Continued violence and the resulting lack of security have seriously impeded progress on reconstruction programs, causing construction delays, preventing travel to project sites, increasing security costs, and endangering the lives of contractors.

The Need for Continued U.S. Assistance

In SIGIR's view, any future relief and reconstruction funding for Iraq should be tied to specific actions by the Iraqi government to meet concrete milestones and political and economic benchmarks. Providing a portion of future U.S. assistance through conditional loans should be considered.

Rule-of-law efforts need DoJ expertise

U.S. support of rule-of-law reform in Iraq has been fragmented and has not taken full advantage of the expertise and resources of the Department of Justice (DoJ). DoJ should have a greater role in developing the strategic approach in this key area.

Provide the provincial reconstruction teams (PRTs) more personnel and resources

The PRTs were created to help build local governance capacity in Iraq's provinces and to help identify, prioritize, and implement U.S.-funded projects.

Four concerns about the PRT program emerged from SIGIR's audit:
1) DoD and DoS need to clarify their respective responsibilities to the PRT mission.
2) The PRTs need more resources and appropriate personnel.
3) Security concerns continue to inhibit the work of most PRTs.
4) The PRTs require more funding and more time to accomplish the mission.

Build the capacity of the Iraqi ministries

SIGIR is concerned that the current capacity-building efforts in Iraq might not be adequate to ensure that IRRF-funded infrastructure projects are effectively managed and maintained after transfer to the Iraqi government. Because there is no generally agreed-on baseline for the capacity of the Iraqi ministries, it is difficult to measure the results of the U.S.-funded capacity-building programs.

Promote the international compact for Iraq

The International Compact for Iraq is intended to create a partnership that commits the Iraqi government to specific reforms. In return, the international community will commit to supporting Iraq's recovery program, including a five-year goal of financial self-sufficiency. Notable SIGIR Activities this Quarter

SIGIR continues to apply a balanced approach to provide insight, foresight, and oversight (through audit and non-audit activities) to organizations working on reconstruction projects both in Iraq and those who support these organizations outside Iraq.

Audits

Among the eight audit reports issued by SIGIR this quarter, two addressed Iraq Security Forces logistics. They were requested by the Chairman of the Senate Armed Services Committee. Another audit examined the overhead costs of the largest IRRF contractors. For executive summaries of these and other audits, see Section 3 of the SIGIR Quarterly Report.

Inspections

SIGIR inspectors have now completed 65 project assessments, including the 9 project assessments executed this quarter. In addition, 96 limited on-site inspections and 320 aerial assessments have been completed to date. Most IRRF projects that SIGIR assessed this quarter met contractual specifications, although problems with contractor performance and quality assurance resulted in deficiencies at some sites, most notably at the Baghdad Police College.

Investigations

SIGIR continues to field the largest number of U.S. criminal fraud investigators in Iraq and has formed a new interagency task force to investigate contract fraud. SIGIR has 92 open cases; 25 of those are at DoJ, and many are in the final stages of prosecution. Four cases have resulted in convictions and are currently pending sentencing.

Financial impact of SIGIR operations

SIGIR audits—which have secured cost savings, recovery of funds, improved use of funds, challenged payments, and recommendations for improved property accountability—have provided a net potential beneficial impact of approximately $405.1 million. Recommendations by SIGIR inspectors could potentially increase Iraq's annual oil revenues by $1.278 billion. SIGIR investigators have seized or recovered $11.69 million.

Notable SIGIR activities this quarter

SIGIR continues to apply a balanced approach to provide insight, foresight, and oversight (through audit and non-audit activities) to organizations working on reconstruction projects both in Iraq and those who support these organizations outside Iraq.

The Year of Transition Enters the Fourth Quarter

Foremost among the challenges confronting transition this quarter was the U.S. government's effort to ensure the obligation of remaining money in the Iraq Relief and Reconstruction Fund (IRRF) by the September 30, 2006 statutory deadline. As of October 18, 2006, SIGIR had yet to obtain complete information on this effort, but it appears that the goal of full and effective obligation of the IRRF was met.

Challenges Confronting Transition

As the U.S.-led phase of Iraq reconstruction nears its conclusion, it is vital that the Iraqi government attract broader international donor and private-sector support to finance continued development and reconstruction efforts. The Iraqi government faces several serious challenges to this endeavor.

Deteriorating security situation

Continued violence and the resulting lack of security have seriously impeded progress on reconstruction programs, causing construction delays, preventing travel to project sites, increasing security costs, and endangering the lives of contractors. Baghdad suffered the most acute security problem this quarter. The electricity sector was especially hard hit. Recent attacks on power lines providing electricity to Baghdad isolated the capital from the national power grid, and power-line repair continues to be difficult. Iraq's Minister of Electricity recently stated:

"Every day I send repair teams, but they can't get to the area; there are too many insurgents. I've spoken to everyone...no one can help.

Weak Iraqi capital budget execution

The execution of the Iraqi capital budget for 2006 is well behind schedule. Many government ministries, particularly the Ministry of Oil, are seemingly unable to obligate capital funds to programs and projects. SIGIR is concerned that, unless the Iraqi government demonstrates an ability to spend its own funds more effectively, international donors will likely be reluctant to provide further financial support to Iraq.

transparency and the fight against corruption

SIGIR continues to support Iraq's anti-corruption institutions. This quarter, SIGIR worked to build support for the Board of Supreme Audit, the Commission on Public Integrity, and the inspectors general of the Iraqi ministries. Without visible and authoritative oversight, corruption could derail Iraq's efforts to rebuild and sustain itself.

Incomplete transfer of U.S. assets to Iraqi ministries

The asset recognition and transfer process, begun in 2005 to catalogue and transfer IRRF assets to the Iraqi government, appears to have broken down. The Iraqi government and the U.S. Embassy must work together to complete the asset transfer process and ensure that Iraq is in a position to take responsibility for IRRF facilities and inventories.
The Need for Continued U.S. Assistance
In SIGIR’s view, any future relief and reconstruction funding for Iraq should be tied to specific actions by the Iraqi government to meet concrete milestones and political and economic benchmarks. Providing a portion of future U.S. assistance through conditional loans should be considered.

RULE-OF-LAW EFFORTS NEED DOJ EXPERTISE
U.S. support of rule-of-law reform in Iraq has been fragmented and has not taken full advantage of the expertise and resources of the Department of Justice (DoJ). DoJ should have a greater role in developing the strategic approach in this key area.

PROVIDE THE PROVINCIAL RECONSTRUCTION TEAMS (PRTs) MORE PERSONNEL AND RESOURCES
The PRTs were created to help build local governance capacity in Iraq’s provinces and to help identify, prioritize, and implement U.S.-funded projects. Four concerns about the PRT program emerged from SIGIR’s audit:
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2) The PRTs need more resources and appropriate personnel.
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SIGIR continues to support Iraq’s anticorruption institutions. This quarter, SIGIR worked to build support for the Board of Supreme Audit, the Commission on Public Integrity, and the inspectors general of the Iraqi ministries.

INCOMPLETE TRANSFER OF U.S. ASSETS TO IRAQI MINISTRIES
The asset recognition and transfer process, begun in 2005 to catalogue and transfer IRRF assets to the Iraqi government, appears to have broken down. The Iraqi government and the U.S. Embassy must work together to complete the asset transfer process and ensure that Iraq is in a position to take responsibility for IRRF facilities and inventories.
I am pleased to submit to the Congress, Secretary Rice, Secretary Rumsfeld, and the American people, the 11th Quarterly Report from the Special Inspector General for Iraq Reconstruction (SIGIR). SIGIR’s mission, in simple terms, is to account for U.S. taxpayer funds invested in the reconstruction of Iraq. As this Report indicates, that accounting reveals a mixed story, with many successful projects completed while others fall short. This story underscores the importance of ensuring that the next phase of Iraq reconstruction stays on track. SIGIR remains committed to doing its part toward achieving that goal. Of significant note, the Department of State continues to provide exemplary support for the reconstruction mission and SIGIR’s oversight of it.

The work for this Report was executed primarily in Iraq by the nearly 60 auditors, inspectors, and investigators who accomplish SIGIR’s mission with diligence, skill, and integrity. The Report provides summaries of eight audits that focus on a variety of compelling issues and present a number of significant findings, including:

- Progress in the important Provincial Reconstruction Team program has been hampered by security problems and resource limitations.
- Overhead costs for design-build contractors were high in 2004 because of delays between the mobilization of these contractors and the actual start of construction work.
- A contractor sought to limit SIGIR’s oversight this quarter by improperly using the proprietary information exception to the Federal Acquisition Regulation.

At the request of the Chairman of the Senate Armed Services Committee, SIGIR’s auditors completed a review of logistics capability training for Iraq’s Security Forces. SIGIR found that certain areas need improvement, particularly within the Ministry of Interior, before Iraq can be deemed ready to sustain its security forces.

SIGIR inspectors continued their visits across Iraq this quarter to assess the quality of construction activity. Some projects failed to meet expectations usually because of inadequate oversight. More frequently, however, SIGIR inspectors found projects that succeeded because management had executed effective quality assurance programs. The 65 inspection reports produced by SIGIR to date yield an unsurprising axiom: effective quality assurance and quality control programs at project sites produce success.

SIGIR investigators continued to make progress on a broad spectrum of cases this quarter. Although many of those cases arose from alleged wrongful conduct that occurred during the days of the Coalition Provisional Authority (CPA), an increasing number of new cases have their genesis in post-CPA activity. Of note, 25 SIGIR cases are at the Department of Justice under prosecution; two defendants pleaded guilty this quarter to fraud. SIGIR investigations initiated a new task force in early October to enhance efforts to root out fraud in Iraq with a variety of agencies participating, including the Federal Bureau of Investigation.

The Iraq relief and reconstruction program has entered the fourth quarter in this Year of Transition. Section 1 of the Report contains SIGIR’s observations about this development, emphasizing several urgent matters that require action:

- Security must be improved in Baghdad for reconstruction to progress.
- Iraq’s ministries must better execute their capital budgets.
- The ministries’ collective governance capacity must be enhanced.
The International Compact for Iraq must energize broad donor support for Iraq’s further relief and reconstruction.

Section 2 of this Report provides SIGIR’s sector-by-sector analyses of reconstruction; Section 3 summarizes SIGIR’s audits, inspections, and investigations; and Section 4 provides reporting on other agencies’ oversight activity.

SIGIR is working closely with the Department of Defense's Business Transformation Agency (BTA), created by Deputy Secretary of Defense Gordon England and led by Deputy Undersecretary of Defense Paul Brinkley. This extremely important endeavor aims to catalyze private sector development in Iraq through international contracting. The strategy for success in Iraq has a significant economic component, and the BTA promises to be a big part of that solution.

The John Warner National Defense Authorization Act, which became law this quarter, expanded SIGIR’s mandate and defined an end-date for SIGIR's oversight mission. The Act states that, in addition to its existing jurisdiction, SIGIR now has oversight of all FY 2006 funds for Iraq reconstruction. Further, the Act provides that SIGIR's oversight role will terminate on October 1, 2007, followed by a three-month transition of operations to other inspectors general. SIGIR and the inspectors general of the Department of State, Department of Defense, and the U.S. Agency for International Development will collaborate on a transition plan, which must be submitted to the Congress by April 2007.

I am gratified to report that on October 24, 2006, the President’s Council on Integrity and Efficiency awarded SIGIR the Gaston L. Gianni, Jr. Better Government Award. SIGIR was given the award “for demonstrating determination and courage in providing independent oversight and unbiased review of the United States’ reconstruction efforts in Iraq. SIGIR’s efforts greatly increased the public's confidence in government by detecting fraud, waste, and abuse, while also providing recommendations on policies to promote economy, efficiency, and effectiveness in the reconstruction of Iraq. SIGIR continues to perform its mission under difficult and dangerous circumstances, exemplifying the highest ideals of government service as envisioned by the tenets of the Inspector General Act and the values of their mission: integrity, honesty, and dedication.”

I was proud to accept this award on behalf of all the dedicated members of the SIGIR team in Baghdad and Arlington, who earned this well-deserved recognition through their continued professionalism, productivity, and perseverance.


Stuart W. Bowen, Jr.
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\(^a\) For details on financial benefits, see Appendix B.

\(^b\) As of June 30, 2006.

## Inspections

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## Non-audit Products

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SIGIR Observations

The Year of Transition Enters the Fourth Quarter
Challenges Confronting Transition
The Need for Continued U.S. Assistance
Notable SIGIR Activities this Quarter
Financial Impact of SIGIR Operations
The Human Toll
THE YEAR OF TRANSITION ENTERS THE FOURTH QUARTER

This 11th Quarterly Report from the Special Inspector General for Iraq Reconstruction (SIGIR) covers a period of significant activity fraught with challenge and filled with transitional events.

The quarter’s most notable transitional event was the U.S. government’s effort to ensure that the money remaining in the Iraq Relief and Reconstruction Fund (IRRF) was fully obligated by the statutory deadline of September 30, 2006. During an early August hearing on U.S. contracting in Iraq, Senate Committee on Homeland Security and Governmental Affairs Chairman Susan Collins raised concerns with SIGIR about potential waste in the “race to obligate.” Thus, SIGIR monitored this process throughout the quarter, issuing a quick reaction audit on improper IRRF obligations in late September. For an executive summary of this audit, see Section 3.

As of October 18, 2006, most U.S. agencies had not yet provided SIGIR with complete data on the status of IRRF obligations. The Joint Contracting Command-Iraq/Afghanistan, however, reported that it effectively had executed its plan to obligate the IRRF within its purview by the September 30, 2006 deadline. Some flexibility remains with regard to IRRF funds. They can still be de-obligated from one project and re-obligated to another, as necessary, until the end of FY 2007.

CHALLENGES CONFRONTING TRANSITION

Reaching the IRRF obligation deadline emphasizes that the U.S.-funded phase of Iraq’s relief and reconstruction has entered its concluding stages. The Government of Iraq’s (GOI) success in building on the foundation established by the U.S. relief and reconstruction program will now depend in part on the GOI’s ability to attract more support from other donors and the private sector.

In the last Quarterly Report, SIGIR termed the next phase of the reconstruction program the “multilateral phase.” To that end, negotiations continue on the International Compact for Iraq, which will generate more financial support from and active participation by the broader international community.

For transition to succeed, the GOI must improve security, especially in Baghdad. GOI progress on national reconciliation and strengthening its rule-of-law system are essential elements to resolving the serious and continuing security crisis that plagues Iraq. With respect to reconciliation and rule of law, there exists a particular problem in Baghdad:
all local government offices are held by members of Shia political parties. This means that the Sunnis have virtually no voice in Baghdad’s governance.

Some of the obstacles to a successful transition include:
• the deteriorating security situation across Iraq
• poor capital budget execution by the GOI
• corruption within certain Iraqi ministries
• breakdowns in the transfer of IRRF assets to Iraq

Security Situation
The deteriorating security situation across Iraq continues to impede progress in the reconstruction program, causing project delays, preventing travel to many sites, increasing security costs, and endangering contractors’ lives. This situation directly affected SIGIR’s operations during this quarter: SIGIR inspectors canceled or altered a number of visits to sites across Iraq because of security threats.

The security problems in Iraq are fueled by several groups seeking to undermine the country’s government, including Al Qaeda, sectarian militias, and criminal gangs. The lethality of the threat generated by these groups was especially acute this quarter in Baghdad. Moreover, October 2006 was the deadliest month for U.S. forces since January 2005: 98 soldiers had been killed as of October 29, 2006.

Major General William Caldwell alluded to the security crisis in Baghdad when he reported in mid-October that Operation Forward Together II had “not met our overall expectations of sustaining a reduction in the levels of violence... We are working very closely with the government of Iraq to determine how best to refocus our efforts.” Decisions regarding this strategic refocusing are expected to be made public soon.

Sabotage of Iraq’s infrastructure, particularly in the electricity sector, hindered reconstruction efforts this quarter. On October 20, 2006, a series of attacks on power lines providing electricity to Baghdad isolated the city from the national power grid, leaving only about 800 megawatts of power available within the “Baghdad Ring” (the grid supporting the capital). There was thus only enough power that day to generate a few hours of electricity for Baghdad’s 7 million inhabitants.

The power problem in Iraq is compounded by the fact that repairing power lines is nearly impossible because of sniper attacks and death threats to repair crews. As Iraq’s Minister of Electricity reported to SIGIR:

Every day I send repair teams [to repair power lines], but they can’t get to the area: there are too many insurgents...I’ve spoken to [everyone]...no one can help.

To address the power lines’ vulnerability, the U.S. Army Corps of Engineers Gulf Region Division (GRD) has ordered 25 Lindsey Towers—temporary towers that can be used for rapid repair efforts. GRD also has a program to reinforce the existing towers so that they can better survive attacks.
Security threats across Iraq inhibited progress by the Provincial Reconstruction Teams (PRTs), which comprise the most important U.S. capacity-building initiative at the local government level. During this quarter, SIGIR visited seven of the ten PRTs. For details on the challenges that this program faces, particularly with respect to security and resources, see the summary of SIGIR’s PRT audit in Section 3.

**GOI Budget Execution**

Although Iraq’s Unity Government has been in power since May 2006, Iraq’s ministries still struggle with capital budget execution as they have since the first sovereign government took office in mid-2004. The GOI’s capital budget is estimated at $6 billion, which is nearly 20% of the total budget. Part of the problem reportedly arises from bureaucratic resistance within the Ministry of Finance, which traditionally has been slow to provide funds. Iraqi ministries generally can pay salaries and execute administrative budgets, but many—in particular, the Ministry of Oil—have difficulty executing their capital budget programs.

The U.S. government is working intensively with the GOI to help resolve the budget execution problem. However, unless GOI ministries execute their 2006 capital budgets, international donors will likely be reluctant to provide new funds to Iraq in 2007.

**Transparency and the Fight Against Corruption**

Corruption afflicts a number of GOI ministries. Building capacity within the GOI’s transparency institutions—the Board of Supreme Audit, the Commission on Public Integrity, and the ministry inspectors general—is the most important initiative in the fight against corruption.

During his seven-week visit to Iraq this quarter, the SIGIR met with all the Iraqi inspectors general, the President of the Board of Supreme Audit, and the Commissioner of Public Integrity. Significantly, in a meeting with the SIGIR and the Iraqi inspectors general, Prime Minister Nouri al Maliki pledged his strong support for the Iraqi inspector general system.

The SIGIR and the Department of State Inspector General met in Baghdad with the Iraqi inspectors general to advise them on strategies for training and structuring their respective departmental organizations. The SIGIR also met with the Minister of Defense and his IG, and found that the current condition of the oversight program at that ministry is excellent.

The U.S. Embassy’s Anticorruption Working Group became more active during this quarter. In conjunction with that development, SIGIR worked with the Embassy to build more support for the Board of Supreme Audit and the Iraqi inspectors general: these organizations will now have a specially designated U.S. senior consultant advising them. The Commission on Public Integrity already has a senior consul-
tant advising it. Additionally, the Embassy designated a new transparency coordinator to ensure that Embassy programs supporting GOI transparency efforts complement one another.

SIGIR remains concerned about challenges confronting the fight against corruption within the GOI. This concern stems from a number of issues, including:

- The Ministry of Finance has explored the possibility of moving its foreign exchange accounts from the New York Federal Reserve Bank to other foreign banks, which may cause concern within the international community about the continuing transparency of these accounts.
- The mandate of the International Advisory and Monitoring Board (IAMB), created by UN Security Council Resolution 1483, expires at the end of 2006, ending the independent and external oversight of Iraqi oil revenues.
- The Council of Representatives has passed a resolution asking the Prime Minister of Iraq to close the two largest media outlets in Iraq because of their coverage of the new law on regionalization.
- International contractors still working on Coalition Provisional Authority-era (CPA) contracts funded by the Development Fund for Iraq have indicated that, if these contracts are turned over to the GOI, they will ask for termination for convenience because they do not have confidence that they will continue to be paid for their services.
- Iraq ranks 137th of the 158 countries in Transparency International's 2005 Corruption Perception Index.

**Incomplete Transfer of U.S. Assets to Iraqi Ministries**

The asset recognition and transfer process, begun in 2005 to catalogue and transfer IRRF assets to the GOI, appears to have broken down. The Ministry of Finance is not processing the data, as required by the agreed-upon procedures, and some data in the U.S.-developed Iraq Reconstruction Management System is incomplete or inaccurate.

The GOI is currently re-evaluating the overall asset transfer process, while the Iraq Reconstruction Management Office (IRMO) is intensifying efforts to develop a complete and accurate record of U.S. assets. The GOI must commit to taking appropriate measures that will ensure successful completion of the asset transfer process and thus secure the continuing operation and management of IRRF facilities and inventories.
THE NEED FOR CONTINUED U.S. ASSISTANCE

Although more U.S. aid to Iraq will inevitably be necessary, SIGIR believes that future relief and reconstruction funding should be tied to specific actions by the GOI. That is, the Iraqi government should meet concrete milestones and political and economic benchmarks as a condition of future aid. One approach to consider toward achieving these goals is to provide new U.S. reconstruction assistance through conditional loans.

SIGIR believes that the U.S. government should pursue these important relief and reconstruction initiatives and issues:

- Engage the Department of Justice (DoJ) more fully in supporting the development of effective rule of law in Iraq.
- Finalize the memorandum of agreement between the Department of State (DoS) and the Department of Defense (DoD) on the PRT program.
- Invest more in building the operational and administrative capacities of the Iraqi ministries.
- Promote the International Compact for Iraq as the catalyst for the next phase of Iraq’s relief and reconstruction.

Expand Rule-of-law Efforts

U.S. government support to the GOI on rule-of-law reform has been fragmented because of poor coordination and insufficient definition of various agency responsibilities.

During the course of the IRRF program, the U.S. government channeled much of the rule-of-law funding through the DoS Bureau for International Narcotics and Law Enforcement Affairs (INL), which had hundreds of contractors in Iraq but relatively few U.S. government personnel in actual operational control. The Multi-National Security Transition Command–Iraq (MNSTC-I), which was given the lead on police training in October 2005, used significant IRRF funding to support training and equipping Iraqi police.

The DoJ has significant inherent capability in criminal law, civil law, prosecutorial development, judicial training, and police training, but it received limited IRRF funding and thus has played a relatively minor role in the rule-of-law program. Because of its expertise, DoJ should play a larger role in defining and coordinating the strategic approach to the rule-of-law mission. Thus, the Embassy should consider appointing a senior rule-of-law coordinator from DoJ to bring the wide array of rule-of-law programs in Iraq under one umbrella. The new coordinator initially should execute an assessment of the entire program.

Provide the PRTs More Personnel and Resources

The PRTs were created to help build local governance capacity in Iraq’s provinces and to help Provincial Reconstruction and Development Councils identify, prioritize, and implement...
U.S.-funded projects.

Four concerns about the PRT program emerged from SIGIR’s audit of it this quarter:
1. DoD and DoS should more clearly define the allocation of responsibilities between them with respect to the PRT mission. Specifically, the memorandum of understanding between the two agencies addressing these key issues must be immediately finalized.
2. The PRTs need to be more consistently resourced and provided with the appropriate personnel to execute their mission.
3. Security concerns continue to inhibit the work of most PRTs, especially those not located with Regional Embassy Offices.
4. The PRTs should be funded for a sufficient period to ensure that their mandate is fulfilled. SIGIR strongly supports increasing the funding and extending the time for the PRTs.

For an executive summary of this audit, see Section 3.

Build Capacity in the Iraqi Ministries

SIGIR continues to raise concerns about the capacity of Iraqi ministries to operate effectively. The current U.S. capacity-building efforts are relatively modest in scope and may not ensure that IRRF-funded infrastructure will be adequately managed and maintained after transfer. A core concern is the current inability of some ministries to take responsibility for managing IRRF facilities.

There is no generally agreed-on baseline for the capacity of the Iraqi ministries; thus, it is difficult to measure the results of U.S.-funded programs. Several ministries—oil, electricity, water, and defense—appear to have benefited from U.S. efforts to build capacity, but it remains unclear whether the GOI will commit the resources necessary to ensure the sustainability of IRRF projects and programs.

SIGIR raised concerns this quarter about the need for a revised strategic plan to better guide capacity building within the GOI. The current approach relies heavily on contractors to implement capacity-building programs, and the overall program does not have a single U.S. government official providing comprehensive operational direction.

IRMO has a $65 million program for capacity building, but the list of needs is so long that this program will meet only a few of them. The U.S. Agency for International Development (USAID) has focused its capacity-building efforts on establishing a training school for Iraqi government technocrats. The two programs should be better coordinated.

Both the Government Accountability Office (GAO) and SIGIR are conducting audits on capacity-building programs in Iraq.

Promote the International Compact for Iraq

The International Compact for Iraq, currently under negotiation and expected to be completed soon, is designed to create a new partnership between the Iraqi government and the international community. It will also provide
In executing its oversight mission this quarter, SIGIR issued 8 audits, which made 29 recommendations; and SIGIR’s 9 project assessments presented many construction-related findings. SIGIR opened 20 new investigations this quarter, most arising from allegations of fraud, waste, and abuse in U.S. spending on Iraq’s reconstruction.

Appendix A cross-references the pages and content of this Report that relate to SIGIR’s statutory reporting requirements.

Audits
The 8 final audit reports produced this quarter bring the total number of completed SIGIR audits to 73. SIGIR also issued 2 draft reports and has 16 ongoing audits. Eight new audits are planned for next quarter.

SIGIR completed two audits this quarter that were requested by the Chairman of the Senate Armed Services Committee:

- Iraqi Security Forces: Review of Plans to Implement Logistics Capabilities (SIGIR-06-032)

These two reports present nine recommendations to improve planning, accountability, capacity development, and resource manage-
ment of the Ministries of Defense and Interior. The two reviews were coordinated with GAO, the DoD Office of Inspector General, and the Under Secretary of Defense for Acquisition, Logistics, and Technology.

SIGIR also completed an audit of the overhead costs of the largest IRRF contractors. These costs, which were charged through “administrative task orders,” were very high in 2004 when little reconstruction work was getting done.

In conjunction with the DoS Office of Inspector General, SIGIR is conducting a review of an INL contract supporting the Iraqi police training program. SIGIR is also coordinating several oversight efforts with GAO and other accountability organizations.

**Inspections**

SIGIR’s 9 project assessments completed this quarter brings the total number of project assessments completed to 65. Since the beginning of the program, SIGIR has completed 96 limited on-site inspections and 220 aerial assessments.

Most IRRF projects that SIGIR visited this quarter met contractual specifications. Quality control (QC) and quality assurance (QA) programs were essential to ensuring that contract specifications were met. Contractor performance and weak quality assurance programs were issues at a few of the project sites SIGIR visited.

SIGIR found some projects with design and construction deficiencies, including:

- At the Baghdad Police College, the contractor installed inferior wastewater piping and joined it together improperly. The resulting wastewater leakage in the newly constructed buildings on the campus caused severe damage to the facilities and may pose serious health risks.
- At the Ninewa Provincial Police Headquarters in Mosul, the GRD terminated the contract because the work by an Iraqi contractor was substandard. The deficiencies involved the guard house, roof, air-conditioning units, water supply and distribution system, wall construction, bathrooms, generator installation, septic and sewer system, and electrical wiring.

At most of the other sites that SIGIR assessed this quarter, the government QA programs were effective in monitoring the contractor’s construction progress and workmanship.

**Investigations**

SIGIR continues to field the largest number of U.S. criminal fraud investigators in Iraq. They are supported by staff at SIGIR headquarters in Arlington, Virginia.

During this quarter, SIGIR Investigations opened 20 new cases and closed 10 cases. To date, SIGIR has opened 256 cases and has either referred or unsubstantiated 164. Currently, SIGIR has 92 open cases; 25 of those cases are at DoJ, many in the final stages of prosecution. Four cases have resulted in convictions and are currently pending sentence.

This quarter, two SIGIR targets were convicted: Faheem Salam and LTC Bruce Hopfengardner, USAR. Faheem Salam pled guilty to
one count of a violation of the Foreign Corrupt Practices Act of 1997; he will be sentenced on November 3, 2006. Hopfengardner pled guilty to two conspiracy charges in a scheme to defraud the CPA in Hilla, Iraq. For details on these and other cases, see Section 3.

SIGIR formed a new task force this quarter to investigate contract fraud in Iraq. The members of this task force include:
- U.S. Agency for International Development
  Office of the Inspector General
- U.S. Army Criminal Investigations Division
  Major Procurement Fraud Unit
- Department of Defense Criminal Investigative Service
- Department of State Office of the Inspector General
- Federal Bureau of Investigation

On October 2, 2006, the task force’s Joint Operations Center opened at SIGIR headquarters.

FINANCIAL IMPACT OF SIGIR OPERATIONS

SIGIR oversight continues to produce tangible financial benefits. To date, SIGIR audits have saved $10.9 million, recovered $1.4 million, and improved the use of $20.6 million. SIGIR auditors have challenged payments of $306.9 million, which include possible duplicate payments, overpayments, payments for ghost workers, and work that was not completed. SIGIR also has made recommendations that improved property accountability valued at $65.3 million. The net potential beneficial impact of SIGIR audits is approximately $405.1 million, as of September 30, 2006.

SIGIR inspections have produced recommendations that could potentially increase Iraq’s annual oil revenues by $1.278 billion.

SIGIR investigations have seized or recovered $11.69 million in cash and assets in the course of SIGIR investigations. For the data supporting these benefits, see Appendix B.
The human toll in Iraq reveals the risks that confront the men and women working to promote Iraq's rehabilitation and transition to a fully democratic society. Recently described by the UN Secretary General's Special Representative as one of the most violent conflict areas in the world, Iraq faces an increasingly complex and dangerous series of challenges to maintaining a safe and secure environment.

Evidence of the human toll is greatest among Iraqi civilians who continue to be killed, wounded, or displaced from their homes:

- The Iraqi Ministry of Health reported that more than 2,600 civilians were killed in September 2006, adding to the total of more than 6,600 civilians killed in July and August. The UN estimated that more than 8,100 persons were wounded in July and August 2006 combined.

- Many Iraqis have been forced or have chosen (for security reasons) to leave their homes. The number of internally displaced persons in Iraq is estimated at 1.3 million.

More than 300,000 of those have been displaced since the early February 2006 attack on the Golden Mosque in Samarra.

Contractors and civilians working in Iraq continue to be victimized by violence:

- Since the beginning of the Iraq reconstruction effort, 646 death claims for civilian contractors working on U.S.-funded projects in Iraq have been filed. In the quarter ending September 30, 2006, the Department of Labor reported 68 new death claims.

- DoS reports that eight U.S. civilians died in Iraq this quarter. Since the beginning of the U.S. reconstruction effort, there have been 196 U.S. civilian deaths in Iraq.

- Since March 2003, 85 journalists and 35 media support workers have been killed, according to the Committee To Protect Journalists. In the most recent quarter, 10 media-affiliated professionals were killed.
Status of Iraq Reconstruction

Introduction: Sector Reports
Status of Electricity
Status of Oil and Gas
Status of Water
Status of Economic and Societal Development
Status of Security and Justice
Status of Health Care
Status of Transportation and Communications
Contracts
Cost-to-complete Data
Sources of Funding
Anticorruption Activities
INTRODUCTION

This is the fourth Report in which SIGIR provides a sector-by-sector review of Iraq reconstruction. In the January 2006 Report, SIGIR analyzed progress in three essential infrastructure sectors—electricity, oil and gas, and water. The April 2006 Report added four new sectors: security and justice; health care; transportation and communications; and economic and societal development. In the July 2006 Report, SIGIR added a new subsection on agriculture projects and provided additional focus on non-construction activities.

To assess overall progress, SIGIR reviews three aspects of reconstruction—activities, outputs, and outcomes:

- **Activities**: reconstruction at the project level (e.g., an electric turbine, a water treatment plant, a primary healthcare center (PHC), a training program for teachers)
- **Outputs**: results of the reconstruction projects (e.g., increased electricity generation, increased capacity to treat wastewater, more trained teachers)
- **Outcomes**: potential effects of the project outputs for the people of Iraq (e.g., hours of power, more Iraqis with access to clean water, more Iraqi children vaccinated for polio, higher literacy rates)

**Overview**

During this quarter, the average national electricity generation peak capacity surpassed pre-war levels—4,770 vs. 4,500 megawatts (MW). Because of interdictions on the northern transmission lines and the reluctance of the south to send power, electricity in Baghdad this quarter was less available than before the 2003 conflict.

This quarter, oil production again approached production levels of 2.5 million barrels per day (BPD) for one week in early August and averaged a little more than 2.2 million BPD for the entire quarter. Oil exports averaged 1.66 million BPD, slightly surpassing the Iraqi goal of 1.65 million BPD.

The PHC program continued to face challenges. To date, only 7 PHCs have been handed over to Iraqi control (6 are operational) out of a combined total of 142 PHCs funded by the Iraq Relief and Reconstruction Fund 2 (IRRF 2).

This section also provides information on contracts, including costs to complete reconstruction projects in Iraq, updates on the sources of funding for Iraq reconstruction, and a review of the continuing effort to support Iraqi anticorruption programs.

SIGIR, the Gulf Region Division-Project and Contracting Office (GRD-PCO), the Department of State (DoS) Section 2207 Report, and Public Law 108-106, as amended, use different definitions of the Iraq reconstruction sectors. To compare the various definitions of sectors, see Appendix C.

**General Challenges**

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

- The contracting phase of the IRRF is ending. All of the funds have been allocated, around 98% have been obligated, and approximately 74% have been
expended. Any IRRF funds not obligated by September 30th are “expired,” and can only be used for limited activities, as identified under U.S. law.5

All IRRF 2 financial data in Section 2 is derived from the DoS Iraq Weekly Status report. The financial data in these status reports was the most accurate and current on IRRF 2 funding available at the time of publication.

- Approximately 88% of U.S. projects have been completed, and only slightly more than 4% are left to start. With approximately 74% of IRRF 2 expended, many key projects are still not finished.

- With the obligation of the IRRF nearly complete, the importance of effectively transitioning U.S.-funded infrastructure improvements, programs, and projects to Iraqi control has become an even more significant issue. A SIGIR audit of transition released last quarter found no overall strategic plan for transitioning program control to the Iraqi government, although several working groups are addressing key issues. The Iraq Reconstruction Management Office (IRMO) is leading the short-term plan for the National Capacity Development program ($65 million) to address the high-priority needs of the Iraqi government.6 The U.S. Agency for International Development (USAID) is leading the medium- and long-term effort ($165 million), which includes institution-building and training programs.7 Recently, the FY 2006 supplemental provided $285 million for further operations and maintenance (O&M) activities in key sectors.8

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

Figure 2-1
Sector Shares of IRRF Funds
Percent of $18.44 Billion
Note: Percentages do not total due to rounding.
Figure 2-2
**Status of IRRF Projects, All Sectors**

- **Completed**: 88.0%
- **Ongoing**: 7.7%
- **Not Started**: 4.3%

<table>
<thead>
<tr>
<th>Subsector</th>
<th>Planned</th>
<th>Not Started</th>
<th>Ongoing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic and Societal Development</td>
<td>277</td>
<td>305</td>
<td>582</td>
<td></td>
</tr>
<tr>
<td>Electricity</td>
<td>129</td>
<td>183</td>
<td>312</td>
<td></td>
</tr>
<tr>
<td>Water</td>
<td>79</td>
<td>142</td>
<td>221</td>
<td></td>
</tr>
<tr>
<td>Security and Justice</td>
<td>76</td>
<td>137</td>
<td>213</td>
<td></td>
</tr>
<tr>
<td>Health Care</td>
<td>2</td>
<td>150</td>
<td>152</td>
<td></td>
</tr>
<tr>
<td>Transportation and Communications</td>
<td>27</td>
<td>92</td>
<td>119</td>
<td></td>
</tr>
<tr>
<td>Oil and Gas</td>
<td>0</td>
<td>31</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>590</strong></td>
<td><strong>1,040</strong></td>
<td><strong>1,630</strong></td>
<td></td>
</tr>
</tbody>
</table>
STATUS OF THE ELECTRICITY SECTOR

This review updates the status of U.S. reconstruction projects to restore Iraq’s capacity to generate, transmit, and distribute electricity. SIGIR makes these observations about progress in the electricity sector this quarter:

- By the end of this quarter, 48.2% of planned projects were complete, and 62% of the allocated dollars were expended. As of September 27, 2006, nearly 98% of allocations were obligated. For the status of IRRF funds, see Figure 2-3.
- U.S. projects have contributed 2,710 megawatts (MW) to Iraq’s generation capacity. Peak capacity was above pre-war levels (4,500 MW) for most of the quarter, averaging 4,770 MW. The average daily load served, however, is a better measure of how much power reaches Iraqis. During this quarter, the load served averaged 101,900 megawatt hours (MWh), continuing an upward trend begun during the early summer months.
- Iraqis outside Baghdad continue to receive more hours of power than before the U.S.-led invasion (11.3 hours per day). In Baghdad, the power loss caused by sabotage of feeder lines became acute in mid-October, with available power dropping to only two hours per day over the course of several days. Thus, Iraqis in Baghdad rely more and more on generators that use refined fuels. This has had an inflationary effect on overall fuel prices.10
- Slow progress in this sector can be attributed to many challenges: lack of funding, rising demand, O&M, fuel shortages, and, paramount for this quarter, security.

IRRF-funded Activities in the Electricity Sector

In this sector, 129 projects (21.4%) have yet to begin, although 48.2% have been completed. All projects in this sector will be completed by January 2008.11 All but two electrical generation projects have started, and 80.8% have been completed.12 However, nearly a quarter of distribution and transmission projects have yet to start, mainly because these projects have been added later in the reconstruction program. The
remaining distribution and transmission projects are generally smaller and less complex than the large-scale generation projects.13

For the status of electricity projects by sector, see Figure 2-4.

During this reporting period, $270 million was expended in this sector—down from last quarter’s expenditure of $320 million—bringing total sector expenditures to $2.62 billion. At the end of last quarter, $740 million was left to be obligated. As of September 27, 2006, $100 million (2.4%) was reported as unobligated. GRD-PCO later updated that total, reporting all but $8,000 in IRRF 2 sector funds obligated by September 30, 2006.14

Key Projects Completed and Underway
The U.S. reconstruction program funds three major types of projects in the electricity sector:
- **Generation facilities** produce power for the system.
- **Transmission networks** carry that power across the country.
- **Distribution networks** deliver the transmitted power to local areas, homes, and businesses.

Additionally, seven U.S. projects valued at $108 million will provide an automatic monitoring and control system for selected strategic portions of the electric grid (SCADA). To date, one of these SCADA projects is complete.15
GENERATION FACILITIES

All remaining generation projects will be finished by January 2008.¹⁸ The Al-Doura Power Plant will add 280 MW to the power grid, serving more than 1.5 million people in the Baghdad area.¹⁷ Last quarter, one Al Doura unit was commissioned, and a second is scheduled for commissioning in February 2007.¹⁸

Many of the sector's remaining generation projects address sustainability, including training. Maintenance is nearly complete at the Baiji Power Plant ($59 million) to sustain 320 MW of generation capacity. Work at Baiji was estimated to be completed by June 6, 2006, but the ongoing work¹⁹ has been rescheduled for a December 2006 completion.²⁰

TRANSMISSION NETWORKS

Only 12 transmission projects have been completed to date, and 14 have yet to begin because funds from this sector were reallocated from the program in 2005.²¹ These are the highlights of the transmission projects this quarter:

- Construction was completed this quarter on the Washash Substation in the Kadhamiyah district of Baghdad. The $20.3 million project will benefit more than 500,000 Iraqis.²²
- This quarter, $550 million was awarded and executed in transmission projects, according to GRD-PCO.²³

DISTRIBUTION NETWORKS

Distribution projects are key to getting generated power into Iraqi homes, but 112 of 487 total distribution projects have yet to start. For summaries of ongoing projects by region, see Table 2-1.

This quarter, SIGIR completed an inspection in Mosul (PA-06-073) of the Bab Eshtar

<table>
<thead>
<tr>
<th>Region</th>
<th>Total Construction Cost</th>
<th>Estimated Completion Date</th>
<th>Current Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>$177 million</td>
<td>8/17/2007</td>
<td>86% complete</td>
</tr>
<tr>
<td>Baghdad Local Network Infrastructure</td>
<td>$75 million</td>
<td>4/22/2007</td>
<td>17% complete</td>
</tr>
<tr>
<td>Central (excluding Baghdad Local Network, Sadr City, and Fallujah)</td>
<td>$112 million</td>
<td>5/02/2007</td>
<td>74% projects complete</td>
</tr>
<tr>
<td>Sadr City</td>
<td>$95 million</td>
<td>7/29/2007</td>
<td>6% construction, 79% materials (Note: according to Electricity Sector PM)</td>
</tr>
<tr>
<td>South</td>
<td>$277 million</td>
<td>4/11/2007</td>
<td>72% complete</td>
</tr>
<tr>
<td>Fallujah</td>
<td>$45 million</td>
<td>6/30/2007</td>
<td>46% complete</td>
</tr>
</tbody>
</table>

Source: GRD-PCO, vetting comments, October 17, 2006.

Table 2-1
**Substation 11 kV Feeder Cable** project to install the underground feeder cable system to the new Bab Eshtar substations. SIGIR assessment teams found that the contractor had sufficiently planned, designed, and constructed the project. For a summary of this and other inspections, see Section 3 of this Report.

**The Outputs of IRRF-funded Electricity Projects**

The outputs of U.S. electricity projects are measured by generation capacity added to the grid in MW. To compare the current U.S. contributions with the U.S. goal for contributions, see Table 2-2. U.S. reconstruction projects have contributed 2,710 MW of generation capacity—no change from the previous two quarters.

Although U.S. contributions to generation capacity did not increase this quarter, the quarter average for peak generation capacity was above pre-war levels. The increase can be attributed partly to the cyclical nature of generation: generation units are taken off-line during periods of lower demand. Although the current level is above pre-war levels, it is still well below the Iraqi goal for summer 2006. To compare the pre-war level and summer goal to the average capacity for the quarter, see Table 2-3.

The 2007 action plan for electricity does not have a specific target for outputs or outcomes: the objective of the plan is to “provide electricity in a reliable and efficient manner to as many Iraqi citizens as possible, and for as many hours as possible.”

**Electricity Output of U.S. Projects**

<table>
<thead>
<tr>
<th>Current U.S. Contribution, as of September 30, 2006</th>
<th>Total Planned U.S. Contribution</th>
<th>U.S. Progress toward End-state Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,710 MW</td>
<td>3,710 MW</td>
<td>73%</td>
</tr>
</tbody>
</table>


**Current Electricity Generation Capacity vs. Pre-war Level (megawatts)**

<table>
<thead>
<tr>
<th>Output Metric</th>
<th>Pre-war Level, as of March 2003</th>
<th>Iraq Goal for July 2006</th>
<th>Quarter Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generation Capacity</td>
<td>4,500</td>
<td>6,000</td>
<td>4,770</td>
</tr>
</tbody>
</table>

Note: GAO recently reported the pre-war level as 4,300 MW (GAO Report 06-697T, April 25, 2006, p. 19).
Outcomes of IRRF Projects

During this reporting period, the daily load served averaged 101,900 MWh—an increase over last quarter’s average of 94,000 MWh. The daily average load served during this quarter is closer to the target of 110,000 MWh and actually exceeded the target for a couple of weeks in the quarter, as shown in Figure 2-5.

Distributing power from generation facilities to Iraqi homes remains a major challenge. For the hours of power available to Iraqis compared to pre-war levels, see Table 2-4.

Although the goal of 12 hours of power per day has been met in other areas of Iraq, Baghdad continues to lag below that goal because of the increase in attacks on power lines feeding Baghdad. Another part of Baghdad’s power deficit stems from the system’s inability to transfer power from plants in the north and the reluctance of the south to send power to Baghdad. The capital has received no significant power from the north since September 1, 2006, receives only limited power from the south, and receives no power from Haditha Dam. The current plan is to build more generation facilities around Baghdad to decrease the reliance on power transfers from other parts of the country.

Figure 2-6 shows...
CURRENT OUTCOMES VS. PRE-WAR LEVELS AND GOALS

<table>
<thead>
<tr>
<th>OUTCOME METRIC</th>
<th>PRE-WAR LEVEL</th>
<th>IRAQ GOAL FOR JULY 2006</th>
<th>DAILY AVERAGE, LAST WEEK OF SEPTEMBER 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iraq Hours of Power/Day</td>
<td>4-8</td>
<td>12</td>
<td>11.3</td>
</tr>
<tr>
<td>Baghdad Hours of Power/Day</td>
<td>16-24</td>
<td>12</td>
<td>4.7</td>
</tr>
</tbody>
</table>


TABLE 2-4

Figure 2-6
ELECTRICITY DISTRIBUTION AND HOURS OF POWER
the distribution of power throughout the country in relation to the hours of power by governorate.

**Challenges**

Major challenges in this sector include limited funding, rising demand, sustaining U.S. projects through O&M programs, fuel shortages, and security.

**FUNDING CONCERNS**

With more than 74% of the IRRF expended, a major challenge for the sector continues to be funding. Iraq will need an estimated $20 billion in investment in this sector by 2010 to bring generation capacity to 18,000 MW.29

From 2005 to 2006, the Ministry of Electricity operating budget increased by nearly 130% ($367 million to $840 million), but almost all of the increase went to electricity projects.30 The Minister of Electricity told SIGIR this quarter that the increase still leaves the budget at only a fraction of what the Ministry needs per year.31

**RISING DEMAND**

Demand for electricity continues to surpass Iraq’s peak generation capacity: nearly 9,200 MW demanded on average this quarter compared to a peak generation average of 4,770 MW. Figure 2-7 shows the generation capacity versus demand. The high demand is attributable to government subsidies, a growing economy, and a surge in the consumer purchases of appliances and electronics.

**OPERATIONS AND MAINTENANCE**

When U.S. funding for O&M programs ceases, and responsibility for IRRF-funded projects shifts to the Iraqi government, this sector will face a significant maintenance challenge, according to GRD-PCO. All U.S. organizations are “working to assist the [Iraq Ministry of Electricity] in a number of ways to facilitate a smooth and successful transition from U.S.-funded O&M support to an Iraqi-led effort,” GRD-PCO reports.32 The following U.S. programs aim to meet this goal:

- Last quarter, SIGIR reported on a planned $80 million long-term O&M program. This quarter, the program chose a contractor that will provide support to develop, implement, and sustain an effective O&M plan. The contractor will help the Ministry develop an O&M program, while providing O&M services at thermal and gas turbine power plants. According to GRD-PCO, the onsite O&M team already assisted in restarting three units at Al Qudas, which added approximately 120 MW to the Baghdad ring.

