

U.S. AGENCY FOR INTERNATIONAL
DEVELOPMENT
MANAGEMENT OF THE TRANSFER
OF IRAQ RELIEF AND
RECONSTRUCTION FUND
PROJECTS TO THE IRAQI
GOVERNMENT

SIGIR-06-007
APRIL 29, 2006



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

April 29, 2006

MEMORANDUM FOR U.S. AMBASSADOR TO IRAQ
MISSION DIRECTOR-IRAQ, U.S. AGENCY FOR
INTERNATIONAL DEVELOPMENT

SUBJECT: Audit Report on U.S. Agency for International Development Management of the Transfer of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government (SIGIR-06-007)

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

We considered management comments from the Mission Director-Iraq, U.S. Agency for International Development, on a draft of this report when preparing the final report.

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

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

Stuart W. Bowen, Jr.
Inspector General

cc: Distribution

Special Inspector General for Iraq Reconstruction

SIGIR-06-007

April 29, 2006

U.S. Agency for International Development Management of the Transfer of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government

Executive Summary

This report is one of a series of reports addressing the management, by U.S. government organizations, of the transfer of completed Iraq Relief and Reconstruction Fund (IRRF) projects to the Iraqi government.

Introduction. On April 16, 2003, the United States Congress appropriated \$2.48 billion, through Public Law 108-11, commonly called IRRF I, to finance reconstruction in Iraq. On November 6, 2003, it appropriated an additional \$18.4 billion, through Public Law 108-106, to fund Iraq reconstruction requirements that had been identified by the Coalition Provisional Authority during the summer and fall of 2003.

The U.S. Agency for International Development (USAID) has provided management support for 99 IRRF funded construction projects with an estimated completion cost of approximately \$2.3 billion. It has completed 87 of these projects through February 23, 2006 and the remaining 12 are expected to be finished by October 2006. These projects include over 1,600 facilities and subprojects located throughout Iraq.

A formal asset recognition and transfer process is necessary to enable the Iraqi government to integrate the completed project assets into a nation-wide infrastructure management plan; adequately budget for sustaining the transferred project assets; account for the assets; and leverage the project assets to obtain financing for additional projects from world markets. The Calendar Year 2007 Iraqi budget cycle requires that the Ministry of Finance recognize assets transferred to Iraqi control by June 2006 so that adequate sustainment funds are provided in the budget.

Objective. The overall objective of this audit was to determine whether the U.S. government organizations responsible for managing IRRF projects have developed and approved policies and procedures for transferring the billions of dollars of assets purchased, renovated and constructed with IRRF funds to the Iraqi government and its citizens. This audit focused specifically on asset recognition and transfer policies and procedures used by the USAID. We previously reported on the asset recognition and transfer policies and procedures used by the U.S. Army Corps of Engineers, Gulf Region Division-Project and Contracting Office.¹

Limitation of Assessment. As part of our efforts to perform this review in accordance with government audit standards, we must report that during the course of this review we were denied access to USAID policies and procedures that were material to the audit objective announced in our memorandum of October 31, 2005. This limitation affected our ability to fully address the adequacy of USAID's policies and procedures for

¹ *GRD-PCO Management of the Transfer of IRRF-funded Assets to the Iraqi Government*, SIGIR-05-028 (January 24, 2006).

transferring assets to the Iraqi government and its citizens. For a more detailed discussion of these limitations, see Appendix A.

Results. The USAID has recognized the need for formal asset recognition and transfer policies and procedures, and is working, in coordination with the Iraq Reconstruction Management Office and others, to resolve the issue. Current USAID policies and procedures do not fully address the information needs of the Iraqi Ministries responsible for planning the integration and sustainment of completed projects. The USAID has acknowledged the issue and is participating in three working groups to develop a common policy and process for facilitating the legal, financial, and logistical transfer of assets to the Iraqi government.

Management Actions. During the course of this audit, the USAID acknowledged the need to further address the asset recognition and transfer issue. USAID participates in three multi-agency working groups, the Information Technology Working Group, the Asset Recognition and Transfer Working Group, and the Sustainability Working Group. All of the working groups include representatives from the principal U.S. government agencies charged with the relief and reconstruction effort in Iraq, including USAID, Iraq Reconstruction Management Office, Multi-National Security Transition Command-Iraq, Multi-National Force-Iraq, and the U.S. Army Corps of Engineers, Gulf Region Division-Project and Contracting Office. The Information Technology Working Group was formed to consolidate all U.S. government funded and managed relief and reconstruction project asset information across all infrastructure sectors and organizations throughout Iraq into one database. The Asset Recognition and Transfer Working Group was established to develop a common policy and process for the represented agencies to facilitate the legal, financial and logistical transfer of assets to the Iraqi government. The Sustainability Working Group was formed to develop and implement a plan for the sustainment of IRRF Projects.

