

**PROVINCIAL RECONSTRUCTION
TEAMS: DEVELOPING A COST-
TRACKING PROCESS WILL ENHANCE
DECISION-MAKING**

**SIGIR-09-020
APRIL 28, 2009**



SIGIR

Special Inspector General for IRAQ Reconstruction

April 28, 2009

PROVINCIAL RECONSTRUCTION TEAMS: DEVELOPING A COST-TRACKING PROCESS WILL ENHANCE DECISION-MAKING

Summary of Report: SIGIR-09-020

Why SIGIR Did This Study

In October 2005, the U.S. government established the Provincial Reconstruction Team (PRT) program in Iraq. This program is a civil-military, interagency effort that acts as the primary government interface between the United States, Coalition partners, and provincial and local governments. However, to date agencies have not separately tracked PRT operating costs.

SIGIR's initial work focused on the cost of operating individual PRTs and the overall PRT program. We quickly found that the agencies involved are not required to capture these costs at the program or individual level. Consequently, SIGIR's reporting objectives are to (1) identify the major PRT program cost categories (2) estimate program costs using available information (3) assess the feasibility and usefulness of tracking PRT costs.

What SIGIR Recommends

SIGIR provides recommendations to the Secretaries of State and Defense, the U.S. Ambassador to Iraq, and the Commanding General, Multi-National Forces – Iraq, on compiling and reporting PRT costs to support budgeting and management decision-making.

Management Comments

We received written comments from the Multi-National Force–Iraq (MNF-I) and the Department of State (DoS). MNF-I concurred with the report's findings and recommendations. The DoS comments included comments from both the Bureau of Near Eastern Affairs–Iraq and the Resource Management Office. DoS did not agree with the report's findings and recommendations and stated that it already has a process for capturing PRT costs at a level sufficient for reporting, budgeting, and policy decision. We disagree and respond in our report.

What SIGIR Found

Although not required to separately track PRT costs, DoS and the Department of Defense (DoD) provided some major costs by category associated with PRTs. Using that information, we estimated that Fiscal Year 2008 PRT costs in Iraq were at least \$373 million. Our estimate substantially understates the total cost because costs for military-provided movements and personnel are not included. The major cost categories identified include security, salaries, life-support, and operations. However, since DoS and DoD—the two largest contributors—are not required to segregate PRT costs from other costs, neither department has a process to capture PRT costs, according to DoS and DoD officials. DoS and DoD officials noted that with additional effort, existing financial systems could track most PRT costs. They further agreed that PRT cost data would be useful to managers for budgeting and other decision-making processes related to the PRT program, although the Department of Defense believes that gathering such costs would be expensive.

Conclusions

The PRT program is a large civil-military interagency effort that may grow and continue to be used in other contingency reconstruction operations. However, U.S. agencies have had no requirement to capture PRT costs, so these costs are not routinely tracked. As the U.S. embassy in Iraq normalizes operations, the application of U.S. government accounting standards to the PRT program is important to assist in budgeting and other decision-making processes. Furthermore, historical PRT cost data could be useful in planning and implementing other reconstruction operations using PRTs. Through its financial systems, DoS already appears to have the capability to track major costs by category. Other major costs such as Diplomatic Security personnel and security movements, and some DoD costs will be more difficult to track but could be estimated at an aggregate level.



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

April 28, 2009

MEMORANDUM FOR U.S. SECRETARY OF STATE
U.S. SECRETARY OF DEFENSE
U.S. AMBASSADOR TO IRAQ
COMMANDER, U.S. CENTRAL COMMAND
COMMANDING GENERAL, MULTI-NATIONAL FORCE-IRAQ
DIRECTOR, OFFICE OF PROVINCIAL AFFAIRS
DIRECTOR, IRAQ TRANSITION ASSISTANCE OFFICE
DIRECTOR, U.S. AGENCY FOR INTERNATIONAL
DEVELOPMENT

SUBJECT: Provincial Reconstruction Teams: Developing a Cost-Tracking Process Will Enhance Decision-Making (SIGIR-09-020)

This report is provided for your information and use. It discusses the results of our review of the costs of staffing and operating a Provincial Reconstruction Team (PRT) in Iraq. The audit was conducted by the Special Inspector General for Iraq Reconstruction (SIGIR) as project 9009 under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978.

We considered written comments on a draft of this report from the Department of State and the Multi-National Force–Iraq when finalizing the report. Both agencies and the Office of the Deputy Assistant Secretary of Defense (ME) also provided technical comments that we addressed in the report where appropriate.

We appreciate the courtesies extended to our staff. For additional information on this report, please contact Mr. Glenn Furbish (glenn.furbish@sigir.mil, 703-428-1058) or Ms. Nancee Needham (nancee.needham@iraq.centcom.mil, 240-553-0851 ext 3793).

Stuart W. Bowen, Jr.
Inspector General

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Introduction

This is the fifth in a series of Special Inspector General for Iraq Reconstruction (SIGIR) audit reports on Provincial Reconstruction Teams (PRT). Since October 2006, we have issued four reports examining the status, expansion, effectiveness, and performance evaluation of PRTs in Iraq.