- The Electricity Ministerial Advisory Team (MAT) agreed to develop a specific scope of work for the capacity-development program in the Ministry of Electricity. The MAT draws input from the Ministry, IRMO, USAID, GRD-PCO, World Bank, and the United Kingdom to implement recommendations from previous studies to train 750 ministry employees. The MAT focuses on training several hundred engineers in strategic planning, contracting,
management organization, tariffs, metering and billing, and regulation.  

- The FY 2006 Supplemental provided $278.6 million for O&M in the electricity sector.  
  As of September 2006, $224 million was programmed for Operations, Maintenance, and Sustainment (OMS), with 17 projects ($124 million) in progress and 5 ($96 million) complete. The OMS program is scheduled to finish by October 2007.

**FUEL SHORTAGES**

As reported in previous quarters, fuel shortages continue to pose a challenge in the electricity sector. U.S. reconstruction projects have installed 35 natural gas turbines in power generation plants in Iraq. However, 16 of the 35 gas turbines are using diesel, crude, or heavy fuel oil instead of natural gas. This causes rapid deterioration of parts, longer maintenance downtimes, and more pollution.

The actual average production of gas turbines is far below feasible production, as Figure 2-8 shows. According to DoS, the solution to fuel shortages requires coordination between the Ministries of Oil and Electricity, but joint discussions have not yet produced a coordinated plan.
SECURITY

Security continues to challenge the electricity sector, leading to project delays and increased costs for security services. Last quarter, SIGIR Audit 06-009 found that a security program for the electricity sector—the Electrical Power Security Service (EPSS)—was unsuccessful and “barely got started before it was cancelled.”

A new audit this quarter reviewed the efforts to increase the protection of the energy infrastructure. This audit (SIGIR-06-038), which is summarized in Section 3 of this Report, found that IRMO and the Ministry of Electricity took steps to improve data on attacks on the electricity infrastructure. Attack rates varied between January 2005 and April 2006, but they were down from April to June 2006. Despite fewer attacks, the audit highlights that power generation was still far below demand, and the Iraqi government has much to do to implement U.S. proposals on security of the energy infrastructure.

To see the effects of these challenges on recent available power in Iraq, see Table 2-5.

Table 2-5

<table>
<thead>
<tr>
<th>Governorate</th>
<th>Load Peak</th>
<th>Load Shed</th>
<th>Hours of Power</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baghdad</td>
<td>590</td>
<td>1569</td>
<td>0.20</td>
</tr>
<tr>
<td>Dahuk</td>
<td>145</td>
<td>31</td>
<td>19.50</td>
</tr>
<tr>
<td>Erbil</td>
<td>530</td>
<td>134</td>
<td>19.10</td>
</tr>
<tr>
<td>Sulaymaniyah</td>
<td>205</td>
<td>171</td>
<td>19.10</td>
</tr>
<tr>
<td>Nineja</td>
<td>270</td>
<td>154</td>
<td>14.10</td>
</tr>
<tr>
<td>Tameem</td>
<td>160</td>
<td>104</td>
<td>14.20</td>
</tr>
<tr>
<td>Salah al-Din</td>
<td>210</td>
<td>78</td>
<td>17.00</td>
</tr>
<tr>
<td>Anbar</td>
<td>240</td>
<td>8</td>
<td>23.10</td>
</tr>
<tr>
<td>Diyala</td>
<td>132</td>
<td>100</td>
<td>13.20</td>
</tr>
<tr>
<td>Babylon</td>
<td>140</td>
<td>92</td>
<td>13.60</td>
</tr>
<tr>
<td>Kerbala</td>
<td>130</td>
<td>14</td>
<td>21.30</td>
</tr>
<tr>
<td>Najaf</td>
<td>140</td>
<td>60</td>
<td>16.00</td>
</tr>
<tr>
<td>Qadissiya</td>
<td>80</td>
<td>64</td>
<td>12.50</td>
</tr>
<tr>
<td>Wasit</td>
<td>120</td>
<td>80</td>
<td>13.90</td>
</tr>
<tr>
<td>Muthanna</td>
<td>95</td>
<td>25</td>
<td>18.50</td>
</tr>
<tr>
<td>Thi-Qar</td>
<td>220</td>
<td>36</td>
<td>20.00</td>
</tr>
<tr>
<td>Missan</td>
<td>95</td>
<td>25</td>
<td>18.00</td>
</tr>
<tr>
<td>Basrah</td>
<td>630</td>
<td>82</td>
<td>20.80</td>
</tr>
<tr>
<td>Iraq</td>
<td>4132</td>
<td>2827</td>
<td>15.95</td>
</tr>
</tbody>
</table>

Source: IRMO Electricity, October 18, 2006
SECTOR SUMMARIES

Electricity

OVERVIEW

TRANSPORTATION, COMMUNICATIONS, WATER,
SECURITY, JUSTICE, ELECTRICITY, HEALTHCARE,
OIL AND GAS, DEMOCRACY, EDUCATION,
PRIVATE SECTOR DEVELOPMENT.
STATUS OF THE OIL AND GAS SECTOR

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

Although U.S.-funded projects have helped increase crude oil production capacity and exports, the security situation, poorly maintained infrastructure, corruption, and a constrained budget and procurement execution process at the Ministry of Oil continue to pose significant challenges to sustained development in the sector.

SIGIR makes these observations about progress in the oil and gas sector this quarter:

- As of September 27, 2006, more than 97% of the sector’s original allocation was obligated, and 66% was expended.
- Oil production this quarter peaked at 2.47 million barrels-per-day (BPD) for one week in late-August/early-September, but averaged 2.27 million BPD for the quarter.
- Exports averaged 1.66 million BPD throughout the quarter and closed at 1.62 million BPD in September; the Iraqi goal for exports is 1.65 million BPD.
- Fuel shortages, particularly for kerosene and liquefied petroleum gas (LPG), have been a serious problem throughout the quarter and may continue through the winter.
- Cumbersome funding procedures between the Ministry of Finance and the Ministry of Oil are constricting needed sustainment activities.

Funding the Oil and Gas Sector
The original allocation to this sector was $1.72 billion. For the current allocations in oil and gas sector funding as a percentage of total IRRF funding, see Figure 2-9.

IRRF-funded Activities in the Oil and Gas Sector
A number of significant oil and gas facilities are nearing completion. U.S. reconstruction officials estimate that all U.S. construction projects in the sector will be completed by July 2007. For a summary of U.S.-funded construction projects to date, see Figure 2-10.
During this reporting period, $140 million was expended. As of September 27, 2006, a total of $1.14 billion had been expended, and $1.68 billion had been obligated.  

**IRRF-funded Project Status**

Currently, 185 projects are planned in this sector; 129 non-construction, and 56 Engineering, Procurement, and Construction (EPC) projects. For the completion status for non-construction and EPC projects, as of the end of this quarter, see Table 2-6.

**Key Oil and Gas Projects Completed and Underway**

IRRF-funded construction initiatives in the oil and gas sector have focused mostly on production and transmission, but some construction and non-construction projects have also helped rehabilitate refining and gas facilities. Figure 2-11 shows the critical oil and gas infrastructure across Iraq.

**CONSTRUCTION**

The **Al Basrah Oil Terminal** (ABOT) task order was 38% complete as of September 29, 2006. As of August 2006, 7 of the 14 projects under this task order had been completed. These projects focus mostly on sustainability and measurable operations, rather than providing additional capacity to help reduce the likelihood of a catastrophic failure at this crucial export node. The **ABOT metering system**—33% complete last quarter—made little progress this quarter and is now reported
EP vs. EPC Project Status Summary

<table>
<thead>
<tr>
<th>Type</th>
<th>Total Projects</th>
<th>Not Started</th>
<th>Ongoing</th>
<th>Completed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-construction</td>
<td>129</td>
<td>0</td>
<td>60</td>
<td>69</td>
</tr>
<tr>
<td>EPC</td>
<td>56</td>
<td>0</td>
<td>32</td>
<td>24</td>
</tr>
</tbody>
</table>


Table 2-6

Figure 2-11
Gas and Oil Infrastructure by Governorate
Source: CIA Country Profile Map
to be 38% complete. The slow rate of progress on this initiative has been caused by technical issues associated with terminal shutdown.\textsuperscript{47} The estimated completion date for the ABOT task order is April 5, 2007. \textsuperscript{48}

The Qarmat Ali project is designed to provide treated water for injection wells to maintain oil reservoir pressure and to help sustain production levels in one of the largest southern oil fields. Phase I is complete. Phase II is currently 28% complete, and GRD-PCO reports that it is scheduled for completion by the end of December 2006. \textsuperscript{49} The schedule has slipped because of the poor condition of original pumps, motors, and valves. Phase II of the task order is expected to increase water injection to full capacity, resulting in a crude oil production increase of 200,000 BPD. \textsuperscript{50} An oil expert with IRMO, however, disputes this projected production increase, stating that the project “has actually taken wells out of production in Rumaila because of water cut” that drives excess water into the reservoir. The IRMO expert also noted that “this project will not increase capacity by 200,000 BPD.” \textsuperscript{51}

As of late September 2006, 12 gas-oil separation plants (GOSPs) were undergoing refurbishments throughout southern Iraq to increase processing capacity by 600,000 BPD. All eight GOSP projects in the north have been completed, increasing processing capacity by 300,000 BPD. \textsuperscript{52} The GOSP projects in the south were 93% complete as of late September 2006 and are expected to be complete by November 15, 2006. \textsuperscript{53}

On September 28, 2006, one gas compressor station was completed in the Basrah governorate to supply the gas feed for production of 3,000 tons per day of LPG at Khor Zubair. \textsuperscript{54} Rehabilitation continues for one natural-gas liquids (NGL) plant at North Rumaila, one NGL plant and two LPG plants at Khor Zubair, and bulk storage facilities at Umm Qasr. \textsuperscript{55}

The refurbishment of the Shuaiba Refinery Power Plant in Basrah was 97% complete as of late September; final completion is expected by November 2006. The objective of this project is to improve the continuous long-term power supply to the Basrah Refinery. \textsuperscript{56} GRD-PCO reported that a training project for plant operators currently underway is expected to be complete by December 28, 2006. \textsuperscript{57}

South Well Workover in the Basrah governorate began on August 1, 2006, and is currently 8% complete. This project aims to refurbish wells throughout the governorate, including the workover of 30 wells in the Rumaila fields and completion and replacement of tubing in 30 wells in West Qurna. The objective is to increase crude oil production capacity in the south by more than 300,000 BPD. \textsuperscript{58} GRD-PCO reports that this project is scheduled to be finished by July 2007. \textsuperscript{59}
**SECTOR SUMMARIES**

**Oil and Gas**

**Sector Summaries**

**Over view**


**NON-CONSTRUCTION**

Although construction projects are vital to rebuilding the oil and gas sector, non-construction initiatives maintain and sustain those projects. These non-construction initiatives focus on administrative task orders, training, spare parts, long-term service agreements, and ministerial capacity development.60

In addition to current capacity development and training initiatives by the U.S. Trade and Development Agency and the National Capacity Development Program, GRD-PCO is heavily involved in non-construction, sustainment, and activities to develop capacity in the ministries. To date, $184 million has been allocated to procure vehicles and heavy equipment. As of September 10, 2006, $179 million worth of equipment had been delivered, and $11 million had been allocated to capacity development initiatives for operating company personnel. Overall, GRD-PCO has overseen the training of 1,027 oil and gas workers throughout Iraq.61

IRMO notes that its advisors have helped introduce the latest management techniques to the Ministry of Oil, emphasizing an increase in transparency of oil revenue and procurement. These activities include advising the Ministry of Oil on the proper methods to repair and upgrade existing export meters, developing a financial management information system, and supporting programs to improve oversight by the Board of Supreme Audit and the ministerial inspectors general.62

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

Last quarter, SIGIR reported that crude oil production had reached 2.5 million BPD for one week in mid-June. IRMO reported that those production gains were largely the result of the South Oil Company’s well completion efforts and U.S. reconstruction and rehabilitation projects.63 These gains from rehabilitation projects are expected “to be overtaken by production losses in the near future due to inadequate expenditures for maintenance and lack of replacement of critical parts, material, and equipment if nothing is done to change the current constricting budgetary system for the Ministry of Oil.”64 Funding sustainment activities appropriately continues to pose a significant challenge for the development of Iraq’s oil and gas sector.

Although many IRRF-funded construction projects in this sector have continued to add to Iraq’s production capacity, the work underway under the ABOT task order has suffered chronic schedule slippages. The Inspector General plans to visit ABOT on an inspection during the next quarter. GRD-PCO reported to SIGIR that these delays were caused by a variety of challenges, including a large number of scope changes during the engineering and design phase, minimizing terminal shutdowns to mitigate southern export losses, and establishing a safer working environment.65
Outcomes of IRRF-funded Oil and Gas Projects

Table 2-7 presents reconstruction project metrics against pre-war levels and U.S. and Iraqi end-state goals.

The 2006 Iraqi budget assumes a crude oil production average of 2.3 million BPD. As of October 2, 2006, the Ministry of Oil’s production target for the north was reported as being 580,000 BPD, and the target for the south was 2 million BPD. The overall capacity and production target for Iraq is expected to reach 2.8 million BPD by September 30, 2007. For the production breakdown between northern and southern fields, see Figure 2-12.

The crude oil production surge in late August/early September to a high of 2.47 million BPD was a result of the old 40-inch pipeline flowing in the northern pipeline system; it was subsequently taken off line because of an interdiction. An IRMO oil expert noted that when this and other key pipelines are flowing in the north and tankers are in proper alignment in the Persian Gulf, total crude oil production could easily reach approximately 2.6 million BPD. Figure 2-13 shows crude oil production nationwide.

### Current Oil and Gas Project Benefits vs. Pre-war Level and Goal

<table>
<thead>
<tr>
<th>Outcomes Metrics</th>
<th>Pre-war Level (2003)</th>
<th>Quarter Average</th>
<th>U.S. End-state Goals</th>
<th>Iraqi End-state Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil Production Capacity (million BPD)</td>
<td>2.8</td>
<td>2.5</td>
<td>3.0</td>
<td>2.8</td>
</tr>
<tr>
<td>Oil Production (Actual) (million BPD)</td>
<td>2.58</td>
<td>2.27</td>
<td>Not Available</td>
<td>2.8</td>
</tr>
<tr>
<td>Export Levels (million BPD)</td>
<td>Not Available</td>
<td>1.66</td>
<td>2.2 (capacity)</td>
<td>1.65</td>
</tr>
<tr>
<td>Natural Gas Production Capacity (MSCFD)</td>
<td>Not Available</td>
<td>600*</td>
<td>800</td>
<td>Not Available</td>
</tr>
<tr>
<td>LPG Production Capacity (TPD)</td>
<td>Not Available</td>
<td>1,200*</td>
<td>3,000</td>
<td>Not Available</td>
</tr>
</tbody>
</table>

*Data for these figures is taken from a GRD-PCO report of September 10, 2006, and does not constitute a full quarterly average.


**Table 2-7**
**Figure 2-12**

**Crude Oil Production by Region**


Millions of Barrels Per Day

- SOUTH
- NORTH

Monthly Average
EXPORTS

The oil and gas sector remains Iraq’s economic mainstay: crude oil exports are projected to account for approximately 90% of the government’s revenue in 2006. In early October, year-to-date Iraqi revenues from oil exports for 2006 reached $24.8 billion. From January 2004 to March 2006, however, Iraq lost a potential $16 billion in revenue from oil exports because of limitations on its ability to export crude oil, in addition to incurring billions of dollars in fuel import costs to meet domestic demand. SIGIR Audit 06-038, summarized in Section 3 of this Report, discussed this loss. For a timeline of monthly exports and associated revenues, see Figure 2-14.

Exports averaged 1.62 million BPD for September and 1.66 million BPD throughout the quarter; the Iraqi goal is 1.65 million BPD. However, Iraq’s revenue base from crude oil exports remains vulnerable if global oil prices...
continue to decline and domestic crude production levels cannot be sustained. Persistent insurgent attacks on the northern pipeline system will continue to put the export burden almost exclusively on the south. This increases the southern system’s susceptibility to longstanding vulnerabilities, including low storage capacity and volatile winter weather conditions affecting shipping at southern ports.

**REFINING**

The main fuels produced and used throughout Iraq are kerosene, gasoline, diesel, and LPG. This summer Iraqis suffered from severe shortages in all fuels. The shortage resulted from high summer demand for power and O&M issues with pipelines in the Baiji-Kirkuk corridor—mostly because of sabotage and dilapidated infrastructure. The unreliability of these fuel pipelines has forced Iraq to transport fuel from Baiji to Baghdad via truck fleets, which are scarce throughout Iraq and susceptible to smuggling and attack. The shortage has also been exacerbated by a recent lack of Turkish imports caused by the Iraqi Ministry of Finance’s failure to pay its debt to Turkey.

GAO reported on Iraq’s weak domestic refining capacity in late April, citing attacks, dilapidated infrastructure, and poor O&M budgeting practices as the main causes. This weak domestic refining capacity, in addition to import-related difficulties, has contributed significantly to Iraq’s inability to supply enough of the critical refined fuels to meet market demand. The Ministry of Oil reported that storage levels of refined products, especially kerosene and LPG, for September were sharply down and noted that this could lead to a serious shortage during the winter.

Throughout the quarter Iraq imported 8.5 million liters per day of gasoline (approximately the same as its quarterly average daily production rate of 8.8 million liters per day). And Iraq produced 40% of LPG domestically this quarter, relying on imports to help address supply needs. For assessments of Iraq’s critical refined fuel production rates, see Figure 2-15.

The combination of domestically produced refined fuels and fuels imported from abroad failed to meet any of the four Iraqi targets cited under the Consumption Plan for September 2006. In fact, Iraq did not meet any of its total

### Figure 2-15

**MONTHLY CRUDE OIL EXPORT AND REVENUE RAISED**

Source: DoS Iraq Weekly Status Report (6/03-9/06), IMF SBA (1/06)

<table>
<thead>
<tr>
<th>Month</th>
<th>Target MBPD</th>
<th>Actual Crude Oil Exports (MBPD)</th>
<th>Revenue $ Billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>J</td>
<td>1.65 MBPD</td>
<td>1.67</td>
<td>1.68</td>
</tr>
<tr>
<td>F</td>
<td>-10%</td>
<td>1.60</td>
<td>1.68</td>
</tr>
<tr>
<td>M</td>
<td>-20%</td>
<td>1.51</td>
<td>1.68</td>
</tr>
<tr>
<td>A</td>
<td>-30%</td>
<td>1.32</td>
<td>1.60</td>
</tr>
<tr>
<td>M</td>
<td>-40%</td>
<td>1.05</td>
<td>1.47</td>
</tr>
<tr>
<td>J</td>
<td>-50%</td>
<td>1.05</td>
<td>1.32</td>
</tr>
<tr>
<td>A</td>
<td>-60%</td>
<td>1.05</td>
<td>1.05</td>
</tr>
<tr>
<td>S</td>
<td>-70%</td>
<td>1.05</td>
<td>1.05</td>
</tr>
</tbody>
</table>

**Revenue $ Billions**

- 0
- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
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- 95
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- 97
- 98
- 99
- 100

**Figure 2-15**

Monthly Crude Oil Export and Revenue Raised

Source: DoS Iraq Weekly Status Report (6/03-9/06), IMF SBA (1/06)
critical refined product targets this quarter, although it briefly met the national stock level target of 15 days worth of supply for kerosene in July and August.\textsuperscript{80} See Figure 2-16.

Iraqis use kerosene mostly as a home heating fuel. The national stock level of kerosene surged this quarter and last quarter as Iraqis built their supply in advance of winter. LPG, diesel, and gasoline are not seasonal fuels, however, and are generally produced at steady rates year-round, assuming a constant production capacity. According to a DoS energy expert, saboteurs have focused mostly on interdicting gasoline and LPG lines because these products are in higher demand throughout Iraq.\textsuperscript{81}

To help alleviate this problem and provide a stable supply in the future, the Iraqi government has begun to make plans to upgrade two of its main refineries and to build two new ones in northern and central Iraq.\textsuperscript{82} In the shorter term, however, Iraq is trying to import more refined products from abroad. Currently, Iraq receives refined fuels from Turkey, Kuwait,
the United Arab Emirates, Iran, Turkmenistan, and Syria. Most imports, however, come from Turkey, and the failure of the Ministry of Finance to pay its debt has strained this relationship considerably. An agreement to remedy this problem is currently in place: Iraq paid $80 million on October 20 and will do so again on November 20, 2006; it will pay another $40 million by December 20.

Finally, on September 6, 2006, the Iraqi Council of Representatives approved the Fuel Import Liberalization Law, which allows private companies to bid for import licenses to supply fuel directly to the open market in an attempt to ease gasoline shortages and reduce smuggling. Before the approval of this law, the State Oil Marketing Organization conducted all oil imports.

Figure 2-16
Quarterly Average Inventory of Critical Refined Fuels

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Diesel</th>
<th>Gasoline</th>
<th>Kerosene</th>
<th>Liquid Petroleum Gas</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEP 2004</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DEC 2004</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>MAR 2005</td>
<td></td>
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<tr>
<td>JUN 2005</td>
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<tr>
<td>SEP 2005</td>
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<td>DEC 2005</td>
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<tr>
<td>MAR 2006</td>
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<tr>
<td>JUN 2006</td>
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<td></td>
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</tr>
<tr>
<td>SEP 2006</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
Challenges
Projects in this sector continue to face a number of challenges, including difficulty in budget execution, attacks on key infrastructure, corruption, smuggling, and providing for the sustainment of operations.

**BUDGET EXECUTION**

During his visit to Iraq this quarter, the Inspector General visited the Ministry of Oil to confer with the Deputy Minister, the Chief Budget Officer, and the Director of Plans. It became clear during those meetings that the Ministry of Oil has a capacity problem in executing its capital budget. Only a fraction of the budget was executed last year, and that problem apparently continues this year. This is a government-wide problem in Iraq, but it is most serious at the Ministry of Oil because of the importance of capital investment in this sector. The Ministry of Oil is the major revenue-generating ministry in the country; therefore, investment in this sector is critical for the nation’s revenue growth.

The Ministry of Oil also does not provide IRMO with complete budgets. This lack of transparency must be corrected if the U.S. is to be able to reasonably advise the Ministry of Oil on its strategic investment plan.86

**SECURITY**

The challenge of providing security for oil facilities and installations continued throughout this quarter. GAO reported “that major oil pipelines continue to be sabotaged, shutting down oil exports and resulting in lost revenues.”87 In late August, DoD also reported that, in addition to worksites, “terrorists have attacked crude export and petroleum product pipelines, impeding exports and the refining and distribution of petroleum products, such as gasoline and diesel.”88 For instance, the late August/early September surge in crude oil production was tempered by a subsequent interdiction that crippled the 40-inch pipeline along the ITP. In response to this event, the Iraqi government deployed Iraqi Army units to better protect this key pipeline.89 For more information on SIGIR’s audit of protection for the energy infrastructure, see Section 3 of this Report.

**IMPLEMENTING AND FUNDING SUSTAINMENT ACTIVITIES**

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

The Ministry of Oil has struggled to operate, maintain, and replace aging and deteriorated infrastructure, according to IRMO. IRMO recently noted that even though the Ministry...
Oil “has a good chance in reaching its stated production goals, it stands little chance in maintaining it unless it starts a serious rehabilitation program of the facilities [that] were designed and constructed decades ago.”

This problem is compounded by the funding procedures implemented by the Ministry of Finance, the Ministry of Planning, and the Council of Ministers High Contracting Committee to control procurement corruption. As of mid-June 2006, the Ministry of Oil had received only a fraction of its 2006 budget of $3.5 billion.90 These financial and procurement restrictions are the main cause of the Ministry of Oil’s lack of spending on new capital projects for infrastructure rehabilitation, which include completing natural gas pipelines and improving key refinery facilities.91 As a result of these sustainment and budgeting issues, the International Monetary Fund (IMF) has reported that Iraq’s main source of economic growth for both 2005 and 2006 is expected to come from non-oil economic activity.92

CORRUPTION AND SMUGGLING

Corruption continues to impede the development of Iraq’s oil and gas sector. In August 2006, the IMF reported that corruption “damages Iraq’s ability to manage its oil resources effectively and siphons off much needed wealth to improper ends.” The Ministry of Oil reported to SIGIR that corruption is a challenge in storage and depots, transport and supply, and maintenance. Major concerns include robbery and bribery, as well as truancy by employees, external agents, and procurement committees.

The Minister of Oil has acknowledged that corruption is significant in the production and distribution of refined fuels, but the Ministry of Oil is reportedly working to combat this problem.93 The Ministry of Oil has completed 454 audits thus far in 2006 and has developed revised practices/standards for 33 aspects of the ministry’s work, including marketing of crude oil, salary scales, and transportation of oil products. Many Iraqi inspectors general still complain, however, about insufficient budgets, shortage of experienced auditors and investigators, and a lack of independence within the ministry.

The Iraqi government is also planning to combat corruption and smuggling in the oil and gas sector by installing production metering systems throughout the country. This project is funded by the Ministry of Oil, which has leveraged the advice of international oil companies to expedite the process, though it is unlikely that these meters would be operational for some time.94

In mid-June and early July 2006, the Iraqi government raised prices for diesel, kerosene, gasoline, and LPG,95 as required by the December 2005 IMF Stand-By Arrangement (SBA). These steps were part of price adjustments, slated to occur at three-month intervals, to bring domestic fuel prices in line with the prices of neighboring countries and diminish the incentive to smuggle fuel. IRMO also reports that the official price of diesel was raised on October 1, 2006 (in accordance with
the SBA), but the government has delayed raising the prices of the other fuels until Turkey resumes exports to Iraq.\textsuperscript{96}

Despite these structured price increases, the gray market rate for petroleum was approximately $4 per gallon—almost eight times the official price—as of early September 2006.\textsuperscript{97} Overall, the combined amount of fuel that Iraq produces domestically and imports from abroad is still not enough to meet current domestic demand, which fuels the gray market for such scarce commodities.\textsuperscript{98}

Most smuggling occurs in-country and that smuggled fuel tends to be sold around the same area from where it was stolen.\textsuperscript{99} Furthermore, DoD noted in August that “a significant portion of illegal trade results in constraining the supply of gasoline in Baghdad, giving motorists few alternatives to purchasing black-market fuel at increased prices.”\textsuperscript{100}

\section*{Enabling Legislation}

The passage of the Fuel Import Liberalization Law was one important step toward improving the oil and gas sector, but the passage of a national hydrocarbon law remains the most important future milestone. There are significant discrepancies, however, between the hydrocarbon legislation being considered by the Kurdistan Regional Government and that being considered by the central Iraqi government. The legislation differs in many ways, but most prominently in the question of regional rights to receive direct revenue from both current and future fields, as well as the status of Kirkuk.\textsuperscript{101}
STATUTIOE OF THE WATER SECTOR

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

SIGIR makes these observations about progress in the water sector:

- Allocations to this sector total $2.13 billion. Figure 2-17 shows this sector’s funding as a share of the total IRRF. Only about 8% of projects have yet to start, and 79% are complete.
- As of September 27, 2006, formal reporting information for the sector showed that funding was almost completely obligated (98.1%). GRD-PCO later updated this information, reporting that all funds were obligated by September 30, 2006.
- One of the major challenges is to ensure that U.S. efforts are sustainable. The Water Sector Sustainment Program (WSSP) is underway, providing $116 million for facility assessments, technical assistance, supplying parts and other consumables, specialized follow-on repair, and other sustainment activities.
- U.S. projects have provided an estimated 4.6 million people with access to water—more than half the anticipated end-state of 8.2 million people. Also, 5.1 million people have access to sanitation services from U.S. projects; the end-state goal is 5.3 million people.

IRRF-funded Activities in the Water Sector

More than two-thirds of sewerage projects are finished, and 80.2% of potable water projects are complete. For the status of projects in the water sector, see Figures 2-18 and 2-19.

This quarter, $150 million was expended in the water sector, a decrease from previous quarters:

- $250 million last quarter
- $202 million two quarters ago
- $295 million three quarters ago

Figure 2-17
WATER SECTOR AS A SHARE OF IRRF FUNDS
Percent of $18.44 Billion
As of September 27, nearly all (98.1%) of the sector's funding had been obligated, but only 60.6% had been expended. According to GRD-PCO, all IRRF funds under its control were obligated by the September 30, 2006 deadline, but published reports of the data were not available to verify the data.

**Key Projects Completed and Underway**

All U.S.-funded projects in this sector are scheduled to be complete by October 2008.

After a short delay, one of the largest projects in this sector—the **Erbil Water Treatment Plant**—was completed in July. The contractor is now providing O&M training and support. The $201 million project provides 144,000 cubic meters (m³) of water per day to 333,000 residents of Erbil and the surrounding area.

The $262 million **Nassriya Water Treatment Plant** project is 97% complete, as of October 2006. The original completion date of June 2006 was pushed back to October 2006 and...
now back to March 2007. The delay stems from an increased scope to provide network connections to five cities.\(^{110}\) The completed water treatment plant will provide 240,000 m\(^3\) of water per day to more than 555,000 people.\(^{111}\) The Nassriya Drainage Pump Station is scheduled for completion in March 2007.\(^{112}\)

The recently completed $63.1 million Rural Water Program provided 70 water treatment sites in underserved rural areas of Iraq, with the capacity to serve 492,000 Iraqis nationwide. The $22.9 million project to restore the Sharq Dijla Water Treatment Plant is nearly complete. After restoration, the plant will produce an additional 216,000 m\(^3\) per day, serving an additional 432,000 people.\(^{113}\)

GRD-PCO initiated a number of programs this quarter that focus on contracting directly with Iraqi construction firms to construct small water projects. In total, the programs...
are receiving $122 million in funding to conduct multiple small potable water projects throughout all 18 governorates in Iraq. There are many benefits from contracting directly with Iraqis, including:

- increasing local employment
- strengthening private business infrastructure and capacity development
- using resources more effectively
- reducing security and overhead costs

The largest such program is the Small Water Rehabilitation Program ($63 million), which will benefit 1.65 million Iraqis. As of September 2006, those programs had completed 158 of the 324 total planned projects.

Other progress this quarter included the start of automatic operations at the Wathba Water Treatment Plant. The Basrah Sewerage Facility is expected to be finished by October 2006.

Outputs of IRRF-funded Projects

To date, the United States has repaired or rehabilitated 21 potable water treatment facilities and 56 smaller water treatment plants. Additionally, nine centralized sewage treatment facilities have been completed to date. The outputs of these IRRF-funded projects appear in Table 2-8, which shows the current and anticipated capacity provided by completed water projects.

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

To determine the outcome of U.S. projects, IRMO measures the number of people estimated to benefit from these projects. For a summary of the data on the effects of U.S. projects on Iraqi access to water and sanitation services, see Table 2-9.

U.S. projects have provided potable water access to an estimated 4.6 million people—an increase from last quarter’s 4.2 million and more than half the anticipated end-state of 8.2 million people. The United States has now completed 80.2% of planned potable water projects. If all planned projects are completed, end-state goals will be reached, according to IRMO. A number of large projects have yet to be completed, including Sadr City, Balad Rooz, and Nassiriya water-supply projects.

### Current U.S. Water Project Outputs and Anticipated End-state

<table>
<thead>
<tr>
<th>Outputs Metric</th>
<th>Current Status, as of 9/30/06</th>
<th>Anticipated End-state (April 2007)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potable Water—Maximum Additional System Capacity</td>
<td>1.4 million cubic meters per day</td>
<td>2.5 million cubic meters per day</td>
</tr>
<tr>
<td>Sanitary Sewage—Maximum Additional System Capacity</td>
<td>1.2 million cubic meters per day</td>
<td>1.2 million cubic meters per day</td>
</tr>
</tbody>
</table>

Sources: DoS response to SIGIR data call, October 11, 2006.

Table 2-8
Current U.S. Water Project Outcomes and Anticipated End-state

<table>
<thead>
<tr>
<th>OUTCOME METRIC</th>
<th>CURRENT STATUS, AS OF 9/30/06</th>
<th>ANTICIPATED END-STATE†</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potable Water—additional people potentially served at a standard level of service, considering actual system conditions</td>
<td>4.6 million people</td>
<td>8.2 million people</td>
</tr>
<tr>
<td>Sanitary Sewage—additional people potentially served at a standard level of service, considering actual system conditions</td>
<td>5.1 million people</td>
<td>5.3 million people</td>
</tr>
</tbody>
</table>

Sources: DoS response to SIGIR data call, October 11, 2006.

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

Table 2-9

Challenges

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

SUSTAINMENT

A 2005 GAO audit noted the challenge of sustaining U.S.-funded facilities in the water sector. In response to this challenge, a new $116 million sustainment program was initiated for 2006. The WSSP intends to “assist the Iraqi people in the proper operation and maintenance of 40+ selected U.S.-government supported water and wastewater facilities.” The program includes facility assessments, technical assistance, supplying parts and other consumables, and providing follow-on specialized repair. The WSSP builds on these other sustainment projects that have been completed:

- USAID’s Water Sector Institutional Strengthening Program ($25 million) ended in April 2006, providing O&M support for 11 major water and wastewater treatment facilities.
- GRD-PCO’s Management Systems Training Program ($14.5 million) for the Ministry of Municipalities and Public Works will help build capacity in Baghdad and eight local governorates.

The ongoing WSSP program is scheduled to be completed in March 2007. The program will provide O&M support at almost all of the major water facilities that the United States has constructed or restored. The program uses a
scorecard to rate key operational areas at each of the facilities. These program activities occurred during the quarter:

- Plant optimization contracts for 40 facilities were completed, and 18 more optimizations are underway.
- Operations support at 11 major facilities and 69 rural water projects continued. Rural water O&M support activities include providing operators, maintenance technicians, instruction material, security, chemicals, and minor repair support.
- Productivity of the Najaf Water Treatment Plant was increased to 100% of the design capacity over three months.
- Emergency generator O&M services were provided throughout Iraq for assigned generators of the Ministry of Water Resources, including necessary spare parts and consumable supplies.
- Contractors for O&M oversight and supervision support were hired for 13 major Basrah Sewerage Pump Stations.
- Diesel and chemicals were provided to all 40 U.S.-government supported water facilities throughout Iraq.

The WSSP is also implementing Phase II of the Capacity Development Initiative. This will provide training for personnel at the Ministries of Water Resources, Municipalities and Public Works, as well as the Baghdad Amanat (the public works directorate for the city of Baghdad).
SIGIR makes these observations about progress in this sector:129

- IRRF allocations total $2.21 billion, and $1.88 billion had been expended, as of September 27, 2006.
- 94% of projects have been completed in this sector, and only 3% have yet to start.
- The ARDI program (Agriculture Reconstruction and Development Program for Iraq) in the agriculture subsector is closing out. MNF-I and MNC-I have already begun to replicate similar activities in many areas in Iraq.
- In the democracy subsector, the security situation continues to limit the fielding and effectiveness of Provincial Reconstruction Teams (PRTs).
- In the education subsector, most project funding will be exhausted this quarter. Unless there are further updates, SIGIR will not report on this subsector in the future.
- Financial management and economic development activities focus on economic governance, trade, bank lending, capital markets, and microfinance.
- There are more than 200 independent media sources in Iraq, but only $3 million of the IRRF has been obligated in this sub-sector.

Figure 2-19 shows the percentage of IRRF funding committed to this sector.

By the end of this quarter, more than 98% of the sector’s funding had been obligated, and 85.1% had been expended. As of early October 2006, 8,770 projects (94%) had been completed in this sector.130 For the status of projects in this sector, see Figure 2-20.
### Agriculture

Agriculture supports a rural population of 7 million people, provides employment to approximately 20% of the nation’s workforce, and accounts for 8% of Iraq’s GDP.131 As SIGIR reported last quarter, however, this subsector has a record of low productivity and negative growth rates caused by years of poor policy decisions under the former regime, sanctions, isolation, and war.132 Post-war looting also damaged a variety of government and private agricultural production and service facilities, especially in central and southern Iraq.133

USAID estimated this past summer that Iraq’s grain yields were less than half the yields of neighboring countries because of variable rainfall in the north, increasing soil salinity in the south, and years of poor planning.134

Addressing the subsector’s short- and medium-term needs—not including operations and

### Figure 2-20

**Status of Economic and Societal Development Projects**


#### Table: Status of Economic and Societal Development Projects

<table>
<thead>
<tr>
<th>Subsector</th>
<th>Not Started</th>
<th>Ongoing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democracy-building Activities</td>
<td>273</td>
<td>231</td>
<td>504</td>
</tr>
<tr>
<td>Agriculture</td>
<td>0</td>
<td>70</td>
<td>70</td>
</tr>
<tr>
<td>Schools</td>
<td>3</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Vocational Training</td>
<td>0</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Market-based Reforms</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Public Buildings Construction and Repair</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Civic Programs*</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Education*</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Migration and Refugee Assistance*</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>277</strong></td>
<td><strong>305</strong></td>
<td><strong>582</strong></td>
</tr>
</tbody>
</table>

*Completed
maintenance would cost approximately $3.03 billion, according to 2003 World Bank estimates.\footnote{135}

USAID has been responsible for almost all IRRF funding for the agriculture sub-sector. ARDI is designed to help Iraqi farmers increase productivity and income through these components:

- revitalizing agricultural production
- generating income and employment through agro-enterprise and market development
- promoting rural finance
- reclaiming and improving the management of soil and water resources

The initial ARDI contract was awarded in October 2003 with IRRF 1 funds and later extended with IRRF 2 funds. The ARDI program has spent nearly all of the $101.4 million it was allocated; the program is currently demobilizing. Additionally, the $4 million allocated for the Iraq Marshlands Restoration Program was almost fully expended this quarter.\footnote{136}

The ARDI contract will not be extended, but other organizations, like the U.S. Department of Agriculture (USDA), still have IRRF funds to support agriculture programs.\footnote{137}

MNF-I and MNC-I are also currently working to carry forward certain ARDI initiatives and project ideas, including:

- purchasing and distributing more seed cleaners throughout Iraq
- assisting in setting up beekeeper operations for honey production
- cleaning and rehabilitating irrigation infrastructure
- expanding vocation training programs throughout Iraq
- preparing SOWs for greenhouse construction, sheep dip tanks, and mushroom farms\footnote{138}

**AGRICULTURE PROJECTS COMPLETED AND UNDERWAY**

Current ARDI activities focus on increasing crop production, expanding market-oriented reforms, improving livestock management, and enhancing agriculture-related private sector development. As of early October 2006, 304 of the 374 IRRF-funded projects in the agriculture subsector had been completed, and an additional 70 were still in progress.\footnote{139}

**OUTPUTS OF IRRF-FUNDED AGRICULTURE PROJECTS**

The ARDI program works directly with the Ministry of Agriculture, presenting an “Iraqi face” that helps keep security costs relatively low.\footnote{140} Although outputs are important measurements of current improvements in the agriculture subsector, one IRMO official notes that “outputs are not what are needed…Outcomes are the measurables that make a difference to the sector’s sustainability and, therefore, the difference for the country’s future.”\footnote{141}

For the ARDI outputs to date, see Table 2-10.

According to USAID officials, the ARDI grants program implemented more than 250 grants, which directly impacted more than 385,000 people. Furthermore, the number of workers employed by ARDI on any given day...
### ARDI Outputs

| **Crop and Livestock Management** | The first batch of approximately 225,000 fish fingerlings was successfully distributed on July 3, 2006, to the Al Hammar Marsh in Basrah.\(^a\) ARDI demonstrated 40% average wheat-yield increases on one-hectare test plots in three northern governorates by using a cost-effective technical package in 2004 and 2005. From 2005 to 2006, ARDI implemented large seed multiplication programs in those three northern governorates in different one-hectare areas, showing yield increases of over 50%.\(^b\) ARDI planted 83,500 date palm offshoots in 18 mother orchards in 13 governorates.\(^c\) 68 veterinary clinics were reconstructed, serving more than 5.7 million animals and 135,000 breeders.\(^d\) |
| **Land Irrigation** | ARDI has rehabilitated irrigation systems impacting 283,500 hectares (700,300 acres).\(^e\) ARDI-rehabilitated irrigation infrastructure has benefited 85,300 families, or approximately 511,800 rural residents.\(^f\) |
| **Training and Capacity Development** | 7,400 farmers cleaned their saved seeds between September 2005 and January 2006, producing 31,500 metric tons of cleaned seed. This amount would be enough to plant 242,000 hectares, benefiting an estimated 48,000 farmers.\(^g\) ARDI trained more than 215 mechanics, mostly in rural areas, as part of the tractor-repair program to improve infrastructure for repair and maintenance services for agricultural machinery.\(^h\) More than 3,400 Iraqi government and private sector-stakeholders have participated in ARDI training, conferences and workshops designed to improve their ability to form policies and collect and manage information.\(^i\) ARDI has also provided business management, association-building, and facilitation training to more than 700 entrepreneurs.\(^j\) |
| **Private Sector Development** | Activities developed and strengthened the capacity of 98 private sector organizations.\(^k\) A wholesale price information system was established in 18 major urban markets for dissemination to producers and merchants.\(^l\) |
| **Mechanical Repairs** | 4,633 tractors were rehabilitated out of a goal of 5,000.\(^m\) |

\(^b\) USAID responses to SIGIR data calls, October 17 and 18, 2006.  
\(^c\) USAID responses to SIGIR data call, October 17, 2006.  
\(^d\) USAID Agricultural Development Fact Sheet, October 2, 2006.
reached as high as 29,000, including both temporary and permanent jobs.\textsuperscript{142}

The ARDI program will close out by the end of the year, and the next USAID agriculture project will focus more on agribusiness development, although some funding will remain for technical assistance to agricultural production. The private sector will need to provide farm machinery to assist in agricultural production, and credit programs are being set up to assist where necessary.\textsuperscript{143}

USDA has two officers operating at the U.S. Embassy in Baghdad, as well as three others who have been identified for a one-year temporary duty assignment. They will help with planning, food safety/veterinarian services, and extension,\textsuperscript{144} through a program funded with $7.8 million reallocated from the IRRF.\textsuperscript{145}

**OUTCOMES OF IRRF-FUNDED AGRICULTURE PROJECTS**

Project outcomes in the agriculture subsector depend mainly on activities that can offer returns on investment over the long term. IRRF projects have demonstrated that such returns are feasible. For example, wheat production per hectare has dramatically increased: the governorates of Erbil, Dahuk, and Sulaymaniyah reported yields of 1,160 kilograms of wheat per hectare (kg/ha), up from 804 kg/ha last year. The barley yield estimate in these governorates also rose from 664 kg/ha last year to 832 kg/ha this year.\textsuperscript{146}

USAID offers several possible reasons for these increases, including a better distribution of rainfall during the growing season; improved seed from USAID’s cleaning program; increased access to needed agricultural inputs; better access to fertilizers; and plans by the Iraqi government to buy more wheat from farmers.\textsuperscript{147}

Overall, Iraq’s Public Distribution System (PDS) requires 4 million metric tons per year of wheat—the amount needed to distribute the full ration of wheat flour to all PDS recipients. Domestic production, however, ranges between 1 and 2 million metric tons per year (of which less than half is of grade 1 quality), significantly below the PDS requirement.\textsuperscript{148}

As a result, Iraq imports almost $3 billion in wheat and other commodity foodstuffs annually for the PDS.\textsuperscript{149}

**CHALLENGES**

SIGIR sees three major challenges in this subsector: security, the need to develop market-friendly laws and policies, and the project selection process.

**Security**

As with all sectors in Iraq, security problems affect the rehabilitation of Iraq’s agricultural infrastructure. USAID officials reported to SIGIR last quarter that security has accounted for only 5-8% of ARDI’s total budget; nevertheless, the lethal environment has slowed the rate of investment in this subsector.\textsuperscript{150} Moreover, an IRMO agriculture expert noted that the greatest challenge is deciphering how to work efficiently and effectively in light of the present security climate and difficulties.\textsuperscript{151}
Develop Market-friendly Laws and Policies

Last quarter, SIGIR reported that moving the subsector to a market-driven system will require substantial training, capacity building, investment capital, mercantile infrastructure development, and coordination. These issues are being addressed as the Iraqi government moves to gradually reduce food subsidies, which would help create a more rational market for agricultural products and allow farmers to respond to market demand by increasing production accordingly. This challenge is also being addressed through programs to build ministerial capacity and support agricultural business development, as well as a USDA program to improve the Iraqi extension service.

Project Selection Process

Another significant challenge is choosing the most appropriate projects to initiate, according to an IRMO agriculture expert. The key is to select projects that will be sustainable and promote Iraqi ownership within a short timeframe. The question is how much forward movement can be generated by Iraq's public and private sectors in this area.

Democracy

In mid-September 2006, the UN Secretary General’s Special Representative reported to the Security Council that the Iraqi government’s key challenge is to develop a national agenda that would be responsive to the needs and aspirations of all Iraqis. This quarter, the foundation for such an agenda has been established with the presentation of the National Reconciliation and Dialogue Project to the Council of Representatives.

DEMOCRACY PROJECTS COMPLETED AND UNDERWAY

Most IRRF funds in this subsector have been used to support the national elections, draft the constitution, and conduct the constitutional referendum. Concurrently, there has been an effort to strengthen Iraq's new democracy at the grassroots level by bolstering the legitimacy of the political system, developing institutional capacity, strengthening civil-society organizations, and inculcating a stronger sense of civic involvement among Iraq's citizens. As of early October 2006, 7,204 of the 7,708 IRRF projects in the democracy subsector had been completed (93.5%).

This quarter, ten PRTs have been assessed as operational. The PRTs focus on generating short-term employment opportunities and civic education initiatives. PRT staff work with leaders in the governorates to prioritize initiatives to address the needs of the local people. These initiatives are funded as funds become available.

According to SIGIR Audit 06-034, the security situation continues to pose a significant challenge for every aspect of the PRT mission. The audit found that the PRTs and the local governance satellite offices have varying degrees of ability to carry out their respective missions. Finally, the adverse security conditions prevent many civilian billets from being
filled adequately, leaving a void of requisite skills. For an executive summary of this audit, see Section 3 of this Report.

