

## Message from the Inspector General the Coalition Provisional Authority

I am pleased to submit to the Congress the Quarterly Report of the Office of the Inspector General, Coalition Provisional Authority (CPA-IG). This Report complies with the reporting requirements of Public Law 108-106.

This is our third Report since the CPA-IG was established to provide oversight of the programs and operations of the Coalition Provisional Authority. This Report documents our progress since the last Report and updates the status of reconstruction efforts with information from engaged U.S. government entities. In this reporting period, the appropriated Iraq Relief and Reconstruction Fund (IRRF) obligations to projects have grown from 30.6% to 40.7%; expenditures have grown from 2.1% to 7.1%.

Since my appointment in January 2004, the CPA-IG has produced 13 final audit reports, with 10 more in development. Our investigators have opened more than 100 cases to date, and one third of these were opened during this reporting period. In the current Report, we present fewer results from the work of our auditors and investigators. Despite their considerable efforts, most of the work has not been finalized as this Report goes to press.

Our team in Baghdad works diligently alongside Coalition partners in the demanding and frequently dangerous conditions that have challenged the pace of reconstruction. While this environment has constrained our productivity, our capabilities were also hindered by the uncertainty about our organization's future.

Under P.L. 108-106, CPA-IG would cease operations on December 28, 2004, six months after the dissolution of the Coalition Provisional Authority. In an effort to retain the specialized oversight capabilities that had been developed and deployed by this office, legislators introduced two bills to extend our mission. The various inspectors general associated with Iraq reconstruction also developed options to maintain our capabilities, in the absence of new legislation.

While decisions on the future of this organization were pending, we entered into a period of frequent farewell ceremonies. Many of our staff, on loan as six-month detailees, who had been serving chiefly as auditors and investigators, returned to their federal agencies. With no assurance that we would be operating at the end of the year, we had difficulty attracting new staff. Our audit staff, for example, declined by 42% during this period.

The uncertainty over our future appears to have been resolved. In October, Congress passed the National Defense Authorization Act of 2005. It includes amendments to P.L. 108-106 that would extend our mission as the Office of the Special Inspector General for Iraq Reconstruction (SIGIR). As this is written, the legislation is awaiting the signature of the President.

The enactment of a new law would enable us to begin building and extending our capabilities to provide continued oversight as the Iraq Relief and Reconstruction Fund is obligated and expended for the benefit of the Iraqi people.

Submitted on October 30, 2004.

A handwritten signature in black ink, reading "Stuart W. Bowen". The signature is written in a cursive style with a large initial 'S' and 'B'.

Stuart W. Bowen  
Inspector General

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# 1. Executive Summary

## Overview

In November 2003, Public Law 108-106 created the Coalition Provisional Authority Inspector General (CPA-IG) to provide oversight of the CPA. Under this law, the CPA-IG worked to promote the efficient, legal, and effective use of billions of dollars of U.S. appropriated and other funds committed to Iraq relief and reconstruction by coordinating and conducting investigations and audits of the reconstruction effort. This is the third Quarterly Report by the CPA-IG on Iraq reconstruction. This Report was submitted to Congress on October 30, 2004, in accordance with Public Law 108-106.

Since beginning operations in late January 2004, the CPA-IG has focused its resources on high-value oversight issues to improve the Iraq reconstruction process. As of October 21, 2004, the CPA-IG was operating with 83 staff and contractors—28 in Baghdad and 55 in Washington, D.C. The CPA-IG has:

- initiated 23 audits and completed 13 final reports on the CPA's financial management, procurement practices, and management controls
- managed or coordinated 113 criminal investigations: 75 have been closed or referred to other U.S. agencies, and 38 remain open
- opened case files on 272 Hotline contacts received by e-mail, telephone, and walk-in, of which 178 were received in the United States and 94 in Iraq

During this quarterly reporting period, the CPA-IG has:

- completed two audits, discontinued three audits, and continued work on ten audits
- closed or referred 31 cases for investigation, and opened 39 new cases
- received and processed 50 Hotline contacts in the United States and in Iraq
- launched two new initiatives: the Iraq Accountability Working Group in Baghdad and Lessons Learned / High-Risk Factors
- continued three initiatives: Iraq Inspectors General Council, Security and Insurance, and Corporate Governance

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## CPA-IG Status

On October 9, 2004, the Congress passed the National Defense Authorization Act of 2005 (H.R. 4200), which included a provision to re-designate the CPA-IG as the Special Inspector General for Iraq Reconstruction (SIGIR). When this Quarterly Report was delivered for printing, H.R. 4200 was awaiting Presidential action.

Since the dissolution of the CPA on June 28, 2004, the CPA-IG operated with a Memorandum of Agreement (MOA) among the Inspectors General of the CPA, Department of State, U.S. Agency for International Development, and Department of Defense (See Appendix C). Coordinated by the Office of Management and Budget and signed on June 25, 2004, this MOA was designed to delineate the oversight of reconstruction activities in Iraq until CPA-IG authorities were clarified, either by legislation or by administrative action.

If enacted by the President, H.R. 4200 will supersede the MOA and continue the CPA-IG mission, powers, and authorities as the SIGIR until 10 months after 80% of the Iraq Relief and Reconstruction Fund 2 (IRRF 2) has been obligated. Based on current projections, the CPA-IG expects that 80% of the IRRF 2 will be obligated by December 2005. Therefore, the SIGIR would operate until approximately October 2006.

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## Meeting the CPA-IG Mission

The CPA-IG has established an active and significant presence in Baghdad and Washington, D.C., designed to deter fraud, waste, and abuse in the oversight of Iraq reconstruction. During its start-up phase, the CPA-IG coordinated with other inspectors general and audit agencies to develop timely and accurate information and recommendations on Iraq reconstruction.

CPA-IG organizational milestones to date include:

- issuing a comprehensive Report to Congress on the start-up of the CPA-IG, CPA activities, and Iraq reconstruction financial data within 45 days of becoming operational
- transitioning its oversight structure effectively and intact after the June 28, 2004 transfer of sovereignty to the Iraqi Interim Government, by coordinating with its supporting organizations and the Departments of State and Defense

- completing 13 audits within six months, covering a broad range of CPA operational activities, with 80% of the recommendations adopted by management
- passage of the National Defense Authorization Act of 2005, which included an amendment renaming the CPA-IG as the SIGIR and extending its powers, authorities, and responsibilities

During this reporting period, the CPA-IG continued its oversight work in the face of a reduction in staff that resulted from uncertainty over the organization's future.

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## Findings and Results

Since the July 30, 2004 Report, CPA-IG audits identified significant issues related to CPA procurement processes, program and financial management, and managerial controls, while recognizing the challenges that make these efforts difficult. Iraq is largely a cash-based economy, and daily life there remains volatile and hazardous.

Of the criminal investigations the CPA-IG has handled during this reporting quarter, most have related to alleged fraud, waste, and abuse, while 40% of the cases involved reprisals, theft, and other matters. Some of the results of CPA-IG audits and investigations during this reporting quarter include:

- The CPA-IG reviewed the accountability and control of materiel assets of the CPA in Kuwait. The audit used a stratified, statistical sampling plan to test property records maintained by Kellogg Brown & Root for the CPA. Based on the results of the examination of property items randomly selected from an inventory of 3,032 items valued at \$3.7 million, the CPA-IG projected that 1,297 items valued \$1.1 million could not be accounted for or were missing.
- The CPA and the Project and Contracting Office had adequate procedures to ensure that the proposed uses of appropriated funds for its operations were reasonable and supportable, and that those funds were approved for the purposes specified in Public Law 108-106.
- The CPA-IG provided coordination of a case in which an Iraqi official was suspected of embezzling \$500,000 from the Local Governance Fund (LGF) Program, which is part of the Development Fund for Iraq (DFI). The investigation determined that of the funds in question, \$70,000 was used to fund legitimate projects. The remaining \$430,000 is now under proper control.

- A complainant alleged that Iraqi construction companies improperly removed construction equipment and materials owned by the Iraqi Interim Government and that U.S. military personnel helped remove the materials and accepted payment for their assistance. The CPA-IG referred the case against the Iraqi companies to the Ministry's Inspector General and referred evidence against the U.S. military personnel to the Inspector General of the Multi-National Corps-Iraq. The Ministry recovered some of the equipment.
- A complainant employed by a U.S. contracting firm alleged that Iraqi police officers and other Iraqi citizens were involved in criminal activity and had threatened an Iraqi citizen working for the U.S. contractor. The intervention and referral of the CPA-IG led to the arrest of five Iraqi citizens, including two police officers, by the Central Criminal Court of Iraq. They have been charged with robbery.

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## Status of Iraq Reconstruction Funding

As of September 30, 2004, \$55.3 billion from U.S. appropriated funds, Iraqi funds, and funds contributed by donor nations had been provided Iraq relief and reconstruction. Of the total \$24.1 billion in U.S. appropriated funds, \$13.1 billion had been obligated and \$5.2 billion had been expended. The Iraqi funds had totaled \$28.4 billion. Contributions and firm commitments by donor countries and international organizations had reached \$2.7 billion: \$849 million in humanitarian aid, \$427 million in direct bilateral aid, \$435 million in International Monetary Fund Assistance, and \$1.04 billion in Iraqi Reconstruction Fund Facility for Iraq commitments.

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## Report Objectives

This is the third required CPA-IG Quarterly Report to Congress. In April 2004, after proper notification, the CPA-IG moved the Quarterly Report's filing date back by 30 days to synchronize with the quarterly Section 2207 reports on Iraq funding progress issued by the Department of State. This CPA-IG Report fulfills the requirements of Section 3001, Public Law 108-106, for quarterly reporting to Congress. With the termination of the CPA, this Report has been provided to the Secretary of State and the Secretary of Defense, whom the President directed to assume the authorities and responsibilities of the CPA after its termination<sup>1</sup>.



This Report reviews the accomplishments of the CPA-IG in this reporting quarter, including:

- a summary of CPA-IG activities (Chapter 2)
- a presentation of audits (Chapter 3)
- an overview of selected investigations and referrals (Chapter 4)
- updates on the five major CPA-IG initiatives: the Iraq Inspectors General Council, Iraq Accountability Working Group, Lessons Learned / High-Risk Factors, Corporate Governance, and Insurance and Security (Chapter 5)
- highlights of Iraq reconstruction activity (Chapter 6)
- a detailed summary of data on Iraq funding status collected and analyzed by the CPA-IG, including sources and uses of funds (Chapter 7)
- key information on major Iraq reconstruction contracts (Chapter 8)



## 2. Coalition Provisional Authority Inspector General Activities

### Overview

Public Law 108-106 (P.L. 108-106) established the Coalition Provisional Authority Inspector General (CPA-IG) to provide independent, objective oversight of the programs and operations of the Coalition Provisional Authority (CPA).

P.L. 108-106 requires the CPA-IG to provide Congress with Quarterly Reports that include summaries of the activities of the CPA-IG. Appendix A cross-references the pages of this report to the reporting requirements under P.L. 108-106. Most of the CPA-IG's activities this past quarter focused on audits, investigations, and CPA-IG initiatives. The following chapters provide details on these activities:

- **Chapter 3 - Audits:** summary of audits completed, discontinued, current and future audits, and audits by other agencies
- **Chapter 4 - Investigations:** summary of investigations, coordination with other federal agencies, and Hotline activity
- **Chapter 5 - Coalition Provisional Authority Inspector General Initiatives:** summary of CPA-IG initiatives
- **Chapter 6 - Iraq Reconstruction Activities:** summary of Iraq reconstruction activities
- **Chapter 7 - Sources and Uses of Funding:** analysis of financial information about the sources and uses of funds for the reconstruction of Iraq
- **Chapter 8 - Contracts:** data and analysis on Iraq reconstruction contracting activities

From June 25, 2004, the CPA-IG has operated under a Memorandum of Agreement (MOA) signed by the Inspectors General of the CPA, Department of State (DoS), Department of Defense (DoD), and U.S. Agency for International Development (USAID) (See Appendix B). Coordinated by the Office of Management and Budget, this MOA was designed to continue oversight of reconstruction activities in Iraq, pending congressional action.

The National Defense Authorization Act of 2005 (H.R. 4200), passed by Congress on October 9, 2004, awaiting the President's signature, would redesignate the office

as the Special Inspector General for Iraq Reconstruction (SIGIR) and extend its authorities.

Under this legislation, the organization's mission would be refocused on the oversight of the programs and operations funded by the Iraq Relief and Reconstruction Fund (IRRF). With the passage of H.R. 4200, the organization would have the ability to refine long-term plans to provide for accountability and oversight of Iraq relief and reconstruction activities.

In the absence of legislation, the DoD and DoS had developed administrative measures intended to continue the CPA-IG mission and ensure continued oversight of reconstruction activities.

### *Congressional Action*

On October 9, 2004, Congress passed H.R. 4200, which included language in Section 1059 B that amends P.L. 108-106 to do the following:

- Redesignate the CPA-IG as the SIGIR.
- Authorize the continuation in office of the current Inspector General.
- Clarify the focus of the mission from programs and operations of the CPA to oversight of the Iraq Relief and Reconstruction Fund (IRRF).
- Reinforce authorities for investigations and law enforcement matters.
- Report directly to, and be under the general supervision of, the Secretary of State and the Secretary of Defense.
- Revise due dates for reports to 30 days after the end of the fiscal quarter (in line with the current reporting schedule).
- Retain reporting responsibility for all obligations, expenditures, and revenues associated with reconstruction and rehabilitation activities in Iraq.
- Set the termination of SIGIR to ten months after the date on which 80% of the IRRF has been obligated.

As of September 30, 2004, 40.6% of the IRRF had been obligated. Based on the current projections of the PCO, the CPA-IG expects that 80% of the IRRF would be obligated by December 2005.

## *Statutory Duties*

P.L. 108-106 and the Inspector General Act of 1978 outline these duties for the CPA-IG:

- Provide for the independent and objective conduct and supervision of audits and investigations.
- Provide for the independent and objective leadership and coordination of, and recommendations on, policies designed to promote economy, efficiency, and effectiveness in the management of Iraq reconstruction programs and operations.
- Prevent and detect fraud, waste, and abuse.
- Review existing and proposed legislation and regulations and make appropriate recommendations.
- Maintain effective working relationships with other federal, state, and local governmental agencies, and non-governmental entities regarding the mandated duties of the Inspector General.
- Inform the Secretaries of State and Defense, and the Congress, of significant problems, abuses, and deficiencies and follow the progress of corrective actions and implementation measures.
- Comply with the audit standards of the Comptroller General and avoid duplication of Government Accountability Office activities.
- Report violations of law to the U.S. Attorney General and report on the prosecutions and convictions that have resulted.
- Maintain records for multiple purposes, including the use of funds for the reconstruction of Iraq to facilitate future audits and investigations.
- Submit reports (Quarterly and Semi-Annual).

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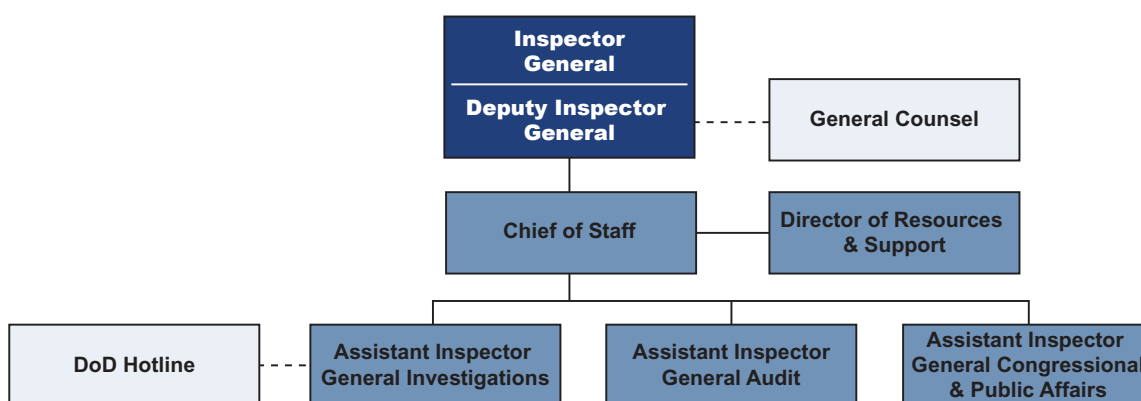
## **CPA-IG Organization**

The CPA-IG office became operational on January 21, 2004, with a staff of two. As of October 21, 2004, the organization comprises 28 staff and contractors in Baghdad and 55 staff and contractors in Washington, D.C. The CPA-IG organizational chart is shown in Figure 1.

Building on six months of experience, the CPA-IG has evaluated its current business structure to identify areas that could be more effectively managed. As a result, the CPA-IG reorganized in these ways:

- *Hotline:* To achieve economies of scale and streamline Hotline capabilities, the CPA-IG and DoD Hotlines were colocated and now are jointly operated by the DoD IG. The CPA-IG staff members who had operated the CPA-IG Hotline and performed administrative investigative functions are now colocated within the DoD IG Hotline Division. DoD IG Hotline Division will refer Iraqi reconstruction investigative issues and report Hotline monthly statistics to the CPA-IG.
- *Inspections:* With the transition of Iraq reconstruction oversight from the CPA to the DoS, the CPA-IG ceded the inspections to the DoS Inspector General. The CPA-IG will continue to coordinate closely with the Inspectors General of USAID, DoS, and DoD on inspections.

