20, 2006.
283. “Methodologies for Reporting Cost-to-Complete Estimates,” (SIGIR-05-027), January 27, 2006.
284. Embassy of Japan, email to SIGIR, July 14, 2006.
285. Embassy of United Kingdom, email to SIGIR, July 19, 2006
286. Available online at <http://ec.europa.eu>.
287. SIGIR discussion with World Bank Water and Environmental Sector Manager, June 21, 2006.
288. Available online at <http://www.irffi.org>.
289. SIGIR discussion with UN official; Amman, Jordan, May 24, 2006.
290. SIGIR discussion with senior UNDP official, May 24, 2006.
291. UNDG Iraq Trust Fund Newsletter, June 2006, p. 1.
292. Available online at <http://www.irffi.org>.
293. Available online at <http://www.imf.org>
294. “Managing Sustainment for Iraq Relief and Reconstruction Fund Programs,” SIGIR-05-022, October 24, 2005.
295. 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.



296. P.L. 108-11, Emergency Wartime Supplemental Appropriations Act, 2003; and P.L. 108-106, Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004.
297. This included about \$300 million from P.L. 109-13, Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005.
298. Under the Federal Acquisition Regulation (FAR) section 16.603, a “letter contract” is written as a preliminary contractual instrument that authorizes the contractor to immediately begin manufacturing supplies or performing services.
299. Defense Federal Acquisition Regulation Supplement (DFARS), Subpart 217.7401(d).
300. DFARS, Subpart 217.7403.
301. IRRF includes \$52.3 million from the FY 2003 appropriation (IRRF 1) and \$129.5 million from the FY 2004 appropriation (IRRF 2).
302. Transparency International is a recognized international source of the measurement of corruption by country.
303. SIGIR attends these meetings as an observer.
304. CPA Memorandum 17, “Registration Requirements for Private Security Companies,” June 26, 2004.
305. Conversion rate as of May 28, 2006 (305,575,000 ID X \$0.0006803 U.S. dollar)
306. The three bills consisted of one 5,000 ID note, one 10,000 ID note, and one 25,000 ID note.
307. SIGIR-06-011, “Management of the Primary Healthcare Centers Construction Projects,” April 29, 2006.
308. SIGIR-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,” April 4, 2006.
309. *Section 2207* of P.L. 108-106 requires a quarterly report to the House and Senate Committees on Appropriations on the use of all IRRF funds on a project-by-project basis. The required information is included in the DoS *Section 2207 Report* and an accompanying Project Assessment Report.
310. USAID Cost-to-Complete report, May 15, 2006.
311. This assessment was originally announced as an assessment of the Kirkuk-to-Baiji Pipeline Project. However, SIGIR learned that the pipeline project was intended only from Kirkuk to Al Fatah, approximately 10 km northwest of Baiji. Therefore, SIGIR modified the scope accordingly.
312. The State Company for Construction Projects is the Iraqi Ministry of Oil in-house design and construction firm.
313. This was how revenue was calculated: the 50-km pipeline project was to be completed by March 31, 2004, adding an additional 300,000 bpd. SIGIR multiplied the 821 days since the completion date passed by 300,000 bpd, which equals 246,300,000 barrels of oil. SIGIR multiplied the number of barrels of oil not produced by an estimated average cost of \$60 per barrel from April 2004 to the present.
314. SIGIR redesignated the investigative status of five additional cases.
315. IIGC members: SIGIR (Chair), DoS IG (Co-Vice Chair), DoD IG (Co-Vice Chair), Army IG, USAID IG, Treasury IG, DoC IG, DCAA, USAAA, GAO (observer member), USACE Chief Audit Executive (observer member).



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## ACRONYMS AND DEFINITIONS

This section contains all of the abbreviations and acronyms found in the SIGIR Quarterly Report to the Congress.