The National Capacity Development Program (NCDP) aims to help the Iraqi government strengthen its core functions. Its activities include further developing important ministries, the Prime Minister’s office, participating inspectors general, and various anticorruption organizations. The short-term goal of the NCDP is to use Ministry Advisory Teams to provide public policy and programmatic advice and work with the ministries to develop and address their respective priorities. Over the longer term, the NCDP focuses on increasing capacity of national public administration centers to train ministry employees and develop core competencies. Finally, the International Republican Institute (IRI), National Democratic Institute (NDI), IFES, and other grantees continue to conduct IRRF-funded democracy activities at the national level.

**OUTPUTS OF IRRF-FUNDED DEMOCRACY PROJECTS**

Persistent difficulties and delays in deploying PRTs throughout Iraq have slowed the effort to help develop capacity in the provincial governments. Other efforts to engage at the local level of governance have been more successful. The Community Action Program (CAP) has operated throughout Iraq since 2003 to promote democracy and help mitigate conflict at the local level. This program has established more than 1,400 community action groups (CAGs) throughout the country, creating more than 88,000 short-term jobs. The Iraq Civil Society Program (ICSP) has issued 413 small grants, totaling more than $3.4 million, for initiatives in civil society, human rights, civic education, anticorruption, and women’s advocacy. Many initiatives have focused on developing a more robust media in Iraq.

Last quarter, SIGIR reported on the activities that NDI and IRI are engaged in throughout Iraq. Those activities continued this quarter, primarily with funding through the 2006 Emergency Supplemental Funds. This quarter, NDI continued to focus on democratic development seminars, promoting women’s rights, voter training, and a variety of other issues. In September, NDI held a 3-day Voter Contact Academy with 16 members of the Iraqi National Party to help them better communicate with and address the concerns of their constituents. Also in September, members of several Iraqi political parties participated in training forums in Dahuk to clarify concepts of democracy.

IRI has also continued its democratization efforts in Iraq by supporting civil society groups, working with political parties to strengthen their structures and broaden their bases of support, and by supporting the development of institutions in the Council of Representatives. IRI reports that it held two sets of three-day training programs for the major Shiite parties and the major Sunni party in Amman, Jordan, in September 2006. Training focused on the importance of intra-party democracy, leadership and candidate selection.
within political parties, platform and message development, the use of survey research and focus groups in politics, and candidate recruitment.

OUTCOMES OF U.S. AND INTERNATIONAL DEMOCRACY PROJECTS

These are the milestones reached in the democracy subsector this quarter:

- On August 26, 2006, a conference of tribal leaders issued a statement condemning violence and endorsing the national reconciliation plan.
- On September 24, 2006, Iraqi political parties reached a deal under which the Council of Representatives established a Constitutional Review Committee to review the constitution and debate the bill on creating federal regions.
- The Council of Representatives approved the federal regions law on October 11, 2006. This law will allow Iraq’s provinces to hold referenda to merge themselves into larger federal regions, but delays the merging process for another 18 months.

The National Reconciliation and Dialogue Project is a very important test of whether the Iraqi government will be able to confront and mitigate the escalating violence throughout Iraq through political means; this project will operate at national, provincial, and field-committee levels.

GAO recently cited information from the Defense Intelligence Agency that “the December 2005 elections appeared to heighten sectarian tensions and polarize sectarian divides.” GAO also cited a March 2006 U.S. Institute of Peace report noting that Iraq’s political process has sharpened ethnic and sectarian identities, while simultaneously weakening notions of nationalism and Iraqi identity.

Well-trained and well-equipped security forces can help foster a more permissive environment for a political dialogue to occur, but these forces alone cannot guarantee peace in the long term until Iraq reaches a political understanding. Milestones in the future include passing and enforcing enabling legislation and holding provincial elections.

CHALLENGES

General concerns for this subsector include “implementation of the National Reconciliation Plan, passage of enabling legislation for the constitution, a constitutional review process and possible constitutional referendum and provincial elections.” These concerns stem from the following challenges.

Governing Effectively and Cooperatively

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

The Iraqi government has moved to remedy some of these governing concerns at the strategic level, and there may be some leadership changes in the near term.

On the national level, the federal regions law was approved on October 11, 2006, with the largest Shiite political party advocating the creation of autonomous southern regions similar to the model followed in Kurdistan. However this remains a controversial issue among Sunni and some Shiite groups: some leaders fear that it could lead to the break-up of Iraq.

This is a valid concern given the power that the Constitution as currently written accords regions once they are formed. If the Constitution is not amended, regional law would trump all federal law in conflict; the federal government would not be able to tax the regions; and the regions, once formed, would be able to establish their own militias.

A challenge on the provincial level is that Iraqi governorates have limited capacity to provide governmental services. Although NDI, IRI, other organizations, and the CAP program have made significant contributions under the USAID democracy and governance program, their overall strategic impact appears to be relatively modest thus far. The challenges facing those governing Iraq are not simply structural: much of the population mistrusts the political institutions after “a generation of divide-and-conquer politics.”

**Security**

The security situation in Iraq has hampered progress on democracy efforts funded by the IRRF. Security for PRTs remains a constraint to effective democracy-building activities throughout Iraq, and DoD has reported that “[t]he security situation in some provinces hampers interaction between team and provincial leaders.” Additionally, the UN recently reported that women are increasingly limited in their ability to move freely outside their homes, access health and educational services, and participate in public life. Reports of “honor killings” are on the rise, and lawyers are reportedly unwilling to work on such cases, for fear of being targeted by extremists.

In August 2006, the U.S. Ambassador to Iraq noted that “the next three to four months are critical for this government to reverse the sectarian violence, particularly in Baghdad.” Further, he stated that the militias must be brought under control for Iraq to progress as a successful state. Using the Iraqi Security Forces to mitigate violence throughout the country is necessary, but the UN has made clear that “there can ultimately be no military solution to the many challenges facing Iraq.”

This places a significant premium on the successful development and sustainment of a functional democratic structure.
Education
Funding in the education subsector was fully expended by the end of this quarter although some residual expenditures remain, involving additional school equipment. The FY 2006 supplemental funding does not provide additional funding directly to the subsector, but funding for capacity development will affect training in the subsector. Unless there is further development, this is the last quarter that SIGIR will review the subsection.

The final outputs in the education subsector are reviewed in Table 2-11. A total of 5,270 school projects have been completed with funding from all sources (Development Fund for Iraq, Commander’s Emergency Response Program, etc). U.S. projects also trained more than 60,000 teachers and provided hundreds of thousands of desks, chairs, and chalkboards, and more than 3 million school kits.

Refugees, Human Rights, and Governance
This quarter, the United Nations High Commissioner for Refugees (UNHCR) shifted focus from aiding returning Iraqis to providing help for displaced citizens who continue to flee because of increased sectarian violence. Since last quarter, when SIGIR reported one million internally displaced Iraqis, UNHCR has increased that estimate to over 1.5 million displaced persons living within Iraq itself. After the war, more than 500,000 Iraqis were estimated to reside in neighboring countries. That number is now estimated at 1.6 million living outside their country, most of them in Jordan and Syria.

The United States has allocated $186 million to migration and refugee assistance. UNHCR operates in Iraq on an FY 2006 budget of $29 million, relying significantly on donor governments. At the end of this quarter, UNHCR was running a $9 million deficit in funds. Last quarter, $15 million in IRRF funding was approved for UNHCR and International Committee of the Red Cross projects.

Despite Iraqi government efforts to establish standards for human rights and the rule of law, the UN Assistance Mission for Iraq reports human rights violations occurring at increasing rates. Security has been a sig-

### Tables

#### Schools Repaired by U.S. Reconstruction Projects

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>14,121</td>
<td>11,000</td>
<td>2,358 – USAID IRRF 1</td>
<td>N/A – USAID IRRF 1</td>
<td>N/A – USAID IRRF 1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>741 – USAID IRRF 2</td>
<td>77 USAID IRRF 2</td>
<td>N/A USAID IRRF 2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>806 – PCO IRRF 2</td>
<td>1 (PCO)</td>
<td>3 – PCO IRRF 2</td>
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<tr>
<td></td>
<td></td>
<td>1,365 – MNF-I</td>
<td>N/A – MNF-I</td>
<td>N/A – MNF-I</td>
</tr>
</tbody>
</table>

Sources: DoS, Section 2207 Report, Executive Summary, July 2006, p. 17 (Total Schools and Schools Needing Repair, MNF-I data); GRD-PCO vetting comments, October 17, 2006 (PCO projects); all other metrics unchanged since last quarter.

**Table 2-11**
significant challenge in addressing these rising humanitarian issues. According to the UN, local aid groups have been receiving threats for helping displaced families of different religious affiliations. As a result, many volunteers are leaving their agencies, reducing the capacity of these organizations to respond. The United States allocated $15 million to promote human rights in Iraq; current funding status is unavailable.

Financial Management and Economic Development
This section presents the key U.S. financial management and economic development projects, as well as a general overview of the outputs of these projects.

PROJECTS COMPLETED AND UNDERWAY

Financial management and economic development programs have been allocated $805 million of the IRRF; $360 million was required to offset Iraqi debt forgiven by the United States. Of the remaining $445 million, more than $100 million was allocated to the agriculture subsector; the remainder went to programs in economic governance and private sector development. All funding in the sector has been obligated.

USAID manages the vast majority of the funds in all three of these subsectors. USAID’s private sector development funds (other than agriculture) are concentrated in two major contracts: one for economic governance and one for private sector development. USAID also manages the microfinance program, under Izdihar, that was started by the CPA.

The IRMO Office of Private Sector Development (OPSD), established under the Coalition Provisional Authority (CPA), was allocated $64 million from the IRRF. OPSD manages contracts for several important components of the private sector, including automation of the Iraq Stock Exchange (ISX), support for a sustainable Business Center model, analysis and recommendations for establishment of Economic Zones, and the drafting of the permanent Securities Law. Additional funds—$25.9 million—were provided to the Overseas Private Investment Corporation (OPIC) for expanding the Iraq Middle Market Development Fund (IMMDF), a loan program that provides Iraqi companies with credit facilities of $35,000 to $5 million.

OPIC has provided $100 million of its own (non-IRRF) funds to the IMMDF program managed by an international non-governmental organization (NGO). To date, OPIC has expended more than $28 million and approved another $8 million.

Additionally, USAID has used most of the funding in the subsector—$95 million in initial funds and $29.6 million in emergency funds—for a number of programs to create an enabling environment for the private sector to grow and generate employment. USAID has focused on trade policy and World Trade Organization (WTO) accession, capacity building within business associations and the banking sector,
investment promotion, privatization efforts, strengthening accounting and auditing functions, and microfinance activities.\textsuperscript{199}

**Economic Governance**

The USAID Economic Governance (EG) program is designed to help “create an enabling environment for private sector development.”\textsuperscript{200} This is particularly important for the Iraqi economy, which has been constrained by government subsidies and state-owned enterprises for decades. The $146 million contract has a base period completion date of September 2007 and two one-year options, which USAID can exercise in response to continuing need, performance, and the availability of funding. Current funding will take the activity through early spring 2007.\textsuperscript{201}

The EG program involves working with Iraqi ministries to help them reform outdated macroeconomic policies—fiscal, tax, customs, budget, insurance, pensions, and others. The program also includes capacity development for Iraqi officials. These efforts feed into the overall goal of helping Iraq comply with the Stand-By Arrangement (SBA) with the IMF. The EG program involves 35 international advisors and more than 100 Iraqi advisors who work directly with ministry officials.\textsuperscript{202} The project works to support the Iraqi government reforms required to meet 28 of the 58 IMF targets. USAID collaborates closely with Treasury on this program.\textsuperscript{203}

**PRIVATE SECTOR DEVELOPMENT PROGRAM (IZDIHAR)**

The EG program has focused on helping reform an antiquated banking system; the private sector development program (Izdihar)\textsuperscript{204} has implemented programs to increase lending opportunities for Iraqis. Izdihar helped create the Iraq Company for Bank Guarantees (ICBG), which will offer loan guarantees to private banks. The ICBG will allow Iraq’s microfinance industry to receive loans from private banks rather than just international donors.\textsuperscript{205} Eleven private Iraqi banks have contributed $3.7 million of their own funds to provide the ICBG initial capital. Also, USAID is awarding a $5 million grant to capitalize the ICBG.\textsuperscript{206}

Izdihar has awarded nearly $10.5 million of $20 million in grants to microfinance institutions.\textsuperscript{207} USAID’s overall support to the microfinance and private banking industry is more than $35 million, which reflects a combination of grants for loan capital, operational and infrastructural support, and technical assistance.\textsuperscript{208}

At the end of last quarter, the program also developed a competitiveness study on the Iraqi economy. The study identified “industries which possess intrinsic advantages (or relatively fewer disadvantages), and therefore should be able to compete in an open market with as little assistance from the public sector as possible.”\textsuperscript{209} The study identified 30 high-potential industries in Iraq, describing in detail the competitive characteristics of 10 of these
industries, including cement, tourism, and plastics.\textsuperscript{210}

WTO accession is being supported by a program designed to draft accession documentation, respond to questions posed by WTO member countries, conduct conformity assessments, and ultimately train Iraqi government officials to assess, respond, draft documentation, and move forward independent of external assistance as much as possible.\textsuperscript{211}

\textbf{OUTPUTS OF U.S. PROJECTS IN FINANCIAL MANAGEMENT AND ECONOMIC DEVELOPMENT}

U.S. projects have helped generate some clear outputs in this subsector. The 2003 currency exchange in Iraq under CPA—a combined effort of Iraq, the IRRF 1 Economic Governance contract, and the United Kingdom—was universally heralded as a success.\textsuperscript{212} For the Iraqi dinar’s exchange rate during the past few years, see Figure 2-21.

Also, Iraq continues to comply with the December 2005 SBA with the IMF, which calls for a series of economic reforms, including the gradual removal of subsidies on oil, electricity, and food. EG and Izdihar experts have helped the Iraqi government develop strategies to meet the SBA requirements.\textsuperscript{213}

This quarter, the Iraqi government affirmed its commitment to the SBA, and IMF released the first and second reviews under the SBA.\textsuperscript{214} The reviews show that inflation remains a serious concern as the ongoing insurgency, shortage of goods, and supply disruptions in the non-oil economy push prices upward.\textsuperscript{215}

- Consumer price inflation in 2004 was 31.7\% and is estimated at 31.5\% for 2005—below the SBA goal of 20\%.\textsuperscript{216}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure220}
\caption{Currency Exchange Rate}
\end{figure}

\textbf{Figure 2-20}
\textbf{Currency Exchange Rate}
Dinars against the U.S. Dollar, index (June 2004 = 100)
The 2006 goal of 15% is also in jeopardy: Iraq's Central Office for Statistics reported an 8.3% surge in July to bring the year-to-date total to 32%. From July 2005 to July 2006, inflation in Iraq was nearly 70%.\(^{217}\)

For further information on inflation in Iraq, see the insert to this Report. Other economic indicators in Iraq include:

- Per capita GDP is rising in Iraq, from $949 per person in 2004 to an estimated $1,189 in 2005 and $1,635 in 2006. These increases are above the pace set by the SBA.\(^{218}\)
- External debt remains large in Iraq. The latest estimates show that debt was $63 billion (183% of GDP) at the end of 2005. Iraqi external debt is expected to decline to about $48 billion (102% of GDP) by the end of 2006.\(^{219}\)

**Media**

This section presents the key projects in media development and reports on outputs. According to USAID, the two primary aims of media development projects in Iraq are strengthening Iraq's commercial media sector and increasing capacity within the independent news and public affairs sector.\(^{220}\)

**PROJECTS COMPLETED AND UNDERWAY**

The Development Fund for Iraq (DFI) financed the creation of the Iraq Media Network (IMN) through a $95 million contract awarded in 2004. From the existing organization of integrated media networks, IMN established the Republic of Iraq Radio (RIR) network; al-Iraqiya satellite television channel; and Iraq's largest newspaper, *Al Sabah*.\(^{221}\)

The second major media development project is a $3 million USAID contract funded by the IRRF that supports training and technical assistance for media outlets. These programs focus on training journalists in professional writing and business techniques, sustaining the National Iraqi News Agency (NINA), and providing grants to media outlets for equipment upgrades.\(^{222}\)

**Outputs of U.S. Media Projects**

The Iraq Media Network (IMN) serves as the public service broadcaster in Iraq, operating from newspapers, television, and radio. IMN is operated and maintained by Iraqis to provide quality, independent coverage of international and local news. Iraq boasts 218 media outlets nationwide, with Erbil, Baghdad, and Basrah showing the highest concentrations of media. Iraq's media outlets are shown in Figure 2-22.

**CHALLENGES**

Media development in Iraq faces many challenges. Journalists and news publications in Iraq continue to be the target of threats and attacks. According to the Committee to Protect Journalists, 85 journalists and 35 media support workers have been killed since March 2003.\(^{223}\) In August of this quarter, a suicide bomber attacked *Al Sabah*, killing two people and wounding 20.\(^{224}\)
Violence affects more than just the safety of journalists: broadcasts of violence are believed to inflame sectarian tensions in the country. In late August, the Iraqi government banned the airing of violent images. In September, the Iraqi government ordered the Arabic satellite network, Al-Arabiyz, to shut down its Baghdad operations for one month. The United States responded by urging Iraq’s government to respect press freedoms.
STATUS OF THE SECURITY AND JUSTICE SECTOR

This section covers IRRF funding for the security and justice sector. It does not include security-related funding obligated for projects in other sectors.

DoD has reported that the levels and nature of the violence continue to pose a serious challenge to the reconstruction effort. Further, DoD sees conditions in Iraq that could potentially lead to civil war.\(^{227}\)

GAO cited a DoS assessment that “a baseline of security was a prerequisite for moving forward on the political and economic tasks." GAO also reported that the lack of adequate security has diverted considerable resources from the reconstruction effort that have precipitated project cancellations or scope reductions.\(^{228}\)

IRRF funding intended to support the progress of security and justice resources in Iraq has been almost fully obligated and expended, but more funding has been added through the Iraq Security Forces Fund (ISFF) from the FY 2007 DoD budget. Figure 2-23 shows the sector funding as a portion of the IRRF.

SIGIR makes the following observations about IRRF- and ISFF-funded activities in this sector:

- More U.S. funds have been committed to security and justice than any other reconstruction sector; almost $15 billion of the IRRF and ISFF has been allocated.
- As of September 27, 2006, more than 88% of the $6.31 billion IRRF allocation in this sector had been expended.
- As of October 18, 2006, 43% of the cumulative $8.4 billion ISFF allocation had been expended.
- An additional $1.7 billion was approved for ISFF in the FY 2007 Defense Appropriations Bill. These funds will remain available until September 30, 2008.
- As of October 18, 2006, 312,400 members of the Iraqi Security Forces, which include both military and police personnel, have reportedly been trained, equipped, and fielded, according to DoS. Some questions persist about whether all the trained police are actually operational.
- As of October 6, 2006, 88% of IRRF-funded projects had been completed in the security and justice sector.\(^{229}\)

Figure 2-23
SECURITY AND JUSTICE SECTOR AS A SHARE OF IRRF FUNDS
Percent of $18.44 Billion
Activities in the Security and Justice Sector

As the number of trained and equipped members of the Iraqi Security Forces approaches the targets set by coalition and Iraqi officials, activities in the sector have shifted to improving logistical, command and control, and leadership capabilities—particularly within the Ministry of Defense and the Ministry of Interior.

For executive summaries of two SIGIR audits this quarter of non-construction activities in the security and justice sector, see Section 3 of this Report. For summaries of inspections of the Ninewa Provincial Police Headquarters and Baghdad Police College, see Section 3.

The Inspector General visited the Baghdad Police College during his visit to Iraq this quarter. This project stands out as one of the most problematic major IRRF construction projects that SIGIR has inspected in Iraq.

Programs and Activities Completed and Underway

IRRF projects focus on facilities construction and refurbishment. For a detailed list of projects funded by the IRRF, see Figure 2-24.

Approximately 88% of IRRF funds for military and police forces have been expended.230 As of October 18, 2006, 43% of ISFF-funding had been expended.231

Military/Police Force Development and Support

Work in this sector has focused on building military and police forces, mostly with ISFF-funding; the effort has resulted in 312,900 trained and equipped military and police personnel, as of October 18, 2006.232 The initial force generation plans for the Ministry of Interior and the Ministry of Defense are expected to be completed by the end of 2006, when the effort will shift to replacing force losses.233

Construction

In this sector, IRRF has funded the construction and rehabilitation of border forts, fire stations, police stations, public safety training academies, prisons and corrections facilities, courthouses, and witness-protection facilities.234 These projects have been implemented steadily, and the last IRRF-funded construction project in the sector is scheduled to be completed by December 2007.235

Last quarter, SIGIR reported that work on the Baghdad Police College was scheduled to be completed in summer 2006. This quarter, however, SIGIR Inspections identified a variety of construction deficiencies associated with this facility and health concerns that require prompt attention. SIGIR Inspections also completed an assessment on the construction performed at the Ninewa Provincial Police Headquarters in Mosul, which has suffered major schedule delays because of the contractor’s inability to correct deficiencies and complete tasks outlined by the contract. GRD-PCO
## Figures

### Figure 2-24

**Status of Security and Justice Projects**  
Source: IRMS and USAID Activities Report  
(10/6/2006)

![Chart: Status of Security and Justice Projects](chart.png)

- **1,722 Projects Planned**
- **Completed 87.6%**
- **Ongoing 8.0%**
- **Not Started 4.4%**

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<td><strong>137</strong></td>
<td><strong>213</strong></td>
</tr>
</tbody>
</table>

*Completed

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terminated the contract and turned it over to MNSTC-I to be re-awarded. As of September 22, 2006, the construction of this project was 50% complete. Finally, SIGIR Inspections assessed the quality of work performed at the now-operational Al Kut Training Academy. For the executive summaries of these three inspections, see Section 3 of this Report.

As SIGIR reported last quarter, two correctional facility design-build contracts were cancelled. They have since been re-awarded to local Iraqi firms as fixed-price contracts. The design-build contract for the Khan Bani Saad Correctional Facility in central Iraq was re-awarded on September 15, 2006, and is estimated to be completed by June 2007. The Nassriya Correctional Facility was re-awarded on September 25, 2006, and is estimated to be completed by May 2007. Both facilities are 65% complete.

Renovations on the Al-Zab Courthouse in Kirkuk began in October 2005 and were reported as being complete as of September 28, 2006. Finally, 265 border forts have been constructed to date, 10 are ongoing, and 2 have not yet begun.

NON-CONSTRUCTION INITIATIVES

In addition to training and fielding the Iraqi Security Forces, several initiatives are in progress to promote oversight and transparency in the security and justice sector. The Department of Justice (DoJ) has been working with DoS to support the expansion and functioning of the Central Criminal Court of Iraq (CCCI), in addition to advising and training Iraqi judges. The CCCI has 12 panels operating throughout Iraq but focuses most of its work in Baghdad, processing an average of 118 insurgency-related cases per month. As of August 2006, the CCCI had 826 criminal cases pending or under active prosecution.

The Ministry of Defense reported to SIGIR that corruption in its ranks seems to be under control and that Iraqi inspectors general recorded 69 complaints for 2006, resulting in 51 investigations. The Ministry of Interior, however, reported corruption in its contracting process, including bribery. The Ministry’s inspectors general received 573 complaints in 2006, resulting in 350 investigations. Several U.S. government agencies—including GAO, INL, and USAID—have programs to help the Iraqi government mitigate corruption. For a more detailed assessment of current U.S.-funded anticorruption activities in the security and justice sector, see “Anticorruption Activities,” later in this section.

Outputs of Programs Funded by IRRF 2 and ISFF

Outputs of U.S. projects in this sector include prison construction, as well as several non-construction outputs, including the fielding, training, and equipping of Iraqi military and police forces.

FIELDING AND EQUIPPING TRAINED TROOPS AND POLICE

As of October 18, 2006, the breakdown of the 312,400 Iraqi military and police forces that
have been trained and equipped for security operations:
- 131,600 Iraqi Army, Navy, and Air Force personnel
- 180,800 police, highway patrol, and other Ministry of Interior officers

The coalition and the Iraqi Ministry of Interior intend to field 188,200 trained and equipped personnel, and the force-generation plan for Iraqi Army Forces under the Ministry of Defense proposes an end-strength of approximately 137,500 soldiers.

SIGIR Audit 06-033 reports that 277,600 weapons had been issued as of August 2006, with plans to equip the entire Iraqi Security Force. For an executive summary of the SIGIR audit of weapons provided by DoD and funded by the IRRF, see Section 3 of this Report.

The coalition is also focusing its efforts on building combat service support forces to provide key enablers to Iraqi combat forces, such as logistics and transportation support, intelligence, surveillance, and reconnaissance.

For an executive summary of the SIGIR audit of U.S. efforts to develop logistics capabilities within the Iraqi Security Forces, see Section 3 of this Report.

The United States has invested more than $320 million to improve Iraq’s capability to protect its oil and electric infrastructure, a responsibility that is shared by the Ministries of Defense, Oil, and Electricity. Such U.S.-funded initiatives include training and equipping the Strategic Infrastructure Battalions (SIBs) and partnering coalition forces with Iraq’s various energy infrastructure protection forces.

For the executive summary of the SIGIR audit of energy infrastructure protection, see Section 3 of this Report.

To determine the readiness of Iraqi security and police forces, the coalition uses the Transition Readiness Assessment (TRA) process. These metrics have changed over time as key personnel rotate, equipment is added or replaced, and the tempo of unit operations changes. Because the unit-level TRA assessments are classified, however, this Quarterly Report will not assess the unit-level readiness of the Iraqi Security Forces in terms of personnel, command and control, equipment, and leadership shortfalls.

Since September 18, 2006, 114 Iraqi Army, Special Operations, and SIBs were at various levels of assessed capability and regularly conducting counter-insurgency operations. Of these, 92 battalions are assessed as capable of operating “in the lead” or independently, and 88 Iraqi Army battalions control their respective areas of responsibility. All 27 of the National Police battalions conduct counter-insurgency operations, and two of these currently have the lead in their respective areas of responsibility. Finally, one-third of the company-sized operations in Iraq were reportedly being conducted independently by Iraqi forces.

**CONSTRUCTION**

When all of the prison facilities currently underway are completed, which is tentatively scheduled for April 2007, Iraq’s prison capacity is expected to increase by 4,800 beds. Despite
this increased capacity; however, it is estimated that an additional 20,000 beds will still be needed to meet Iraq’s correctional facility needs. DoD reported that the “Iraqi Corrections System has not demonstrated the capability to effectively resource and run a major facility.”

This lack of prison capacity contributes to an environment that allows abuses in Iraqi detention facilities and forces detainees to wait for long periods of time before charges against them are resolved. The inability of the judicial infrastructure to process cases quickly, train an adequate number of judges, and shield officers of the court from coercion enhances this problem. To mitigate the challenge of threats to judges, U.S. marshals have assisted in providing security for judges and judicial facilities and have worked with the MNF-I to begin training an Iraqi Marshals Service.

**TRAINING INITIATIVES**

The 2006 Training Plan for the Ministry of Interior establishes common training standards and emphasizes human rights, ethics, and the rule of law. However, these programs do not appear to have yet succeeded in changing the culture of the police, who have traditionally relied on coercive measures to obtain confessions.

Training academies are expected to be turned over to Iraqi control by the end of 2006. But the largest training facility, the Baghdad Police Academy, has a number of significant infrastructure problems and may not be ready to transfer on schedule. In August, the Iraqi Police Service graduated 1,100 officers from its advanced specialty courses in Baghdad and Erbil, as well as 5,326 police recruits from various 10-week basic training courses throughout the country. Overall, more than 84,000 Iraqi Police have completed basic training courses, and an additional 43,000 have completed the Transitional Integration Program. There is no accurate data to account for how many of these trainees are operational.

Aside from in-class training, the coalition has fielded more than 160 Police Transition Teams (PTTs), as of August 2006. These teams include International Police Liaison Officers who go out to police stations throughout Iraq to assist with in-station training and development. In addition to the PTTs, there are 27 Border Transition Teams (BTTs) and 38 National Police Transition Teams.

There has been a particular focus this quarter on further developing the National Police, a paramilitary force that can bridge the gap between the police and the military. In early August 2006, a three-step phased training process was initiated for the National Police:

**Phase 1:** Assessment teams of coalition and Ministry of Interior forces conduct leadership assessments and unit inspections.

**Phase 2:** An entire brigade travels to a training area for three weeks to focus on civil policing skills at both the individual and unit levels. This phase was slated to begin in October 2006.

**Phase 3:** A National Police Training Center of Excellence is established to evaluate police officers and battalions on their
combat and policing skills. This is slated to begin in 2007.

Outcomes of Programs Funded by IRRF and ISFF
To better assess the outcomes of IRRF and ISFF projects in the security and justice sector, this section reviews the current transition of security responsibilities to Iraqi control and the status of capacity development at both the Ministries of Interior and Defense.

TRANSITION TO IRAQI CONTROL

These transition milestones were reached during this reporting period:

- On July 13, 2006, security responsibilities for the southern governorate of Muthanna were transferred to the Iraqi Police Service, leaving security for that area in the hands of the provincial governor and police force.256
- On September 21, 2006, the governor of the Thi-Qar governorate in southern Iraq took over governmental and security responsibilities from coalition forces. This event is particularly significant because Thi-Qar is three times the size of Muthanna, contains critical oil and transportation infrastructure, and includes the city of Nassiriya.257
- 51 Forward Operating Bases have been turned over to Iraqi control, out of a total of 110.258
- The Iraqi Ground Forces Command (IGFC) assumed command and control responsibilities for the 8th Iraqi Army Division in early September and for the 4th Iraqi Army Division in mid-September. During the next few months, the IGFC is expected to assume control of the remaining ten Iraqi Army divisions.259

There are significant concerns, however, that sectarian divisions permeate the leadership ranks of the Iraqi Security Forces, with Sunni, Shia, and Kurdish soldiers serving mostly in their respective geographic areas and under commanders from their own sectarian or regional backgrounds.260

CAPACITY DEVELOPMENT

As the initial force generation plans for the Ministries of Defense and Interior approach completion, there is increased emphasis on developing Iraq’s institutional capacity to direct, support, and sustain security forces. DoD reports that the overall TRA for the Ministry of Interior is “partly effective.” DoD stresses that the Ministry’s Transition Team is working to improve this assessment and that DoD has requested $151 million for Ministry of Interior sustainment in the FY 2007 Budget Amendment request. Throughout the next quarter, this team will focus on improving the logistics system for the Ministry of Interior.261

This quarter, a SIGIR audit (06-032) found that some progress has been made in building logistics capabilities within the Iraqi Army and in transitioning these capabilities to the Ministry of Defense. The audit notes, however, that successfully transitioning the logistics operation to the Ministry of Defense by January 1, 2008, will face significant challenges. The audit further notes that the planning for logistics
capabilities for the Ministry of Interior is incomplete and that there will be serious challenges in successfully implementing and transitioning logistics capabilities to support the Iraqi police force in the near term.

**Challenges**

Violence in Iraq continues to pose a significant challenge to progress in this sector.

**MITIGATING THE VIOLENCE**

On September 14, 2006, the UN Secretary General’s Special Representative told the Security Council that Iraq has become one of the most violent conflict areas in the world and that the challenges facing Iraqis have never been more daunting. In late August, DoD reported that the average number of weekly attacks increased by 15% since May 2006, and Iraqi casualties increased by 51% over that same timeframe, with much of the violence occurring in Baghdad. Violence has also been on the rise throughout southern Iraq, particularly in Basrah. And at publication time, October 2006 was the most lethal month for U.S. forces since January 2005.

The Inspector General of the Ministry of Human Rights told SIGIR in an interview last quarter that kidnappings, killings, corruption, and overall security are all getting worse, and the DoD has reported that conventional criminal elements are increasingly capitalizing on instability and that their activities are becoming more difficult to distinguish from those of insurgents and terrorists.

Two recent efforts to mitigate the volatile security situation were announced late last quarter:

- On June 14, Operation Together Forward was launched to increase security throughout Baghdad. The second phase of this operation was launched in early August 2006; as of early October, there were more than 60,000 coalition and Iraqi forces in Baghdad. The UN subsequently reported that the number of casualties in Baghdad dropped from July to August, though the rate began to increase again toward the end of August for both Baghdad and the other governorates. The overall effectiveness of this operation has yet to be determined, but coalition assessments reported in the media suggest that it has not achieved its objectives (see Table 2-12).

- On June 25, the Prime Minister announced the National Reconciliation Plan, and the High Committee for National Reconciliation held its first session on July 22, 2006. On August 26, 2006, a conference of tribal leaders took place in Baghdad, resulting in a condemnation of sectarian violence and endorsement of the plan.

According to DoD, “[s]ectarian tensions increased over the past quarter, manifested in an increasing number of execution-style killings, kidnappings, and attacks on civilians, and increasing numbers of internally displaced persons.” Sectarian violence has also been increasing in Kirkuk and in the Diyala governorate. The UN Secretary General recently issued a report expressing concern “that militia
elements have infiltrated governmental and law enforcement institutions, thus undermining the confidence of the Iraqi people in State institutions.”

INFRASTRUCTURE SECURITY

Critical infrastructure remains a high-value target for insurgent attack. Although the SIBs continue to increase in size and capacity, only one has been assessed as capable of planning and executing independent operations. All of the SIBs still require logistical support from the coalition.

This issue was particularly evident this month in the areas around Baghdad. The capital has been virtually isolated from the national power grid by attacks targeting the electrical lines into the city. Repair of these power lines has become nearly impossible because of death threats and sniper attacks on repair crews. As a result, the city has had to rely solely upon production from within the Baghdad Ring, where only about 800 MW of power is available—barely enough to provide a few hours of electricity to the 7 million people living in the capital. The other provinces, in contrast, have 14-22 hours of power per day.

Sabotage of this type, combined with aging and poorly maintained infrastructure, and criminal activity continues to constrain Iraq’s oil and electricity production nationwide. It also affects oil exports, and the availability of refined oil products for domestic use. All of these factors have contributed to electric production and distribution that is far below the ever-increasing consumer demand.

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<td>0.9</td>
</tr>
<tr>
<td>Adhamiya</td>
<td>3.1</td>
<td>4.1</td>
<td>4.7</td>
<td>3.9</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>22.3</strong></td>
<td><strong>25.3</strong></td>
<td><strong>28.2</strong></td>
<td><strong>36.1</strong></td>
</tr>
</tbody>
</table>

Notes:  
- a Scales of Justice daily average
- b Operation Together Forward daily average
- c Operation Together Forward daily average (Ramadan)

Table 2-12
STATUS OF THE HEALTH CARE SECTOR

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

SIGIR makes these observations about progress in the health care sector:

- More than 65% ($530 million) of the sector’s $819 million had been expended by the end of this quarter. For sector allocations as a share of the total IRRF, see Figure 2-25.
- Approximately 36% of all projects in this sector funded by the IRRF have been completed, but progress has been impeded by security and management problems.
- GRD reported to SIGIR that management of the Primary Healthcare Center (PHC) program has improved during this quarter because GRD has taken a more direct role in management oversight of the direct contracts with Iraqi companies. Construction started between August and September for the majority of these re-awarded PHC contracts; only 7 of 142 planned Model PHCs, however, have been completed to date.
- Of the 20 hospitals undergoing rehabilitation, 12 have reportedly been completed. The original design-build contract was cancelled for eight hospitals, and the work on those hospitals was re-awarded under a series of fixed-price contracts to Iraqi firms.

IRRF-funded Activities in the Health Care Sector

As of September 27, 2006, approximately 95% of the sector’s funding had been obligated, and more than 65% had been expended. By early October, 85 of 237 health care sector projects...
were reportedly completed,\textsuperscript{274} with security delays and contractor failure significantly limiting construction initiatives to date. Figure 2-26 shows hospital construction projects in Iraq by governorate. Figure 2-27 shows the status of projects in the health care sector.

**Key Projects Completed and Underway**

**MODEL PRIMARY HEALTHCARE CENTERS**

SIGIR reported in a previous audit that 150 PHCs were originally planned for Iraq using IRRF 2 funding, but because of cost increases, that planned total was reduced to 142. One of those projects was funded separately through the Commander’s Emergency Response Program. After the PHC design-build contract was cancelled for all but 20 of these PHCs, GRD re-awarded the remaining 121 to on-site Iraqi firms under fixed-price contracts.\textsuperscript{275} As of late September 2006, 37 PHCs were slated to be completed by the end of November 2006.\textsuperscript{276} Moreover, seven PHCs have been delivered to the Ministry of Health, with six of those currently open to serve patients and the seventh set to open by the end of October 2006.

During his visit to Iraq this quarter, the Inspector General met with the Deputy Minister of Health, who reported that the quality of construction work at one of the PHCs in Baghdad was very poor and that, although it had been “turned over,” it was not being used.\textsuperscript{277}

- Of the unfinished PHCs, 32 are 90-100% complete, and 31 are 75-90% complete.
- The remaining 72 are at various stages of completion between 10% and 75% complete, averaging a completion rate of approximately 53%.

Overall, the PHC program administered by GRD-PCO is 69% complete, and it is estimated that it will be finished by August 2007.\textsuperscript{278}

**HOSPITALS**

The hospital rehabilitation program has also been delayed. The program’s original goal was to renovate 17 maternity and children’s hospitals, but this number was increased to 20 in December 2004.\textsuperscript{279} Currently, GRD-PCO oversees the refurbishment of 20 hospitals under the original design-build contract, as well as the construction of one additional hospital that was being overseen by USAID until this quarter.

- Of the 20 hospitals under the design-build contract, 12 have been completed by the contractor, and the other 8 have been re-awarded with $17 million of the IRRF in fixed-price contracts to Iraqi contractors. One hospital—the Ramadi Women’s and Children’s Hospital—was completed on September 16, 2006.\textsuperscript{280} GRD-PCO reported that all hospital rehabilitations in its hospital program are currently 85% complete, with completion expected by February 1, 2007.\textsuperscript{281}
SECTOR SUMMARIES

Figure 2-26
HOSPITALS BY GOVERNORATE
Number of Projects
Source: IRMS and USAID Activities Report
(10/6/2006)

Figure 2-27
STATUS OF HEALTH CARE PROJECTS
Source: IRMS and USAID Activities Report
(10/6/2006)
Basrah Children’s Hospital

Until this quarter, USAID was managing construction of the Basrah Children’s Hospital. In early June, however, USAID issued a stop-work order to the contractor, and the subcontract was terminated in early August 2006. A new fixed-price contract was awarded on September 30, 2006. Management of the contract was subsequently turned over from USAID to GRD-PCO. GRD-PCO reported to SIGIR that 30% of the construction was completed as of mid-October. The hospital is estimated to be finished by July 2008, with equipment integration and other move-in items slated to continue into early 2009. Once completed, the hospital will have 94 beds, two utility buildings, and a 36-bed residence building; its total cost will be funded from a number of funding streams, including IRRF 2.

Outputs of IRRF-funded Health Care Projects

Health Care Facilities

The prime contractor for IRRF-funded health facilities was to provide and install medical and dental equipment sets for each of the 150 PHCs. Medical equipment and furniture sets have been purchased for all PHCs using $120 million in IRRF funding. The equipment and sets that have not already been installed have been warehoused for future installation. To date, only six PHCs are serving the needs of Iraqi patients, though GRD-PCO notes that it has assumed more direct involvement in managing the re-awarded fixed price contracts in the PHC program this quarter.

The PHC program was expected to provide health care services to an average of approximately 35,000 people, or 112 people per clinic daily. The strategic purpose was to provide service in remote locations at which there were few previous services available. See Table 2-13 for the status of health care facilities funded by IRRF 1 and IRRF 2.

Non-Construction Projects

The United States has supported a broad range of non-construction activities, including the training program previously mentioned. Projects have also included vaccination campaigns for measles, mumps, rubella, and polio, as well as vaccine supplies to ensure the availability of routine immunizations. For details on these programs, see Table 2-14.
Other non-construction projects included:

- providing vitamin A and iron folate to two million lactating mothers and young children

- training health workers at more than 2,000 community child-care units to conduct growth monitoring and manage malnutrition, including screening of more than 1.3 million children

The United States has also procured and delivered approximately $214 million in new medical equipment and supplies for Iraqi hospitals and PHCs.

Outcomes of IRRF-funded Health Care Projects

Although the hospital rehabilitation program seems to be making slow progress following the re-awarding of fixed-price contracts to local Iraqi firms, the Model PHC Program has not yet delivered many operational facilities to Iraqi patients. Although it is too early to tell how the Model PHC Program will benefit the Iraqi people over the long term after it is fully closed out, the short-term gains to date have been largely marginal.
STATUS OF THE TRANSPORTATION AND COMMUNICATIONS SECTOR

This section examines the progress of reconstruction in the transportation and communications sector. Projects in this sector improve transportation systems in Iraq, such as ports, railways, roads, bridges, and airports. This sector also includes U.S.-funded telecommunications projects.292

SIGIR makes these observations about progress in the transportation and communications sector this quarter:

• As of September 27, 2006, 64% of the $798 million allocated to this sector had been expended. Figure 2-28 shows sector funding as a portion of total IRRF allocations. Sector projects are 78.5% complete.

• U.S. reconstruction efforts at the Port of Umm Qasr on the Iraq-Kuwait border were 75% complete, as of the end of this quarter.

• U.S. projects have completed repairs at 86 of 98 railway stations, but the effects of these projects are not yet apparent. Although the weekly average number of train trips nearly doubled during the quarter, only a small number of trains continue to run nationwide because of security concerns.

• Iraqis continue to subscribe to landline and mobile phone services at a rapid pace. More than 7 million Iraqis now have access to mobile phone service, financed by the private sector.

IRRF-funded Activities in the Transportation and Communications Sector

As of September 27, 2006, 95% of the sector’s funding had been obligated, and $510 million had been expended.

Projects in the transportation and communications sector focus on five major areas:

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

Figure 2-28
Transportation and Communications as a Share of IRRF Funds
% of $18.44 Billion
For the status of projects in this sector, see Figure 2-29. Sector construction is expected to be completed by December 2008.  

For the sector projects by location, see Figure 2-30.

**SHIPPING**

Shipping projects have focused on improving the Port of Umm Qasr with rehabilitations and equipment funded by $45 million of the IRRF. All funds had been obligated by the end of the reporting period.  

GRD-PCO has completed four of seven projects, and the overall program is 75% complete.  

No projects were completed at the port last quarter or this quarter.  

The program is expected to be finished in February 2007.

**Outputs of IRRF-funded Shipping Projects**

As a result of U.S. projects, 16 docks are now functioning.  

Umm Qasr is a busy port with long queues of ships waiting to dock. IRMO reports that more berths must be refurbished to meet the demands for docking.

**RAILWAYS**

Current allocations in this subsector amount to $198 million. The bulk of expenditures in this sector—$125 million—is for non-construction material. Most of this funding has been used to purchase track maintenance machinery, spare parts, and tools and materials.  

Phase 1 ($16 million) of the $60 million project is expected to be completed in March 2007, providing communications for a train-control system. The backbone portion of the project ($41 million) was awarded this quarter.

**Outputs of IRRF-funded Railway Projects**

U.S. projects have helped bring the number of operational locomotives up to 125 (from 25 immediately after the war).

Most railway funding has been allocated to non-construction projects, but construction projects have repaired 86 of 98 stations planned as part of the $51 million program.

**Outcomes of IRRF-funded Railway Projects**

This quarter, an average of 27 trains ran per week—almost double last quarter’s average of 15.2 per week and the previous quarter’s average of 13 per week. The increase is attributed to the start-up of new train operations in western Anbar province, and the growth is expected to continue. The Iraqi Republic Railway is currently meeting demands for materials movement—including transporting sulphur from Mosul to Al-Ka’im and potash
Figure 2-29
STATUS OF TRANSPORTATION AND COMMUNICATIONS PROJECTS

Completed 78.5%
Not Started 4.9%
Ongoing 16.6%

553 Projects Planned

<table>
<thead>
<tr>
<th>Subsector</th>
<th>Not Started</th>
<th>Ongoing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roads and Bridges</td>
<td></td>
<td></td>
<td>84</td>
</tr>
<tr>
<td>Railroad Rehabilitation &amp; Restoration</td>
<td></td>
<td></td>
<td>13</td>
</tr>
<tr>
<td>Umm Qasr Port Rehabilitation</td>
<td></td>
<td></td>
<td>7</td>
</tr>
<tr>
<td>Civil Aviation</td>
<td></td>
<td></td>
<td>6</td>
</tr>
<tr>
<td>Expressways</td>
<td></td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Telecommunications Business Modernization</td>
<td></td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td></td>
<td></td>
<td>1</td>
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<tr>
<td>Telecommunications Systems</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Consolidated Fiber Network*</td>
<td></td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Telecommunications Operations/ Regulatory Reform*</td>
<td></td>
<td></td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>27</strong></td>
<td><strong>92</strong></td>
<td><strong>119</strong></td>
</tr>
</tbody>
</table>

* Completed
Figure 2-30
Railroad Station and Airport Rehabilitation Projects by Governorate
Source: IRMS and USAID Activities Report, 10/6/2006

Total Number of Projects
- >10
- 1-10
- No data

Total Projects/Project Status
- Ongoing: 12
- Completed: 98
- Grand Total: 110

Key:
- A: Mosul Airport Rehabilitation
- B: Baghdad International Airport Rehabilitation
- C: Basrah International Airport Rehabilitation
- D: Nineveh Railroad Station Rehabilitation
- E: Tameem Railway Station Rehabilitation
- F: Baiji Commercial Railway Station
- G: Salah al-Din Railway Station Rehabilitation
- H: Falluja Railway Station
- I: Baghdad Railway Station Rehabilitation
- J: Babil Railway Station Rehabilitation
- K: Qadissiyah Railway Station Rehabilitation
- L: Muthanna Railway Station Rehabilitation
- M: Thi-Qar Railway Station Rehabilitation
- N: Basrah Railway Station Rehabilitation
- O: Anbar Railway Station Rehabilitation

Source: IRMS and USAID Activities Report, 10/6/2006
from Akashat to Al-Ka’im. IRMO expects significant future demand for agricultural and mineral materials.\textsuperscript{309}

Despite the increase in rail travel this quarter, the rate is still far below the planned number of trains for previous quarters. Data is not available for this reporting period, but the plans for the past two quarters totaled 266 trains per week—far more than the 27 average number of trains running this quarter.\textsuperscript{310} This shortfall is primarily because of security, which continues to hinder the flow of rail traffic in Iraq. No trains have operated along the Baghdad-Basrah-Umm Qasr route since February 2006.\textsuperscript{311} The railway is also under insurgent threat at Baiji and Dora, which especially affects the capacity of train operations.\textsuperscript{312}

\textbf{AIR TRANSPORTATION}

Civil aviation has been allocated $67 million of the IRRF.\textsuperscript{313} This quarter, a number of repairs and renovations were completed at the \textit{Baghdad International Airport (BIAP)}. The work, valued at $7 million, was required to meet the International Civil Aviation Authority Cat 2 standards of safety and operational efficiency.\textsuperscript{314} An additional project was also added this quarter at BIAP, with completion expected by October 2006.\textsuperscript{315}

Three new projects were awarded at the \textit{Basrah International Airport (BIA)} this quarter, including upgrades and repairs of navigational aids and communications, a new radar system, and renovations of the airport’s water system. Completion of these projects is expected by March 2007. The other projects at BIA are nearly complete.\textsuperscript{316}

Table 2-15 summarizes the work done at BIAP, BIA, and Mosul and shows that U.S.-led reconstruction efforts in this subsector are near completion.