### CPA-IG Organizational Chart, as of October 12, 2004



**Figure 1**

### *Website (www.cpa-ig.org)*

The CPA-IG website continues to provide stakeholders and the public with all of the CPA-IG's reports (congressional reports are also available in Arabic). The website also provides information on the CPA-IG mission, as well as forms and contact information for reporting fraud, waste, and abuse.

Since April 2004, the CPA-IG website has received over 202,000 hits:

- CPA-IG reports have received more than 12,800 hits.
- CPA-IG audits have received 7,253 hits since July 4, 2004, when the first completed audits were posted.

Maintained by the Defense Technical Information Center, the website is available at <http://www.cpa-ig.org>.

## 3. Audits

### Overview

Public Law 108-106 mandates the independent and objective conduct of audits relating to the programs and operation of the Coalition Provisional Authority (CPA). To meet that mandate, the Coalition Provisional Authority Inspector General (CPA-IG) established a staff of auditors through detailees from the Department of Defense Office of Inspector General (DoD OIG), the Department of State Office of Inspector General (DoS OIG), the U.S. Army Audit Agency (USAAA), the Naval Audit Service, and the U.S. Air Force Audit Agency.

In March 2004, the CPA-IG deployed 12 auditors to Iraq to establish the Baghdad office and to develop an audit plan. Since the July 30, 2004 Report, the CPA-IG has issued two final reports of audits addressing property management and funds control. The CPA-IG has ten audits ongoing. All of the audit work is performed under generally accepted government auditing standards prescribed by the Comptroller General of the United States.

As of October 21, 2004, the CPA-IG had 18 auditors on staff—16 in Baghdad and 2 in Washington, D.C. The audit staff has worked diligently to conduct audits and to issue reports that address Iraq reconstruction programs and operations that were the responsibility of the CPA.

### Completed Audits

This section outlines the audits that were completed in the quarter following the July 30, 2004 CPA-IG report.

#### **Coalition Provisional Authority Control of Appropriated Funds**

Audit No. 05-001, Issued October 22, 2004

*The objective of the audit was to examine whether processes used to identify, review, and validate requirements were reasonable and supportable.*

The CPA and Project and Contracting Office (PCO) both had adequate procedures to identify, review, and validate the proposed uses of appropriated funds for its operational requirements. Those funds were approved for the purposes intended in Public Law 108-106.

Therefore, the CPA-IG concluded that adequate accountability controls were in place to ensure that appropriated funds were approved for the intended purpose specified in the “Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004.”

*Management agreed with the conclusions presented in the report. The report makes no recommendations.*

### **Audit of Accountability and Control of Materiel Assets of the Coalition Provisional Authority in Kuwait**

Audit No. 05-002, Issued October 25, 2004

*The objective of the audit was to evaluate the effectiveness of policies, procedures, and property accountability measures used to account for and control materiel at CPA branch offices, headquarters, and warehouse locations.*

This audit used a single-stage, stratified sampling design to select 90 sample items from an inventory of 3,032 items valued at \$3.7 million. The examination of the 90 randomly selected property records disclosed that 30 property items could not be accounted for by Kellogg Brown and Root, Inc. (KBR), or were missing.

Based on the results of the statistical sampling, the CPA-IG projected that 1,297 property items (42.8%) from an inventory of 3,032 items could not be accounted for or were missing. Further, the CPA-IG projected that 108 property items (3.6%) were on-hand but were not recorded with hand receipts. In addition, it was projected that 401 hand receipts (13.2%) were not on file or had not been prepared. This occurred because KBR did not effectively manage government property: specifically, KBR did not properly control CPA property items. Further, the KBR property records were not sufficiently accurate or available to properly account for CPA property items. As a result, the CPA-IG projected that property valued at more than \$1.1 million was not accurately accounted for or was missing.

*The Defense Contract Management Agency (DCMA) did not concur with the first recommendation to reevaluate the contractor’s property control system and, if necessary, identify corrective actions to ensure the accuracy and effectiveness of the system. The DCMA stated that the inventoried audit sample of CPA property used as the basis of the audit’s conclusions was not representative of the population.*

*The DCMA did not concur with the second recommendation to ensure that an accurate property control system analysis is performed after any ongoing corrective actions are completed. The DCMA stated that the contractor has put an*



*accurate property control system in place that is effective, and an analysis of the system does not need to be performed at this time.*

*The DCMA concurred with the third recommendation to conduct a thorough review of CPA property and seek to recover the cost of missing equipment from the responsible party. The DCMA stated that it had completed this task and was satisfied with the results.*

*Overall, the CPA-IG disagreed with management's comments and conclusions. The audit sampling plan was designed to provide sample results that could be relied on to assess the accuracy and accountability of the universe of CPA accountable property, which is an acceptable audit approach under government auditing standards. The DCMA did not provide any information or documentation that would allow the CPA-IG to determine the validity of the DCMA position or cause the CPA-IG to change its recommendations.*

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## Discontinued Audits

The CPA-IG discontinued several audits:

- The CPA-IG decided to incorporate the subject of one of the discontinued audits into other ongoing audits.
- The CPA-IG decided to terminate one audit and open a new audit to reflect updated audit objectives.
- The CPA-IG terminated one audit because other federal agencies were conducting reviews with similar objectives.

### **Discontinuation of the Assessment of the Timeline for Execution of the \$18.4 Billion Iraq Relief and Reconstruction Fund (IRRF) Appropriated via Public Law 108-106**

(Project No. D2004-DCPAAF-0031)

The CPA-IG has concluded its survey and has terminated this project. The overall objective was to assess the timeline for planning, programming, and executing the IRRF. The CPA-IG found that the information from these sources provided insight into the overall execution of the IRRF:

- the quarterly reports required by Section 2207 of the “Emergency Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004,” prepared by the Office of Management and Budget

- the weekly “Secretary of the Army Updates,” prepared by the Iraq Project and Contracting Office
- the recent DoS assessment into the use of the IRRF resulting from changing circumstances in Iraq

Based on this information, the CPA-IG concluded that assessment of the planning, programming, and execution of the IRRF should be incorporated into other audits that evaluate the management of the contracting process.

### **Discontinuation of the Audit of the Award of Contract Number W911SO-04-C-0003 to Aegis Defense Systems Limited**

(Project No. D2004-DCPAAC-0032)

The overall objective of this audit was to evaluate the award of the contract to Aegis Defense Systems Limited. CPA-IG auditors evaluated the procedures used by the U.S. Army Northern Region Contracting Center in planning the acquisition, selecting the source, and negotiating the contract. The CPA-IG suspended work on this audit after the contract award was protested and the Government Accountability Office (GAO) began evaluating it. As a result of the denial of the protest by GAO, the CPA-IG terminated the audit and initiated a new audit with different objectives—the “Audit of Compliance with Contract No. W911SO-04-C-0003 Awarded to Aegis Defense Systems Limited” (Project No. D2004-DCPAAC-0036). For more information, see Current Audits.

### **Discontinuation of the Review of Insurance and Security for Contractor Employees**

(Project No. D2004-DCPAAC-0135.000)

The CPA-IG has concluded its survey and has terminated the project. The overall audit objective was to review the contractors’ requirement to obtain insurance and provide security for its civilian employees.

During the course of this audit, the GAO began work on a similar review of Defense Base Act (DBA) insurance and security issues associated with Iraq relief and reconstruction. For more information, see the section on Other Agency Audits - GAO. The CPA-IG determined that the GAO review was developing similar information and reporting it in similar ways. The CPA-IG also noted that several federal agencies, contractors, and the insurance industry were taking proactive initiatives to address issues related to DBA insurance.

The CPA-IG intends to revisit this initiative during its planning cycle in November-December to determine whether further review is warranted.

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## Current and Future Audits

This section presents a summary of current and future CPA-IG audits.

### *Current Audits*

As of October 30, 2004, ten CPA-IG audits are in various stages of completion.

#### **CPA Controls over Funds Provided to Interim Iraqi Ministries through the National Budget Process**

(Project No. D2004-DPAAF-0007)

The objective of this audit is to determine whether the CPA established and implemented adequate managerial, financial, and contractual controls over DFI funds that were provided to interim Iraqi ministries through the national budget process.

The fieldwork is complete, and a draft report was provided to management for comments. Subsequently, the CPA-IG conducted additional interviews and meetings to facilitate full management comments on the draft report. A final report is expected to be issued in November.

#### **Audit of U.S. Army Corps of Engineers Indefinite Delivery Indefinite Quantity Contracts Available for Use by the Coalition Provisional Authority for Iraq Relief and Reconstruction**

(Project No. D2004-DPAAC-0012)

This audit will determine:

- whether the U.S. Army Corps of Engineers contracts available for use by the PCO for Iraq reconstruction were awarded with full and open competition
- whether the contracts are reasonable, economical, and efficient
- whether adequate internal controls are in place to ensure compliance with the original intent of the contract and whether task orders conform to the contract statement of work

The fieldwork is complete, and the draft report is in preparation.

**Audit of Task Order 0044 under Contract DAAA09-02-0007 for Logistics Civil Augmentation Program (LOGCAP)**  
(Project No. D2004-DPAAC-0029)

The overall objective is to determine whether CPA management effectively and efficiently managed the Logistics Civil Augmentation Program (LOGCAP) III contract to provide for logistics and life support for personnel assigned to the CPA mission. Specifically, the CPA-IG will determine whether the CPA:

- managed the LOGCAP III, Task Order 0044, contract to ensure required items were properly authorized, performed, and/or received
- established policy to limit contract requirements and costs only to those specifically authorized, to include restricting current requirements only to those necessary for CPA use through June, 30 2004
- efficiently managed the Task Order costs

A final report is expected to be issued in November.

**Administration of Development Fund for Iraq (DFI) Funded Contracts**  
(Project No. D2004-DPAAC-0033)

The overall audit objective is to determine whether the PCO, which replaced the Program Management Office, complied with the Minister of Finance Iraqi Interim Government memorandum, “Administration of Development Fund for Iraq-Funded Contracts,” June 15, 2004. The CPA-IG will determine whether the director of the PCO effectively implemented the responsibilities assigned under the memorandum to:

- monitor and confirm contract performance
- certify and make payments
- administer contracts or grants funded with monies from the DFI

The CPA-IG began this audit on September 6, 2004.

**Cash Controls over Disbursing Officers in Southern Iraq**  
(Project No. D2004-DPAAC-0034)

The overall audit objective is to determine whether disbursing officers in selected locations in southern Iraq complied with applicable guidance and properly controlled and accounted for DFI cash assets and expenditures. The CPA-IG will determine whether fund agents adequately controlled cash assets, fully accounted for cash assets and expenditures, and properly returned cash assets. The CPA-IG

will also determine whether expenditures complied with guidance that specified dollar thresholds and allowable uses. The CPA-IG began this audit on September 6, 2004.

**Audit of Electrical Transmission and Distribution for the Erbil Governorate under Task Order 003 of Contract Number W914NS-04-D-0010**  
(Project No. D2004-DPAAC-0035)

The overall objective of this audit is to determine whether contractors for the Erbil Electrical Transmission and Distribution project are complying with the terms of the Task Order. The CPA-IG will also evaluate the effectiveness of the PCO's monitoring and control. The CPA-IG began this audit on September 26, 2004.

**Audit of Compliance with Contract Number W91S0-04-C-003 Awarded to Aegis Defense Systems Limited**  
(Project No. D2004-DPAAC-0036)

The overall audit objective is to determine whether the contractor is complying with the terms of the contract. The CPA-IG will determine whether the contractor is providing adequate services, valid documentation, and proper invoices as called for in the contract. The CPA-IG began this audit on September 26, 2004.

**Audit of Contract Administration of Iraq Relief and Reconstruction Fund Contracts**  
(Project No. D2004-DPAAC-0037)

The overall objective of this audit is to evaluate whether contracts awarded by the PCO for Iraq relief and reconstruction contain adequately prepared statements of work, clearly negotiated contract terms, and specific contract deliverables. The CPA-IG will also evaluate the PCO's administrative processes and controls related to contract execution, distribution, reporting, and disposition of files. The CPA-IG began this audit on September 26, 2004.

**Assistance to the DoD Office of the Inspector General in their Audit of Contract Surveillance for Service Contracts (Project No. D2004CF-0140)**  
(Project No. D2004-DPAAC-0038)

The DoD Inspector General's overall objective is to determine whether the U.S. government provides sufficient contract oversight for service contracts to ensure that contractors perform in accordance with the contract. The objective is to determine whether:

- personnel have been appointed to monitor contractor performance
- contractor work is adequately monitored
- contractors perform in accordance with contractual obligations
- contractor performance has been properly documented for future use

The audit will also review the management control program as it relates to the overall audit objective.

CPA-IG auditors supported the DoD IG in this audit by performing audit steps on the U.S. Army Corps of Engineers service contracts for collecting ordnance and explosives caches at six sites in Iraq, transporting the caches to demolition sites, and demolishing the caches. CPA-IG auditors have conducted audit work at two ammunition depots captured in Iraq—one near Tikrit (Camp Arlington) and one near Fallujah (Camp Paladin).

#### **Audit of the Commander's Emergency Response Program (CERP)** (Project No. D2005-DPAAC-0001)

The overall objective of this audit is to evaluate the adequacy of controls over the CERP. The audit will determine whether fund allocation procedures were adequate, funds were used for intended purposes, and financial records were accurately maintained and supported. CPA-IG began this audit on October 13, 2004.

#### *Future Audits*

The next phase of CPA-IG audits will continue to focus on the Iraq relief and reconstruction program and will include both the reconstruction and non-reconstruction aspects of the program. The CPA-IG will also conduct audits of selected aspects of contract administration. Other general audit topics have been identified for audits planned to begin in 2005.

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## **Other Agency Audits**

In addition to CPA-IG audits, Iraq Inspectors General Council (IIGC) members have also performed audits. The CPA-IG formed the IIGC to aid in coordinating the oversight of Iraq relief and reconstruction programs. Chapter 5, CPA-IG Initiatives, includes more information about the IIGC. This section outlines the IIGC audit updates with information provided to the CPA-IG by IIGC member agencies.

## *Department of Defense*

The Deputy DoD OIG for Inspections and Policy is about to begin a joint project with the DoS OIG to evaluate all phases of the training effort for Iraqi police forces:

- recruitment, screening, and selecting trainees
- training curriculum
- standardization
- training results and effectiveness
- follow-on aspects

Also, the DoD OIG has two ongoing audits—"Contract Surveillance for Service Contracts" and "Contracts Awarded to Assist the Global War on Terror."

## *Department of State*

The DoS OIG began work relative to Iraq when U.S. Mission Iraq was established on June 28, 2004. The DoS OIG is developing a multi-year work plan and has requested additional resources to carry it out. Two DoS OIG representatives recently returned from Baghdad after 90-day assignments.

Iraq-related DoS OIG work in-progress and planned to begin in early 2005 includes:

- an ongoing review of off-site support for the mission in Iraq
- a joint DoD/DoS OIG assessment of the program to train Iraqi police
- an audit of DynCorp fuel charges related to the police training facilities in Jordan
- an evaluation of life/safety measures at U.S. Mission Iraq

A senior OIG representative will go to Iraq in October to confer with senior embassy management on the priority and feasibility of other OIG work. The following projects have been completed.

### **Completed Audits**

#### **Factsheet on the Iraqi National Congress Support Foundation (AUD/CG-04-41)**

In response to congressional interest, the DoS OIG prepared a *Factsheet on the Iraqi National Congress Support Foundation*. The factsheet provides information from two OIG audit reports, as well as pertinent information obtained from other audit entities, such as the GAO. From March 2000-September 2003, the DoS

awarded 5 cooperative agreements and 18 amendments totaling approximately \$33 million. The DoS OIG has examined approximately \$15.4 million (47%) of the \$32.6 million funded to the Iraqi National Congress Support Foundation (INCSF) by the DoS. Of the amount examined, the DoS OIG questioned \$2.3 million (14.9%). To date, the INCSF has not returned any funds under the negotiated agreement with the U.S. government.

### **Review of Cashiering Operations at Embassy Baghdad** (AUD/IQO-04-48)

The DoS Embassy Baghdad began operations on June 28, 2004. At the time of this review, Iraqi banking facilities could not provide the significant amount of cash required for needed services and day-to-day embassy operations. Because of the high volume of cash expected to be disbursed at the embassy and the risks generally associated with cash payments, the DoS OIG initiated a review of cashiering operations to evaluate internal controls.

At the time of the DoS review, the embassy was providing limited service for collections, disbursements, and Foreign Service National payroll. When the embassy begins providing complete cashiering services, it expects to be disbursing more than \$1 million in cash each month, until local banking facilities become available. The DoS OIG did not identify any significant internal control weaknesses in the embassy's initial start-up operation; however, it did identify some issues that the embassy needs to address:

- The U.S. Army was providing many services to the embassy. Although the embassy plans to expand its cashiering operations in October 2004, the U.S. Army will continue to provide significant services. The embassy needs to develop a formal agreement related to these services.
- The embassy was in the process of developing policies and procedures for Embassy Baghdad and the Iraqi Support Unit in Amman, but these had not been completed during the review. Some concerns about the availability of system support for future cashiering operations were also noted.

### **Procurement Competitions to Support the Iraqi Police Training Program** (AUD/IQO-04-47)

In 2003, the Bureau for International Narcotics and Law Enforcement Affairs (INL) developed the program requirements for two procurement actions to support the Iraqi police training programs and made awards during 2003 and 2004. The DoS OIG assessed the procurement evaluation and award procedures associated with two contracting actions totaling about \$334 million as of July 2004. The DoS OIG



determined that DoS contracting personnel followed applicable procurement regulations and procedures that promoted competition, and that all bidders were treated fairly and equitably.