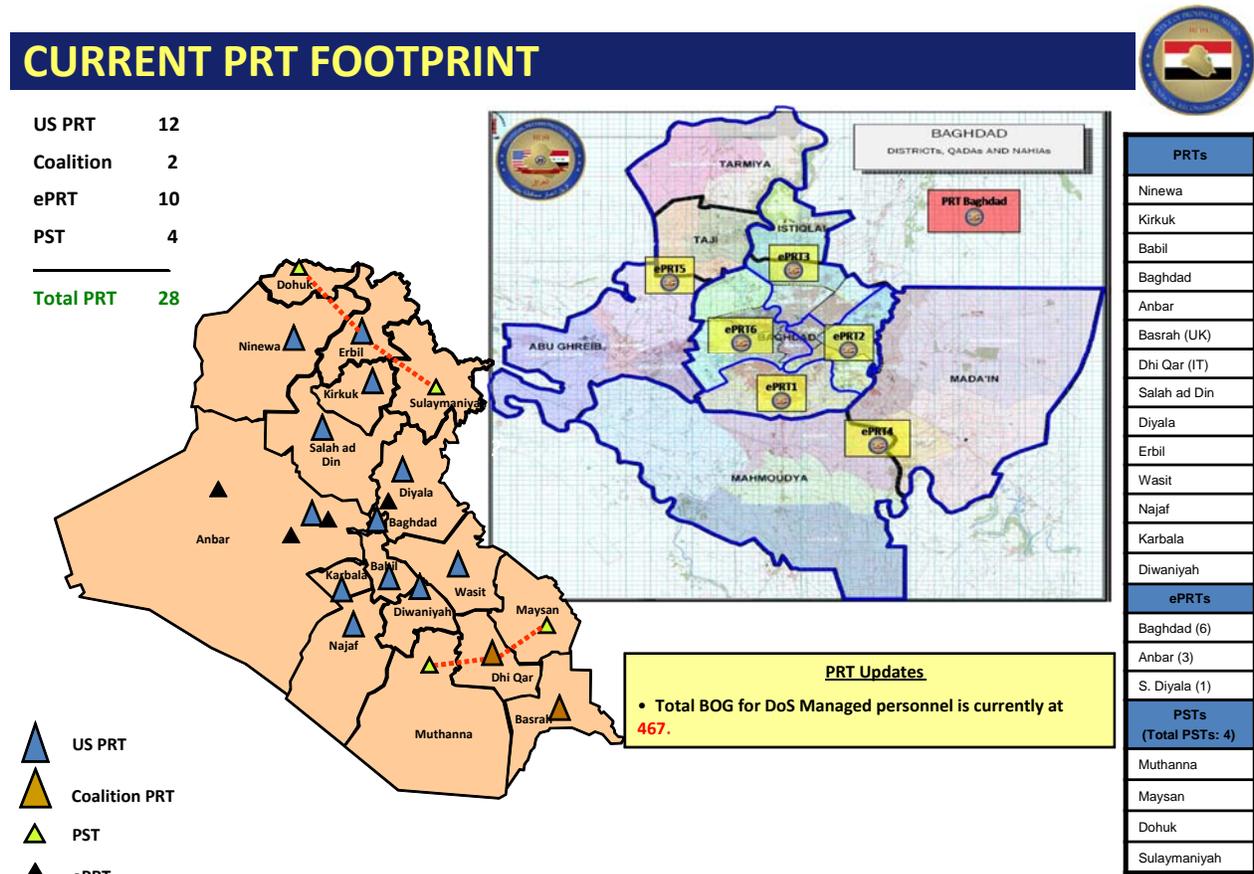
Background

In October 2005, the U.S. government established the PRT program in Iraq. The PRT initiative is a civil-military, interagency effort that acts as the primary U.S. government interface between the United States, Coalition partners, and provincial and local governments throughout Iraq's 18 provinces. The PRT program was established to assist Iraq's provincial governments in developing a 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 population's basic needs.

To accomplish its goals, the PRT program provides integrated and multidisciplinary teams of U.S. and Coalition personnel to teach, coach, and mentor provincial and local Iraqi government officials in core competencies of governance and economic development. The PRTs comprise personnel from the Department of State (DoS), the U.S. Agency for International Development, other departments of the U.S. government, the Multi-National Corps-Iraq (MNC-I), Iraqi-born expatriates, contractors, and Iraqi local nationals. DoS and the Department of Defense (DoD) provide most of the PRT funding. As of March 2009, 14 regular PRTs were located throughout different provinces in Iraq. In addition, four Provincial Support Teams, with functions similar to those of PRTs, are located in neighboring provinces rather than the provinces to which they are providing assistance because of security or other concerns. Also, 10 smaller PRTs are embedded with U.S. brigades to coordinate with Iraqi city and local governments. In this report, all of the teams, regardless of type, are referred to collectively as PRTs. As of March 2009, 28 PRTs were in Iraq.

For PRTs located at forward operating bases or camps, DoD provides security and life-support. For PRTs not collocated with a U.S. military element, DoS provides security and life-support. According to DoS officials, the National Security Council, in preliminary verbal guidance in March 2009, directed that the program be reduced to 16 PRTs by August 2010 and to 6 by December 2011. Figure 1 shows the location of the PRTs in Iraq as of March 2009.

Figure 1—PRT Footprint in Iraq, March 2009



Source: DoS, Office of Provincial Affairs

Civilian and military personnel and contractors are assigned to each PRT. The number of staff assigned to each PRT varies, however, depending on the tasks assigned for an area and the skills required because they are task organized. Consequently, there is no standard model for a PRT's organization skill set or staff size. DoS civilian team members typically include the Team Leader and 13 to 15 U.S. government contractors and civilians whose areas of knowledge include rule of law, governance, political reconciliation, political development, economic development, and agriculture. DoD team members typically include the Deputy Team Leader, a military liaison, bilingual/bicultural advisors, an engineer, military security teams, and 4 to 20 civil affairs team personnel. Finally, the U.S. Agency for International Development usually provides one agency representative and multiple local governance contractors as integral members of each PRT.

Objective

SIGIR's reporting objectives for the PRT program are to (1) identify the major PRT program cost categories, (2) estimate PRT program costs using available cost information, and (3) determine the feasibility and usefulness of tracking PRT costs.

Cost-Tracking Process Will Enhance Decision-Making

Although it is not required to track PRT costs, the Departments of State (DoS) and Defense (DoD) provided some estimated costs, by category, associated with PRTs. Using that information, we estimated that Fiscal Year (FY) 2008 PRT costs in Iraq were at least \$373 million. Our estimate is substantially understated because the costs for military-provided security teams and personnel are not included. The major categories of cost include security, salaries, life-support, and operations. However, since DoS and DoD—the two largest contributors—are not required to segregate PRT costs from other costs, neither department has a process to capture PRT costs according to DoS and DoD officials. DoS and DoD officials noted that with additional effort existing financial systems could track most PRT costs. They further agreed that PRT cost data would be useful to managers for budgeting and other decision-making processes related to the PRT program.

