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# SIGIR Oversight

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## SIGIR AUDITS

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

SIGIR also issued two draft reports and has 16 ongoing audits. At least eight more audits are planned to start next quarter. SIGIR per-

forms audit work under the generally accepted government auditing standards.

Details on SIGIR audits are presented throughout this Report:

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

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

SIGIR AUDIT PRODUCTS, AS OF OCTOBER 30, 2006

REPORT NUMBER	REPORT TITLE	DATE ISSUED
06-028	Review of Administrative Task Orders for Iraq Reconstruction Contracts	October 2006
06-031	Management of the Iraqi Interim Government Fund	October 2006
06-032	Iraqi Security Forces: Review of Plans To Implement Logistics Capabilities	October 2006
06-033	Iraqi Security Forces: Weapons Provided by the U.S. Department of Defense Using the Iraq Relief and Reconstruction Fund	October 2006
06-034	Status of the Provincial Reconstruction Team Program in Iraq	October 2006
06-035	Interim Audit Report on Inappropriate Use of Proprietary Data Markings by the Logistics Civil Augmentation Program (LOGCAP) Contractor	October 2006
06-037	Interim Report on Improper Obligations Using the Iraq Relief and Reconstruction Fund (IRRF 2)	September 2006
06-038	Unclassified Summary of SIGIR’s Review of Efforts To Increase Iraq’s Capability to Protect its Energy Infrastructure	September 2006

TABLE 3-1

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

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

SIGIR observes and reports on project or program failures that result from inconsistent policies and processes across all U. S. government entities. In SIGIR’s assessment of the PRT Program, SIGIR found that the PRT staffs on military forward-operating bases were spending more time on administrative matters than mission work. Personnel interviewed for the report cited the lack of a clearly defined

mission for the PRTs. They also reported that adequate resources to perform the mission have been promised, but not provided sufficiently.

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

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

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

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

SIGIR chaired a meeting of the Iraq Accountability Working Group on July 30, 2006. The liaisons from many organizations, fellow auditors, and internal management

evaluators met to discuss ongoing efforts and emerging issues.

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

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

On average, 25 SIGIR auditors are on the ground in Iraq on any given day, with an additional 7 located in SIGIR's Arlington, Virginia office. The audit section comprises very experienced auditors, evaluators, management and program analysts, contract specialists, editors, and program acquisition specialists. The combined experience of the section brings more than 700 years—an average of 22 years each—of audit and audit-related experience

to bear on SIGIR audits. SIGIR also has the capability by contract or by special authority to add expertise to each audit team for any area under review.

## Final Audit Products

### Review of Administrative Task Orders for Iraq Reconstruction Contracts

SIGIR-06-028, OCTOBER 2006

**Introduction.** Congress appropriated \$18.4 billion for security, relief, rehabilitation, and reconstruction of Iraq to the IRRF 2. At the beginning of calendar year 2004, the U.S. government released a design-build (DB) requirement in a request for proposal to provide construction services in Iraq. From January 13, 2004, to March 26, 2004, 12 DB cost-reimbursement contracts totaling \$5.8 billion were awarded to 9 contractors. (Two contractors received multiple contracts.)

Contractors incur administrative and overhead costs, as well as direct costs, associated with performing work. For these DB contractors, there was no consistent contract requirement for them to separately track and report to the U.S. government their administrative and overhead costs. To some extent, information on these indirect costs can be extracted from:

- individual invoices when submitted at a detailed level by contractors
- management cost reports when required to be submitted by contractors
- task orders that have been established under the contract to specifically isolate administrative and overhead costs

In spring 2004, senior Program Management Office and contracting officers sought to simplify the tracking of administrative and overhead costs for the 12 DB contracts through a new type of task order—an administrative task order (ATO). ATOs were intended to capture all administrative and overhead costs for each DB contract, separate from direct costs, for each individual construction task order under the contract. This was expected to provide several benefits, including allowing the PCO managers to better understand direct and indirect contractor costs and to increase the ability of managers to control and minimize administrative costs.

