

SIGIR Oversight

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SIGIR AUDITS

From May 1, 2007, to July 30, 2007, SIGIR completed eight new audit products. As of July 30, 2007, SIGIR has issued 94 audit products since March 2004.

This quarter, SIGIR audits addressed a wide range of issues:

- an assessment 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, efficient, and cost-effective
- a review of the process of transferring completed construction projects to the Government of Iraq (GOI) is working
- status of the U.S. Embassy-Iraq anticorruption initiative and a follow-up of actions taken on recommendations made in SIGIR's July 2006 audit report
- SIGIR's first focused financial review, which looks at the U.S. Agency for International Development's (USAID's) Phase II Iraq reconstruction contract with Bechtel National, Inc. (Bechtel)
- financial-related reviews, including the status of the financial reporting of the cost to complete ongoing IRRF-funded construction projects and a look at the sources and uses of FY 2006 funds for Iraq relief and reconstruction
- a report on the roles and responsibilities of the U.S. government agencies and activities involved in Iraq relief and reconstruction
- an assessment of the status of the Provincial Reconstruction Team (PRT) program expansion

SIGIR has 19 ongoing audits, and at least 9 more are planned to start next quarter. SIGIR performs audit work under generally accepted government auditing standards. Details on SIGIR audits are presented throughout this Report:

SIGIR FINAL AUDIT PRODUCTS, SINCE APRIL 30, 2007

REPORT NUMBER	REPORT TITLE	DATE ISSUED
07-001	Logistics Civil Augmentation Program Task Order 130: Requirements Validation, Government Oversight, and Contractor Performance	June 2007
07-003	Cost-to-complete Reporting for Iraq Reconstruction Projects	July 2007
07-004	Transferring Iraq Relief and Reconstruction Fund Capital Projects to the Government of Iraq	July 2007
07-005	Fact Sheet on Sources and Uses of U.S. Funding Provided in Fiscal Year 2006 for Iraq Relief and Reconstruction	July 2007
07-007	Status of U.S. Government Anticorruption Efforts in Iraq	July 2007
07-008	Fact Sheet on the Roles and Responsibilities of U.S. Government Organizations Conducting IRRF-funded Reconstruction Activities	July 2007
07-009	Review of Bechtel's Spending under Its Phase II Iraq Reconstruction Contract	July 2007
07-014	Status of the Provincial Reconstruction Team Program Expansion in Iraq	July 2007

TABLE 3-1

- For the titles of the eight audit products issued final during this reporting period, see Table 3-1.
- For information on all SIGIR audit work completed as of July 30, 2007, and for the full text of all final audit products, see Appendix I and the SIGIR website: www.sigir.mil.

During the quarter, SIGIR helped develop many informational papers to respond to congressional requests. SIGIR provided information on contracting procedures and processes, progress of the Iraqi Security Forces logistics support program development, forensic auditing, and recovery audits.

On June 23, 2007, SIGIR chaired a meeting of the Iraq Accountability Working Group (IAWG). IAWG's coordination complements the ongoing coordination provided by the Iraq Inspectors General Council (IIGC) in Arlington, Virginia. The forward-deployed audit staffs of the various federal agencies in Iraq use the IAWG to coordinate audits, share data relative to Iraq relief and reconstruction, minimize audit disruption to clients, and avoid duplicative efforts.

SIGIR audits generally have four distinct phases:

- **engagement planning** to evaluate the adequacy and effectiveness of controls built into a project or program and establish detailed plans for fieldwork in a design matrix
- **fieldwork** to conduct detailed examinations, tests, and analyses to collect appropriate and adequate data
- **reporting** of results and recommendations
- **audit closure and follow-up** on the implementation of the audit recommendations

The implementation of audit recommendations is crucial. SIGIR auditors regularly follow up on all accepted recommendations until they are fully implemented. Recommendations that are not accepted are resolved through the applicable resolution process of each organization, normally at the deputy level.

This quarter, as congressionally mandated by the Inspector General Act of 1978, as amended, SIGIR includes its semiannual report on the status of the implementation of SIGIR recommendations. In Appendix I, SIGIR reports on the recommendations closed since the last Quarterly and Semiannual Report and the recommendations that remain open.

Final Audit Products

Logistics Civil Augmentation Program Task Order 130: Requirements Validation, Government Oversight, and Contractor Performance

(SIGIR-07-001, JUNE 22, 2007)

Introduction

Established in 1985, the Logistics Civil Augmentation Program (LOGCAP) is a U.S. Department of the Army (Army) program that preplans for the use of global corporate resources in support of worldwide contingency operations. If U.S. forces deploy, contractor support is then available to a commander as an option. LOGCAP has two objectives:

- Provide combat support and combat service support augmentation to both combat-

ant and component commanders, primarily during contingency and other operations (including reconstitution and replenishment within reasonable cost).

- Facilitate the management and physical responsibility to support deployment, site preparation, set preparation, modules operations and maintenance (O&M), redeployment, and transportation requirements for the force provider.

Examples of the type of support available include supply operations, laundry and bath, food service, sanitation, billeting, maintenance, fuel services, power generation and distribution, and transportation. LOGCAP has been used to support U.S. forces in operations in Somalia, Haiti, and Bosnia, and it is currently being used to support operations in Afghanistan, Kuwait, and Iraq. The use of LOGCAP to support U.S. troops in Iraq is the largest effort in the history of LOGCAP.

Additionally, LOGCAP support is authorized for other U.S. military services, coalition forces, other government agencies, and non-governmental organizations. The basic contract requires the contractor, unless indicated otherwise, to adhere to functional Army regulations and to gather operational performance data required by regulations or the contract's required list of deliverables.

Awarded on December 14, 2001, the LOGCAP contract (DAAA09-02-D-0007) comprises a series of task orders that commit the contractor to provide support services and the government to pay for those services.

Task orders under this contract can be either fixed-price or cost-reimbursable. In Iraq, the total cost of all 149 task orders issued under the LOGCAP contract is approximately \$22.5 billion, as of March 4, 2007.

The focus of this review is LOGCAP Task Order 130, which was awarded on April 27, 2006, to Kellogg Brown and Root Services, Inc. (KBR) to provide services necessary to support, operate, and maintain the Chief of Mission and Multi-National Force-Iraq (MNF-I) staffs at the U.S. Embassy-Iraq and at other Chief of Mission sites in Baghdad, Basrah, Hilla, and Kirkuk. The task order has an estimated value of about \$243 million. Scheduled to expire on April 7, 2007, the task order was extended for up to 90 days.

This task order is a continuation of services previously awarded under Task Order 100 and Task Order 44, which were awarded on November 5, 2004, and March 6, 2003, respectively. Because these task orders provided support to both the Department of Defense (DoD) and Department of State (DoS) missions in Iraq, DoD and DoS reached an agreement that the reimbursement of costs associated with the three task orders would be shared 60% by DoS and 40% by DoD. The total cost associated with these three task orders is approximately \$1.3 billion.

These are the primary government offices involved with the operation of Task Order 130 in Iraq:

- The DoS Embassy Management Office—headed by the Counselor for Management Affairs, U.S. Embassy-Iraq—is responsible

for the day-to-day support of Chief of Mission (COM) operations in Iraq.

- The DoD Joint Area Support Group-Central (JASG-C) in the International Zone is the MNF-I military component that provides administrative and logistical services and coordinates military support to the U.S. Mission-Iraq.
- The Baghdad office of the Defense Contract Management Agency (DCMA) provides onsite monitoring of the contractor.
- The U.S. Army Sustainment Command is responsible for administering the LOGCAP program. The Procuring Contracting Officer, the LOGCAP Program Manager, and the Logistical Support Element Office—established to help customers in Iraq with LOGCAP requirements—are assigned to this command.
- The Defense Contract Audit Agency (DCAA) provides its expertise in reviewing the contractor's financial management system and ensuring that costs claimed by the contractor are reasonable, allowable, and allocable.

Objectives

SIGIR performed this review at the request of the Management Counselor, U.S. Embassy-Iraq. The broad objectives of this review were to determine 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. This report specifically addresses three issues:

- Does the government have a process in

place that ensures that requirements are properly validated?

- Did KBR's performance meet contractual requirements in an effective and efficient manner?
- Is the government performing adequate oversight of KBR's performance?

This partial review of Task Order 130 specifically examined elements of contractor operations conducted in the International Zone for services in four areas: fuel operations, food service, billeting, and morale/welfare/recreation services.

On October 26, 2006, SIGIR issued an interim report, "Inappropriate Use of Proprietary Data Markings by the Logistics Augmentation Program (LOGCAP) Contractor" (SIGIR-06-035). This report discussed KBR's practice of routinely marking information provided to the government as "KBR Proprietary Data" and KBR's initial refusal to provide data that SIGIR requested in its native electronic format.

SIGIR plans to issue additional reports on other elements of LOGCAP Task Order 130.

Results

DoS and JASG-C have a process in place to ensure that all new requirements, including those initiated by the contractor, are properly validated. However, the standard operating procedure guide that describes the process is not current. At the time of this report, a DoS/JASG-C working group was in the process of revising this guide to reflect the current

procedures for new requirements validation. As of May 31, 2007, a revised guide had not been issued.

Customer survey results suggest that KBR satisfactorily supplied the required services, but SIGIR identified several areas in which contractor services and government oversight could be improved. Specifically, improvement can be made to the U.S. government oversight of KBR's performance and in the management and use of government resources. Independent quality assurance reviews were not conducted on KBR's internal controls, and reviews were not conducted of KBR's compliance with applicable government policies and Army regulations. However, during the SIGIR review, U.S. government activities initiated several actions to improve the monitoring and delivery of KBR's services, such as appointing Contracting Officer's Technical Representatives (COTRs) and improving the oversight of the billeting tracking system.

Fuel Operations. SIGIR found weaknesses in KBR's fuel receiving, distributing, and accountability processes of such magnitude that SIGIR was unable to determine an accurate measurement of the fuel services provided. These weaknesses were material and identified a high risk of a potential improper use of fuel. SIGIR also determined that government monitoring was not particularly strong during this period because of the lack of qualified staff to perform oversight for this technical area. However, during SIGIR's ongoing discussions with KBR management, corrective action was implemented to improve controls and reduce the high risk of unauthorized use or improv-

erly recorded issuances of fuel supplies. The government has also appointed a COTR as a government monitor with the necessary technical skills to improve the government's oversight.

Food Service. SIGIR found that during FY 2006, the food service subsistence account was overspent by \$4.5 million when compared to the Army's Basic Daily Food Allowance (BDFA) and the recorded level of service provided. Moreover, the government oversight participants had not clearly understood or established oversight of the account. Officials from the Management Counselor's Office told SIGIR that they were not aware of the applicable food service guidance provided in Army Regulation 30-22 relating specifically to the operations of LOGCAP dining facilities.⁵¹⁹ Consequently, these requirements associated with government management and oversight were not being followed under the contract terms and Task Order 130. DCMA told SIGIR that there were two reasons that the subsistence account was overspent:

- The menu used to support the COM dining facilities may have provided a significant number of higher cost food items from the standard Army dining facility menu published by the Army's Center of Excellence, Subsistence.
- The government did not have the requisite number of qualified personnel to properly oversee the headcount in accordance with applicable guidance.

KBR cited similar reasons for the overspent status.

However, for the first reason, SIGIR could not determine who gave this order to use more of the higher-cost food items. SIGIR could not find any documentation authorizing KBR to exceed the normal BDFFA meal allowance costs, and nothing in the current LOGCAP contract or statement of work (SOW) for Task Order 130 authorizes the contractor to procure subsistence for meals for the dining facilities supporting the COM in excess of the established Army standard BDFFA rate for Iraq. DoS staff told SIGIR that they did not believe the Army's guidance applied to them.

Management Counselor officials told SIGIR that they were unaware of the requirement; therefore, they did not appoint a disinterested inventory officer to oversee the semiannual subsistence (food) inventory, which is conducted in March and September. As a result, before SIGIR pointed out the requirement for an independent inventory, the contractor was performing self-oversight of the acquisition and use of food. In September 2006, the government conducted a proper FY 2006 inventory with the appropriately appointed government staff.

Billeting. SIGIR found many errors in KBR's automated billeting tracking tool, which were caused primarily by poor procedures for in-processing and out-processing for housing allocations. This resulted in less-than-optimal use of available trailers. Trailers are to be assigned as single or shared occupancy—according to rank, grade, or status—and properly relinquished on out-processing for subsequent allocation. Furthermore, although

both DoS and JASG-C billeting guidance require trailers for COM and MNF-I contractors to have shared occupancy, SIGIR found housing disparities because the government allowed KBR to manage its own separate billeting area (Camp Hope). In most cases, KBR employees (749 of 835, or 90%) are housed as single occupants in trailers—a higher standard than for those they support.

DoS officials told SIGIR that they were generally unaware of their ability to control KBR's billeting practices. SIGIR's review of the contract and task order showed that the contractual language in this area is vague, and SIGIR found no fault with KBR's actions. However, SIGIR could not identify a specific reference in the contract or task order that relieved the government of its oversight function with regard to KBR billeting or allowed KBR to establish its own standard. As a matter of economy and an effective use of limited housing, SIGIR questions the difference in standards given that the government pays all costs associated with KBR's billeting. Adherence to the current COM and JASG-C billeting policy could have the potential of a 45% reduction in housing requirements of the LOGCAP contractor for Task Order 130. Further, there may also be opportunities for COM and JASG-C to use any excess billeting space now in full control of the contractor.

Morale, Welfare, and Recreation Services. SIGIR found no significant problems with KBR's performance or government oversight in this area. A COTR has been appointed.

Government Oversight. The examples

cited support for what SIGIR considers to be two key weaknesses in the government's oversight of the LOGCAP contract. First, the oversight process did not carefully examine the contractor's internal controls over the services being provided. Second, the oversight to ensure economy and efficiency in the use of the LOGCAP contract was limited. The SIGIR review identified that DCMA's oversight processes tended to focus too heavily on the delivery of service under the contract without focusing sufficiently on whether adequate controls were in place to protect the access to and use of government resources. For example, SIGIR found numerous problems with the contractor's fuel receiving and disbursing processes that were not identified by DCMA's fuel services quality assurance (QA) reviews. Instead, DCMA staff conducted their QA reviews in conjunction with the contractor's QA auditors using a QA checklist based on KBR's internal procedures. As a result, DCMA's QA reviews focused on KBR's operational processes—not on its internal controls. SIGIR believes that this flawed QA review methodology led to material weaknesses that were not identified by the government. The reviews were also documented on the contractor's forms marked as proprietary, limiting their use to the government and questioning the independence of the government's participation in these reviews.

SIGIR determined that part of the DCMA's shortfalls in performing adequate oversight can be attributed to problems its staff described as identifying and appointing quali-

fied COTRs. Typically, the customer provides subject matter experts to assist DCMA in its administrative contracting officer duties. COTRs are an important element in effective oversight. However, SIGIR found that no COTRs were appointed until September 2006 during the SIGIR review. From September 2006 to December 2006, DCMA identified and appointed 18 COTRs to this task order from JASG-C and DoS. SIGIR believes that if these appointments had been made earlier, many of the control shortfalls identified in the fuel and food service area may have been detected earlier.