PRT Costs Are Not Tracked, but FY 2008 Costs Are at Least \$373 Million

DoS and DoD were able to provide some major PRT costs, which allowed us to make a general estimate of the program's total cost. Our analysis shows that in FY 2008, PRT costs were at least \$373 million, not including DoD's costs for military security team movements and personnel. DoS estimates its FY 2008 PRT costs were \$322 million, which includes \$179 million for security contracts, and \$143 million for salaries, life-support, and other operational costs. The only PRT-specific cost identifiable for DoD is about \$9 million for 82 contractor bilingual/bicultural advisors. DoD does not capture or separately report any of its other PRT-related costs. DoD's other costs would include compensation and life-support for military personnel assigned to the PRTs, base security, and ground and air movement security. Table 1 shows our estimated PRT program costs for FY 2008, based on available cost data.

Table 1—Minimum Estimated PRT Costs, FY 2008

PRT Minimum Identifiable Cost Categories	FY 2008
Department of State	
Bureau of Diplomatic Security	\$179,000,000
Bureau of Near Eastern Affairs-Iraq ¹	
Salaries	82,000,000
Support	39,000,000
Operations	21,600,000
Department of State Subtotal	\$321,600,000
Department of Defense	
Bilingual Bicultural Advisors Contract	\$9,000,000
Department of Defense Subtotal	\$9,000,000
United States Agency for International Development	
Contractors	\$30,500,000
Salaries	11,700,000
United States Agency for International Development Subtotal	\$42,200,000
Fiscal Year 2008 PRT Minimum Identifiable Cost Total	\$372,800,000

Note: The costs detailed in this section are estimates for FY 2008; costs related to FY 2009 have already changed in a variety of ways and, based on currently planning, will continue to change.

Source: SIGIR analysis of DoS, DoD and U.S. Agency for International Development data.

Estimated Costs for the Bureau of Diplomatic Security

The Bureau of Diplomatic Security (DS) represents DoS' largest PRT cost category in FY 2008, totaling at least \$179 million. Of this amount, \$62 million is for Iraq-wide aviation support, most of which goes to PRTs. The remaining \$117 million covers base and ground security for PRTs and Regional Embassy Offices,² although according to DoS officials, a significant portion of the security costs at at Regional Embassy Offices are in support of the collocated PRTs.

Estimated Costs for the Bureau of Near Eastern Affairs-Iraq

The Bureau of Near Eastern Affairs—Iraq (NEA-I) provided estimates of its FY 2008 PRT costs for three major categories: salaries, \$82 million; life-support, \$39 million; and operations, \$22 million. The \$82 million in salary costs includes:

¹ A senior DoS Resource Management official stated the Bureau of Near Eastern Affairs—Iraq provided figures for FY08 obligations, not expenditures.

² Most of DS' security for FY 2008 was provided by three private security contractors: DynCorp International, Triple Canopy, and Xe (formally known as Blackwater Worldwide).

- direct-hire Foreign Service Officers
- temporary employees
- U.S. citizen subject-matter experts
- direct-hire employees detailed to DoS from the DoD, Justice Commerce, and Agriculture

Salary data includes employees located at the PRTs; employees of the Office of Provincial Affairs, whose mission is managing and supporting the PRTs; and Embassy information technology officers who travel between the PRTs.³ Salary costs include base pay, hardship pay, danger pay, and Sunday differentials; overtime pay; and benefits. Benefits include post-assignment travel, post-assignment transfer costs, rest and recreation travel, training costs, and various other related costs.

Support cost data includes \$21 million in life-support reimbursements to DoD for PRTs collocated with the U.S. military and \$19 million in life-support for the PRTs not collocated with the military. For those PRTs collocated with the military, DoS reimburses DoD based on the number of PRT personnel present at each PRT. Regardless of the provider, life-support costs comprise water, housing, food, electricity, ablution, sanitation, medical, non-tactical vehicles, office space, and other minor support costs. Operational costs of \$22 million include rent, vehicles, information technology equipment, information technology at the domestic bureau level, total contract costs for linguists, local subject-matter experts, and PRT acquisitions.

According to DoS officials, DoS' costs for FY 2008 do not include administrative costs incurred by agencies and departments supporting PRT personnel at both the U.S. Embassy and in Washington, DC. These agencies include Embassy Management, NEA-I, Global Financial Services, Charleston, other DoS bureaus and offices, and the U.S. Departments of Justice, Agriculture, and Commerce.

Estimated Costs for DoD

DoD incurs a large portion of PRT costs, and while it tracks its Iraq costs in other areas, it tracks only a small portion of its costs associated with PRTs. That cost, for PRT bilingual/bicultural advisors, was approximately \$9 million in FY 2008. However, the cost is likely higher. A Multi-National Corps–Iraq (MNC-I) Plans Office official stated that DoD paid about \$30 million in FY 2008 for approximately 269 contracted bilingual/bicultural advisors throughout Iraq. Under the terms of a Memorandum of Agreement, DoD allots 82 of these advisors for DoS' use at the PRTs. However, according the official, local commanders informally detail as many as 60 additional advisors to the PRTs.⁴

³ According to a senior NEA-I Budget Officer, PRT salary estimates are derived by multiplying the percentage of DoS personnel at PRTs by the total amount of DoS salaries in Iraq. No attempt is made to determine actual total salaries of PRT staff. The percentage of DoS personnel at PRTs is derived from a mid-year personnel count. This calculation does not adjust for fluctuations in the number of PRT staff throughout the year or for individuals not present for an entire year unless there are large deviations.

