



## IRAQ RECONSTRUCTION 2011

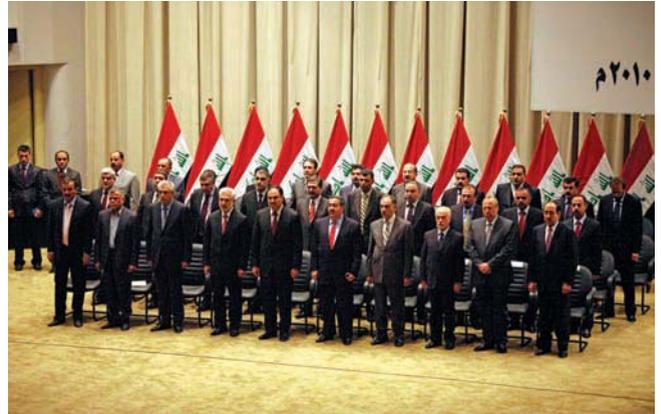
Over the next 11 months, the nature of the U.S. presence in Iraq will fundamentally alter, with certain reconstruction elements either ceasing operations or transitioning responsibilities to other agencies. By September, the final Provincial Reconstruction Teams are slated to close as two new consulates (in Basrah and Erbil) and two temporary Embassy Branch Offices (in Kirkuk and Mosul) become operational. In October, one of the most crucial U.S. transitions will occur: the Department of State will assume responsibility for police training from the Department of Defense (DoD). Finally, pursuant to the U.S.-Iraq Security Agreement (SA), all U.S. military forces will withdraw from Iraq by December 31, 2011; a contingent of military personnel will remain under Chief of Mission authority, staffing the new Office of Security Cooperation-Iraq. Maintaining a more sizeable military presence in Iraq would require the United States to renegotiate the terms of the SA with the Government of Iraq (GOI).

### Government Formation

More than eight months of political stalemate came to an end this quarter as Prime Minister Nuri al-Maliki reached agreement with Ayad Allawi and the leaders of other key blocs on the composition of a new government. Under the terms of the deal, al-Maliki retains his office, and his State of Law (SoL) Coalition controls the key Ministries of Defense and Interior, which are currently filled by the Prime Minister himself on a temporary basis.

Former Prime Minister Allawi—whose al-Iraqiya bloc, in fact, edged out SoL in the March 2010 elections—will serve as the Chairman of the newly created National Council for Higher Policies (NCHP). The NCHP will have a say in setting security and economic policies; but, as of mid-January, the scope of its powers and the character of its relations with the rest of the government are indeterminate. Other key changes in the new government include the creation of three Vice Presidents and three Deputy Prime Ministers; one of the deputies will coordinate Iraq's energy policy to enhance cooperation between the Ministries of Oil and Electricity.

The 42-seat cabinet chiefly consists of new faces, with only about a dozen senior officials continuing from the old government. SoL and the Kurdistan Alliance hold 7 cabinet seats each; al-Iraqiya has 10; and the Shia Iraqi National Alliance controls at least 12, including several key ministries. Muqtada al-Sadr's bloc, which holds 39 seats in the CoR, will exercise significant power in the new GOI. Minor parties occupy the



The new Iraqi government at its swearing-in ceremony in Baghdad on December 21, 2010. (AP photo/Karim Kadim)

rest of the remaining posts; and, as of mid-January, only one woman has been appointed to the cabinet.

With political wrangling drawing to a close, the new GOI is now beginning to grapple with a familiar range of challenges, including the passage of a final budget for 2011, conducting Iraq's first national census in a generation, combating what remains of the insurgency, fostering a regulatory environment attractive to international investors, ameliorating tensions between Baghdad and the Kurdistan Regional Government, and providing better basic services to its citizens. These issues will dominate the agenda in 2011.