ACRONYMS	DEFINITIONS
A/LM/AQM	Office of Logistics Management, Office of Acquisitions Management
ABOT	Al Basrah Oil Terminal
ACWG	Anti-corruption Working Group
ADA	Antideficiency Act
AFRN	Advanced First Responder Network
ARDI	Agricultural Reconstruction and Development Program for Iraq
ASRB	Accounting Standards Review Board
ASP	Ammunition Supply Point
ATF	Bureau of Alcohol, Tobacco, Firearms, and Explosives
ATO	Administrative Task Order
BIA	Basrah International Airport
BIAP	Baghdad International Airport
BPD	Barrels Per Day
BSA	Board of Supreme Audit
CAG	Community Action Group
CAP	Community Action Program
CAP-IG	Combined Action Program-Inspector General
CCCI	Central Criminal Courts Iraq
CEFMS	Corps of Engineers Financial Management System
CENTCOM	United States Central Command
CERP	Commander's Emergency Response Program
CFAR	Contingency Federal Acquisition Regulation
CFN	Consolidated Fiber Network
CHRRP	Commanders Humanitarian Relief and Reconstruction Program
CN	Congressional Notifications
CPA	Coalition Provisional Authority

# ACRONYMS & DEFINITIONS

ACRONYMS	DEFINITIONS
CPA-IG	Coalition Provisional Authority-Inspector General
CPA-OPS	Coalition Provisional Authority-Operations
CPA-PMO	Coalition Provisional Authority-Program Management Office
CPA-SC	Coalition Provisional Authority-South Central
CPATT	Civilian Police Assistance Training Team
CPI	Commission on Public Integrity
CPS	Cluster Pump Station
CQC	Contractor's Quality Control
CRS	Congressional Research Service
CTC	Cost To Complete
DAD	Donor Assistance Database
DBA	Defense Base Act
DCAA	Defense Contract Audit Agency
DCIS	Defense Criminal Investigative Service
DFARS	Defense Federal Acquisition Regulation Supplement
DFAS	Defense Finance & Accounting Service
DFI	Development Fund for Iraq
DFID	Department for International Development
DHS	Department of Homeland Security
DIILS	Defense Institute of International Legal Studies
DLA	Division Level Agents
DoC	Department of Commerce
DoD	Department of Defense
DoD OIG	Department of Defense Office of Inspector General
DoL	Department of Labor
DoJ	Department of Justice
DoS	Department of State
DoS OIG	Department of State Office of Inspector General
DoSAR	Department of State Acquisition Regulation
DoT	Department of Transportation
DRL	Bureau of Democracy, Human Rights, and Labor
DRSO	Defense Reconstruction Support Office
EAC	Estimate At Completion
EC	European Commission
ECHO	European Community Humanitarian Office
ECON	Department of State, U.S. Mission Iraq, Economic Affairs
EG	Economic Governance
EMAT	Electricity Ministerial Advisory Team

ACRONYMS	DEFINITIONS
EP	Engineering and Procurement
EPC	Engineering, Procurement, and Construction
EPCA	Emergency Post-Conflict Assistance
EPSS	Electrical Power Security Service
ESF	Emergency Support Funds
FAR	Federal Acquisition Regulation
FARs	Federal Acquisition Regulations
FBI	Federal Bureau of Investigation
FOIA	Freedom of Information Act
FSSC	Focused Stabilization of Strategic Cities
GAO	Government Accountability Office
GDP	Gross Domestic Product
GOSP	Gas-Oil Separation Plant
GRD	Gulf Region Division
GRD-PCO	Gulf Region Division and Project and Contracting Office
GRS	Gulf Region South
GSM	Global System for Mobil Communications
GWOT	Global War On Terrorism
HDD	Horizontal Directional Drilling
HFO	Heavy Fuel Oil
HHS	Department of Health and Human Services
HOPE	Health Opportunities for People Everywhere
HVAC	Heating, Ventilation, and Air Conditioning
IAF	Iraqi Armed Forces
IAMB	International Advisory and Monitoring Board
IASD	Iraq Association of Securities Dealers
IAWG	Iraq Accountability Working Group
IBRD	International Bank for Reconstruction and Development
ICBG	Iraq Company for Bank Guarantees
ICS	Iraqi Corrections Service
ICSP	Iraq Civil Society Program
IDA	International Development Association
IED	Improvised Explosive Device
IFC	Iraq Freedom Congress
IFF	Iraq Freedom Fund
IG	Inspector General
IHG	Iraqi Highway Patrol
IIG	Iraqi Interim Government
IIGC	Iraq Inspectors General Council