SIGIR also determined that there was no formal government-led process that actively pursued economy and efficiency in the use of contractor-provided services, except in the new requirements validation and approval process. Although the primary customers—DoS and JASG-C—had a process for approving requirements and ensuring that adequate funds were available, they did not always determine for each category of services provided: (1) the appropriateness of the day-to-day services, (2) the level of services being provided, and (3) the economy and efficiency with which the services are being provided. The government has not conducted customer-based reviews that focus on these attributes. These reviews would have increased the likelihood of identifying issues SIGIR found, such as the difference in the application of billeting standards between KBR employees and contractors affiliated with COM and DoD. SIGIR believes that the first-line responsibility for defining the level of sup-

port in any contract belongs to the customer, who should periodically evaluate each category of contracted service for potential savings and improved service delivery.

SIGIR also noted that on April 6, 2006, the Headquarters, U.S. Army Field Support Command, sent a letter delegating the Administrative Contracting Officer (ACO) functions to DCMA. This letter defined the administrative support functions, including such functions as ensuring that the contractor performs in accordance with the statement of work and the basic terms and conditions of the contract. The letter also stated that DCMA was to ensure the efficient use of contractor personnel, but it did not specifically direct DCMA to ensure that the contract was performed in a cost-efficient and effective manner. SIGIR believes that if the delegation letter had been more specific, DCMA may have performed its oversight beyond compliance to delivery of services. SIGIR will report on the overall program management aspects of the full task order in a future review.

Government and Contractor Management Actions

During the review, COM, JASG-C, DCMA, and the contractor all took actions to address several of the U.S. government management-control weaknesses discussed in this report.

In September 2006, the DoS Management Office and JASG-C established a working group to revise the standard operating procedure guide to reflect current procedures for validating new requirements. However, as of May 31, 2007, a revised guide had not been issued.

- For *ongoing services* being performed, DCMA identified and appointed staff from both COM and JASG-C as COTRs to monitor all services required under this task order.
- For *fuel*, KBR had taken positive actions to address weaknesses in the control over the receipt, issuance, and accountability of fuel noted during the SIGIR review. KBR also modified the fuel database to add data integrity controls and exception reports to ensure that data is entered accurately and to identify attempts to enter data that is outside of acceptable parameters.
- For *food services*, during the SIGIR review, DCMA appointed, as required, a disinterested, independent government representative to oversee the September 2006 FY-end subsistence (food) accountability inventory.
- For *billeting services*, the DoS Management Office, U.S. Embassy-Iraq, and JASG-C took action during the course of this review to verify the billeting assignments under COM/JASG-C control and, in coordination with KBR, took action to update and correct the information in the automated billeting tracking tool. This verification did not include the separate KBR-controlled housing. However, at SIGIR's recommendation, the Procuring Contracting Officer under the U.S. Army Sustainment Command said that he drafted proposed contract modification language stating that KBR's billeting is subject to government billeting oversight. He said he will consider this new language in future LOGCAP task orders.

- Further, the U.S. Army Sustainment Command, in response to the SIGIR interim report on KBR's *propriety data markings* on documents, took immediate action by adding modification P00018 (October 30, 2006) to the basic LOGCAP contract. The modification added specific language to the contract that SIGIR had recommended on government proprietary information and electronic submission directions. In response to discussions on a draft of this report, the U.S. Army Sustainment Command made several contract management changes to the SOW for the successor to Task Order 130 (Task Order 151) to improve oversight in food service, fuel operations, and billeting operations.

Recommendations

SIGIR recommends that the Counselor for Management Affairs, U.S. Embassy-Iraq:

1. Continue working with JASG-C to revise the standard operating procedures to include requirements for validating new work under Task Order 130 and successor task orders.
2. Continue working with JASG-C to verify billeting assignments and ensure proper assignment of billets based on published criteria.
3. Develop and issue, in coordination with JASG-C, a process and procedure for central in-out processing. This process should be added to a standard process for personnel arriving into and departing from billets in Iraq supported by Task Order 130. All personnel (military, federal civilian employees, contractors, etc.) should be required, as part of the departure process, to present a sign-off from billeting that they have cleared billeting before permanently departing from Iraq and that they no longer have a recurring need for bed space under Task Order 130 and successor task orders.
4. Continue working with JASG-C to improve management controls over food services, including developing proper controls to ensure that there is an accountability process for tracking the personnel using the dining facilities and that those personnel are properly authorized to receive food services subsistence.
5. Work with Army and DoS representatives to clearly define each government entity's responsibilities in overseeing Task Order 130 and successor task order activities. If the determination is made that additional assistance is needed from either organization to oversee key activities, then the Management Counselor should formally request specific assistance.

SIGIR recommends that the LOGCAP Procuring Contracting Officer take these actions:

6. Amend the delegation letter for the ACO duties to include:
 - a. Examining the contractor's internal control practices, including contractor reporting data integrity, to ensure that basic and proper internal controls are established and adhered to and that the services are performed

- efficiently and cost-effectively.
- b. Developing DCMA-specific QA criteria, procedures, and reports to conduct an independent government review.
- 7. Reinforce its delegation for DCMA to ensure that qualified COTRs are formally identified, appointed, and assigned, as necessary, to assist DCMA-Baghdad in reviewing technical aspects of the contractor's functions.
- 8. In accordance with Army Regulation 30-22 (May 10, 2005) render a procuring contracting officer's determination as to the reasons why the overspent status occurred and take appropriate action in accordance with the LOGCAP contract terms.

Because of the potential for improving the use of housing resources and reducing costs of the LOGCAP contractor life-support services, SIGIR recommends that the LOGCAP Procuring Contracting Officer, in coordination with the overall LOGCAP Program Management Office, take these actions:

- 9. Address the appropriateness of any LOGCAP contractor controlling its own billeting assignments/standards during negotiations for any future task orders that may be issued under the current LOGCAP contract, as well as during negotiations for the follow-on LOGCAP contracts. As a matter of public policy, these two issues should be addressed:
 - a. Should a LOGCAP contractor be permitted to define its own billeting standards (for its own employees) that are above the established stan-

dards for other contractors and/or federal military and civilian personnel whom the contractor supports, and be reimbursed for the full cost?

- b. Should a LOGCAP contractor be permitted to have exclusive control of billeting assignments for its own employees? If so, what are the proper controls needed to ensure that LOGCAP billeting is operating in an economical and efficient matter as determined by the appropriate government oversight entity?

Management Comments and Audit Response

SIGIR received written management comments on a draft of this report from the DoS Management Counselor's Office and technical comments from DCMA. Actions have been taken to meet the intent of the recommendations. Although both organizations stated that they believe there had always been adequate oversight on Task Order 130, each organization (1) acknowledged the need for changes in their contract management processes and (2) listed specific actions taken in response to each of the issues that SIGIR brought to their attention during the review. SIGIR extended the comment period to accommodate the time required by DCMA to respond to the draft report. Copies of these responses are included in the final report.

The U.S. Army Sustainment Command gave SIGIR oral comments that generally concurred with the findings and recommendation. Further, U.S. Army Sustainment Command used

several of the verbal recommendations made during the audit to revise the SOW for the successor to Task Order 130 (Task Order 151) to improve oversight in food service, fuel operations, and billeting operations. SIGIR did not receive written comments from the U.S. Army Sustainment Command.

Cost-to-complete Reporting for Iraq Reconstruction Projects

(SIGIR-07-003, JULY 2007)

Summary

As of the quarter ending March 31, 2007, DoS has yet to meet its mandate to provide the Congress with information on the uses of all Iraq Relief and Reconstruction Fund (IRRF) monies on a project-by-project basis, including the cost to complete each project. SIGIR was told that systems limitations related to automating the data have continued to result in unreliable data. In a written response to a SIGIR inquiry as to why cost-to-complete reports were not being submitted to the Congress, a senior official of the DoS Bureau of Near Eastern Affairs (NEA) said that NEA did not submit the required cost-to-complete information to the Congress because, over the course of two and a half years, the Congress had not requested it.

However, during the review, SIGIR found that the Gulf Region Division (GRD) of the U.S. Army Corps of Engineers prepares and reports project status to the Iraq Reconstruction Management Office (IRMO) Deputy Director, and these reports contain detailed project-level cost-to-complete information. Since May 8, 2007, GRD has provided these

reports to IRMO's successor, the Iraq Transition Assistance Office (ITAO).⁵²⁰ SIGIR believes that this project status information meets the intent of what the Congress has requested, yet neither IRMO nor ITAO has forwarded the GRD reports to NEA. SIGIR also believes that using this project status report would not impose any additional reporting requirement on GRD—the organization with project oversight for most of the ongoing IRRF-funded reconstruction projects.

Follow-up on Prior Report Recommendations

In previous reports on this subject, SIGIR made 20 recommendations for improving cost-to-complete reporting—5 to IRMO and 15 to the three implementing agencies: GRD, the U.S. Agency for International Development (USAID), and the Multi-National Security Transition Command-Iraq (MNSTC-I). Two recommendations remain open because of actions not taken:

- IRMO did not provide data to the Congress on the adequacy of cost-to-complete methodologies in sectors other than the Facilities and Transportation sector. This recommendation remains applicable to ITAO, which is to continue coordination, oversight, and reporting on remaining IRRF funds under Presidential Executive Order 13431.
- GRD has not reported significant scope changes to projects in its cost-to-complete reports, but it has included this requirement in its Standard Operating Procedure No. PR-128, “Developing Cost to Complete Reports” (April 4, 2006).

Background

The Congress established a requirement in Section 2207 of Public Law (P.L.) 108-106, Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004, to report quarterly estimates of cost to complete on a project-by-project basis for all projects funded by IRRF. This report, known as the *Section 2207 Report*, is currently compiled by NEA from information provided by the principal agencies involved in Iraq relief and reconstruction—USAID, GRD, and MNSTC-I (formerly through IRMO). The requirement for the *Section 2207 Report* expires on October 1, 2008.

According to the October 2005 *Section 2207 Report*, DoS advised the Congress that the cost-to-complete information would be reported as a companion document to the *Section 2207 Report*. The format for this report was developed in late 2005 by an interagency assessment team sent to Baghdad in March 2005 to address the information shortfall. The assessment team's work resulted in an action plan to provide cost-to-complete data in a Project Assessment Report (PAR) format on all projects valued at more than \$6.5 million, for a total of 151 projects.

SIGIR has issued three reports on cost-to-complete reporting:

- In July 2005, SIGIR reported that the agencies responsible for preparing the cost-to-complete information were not reporting cost-to-complete estimates or did not have adequate internal controls in place to provide accurate and transparent cost-to-complete information.
- In October 2005, SIGIR reported that IRMO was not receiving the required information to submit to the Congress, but IRMO was making progress in securing improved reporting from the implementing agencies.
- In January 2006, SIGIR reported that MNSTC-I had not submitted a report for the quarter ending September 30, 2005, and that GRD and USAID submitted reports with errors that were significant enough to undermine users' confidence in the reporting. SIGIR further reported that GRD and IRMO were taking actions to improve the reporting.

All three SIGIR reports included recommendations to IRMO and the three implementing agencies. The recommendations to IRMO focused on the need to develop, formalize, and provide guidance to the three principal agencies to ensure that the agencies report consistent cost-to-complete information. The recommendations to the implementing agencies primarily related to their developing methodologies to ensure that they report accurate cost-to-complete information.

Findings

In its June 29, 2007 Program Review Board, GRD reported that it had more than \$2.2 billion in IRRF-funded construction projects remaining. This includes an estimated \$2.2 billion for 372 IRRF projects started but not completed, and for 11 projects awarded but not started. GRD also reported \$934.2 million in IRRF unliquidated obligations. In the same

report, MNSTC-I data included nine projects started but not completed, and nine projects awarded but not started. These projects have an estimated cost of approximately \$16.8 million. Also, MNSTC-I has only \$5 million in unliquidated obligations. As of June 29, 2007, USAID did not have any IRRF-funded projects.

SIGIR continues to believe that the lack of complete, accurate reporting of cost-to-complete information on a project-by-project basis deprives the Congress and senior decision-makers of the ability to make informed judgments on resource priorities. At this point, however, most IRRF-funded projects are complete, and GRD is managing most of the remaining projects. Rather than expend further effort to correct problems with the current PAR format, an alternative may be to use the existing project status report that GRD uses to brief the ITAO Deputy Director. This report contains project-level information and would provide the information expected by the Congress without imposing an additional reporting requirement on GRD.

IRMO and GRD review the projects using monthly cost-to-complete reports that have more detail and are prepared with more direct involvement from the GRD sectors than the PAR. It is clear that IRMO, GRD, USAID, and MNSTC-I recognized the value of accurate, complete cost-to-complete reporting and placed considerable emphasis in this arena, particularly with respect to their monthly cost-to-complete sector reviews conducted by IRMO and briefed to the Deputy Director of IRMO. Further, SIGIR's review of the GRD

monthly cost-to-complete reports showed that data was reported at the project-by-project level, which is more aligned with the requirements of Section 2207. The SIGIR comparison of the PAR data fields to those of the monthly cost-to-complete report shows that the two reports have 27 data fields in common, including all the data fields used in computing the project's cost to complete. However, SIGIR also identified ten additional miscellaneous fields that the two reports do not share, but it should be a minimal effort for management to review and consolidate. Finally, based on this review, SIGIR raises the question regarding potentially duplicative preparation and reporting of cost-to-complete information—with the PAR being less responsive to the legislative requirement.

New Iraq Funding and Cost-to-complete Reporting

The Congress has appropriated an additional \$10.2 billion for Iraq through the Economic Support Fund (ESF) and the Iraq Security Forces Fund (ISFF). Neither law included a requirement for cost-to-complete reporting. IRMO reported the accomplishments for ESF construction and non-construction projects in Appendix III of the January 2007 *Section 2207 Report* and did not plan to report cost-to-complete information for ESF-funded construction projects. MNSTC-I also reports accomplishments for ISFF-funded projects in Iraq through the quarterly *Section 9010 Report* to the Congress,⁵²¹ which does not require information on the cost to complete projects.

Recommendations

To comply with the project level cost-to-complete reporting requirements of Section 2207 of P.L. 108-106, SIGIR makes these recommendations:

1. The Commanding General, GRD, should direct GRD management to submit its project level cost-to-complete report to ITAO for the quarter ending September 30, 2007, as a replacement for its current quarterly cost-to-complete PAR report.
2. The Director, ITAO, should use the GRD project-level cost-to-complete report as a replacement for the current PAR report and submit it quarterly to NEA to accompany the *Section 2207 Report* to the Congress.
3. The Principal Deputy Assistant Secretary of NEA should ensure that the GRD cost-to-complete report is submitted with the *Section 2207 Report* to the Congress beginning with the quarter ending September 30, 2007.