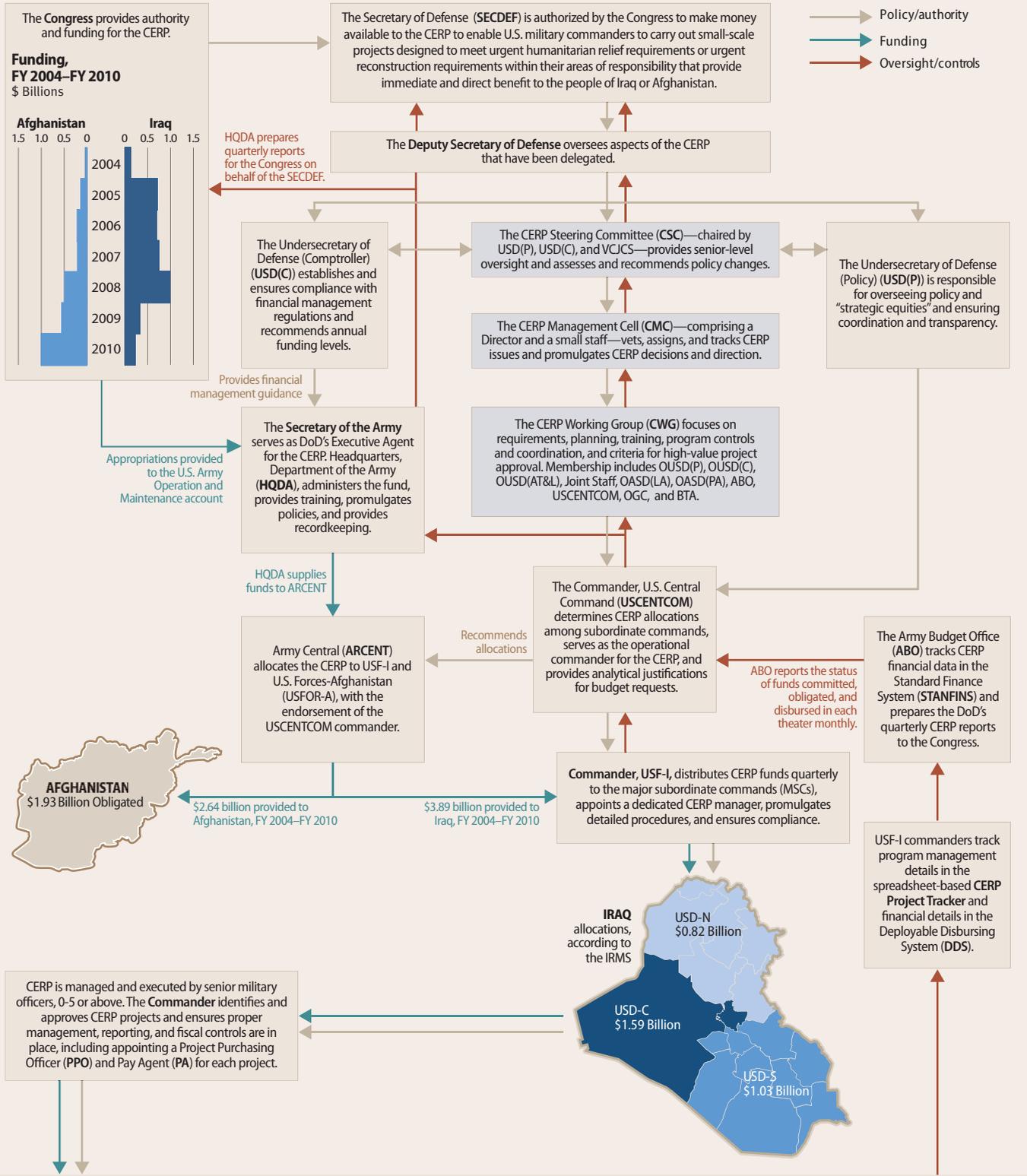
### Security Developments

Although the overall number of violent incidents remained near post-invasion lows this quarter, mass-casualty attacks and assassinations of senior GOI officials still occurred with troubling frequency. On October 31, 2010, insurgents stormed a Syriac Catholic church in Baghdad, killing more than 50 people in the worst incident of anti-Christian violence since 2003. In late December—continuing the recent trend that has seen insurgents target security officials—multiple suicide bombers attacked an Iraqi police compound in Mosul, killing a key local commander. With the impending departure of the more than 49,000 U.S. troops now stationed in Iraq, the responsibility of preventing the recurrence of such incidents in the future lies with the Iraqi Security Forces (ISF).