The review found that the initial procurement action for about \$26 million (S-LMAQM-O3-C-0028), which was awarded to DynCorp International in April 2003, inaccurately described the services that subsequently were required. The contract's value, as stated in Modification 0012, is about \$141 million. INL officials developed a statement of work based on technical and cost criteria to provide law enforcement personnel for service in Iraq. Instead, the contract provided facility support for CPA-funded advisors in Iraq. In Jordan, the contract was used to construct, operate, and maintain Iraqi police training facilities. The initial contracting action was to be temporary, pending a worldwide, multi-year award for international police training and advisory services. This latter procurement action was designed to foster competition between three qualified contractors, although task orders could be sole sourced.

### *U.S. Agency for International Development*

The U.S. Agency for International Development Inspector General (USAID IG) currently has six auditors assigned in Baghdad, Iraq. From July 1 through September 30, 2004, the USAID IG has issued three audit reports and has three current audits. At the request of the USAID IG, the USAID also provided oversight to five audits conducted by the DCAA.

#### **Completed Audits**

##### **Audit of USAID/Iraq's Economic Reform Program**

(Report # E-266-04-004-P)

*Results:* Ten of 38 planned program activities completed, with 22 in progress and 6 cancelled. The report recommended that the USAID/Iraq implement procedures to:

- require official documentation of decisions impacting design and status of activities
- ensure that contractors furnish monthly financial reports that break down the actual level of effort billed by activity

##### **Audit of USAID's Compliance with Federal Regulations in Awarding the Iraq Phase II Reconstruction and Rehabilitation Program Advisors and Oversight Contract**

(Report # E-266-04-003-P)

*Results:* The USAID complied with applicable federal regulations in awarding this contract.

**Audit of USAID's Compliance with Federal Regulations in Awarding the IRAQ Basic Education Phase II Contract**  
(Report A-00-04-004-P)

*Results:* The USAID complied with applicable federal regulations in awarding this contract.

**Current Audits**

**Audit of USAID's Compliance with Federal Regulations in Awarding the Contract for Security Services in Iraq to Kroll Government Services, Inc.**

**Audit of USAID/Iraq's Health Care Activities**

**Audit of USAID/Iraq's Community Action Program**

*Government Accountability Office*

**Current Audits**

GOA reported nine ongoing audits. These are the objectives of the nine audits:

**Seizing Former Regime's Assets**

- What U.S. agencies, international organizations, and financial sector entities are involved in identifying, seizing, and repatriating a former regime's assets?
- How do these organizations conduct and coordinate their work, including how they apply U.S. law and international agreements to achieve their goals?
- What challenges do they face, as illustrated by specific cases?
- How can the global financial services sector be leveraged in this effort?

**Private Security Contractors**

This work is in response to congressional interests related to the reliance of the U.S. government and its contractors' on private firms to provide security in the U.S. Central Command's area of responsibility, including Iraq.

DoD and its contractors, civilian government agencies, and non-governmental organizations in the Persian Gulf and Central Asia rely to varying extents on private firms to provide security.

- What is the number, role, and cost of private companies providing security?
- What oversight does the government have of private security companies?
- What is DoD's (a) role in providing security to government contractors and (b) interaction with private security firms?

The uncertain security environment in Iraq has led federal agencies and prime contractors responsible for rebuilding Iraq to employ private security companies to guard property and persons. More than 20,000 individuals are believed to be providing security services, and some reports indicate that nearly half of reconstruction contract dollars are being used to pay for security.

- To what extent did agencies address security needs when planning for and awarding Iraq reconstruction contracts?
- To what extent do agencies have visibility on security providers and security-related expenses on Iraq reconstruction efforts?
- What actions are agencies taking to identify and use lessons learned to address security planning and cost visibility issues on reconstruction contracts?

### **Use of Funds in Support of the Global War on Terrorism**

To support the Global War on Terrorism (GWOT) since September 11, 2001, the Congress has appropriated almost \$200 billion in emergency supplemental appropriations to DoD. Spending is running about \$6 billion per month, based on July data.

- What are the military services purchasing in support of the GWOT?
- For each service, are these purchases actually in support of the GWOT?
- Are GWOT funds being spent prudently?

### **Improving Iraq's Security**

As of March 2004, the U.S. had obligated about \$58.5 billion to stabilize the security situation in Iraq: about \$57.3 billion for U.S. military operations and \$1.2 billion for Iraqi security forces.

- What are the trends in the security situation in Iraq, and how is the security situation affecting the cost and progress of military and civilian operations?
- What is the current multinational force and Iraqi strategy for coordinating their security operations and for transferring security missions to Iraqi institutions and a possible UN or other international force?
- What progress has been made in training and equipping Iraqi forces?

### **The Army's Progress in Improving the Management and Oversight of Logistics Support Contracts**

Since 1997, the GAO has issued three reports on the U.S. Army's use of logistics support contracts to provide supplies and services in support of major contingencies that collectively show difficulties in controlling the costs of these contracts and ensuring services are provided economically and efficiently.

- What progress has the U.S. Army made in improving the management and oversight of its logistics support contracts?
- Are there other continuing impediments to using logistics support contracts effectively?

### **Insurance Issues in Iraq**

The DBA requires all U.S. government contractors and subcontractors to obtain workers' compensation insurance for employees working in Iraq. In addition, contracting officers must require all contractors to maintain appropriate liability insurance and other types of insurance. As an enticement to work in Iraq, many contractors provide supplemental insurance benefits to employees assigned to that country. For contractors performing work for the federal government in Iraq:

- What are the legal and regulatory requirements for insurance?
- What is the price and availability of workers' compensation and related insurance?
- What are the number and nature of insurance claims that have been filed under DBA?
- What strategies are used to obtain DBA insurance?

### **Iraq's Elections**

As a matter of policy, the President has identified U.S. support of free elections in Iraq as a key step in helping achieve democracy in Iraq. By the time the first

elections are held, the United States will likely have spent over \$700 million toward this effort.

- What is the nature and extent of U.S. support for Iraqi elections, including U.S. funding and technical assistance?
- To what extent are U.S. assistance efforts in support of Iraqi national elections meeting their performance goals?
- How are the USAID and the DoD ensuring that funds expended in support of Iraqi national elections are spent for the intended purposes?

### **Iraq Water and Sanitation**

Since the fall of Saddam Hussein's regime, the U.S. has recognized improved essential services as critical for achieving a stable Iraq. With the proposed reallocation of funds, \$2.2 billion is earmarked for water and sanitation. What are the U.S. government's goals for rehabilitating Iraq's water and sanitation sector?

- What is the status of the reconstruction effort in the water and sanitation sector?
- How are U.S. government agencies ensuring that program goals are being met and funds are spent for intended purposes?
- What provisions have U.S. government agencies made to assist the sustainability of completed projects?

### **Reconstruction Efforts in Iraq**

The U.S. committed over \$24 billion to reconstruction in Iraq. This engagement will focus on reconstruction of essential and social services sectors: power; oil; and health, education, humanitarian, and human services. The GAO will also track U.S. funding.

- Describe what U.S. and international organizations have identified as the relief and reconstruction needs for essential and social services sectors in Iraq.
- Identify CPA and current U.S. relief and reconstruction goals for the essential and social services sectors.
- Determine progress the U.S. program has made toward these goals in the essential and social services sectors.
- Determine what factors have affected the U.S. relief and reconstruction program and how they have been addressed.

## *Defense Contract Audit Agency*

In FY 2004, the Defense Contract Audit Agency (DCAA) completed and issued reports for 567 contract audits related to Iraq. As of September 30, 2004, the DCAA had 359 ongoing contract-related audits and planned an additional 28 contract-related audits. The DCAA's Iraq-related audit work primarily consisted of price proposal audits, incurred cost audits, internal control audits, pre-award accounting surveys, and labor timekeeping. For details of these audits, see Table 1 on the next page.

## *U.S Army Audit Agency*

### **Completed Audits**

The U.S. Army Audit Agency (USAAA) reported three completed audits:

#### **Management of Resources, Army Forces-Turkey**

(Audit Report: A-2004-0033-IMU)

#### **Attestation of Reported \$80,000 Central Funding Vault Discrepancy**

(Audit Report: A-2004-0130-AMI)

#### **Definitization of Task Orders—Audit of Logistics Civil Augmentation Program**

(Audit Report A-2004-0438-AML)

### **Current Audits**

USAAA reported nine ongoing audits. These are the objectives of the nine audits:

#### **Accountability over Vested and Seized Assets**

(Project: A-2004-FFG-0316.000)

- Were adequate procedures and controls in place and operating to properly secure and account for vested and seized assets?
- Did adequate audit trails exist to support the on-hand balance of the vested and seized accounts?

#### **CPA TDY Process**

(Project: A-2004-FFG-0556.000)

- Are appropriate management controls over the travel process from the point of travel order generation to voucher settlement in place and operating?

<b>DCAA Audits Related to Iraq-Fiscal Year Ended September 30, 2004</b>			
<b>Description of Audit Area</b>	<b>Closed</b>	<b>Open</b>	<b>Planned *</b>
Price Proposals <sup>1</sup>	128	11	0
Agreed-upon Procedures Price Proposal <sup>2</sup>	113	1	0
Other Special Requested Audits <sup>3</sup>	123	165	17
Incurred Cost <sup>4</sup>	1	19	3
Labor Timekeeping <sup>5</sup>	59	29	1
Internal Controls <sup>6</sup>	47	58	0
Pre-award Accounting Survey <sup>7</sup>	30	7	0
Purchase Existence and Consumption <sup>8</sup>	15	16	4
Other <sup>9</sup>	51	53	3
<b>Total</b>	<b>567</b>	<b>359</b>	<b>28</b>

\* Planned – Represents audits established as part of the DCAA’s program effort for FY 2004, but no hours were incurred before year end. These audits will be carried over as part of DCAA’s planned audits for FY 2005.

Notes:

1. Price Proposals – Audits of price proposals submitted by contractors in connection with the award, modification, or repricing of government contracts or subcontracts
2. Agreed-upon Procedures Price Proposal – Evaluation of specific areas, including actual labor and overhead rates and/or cost realism analysis, requested by customers in connection with the award of government contracts or subcontracts
3. Other Special Requested Audits – Audit assistance provided in response to special requests from the contracting community based on identified risks
4. Incurred Cost – Audits of costs charged to government contracts to determine whether they are allowable, allocable, and reasonable
5. Labor Timekeeping – Audits to determine if the contractor consistently complies with established timekeeping system policies and procedures for recording labor costs
6. Internal Controls – Audits of contractor internal control systems relating to the accounting and billing of costs under government contracts
7. Pre-award Accounting Survey – Pre-award audits to determine whether a contractor’s accounting system is acceptable for segregating and accumulating costs under government contracts
8. Purchase Existence and Consumption – The physical observation of purchased materials and services and related inquiries regarding their documentation and verification of contract charges
9. Other – Significant types of other audit activities including financial capability audits and Cost Accounting Standards compliance audits

**Table 1**

- Are fund control procedures adequate to ensure that obligations are complete and accurate and disbursements are made in a timely manner, to clear unliquidated obligations?

### **Asset Visibility and Container Management**

(Project: A-2004-IMU-0428.001)

- Were commercial shipping containers adequately managed to ensure accountability and to minimize detention charges?
- Did the U.S. Army maintain adequate visibility over equipment and supplies transported to, within, and from the Operation Iraqi Freedom theater of operations?
- Did supply support activities have the capability to generate radio frequency identification tags in theater? If so, was the capability sufficient for providing the required support to in-transit visibility?

### **Theater Distribution Capabilities**

(Project: A-2004-IMU-0428.002)

- Were adequate processes in place to effectively prioritize cargo for delivery and get needed supplies to units in a timely manner?
- Were adequate distribution capabilities in place and operating to effectively manage and transport equipment and supplies to units?

### **Logistics Automated Systems Functionality**

(Project: A-2004-IMU-0428.003)

- Did automated systems enable units to requisition needed supplies?
- Were transactions processed adequately to support units engaged in operations?
- Did the flow of transaction data support the accuracy of supply and related financial systems?

### **Class IX Spare Parts in Support of OIF**

(Project: A-2004-IMU-0428.004)

- Were adequate levels of spare parts on hand to support units deployed in Operation Iraqi Freedom?



- Were U.S. Army pre-positioned stocks used to support units in Operation Iraqi Freedom and were stocks adequately configured to support deployed units?

### **Logistics Civil Augmentation Program (LOGCAP) – Kuwait**

(Project: A-2003-IMU-0536.000)

- Evaluate the overall management of LOGCAP contracts.
- Evaluate the procedures in place to control costs under LOGCAP contracts.
- Evaluate the management of assets used in conjunction with LOGCAP contracts—assets acquired by contractors and assets provided by the government to contractors.

### **Audit of LOGCAP (Summary)**

(Project: A-2003-AML-0040.000 )

- Evaluate the overall management of LOGCAP contracts.
- Evaluate the procedures in place to control costs under LOGCAP contracts.
- Evaluate the management of assets used in conjunction with LOGCAP contracts—assets acquired by contractors and assets provided by the government to contractors.
- Determine whether U.S. Army regulations that prescribe policy for LOGCAP adequately identify key management controls.

### **Program Management in Support of Iraq Reconstruction**

(Project: A-2004-AMA-0606.000)

- Determine whether the U.S. Army and the PCO have put controls and sound business processes in place to mitigate previously identified high-risk areas.

### **Future Audits**

The USAAA has one audit programmed to start during the first quarter of FY 2005.

In late October 2004, the USAAA will begin an audit in Iraq of the CERP and the Quick Response Fund (QRF) for the Multi-National Security Transition Command-Iraq (MNSTC-I). The MNSTC-I requested the audit. CPA-IG auditors are working closely with USAAA audit managers to avoid duplication of effort.

USAAA is still firming up the objectives, but the tentative objectives are as follows:

- Were funds for the CERP and the QRF received, accounted for, and reported according to applicable laws and regulations?
- Were disbursements consistent with the intent of the charter or implementing guidance?

A team of four auditors will arrive in Baghdad, in October 2004.

## 4. Investigations

### Overview

The Coalition Provisional Authority Inspector General (CPA-IG) investigates potential violations of law that are associated with the management and execution of:

- appropriated and Iraqi funds by the CPA and its successor organization in Iraq
- programs, operations, and contracts carried out using these funds

Criminal investigators examine specific allegations, reports, and other information to determine whether there has been a violation of law, statute, or regulation. CPA-IG investigations originate primarily from allegations made by U.S. government employees and private citizens, Iraqis, and other Inspectors General. The investigations are conducted primarily in Iraq and also at various locations within the United States.

On September 20, 2004, the Department of Defense Office of Inspector General (DoD OIG) and the CPA-IG signed a Memorandum of Agreement (MOA) that detailed the working relationship between the organizations. Appended to that bilateral MOA was an agreement between the Defense Criminal Investigative Service (DCIS) and the CPA-IG that outlined coordination of investigative authority and operational responsibilities.

To expedite results and conclude investigations, the CPA-IG coordinates cases with other law enforcement agencies and, when appropriate, the Department of Justice.

### CPA-IG Case Summaries

As of October 12, 2004, the CPA-IG had received a total of 113 potential criminal cases. Of these, 75 have been closed or referred to other investigative agencies, and 38 are still open. Since June 30, 2004, the CPA-IG closed or referred 31 cases to other investigative agencies and opened 39 new cases. The following summaries demonstrate the range of CPA-IG cases closed or referred during this reporting period:

- The CPA-IG received a request for assistance from members of the U.S. Mission Iraq, Ministry of Justice, and the Multi-National Force-Iraq (MNF-I). Complainants suspected that an Iraqi official embezzled \$500,000 from a Local Governance Fund (LGF) Program. These LGF monies, provided from the Development Fund for Iraq (DFI), were intended to support local work projects. The complainants also alleged that the funds may have been diverted to support insurgent activities, but there is currently no evidence to support that claim. An initial investigation determined that of the funds in question, \$70,000 was used to fund various legitimate projects. At the request of Iraqi and U.S. officials, the Iraqi official in question produced the other \$430,000; those funds are now under proper control. The CPA-IG served as an important channel for the complainants' concerns, facilitated the recovery of LGF/DFI funds, and continues to coordinate the case with the MNF-I. (Case Number 95)
- A civilian complainant employed by a U.S. contracting firm working in Baghdad provided information to the CPA-IG about theft and threats made against an Iraqi employee. Members of the Iraqi police and other Iraqi citizens allegedly were involved in criminal activity and had threatened an Iraqi citizen working for the U.S. contractor. After a preliminary investigation, the CPA-IG determined that the allegations were outside its jurisdiction. The CPA-IG turned over the information, statements, and evidence to the Iraqi Police, Bureau of Internal Affairs, which accepted the case. As a result, the Central Criminal Court of Iraq arrested five Iraqi citizens and charged them with robbery. Two of the Iraqis charged were members of the Iraqi police. (Case Number 74)
- A Hotline referral alleged that a civilian contractor mismanaged a contract. A preliminary investigation determined that a contractor on a fixed price contract was providing services below the contractual agreement, but was billing at the full amount. A CPA-IG review determined that the Department of State (DoS) had awarded the contract. Consequently, the matter was transferred to the DoS Office of Inspector General (DoS OIG). (Case Number 56)
- A complainant alleged that Iraqi construction companies improperly removed construction equipment and materials stored and owned by the Ministry of Housing and Construction. The complainant also alleged that members of the U.S. Armed Forces helped remove the materials and accepted payment for their assistance. After interviewing Iraqi engineers and guards at the site, CPA-IG agents determined that the Ministry knew who took the equipment and where it was located. Because the alleged criminal activity was perpetrated by Iraqi construction companies against the Iraqi government, the CPA-IG referred the matter to the Ministry's Inspector General. The evidence against the U.S. military members was

referred to the MNF-I Inspector General. The Ministry recovered some of the equipment. (Case Number 82)

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## **Coordination with Other Federal Agencies**

The CPA-IG regularly coordinates with other government agencies conducting investigations in Iraq. The CPA-IG asked for and received information from the Federal Bureau of Investigation (FBI), U.S. Agency for International Development (USAID), DCIS, and the DoS OIG. Because most of this information is sensitive, only the information below can be released.