\textbf{Outputs and Outcomes of IRRF-funded Air Transportation Projects}

U.S. projects have helped rehabilitate five Iraq airports that were not functioning at the end of the war.\textsuperscript{317} During this quarter, BIAP averaged 473 flights per week—an increase from last quarter’s 414 and 371 two quarters ago.\textsuperscript{318} This total includes both military and civil operations, and the rise is attributed to a recent increase in military operations. Currently, only charter flights are approved for entry into the

\begin{center}
\textbf{Table 2-15: Status of U.S.-led Projects at Iraqi Airports}
\end{center}

<table>
<thead>
<tr>
<th>AIRPORT</th>
<th>CONTRACT SIZE</th>
<th>NUMBER OF PROJECTS</th>
<th>ESTIMATED COMPLETION DATE</th>
<th>STATUS AS OF 9/30/2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baghdad (BIAP)</td>
<td>$17 million</td>
<td>7</td>
<td>October 2006</td>
<td>99% complete</td>
</tr>
<tr>
<td>Basrah (BIA)</td>
<td>$25 million</td>
<td>10</td>
<td>March 2007</td>
<td>27% complete</td>
</tr>
<tr>
<td>Mosul</td>
<td>$10 million</td>
<td>1</td>
<td>September 2006</td>
<td>100% complete</td>
</tr>
</tbody>
</table>

Iraqi airspace. IRMO reports an increase in civil operations at the Erbil Airport, including a number of international charter flights entering Iraq through this airport.319

**ROADS AND BRIDGES**

U.S.-funded projects in this sector will not be completed until December 2008. The projects have focused on smaller village roads, several highways important for commerce and general transportation, and bridges.320

**Key Road and Bridge Projects Completed and Underway**

To date, no bridge or expressway projects have been completed. The highway between Baghdad and Kirkuk will be upgraded to four lanes by December 2008. Also, Diwaniya and Al-Samawa will be connected by an upgraded four-lane highway; this $15.5 million project is scheduled to be completed in January 2008.321

The Village Roads Program, budgeted at $38.5 million, will improve 263 miles of roads throughout 15 governorates in Iraq.322 Originally estimated to be finished by August 2006,323 the project is now estimated to be finished by March 2007.324 At the end of this quarter, 29 of 93 planned projects were complete.325 A SIGIR project assessment (PA-06-059) completed this quarter found that the Thi-Qar Village Roads Segment 3 project was completed according to contract specifications. For a summary of this and other inspections, see Section 3 of this Report.

Projects being issued through the Provincial Reconstruction Development Committees (PRDCs) are moving forward. PRDCs prioritize the road projects in their respective provinces.326 There are 59 projects valued at $56.5 million, and none have been completed to date. GRD-PCO reports that additional funding may be provided for PRDC projects from the FY 2006 Emergency Supplemental Funds.327

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

U.S.-led road and bridge projects will repair and pave 405 miles of road, including 263 miles of village roads, 125 miles of city carriageways, and 17 miles of major roads.328 Ten bridges will be repaired by the end of the reconstruction program—five from IRRF funding and five from DFI funding.329 The Village Roads Program ($38.5 million) is estimated to be finished by March 2007, and 138 miles have been completed as of August 31, 2006. GRD-PCO reports that less than three miles were completed during the quarter because of the lack of bitumen, a tar-like substance used in paving roads. Security issues have also hindered progress. GRD-PCO reports that no miles of the carriageway projects have been completed, but work is in progress.330

**TELECOMMUNICATIONS**

Projects to modernize the Iraq Telecommunications and Postal Commission were funded with $21 million from IRRF, and $19
million had been obligated, as of July 2006. This includes 34 projects, valued at approximately $3 million, which focus on constructing and renovating post offices. At the end of this quarter, the projects were 65% complete, up from 60% last quarter. The last post office project, which was recently awarded, is expected to be completed in July 2007. When finished, the projects will bring mail service to one million Iraqis.

The Iraqi Telecommunications System has been allocated $48 million, and almost all had been obligated by the end of this quarter. Funding is being used to construct a primary switching facility at Al-Mamoom and a wireless broadband network (WBBN). The $26 million Al-Mamoom switch facility is 11% complete and is estimated to be finished by July 2007. The Ministry of Communications has requested additional work at the station; a future contract modification for additional work will include a negotiated extension to the estimated completion date. A $15 million project to establish a WBBN in Baghdad is providing high-capacity data and voice communications to 35 government sites in Baghdad. The network is currently operational, and the transition of WBBN assets to the Iraqi government was completed last quarter. A contract valued at $2 million has been awarded for WBBN O&M.

Outputs and Outcomes of IRRF-funded Telecommunications Projects

In late 2003, the Iraq Ministry of Telecommunications granted three licenses for Global System for Mobile Communications (GSM). The two-year license periods were re-extended to September 2006.

Although the United States has provided funding for wireless licenses, most of the development of the mobile phone infrastructure has come from the private sector. Figure 2-31 shows the steady rise in cell phone subscribers, and Table 2-16 compares the current number of telephone subscribers with the pre-war numbers. Mobile phone subscribers continue to increase at a rapid pace, from 7 million last quarter to more than 7.2 million this quarter. Landline telephone subscribers decreased this quarter. Currently, approximately 194,420 Internet subscribers in Iraq use State Company for Internet Services (SCIS). Most Iraqis continue to gain access through cafes and hotels.
**CURRENT TELEPHONE SUBSCRIBERS VS. PRE-WAR LEVELS**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Landline Subscribers</td>
<td>833,000</td>
<td>1,250,000</td>
<td>1,046,027</td>
</tr>
<tr>
<td>Mobile Phone Subscribers</td>
<td>80,000</td>
<td>7,046,526</td>
<td>7,214,650</td>
</tr>
</tbody>
</table>


*July data is an estimate*
During this quarter, $1.3 billion of the IRRF was obligated, raising cumulative IRRF 2 obligations to $18 billion. Cumulative expenditures rose by $1 billion, to $13.75 billion.

To date, SIGIR has compiled more than 6,500 contracting actions in the SIGIR Iraq Reconstruction Information System (SIRIS), accounting for approximately $14.74 billion in obligations and $11.1 billion in expenditures. Approximately 98% of IRRF contracting activity is managed by GRD, USAID, and DoS. Of these executing agencies, SIGIR has received contract data from GRD and USAID but not from DoS; therefore, although SIGIR can account for more than 80% of total IRRF obligations and expenditures, a complete picture of this funding is not possible. In order to fulfill its Congressional mandate and account for all IRRF-funded activities, SIGIR will continue its efforts to obtain complete data in a timely manner.

Table 2-17 provides a breakdown of obligated and expended funds identified by the agencies that reported to SIGIR this quarter.

**SIRIS IRRF 2 Totals vs. Actual IRRF 2 Totals (in billions)**

<table>
<thead>
<tr>
<th>Source</th>
<th>Obligated</th>
<th>Expended</th>
</tr>
</thead>
<tbody>
<tr>
<td>IRRF 2 Financial Summary</td>
<td>$18.03</td>
<td>$13.75</td>
</tr>
<tr>
<td>SIRIS: GRD</td>
<td>$11.80</td>
<td>$8.51</td>
</tr>
<tr>
<td>SIRIS: USAID</td>
<td>$2.94</td>
<td>$2.59</td>
</tr>
<tr>
<td>SIRIS Total</td>
<td>$14.74</td>
<td>$11.10</td>
</tr>
<tr>
<td>Unaccounted for by SIRIS</td>
<td>$3.29</td>
<td>$2.65</td>
</tr>
</tbody>
</table>

**TABLE 2-17**
subtracted from the IRRF financial summary balance reported by DoS for the month ending September 2006.

**Contractor Analysis**
Table 2-18 shows the top 10 contractors, sorted by obligation amount, reported in SIRIS. During the quarter, significant obligations were made to Symbion Power, LLC contracts due to project starts in the electricity sector. The percentage of unexpended orders for Kellogg Brown & Root Services, Inc. (KBR) decreased from 42% in the previous quarter to 22% as a result of increasing expenditures in the oil sector. Also among the top 10 contractors this quarter was Anham Joint Venture, a U.S./Jordanian group headed by an American company that provides supplies to the Iraqi Army.

**Contract Activity by Sector**
GRD-PCO contracting actions account for approximately 99% of the total record set in SIRIS. Table 2-19 breaks out these records by SIGIR-defined sectors and obligation range. Relative to sector totals, the oil and gas sector reports the greatest share of contracting actions valued at or greater than $5 million. The security and justice sector shows the highest overall number of such awards with 181.

### Top 10 Contractors

<table>
<thead>
<tr>
<th>Contractor</th>
<th>Obligated</th>
<th>Expended</th>
<th>Unexpended</th>
<th>% Unexpended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bechtel</td>
<td>$1,262,411,678.00</td>
<td>$1,049,445,822.00</td>
<td>$212,965,856.00</td>
<td>17</td>
</tr>
<tr>
<td>Fluor-Amec, LLC</td>
<td>$982,703,857.82</td>
<td>$842,585,856.76</td>
<td>$140,118,001.06</td>
<td>14</td>
</tr>
<tr>
<td>Parsons Global Services, Inc.</td>
<td>$733,006,787.13</td>
<td>$610,970,685.82</td>
<td>$122,036,101.31</td>
<td>17</td>
</tr>
<tr>
<td>Parsons Iraq Joint Venture</td>
<td>$640,480,740.69</td>
<td>$389,437,438.44</td>
<td>$251,043,302.25</td>
<td>39</td>
</tr>
<tr>
<td>Kellogg Brown &amp; Root Services, Inc.</td>
<td>$558,003,285.92</td>
<td>$435,732,562.13</td>
<td>$122,270,723.79</td>
<td>22</td>
</tr>
<tr>
<td>Washington Group International</td>
<td>$531,018,470.91</td>
<td>$389,803,224.13</td>
<td>$141,215,246.78</td>
<td>27</td>
</tr>
<tr>
<td>Development Alternatives, Inc.</td>
<td>$440,039,843.00</td>
<td>$436,383,520.00</td>
<td>$3,656,323.00</td>
<td>1</td>
</tr>
<tr>
<td>Environmental Chemical Corporation</td>
<td>$356,041,907.67</td>
<td>$346,898,498.95</td>
<td>$9,143,408.72</td>
<td>3</td>
</tr>
<tr>
<td>Anham Joint Venture</td>
<td>$259,122,019.53</td>
<td>$258,207,373.22</td>
<td>$914,646.31</td>
<td>4</td>
</tr>
<tr>
<td>Symbion Power, LLC</td>
<td>$249,189,864.54</td>
<td>$33,567,351.72</td>
<td>$215,622,512.82</td>
<td>87</td>
</tr>
</tbody>
</table>

*Table 2-18*
As required in P.L. 108-106, Section 3001 (i)(1)(F), as amended, Appendix D lists contracts actions funded by the IRRF that have been recorded in SIRIS.

### CONTRACT SUMMARY

<table>
<thead>
<tr>
<th>SIGIR SECTOR</th>
<th>DOLLAR RANGE</th>
<th>QUANTITY</th>
<th>QUANTITY %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic and Societal Development</td>
<td>&gt;= $5 Million</td>
<td>9</td>
<td>4%</td>
</tr>
<tr>
<td></td>
<td>&gt;=$1 Million and &lt;$5 Million</td>
<td>16</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td>&lt;$1 Million</td>
<td>223</td>
<td>90%</td>
</tr>
<tr>
<td>Economic and Societal Development Total</td>
<td></td>
<td>248</td>
<td></td>
</tr>
<tr>
<td>Electricity</td>
<td>&gt;= $5 Million</td>
<td>88</td>
<td>8%</td>
</tr>
<tr>
<td></td>
<td>&gt;=$1 Million and &lt;$5 Million</td>
<td>183</td>
<td>18%</td>
</tr>
<tr>
<td></td>
<td>&lt;$1 Million</td>
<td>756</td>
<td>74%</td>
</tr>
<tr>
<td>Electricity Total</td>
<td></td>
<td>1,027</td>
<td></td>
</tr>
<tr>
<td>Health Care</td>
<td>&gt;= $5 Million</td>
<td>24</td>
<td>4%</td>
</tr>
<tr>
<td></td>
<td>&gt;=$1 Million and &lt;$5 Million</td>
<td>69</td>
<td>12%</td>
</tr>
<tr>
<td></td>
<td>&lt;$1 Million</td>
<td>500</td>
<td>84%</td>
</tr>
<tr>
<td>Health Care Total</td>
<td></td>
<td>593</td>
<td></td>
</tr>
<tr>
<td>Oil and Gas</td>
<td>&gt;= $5 Million</td>
<td>65</td>
<td>15%</td>
</tr>
<tr>
<td></td>
<td>&gt;=$1 Million and &lt;$5 Million</td>
<td>101</td>
<td>23%</td>
</tr>
<tr>
<td></td>
<td>&lt;$1 Million</td>
<td>273</td>
<td>62%</td>
</tr>
<tr>
<td>Oil and Gas Total</td>
<td></td>
<td>439</td>
<td></td>
</tr>
<tr>
<td>Security and Justice</td>
<td>&gt;= $5 Million</td>
<td>181</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td>&gt;=$1 Million and &lt;$5 Million</td>
<td>388</td>
<td>13%</td>
</tr>
<tr>
<td></td>
<td>&lt;$1 Million</td>
<td>2,494</td>
<td>81%</td>
</tr>
<tr>
<td>Security and Justice Total</td>
<td></td>
<td>3,063</td>
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</tr>
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<td>Transportation and Communications</td>
<td>&gt;= $5 Million</td>
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<td>6%</td>
</tr>
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<td></td>
<td>&gt;=$1 Million and &lt;$5 Million</td>
<td>78</td>
<td>17%</td>
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<td></td>
<td>&lt;$1 Million</td>
<td>357</td>
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<tr>
<td>Transportation and Communications Total</td>
<td></td>
<td>461</td>
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<td>Water</td>
<td>&gt;= $5 Million</td>
<td>48</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td>&gt;=$1 Million and &lt;$5 Million</td>
<td>87</td>
<td>10%</td>
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<td></td>
<td>&lt;$1 Million</td>
<td>690</td>
<td>84%</td>
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<tr>
<td>Water Total</td>
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<td>825</td>
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<tr>
<td>Grand Total</td>
<td></td>
<td>6,656</td>
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</tr>
</tbody>
</table>

**Table 2-19**
Cost-to-complete (CTC) data helps identify reconstruction sectors that are under-funded so appropriate action can be taken before project completion. U.S. agencies executing reconstruction projects are mandated by Section 2207 of P.L. 108-106 to provide estimates of the cost-to-complete for each IRRF-funded project.

In past Quarterly Reports, SIGIR highlighted consolidated CTC information from the Project Assessment Reports (PARs). However, this quarter DoS reported CTC data for only GRD-managed projects. No CTC data was provided for projects managed by MNSTC-I or USAID. Last quarter, SIGIR commented on the comprehensiveness of the PAR because, for the first time since September 2005, it included information on projects managed by MNSTC-I. SIGIR also reported that, because the PAR did not identify the source of funds, SIGIR could not be assured that the report represents all funding data. P.L. 108-106 only requires U.S. agencies to provide estimates of the CTC for each IRRF-funded project.

Because projects are now funded by more than just IRRF appropriations, the purpose of the PAR, while important, is not relevant for management.

These are the SIGIR observations of the GRD-PCO PAR, as of September 30, 2006:

- GRD-PCO’s most recent PAR includes a newly added column labeled “Extended Cost to Complete,” which is the Estimate at Completion (EAC) plus the FY 2006 O&M/sustainability costs. SIGIR does not believe that sustainment costs should be included in CTC estimates because they skew the actual cost of the projects. SIGIR believes that the O&M and sustainability costs should be clearly distinguished from costs to complete project construction and listed separately because blending the two overstates the real value of a construction project and masks the actual use of the funds. SIGIR also believes that Iraqi ministries should assume all sustainment costs on U.S. projects as soon as possible and that this should be a priority issue for discussions with Iraqi ministries on improving their budget execution.

- The total estimate at completion for all GRD projects is $6.295 billion, which exceeds authorized funds ($6.076 billion) by $219.0 million (3.5%). Also, projected sustainment costs are $578.2 million, and when added to the total estimate at completion, the shortfall in authorized funds increases to $797.2 million.

- SIGIR could not determine if projected contractor claims are included in the CTC estimates. In FY 2006, SIGIR was told that GRD had set aside funds for claims. Although these were set aside in miscellaneous obligation documents, these monies were de-obligated, and they expired on September 30, 2006.
Other SIGIR observations related to cost to complete:

- The FY 2006 Defense Supplemental Appropriation contains a de-obligation/re-obligation provision to allow existing IRRF 2 obligations made through September 30, 2006, to remain available through September 30, 2007, for re-obligation. This provision will allow reprogramming between sectors and subsectors to the extent that obligated IRRF funds become available for reappropriation. SIGIR is in the process of an audit to review unliquidated IRRF obligations (SIGIR Project No. 6026, July 21, 2006), and if unliquidated obligations are found to be invalid, the funds could be de-obligated and re-obligated to cover unfunded IRRF requirements through the reappropriation process. However, SIGIR has not seen a defined policy or process for the de-obligation/re-obligation provision. SIGIR questions the lack of clear policy over this process. SIGIR also believes that this policy is necessary as a critical element for management control over the process.
- P.L. 108-106, Section 2207, only requires quarterly reports to Congress for IRRF 2 funds and not for the Iraq Security Forces Fund (ISSF) and the Economic Support Fund (ESF). SIGIR believes that without cost-to-complete estimates for ISSF and ESF projects, Congress will not have the transparency and accountability it intended when it established the IRRF for Iraq relief and reconstruction. To date, $10.098 billion has been appropriated to the ISSF, and $1.595 billion was appropriated to the ESF.
SIGIR is required to report on the oversight of and accounting for funds expended in Iraq relief and reconstruction, under P.L. 108-106, Section 3001 (as amended). In addition to the IRRF, three funding sources support reconstruction and relief activities:

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

As of September 30, 2006, SIGIR has identified $38.281 billion in U.S. appropriated funds for Iraq as “relief and reconstruction.” This total includes $20.914 billion in IRRF funding and $17.367 billion in other U.S. appropriated funds. In the absence of an internationally recognized definition of “relief and reconstruction,” SIGIR includes 26 non-IRRF activities that are related to relief and reconstruction—for example, the construction of U.S. military installations that will eventually be turned over to the Iraqis.

Table 2-20 presents the best information available for U.S. appropriated funding but does not provide a complete picture of all U.S. relief and reconstruction activities. SIGIR does not have information on funding for narrowly focused programs of some agencies, or the use of agency operating funds for projects in Iraq. Finally, SIGIR made some estimates for select accounts, which are reflected in the footnotes to the table.

As of September 30, 2006, international donor funds totaled $15.018 billion—$13.593 billion pledged at the 2003 Madrid Donors Conference and $1.425 billion in post-Madrid pledges. About 25% of these pledges—$3.5 billion—has been expended.

Iraqi funds comprise vested and seized funds, the Development Fund for Iraq (DFI), and the Iraq Capital Budget. Iraqi funds were an important funding source for reconstruction efforts, particularly during CPA’s tenure. As of September 30, 2006, these funds total $41.167 billion, including:

- vested (frozen) funds of $1.724 billion
- seized funds, including confiscated cash and property, of $926.8 million
- DFI funds, drawn primarily from oil proceeds and repatriated funds of $23.754 billion
- budgeted Iraqi funding of $14.762 billion from 2004 to 2006 (although much less has actually been expended)

Figure 2-32 provides an overview of all sources of Iraq reconstruction funding. More details are provided in Appendices E, F, and G.
U.S. Appropriated Funding
Since the 2003 conflict began, Congress has passed eight bills that provided more than $38.3 billion in Iraq reconstruction funding. Included in this amount is $2.08 billion, which is a component of the Department of Defense Appropriations Act for FY 2007 (P.L. 109-289) that was signed by the President on September 29, 2006.

Over the last three years, more than half of U.S. reconstruction funding has come from the Iraq Relief and Reconstruction Fund (IRFF 1 and IRFF 2), created under P.L. 109-11 and P.L. 108-106 in 2003.

U.S. agencies involved with the administration of reconstruction funding include DoD, DoS, and USAID. Projects range from infrastructure development to refugee and migration assistance. The appropriated funds are highlighted in Table 2-20.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Iraq Relief and Reconstruction Fund (IRRF 2)</td>
<td>$18,439,000,000</td>
<td>$5,391,000,000</td>
<td>$3,007,000,000</td>
<td>$1,700,000,000</td>
<td>$37,125,000</td>
<td>$18,439,000,000</td>
</tr>
<tr>
<td>Iraq Security Forces Fund (ISFF)</td>
<td>$5,391,000,000</td>
<td>$3,007,000,000</td>
<td>$1,700,000,000</td>
<td>$37,125,000</td>
<td>$18,439,000,000</td>
<td></td>
</tr>
<tr>
<td>Iraq Relief and Reconstruction Fund (IRRF 1)</td>
<td>$2,475,000,000</td>
<td>$408,000,000</td>
<td>$345,000,000</td>
<td>$375,000,000</td>
<td>$375,000,000</td>
<td>$2,475,000,000</td>
</tr>
<tr>
<td>Commander’s Emergency Response Program (CERP)</td>
<td>$140,000,000</td>
<td>$718,000,000</td>
<td>$408,000,000</td>
<td>$345,000,000</td>
<td>$375,000,000</td>
<td>$1,986,000,000</td>
</tr>
<tr>
<td>Economic Support Fund (ESF)</td>
<td>$10,098,000,000</td>
<td>$1,485,000,000</td>
<td>$345,000,000</td>
<td>$375,000,000</td>
<td>$375,000,000</td>
<td>$10,098,000,000</td>
</tr>
<tr>
<td>Coalition Provisional Authority (CPA)</td>
<td>$908,000,000</td>
<td>$500,000,000</td>
<td>$500,000,000</td>
<td>$500,000,000</td>
<td>$500,000,000</td>
<td>$908,000,000</td>
</tr>
<tr>
<td>Assistance to Iraq and Afghanistan Military and Security Forces</td>
<td>$1,700,000,000</td>
<td>$1,700,000,000</td>
<td>$1,700,000,000</td>
<td>$1,700,000,000</td>
<td>$1,700,000,000</td>
<td>$1,700,000,000</td>
</tr>
<tr>
<td>Natural Resources Risk Remediation Fund (NRRRF)</td>
<td>$489,300,000</td>
<td>$489,300,000</td>
<td>$489,300,000</td>
<td>$489,300,000</td>
<td>$489,300,000</td>
<td>$489,300,000</td>
</tr>
<tr>
<td>Military Construction c</td>
<td>$341,900,000</td>
<td>$341,900,000</td>
<td>$341,900,000</td>
<td>$341,900,000</td>
<td>$341,900,000</td>
<td>$341,900,000</td>
</tr>
<tr>
<td>New Iraqi Army e</td>
<td>$210,000,000</td>
<td>$210,000,000</td>
<td>$210,000,000</td>
<td>$210,000,000</td>
<td>$210,000,000</td>
<td>$210,000,000</td>
</tr>
<tr>
<td>Project and Contracting Office (PCO/DoD)</td>
<td>$200,000,000</td>
<td>$200,000,000</td>
<td>$200,000,000</td>
<td>$200,000,000</td>
<td>$200,000,000</td>
<td>$200,000,000</td>
</tr>
<tr>
<td>International/Disaster Assistance</td>
<td>$143,800,000</td>
<td>$143,800,000</td>
<td>$143,800,000</td>
<td>$143,800,000</td>
<td>$143,800,000</td>
<td>$143,800,000</td>
</tr>
<tr>
<td>Combatant Commander Initiative Fund (CINC Initiative Fund)</td>
<td>$29,750,000</td>
<td>$29,750,000</td>
<td>$29,750,000</td>
<td>$29,750,000</td>
<td>$29,750,000</td>
<td>$29,750,000</td>
</tr>
<tr>
<td>USAID Administrative Expenses</td>
<td>$21,250,000</td>
<td>$21,250,000</td>
<td>$21,250,000</td>
<td>$21,250,000</td>
<td>$21,250,000</td>
<td>$21,250,000</td>
</tr>
<tr>
<td>Department of State, International Narcotics Control and Law Enforcement (DoS/INL)</td>
<td>$21,250,000</td>
<td>$21,250,000</td>
<td>$21,250,000</td>
<td>$21,250,000</td>
<td>$21,250,000</td>
<td>$21,250,000</td>
</tr>
<tr>
<td>Diplomatic and Consular Programs g</td>
<td>$106,567,000</td>
<td>$106,567,000</td>
<td>$106,567,000</td>
<td>$106,567,000</td>
<td>$106,567,000</td>
<td>$106,567,000</td>
</tr>
<tr>
<td>Special Inspector General for Iraq Reconstruction (SIGIR)</td>
<td>$99,000,000</td>
<td>$99,000,000</td>
<td>$99,000,000</td>
<td>$99,000,000</td>
<td>$99,000,000</td>
<td>$99,000,000</td>
</tr>
<tr>
<td>Child Survival and Health</td>
<td>$90,000,000</td>
<td>$90,000,000</td>
<td>$90,000,000</td>
<td>$90,000,000</td>
<td>$90,000,000</td>
<td>$90,000,000</td>
</tr>
<tr>
<td>PL. 480 Title II Food Aid</td>
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<td>$68,000,000</td>
<td>$68,000,000</td>
<td>$68,000,000</td>
<td>$68,000,000</td>
<td>$68,000,000</td>
</tr>
<tr>
<td>Voluntary Peacekeeping Operations</td>
<td>$50,000,000</td>
<td>$50,000,000</td>
<td>$50,000,000</td>
<td>$50,000,000</td>
<td>$50,000,000</td>
<td>$50,000,000</td>
</tr>
<tr>
<td>Emergency Refugee and Migration Assistance</td>
<td>$37,000,000</td>
<td>$37,000,000</td>
<td>$37,000,000</td>
<td>$37,000,000</td>
<td>$37,000,000</td>
<td>$37,000,000</td>
</tr>
<tr>
<td>Overseas Humanitarian, Disaster and Civic Aid</td>
<td>$17,000,000</td>
<td>$17,000,000</td>
<td>$17,000,000</td>
<td>$17,000,000</td>
<td>$17,000,000</td>
<td>$17,000,000</td>
</tr>
<tr>
<td>International Affairs Technical Assistance</td>
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<td>$13,000,000</td>
<td>$13,000,000</td>
<td>$13,000,000</td>
<td>$13,000,000</td>
<td>$13,000,000</td>
</tr>
<tr>
<td>United States Agency for International Development, Office of Inspector General (USAID OIG)</td>
<td>$3,500,000</td>
<td>$3,500,000</td>
<td>$3,500,000</td>
<td>$3,500,000</td>
<td>$3,500,000</td>
<td>$3,500,000</td>
</tr>
<tr>
<td>Department of Treasury (Salaries and Expenses)</td>
<td>$1,800,000</td>
<td>$1,800,000</td>
<td>$1,800,000</td>
<td>$1,800,000</td>
<td>$1,800,000</td>
<td>$1,800,000</td>
</tr>
<tr>
<td>Legal Activities and U.S. Marshals (Salaries and Expenses)</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$108,000,000</strong></td>
<td><strong>$3,369,350,000</strong></td>
<td><strong>$19,453,650,000</strong></td>
<td><strong>$371,250,000</strong></td>
<td><strong>$6,206,809,000</strong></td>
<td><strong>$117,298,000</strong></td>
</tr>
</tbody>
</table>

a $40M from FY 2003 ESF base account that was not reimbursed; $10M from PL. 108-11
b Excludes $75M for Special Inspector General for Iraq Reconstruction under PL. 108-106
c Congress provided $100M with authorization for drawdown authority for these funds
d As identified in GRD bi-weekly reports and PL. 109-234
e Where Iraq-only appropriations unavailable, based on historical trends SIGIR split 85% for Iraq and 15% for Afghanistan
f Congress provided funding for PCO in other appropriations bills; more details will be available in future SIGIR reports
g Includes Iraq Reconstruction Management Office salaries and expenses, mission travel, public diplomacy programs, and other operating expenses related to reconstruction.
h CPA operating expenses under PL. 108-106
International Donor Funds
The total funds pledged at Madrid and by non-U.S. donors increased from $14.58 billion to $15.02 billion this quarter, with additional pledges from the European Commission, Australia, Germany, Spain, Jordan, and France. Accurate information on the expenditures of these funds, however, continues to be difficult to obtain. Donors asked the World Bank to update the status of the Madrid pledges, but the World Bank has not yet received sufficient reporting from donors to provide a more precise figure. For information on these pledges, see Table 2-21.

The Donor Committee for the International Reconstruction Fund Facility for Iraq (IRFFI)—created at the 2003 Madrid Donors Conference and managed by the World Bank and the United Nations (UN)—remains active. This quarter, Germany joined the Donor Committee with a pledge of $10 million. As reported last quarter, external assessors gave positive marks to the management of these trust funds and noted that the speed of donor disbursements to them had been relatively high. The results of these assessments are expected to be made public soon. For a list of the members of the Donor Committee, see Table 2-22.

The future of international donor support to Iraq is expected to be shaped by the International Compact for Iraq, an initiative of the Iraqi government that is supported by the UN. The Compact was launched in July 2006 after a trip to Iraq by the UN Deputy Secretary General. The goal is to develop a framework under which Iraq’s economy can be transformed to a market-based economy, fully integrated with the region and the rest of the world. Under the Compact, Iraq would undertake economic, political, and security reforms to receive financial and political support from the international community.

The Deputy Prime Minister and the UN Deputy Secretary General co-chaired the preparatory committee for the Compact, which met in Abu Dhabi on September 10, 2006, and in Singapore from September 18-20. On September 18, 2006, the UN hosted a meeting in New York in which the Iraqi delegation, headed by Finance Minister Al Zubaidi, committed Iraq to tackling corruption, building effective national institutions, and encouraging private investment. The Compact—including key priorities, benchmarks, and timelines—is expected to be adopted by the end of 2006. Another major international donor conference is expected to follow the finalization of the Compact.

The IRFFI Donor Committee Chair is a member of the preparatory group for the Compact. The donor committee, which has accumulated considerable expertise on Iraq’s reconstruction needs, will play an important part in the implementation of the Compact.

DONOR COORDINATION
As the major U.S. reconstruction funding is expended, the Iraqis and international donors have become more conscious of the need to target donor funds with more planning and
### Pledges of Reconstruction Aid to Iraq, as of 9/30/2006

<table>
<thead>
<tr>
<th>Donor</th>
<th>Original Madrid Pledge October 2003</th>
<th>Additional Pledges since Madrid Conference</th>
<th>Total Pledges June 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>$45,590,974</td>
<td>$81,042,221</td>
<td>$126,633,195</td>
</tr>
<tr>
<td>Austria</td>
<td>5,478,165</td>
<td>5,478,165</td>
<td>5,478,165</td>
</tr>
<tr>
<td>Belgium</td>
<td>5,890,500</td>
<td>5,890,500</td>
<td>5,890,500</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>640,000</td>
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<td>640,000</td>
</tr>
<tr>
<td>Canada</td>
<td>187,466,454</td>
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<td>187,466,454</td>
</tr>
<tr>
<td>China</td>
<td>25,000,000</td>
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</tr>
<tr>
<td>Cyprus</td>
<td>117,810</td>
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<td>117,810</td>
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<tr>
<td>Czech Republic</td>
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<td>14,659,023</td>
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<tr>
<td>Denmark</td>
<td>26,952,384</td>
<td>40,000,000</td>
<td>66,952,384</td>
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<tr>
<td>Democratic Governance Thematic Trust Fund</td>
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<td>100,000</td>
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<tr>
<td>Estonia</td>
<td>82,467</td>
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<td>82,467</td>
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<tr>
<td>Finland</td>
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<td>5,890,500</td>
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<tr>
<td>France</td>
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<tr>
<td>Germany</td>
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<tr>
<td>Greece</td>
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<tr>
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<tr>
<td>Iceland</td>
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<tr>
<td>India</td>
<td>10,000,000</td>
<td></td>
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<tr>
<td>Iran</td>
<td>5,000,000</td>
<td>5,000,000</td>
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<tr>
<td>Ireland</td>
<td>3,534,300</td>
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<tr>
<td>Italy</td>
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</tr>
<tr>
<td>Japan</td>
<td>4,914,000,000</td>
<td>50,000,000</td>
<td>4,964,000,000</td>
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<tr>
<td>Jordan</td>
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</tr>
<tr>
<td>South Korea</td>
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<tr>
<td>Kuwait</td>
<td>500,000,000</td>
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<td>565,000,000</td>
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<tr>
<td>Lithuania</td>
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<td>30,000</td>
<td>30,000</td>
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<tr>
<td>Luxembourg (EURO)</td>
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<tr>
<td>Malta</td>
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<td>27,000</td>
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<td>Netherlands</td>
<td>9,424,801</td>
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<tr>
<td>New Zealand</td>
<td>3,351,975</td>
<td>990,000</td>
<td>4,341,975</td>
</tr>
<tr>
<td>Norway</td>
<td>12,867,617</td>
<td></td>
<td>12,867,617</td>
</tr>
<tr>
<td>Oman</td>
<td>3,000,000</td>
<td></td>
<td>3,000,000</td>
</tr>
<tr>
<td>Pakistan</td>
<td>2,500,000</td>
<td></td>
<td>2,500,000</td>
</tr>
<tr>
<td>Qatar</td>
<td>100,000,000</td>
<td></td>
<td>100,000,000</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>500,000,000</td>
<td></td>
<td>500,000,000</td>
</tr>
<tr>
<td>Slovenia</td>
<td>419,382</td>
<td></td>
<td>419,382</td>
</tr>
<tr>
<td>Spain</td>
<td>220,000,000</td>
<td>2,380,000</td>
<td>222,380,000</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>-</td>
<td>75,500</td>
<td>75,500</td>
</tr>
<tr>
<td>Sweden</td>
<td>33,000,000</td>
<td></td>
<td>33,000,000</td>
</tr>
<tr>
<td>Turkey</td>
<td>50,000,000</td>
<td></td>
<td>50,000,000</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>215,000,000</td>
<td></td>
<td>215,000,000</td>
</tr>
</tbody>
</table>
Improving donor coordination continues to be a top priority for the United States; the Baghdad Coordination Group and sector working groups continue to meet with progressively stronger Iraqi leadership. Improved donor coordination mechanisms are expected to be part of the Compact.

The Ministry of Planning’s Donor Assistance Database (DAD), supported by the UN Development Programme (UNDP), shows the progress of pending and ongoing donor-supported projects. The DAD, which is available online at www.mop-iraq.org, breaks down projects, requests for projects, and donations by these categories: donor, sector of assistance, and governorate. It also allows the user to filter the data to develop customized reports. Currently, the DAD includes 7,249 projects, totaling $11.53 billion, associated with 20 donors. Against these projects, $8.68 billion has been committed, and $3.84 billion has been expended. Of the estimated 13,578 U.S. projects, 6,748 are listed by the DAD, totaling $8.01 billion. Against these projects, the DAD reflects that the United States has committed $5.9 billion and expended $2.05 billion.

The UNDP has launched a regional component of the DAD in Basrah and is helping the Iraqis to gather province-level data. A regional component is also being planned for the Kurdistan Regional Government (KRG).

<table>
<thead>
<tr>
<th>Donor</th>
<th>Original Madrid Pledge October 2003</th>
<th>Additional Pledges since Madrid Conference</th>
<th>Total Pledges June 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>$452,326,416</td>
<td>$452,326,416</td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>10,000,000</td>
<td>10,000,000</td>
<td></td>
</tr>
<tr>
<td>Vietnam</td>
<td></td>
<td>$700,000</td>
<td>700,000</td>
</tr>
<tr>
<td>Subtotal</td>
<td>7,807,467,293</td>
<td>255,425,009</td>
<td>8,062,892,302</td>
</tr>
<tr>
<td>European Commission</td>
<td>235,620,000</td>
<td>669,680,000</td>
<td>905,300,000</td>
</tr>
<tr>
<td>Subtotal</td>
<td>8,043,087,293</td>
<td>925,105,009</td>
<td>8,968,192,302</td>
</tr>
</tbody>
</table>

**INTERNATIONAL FINANCIAL INSTITUTIONS**

<table>
<thead>
<tr>
<th>Institution</th>
<th>Original Pledge</th>
<th>Additional Pledge</th>
<th>Total Pledge</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMF (low range)</td>
<td>2,550,000,000</td>
<td>2,550,000,000</td>
<td>5,100,000,000</td>
</tr>
<tr>
<td>World Bank (low range)</td>
<td>3,000,000,000</td>
<td>3,000,000,000</td>
<td>6,000,000,000</td>
</tr>
<tr>
<td>Islamic Development Bank</td>
<td>-</td>
<td>500,000,000</td>
<td>500,000,000</td>
</tr>
<tr>
<td>Subtotal</td>
<td>5,550,000,000</td>
<td>500,000,000</td>
<td>6,050,000,000</td>
</tr>
</tbody>
</table>

**Total Non-U.S. Donor Assistance**

- **$13,593,087,293**
- **$1,425,105,009**
- **$15,018,192,302**

Source: DoS and Iraqi Donor Assistance Database

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

Pre-Madrid pledges for humanitarian assistance are not included in this table.
Plans to incorporate loans, grants, and projects from Iraq’s National Budget into the DAD have not yet been implemented. The DAD continues to improve as an assistance management tool; however, it cannot yet be used to fully monitor, analyze, and prioritize aid to the Iraqi government.

**MAJOR BILATERAL AND MULTILATERAL PROGRAMS**

The United States continues to encourage other donors to implement their Madrid pledges. Figure 2-33 provides information on donor pledges.

---

**Figure 2-33**

**PLEDS FROM OTHER NATIONS**

$15.02 Billion

As of August 2006

$ Billions

Source: Various

- **Japan** $4.96
- **IDB (3.3%)** $0.5
- **World Bank** $3
- **IMF** $2.55
- **European Commission** $0.91
- **United Kingdom (3%)** $0.45
- **Australia (0.8%)** $0.13
- **Spain (1.5%)** $0.22
- **Canada (1.3%)** $0.19
- **All Others** $1.87

Note: Figures may not total correctly because of rounding.
Japan

Of Japan’s pledge of $5 billion at Madrid, the $1.5 billion in grants—plus an additional $50 million was completely obligated more than a year ago:

- $911 million to direct assistance, including technical assistance
- $490 million through IRFFI trust funds
- $116 million directly through international organizations such as UNDP
- $27 million through non-governmental organizations (NGOs)
- $10 million to the International Finance Corporation

Japan’s financial aid supported these sectors: Electricity, Water and Sanitation, Health, Roads and Bridges, Education and Culture, and Security. Officials from Japan continue to work with Iraqi officials to develop projects for the $3.5 billion in concessional loans. Projects include the recently announced engineering services for the Basrah Refinery ($18 million)

United Kingdom

Total United Kingdom (UK) pledges to Iraq, including both Madrid ($452 million) and pre-war humanitarian contributions ($468 million), remain at $917 million as of September 2006, the UK is close to fulfilling its obligation. Table 2-23 shows UK expenditures by program. The UK Department for International Development (DFID), which is responsible for implementing UK pledges, has been involved in the rehabilitation of the Al-Mussabah thermal power plant.

Table 2-23

<table>
<thead>
<tr>
<th>Program</th>
<th>Expenditures (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DFID Bilateral Program</td>
<td>488</td>
</tr>
<tr>
<td>IRFFI Trust Funds</td>
<td>113</td>
</tr>
<tr>
<td>Contribution to EC Program</td>
<td>64</td>
</tr>
<tr>
<td>MoD Quick Impact Projects</td>
<td>59</td>
</tr>
<tr>
<td>Global Conflict Prevention Pool</td>
<td>66</td>
</tr>
<tr>
<td>FCO Programs</td>
<td>64</td>
</tr>
<tr>
<td>Contribution to EC Program</td>
<td>64</td>
</tr>
<tr>
<td>Total</td>
<td>917</td>
</tr>
</tbody>
</table>

Source: email from DFID, July 24, 2006; exchange rate used: $1.69 per pound sterling.
in many of the same types of projects that the United States is funding, but on a smaller scale and focused in the south:

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

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

DFID reports similar challenges: security, constantly changing government counterparts, and weak overall government capacity. DFID’s program for 2006–2007 will focus on economic reform, delivering power and water improvements in the south, governance and institution-building in Baghdad and the south, support for civil society and political participation, and capacity building in the Ministry of Interior. DFID funds a World Bank advisor in Baghdad to speed up engagement in oil and electricity issues and to help the Iraqi government develop a plan for the energy sector.²⁴³

**European Commission**

To date, the European Commission (EC) has pledged $905.3 million of which $779.3 million was for reconstruction assistance. The bulk of the funds was channeled through the IRFFI Trust Funds, although some funding went through the U.N. Development Programme (UNDP) Thematic Trust for Crisis Prevention and Recovery before IRFFI was established in 2004. In addition, the EC has allocated some of the funds to short-term bilateral assistance. For the allocation of EC reconstruction funds from 2003 to 2005, see Table 2-24.

In 2006, the EC pledged an additional $252 million. It will continue to channel a significant portion of its pledges through the IRFFI mechanism while also increasing its bilateral assistance. On August 8, 2006, $154 million of the EC’s 2006 pledge was deposited into the UNDG Iraq Trust Fund (ITF) when the EC signed its eighth Contribution Agreement. This new contribution makes the EC the largest contributor to the UNDG ITF and the IRFFI.

The EC’s 2006 contribution will focus on these programs:

- improving the quality of life of the Iraqis ($138.6 million)
- furthering democracy in Iraq ($50.4 million)
- promoting good governance ($50.4 million)
- adjusting to new government priorities ($12.6 million in reserve funding)

In addition to reconstruction assistance, the EC has contributed $12.6 million to the Integrated Rule of Law Mission for Iraq.
### Total EC Reconstruction Assistance to Iraq, 2003-2005 (In Millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>UN</th>
<th>World Bank</th>
<th>Bilateral</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>$49.1</td>
<td>$3.78</td>
<td>$0</td>
<td>$52.88</td>
</tr>
<tr>
<td>2004</td>
<td>121.6</td>
<td>100.8</td>
<td>0</td>
<td>222.4</td>
</tr>
<tr>
<td>2005</td>
<td>200.4</td>
<td>50.4</td>
<td>1.2</td>
<td>252</td>
</tr>
<tr>
<td>Total</td>
<td>$371.1</td>
<td>$154.98</td>
<td>$1.2</td>
<td>$527.28</td>
</tr>
</tbody>
</table>

Source: [www.ec.europa.eu](http://www.ec.europa.eu)

**Table 2-24**

### Total IRFFI Donor Contributions and World Bank Iraq Trust Fund Allocations, As of 9/1/2006

<table>
<thead>
<tr>
<th>Donor</th>
<th>Commitments</th>
<th>Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>World Bank</td>
<td>United Nations</td>
</tr>
<tr>
<td>Australia</td>
<td>$16,100,000</td>
<td>$16,775,000</td>
</tr>
<tr>
<td>Australia (Dept of Immigration)</td>
<td>-</td>
<td>3,292,000</td>
</tr>
<tr>
<td>Belgium</td>
<td>-</td>
<td>1,321,000</td>
</tr>
<tr>
<td>Canada</td>
<td>22,300,000</td>
<td>46,400,000</td>
</tr>
<tr>
<td>Denmark</td>
<td>-</td>
<td>10,666,000</td>
</tr>
<tr>
<td>Finland</td>
<td>2,600,000</td>
<td>6,234,000</td>
</tr>
<tr>
<td>Germany</td>
<td>-</td>
<td>10,000,000</td>
</tr>
<tr>
<td>Greece</td>
<td>-</td>
<td>3,630,000</td>
</tr>
<tr>
<td>Iceland</td>
<td>1,000,000</td>
<td>500,000</td>
</tr>
<tr>
<td>India</td>
<td>5,000,000</td>
<td>5,000,000</td>
</tr>
<tr>
<td>Ireland</td>
<td>-</td>
<td>1,226,000</td>
</tr>
<tr>
<td>Italy</td>
<td>-</td>
<td>29,782,000</td>
</tr>
<tr>
<td>Japan</td>
<td>130,000,000</td>
<td>360,951,000</td>
</tr>
<tr>
<td>South Korea</td>
<td>4,000,000</td>
<td>11,000,000</td>
</tr>
<tr>
<td>Kuwait</td>
<td>5,000,000</td>
<td>5,000,000</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>-</td>
<td>2,319,000</td>
</tr>
<tr>
<td>Netherlands</td>
<td>6,200,000</td>
<td>6,697,000</td>
</tr>
<tr>
<td>New Zealand</td>
<td>-</td>
<td>3,365,000</td>
</tr>
<tr>
<td>Norway</td>
<td>6,700,000</td>
<td>7,009,000</td>
</tr>
<tr>
<td>Qatar</td>
<td>5,000,000</td>
<td>5,000,000</td>
</tr>
<tr>
<td>Spain</td>
<td>20,000,000</td>
<td>22,380,000</td>
</tr>
<tr>
<td>Sweden</td>
<td>5,800,000</td>
<td>10,622,000</td>
</tr>
<tr>
<td>Turkey</td>
<td>1,000,000</td>
<td>200,000</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>71,400,000</td>
<td>55,542,000</td>
</tr>
<tr>
<td>United States</td>
<td>5,000,000</td>
<td>5,000,000</td>
</tr>
<tr>
<td>European Commission (Rapid Reaction Mechanism)</td>
<td>-</td>
<td>24,978,000</td>
</tr>
<tr>
<td>European Commission (Human Rights)</td>
<td>-</td>
<td>7,307,000</td>
</tr>
<tr>
<td>European Commission</td>
<td>149,800,000</td>
<td>438,129,000</td>
</tr>
<tr>
<td>Total Non-U.S. Donor Assistance</td>
<td>$456,900,000</td>
<td>$1,100,325,000</td>
</tr>
</tbody>
</table>

Source: [www.irffi.org](http://www.irffi.org)

**Table 2-25**
(EUJUSTLEX), which it established in 2005. Organized with the assistance of several EC member states, EUJUSTLEX trained 770 Iraqi officials from the police, judiciary, and penitentiary sectors.