Recommendations. We recommend that USAID, in coordination with the Iraq Reconstruction Management Office, complete the development of a common policy and process facilitating the transfer of completed project assets to the Iraqi government. That process should, at a minimum, provide formal notification of the project asset transfer to the Iraqi Ministry of Planning, Ministry of Finance, and the appropriate operating ministry central headquarters (Electricity, Water, Oil, Health, Education, Transportation, Roads, Communications, Justice, Interior and Defense). Notification should also include, at a minimum, relevant data such as operation start date, asset cost, estimated short-term and long-term sustainability costs, terms of warranties, and the location of maintenance and systems manuals and instructions.

Management Comments and Audit Response. USAID did not concur with our recommendation that it complete the development of a common policy and process for transferring completed projects to the Iraqi government. USAID reports it has adapted its current policies for asset turnover and believes those policies will be sufficient. Further, USAID did not provide us with a copy of those policies. Although we were not provided the adapted policies, we did evaluate the practice currently being followed and determined this process did not meet the U.S. Embassy's position that the Ministry of Finance and Ministry of Planning needed to be notified of assets being transferred.

Table of Contents

| | |
|--|----|
| Executive Summary | i |
| Introduction | |
| Background | 1 |
| Objectives | 2 |
| Finding | |
| Asset Recognition and Policies and Procedures | 3 |
| Appendices | |
| A. Scope and Methodology | 6 |
| B. Acronyms | 7 |
| C. Report Distribution | 8 |
| D. Audit Team Members | 10 |
| Management Comments | |
| Mission Director-Iraq, U.S. Agency for International Development | 11 |

Introduction

Background

On April 16, 2003, the U.S. Congress appropriated \$2.48 billion, through Public Law 108-11, commonly called IRRF I, to finance reconstruction in Iraq. On November 6, 2003, it appropriated an additional \$18.4 billion, through Public Law 108-106, for the Iraq Relief and Reconstruction Fund (IRRF II) to fund Iraq reconstruction requirements that had been identified by the Coalition Provisional Authority during the summer and fall of 2003. The Coalition Provisional Authority identified thousands of projects within various infrastructure sectors in Iraq, such as electricity, water, oil, health care, transportation, and education. This report refers to all projects funded under either appropriation as IRRF funded projects.

The U.S. Agency for International Development (USAID) has provided management support for 99 IRRF funded construction projects with an estimated completion cost of approximately \$2.3 billion. It has physically completed 87 of these projects through February 23, 2006 and the remaining 12 are expected to be finished by October 2006. These projects include over 1,600 facilities and subprojects located throughout Iraq. They include the repair or construction of power plants, water systems, sewage treatment plants, telecommunication facilities and others. The projects are all constructed through two prime contracts awarded to Bechtel National, Incorporated. As a result of these projects, \$2.3 billion worth of assets will be transferred to the Iraqi government.

It is imperative the asset and transfer process be accomplished in a manner that enables the Iraqi government to integrate the completed project assets into a nation-wide infrastructure plan for future capital projects, assure adequate budgeting for sustainability of the transferred project assets, and leverage those project assets to obtain financing for additional projects from world markets, including the International Monetary Fund, World Bank, non-governmental organizations and donor nations.

Asset recognition and transfer completes a process which should begin with Iraqi government involvement in the programming and design of the project and continue through the inspection process and development and receipt of the contract deliverables necessary for operations and maintenance of the completed project. The final acceptance and transfer of the project assets should be the culmination of a collaborative process between the appropriate United States and Iraqi government representatives.

Timely asset recognition and transfer is important because the Iraqi government needs to plan for and fund infrastructure and sustainment of completed project assets on a nation-wide basis. This requires a comprehensive knowledge by all appropriate ministries of assets being transferred to its control. According to a senior Iraq Reconstruction Management Office official, an effective asset recognition and transfer program in the current Iraqi political and security environment should include notification of the transfer to the Ministry of Finance, Ministry of Planning, and appropriate operating ministry (Electricity, Water, Oil, Health, Education, Transportation, Roads, Communications, Justice, Interior and Defense) at the central government level in Baghdad.