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

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

SIGIR found that ATOs were issued on 6 of the 12 DB contracts. Further, one of the six DB contracts with an ATO was terminated and demobilized less than one year after contract

award. Therefore, SIGIR's review focused on the 11 active DB contracts, of which 5 were issued one or more ATOs. Because the first two objectives are closely linked, they are combined for discussion in the report.

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

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

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

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

- For four of the five DB contracts, ATOs were issued sometime between when mobi-

lization task orders (TOs)<sup>362</sup> were issued and when substantial work began on the project. The earliest ATOs were issued two months after the mobilization TOs were issued.

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

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

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

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

SIGIR believes that administrative and overhead costs that were intended to be charged against ATOs were actually higher than those invoiced because ATOs were not issued concurrent with the mobilization task orders. Contractors would have begun to incur administrative costs from the onset of mobilization.

In the absence of ATOs, the contractors had no other option but to include administrative costs in their mobilization or direct task order invoices, or a combination of the two.

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

SIGIR was unable to determine how de-scoping contract actions affected ATO costs because invoices are not maintained in a form that allowed such analysis. In one instance, SIGIR identified a de-scoping action that occurred on December 27, 2004, which was followed by an increase rather than a decrease in ATO costs. However, SIGIR cannot draw any conclusions from this analysis because the

ATO costs included administrative costs for 14 different TOs issued under the contract, and the ATO invoices do not break out—nor are they required to break out—indirect costs by individual TOs. Furthermore, individual TOs are allowed to include multiple projects. In another instance, SIGIR documented that most costs incurred for the DB contract cancelled less than a year after it was issued were for mobilization, demobilization, and administrative costs.

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

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

than direct project costs—regardless of the nationality of individual contractors.

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

1. Ensure that cost-reimbursement contracts contain explicit requirements for all contractors in Iraq and future reconstruction efforts for segregating, tracking, and billing administrative costs—such as through the use of contractual direction, including segregating and reporting administrative costs in management cost reports.
2. Ensure that adequate project planning is conducted to minimize contractor down-time between the issuance of mobilization orders and the beginning of substantial direct project activity.
3. Improve processes to monitor contractor administrative costs to ensure that the level of administrative activity is appropriately adjusted to reflect any work stoppages, de-scoping actions, and reductions attributable to project completion or close-out.

### Management Comments and Audit

**Response.** SIGIR received written comments on a draft of this report from GRD-PCO and the JCC-I/A. Both organizations concurred with all of SIGIR's recommendations. Both noted a caveat that recommendation number one would apply only to cost-reimbursement contracts, but not to fixed-price (direct) contracts. SIGIR agreed and clarified this recommendation accordingly. GRD-PCO did not agree with some of SIGIR's conclusions and analytical methods. SIGIR did not agree with GRD-PCO's interpretations regarding the analysis or presentation of findings. SIGIR has addressed those comments in the Management Comments and Audit Response section of the report.

### Management of the Iraqi Interim Government Fund

SIGIR-06-031, OCTOBER 2006

**Introduction.** In 2004, the Iraqi Interim Government established the Iraqi Interim Government Fund (IIGF), providing \$136 million from the Development Fund for Iraq (DFI)<sup>363</sup> for U.S. military commanders to respond to the urgent humanitarian relief and reconstruction requirements in their areas of responsibility. Multi-National Force-Iraq (MNF-I) is responsible for overseeing and reporting monthly to the Iraqi government on the status of IIGF projects and financial information. MNF-I's subordinate command, the Multi-National Corps-Iraq (MNC-I), is responsible for management of the IIGF projects. IIGF projects involve the repair or reconstruction of hospitals and clinics, the provision of

electrical equipment (such as generators), and civic cleanup. One of its purposes is to employ as many Iraqis as possible. As of July 31, 2006, MNC-I reported that it had disbursed \$114.9 million for 683 IIGF projects and that 628 are complete.

**Objectives.** The audit addressed these questions:

- Can MNF-I properly account for the funds provided by the IIGF?
- Were the funds used for their intended purposes?