### ***Federal Bureau of Investigation***

The FBI reported five open and pending cases involving activities associated with Iraq. Two recently opened cases involve public corruption and government fraud during Iraq operations in the fourth quarter of FY 2004. During this reporting period, the FBI has not closed or referred any cases to other law enforcement agencies.

### ***United States Agency for International Development***

The USAID has one special agent stationed in Baghdad, Iraq. During this reporting period, the USAID closed an investigation involving program integrity. A USAID contractor was alleged to have submitted false, inflated invoices for reimbursement of services in Iraq. The contractor had been operating under a letter contract with an understanding that the letter contract would eventually be replaced with a cost-plus contract. When the replacement contract was signed, and it was not cost-plus, the allegation no longer had merit. The USAID closed the case. Currently, the USAID has one open investigation.

### ***Defense Criminal Investigative Service***

The DCIS continues to provide criminal investigative support to the DoD on cases of major fraud, public corruption, contract fraud, theft of funds, counterfeiting, and terrorism. The DCIS routinely coordinates with U.S. military police and the Iraqi National Police. As of October 1, 2004, the DCIS has 16 open cases, 22 closed cases, and 1 open project.

### ***Department of State Office of Inspector General***

The DoS OIG did not open any cases associated with Iraq during this reporting period. In addition, the DoS OIG did not close or refer any Iraq-related cases to other law enforcement agencies.

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## Hotline

On August 30, 2004, the CPA-IG signed an MOA with the DoD IG to collocate hotline resources. The CPA-IG Hotline has been relocated contiguous with the DoD IG Hotline. The CPA-IG Hotline was established to facilitate the reporting of fraud, waste, abuse, mismanagement, and reprisal. The Hotline receives submissions from complainants in Iraq and the United States in many forms: walk-in, telephone, mail, fax, online, and transfers from other agencies.

Currently, the CPA-IG Hotline has a staff of five. Four are collocated in the DoD IG Hotline Office in Arlington, Virginia, and one Hotline investigator is in Baghdad. A second Hotline investigator from the Arlington, Virginia, office is scheduled to be deployed to Baghdad in November.

Since it began operations in February 2004, the CPA-IG Hotline has initiated 272 Hotline cases. Table 2 shows how the Hotline complaints were received, Table 3 shows how the Hotline complaints were assigned, and Table 4 shows the types of Hotline complaints that were received.

### *Sources of Hotline Submissions*

Hotline Submissions				
Type	Quarter U.S. (Quarter Ending 9/30/04)	Quarter Iraq (Quarter Ending 9/30/04)	Total U.S.	Total Iraq
Internet Web Form	19	0	123	0
Telephone	6	2	27	2
Fax	2	0	10	0
Mail	6	2	9	2
Walk-in	2	9	3	89
Transfers from Other Agencies	1	1	6	1
<b>Total</b>	<b>36</b>	<b>14</b>	<b>178</b>	<b>94</b>

**Table 2**

## *Distribution of Hotline Submissions*

<b>Submission Distribution</b>		
<b>Organization</b>	<b>Quarter (Ending 9/30/04)</b>	<b>Total Quantity</b>
Hotline Non-criminal Investigations	35	136
Transferred to Other IG Organizations	10	51
Investigations Criminal	2	38
Referred to Other Agencies	1	27
AIG-Audit	1	9
Dismissed	0	8
AIG-C&PA (FOIA)	1	3
<b>Total</b>	<b>50</b>	<b>272</b>

**Table 3**

## *Types of Submission*

<b>Submission Types</b>		
<b>Type</b>	<b>Quarter (Ending 9/30/04)</b>	<b>Total Quantity</b>
Abuse	18	75
Fraud	10	54
Waste	2	22
Criminal	0	16
Reprisal	0	6
FOIA	1	3
Other	19	96
<b>Total</b>	<b>50</b>	<b>272</b>

**Table 4**

Of the 272 actions initiated, 178 are closed, and 94 are ongoing.





## 5. Coalition Provisional Authority Inspector General Initiatives

### Overview

The Coalition Provisional Authority Inspector General (CPA-IG) has continued to take the lead on a number of key initiatives to enhance its audits and investigations in Iraq. These are the major goals of the initiatives:

- to increase interagency communication
- to promote economy, efficiency, and effectiveness
- to combat fraud, waste, and abuse of reconstruction funds

These initiatives are being accomplished successfully with the continued cooperation and support of other federal agencies tasked with similar missions. This section provides an update on:

- Iraq Inspectors General Council (IIGC)
- Iraq Accountability Working Group (IAWG)
- Lessons Learned / High-Risk Factors
- Corporate Governance
- Security and Insurance

During this reporting period, the tenure of the CPA-IG has been uncertain, and available staff resources were limited. Therefore, the CPA-IG shifted emphasis from the Corporate Governance and Security and Insurance initiatives and allocated limited staff and resources to conduct audit projects and activities.

The Iraq Financial Working Group (IFWG) was formed in March 2003 to coordinate among the financial management, acquisition, and inspector general communities in Baghdad that were involved in Iraq reconstruction. The group held bi-weekly meetings until the CPA ceased operations in June 2004, when the IFWG was dissolved.

In the future, renewed emphasis on these initiatives will depend on the scope and operational tempo of the CPA-IG as provided by policy or statutory guidance. Program-level activities related to these initiatives are continuing.

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## Iraq Inspectors General Council

### *Overview*

The CPA-IG continues to provide leadership and coordination of Iraq reconstruction programs through the IIGC. Established by the CPA-IG on March 15, 2004, the IIGC provides a forum for discussion and collaboration on the oversight activities of the inspectors general and staff whose agencies are involved in the execution of the Iraq Relief and Reconstruction Fund.

The most recent IIGC meeting was held in Arlington, Virginia, on August 4, 2004, and the next meeting is scheduled for November 4, 2004. IIGC members held smaller meetings to coordinate audit efforts. At the IIGC meetings, representatives from member organizations share details of ongoing and planned audits to minimize the duplication of efforts. Members also update each other on their planned staffing levels in Iraq. And IIGC members with personal experience in Baghdad use these meetings to provide insights into the practical aspects of conducting audits in Iraq, including travel logistics, work schedules, and personnel security.

The IIGC has facilitated communication in Washington, D.C., and Baghdad, ensuring continued, coordinated oversight through the organizational transitions surrounding the Iraq reconstruction mission.

### *Members*

These are the members of the IIGC:

- Coalition Provisional Authority Inspector General (Chairperson)
- Department of Defense Inspector General (Co-Vice Chairperson)
- Department of State Inspector General (Co-Vice Chairperson)
- Department of the Army Inspector General
- U.S. Agency for International Development Inspector General
- Department of the Treasury Inspector General
- Department of Commerce Inspector General
- Department of Health and Human Services Inspector General
- Defense Contract Audit Agency
- U.S. Army Audit Agency
- Government Accountability Office (Observer Member)
- International Advisory and Monitoring Board (Observer Member)

Audit information from some of these members is included under Other Agency Audits in Chapter 3 of this Report.

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## Iraq Accountability Working Group

The IAWG was assembled by the CPA-IG Assistant Inspector General for Audit to provide coordination of audit efforts in Baghdad, in addition to the ongoing coordination from the IIGC in Arlington, Virginia.

The first monthly meeting of the IAWG was held on August 23, 2004; the second, on September 19, 2004; and the third, on October 21, 2004. All meetings were held in the Republican Presidential Palace in Baghdad, which houses the U.S. Mission Iraq. Organizations in attendance included:

- Office of the Coalition Provisional Authority Inspector General
- Department of State Office of Inspector General
- U.S. Agency for International Development Office of Inspector General
- Defense Contract Audit Agency
- U.S. Army Corps of Engineers

Some of the audit organizations that make up the membership of the IIGC do not have offices in Baghdad; therefore, not all IIGC member organizations are represented in the IAWG.

The IAWG informs the forward-deployed staff of U.S. organizations engaged in oversight of the Iraq Relief and Reconstruction Fund about ongoing and planned audits. At the first meeting, the CPA-IG Assistant Inspector General for Audit explained the CPA-IG audit plan. The IAWG also discussed staffing and logistics for offices in Iraq and Kuwait. The group plans to continue monthly meetings.

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## Lessons Learned / High-Risk Factors

In September 2004, the CPA-IG launched a new initiative to gather key lessons learned and to identify high-risk factors in the reconstruction of Iraq. Through this initiative, the CPA-IG will analyze a wide range of source material from agencies involved in Iraq reconstruction that have conducted or are conducting similar efforts in order to:

- enable informed strategic and audit planning
- pinpoint gaps in oversight
- identify special areas of interest for further focus

These source materials will include CPA-IG interview and survey efforts, after-action reports of other organizations involved in Iraq reconstruction, and

formal studies completed by academic organizations and non-profit research institutions. The CPA-IG will compile and analyze the results of the data collection and issue initial findings in January 2005.

The CPA-IG is assembling an array of information from several government and non-government organizations conducting related studies, including the Congress, CPA organizations, DoD, DoS, USAID, coalition partners, and contractors. These collective materials will help the CPA-IG to:

- compile a repository of organizations conducting lessons learned studies
- compile lessons learned in a central repository
- evaluate lessons learned developed by other organizations to identify common threads, potential gaps in analysis, and high-risk factors for future operations
- focus future audits and target analysis to address these gaps in future programs
- develop recommended procedures, improvements, and best practices

The CPA-IG is in the early stages of compiling the lessons learned repository. The following summaries showcase the range of projects and organizations that the CPA-IG will consider during its analysis. The CPA-IG will continue to pursue and collect additional data from other government sources.

## *Department of Defense*

### **Coalition Provision Authority**

The CPA transition planning organization will release a formal report documenting lessons learned from the turnover of control to the Iraqi Interim Government (IIG). The report will include source and example coordination documents, as well as a “checklist-type” appendix for future planners. Planned release: October 2004.

The CPA directed a DoD historian to conduct more than 200 interviews with personnel from the Office of Reconstruction and Humanitarian Assistance (ORHA) and the CPA. These interviews were conducted across the organization during three different periods. They provide a broad perspective from personnel directly contributing to the reconstruction effort.

For a detailed history of CPA operations, see the website:

[http://www.coalitioniraq.org/pressreleases/20040628\\_historic\\_review\\_cpa.doc](http://www.coalitioniraq.org/pressreleases/20040628_historic_review_cpa.doc)

### **U.S. Joint Forces Command**

U.S. Joint Forces Command, Joint Center for Operational Analysis–Lessons Learned Division (JCOA-LL), collects and publishes lessons learned from DoD commands and combat units. The JCOA-LL published a first report summarizing the operations and lessons learned from the combat phase of Operation Iraqi Freedom (OIF) and plans to release a similar report on post-conflict stability operations in November 2004. Initial publications are classified, but follow-on reports will include an unclassified version.

[http://www.jfcom.mil.about/fact\\_jcll.htm](http://www.jfcom.mil.about/fact_jcll.htm)

### **U.S. Marine Corps**

In September 2004, the U.S. Marine Corps Joint Urban Operations Office & Wargaming Divisions co-sponsored the conference, *Emerald Express 04-2: Interagency Insights and Observations: Operations Iraqi Freedom and Enduring Freedom*. Attendees made significant contributions to stability operations or were engaged in preparing future operations. The program emphasized the critical importance of interagency support for stability operations and political end-state planning.

<http://www.wargaming.quantico.usmc.mil>

<http://www.smallwars.quantico.usmc.mil>

### **The National Defense University**

The National Defense University (NDU), Institute for National Strategic Studies, has hosted a series of interagency workshops that focus on stability and reconstruction in Iraq. On November 20, 2002, more than 70 scholars, experts, and practitioners met to discuss post-intervention challenges in Iraq. The workshop, “Iraq: Looking Beyond Saddam’s Rule,” concentrated on U.S. and allied efforts in the post-intervention reconstruction and political stabilization of the country. In this informal setting, attendees concentrated on critical issues that will both shape Iraq’s emerging security and stability environment and confront U.S. policymakers, but they did not present or debate official policy.

In a follow-on workshop on July 29, 2004, “Planning for Post-Conflict Reconstruction: Learning from Iraq,” veterans of operations in Iraq, government officials, regional experts, and practitioners met to discuss their experiences planning and conducting post-conflict stabilization and reconstruction operations.

Presentations focused on the capacity of U.S. government organizations to coordinate and collaborate in:

- planning and implementation
- assessing the challenges faced by the ORHA and the CPA
- recommending ways to improve future post-conflict operations
- training and preparing planners and practitioners

“Breakout” discussion groups focused attention on policy formulation; joint planning and budgeting; security, public diplomacy, and strategic communications; governance, capacity building, and essential services; and economic policy reform.

The NDU has released three reports on lessons learned from Iraq reconstruction through the Institute for National Strategic Security Studies and the Center for Technology and National Security Policy:

- *Building an Iraqi Defense Force*, by Joseph McMillan, No. 198, June 2003
- *Transforming for Stabilization and Reconstruction Operations*, by Hans Binnendijk and Stuart E. Johnson, April 2004
- *Turbulent Transition in Iraq: Can It Succeed?* by Judith S. Yaphe, No. 208, June 2004

The reports are available at their website:

<http://www.ndu.edu/inss/strforum/h6.html>

### **The Center for Army Lessons Learned**

The Center for Army Lessons Learned collects and analyzes data from a variety of sources to provide lessons for military commanders, staff, and students. These lessons and other related research material are provided in published reports and electronic media, including:

- *Operational Iraqi Freedom (OIF) CAAT II Initial Impressions Report (IIR)*, May 2004

Requests for additional information can be made through the website:

<http://call-rfi.leavenworth.army.mil/rfisystem>

## *Other Government Agencies*

### **U.S. Agency for International Development**

In May 2004, the U.S. Agency for International Development (USAID) published *A Year in Iraq*, a 28-page brochure that “provides a summary of reconstruction and humanitarian activities undertaken within Iraq by the USAID and its partners, including the CPA, from March 2003 through March 2004.”

### **Government Accountability Office**

The Government Accountability Office (GAO) has conducted a number of studies associated with Iraq and the challenges of nation-building. Some of those reports include:

- *Rebuilding Iraq: GAO-03-792R*, May 15, 2003
- *Recovering Iraq’s Assets: Preliminary Observations on U.S. Efforts and Challenges, GAO-04-579T*, March 18, 2004
- *Iraq’s Transition Law, GAO-04-746R*, May 25, 2004
- *Rebuilding Iraq: Fiscal Year 2003 Contract Award Procedures and Management Challenges, GAO-04-605*, June 1, 2004
- *United Nations: Observations on the Oil for Food Program and Iraq’s Food Security, GAO-04-880T*, June 16, 2004
- *Rebuilding Iraq: Resource, Security, Governance, Essential Services, and Oversight Issues, GAO-04-902R*, June 28, 2004
- *Military Operations: DOD’s Extensive Use of Logistics Support Contracts Requires Strengthened Oversight, GAO-04-854*, July 19, 2004

These additional studies are expected to be released: *Seizing Former Regime’s Assets, Demobilization and the Future Use of Reserve Forces, Private Security Contractors, Improving Iraq’s Security, Iraq’s Elections, and Insurance Issues in Iraq*.

## *Non-Government Organizations Contracted Studies*

### **The Center for Strategic and International Studies**

The Center for Strategic and International Studies (CSIS) Post-Conflict Reconstruction Project (PCR) is a collaboration between CSIS and the Association of the U.S. Army (AUSA). The project provides information and recommendations on post-conflict reconstruction in Iraq. The PCR focuses on projects that quantify progress in Iraq through the collection of data from news sources, polling, and interviews and provides insight into Iraqi opinions about the reconstruction effort

in various areas, including security, governance, income and livelihoods, essential services, health, and education. These are some of the CSIS publications:

- *Capturing Iraqi Voices*, Federick Barton, Bathsheba Crocker, Ben Rowswell, Doug Henry, & Morgan Courtney, July 2004
- *Winning the Peace – An American Strategy for Post-Conflict Reconstruction*, edited by Dr. Robert Orr, July 2004
- *Iraq's Post-Conflict Reconstruction – A Field Review and Recommendations*, Dr. John Hamre, Federick Barton, Bathsheba Crocker, Dr. Johanna Mendelson-Forman, & Dr. Robert Orr, July 17, 2003

<http://www.csis.org/isp/pcr/index.htm>

### **The RAND Corporation**

The RAND Corporation is a nonprofit institution dedicated to impacting policy and decision-making through research and analysis. The U.S. Army has contracted with the RAND Corporation to produce a report that compiles and analyzes lessons learned from Iraq stability and reconstruction operations. Planned for release in November 2004, the RAND report is an expansive effort that includes interviews with key ORHA and CPA personnel.