Responsibilities

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. These programs are implemented in coordination with the United Nations, World Bank, International Monetary Fund, Coalition country partners, nongovernmental organizations, private sector partners and others. This is accomplished through its Mission headquarters in Baghdad and five field offices located throughout Iraq.

According to National Security Presidential Directive 36, entitled, “United States Government Operations in Iraq,” the Chief of the U.S. Mission in Iraq, under guidance from the Secretary of State, is responsible for the direction, coordination, and supervision of all United States government employees, policies, and activities in country, except those under the command of an area military commander. This includes the continuous supervision and general direction of all assistance for Iraq. The Directive also creates a temporary organization within the Department of State, called the Iraq Reconstruction Management Office to facilitate the reconstruction in Iraq.

The Iraqi Ministry of Planning has final planning responsibility for all capital assets. Recognition of transferred assets by the Ministry of Planning is necessary in order to integrate them into a nation-wide infrastructure plan for future capital projects that will best serve the people of Iraq. The Ministry of Finance is responsible for the overall Iraqi government budget. Timely recognition by the Ministry of Finance is necessary to assure adequate budgeting for sustainability of the transferred assets. The Calendar Year 2007 Iraqi budget cycle requires that the Ministry of Finance recognize assets transferred to Iraqi control by late summer 2006 in order to include adequate sustainment funds for them in the budget. In addition, proper recognition of the completed project assets will enable the Ministry of Finance to leverage those assets to obtain financing from world markets, including the International Monetary Fund, World Bank, non-governmental organizations and donor nations.

Objectives

The overall objective of this audit was to determine whether the U.S. government organizations responsible for managing IRRF projects have developed and approved policies and procedures for transferring the billions of dollars worth of assets purchased, renovated and constructed with IRRF funds to the Iraqi government and its citizens. This audit focused specifically on asset recognition and transfer policies and procedures used by the USAID for its construction projects. We have also reported on the asset recognition and transfer policies and procedures used by the U.S. Army Corps of Engineers, Gulf Region Division-Project and Contracting Office;² and the Multi-National Security Transition Command-Iraq³

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

² *GRD-PCO Management of the Transfer of IRRF-funded Assets to the Iraqi Government*, SIGIR-05-028 (January 24, 2006).

³ *Multi-National Security Transition Command-Iraq: Management of the Transfer of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government*, SIGIR-06-006 (April 2006).

Asset Recognition and Transfer Policies and Procedures

Effective asset recognition and transfer requires a three step process: the assets must be properly accepted by the U.S. government; custody and operational control of the assets must then be transferred to the appropriate Iraqi government entity; and finally, the assets must be formally recognized by the Iraqi government. USAID currently accomplishes the first two steps but does not have an approved policy or procedure that requires formal notification to the Iraqi Ministry of Finance or Ministry of Planning of project assets transferred to Iraqi government control. This has resulted largely because neither USAID nor the Iraq Reconstruction Management Office has established a requirement to report completed projects to these Iraqi ministries. However, USAID, in coordination with the Iraq Reconstruction and Management Office and others, is participating in the development of a common process and policy facilitating the recognition and transfer of assets to the Iraqi government.

According to USAID it provides developmental assistance to foreign countries and their citizens, which assistance is generally pursuant to government-to-government grant agreements. Such agreements outline the expected contributions from each government (e.g., cash or in-kind contributions from a host government) and the conditions precedent to the USAID contribution. USAID also has policies and procedures for providing assets to foreign governments. Those procedures generally require the execution of a bilateral grant agreement between the foreign government and USAID prior to the start of a project and before disbursement of any project funds. The grant agreement specifies various terms, requirements, and preconditions that must be met by the host government. They can include items such as the project dollar amount being granted, the host government's contribution, the estimated project completion date, the ability to sustain the project after completion, and the expected results.⁴ However, USAID was unable to use their normal procedures in Iraq at the time most of the construction projects were started due to the absence of existing Iraqi governmental organizations with sufficient knowledge and capacity to implement the agreements.