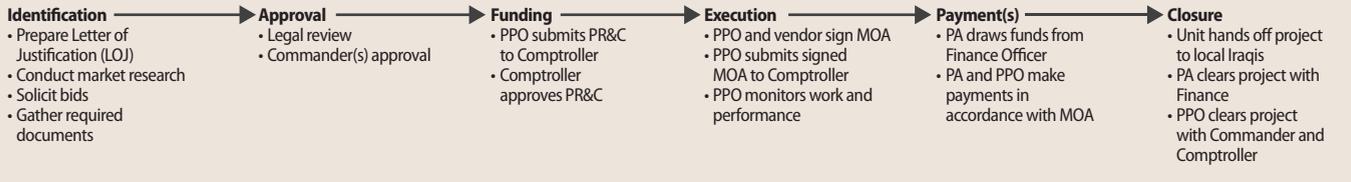
### Iraqi Security Forces: Readiness Concerns

This quarter, U.S. agencies raised questions about the ISF's ability to counter security threats. In January, U.S. Forces-Iraq (USF-I) reported that additional investments will have to be made to fill what it described as "essential gaps" in

# CERP Policy, Funding, and Oversight

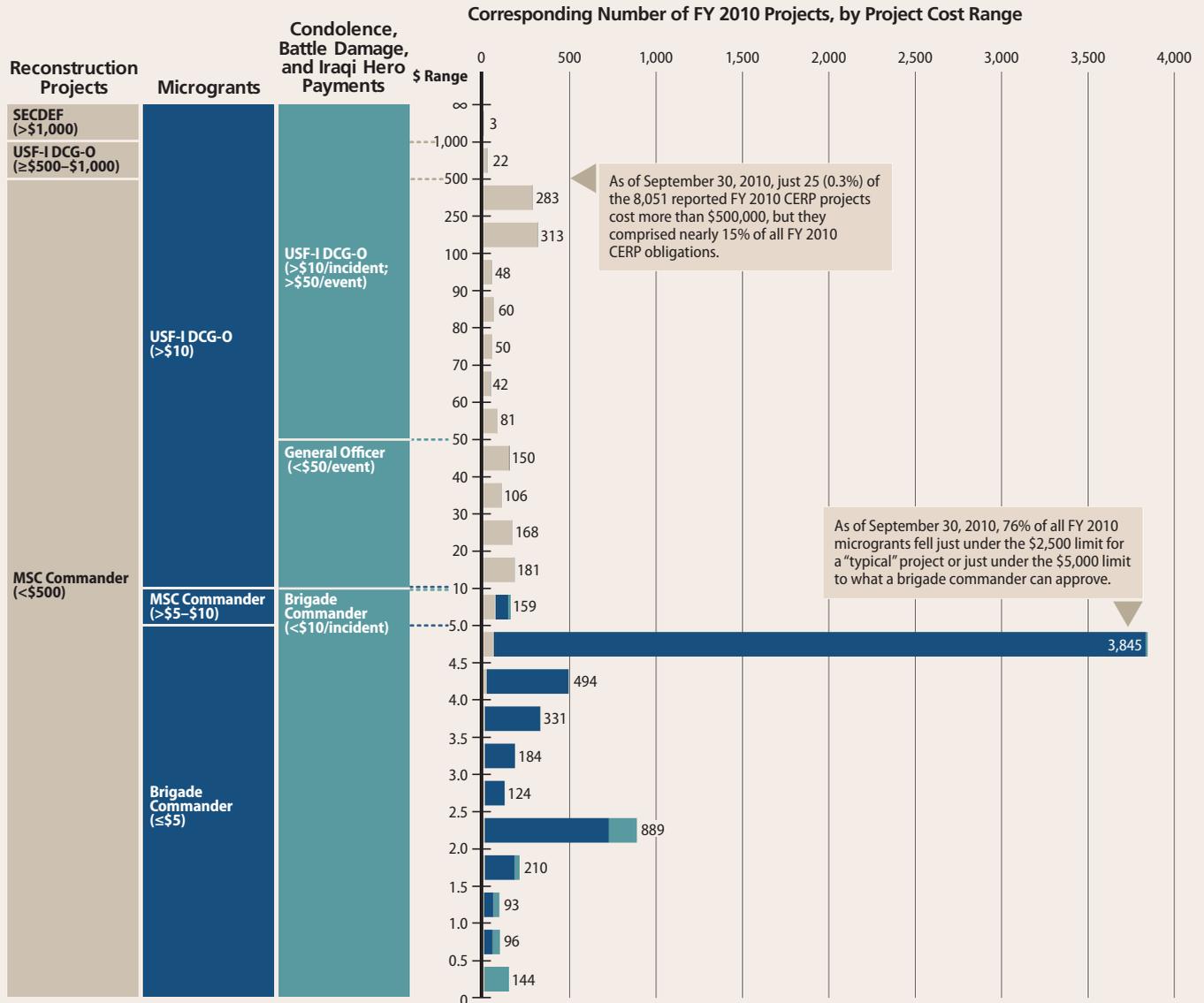


## CERP Management and Controls



# CERP Award Authority Thresholds and Corresponding Number of FY 2010 Projects

\$ Thousands



## According to DoD:

- Reconstruction Projects** are sustainable projects that typically cost less than \$500,000, but that do not meet the criteria of the other two types of projects. Projects that cost more than \$500,000 are expected to be relatively few in number; however, "essential" projects that cost more than \$500,000 may be approved by the USF-Deputy Commanding General for Operations (DCG-O) "on an exception basis" or by the Secretary of Defense if in excess of \$1.0 million.
- Microgrants** provide financial assistance to "disadvantaged entrepreneurs," which USF-I defines as experienced business owners who lack access to sufficient business credit at commercially reasonable terms. In-kind distributions are preferred, as they help to ensure that grants will not be lost to corruption or diverted to insurgents.
- Condolence, Battle Damage, and Iraqi Hero Payments** express sympathy or provide urgently needed humanitarian relief; reimburse Iraqis for incidents of property damage caused by U.S. or Iraqi forces; or provide assistance to the surviving spouse or next of kin of ISF personnel or GOI civilians who are killed as a result of incidents caused by U.S. forces. These payments are generally restricted to \$2,500, but may be more in extraordinary cases.

### Documentation Requirements

- The **Letter of Justification (LOJ)** describes the purpose, scope, expected benefits, requirements, and time line of the proposed project.