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

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

SIGIR found that the project manage-

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

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

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

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

2. Enforce existing guidance on maintaining project records, including conducting quarterly reviews to ensure the accuracy of IIGF project files.
3. Develop a tracking system for controlling and processing IIGF project files through the entire management process.
4. Continue efforts to improve IRMS accuracy for IIGF projects.

**Management Comments and Audit Response.** *SIGIR received written comments on*

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

## **Iraqi Security Forces: Review of Plans To Implement Logistics Capabilities**

SIGIR-06-032, OCTOBER 2006

**Introduction.** The Administration's *National Strategy for Victory in Iraq* lays out the goals and general framework to achieve security and stability in Iraq, to include the capacity of the Iraqi government to defeat terrorists and neutralize insurgents and illegal armed groups. On October 13, 2005, DoD reported to the Congress that the development and fielding of Iraqi logistics capabilities<sup>364</sup> is a critical component for ISF in conducting security operations independently.<sup>365</sup> MNF-I is using funds from both the IRRF and the Iraq Security Forces Fund (ISFF) to build the logistics capabilities of the Iraqi Army under the Ministry of Defense and the Iraqi local and national police forces under the Ministry of Interior. Our report is limited to the use of IRRF to achieve these goals, while the DoD Office of Inspector General and the U.S. Government Accountability Office have been charged with reporting on ISFF expenditures. As of August 1, 2006, the United States

had spent \$666 million from the IRRF on the development and fielding of these capabilities.

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

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

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

support. The second section focused on the development of the logistics capabilities of the Ministry of Interior and its local and national police forces.

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

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

- *Adequate personnel to train Iraqi Army logistics units*—MNF-I has acknowledged that it has an insufficient number of logis-

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

- *Ensuring that there are enough trained soldiers to implement its plans*—MNSTC-I could not tell SIGIR how many personnel have been trained to support these logistics functions. Further, not all trained soldiers are assigned to and remain with logistics units, particularly for operational-level logistics units that require personnel with advanced specialty training, such as doctors, nurses, medics, and mechanics.
- *Ensuring that the Ministry of Defense provides enough funds to sustain the logistics capabilities that MNF-I is planning to transfer to Iraqi Army control in 2007*—MNSTC-I estimates that it will cost the Ministry of Defense about \$3.5 billion to sustain its operations in 2007. Because the Ministry of Defense budget has not been submitted to or approved by the Iraqi Parliament, it is not possible to assess whether the Ministry of Defense is prepared to provide sufficient funds to support logistics capabilities in 2007.

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

- *Implementing its plan and achieving logistics capabilities within the Ministry of Interior*—because the Ministry does not control the Iraqi Police Service.<sup>366</sup>
- *Training enough logistics personnel to implement its plans*—because MNF-I plans are not yet final, there can be no assurance that MNSTC-I is planning to train enough police forces logistics personnel by the end of 2006.
- *Ensuring that the Ministry of Interior provides enough funds to sustain the logistics capabilities of the Iraqi police forces in 2007*—MNSTC-I estimates it will cost the Ministry of Interior about \$2.4 billion to sustain its operations in 2007. Because the Ministry of Interior’s budget has also not been submitted to or approved by the Iraqi Parliament, it is not possible to assess whether the Ministry of Interior is prepared to provide sufficient funds to support logistics capabilities in 2007.

Given the challenges that MNF-I faced within the Ministry of Interior, SIGIR believes that there is a significant risk that even if the initial goal to develop a sustainable logistics capability plan is achieved by the end of November 2006, the Ministry of Interior will not be capable of assuming and sustaining

logistics support for the Iraqi local and national police forces in the near term.

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

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

**Recommendations.** SIGIR recommends that the Commanding General, MNF-I, direct his staff and MNF-I subordinate commands to take these actions:

1. In cooperation with the Ministry of Defense, identify Iraqi Army logistics per-

sonnel requirements and formulate a plan for training these personnel.

2. In cooperation with the Ministry of Interior, identify Iraqi local and national police forces logistics personnel requirements and formulate a plan for training these personnel.
3. On receipt of the Iraqi Ministry of Defense and Ministry of Interior budgets for 2007, identify the extent to which they adequately support the logistics capabilities that MNF-I plans to transfer to it.