Lessons Learned

DoS should have asked for clarifying instructions of the congressional requirement for reporting on cost to complete. According to a senior NEA official, NEA did not submit more detailed information beyond that provided in the *Section 2207 Report* because over the course of two and a half years, the Congress had not requested it. Nonetheless, IRMO and the implementing agencies put forth a considerable effort to gather the data and forward it to NEA; SIGIR believes that NEA was well aware of this effort. For NEA to have allowed this effort to continue without either providing

the reports to or seeking clarification from the Congress was wasteful. The lesson learned is that when there is confusion about a congressionally directed requirement, agencies should seek clarification from the Congress rather than ignore the requirement, waste resources, and hamper congressional oversight.

Congress should consider requiring agencies to provide the methodology that will be used to meet required reports. During SIGIR's four reviews of the progress being made in reporting the cost to complete IRRF-funded projects, agency officials responsible for preparing the required reports questioned the definition of "project." Even as late as June 2007, senior managers at NEA questioned the definition of project cost to complete, yet did not seek clarification. If the Congress had required a methodology or even a report on how the IRRF-implementing organizations were going to satisfy the reporting requirement, this would have been identified early on and most likely been resolved. As a result, in April 2006, more than two years after the congressional requirement became law, GRD issued its standard operating procedure that responds to the congressional intent.

Management Comments and Audit Response

A draft of this report was provided to GRD, ITAO, and NEA. SIGIR received written comments from GRD and ITAO. Both of the respondents concurred with recommendation 1. Neither agreed with recommendations 2 or 3, each generally interpreting the requirements of Section 2207 of P.L. 108-106 as not requiring that project-level, cost-to-complete informa-

tion—in any type of report—accompany the quarterly *Section 2207 Report* to the Congress.

SIGIR disagrees with this interpretation. Both P.L. 108-106 and an October 17, 2005 memorandum from the IRMO Director discuss the inclusion of project-level, cost-to-complete information with the quarterly submission of the *Section 2207 Report* to the Congress. According to the IRMO Director, the mechanism to comply with the law was the PAR report. SIGIR, therefore, is supporting recommendation 2.

NEA did not provide comments.

Transferring Iraq Relief and Reconstruction Fund Capital Projects to the Government of Iraq

(SIGIR-07-004, JULY 2007)

Introduction

This report is one of a series issued by SIGIR that addresses transferring completed projects funded by the IRRF to the GOI. It focuses on the formal transfer of IRRF-funded capital assets⁵²² and follows up on prior SIGIR recommendations relating to capital asset transfer.

As of May 31, 2007, IRMO, USAID, MNSTC-I, and GRD have managed the completion of 2,797 IRRF capital construction projects valued at approximately \$5.8 billion.

A capital project transfer process is essential to both the United States and Iraq for two main reasons. First, it allows the GOI to recognize its ownership of the project. Asset recognition is the point at which the GOI officially agrees that the project is complete, that all necessary project-specific documentation is in place,⁵²³

and that the U.S. government has provided the necessary training and orientation to the local Iraqi staff who will be responsible to manage, operate, and maintain the new or refurbished facility. Second, it validates that the GOI is now responsible for project O&M and capital replacement. As a result, ownership enables the Iraqi Ministry of Finance to leverage completed projects to obtain new financing for future initiatives from world markets, including the International Monetary Fund, the World Bank, and donor nations.

According to the National Security Presidential Directive 36, *United States Government Operations in Iraq* (May 11, 2004), the U.S. Ambassador to Iraq is the DoS Chief of Mission at the U.S. Mission-Iraq and is responsible for the continuous supervision and general direction of all assistance for Iraq. This includes the direction, coordination, and supervision of all U.S. government employees, policies, and activities in country, except those under the command of an area military commander. The directive also created IRMO as a temporary organization within the U.S. Mission-Iraq to facilitate the transition in Iraq. On May 8, 2007, the President, by Executive Order 13431, created the Iraq Transition Assistance Office (ITAO) as the successor organization to IRMO.

Objectives

The overall objective was to determine whether IRMO, USAID, MNSTC-I, and GRD have developed and implemented plans for the transition of IRRF-funded projects to the GOI. To

meet the objective, the audit addressed these questions:

1. Have U.S. agencies involved in IRRF-funded construction projects developed adequate procedures for transitioning completed projects to the GOI?
2. Have there been delays in transitioning projects to the GOI; if so, what have been the causes and impacts of those delays?
3. What is the status of actions taken in responding to prior SIGIR recommendations on transition and sustainment?

The transition process comprises three steps: (1) asset recognition and transfer, (2) sustainment, and (3) capacity development. This audit focused on asset recognition and transfer. SIGIR is reporting on sustainment and capacity development in separate reviews and assessments.

Results

IRMO and its implementing partners—USAID, MNSTC-I, and GRD—have worked hard to put a process in place for handing over completed U.S.-built capital projects to the GOI and initially were successful in transferring projects. In December 2005, the four organizations and others formed the Asset Recognition and Transfer Working Group to build on earlier informal efforts to develop a common transfer process for all U.S. agencies to use. IRMO closely coordinated the asset transfer process with the Ministry of Finance because of the Ministry's broad budgetary/financial responsibility and funding authority

for the GOI, including providing funding for O&M costs for transferred assets. However, a new Minister of Finance was appointed in May 2006 who, according to IRMO staff, changed the GOI conditions on the asset transfer process, effectively halting further transfers at the national level in July 2006.

Hoping to break this bottleneck, IRMO and its implementing U.S. partners are developing alternatives to achieve the objective of capital asset transfer to the GOI. They drafted a revised policy that moves formal recognition and acceptance of asset transfers at the national level from the Ministry of Finance to the individual line ministries (for example, electricity). IRMO, MNSTC-I, and GRD are prepared to unilaterally transfer to the GOI completed assets as a last resort if the line ministries are unwilling to formally recognize and accept them. In addition, IRMO officials told SIGIR that they have drafted a bilateral agreement on asset transfer to the GOI that is intended to be signed by the U.S. Ambassador to Iraq and the Iraqi Prime Minister. IRMO could not provide a timeline for completion of the bilateral agreement: it depends on input from both the U.S. government participants and the GOI.⁵²⁴

USAID is the one agency that has not used the Asset Recognition and Transfer Working Group's common policy. In a previous recommendation, SIGIR stated that USAID should participate in this process, but it has thus far declined. Instead, USAID plans to execute its own agreement with each line ministry. The agreement will include all projects completed by USAID for that ministry and a commitment

by the line ministry to sustain the completed projects.

Between April 23, 2006, and June 30, 2006, MNSTC-I and GRD transferred 435 completed IRRF-funded projects, valued at \$501 million, to the GOI through the Ministry of Finance. No completed projects have been transferred to the Ministry of Finance since June 30, 2006. As of May 31, 2007, 2,362 completed U.S.-built projects, valued at \$5.3 billion, await transfer and acceptance at the national level. Delays in transferring completed projects mean that fewer assets are available to the GOI as leverage for loans and could result in additional sustainment expenses for the U.S. government agencies that completed the projects. SIGIR previously identified problems in sustaining completed projects.⁵²⁵

SIGIR has issued four asset transfer reports, each with one recommendation, on the transfer of completed projects to the GOI.⁵²⁶ Each recommendation identified the need to develop a common transfer process. IRMO and its implementing partners have worked to put such a process in place but have been stymied by the GOI's unanticipated reluctance to accept project responsibility and ownership. Thus, each recommendation remains open, and the implementing partners through the Asset Recognition and Transfer Working Group continue to develop a common transfer process acceptable to all parties, especially the GOI. SIGIR continues to maintain that asset transfer to the GOI is best accomplished through a single U.S. government process, rather than by each implementing agency

independently negotiating its own agreement. Also, the U.S. government needs to establish an overall bilateral agreement with the GOI to include any agreed-upon procedures for the transfer of assets.

Recommendation

SIGIR recommends that the U.S. Ambassador to Iraq provide senior-level support to finalize a bilateral agreement between the United States and Iraq on asset transfer to the GOI.

Management Comments and Audit Response

SIGIR received written comments on a draft of this report from the U.S. Embassy-Iraq, USAID, and GRD. The Ambassador to Iraq concurred with the recommendation. USAID and GRD have provided technical comments about asset recognition and acceptance for SIGIR consideration. These comments are addressed in the final report as appropriate. SIGIR considers all comments received responsive to the intent of the recommendations.

Fact Sheet on Sources and Uses of U.S. Funding Provided in Fiscal Year 2006 for Iraq Relief and Reconstruction

(SIGIR-07-005, JULY 2007)

Background

In November 2003, the Congress enacted Public Law (P.L.) 108-106, which created the IRRF 2 and appropriated \$18.439 billion for security, relief, rehabilitation, and reconstruction in Iraq. The funds were allocated to specific sectors of Iraqi governance and society.

Section 2207 of the law also required that the Office of Management and Budget (OMB), in consultation with the Coalition Provisional Authority (CPA) Administrator, submit quarterly reports to the House and Senate Committees on Appropriations on the proposed uses of IRRF funds on a project-by-project basis, including cost-to-complete estimates. This reporting requirement is currently the responsibility of DoS. These reports were required to be submitted to the Congress until October 2007; however, P.L. 109-234, enacted in June 2006, extended the date for submitting the reports until October 2008.

In addition to creating IRRF 2, P.L. 108-106 also created the CPA's Office of Inspector General (CPA-IG) to conduct, supervise, and coordinate audits and investigations of the CPA's treatment, handling, and expenditure of IRRF funds and of the programs, operations, and contracts carried out utilizing IRRF funds. The CPA-IG was also required to submit quarterly reports summarizing the activities of CPA-IG and CPA, including a detailed statement of all obligations, expenditures, and revenues associated with reconstruction and rehabilitation activities in Iraq. In June 2004, the CPA was terminated, and its responsibilities were transferred to the U.S. Mission-Iraq. At the same time, the CPA-IG was re-designated as the Special Inspector General for Iraq Reconstruction (SIGIR). In FY 2007, P.L. 109-440 expanded the duties of SIGIR to include the oversight of all funds appropriated or otherwise made available in FY 2006 for the relief and reconstruction of Iraq, regardless of how they are designated.

Summary

The Congress appropriated about \$5.4 billion in additional, non-IRRF funding made available for FY 2006 to four separate funds for various relief and reconstruction projects in Iraq. Between 29 and 230 calendar days elapsed from the time the funds were made available by the Congress until they reached the field-level implementing organizations through a series of agency apportionment, allotment, allowance, and other funding transactions.

Two programs, however, were outside the range of calendar days it took for the funds to be made available to the implementing activities in Iraq. These programs were not considered in estimating the range of days because of special circumstances concerning these programs or their appropriations:

- \$2 million for the Democracy and Rule of Law program for Iraq and Afghanistan, funded by the Economic Support Fund, in P.L. 109-234. As of June 14, 2007, this amount had not yet been allotted because the Congress had not resolved a decision on whether the funds should go to Iraq or Afghanistan.
- \$375 million CERP funds provided for Iraq programs in P.L. 109-148, of which a portion of the budget authority was made available pursuant to the Continuing Resolution, approved on September 30, 2005. However, the Congress did not enact the appropriation legislation to make the funds available for use until December 30, 2005.

The laws that enacted the additional, non-IRRF funds do not impose the same quarterly reporting requirements as contained in P.L. 108-106 although some imposed other reporting requirements.

Funds were appropriated in FY 2006 under these laws:

- P.L. 109-102, Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2006, enacted November 14, 2005
- P.L. 109-148, Department of Defense, Emergency Supplemental Appropriations To Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act, 2006, enacted December 30, 2005
- P.L. 109-234, The Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, enacted June 15, 2006
- International Narcotics Control and Law Enforcement funding—\$91.4 million (\$82 million for prison construction) made available to DoS

Objective

The overall objective of this review was to identify the sources and uses of the funds made available by the Congress in FY 2006 for Iraq relief and reconstruction.

The information reported in this fact sheet is as of March 31, 2007. This fact sheet was organized by fund type, under these categories:

The FY 2006 appropriations funded:

- *Legislative Authority*: discusses the legislation that appropriated the funds
- *Reports Required by Law*: defines the reporting requirements established by the Congress
- *Other Reports*: defines the reporting requirements established by other activities
- *Fund Availability and Use*: describes when and for what purpose the activities in Iraq began using the funds
- *Control and Oversight*: describes how control over funds and performance is monitored and maintained
- *Performance Measures*: identifies the metrics that have been established to assess the success or failure of the funded programs
- Iraq Security Forces Fund—\$3.007 billion made available to assist the Iraqi Security Forces
- Economic Support Fund—\$1.545 billion made available by appropriations to assist Iraq relief and reconstruction efforts in the security, economic, and political areas
- Commander's Emergency Response Program—\$510 million for Iraq made available through two appropriations to enable local U.S. military commanders in Iraq to respond to urgent humanitarian relief and reconstruction requirements in their areas of responsibility

Each of the principle components reviewed and concurred with how SIGIR compiled and presented its information. Because information provided by OMB was completely documented, SIGIR did not ask OMB to validate its input to this fact sheet.

Status of U.S. Government Anticorruption Efforts in Iraq

(SIGIR-07-007, JULY 2007)

This report discusses the results of the SIGIR assessment of U.S. government anticorruption efforts in Iraq and follows up on an earlier review to determine the U.S. Embassy's progress in implementing SIGIR's prior recommendations.

Summary

Addressing the issue of corruption remains a top Embassy priority for Iraq. SIGIR's analysis generally shows two levels of effort—one aimed at economic, financial, and public integrity reforms and one aimed at technical and law enforcement reforms.

Nevertheless, since the July 2006 audit report, several challenges impeded the progress in implementing a coherent anticorruption program:

- The absence of a program manager with the authority and support to provide the necessary leadership and coordination of the overall anticorruption effort is a major challenge to success.
- Although several organizations are conducting many individual programs in Iraq, there is no comprehensive, integrated plan with metrics that ties these programs to an overall U.S. Mission-Iraq strategy or that provides a baseline to measure progress. All of these programs are attempting to address the complex development and institutional issues surrounding corruption, but SIGIR believes that greater synergy among these programs could be achieved by having a

plan that links programs to specific objectives of the overall strategy. Although the Embassy planned to create an inventory of programs and activities and then assess each against goals and objectives, neither has been accomplished as of June 1, 2007.

- The absence of an overall strategy makes it difficult to assess the adequacy of funding to meet the desired end state.

On balance, there has been some progress by individual initiatives. For example, in January 2007, the Embassy established the Office of Accountability and Transparency (OAT), which works to strengthen the Iraqi anticorruption institutions—the Board of Supreme Audit (BSA), the Office of the Inspector General (IG) at each ministry, and the Commission on Public Integrity (CPI). This new office has already accomplished a number of noteworthy achievements, including:

- providing a full-time advisor for the Iraqi IGs
- providing a full-time advisor for the BSA
- assisting in the development of a charter for the Joint Anticorruption Council (On May 16, 2007, the Joint Anticorruption Council charter was signed, and Iraqi charter members have already held meetings.)