USAID officials accept completed construction projects from the prime contractor in accordance with standard contracting procedures. USAID then transfers responsibility for the security, control, operation and maintenance of the completed projects to the appropriate Iraqi operating ministry (Electricity, Water, Health, Education, Transportation, Roads, and Communications). This is accomplished through a "care and custody" letter provided to an operating ministry official. The letter also assigns all warranties to the operating ministry and provides contact points for warranty claims.

USAID officials recognized the need to adapt their Automated Directives System No. 350 (Grants to Foreign Governments) to better fit the circumstances in Iraq. A senior USAID official told us the Mission had developed draft procedures to assure that the appropriate Ministries recognized the assets transferred to Iraqi control. However, those procedures have not been formally approved. The senior USAID official stated they did not want to release their draft procedures at the present time because they had not been formally approved and because the Mission continues to work with the Iraq Reconstruction Management Office and other U.S. implementing agencies to develop a

⁴ These requirements are included in USAID's Automated Directives System (ADS) No. 350-Grants to Foreign Governments.

common policy and process that all U.S. agencies operating in Iraq can use to accomplish the successful recognition and transfer of assets to the Iraqi government. The Mission prefers to achieve consensus with the Iraq Reconstruction Management Office and other implementing agencies on a common policy and process but is prepared to finalize and use its own procedures should that consensus not be achieved in the near future.

To help achieve that consensus, USAID participates in three multi-agency working groups, the Information Technology Working Group, the Asset Recognition and Transfer Team Working Group, Sustainability Working Group, comprised of representatives from the five principal agencies of the U.S. government charged with the relief and reconstruction effort in Iraq. These agencies include, in addition to USAID, the Iraq Reconstruction Management Office, Multi-National Force-Iraq, Multi-National Security Transition Command-Iraq, and the U.S. Army Corps of Engineers, Gulf Region Division-Project and Contracting Office.

The Information Technology Working Group was formed in August 2005 to consolidate all U.S. government funded and managed relief and reconstruction project information across all sectors and organizations throughout Iraq into one database. The name for this consolidated database is the Iraq Reconstruction Management System. One of the intended goals for the Iraq Reconstruction Management System is the capability to turn over to the Iraqi government an archive of the U.S. government's relief and reconstruction project information, which will help in its budgeting for sustainability of transferred facilities and future master planning.

In addition, USAID is a member of the Asset Recognition and Transfer Team Working Group which held its first formal meeting in December 2005. This Working Group was started to build on earlier informal efforts by representatives from the Iraq Reconstruction Management Office, Joint Contracting Command-Iraq/Afghanistan, and others to develop a common policy and process for all U.S. agencies to use in transferring assets to the Iraqi government. In September 2005, their effort resulted in an initial draft common policy and process for asset recognition and transfer, but further progress on the issue was limited until the formal working group began work in December 2005.

The Asset Recognition and Transfer Team Working Group includes representatives from USAID, Iraq Reconstruction and Management Office, the U.S Army Corps of Engineers, Gulf Region Division-Project and Contracting Office, Multi-National Security Transition Command-Iraq, Joint Contracting Command-Iraq/Afghanistan, and Multi-National Force-Iraq. The purpose of the Working Group is to complete the development of a common policy and process for the represented agencies to facilitate the legal, financial and logistical transfer of assets to the Iraqi government. USAID representatives continue to participate in the Working Group and contribute their significant asset transfer expertise developed over the past 45 years.

Finally, USAID is a member of the Sustainability Working Group. The Sustainability Working Group was established to develop and implement a plan for the sustainment of IRRF-funded projects. The group works with other IRRF program officials to determine the capacity of the Iraqi government to maintain the IRRF projects, and to develop supportable cost estimates.

Conclusion

Although we were not provided USAID adapted policies as noted in their response to this draft request, our review of the agency wide policies provided to us determined that these policies and procedures do not fully address the successful recognition and transfer of IRRF funded assets to the Iraqi government because they do not require the provision for notification and sufficient information to the appropriate Iraqi Ministries to enable adequate long-term, nation-wide planning for the integration and sustainability of construction project assets.

Recommendation, Management Comments and Audit Response

We recommend that USAID, in coordination with the Iraq Reconstruction Management Office, complete the development of a common policy and process facilitating the transfer of completed project assets to the Iraqi government. That process should, at a minimum, provide formal notification of the project asset transfer to the Iraqi Ministry of Finance, Ministry of Planning, and the appropriate operating ministry central headquarters (Electricity, Water, Oil, Health, Education, Transportation, Roads, Communications, Justice, Interior and Defense). Notification of completed assets should also include, at a minimum, relevant data such as operation start date, asset cost, estimated near and long-term sustainability costs, terms of warranties, and the location of maintenance and systems manuals and instructions.