World Bank
In January 2004, donors authorized the World Bank to administer the World Bank ITF, which began receiving funds in March 2004. Table 2-25 summarizes World Bank ITF allocations. As of September 30, 2006, the World Bank ITF had received $454 million from 17 donors, and $266 million had been tendered. Of the tendered amount, $150 million had been contracted, and $79 million had been expended:

- $399.7 million of the World Bank ITF has been allocated to 13 projects.
- $60.5 million (including investment income) has been allocated to projects that are under preparation by World Bank and Iraqi authorities.
- Ten of the 13 grants, valued at $388 million, are for projects implemented directly by Iraqi government authorities.
- The remaining three, valued at $12 million, are capacity building and technical assistance activities implemented by the World Bank.
- One World Bank ITF project (first capacity building) is closed, and a second is now operationally complete and will formally close at the end of 2006.

Figure 2-34 reflects the status of World Bank ITF funds through September 30, 2006.

In addition, the World Bank has approved two projects, totaling $235 million, through its International Development Association (IDA) loans. The projects include the Emergency Road Rehabilitation Project ($135 million), approved in June 2006, and the Third Emergency Education Project ($100 million) approved in November 2005. Two additional...
projects, totaling $150 million, are in an advanced stage of preparation and are likely to be approved by World Bank by the end of 2006. The remaining $115 million are allocated to projects that are under preparation. The Iraqi Strategic Review Board (ISRB) continues to approve World Bank projects. A long-term country director, with authority to make more decisions on project priorities in Baghdad, is still planned to head the World Bank office in the International Zone in the near future.

Recognizing that systemic corruption in
Iraq adds to the risk for international donors as they work to implement their programs, the World Bank has put in place various measures to mitigate corruption. These measures have slowed its procurement process in some cases. The World Bank also hosted an anticorruption workshop for Iraq in Dubai in late July to discuss techniques and to identify leading practices in reducing corruption. Participants included Iraqi representatives from the Judicial Branch (CCCI and the Supreme Court of Iraq), inspector general organizations, BSA, DoS, IRMO, CPI, World Bank, UNDP, Chair of the Nigerian Economic & Financial Crimes Commission, a prosecutor from the Supreme Court of Spain, and other World Bank speakers with anticorruption backgrounds.

The World Bank’s priorities for the coming months include helping Iraq to strengthen public-sector governance, including public finance and anticorruption; to further economic reforms; and to improve social safety nets during economic transition.

Figure 2-35 shows International Donor Contributions to the IRFFI, as of August 31, 2006.

United Nations
The UNDP administers the UNDG ITF. Table 2-25 summarizes UNDF ITF allocations. As of September 1, 2006, 25 donors have committed $1.1 billion to the ITF, of which $1.08 billion has been deposited. Fifteen UN agencies are implementing 101 projects with $840 million in funding. UNDP has the most approved funding (31%), followed by the UN Office for Project Services (UNOPS) (18%) and United Nations International Children’s Emergency Fund (UNICEF) (12%):

- $640 million (76%) has been obligated.
- $534 million (64%) has been expended.
- Fourteen projects have been completed.

Figure 2-36 reflects the status of UNDG ITF funds through September 1, 2006.

Donors can earmark their contributions to the ITF. Infrastructure rehabilitation (21%) and support for the electoral process (20%)
are the most popular clusters among donors. Other popular sectors among donors and Iraqis include agriculture, education, and health.  

The UN website (www.irffi.org) posted $473 million in contract awards: 15% went to Japan, 14% to Iraq, 11% to the UK, and 10% to China. U.S. firms account for less than 5% of these contracts. An outside audit of the UN program found no financial problems but recommended ways to make the cluster organization and project approval process more efficient. The results of the audit are expected to be made public soon.  

UN staff continues to operate in Amman, Kuwait, and Cyprus, and offices have been opened in Basra and Erbil. Also, a small assistance staff is now part of the UN mission quota in Baghdad. UN officials observe that the need to use primarily Iraqi staff has cut personnel costs to about 5% of total program costs—down from 30%, when international staff was engaged. The UN plans to consider this model for other countries. Figure 2-37 shows the ITF by UN cluster.

**International Monetary Fund**

International Monetary Fund (IMF) funding of $1.15 billion remains available for balance of payments support:

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

Thus far, Iraq has not drawn against any of these funds. On August 3, 2006, the IMF Executive Board completed the first and second reviews of Iraq’s economic performance and a review of financing assurances under the
Stand-By Arrangement. The IMF deemed that the Iraqi SBA program was on track, although Iraq missed some performance criteria and targets, including oil revenue. The IMF approved the Iraqi authorities’ requests for waiver of noncompliance because of Iraq’s commitment to the SBA program and their implementation of other policies and measures. The Executive Board concurred and the waivers were granted.

This review was particularly significant because successful performance is a condition for moving forward with Paris Club debt relief. The IMF continues to train Iraqi economic and finance officials.

Islamic Development Bank (IDB)
The Islamic Development Bank (IDB) has pledged $500 million for Iraq’s reconstruction and development and is an active participant in preparatory meeting for the International Compact for Iraq. The IDB traditionally focuses on human development projects and sectors that have a high social return, including rural water supply, with commitment to projects that can take as long as a decade to implement.

Iraqi Funds
Since April 2006, SIGIR has estimated that the Iraqi contribution to reconstruction after the CPA period was $14.762 billion—the sum of the 2004-2006 capital budgets. There is no publicly available information about how much of these capital budgets have been expended, but it is clear that Iraqi ministries—particularly the Ministry of Oil—struggle to expend their capital budgets quickly, using established procedures. SIGIR is concerned that several billion dollars—funding desperately needed for infrastructure repairs and sustainment—may be left unspent in the Iraqi budget at the end of this year. The United States and other donors are working with Ministry of Finance and the line ministries to identify ways to move funds faster while maintaining strict accountability.

The Iraqi government is now working on the 2007 budget.

Loans from International Donors
Loans available from international donors have not changed from the SIGIR April 2006 Quarterly Report:

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

Commercial Borrowing
Although there has been considerable progress settling Saddam-era debt, Iraq’s debt continues to constrain its ability to borrow international funds. Iraq has creditors in these categories: Paris Club debt, non-Paris Club sovereign debt, and commercial debt.

In November 2004, Iraq’s public debt was estimated at $120.2 billion, of which $38.9 bil-
lion was due to Paris Club creditors. As of late July 2006, 18 of the 19 Paris Club creditors\(^{351}\) had signed agreements implementing the November 2004 commitment to forgive at least 80% of Iraq’s debt.

Progress has been slower with non-Paris Club sovereign debt, especially with Saudi Arabia, Qatar, Kuwait, and the United Arab Emirates. Now that the new government is in place, negotiations can begin to resolve these claims in a timely manner. Contacts have already been made with Saudi Arabia at the ministerial level to facilitate resolution of these claims, and a technical working committee is being set up to begin the process of reconciliation.\(^{352}\) U.S. and Iraqi diplomacy on debt relief is intensifying in anticipation of the negotiations for the international Compact. If Iraq meets the conditions, about $30 million of sovereign debt would be forgiven.

By May 2006, Iraq had resolved almost $18 billion of claims submitted by private creditors through debt and cash exchanges and submitted almost $1 billion of claims to arbitration, according to an IMF August 9, 2006 Staff Report. Although the process of commercial debt reconciliation is ongoing, the authorities will continue the current strategy of resolving the remaining arrears of about $2 billion through debt or cash exchange offers, including the arbitration process, through July 2006. The authorities plan to develop a follow-up strategy for commercial claims still outstanding after July 2006. Because the amount of the remaining private arrears is relatively small—about 4% of the total external debt in 2006—they are unlikely to pose significant risk to the program.\(^{353}\)
Corruption in Iraq is a persistent problem that requires a long-term, multifaceted solution that the Iraqis can sustain. In 2005, Iraq ranked 137th out of the 158 countries included in Transparency International’s (TI) Corruption Perception Index. Iraq ranks lower than Egypt, Syria, Iran, and other countries in the region that struggle with corruption.

A great deal of work has been done to establish and enhance institutions to combat corruption. Since 2003, various U.S. agencies have provided technical assistance to the pre-existing Iraqi Board of Supreme Audit (BSA) and the three new corruption-fighting institutions: the Commission on Public Integrity (CPI), the Iraqi inspectors general (IGs) in each of the ministries, and the Central Criminal Court of Iraq (CCCI).

U.S. programs continue to concentrate on helping the Iraqi government to:

- develop enhanced financial transparency and accountability
- develop and implement financial management systems
- strengthen contracting and procurement processes
- expand public integrity initiatives
- expand prosecution of corrupt government officials

Iraq's Response to Corruption

Iraq's ability to attract and use international donor assistance will depend in part on its ability to reduce perceived government-wide corruption. The Iraqi government anticipates that efforts to clamp down on corruption and to boost transparency and efficiency will also encourage foreign private-sector investment, particularly in the oil sector. As part of the International Compact for Iraq that is currently under negotiation, Iraq is expected to commit to specific steps to improve transparency and inhibit corruption. The Compact—including key priorities, benchmarks, and commitments—is likely to be adopted by the end of 2006.

On September 11, 2006, CPI publicly reiterated the policy requiring financial disclosure by senior Iraqi government officials, from the civilian level of director general and military rank of captain and upward. CPI has threatened to refer to court those who do not comply with these regulations. Also during this reporting quarter, CPI has been actively publicizing the arrests of Iraqi government officials suspected of corruption, including several high-level ministry employees.

Many IGs continue to cite major impediments to their jobs, including insufficient budgets, a lack of professional staff, and little independence. Some IGs, however, have reported progress gaining recognition and
support within their ministries, training staff, and developing mechanisms to identify and confront corrupt practices. The Ministry of Oil was among the more active ministries, completing 454 audits to date in 2006. The Ministry has also revised practices and standards for 33 aspects of its work, including the marketing of crude oil, salary scales, and the transportation of oil products.

**U.S. Efforts to Help Iraq Stem Corruption**

U.S. government efforts to support Iraq’s anticorruption initiatives are coordinated by the Anticorruption Working Group (ACWG), led by the U.S. Embassy-Iraq. The ACWG comprises representatives from various federal agencies who advise and support a wide range of anticorruption initiatives in Iraq. SIGIR is an observer on the ACWG.

The delay in forming the Iraqi government made it more difficult to formally activate the U.S./Iraq Joint ACWG (launched at the November 2005 anticorruption summit attended by U.S. and Iraqi officials). Although the joint working group does not meet regularly, U.S. officials have found other opportunities to continue the anticorruption dialogue. The Iraqis plan to appoint an anticorruption coordinator in the near future to ensure greater consistency and minimize overlap with their own anticorruption activities.

Reconstituted in late 2005 after several months of inactivity, the Embassy ACWG recently released its strategic plan for helping Iraq reduce corruption, which focuses on market reforms, financial transparency, and public integrity.

Last quarter, SIGIR released a survey of anticorruption efforts and provided several audit recommendations, including one that encouraged the U.S. Embassy to increase staff support for anticorruption efforts and establish a joint executive steering group to oversee all U.S. government anticorruption programs. These recommendations were supported by a companion inspection performed by the DoS Inspector General, who made similar recommendations for strengthening U.S. anticorruption efforts. Both audits recommended that the U.S. Embassy further engage its Iraqi anticorruption counterparts; DoS urged the early convening of a formal session of the U.S.-Iraqi anticorruption task force envisaged at the November 2005 summit on anticorruption.

On the recommendation of SIGIR, the U.S. Embassy has agreed to expand by four the staff supporting Iraq anticorruption efforts, including new senior consultants for the BSA and the IGs, a transparency coordinator, and a senior advisor to oversee the anticorruption strategy. These important additions to the staff have helped ensure that the U.S. Embassy can move more expeditiously to implement a new and broader plan to support each of the Iraqi anticorruption entities.

Other federal agencies are contributing as well. To assist the BSA, INL has allocated money to GAO to reengage with the BSA and translate into Arabic GAO’s *Government Auditing Standards* (Yellow Book). These standards complement the various interna-
tional auditing standards, including the set developed by the International Organization of Supreme Audit Institutions (INTOSAI). GAO is a member of INTOSAI and has adopted other leading global standards. BSA will use these standards to augment the development of Iraqi standards.

In response to BSA’s request, GAO agreed to review current BSA audit programs and provide feedback and recommendations. The BSA has initiated the process of translating the audit programs into English. GAO has also agreed to take three mid-level auditors from the BSA into the GAO’s International Auditor Fellowship, a 3-4 month training program scheduled to begin May 2007.

The U.S. government also supports increased financial transparency in Iraq. USAID manages a $10 million contract to develop and implement a core financial management information system, centralized within the Ministry of Finance. This system, due to be completed by early 2007, includes a public payroll module and a procurement module funded by INL ($5 million) and Treasury ($2 million). Approximately 85% of the requirements for the core system have been completed, and the system will be installed at 178 fiscal institutions in two phases.

The U.S. Department of Commerce (DoC) has committed to work directly with the Iraqi Ministry of Trade. DoC will use its Commercial Law Development Program to send seasoned advisors, requested by the Minister of Trade, to help identify corrupt systems and recommend procurement procedures to avoid corruption. DoC also plans specific programs to promote best practices against corruption within the Iraqi business community.

U.S. agencies continue to allocate resources to train Iraqi anticorruption officials at the CPI, BSA, IIG, and CCCI. DoD has been conducting the Iraqi Anticorruption and Principled Governance Initiative and providing direct support for the Iraqi Ministry of Defense OIG. INL has allocated $1 million for equipment training for the CPI and a train-the-trainer seminar in Washington, D.C., for selected Iraqi IGs. IGs from other countries will participate in the training and provide insights. INL has also allocated resources to assist in the integration of Iraqi police and prosecutors. INL continues to work with DoJ to provide instructors and relevant curriculum for the police training program. The Multi-National Security Transition Command-Iraq (MNSTC-I) has funded a military leadership center for the Ministry of Defense that includes training in ethics and values, which should provide long-term anticorruption benefits. Plans for a joint training facility for the CPI, BSA, and IIG are still under discussion.

International Response to Corruption

Anticorruption is also of interest to other international donors and is expected to be an important part of the International Compact for Iraq. The UN Development Group financed a $4.8 million project to have the Audit Board
of Jordan provide training to the BSA over an 18-month period. The British National Board of Audits provided training for BSA’s auditors in Amman. 360

The UN and TI have led the international effort to develop an anticorruption framework available to any country interested in combating corruption. Although non-specific to Iraq, the tools available through the UN and TI offer Iraq a starting point to combat corruption by learning through the experience of other countries.

The UN has advocated anticorruption through the UN Convention against Corruption (UNCAC) and UN Anticorruption Toolkit. The General Assembly adopted UNCAC on October 31, 2003, and subsequently received 140 signatories. UNCAC was entered into force on December 14, 2005, after receiving the requisite number of instruments of ratifications/accessions. To date, there have been 65 ratifications/accessions. The U.S. Senate consented to the ratification of UNCAC on September 15, 2006, and the President is expected to sign the instrument of ratification soon. The United States has urged the Iraqis to join the UNCAC—both bilaterally and through the Good Governance for Development in the Arab States Initiative that the United States promotes in the Middle East. Iraq participated in the early UNCAC negotiations but has not yet signed the convention. Accession to the UNCAC is expected to be among the commitments Iraq undertakes in connection with the Compact.

UNCAC introduces a comprehensive set of standards, measures, and rules that all countries can apply to strengthen their legal and regulatory regimes to fight corruption. It calls for preventive measures and the criminalization of the most prevalent forms of corruption in both public and private sectors and requires member states to return assets obtained through corruption to the country from which they were stolen. An entire chapter of the Convention is dedicated to prevention, with measures directed at both the public and private sectors, including model preventive policies, such as:

- establishment of anticorruption bodies
- enhanced transparency in the financing of election campaigns and political parties
- safeguards that promote efficiency and transparency
- recruitment based on merit

The UN’s anticorruption toolkit is based on successful anticorruption measures and lessons learned from the technical cooperation activities facilitated by the Global Program against Corruption. The UN toolkit is intended to provide a range of options that will enable each country to assemble an integrated strategy that will be as effective as possible in meeting its own needs.

TI, another international organization promoting better governance, seeks to bring together relevant players from government, civil society, business, and the media in a holistic approach to promote transparency in elections, in public administration, in
procurement, and in business. TI has also
developed an anticorruption toolkit, similar
to the UN’s, that draws on the experience
and best practices of other nations. Although
approached by numerous NGOs, TI does not
believe any have yet demonstrated the capacity
to effectively support a TI presence in Iraq. The
security situation has also influenced TI’s deci-
sion to provide support from outside Iraq for
the time being.

The World Bank has also made anticorrup-
tion in Iraq a priority, seeking funds from the
European Union and other donors to support
training for Iraqi institutions. In July, SIGIR
attended the World Bank conference in Dubai,
which brought together Iraqi officials, World
Bank and UN experts, and international prac-
titioners to discuss ways to move the anticor-
ruption agenda in Iraq. At this forum, the
Iraqis discussed their efforts to reduce corrup-
tion and the challenges they face. The World
Bank also supports anticorruption efforts in
Iraq through these activities:

• World Bank works with the IMF to reform
  public financial management systems.
  A Public Expenditure and Institutional
  Assessment will assist Iraq’s government to
  modernize its public financial management
  practices in line with its commitments
  under the International Compact for Iraq.

• World Bank engages consultants to work
  with the Iraqi government to improve man-
  agement and coordination of its develop-
  ment assistance for governance and public
  management.

• After its workshop in Dubai during late
  July, World Bank continued to work with
  CPI, the inspectors general, BSA, and the
  judiciary to foster greater coordination.
  World Bank has been working to promote
development of benchmarks for each of
these agencies in the projected Compact.
SIGIR Oversight

SIGIR Audits
SIGIR Inspections
SIGIR Investigations
SIGIR Hotline
SIGIR Lessons Learned Initiative
Legislative Update
Website
SIGIR AUDITS

From August 1, 2006, to October 31, 2006, SIGIR completed 8 audit products, bringing the total number of audit products to 73. This quarter, SIGIR audits addressed a wide range of issues, including the use of an administrative task order to track indirect costs; the capacity of Iraqi Security Forces (ISF) to provide and sustain logistics support; the execution of improper obligations; the assessment of controls over weapons provided to the ISF by the Department of Defense (DoD); the overuse of proprietary data marking by the Logistics Civilian Augmentation Program (LOGCAP) contractor; and an examination of the Provincial Reconstruction Team (PRT) program.

SIGIR also issued two draft reports and has 16 ongoing audits. At least eight more audits are planned to start next quarter. SIGIR performs audit work under the generally accepted government auditing standards.

Details on SIGIR audits are presented throughout this Report:
- For titles of this quarter’s eight audit products, see Table 3-1.
- For information on all SIGIR audit work completed as of October 31, 2006, and for the full text of all final audit products, see the SIGIR website: http://www.sigir.mil/.
- For a complete listing of SIGIR audit products to date, see Appendix H.

This quarter, SIGIR Audit reviewed some aspects of the rush to obligate money from the Iraq Relief and Reconstruction Fund (IRRF) before September 30, 2006, when the authority to obligate IRRF money expired.

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Table 3-1
review of unmatched IRRF disbursements (SIGIR project 6027) and unliquidated IRRF obligations (SIGIR project 6026), identified an account called “dummy vendors,” which had a balance of $362 million in unliquidated obligations. The review concluded that these obligations were improper, and SIGIR recommended that these funds be de-obligated for immediate needs. The impact of this practice may have resulted in higher priority programs or projects to the overall IRRF program going unfunded. For the details of this review, see the “Interim Report on Improper Obligations Using the Iraq Relief and Reconstruction Fund (IRRF 2)” (SIGIR-06-037).

SIGIR also continues to find that security throughout Iraq remains a challenge to the management and oversight of many projects. SIGIR’s report on the “Status of the PRT Program in Iraq” (SIGIR-06-034) notes that all participants—Iraqis and Americans—risk their lives every day to carry out the PRT mission. However, the lack of a single organization responsible for the overall IRRF program and the inability of U.S. government agencies to cooperate with each other continue to limit progress.

SIGIR observes and reports on project or program failures that result from inconsistent policies and processes across all U.S. government entities. In SIGIR’s assessment of the PRT Program, SIGIR found that the PRT staffs on military forward-operating bases were spending more time on administrative matters than mission work. Personnel interviewed for the report cited the lack of a clearly defined mission for the PRTs. They also reported that adequate resources to perform the mission have been promised, but not provided sufficiently.

This quarter, SIGIR conducted two audits requested by the Chairman of the Senate Armed Services Committee:

- “Iraqi Security Forces: Review of Plans to Implement Logistics Capabilities” (SIGIR-06-032)
- “Iraqi Security Forces: Weapons Provided by the U.S. Department of Defense Using the Iraq Relief and Reconstruction Fund” (SIGIR-06-033)

The two reviews were coordinated with the Government Accountability Office (GAO), the DoD Office of Inspector General (DoD OIG), and the Under Secretary of Defense for Acquisition, Logistics, and Technology. These reports presented nine recommendations to improve planning, accountability, and capacity development in both functional and resource management.

SIGIR has one review underway with the support of the Department of State Office of Inspector General (DoS OIG). In addition, SIGIR is coordinating several other efforts with GAO and the various accountability organizations of Multi-National Force-Iraq (MNF-I) and the Multi-National Security Transition Command-Iraq (MNSTC-I).

SIGIR chaired a meeting of the Iraq Accountability Working Group on July 30, 2006. The liaisons from many organizations, fellow auditors, and internal management
evaluators met to discuss ongoing efforts and emerging issues.

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

- SIGIR’s insight efforts advise leadership on governance issues, with the emphasis on creating an environment of accountability, rule of law, and public trust in Iraq.
- SIGIR’s foresight efforts continue to focus on end-state issues, such as cost-to-complete, transition, sustainment, and capacity building.
- SIGIR’s oversight efforts, an IG’s traditional focus, address the ability to obtain the maximum return on the U.S. taxpayer investment and promote transparency and accountability of the U.S. administration of any Iraqi resources used.
- SIGIR performance audits also evaluate the economy, efficiency, and effectiveness of Iraq relief and reconstruction projects.

On average, 25 SIGIR auditors are on the ground in Iraq on any given day, with an additional 7 located in SIGIR’s Arlington, Virginia office. The audit section comprises very experienced auditors, evaluators, management and program analysts, contract specialists, editors, and program acquisition specialists. The combined experience of the section brings more than 700 years—an average of 22 years each—of audit and audit-related experience to bear on SIGIR audits. SIGIR also has the capability by contract or by special authority to add expertise to each audit team for any area under review.

Final Audit Products
Review of Administrative Task Orders for Iraq Reconstruction Contracts
SIGIR-06-028, OCTOBER 2006

Introduction. Congress appropriated $18.4 billion for security, relief, rehabilitation, and reconstruction of Iraq to the IRRF 2. At the beginning of calendar year 2004, the U.S. government released a design-build (DB) requirement in a request for proposal to provide construction services in Iraq. From January 13, 2004, to March 26, 2004, 12 DB cost-reimbursement contracts totaling $5.8 billion were awarded to 9 contractors. (Two contractors received multiple contracts.) Contractors incur administrative and overhead costs, as well as direct costs, associated with performing work. For these DB contractors, there was no consistent contract requirement for them to separately track and report to the U.S. government their administrative and overhead costs. To some extent, information on these indirect costs can be extracted from:

- individual invoices when submitted at a detailed level by contractors
- management cost reports when required to be submitted by contractors
- task orders that have been established under the contract to specifically isolate administrative and overhead costs
In spring 2004, senior Program Management Office and contracting officers sought to simplify the tracking of administrative and overhead costs for the 12 DB contracts through a new type of task order—an administrative task order (ATO). ATOs were intended to capture all administrative and overhead costs for each DB contract, separate from direct costs, for each individual construction task order under the contract. This was expected to provide several benefits, including allowing the PCO managers to better understand direct and indirect contractor costs and to increase the ability of managers to control and minimize administrative costs.

Objectives. This audit was initiated to evaluate the effectiveness of project management and the monitoring and controls exercised by administrative contracting officers. Specifically, the objectives of the audit were to determine:

- Did ATOs vary from one design-build contractor to another?
- Did ATOs accomplish the intended purpose, to capture the fixed administrative costs of the design-build contractors?
- Did increased or decreased periods of contract/task order performance impact the value of ATO cost?
- Did the de-scoping of projects impact the need for certain administrative costs included in the ATO?

SIGIR found that ATOs were issued on 6 of the 12 DB contracts. Further, one of the six DB contracts with an ATO was terminated and demobilized less than one year after contract award. Therefore, SIGIR’s review focused on the 11 active DB contracts, of which 5 were issued one or more ATOs. Because the first two objectives are closely linked, they are combined for discussion in the report.

Findings. The DB contractors’ administrative costs were not uniformly tracked because ATOs were not issued for all 11 DB contracts, and there were inconsistencies in the ATOs that were issued, specifically:

- ATOs were issued for only 5 of the 11 DB contracts.
- Of the 5 DB contracts, 2 were issued ATOs that covered and separately identified four categories of ATO costs (Mobilization and Transportation, Management and Administration, Security, and Life Support).
- For the other 3 DB contracts, 2 were issued a single ATO that combined, rather than separated, ATO costs by specific categories; and one was issued an ATO that covered only Life Support costs.

In a series of audits, the Defense Contract Audit Agency (DCAA) found that for the five contracts for which ATOs were issued, only one of the contractors had adequate accounting and billing systems to capture administrative costs. Although SIGIR relied on the contractors’ invoices to analyze costs, DCAA’s findings raise questions about the actual value of the invoiced costs.

Furthermore, the ATOs were issued at different times after contract award:

- For four of the five DB contracts, ATOs were issued sometime between when mobi-
lization task orders (TOs)\textsuperscript{362} were issued and when substantial work began on the project. The earliest ATOs were issued two months after the mobilization TOs were issued.

- For the fifth DB contract, ATOs were not issued until after substantial work began. For details of these task orders, see Audit 06-028 at www.sigir.mil.

In the period before ATOs were issued, administrative costs would have likely been invoiced by the contractors against their existing mobilization or direct project task orders (or a combination of the two).

During periods of limited direct project activity, ATO costs were greater than direct TO costs for the five DB contracts. During the period between contractor mobilization and the start of substantial direct project work—from February to November 2004—contractors for these five contracts submitted invoices for $62.1 million in ATO costs and $26.7 million in direct project costs.

Three to nine months elapsed from the date when the mobilization TO was issued and the date when substantial direct project work began. For the five DB contracts, the average time elapsed was six months.

SIGIR believes that administrative and overhead costs that were intended to be charged against ATOs were actually higher than those invoiced because ATOs were not issued concurrent with the mobilization task orders. Contractors would have begun to incur administrative costs from the onset of mobilization. In the absence of ATOs, the contractors had no other option but to include administrative costs in their mobilization or direct task order invoices, or a combination of the two.

For example, the longest period between mobilization and the beginning of substantial direct project work—and the highest ATO costs—involved the Kellogg Brown and Root (KBR) DB contract. Although KBR was issued its mobilization task order on February 15, 2004, ATOs were not issued until June 7, 2004, almost four months after the mobilization TO. Substantial direct project activity did not occur until November 19, 2004. During this billing period, KBR’s ATO costs were $52.7 million. Direct project costs were $13.4 million, and mobilization costs were $5.8 million. Because KBR could not invoice administrative costs against ATOs until June 7, 2004, SIGIR believes that KBR’s cumulative administrative costs were higher than the $52.7 million it invoiced against the ATOs, and its mobilization and/or direct project costs were lower than the invoiced amounts. In a letter of concern to KBR about its cost reporting on August 28, 2004, the contracting officer stated that the contract was rapidly accruing exorbitant costs.

SIGIR was unable to determine how de-scoping contract actions affected ATO costs because invoices are not maintained in a form that allowed such analysis. In one instance, SIGIR identified a de-scoping action that occurred on December 27, 2004, which was followed by an increase rather than a decrease in ATO costs. However, SIGIR cannot draw any conclusions from this analysis because the
ATO costs included administrative costs for 14 different TOs issued under the contract, and the ATO invoices do not break out—nor are they required to break out—indirect costs by individual TOs. Furthermore, individual TOs are allowed to include multiple projects. In another instance, SIGIR documented that most costs incurred for the DB contract cancelled less than a year after it was issued were for mobilization, demobilization, and administrative costs.

SIGIR discussed the results of this work with officials from the U.S. Army Corps of Engineers (USACE), Gulf Region Division-PCO (GRD-PCO). The officials told SIGIR that there were other ways to track administrative costs—specifically through management cost reports. These officials also suggested that SIGIR not publish this audit report because it would be of limited or no value now that contracts are being awarded to Iraqi rather than U.S. contractors.

SIGIR did not agree with the GRD-PCO positions. In response to the GRD-PCO suggestion that management reports are another way to track administrative costs. SIGIR examined management reports provided for each of the 11 DB contracts. The review indicated that reporting of administrative costs varied from contract to contract and did not capture specific administrative costs as comprehensively as ATOs. SIGIR believes that there is value in understanding the extent to which administrative costs were tracked and reconstruction funds were used for administrative costs rather than direct project costs—regardless of the nationality of individual contractors.

**Recommendations.** To enable the U.S. government to better track administrative and overhead costs for future reconstruction contracts—funded through the IRRF or in any future reconstruction effort—and to minimize costs during periods of inactivity until the authorization to begin work can be issued, SIGIR recommends that the Commanding General of GRD-PCO coordinate with the Commanding General of the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) to take these actions:

1. Ensure that cost-reimbursement contracts contain explicit requirements for all contractors in Iraq and future reconstruction efforts for segregating, tracking, and billing administrative costs—such as through the use of contractual direction, including segregating and reporting administrative costs in management cost reports.
2. Ensure that adequate project planning is conducted to minimize contractor down-time between the issuance of mobilization orders and the beginning of substantial direct project activity.
3. Improve processes to monitor contractor administrative costs to ensure that the level of administrative activity is appropriately adjusted to reflect any work stoppages, de-scoping actions, and reductions attributable to project completion or close-out.
Management Comments and Audit Response. SIGIR received written comments on a draft of this report from GRD-PCO and the JCC-I/A. Both organizations concurred with all of SIGIR's recommendations. Both noted a caveat that recommendation number one would apply only to cost-reimbursement contracts, but not to fixed-price (direct) contracts. SIGIR agreed and clarified this recommendation accordingly. GRD-PCO did not agree with some of SIGIR's conclusions and analytical methods. SIGIR did not agree with GRD-PCO's interpretations regarding the analysis or presentation of findings. SIGIR has addressed those comments in the Management Comments and Audit Response section of the report.

Management of the Iraqi Interim Government Fund
SIGIR-06-031, OCTOBER 2006

Introduction. In 2004, the Iraqi Interim Government established the Iraqi Interim Government Fund (IIGF), providing $136 million from the Development Fund for Iraq (DFI) for U.S. military commanders to respond to the urgent humanitarian relief and reconstruction requirements in their areas of responsibility. Multi-National Force-Iraq (MNF-I) is responsible for overseeing and reporting monthly to the Iraqi government on the status of IIGF projects and financial information. MNF-I's subordinate command, the Multi-National Corps-Iraq (MNC-I), is responsible for management of the IIGF projects. IIGF projects involve the repair or reconstruction of hospitals and clinics, the provision of electrical equipment (such as generators), and civic cleanup. One of its purposes is to employ as many Iraqis as possible. As of July 31, 2006, MNC-I reported that it had disbursed $114.9 million for 683 IIGF projects and that 628 are complete.

Objectives. The audit addressed these questions:
- Can MNF-I properly account for the funds provided by the IIG?
- Were the funds used for their intended purposes?

Findings. MNF-I can account for the $136 million of IIGF money in its overall financial records. For the 26 projects that SIGIR randomly reviewed, MNF-I used the funds for their intended purposes and in accordance with appropriate rules and regulations. However, SIGIR also found that project files were incomplete and that data could not be reconciled to the financial records or to the project files. Further, although monthly reports to the Iraqi government on the status and uses of the IIGF are required, SIGIR found that MNF-I had not reported to the Iraqi government since December 2005.

SIGIR's review of the 26 completed project files found that only 2 contained all of the required documents. SIGIR also found that MNC-I could not pinpoint the location of all completed IIGF project files. These deficiencies could result in the lack of a historical accounting and transparency of the U.S. relief and reconstruction efforts in Iraq.

SIGIR found that the project manage-
ment system used by MNF-I to record project information has not been reconciled with the Army’s financial data system. Also, the project management system does not always reflect the complete IIGF project file data. However, MNF-I and MNC-I have actions underway to improve data quality.

**Recommendations.** Because MNF-I has not been submitting to the Iraqi government the required monthly IIGF accounting reports on the use of the DFI since December 2005, SIGIR recommends that the Commanding General, MNF-I:

1. Provide the Iraqi government the required accounting of the use of these funds. This accounting should comply with MNF-I Fragmentary Order 603, “Accountability of Funds from the Iraqi Interim Government,” and be henceforth submitted monthly, as required.

Further, SIGIR recommends that the Commanding General, MNF-I, direct program managers and subordinate commands to take these actions:

2. Enforce existing guidance on maintaining project records, including conducting quarterly reviews to ensure the accuracy of IIGF project files.

3. Develop a tracking system for controlling and processing IIGF project files through the entire management process.

4. Continue efforts to improve IRMS accuracy for IIGF projects.

**Management Comments and Audit Response.** SIGIR received written comments on a draft of this report from MNF-I. The MNF-I Chief of Staff concurred with all recommendations and has identified corrective actions that have been initiated or planned. According to their comments, MNF-I resumed its monthly reporting to the Iraqi government in July 2006. However, upon obtaining the MNF-I July report, SIGIR found that it was not signed by MNF-I until September 13, 2006. The comments received were fully responsive. MNF-I’s comments are included in the Management Comments section of this report.

**Iraqi Security Forces: Review of Plans To Implement Logistics Capabilities**
SigIR-06-032, October 2006

**Introduction.** The Administration’s National Strategy for Victory in Iraq lays out the goals and general framework to achieve security and stability in Iraq, to include the capacity of the Iraqi government to defeat terrorists and neutralize insurgents and illegal armed groups. On October 13, 2005, DoD reported to the Congress that the development and fielding of Iraqi logistics capabilities is a critical component for ISF in conducting security operations independently. MNF-I is using funds from both the IRRF and the Iraq Security Forces Fund (ISFF) to build the logistics capabilities of the Iraqi Army under the Ministry of Defense and the Iraqi local and national police forces under the Ministry of Interior. Our report is limited to the use of IRRF to achieve these goals, while the DoD Office of Inspector General and the U.S. Government Accountability Office have been charged with reporting on ISFF expenditures. As of August 1, 2006, the United States...
had spent $666 million from the IRRF on the development and fielding of these capabilities.

Objectives. The purpose of this review was to identify whether efforts to build logistics capabilities within the ISF are being properly managed and are achieving their intended outcomes. Specifically, the objectives of the audit were to determine:

- DoD’s plans and timelines for implementing a functioning logistics operation within the ISF
- plans and timelines for transitioning a sustainable and maintainable logistics operation to the Ministry of Defense and the Ministry of Interior for sustaining and maintaining the force structure
- barriers and resource limitations to the success of long-term sustainment capabilities within the ISF

To respond to the audit objectives, SIGIR structured the report in two sections to discuss the findings. The first section focused on the development of the Iraqi Army logistics capabilities within the Ministry of Defense. The Iraqi Army and its support forces comprise about 98% of the total force that MNF-I is training for the Ministry of Defense. Because the Iraqi Navy and Air Force will not be fully formed until at least summer 2007, SIGIR focused on MNF-I’s efforts in the Ministry of Defense to implement logistics capabilities to support the Iraqi Army. The assessment centered on the development of the Iraqi Army’s tactical and operational maintenance, transportation, supply, and health logistics support. The second section focused on the development of the logistics capabilities of the Ministry of Interior and its local and national police forces.

Findings. MNF-I has made some progress in its efforts to build effective logistics capabilities within the Iraqi Army and to transition these capabilities to the control of the Ministry of Defense. However, significant challenges remain that put at risk MNF-I’s goal to transition a sustainable and maintainable logistics operation to the Ministry of Defense by January 1, 2008. Further, the audit found that the planning for logistics capabilities for the Ministry of Interior is incomplete. Consequently, SIGIR also believes that MNF-I will face significant challenges implementing and transitioning logistics capabilities to the Ministry of Interior and its local and national police forces.

Ministry of Defense. MNF-I has much to do to meet its goal of implementing logistics capabilities within the Iraqi Army, to transition these to Ministry of Defense control periodically over the next 15 months, and to transfer all capabilities by January 1, 2008. Although MNF-I does not know how many logistics personnel it has trained, MNF-I has made some progress in its efforts to build logistics capabilities within the Iraqi Army and to transition these capabilities to the control of the Ministry of Defense. Nevertheless, significant challenges remain that put MNF-I’s goal at risk:

- Adequate personnel to train Iraqi Army logistics units—MNF-I has acknowledged that it has an insufficient number of logis-
tics personnel in Iraq to train Iraqi Army logistics units simultaneously and that it has not developed a plan to address this shortfall. MNF-I told SIGIR auditors that it is considering using a train-the-trainer model, in which Iraqi logistics soldiers who have already been trained would be paired with other Iraqi soldiers. This would maximize the number of trained personnel. MNF-I has yet to commit to this course of action.

- **Ensuring that there are enough trained soldiers to implement its plans**—MNSTC-I could not tell SIGIR how many personnel have been trained to support these logistics functions. Further, not all trained soldiers are assigned to and remain with logistics units, particularly for operational-level logistics units that require personnel with advanced specialty training, such as doctors, nurses, medics, and mechanics.

- **Ensuring that the Ministry of Defense provides enough funds to sustain the logistics capabilities that MNF-I is planning to transfer to Iraqi Army control in 2007**—MNSTC-I estimates that it will cost the Ministry of Defense about $3.5 billion to sustain its operations in 2007. Because the Ministry of Defense budget has not been submitted to or approved by the Iraqi Parliament, it is not possible to assess whether the Ministry of Defense is prepared to provide sufficient funds to support logistics capabilities in 2007.

**Ministry of Interior.** MNF-I does not expect to complete its plans to develop logistics capabilities within the Ministry of Interior until the end of November 2006. Once finalized, SIGIR believes that MNF-I will face significant challenges that will put its plans at risk:

- **Implementing its plan and achieving logistics capabilities within the Ministry of Interior**—because the Ministry does not control the Iraqi Police Service.

- **Training enough logistics personnel to implement its plans**—because MNF-I plans are not yet final, there can be no assurance that MNSTC-I is planning to train enough police forces logistics personnel by the end of 2006.

- **Ensuring that the Ministry of Interior provides enough funds to sustain the logistics capabilities of the Iraqi police forces in 2007**—MNSTC-I estimates it will cost the Ministry of Interior about $2.4 billion to sustain its operations in 2007. Because the Ministry of Interior’s budget has also not been submitted to or approved by the Iraqi Parliament, it is not possible to assess whether the Ministry of Interior is prepared to provide sufficient funds to support logistics capabilities in 2007.

Given the challenges that MNF-I faced within the Ministry of Interior, SIGIR believes that there is a significant risk that even if the initial goal to develop a sustainable logistics capability plan is achieved by the end of November 2006, the Ministry of Interior will not be capable of assuming and sustaining
logistics support for the Iraqi local and national police forces in the near term.

Related Observation. During the audit, SIGIR examined data that MNC-I used to track its expenditures for supplies and other services that it provided to the ISF from January through June 2006. SIGIR found that MNC-I did not account for a relatively small amount of the funds that were spent in this period (about $900,000 was spent). SIGIR also found that neither 22% of the funds spent to support the Iraqi Armed Forces nor 84% of the funds spent to support the Iraqi local and national police forces were assigned to an appropriate supply category, although MNC-I was required to assign both.

Management Actions. During this audit, SIGIR notified MNF-I of several discrepancies in the data MNC-I used to track its expenditures for supplies and other services that it provided to the ISF from January through June 2006. Although MNF-I has already made adjustments to the reporting process to improve the accuracy and consistency of MNC-I’s reporting, MNC-I officials said they would also take action to adjust the data to accurately reflect the historical costs of its logistics support to the ISF. Corrective action to improve data accuracy had not been completed as of the preparation of this report.

Recommendations. SIGIR recommends that the Commanding General, MNF-I, direct his staff and MNF-I subordinate commands to take these actions:
1. In cooperation with the Ministry of Defense, identify Iraqi Army logistics personnel requirements and formulate a plan for training these personnel.
2. In cooperation with the Ministry of Interior, identify Iraqi local and national police forces logistics personnel requirements and formulate a plan for training these personnel.
3. On receipt of the Iraqi Ministry of Defense and Ministry of Interior budgets for 2007, identify the extent to which they adequately support the logistics capabilities that MNF-I plans to transfer to it.

Developing and fielding Iraqi logistics capabilities is a critical component of the U.S. government effort to help the ISF of the Ministry of Defense and the Ministry of Interior become capable of independently conducting security operations. Therefore, SIGIR recommends that the Secretary of Defense take these actions:
4. Provide Congress an assessment in the quarterly report, Measuring Security and Stability in Iraq, to include:
   • details of MNF-I’s plan(s) and progress in executing the plan(s) to train ISF logistics personnel, for both the Ministry of Defense and the Ministry of Interior
   • the adequacy of the Ministry of Defense and Ministry of Interior budgets to support their respective logistics capability

Management Comments and Audit Response. SIGIR received written comments from MNF-I and, on behalf of the Secretary of Defense, from the Defense Reconstruction

SIGIR OVERSIGHT
Support Office (DRSO). MNF-I concurred with SIGIR’s recommendations. DRSO said that it would include SIGIR’s recommended information in its quarterly report, “Measuring Security and Stability in Iraq” to the extent the information reflects the statutory scope of the report. However, DRSO also stated that the assessment recommended by SIGIR is outside the scope of the current legislation. DRSO asserted that information contained in the quarterly report is directed by law and that DRSO follows the statutory language in determining content.

SIGIR disagrees with the DRSO response. SIGIR believes that the assessments recommended to be part of the DoD quarterly report are well within the scope of current legislation. Specifically, Section 9010 (c) of the National Defense Appropriations Act for 2007, P.L. 109-289, directs that the report address, at a minimum, the operational readiness status of the Iraqi military forces, key criteria for assessing the capabilities and readiness of the Iraqi police and other Ministry of Interior forces, and goals for achieving certain readiness and capability levels. As discussed, the Commanding General, MNF-I, stated on August 30, 2006, that logistics capabilities were one of the key enablers to help get ISF to the point where they can provide security independent of U.S. and coalition forces. As a result, SIGIR believes that including in the quarterly report an assessment of MNF-I’s logistics support plans and the Iraqi government’s willingness to provide funding to maintain logistics capabilities is both appropriate and necessary.

MNF-I, MNSTC-I, and MNC-I also provided technical comments and additional documentation in response to a draft of this report. SIGIR considered this information in finalizing the report, making revisions as appropriate.

Iraqi Security Forces: Weapons Provided by the U.S. Department of Defense Using the Iraq Relief and Reconstruction Fund
SIGIR-06-033, OCTOBER 2006

Introduction. The capacity of the Iraqi government to provide national security and public order is partly contingent on arming ISF under the Ministries of Defense and Interior. The United States is supporting the Iraqi ministries by providing arms from a variety of sources, including those captured, donated, and purchased. The United States plans to provide equipment for approximately 325,500 ISF personnel by December 2006. Of these, 277,600 have been issued weapons as of August 2006. Responsibility for determining weapons requirements and the initial equipping and training of ISF personnel primarily rests with MNSTC-I.

Objectives. This audit, requested by the Chairman of the Senate Armed Services Committee, addresses the type, quantity, and quality of weapons purchased with the IRRF for the ISF, as well as ISF’s capability to independently maintain and sustain these weapons. Although a review of the accountability of the IRRF-funded weapons was not requested, its relevance to sustainment warranted a limited assessment of weapons property records com-
pared to the quantities purchased with IRRF funds. Further, because of the importance of controlling these sensitive items—particularly considering the security environment in Iraq—SIGIR also reviewed compliance with DoD policies for registering weapons serial numbers.

**Findings.** About $133 million of the IRRF was used to purchase more than 370,000 weapons through 19 contracts with 142 separate delivery orders. The weapons were small arms, comprising 12 types that ranged from semiautomatic pistols and assault rifles to heavy machine guns and rocket-propelled grenade launchers. The contracts required that the quality of the weapons either be new or not previously issued.

These factors limit ISF’s capability to independently maintain and sustain these specific weapons, and possibly any identical weapons obtained by other means than IRRF:
- the lack of spare parts to conduct maintenance and repairs for most types of weapons purchased
- the lack of a requirement to provide technical repair manuals to ISF maintenance personnel
- the apparent decision by ISF units not to fill vacant arms maintenance positions
- the questionable accuracy of MNSTC-I inventories for 3 of the 12 types of weapons purchased with IRRF funds

In addition, during the review of contract files, SIGIR did not locate sufficient documentation to show that MNSTC-I had fully complied with the requirement to register the serial numbers of all weapons in the DoD Small Arms Serialization Program.