Another initiative to address corruption is the development of a financial management tool, the Iraqi Financial Management Information System (FMIS). This system is intended to help the GOI provide financial transparency and accountability in its fiscal operations. Besides reducing corruption, this compre-

hensive, fiscal automated recordkeeping process should provide for open and reliable accounting and financial reporting and help restore the Iraqi citizens' confidence in their government. However, because of security and safety issues, the contractor has suspended work on this project.

Follow-up on Prior Report Recommendations

In July 2006, SIGIR issued a report on the U.S. Embassy-Iraq's anticorruption program,⁵²⁷ which identified a number of problems, including a lack of coordination and leadership in anticorruption activities. SIGIR recommended that DoS appoint a senior leader to direct the program to provide continuity in program administration and made 11 other recommendations for program improvement. As of June 30, 2007, limited progress has been made implementing these recommendations.

Recommendations

Based on the assessment of U.S. government anticorruption efforts, SIGIR recommends that the U.S. Ambassador to Iraq take these actions:

1. Re-emphasize and re-address the recommendations made in SIGIR's July 2006 audit report. As part of re-addressing the prior recommendations:
 - a. Include in the corrective actions plans an estimated completion date for implementing each recommendation.
 - b. Complete the inventory of anticorruption programs, activities, and initiatives.
 - c. Complete the assessments of the major program initiatives that are supporting the Embassy's Anticorruption Strategy.

Management Comments and Audit Response

SIGIR requested and received consolidated comments from the U.S. Embassy-Iraq on a draft of this report. The Embassy stated that it supported and was committed to pursuing the recommendations of this report and provided additional information on actions underway on SIGIR's previous recommendations. SIGIR also received and considered technical comments, where appropriate, in the preparation of the final report. SIGIR considers the comments and actions taken to be responsive to the report.

Fact Sheet on the Roles and Responsibilities of U.S. Government Organizations Conducting IRRF-funded Reconstruction Activities

(SIGIR-07-008, JULY 2007)

From May 2003 through June 2004, the CPA was responsible for overseeing, directing, and coordinating the relief and reconstruction effort in Iraq. The Project Management Office (PMO) was established to prioritize and manage projects and provide contract support for U.S.-funded reconstruction projects.

In May 2004, to successfully meet the "new and formidable challenges" after the termination of the CPA and the reestablishment of a sovereign government in Iraq, the President issued National Security Presidential Directive-36 (NSPD-36). NSPD-36 stated that after the transition of sovereignty to the Iraqi government, DoS would be responsible for all U.S. activities in Iraq through the Ambassador to Iraq. DoD would be responsible for all U.S. efforts related to security and military

operations. On June 28, 2004, when power transferred to the sovereign Iraqi Interim Government, CPA was officially dissolved. The PMO split into two organizations: IRMO was responsible for coordinating the reconstruction effort, and the Project and Contracting Office (PCO) assumed PMO's project construction/execution responsibilities.

The presidential directive also established two temporary offices:

- **IRMO**, under DoS, facilitated and coordinated U.S. reconstruction efforts in Iraq. IRMO's responsibilities included strategic planning, prioritizing requirements, monitoring spending, and coordinating with the military commander. On May 8, 2007, the President, by Executive Order 13431, created the Iraq Transition Assistance Office as the successor organization to IRMO. This fact sheet refers to IRMO's tenure.
- **PCO**, under DoD, facilitated acquisition and project management support for U.S.-funded reconstruction projects. PCO's responsibilities included contracting for and delivering infrastructure, related services, and supplies. On December 4, 2005, the positions of Director-PCO and Commanding General, USACE GRD, merged to form the consolidated GRD/PCO organization, under the DoD Assistant Secretary of the Army for Acquisition, Logistics and Technology (ASA(ALT)). At the end of FY 2006, PCO in Baghdad stood down, and the remaining elements of the organization became functional areas of GRD. On October 14, 2006, the mission of the PCO in Iraq officially ended, and GRD was formally

identified as the successor organization to PCO when it expired in May 2007. On May 11, 2007, the PCO-Washington office was closed. This fact sheet refers to PCO's tenure.

In May 2005, the Deputy Secretary of Defense established the Defense Reconstruction Support Office (DRSO) to provide a single DoD focal point for coordinating operational support of reconstruction in Iraq and Afghanistan. In this role, DRSO:

- represented DoD in interagency forums on operational matters
- provided support to senior officials in meetings, briefings, and testimony before the Congress
- prepared the quarterly report to the Congress required under Section 9010 of the DoD Appropriations Act for 2006⁵²⁸ (the *Section 9010 Report, Measuring Stability and Security in Iraq*)

In January 2007, the Under Secretary of Defense for Policy assumed DRSO's functions, including:

- preparing the Section 9010 Report
- monitoring Development Fund for Iraq (DFI) activities through the UN International Advisory and Monitoring Board⁵²⁹
- providing support to Global War on Terror activities

This report discusses the leadership and management of Iraq reconstruction projects funded by IRRF appropriations in P.L. 108-11 and P.L. 108-106.

P.L. 108-11, The Emergency Wartime Supplemental Appropriations Act (April 16, 2003) appropriated \$2.47 billion “for necessary expenses for humanitarian assistance in and around Iraq and to carry out the purposes of the Foreign Assistance Act of 1961 for rehabilitation and reconstruction in Iraq.” Known as IRRF 1, the fund was designed to enable CPA, the transitional government in Iraq, and coalition partners to meet the needs of an expected humanitarian crisis in the aftermath of Operation Iraqi Freedom. For managing the expenses and overseeing the assistance effort, OMB apportioned the funds directly to the organizations conducting Iraq reconstruction activities, including DoS, DoD, USAID, and Treasury.

P.L. 108-106, The Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan (November 6, 2003) appropriated \$18.649 billion for relief and reconstruction activities in Iraq and Afghanistan, of which \$18.439 billion was specifically for Iraq. These funds are known as IRRF 2. OMB apportioned the IRRF 2 funds directly to the organizations conducting Iraq reconstruction activities, including DoS, USAID, DoD, and Treasury.

The roles and responsibilities of the major government organizations participating in the Iraq effort are described in the individual summaries in this report. These summaries present how officials view their authority and responsibilities, as well as their coordination with other organizations. SIGIR did not validate those authorities, roles, and interface efforts: this was not in the scope of the review.

Review of Bechtel’s Spending under Its Phase II Iraq Reconstruction Contract (SIGIR-07-009, JULY 2007)

Introduction

One of the principal U.S. government agencies involved in Iraq reconstruction is USAID, which received \$4.6 billion of the funds that the Congress appropriated for Iraq relief and reconstruction. Under its Iraq Infrastructure Reconstruction Program, USAID awarded two successive Iraq reconstruction contracts—referred to as Phase I and Phase II—to Bechtel National, Inc. (Bechtel). The Phase I contract (EEE-C-00-03-00018-00) was designed to repair, rehabilitate, or rebuild vital elements of Iraq’s infrastructure. This contract was funded with part of the \$2.5 billion that the Congress appropriated in the Emergency Wartime Supplemental Appropriations Act, P.L. 108-11, which created IRRF 1 to be used for a broad range of humanitarian and reconstruction activities in Iraq. On April 17, 2003, the contract was awarded for \$680 million; on September 30, 2003, it was modified and increased to approximately \$1.03 billion. The contract ended on February 28, 2006.

To expand the reconstruction effort, USAID awarded to Bechtel the competitively bid Phase II contract (SPU-C-00-04-00001-00). This contract was funded with part of the \$18.4 billion appropriated in the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, P.L. 108-106, for security, relief, rehabilitation, and reconstruction of Iraq (IRRF 2). Under the cost-plus fixed-fee Phase II contract, Bechtel

was to provide engineering, procurement, and construction services. To obtain technical expertise, USAID and USACE signed a Participating Agency Service Agreement to have USACE provide construction oversight of Bechtel.

The Phase II contract was awarded on January 5, 2004, for \$1.8 billion. On March 31, 2007, the contract ended, and the total estimated cost reported was \$1.33 billion.⁵³⁰ This report focuses on the Phase II contract and the 24 job orders through which the contracted work was accomplished. The 24 job orders were allocated to sectors as follows: 14 in water and sanitation, 8 in power, 1 in telecommunications, and 1 in buildings.

Objectives

This is the first in a series of focused financial reviews of large contractors funded by IRRE. The objectives of this audit were to determine the costs that Bechtel incurred performing work funded by the IRRE, as well as the methods used to record and report associated costs. Specifically, SIGIR addressed these questions:

1. What cost detail is contained in the invoices and supporting documentation submitted to the government by Bechtel?
2. What costs did Bechtel incur in carrying out its contracted tasks, including cost of material, labor, overhead, security, subcontracts, and all other costs?
3. How many layers of subcontracts did Bechtel have in performing the contracted work?
4. 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?
5. What were USAID's administrative fees?

Subsequently, in the January 30, 2007 Quarterly Report and Semiannual Report, SIGIR further elaborated on the objectives to include a discussion of contract outcomes, contract administration, and other items.

Results

Overall, the Phase II contract accomplished a substantial amount of work that contributed to the reconstruction of Iraq, particularly in the electricity and water and sanitation sectors. However, the results on individual projects were mixed: some were completed as originally envisioned, others were cancelled, and still others were partially completed and were transferred to other organizations for completion.

SIGIR analyzed the 24 job orders to determine if the original objectives were achieved, and determined that:

- 11 of the job orders clearly met their original objectives.
- 10 did not achieve their original objectives as stated in the original scope of work.
- For 3 job orders, SIGIR was either unable to determine what their original objectives were or the achievements were unclear.

SIGIR believes that the experience gained in the course of the Phase II contract provides important insights into Iraq reconstruction and lessons for future reconstruction in Iraq and elsewhere.

SIGIR encountered many obstacles in trying to measure the relationship between requirements, cost, and output/outcomes, including these:

- The requirements or deliverables were not always specific in the job orders.
- The scope of work and funds available changed over time.
- The budget estimates in the job orders did not include all costs.
- Unanticipated delays, such as land ownership issues, delayed schedules.
- The ever-changing security situation in Iraq caused schedule delays, resulting in increases to support and direct construction costs.

SIGIR also determined that USAID and USACE staffing was considerably below authorized levels. As of April 5, 2006, in the middle of contract execution, USAID Mission-Iraq had filled only 170 of 251 total authorized positions, and USACE had filled only 18 of 37 authorized positions to provide the agreed-on assistance to USAID.

More specifically, USAID had only two people directly involved in contract administration of the Phase II contract—the administrative contracting officer and the cognizant technical officer. According to USAID's July 20, 2007 response to our draft of this report, others also provided contract management

assistance, including U.S. contractors and locally engaged engineers. However, during the SIGIR review, USAID officials also told SIGIR that contract administration was under-staffed, which limited site visits to corroborate conditions claimed by contractors. USAID contract administration officials in Iraq stated that they would have preferred to have two full-time contracting officers, supported by two seasoned negotiators—one for document control, one for administration.

Another factor that limited USAID's oversight was that USAID had agreed in its contract with Bechtel to review and pay Bechtel's vouchers within ten days of submittal. Based on SIGIR's discussions with USAID comptroller officials involved in the voucher review process, it appeared that USAID did not perform a detailed analysis of the costs being incurred because of the limited time available for review. Also, under the Phase II contract, cost analysis was not a task specifically assigned to the administrative contracting officer or the cognizant technical officer. Furthermore, the task of thoroughly examining Bechtel's summary cost schedules—which sometimes comprised hundreds of pages of documentation—would have required a significant amount of time.

However, to balance the limited review time and staff shortage, USAID also had an agreement with the Defense Contract Audit Agency (DCAA) to conduct reimbursable cost-incurred audits of Bechtel's contract costs to determine their reasonableness, allowability, and allocability. DCAA audited Bechtel's accounting system and reported that Bechtel

had in place adequate systems and controls to accurately capture costs. As of March 2007, DCAA reviewed about \$1 billion in Bechtel's recorded costs incurred from January 5, 2004, through October 31, 2006, and questioned less than 1% of the costs claimed. The purpose of the DCAA incurred cost audits are to determine whether costs claimed are allowable, allocable, and reasonable in accordance with the contract and applicable government acquisition regulations.

Bechtel's direct physical reconstruction costs were about 59% of overall costs; as a result, the remainder would be support costs of about 41%. According to reporting by SIGIR and the U.S. Government Accountability Office (GAO), this support-cost percentage is in line with the support costs incurred by other major contractors—both in Iraq and in the United States. SIGIR determined that support costs are important to reconstruction, as are the direct physical reconstruction costs, because they provide the management framework and life support within which reconstruction occurs. However, all costs should be incurred in an efficient and effective manner.

Bechtel's contract was geared toward the use of subcontractors as indicated in its USAID-approved subcontracting plan, which stated that Bechtel would subcontract approximately 90% of the direct reconstruction costs. Of Bechtel's subcontracts, 39% were awarded to Iraqi firms. SIGIR identified a total of 168 subcontracts—66 awarded by Bechtel and 102 awarded in turn by some of Bechtel's subcontractors. All but two of these subcontracts were

fixed-price contracts. Bechtel had procedures that it used to manage its subcontractors, but multiple layers of subcontract management made oversight complex, and neither USAID nor Bechtel had information on all subcontracts down to the lowest tier.

USAID's administrative costs were funded directly from IRRF, not taken from Bechtel contract funds. According to the agency's accounting records, USAID has obligated \$157 million from IRRF 2 to fund its overall administrative expenses for the entire USAID/Iraq Mission. USAID did not segregate its overall administrative costs by individual contract. Further, through November 30, 2006, USAID paid \$23.5 million to USACE for assistance in managing the Bechtel contract.

Lessons Learned

This report contains no recommendations, but SIGIR identified three important lessons to be learned from the contracting, execution, and oversight of the Phase II contract for future reconstruction in Iraq and elsewhere.

- *Strong contract administration and adequate staffing are critical to success.* In the Phase II contract, the clarity of job orders was mixed: some were clearly written, and others were vague, potentially causing costs to rise. USAID had a relatively small contract administration staff—two full-time, in-country staff—to oversee a contract valued at more than \$1 billion, with 24 job orders throughout Iraq. Bechtel provided USAID with voluminous detailed information on the status of work, but USAID and USACE

were staffed substantially below authorized levels. SIGIR has previously reported in a review of one of the projects under the Phase II contract that although USAID had an effective process in place for tracking the project, the information it received was not adequately analyzed and reported. It is essential that agencies provide enough staff to monitor contracts commensurate with their size and complexity and to ensure that there is strong contract administration and project management.