Management Comments and Audit Response. USAID did not concur with our recommendation that it complete the development of a common policy and process for transferring completed projects to the Iraqi government. USAID reports it has adapted its current policies for asset turnover and believes those policies will be sufficient. Further, USAID did not provide us with a copy of those policies so we could determine their adequacy. Although we were not provided the adapted policies USAID refers to in its response, we did evaluate the practices currently being followed and determined this process did not meet the U.S. Embassy's position that the Ministry of Finance and Ministry of Planning needed to be notified of assets being transferred.

Regardless of whether USAID has procedures or develops procedures, the IRRF program is not a USAID program. Rather it is the principle U.S. government program for the reconstruction of Iraq that has been put under the direction and supervision of the U.S. Ambassador to Iraq. We believe it is important to present the U.S. contribution as a unified donation on behalf of the American people rather than divide the U.S. contribution along agency lines. National Presidential Security Directive No. 36 gives the U.S. Ambassador the authority to direct how the turnover of completed projects will occur and through the Iraq Reconstruction Management Office a process is being put in place. We believe that it is important that all agencies follow this process.

Appendix A. Scope and Methodology

We initiated this review in February 2006 (Project No. 2005-22) to determine if the U.S. Agency for International Development (USAID) had adequate policies and procedures in place to manage the transfer of construction project assets to the Iraqi government, we interviewed USAID representatives, including the Director, Office of Infrastructure, Mission Controller, Mission Contracting Officer, and Regional Legal Advisor. We also interviewed representatives from the Iraq Reconstruction Management Office to gather information about how the asset transfer process affects planning and budgeting at the Iraqi central government level.

We reviewed USAID policies and procedures regarding the contract close-out and asset transfer process. We did not review completed contract close-out and asset transfer documentation to determine if they were accomplished in accordance with USAID policies and procedures. We plan to address this issue in a future audit.

We attended weekly meetings of the Asset Recognition and Transfer Working Group held during February and March 2006.

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

Audit Limitations. Our audit was limited because USAID denied us access to policies and procedures that were material to the audit objective. USAID's response to this audit stated it has policies and procedures in place—adapted to administer their program in Iraq—that serve to document the formal grant or recognition of USAID-funded capital assets to the Iraqi government. However, USAID denied us access to those policies and procedures. This limitation affected our ability to fully address the adequacy of USAID's policies and procedures for transferring assets to the Iraqi government and its citizens.

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

Prior Coverage. There have been no audits performed at USAID concerning the Iraq Relief and Reconstruction Fund with the same or similar objectives as this audit.

Appendix B. Acronyms

| | |
|-------|--|
| IRRF | Iraq Relief and Reconstruction Fund |
| SIGIR | Special Inspector General for Iraq Reconstruction |
| USAID | United States Agency for International Development |

Appendix C. Report Distribution

Department of State

Secretary of State

Senior Advisor to the Secretary and Coordinator for Iraq

U.S. Ambassador to Iraq

Director, Iraq Reconstruction Management Office

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

Inspector General, Department of State

Department of Defense

Secretary of Defense

Deputy Secretary of Defense

Director, Defense Reconstruction Support Office

Under Secretary of Defense (Comptroller)/Chief Financial Officer

Deputy Chief Financial Officer

Deputy Comptroller (Program/Budget)

Inspector General, Department of Defense

Director, Defense Contract Audit Agency

Director, Defense Finance and Accounting Service

Director, Defense Contract Management Agency

Department of the Army

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

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

Logistics, and Technology

Deputy Assistant Secretary of the Army (Policy and Procurement)