Developing and fielding Iraqi logistics capabilities is a critical component of the U.S. government effort to help the ISF of the Ministry of Defense and the Ministry of Interior become capable of independently conducting security operations. Therefore, SIGIR recommends that the Secretary of Defense take these actions:

4. Provide Congress an assessment in the quarterly report, *Measuring Security and Stability in Iraq*,<sup>367</sup> to include:
  - details of MNF-I's plan(s) and progress in executing the plan(s) to train ISF logistics personnel, for both the Ministry of Defense and the Ministry of Interior
  - the adequacy of the Ministry of Defense and Ministry of Interior budgets to support their respective logistics capability

#### **Management Comments and Audit**

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

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

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

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

### **Iraqi Security Forces: Weapons Provided by the U.S. Department of Defense Using the Iraq Relief and Reconstruction Fund**

SIGIR-06-033, OCTOBER 2006

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

**Objectives.** This audit, requested by the Chairman of the Senate Armed Services Committee, addresses the type, quantity, and quality of weapons purchased with the IRRF for the ISF, as well as ISF's capability to independently maintain and sustain these weapons. Although a review of the accountability of the IRRF-funded weapons was not requested, its relevance to sustainment warranted a limited assessment of weapons property records com-

pared to the quantities purchased with IRRF funds. Further, because of the importance of controlling these sensitive items—particularly considering the security environment in Iraq—SIGIR also reviewed compliance with DoD policies for registering weapons serial numbers.

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

These factors limit ISF’s capability to independently maintain and sustain these specific weapons, and possibly any identical weapons obtained by other means than IRRF:

- the lack of spare parts to conduct maintenance and repairs for most types of weapons purchased
- the lack of a requirement to provide technical repair manuals to ISF maintenance personnel
- the apparent decision by ISF units not to fill vacant arms maintenance positions
- the questionable accuracy of MNSTC-I inventories for 3 of the 12 types of weapons purchased with IRRF funds

In addition, during the review of contract files, SIGIR did not locate sufficient docu-

mentation to show that MNSTC-I had fully complied with the requirement to register the serial numbers of all weapons in the DoD Small Arms Serialization Program.

**Material Management Control Weaknesses.** SIGIR identified two material management control weaknesses:

- the incomplete accountability of weapons procured by DoD for the ISF
- the apparent non-compliance for the registration of weapons serial numbers under the DoD Small Arms Serialization Program

**Recommendations.** SIGIR recommends that the Commanding General, MNSTC-I, direct his staff to take these actions:

1. Determine the requisite spare parts and technical repair manual requirements by weapons type and, if applicable, weapons model and provide this information to the Ministries of Defense and Interior.
2. Review policies and procedures for filling vacant arms maintenance positions and implement corrective actions for sustainment.
3. Establish accurate weapon inventories.
4. Initiate action to provide weapons serial numbers for compliance with the DoD Small Arms Serialization Program.

#### **Management Comments and Audit**

**Response.** *SIGIR received written comments on the draft of this report from MNSTC-I officials, who generally concurred with recommendations 1 through 3, but did not concur with recommen-*

dation 4. The concurrences were accompanied with comments that identified actions underway or planned relating to the recommendations. MNSTC-I officials non-concurred with recommendation 4, stating that there is no provision or mechanism to register foreign-owned weapons in the DoD Small Arms Serialization Program.

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

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

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

to a foreign entity to document that they were shipped outside the control of DoD."

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

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

SIGIR-06-034, OCTOBER 2006

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

National Security Presidential Directives 36 and 44 provided the policy and organizational framework for U.S. civilian-military organizations to implement nation-building programs. The PRTs comprise personnel from the Departments of State (DoS), Justice, and Agriculture; the U.S. Agency for International

Development (USAID) and its Local Governance Program contractor, RTI International; the U.S.-led Multi-National Force-Iraq (MNF-I) and its subordinate element, the Multi-National Corps-Iraq (MNC-I); the Gulf Region Division of the U.S. Army Corps of Engineers (GRD); and Iraqi-born expatriates (often holding U.S. citizenship).