- *A clear understanding and review of costs is also important to contract management.* USAID contractually committed itself to processing invoices within ten days of receipt, which limited its ability to thoroughly review them before payment. Although Bechtel captured detailed cost data in its accounting system and provided it to USAID, there was still a large miscellaneous category, amounting to \$250 million, categorized as *Other* within the largest cost category. *Other* was for subcontracts and other services. Miscellaneous or other costs should not be allowed to exceed a contractually defined ceiling—such as 10% of costs—to prevent the loss of visibility that accompanies large miscellaneous categories, and contractors should be directed to develop additional cost categories to capture costs in accounting systems when miscellaneous costs exceed that set ceiling.
- *Minimizing support costs makes more money available for reconstruction.* In future contracts, managers need to determine how

heavily to rely on primes or subcontractors that do little of the actual work but represent more than a quarter of the costs. Also, it is important to achieve a clear understanding of how they add to costs and what is the value added. Government contract managers and program/project managers need to be attentive to the support-costs aspects of any contract and remain vigilant for opportunities to reduce this cost.

Management Comments and Audit Response

This report contained no recommendations; therefore, no written response was required. We provided a draft of this report to DoS and USAID. Each provided technical comments, which were considered and addressed, where appropriate, in the final report.

Future SIGIR Work

SIGIR plans to conduct a series of focused financial reviews of contractors receiving funds for Iraq relief and reconstruction. Consequently, SIGIR plans to identify systemic issues and report at the end of the series on the challenges of relief and reconstruction in Iraq and lessons learned that address systemic issues and leading practices across these multiple contracts.

Status of the Provincial Reconstruction Team Program Expansion in Iraq

(SIGIR-07-014, JULY 2007)

Introduction

On January 10, 2007, President Bush announced a “New Way Forward” to accelerate

Iraq's transition to self-reliance. The strategy called for a surge of civilian and military personnel into the provinces and a doubling of the number of provincial reconstruction teams (PRTs) and personnel to support and sustain the transition to Iraqi control. Though still evolving, plans as of the end of June called for the number of PRTs to grow from 10 to 25 and the staff strength to double to 700. The original 10 PRTs will continue to operate at the provincial level, but an additional 15—called ePRTs—will embed directly into brigade combat teams (BCTs) to deploy in neighborhoods and work at the district and municipal levels. The goal is to create areas where moderates will have political space to operate and anti-Iraqi forces are brought under control.

Objectives

The objectives of this audit, the second of three in a series on PRTs,⁵³¹ were to determine the status of the U.S. government's plan to expand the number of PRTs and supporting staff in Iraq. Specifically, SIGIR addressed these questions:

- What human resources and funding have U.S. government organizations identified to support the PRT expansion?
- What performance measures or metrics are used to evaluate the effectiveness of PRTs?
- What actions were taken to address previous recommendations made in SIGIR's October 2006 report?

SIGIR is in the process of conducting fieldwork for the third audit, examining the effec-

tiveness of the PRT Program, and will report the findings in September 2007.

Results

The PRT Program is currently in phase two of a three-phase expansion program and is on course to meet the Administration's goal of doubling the number of PRTs and supporting staff in Iraq:

- Phase I (January-March 2007): ten 4-person ePRT core members were successfully embedded with BCTs in the strategically important provinces of Baghdad, Anbar, and northern Babylon.
- Phase II (April-August 2007): 136 specialists will join the advance ePRT teams and several priority PRTs. These specialists will work in city management, business development, agribusiness, and other areas. As of July 20, 2007, DoD had deployed 70 of 104 specialists committed to the program and expects to have the remaining 34 in place by the end of August 2007. DoS, the Department of Agriculture, and USAID are expected to provide the remaining 32 specialists. These specialists have been identified and will begin training on August 27, 2007, in the Washington, D.C. area and are expected to be in Iraq in September.
- Phase III (September-December 2007): an additional 142 specialists are to be deployed to support the work plans of all of the existing PRTs and the new ePRTs. Specialists from DoS, USAID, and the Departments of Justice, Agriculture, and Commerce will deploy to all PRTs and backfill DoD spe-

cialists whose one-year deployment terms conclude in February 2008. Full implementation of Phase III depends on the release of the FY 2007 Iraq emergency supplemental appropriations.

As of June 2007, the United States has provided \$1,924 million to support the Iraq PRT Program, and DoS has requested additional funding of \$937 million in FY 2008.

The Office of Provincial Affairs (OPA) is a key component of the program that requires additional development and support. In May 2007, the Chief of Mission established OPA at the minister-counselor level to support the PRT program. Under the leadership of an ambassador-level coordinator, OPA is charged with synchronizing governance, reconstruction, security, and economic development assistance to the PRTs. Despite the importance of this new office, however, the Embassy has not been able to fill critical staff vacancies to establish continuity of leadership and experience in managing the PRT program.

In October 2006, SIGIR recommended that the Secretaries of State and Defense take action to define PRT objectives and performance measures and to develop milestones for achieving program objectives. To date, OPA and MNF-I have not clearly defined PRT objectives and performance measures. Therefore, SIGIR cannot easily report on what the PRTs and ePRTs are accomplishing, individually or collectively. In late May 2007, DoS officials told SIGIR that, in response to the new strategy and surge in Iraq, OPA was reassessing performance indicators with an interagency team in Washington.

In addition to the recommendation to define the PRT objectives and performance measures, SIGIR's October 2006 report made six other recommendations. Most notably, SIGIR recommended that the Secretaries of State and Defense 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. The remaining recommendations called for specifying the skill-set needed for civil affairs personnel, which will enable better training, selection, and assignment. Also, SIGIR recommended improved reporting of attack incident data for PRTs located at military forward-operating bases to better maintain visibility over civilian personnel and provide PRTs with critical intelligence. SIGIR found that actions were taken to address the intent of these recommendations and considers the recommendations closed.

Recommendations

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

1. Develop a performance monitoring system to determine what the PRTs are accomplishing, including clearly defined objectives and performance measures, and milestones for achieving stated objectives.
2. Require PRTs to submit work plans for accomplishing objectives within established milestones.
3. Develop a workforce plan for OPA to fill critical staff vacancies and ensure continu-

ity in leadership and experience managing the PRT Program.

Management Comments and Audit Response

DoD and the U.S. Embassy-Iraq provided written comments on a draft of this report, generally concurring with SIGIR's recommendations, and MNF-I responded in an e-mail that it concurred with the recommendations. SIGIR considers that all comments received are responsive to the intent of the recommendations and that technical corrections, as applicable, were made to the final report.

Ongoing Audits

SIGIR is currently working on these ongoing audits:

- SIGIR-6006: Review of the Close-out Processes and Procedures for Iraq Relief and Reconstruction Fund Contracts
- SIGIR-6026: Review of Iraq Relief and Reconstruction Fund Unliquidated Obligations
- SIGIR-7010: Review of the Effectiveness of U.S. Government Contracts To Enable Budgeting and Financial Management Capabilities by the Iraqi Ministries
- SIGIR-7011: Review of Spending of U.S. Government Funds under Parsons Corporation's Iraq Reconstruction Contracts (Focused Financial Review)
- SIGIR-7012: Survey of DynCorp, International, LLC Contract Number S-LMAQM-04-C-0030, for the Iraqi Police Training Program Support and Equipment (Focused Financial Review)

- SIGIR-7013: Review of the Use of Sector Project and Contracting Office Contractors (SPCOCs) in Managing Relief and Reconstruction Projects
- SIGIR-7014: Continuing Review of Logistics Civil Augmentation Program (LOGCAP) Task Order 130
- SIGIR-7016: Comparative Review of the Contract Administration and Project Management Practices of the U.S. Army Corps of Engineers Gulf Region Division and the Air Force Center for Environmental Excellence
- SIGIR-7018: Review of Spending under Blackwater Contracts in Support of Iraq Relief and Reconstruction (Focused Financial Review)
- SIGIR-7019: Review of Construction Projects under the Commander's Emergency Response Program (CERP) in Iraq
- SIGIR-7021: Review of the Effectiveness of the Provincial Reconstruction Team Program in Iraq

Focused Financial Reviews

The Congress has required SIGIR to perform a "forensic audit." By agreement, this requirement will be met through focused financial reviews:

- SIGIR-7022: FluorAMEC Joint Venture (electric and public works/water sectors)
- SIGIR-7023: Research Triangle Institute
- SIGIR-7024: Parsons Iraq Joint Venture (oil sector)
- SIGIR-7025: Lucent Technologies (facilities & transportation sector)

- SIGIR-7026: Development Alternatives, Inc.
- SIGIR-7027: Perini Corporation (electric sector)
- SIGIR-7028: KBR (oil sector)

The overall objectives of each of these reviews are to determine the provisions, costs, oversight, and accomplishments of the identified contractor and/or their subsidiaries/joint venture partners on Iraq relief and reconstruction contracts with the U.S. government in the identified sector. Specifically, for each contract, SIGIR intends to answer these questions:

- What was the request for proposal (RFP) process, and what were the key requirements and provisions of the procurement?
- What was the contracting process, and what are the key requirements and provisions of the contracts, including amendments, modifications, and task orders?
- What are the costs and funding sources of the contracts?
- How were the contracts administered to provide oversight?
- How did the prime contractor perform oversight of the subcontractors?
- What did the contract accomplish?
- Did the contractor meet the original and final performance requirements?
- What is the agency's position on the contractor's performance?

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 reviews of specific issues, as well as audit series evaluating 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: www.sigir.mil.

These audits are planned to be announced during the next two quarters:

- Review of U.S. Government Organizations' Efforts To Execute Job-producing Programs in Iraq
- Review of U.S. Government Efforts To Expand the Micro-loan Program
- Assessment of the Status of Activities for Capacity Development of Government of Iraq
- Survey of the Project and Contracting Office Logistics Supply Management Program
- Review of the Multi-National Security Transition Command-Iraq Program for Iraq Relief and Reconstruction

These are the focused financial reviews that SIGIR will perform in response to congressional direction:

- Review of the BearingPoint Contracts in Iraq Related to Support of Iraq Relief and Reconstruction
- Review of Aegis Contracts in Iraq Related to Support of Iraq Relief and Reconstruction

- Review of Washington International Contracts (electric sector) in Iraq Related to Support of Iraq Relief and Reconstruction
- Review of Triple Canopy Contracts in Iraq Related to Support of Iraq Relief and Reconstruction
- Review of Washington International Group/Black & Veatch Joint Venture Contracts (public works/water sectors) in Iraq Related to Support of Iraq Relief and Reconstruction
- AECOM
- AMEC Earth and Environment
- CH2MHill Construction
- Environmental Chemical Corp. (ECC)
- Ellis World Alliance Corp.
- Innovative Technical Solution, Inc. (ITSI)
- Laguna Construction
- Tetra Tech-FW Inc.
- Toltest Inc.
- URS Group
- Washington Group
- Weston Solutions

SIGIR has also started research on the largest ISFF-funded contracts. The following contractors have been identified as potential candidates for a focused financial review:

Appendix I lists completed SIGIR audits and updates the status of SIGIR audit recommendations.

SIGIR INSPECTIONS

Since the SIGIR inspections program began in 2005, SIGIR has completed 95 project assessments, 96 limited on-site inspections, and 342 aerial assessments.

During this quarter, SIGIR visited, assessed, and reported on five projects. Four of the five assessments were sustainment assessments. SIGIR found that sustainment was not being properly carried out in three of these assessments, posing threats to the condition and durability of the facilities and to the health and safety of those who work and live in them.

Security problems continue to impede SIGIR assessments. This quarter, personal security details for SIGIR advised that land travel in the Baghdad area was not safe. They escorted SIGIR inspectors to three of the five sites via helicopter.

Sustainment Reviews

SIGIR's sustainment reviews focus on whether the projects delivered to the Iraqis are operating at the capacity planned in the original contract or task order objective. For example, SIGIR found that insufficient fuel was provided to the **Al Rasheed Brigade Base** to operate the generators that refrigerate food storage units and lift wastewater from the dining facility to the sewer system. The inability to refrigerate food and remove wastewater from the facility has resulted in health problems. For example, 300 Iraqi soldiers were hospitalized for intestinal illness caused by spoiled food, according to a representative from the Multi-National Brigade-Baghdad.

In view of the sustainment problems identified this quarter and last quarter, sustainment of completed reconstruction projects is clearly a problem for the GOI. Consequently, SIGIR continues to caution that the value of the U.S. investment in Iraq reconstruction is at risk.

Construction Reviews

This quarter, SIGIR conducted one construction review. SIGIR found renovation work at the **Sadr City Al Qana'at Raw Water Pump Station** met the standards of the contract's Statement of Work (SOW). The contractor provided a QC plan for this project. The contractor appropriately used its QC plan to ensure the quality and performance of the work being done. The U.S. Army Corps of Engineers (USACE) Gulf Region Central (GRC) project QA personnel demonstrated that a QA program was in place.

Project Assessments: Findings at a Glance

Doura Power Station Units 5 and 6 (\$90.80 million)

- Sustainable operations at full capacity after start-up of Units 5 and 6 cannot be reasonably assured unless the Ministry of Electricity's O&M practices improve.
- Too often, the ministry has operated improperly or insufficiently maintained equipment in environments where equipment failure was likely. For example, in April 2007, simple dust and oil film accumulated in the rotor-end windings and

rectifier wheel areas of the exciter, which caused a short circuit, flashover, and complete failure of Unit 5.

- Bypassing and intentionally overriding automatic controls has caused system imbalance and catastrophic failure of power plant equipment.
- Electricity was being illegally tapped directly from the power plant using ad hoc cable taps throughout the facility.

Sadr City Al Qana'at Raw Water Pump Station (\$4.23 million)

- This project did not alter the original design of the Sadr City Al Qana'at Raw Water Pump Station (RWPS). It provided for the rehabilitation or replacement of the ten pumps and motors and stipulated that all replacement pumps and motors must be the same or similar (dimensionally and functionally) to the original pumps constructed in 1981.
- The renovation quality was adequate and should meet the objectives of rehabilitating the raw water pump station. SIGIR did not identify construction deficiencies.
- The contractor's QC and GRC's QA programs were in place and operating effectively.
- Sustainability should not be an issue in the success of this project.
- When completed, the Sadr City Al Qana'at RWPS should meet its intended objective of providing required water levels to the Sadr City and Shark Dijala water-treatment plants.

Al Rasheed Brigade Set (\$64.01 million)

- The task order required the contractor to plan and construct the Al Rasheed Brigade facilities to support the Iraqi National Guard. That objective was met.
- The Al Rasheed Brigade facilities appeared to operate as a fully functioning brigade facility, housing Iraqi and American military personnel.
- The project was adequately designed before construction and demonstrated quality management (QM) oversight by the contractor and the U.S. government.
- SIGIR found that Al Rasheed base personnel appeared to be conducting effective post-turnover practices for building operations and maintenance (O&M).
- SIGIR was told that the inability to operate electrical generators because of insufficient fuel supplies resulted in health problems caused by the failure to properly refrigerate food and dispose of wastewater.

Iraqi C-130 Base (\$30.80 million)

- Key construction met contract requirements, and the facility appeared to have operated at full capacity when accepted by the U.S. government and when observed.
- If the equipment and facility are not properly used and maintained, the operability and sustainability of some of the improvements to the facility might not be realized over the long term.
- According to available documentation, generator sustainability was a problem.