**Material Management Control Weaknesses.** SIGIR identified two material management control weaknesses:
- the incomplete accountability of weapons procured by DoD for the ISF
- the apparent non-compliance for the registration of weapons serial numbers under the DoD Small Arms Serialization Program

**Recommendations.** SIGIR recommends that the Commanding General, MNSTC-I, direct his staff to take these actions:
1. Determine the requisite spare parts and technical repair manual requirements by weapons type and, if applicable, weapons model and provide this information to the Ministries of Defense and Interior.
2. Review policies and procedures for filling vacant arms maintenance positions and implement corrective actions for sustainment.
3. Establish accurate weapon inventories.
4. Initiate action to provide weapons serial numbers for compliance with the DoD Small Arms Serialization Program.

**Management Comments and Audit Response.** SIGIR received written comments on the draft of this report from MNSTC-I officials, who generally concurred with recommendations 1 through 3, but did not concur with recommen-
The concurrences were accompanied with comments that identified actions underway or planned relating to the recommendations. MNSTC-I officials non-concurred with recommendation 4, stating that there is no provision or mechanism to register foreign-owned weapons in the DoD Small Arms Serialization Program.

The comments received are responsive to recommendations 1 and 2. However, SIGIR does not believe that the actions described in MNSTC-I’s comments for recommendation 3, including a recently established serial numbers weapons inventory system, will address a method for identifying the inventory of weapons previously purchased and the accountability of such weapons. As for MNSTC-I’s basis for non-concurrence with recommendation 4, SIGIR requested an opinion from:

- officials at the U.S. Army Materiel Command Logistics Support Agency involved with the DoD Small Arms Registry
- Chairman, DoD Small Arms Coordination Committee
- U.S. Army Executive Agent for Small Arms Logistics at the U.S. Army Tank-Automotive Command, Rock Island Arsenal

They all agreed with SIGIR’s conclusion that the weapons purchased for the ISF with appropriated funds under a DoD contract and subsequently transferred to a foreign entity should be recorded in the registry. Further, these officials stated that, “weapons bought under a DoD contract may be recorded in the small arms registry after they have physically transferred to a foreign entity to document that they were shipped outside the control of DoD.”

MNSTC-I’s comments are included in the Management Comments section of this report.

**Status of the Provincial Reconstruction Team Program in Iraq**

SIGIR-06-034, OCTOBER 2006

**Introduction.** The U.S. government continues to advance capacity-development programs in Iraq’s ministries and provinces. For the past four decades, Iraq was a statist economy with a highly centralized administration. Baghdad drove budgeting and service delivery through ministries that funded the provinces. The decentralization of authority that the Coalition Provisional Authority initiated following the fall of Saddam Hussein’s regime had the effect of empowering inexperienced local officials to manage the delivery of provincial government services. The consequences of this devolution in decision-making required the United States and other donors to establish programs aimed at developing local capacities. The Provincial Reconstruction Team (PRT) Program is key among these. PRTs provide the best opportunity for U.S. government experts to provide grassroots support in the development of nationwide governance capacity in Iraq.

National Security Presidential Directives 36 and 44 provided the policy and organizational framework for U.S. civilian-military organizations to implement nation-building programs. The PRTs comprise personnel from the Departments of State (DoS), Justice, and Agriculture; the U.S. Agency for International
Development (USAID) and its Local Governance Program contractor, RTI International; the U.S.-led Multi-National Force-Iraq (MNF-I) and its subordinate element, the Multi-National Corps-Iraq (MNC-I); the Gulf Region Division of the U.S. Army Corps of Engineers (GRD); and Iraqi-born expatriates (often holding U.S. citizenship).

In October 2005, the PRTs were established by Cable 4045, issued jointly by the U.S. Embassy-Iraq and MNF-I. The PRT’s mission is to assist Iraq’s provincial governments in developing a transparent and sustained capability to govern, to promote increased security and rule of law, to promote political and economic development, and to provide the provincial administration necessary to meet the basic needs of the population. The operational concept agreed to by DoS and the Department of Defense (DoD) called for the U.S. Embassy to support the establishment and hosting of some PRTs at DoS-operated sites and for MNF-I to support the establishment and hosting of some PRTs at military sites. Integrated and multidisciplinary teams of U.S. civilian and military personnel and locally employed Iraqi staff were to train, coach, and mentor provincial governments in core competencies of governance, economic development, rule of law, and infrastructure development. This audit report examines the status of the PRT Program in Iraq.

Objectives. The objectives of this audit were to determine whether PRTs are fully empowered, staffed, and resourced to meet their mission, and to identify any other barriers impeding achievement of the PRT mission. Specifically, SIGIR addressed these questions:

- Are security concerns affecting PRT operations?
- Are participating organizations effectively coordinating their programs and operational support?
- Are sufficient financial and human resources available to support the PRT mission?

This report did not assess the performance of the PRTs—only the ability of the PRTs to meet the mission. SIGIR intends to assess the performance of the PRTs during 2007.

Results. The unstable security environment in Iraq touches every aspect of the PRT program comprising ten PRTs and eight local governance satellite offices. Despite very difficult operating conditions, creating the PRTs in the short period of time is a significant and noteworthy achievement that was directly related to effective senior leadership at the Iraq Reconstruction Management Office and to the Commanding General, MNC-I. Further, SIGIR observed some outstanding individual efforts at selected PRTs to execute the mission.

It is anticipated that the majority of PRTs will continue operating through FY 2008, at which time the mission will transition to a traditional USAID training program to develop local governance capacity. The PRT program has been ongoing for more than a year, and some PRTs are still being established. Many obstacles have been overcome, but many remain, such as the ever-changing security situation, the difficulty of integrating civilian...
and military personnel, the lack of a finalized agreement on PRT operational requirements and responsibilities, a lag in funding resources, and the difficulty in recruiting and retaining qualified civilian personnel.

Because of security concerns, face-to-face meetings between provincial government officials and PRT personnel are often limited and, in some cases, do not occur. Security challenges have limited the teaching, coaching, and mentoring that form the core of the PRT capacity-development mission. PRT members are at particular risk when traveling to and from their engagements with their Iraqi counterparts, as are provincial government officials and local Iraqi staff working with the PRT. All are equally at risk if they are identified as cooperating with the U.S. government. Although no one is currently responsible for recording and reporting security incidents, security officials with the U.S. Embassy expressed concern for the overall physical safety of unarmed civilians and cautioned that the security situation may deteriorate as coalition forces withdraw and turn over areas to the Iraqi government.

Given the security situation, the PRTs and the local governance satellite offices have varying degrees of ability to carry out their missions. Specifically, of the nine PRTs and four satellite offices that SIGIR reviewed, four were generally able, four were somewhat able, three were less able, and two were generally unable to carry out their PRT missions.

DoS and DoD have not yet finalized their agreement on PRT operational requirements and responsibilities. This has delayed startup of some PRTs and hindered operations of others. The lack of a formal agreement means that the lines of authority and coordination between U.S. Embassy and military components have not been spelled out and agreed to, and the operational support mechanisms that the PRTs at military bases depend on—facilities, life support, communications, and basic supplies—have not been settled on.

Despite the lack of a formal agreement, SIGIR found that in general the civilian and military organizations in the PRTs are effectively working together, coordinating their activities, and synchronizing their efforts with coalition stability operations in the provinces. SIGIR also noted that when DoS had difficulty filling many civilian positions, DoD filled the gap by providing military civil affairs personnel for the vacant PRT positions. Although this military assistance filled the temporary void, many of these DoD civil affairs personnel did not have the full range of skills needed for these civilian positions.

During discussions with DoS leadership, SIGIR learned that the DoS portion of the PRT program had enough resources and personnel to meet its PRT program expectations in FY 2007. However, DoS faced a new challenge. In the congressional conference committee report accompanying P.L. 109-234, DoS was directed to take several actions before any funds contained in or made available by this Act can be expended in support of PRTs in Iraq. On October 25, 2006, DoS told SIGIR that it had submitted on October 23, 2006, a report with the required information to the
Congressional Committees on Appropriations, thus satisfying the prerequisite for expending funds on the PRTs.

Observations. Because of the unstable security situation at both the Anbar and Basrah PRTs and at the local government satellite offices in Najaf, Kerbala, Qadissiya, and Wasit, the PRT members there have not been able to interact personally with their Iraqi counterparts, significantly limiting the PRTs from carrying out the mission. Therefore, SIGIR questions whether the continued deployment of PRT personnel to Anbar and Basrah and the planned deployment of additional staff to support the local governance satellite offices in south central Iraq makes operational sense at this time. In commenting on the draft of this report, MNF-I told SIGIR that it did not believe U.S. personnel would be required to engage one-on-one with local government officials at the satellite offices. However, in discussions with staff at the Hilla office, SIGIR was told that, to be effective, U.S. personnel assigned to a PRT should have regular direct contact with the local government officials supported by the satellite offices.

On balance, the PRT experience in Iraq demonstrates individual successes arising from individual efforts and improvisations, which allowed some PRTs to move forward with their capacity-development mission. Lessons learned from the PRT experience in Afghanistan showed that the lack of specific guidance led to confusion about civilian-military roles at PRTs. Similarly, executing an effective PRT program in Iraq would have been greatly enhanced if DoS and DoD shared a common understanding of their respective roles and responsibilities. Now that the PRT has completed its first year, it is time to start gathering lessons learned about what works and what needs improvement in the implementation of the Iraq PRT model.

Recommendations. SIGIR recommends that the Secretaries of State and Defense take these actions:

1. Issue a joint statement reaffirming that the PRT initiative is a DoS/DoD priority, clearly defining the mission and delineating the lines of authority and coordination between civilian and military personnel.
2. Finalize a memorandum of agreement that spells out the shared approach of funding infrastructure, life support, and operating costs of the PRTs at the DoS and DoD sites.
3. Develop detailed plans for completing and sustaining the PRTs, including clearly defined objectives and performance measures; milestones for achieving stated objectives; future funding requirements; and a strategy for sustaining results and successfully transitioning the program to USAID.

SIGIR also recommends that the U.S. Ambassador to Iraq and the Commanding General, MNF-I, take these actions:

4. Issue a joint statement reaffirming the lines of authority and coordination to achieve effective civilian and military integration in the PRT Program.
5. Assign responsibility for reporting attack incidents to one individual at each Regional
Embassy Office and military forward-operating base and coordinate closely with the U.S. Embassy’s Tactical Operations Center.

6. Specify skill-set requirements for civil affairs personnel at PRTs to enable better training, selection, and assignment.

7. Consider temporarily assigning the PRT personnel identified for Anbar and Basrah, as well as the local governance satellite offices in south central Iraq, to functioning PRTs until the security environment improves.

Management Comments and Audit Response. SIGIR received written comments from DoS, U.S. Mission–Iraq, and MNF-I on a draft of this report. All of the respondents concurred with recommendations 1 through 5.

Although MNF-I concurred with recommendation 6, DoS did not. DoS officials believe that the civil affairs units supporting the PRTs have the necessary skills to accomplish the role for which they have been assigned. SIGIR agrees with the DoS position; however, SIGIR also noted that assigning personnel on a particular skill-set—rather than as a general civil affairs staff member—added value to the PRT mission. SIGIR also observed that most members of the civil affairs units assigned to the PRTs were motivated to give their best effort to support the mission.

DoS and MNF-I did not concur with recommendation 7. DoS responded that, despite the security concerns, PRT leadership believed the mission was necessary. However, in a meeting after receiving the DoS written comments, SIGIR was told by a senior DoS official that DoS is now reassessing the staffing of PRTs in locations considered to be high-security risks. SIGIR considers DoS’s action to be responsive to recommendation 7. In non-concurring, MNF-I responded that SIGIR may want to consider that although security is an issue in Anbar and Basrah, there is progress to be gained by having an active PRT in the provinces. MNF-I also noted that security is a concern at other PRTs. SIGIR agrees with MNF-I that security is a concern at all PRTs; however, continuing evaluation needs to be conducted at high-risk PRTs to assess their viability in relation to the risk and cost.

SIGIR also received written technical comments on the draft of this report from the Under Secretary of Defense for Policy, as well as GRD. These comments are addressed in the report. GRD generally concurred with the conclusions.

SIGIR considers that all comments received are responsive to the intent of the recommendations and that technical corrections have been made as applicable. All comments are included in the Management Comments section of this report.

Interim Audit Report on Inappropriate Use of Proprietary Data Markings by the Logistics Civil Augmentation Program (LOGCAP) Contractor
SIGR-06-035, OCTOBER 2006

Introduction. SIGIR issued this interim audit report because data access and reporting issues impact the transparency of government operations. This review, which was requested by the Office of the Chief of Mission, U.S. Embassy-
Iraq, was announced on July 24, 2006, with the overall objective of determining whether the U.S. government is receiving the services paid for under LOGCAP Task Order 130 and whether the support provided is reasonable, efficient, and cost-effective. During the review, SIGIR noted that the LOGCAP contractor, KBR, continuously marked all information provided to the government as “Proprietary Data.” In addition, the contractor initially refused to provide SIGIR with requested data in its native format (Excel spreadsheet or Access database) because KBR claimed that the actual spreadsheets or databases contained specific proprietary information relating to how KBR conducts its business.

The purpose of this interim review was to provide an assessment of whether KBR is following applicable Federal Acquisition Regulation (FAR) direction on classifying proprietary data and is complying with contract provisions regarding information.

On December 14, 2001, the Army awarded Contract DAAA09-02-D-0007 to KBR as an overarching worldwide support contract for the military’s logistical requirements. Specific requirements under the LOGCAP contract are issued as task orders. On April 27, 2006, Task Order 130 was awarded as a cost-plus award-fee task order for the period April 8, 2006, through April 7, 2007, to provide services necessary to support, operate, and maintain the Chief of Mission and MNF-I staffs at the U.S. Embassy-Iraq. This Task Order was essentially a continuation of services previously obtained under Task Order 100, which was awarded on November 5, 2004. Task Order 100 was a continuation of services provided under Task Order 44, which was awarded on March 6, 2003, to provide support to the CPA in support of Operation Iraqi Freedom.

Task Order 130 was awarded as a cost-plus award-fee task order. A cost-plus award-fee contract is defined in FAR Section 16.305 as a cost-reimbursement contract that provides for a fee consisting of (a) a base amount fixed at inception of the contract and (b) an award amount, based upon a judgmental evaluation by the government, sufficient to provide motivation for excellence in contract performance. Some of the factors used in determining the award fee for Task Order 130 are the contractor’s cost, responsiveness, quality of service, and adherence to schedule.

**Findings.** The use of proprietary data markings on reports and information submitted by KBR to the government is an abuse of the FAR and the procurement system. As noted in the examples cited in this report, KBR is not protecting its own data, but is in many instances inappropriately restricting the government’s use of information that KBR is required to gather for the government as part of KBR’s management of Task Order 130.

KBR’s practice of routinely marking almost all of the information it provides to the government as KBR proprietary data, citing the FAR Section 3.104 as the justification, is not consistent with the direction in the FAR as to what constitutes proprietary data. Although this provision of the FAR applies to the protection of bid or source selection information
during the procurement process, it does not apply to data that is reported as part of contractor performance. The result is that information normally releasable to the public must be protected from public release just because the information gathered for the government by KBR, pursuant to KBR’s contractual obligations, was marked as proprietary. This inhibits the transparency of government activities and the use of taxpayer funds and places unnecessary requirements on the government to both protect from public disclosure information received from KBR and to challenge inappropriate proprietary markings. It may also impede the government’s effort to transition the work currently being performed under the LOGCAP contract to successor contracts. Both the LOGCAP Program Office and Defense Contract Management Agency (DCMA) in its LOGCAP oversight role are seeking to prevent misuse of proprietary markings by KBR.

**Recommendations.** To limit the use of inappropriate marking of information as proprietary under the LOGCAP contract and to ensure that data are provided in native format, SIGIR recommends that the Commanding General, U.S. Army Sustainment Command, direct the LOGCAP Program Director to take these actions:

1. In all future LOGCAP task orders and modifications to existing task orders, include language restricting the use of proprietary markings.
2. Exercise appropriate contracting officer authority, either directly or through delegated authority to DCMA, to advise KBR in accordance with the requirements of FAR 3.104-4(d) whenever contractor submissions appear to inappropriately contain proprietary markings.
3. Include specific statements within the Performance Work Statements for the new LOGCAP contract that address both the issue of proprietary data markings and receipt of contract reports and data submissions in native formats.
4. Establish as a performance metric KBR’s use of proprietary markings and responsiveness to requests for information as a factor in the determination of award fee ratings.
5. Exercise appropriate contracting officer authority, either directly or through delegated authority to DCMA, to require KBR to provide information to the government—including SIGIR and any other U.S. government audit activity—in the native electronic format (Excel or Access) in which KBR maintains the information. This will facilitate the government’s analysis of the information.

**Management Comments and Audit Response.** Because of the continuing impact of the misuse of proprietary markings and the pressing need to address this practice, SIGIR obtained formal oral comments from the Army Sustainment Command, rather than written comments, to expedite the issuance of this report. SIGIR discussed the findings with command officials from the LOGCAP Program Office on October 10, 2006, who agreed with the content of the report and stated that it was very timely. The Army Sustainment Command
agreed with the intent of SIGIR’s recommendations, stating that alternative action would be taken to address them. Specifically, these officials said that they will (1) prepare a modification to the existing LOGCAP base contract to provide guidance to KBR on marking of proprietary data, and (2) include guidance on marking proprietary data in the successor LOGCAP contracts. SIGIR believes that these actions are responsive to and fully meet the intent of recommendations number 1 and 2. SIGIR will follow up and comment in the final report on the alternative actions to meet the intent of the remaining recommendations.

Interim Audit Report on Improper Obligations Using the Iraq Relief and Reconstruction Fund (IRRF 2)
SIGIR-06-037, SEPTEMBER 2006

Introduction. In November 2003, Congress passed P.L. 108-106, the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, which appropriated $18.4 billion for the rebuilding of Iraq. This money is known as the Iraq Relief and Reconstruction Fund 2 (IRRF 2). The funds provided in P.L. 108-106 were to remain available until September 30, 2006; when the authority to initially obligate these funds expired. As of August 24, 2006, according to the financial records of the USACE Finance Center, DoD had about $464 million remaining in IRRF 2 to obligate by September 30, 2006, as detailed in the Corps of Engineers Financial Management System (CEFMS) report of all DoD IRRF 2 obligations and disbursements allocated to DoD.

Objective. This review was announced on July 21, 2006, with the overall objective of determining the amount of unmatched IRRF disbursements and examining whether U.S. agencies have established adequate management controls over these unmatched disbursements. During SIGIR’s review of unmatched disbursements, 96 obligations for about $362 million were found under a “dummy vendor” category. The term “dummy vendor” was used in the USACE Financial Management System to enter data into a data field for vendors when no specific vendor existed.

SIGIR does not believe that there was any attempt to mislead understanding of the true status of obligations in using this name. USACE has since changed this terminology from “dummy vendor” to “IRRF in-scope modifications and estimate cost-to-complete projects” to more accurately reflect the purpose of the obligations.

The objective of this interim audit was to assess whether the obligations of IRRF funds initially noted as dummy vendor met the criteria for proper obligations.

Findings. SIGIR’s review of PCO obligations recorded in USACE’s financial records determined that the $362 million recorded under the vendor name “dummy vendor” do not constitute proper obligations. The establishment of these obligations is not consistent with a 1995 decision by the Comptroller General of the United States on appropriations availability, GAO’s Appropriations Law Manual, and the DoD Financial Management Regulation (FMR) requirements for recording and reviewing commitments and obligations.
The obligation of amounts from IRRF 2 were required to be made for *bona fide* purposes before September 30, 2006. If action to obligate these funds, consistent with GAO and DoD guidance on what constitutes proper obligations, had not been taken by September 30, 2006, the obligations would have expired. As a result, USACE actually over-reported its obligations by $362 million. As of August 24, 2006, $826 million was remaining to obligate by the end of the fiscal year.

SIGIR also believes that including the $362 million of improper IRRF obligations in the CEFMS official accounting records has resulted in inaccurate reporting to Congress on the amount of IRRF funds obligated and the funds remaining to be obligated. Consequently, DoD management and Congress are not receiving accurate information on the IRRF.

**Guidance Exists on Availability and Recording of a Proper Obligation.** The Comptroller General of the United States, GAO's Appropriations Law Manual, and the DoD FMR provide guidance on what constitutes a proper obligation. According to the GAO Appropriations Law Manual, Chapter 7, an “obligation” is an action that creates a liability or definite commitment on the part of the government to make a disbursement at some later time. In a 1995 decision, the Comptroller General further stated that unless properly obligated during their period of availability, any amounts reserved in a contingency account would not be available to support obligations arising after the expiration of their period of availability.

This decision is discussed in detail in GAO's Appropriations Law Manual, Chapter 5. The manual states: “An appropriation may not be used for the needs of some time period subsequent to the expiration of its period of availability.” With respect to annual appropriations, a more common statement of the rule is that an appropriation for a given fiscal year is not available for the needs of a future fiscal year. IRRF 2 is a multiple-year appropriation (FY 2004 to FY 2006), and apart from the extended period of availability, multiple-year appropriations are subject to the same principles that apply to annual appropriations.

Obligations shall be recorded in the official accounting records at the time a legal obligation is incurred, or as close to the time of incurrence as is feasible, according to DoD's FMR, 7000.14R, Volume 3, Chapter 8. An amount shall be recorded as an obligation only when supported by documentary evidence of the transaction. Table 3-2 shows these obligations by category.

As shown in Table 3-3, these obligations cover nine construction and non-construction sectors of the Iraqi economy. The bulk of them—69%—are in the oil and electricity sectors.

On September 7, 2006, SIGIR discussed these results with the USACE Chief Finan-
IRRF 2 Obligations Described in CEFMS under “Dummy Vendor” Accounts

<table>
<thead>
<tr>
<th>Type of Obligation</th>
<th>Number of CEFMS Entries</th>
<th>Obligations ($ in millions)</th>
<th>Disbursements ($ in millions)</th>
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</thead>
<tbody>
<tr>
<td>Contingency</td>
<td>30</td>
<td>$252.2</td>
<td>$0</td>
</tr>
<tr>
<td>Design-build Program Close-out</td>
<td>25</td>
<td>85.1</td>
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</tr>
<tr>
<td>Public Works Center Costs</td>
<td>36</td>
<td>19.4</td>
<td>0</td>
</tr>
<tr>
<td>Supervision &amp; Administration</td>
<td>2</td>
<td>0.3</td>
<td>0</td>
</tr>
<tr>
<td>Claims &amp; Unknown</td>
<td>3</td>
<td>$5.5</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
<td>$362.5</td>
<td>$0</td>
</tr>
</tbody>
</table>

Source: Developed by SIGIR from CEFMS data, as of August 24, 2006.

Table 3-2

IRRF 2 Obligations with Vendor Name of “Dummy Vendor” by Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Entries</th>
<th>Obligations ($ in millions)</th>
<th>% of Total “Dummy Vendor” Obligations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Security and Law Enforcement</td>
<td>3</td>
<td>$2.5</td>
<td>.7</td>
</tr>
<tr>
<td>Justice, Public Safety Infrastructure, and Civil Society</td>
<td>22</td>
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<td>Electricity</td>
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<td>129.6</td>
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<td>Oil Infrastructure</td>
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<td>Water Resources</td>
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<td>55.7</td>
<td>15.4</td>
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<tr>
<td>Transportation and Telecommunications</td>
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<td>5.3</td>
<td>1.5</td>
</tr>
<tr>
<td>Roads, Bridges, and Construction</td>
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<td>8.8</td>
<td>2.4</td>
</tr>
<tr>
<td>Health Care</td>
<td>4</td>
<td>12.1</td>
<td>3.3</td>
</tr>
<tr>
<td>Education, Refugees, Human Rights, and Governance</td>
<td>1</td>
<td>.1</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
<td>$362.5</td>
<td>100.0</td>
</tr>
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</table>

Source: Developed by SIGIR from CEFMS data, as of August 24, 2006.

Table 3-3
cial Officer (CFO), the command’s senior fiscal official. In response to SIGIR’s concerns that the current obligations identified under “dummy vendor” are not proper obligations, the CFO stated that he is in the process of taking several actions:

- formally requesting, on September 6, 2006, a legal opinion from the Army Deputy General Counsel (Ethics and Fiscal) on USACE’s plan to reserve funds appropriated for IRRF for in-scope modifications and close-out costs
- initiating discussions with the Office of Management and Budget to determine the validity of this method of reserving and recording IRRF 2 funds
- initiating discussions with DoS, which is responsible for managing IRRF

SIGIR believes that because these recent or planned actions began only on September 6, 2006, there is a high risk that this issue will not be resolved before the authority to obligate IRRF 2 funds expires on September 30, 2006.

**Recommendation.** SIGIR recommends that the Commanding General, USACE, direct GRD-PCO to immediately review the 96 obligations established for dummy vendors and, to the extent practicable, take steps to obligate these funds consistent with GAO and DoD guidance on what constitutes proper obligations by September 30, 2006, or alternately take steps to ensure that the funds remain legally available.

**Management Comments and Audit Response.** Because the subject of this report is time-sensitive, SIGIR obtained formal oral comments from USACE. SIGIR discussed the finding with the USACE CFO, the command’s senior fiscal official, in an exit conference on September 12, 2006. USACE’s CFO agreed with SIGIR’s conclusion that the $362 million in IRRF 2 funds obligated without a vendor name were not proper obligations. USACE is seeking a solution that meets its needs to properly fund future contingency and close-out costs.

On September 18, 2006, the USACE CFO provided an additional response. According to the CFO, USACE will recommend that PCO de-obligate these funds immediately and return the funds to the Department of the Army. The CFO IRRF worksheet identified about $348 million to be de-obligated. On September 30, 2006, USACE will let these funds expire under their agency code and will maintain these expired funds for in-scope modifications in FY 2007.

**Guidance Exists on the Use of Expired Funds.** When the initial period for which an appropriation is available expires, the availability of any remaining balances for further obligation is limited. GAO’s Appropriations Law Manual provides guidance on the disposition of appropriation balances. An annual appropriation that is un-obligated at the end of the fiscal year for which it was appropriated is said to “expire” for operational purposes: it ceases to be available for the purposes of incurring and recording new obligations.

The same principle applies to multiple-year appropriations as of the end of the last fiscal year for which they were provided. Once a fixed appropriation has expired, the obligated
balances retain their fiscal year identities in an “expired account” for that appropriation for an additional five fiscal years. During the five-year period, the expired account balance may be used to liquidate obligations properly chargeable to the account before it expired. The expired account balance also remains available to make legitimate obligations adjustments—to record previously unrecorded obligations and to make upward adjustments in previously under recorded obligations.

**Unclassified Summary of SIGIR’s Review of Efforts To Increase Iraq’s Capability To Protect its Energy Infrastructure**

**SIGIR-06-038, SEPTEMBER 2006**

**Introduction.** Iraq cannot prosper without the uninterrupted export of oil and the reliable delivery of electricity. The United States has invested about $320.3 million over the past several years to improve Iraq’s capability to protect its oil and electricity infrastructure. However, a number of factors—including insurgent attacks, an aging and poorly maintained infrastructure, criminal activity, and lack of rapid repair capability—have combined to hold down Iraq’s oil exports and the availability of electricity. To achieve overall victory in Iraq, the current Administration’s strategy includes protecting key infrastructure nodes and increasing the Iraqi government’s capability to protect its key energy infrastructure. This review addresses the efforts by the United States to increase the capability of the Iraqi government to protect its energy infrastructure. On February 8, 2006, SIGIR made the commitment to conduct the review at a hearing of the Senate Committee on Foreign Relations to report on the capacity of the Iraqi government to protect its infrastructure.

Because of the importance of infrastructure integrity to Iraq’s future and the challenges being confronted in securing it, this is one in a series of reports addressing Iraq’s capability to maintain its oil and electrical infrastructure integrity. In future reviews SIGIR will address Iraq’s capacity to:

- invest in improving the frail infrastructure
- sustain effective and efficient operation and maintenance of the infrastructure
- prevent, detect, and prosecute those responsible for smuggling and corruption in the electricity and oil sectors

**Objectives.** This report provides the unclassified summary of a classified SIGIR audit report issued on July 27, 2006, which addresses U.S. efforts to increase the capacity of the Iraqi government to protect its critical oil and electricity infrastructure. Specifically, this report addresses these questions:

- What factors affect Iraq’s infrastructure, including attacks, physical condition, and criminal activity? This is an expansion of SIGIR’s original objective of focusing on attacks. This objective’s purpose is to identify the scope of requirements/needs.
- To what extent can the Iraqi government perform independently to protect its oil and electricity infrastructure? This is to identify a baseline metric.
- What support is the United States providing the Iraqi government to increase its capability to protect its oil and electricity
infrastructure? This is to identify the current and future investment of resources needed to attain the desired capability.

**Findings.** A number of factors—including attacks, aging and poorly maintained infrastructure, and criminal activity—are adversely affecting Iraq’s ability to develop a viable energy sector. These factors have combined to hold down Iraq’s oil exports and the availability of electricity. As a result, SIGIR estimates that between January 2004 and March 2006, Iraq lost a potential $16 billion in revenue from oil exports because of limitations on its ability to export oil. In addition to lost export revenues, Iraq is paying billions of dollars to import refined petroleum products to support the consumption needs of its citizens.

MNF-I and the Iraqi Ministries of Oil and Electricity maintain and report data on attacks against infrastructure. MNF-I attack data is classified; the Iraqi Ministries of Oil and Electricity report unclassified data. The Iraq Reconstruction Management Office (IRMO), working with the Ministry of Electricity, has taken steps to improve the Ministry of Electricity’s data on attacks on electric power infrastructure. Before this effort, data for attacks was classified in an *ad hoc* manner, along with all other causes for power outages—such as weather-related incidents or equipment failures. The Iraqi Ministry of Oil’s attack data is limited to attacks against pipelines: it excludes attacks against the nodal portions of the infrastructure. Therefore, its data does not provide a clear picture of infrastructure vulnerabilities.

Attacks against Iraq’s oil infrastructure have ebbed and flowed from January 2005 to April 2006. Like attacks against oil infrastructure, attacks against the electric power infrastructure have also ebbed and flowed between January 2005 and April 2006.

Protecting Iraq’s critical energy infrastructures from attacks is a combined effort involving three Iraqi ministries: Ministry of Defense, Ministry of Oil, and Ministry of Electricity. Each ministry contributes to the mission by providing these forces: Strategic Infrastructure Battalions, Iraqi Army forces (Defense); the Oil Protection Force (Oil); and the Electrical Power Security Service (Electricity). The current capabilities of the forces vary.

Security, however, is only one factor in addressing infrastructure protection. Although much attention has been focused on insurgent attacks, it must be recognized that even if attacks ceased, other factors—such as criminal activity and the effect of aging and poorly maintained infrastructure on operating capability—would continue to affect oil exports and the availability of electricity. For example, attacks have had a limited impact on the failure to reach Iraq’s achievable electric capacity. In fact, there were few attacks against oil and electricity infrastructure from late April 2006 to early June 2006; nevertheless, oil exports were below established targets, and electric power generation was far below demand. Further, once damage or disruption occurs, it is critical that it be repaired quickly, but more needs to be done to enhance rapid repair capability.

Both the U.S. Embassy and MNF-I have done considerable planning that addresses Iraq’s energy infrastructure. There are a variety
of individual plans at different levels from the U.S. Embassy and MNF-I’s Joint Campaign Plan; to MNF-I and MNC-I plans and orders to their subordinate commands; to the U.S. Embassy’s Critical Infrastructure Integrity Plan and Summer 2006 Energy Sector Action Plan. Each pertains to the implementing organization’s mission and responsibilities.

**Conclusion.** Over the past year, the U.S. government has done much to improve the capability of Iraqi infrastructure security forces, including training and equipping the Strategic Infrastructure Battalions and partnering coalition forces with Iraq’s Strategic Infrastructure Battalions, the Oil Protection Force, and the Electrical Power Security Service. The U.S. government has also developed an array of initiatives designed to both protect the energy infrastructure and facilitate transition of the responsibility for protecting it to the Iraqi government.

The Iraqi government has much to do if it is to implement U.S. proposals, as well as proposals put forth by its ministries. Progress in acting on them has been slow, in part because of the lack of a permanent government and in part because of the limited initiative of some Iraqi ministries. Now that a permanent government is in place, it must take bold action.

The new Iraqi government is pursuing initiatives to enhance the security and performance of the oil and electricity sectors. Increasing oil exports and providing electricity are the top priorities. The Iraqi government’s plan identifies a number of steps that it says it will take to achieve these ends. The challenge for the United States is to help the Iraqi government move forward to undertake the tasks needed to improve infrastructure integrity.

One way to encourage the Iraqi government to take needed action is to focus U.S. congressional attention on what the new government is doing and still needs to do to address the integrity of its energy infrastructure. Current reporting by DoS and DoD to Congress does not provide adequate information on the progress being made by the Iraqi government, the status of specific steps the new Iraqi government has taken, and what further specific steps remain to be taken. Currently, DoS and DoD reports contain only a general description of progress in Iraq, but not specific information on actions that need to be taken by the Iraqi government to enhance infrastructure integrity and progress it is making in taking those actions.

**Management Actions.** Working with SIGIR staff, the IRMO (Electricity sector) has developed and implemented a new methodology for recording data on attacks against the electric infrastructure in response to SIGIR’s concerns. Data based on the new methodology will enable IRMO to better track and analyze input from the ministry.

**Recommendations.** SIGIR made a number of recommendations to the Commander, MNF-I, and the U.S. Ambassador to Iraq in several areas to further advance protection of Iraq’s infrastructure and transition the responsibility for protecting it to the new Iraqi government. The recommendations included:

1. Encourage action by the Iraqi government by continuing to emphasize the actions that the newly formed Iraqi government must
take to enhance infrastructure integrity, making actions that need to be taken by the new Iraqi government part of subsequent U.S. action agendas, and emphasizing the capacity-building process in discussions with the new government.

2. Support transition plans by working with the Iraqi ministries to develop a performance-based reporting capability to identify their measurable events and gauge progress in their infrastructure integrity capabilities.

To improve Iraqi reporting on attacks against oil infrastructure, SIGIR recommended that the IRMO Director work with the Ministry of Oil to expand its reporting to include attacks against nodal infrastructure.

To keep Congress advised, SIGIR further recommended that the Secretaries of State and Defense enhance their current quarterly reports to focus attention on progress being made by the new Iraqi government in addressing critical infrastructure integrity challenges. To the extent that such information is classified, it should be reported in classified annexes.

In commenting on a draft of the classified report, the U.S. Embassy suggested that SIGIR add two additional recommendations to the U.S. Ambassador and Commander, MNF-I:

- Encourage the Iraqi government to take additional actions regarding Iraq’s oil and electricity infrastructure involving facilitating foreign investment in Iraq’s oil industry.
- Encourage developing a rapid repair capability.

SIGIR believes that the suggested recommendations are consistent with the results of the audit and have merit; therefore, they are added to the report.

Management Comments and Audit Response. SIGIR received written comments on the classified report from the U.S. Embassy and MNF-I. The U.S. Embassy stated that the report accurately captures the key issues that the Iraqi government needs to address to better protect its infrastructure, as well as the U.S. mission’s engagement efforts with the Iraqi government on these matters. MNF-I concurred with the overall findings of the report and had no major issues with its content.

Because the underlying report was classified, SIGIR obtained an official classification review of this summary from the Commanding General, MNF-I. The review determined that this summary is unclassified.

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

Fact Sheet: U.S. Government Organizations’ Roles and Responsibilities for Iraq Relief and Reconstruction Activities
SIGIR-06-022
This report describes the roles and responsibilities of the principal U.S. government organizations engaged in Iraq relief and reconstruction. This report examines how officials in those
organizations view their authority and role in the Iraq effort and how the officials believe they interface with other organizations. (The validation of those authorities, roles, and interface efforts was not in the scope of this review and, therefore, was not conducted.)

Objectives. The objectives of this review were to determine the roles and responsibilities of each principal U.S. government organization with programmatic, operational, and/or financial stewardship for Iraq relief and reconstruction. Specifically, the review focused on these questions:

- Which U.S government organizations have been authorized to perform a role in Iraq relief and reconstruction activities?
- What are the authorized roles and responsibilities of each organization and their relationship to other organizations?
- How do these organizations coordinate policies, procedures, and activities with each other?
- Of the U.S. government organizations that have not had principal roles and responsibilities, which have provided staff to Iraq relief and reconstruction?
- How much funding was provided to each organization? What kind of funding was provided? What was the purpose of the funding?
- What performance reporting does each organization produce, to whom, and how often?
- What event triggers the cessation or transfer of each organization’s mission relating to Iraq relief and reconstruction?

Lessons Learned: Contracting in Iraq
Reconstruction: Design-build vs. Direct Contracting
SIGIR-06-027

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

Ongoing Audits
Review of Close-out Processes and Procedures for IRRF Contracts
SIGIR-6006

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

SIGIR-6017

This is a joint review with the Department of State Office of Inspector General. The objectives of this audit are to answer these questions:

- What were the costs associated with Task Order 0338, including amounts obligated and expended, potential liabilities, and controls over these costs?
• What is the status of property purchased under Task Order 0338, including related internal controls, and what is the salvage value for unused assets?
• What is the cost and program impact of the stop-work order affecting the construction of police training facilities at the Adnan Palace?
• What is the status of construction of facilities to support provincial police training programs?

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

SIGIR-6018

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

**Follow-up on Corrective Actions Related to SIGIR Recommendations Concerning the Development Fund for Iraq (DFI) Accountability**

SIGIR-6025

This follow-up review will assess the actions taken by U.S. government representatives on the recommendations made in previous SIGIR audit reports on the accountability for contracts, grants, and cash transactions using the DFI. SIGIR will also review the work performed under contract W91GXQ-05-C-0014, which was let in response to SIGIR’s recommendations to capture DFI-related contract and financial records and associated documentation. The results of this follow-up will be documented in an audit product and briefed to the International Advisory and Monitoring Board for Iraq.

**Iraq Relief and Reconstruction Fund (IRRF) Financial Review: Unliquidated Obligations**

SIGIR-6026

The overall objective of this audit is to determine the amount of IRRF unliquidated obligations and whether the U.S. government agencies responsible for reconstruction projects in Iraq have established adequate management controls over IRRF 1 and IRRF 2 unliquidated obligations. SIGIR intends to answer these questions:
• How much IRRF monies remain as unliquidated obligations?
• Have unliquidated obligations or monies committed to complete projects been
de-obligated, decommitted, and moved to cover unfunded requirements?
• What management controls are in place to monitor unliquidated obligations?

Iraq Relief and Reconstruction Fund (IRRF) Financial Review: Unmatched Disbursements
SIGIR-6027

The overall objective of this audit is to determine the amount of IRRF unmatched disbursements and whether the U.S. government agencies have established adequate management controls over IRRF 1 and IRRF 2 unmatched disbursements. SIGIR intends to answer these questions:
• How much IRRF monies have been identified as unmatched disbursements?
• How often are unmatched disbursements reviewed by government officials, and who makes the determination that the disbursement was an IRRF expenditure?
• Have IRRF unmatched disbursements subsequently been identified to other IRRF projects?
• What management controls are in place to eliminate and resolve unmatched disbursements?

Review of Spending Under the USAID Bechtel Contract and the Recording and Reporting of Associated Costs
SIGIR-6028

The objective of this review is to determine, in detail, the costs incurred by the contractor in performing work under selected contracts with USAID for reconstruction projects in Iraq, as well as the methods used to record and report associated costs. SIGIR intends to answer these questions:
• What cost detail is contained in the invoices and supporting documentation that Bechtel submitted to the government?
• What costs did Bechtel incur in carrying out its contracted tasks, including material, labor, overhead, security, subcontracts, and all other costs?
• How many layers of subcontracts did Bechtel have in performing the contracted work?
• What types of contracts—firm fixed-price, cost plus, or other arrangement—were used for subcontracts?
• At each layer of subcontracting, what costs were billed to the next level of subcontractor?
• What administrative fees were charged by the contracting agency?

Review of Logistics Civil Augmentation Program (LOGCAP) Task Order 130
SIGIR-6029

This review was requested by the Office of the Chief of Mission, U.S. Embassy-Iraq. The overall objective is to determine whether the U.S. government is receiving the services paid for under Logistics Civil Augmentation Program (LOGCAP) Task Order 130 and whether the support provided is reasonable, effective, and cost-effective. Task Order 130 was awarded to provide services necessary to support, operate, and maintain Chief of Mission and MNF-I staffs at the U.S. Embassy-Iraq. SIGIR will review two service areas in particular:
(1) vehicle service and maintenance and (2) fuel procurement, delivery, and pricing. The audit will answer these questions:

- Are all requirements, including those initiated by the contractor, properly validated?
- Is a proper and adequate review process in place for all work?
- Does the contractor present auditable invoices?
- Is all work properly evaluated against criteria?
- Do proper controls exist for the property associated with this task order?
- What are the lessons learned from the management and execution of the service contract process and practices related to this task order?

In addition, SIGIR will assess the suitability of continuing a LOGCAP-type contract arrangement for selected services when the U.S. Embassy-Iraq moves into its new compound. For comparative purposes, SIGIR will look at similar services performed, associated costs incurred, and which U.S. government agencies were responsible for each area under previous LOGCAP contracts, as well as similar life-support services provided under other contracts in Iraq.

Lessons Learned from Management and Organizational Challenges of the Iraq Relief and Reconstruction Fund
SIGIR-6032

This continues the SIGIR review (SIGIR-6012) on how roles and responsibilities have been assigned for the management of IRRF. This study will identify leading practices that may be used to guide future multi-organizational interaction for managing similar relief and reconstruction initiatives. The objective of this study is to answer these questions:

- What is the ideal structure of the Reconstruction Management Office, in terms of roles and responsibilities, as it goes from training and planning to support deployment, pre-deployment actions, actual deployment, and re-deployment?
- What should the skill set of the organization be as it goes through these phases?
- What is the ideal size during each of these phases and most especially during the full deployment phase?

Controls over U.S. Government Property in the Possession of USAID Contactor Bechtel National, Inc.
SIGIR-6033

The objective of the audit will be to determine whether USAID established and implemented controls over government property provided to or acquired by Bechtel or its subcontractors for reconstruction projects in Iraq, under Contract No. SPU-C-00-04-00001. Specifically, SIGIR will answer these questions:

- Are the properties being accurately documented, including all necessary procedures to track the item from the purchase authorization to disposal?
- Are the properties being accurately inventoried and safeguarded?
• Are the properties being controlled and disposed of in accordance with relevant regulations?

Review of Major U.S. Contractors’ Security Costs Related to Iraq Relief and Reconstruction Fund (IRRF) Contracting Activities
SIGIR-6034

These are the objectives of this review:
1. Determine the extent to which the design-build contractors (or other large contractors) have identified, captured, and reported the security costs of their IRRF contracting activities.
2. Determine the impacts of these security costs in relation to the overall original project estimates. Security costs include Personal Security Details; construction site protection (guards, security equipment, and improvements); living area protection (guards, security weapons/equipment, and improvements); security to support convoy or other types of travel; and security-related intelligence.

To meet these objectives, SIGIR requested from select contractors the answers to these questions:
• What total amount of IRRF contract dollars disbursed to you was spent on security costs?
• What percentage of total IRRF funds disbursed to you comprises the prime’s security costs?
• What are the initial and subsequent revisions to the projected security costs of your IRRF contracting activities?
• How and when did the magnitude of these costs become evident, and what were the significant causal or contributing factors?
• What method(s) of record-keeping was used for capturing and differentiating between the types of security required, such as personal security details (PSDs), site, perimeter, convoy/material movement, etc.?
• What is the breakdown, by category (billed, charged, estimated) of both the direct and indirect security costs of your IRRF contracting activities?
• Are there any additional security cost increases from subcontractor work?

SIGIR-6035

The overall objective of this review is to assess whether U.S. government organizations have plans and programs in place for capacity development in the Iraqi government. SIGIR is coordinating this review with GAO to answer these questions:
• Have DoS, USAID, or any other U.S. or coalition government organization assessed the competency of the responsible Iraqi ministries for the long-term management of essential government functions?
• What are the plans of U.S. government organizations to address identified shortcomings, and how is the U.S. government working with other international institutions to coordinate solutions?
• What performance indicators or metrics will be used to measure progress, and who is responsible for measuring progress?
• Have U.S. government organizations identified adequate funding or developed plans in concert with other international donors for carrying out capacity development programs in future years?

Final Audit Report on Improper Obligations Using the Iraq Relief and Reconstruction Fund (IRRF 2)
SIGIR-6036

The objective of this final report is to identify lessons learned and issues associated with funding contingencies related to construction contracts.

Review of the Commander’s Emergency Response Program (CERP) for Fiscal Year 2006
SIGIR-6037

This review will determine:
• What controls are in place to ensure the accountability of CERP funds and project records?
• Were CERP funds used for intended and authorized purposes?
• What is the status of coordination of the CERP with other reconstruction funds and programs, particularly for reconstruction projects with strategic value, for FY 2006?
• How do commanders plan forced sustainment by the local Iraqi government for completed CERP projects?

Planned Audits
SIGIR will conduct performance audits that assess the economy, efficiency, effectiveness, and results of Iraq reconstruction programs and operations as necessary. These audits will be accomplished through individual audit projects of specific issues, as well as an audit series that will evaluate several components of related topics. Each of these audits will be announced before the start of any audit field work. For the full text of the audit plan, see the SIGIR website: http://www.sigir.mil/.

These audits are planned to be announced during the next quarter:
• Review of Federal Civilian Personnel Staffing Requirements for the Management and Execution of IRRF (IRMO)
• Cost-to-Complete Follow-up and Use of the Project Assessment Report
• Comparative Analysis of Air Force Center for Environmental Excellence Versus Gulf Region Division in IRRF (Project Management and Contracting)
• Review of the Use of Sector Project and Contracting Office Contractors (SPCOC) in Managing IRRF Programs and Projects
• Survey of the INL IRRF Programs and Projects for Iraq
• Review of the Accuracy of IRRF Financial Reporting
• Where did the Money Go? Trickle Down Series
• Property Accountability Series—High-risk Property
SIGIR INSPECTIONS

During this quarter, SIGIR visited, assessed, and reported on nine construction projects across Iraq, yielding a variety of results. SIGIR found several high-quality projects that had good contractor quality control (QC) and sufficient U.S. government quality assurance (QA) programs in place. In other cases, however, SIGIR found serious construction shortfalls that stemmed from insufficient oversight and inadequate contractor performance. Recurrent construction problems at various projects included deficient concrete pours and substandard plumbing installation. Security also continued to be an impediment to both oversight and construction. Safety concerns at several sites prevented SIGIR assessment teams from conducting full assessments.