<http://www.rand.org>

### **The Professional Services Council**

The Professional Services Council (PSC) represents a number of commercial firms serving the government professional and technical services industry. The PSC has a diverse base of members that provide an array of services to coalition reconstruction efforts in Iraq. Approximately 30% of the PSC's members are large companies, with revenues greater than \$1 billion; 25-30% are smaller companies, with revenues below \$100 million.

Working with the Department of the Army, the PSC has compiled a lessons-learned briefing based on inputs from approximately 40 member companies engaged in contracting in Iraq.

<http://www.pscouncil.org>

### **The British-American Security Information Council**

The British-American Security Information Council (BASIC) is an independent research organization that analyzes international security issues. BASIC works to promote awareness of security issues among the public, policy makers, and the media to foster informed debate on both sides of the Atlantic. In September, BASIC



released *A Fistful of Contractors: The Case for a Pragmatic Assessment of Private Military Companies in Iraq*. David Isenberg, the report's author, has been researching and writing about private military companies for over a decade.

<http://www.basicint.org/pubs/Research/2004PMC.pdf>

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## Corporate Governance

During audits of contractors and subcontractors, the CPA-IG will integrate risk assessments related to internal controls and governance. Any identified high-risk issues will provide a basis for further review and action.

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## Security and Insurance

Iraq's unsettled security environment continues to present grave risks for contractors and employees. The lack of security hinders their ability to perform daily work and complete projects on time. The planned increase in project starts through the end of 2004 and into 2005 highlights the need for:

- personal protection
- project site security
- enforcement of legal requirements for workers' compensation insurance for those employed directly and indirectly by U.S. funds

The CPA-IG is currently coordinating ongoing work with the GAO, which has begun a new body of work on the use of private security contractors in Iraq. The GAO is also spearheading a review of Defense Base Act (DBA) issues related to insurance requirements under U.S. law. The CPA-IG continues to discuss these issues with the GAO but is not directly engaged in supporting the work.

The U.S. Army Corps of Engineers (USACE) has prepared a draft request for solicitation for a contract pilot program with these goals:

- to address concerns about providing the best overall value to the nation in meeting the legal requirements of the DBA
- to encourage "effective competition, (and) assured availability and affordability" of DBA insurance

In promoting a centrally managed program, the USACE has identified several impediments to economically and efficiently providing DBA insurance. The CPA-IG's July 30, 2004 Report expressed many of the same concerns.

As of September 29, 2004, 961 DBA claims have been submitted for civilians working on U.S. contracts in Iraq, including 450 for employees missing more than four days work and 120 deaths<sup>2</sup>. Since June 30, 2004:

- The overall number of claims grew by 51.2% to 961 claims.
- The number of claims for those missing work more than four days rose 25.7% to 450 claims.
- The number of claims for death increased by 23.7% to 120 deaths.

## 6. Iraq Reconstruction Activities

### Overview

Iraq relief and reconstruction activities continue under the authority of the Department of State (DoS), through the Iraq Reconstruction Management Office (IRMO), and the Department of Defense (DoD), through the Project and Contracting Office (PCO). The IRMO is responsible for establishing requirements and setting priorities, and the PCO is responsible for contracting and program management. These organizations coordinate reconstruction projects, such as school and hospital construction, bridge repair, upgrades to the electrical grid and ports, and modernization of communications systems. These are some of the achievements highlighted by the DoS in its October 5, 2004 Section 2207 Report on Iraq Relief and Reconstruction:

- Iraqi National Airlines resumed international flights.
- The number of telephone and cell phone subscribers in Iraq reached 1.5 million, approximately 90% above pre-war levels.
- Oil production recently reached 2.5 million barrels per day.
- The United States Agency for International Development (USAID) has repaired numerous breaks in Iraq's water networks, significantly increasing water flow.

This section provides additional details on the new organizations created to coordinate U.S. reconstruction efforts in Iraq and highlights some of these efforts in:

- Coalition Provisional Authority Successor Organizations
- Quarterly Reports on Iraq Reconstruction
- Reconstruction Activity Highlights

### Coalition Provisional Authority Successor Organizations

The Coalition Provisional Authority (CPA) relinquished authority to the Iraqi Interim Government (IIG) on June 28, 2004. Several new organizations have taken over responsibility for administering or coordinating the relief and reconstruction effort begun during the CPA's tenure.

## *Iraq Reconstruction and Management Office*

The IRMO is a temporary organization within the DoS that coordinates the efforts of the various agencies performing reconstruction work in Iraq. The IRMO, which is responsible for setting reconstruction priorities and requirements, is implementing a strategy aimed at increasing the pace of reconstruction activity leading up to January 2005 elections in Iraq. The IRMO continues to work toward three primary goals:

- Improve Iraq's infrastructure.
- Increase Iraqi employment and long-term economic recovery.
- Strengthen the capabilities of Iraqi engineering and construction companies.

## *Project and Contracting Office*

The PCO is a temporary organization within the DoD that replaced the CPA's Program Management Office. The PCO provides acquisition, project management, and construction support for Iraq reconstruction priorities identified by the IRMO. A DoD briefing on October 6, 2004, outlined highlights of Iraq reconstruction activities. The complete DoD status report is included in Appendix J.

## *Defense Support Office-Iraq*

The Deputy Secretary of Defense created the Defense Support Office-Iraq (DSO-Iraq) to serve as a single DoD point of contact for the U.S. Mission Iraq, and to coordinate with the Near-East Asia-Iraq Office of the DoS. The DSO-Iraq supports the missions of U.S.-led forces in Iraq, coordinates actions that cross organizational lines, and represents the DoD in Iraq-related interagency meetings.

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## **Quarterly Reports on Iraq Reconstruction**

Until July 2004, the Office of Management and Budget (OMB) submitted a quarterly report to Congress on Iraq spending, as required by Section 2207 of the Emergency Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004 (P.L. 108-106). The DoS now drafts the 2207 Report. Released on October 5, 2004, the fourth quarter report updates information contained in previous OMB reports.

The latest report is available at <http://www.state.gov/m/rm/rls/2207/oct2004/>.

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## Reconstruction Activity Highlights

### *Restoring Iraqi Electricity*

In an October 6, 2004 briefing to the Secretary of the Army, the PCO reported 26 electricity restoration projects completed and 12 ongoing. Of the completed projects, 11 are generation projects, 12 are transmission projects, and 3 are management projects. The 30-day average peak generation capacity in September was approximately 4,970 MW, up from 4,700 MW in July. On September 6, 2004, the system reached a record peak generating capacity of 5,100 MW.

These are examples of other projects to restore Iraq's electricity that are highlighted in the October 2004 Section 2207 Report:

- Work has begun on the Martha Thermal Power Plant to increase output by 400 MW by early in the fourth quarter of calendar year 2005. At its peak, this project will employ an estimated 2,000 Iraqis for about six months.
- Construction and refurbishment of the Electricity Power Security Service training academy site is continuing, and the training cadre has arrived in Iraq.
- Site assessments and scope definitions are complete for substation rehabilitation projects in Baghdad Area, Baghdad East, Baghdad West, Washash, Taji, and Agarguf.

### *Security and Law Enforcement*

In the October 2004 Section 2207 Report, the DoS describes a comprehensive “troops-to-tasks” review of Iraq Security Force requirements—completed in conjunction with an Iraq Relief and Reconstruction Fund Strategic Review. Based on this review, the Commander of the Multi-National Force-Iraq recommended increases in three major forces:

- Iraqi Police (from 90,000 to 135,000)
- Iraqi National Guard (from 45 to 65 battalions)
- Department of Border Enforcement (from 16,000 to 32,000)

Key IIG officials, including the Prime Minister and the Ministers of Defense and Interior, have approved the Iraqi Security Force increases and acknowledged Iraq's responsibility for the cost of sustaining additional forces.

Efforts to improve the quality of the Iraqi Police Service continue. The Qualifying Committee, established by the Iraqi Minister of Interior in July 2004, began reviewing police qualifications and identifying people who should be removed from the force with separation pay. Simultaneously, new recruits are being trained for the police force, and training capacity is being increased by expanding the Baghdad Public Safety Academy. Regional police academies are also being expanded or established at Al Kut, Al Hillah, Mosul, Sulaymaniyah, Kirkuk, Ar Ramadi, and Basra.

During August 2004, Iraq's Air Force Air Reconnaissance Squadron 70 began operations. Two reconnaissance aircraft are flying operational sorties along the oil pipelines in the southeast and have reported damage to several sites.

In late August, the Iraqi Coastal Defense Force (ICDF) was certified to conduct autonomous night training. In late September, the ICDF met the standards to conduct independent patrol boat operations in weather conditions up to Sea State 3.

### *Iraq Ministry Inspector General Training*

Iraq adopted an Inspector General (IG) system under CPA Order 57. Initially, the CPA sought out highly qualified IGs for each of its 26 ministries, the City of Baghdad, the Central Bank of Iraq, and the Division of Religious Affairs. The CPA-IG has consistently supported Iraq's anti-corruption efforts, including these measures:

- sponsoring one-day training seminars for newly-appointed IGs
- providing individual coaching sessions for officers in each ministry
- advocating the allocation of adequate IG resources from Development Fund for Iraq (DFI) funds to back the system
- coordinating in-country and regional training for anti-corruption professionals now joining the various Offices of the Inspectors General

During September 2004, Iraqi anti-corruption leaders agreed to initiate the Iraqi Anti-Corruption Council (IACC). Modeled after the Presidential Council on Integrity and Efficiency, the IACC comprises representatives from all three anti-corruption pillars in Iraq: the Iraqi Board of Supreme Audit (BSA), the Commission on Public Integrity (CPI), and the system of Inspector Generals in each ministry (IG System). The CPA-IG's July 30, 2004 Report to Congress provides additional information on these anti-corruption pillars.

To provide anti-corruption professionals with a common foundation, the Iraqi IGs have agreed to send 640 auditors, inspectors, and investigators to Cairo, Egypt, for anti-corruption training this fall. The CPA-IG provided needed technical expertise and support to coordinate these regional training efforts and opportunities in the United States on behalf of the IG System. For example, the CPA-IG and the DoD IG are now coordinating the upcoming visit of a delegation of senior auditors from Iraq's BSA to meet and work with officials of the Government Accountability Office (GAO), DoS Office of Inspector General, DoD IG, U.S. Auditing Training Institutes, and the Defense Acquisition University.

This project lies outside the traditional IG mission; therefore, the CPA-IG plans to transition this initiative to the IRMO, which can more appropriately spearhead the effort. The CPA-IG will coordinate closely as an informational resource for Iraqi Ministry counterparts.

### *USAID Update*

The USAID Mission in Iraq carries out programs in education, health care, food security, infrastructure reconstruction, airport and seaport management, economic growth, community development, local governance, and transition initiatives. The organization reports the progress of reconstruction efforts on its website at: [www.usaid.gov/iraq](http://www.usaid.gov/iraq). These are some of the highlights as of September 30, 2004:

#### **Infrastructure**

- Restored all four units of a Basrah Governorate power plant to simultaneous operation for the first time since the 2003 conflict. The plant now generates an average of 177 MW each day, and it is expected to produce over 200 MW by October.
- Completed the rehabilitation of a water treatment plant in Baghdad. Nearly one million residents now have access to potable water in their area.
- Re-opened the Tikrit Bridge to vehicular traffic on September 15, 2004. The four-lane concrete bridge crosses the Tigris River between Tikrit and Kirkuk and is an important part of the highway system for moving commerce and aid from major supply hubs. Repairs to the bridge began in August 2003.
- Completed restoration of Iraq's fiber optic network and commissioned new transmission equipment at 24 sites in southern Iraq. The Iraq Telecommunications and Postal Commission connected approximately 215,000 subscribers, representing all pre-war subscribers in Baghdad.

## Health and Education

- Rehabilitated and re-equipped approximately 200 primary healthcare centers between June and October 2004 through the Health Systems Strengthening Program. To date, approximately 330 have been rehabilitated. When the program is complete, more than half of the 600 clinics will be rehabilitated and re-equipped.
- Provided financial support for a country-wide polio immunization program that was launched on September 4, 2004, by the Ministry of Health. During the first three days of the five-day campaign, the Ministry reported that 70% of the 4.7 million children to be immunized had been vaccinated. The campaign was supported by the World Health Organization, United Nations Children's Fund (UNICEF), and European Union, and was funded in part by an \$18 million USAID grant to UNICEF for health initiatives in Iraq.
- Began reforms of curricula at Iraqi law schools as part of the Legal Education System Reform Initiative of the USAID's Higher Education Program. The long-term objective of the reform program is to improve current curricula in Iraqi law schools to meet international standards.
- Purchased for shipment to Iraq 1,200 volumes of classic, rare, out-of-print, and out-of-copyright books on the archaeology and history of the region.

## Agriculture

- Completed the first alfalfa forage crop demonstration in Iraq's marshland. This first planting totaled 35,000 square meters of alfalfa distributed across five local farms.
- Rehabilitated four veterinary clinics between June and October. Work included renovating the facilities and supplying \$2,000 in veterinary equipment.
- Established the first date palm nursery, with 1,000 mother trees of different varieties. The trees will produce 10,000 off-shoots; 7,000 are expected to survive.
- Installed a new hatchery facility at a university marine science center in southern Iraq through the USAID's Iraq Marshlands Restoration Program. Using hormones supplied through the Marshland Program, the hatchery has begun accelerated breeding of Bunni fish with 16 Bunni brood stocks.



# 7. Sources and Uses of Funding for Iraq Relief and Reconstruction

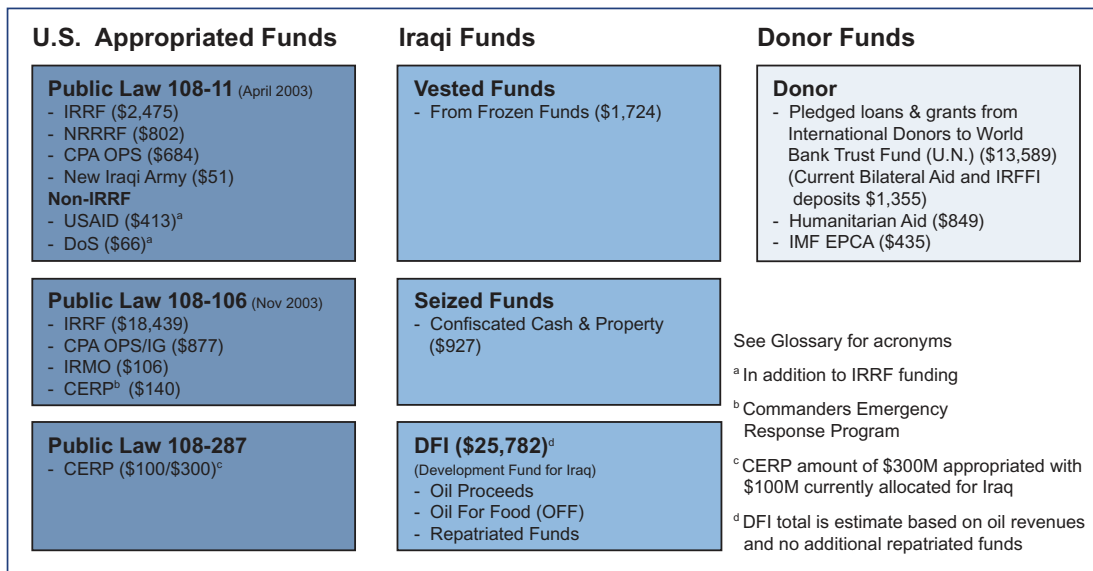
## Overview

The cost of Iraq relief and reconstruction in the medium term has been estimated at \$50-100 billion. As of September 30, 2004, approximately \$55.1 billion had been provided for Iraq relief and reconstruction from U.S. appropriated funds, Iraqi funds, and funds contributed by donor nations:

- U.S. appropriated funds: \$24.1 billion, used primarily for Iraq reconstruction
- Iraqi funds: \$28.2 billion, used primarily for the daily operations of the Iraqi government, but also for reconstruction projects and the relief of the Iraqi people
- Donor funds: \$2.8 billion in contributions and firm commitments by donor countries and international organizations (\$849 million in humanitarian aid and \$1.9 billion of the \$13.5 billion pledged at the Madrid International Donors Conference for Iraq Reconstruction)

Figure 2 provides an overview of the sources of funds.

### General Overview Sources of Funds, as of September 30, 2004 (in millions)



**Figure 2**

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## U.S. Appropriated Funds

The United States has appropriated \$24.1 billion toward the relief and reconstruction of Iraq. As of September 30, 2004, \$13.1 billion (54%) had been obligated, and \$5.2 billion (22%) had been expended. The \$5.2 billion of expenditures included spending on infrastructure rehabilitation, security and social services, Coalition Provisional Authority (CPA) and Iraq Reconstruction Management Office (IRMO) operations, governance initiatives, relief, and administration.

Congress appropriated funds for the reconstruction of Iraq in two supplemental appropriations acts and, most recently, the FY 2005 Defense Appropriations Act:

- Public Law 108-11 (P.L. 108-11), the Emergency Wartime Supplemental Appropriations Act, April 16, 2003
- Public Law 108-106 (P.L. 108-106), the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, November 6, 2003
- Public Law 108-287 (P.L. 108-287), the FY 2005 Defense Appropriations Act, August 2004

### *Public Law 108-11*

P.L. 108-11 created the Natural Resources Risk Remediation Fund (NRRRF), the Iraq Relief and Reconstruction Fund (IRRF), and the Iraq Freedom Fund (IFF).