- The sewer collection system functioned; however, the nearby storm-water collection pond and connected drainage ditch contained sewage. The holding tank design allows sewage removal only by pump. Therefore, it appeared that the waste-removal truck pumped the sewage from the collection tanks into the drainage ditch.
- SIGIR found a number of documented malfunctions of the reverse osmosis (RO) system. Regular filter changes had not been performed, chlorine dosing did not meet requirements, and the RO system pressures were not within the recommended range. Additionally, filters, anti-scaling chemicals, testing kits, and other various maintenance items were not available on site.
- approximately 450 ministry personnel.
- The facility appeared to operate as a fully functioning office building, with a capacity of more than 3,000 personnel.
- This occurred because the project was adequately designed before construction, the contractor performed quality and detailed workmanship, and the QM oversight by the contractor and the U.S. government was adequate.
- The post-turnover management of equipment O&M and maintenance practices by ministry personnel appeared to be effective.
- Consequently, sustained, full-capacity operations over the long term will likely result if ministry personnel continue to properly use and effectively maintain the equipment and the facility.

Iraqi Ministry of Defense Building
(\$31.46 million)

- The original intent of the Ministry of Defense Headquarters building project was to renovate and improve the building to provide adequate working space for

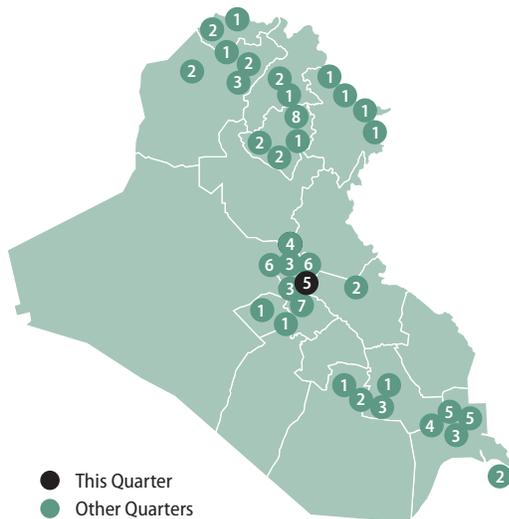
FIVE PROJECTS ASSESSED THIS QUARTER (MILLIONS)

PROJECT ID	PROJECT NAME	ASSESSMENT TYPE	GOVERNORATE	BUDGETED TOTAL COST	EXECUTING AGENCY	CONTRACTOR	GRD REGION
04-503	Doura Power Station Units 5 and 6	Sustainment	Baghdad	\$90.8	GRD	Bechtel National, Inc.	Central
25887	Al Qana'at Raw Water Pump Station	Construction	Baghdad	\$4.23	GRC	Comet Company	Central
24054	Al Rasheed Brigade Set	Sustainment	Baghdad	\$64.01	AFCEE	Tetra Tech, Inc.	Central
8366	Iraqi C-130 Base	Sustainment	Baghdad	\$30.8	AFCEE	Toltest, Inc.	Central
8903-13	Iraqi Ministry of Defense Building	Sustainment	Baghdad	\$31.46	MNSTC-I	Laguna Construction Company, Inc.	Central

TABLE 3.2

FIGURE 3.1

Approximate locations of the 95 projects where inspections were conducted, analyzed, and reported to date.



SIGIR Project Assessments

This section provides summaries of SIGIR project assessments this quarter. For the full reports, see the SIGIR website: www.sigir.mil.

For a list of the project assessments completed this quarter, see Table 3.2. For a complete list of project assessments from previous quarters, see Appendix J. Figure 3.1 shows the approximate location of each project assessed.

Doura Power Station Units 5 and 6, Baghdad, Iraq

SIGIR PA-07-103

On April 17, 2003, key electricity sector projects throughout Iraq were included in a basic contract that the U.S. Agency for International Development (USAID) issued to Bechtel National, Inc. (Bechtel), valued at \$1.03 billion. On January 4, 2004, electricity sector reconstruction work continued through a

second USAID basic contract with Bechtel; the contract was valued at \$1.82 billion. Job Orders (JOs) approved and issued by the U.S. government were used to carry out specific reconstruction activities. Two JOs were particularly relevant to the Doura Power Station rehabilitation and long-term operability:

- JO-03-037-08 was approved for \$90.8 million to rehabilitate Doura Power Station Units 5 and 6.
- JO-04-503-03 was approved for \$80 million to provide O&M assistance and training for Ministry of Electricity personnel.

The primary role of the O&M contractor was to coordinate with the Ministry of Electricity to make its O&M organization fully functional and to develop effective daily operations, while simultaneously performing effective O&M services. Although the main service requirement focused on the O&M of the generation assets, some managerial and maintenance support was required for the transmission and distribution systems.

The contractor was required to coordinate services with the Ministry of Electricity and to provide proactive support to attain the highest achievable level of performance and instill international standards and industrial best practices. The contract included provisions for a nationwide O&M plan—including staffing eight sites, engineering support, emergency maintenance support, critical spare parts support, and other key components. The program was not established to operate and maintain

plants; it was created to mentor the ministry staff and provide the tools to allow the ministry to properly operate and maintain the utility system. Doura was one component of the O&M program.

What SIGIR Found

On June 10, 2007, SIGIR conducted a site visit, with the assistance of GRD Electricity Sector personnel. SIGIR observed the current condition of Units 5 and 6 and other related equipment and systems required to start up and continue operation. Inspectors conducted detailed discussions with onsite GRD Electricity Sector engineers, who provided day-to-day technical supervision and implementation management of GRD's plan to bring Units 5 and 6 online. GRD Electricity Sector managers also provided sufficient follow-up information and detailed explanations in response to specific inquiries from SIGIR.

U.S. government contractors had previously completed SOW requirements to rehabilitate Doura Power Station Units 5 and 6; however, neither unit was operational when observed by SIGIR, for reasons beyond the direct control of the U. S. government and its contractors. Operational control was under the authority of the Ministry of Electricity when Unit 5 (commissioned in April 2006) experienced catastrophic failure in August 2006 and again in April 2007.

Unit 5 shut down twice because of exciter flashover, which was the result of repeated “hard tripping” caused by power surges.

However, most hard tripping could have been avoided if the Ministry of Electricity's operational procedures would have allowed plant operators to isolate the generator unit and to protect it from frequent deterioration of the incoming 132-kilovolt (kV) line to the Doura switchyard. During the 12 months that preceded the final Unit 5 failure in April 2007, Unit 5 tripped approximately 100 times.

At the time of SIGIR's site visit, Unit 6 had not been operational since rehabilitation. In August 2006, the exciter was removed from Unit 6 as it neared operational status, and the exciter was placed into Unit 5 to expedite restarting Unit 5 following its catastrophic failure. Before its failure in August 2006, Unit 5 was operational for approximately 4 months.

Ministry of Electricity officials decided to swap the exciter from Unit 6 to Unit 5 to minimize outage time and to quickly restore electric power to the Baghdad grid as a short-term solution. Because Unit 5 failed, and Unit 6 was rendered inoperable, much-needed long-term electricity was not available to the Baghdad grid. However, under the current task order, Doura Power Plant Unit 5 should be operational by mid-July 2007, and Unit 6 by early August 2007. GRD's rehabilitation and start-up plans appeared on track, as of June 16, 2007.

Sustainable operations at full capacity cannot be reasonably assured unless the Ministry of Electricity's O&M practices improve. To date, the ministry has operated ineffectively or has insufficiently maintained equipment.



Burnt wiring in the control center at the Doura Power Station. The fire resulted from exciter flashover caused by repeated "hard tripping."

Rebuilt shaft for Unit 6 generator impeller.



For example, in April 2007, simple dust and oil film accumulated in the rotor-end windings and rectifier wheel areas of the exciter, causing a short circuit and flashover, followed by complete failure of Unit 5. Based on the site inspection, SIGIR came to these conclusions:

- The Ministry of Electricity should implement operational procedures to effectively manage power generation and distribution as an integrated activity. The ministry should ensure that bypassing and intentionally overriding automatic controls throughout the generation and distribution systems are not allowed.
- The ministry should implement a formal maintenance program, including procedures to inspect equipment, schedule necessary non-emergency maintenance, and expedite more critical repairs. In addition, the ministry should authorize plant-level

managers and plant engineers to perform emergency maintenance or repairs to prevent large-scale system failure.

- As part of an overall program to manage and control electricity generation and distribution, Ministry of Electricity officials should ensure that unauthorized tapping of electricity directly from the power plant is discontinued and that all ad hoc cable taps are removed.

Recommendations

GRD's plans should correct the deficiencies noted. Specifically, GRD's plans to restart Units 5 and 6 and to continue an O&M program targeted at mentoring and working with the Ministry of Electricity seem practical and well-fitted for the case at hand. Specific goals of the O&M contract include a plan to develop a local training program designed to provide



Main control room. Breakers were removed to keep other generators working.

classroom and on-the-job training for worker-level O&M personnel. Further, Provincial Reconstruction Team activities that focus on training mid-level personnel should reinforce GRD's plans. Accordingly, SIGIR did not request management comments.

Sadr City Al Qana'at Raw Water Pump Station, Baghdad, Iraq

SIGIR PA-07-096

The Sadr City Al Qana'at Raw Water Pump Station in north Baghdad provides raw water to the non-potable water piping network in East Baghdad for agricultural purposes. In addition, the Sadr City Al Qana'at RWPS provides raw water to the Shark Dijala potable water treatment plant. When the pump station is operating at 100% capacity, it will also provide water to the Sadr City Russafa 3 water treatment plant. The Sadr City Al Qana'at RWPS will provide six million people with raw or

treated water. The Iraq Relief and Reconstruction Fund (IRRF) supply contract for the RWPS, to install and rehabilitate the pumps and motors, was awarded to the Comet Company.

The Sadr City Al Qana'at RWPS houses 10 vertical turbine pumps with below-floor discharges. The original pumps included eight large and two smaller units. At the time of the SIGIR assessment, four large pumps were operational; two had previously been rehabilitated.

What We Found

In March 2007, SIGIR visited the Sadr City Al Qana'at RWPS. The team met with the RWPS manager and the area manager of the Shark Dijala water treatment plant. The facility was being used to provide non-potable water to Sadr City and was reported to be operating at 60% capacity. The contract required rehabilita-



Spare parts for rehabilitation.



Rehabilitating pumps (picture courtesy of USACE).

tion of four pumps and five motors, as well as the replacement of six pumps and five motors. At the time of the site visit, the team observed that spare parts for the rehabilitation of the pumps and motors were on hand and that rehabilitation work was ongoing.

Project Progress

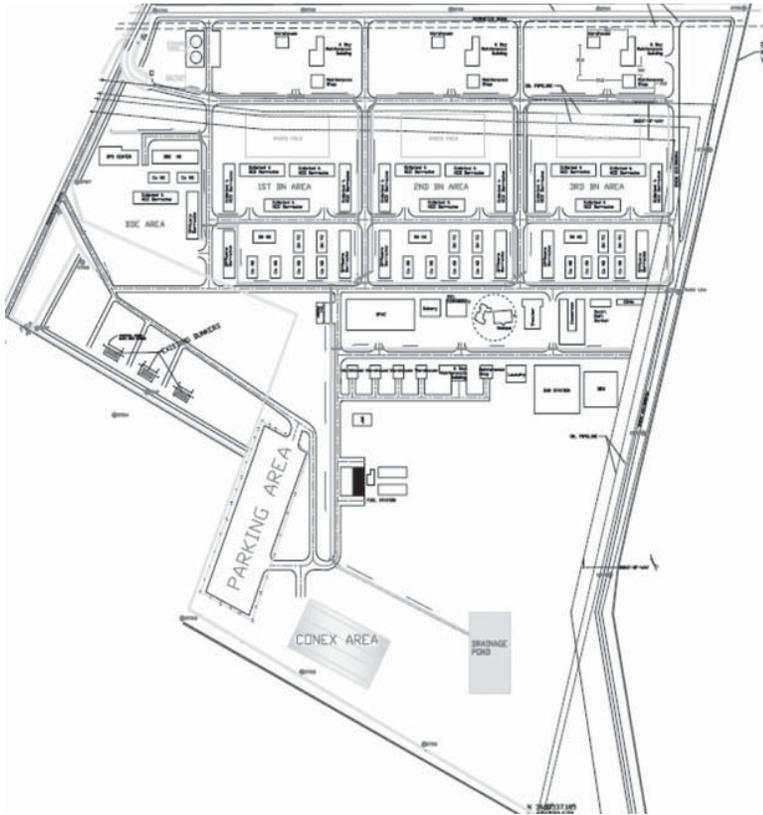
The Amanat (Baghdad City Government) requested the Sadr City Al Qana'at RWPS project and required that all replacement or rehabilitation of the pumps be dimensionally and functionally accurate and similar to the original pumps and motors. GRC stated that the project was first delayed when supply shipments took from October through December 2006 to arrive from across the border. The work was delayed another 45 days while the Amanat verified the inventory of spare parts to ensure that they were the correct parts. In early February 2007, the Amanat gave final approval for the rehabilitation work, and project work began immediately.

Sustainability

Because the Amanat requested identical replacement equipment, sustainability should not be an issue in the success of this project. The current contract requires the contractor to provide O&M manuals and drawings for the new pumps and motors. The Amanat office provided drawings for the original 1981 pumps. According to the contract, drawings and manuals will be supplied with the replacement motors.

Recommendations

The report did not contain any negative findings or recommendations for corrective action. Therefore, management was not required to and did not provide comments.



Site layout for the Al Rasheed Brigade base.

Al Rasheed Brigade Set, Baghdad, Iraq SIGIR PA-07-098

The Al Rasheed Brigade Set is in Baghdad, southeast of the International Zone. When construction began, the site consisted of rubble. According to the contractor, the area had been cleared of unexploded ordnance.

The objective of this project was to plan and construct the Al Rasheed Brigade facilities to support the Iraqi National Guard. The diagram above shows the planned layout for the new construction to house the Iraqi National Guard. The contract's SOW required the contractor to identify and comply with all applicable Iraqi statutes and the International Building Code.

During SIGIR's site assessment, the Al Rasheed Brigade facility was occupied by the Iraqi and the American militaries.

The civil engineering drawings for the Al

Rasheed Brigade facilities included details showing the utility distribution systems for the site, on the ground and underground. Also, the civil engineering drawings showed the storm-water collection and disposal through the concrete-lined open channels, as well as the internal major and minor paved-road network. The design package also included the mechanical design drawings featuring air-handling units, duct network, air-flow diagrams, and system layouts. The electrical design drawings included a power production plant, one line diagram for a bulk distribution system, control panels, automatic transfer switches, and a detailed design for each building and floor.

The design submittals appeared to be satisfactory for the new construction work. In addition, it appeared that the construction project was well planned and designed.

On June 6, 2007, SIGIR performed an



Water tanks at the Al Rasheed Brigade base.