# ACRONYMS & DEFINITIONS

ACRONYMS	DEFINITIONS
IIMS	Iraq Infrastructure Management System
IMF	International Monetary Fund
INL	Bureau of International Narcotics and Law Enforcement Bureau
IPOG	Iraq Policy and Operations Group
IRFFI	International Reconstruction Fund Facility for Iraq
IRG	International Resources Group
IRMO	Iraq Reconstruction Management Office
IRMS	Iraq Reconstruction Management System
IRR	Iraqi Republic Railway
IRRF	Iraq Relief and Reconstruction Fund
IRRF 1	Iraq Relief and Reconstruction Fund-\$2.4B IRRF set up in P.L. 108-11
IRRF 2	Iraq Relief and Reconstruction Fund-funded with \$18.6B (\$18.4B after subtracting \$210M fund assistance for Jordan, Liberia, and Sudan) in P.L. 108-106
ISC	Iraq Securities Commission
ISF	Iraqi Security Force
ISFF	Iraq Security Forces Fund
ISSF	Iraq Security and Stabilization Fund
ISRB	Iraqi Strategic Review Board
ISX	Iraq Stock Exchange
IT	Information Technology
ITG	Iraqi Transitional Government
ITP	Iraq-Turkey Pipeline
ITPC	Iraqi Telephone and Post Company
ITWG	Information Technology Working Group
JASG-C	Joint Area Support Group-Central
JCC-I/A	Joint Contracting Command-Iraq/Afghanistan
JIPTC	Jordan-Iraq Police Training Center
KBR	Kellogg Brown & Root, Inc.
kV	Kilovolt
LGP	Local Governance Programs
LOGCAP	Logistics Civilian Augmentation Program
LTC	Lieutenant Colonel
MANPADS	Man-Portable Air Defense System
MIPR	Military Inter-departmental Purchase Request
MMPW	Ministry of Municipality and Public Works
MMR	Measles, Mumps, and Rubella
MNF-I	Multi-National Force-Iraq
MNSTC-I	Multi-National Security Transition Command-Iraq



ACRONYMS	DEFINITIONS
MPFU	Major Procurement Fraud Unit
MSCFD	Million Standard Cubic Feet Per Day
MV	Medium Voltage
NAVAIDS	Navigational Aids
NCD	National Capacity Development
NCDP	National Capacity Development Program
NCMC	National Communications and Media Commission
NDI	National Democratic Institute
NDS	National Development Strategy
NGA	National Geospatial-Intelligence Agency
NGIC	National Ground Intelligence Center
NGL/LPG	Natural Gas Liquids/Liquefied Petroleum Gas
NGO	Non-Governmental Organizations
NRRRF	Natural Resources Risk Remediation Fund
O&M	Operations & Maintenance
OBO	Bureau of Overseas Buildings Operations
OEF	Operation Enduring Freedom
OFF	Oil For Food
OIF	Operation Iraqi Freedom
OIG	Office of Inspector General
OMA	Operations and Maintenance, Army
OMB	Office of Management and Budget
OPF	Oil Protection Force
OPSD	Office of Private Sector Development
OTA	Office of Technology Assessment
P.L.	Public Law
P.L. 108-106	As amended by P.L. 108-375, mandates the independent and objective conduct and supervision of audits relating to the programs and operations funded with amounts appropriated or otherwise made available to the Iraq Relief and Reconstruction Fund
P.L. 108-11	First \$74 B appropriation measure that included the \$2.475 B Iraq Relief and Reconstruction Fund
P.L. 108-287	Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, that the sums are appropriated, out of any money in the Treasury not otherwise appropriated, for the fiscal year ending September 30, 2005, for military functions administered by the Department of Defense.
P.L. 108-375	The Ronald W. Reagan National Defense Authorization Act for FY 2005, enacted on October 29, 2004
P.L. 109-13	This law provides emergency supplemental appropriations for the fiscal year ending September 30, 2005 for defense, the global war on terror, and tsunami relief