Director, Project and Contracting Office

Commanding General, Joint Contracting Command-Iraq/Afghanistan

Assistant Secretary of the Army for Financial Management and Comptroller

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

Commanding General, Gulf Region Division

Auditor General of the Army

U.S. Central Command

Commanding General, Multi-National Force-Iraq

Commanding General, Multi-National Security Transition Command-Iraq

Commander, Joint Area Support Group-Central

Other Federal Government Organizations

Director, Office of Management and Budget

Comptroller General of the United States

Inspector General, Department of the Treasury

Inspector General, Department of Commerce

Inspector General, Department of Health and Human Services

Inspector General, U.S. Agency for International Development

President, Overseas Private Investment Corporation

President, U.S. Institute for Peace

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

U.S. Senate

Senate Committee on Appropriations

 Subcommittee on Defense

 Subcommittee on State, Foreign Operations and Related Programs

Senate Committee on Armed Services

Senate Committee on Foreign Relations

 Subcommittee on International Operations and Terrorism

 Subcommittee on Near Eastern and South Asian Affairs

Senate Committee on Homeland Security and Governmental Affairs

 Subcommittee on Federal Financial Management, Government Information and International Security

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

U.S. House of Representatives

House Committee on Appropriations

 Subcommittee on Defense

 Subcommittee on Foreign Operations, Export Financing and Related Programs

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

House Committee on Armed Services

House Committee on Government Reform

 Subcommittee on Management, Finance and Accountability

 Subcommittee on National Security, Emerging Threats and International Relations

House Committee on International Relations

 Subcommittee on Middle East and Central Asia

Appendix D. Audit Team Members

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

Sandra Cross

Glenn Furbish

Robert Gabriel

Management Comments

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



USAID | IRAQ
FROM THE AMERICAN PEOPLE

MEMORANDUM

TO: Joseph T. McDermott
Assistant Inspector General for Audit
Special Inspector General for Iraq Reconstruction (SIGIR)

FROM: Dawn Liberi, Mission Director, USAID/Iraq *Dawn Liberi*

DATE: March 26, 2006

SUBJECT: USAID Response to SIGIR Draft Audit Report on Management of the Transfer of IRRF-Funded Assets to the Iraqi Government, SIGIR Report No. SIGIR-06-007

USAID/Iraq appreciates the opportunity to comment on the above-referenced draft audit report.

I. Draft Audit Report's Conclusion, Page 4:

The draft audit report concludes that: "USAID policies and procedures do not fully address the successful recognition and transfer of IRRF funded assets to the Iraqi government because they do not require the provision for notification and sufficient information to the appropriate Iraqi Ministries to enable adequate long-term, nationwide planning for the integration and sustainability of construction project assets. To its credit, USAID has acknowledged the problem and is working, in coordination with others, to resolve the asset recognition and transfer issue."

USAID Response to Draft Conclusion:

We believe this conclusion is incorrect. As noted in the SIGIR draft report itself (page 3), USAID/Iraq's procedures do in fact include information that would enable the line ministries (e.g., electricity, water, wastewater) of the Government of the Republic of Iraq (GOI) to adequately operate, maintain and sustain USAID-funded capital projects following the transfer of control to the GOI. Specifically, at the completion of a capital project, USAID sends a letter to the relevant GOI line ministry—commonly referred to as USAID's care, custody and control transfer letter—to inform it that the project is complete and that, henceforth, it is responsible for the operation, maintenance, sustainment, and security of the project works. As applicable, this letter also generally includes, or documents the previous transfer of, operations and maintenance manuals, warranty information, and "as-built" drawings. As line ministries are part of the GOI's national government, notice to such ministries, who have been delegated overall responsibility for the operation and management of GOI facilities and other capital under their directorship, receive adequate information from USAID upon which it can program and plan for the long-term sustainment of USAID-funded capital assets.

Additionally, USAID has policies and procedures in place, adapted to serve our program in Iraq, that serve to document the formal grant or recognition of USAID-funded capital assets to the GOI. These policies and procedures envision that the Ministry of Finance, the appropriate line ministry or ministries, and the Ministry of Planning and Development Coordination, as appropriate will sign the letter as authorized representatives of the GOI. The letter would include a complete description of the completed project; the USAID valuation of the project; and, USAID's estimates of the GOI's cost to sustain the project for fiscal years 2006 and 2007, as appropriate. The letter would also seek GOI commitment to properly protect and sustain the capital asset for the benefit of Iraqi people. USAID participates in the development of formal policies and procedures for Asset Recognition and Transfer by all USG IRRF-funded agencies, which policies and procedures are still in draft. As pointed out in the draft report, USAID will utilize its policies and procedures to obtain formal recognition of USAID-funded capital assets in the event that the IRMO procedures fall short of meeting our requirements.