Exterior view of completed 6-bay maintenance shop and 4 warehouse buildings.



on-site assessment of the Al Rasheed Brigade facilities project, accompanied by a Multi-National Security Transition Command-Iraq (MNSTC-I) management analyst, two contractor representatives, the Multi-National Brigade-Baghdad representative for Al Rasheed, and the Iraqi Brigadier General/Chief of Staff for the 9th Division of the Iraqi Army. During the site visit, SIGIR inspectors observed the Al Rasheed Brigade personnel conducting day-to-day business at the facility.

What SIGIR Found

The task order required the contractor to plan and construct the Al Rasheed Brigade facilities to support the Iraqi National Guard; the objective of the task order was met. During SIGIR's site visit, the Al Rasheed Brigade facilities, which housed Iraqi and American

military personnel, appeared to operate as a fully functioning facility. This occurred because the project was adequately designed before construction and because the contractor and U.S. government conducted adequate QM oversight. In terms of construction quality and completeness, the contractor's SOW was enforced.

In addition, the post-turnover equipment and building O&M practices by the Al Rasheed base personnel appeared effective. Consequently, if the Al Rasheed base personnel continue to properly use and effectively maintain the equipment and the facility, sustained full capacity operations over the long term will likely result.

However, during SIGIR's site visit, the Al Rasheed Brigade facilities were not receiving electrical power from the city grid and were



Generators and cable trays running to the electrical room.

operating on the contract-furnished generators. SIGIR inspectors observed that not all electrical generation equipment could be used because the fuel supplied by the Iraqi life support contractor was grossly insufficient. SIGIR was told that the inability to operate electrical generators has resulted in health problems caused by food refrigeration equipment and wastewater lift pumps not operating. SIGIR learned of one dramatic incident, in which 300 Iraqi soldiers were hospitalized for intestinal illness caused by eating spoiled food.

Without fuel, the Al Rasheed base functions are not being used to their full potential; the underutilization of the equipment at the Al Rasheed base will affect the equipment's performance and life expectancy.

Recommendations

SIGIR recommended that the Director, Iraq Transition Assistance Office (ITAO), coordinate with officials from the Iraqi Ministry of Oil and Ministry of Finance to emphasize the need to provide the Ministry of Defense with a sufficient and continuous supply of fuel to avoid the detrimental impact on the health of Iraqi soldiers and on the long-term

sustainment of equipment and facilities at the Al Rasheed Brigade base.

Response to Recommendations

The Director, ITAO, agreed to refer the report to the appropriate U.S. government senior consultants to share with their counterparts in the ministries as a specific example of the damaging impact resulting from the lack of adequate power and fuel resources.

Iraqi C-130 Base, Baghdad, Iraq

SIGIR PA-07-099

The objective of this project was the reconstruction of the New Al Muthana Air Base for C-130 aircraft of the Iraqi Air Force at the Baghdad International Airport (BIAP).

The pre-construction state of the Iraqi C-130 base needed major renovations. Before construction, the site included a set of basic buildings in poor condition needing extensive repair. For example, in its pre-construction state, Building 230—used for officer billeting—required work on the walls, floor, ceiling, roof, doors, and windows.

The largest structure included in the renovation work, the aircraft hangar, measures 80.55



Pre-construction state of building B-230 courtyard, showing the need for extensive renovations. (contractor-provided photo).



Pre-construction state of building B-230 front view. Extensive renovation work needed (contractor-provided photo).



Reverse osmosis unit at installation (contractor-provided photo).



Storm drainage collection pond containing raw sewage.

by 135.86 meters. The pre-construction hangar needed new metal sheeting and roofing, as well as renovation of the attached surrounding offices.

With the assistance of representatives of MNSTC-I, the Air Force Center for Engineering and the Environment (AFCEE), and the project's prime contractor, SIGIR conducted a site visit on May 31, 2007. At the time of the site visit, the GOI had not signed turnover documentation for any part of the Iraqi C-130 base. The facility was turned over to MNSTC-I officials in October 2005. Turnover took place in 25 steps, beginning with the

warehouses (buildings 270, 271, and 273) on May 17, 2005, and ending with the streetlights and road network on October 11, 2005.

In addition to the site visit and review of available contract and quality management documentation, SIGIR conducted discussions with available personnel on site.

What SIGIR Found

Key construction met contract requirements, and the facility appeared to have operated at full capacity when accepted by the U.S. government and when observed by SIGIR inspectors. This success was partly the result of an effective

QM system and adequate documentation of QM during the construction process. Additionally, there was effective communication during the construction process.

The operability and sustainability of some of the improvements to the facility may not be realized over the long term if the equipment and facility are not properly used and maintained.

- According to available documentation, generator sustainability was a problem. Of the eight generators at the Iraqi C-130 base, two operated during the site visit, three were broken, and three were not functioning for unknown reasons. Two generators had been moved from their original locations, and one of the broken generators had parts removed on October 27, 2006.
- Past instances of flooding of the sewage holding tanks and runoff of sewage into the storm-water collection pond were documented on February 18 and March 3, 2006; however, the problem was subsequently solved. At the time of the site visit, it appeared that the sewer collection system functioned, but the nearby storm-water collection pond and drainage ditch contained sewage. The holding tank design allowed sewage removal only by pump; therefore, the waste-removal truck must have pumped the sewage from the collection tanks into the drainage ditch.
- SIGIR found a number of documented malfunctions of the reverse osmosis (RO) system. During the warranty period, the prime

contractor reported that the regular filter changes had not been performed, chlorine dosing did not meet requirements, and the RO system pressures were not within the recommended range. The prime contractor also reported that filters, anti-scaling chemicals, testing kits, and other various maintenance items were not available on site. During the site visit, SIGIR noted that the total dissolved solids meter registered out of the recommended range, and the on-site maintenance workers did not appear to have followed recommended maintenance and testing procedures. Spare parts were not readily available on site.

- The Ministry of Defense provided an O&M contract for the Iraqi C-130 base. The sustainment problems with the RO system that SIGIR noted were caused by poor O&M practices by the ministry's O&M contractor.

Recommendations

Although this report identifies sustainment problems, SIGIR is not making any recommendations for corrective action because MNSTC-I is currently producing a master plan for the Iraqi C-130 base that will address problematic sustainment issues. For example, MNSTC-I is researching the use of a simple packaged water chlorination process for producing potable water, which would replace the current RO system that requires daily maintenance. MNSTC-I is also working specifically on a contract designed for O&M of Ministry of Defense



Ministry of Defense Headquarters.

generators across Iraq. Accordingly, SIGIR did not request management comments.

Iraqi Ministry of Defense Building, Baghdad, Iraq

SIGIR PA-07-102

The objective of this project was to renovate and improve the Ministry of Defense Headquarters (HQ) complex in Baghdad. The SOW required the contractor to identify and comply with all applicable Iraqi statutes and the International Building Codes.

The HQ complex—an H-shaped building with entrance and exit foyers—is next to the International Zone. Construction of the building began in 1957 and was completed in 1961. During 2003, the complex suffered catastrophic damage from the Joint Direct Attack Munition bombing barrage of Baghdad, and the facility was subsequently looted.

The renovation project was intended to provide working space for approximately 450 personnel.

During the SIGIR site visit, the facility was occupied by ministry personnel.

The dilapidated condition of the HQ complex required the renovation of most of the building's interior. New construction focused

on creating additional working space:

- an air-conditioning system
- construction of the third floor
- a sanitary sewer-collection system
- an electrical power distribution system

The civil engineering drawings for the HQ complex included details showing the water, sewer, and electrical utility distribution systems for the site. The design package also included the mechanical design and the electrical distribution system design—with flow diagrams and system layouts.

What SIGIR Found

On June 9, 2007, SIGIR performed an on-site assessment of the HQ complex, accompanied by the MNSTC-I management analyst, the Ministry of Defense infrastructure advisor, and a representative of the contractor, Laguna Construction. During the site visit, SIGIR inspectors observed ministry HQ complex personnel conducting day-to-day business in the facility.

The original intent of the HQ complex project was to renovate and improve the building to provide adequate working space for approximately 450 ministry personnel. During SIGIR's site visit, the facility appeared to operate as a fully functioning office building,



Aerial Image 1. Aerial view of Ministry of Defense headquarters complex.



Construction of the third floor (contractor provided photo).

with a capacity of more than 3,000 personnel. This occurred because the project design was adequate before construction, the contractor performed quality and detailed workmanship, and the contractor and the U.S. government conducted adequate QM. In terms of construction quality and completeness, the contract's SOW was enforced.

In addition, the post-turnover practices for equipment O&M management and facility/building maintenance appeared effective. Consequently, sustained full capacity operations over the long term will likely result if ministry personnel continue to properly use and effectively maintain the equipment and the facility.

Recommendations

The report did not contain any negative findings or recommendations for corrective action. Therefore, management was not required to and did not provide comments.

Aerial Project Survey Program

Since November 2005, the SIGIR Satellite Imagery Group has been conducting aerial assessments of U.S.-funded reconstruction project sites throughout Iraq. Based in Arlington, Virginia, SIGIR's imagery group

comprises one imagery analyst and one imagery data analyst; they are responsible for providing imagery and imagery-related data to SIGIR personnel in both Iraq and the United States.

The imagery provided is used to identify and verify project locations and to obtain follow-up information on previously inspected reconstruction sites. This process enables SIGIR personnel to obtain a visual basis to evaluate reconstruction progress and provides graphics to be used in project assessment reports, which help to determine if projects are being built according to contract specifications. The Satellite Imagery Group also assists other SIGIR directorates by providing imagery products as needed.

NATIONAL GEOSPATIAL-INTELLIGENCE AGENCY AND NATIONAL GROUND INTELLIGENCE CENTER SUPPORT

Initially, SIGIR worked very closely with and relied on the capabilities of two larger government agencies—the National Geospatial-Intelligence Agency (NGA) and the National Ground Intelligence Center (NGIC)—for additional imagery and analysis to support SIGIR's

Aerial Image 2. A June 23, 2006 image of a completed border fort that is missing a perimeter wall.



Aerial Image 3. A July 21, 2006 example of the castle style of border forts, which do not fit the "Class C style" border fort, as defined in the contractor-provided blueprints/diagrams.



mission and invaluable guidance helping SIGIR develop its internal imagery analysis program. During the past several quarters, there has been limited support and input from these two agencies because of SIGIR's growing capabilities and NGIC's and NGA's mission obligations. SIGIR continues to work closely with NGA and will continue to collaborate on necessary mission requirements.

SIGIR IMAGERY ASSESSMENTS

This quarter, the SIGIR Imagery Analysis Group conducted an analysis on border forts throughout Iraq, concentrating on the construction and sustainment status. SIGIR used available contract data, and the contractor provided standard blueprints for assessment criteria. The goal of the analysis was to verify that border forts were constructed in the remote regions where site visits were extremely difficult or impossible because of location, travel costs, and security concerns. These are



Aerial Image 4. A review of aerial imagery taken on January 25, 2007, shows what appears to be a completed military barracks in Iraq. This imagery was sent to SIGIR personnel in Baghdad to supplement Project Assessment report findings.

the findings of this quarter's SIGIR review of the 27 border forts:

- 15 sites appeared to be complete and showed no signs that they did not meet contract requirements.
- 3 sites were identified and geo-location confirmed them, but the status of the sites could not be assessed because of imagery limitations.
- 2 sites could not be located using the provided geo-coordinates.
- 4 sites did not exactly match the contractor-provided blueprint/diagrams for a "Class C style" border fort. However, this does not necessarily mean that it did not meet contract specifications: exceptions are allowed, with contractor approval, to the design and construction of the border forts.
- 1 site was missing a perimeter wall/security berm.
- 1 site could not be identified because of inferior image quality.
- 1 site appeared to still be under construction.

The SIGIR Imagery Analysis Group, in partnership with NGA and NGIC, has created imagery products of 121 border forts

throughout Iraq.

SIGIR IMAGERY ANALYSIS

This quarter, SIGIR imagery analysts created 35 imagery products using satellite imagery and limited available contract information. Figure 3.2 shows the approximate locations of cumulative Aerial Imagery Assessments. Three projects were not located at the site coordinates provided. This imagery provides visual assessments of progress at reconstruction site locations throughout Iraq. 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 facilities during the reporting period:

- 27 border posts
- 4 government buildings
- 2 military bases
- 1 military barracks
- 1 power station

Imagery support products—including site overviews, project site break-outs, and site assessments—are used to prepare for site visits and to identify possible problems. Information

Aerial Image 5. Overview of a military base in Iraq.



gathered from site analysis is passed to appropriate personnel for further analysis. Imagery analysis confirms site location and approximate construction progress.

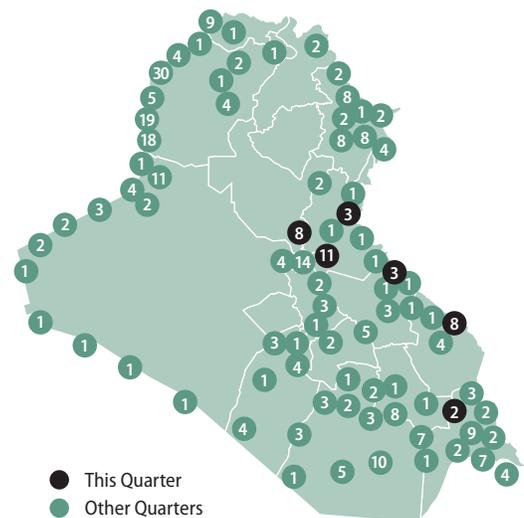
SIGIR SUPPORT

This quarter, SIGIR imagery analysts supplied imagery to the SIGIR Congressional Affairs and Audit Directorates. These imagery products provided valuable oversight to section briefings and reports. SIGIR teams work closely together to put out the best mission-essential information.

In partnership with NGA and NGIC during the past six quarters, SIGIR imagery analysis has resulted in 342 cumulative satellite imagery assessments and products.

FIGURE 3.2
Approximate Locations of Cumulative Aerial Imagery Assessments.

AERIAL IMAGERY ASSESSMENTS



SIGIR INVESTIGATIONS

SIGIR Investigations pursues reports of potential criminal or civil violations and works with a wide range of investigative agencies to bring cases before the criminal justice system.

SIGIR has 57 ongoing investigations, 28 of which are currently under the prosecutorial control of the Department of Justice (DoJ). As of July 30, 2007, SIGIR investigations have produced the following results: 5 people have been convicted and sentenced, 13 have been arrested, and 5 are pending trial in February 2008 on a 25-count indictment. SIGIR's joint agency cases have generated more than 30 search warrants. To date, SIGIR has opened more than 300 cases.

Currently, SIGIR has 5 agents in Baghdad and 14 in Arlington, Virginia. Investigative resources and assets from Iraq have been weighted to concentrate on substantial existing and spin-off investigations in the United States. As more complex and extensive investigations have been identified, some of the targets and subjects have left Iraq and returned to the United States. Additionally, some partner agencies have increased their complement of personnel in Iraq or Kuwait, and SIGIR now works on many substantive investigations in joint task forces.