- The **Memorandum of Agreement (MOA)** is an agreement between the PPO and the vendor stipulating costs and deliverables.
- The **Purchase Request and Commitment (PR&C)** establishes funding; it is submitted by the PPO to the Comptroller.
- Any project of \$50,000 or more requires a **Letter of Sustainment** signed by a GOI official.

### Coordination Requirements

- Coordination occurs primarily in the field, especially at the district and provincial levels:
- Coordination with local Iraqi government agencies is meant to ensure project acceptance, follow-on maintenance, and sustainment.
  - Coordination with PRTs/PRDCs, USAID, civil affairs, and engineers is intended to determine project needs and ensure that the CERP is managed in ways that complement civilian efforts; all projects over \$50,000 must be coordinated with a PRT.

### Payment Controls

- To strengthen internal controls, the **Commander** appoints separate individuals to administer various CERP-related tasks:
- The **Project Purchasing Officer (PPO)** has delegated contracting authority from a contracting officer, and can procure goods and services in support of CERP operations less than \$500,000.
  - The **Paying Agent (PA)** makes payments to vendors/contractors for goods received or services rendered at the approval of the PPO.

## Origin and Funding of the CERP

The CERP was established to enable commanders to respond to urgent humanitarian relief or urgent reconstruction requirements within their area of responsibility by carrying out programs that will immediately assist the indigenous population.

- An urgent requirement is defined as any chronic or acute inadequacy of an essential good or service that, in the judgment of the local commander, calls for immediate action.
- According to USF-I, characteristics of successful projects include: quick execution, employment of Iraqis, widespread public benefit, and high visibility.