II. Draft Audit Report's Recommendation, Page 4:

The draft audit report recommends that "the Mission Director-Iraq, U.S. Agency for International Development, direct the USAID Iraq Mission, in coordination with the Iraq Reconstruction Management Office [IRMO], to complete the development of a common policy and process facilitating the transfer of completed project assets to the Iraqi government. That process should, at a minimum, provide formal notification of the project asset transfer to the Iraqi Ministry of Finance, Ministry of Planning, and the appropriate operating ministry central headquarters (Electricity, Water, Oil, Health, Education, Transportation, Roads, Communications, Justice, Interior and Defense). Notification of completed assets should also include, at a minimum, relevant data such as operation start date, asset cost, estimated near and long-term sustainability costs, terms of warranties, and the location of maintenance and systems manuals and instructions."

USAID Response to Draft Audit Report's Recommendation:

We believe the draft recommendation is not warranted for the reason that USAID/Iraq, in coordination with IRMO, the Project Contracting Office of the US Department of Defense, and other concerned USG agencies is already actively engaged, as SIGIR well knows given its attendance at the weekly Asset Recognition and Transfer (ART) Interagency Working Group, in the development of a uniform set of interagency policies and procedures to formally transfer USG capital assets to the GOI. As noted in the draft report, USAID will determine if the product produced by the ART working group will satisfy USAID's requirements, and we have expressly stated that we reserve the option of utilizing our own policies and procedures should we determine that the final ART procedures are insufficient. As indicated in our response to the draft audit's conclusion, USAID policies and procedures provide for adequate notification to the GOI—for all relevant ministries—and for the submission of information sufficient to enable the GOI to properly operate, sustain and protect capital assets funded by USAID.

III. USAID Request for Correction of Misstatements of Fact in the Draft Audit Report

a. Results, page ii:

SIGIR statement: "The USAID has recognized the need for formal asset recognition and transfer policies and procedures, and is working, in coordination with the U.S. Department of State's Iraq Reconstruction Management Office and others, to resolve the issue. Current USAID policies and procedures do not fully address the information needs of the Iraqi Ministries responsible for planning the integration and sustainment of completed projects. The USAID has acknowledged the issue and is participating in two working groups to develop a common policy and process for facilitating the legal, financial, and logistical transfer of assets to the Iraqi government."

USAID response: This paragraph is incorrect. First, USAID has policies and procedures in place to formally transfer USAID-funded capital assets to the GOI. We recognize that other IRRF-funded USG agencies need to establish policies and procedures for this purpose and endorse the idea of uniform policies and procedures to be applied by all USG IRRF-funded agencies, should such policies and procedures satisfy our requirements.

b. Management Actions, page ii:

1. SIGIR statement, 1st paragraph, 2^{nd-4th} sentences: "A senior USAID official told us their Iraq Mission organization had developed draft procedures to assure that the appropriate Ministries recognized the assets transferred to Iraqi control. However, those procedures have not been formally approved. The senior USAID official stated they did not want to release their draft procedures at the present time because they had not been formally approved and because the Mission continues to work with the Iraq Reconstruction Management Office and other U.S. implementing agencies to develop a common policy and process that all U.S. agencies operating in Iraq can use to accomplish the successful recognition and transfer of assets to the Iraqi government."

USAID response: USAID has not drafted policies and procedures specific to Iraq. Rather, we have adapted our USAID Agency-wide policies and procedures to apply to the Iraq situation. We therefore would not describe these policies and procedures as draft, which implies that they were created specifically for Iraq. We did not share the adapted procedures with SIGIR because we are active participants in and are awaiting the final product produced by the ART and Sustainability interagency working groups to determine if they satisfy USAID requirements. We do not wish to confuse either SIGIR or the working groups at this point by distributing our adapted procedures while the ART working group is still in the process of attempting to develop common procedures for all USG IRRF-funded agencies.

2. SIGIR statement, 2nd paragraph, 1st sentence: "To help achieve that consensus, USAID participates in two multi-agency working groups, the Information

Technology Working Group and the Asset Recognition and Transfer Working Group.”