The Act established the NRRRF “for expenses necessary, in and around Iraq, to address emergency fire fighting, repair of damage to oil facilities and related infrastructure, and preserve a distribution capability.” As of September 30, 2004, \$802 million of the NRRRF funding had been apportioned, \$800.6 million had been committed and obligated, and \$689 million had been expended (See Table 5).

P.L. 108-11 established the Iraq Relief and Reconstruction Fund (IRRF 1) “for necessary expenses for humanitarian assistance in and around Iraq and to carry out the purposes of the Foreign Assistance Act of 1961 for rehabilitation and reconstruction in Iraq.” As of September 30, 2004, the Office of Management and Budget (OMB) had apportioned 100% of the \$2.475 billion IRRF 1 funds among the U.S. Agency for International Development (USAID), Department of Defense (DoD), Department of State (DoS), and the Department of the Treasury (Treasury). As of September 30, 2004, of the \$2.475 billion in IRRF1, \$2.472 billion (99%) had been obligated, and \$1.861 billion (75%) had been expended.

- Table 5 shows the status of the supplemental appropriation funds related to Iraq relief and reconstruction (P.L.108-11).
- Table 6 shows the P.L. 108-11 funding status by program and by USAID strategic objectives.

P.L. 108-11 also established the IFF “for additional expenses for ongoing military operations in Iraq...for stability operations...and for other costs.” These funds were used to provide CPA operating expenses, and \$300 million was transferred to the NRRRF. Other sections of the Act funded additional relief and reconstruction activities by the DoS (\$66 million) and USAID (\$413 million). Funds from P.L. 108-11 were available for obligation through September 30, 2004.

<b>Status of Supplemental Appropriation, P.L. 108-11, as of September 30, 2004<sup>b</sup></b> <b>(in millions)</b>				
<b>Source</b>	<b>Agency</b>	<b>Apportioned</b>	<b>Obligated</b>	<b>Expended</b>
<b>NRRRF</b>	DoD	\$802.0	\$800.6	\$689.6
<b>IRRF</b>	USAID	1,820.3	1,818.0	1,316.7
	DoD IRRF1	518.3	518.2	457.9
	DoS	125.4	125.4	82.8
	Treasury	6.0	6.0	3.7
	USTDA	5.0	5.0	0.3
	<i>Sub-total</i>		<i>2,475.0<sup>a</sup></i>	<i>2,472.6</i>
<b>Non-IRRF P.L. 108-11</b>	USAID	412.9	410.7	382.5
	DoS	66.0	66.0	49.2
	<i>Sub-total</i>	<i>478.9</i>	<i>476.7</i>	<i>431.7</i>
<b>IFF</b>	CPA-OPS <sup>b</sup>	684.6	610.8	471.1
	New Iraqi Army	51.2	51.2	48.1
	<i>Sub-total</i>	<i>735.8</i>	<i>662.0</i>	<i>519.2</i>
<b>Total</b>		<b>\$4,491.7</b>	<b>\$4,411.9</b>	<b>\$3,501.9</b>
<sup>a</sup> Includes \$1.5 million in transfers/adjustments from USAID.				
<sup>b</sup> CPA-OPS totals are as of August 31, 2004.				

**Table 5**

P.L. 108-11 Funds by Program by USAID Strategic Objectives, as of September 30, 2004 (in millions)				
Agency	Program Name	Apportioned	Obligated	Expended
<b>NRRRF Funds</b>				
DoD	Restore Iraq Oil (RIO)	\$802.0	\$800.6	\$689.6
<b>DoD Total NRRRF Funds</b>		<b>\$802.0</b>	<b>\$800.6</b>	<b>\$689.6</b>
<b>IRRF 1 Funds</b>				
USAID	Restore Critical Infrastructure	\$1,124.3	\$1,124.3	\$774.1
	Improve Efficiency & Accountability of Gov't	174.7	174.7	123.6
	Food Aid: Office of Food for Peace	160.0	160.0	122.8
	Support Education Health and Social Services	118.4	118.4	86.2
	Relief: Office of Foreign Disaster Assistance	72.2	72.2	59.1
	Office of Transition Initiatives	70.1	69.8	58.1
	Expand Economic Opportunity	65.9	65.9	62.6
	Prog. Support & Development of Gulf Region	18.0	17.5	17.0
	Administrative Expenses	15.0	15.0	13.2
	Transfers/Adjustments	1.5	00.0	0.0
	<i>Sub-total</i>	<i>1820.3</i>	<i>1818.0</i>	<i>1316.7</i>
DoD	Restore Iraq Electricity (RIE)	300.0	299.9	299.5
	Restore Iraq Oil (RIO)	166.0	166.0	158.3
	First Responder Network/DIILS	52.3	52.3	0.1
	<i>Sub-total</i>	<i>518.3</i>	<i>518.2</i>	<i>457.9</i>
DoS	Police/Prison Programs	61.5	61.5	37.5
	Relief Efforts	27.0	27.0	12.6
	Law Enforcement	24.6	24.6	20.4
	Humanitarian Demining	12.3	12.3	12.3
	<i>Sub-total</i>	<i>125.4</i>	<i>125.4</i>	<i>82.8</i>
Treasury & U.S. TDA	Technical Assistance	6.0	6.0	3.7
	Technical Assistance, Training	5.0	5.0	0.2
	<i>Sub-total</i>	<i>11.0</i>	<i>11.0</i>	<i>3.9</i>
<b>Total IRRF 1 Funds</b>		<b>\$2,475.0</b>	<b>\$2,472.6</b>	<b>\$1,861.4</b>
<b>Non-IRRF 1 Funds</b>				
USAID	Food Aid: Office of Food for Peace	\$138.2	\$136.7	\$113.9
	USDA <sup>a</sup>	106.8	106.8	106.8
	Restore Critical Infrastructure	51.6	51.6	51.6
	Support Education Health and Social Services	34.0	34.0	32.3
	Relief: Office of Foreign Disaster Assistance	33.4	33.3	32.9
	Operating Expenses	24.5	23.9	20.7
	Prog. Support & Development of Gulf Region	10.5	10.5	10.4
	Improve Efficiency & Accountability of Gov't	8.9	8.9	8.9
	Expand Economic Opportunity	5.0	5.0	5.0
	<i>Sub-total</i>	<i>412.9</i>	<i>410.7</i>	<i>382.5</i>
DoS	Coalition Support	66.0	66.0	49.2
	<i>Sub-total</i>	<i>66.0</i>	<i>66.0</i>	<i>49.2</i>
<b>Total Non-IRRF 1 Funds</b>		<b>\$478.9</b>	<b>\$476.7</b>	<b>\$431.7</b>

<sup>a</sup> Funds appropriated to U.S. Department of Agriculture, then transferred to USAID.

**Table 6**

The Act also funded the daily operations of the CPA until P.L. 108-106 was passed in November 2003. Although the CPA ceased operations on June 28, 2004, contractual payment obligations resulting from contracts awarded by the CPA during its tenure are still being fulfilled. A detailed status update of CPA funding is presented later in this chapter in the section on CPA and U.S. Mission Iraq operating funds.

Most of the funds (55%) allocated in P.L. 108-11 were used for the rehabilitation of Iraqi infrastructure—primarily oil production and electricity generation. Other major uses include relief, governance initiatives, and health and social services.

### *Public Law 108-106*

P.L. 108-106 appropriated \$18.4 billion for relief and reconstruction activities in Iraq and established the Iraq Relief and Reconstruction Fund (IRRF 2). These funds are available for obligation until September 30, 2006.

In addition to creating IRRF 2, the Act authorized \$983 million for the operations of the CPA, including \$75 million for the CPA-IG and \$50 million to support CPA reporting requirements. After the CPA ceased operations, \$105.75 million was transferred to the DoS to fund U.S. Mission Iraq operations, including the Iraq Reconstruction Management Office (IRMO). The Act also authorized the use of \$180 million of Defense Operations and Maintenance (O&M) funds for the Commanders Emergency Response Programs (CERP) in Iraq and Afghanistan. DoD allocated \$140 million of the \$180 million for CERP activities in Iraq. As of September 30, 2004, \$139.4 million (99%) of the \$140 million allocated for CERP in Iraq had been obligated, and \$73.4 million (52%) had been expended. Table 7 is an updated status overview of P.L. 108-106 funds.

<b>Status of Supplemental Iraq Reconstruction Funding, P.L. 108-106, as of September 30, 2004<sup>a</sup></b> (in millions)					
<b>Source</b>	<b>Appropriated</b>	<b>Apportioned</b>	<b>Committed</b>	<b>Obligated</b>	<b>Expended</b>
IRRF 2	\$18,439.0	\$13,745.0	\$10,607.0	\$7,494.0	\$1,307.0
CPA-OPS/IG <sup>a</sup>	877.25	877.25	794.5	789.5	377.6
U.S. Mission Iraq Transfer	105.75	105.75	105.75	104.9	10.8
<b>Total</b>	<b>\$19,422.0</b>	<b>\$14,728</b>	<b>\$11,507.2</b>	<b>\$8,388.4</b>	<b>\$1,695.4</b>

<sup>a</sup> CPA-OPS totals are as of August 31, 2004; includes CPA-IG data as of September 30, 2004.

**Table 7**

## **Iraq Relief and Reconstruction Fund 2**

The \$18.4 billion IRRF 2 appropriation was divided among 11 sectors, based on the CPA's request for supplemental funding developed in October 2003. Changes in these sector allocations beyond prescribed limits require congressional approval.

### **Strategic Spending Review**

With increased security challenges and elections planned for January 2005, the U.S. Ambassador to Iraq conducted a strategic review of the spending plan for the \$18.4 billion in IRRF resources. The objective was to re-prioritize planned projects and re-direct funding toward the most important activities. The results of the strategic review were announced to Congress on September 14, 2004.

This strategic review was conducted by the U.S. Mission Iraq, Multi-National Force-Iraq, and Multi-National Security Transition Command-Iraq, and directed by the Chief of Mission in consultation with the Iraqi Interim Government (IIG). The review recommended reprogramming \$3.46 billion from the water and sewerage sector, and the electricity sector to four other sectors: Security and Law Enforcement; Justice, Public Safety Infrastructure, and Civil Society; Private Sector Development; and Education, Refugees, Human Rights, and Democracy. This shift:

- addressed the need for improved security
- devoted more resources to improving the economic and political environment before the elections, including accelerating the creation of employment opportunities

In addition, funds were shifted within the oil sector to increase immediate production and revenues.

On September 30, 2004, the President signed this reprogramming into law as part of Public Law 108-309. Reallocations are listed in Table 8. A more detailed discussion of the change is included in the DoS Section 2207 Report of October 5, 2004.

<b>Summary of Changes to IRRF Sector Allocations, as of October 12, 2004 (in millions)</b>				
<b>Sector</b>	<b>Previous Allocation</b>	<b>Strategic Reprogramming</b>	<b>Increase/ Decrease</b>	<b>New Allocation</b>
Security and Law Enforcement	\$3,235.00	\$1,809.60	\$-	\$5,044.60
Electricity	5,464.50	(1,074.55)	(40)	4,349.95
Water Resources & Sanitation	4,246.50	(1,935.55)	-	2,310.95
Justice, Public Safety Infrastructure, & Civil Society	1,484.00	460.50	8.5	1,953.00
Oil Infrastructure <sup>a</sup>	1,701.00	0 <sup>a</sup>	-	1,701.00
Private Sector Employment Development	183.00	660.00	-	843.00
Health Care	786.00	-	-	786.00
Transportation & Telecommunications Projects	499.50	-	-	499.50
Roads, Bridges, & Construction	367.50	-	(8.5)	359.00
Education, Refugees, Human Rights, & Governance	259.00	80.00	40	379.00
Administrative Expenses	213.00	-	-	213.00
<b>Total:</b>	<b>\$18,439.00</b>	<b>\$0 <sup>b</sup></b>	<b>\$0</b>	<b>\$18,439.00</b>
<sup>a</sup> The strategic review moved \$450 million between two project lines within the oil sector. As a result, there is no net change in the amount of IRRF funds dedicated to the oil sector. <sup>b</sup> Changes in sector allocations equaled \$3,460.10 million.				

**Table 8**

Although the strategic review outlined the necessary major reprogramming changes, modest subsequent changes were made to those DoS initial figures. The Electricity sector allocation was decreased by \$40 million, while the Education, Refugees, Human Rights, and Governance sector allocation was increased by \$40 million. The Roads, Bridges, and Construction sector allocation was decreased by \$8.5 million, while the Justice, Public Safety Infrastructure, and Civil Society sector was increased by \$8.5 million. The sector allocations presented in the 2207 Report Spending Plan column in Table 9 are current as of October 12, 2004.

The new totals with the corresponding commitments, obligations, and expenditures are outlined in Table 9. Slightly over \$8 billion (43.9%) of the funds have been apportioned to construction projects and \$5 billion (27.7%) toward non-construction. As of September 30, 2004:

- \$13.7 billion (74.5%) had been apportioned.
- \$10.6 billion (57.5%) had been committed.
- \$7.4 billion (40.6%) had been obligated.
- \$1.3 billion (7.1%) had been expended.

The OMB apportioned these IRRF 2 funds:

- DoD, \$10.2 billion (55.3% of the \$18.4 billion total)
- USAID, \$2.3 billion (12.7%)
- DoS, \$1.1 billion (6.1%)
- U.S. Treasury, \$40 million (.2%)

Appendix D shows detailed IRRF 2 apportionments by agency.



IRRF 2 Program Status, as of October 19, 2004 (in millions)					
Sector	2207 Report Spending Plan	Apportioned	Committed	Obligated	Expended
Security and Law Enforcement	\$5,045	\$5,045	\$3,428	\$2,255	\$792
Electric Sector	4,350	3,840	3,366	2,218	390
Water Resources and Sanitation	2,311	1,408	1,240	780	36
Justice, Public Safety, and Civil Society	1,122	979	838	483	63
Oil Infrastructure	1,701	1,701	1,200	735	53
Private Sector Employment Development	843	168	142	140	47
Health Care	786	786	763	456	4
Transportation and Telecommunications Projects	499	499	384	181	13
Education, Refugees, Human Rights, and Governance	379	260	241	138	28
Democracy	831	541	504	472	84
Roads, Bridges, and Construction	359	299	289	148	15
Administrative Expense	213	29	29	29	26
<b>Total by Sector</b>	<b>18,439</b>	<b>15,555</b>	<b>12,424</b>	<b>8,035</b>	<b>1,551</b>
Construction	11,416	8,954	7,456	4,904	-
Non-construction	6,192	6,060	4,374	2,659	-
Democracy	831	541	504	472	-
<b>Total by Program</b>	<b>\$18,439</b>	<b>\$15,555</b>	<b>12,424</b>	<b>\$8,035</b>	<b>\$1,551</b>

**Table 9**

### *CERP-Appropriated Funds—Public Law 108-287*

In addition to the \$140 million of U.S. appropriated funds authorized for the CERP Program in FY 2004, P.L. 108-287 appropriated another \$300 million for CERP activities in Iraq and Afghanistan. Pending supplemental legislation would increase this amount to \$500 million. These funds were authorized for use in both FY 2004 and FY 2005, and \$100 million from this source was made available to military commanders in Iraq. As of September 30, 2004, no funds from this source had been obligated or expended.

## *CPA and U.S. Mission Iraq Operating Funds*

CPA daily operations were initially funded from PL108-11 Iraq Freedom Fund (IFF) from April to November 6, 2003. Table 9 shows an updated status of those funds as of August 31, 2003. From November 6, 2003 to June 28, 2004, CPA operations were funded from P.L. 108-106. Table 10 is an update of the status of those funds as of August 31, 2004. Congress authorized \$75 million to fund the CPA-IG's operations out of the 2004 Defense-wide O&M appropriations. As the U.S. Mission Iraq became operational and its IRMO component assumed some of the duties of the CPA, \$105.75 million was transferred from the CPA P.L. 108-106 appropriation to the DoS to fund these operations. The status of these transferred funds is included as a line item in Table 11.

<b>CPA Operating Expenses IFF Support April-November 2003, as of August 31, 2004 (in millions)</b>						
<b>Title/ Description of Requirement</b>	<b>Approved</b>	<b>Funded</b>	<b>Obligated</b>	<b>Expended</b>	<b>% Obligated<sup>a</sup></b>	<b>% Expended</b>
LOGCAP	\$301.441	\$304.907	\$236.500	\$227.400	78%	96%
Personnel	90.707	89.885	88.269	75.020	98%	85%
Security	94.307	88.368	88.241	36.424	102%	40%
Media Network Program	94.046	85.769	84.046	65.370	98%	78%
Communications /IT	73.130	71.863	70.649	41.463	98%	59%
Supplies & Equipment	24.552	23.303	22.959	10.562	99%	46%
Transportation	10.824	11.501	11.108	8.018	97%	72%
Studies	9.030	9.030	9.030	6.870	100%	76%
<b>Total CPA Administrative Support - IFF</b>	<b>\$698.036</b>	<b>\$684.626</b>	<b>\$610.802</b>	<b>\$471.127</b>	<b>90%</b>	<b>77%</b>
<sup>a</sup> Percentage based on amount funded. Summary totals affected by truncation.						