Ambassador L. Paul Bremer III, head of the Coalition Provisional Authority (CPA), authorized the CERP program on June 16, 2003. The CERP was originally supported by \$136 million in Iraqi funds, including seized and vested funds from the Saddam Hussein regime, as well as oil export revenues received through the Development Fund for Iraq (DFI) during the occupation. The first U.S. appropriation, P.L. 108-106, was signed into law on November 6, 2003. In total, the Congress has provided funding to the CERP 11 times since the program's inception. In addition, since the return of sovereignty to Iraq, a small amount of funds have been supplied by the Government of Iraq (GOI) to support an Iraqi equivalent known as the I-CERP (\$270 million).

## CERP APPROPRIATIONS AND ALLOCATIONS

\$ Millions

FY	APPROPRIATION	ALLOCATIONS		
		TOTAL	IRAQ	AFGHANISTAN
2004	180	180	140	40
2005	854	854	718	136
2006	923	923	708	215
2007	956	959	750	209
2008	1,727	1,484	996	488
2009	1,500	890	339	551
2010	1,200	1,240	240	1,000
<b>Total</b>	<b>7,340</b>	<b>6,530</b>	<b>3,891</b>	<b>2,639</b>

In most cases, U.S. funding has been provided through annual or supplemental DoD appropriations. FY 2011 CERP budget authority was provided under a continuing appropriation, and the Congress has not yet completed its consideration of the Administration's request for \$200 million in CERP funding for Iraq for FY 2011. Currently, the CERP is authorized by the National Defense Authorization Act (NDAA) for FY 2011 (P.L. 111-383), which President Obama signed into law on January 7, 2011. The law authorizes up to \$100 million in appropriations to the CERP in Iraq for FY 2011.

## Regulation of the CERP

CERP regulations are found primarily in two places:

- the DoD *Financial Management Regulation* (FMR), which is maintained by OUSD(C)
- the *Money as a Weapon System* (MAAWS) manual, originally produced by MNF-I and now updated by USF-I

### FMR/MAAWS Overview:

- The CERP is intended for projects that can be sustained by the local population or government and cost less than \$500,000.
- Commanders are required to verify that other reconstruction resources (Iraqi or international) are not reasonably available before using the CERP.
- CERP procedures for evaluating proposed projects should consider the immediate benefit to the local population, the sustainability of the project, and the relationship to other similar efforts carried out by Iraqi or U.S. agencies.
- Commanders must ensure proper program management, which includes establishing performance objectives and monitoring progress.
- Commanders must ensure project expenditures are commensurate with accomplishments and that projects are closed out properly upon completion, including transfer to an appropriate authority prepared to sustain the project.

### FMR-defined Project Categories:

- Water & Sanitation
- Food Production and Distribution
- Agriculture/Irrigation
- Electricity
- Health Care
- Education
- Telecommunications
- Economic, Financial, and Management Improvements
- Transportation
- Rule of Law and Governance
- Civic Cleanup Activities
- Civic Support Vehicles
- Repair of Civic and Cultural Facilities
- Battle Damage Repair
- Condolence Payments
- Hero Payments
- Former Detainee Payments
- Protective Measures
- Other Urgent Humanitarian or Reconstruction Projects
- Temporary Contract Guards for Critical Infrastructure

### CERP May Not Fund:

- direct or indirect benefits to the United States or supporting military personnel
- goods, services, or funds to security forces (except for contract guards, such as the Sons of Iraq)
- weapons buy-back programs or other purchases of firearms or ammunition (except as authorized by law and separate guidance)
- entertainment (except light refreshment costs at project-opening ceremonies)
- reward programs
- removal of unexploded ordnance
- services available through municipal governments
- salaries, bonuses, or pensions for ISF or civilian government personnel
- training, equipping, or operating costs of the ISF
- psychological or information operations
- support to individuals or private businesses (except for condolence, former detainee, hero, or battle damage payments, as well as microgrants)

## SIGIR Oversight Reports

**SIGIR Inspections:** PA-09-171, PA-09-170, PA-08-142, PA-08-119, PA-07-112, PA-07-110, PA-07-108, PA-07-107, PA-07-106



PA-08-119 concluded that effective oversight led to a successful renovation of the Kurdistan Ministry of Interior Complex in Erbil.