⁴ The agreed allotment of 82 bilingual/bicultural advisors represents 31 percent of the total 269 bilingual/bicultural advisors. If calculated on a per person basis these contractors account for approximately \$9 million of the \$30

While DoD captures costs in other areas, it does not separately report them by individual PRTs. The most significant of these costs is for security teams. According to a Memorandum of Agreement, signed February 2007, DoD is obligated to provide each PRT under its security umbrella with three daily ground movements outside of the secured base, if needed. U.S. military security teams meet this requirement with about 32 personnel, 3 or 4 tactical vehicles, and various other movement-specific resources. According to knowledgeable DoD officials, while some PRTs use these services as needed, other PRTs have a dedicated military security team. According to DoD officials, local military units log the actual number of PRT-specific movements, but the costs of these movements or the costs of a dedicated security team are not tracked. The same is the case for PRT-related military air movements. DoD also provides base security to the majority of PRTs and their subordinate ePRTs. These costs also are not tracked. However, DoD officials stated the actual portion of PRT costs for base security are marginal, since the military would have to protect these bases regardless of whether a PRT is present.

In addition to security, DoD also pays for U.S. military-civil affairs personnel permanently assigned to PRTs. These costs include salaries and benefits for at least 117 military personnel currently working at the PRTs and life-support for 99 of those personnel. However, according to DoD officials, local commanders provide an unknown numbers of additional military personnel and translators to PRTs on a temporary basis⁵.

Estimated Costs for Other Government Agencies

The U.S. Agency for International Development provided the largest contribution to Iraq PRTs after DoS and DoD with reported FY 2008 costs of approximately \$42 million. While the agency does not track its costs for specific PRTs or the whole PRT program, it was able to estimate costs for U.S. Agency for International Development personnel and contractors supporting the program for FY 2008. These costs include \$11.5 million for direct hire and personal service contractor salaries and \$30.5 million for local governance development contractors. The agency also estimated it incurred administrative costs of \$375 thousand for PRTs for FY 2008.

U.S. Government Financial Management Standards

Multiple U.S. government financial management standards and policies promote the reporting of program costs as an effective management tool. U.S. government managers require reliable, relevant cost information to improve operational economy and efficiency. This information assists the Congress and executives in making decisions about allocating federal resources, authorizing and modifying programs, and evaluating program performance.

million bilingual/bicultural advisors contract. The additional 60 personnel represent 22 percent of the total 269 advisors. While we did not add this to our total cost estimate, these personnel would represent an additional \$6.6 million in PRT-related DoD costs.

⁵ DoS pays life-support costs for 18 military personnel permanently staffed as Deputy PRT team leaders. Military personnel numbers are accurate as of March 2009.

The DoS Foreign Affairs Manual⁶ provides financial management policy and accounting standards. The manual states that DoS policy is to conduct a continuous program to improve financial operations regarding budgeting, accounting, financial reporting, and auditing. Furthermore, DoS policy is to be responsive to the financial reporting and other requirements of both the executive and the legislative branches. Similarly, DoD regulation 7000.14-R⁷, which provides policy for contingency operations, states that “components must make every effort possible to capture and accurately report the cost of the contingency operation.”

DoD and DoS Can Track PRT Costs

Although U.S. government accounting standards require agencies to track program costs, according to officials, DoS and DoD are not required to track PRT costs separately; consequently, there is no process for doing so. DoS officials stated NEA-I has systems capable of tracking individual PRT costs; however, because they are not required to do so, this capability has not been used. DS’s PRT costs result mostly from private security contracts; however, according to DS officials, contractors are not required to report costs by PRT, making it difficult to track individual PRT costs. According to DoD officials, MNC-I tracks its largest PRT costs at the unit level; however, without a requirement to track these costs and report them up the chain of command, no tracking and reporting process has been developed.

Some DoS Financial Systems Can Track PRT Costs

DoS’ global accounting and payroll systems have the capability to track total or individual PRT costs, according to DoS officials. In April 2008, the U.S. Embassy in Baghdad began tracking costs by individual PRT in its regional accounting system. The regional accounting system operates separately from, but interfaces with the global accounting system. However, the global accounting system has not yet integrated the PRT cost-tracking capability. Instead, the NEA bureau currently transcribes information from the global system into a manual spreadsheet to generate an estimated yearly total for PRT costs.

The DoS’ payroll system manages salary information for all Foreign Service Officers and temporary DoS hires in Iraq. Currently the most detailed location code the system uses is for the whole of Iraq; however, a DoS official knowledgeable about Iraq payroll stated that the payroll system could be configured in approximately 60 days to track salaries for the PRT program as a whole, as well as individual PRTs.

Some DoS Costs Are Difficult to Track

DS’s PRT costs are derived mostly from private security contracts; however, according to DS officials, contractors are not required to report costs per PRT, which prevents the Bureau from collecting costs in that manner. Rather, the DS’s security contractors issue bills indicating the number of their personnel in Iraq, multiplied by the agreed-upon daily rate. While it is possible

⁶ DOS, *U.S. Department of State Foreign Policy Manual*, Volume 4, Section 04 FAM 011, “Statement of Financial Management Policy,” updated 10/4/2004.

⁷ DOD, DOD 7000.14-R, Volume 12, Chapter 23, “Contingency Operations,” Paragraph 230904, sections B and C, updated 9/2007.

to estimate the DS's total PRT costs, this invoice process makes separation by individual PRT indeterminable.

DoD Could Track Some Costs

According to DoD officials, MNC-I records its largest contributions to PRTs at the unit level; however, because it is not required to calculate the cost of these contributions and report them up the chain of command, it has not established a process to do so. One of MNC-I's contributions to PRTs is movement security. According to DoD officials, while local military units log the actual number of PRT-specific ground movements, DoD is not required to collect and report this data or to calculate the cost of these movements and thus has no cost data for PRT-specific military movements. Yet according to DoD officials, MNC-I could count the number of ground movements at a PRT and calculate a reasonable cost estimate using the average costs of equipment and crew operations. The same holds true for air movements of PRT personnel.