SIGIR’s presence across Iraq continues to exercise a positive effect on reconstruction efforts. For example, SIGIR’s Quick Reaction Report on the Baghdad Police Academy, which SIGIR conducted after receiving complaints about substandard construction work at the site, prompted rapid responses to remediate the problems by both the U.S. government and contractors. As of October 2006, SIGIR has completed 65 project assessments, 96 limited on-site inspections, and 220 aerial assessments.

Project Assessments: Findings at a Glance

Al Karkh Courthouse ($2.23 million)
- The SIGIR assessment team could not visit the site because of security concerns; therefore, the assessment was based on contract files, oversight reports, and satellite imagery reviewed by SIGIR imagery analysts.
- The project was sufficiently well-designed by the contractor and will meet objectives.
- The contractor QC plan appeared adequate.
- The U.S. government QA plan appeared adequate.
- The project results to date indicate that the project will meet task order objectives.

Thi-Qar Village Roads Segment 3 ($1.44 million)
- The design provided by the contractor was sufficient to achieve project goals.
- The site construction was consistent with the intent of the project. However, security conditions prevented the SIGIR assessment team from visiting the project site to inspect the roads. Therefore, the assessment was based on contract file information provided by management and on a SIGIR and imagery review of information provided by the National Geospatial-Intelligence Agency (NGA).
- The contractor did not submit a QC plan; however, the U.S. government QA program adequately ensured that the lack of a contractor QC plan did not have a negative impact on the project’s successful completion.
- The project met original contract objectives.
Critical Care Unit, Ibn Al Bitar Hospital ($0.58 million)
• The contractor’s design and construction work was sufficient.
• The contractor’s QC plan was not sufficiently detailed to effectively guide the contractor’s Quality Management (QM) program.
• The U.S. government QA program effectively monitored the contractor’s QC program.
• The project, when completed, should be consistent with the contract objectives.

Baghdad Municipal Solid Waste Landfill ($28.8 million)
• The project components were adequately designed before construction.
• In the vehicle maintenance building, SIGIR noted deficiencies with the electrical generator, electrical wiring, and building exterior.
• The project results should be consistent with the original contract objectives.
• At a site visit in June 2006, SIGIR determined that the landfill was not being used because of security issues in the area; however, a plan to secure the area and use the landfill was being implemented.

Al Kut Training Academy ($22.9 million)
• With one significant exception, all major components reviewed during this limited scope assessment were sufficiently designed to construct a fully operational training academy. The exception was the newly constructed septic/sewer system, which could not handle the volume of water directed to it.
• The construction and rehabilitation of the facility appeared to meet the standards of the design, except for construction of some wastewater piping, concrete work, and other areas of construction workmanship.
• QM practices were not completely effective during critical periods of construction because the contractor did not implement a deficiency tracking system to ensure that construction deficiencies were identified, tracked, and corrected in a timely manner.
• The facility was being used for its intended purpose of training Iraqi military and law enforcement personnel.

Ninewa Provincial Police Headquarters ($1.0 million)
• The design and specification of components before installation and construction were minimally adequate.
• Construction and rehabilitation did not meet design standards or specifications because the contractor did not demonstrate professional quality craftsmanship on construction and completed repair work.
• The contractor’s QC program and the government’s QA program were not effective.
• Project results were not consistent with the original objective to repair and reconstruct the facility. Numerous required work items were not carried out by the contractor, and finished work was often substandard.
Bab Eshtar Substation—11 kV Feeder Cable ($1.22 million)
- The project components were adequately designed before construction and installation.
- Construction work complied with the design standards.
- The contractor’s QC and the government’s QA programs were adequate.
- When completed, the project should meet its intended objective to supply, install, test, and place in service a 12 x 11 kV underground cable feeder to the Bab Eshtar substation.

Baghdad Police College ($94 million)
SIGIR identified construction deficiencies that required prompt attention and separate reporting:
- Improperly fabricated wastewater plumbing within the student barracks could potentially result in the reduced load-carrying capacity of the structural slabs, as well as environmental and health hazards to the students, instructors, and workers.
- The extent of potential hazards must be determined before any further work is performed on the facility.

Planning
SIGIR selected a cross-section from each of the major reconstruction sectors to assess, survey, and analyze:
- projects involving water, electricity, oil facilities, and transportation
- projects involving large and small contract amounts
- projects of different general contractors
- projects in different sections of the country
- projects in programs of each of the major U.S. agencies
- projects that were fully completed and partly completed

On-site Project Assessment Program Approach
Since June 2005, SIGIR has completed 65 project assessments—9 during this quarter. These were the general objectives of the project assessments:
- Were project components adequately designed before construction or installation?
- Did construction or rehabilitation adequately meet the standards of the design?
- Were the contractor’s QC plan and the government’s QA program adequately carried out?
- Were project sustainability and operational effectiveness adequately addressed?
- Were project results consistent with the original objective?

Table 3-4 lists project assessments completed this quarter. For a complete list of project assessments from previous quarters, see Appendix I. Figure 3-1 shows the approximate location of each project.
NINE PROJECTS ASSESSED THIS QUARTER (Dollars in thousands)

<table>
<thead>
<tr>
<th>PCO ID</th>
<th>Project Name</th>
<th>Governorate</th>
<th>Budgeted Total Cost</th>
<th>Executing Agency</th>
<th>Contractor</th>
<th>GRD Region</th>
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</thead>
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<tr>
<td>16104</td>
<td>Al Karkh Courthouse—Baghdad</td>
<td>Baghdad</td>
<td>$2,230</td>
<td>GRD</td>
<td>Foreign</td>
<td>Central</td>
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<tr>
<td>17867</td>
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<td>Nasiriyah</td>
<td>$1,440</td>
<td>GRD</td>
<td>Foreign</td>
<td>South</td>
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<tr>
<td>NA</td>
<td>Ibn Al Bitar Hospital—Critical Care Unit</td>
<td>Baghdad</td>
<td>$580</td>
<td>GRD</td>
<td>Foreign</td>
<td>Central</td>
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<td>Baghdad</td>
<td>$28,800</td>
<td>GRD</td>
<td>Fluor-Amec, LLC</td>
<td>Central</td>
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<td>$23,000</td>
<td>GRD</td>
<td>ECCI</td>
<td>North</td>
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<td>NA</td>
<td>Ninewa Provincial Police Headquarters</td>
<td>Mosul</td>
<td>$1,000</td>
<td>GRD</td>
<td>Foreign</td>
<td>North</td>
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<tr>
<td>NA</td>
<td>Bab Eshtar Substation-11 kV Cable Feeder</td>
<td>Mosul</td>
<td>$1,220</td>
<td>GRD</td>
<td>Foreign</td>
<td>North</td>
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<tr>
<td>NA</td>
<td>Baghdad Police College (Academy) (2 projects)</td>
<td>Baghdad</td>
<td>$94,000</td>
<td>GRD</td>
<td>Parsons</td>
<td>Central</td>
</tr>
</tbody>
</table>

Table 3-4

PROJECT ASSESSMENTS

Figure 3-1: APPROXIMATE LOCATIONS OF THE 65 PROJECTS WHERE INSPECTIONS WERE CONDUCTED, ANALYZED, AND REPORTED TO DATE
SIGIR Project Assessments
Al Karkh Courthouse, Baghdad, Iraq
SIGIR-PA-06-058

The objective of the Al Karkh Courthouse project was to construct and secure a court facility to support implementation of the rule of law in Iraq. This project was constructed under a design-build contract and funded at $2,333,582. The courthouse is in the northwestern part of Baghdad in a previously open agricultural area. Based on the design provided by the U.S. Army Corps of Engineers (USACE), the Al Karkh Courthouse project included construction of these buildings and facilities:

- perimeter wall
- checkpoints
- internal roads and parking areas
- courthouse building
- electrical transformer vault building and emergency electrical generators
- maintenance/water storage building
- cafeterias
- exterior bathrooms
- kiosks
- landscaping and gardens

In addition to these facilities, the courthouse complex contained an annex building that was being constructed concurrently with the courthouse project. However, the annex project was a separate requirement under a different task order and not part of the scope of SIGIR’s assessment.

At the time of the SIGIR assessment, the project was reported as 92% complete. Remaining work included the completion of construction on the courthouse building, as well as other buildings in the complex (maintenance/water storage, cafeteria, etc). Other required work items—including landscaping and final paving—were not yet accomplished. Remaining work also included the requirements for additional security features at the courthouse building. The compound’s utility systems (water, sewer, and electric) also needed to be connected to the municipal systems.

What We Found
The SIGIR evaluation was based on a review of the contract file documentation, including QA reports, progress photos, and interviews of USACE Resident Office personnel and GRD-PCO staff. In addition, SIGIR’s imagery specialists analyzed commercially available satellite imagery of the courthouse site to independently verify the construction progress (Aerial Images 1 and 2). A site assessment team did not visit the location because SIGIR was advised that doing so would have endangered those working at the site.

SIGIR found that construction from project start though July 3, 2006, appeared to meet the requirements of the design. The workmanship was adequate to construct the courthouse complex buildings and other facilities. SIGIR raised concerns about the ceramic tile installation practices and the quality of the water circulation pumps. However, project documentation
indicated when the problems in workmanship occurred. USACE Resident Office staff identified deficiencies and managed the contractor’s corrective actions.

**Sustainability**
The contract specifications required the contractor to provide and certify warranties in the name of the appropriate ministry for all equipment—including any mechanical, electrical, and electronic devices—and all operations for 12 months after issuance of the taking-over certificate. The contractor was to provide:

- any other commonly offered extended warranties for equipment and machinery purchased
- two sets of complete operation and maintenance manuals, including all generator and equipment information, electrical single-line diagrams, schematics, and maintenance information
- technical training from the system manufacturer for up to ten personnel
- spare repair parts, as recommended by the system manufacturer, for one complete year of operation

The contractor was to complete all inspection and commissioning requirements before the final inspection.

No recommendations were included in the project assessment report, and USACE concurred with SIGIR’s findings.

**Thi-Qar Village Roads Segment 3,**
**Thi-Qar, Iraq**
SIGIR PA-06-059

The project objective of the Thi-Qar Village Roads Segment 3 project was to construct a 7.1-km paved village road in the governorate of Thi-Qar for everyday use by the local population. The 170-day project was contracted at $1,441,858. The project was completed on July 26, 2005. At the time of the SIGIR assessment, in April 2006, security conditions prevented the team from visiting the project site to observe the completed roadway.
What We Found

Based on the SIGIR assessment team’s review of the contract file, a summary of information received from NGA, and interviews with the USACE staff, SIGIR found that the construction appeared to be consistent with the intent of the project. The government QA program effectively monitored the project quality.

The contract documentation provided to the assessment team did not include a QC plan, QC reports, or deficiency logs. However, the USACE Area Engineer’s appraisal evaluated the overall quality of workmanship as above average.

The USACE Resident Office had dispatched a Quality Assurance Representative (QAR)—a local Iraqi national—to the project site to inspect the Thi-Qar Village Road and to take pictures showing current conditions. SIGIR’s assessment team reviewed the photos (Site Photos 1 and 2). Minor discrepancies noted during the inspection process do not appear to have adversely affected the overall condition of the road. The summary prepared by NGA stated that the Thi-Qar Village Road Project “was completed according to contract specifications. The original road was constructed from an unpaved, loose gravel route that paralleled a canal. Aggregate was probably added to the road’s surface and the canal bank. The road was paved, and several small foot bridges that span the canal were constructed. The southernmost section of the Thi-Qar Village road was improved most by the project. Before construction, it was not able to support vehicular traffic because of erosion and neglect.”

No recommendations were included in the project assessment report, and USACE concurred with SIGIR’s findings.

Critical Care Unit, Ibn Al Bitar Hospital, Baghdad, Iraq
SIGIR PA-06-066

The objective of the project was to design and construct the Critical Care Unit (CCU) at Ibn
Al Bitar Cardiac Hospital because the original facility had been looted and burned down. USACE executed a firm fixed-price, design-and-construct contract for the facility, and the contract was awarded to a local Iraqi firm for $579,285. The hospital is in an urbanized area of Baghdad.

**What We Found**

Although the original scope of work required a two-story building, the Bill of Quantities (BOQ) in the original contract did not plan for enough material to complete the work required for a two-story CCU building. Further, there were not enough funds to provide construction material to complete the building’s first floor (the second story). Therefore, with input from the Director General of the Ibn Al Bitar Hospital, the USACE Resident Office negotiated an agreement with the contractor to use the available funds to completely construct the ground floor and only a shell for the first floor (structural concrete frame, including the roof, Site Photo 3). Further, the telephone and oxygen piping systems were removed from the scope. In addition, the central HVAC system was replaced by individual room HVAC units.

Based on a review of USACE QA reports, construction photos, and a visit to the site, SIGIR found that the work completed to date appeared to be consistent with the standards of the contract design. The USACE Deputy Resident Engineer and staff capably managed the project. As a result, the Ibn Al Bitar Cardiac Hospital should receive a new and functional Critical Care Unit.

The contractor’s QC plan was not sufficiently detailed to effectively guide the contractor’s QM program. However, the contractor submitted daily QC reports with information on work accomplished each day, specifying the location, activity, test results,
deficiencies and corrective actions, equipment used, and material received on site.

The government QA program was effective in monitoring the contractor’s QC program. The QAR prepared daily QA reports about the project to document construction progress and to highlight deficiencies, including detailed photographs to support the narrative. The USACE QAR did not maintain a continuous QA deficiency log, but deficiencies were documented in daily non-conformance logs and in the QA reports. Further, the QAR and District Resident Engineer (DRE) ensured that the deficiencies cited during QA inspections were corrected.

**Sustainability**
A review of the contract file and discussions with the USACE DRE disclosed no sustainability issues associated with the project. The contract required the contractor to warrant its equipment, material, design furnished, and workmanship, for one year from the date of acceptance. There is an additional requirement for on-the-job training for operations and maintenance of the fire-alarm and water systems, including the water heaters, water softener, and pumps.

No recommendations were included in the project assessment report, and USACE concurred with SIGIR’s findings.

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**Baghdad Municipal Solid Waste Landfill, Baghdad, Iraq**
SIGIR PA-06-067

The objective of the Baghdad Landfill project was to design and construct a regional municipal solid waste (MSW) landfill for Baghdad. An ancillary objective was to make maximum use of subcontractors, suppliers, craftsmen, and laborers in the local area to maximize rapid employment opportunities for local Iraqis.

The Baghdad Municipal Solid Waste Landfill was constructed under a design-build, indefinite-delivery/indefinite-quantity contract with a $600 million ceiling. The contract required the design, construction, equipment procurement, commissioning, initial operations, and training for a solid waste landfill. The project was funded with an allocation from the DFI, with total funding at $28,849,930. At the time of SIGIR’s assessment, the project was reported in the July 7, 2006 USACE-PCO database as 100% complete.

**What We Found**
The MSW landfill construction project involved approximately 24 acres on the eastern part of the site. The MSW landfill site components visible for inspection included the geomembrane liner system, a drainage layer, a perimeter berm, and a leachate collection system. The geomembrane liner and geotextile cover were in place in every part of the 24-acre section (Site Photo 4). However, on approximately 25% of the section in the northeast quadrant, the gravel base and sand cover had
not been spread over the liner and geotextile protective cover. Many sections of the geotextile fabric in the uncovered part of the MSW landfill needed to be seamed.

The drainage layer of sand over gravel is supported by a compacted cohesive soil subgrade. The geomembrane liner and the geotextile cover lie between the subgrade layer and the gravel. The drainage layer was in place on approximately 75% of the 24-acre MSW landfill. SIGIR could not verify thicknesses of the sand layer and gravel layer, but the surface of the sand layer appeared to be graded and finished in accordance with the design (Site Photo 5).

The perimeter berm around the MSW landfill comprised an embankment of various heights constructed with a horizontal to vertical slope. SIGIR observed the berm in place along the perimeter of the MSW landfill. In the unfinished areas of the landfill, the liner along the inside of the berm will require remedial work to ensure that it is placed and anchored properly (Site Photo 6).

As designed, the leachate generated within the landfill, when operational, will percolate through the sand-gravel drainage layer to the liner. The landfill floor and overlaying liner is sloped so that the leachate will drain into a collection trench. SIGIR also inspected the four leachate collection pump stations—the
exposed features of the pump stations (concrete housing, access cover, ventilation pipe, etc.) appeared to be constructed as designed.

The Baghdad MSW Landfill Facility was substantially complete in November 2005. However, the project was closed out before completion because security issues presented a health threat and security risk to coalition forces and Iraqis working at the site. The landfill site is in an area of recurring violence. The contractor reported that since the beginning of earthwork construction, the project site had been the scene of vandalism, violence, extortion, kidnappings, and the death of subcontractor personnel.

Additionally, the contractor’s workers at the landfill site were subject to indirect and direct fire, as well as threats and warnings not to work on the landfill project. Because of the security issues, the contractor filed a claim for the escalating costs on the previously negotiated material and labor agreements. In November 2005, the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) settled the claim for approximately $2.4 million.

Because of funding limitations, increasing costs, and the degraded security situation, JCC-I/A directed the contractor to complete all work on the project no later than October 31, 2005. When construction ended at the landfill site, approximately 25% of the MSW landfill’s liner still needed to be covered with the sand-gravel drainage layer.

**Sustainability**

The contract design package included the operations and maintenance (O&M) manuals for the day-to-day operation of the landfill and...
for the leachate collection system pumps. The contractor was required to submit a training plan to accommodate the required number of staff to manage and operate the landfill and to provide at least one full-time person for at least two months of on-site training and supervision. The contractor provided training materials, including two study guides.

Since construction ended and the contractor demobilized, the landfill has not been used. According to one U.S. Embassy Military Liaison Officer to the Amanat, the public works directorate for the city of Baghdad:

Ongoing security incidents—ranging from IED emplacement, murder of Amanat sewer staff at the adjacent Al Kerih WWTP, small arms and mortar attacks, and the intimidation of WWTP and landfill workers—have prevented the local Iraqi government from commissioning these two key infrastructure sites (Al Kerih WWTP and the landfill facility) supporting public health/security within the city of Baghdad.

As a result, the Baghdad MSW landfill remains vacant. However, there is a plan to reactivate the landfill and promote its usage. According to the U.S. Military Liaison to the Iraqi Municipal Government, coalition forces are coordinating with the U.S. Agency for International Development (USAID) to establish a management staff with the local government. Implementation of the plan is ongoing, and the local government started using the landfill for trash disposal on August 13, 2006. Full implementation, with trucks hauling solid waste to the landfill, is projected for November 2007.

No recommendations were included in the project assessment report, and USACE-GRD concurred with SIGIR’s findings.

Al Kut Training Academy, Al Kut, Iraq
SIGIR PA-06-069

The initial objective of the Al Kut Training Academy project was to plan, construct, and renovate a complete, secure training academy—including perimeter walls, barracks, office space, classrooms, a dining facility, fencing, firing ranges, a laundry, and a physical conditioning field for Iraqi security and safety forces. Subsequently, the project’s objective expanded to include training facilities, housing, classrooms, offices, dining facilities, a clinic, a gymnasium, a warehouse, a laundry, and other support facilities for the cadets and instructors of the Iraqi Police (IP), Department of Border Enforcement (DBE), and for the Iraqi National Guard (ING).

The Al Kut Training Academy facility is approximately 180 km southeast of Baghdad and across the Tigris River from the city of Al Kut. The training academy was to be constructed on a small part of an old Iraqi military base. Currently, the base is used by MNF-I coalition forces. The construction site is secure within the guarded perimeter of the existing MNF-I base. The flat site, with some existing structures and road access, posed no significant obstacles to construction.

Before construction, structures at the project location included a number of deteriorated masonry buildings, dining facilities, and
a gymnasium. Although looted and vandalized, the existing structures were evaluated and considered structurally sound. Suitable electrical, water, and wastewater systems were not available on site. Therefore, the contract requirements included the design and installation of electrical, water, and wastewater systems.

**What We Found**

On July 3-4, 2006, SIGIR’s assessment team conducted on-site inspections of the Al Kut Training Academy. At the time of the site visits, construction and facility functionality was almost complete. The facility was in use for the intended purpose of training IP, ING, and DBE personnel. All of the buildings were constructed. However, a major barracks building was not in use because of significant subcontractor work activities to repair damages that resulted from previous construction deficiencies. Although the utility systems were operating, plans to correct deficiencies in the wastewater and electrical systems were in progress at the time of the site visit.

Construction deficiencies were not identified during initial construction because the contractor did not implement an effective deficiency-tracking system during critical periods of construction from May 1 to August 31, 2005. At the same time, government QA personnel did not effectively interact with contractor personnel to ensure effective quality management. During this timeframe, the project completion grew from 25% to 97%.

As a result, latent construction deficiencies that were not evident when accepted by the government subsequently turned into much larger rework issues. In addition, SIGIR observed many examples of substandard workmanship quality during the site visit; some have the potential to become significant rework or safety issues in the future. Included in this summary are the more significant observations.

The design and installation of the septic tanks system were inadequate to support the population of the academy. There was no requirement for a drain field in the original design, which depended on pump trucks to remove any excess effluent. Insufficient soil drainage, limited pump truck capacity, and a daily water volume input that exceeded septic tank capacity contributed to the problem, resulting in substantial overflow of wastewater from the septic system and pooled on academy grounds (Site Photo 7).

Dormitories accepted by the government on August 31, 2005, and December 9, 2005, required extensive rework of the bathrooms to correct defective plumbing construction that should have been detected, monitored, and corrected during construction (Site Photo 8). Specifically, the connections between the smaller-diameter feeder drain lines and the larger-diameter main drain line system were

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*Site Photo 7. Standing wastewater pooled on academy grounds. (Photo courtesy of ECCI)
not water-tight because positive connection (glued or threaded) reducers and fittings were not used until the deficiencies were corrected. When corrected, the contractor improved the plumbing design and upgraded the materials (Site Photo 9).

While on site, the assessment team observed several concrete issues. For example, a section of roadway was poured with no hydration until much later in the day. July afternoon temperatures at Al Kut often exceed 110 degrees Fahrenheit. In addition, the concrete was not cast to the full thickness of the roadway along the long edge of the casting. Rather, the fresh concrete was layered unevenly over the existing roadway. Several meters away on the same road, a SIGIR inspector pulled up several pieces of cured cement by hand (Site Photo 10). In addition, concrete patchwork was often cast too thin or placed unevenly (Site Photo 11).

The assessment team observed horizontal fractures that ran almost the entire perimeter of the newly constructed middle and eastern barracks building foundations (Site Photos 12 and 13). Although not as obvious, similar horizontal fissures were observed on the second floors of the dormitories.

During the assessment, the contractor’s Project Manager confirmed that concrete placement was conducted using small batches mixed by hand. Small hand-batch mixing and improper joining techniques could have contributed to the horizontal fractures and other concrete issues observed: the numerous small batches mixed by hand were not consistent. For expediency, each small batch was not subjected to a slump test.

Although the capacity of the electrical generators installed proved to be insufficient, the contractor was in the process of supplementing generator capacity at the time of the site visit. Specifically, an additional 1.0-MW generator was on order and pending delivery to ensure sufficient power capacity and increased emer-
Site Photo 10. Weak and crumbly concrete piece pulled from roadway by hand.

Site Photo 11. Substandard patchwork in Academy HQ sidewalk.

Site Photo 12. Horizontal fracturing along foundation of Middle Barracks.

Site Photo 13. Close-up of the horizontal foundation fracture in the East Barracks.
gency or standby capability for the IP area. In addition, a 400-KW generator for the ING area was on-site and pending commissioning.

**Sustainability**
The U.S. government planned to turn over operations of the facility to the Iraqi government after project completion. The initial contract required a one-year construction warranty on all materials and workmanship for the buildings and facilities constructed or renovated. The task order required as-built drawings depicting buildings and footprints, O&M manuals in English and Arabic, manufacturer warranties, a preventive maintenance plan, and mechanical systems training and manuals. Although latent defects could become problematic, long-term sustainability will be enhanced by the government’s action to obtain an extended warranty coverage period to offset the effects of any latent defects.

The USACE concurred with SIGIR’s findings and is having the warranty extended to ensure that deficiencies are corrected.

**Ninewa Provincial Police Headquarters, Mosul, Iraq**
SIGIR PA-06-072

The objective of the project was to repair and construct facilities at the Ninewa Provincial Police Headquarters. The facilities to be refurbished included a large, three-story masonry block structure, a two-story masonry block structure, an auditorium, and a pedestrian entry building. New construction concentrated on a visitor’s center and a large latrine and shower. Project requirements included design-build plans for new construction, repair, and refurbishment for existing facilities, as well as debris removal and general cleanup for the facility.

The Ninewa Provincial Police Headquarters project was funded for $988,178 through a firm fixed-price contract, awarded August 18, 2005, to a local Iraqi company by USACE.

**What We Found**
The construction or rehabilitation did not meet design standards or specifications because the contractor did not demonstrate professional-quality craftsmanship on construction and completed repair work. The contractor did not follow design criteria specified in the Statement of Work (SOW) and BOQ. SIGIR noted many defects and poor workmanship throughout the site; substantial rework and work will be necessary to correct defective workmanship or finish uncompleted tasks required by the SOW and BOQ.

For example, the contractor was required to construct a new shower/latrine facility attached to the guard company building, comprising 10 individual showers, 12 toilets, 10 urinals, 10 sinks, and a changing room. However, the contractor built only a small shed-size facility with just one shower, one toilet, one sink, and no changing room. If the contractor had built the shower/latrine in compliance with contract requirements, two trees would have required removal. Neither tree was removed. The first tree is shown to the far left of the photo, and the second tree is shown in the photo’s center.
Rather than removing the second tree, the contractor cast the latrine’s concrete roof around the tree (Site Photo 14). The new latrine was not only missing numerous requirements, but the finished construction was substandard.

Although the SOW and Statement of Requirements and Specifications (SORS) clearly required latrines/bathrooms and showers to have tiled and grouted walls from floor to ceiling, with new piping, fixtures, and faucets, the contractor’s performance was substandard in nearly all the bathrooms observed during SIGIR’s on-site visit. Generally, plastered walls and existing tile throughout the facility were merely painted over (Site Photos 15 and 16).

In addition to substandard construction issues throughout the facility, SIGIR found many instances of inadequate quantity of deliverables. For example, the contractor installed...
only two of six required split-unit air conditioner systems in the new reception center building (Site Photo 17).

Table 3-5 shows the status of air conditioner installation on the project. The contractor installed only 53 of 134 air conditioners.

On February 20, 2006, the contractor reported, “Today we operate generator with new wiring and connections.” However, the contractor merely delivered the generator—without starting or load-testing it (Site Photo 18). U.S. Army personnel familiar with the history of the generator attested that IP personnel placed the generator on a concrete pad and installed an old fuel-truck tank to supply the generator (Site Photos 19 and 20). At the time of the assessment team’s August 3, 2006 site visit, the generator was non-operational.

QM practices were not effective. The government’s QAR did not effectively engage the contractor’s QC personnel or effectively monitor project status throughout the life of the project. In addition, the contractor submitted vague QC reports that included very little detail related to specific tasks and locations, and none included accurate disclosure about completion percentages. SIGIR inspectors concluded that it was not prudent for the government’s QAR to rely on the contractor’s QC reports as a basis for monitoring the project. In short, the government’s QAR did not implement an effective system to detect deficiencies as they occurred and to monitor and initiate corrective action in a timely manner.

In November 2005, the contractor was paid 50% ($494,089) of the value of the fixed-price contract. USACE rejected the contractor’s March 10, 2006 invoice that demanded final payment because the contractor claimed all work was complete. To minimize harm to the government, an action to terminate the contract was pending at the time of the assessment team’s site visit on August 3, 2006. That action was based on USACE’s technical evaluation of work performed by the contractor. Based on the circumstances, contract termination was the most practical solution.

**Sustainability**

Project sustainability was adequately addressed by including sufficient repair and construction requirements in the contract’s SOW, BOQ, and SORS. The contract also required a one-year warranty on all construction. If all repair and construction work would have conformed to contract requirements, facility functionality and sustainability would have been much improved. However, non-conforming performance by the contractor will impact this project’s sustainability in years to come.

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<th>Air Conditioner (AC) Description</th>
<th>BOQ Requirements</th>
<th>Units Installed</th>
<th>Shortage</th>
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<tr>
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<td>28</td>
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<tr>
<td>24,000 BTU Split-type AC</td>
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<td>35</td>
<td>44</td>
</tr>
<tr>
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<td>12</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>134</strong></td>
<td><strong>53</strong></td>
<td><strong>81</strong></td>
</tr>
</tbody>
</table>

**TABLE 3-5**
Site Photo 17. Only two (left rear edge of rooftop) of six split-unit air conditioners required were installed in the new reception center.

Site Photo 18. Contractor delivered generator (bottom left), but never connected and load tested it.

Site Photo 19. Final site where generator was placed by Iraqi Police (IP).

Site Photo 20. Old fuel truck tank placed by IP to supply the generator.
Bab Eshtar Substation 11 kV Feeder Cable, Mosul, Iraq
SIGIR PA-06-073

The project objective was to provide a 12 x 11 kV underground cable feeder system comprising four buried cables for the newly constructed Bab Eshtar 33 kV/11 kV substation, a new addition to the local electrical network. The project was intended to physically install the underground cable feeder system to the new Bab Eshtar 33 kV/11 kV substation. Specifically, the cable was placed in an urban area along and across city streets. Trenching, installation, backfilling, and testing made up most of the requirements. Ministry of Electricity standards laid the groundwork for the entire process.

What We Found
Based on a review of documentation, discussions with USACE personnel familiar with the project, and a brief site visit, the assessment team found that the project was sufficiently planned, designed, and constructed by the contractor. In addition, the contractor’s QC and the U.S. government’s QA programs were effective. The government effectively adapted to security issues in the area by implementing procedures to use local nationals to perform on-site QA functions for the project.

The assessment team verified that the contractor used cable that met Ministry of Electricity standards. Specifically, the cable was an XLPE-insulated 11 kV 3 x 150 mm² cable supplied on rolls 503 meters long (Site Photo 21). Factory tags affixed to each roll documented cable specifications (Site Photo 22).

After the route of the cable was surveyed, the surface often required special equipment to break up hard surfaces common to an urban environment before trench excavation could proceed (Site Photos 23 and 24). The Ministry of Electricity required the
trench to be compacted and made free from stones, with a standard trench depth of 90 cm. The cable was to be placed in the trench on top of 10 cm of smooth sand to provide a cable bedding material (Site Photos 25 and 26).

Cables were spliced together using a shrinkable splice kit for 3 x 150 mm², 11 kV XLPE cable. This kit includes joining components and a shrinkable outer cover that tightened when heat was applied (Site Photos 27 and 28).

On July 30, 2006, SIGIR attempted a site visit, but all roads leading to the area with the latest construction activity were blocked. However, on July 31, 2006, the assessment team observed an open trench area at the edge of a city street along the route approved.
SIGIR OVERSIGHT

by the Ministry of Electricity. The assessment team observed an open trench, exposed cable, and tile and warning tape over covered cable, which correlated with the information and documentation provided by the Project Engineer.

**Sustainability**

The SIGIR engineer reviewed and evaluated sustainability coverage under the current contract for the Bab Eshtar substation 11 kV Feeder Cable project. Because the feeders are buried stationary cables, they offer a high degree of sustainability. Once the feeders have been successfully energized, they are designed to remain in place to carry power to the substation for many years.

USACE-GRD concurred with SIGIR’s findings. No recommendations were included in the project assessment report.

**Baghdad Police College, Baghdad, Iraq**

SIGIR PA-06-078.1 and SIGIR PA-06-079.1

The overall objective of the project was to design and construct a modern police training academy campus at the Baghdad Police College. The new campus is to include new and renovated barracks and training facilities, with an upgraded and new storm-water system, sanitary sewer collection system, potable water system, and electrical service distribution systems. Other improvements included new dining facilities, administrative offices, firing ranges, laundry, athletic and communication facilities, and an improved security perimeter.

The existing facility comprised a number of buildings, constructed approximately from 1935 to 1940, which were in various stages of decay (Site Photos 29 and 30). These buildings had the capacity to house and train approximately 1,200-1,500 cadets. The ultimate goal of the project was to house and train approximately 4,000 cadets.

**What We Found**

SIGIR identified construction deficiencies that required prompt attention and separate
reporting. Specifically, the improperly fabricated wastewater plumbing (Site Photo 31) in the student barracks could potentially result in reducing load-bearing capacity of the structural slabs and could pose environmental and health hazards to the students, instructors, and workers at the Baghdad Police College.

The extent of potential hazards needs to be determined before any future work at the Baghdad Police College. In an effort to quickly identify and correct the construction problems within the barracks, SIGIR issued a report documenting the deficiencies identified only in the barracks, the apparent cause, and potential recommendations and/or solutions. A separate assessment report will follow next quarter that will thoroughly assess the original objectives for the entire Baghdad Police College project.

During the site visit, the team immediately identified water damage and staining on the ceiling and walls of the ground floor (Site Photo 32).

Because of the inferior plumbing techniques, methods, and bonding materials used by the contractor to join the wastewater pipes, water, and other waste material continually drains from showers, wash basins, and toilets through the reinforced concrete floors—from the top floor to the second floor to the ground floor. Results include permeating, filling, and contaminating light fixtures, showers, and toilet areas with liquids, including diluted urine and fecal matter (Site Photo 33).

For example, SIGIR observed a light fixture so full of diluted urine and feces that it would not operate. In the second floor bathroom, the assessment team found evidence of large quantities of diluted urine dripping from the top floor through the ceiling. The urine was so pervasive that it had crystallized and permanently stained the ceiling tiles (Site Photo 34). During the SIGIR visit, a substance dripped from the ceiling onto an assessment team member’s shirt.

From SIGIR’s assessment and discussions with Baghdad Police College personnel, these appear to be the causes of the water damage:

- Floor drains are not adequately sealed to
Site Photo 33. Water damage from leaking ceiling.

Site Photo 34. Crystallized urine on ceiling tile.

Site Photo 35. Typical contractor-built wastewater pipe connection method.

Site Photo 36. Contract-specified wastewater pipe connection is shown on the lower left.
the floor surface and/or properly affixed to adjacent fittings with the proper adhesive or sealant, which causes water to drain outside rather than inside the drain collectors.

- Drains were assembled without the specified molded plastic fittings, which resulted in water and waste materials flowing from the collection trees through the improperly fabricated joints directly into the concrete floors. The contractor used pipes with holes that were hand-cut with secondary pipes inserted (Site Photo 35), rather than the appropriate type of pipe (Site Photo 36).

**Corrective Actions Taken by the Contractor**

As soon as the buildings started to leak from the top floor to the ground floor, the Director of the Baghdad Police College contacted the contractor. The contractor directed the subcontractor who performed the original work to correct the problem. The subcontractor is currently changing the pipes that contributed to the leaks. The subcontractor also plans to use the pipes with molded plastic fittings, such as the one identified in Site Photo 36, which should eliminate water and waste materials from flowing directly onto the concrete floors.

SIGIR recommended that all project-related work at the Baghdad Police College be assessed and appropriate remedial action be taken to provide assurance that project-related work is structurally sound and that no environmental or health hazards exist. Specifically, USACE should perform an assessment of all wastewater plumbing installations in all newly constructed buildings, both single- and multiple-storied. This assessment will determine whether similar methods of inadequate plumbing techniques were used in other project locations as were discovered in the cadet barrack buildings.

SIGIR’s second recommendation was to perform a critical technical study of the structural integrity and load-carrying capacity, as well as the potential environmental and health hazards posed by the rust, mold, and urine and fecal matter within the concrete floor slabs of the cadet buildings. GRD concurred with the conclusions and recommendations in the report.

The full assessment of the college is underway and will be reported in the next SIGIR Quarterly Report.

**Aerial Project Survey Program**

The SIGIR Satellite Imagery Group has continued contributing to the SIGIR mission by conducting aerial assessments of U.S.-funded reconstruction projects throughout Iraq. SIGIR imagery analysts provide information obtained through analyses to the project assessment teams in Iraq to help them evaluate project sites that are inaccessible because of security concerns or because they are remotely located. SIGIR also shares the information obtained through aerial assessments with the responsible U.S. government contracting officials in Iraq. The Satellite Imagery Group assists SIGIR with imagery for audits and investigations as needed.
NATIONAL GEOSPATIAL-INTELLIGENCE AGENCY SUPPORT
This quarter, SIGIR imagery analysts have continued working with NGA to provide imagery analysis of Iraqi reconstruction projects. To date, this continuing relationship has resulted in analysis of 76 sites and 6 road segments. This quarter, NGA completed analyses of 25 project sites and 1 road segment for SIGIR. NGA’s continued assistance provides an invaluable resource to SIGIR inspectors and proves essential in efficiently carrying out SIGIR’s mission in Iraq. These are some of NGA’s notable findings provided to SIGIR for the quarter:
- 19 sites appeared to be completed.
- 5 sites appeared to still be under construction.
- 1 border fort could not be located using the supplied coordinates.

The partnership of SIGIR and NGA combines greater resources to meet mission requirements. NGA’s assistance and knowledge base increases the number and depth of analysis of projects that can be reviewed and helps SIGIR provide a more accurate picture of Iraq’s reconstruction progress. Above is an example of the imagery provided by NGA.

SIGIR IMAGERY
This quarter, SIGIR imagery analysts completed 9 imagery assessments and created 22 imagery products using commercial satellite imagery and limited available contract information. This imagery provided visual assessments of progress at construction sites. SIGIR shares the imagery products with government contracting agencies to update their project information and to identify any obvious deficiencies. SIGIR assessed and reviewed these sites during the reporting period:

<table>
<thead>
<tr>
<th>Imagery Assessments</th>
<th>Imagery Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 clinics</td>
<td>6 hospitals/health clinics</td>
</tr>
<tr>
<td>2 garrison units</td>
<td>4 border posts</td>
</tr>
<tr>
<td>1 firing range</td>
<td>3 electrical substations</td>
</tr>
<tr>
<td>1 courthouse</td>
<td>2 water treatment facilities</td>
</tr>
<tr>
<td>1 landfill site</td>
<td>2 garrison units</td>
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<tr>
<td></td>
<td>1 landfill site</td>
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<tr>
<td></td>
<td>1 courthouse</td>
</tr>
<tr>
<td></td>
<td>1 firing range</td>
</tr>
<tr>
<td></td>
<td>1 road segment</td>
</tr>
<tr>
<td></td>
<td>1 gas generation facility</td>
</tr>
</tbody>
</table>
SIGIR Imagery Assessments

This quarter, SIGIR completed 9 imagery assessments based on satellite imagery and limited contract information. These assessments have been helpful in reviewing the accuracy of inspection reports, providing a visual assessment, and verifying project progress. Geo-coordinates and limited contract information are provided to the imagery analysts from contract databases and contract documents in Iraq. These are some of SIGIR’s notable findings from imagery assessments this quarter:

- 8 sites reviewed appeared to be functional, meeting project requirements.
- 1 site reviewed appeared to still be under construction.
- 5 sites could not be reviewed because of inaccurate coordinates.

These findings are provided to the responsible government agencies in Iraq that conduct further reviews of contract status and plan follow-up project assessments.

Imagery taken on March 19, 2005, shows the initial construction of the clinic in progress, with the building support beams visible. Imagery taken on May 15, 2006, shows what appears to be the completed clinic structure with vehicles in the parking lot. There are no visible indications that the project is incomplete or will not meet project requirements (Aerial Image 4).

On imagery taken on March 14, 2005, the only noticeable construction is the ground preparation of the Construction Debris Landfill portion of the Baghdad Landfill. Imagery from February 19, 2006, shows what appears to be a completed landfill. Structures visible as of

February 19, 2006, comprise the Administration and Truck Maintenance buildings. Also noted are the signs of activity in the first Landfill Cell area. There are no visual indicators that this project does not or will not meet mission requirements (Aerial Image 5).

**Imagery Products and Support**

This quarter, SIGIR has created imagery products of 22 different sites throughout Iraq. The imagery is used to create imagery assessments, build a visual record of project sites, and provide imagery to support SIGIR’s mission. Any visual deficiencies are reported after the imagery is reviewed.

The SIGIR Satellite Imagery Group has also provided imagery to support SIGIR’s audit and inspection missions during previous quarters. Imagery support products are used to prepare for site visits and to identify possible problems; these products include site overviews, project site break-outs, and site assessments. This quarter, the imagery team provided products that SIGIR inspection teams included in the Al Karkh Courthouse and the Baghdad MSW Landfill assessment reports. In partnership with the NGA during the past four quarters, SIGIR imagery analysis has resulted in the completion of 220 cumulative satellite imagery assessments and products, including 48 assessments and products completed this quarter.

Figure 3-2 shows the approximate locations of Aerial Imagery Assessments completed during this reporting quarter.

![Aerial Imagery Assessments](image)
SIGIR INVESTIGATIONS

SIGIR continues to field the largest number of U.S. criminal fraud investigators in Iraq, as it aggressively investigates a variety of cases alleging a broad range of potential wrongdoing.

During this quarter, SIGIR opened 20 new cases—including preliminary and criminal investigations—and closed 10 cases. To date, SIGIR has opened 256 preliminary and criminal cases and has either referred or unsubstantiated 164 of those cases.

• This quarter, two SIGIR investigative targets were convicted in federal court.
• SIGIR is in the process of formalizing a task force with six law enforcement partners to improve cooperation in the investigations of contract fraud and public corruption in Iraq.
• To concentrate federal law enforcement efforts in combating procurement fraud, the Department of Justice (DoJ) has forged a partnership with SIGIR, other inspector general offices, U.S. Attorney’s offices, the Federal Bureau of Investigation (FBI), and other law enforcement agencies to form a National Procurement Fraud Task Force.

In addition, SIGIR has 92 open preliminary and criminal investigations. Approximately half of SIGIR’s open investigations involve DFI funds. Twenty-five of those cases are at DoJ, and many are in the final stages of prosecution. Four cases have resulted in convictions and the defendants are currently pending sentence. Fifteen cases are the direct result of the Bloom/Stein conspiracy, in which convicted defendants—Philip Bloom and Robert Stein—conspired with several U.S. Army officers and other public officials to rig bids on federally funded contracts awarded by the Coalition Provisional Authority (CPA). As that conspiracy continues to unravel, SIGIR investigators are working closely with DoJ prosecutors to identify potential witnesses and persons of interest. For details of the conspiracy, see Appendix J.

SIGIR also recently presented two additional cases to DoJ that are not related to the Bloom/Stein conspiracy. SIGIR agents are currently investigating the remaining ten cases in cooperation with investigative partners.

International Contract Corruption Task Force

On October 2, 2006, SIGIR established the International Contract Corruption Task Force (ICCTF) in conjunction with a group of law enforcement agencies, thereby formalizing important partnerships to investigate and prosecute cases of contract fraud and public corruption related to Iraq reconstruction. These partnerships ensure that SIGIR criminal
investigations will continue effectively in the hands of other agencies after SIGIR is terminated as an organization. These participating agencies are:

- U.S. Agency for International Development, Office of the Inspector General
- U.S. Army Criminal Investigations Division, Major Procurement Fraud Unit
- Department of Defense Criminal Investigative Service
- Department of State Office of the Inspector General
- Federal Bureau of Investigation

The ICCTF is operating a Joint Operations Center at the SIGIR office in Arlington, Virginia. The Joint Operations Center promotes effective case coordination and uses the FBI’s criminal intelligence capabilities to strengthen leads developed in Baghdad.

**SIGIR Sting Undercover Operation Yields Conviction**

In March 2006, SIGIR investigators conducted a successful undercover sting operation that resulted in the arrest of an American contractor who offered a bribe to an Iraqi general and a SIGIR undercover agent. Defendant Faheem Salam, a U.S. civilian translator employed by a U.S. Army subcontractor working in Iraq, was arrested by SIGIR criminal investigators at Dulles International Airport on March 23, 2006, and charged with offering to bribe a foreign official. On August 4, 2006, Salam pled guilty to one count of a violation of the Foreign Corrupt Practices Act of 1997. His sentencing is set for November 3, 2006.

**Special Investigative Task Force for Iraq Reconstruction**

The Special Investigative Task Force for Iraq Reconstruction (SPITFIRE) continues to pursue joint investigative and prosecutorial efforts through the work of SIGIR and these partners:

- Department of Homeland Security, Immigration and Customs Enforcement
- Department of Treasury, Internal Revenue Service Criminal Investigations Division
- U.S. Army Major Procurement Fraud Unit, Criminal Investigations Division
- Department of State Office of the Inspector General
- Department of Justice Criminal Division, Bureau of Alcohol, Tobacco, Firearms, and Explosives
- Federal Bureau of Investigation

SPITFIRE is primarily used to coordinate resources to investigate the Bloom/Stein conspiracy and its spin-off cases. As reported in the SIGIR July 30, 2006 Quarterly Report, contractor Bloom and CPA regional comptroller Stein pled guilty that quarter to participating in a scheme to defraud the CPA of more than $8.6 million. Bloom faces up to 40 years in prison and a fine of $750,000. Under the terms of his plea agreement, Bloom must pay $3.6 million in restitution. Stein admitted stealing $2 million and taking bribes to award contracts to Bloom; Stein faces up to 30 years in prison. This quarter, the court set a sentencing date for Bloom of February 9, 2007, and for Stein of January 12, 2007.

LTC Bruce Hopfengardner, USAR, was convicted this quarter as part of the Bloom/Stein
conspiracy. The Army reservist conspired with Stein to direct millions of dollars in construction contracts to a company owned by Bloom. Hopfengardner also gave Bloom material information to ensure that Bloom’s company received the contracts.

On August 25, 2006, Hopfengardner pled guilty to two conspiracy charges in the scheme, including conspiracy to commit wire fraud and to launder funds. Hopfengardner also admitted to smuggling stolen currency into the United States when he returned from Iraq on leave in March 2004. He faces up to 20 years in prison, a 5-year term of supervised release, and a $500,000 fine.