USAID response: USAID participates in three interagency working groups – the two referenced in the above-quoted SIGIR statement plus the Sustainability Working Group. We note that the ART and Sustainability working groups’ objectives are directly related and that, following USAID’s suggestion, these two working groups were recently combined.

c . Asset Recognition and Transfer Policies and Procedures, pages 3-5:

1. SIGIR statement, page 3, 1st paragraph, 3rd-5th sentence: “USAID currently accomplishes the first two steps but does not have an approved policy or procedure that requires formal notification to the Iraqi Ministry of Finance or Ministry of Planning of project assets transferred to Iraqi government control. This has resulted largely because neither USAID nor the Iraq Reconstruction Management Office have established a requirement to report completed projects to these Iraqi ministries. However, USAID, in coordination with the Iraq Reconstruction and Management Office and others, is participating in the development of a common process and policy facilitating the recognition and transfer of assets to the Iraqi government.”

USAID response: Several statements included in the above-quoted sentences are simply incorrect. First, USAID has policies and procedures that cover all three steps in the so-called asset recognition and transfer process. As we have already stated, USAID has adapted our Agency-wide policies and procedures to the situation in Iraq and we are prepared to move forward with step three should we determine that the procedures developed by the ART working group do not satisfy our requirements. USAID’s adapted procedures, if utilized, would seek formal recognition from the Ministry of Finance, the relevant GOI line ministry associated with the capital asset, and other GOI ministries, including the Ministry of Planning and Development Coordination, as appropriate.

2. SIGIR statement, page 3, 2nd paragraph, 1st and 2nd sentences: “USAID has a long history of transferring assets to foreign governments through policies and procedures developed over the past 45 years. Those procedures generally require the execution of a bilateral grant agreement between the foreign government and USAID prior to the start of a project and before disbursement of any project funds.”

USAID response: USAID would not describe itself as “having a long history of transferring assets to foreign governments.” Rather, we have a long history of providing development assistance to foreign countries and their citizens, which assistance is generally pursuant to government-to-government grant agreements. Such agreements outline the expected contributions from each government (e.g., cash or in-kind contributions from a host government) and the conditions precedent to the USAID contribution. In some cases, however, assistance is provided outside of a host government. For example, U.S. legal restrictions may prevent support to a host government or the government may not have the requisite capacity to fulfill the USAID pre-conditions for a government-to-government grant.

3. SIGIR statement, page 3, 4th paragraph, 1st sentences: “USAID officials recognized the need to adjust their standard asset recognition and transfer policies and procedures to better fit the circumstances in Iraq. A senior USAID official told us their Iraq Mission organization had developed draft procedures to assure that the appropriate Ministries recognized the assets transferred to Iraqi control. However, those procedures have not been formally approved. The senior USAID official stated they did not want to release their draft procedures at the present time because they had not been formally approved and because the Mission continues to work with the Iraq Reconstruction Management Office and other U.S. implementing agencies to develop a common policy and process that all U.S. agencies operating in Iraq can use to accomplish the successful recognition and transfer of assets to the Iraqi government. ”

USAID response: USAID would not describe its standard policies and procedures as “standard asset recognition and transfer policies and procedures.” Rather, they are USAID policies and procedures for planning and implementing bilateral programs with host governments. Further, as noted in Section III.b.1., above, USAID has not drafted policies and procedures specific to Iraq. Rather, we have adapted our USAID Agency-wide policies and procedures to apply to the Iraq situation. We therefore would not describe these policies and procedures as draft, which implies that they were created specifically for Iraq. We did not share the adapted procedures with SIGIR because we are active participants in and are awaiting the final product produced by the ART and Sustainability interagency working groups to determine if they satisfy USAID requirements. We do not wish to confuse either SIGIR or the working groups at this point by distributing our adapted procedures while the ART working group is still in the process of attempting to develop common procedures for all USG IRRF-funded agencies.

4. SIGIR statement, page 4, 1st paragraph, 1st sentence: “To help achieve that consensus, USAID participates in two multi-agency working groups, the Information Technology Working Group and the Asset Recognition and Transfer Team Working Group, comprised of representatives from the five principal agencies of the U.S. government charged with the relief and reconstruction effort in Iraq.”

USAID response: As stated in III.b.2., above, USAID participates in three interagency working groups – the ART and Information Technology working groups plus the Sustainability Working Group.

5. SIGIR statement, page 4, 4th paragraph, last sentence: “USAID representatives continue to participate in the Working Group and contribute their significant asset transfer expertise developed over the past 45 years.”

USAID response: USAID would not describe itself as having “significant asset transfer expertise.” Rather, we have unparalleled international development assistance experience, including matchless experience working on bilateral programs with host governments in countries around the world.