Another DoD PRT cost is the 117 military personnel directly assigned to the PRT mission. Since these personnel are assigned to designated jobs requiring specific ranks, the cost of salaries and benefits for them is calculable. In addition, the life-support DoD provides for 99 of those personnel could be derived from life-support contracts. However, since DoD is not required to calculate the cost of these personnel and report it up the chain of command, it has not developed a process to do so. In addition, according to DoD officials, local commanders task unknown numbers of additional military personnel and translators to PRTs on a temporary basis. DoD officials could not provide an estimate of how many personnel this includes, so while DoD pays for the salaries, benefits, and life-support for these personnel, these costs are unknown. DoD officials stated that the cost for base security for PRTs would be difficult to calculate because this is a sunk cost of securing U.S. military bases and any increases from assisting the PRTs would be marginal.

Cost-Tracking Process Will Enhance Decision-Making

A cost-tracking process for PRTs, would enable the U.S. government to effectively capture relevant data for use in decision-making and planning in Iraq, Afghanistan and other future reconstruction efforts. To illustrate how cost information could be used, in November 2008, the U.S. Ambassador to Iraq faced a decision about creating a committee to determine whether to close the Regional Embassy Office in Hillah and move the collocated Babil PRT. A memorandum submitted for the Ambassador's approval considered the effect of decision on costs and argued that the estimated \$75 million DoS spent to operate the Hillah Regional Embassy Office was a costly way to support a PRT. Similarly, DoS and DoD are considering which, if any, PRTs will remain or be converted into consulates by the time the U.S. military drawdown is complete. Accurate cost data would enhance DoS and DoD decision-making related to PRT operations.

Conclusion

The PRT program in Iraq costs hundreds of millions of dollars and PRTs may be used in other contingency reconstruction operations. The full cost of PRTs, however, is not known. As the U.S. Embassy in Iraq normalizes operations, application of U.S. government accounting standards to the PRT program is important to assist in budgeting and other decision-making processes. Furthermore, historical PRT cost data could be useful in planning and implementing other reconstruction operations using PRTs. DoS' financial systems already appear to have the capability to track major cost categories. Other major cost categories, for example, for DS personnel and security movements, and some DoD costs will be more difficult to track but could be estimated at an aggregate level. Developing systems to routinely track costs will require some level of investment. For example, in responding to our report, the Deputy Assistant Secretary of Defense (ME) stated the implementation of U.S. government accounting standards to track PRT costs could require the presence of full-time resident auditors at each PRT and that this would be costly. Nonetheless, we believe that DoD and DoS should assess the costs and benefits of having this management information routinely available.

Recommendations and Lesson Learned

Recommendations

We recommend that:

1. The U.S. Ambassador to Iraq establish a policy requiring all participating agencies to compile PRT cost data and report the data to the Chief of Mission in Iraq on a quarterly basis.
2. The Commanding General, Multi-National Forces – Iraq, establish processes to track the costs of U.S. military support to the PRTs and report those costs to the Chief of Mission on a quarterly basis.
3. The Secretaries of Defense and State form a joint study group to assess the cost and benefit of modifying their respective financial systems to capture, on a routine basis, the major cost categories associated with PRT operations to support their respective budgeting and other management decision-making processes.

Lesson Learned

Without tracking Iraq PRT costs, the U.S. government will lose the opportunity to capture relevant historical data for use in decision-making and planning in Afghanistan or other future reconstruction efforts.

Management Comments and Audit Response

We received written comments on a draft of this report from DoS and the Multi-National Force—Iraq. The DoS comments included comments from both NEA-I and the Resource Management Office. All comments are included in Appendix F.

DoS did not agree with our finding and stated it already has a process for tracking PRT-related costs at a level sufficient for reporting, budgeting, and policy decision-making purposes. DoS cited the cost data used in the strategic decision to close the Regional Embassy Office in Hillah as evidence of the effectiveness of the current system. We disagree. In interviews with NEA-I and Embassy Financial Management Officers, we were told DoS accounting systems cannot track PRT costs. For example, the cost information provided to SIGIR for this report did not come from a DoS accounting system. Rather, the information was derived through the use of percentage based estimates in an external spreadsheet using total Iraq cost information as a base. A senior NEA-I budget official stated NEA-I did not compile or provide the cost data relating to the decision regarding the Hillah office. Furthermore, the NEA-I budget official and a senior Embassy financial management official agreed it would be valuable to track costs for individual PRTs and for the entire PRT program since PRTs in Afghanistan are beginning to expand in number and size.

The Multi-National Force—Iraq fully concurred with our finding and recommendations. It stated that it would establish processes to track the costs of U.S. military support to the PRTs and report those costs to the Chief of Mission on a quarterly basis starting in the fourth quarter of FY 2009, or sooner, provided that proper cost estimates analysis and aggregations are reviewed by the Multi-National Forces - Iraq Chief of Staff prior to utilization.

The Multi-National Force—Iraq, DoS, and the Deputy Assistant Secretary of Defense (ME) also provided technical comments that we included in the report where appropriate.

Appendix A—Scope and Methodology

This audit was performed by the Special Inspector General for Iraq Reconstruction (SIGIR) under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. It was completed during the period of February 12, 2009, through April 3, 2009. The audit addresses U.S. government agencies' tracking and reporting of PRT program costs and costs of individual PRTs. We focused on the extent to which U.S. government departments and agencies track the costs of staffing and operating individual PRTs and the Iraq PRT program as a whole. We did not look at programmatic funding.