Department of Justice National Procurement Fraud Initiative
On October 10, 2006, DoJ announced the launch of the National Procurement Fraud Initiative to promote the early detection, prevention, and prosecution of procurement fraud associated with the increase in contracting activity for national security and other government programs. To concentrate federal law enforcement efforts in combating procurement fraud, DoJ is joining SIGIR, other inspectors general, the U.S. Attorney, the FBI, and other law enforcement agencies to form a National Procurement Fraud Working Group. Furthermore, pursuant to the Conference Report accompanying the National Defense Authorization Act for FY 2007, the Attorney General will provide to Congress a written assessment of the level of resources dedicated by DoJ to the investigation and prosecution of alleged fraud cases arising out of contracting abuses in Iraq, Afghanistan, and GWOT.

Army Legal Service Agency’s Procurement Fraud Branch
Since December 2005, SIGIR has worked closely with DoJ, the Army Criminal Investigative Division, the Army Procurement Fraud Branch, and other agencies to suspend 15 individuals and companies involved in Iraq contracting as a result of criminal indictments. Also, the Procurement Fraud Branch has proposed 11 debarments to the Suspension and Debarment Official, resulting in 6 debarments of individuals and companies. Of these actions, one suspension and two proposed debarments occurred this quarter. One letter was sent asking a contractor to show cause why a proposal for debarment should not be made.
The SIGIR Hotline facilitates reporting of fraud, waste, abuse, mismanagement, and reprisal in all Iraq reconstruction programs funded by the U.S. taxpayer. SIGIR transfers to appropriate entities all cases received by the SIGIR Hotline that are not related to the IRRF or to programs and operations of the former Coalition Provisional Authority (CPA). The SIGIR Hotline receives walk-in, telephone, mail, fax, and online contacts from Iraq, the United States, and throughout the world.

Third Quarter Reporting
As of September 30, 2006, the SIGIR Hotline had initiated 523 Hotline cases, and 55 are currently open. A summary of these cases is provided in Table 3-6.

New Cases
During this reporting period, the SIGIR Hotline received 22 new complaints, which brings the cumulative total of Hotline cases to 523. The new complaints were classified in these categories:

- 12 involved fraud.
- 9 involved mismanagement.
- 1 involved miscellaneous/personnel issues.

The SIGIR Hotline receives most reports of perceived instances of fraud, waste, abuse, mismanagement, and reprisal by electronic mail. SIGIR's 22 new Hotline complaints were received from the following:

- 18 by electronic mail
- 2 by SIGIR Hotline phone calls
- 1 by mail
- 1 by fax
Closed Cases
During this quarter, 22 Hotline cases were closed:
• 10 were referred to other Inspector General agencies.
• 4 were dismissed for lack of sufficient information.
• 4 complaints were closed based on information received from SIGIR Investigations.
• 4 complaints were closed based on information received from SIGIR Audit.

Referred Complaints
After a thorough review, 10 complaints were referred to outside agencies for proper resolution:
• 7 were sent to the OIG, Multi-National Force-Iraq.
• 2 were sent to the OIG, Joint Contract Command-Iraq/Afghanistan.
• 1 was sent to the DoS OIG.
SIGIR LESSONS LEARNED INITIATIVE

SIGIR's Lessons Learned Initiative focuses on three areas of the U.S. relief and reconstruction program in Iraq:
- human capital management
- contracting and procurement
- program and project management

Through expert forums and research, this initiative has been identifying significant challenges facing the U.S. reconstruction mission in Iraq. SIGIR’s goal is to develop actionable recommendations for enhancing ongoing efforts in Iraq and to inform future U.S. reconstruction and stabilization operations.

Human Capital Report
In February 2006, SIGIR released *Iraq Reconstruction: Lessons in Human Capital Management*. The report is the product of SIGIR audits, other research, and a Lessons Learned forum held in September 2005 at Johns Hopkins University’s Washington, D.C. campus. The document identifies and discusses four key components of effective human resource management:
- policy alignment
- workforce planning
- recruitment
- continuity

The full report is available at the SIGIR website: [www.sigir.mil](http://www.sigir.mil).

Contracting and Procurement Report
In December 2005, SIGIR hosted two Lessons Learned forums to evaluate the procurement and contracting processes associated with Iraq reconstruction. The first panel—held at the George Washington School of Law in Washington, D.C.—gathered senior officials from key U.S. government agencies and distinguished members of the academic and independent research communities. SIGIR hosted a second panel of executives from a broad spectrum of industry service providers supporting the reconstruction mission in Iraq; this meeting was held at the Professional Services Council in Arlington, Virginia.

The SIGIR report, *Iraq Reconstruction: Lessons in Contracting and Procurement*, examines the establishment and evolution of the contracting process to identify challenges in planning, systems, policies, and procedures. SIGIR released this report on August 2, 2006, at a hearing of the Senate Committee on Homeland Security and Governmental Affairs. On September 28, 2006, the House Committee on Government Reform also conducted a hearing on this topic.

The full report is available at the SIGIR website: [www.sigir.mil](http://www.sigir.mil).
Program and Project Management Report

The third Lessons Learned report focuses on program and project management during the U.S.-led reconstruction mission, capturing the evolution of the key agencies tasked to oversee the effort. A forum of experts gathered on April 12, 2006, at the National Defense University in Washington, D.C., to discuss this issue and to provide recommendations for improving the U.S. government’s capacity to manage programs and projects in contingency environments. The panel included senior U.S. government officials, academics, and industry executives. SIGIR researchers are incorporating the panelists’ comments into the report and completing the final phase of research for this initiative. The final report, *Iraq Reconstruction: Lessons in Program and Project Management*, is expected to be released during the winter of 2006-2007.

Capping Report: The Story of Iraq Reconstruction

In keeping with SIGIR’s mandate from Congress—to provide recommendations that promote economy, efficiency, and effectiveness in the administration of reconstruction programs in Iraq—SIGIR is producing a cumulative account of these efforts, *The Story of Iraq Reconstruction*. This capping report draws together SIGIR’s quarterly reports to Congress, audits, inspections, investigations, interviews with key decision-makers, and SIGIR’s three reports on the lessons learned from Iraq reconstruction.

The United States, Iraq, and the international community have committed more than $94 billion to Iraq reconstruction; $38 billion comes directly from nine bills passed by Congress. *The Story of Iraq Reconstruction* will provide a narrative history of the planning and execution of this reconstruction, with a primary focus on the role of the Office of Reconstruction and Humanitarian Assistance (ORHA), CPA, USAID, DoD, and DoS. The report will begin with preparations for reconstruction in 2002, follow progress through 2006, and conclude with recommendations on how reconstruction efforts can be better carried out in the future. SIGIR will publish *The Story of Iraq Reconstruction* in summer 2007.
On October 17, 2006, the President signed the John Warner National Defense Authorization Act for FY 2007 (Public Law 109-364), which contains two provisions affecting SIGIR. One expands SIGIR’s authority to oversee all FY 2006 Iraq reconstruction funds beyond the IRRF. The other sets the SIGIR termination date as October 1, 2007. The accompanying conference report specifies that SIGIR and the inspectors general for DoS, DoD, and USAID must submit to Congress—by April 1, 2007—a plan for the transition of SIGIR’s oversight responsibilities to these IGs. This is the section of the act that pertains to SIGIR:

NATIONAL DEFENSE AUTHORIZATION ACT, FY 2007
SEC. [S1054]. MODIFICATION OF AUTHORITIES RELATING TO THE SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION.

(a) DUTIES—For purposes of carrying out the duties of the Special Inspector General for Iraq Reconstruction under section 3001(f) of the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004 (Public Law 108–106; 117 Stat. 1235 et seq.; 5 U.S.C. App., note to section 8G of Public Law 95–452), any United States funds appropriated or otherwise made available for fiscal year 2006 for the reconstruction of Iraq, irrespective of the designation of such funds, shall be deemed to be amounts appropriated or otherwise made available to the Iraq Relief and Reconstruction Fund.

(b) TERMINATION—Section 3001(o) of the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004 (Public Law 108–106; 117 Stat. 1238; 5 U.S.C. App., note to section 8G of Public Law 95–452) is amended to read as follows:

(o) TERMINATION—The Office of the Inspector General shall terminate on October 1, 2007, with transition operations authorized to continue through December 31, 2007.

The National Defense Authorization Act FY 2007 also contains language addressing issues that have been highlighted in SIGIR reports. Section 814 of the act directs DoD to issue guidance on linking contract award and incentive fees directly to acquisition outcomes. (In its July 2005 Quarterly Report, SIGIR issued an audit of award fees associated with Iraq reconstruction contracts.) The guidance shall cover elements including:

- linking award fees to acquisition outcomes, which will be defined in terms of program cost, schedule, and performance
- establishing standards to identify the level of officials authorized to approve award fees
- providing guidance on how performance is measured
- establishing the percentage of the available award fee
- ensuring that no award fee is paid for contractor performance deemed to be below satisfactory performance or not meeting the basic requirements of the contract

Section 854 of the act establishes a policy requirement for contingency program management and contingency contracting. This section directs the Secretary of Defense, in consultation with the Chairman of the Joint
Chiefs of Staff, to develop joint policies for contingency program management and contingency contracting during combat operations and post-conflict operations. The policy will, at a minimum, call for appropriately experienced individuals to lead each process, require a preplanned organizational approach to activities, identify a deployable pool of experts, and require appropriate training for personnel. These policies reflect action on several of the recommendations and lessons learned provided in SIGIR’s August 2006 report on Iraq contracting and procurement.

WEBSITE

During this reporting period, the SIGIR website (www.sigir.mil) recorded these activities:

- More than 500 users visited the SIGIR website per day, double the number of visitors from previous quarters.
- Most users were from within the United States (84%). The remaining 16% were from 140 different countries, mainly in Western Europe (6.30%), Asia (3.14%), and the Middle East (2.48%).
- The Arabic language section of the site received more than 750 visits.
- A significant percentage of visitors to the SIGIR website were from government agencies, most notably DoD and DoS.
- Users visited the SIGIR Reports section most often.
- The most frequently downloaded documents were the SIGIR July 2006 Report to Congress and the SIGIR Lessons Learned report, *Iraq Reconstruction: Lessons in Contracting and Procurement*. 
Other Agency Oversight

INTRODUCTION
OTHER AGENCY AUDITS
OTHER AGENCY INVESTIGATIONS
INTRODUCTION

The Special Inspector General for Iraq Reconstruction (SIGIR) formed the Iraq Accountability Working Group (IAWG) to coordinate U.S. audit efforts in Iraq. The forward-deployed audit staffs of the various federal agencies with audit presence in Iraq use the IAWG to coordinate audits, share Iraq relief and reconstruction data, minimize audit disruption to clients, and avoid duplicative efforts.

SIGIR also formed the Iraq Inspectors General Council (IIGC) in March 2004 to provide a forum for discussion of oversight in Iraq and to enhance collaboration and cooperation among the inspectors general of the agencies that oversee the Iraq Relief and Reconstruction Fund (IRRF). Representatives of member organizations meet quarterly to exchange details about current and planned audits, identify opportunities for collaboration, and minimize redundancies.

The most recent meeting was held on August 15, 2006, at the SIGIR office in Arlington, Virginia. The organizations in attendance included:

- Department of Defense Office of Inspector General (DoD OIG)
- Department of State Office of Inspector General (DoS OIG)
- U.S. Agency for International Development Office of Inspector General (USAID OIG)
- Government Accountability Office (GAO)
- Defense Contract Audit Agency (DCAA)
- U.S. Army Audit Agency (USAAA)
- Department of Commerce (DoC)
- Special Inspector General for Iraq Reconstruction

Each quarter, SIGIR requests updates from member organizations on their completed, ongoing, and planned oversight activities. This section summarizes the audits and investigations reported to SIGIR this quarter by DoD OIG, DoS OIG, USAID OIG, GAO, DCAA, USAAA, Treasury, DoC, the Defense Criminal Investigative Service (DCIS), and the Federal Bureau of Investigation (FBI).
This section updates the audits that IIGC member agencies reported to SIGIR:
• For recently completed oversight report activity, see Table 4-1.
• For ongoing oversight report activity of other U.S. agencies during this reporting period, see Table 4-2.

• For more information on other agency audits, including audit summaries, see Appendix K.
• For a complete historical list of audits and reviews on Iraq reconstruction by all entities, see Appendix L.
### Recently Completed Oversight Reports of Other U.S. Agencies, as of 9/30/2006

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<thead>
<tr>
<th>#</th>
<th>AGENCY</th>
<th>REPORT NUMBER</th>
<th>REPORT DATE</th>
<th>REPORT TITLE</th>
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<td>DoS</td>
<td>ISP-IQO-06-05</td>
<td>August 206</td>
<td>Survey of Anticorruption Program Embassy Baghdad, Iraq</td>
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<td>7</td>
<td>GAO</td>
<td>GAO-06-885T</td>
<td>July 18, 2006</td>
<td>Global War on Terrorism: Observations on Funding, Costs, and Future Commitments</td>
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<tr>
<td>10</td>
<td>GAO</td>
<td>GAO-06-1130T</td>
<td>September 28, 2006</td>
<td>Rebuilding Iraq: Continued Progress Requires Overcoming Contract Management Challenges</td>
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<tr>
<td>14</td>
<td>USAAA</td>
<td>A-2006-0246-ALL</td>
<td>September 27, 2006</td>
<td>Cost-effectiveness of Transitioning Task Order 66—Kuwait Naval Base Camp Support from Contingency to Sustainment Contracting, Audit of Logistics Civil Augmentation Program Operations in Support of Operation Iraqi Freedom—Phase II (Kuwait)</td>
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<tr>
<td>16</td>
<td>USAAA</td>
<td>A-2006-0254-ALL</td>
<td>September 29, 2006</td>
<td>Procedures for Transferring Property During the Base Closure Process in Support of Operation Iraqi Freedom—Phase II (Kuwait)</td>
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<td>17</td>
<td>USAID</td>
<td>E-267-06-003-P</td>
<td>July 10, 2006</td>
<td>Audit of USAID/Iraq's Local Governance Activities</td>
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<td>18</td>
<td>USAID</td>
<td>E-267-06-004-P</td>
<td>August 16, 2006</td>
<td>Audit of USAID’s Transition Initiatives in Iraq</td>
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Table 4-1
## Ongoing Oversight Activities of Other U.S. Agencies, as of September 30, 2006

<table>
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<tr>
<th>#</th>
<th>AGENCY</th>
<th>PROJECT NUMBER</th>
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<td>2</td>
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<td>Audit of Equipment Status of Deployed Forces within U.S. Central Command</td>
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<td>DoD</td>
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<td>Audit of Information Operations Activities in Southwest Asia</td>
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<td>March 31, 2006</td>
<td>Audit of the Management of Iraqi Security Forces Fund</td>
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<td>August 4, 2006</td>
<td>Audit of the Management of the Iraq Security Forces Fund–II</td>
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<td>Audit of the Joint Service Small Arms Program Related to the Availability, Maintainability, and Reliability of Small Arms to Support the Warfighter</td>
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<td>D2006-D000LQ-0254.000</td>
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<td>Audit of Potable and Nonpotable Water in Iraq</td>
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<td>8</td>
<td>DoD</td>
<td>D2006-D000LH-0246.000</td>
<td>August 30, 2006</td>
<td>Audit of the Inspection Process of the Army Reset Program for Ground Vehicles for Units Returning from Operation Iraqi Freedom</td>
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<td>DoD</td>
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<td>July 21, 2006</td>
<td>Audit of the Conditional Acceptance and Production of the Army Medium Tactical Vehicles in Support of the Global War on Terrorism</td>
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<tr>
<td>10</td>
<td>DoD</td>
<td>D2006-D000AE-0241.000</td>
<td>August 4, 2006</td>
<td>Audit of the DoD Use of GWOT Supplemental Funding Provided for Procurement and Research, Development, Test, and Evaluation</td>
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<tr>
<td>11</td>
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<td>D2006-D000FL-0208.000</td>
<td>May 23, 2006</td>
<td>Audit of Internal Controls over Out-of-country Payments</td>
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<td>12</td>
<td>DoD</td>
<td>D2006-D000CK-0210.000</td>
<td>May 15, 2006</td>
<td>Audit of Procurement Policy for Armored Vehicles</td>
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<td>13</td>
<td>DoD</td>
<td>D2005-D000FD-0300.000</td>
<td>September 15, 2005</td>
<td>Antideficiency Act Investigation of the Operation and Maintenance Appropriation Account 2142020 and 2152020</td>
</tr>
<tr>
<td>14</td>
<td>DoD</td>
<td>D2006-D000CK-0273.000</td>
<td>September 29, 2006</td>
<td>Audit Research on DoD Contracts Awarded to Parsons Corporation and its Subsidiaries</td>
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<tr>
<td>15</td>
<td>DoD</td>
<td>D2006-DIPOE3-0038.000</td>
<td>July 15, 2005</td>
<td>DoD OIG Support to the Iraqi Ministry of Defense OIG</td>
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<td>16</td>
<td>DoD</td>
<td>D2006-DIPOE3-0256.000</td>
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<td>Iraqi Anticorruption &amp; Principled Governance Initiative</td>
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<td>17</td>
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<td>April 2006</td>
<td>National Endowment for Democracy</td>
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<td>18</td>
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<td>INL Invoicing for the Jordan International Police Training Center</td>
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<td>20</td>
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<td>September 2006</td>
<td>Accountability for Contractor-held Government Property and Equipment Supporting Department of State Programs and Operations</td>
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<tr>
<td>21</td>
<td>GAO</td>
<td>350895</td>
<td>August 2006</td>
<td>Solatia (Condolence) Payments in Iraq</td>
</tr>
<tr>
<td>22</td>
<td>GAO</td>
<td>120547</td>
<td>March 2006</td>
<td>Contract Award Procedures for Iraq Reconstruction Contracts</td>
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<tr>
<td>#</td>
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<td>DATE INITIATED</td>
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<tr>
<td>23</td>
<td>GAO</td>
<td>350829</td>
<td>March 2006</td>
<td>DoD’s Health Care Policies and Benefits for Civilians Deployed to Afghanistan and Iraq</td>
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<tr>
<td>24</td>
<td>GAO</td>
<td>350810</td>
<td>March 2006</td>
<td>Army’s Prepositioning Program</td>
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<tr>
<td>25</td>
<td>GAO</td>
<td>320383</td>
<td>November 2005</td>
<td>Iraq Energy</td>
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<td>26</td>
<td>GAO</td>
<td>320402</td>
<td>December 2005</td>
<td>Management of Iraq Reconstruction</td>
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<tr>
<td>27</td>
<td>GAO</td>
<td>320366</td>
<td>September 2005</td>
<td>U.S. Efforts To Stabilize Iraq and Develop Security Forces</td>
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<td>28</td>
<td>GAO</td>
<td>350739</td>
<td>September 2005</td>
<td>Use of Contractors on the Battlefield</td>
</tr>
<tr>
<td>29</td>
<td>GAO</td>
<td>350737</td>
<td>October 2005</td>
<td>Accountability, Maintenance, Utilization, and Strategy (RESET) of OIF Stay-Behind Equipment</td>
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<tr>
<td>30</td>
<td>GAO</td>
<td>350770</td>
<td>November 2005</td>
<td>Securing Sensitive Sites Containing High Explosives</td>
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<tr>
<td>31</td>
<td>GAO</td>
<td>350790</td>
<td>February 2006</td>
<td>Iraqi Support Capabilities</td>
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<tr>
<td>32</td>
<td>GAO</td>
<td>350794</td>
<td>February 2006</td>
<td>Improving Joint Force Protection Capability for Deployed Ground Forces</td>
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<td>33</td>
<td>GAO</td>
<td>320411</td>
<td>March 2006</td>
<td>Accountability for Equipment Provided to Iraqi Forces</td>
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<tr>
<td>34</td>
<td>GAO</td>
<td>350801</td>
<td>March 2006</td>
<td>Global War on Terrorism Funding</td>
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<td>35</td>
<td>GAO</td>
<td>350853</td>
<td>April 2006</td>
<td>Army and Marine Corps Readiness</td>
</tr>
<tr>
<td>36</td>
<td>GAO</td>
<td>320424</td>
<td>July 2006</td>
<td>Iraq Ministry Capacity</td>
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<td>37</td>
<td>GAO</td>
<td>350911</td>
<td>August 2006</td>
<td>U.S. Military Bases in Iraq</td>
</tr>
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<td>38</td>
<td>GAO</td>
<td>320388</td>
<td>October 2005</td>
<td>Afghan Counter-narcotics</td>
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<td>40</td>
<td>USAAA</td>
<td>A-2006-ALL-0397</td>
<td>June 26, 2006</td>
<td>Retrograde Operations in Southwest Asia</td>
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<td>41</td>
<td>USAAA</td>
<td>A-2006-ALL-0535</td>
<td>May 19, 2006</td>
<td>Procedures for Managing Overage Reparable Items Lists in the HMMWV Refurbishment Program</td>
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<td>Audit Follow-up of USAID/Iraq’s Education Activities</td>
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<td>Audit of USAID/Iraq’s Planning and Reporting Process of its Activities</td>
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<td>Audit of the Office of Foreign Disaster Assistance Program in Iraq</td>
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<td>46</td>
<td>USAID</td>
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<td>Not Reported</td>
<td>Audit of USAID/Iraq’s Agriculture Reconstruction and Development Program</td>
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<tr>
<td>47</td>
<td>USAID</td>
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<td>Not Reported</td>
<td>Audit of USAID/Iraq’s Civil Society Activities</td>
</tr>
</tbody>
</table>

TABLE 4-2
SIGIR regularly coordinates with other government agencies conducting investigations in Iraq. For statistics of investigative activities from other U.S. agencies, see Table 4-3. For more information on these investigations, see Appendix K.

### Status of Investigative Activities from Other U.S. Agencies, as of September 30, 2006

<table>
<thead>
<tr>
<th>#</th>
<th>AGENCY</th>
<th>INVESTIGATORS IN IRAQ</th>
<th>CLOSED CASES</th>
<th>OPENED/ONGOING CASES</th>
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<tr>
<td>1</td>
<td>DCIS</td>
<td>4</td>
<td>0</td>
<td>2</td>
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<tr>
<td>2</td>
<td>DoS OIG</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>3</td>
<td>FBI</td>
<td>0</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>4</td>
<td>USAID</td>
<td>1</td>
<td>0</td>
<td>11</td>
</tr>
<tr>
<td>TOTAL</td>
<td>5</td>
<td>0</td>
<td>20</td>
<td></td>
</tr>
</tbody>
</table>

Table 4-3
ENDNOTES

1. UN Security Council (5523rd Meeting-AM), September 14, 2006.
3. The most widely used definition for *internally displaced persons*: “persons or groups of persons who have been forced to flee or leave their homes or places of habitual residence, in particular as a result of or in order to avoid the effects of armed conflict, situations of generalized violence, violations of human rights or natural or human-made disasters, and who have not crossed an internationally recognized state border,” Guiding Principles on Internal Displacement, 1998.
4. The data supporting figures and analysis for projects has been extracted from two sources: the Iraq Reconstruction Management System (IRMS), for GRD-PCO projects, and the USAID activities report. Last quarter, SIGIR used the IRMS as the source for both GRD-PCO and USAID project data. This quarter, USAID advised SIGIR not to use IRMS as an official record of its activities. A comparison of last quarter’s project data to information in this report is not recommended.
5. OMB vetting comments to SIGIR, October 17, 2006.
6. Ministerial Coordination Team briefing to SIGIR, no date, slides 3, 8, and 16.
7. USAID vetting comments to SIGIR, October 17, 2006.
9. $18.439 billion represents the amount appropriated by Congress for Iraq programs in IRRF 2 under P.L. 108-106, enacted in November 2003. Congress had initially appropriated $18.649 billion to IRRF 2, but also earmarked that $210 million be transferred to other accounts for programs in Jordan, Liberia, and Sudan. Of the remaining $18.439 billion, the Administration transferred out of the IRRF to other accounts roughly $562 million for Iraq-related programs that could be implemented only in other accounts, such as a $352 million Iraq bilateral debt forgiveness program to the United States that required funding in a Treasury account. Congress was notified of all transfers out of the IRRF. In addition, in FY 2006 appropriations, Congress earmarked that $9.95 million be transferred into the IRRF from the DoS Economic Support Fund account.
10. Minister of Electricity, SIGIR interview, October 16, 2006.
12. SIGIR does not include the Operation Maintenance Sustainment (OMS) projects as generation projects. GRD-PCO reports that nine generation projects have yet to start when OMS projects are included as generation projects. (GRD-PCO, vetting comments, October 17, 2006)
15. GRD-PCO vetting comments, October 17, 2006.
18. GRD-PCO vetting comments, October 17, 2006.
23. GRD-PCO vetting comments, October 17, 2006.
26. IRMO vetting comments to SIGIR, October 17, 2006.
32. GRD-PCO response to SIGIR data call, October 4, 2006.
33. IRMO vetting comments, July 20, 2006.
35. GRD-PCO response to SIGIR data call, October 4, 2006.
40. SIGIR Audit 06-009, April 28, 2006, p. i.
41. GRD-PCO response to SIGIR data call, October 13, 2006.
42. GRD-PCO noted the following on October 11, 2006, regarding project assessments by region: “When the projects were set up, PIJV had a Northern Office in Kirkuk and a southern Office in Basra. In general, the Kirkuk Office handled PIJV’s “Northern Projects” (NP), and the Basra Office handled “Southern Projects” (SP). Where the project was located was secondary to which office handled it. Some projects in the Basrah area were handled by the Kirkuk Office.”
43. DoS, Iraq Weekly Status report, September 27, 2006, p. 13; however, GRD-PCO reported in vetting comments received on October 17, 2006 that more than 99% of the sector’s allocation had been obligated and 72% had been expended ($1.157 billion).
44. GRD-PCO response to SIGIR data call, October 4, 2006.
46. GRD-PCO response to SIGIR data call, October 4, 2006.
47. GRD-PCO vetting response, October 17, 2006.
49. GRD-PCO response to SIGIR data call, October 4, 2006; vetting response from GRD-PCO, October 17, 2006.
50. GRD-PCO responses to SIGIR data calls, October 4 and 10, 2006.
51. IRMO oil expert, SIGIR interview, October 12, 2006.
52. GRD-PCO response to SIGIR data call, October 4, 2006.
53. GRD-PCO response to SIGIR data call, October 17, 2006.
55. GRD-PCO response to SIGIR data call, October 4, 2006.
56. GRD-PCO vetting response, October 17, 2006.
57. GRD-PCO response to SIGIR data call, October 12, 2006.
58. USACE-GRD, Bi-Weekly Situation Report, September 29, 2006, p. 11; according to PCO, the term “well workover” refers to “the work conducted on wells after the initial completion for the purpose of maintaining or restoring the productivity of a well.” They comprise major remedial operations that are sometimes required to maintain maximum oil producing rates.
60. USACE-GRD, Bi-Weekly Situation Report, September 29, 2006, p. 11.
61. GRD-PCO response to SIGIR data call, September 28 and October 4, 2006.
63. IRMO Action Memorandum, “Recommended Solutions to Relieve the Ministry of Oil from Hampering Budgetary, Spending, and Procurement Constraints,” July 29, 2006, p. 3.

64. IRMO Action Memorandum, “Recommended Solutions to Relieve the Ministry of Oil from Hampering Budgetary, Spending, and Procurement Constraints,” July 29, 2006, p. 3.

65. GRD-PCO response to SIGIR data call, October 10, 2006.


68. DoS Section 2207 Report, Tab 5 (Selected Metrics), July 2006, p. 11.


70. IRMO oil expert, SIGIR interview, October 12, 2006.


74. IMF First and Second Reviews under the Stand-by Arrangement, Financing Assurances Review, and Request for Waiver of Non-observance and Applicability of Performance Criteria—Staff Report; Staff Supplemental; Press Release on the Executive Board Discussion; and Statement by Executive Director for Iraq, August 2006, p. 25.


78. IRMO, translated memorandum from the Technical Department of the Ministry of Oil to the Minister of Oil, “Oil Products Status for the Month of September 2006,” October 4, 2006; the Iraqi Ministry of Oil defines market demand as the Consumption Plan.


81. DoS energy expert, SIGIR interview, September 14, 2006. Although kerosene is used primarily as a heating fuel, it can also be used as jet fuel. LPG is primarily used for cooking fuel; diesel is used to power heavy trucks, machines, and neighborhood generators. Gasoline is used mostly for automobiles.


84. IRMO response to SIGIR data call, October 6, 2006.


86. Inspector General meetings with Ministry of Oil officials, summer 2006.


89. IRMO oil expert, SIGIR interview, October 12, 2006.


92. IMF First and Second Reviews under the Stand-by Arrangement, Financing Assurances Review, and Request for Waiver of Non-observance and Applicability of Performance Criteria-Staff Report; Staff Supplemental; Press Release on the Executive Board Discussion; and Statement by Executive Director for Iraq, August 2006, p. 4.
93. IMF First and Second Reviews under the Stand-by Arrangement, Financing Assurances Review, and Request for Waiver of Non-observance and Applicability of Performance Criteria-Staff Report; Staff Supplemental; Press Release on the Executive Board Discussion; and Statement by Executive Director for Iraq, August 2006, pp. 12, 9.
94. IMF First and Second Reviews under the Stand-by Arrangement, Financing Assurances Review, and Request for Waiver of Non-observance and Applicability of Performance Criteria-Staff Report; Staff Supplemental; Press Release on the Executive Board Discussion; and Statement by Executive Director for Iraq, August 2006, p. 9.
96. IRMO response to SIGIR data call, October 6, 2006.
98. IRMO oil expert, SIGIR interview, October 12, 2006.
99. IRMO oil expert, SIGIR interview, October 12, 2006.
102. GRD-PCO vetting response, October 17, 2006.
103. GRD-PCO response to SIGIR data call, October 4, 2006.
104. Also referred to as the Erbil City-Ifráz Main Water Supply Project and the Erbil Ifraz Water Supply Project.
107. IRMS, October 6, 2006.
109. IRMO, Information Memorandum from Acting IRMO Director to Deputy Chief of Mission, April 19, 2006.
110. GRD-PCO response to SIGIR data call, October 4, 2006.
112. GRD-PCO response to SIGIR data call, October 4, 2006.
113. USAID vetting comments to SIGIR, October 17, 2006.
119. IRMO response to SIGIR data call, October 12, 2006.
121. GRD-PCO response to SIGIR data call, October 4, 2006.
122. USAID response to SIGIR data call, March 24, 2006.
123. IRMO response to SIGIR data call, October 12, 2006.
126. IRMO response to SIGIR data call, October 12, 2006.
129. For definitions of these and other sectors, see Appendix C.
130. IRMS, as of October 6, 2006.
131. UN/World Bank Joint Iraq Needs Assessment, October 2003, p. 36.
133. Ibid.
134. USAID Agriculture Fact Sheet, June 2006.
135. UN/World Bank Joint Needs Assessment for Iraq Reconstruction, October 2003, p. 38; According to the report, short-term assistance should aim to reconstruct damaged and degraded agriculture facilities and reestablish and improve the efficiency of key agricultural services. Medium-term priorities would gradually transition the subsector toward a market-oriented rural economic system with a significant, competitive, and sustainable private sector. p. 37.
136. USAID response to SIGIR data call, October 17, 2006.
137. OMB vetting comments, October 17, 2006.
138. IRMO response to SIGIR data call, October 17, 2006.
139. IRMS, as of October 6, 2006.
140. USAID agriculture experts, SIGIR interview, June 29, 2006.
141. IRMO response to SIGIR data call, October 11, 2006.
142. USAID response to SIGIR data call, October 17, 2006; USAID informed SIGIR that “direct beneficiaries are measured on a project by project basis, and are considered to be the members of the households of people who participate directly in the programs.” USAID informed SIGIR that they use a standard assumption of six people per household, which is a conservative estimate.
143. IRMO response to SIGIR data call, October 2, 2006.
144. USDA response to SIGIR data call, October 10, 2006.
145. IRMO response to SIGIR data call, October 11, 2006.
146. Agriculture Reconstruction and Development Program for Iraq, “Daily Report,” August 26, 2006; an IRMO official reported the following to SIGIR on October 11, 2006: “The Ministry of Trade (purchaser of wheat for the PDS) guaranteed a price for grade 1 wheat of ID 400,000 [Iraqi dinars] last autumn in order to create an incentive for higher domestic wheat production. This guaranteed price was subsequently raised to ID 450,000 prior to this summer’s harvest. This latter price is significantly above parity price. Whether or not the price incentive was enough for wheat producers to actually sow and cultivate more wheat is debatable. It might be that the higher guaranteed wheat price resulted only in more regionally produced wheat being brought into Iraq after having been purchased at a parity price and sold to the [Ministry of Trade] for a significantly higher guaranteed price for the PDS.”
148. IRMO response to SIGIR data call, October 2 and 11, 2006, respectively.
150. USAID agriculture experts, SIGIR interview, June 29, 2006.
151. IRMO response to SIGIR data call, October 17, 2006.
152. Joint Chiefs of Staff (C4), “Agriculture Sector to Appendix 5 (Help Iraq Strengthen its Economy) to Annex C to the Joint Campaign Plan,” April 9, 2006, p. 10.
153. IRMO response to SIGIR data call, October 11, 2006.
154. IRMO response to SIGIR data call, October 17, 2006.
155. Ashraf Jehangir Qazi, UN Secretary General’s Special Representative; briefing to the Security Council; September 14, 2006; p. 1.
156. USAID vetting comments, July 18, 2006.
157. IRMS, as of October 6, 2006.
158. DoS vetting comments, received on October 17, 2006.
161. DoS Section 1227 Report, October 6, 2006, pp. 13-14; the NCDP is working with $25 million in reallocated IRRF funding, an additional $125 million was received in the 2006 Supplemental, and another $25 million was requested in the 2007 budget.
162. USAID response to SIGIR data call, October 17, 2006.
163. USAID response to SIGIR data call, October 17, 2006.
166. IRI response to SIGIR data call, October 12, 2006.
182. GRD vetting response, October 17, 2006.
183. USAID response to SIGIR data call, July 18, 2006.
185. UNHCR, online article, “UNHCR worried about effect of dire security on Iraq’s displaced” 10/18/2006.
187. UNHCR, online article, “UNHCR worried about effect of dire security on Iraq’s displaced” 10/18/2006.
189. UN Human Rights Report, UN Assistance Mission for Iraq, July 1–August 31, 2006, p. 1
191. Report of the UN Secretary-General pursuant to paragraph 30 of resolution 1546 (2004), September 1, 2006, p. 6.
195. USAID vetting comments, October 17, 2006.
197. IRMO vetting comments, October 17, 2006.
198. IRMO vetting comments, October 17, 2006.
199. IRMO vetting comments, October 17, 2006.
201. USAID vetting comments, October 17, 2006.
203. USAID vetting comments, October 17, 2006.
204. Izdihar, which means “prosperity” in Arabic, refers to the contractors for the private sector development program.
205. USAID vetting comments, July 18, 2006.
206. USAID vetting comments, October 17, 2006.
207. USAID vetting comments, October 17, 2006.
208. USAID vetting comments, July 18, 2006.
211. IRMO vetting comments, October 17, 2006.
212. USAID official, SIGIR interview, June 7, 2006.
213. USAID official, SIGIR interview, June 7, 2006.
216. IMF, First and Second Reviews Under the Stand-By Arrangement, July 17, 2006, p. 14, Table 1.
218. IMF, First and Second Reviews Under the Stand-By Arrangement, July 17, 2006, p. 14, Table 1.
221. USAID, IREX/ICSP Media Department Update, October 2, 2006.
222. USAID official, SIGIR interview, September 22, 2006.
223. CPJ, Iraqi Journalists in Danger, Accessed online at www.cpj.org on October 24, 2006
229. GRD-PCO reported in its vetting comments dated October 17, 2006 that 90% of projects in this sector had been completed as of October 6.
231. GRD-PCO, Secretary of the Army Update, October 18, 2006, pp. 5-6.
236. GRD-PCO response to SIGIR data call, October 6, 2006.
238. GRD-PCO response to SIGIR data call, October 17, 2006.
239. IRMS, October 6, 2006.
241. DoS, *Iraq Weekly Status* report, October 11, 2006, p. 10; these numbers are further broken down as approximately 129,700 soldiers, 800 Air Force personnel, and 1,100 Navy personnel.
242. DoS, *Iraq Weekly Status* report, October 11, 2006, p. 10; these numbers are further broken down as approximately 123,500 police officers, 24,400 National Police, and 28,300 other Ministry of Interior forces.
246. DoD, “Measuring Stability and Security in Iraq,” February 17, 2006, p. 37; DoD, “Measuring Stability and Security in Iraq,” July 2005, p. 13: “MNF-I has also implemented, in partnership with the Ministry of Defense, a program to embed Military Transition Teams at the battalion, brigade, and division level. These teams provide Transition Readiness Assessments (TRAs) to Multi-National Corps-Iraq (MNC-I) identifying areas of progress and shortcomings, ultimately leading to those individual units being ready to assume independent control of their area of responsibility. These assessments take into account a variety of criteria similar to but not identical to what the U.S. Army uses to evaluate its units’ operational readiness by focusing on personnel, command and control, training, sustainment/logistics, equipment, and leadership.” Overall, operational units are assessed as capable of planning, executing, and sustaining counterinsurgency operations independent of coalition forces (Level 1); capable of planning, executing, and sustaining counterinsurgency operations with coalition enablers (Level 2); or capable of conducting counterinsurgency operations only when operating alongside Coalition units (Level 3); Level 1, 2, and 3 units are all engaged in operations against the enemy.
262. Ashraf Jehangir Qazi, UN Secretary General’s Special Representative; briefing to the Security Council; September 14, 2006, p. 1.
270. Report of the UN Secretary-General pursuant to paragraph 30 of resolution 1546 (2004), September 1, 2006, p. 7.
272. GRD vetting response, October 17, 2006.
273. DoS, Iraq Weekly Status report, September 27, 2006, p. 13; GRD-PCO reported to SIGIR in its vetting comments dated October 17, 2006, however, that 100% of funds for the Health Care sector had been obligated, and 68% had been expended.
274. IRMS and USAID project data for October 6, 2006; Many of the Equipment Procurement projects reported as IRRF 2 in the previous quarter are currently classified as either IRRF or non-IRRF and therefore are not included in the current project totals.
275. GRD-PCO response to SIGIR data call, October 6, 2006.
277. GRD vetting response, October 17, 2006.
278. GRD vetting response, October 17, 2006.
280. GRD vetting response, October 17, 2006.
281. GRD vetting response, October 17, 2006.
283. Although GRD reported that 30% of construction has been completed to date, USAID reported that 45% of the project had been completed upon transferring oversight responsibilities to GRD. It has been reported to SIGIR that the discrepancy is attributed to different methods used by the respective organizations to measure the project completion rate; response to SIGIR data call, October 16, 2006.
286. GRD-PCO vetting response, October 17, 2006.
287. GRD-PCO vetting response, October 17, 2006.
288. GRD-PCO response to SIGIR data call, October 6, 2006; GRD vetting response, October 17, 2006.
290. USAID vetting response, July 18, 2006.
292. This report combines two subsectors of the DoS Section 2207 Report: Transportation and Communications; and Roads, Bridges, and Construction. For definitions of these and other sectors, see Appendix C.
293. GRD-PCO response to SIGIR data call, October 4, 2006.
298. GRD-PCO response to SIGIR data call, October 10, 2006.
300. GRD-PCO response to SIGIR data call, June 19, 2006.
301. IRMO *Iraq Weekly Status* reports, April-September 2006.
305. GRD-PCO response to SIGIR data call, October 10, 2006.
309. IRMO response to SIGIR data call, October 13, 2006.
311. IRMO, Information Memorandum from Acting IRMO Director to Deputy Chief of Mission, April 19, 2006.
312. IRMO response to SIGIR data call, October 13, 2006.
316. GRD-PCO response to SIGIR data call, October 4, 2006.
321. GRD-PCO response to SIGIR data call, June 19, 2006; updated in vetting comments, July 18, 2006.
322. GRD-PCO vetting comments, July 18, 2006.
323. GRD-PCO response to SIGIR data call, June 19, 2006.
324. GRD-PCO vetting comments, July 18, 2006.
325. GRD-PCO response to SIGIR data call, October 4, 2006.
327. GRD-PCO response to SIGIR data call, October 10, 2006.
335. IRMO vetting comments, July 20, 2006.
349. SIGIR discussion with senior UNDP official, May 24, 2006.
351. The one remaining Paris Club creditor, Russia, is expected to sign an agreement soon.
354. The Corruption Perception Index is a composite index, making use of surveys of business people and assessments by country analysts TI deems credible. TI believes that international surveys on perceptions serve as the most credible means of ranking corruption because unbiased, hard data is difficult to obtain and usually raises problematic questions with respect to validity and interpretation. For example, TI believes that comparing the number of prosecutions reflects the quality of prosecutors—not actual levels of corruption.
356. The Yellow Book contains standards for audits of government organizations, programs, activities, and functions, and of government assistance received by contractors, nonprofit organizations, and other non-government organizations.
357. Other key international standards include those set by the International Auditing and Assurance Standards Board (IAASB) and the Public Company Accounting Oversight Board (PCAOB).
358. Don Drach, GAO Director, International Relations, Strategic Planning & External Liaison; SIGIR interview; September 22, 2006.
362. These were orders to assemble and deploy the contractor’s workforce.
363. The Development Fund for Iraq is the primary repository for Iraqi oil revenues and formerly seized Iraqi assets from abroad.
364. ISF logistics capabilities include the ability to maintain equipment, provide the supply support to the security forces, transport personnel and equipment, and maintain the health of Iraqi soldiers and police.
366. Iraqi Police Service is the name for the local police force.
367. DoD submits this quarterly report to the Congress under section 9010 of Public Law 109-148 (a continuation of the reporting through the end of fiscal year 2006, as also cited in Public Law 109-13), and Public Law 109-289 (for reporting through the end of fiscal year 2007).
368. The eight local governance satellite offices are supported by one of the ten PRTs, and their role is similar to that of a PRT.
370. P.L. 108-11 established the $2.48 billion Iraq Relief and Reconstruction Fund 1 (IRRF 1). The scope of this report does not include IRRF 1 funds.
374. Ibid.
377. IIGC members: SIGIR (Chair), DoS IG (Co-Vice Chair), DoD IG (Co-Vice Chair), Army IG, USAID IG, Treasury IG, DoC IG, DCAA, USAAA, GAO (observer member), USACE Chief Audit Executive (observer member)
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**ACRONYMS AND DEFINITIONS**

This section contains all of the abbreviations and acronyms found in the SIGIR Quarterly Report to the Congress.

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<td>Baghdad International Airport</td>
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<td>Bill of Quantities</td>
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<td>BTU</td>
<td>British Thermal Unit</td>
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<td>Community Action Group</td>
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<td>Community Action Program</td>
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<td>CCCI</td>
<td>Central Criminal Court of Iraq</td>
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<td>Critical Care Unit</td>
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<td>CEFMS</td>
<td>Corps of Engineers Financial Management System</td>
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<td>CTC</td>
<td>Cost to Complete</td>
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<td>Donor Assistance Database</td>
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<td><strong>Definitions</strong></td>
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<td>Design-build</td>
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<td>Defense Reconstruction Support Office</td>
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<td>Estimate at Completion</td>
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<td>Financial Management Regulation</td>
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<td>Fiscal Year</td>
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<td>Islamic Development Bank</td>
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<td>Improvised Explosive Device</td>
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<td>Iraqi Ground Forces Command</td>
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<td>INL</td>
<td>Bureau of International Narcotics and Law Enforcement Affairs</td>
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<td>INTOSAI</td>
<td>International Organization of Supreme Audit Institutions</td>
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<td>Iraq Policy and Operations Group</td>
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<td>International Reconstruction Fund Facility for Iraq</td>
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<td>International Republican Institute</td>
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<td>Kellogg Brown &amp; Root, Inc.</td>
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<tr>
<td>kg/ha</td>
<td>Kilograms per hectare</td>
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<td>Kurdistan Regional Government</td>
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<td>kV</td>
<td>Kilovolt</td>
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<td>LLC</td>
<td>Limited Liability Company</td>
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<td>LOGCAP</td>
<td>Logistics Civilian Augmentation Program</td>
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<td>LPG</td>
<td>Liquefied Petroleum Gas</td>
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<td>LTC</td>
<td>Lieutenant Colonel</td>
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<td>Man-Portable Air Defense System</td>
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<td>MAT</td>
<td>Ministerial Advisory Team</td>
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<td>MBPD</td>
<td>Million Barrels Per Day</td>
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<td>MNC-I</td>
<td>Multi-National Corps-Iraq</td>
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<td>MNF-I</td>
<td>Multi-National Force-Iraq</td>
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<td>MOU</td>
<td>Memorandum of Understanding</td>
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<td>MSCFD</td>
<td>Million Standard Cubic Feet Per Day</td>
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<td>MWh</td>
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<td>Office of Management and Budget</td>
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<td>Operations, Maintenance, and Sustainment</td>
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<td>First $74 B appropriation measure, which included the $2.475 B Iraq Relief</td>
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<td>and Reconstruction Fund</td>
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<td>P.L. 108-106</td>
<td>As amended by P.L. 108-375, mandates the independent and objective conduct</td>
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<tr>
<td></td>
<td>and supervision of audits relating to the programs and operations funded</td>
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<td></td>
<td>with amounts appropriated or otherwise made available to the Iraq Relief</td>
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<td>and Reconstruction Fund</td>
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<td><strong>DEFINITIONS</strong></td>
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<td>Transparency International</td>
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<td>Tons Per Day</td>
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<td>Transition Readiness Assessment</td>
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<td>U.S. Department of the Treasury</td>
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<td>United Nations</td>
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<td>UNDP</td>
<td>United Nations Development Programme</td>
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<td>United Nations High Commissioner for Refugees</td>
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<td>UNSCR</td>
<td>United Nations Security Council Resolution</td>
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<td>United States Army Audit Agency</td>
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<td>United States Army Corps of Engineers</td>
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<td>United States Agency for International Development</td>
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<td>USAID OIG</td>
<td>United States Agency for International Development Office of Inspector General</td>
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<td>United States Department of Agriculture</td>
</tr>
<tr>
<td>USIP</td>
<td>United States Institute of Peace</td>
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<td>Wireless Broadband Network</td>
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<td>WSSP</td>
<td>Water Sector Sustainment Program</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
</tr>
<tr>
<td>WWTP</td>
<td>Wastewater Treatment Plant</td>
</tr>
<tr>
<td>XLPE</td>
<td>Crosslinked Polyethylene</td>
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