**“When oversight is effective, CERP projects meet their contract objectives.”**

**SIGIR Audits:** 10-113, 10-003, 09-026, 08-006, 07-006, 05-025, 05-014; **SIGIR Inspections:** PA-09-171, PA-09-170, PA-09-168, PA-08-140, PA-08-121, PA-08-120, PA-07-118 and 118.1, PA-07-112, PA-07-111



PA-09-168 found that a renovation project had improved the Iraqi Tomb of the Unknown Soldier, but there were several indications of weak project controls.

**“Internal controls initially were ineffective, or outright missing, but recently have improved with some weaknesses persisting.”**

**SIGIR Audits:** 10-013, 09-026, 09-025, 08-020, 08-006, 07-015, 05-025; **SIGIR Inspections:** PA-08-146, PA-08-142, PA-08-141, PA-08-140, PA-08-121, PA-08-120, PA-08-118 and 118.1, PA-07-111, PA-07-110



SIGIR Audit 09-025 determined that the Muhalla 312 Electrical Distribution Project was coordinated with the GOI but not with other U.S. reconstruction agencies.

**“Poor planning and coordination with other U.S. reconstruction agencies, Coalition partners, and the GOI contributes to waste.”**

**SIGIR Audits:** 10-021, 08-006; **SIGIR Inspection:** PA-09-168



Boxes of CERP files sent directly from the field.

**“SIGIR is concerned about the lack of progress in preserving CERP records.”**

**SIGIR Audits:** 10-013, 09-026; **SIGIR Inspections:** PA-08-142, PA-08-141, PA-08-140, PA-08-120, PA-07-111, PA-07-110, PA-07-109



PA-07-111 determined that adequate sustainment of the Mansour Pump Station had not been provided. The facility was designed to prevent raw sewage from flowing through the streets of al-Amereia, in Baghdad.

**“Sustainment of CERP projects has long been a concern.”**

**SIGIR Audits:** 10-013, 09-026, 08-017, 08-006



SIGIR Audit 09-026 found weaknesses in plans to transfer the Baghdad International Airport Hotel to the GOI.

**“The lack of standardized procedures for transfer of projects to the GOI has placed some CERP projects at risk for waste.”**

## SIGIR Investigations

The prevalence of cash-based transactions creates potential opportunities for embezzlement, and investigators have uncovered criminal irregularities in the award and administration of CERP contracts. SIGIR has several ongoing investigations related to the CERP, and four cases have already been adjudicated:

- Two Korean military officers and a Korean military enlisted man pled guilty in a Korean military court to conspiracy to extort money and gifts from Iraqi contractors and other irregularities involving CERP contracts awarded in Erbil. The U.S. government lost \$2.9 million as a result of the extortion and bribery scheme.
- A U.S. Marine Corps major pled guilty to two felony counts of structuring financial transactions. He made 91 cash deposits, totaling more than \$440,000, after

returning from deployment as a project purchasing officer (PPO) in Anbar. PPOs are responsible for identifying, selecting, and awarding reconstruction projects, as well as verifying project completion.

- A U.S. Army captain was sentenced to 15 months in federal prison after pleading guilty to accepting a gratuity. He had conspired with a contracting company to receive cash bribes for awarding inflated contracts with CERP funds in Najaf.
- A U.S. Army captain was sentenced to 30 months in prison after pleading guilty to theft of government property. He embezzled \$690,000 of the CERP while serving as a PPO. The funds had been intended as payment for security contracts with the Sons of Iraq program and for humanitarian relief and reconstruction programs.

## General Observations

- Based on currently available data and analysis, SIGIR cannot determine whether CERP expenditures have achieved their intended outcomes.
- Isolating the effects of the CERP in relation to other programs and external factors is difficult.
- The few studies attempting to measure the effectiveness of CERP-funded projects have produced a wide range of results.

ISF capabilities, noting that additional funds and training personnel may be required after 2011 to ensure that the ISF is capable of providing for Iraq's security. This echoed aspects of a November 2010 DoD Office of Inspector General (DoD OIG) report, which warned that the pending departure of U.S. forces leaves little time for them to assist the ISF in developing its logistics system. DoD OIG also cautioned that, without viable logistical and industrial capabilities, the ISF may be unable to achieve minimum combat readiness, potentially endangering the stability of the Iraqi state.