**Table 10**

CPA and IRMO Operating Expenses FY 2004 (from November 2003), as of August 31, 2004 (in millions)						
Title/Description of Requirement	Approved	Funded	Obligated	Expended	% Obligated <sup>a</sup>	% Expended
Personnel	\$104.901	\$101.272	\$100.591	\$41.969	99%	42%
Security	257.297	178.855	177.849	88.294	99%	50%
External Direct Support	3.019	2.542	2.407	1.617	95%	67%
Logistics	366.001	363.127	363.127	206.903	100%	57%
Baghdad Facilities and Furnishings	3.347	1.937	0.126	0.021	6%	17%
Communications /IT	133.846	95.998	95.644	21.726	100%	24%
Iraq Media Network	96.000	0.000	0.000	0.000	0%	0%
Reporting	25.750	25.750	25.750	7.966	100%	30.9%
Other Activities	6.690	3.915	2.941	1.668	75%	57%
<b>Total FY 2004 Supplemental</b>	<b>\$996.851</b>	<b>\$773.396</b>	<b>\$768.435</b>	<b>\$370.164</b>	<b>99%</b>	<b>48%</b>
CPA-IG	75.000	21.066	21.066	7.412	28%	9.9%
IRMO Transfer	\$105.750	\$105.750	\$104.932	\$10.795	99.2%	10.2%

<sup>a</sup> Percentage based on amount funded. CPA-IG numbers are September 30, 2004.

**Table 11**

## Iraqi Funds

Iraqi funds available for reconstruction can be grouped into several categories: seized funds, vested funds, and funds deposited in the DFI (see Figure 2). Seized funds were former Iraqi regime monies confiscated by coalition forces. Vested funds were Iraqi funds in U.S. banks that were frozen by executive order, vested in the U.S. Treasury, and authorized for use to benefit the people of Iraq. In May 2003, UNSCR 1483 noted the establishment of the DFI, which contains proceeds from Iraqi oil sales, repatriated assets from the United States and other nations, and deposits from unencumbered Oil for Food (OFF) program funds. Since the transfer of sovereignty to the IIG on June 28, 2004, total deposits to the DFI can only be estimated, because CPA-IG does not have access to information on the status of DFI funds now under IIG control. DFI totals for funds obligated and expanded are not available. The DFI funds the Iraqi National Budget, primarily from current oil sales.

## *Seized Funds*

Coalition military forces have seized a total of \$926.7 million in funds from the former Iraqi regime. As of September 30, 2004, \$835.4 million (90%) of seized funds had been obligated, and \$820.9 million (88%) had been expended. In June 2004, the Program Review Board (PRB), the joint coalition, and the Iraqi committee responsible for recommending approval of funding for Iraq reconstruction projects to the CPA Administrator, approved four large projects to be funded with seized assets. These projects were: funding the Iraqi Ministries' offices of Inspector General, providing new offices for the senior officials of the IIG, assisting in the re-integration of militia, and providing information technology and security support to the IIG compound. The authorization for these projects totaled \$85.6 million. The current unpaid balance for these projects is \$76.5 million; the total unpaid balance of the seized assets account is \$97.7 million. The total amount of uncommitted funds is \$9.2 million.

The U.S. government has adopted a strict policy prohibiting any new obligations from seized assets after the June 28, 2004 sovereignty change without the approval of the IIG. The IIG has allowed the U.S. government to maintain the financial administration for projects approved before the change of sovereignty. The uncommitted balance of \$9.2 million will be spent with the approval of the Iraqi government. The bulk of seized assets were used primarily for:

- non-ministry repairs and humanitarian assistance
- Iraqi ministry operations
- the Regional Rapid Response Program (RRRP)
- the Commanders Emergency Response Program (CERP)
- fuel products (diesel, heating oil, etc.) for the Iraqi people

Appendix E provides a detailed listing of the uses of seized funds.

## *Vested Funds*

In response to a UN resolution passed after the first Gulf War, the United States froze Iraqi assets (UNSCR 661, August 1990; Presidential Executive Order 12817 of October 23, 1992). On March 20, 2003, the United States vested \$1.724 billion (81%) of the \$2.120 billion of its frozen Iraqi assets in the U.S. Treasury (Presidential Executive Order 13290) and facilitated its transfer to the CPA. During the initial stages of post-conflict operations, these vested funds provided a vital source of money for relief and reconstruction.

From April 10-October 19, 2003, \$1.724 billion in vested funds was transferred from the Federal Reserve Bank in New York to CPA control. As of September 30, 2004, \$1.706 billion (99%) had been obligated, and \$1.702 billion (99%) had been expended. The current balance of uncommitted funds, as of September 30, 2004,

was \$1.7 million, including those commitments not reflected in the U.S. Army accounting systems. Approximately \$20 million in unpaid balances for previously approved projects was outstanding as of September 30, 2004.

While vested funds have been virtually expended, the remaining small balance, unlike seized assets, remains under the control of the U.S. government. This is consistent with a legal ruling that determined the Secretary of Defense's authorization to administer the vested assets that remained in force after the change in sovereignty (current balance of \$1.6 million).

Vested funds were primarily used for:

- Iraqi civil servant salaries, pensions, and individual relief payments
- Iraqi ministry operations
- repair and reconstruction

Appendix F provides a more detailed listing of expenditures from vested funds.

While the bulk of frozen Iraqi assets was vested and sent to Iraq, a balance of \$396.6 million remained. The U.S. government has transferred \$208.6 million to the DFI and set aside \$128 million for perfected judgments. The amount of frozen assets remaining in the U.S. is currently \$44.9 million (down from \$60 million), largely because of a reconciliation of blocked tangible Iraqi assets.

### *Development Fund for Iraq*

On May 21, 2003, UNSCR 1483 noted the establishment of the DFI for the benefit of the Iraqi people. It was the primary financial vehicle to channel revenue from current Iraqi oil sales, unencumbered OFF deposits, and repatriated Iraqi assets to the relief and reconstruction of Iraq. When sovereignty transferred to the IIG on June 28, 2004, the IIG assumed control of the DFI. The CPA-IG does not have access to or visibility of DFI account status, beyond the portion of DFI authorized by the Iraqi Minister of Finance for the PCO to expend against DFI-funded contracts awarded by the CPA. Total DFI revenues can be estimated.

Since June 28, 2004, Iraq has realized \$4.58 billion in oil revenues, and the IIG has received \$4.35 billion (95%) of this total, with \$228.8 million (5%) deposited with the UN for compensation of damages arising from Iraq's occupation of Kuwait during the first Gulf War. On June 30, 2004, the DFI received an additional \$500 million from unexecuted letters of credit from the UN Oil for Food program. Adding these two amounts to the \$20.7 billion in revenue received by the DFI from its inception until June 28, 2004 yields an estimated revenue total of \$25.5 billion.

Information about DFI obligations and expenditures after June 28, 2004, when the Iraqis assumed control of the DFI, is not available.

The DFI is the primary funding mechanism for the operation of the IIG. Appendix G of the CPA-IG's July 30, 2004 Report to Congress, contains a detailed breakdown of the proposed 2004 Iraq National Budget, which includes \$2.5 billion in reconstruction projects.

### **DFI Sub-account**

To facilitate efficient operations, the IIG delegated contract administration for those contracts awarded by the CPA from DFI funds before the assumption of Iraqi sovereignty on June 28, 2004. A separate sub-account, the "Central Bank of Iraq/Development Fund for Iraq/Transition," has been created at the Federal Reserve Bank of New York to enable payment for work on those contracts. Also, the PCO Comptroller has been provided cash to enable payment in Iraq for those projects that require this method of payment.

On June 15, 2004, the Iraqi Minister of Finance designated the Director of the Program Management Office (PMO), now the PCO, to administer and make payments on those DFI contracts entered into before June 28, 2004, and not secured by a letter of credit, up to a limit of \$800 million. While initially set up to a limit of \$800 million, the value of outstanding contract liabilities was expected to exceed this amount. Subject to increase at the discretion of the Ministry of Finance, this payment limit authority was increased by \$400 million on September 20, 2004. A further increase of \$800 million has been requested with approval pending. Additionally, CPA officials retained \$217.7 million of DFI cash, which was in their possession before the transfer of sovereignty, for cash payments of DFI obligations. As of September 30, 2004, \$59.2 million of this cash had been disbursed, leaving a balance of \$158.5 million. Table 12 is a summary of DFI activity by the PCO Comptroller entrusted with the DFI accounts.

Remaining DFI Funds Under the Administration of the U.S. Mission Iraq, as of September 30, 2004	
Description	Line Activity DFI Sub-accounts
Initial Ministry of Finance (June 28 Balance)	\$800.000
Additional allocation from IIG September 20, 2004	400.000
Transfer from Seized/Vested Accounts	21.811
Interest Earned	1.235
<b>Total Funding</b>	<b>\$1,223.046</b>
Payments	(860.482)
Payments Pending	(40.347)
<b>Balance</b>	<b>\$322.217</b>

**Table 12**

### *Commanders Emergency Response Program (CERP)*

The CERP is a program that coalition military commanders can quickly use to direct money to meet humanitarian, relief, and reconstruction needs in their geographic areas of responsibility. Typical projects include:

- repairing and refurbishing water and sewer lines
- cleaning up highways by removing waste and debris
- transporting water to remote villages
- purchasing equipment for local police stations
- upgrading schools and clinics
- purchasing school supplies
- removing ordnance from public places, including schools
- refurbishing playgrounds, youth centers, libraries, other recreational facilities, and mosques

The CERP program was initially funded from seized Iraqi assets. In addition, based on authority in P.L. 108-106, the DoD allocated \$140 million of FY 2004 Defense-wide O&M funds for the Iraqi CERP program. The CPA also allocated funds from the DFI for CERP operations, and this total increased by \$131 million

in April after the Iraqi National Budget was increased by additional UN Oil for Food distributions. Table 13 provides summary CERP information by source of funds as of September 30, 2004. An additional \$300 million has been appropriated for CERP, in Iraq and Afghanistan, in P.L. 108-287. The Act, passed in August 2004, allowed the money to be spent in both FY 2004 and FY 2005, and \$100 million has been sent in-theater. These funds will be added to CERP totals beginning in October 2004.

<b>Iraq CERP Program Totals, as of September 30, 2004</b>			
	<b>Total Program Funding</b>	<b>Cumulative Funds Obligated</b>	<b>Cumulative Funds Disbursed</b>
<b>Seized Assets</b>	\$177,280,923	\$177,280,923	\$175,325,647
<b>U.S. Appropriated</b>	140,000,000	139,378,431	73,392,841
<b>DFI</b>	368,578,452	368,578,452	324,544,881
<b>Total</b>	<b>\$685,237,806</b>	<b>\$685,237,806</b>	<b>\$573,263,369</b>

**Table 13**

Cumulative disbursement totals for Tables 13 and 14 differ by approximately \$5 million because of a difference in “as-of” dates. Table 13 uses September 30, 2004; Table 14 uses October 2, 2004.



<b>CERP Projects, as of October 2, 2004 (Combined Totals)</b>			
<b>Project Type</b>	<b>New Projects</b>	<b>Number of Projects</b>	<b>Amount Disbursed</b>
Police/Security	38	4,778	\$138,446,646
Other Public Services	52	6,089	90,098,888
Education	31	5,605	84,467,668
Reconstruction	45	3,236	56,895,233
Water/Sewer	27	2,869	56,730,109
Health	16	1,918	37,338,001
Rule of Law/Government	1	1,702	28,539,844
Electricity	2	973	21,670,423
Transportation	2	448	14,966,763
Facility Protection Security	0	686	12,554,338
Social Programs	6	974	12,051,670
Baghdad Beautification	8	120	9,377,516
Rewards	2	4,086	6,072,777
Budget/Operation Support	31	529	4,570,799
Humanitarian	2	499	4,547,280
<b>Total</b>	<b>263</b>	<b>34,512</b>	<b>\$578,327,959</b>

**Table 14**

### *Accelerated Iraq Reconstruction Program (AIRP)*

The Accelerated Iraq Reconstruction Program (AIRP) was designed to provide funds for high-impact, high-visibility projects in selected cities and areas that offered high levels of employment opportunities for Iraqis. Approved in April 2004, the program received \$383.8 million in DFI funds and used the money to fund projects from various programs, including the Rapid Regional Response Program, the Local Governance Fund, and the PMO, as well as CERP projects not already funded directly through CERP allocations. The larger AIRP projects (over \$100,000) have typically been associated with improvements in potable water access, sanitation, health, education, and transportation. As of late September, more than 350 projects valued at more than \$324 million were under contract, and 124 projects valued at over \$25 million have been completed. Iraqi employment on

these projects has grown from 11,000, in early July, to 13,750 as of September 29, 2004. Most of these projects will be awarded directly to local Iraqi firms for design and construction.

### *Other Iraqi Potential Repatriated Funds*

With the transfer of sovereignty to the IIG on June 28, 2004, the IIG assumed primary responsibility for seeking worldwide recovery of Iraqi assets, in accordance with UN resolutions, that were frozen in response to past actions of the former regime. The U.S. government, in furtherance of the continuing obligations of UN member states in this regard, continues to actively assist the IIG in its search and recovery effort, but no longer has access to balances for recovered assets.

### *Oil for Food*

Table 15 provides a summary by category of the Oil for Food (OFF) program financial activity (applicable deposits or expenditures) from December 1996 until December 2002. The CPA included a more detailed description of the OFF program in the CPA-IG's July 30, 2004 Report to Congress (p. 64). A UN release of financial information with applicable balances for 2003 is pending, but as of publication deadlines for this Report, it had not been released.

Table 15 outlines the percentage of oil sales designated for the various escrow accounts and the total amount deposited in those accounts from the beginning of the OFF program until December 2002 (the most current UN information).

The program's last oil sales were in March 2003, just before Operation Iraqi Freedom began. Food distribution was interrupted during hostilities. On May 22, 2003, the UN lifted its sanctions and gave the OFF program six months to conclude operations. On November 21, 2003, the UN OFF program officially ended.

UN Oil for Food Program (in millions)		
Individual Escrow Account	Percentage of Oil Revenues	Total Expenditures (or deposits)
Compensation Fund	25.0% <sup>b</sup>	\$17,183
South and Central Iraq	59.0% <sup>a</sup>	\$34,385
Three Northern Governorates	13.0%	\$6,065
UN Administrative Costs	2.2%	\$765
UNMOVIC	0.7%	\$445
UNSCR 778	n.a. <sup>c</sup>	\$200

<sup>a</sup> Percentage for South and Central Iraq was originally 53.034%, raised to 54.054%, and then 59.034% in 2000.

<sup>b</sup> Compensation fund percentage was originally 30% and lowered to 25% in 2000.

<sup>c</sup> Repayment of UNSCR 778 funds was set at \$10 million a quarter (suspended December 1999 to December 2000).

**Table 15**

The UN Oil for Food program remits surplus uncommitted OFF funds to the DFI when previously obligated amounts become available as unexecuted letters of credit expire.

### *Iraq National Budget*

The CPA-IG's July 30, 2004 Report contained a detailed draft amended June summary of the Iraqi National Budget (Appendix G). Since the change of sovereignty on June 28, 2004, the IIG fully controls the Iraqi National Budget.

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## **Donor Funds**

In response to the relief and reconstruction requirements in Iraq, aid has been donated by a large number of countries, as well as several international organizations. Periodic donor conferences are held to coordinate international activities. The first was in Madrid in October 2003, and the latest was in Tokyo, on October 14-15, 2004. At the Madrid Donors Conference, non-U.S. donor nations and international organizations pledged \$13.5 billion for the medium-term reconstruction of Iraq (2004-2007). Appendix H provides a comprehensive list of those pledges. Individual donor nations pledged approximately \$8 billion. This aid

can be grouped into three categories: immediate humanitarian aid, bilateral assistance, and internationally distributed aid.

In the immediate wake of Operation Iraqi Freedom, various countries and UN organizations provided \$849 million<sup>3</sup> in humanitarian aid through December 2003 (excluding U.S. and Oil for Food assistance). This aid was not counted as part of the Madrid Donor Conference reconstruction pledge amounts.

Bilateral project aid is assistance provided directly from a donor country to the Iraqi people or its government. As of October 5, 2004, the DoS estimates that approximately \$428 million in bilateral project assistance has been donated to Iraq. Much of it has been donated by Japan, the largest non-U.S. donor country. Highlights of individual donor country activities are included in Appendix 2 of the October 2207 report. Japan's generosity has been particularly noteworthy and includes:

- rehabilitating 3 power plants, 8 general hospitals, and 271 schools
- providing 27 mobile electricity substations
- supplying 30 compact water treatment units
- donating more than 1,000 vehicles (police, fire, and armored vehicles), 27 mobile electricity substations, 30 compact water treatment units
- repairing roads

The United Kingdom (UK) has made substantial bilateral project donations to Iraq, contributing over \$75 million in projects for reconstruction, governance and economic capacity building, and support to the justice sector and civil service. Other major bilateral project donors include Spain and Canada.

The majority of assistance pledged by individual nation states is currently being channeled through international organizations. The Madrid conference established the International Reconstruction Fund Facility for Iraq (IRFFI) to give donor countries a multilateral channel for their assistance to Iraq. The IRFFI has two trust funds, one administered by the World Bank and the other by the United Nations Development Group (UNDG). These two trust funds are the primary delivery mechanisms for aid to Iraq. Appendix G is a detailed summary of international trust fund commitments and deposits by country.

Current commitments to the two trust funds are \$1.04 billion: the World Bank's commitments total \$413 million, and the UNDG's commitments total \$623 million. Deposits to those two organizations total \$927 million: \$373.8 million was deposited with the World Bank, and \$553.4 million was deposited with the UNDG. A more detailed description of the organization of the IRFFI and its constituent trust

funds is included in Appendix G of this report and Appendix H of the CPA-IG's July 30, 2004 Report.