To determine the costs of PRTs and agency processes for identifying and reporting the costs, we interviewed officials at U.S. Embassy Management, Office of Provincial Affairs; NEA-I; DS; Regional Security Office; Iraq Transition Assistance Office; International Narcotics and Law Enforcement Office; General Services Office; Multi-National Force—Iraq; MNC-I; and U.S. Agency for International Development. We observed meetings of the Joint PRT Working Group, the Joint PRT Steering Group, and the PRT Core Group. We obtained and reviewed relevant documentation, including:

- copies of contracts for goods and services at PRTs
- DoD reimbursement requests for fiscal year 2008
- Military Interdepartmental Purchase Requests for fiscal year 2008

We also obtained and reviewed applicable guidelines, including:

- the U.S and Iraq Security Agreement
- MNC-I CJ8 “Money as a Weapon System” Standard Operating Procedure
- DoS-DoD Memorandums of Agreement
- DoS Foreign Affairs Manual, Volume 4
- DoD Financial Management Regulation 7000.14-R
- Federal Accounting Standards Advisory Board “Statements of Federal Financial Accounting Concepts and Standards”
- Government Accountability Office “Standards for the Internal Control in the Federal Government”

We gathered available PRT cost data from the relevant agencies and identified a minimum total cost of the PRT program for FY 2008. For details of this analysis, see Appendix B.

Use of Computer-Processed Data

To achieve the assignment's objectives we extensively relied on computer-processed data contained in the Consolidated American Payroll Processing System, the Global Financial

Management System, and the Regional Financial Management System. We assessed the reliability of this data through reliance on both a DoS system accreditation report and a Fiscal Year 2008 Privacy Impact Statement and found them to be adequate. Based on these assessments and tests, we concluded that the data are sufficiently reliable to be used in meeting the assignment's objectives.

We obtained DoS payroll and other cost data, which is reported for informational purposes only. The Consolidated American Payroll Processing System a custom-written, third-generation mainframe, business-processing application, processes DoS payroll data. We did not audit the system; however, we obtained and reviewed the DoS system accreditation report, dated August 2007. The Global Financial Management System is the official DoS financial management system to account for and control appropriated resources and to maintain accounting and financial information associated with the normal operation of U.S. government organizations. The Global Financial Management System processes DOS non-payroll cost data. We did not audit the system; however, we obtained and reviewed a Fiscal Year 2008 Privacy Impact Statement, a survey discussing system controls, conducted by the Bureau of Administration Information Sharing Services.

We obtained from MNC-I copies of Excel spreadsheets showing calculations of the requested reimbursements from DoS to DoD. This data is reported for informational purposes only. We analyzed the spreadsheets and verified the computations.

Internal Controls

In conducting the audit, we assessed certain internal controls pertinent to the audit objectives with respect to control of costs. Specifically, we identified and assessed internal controls covering DoS' validation of one-time costs for PRTs. In addition, we identified and assessed DoS internal controls over staffing of U.S. government employees and contractors at the PRTs.

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

Prior Coverage

In conducting this audit, we reviewed applicable reports issued by SIGIR, the Government Accountability Office, and the U.S. House of Representatives Committee on Armed Services – Subcommittee on Oversight and Investigations.

SIGIR Audit Reports

Report No. SIGIR-09-013, *Provincial Reconstruction Teams' Performance Measurement Process Has Improved*, 1/28/2009

Report No. SIGIR-07-015, *Review of the Effectiveness of the Provincial Reconstruction Team Program in Iraq*, 10/18/2007

Report No. SIGIR-07-014, *Status of the Provincial Reconstruction Team Program Expansion In Iraq*, 7/25/2007

Report No. SIGIR-06-034, *Status of the Provincial Reconstruction Team Program in Iraq*, 10/29/2006

Government Accountability Office Reports

Report GAO-09-086R, *Provincial Reconstruction Teams in Afghanistan and Iraq*, 10/1/2008

U.S. House of Representatives Committee on Armed Services – Subcommittee on Oversight and Investigations Reports

Report 41-409, *Agency Stovepipes vs. Strategic Agility: Lessons We Need to Learn from Provincial Reconstruction Teams in Iraq and Afghanistan*, 4/2008

Appendix B—SIGIR Analysis of PRT FY 2008 Cost Data

Analysis of DoS Data

The DoS analysis includes costs from two major Bureaus: DS and NEA-I.

DS provided a FY 2008 cost estimate of \$432 million for all Iraq operations. Of this amount, \$2 million represents Washington, D.C.-based administrative costs for Iraq and several other theatres of operation. U.S.Embassy—Iraq ground and air security costs are \$250 million. The remaining \$179 million includes \$62 million for Iraq-wide aviation support, most of which goes to PRTs, and \$117 million for base and ground security for PRTs and Regional Embassy Offices.

NEA-I provided a total FY 2008 cost estimate for PRTs of \$82,000,000 in salaries, \$36,000,000 in support, and 21,600,000 in operations. NEA-I's accounting system tracks Iraq costs in total. Consequently, NEA-I Financial Management Officers enter those system-reported totals into a manual spreadsheet for further manipulation to calculate estimated PRT costs.

NEA-I estimates salary costs based on mid-fiscal year personnel counts. As of March 2008, a total of 374 Foreign Service officers were in Iraq; 112 personnel worked at the PRTs; and 262 personnel worked at the Embassy. NEA-I determined that PRTs represent approximately 30 percent of total salary costs ($112/374=.30$) and that embassies represent 70 percent of total salary ($262/374=.70$). Thus, NEA-I multiplies these derived percentages by total salaries (as reported in the payroll system) to determine the PRT salary estimate. Salaries for temporary DoS personnel are determined using the same calculations with the applicable personnel counts.

NEA-I tracks support costs in the accounting systems by reimbursements/payments made directly to DoD and the DoS life-support contractor on a quarterly basis. We calculated the total DoD reimbursements for FY 2008 by adding the four quarterly DoS to DoD electronic payment receipts. These reimbursements deal exclusively with the PRTs. NEA –I estimates that only 20 percent of total DoS life-support contracts relate to PRTs.

NEA-I's regional accounting system at the U.S. Embassy—Iraq identifies operational costs relating to PRTs, and therefore the costs do not require estimation. These costs include rent, vehicles, information technology equipment, IT costs at the domestic bureau level, total contract costs for linguists and local subject-matter experts, and various PRT acquisitions.