# ACRONYMS & DEFINITIONS

ACRONYMS	DEFINITIONS
P.L. 109-148	H.R. 2863 appropriates funds in Fiscal Year 2006 for the Department of Defense; directs the Secretary of the Interior to implement an oil and gas leasing program for the coastal plain of the Arctic National Wildlife Refuge (ANWR); makes payments to Alaska; funds the Gulf Coast Recovery and Disaster Prevention Assistance Fund; appropriates funds for the Low-Income Home Energy Assistance Program; appropriates funds for agricultural and wildlife conservation and various activities of the Department of Homeland Security; and prohibits suits under federal and state law against manufacturers and health care workers for injuries caused by certain medical products used to counter pandemic influenza, other epidemics, and diseases caused by bioterrorism.
P.L. 109-234	H.R. 4939 makes emergency supplemental appropriations for the Department of Agriculture, the Department of Justice, the Department of State and related agencies, the Department of Defense, USAID, the Department of Homeland Security, and the Department of the Treasury. H.R. 4939 also spends money on further hurricane disaster relief and recovery, emergency agricultural disaster assistance, drought emergency assistance, port security enhancements, pandemic flu preparation, border security, the U.S. Capitol power plant. H.R. 4939 amends various laws and programs, as well
PAR	Project Assessment Report
PCO	Project and Contracting Office
PHC	Primary Health Care
PIF	Project Identification Form
PIJV	Parsons Iraq Joint Venture
PMO	Program Management Office
PPA	Project Partnership Agreements
PRDC	Provincial Reconstruction Development Committees
PRT	Provincial Reconstruction Teams
QA	Quality Assurance
QC	Quality Control
QM	Quality Management
QRF	Quick Response Fund
R3P	Rapid Regional Response Program
REA	Request for Equitable Adjustment
RIE	Restore Iraqi Electricity
RIO	Restore Iraqi Oil
RISE	Revitalization of Iraq Schools and Stabilization of Education
RRRP	Rapid Regional Response Program
SBA	Stand-By Arrangement
SCIS	State Company for Internet Services
SCRB	State Commission on Roads and Bridges
SDR	Special Drawing Rights
SIB	Strategic Infrastructure Battalion
SIGIR	Special Inspector General for Iraq Reconstruction
SIRIS	SIGIR Iraq Reconstruction Information System
SOW	Statement of Work

ACRONYMS	DEFINITIONS
SPITFIRE	Special Investigative Task Force for Iraq Reconstruction
SSAA	System Security Authorization Agreement
T&C	Transportation and Communications
TDY	Temporary Duty
TPD	Tons Per Day
TRA	Transition Readiness Assessment
Treasury	United States Department of the Treasury
UK	United Kingdom
UN	United Nations
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
UNICEF	United Nation Children's Emergency Fund
UNOPS	United Nations Office for Project Services
UNSCR	United Nations Security Council Resolution
USAAA	United States Army Audit Agency
USACE	United States Army Corps of Engineers
USACE-SWD	United States Army Corps of Engineers- Southwestern Division
USACIDC	United States Army Criminal Investigation Command
USAID	United States Agency for International Development
USAID OIG	United States Agency for International Development Office of the Inspector General
USDA	United States Department of Agriculture
USTDA	United States Trade and Development Agency
U.S. Embassy-Baghdad	United States Embassy in Baghdad
U.S. Mission-Iraq	U.S. Mission-Iraq assumed authority after the Coalition Provisional Authority transferred governance authority to the Iraqi Governing Council on June 30, 2004.
USIP	United States Institute of Peace
VISAIDS	Visual Aids
WBIF	World Bank Iraq Trust Fund
WSSP	Water Sector Sustainment Program