The IRFFI World Bank trust fund currently has either completed or has plans for projects worth \$360.6 million, which is approximately equal to its current deposits. Table 16 includes a list of the projects as of September 2004.

<b>World Bank Iraqi Trust Fund Projects, as of October 14, 2004 (in millions)</b>	
<b>Ongoing Projects</b>	
<b>Operation</b>	<b>Projected Costs</b>
Emergency Textbooks	\$40
Emergency School Rehabilitation	60
Water Supply and Sanitation - Baghdad	60
Water Supply and Sanitation - other than Baghdad	90
Emergency Health	25
Emergency Rural Infrastructure	20
Capacity Building II	7
Private Sector Development	55
<b>Completed Projects</b>	
<b>Operation</b>	<b>Actual Costs</b>
Capacity Building I	3.57
<b>Total</b>	<b>\$360.57</b>

**Table 16**

The IRFFI UNDG trust fund has developed a strategic planning framework, organized along eleven "clusters," with various UN specialized agencies working together under a cluster lead agency in each. Table 17 outlines the UN clusters with approved project amounts by cluster, as of October 14, 2004.

<b>UNDG Iraqi Trust Fund Cluster Totals for Approved Projects, as of October 14, 2004</b>	
<b>Cluster</b>	<b>Amount</b>
Infrastructure & Housing	\$115,921,443
Health	66,944,083
Education and Culture	62,261,341
Agriculture, Water Resources, & Environment	59,582,636
Support to the Electoral Process	46,078,944
Water & Sanitation	30,762,094
IDPs and Refugees	16,867,515
Governance and Civil Society	3,464,224
Poverty Reduction & Human Development	321,000
<b>Total</b>	<b>\$402,203,280</b>

**Table 17**

As of October 2004, the UN had developed over 40 projects, valued at over \$400 million; all had been approved for implementation by the Iraqi government. The first UN projects under the IRFFI are underway, including the provision of school supplies, vaccines, and support for internally displaced persons and refugees.

Although current commitments to the IRFFI total just over \$1 billion, donor nations pledged more than \$8 billion at the Madrid donor conference. Differences for the top 10 donor countries, between IRFFI commitments and Madrid pledge amounts, total \$6.7 billion. Just over half of this amount represents the pledge by the Government of Japan to extend \$3.5 billion in concessionary loans for Iraq reconstruction. Another approximately \$400 million is the bilateral aid provided by countries such as Japan, the UK, Spain, and Canada. Just over \$2 billion in unrealized pledge amounts comes from eight of the top ten pledged countries (less Japan and the UK). These countries are primarily Gulf states with large Iraqi debt holdings. The time period applicable for Madrid pledges was 2004-2007. The change of Iraqi sovereignty on June 28, 2004, has energized several Gulf states with respect to their Madrid pledges.

Appendix G provides more detailed information about both the UNDG and World Bank trust funds.

## *World Bank, International Monetary Fund, and Donor Loan Programs*

The World Bank and International Monetary Fund (IMF) have announced potential assistance packages to Iraq worth between \$5.5 and \$9.25 billion. Aid to Iraq from Japan, the largest non-U.S. benefactor, is primarily in the form of a loan (\$3.5 billion). The World Bank currently envisions an initial lending envelope of \$500 million from the International Development Association (IDA) and \$500 million from the International Bank for Reconstruction and Development (IBRD) during FY 2004 and FY 2005. As of September 30, 2004, the IIG had not requested any assistance from the World Bank.

On September 29, 2004, the executive board of the IMF approved a disbursement of SDR \$297.1 million (special drawing rights)<sup>4</sup> which is approximately \$436.3 million. This emergency post-conflict assistance package was approved after Iraq settled its arrears to the fund of SDR 55.3 million (approximately \$81 million U.S.) on September 22, 2004. In addition to settling its IMF arrears, Iraq paid for an increase in its quota under the IMF's Eleventh General Review of Quotas. Iraq's quota has increased from SDR 504 million (\$740.1 million U.S.) to SDR 1.19 billion (\$1.75 billion U.S.). This quota increase was a combination of a payment of \$251 million in cash and a non-interest bearing promissory note for the balance (total payment of \$1.08 billion U.S.). Iraq can draw on its quota with the approval of the IMF.

Although the World Bank expects to lend an additional \$2-4 billion by 2009 beyond its initial set of loans, subsequent lending is "predicated on an optimistic scenario of improvements in political stability and security, rapid economic recovery (including the oil sector), and generous debt relief," according to the World Bank interim strategy report. The IMF shares the same concerns and may not provide the full amount pledged in Madrid without a sound macroeconomic framework and continuing government commitment to key structural reforms in place.

### *The Challenge of Iraq's External Debt*

The U.S. government estimates that Iraq owes \$120-125 billion in foreign debt to other governments and market entities. The U.S. government believes that this high level of debt (more than 500% of the GDP) is unsustainable and that a very high level of debt reduction is warranted. Without substantial debt reduction, the interest and principal repayment on this debt will significantly impede the Iraqi economy. Each 10% difference on principal reduction equates to approximately \$625 million annually in interest payments, assuming a nominal 5% rate and \$125 billion in total debt. The effect of this 10% difference on principal repayment can easily exceed \$1 billion per year after the grace period on its repayment expires. The amount of

interest and principal that Iraq must pay will affect its ability both to secure additional donor loans from the World Bank and the IMF and to create internally generated investment funds.

The Paris Club, an informal organization created to facilitate debt renegotiation, has taken the lead in renegotiating Iraq's external debt. In May 2004, it received an IMF distributed Debt Sustainability Analysis that analyzed the effect of debt totals on the Iraq economy. Also, at the June 2004 Sea Isle Summit, the G-8 leaders agreed to reduce Iraq's debt in 2004 to ensure debt sustainability, taking into account the IMF analysis. G-8 creditors hold about 28% of Iraq's external debt. Gulf State creditors, which hold about 40-45% of Iraq's debt, have publicly committed to substantially reducing their claims.

Since April 2003, the Paris Club has discussed the issue of Iraq's debt at its regular monthly meetings. The U.S. government believes that the Paris Club will hold negotiations with Iraqi authorities in November. However, the timing of the negotiation is contingent on substantial completion of debt data reconciliation. Funds have been allocated for administrative support. The 2004 Iraqi National Budget schedules \$453.3 million for use in paying arrears to the World Bank and IMF. In addition, revised totals for U.S. spending under P.L. 108-106 (IRRF 2) now include \$360 million for Iraqi debt reduction. Iraq has resolved its IMF requirements but still owes the World Bank's IBRD approximately \$102.3 million as of September 30, 2004. The successful resolution of the Iraqi external debt issue will advance the reconstruction of Iraq.

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## **Sources and Uses of Funding for Iraq Relief and Reconstruction Data Clarification**

The CPA-IG compiled data on the sources, uses, and status of Iraq reconstruction funds from OMB, DoD, U.S. Army, DoS, USAID, Treasury, USTDA, Broadcasting Board of Governors, IMF, and the World Bank. The CPA-IG analyzed the data for reasonableness and consistency across sources of data. The CPA-IG did not review or audit the processes, controls, or systems in place at the providing agency or organization. The CPA-IG accepted the validity of the data provided. The CPA-IG believes that the presentation of Sources and Uses of Funds in this Report is a reasonable compilation of the status of Iraq relief and reconstruction funding through September 30, 2004.



## 8. Contracts

### Overview

Public Law 108-106 (P.L. 108-106) requires the Coalition Provisional Authority Inspector General (CPA-IG) to report on major federal contracts—those valued at over \$5 million—with any public or private sector entity to rebuild Iraq’s infrastructure, reestablish Iraq’s political or societal institutions, or provide products or services to the people of Iraq. Specifically, the CPA-IG must report this information about contracts or other agreements:

- the amount of the contract
- the scope of the contract
- the CPA’s process for identifying and soliciting potential contractors
- a list of potential contractors
- the justification and approval for using other than full and open competition

The contract data required under Public Law 108-106, Section 3001 (i)(1)(F), is presented in Appendix I.

The CPA-IG is verifying reported contract data of all major contracting actions related to the reconstruction of Iraq. The CPA-IG obtains the information related to all contracting actions, including contracts, delivery orders, task orders, and modifications from the Department of Defense, Department of State, and U.S. Agency for International Development (USAID) contracting offices. After reviewing the information, the CPA-IG enters the contract data into a database to track and analyze the findings.

### Competition and Contracting Action Analysis

The analysis in this section focuses on two parameters:

- the number of contracts issued
- the total dollar amount of contracts issued

In the fourth quarter of FY 2004, 66 major contracting actions have been issued to support Iraq reconstruction. These contracting actions include 32 contracts, 1 contract modification, and 33 task orders. All of the contracts were issued under full and open competition. During this reporting period, the CPA-IG received information on major contracting activity that occurred before July 30, 2004, and

was not previously reported: the CPA-IG was made aware of 25 major contracting actions related to Iraq reconstruction. Table 18 lists the total value of major contract actions by competition type.

<b>Total Value of Major Contracts by Competition Type (in millions)</b>					
<b>Competition Type</b>	<b>FY 2003</b>	<b>Quarter 1-3 FY 2004</b>	<b>Quarter 4 FY 2004</b>	<b>Total FY 2004</b>	<b>Total</b>
Full and Open	\$2,765	\$16,089	\$1,736	\$17,825	\$20,591
Sole Source	7,290	1,344	0	1,344	8,634
Limited Competition	958	736	0	736	1,695
<b>Total</b>	<b>\$11,014</b>	<b>\$18,170</b>	<b>\$1,736</b>	<b>\$19,906</b>	<b>\$30,920</b>
Note: Summary totals affected by truncation					

**Table 18**

The total value of a contracting action represents the maximum negotiated value of potential work that can be performed if all of the contract’s options are exercised. The amount obligated on a contract funds that portion of the work being performed by the contractor.

Fourteen of the contracts were indefinite delivery indefinite quantity (IDIQ) contracts. The total value of an IDIQ contract is based on a ceiling amount. Although the ceiling amount defines the maximum compensation value for the contract, it does not guarantee that the contractor will receive that amount. For IDIQ contracts, the CPA-IG tracks both the total potential value of a contract and the amount obligated.

In the quarter following the CPA-IG’s July 30, 2004 Report, all major contracting actions were competitively awarded. Full and open competition contract awards increased from 99.1% of the total value of contracting actions awarded in the first three quarters of FY 2004 to 100% of the total value of contracting actions awarded for this reporting period.

For this Report, the Project and Contracting Office (PCO) provided data on contracting actions issued by award number and also provided other information:

- date of award
- scope of work
- total value of the contract
- amount obligated

During this reporting period, the PCO issued 33 of the 66 contracting actions. The CPA-IG was able to verify approximately 82% of those contracting actions.

In reviewing the contract files, the CPA-IG identified discrepancies in contracting data that the CPA provided for the July 30, 2004 Report. The CPA-IG continues to monitor and verify the contracting actions taken by the CPA and later by the PCO. CPA-IG auditors received information on 87 additional contracting actions after the cutoff date for the July 30, 2004 Report; therefore, the CPA-IG was not able to verify them for inclusion in that report. CPA-IG auditors have since reviewed 70 of the contracts. Any discrepancies identified in the contract files for those 70 contracts have been reconciled. These 70 contracting actions are included in Appendix I. The CPA-IG auditors will continue to research the 17 unverified contracts.

For the July 30, 2004 Report, the CPA-IG attempted to verify the 178 major contracting actions from February 2003 through June 2004 by requesting copies of the contracts and comparing them to the reported data. The CPA contracting office in Iraq was unable to locate 14 of the contracts that the CPA-IG had requested. Despite continued efforts since the July 30, 2004 Report, the CPA-IG has not received these files. Table 19 lists the unverified contracts. The CPA-IG has initiated an audit of contract administration of Iraq relief and reconstruction contracts. See project number D2004-DPAAC-0037 in Chapter 3, Audits.

<b>Missing Contract Files</b>		
<b>Contract No.</b>	<b>Scope of Work</b>	<b>Award Date</b>
DABV01-03-C-0001	Telecommunications Services	07/05/03
DABV01-03-C-0002	Logistics Support New Iraqi Army	07/09/03
DABV01-03-C-0006	Security for GOIC	08/12/03
DABV01-03-M-0148	Cesspool Trucks	12/15/03
DABV01-04-1-0001	Jumpstart Project	04/07/04
DABV01-04-C-0012	Ad Campaign to Educate Iraqis	03/05/04
DABV01-04-C-0038	Rehab of PTCH & Schuaibah Plants	02/28/04
DABV01-04-C-0082	MOI Distribution System	05/11/04
DABV01-04-C-0086	Investigation of Oil for Food	Not Available
DABV01-04-C-0104	BPSA Life Support	05/15/04
PD/CO144/01/06	Independent Inspection	12/31/03
W914NS-04-D-0021	CMS Fully Funding Requirement Mod.	05/17/04
W914NS-04-C-0100	Body Armor	02/07/04
W914NS-04-C-0108	Base Camp Support	05/07/04

**Table 19**

## **Contract Data and Analysis**

The 66 contracting actions in this reporting period have a total value of more than \$1.7 billion, of which approximately \$1 billion has been obligated as of September 30, 2004. For this Report, the CPA-IG verified 44 major contracting actions. The CPA-IG was unable to verify 20 of the contracts and task orders in this reporting period. Of the 20, the CPA-IG received information on 14 too late to include in this report. The CPA-IG did not receive information on the remaining 6. For a list of contracting actions by agency, see Table 20 and Table 21.

<b>Major Contracts Awarded (by Contracting Office) for Quarter 4 of FY 2004</b>					
<b>Agency</b>	<b>No.</b>	<b>Total Value</b>	<b>Amount Obligated</b>	<b>% of Total Value</b>	<b>% of Total Contracts</b>
Project and Contracts Office (PCO)	33	\$540,322,727	\$540,322,727	31.1%	50.0%
U.S. Air Force Center for Environmental Excellence (AFCEE)	3	49,351,254	49,351,254	2.8	4.5
U.S. Agency for International Development (USAID)	10	641,222,942	266,776,202	36.9	15.2
U.S. Army Tank-Automotive and Armaments Command (TACOM)	19	499,404,293	138,089,654	28.8	28.8
U.S. Army Aviation and Missile Command (AMCOM)	1	5,818,000	5,818,000	0.3	1.5
<b>Total</b>	<b>66</b>	<b>\$1,736,119,216</b>	<b>\$1,000,357,837</b>	<b>100.0%</b>	<b>100.0%</b>
Note: Summary totals affected by truncation					

**Table 20**

<b>Major Contracts Awarded (by Contracting Office) FY 2004</b>					
<b>Agency</b>	<b>No.</b>	<b>Total Value</b>	<b>Amount Obligated</b>	<b>% of Total Value</b>	<b>% of Total Contracts</b>
ACA	4	\$129,307,721	\$129,307,721	0.7%	1.9%
AFCEE	40	1,119,402,843	1,114,100,026	5.6	18.8
AMC	2	193,717,396	31,974,591	1.0	0.9
Commander U.S. Army CECOM, AQC Center	1	51,878,370	17,600,000	0.3	0.5
CPA	29	483,182,848	422,287,005	2.4	13.6
DCC-W	4	123,444,015	67,890,453	0.6	1.9
DCMA	3	22,787,221	22,633,323	0.1	1.4
DITCO	2	23,433,117	23,433,117	0.1	0.9
NAVFAC	3	1,700,000,000	47,743,394	8.5	1.4
PCO	35	656,673,107	656,673,107	3.3	16.4
Pentagon Renovation Office	7	366,688,249	38,700,000	1.8	3.3
State Department	3	5,105,303,299	191,713,551	25.7	1.4
TACOM	20	619,529,443	258,214,804	3.1	9.4
USACE	45	6,728,203,342	2,209,286,838	33.8	21.1
USAID	14	2,577,558,370	345,172,217	13.0	6.6
U.S. Army Aviation and Missile Command	1	5,818,000	5,818,000	0.0	0.5
<b>Total</b>	<b>213</b>	<b>\$19,906,927,341</b>	<b>\$5,582,548,147</b>	<b>100.0%</b>	<b>100.0%</b>
Note: Summary totals affected by truncation					

**Table 21**

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## Estimate to Complete

Section 3001 (i)(1)(B) of Public Law 108-106 requires that each calendar quarter the Inspector General must submit to the appropriate committees of Congress a report of the CPA estimate of the costs to complete each project and each program.

It was not possible to report all project and program costs for several reasons:

- Tasks for a number of projects had not been identified, or the parties had not reached final agreement on all of the tasks that should be included.
  - Task mixes are being modified to accommodate the desires of the newly independent Iraqi Interim Government at both the national and regional levels.
  - Tasks included in projects are being modified in response to the willingness of the Iraqi Interim Government to share costs to accomplish previously excluded tasks.
- Cost estimates for some task orders and projects had not yet been definitized.
- The Administration recently reprogrammed \$3.4 billion to security efforts, from funds previously allocated for construction projects. This requires the re-prioritization of the tasks and projects to be accomplished with the remaining funds.
- Software has only recently been implemented to more efficiently track estimated and actual costs at the task and project level.
- The security situation has slowed the pace of the design-and-build teams in visiting job sites. This delay has resulted in unanticipated costs; the full effect on the estimated costs to complete projects is not yet known.