Analysis of DoD Data

DoD's contract for bi-lingual/bi-cultural advisors includes 269 advisors in Iraq, which includes the 82 DoS PRT advisors. The total contract costs for FY 2008 were \$30 million. Based on these facts, we estimated total costs for PRT advisors FY 2008 at \$9 million. We calculated this total using the percentage of PRT DoS advisors divided by total advisors ($82/269 = 30.5$ percent.) We then multiplied this percentage of DoS advisors by the total contract costs of \$30 million ($\$30,000,000 \times .305 = \$9,000,000$.)

Analysis of U.S. Agency for International Development Data

The U.S. Agency for International Development has a contract with the Research Triangle Institute for local governance advisor support at the PRTs. This contract is for an annual payment totaling \$30.5 million. The agency confirmed that actual payments for FY 2008 totaled approximately \$30.5 million. Since all of these contractors support the PRTs, no additional cost estimates are necessary.

The U.S. Agency for International Development also paid salaries of approximately \$11.7 million in FY 2008. A list of full-time equivalent salaries is the basis for this cost estimate. Six of these personnel are U.S. Agency for International Development PRT support staff living at the compound in Baghdad for which the agency pays all applicable life-support costs. The U.S. Agency for International Development considers these costs insignificant and as such did not capture them in the FY 2008 estimate. DoS pays for all life-support of U.S. Agency for International Development personnel at the PRTs through its quarterly reimbursements to DoD and the DoS life-support contractor.

Appendix C—U.S. Government Financial Standards

Multiple U.S. government financial management and internal control guidelines require agencies to capture program costs and communicate data to management in a timely manner. However, the PRT program is a large civil-military interagency effort, and as such, U.S. agencies have had no requirement to capture PRT costs. Yet, as the PRT program in Iraq transitions to normal embassy operations, the application of U.S. government accounting standards to the program could prove beneficial.

Federal Accounting Standards

The Federal Accounting Standards Advisory Board, established by the U.S. Department of the Treasury, the Office of Management and Budget, and the Government Accountability Office, has issued statements of federal financial concepts and standards. The Board’s managerial cost accounting standard⁸ states: “Each reporting entity should accumulate and report the costs of its activities on a regular basis for management information purposes. Costs may be accumulated either through the use of cost accounting systems or through the use of cost funding techniques.” Paragraph 19 of the Standard further states: “Government managers are the primary users of cost information. They are responsible for carrying out program objectives with resources entrusted to them. Reliable and timely cost information helps them ensure that resources are spent to achieve expected results and outputs, and alerts them to waste and inefficiency.” Paragraph 22 identifies objectives for managerial cost accounting concepts and standards, including to:

- Provide program managers with relevant and reliable information relating costs to outputs and activities. Based on this information, program managers can respond to inquiries about the costs of the activities they manage. This cost information will assist them in improving operational economy and efficiency;
- Provide relevant and reliable cost information to assist the Congress and executives in making decisions about allocating federal resources, authorizing and modifying programs, and evaluating program performance.

Paragraph 71 of the Standard further provides guidelines on the cost accounting process: “Regardless whether a reporting entity uses a cost accounting system or cost finding techniques, the methods and procedures followed should be designed to perform at least a certain minimum level of cost accounting and provide a basic amount of cost information necessary to accomplish the many objectives associated with planning, decision-making, control, and reporting.”

⁸ Federal Accounting Standards Advisory Board, “Statement of Federal Accounting Standards Number 4 – Managerial Cost Accounting Standards”, July 31, 1995.

DoS Policy Guidelines

The DoS Foreign Policy Manual describes the organizational responsibilities and authorities assigned to each major component of DoS. These authorities and responsibilities are the basic organizational directive of DoS. Volume 4 of the manual covers financial management policy, organization, and accounting principles and standards. According to the manual⁹, DoS policy is to:

- maintain effective financial management programs and systems
- conduct a continuous program to improve financial operations and systems and to identify more efficient methods of operations regarding budgeting, accounting, financial report, and auditing
- be responsive to management needs at the various levels of DoS
- be responsive to the financial reporting and other requirements of both the executive and the legislative branches

DoD Financial Management Standards

Financial management standards apply to DoD as well. A DoD financial management regulation¹⁰ issues policies and procedures for contingency operations related to DoD. As the U.S. military plays a large and critical support role for PRTs, this regulation is applicable to DoD's part of the PRT program. The regulation states, "Components must make every effort possible to capture and accurately report the cost of the contingency operation".

The regulation provides further guidance on the capture of costs, stating, "Each organization supporting a contingency operation is required to capture and report all related obligations and disbursements at the lowest possible level of the organization. Actual costs, as reflected in the accounting systems or subsidiary accounting records, should be reported." The regulation further states, "It is up to the DoD Component to develop adequate measures to allow for capturing actual costs from the official accounting records. Procedures could include establishing unique coding or establishing subsidiary accounting records for use during the contingency operations that will allow it to provide accurate reports to the Department's CBS [contingency cost breakdown structure]. When actual costs are not available, an auditable methodology should be established and documented for capturing costs."

⁹ DoS, *U.S. Department of State Foreign Affairs Manual*, Volume 4, Section 04 FAM 011, "Statement of Financial Management Policy", updated 10/4/2004.

¹⁰ DoD, DOD 7000.14-R, Volume 12, Chapter 23, "Contingency Operations", Paragraph 230904, sections B and C, updated 9/2007.

Government Accountability Office Standards

Last, the Government Accountability Office has issued a set of internal control standards for government,¹¹ as required by the Federal Manager’s Financial Integrity Act of 1982. A section of the standards regarding information and communications states, “Information should be recorded and communicated to management and others within the entity who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities.” The section further states, “Program managers need both operational and financial data to determine whether they are meeting their agencies’ strategic and annual performance plans and meeting their goals for accountability for effective and efficient use of resources.”