Legal Actions this Quarter

During the past quarter, two individuals were sentenced for their roles in the Bloom-Stein conspiracy, an egregious kickback and bribery scheme, involving more than \$10 million in reconstruction funds. Lt. Col. Bruce Hopfen-

gardner was sentenced to 21 months; Steven Merkes was sentenced to one year and one day.

In April 2005, Merkes took official acts to benefit Philip Bloom, a U.S. citizen who operated and controlled construction and service companies in Romania and Iraq that did business with the U.S. government. Shortly thereafter, Merkes accepted a job offer and \$24,000 from Bloom, knowing that the job and the money were for official acts he had agreed to perform for Bloom.

In addition, Maj. John Cockerham and his wife, Melissa were arrested in San Antonio, Texas, on July 23, 2007. They were charged in a Criminal Complaint that alleges bribery, conspiracy to commit bribery, and money laundering during Major Cockerham's tenure as an Army contracting officer. Records obtained in the case indicate that Cockerham may have received up to \$9.6 million in bribe payments from at least eight contractors in Iraq and Kuwait and anticipated receiving as much as \$5.4 million more.⁵³²

On July 24, 2007, Carolyn Blake was arrested in Sunnyvale, Texas, on the same criminal complaint as her brother, Maj. Cockerham. SIGIR is one of the partner agencies conducting the investigation with the U.S. Army's Criminal Investigative Division (CID) Major Procurement Fraud Unit, Defense Criminal Investigative Service (DCIS), IRS, and Federal Bureau of Investigation (FBI).

SIGIR also refers cases to the U.S. government's administrative debarment and suspension processes. To date, the competent over-

sight authorities have suspended 20 companies and individuals, debarred 14, and are considering debarring another 7, using established rules that preserve due process. For details on suspensions and debarments, see Appendix K.

Investigative Task Forces

SIGIR has developed task-force relationships with other agencies involved in oversight in Iraq, including the DoD Office of Inspector General (DoD OIG), DoS OIG, Defense Criminal Investigation Command (DCIS), U.S. Agency for International Development OIG (USAID OIG), and Immigration and Customs Enforcement.

More than two years ago, SIGIR formed the Special Investigative Task Force for Iraq Reconstruction (SPITFIRE), which combined the efforts of the Internal Revenue Service, Department of Homeland Security, Immigrations and Customs Enforcement office, FBI, and DoS OIG. SPITFIRE effectively pursued the Bloom-Stein conspiracy and continues to work a number of leads that arose from that case.

The International Contract Corruption Task Force/Joint Operation Center recently relocated from SIGIR Headquarters in Arlington to offices next to FBI headquarters in Washington, D.C. Efforts to expand those coordination services continue. Along with SIGIR, the ICCTF includes the CID Major Procurement Fraud Unit, DCIS, FBI, DoS OIG, and USAID OIG.

SIGIR is part of the National Fraud Procurement Task Force, a DoJ initiative with many contributing agencies. The initiative has brought coordinated efforts and significant

DoJ resources to address waste, fraud, and corruption. During the next two quarters, these efforts are expected to provide significant results in search warrants, indictments, arrests, and convictions.

SIGIR is an active participant in related fraud procurement matters involving U.S. citizens or companies using appropriated U.S. dollars in Iraq. SIGIR investigators work closely with three DoJ divisions as a part of this work:

- Anti-Trust Division
- Civil Division, Commercial Litigation
- Criminal Division: Fraud, Public Integrity, and Money Laundering

In collaboration with DoJ's Commercial Litigation section, SIGIR is assisting on eight qui tam cases (whistle-blower allegations that could potentially lead to False Claims Act prosecutions on behalf of the government) and several civil cases.

The LOGCAP Taskforce in Rock Island, Illinois, also continues to prosecute cases of fraud and other criminal conduct related to Iraq reconstruction. Members include the U.S. Attorney's Office, Central District of Illinois; FBI; IRS; DCIS; and U.S. Army CID. Although not a member of this group, SIGIR includes the taskforce's cases to illustrate the overall picture of fraud in Iraq.

To coordinate efforts in oversight in Iraq, SIGIR formed the Iraq Inspectors General Council (IIGC) three years ago, which brings together every agency with oversight authority in Iraq for quarterly meetings. The objective of the IIGC is to deconflict and coordinate the member agencies' oversight efforts in Iraq.

SIGIR HOTLINE

The SIGIR Hotline facilitates the reporting of fraud, waste, abuse, mismanagement, and reprisal in all programs associated with Iraq reconstruction efforts funded by the U.S. taxpayer. Cases received by the SIGIR Hotline that are not related to the Iraq Relief and Reconstruction Fund (IRRF) or to programs and operations of the former Coalition Provisional Authority (CPA) are transferred to the appropriate entity. The SIGIR Hotline receives walk-in, telephone, mail, fax, and online contacts from people in Iraq, the United States, and throughout the world.

Second Quarter Reporting

As of June 30, 2007, SIGIR Hotline had initiated 589 cases, and 57 are currently open. For a summary of these cases, see Table 3.3.

New Cases

During this reporting period, the SIGIR Hotline received 22 new complaints, for a cumulative total of 589 Hotline cases. The new complaints were classified in these categories:

- 15 involved contract fraud.
- 3 involved personnel issues.
- 3 involved miscellaneous issues.
- 1 involved mismanagement.

The SIGIR Hotline receives most reports of perceived instances of fraud, waste, abuse, mismanagement, and reprisal by electronic mail. The SIGIR's 22 new Hotline complaints were received from these sources:

- 19 by electronic mail
- 1 by SIGIR Hotline phone call
- 1 by SIGIR Hotline fax
- 1 by conventional mail

SUMMARY OF SIGIR HOTLINE CASES, AS OF JUNE 30, 2007

OPEN CASES			
Investigations			49
Audit			8
Total Open			57
CLOSED CASES			
	1ST QTR 2007	2ND QTR 2007	CUMULATIVE*
Freedom of Information Act	0	0	4
OSC Review	0	0	2
Assists	0	0	44
Dismissed	5	6	106
Referred	8	10	219
Inspections	0	0	79
Investigations	3	0	69
Audit	0	0	9
Total Closed	16	16	532
Cumulative* Open & Closed			589

*Cumulative totals cover the period since the SIGIR Hotline began operations—from March 24, 2004, to June 30, 2007.

TABLE 3.3

Closed Cases

During this quarter, 16 Hotline cases were closed:

- 10 were referred to other inspector general agencies.
- 6 were dismissed for lack of sufficient information or were outside of SIGIR's investigative purview.

Referred Complaints

After a thorough review, 10 complaints were referred to outside agencies for proper resolution:

- 2 were sent to the Joint Contract Command-Iraq/Afghanistan.
- 4 were sent to the U.S. Agency for International Development.
- 4 were sent to the Multi-National Force-Iraq Inspector General.

SIGIR WEBSITE

During this reporting period, the SIGIR website (www.sigir.mil) recorded these activities:

- Almost 1,100 users visited the SIGIR website per day.
- Most users were from within the United States (87%). The remaining 13% were from 162 different countries, mainly in Western Europe (4%), Asia (3%), and the Middle East (2%).
- The Arabic language section of the site received more than 850 visits.
- A significant percentage of visitors to the SIGIR website were from government agencies, most notably DoD, DoS, and the U.S. House of Representatives.
- Users visited the SIGIR Reports section most often.
- The most frequently downloaded documents were SIGIR's most recent Quarterly Reports.

LEGISLATIVE UPDATE

New Legislation Enacted

On May 25, 2007, the President signed into law Public Law (P.L.) 110-28, which appropriated \$35 million to SIGIR for its operating budget, to remain available until January 31, 2008.

Other Legislation

- *Fraud relating to military action, relief, or reconstruction:* On May 15, 2007, Senator Leahy, chairman of the Committee on the Judiciary, reported S. 119, “to prohibit profiteering and fraud relating to military action, relief, and reconstruction efforts, and for other purposes” (Senate Report 110-66). The committee report discusses the March 20, 2007 testimony of the Special Inspector General for Iraq Reconstruction (SIGIR), Stuart W. Bowen, Jr., before the committee.
- *Authority of SIGIR and related matters—appropriations measures:* On June 22, 2007, the House of Representatives passed H.R. 2764, “making appropriations for the Department of State, foreign operations, and related programs for the fiscal year ending September 30, 2008, and for other purposes.” H.R. 2764 contains a provision, section 696, which further amends section 3001 of P.L. 108-106, as amended, to
 - (1) provide that the Special Inspector General for Iraq Reconstruction may exercise authorities of section 3161 of Title 5, United States Code (U.S.C.), without reference to certain limitations

contained therein,

(2) provide that funds appropriated or otherwise made available for fiscal years 2007 and 2008 be taken into account in determining the termination date of the Office of the Special Inspector General for Iraq Reconstruction,

(3) add a rule of construction that for the purposes of carrying out the duties of the Inspector General, any United States funds appropriated or otherwise made available for fiscal years 2006 through 2008 for the reconstruction of Iraq, irrespective of the designation of such funds, shall be deemed to be amounts appropriated or otherwise made available for the Iraq Relief and Reconstruction Fund, and

(4) amend section 1054(a) of P.L. 109-364 to make an amendment similar to that of (3), above.

- *Authority of SIGIR and related defense authorization measures:* On May 17, 2007, the House passed H.R. 1585, “to authorize appropriations for fiscal year 2008 for military activities of the Department of Defense, for military construction, and for defense activities of the Department of Energy, to prescribe military personnel strengths for such fiscal year, and for other purposes.” H.R. 1585 contains a provision, section 1221, which amends section 3001 of P.L. 108-106, as amended, to replace references in section 3001 to

the “Iraq Relief and Reconstruction Fund” with references to “amounts appropriated or otherwise made available for the reconstruction of Iraq.”

The act provides this definition for those words: “ amounts appropriated or otherwise made available for any fiscal year—(A) to the Iraq Relief and Reconstruction Fund, the Iraq Security Forces Fund, and the Commander’s Emergency Response Program authorized under section 1202 of the National Defense Authorization for Fiscal Year 2006 (Public Law 109-163; 119 Stat. 3455-3456); or (B) for assistance for the reconstruction of Iraq under— (i) the Economic Support Fund authorized under chapter 4 of part II of the Foreign Assistance Act of 1961 (22 U.S.C. 2346 et seq.); (ii) the International Narcotics Control and Law Enforcement account authorized under section 481 of the Foreign Assistance Act of 1961 (22 U.S.C. 2291); or (iii) any other provision of law.”

As described in the committee report, House Report 110-146 (page 404), the change would extend the responsibilities of SIGIR by including all reconstruction funding provided regardless of source or fiscal year. Currently, authority relating to certain reconstruction funds provided for Iraq in FY 2005 is unclear; as of the date of this Quarterly Report, authority does not extend to any reconstruction funding for FY 2007 or beyond.

Congressional Appearances

During the first six months of 2007, SIGIR officials appeared on these 12 occasions before committees of the Congress:

1. January 18, 2007—House Committee on Armed Services—Hearing on “Review of Iraq Reconstruction.” The SIGIR provided an update on ongoing and recently completed audits, inspections, and investigations of the Iraq reconstruction program.
2. January 30, 2007—House Committee on Appropriations, Subcommittee on Defense—Briefing on “Contracting in Iraq.” The SIGIR discussed recent audit findings and the functioning of the Iraqi security forces.
3. February 6, 2007—House Committee on Oversight and Government Reform—Hearing on “U.S. Involvement in Iraq Reconstruction.” The SIGIR presented a summary of a 2005 audit of the Coalition Provisional Authority’s (CPA’s) controls over Iraqi funds maintained in the Development Fund for Iraq (DFI).
4. February 8, 2007—House Committee on Appropriations, Subcommittee on State, Foreign Operations, and Related Programs—Hearing on “Review of Iraq Reconstruction Oversight.” The SIGIR provided an overview of current and ongoing audits, inspections, investiga-

- tions, and lessons learned reports, and he discussed coordination with other oversight organizations in the Iraq Inspectors General Council.
5. February 15, 2007—House Committee on Oversight and Government Reform—Hearing on “U.S. Contracting in Iraq.” The SIGIR reviewed oversight of the Iraq reconstruction program, including a look at shortcomings in the contract award fee process, the failure to complete construction of 150 planned public health centers, and the problems encountered with the Basrah Children’s Hospital and Baghdad Police College projects.
 6. March 9, 2007—House Committee on Armed Services, Subcommittee on Oversight and Investigations—Hearing on “Iraqi Security Forces.” The Deputy Inspector General discussed the findings of two audits: one of Iraqi Security Forces (ISF) logistics plans that found shortcomings in capacity at the Iraqi Ministry of Defense and the Ministry of Interior, and an audit of ISF weapons that found that DoD had not fully complied with a requirement to register the serial numbers of weapons purchased for Iraq.
 7. March 20, 2007—Senate Committee on the Judiciary—Hearing on “SIGIR Investigations in Iraq.” The SIGIR provided an overview of SIGIR’s investigative work in Iraq and discussed whether enough is being done to combat fraud in Iraq.
 8. March 22, 2007—Senate Committee on Homeland Security and Government Affairs—Hearing on “SIGIR Lessons Learned: Program and Project Management.” The SIGIR released SIGIR’s third lessons learned report, which focused on program and project management. Key recommendations include congressional consideration of a reform measure like “Goldwater-Nichols” to promote better integration among DoD, DoS, and the USAID; clarifying who is in charge of post-conflict reconstruction; and integrating local populations and practices at every level of the planning and execution process.
 9. March 27, 2007—House Committee on Foreign Affairs, Subcommittees on International Relations, Human Rights, and Oversight and on the Middle East and South Asia—Hearing on “Can Iraq Pay for Its Own Reconstruction?” The SIGIR reviewed some of the key variables at play in Iraq’s reconstruction, including corruption, budget execution, and Iraqi government capacity, concluding that it will take some time before Iraq has the financial and technical resources to undertake a fast-paced reconstruction on its own.

10. May 10, 2007—House Committee on Appropriations, Subcommittee on Defense—Hearing on “Contracting in Iraq Reconstruction.” SIGIR’s Assistant Inspector General for Audit examined the challenges of contracting in Iraq reconstruction, provided an overview of lessons learned and recommendations to improve contracting processes and execution, and presented a series of case studies from SIGIR audits and inspections.
11. May 22, 2007—House Committee on Foreign Affairs—Hearing on “Iraq: Is Reconstruction Failing?” The SIGIR, who had recently returned from his 16th visit to Baghdad, provided an updated assessment on conditions there. In addition to an overview of current reconstruction and oversight efforts in Iraq, the testimony examined future relief and reconstruction funding and recommendations for improved accountability.
12. June 19, 2007—House Committee on the Judiciary, Subcommittee on Crime, Terrorism, and Homeland Security—Hearing on “War Profiteering and Other Contractor Crimes Committed Overseas.” The SIGIR provided an overview of corruption in Iraq and of U.S. government support for the development of key anticorruption initiatives of the GOI. SIGIR also provided an overview of its ongoing investigative work and discussed proposed congressional legislation on “war profiteering.”