## Economic Progress

This quarter, several promising economic developments occurred that should yield dividends for the Iraqi people for years to come:

- The UN Security Council lifted trade sanctions that it had imposed on Iraq during the reign of Saddam Hussein, leaving Iraq free to pursue an array of peaceful civilian nuclear activities.
- International oil companies reported significant progress in developing Iraq's southern oil fields.
- The Ministry of Oil announced plans to look for untapped oil fields in underexplored areas of the country, and it signed two preliminary contracts with international energy firms for natural-gas development.
- The Ministry of Electricity reported continued progress in attracting international investment and prepared to release a new comprehensive plan for improving Iraq's power generation, transmission, and distribution capacities.

## SIGIR Audits

This quarter, SIGIR issued five audit products, including reports on the U.S. military's management of the Sons of Iraq (SOI) program and a \$26 million U.S.-funded educational academy in Baghdad:

- **Sons of Iraq.** In mid-2007, the U.S. military began using the Commander's Emergency Response Program (CERP) to finance the hiring of former insurgents to staff checkpoints and guard buildings throughout Iraq. U.S. field commanders made cash payments to SOI leaders. Widely credited by the U.S. military with contributing to the improved security situation, the SOI program ultimately cost about \$370 million. SIGIR's audit, however, could not draw empirically reliable conclusions regarding the program's actual contribution to the reduction in violence because DoD lacked sufficient, quantifiable data about the program's effects. Moreover, SIGIR determined that the U.S. military exercised weak financial controls over SOI payments.
- **GOI Support for the Iraq International Academy.** SIGIR's audit of this \$26 million U.S.-funded project to build an

educational complex for GOI officials found a lack of official Iraqi support to operate and maintain the facility once it is completed. SIGIR concluded that U.S. funds were at risk of being wasted unless the U.S. government and the GOI entered into formal agreements concerning its operation and maintenance.

- **DoD's Deployable Disbursing System (DDS).** The DDS was developed to enable deployed DoD personnel to keep track of appropriated funds while in the field. SIGIR's review of the DDS found that some data was missing that may include sensitive information.
- **CERP Allocations to Iraq.** SIGIR found discrepancies between the CERP fund allocations that USF-I reports it has received and the amount of funds that the Army Budget Office reports it has provided.
- **Iraq Relief and Reconstruction Fund 1 (IRRF 1).** SIGIR's review of the \$2.48 billion reconstruction fund did not identify any significant remaining issues related to IRRF 1 apportionments, obligations, expenditures, or cancellations.

As of January 30, 2011, SIGIR's Audits Directorate had published 182 reports and had 18 audits in progress.

## SIGIR Investigations

In November, SIGIR's Investigations Directorate achieved one of its most significant results to date when Louis Berger Group, Inc. (LBG), a large U.S. government contracting firm, agreed to pay more than \$69 million in criminal and civil penalties to settle fraud charges related to its international work on behalf of DoD and the U.S. Agency for International Development (USAID). LBG's former chief financial officer and controller also pled guilty to conspiring to defraud USAID by fraudulently inflating invoices over a six-year period ending in 2007. Other investigative accomplishments this quarter included:

- a U.S. Army lieutenant colonel being charged with conspiracy and accepting illegal payments relating to actions taken while he managed a Forward Operating Base in Iraq
- the sentencing of a U.S. Army major to 5 years in prison for accepting bribes from foreign companies seeking to secure U.S. government contracts
- the sentencing of a U.S. Marine Corps major to one year and one day in prison for illegally depositing more than \$440,000 in illicitly obtained funds into U.S. bank accounts following his 2005 assignment to Iraq as a contracting officer

To date, SIGIR's investigative work has led to 54 indictments, 44 convictions, and court-ordered payments of more than \$140.9 million. Currently, SIGIR investigators are working on 104 open cases and anticipate announcing more significant investigative results in the coming months.

## TO OBTAIN A FULL REPORT

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