¹¹ Government Accountability Office, GAO/AIMD-00-21.3.1, “Standards for Internal Control in the Federal Government”, 11/1999.

Appendix D—Acronyms

Acronym	Description
DoD	Department of Defense
DoS	Department of State
DS	Bureau of Diplomatic Security
FY	Fiscal Year
MNC-I	Multi-National Corps-Iraq
MNF-I	Multi-National Force-Iraq
NEA-I	Bureau of Near Eastern Affairs - Iraq
PRT	Provincial Reconstruction Team
SIGIR	Special Inspector General for Iraq Reconstruction

Appendix E—Audit Team Members

This report was prepared and the audit conducted under the direction of David R. Warren, Assistant Inspector General for Audit, Office of the Special Inspector General for Iraq Reconstruction.

The staff members who conducted the audit and contributed to the report include:

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Management Comments—Multi-National Force-Iraq

**SIGIR DRAFT REPORT – DATED April 9, 2009
SIGIR 09-020 / SIGIR Project No. 9009
“Audit of Provincial Reconstruction Teams”**

MNF-I COMMENTS TO THE REPORT

RECOMMENDATION 2. (page 12, SIGIR)

The Commanding General, Multi-National Forces -Iraq, establish processes to track the costs of U.S. Military support to the PRTs and report those costs to the Chief of Mission on a quarterly basis.

MNF-I RESPONSE: Concur with information provided in this report. This recommendation should be implemented in the 4th Quarter FY 2009, or sooner, provided that proper cost estimates analysis and aggregations are reviewed by the MNF-I CoS prior to utilization. SIGIR assistance in validating cost estimates and aggregations are essential to MNF-I PRT operations in the future.

OPTIONAL RESPONSES TO THE FOLLOWING RECOMMENDATIONS AND GENERAL COMMENTS

RECOMMENDATION 1. (page 12, SIGIR)

The U.S. Ambassador to Iraq establish a policy requiring all participating agencies to compile PRT cost data and report the data to the Chief of Mission in Iraq on a quarterly basis.

MNF-I RESPONSE: Concur with information provided in this report.

RECOMMENDATION 3. (page 12, SIGIR)

The Secretaries of Defense and State form a joint study group to assess the cost and benefit of modifying their respective financial systems to capture, on a routine basis, the major cost categories associated with PRT operations to support their respective budgeting and other management decision-making processes.

MNF-I RESPONSE: Concur with information provided in this report. This recommendation should consider the unique operations of PRTs and allow flexibility to incorporate unique budget costs, which will occur, within area each PRT area of operation. These unique costs must be identified during the planning process and validated prior deployment.

GENERAL COMMENTS ON THE REPORT

1. (U) Pages 1, 2, 4 contain several references to the variance in PRT composition as well as not having a standard structure or model norm of cost accounting. These conditions attribute to the incidence of random cost capture but do not indicate gross negligence. The PRT operational lessons learned should be used to provide a framework for designing a financially efficient and accountable PRT model of cost accounting. Recommend characterizing the random cost capturing practices, under the limit of this framework, as "unique to the PRT's operational environment."

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Management Comments—NEA-I/Resource Management

NEA-I and RM/BP's review of the SIGIR Study 09-020 "Provincial Reconstruction Teams: Developing a Cost Tracking Process Will Enhance Decision Making"

Comments below are followed by recommendations for change in italics:

1. In several places throughout the study quoted below, it claims that the Department does not have a process for tracking, nor does it capture PRT costs. The Department's position is that we do have a process and that PRT-related costs are captured at a level sufficient for reporting, budgeting, and policy decision making purposes. For example, as noted on page 10 of the report, existing cost data was used as one of the inputs in the overall policy decision making process regarding the decision to close REO Hillah.

- Summary page-What SIGIR Found: "However, according to DoS and DoD officials, since DoS and DoD – the two largest contributors – are not required to segregate PRT costs from other costs, neither department has a process to capture PRT costs."
- Summary Page-Conclusion: "However, U.S. agencies have had no requirement to capture PRT costs, so these costs are not routinely tracked."
- Report, pg. 4: "However, according to DoS and DoD officials, since DoS and DoD – the two largest contributors – are not required to segregate PRT costs from other costs, neither department has a process to capture PRT costs."
- Report, pg. 4: "**PRT Costs Are Not Routinely Tracked, but Fiscal Year (FY) 2008 Costs Are at Least \$373 Million**"
- Report, pg. 11: "However, U.S. agencies are not required to capture PRT costs, so those costs are not routinely tracked."
- Report, pg. 9: "Although U.S. government accounting standards require agencies to track program costs, according to officials, DoS and DoD are not required to track PRT costs separately; consequently, there is no process for doing so."

The Department recommends the quoted statements above be reworded to reflect that costs are not routinely tracked at the transactional level by all agencies.

2. With regards to the existing financial systems' ability to track most PRT costs with additional effort as stated in the bullet below, we maintain the current level of effort is sufficient for reporting, budgeting, and policy decision making purposes.

- Report, pg. 4: "DoS and DoD officials noted that with additional effort existing financial systems could track most PRT costs."

The Department recommends changing the statement to reflect that Department officials note that the current level of financial tracking is sufficient for reporting, budgeting, and policy decision making purposes.

3. The Department takes exception to the statement below that Regional Embassy Offices (REO) primary objective is to support PRTs. Though a significant portion of DS security costs associated with the REOs may be related to the PRTs, the REOs serve a broader diplomatic mission in their respective regions.

- Report pg. 5: "The remaining \$117 million covers base and ground security for PRTs and Regional Embassy Offices,¹ although according to DoS officials, the primary objective of these offices is to support the PRTs."

The Department recommends changing the statement to read; "The remaining \$117 million covers base and ground security for PRTs and Regional Embassy Offices,¹ although according to DoS officials, a significant portion of the security costs at these locations are in support of the co-located PRTs."

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