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

**Objectives.** The objectives of this audit were to determine whether PRTs are fully empowered, staffed, and resourced to meet their mission, and to identify any other barriers

impeding achievement of the PRT mission. Specifically, SIGIR addressed these questions:

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

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

**Results.** The unstable security environment in Iraq touches every aspect of the PRT program comprising ten PRTs and eight local governance satellite offices.<sup>368</sup> Despite very difficult operating conditions, creating the PRTs in the short period of time is a significant and noteworthy achievement that was directly related to effective senior leadership at the Iraq Reconstruction Management Office and to the Commanding General, MNC-I. Further, SIGIR observed some outstanding individual efforts at selected PRTs to execute the mission.

It is anticipated that the majority of PRTs will continue operating through FY 2008, at which time the mission will transition to a traditional USAID training program to develop local governance capacity. The PRT program has been ongoing for more than a year, and some PRTs are still being established. Many obstacles have been overcome, but many remain, such as the ever-changing security situation, the difficulty of integrating civilian

and military personnel, the lack of a finalized agreement on PRT operational requirements and responsibilities, a lag in funding resources, and the difficulty in recruiting and retaining qualified civilian personnel.

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

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

DoS and DoD have not yet finalized their agreement on PRT operational requirements and responsibilities. This has delayed startup of

some PRTs and hindered operations of others. The lack of a formal agreement means that the lines of authority and coordination between U.S. Embassy and military components have not been spelled out and agreed to, and the operational support mechanisms that the PRTs at military bases depend on—facilities, life support, communications, and basic supplies—have not been settled on.

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

During discussions with DoS leadership, SIGIR learned that the DoS portion of the PRT program had enough resources and personnel to meet its PRT program expectations in FY 2007. However, DoS faced a new challenge. In the congressional conference committee report accompanying P.L. 109-234,<sup>369</sup> DoS was directed to take several actions before any funds contained in or made available by this Act can be expended in support of PRTs in Iraq. On October 25, 2006, DoS told SIGIR that it had submitted on October 23, 2006, a report with the required information to the

Congressional Committees on Appropriations, thus satisfying the prerequisite for expending funds on the PRTs.

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

On balance, the PRT experience in Iraq demonstrates individual successes arising from individual efforts and improvisations, which allowed some PRTs to move forward with their capacity-development mission. Lessons learned from the PRT experience in Afghanistan showed that the lack of specific guidance led to confusion about civilian-military roles at PRTs. Similarly, executing an effective PRT program in Iraq would have been greatly

enhanced if DoS and DoD shared a common understanding of their respective roles and responsibilities. Now that the PRT has completed its first year, it is time to start gathering lessons learned about what works and what needs improvement in the implementation of the Iraq PRT model.

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

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

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

4. Issue a joint statement reaffirming the lines of authority and coordination to achieve effective civilian and military integration in the PRT Program.
5. Assign responsibility for reporting attack incidents to one individual at each Regional

- Embassy Office and military forward-operating base and coordinate closely with the U.S. Embassy's Tactical Operations Center.
6. Specify skill-set requirements for civil affairs personnel at PRTs to enable better training, selection, and assignment.
  7. Consider temporarily assigning the PRT personnel identified for Anbar and Basrah, as well as the local governance satellite offices in south central Iraq, to functioning PRTs until the security environment improves.

#### Management Comments and Audit

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

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

DoS and MNF-I did not concur with recommendation 7. DoS responded that, despite the security concerns, PRT leadership believed the mission was necessary. However, in a meeting after receiving the DoS written comments,

SIGIR was told by a senior DoS official that DoS is now reassessing the staffing of PRTs in locations considered to be high-security risks. SIGIR considers DoS's action to be responsive to recommendation 7. In non-concurring, MNF-I responded that SIGIR may want to consider that although security is an issue in Anbar and Basrah, there is progress to be gained by having an active PRT in the provinces. MNF-I also noted that security is a concern at other PRTs. SIGIR agrees with MNF-I that security is a concern at all PRTs; however, continuing evaluation needs to be conducted at high-risk PRTs to assess their viability in relation to the risk and cost.

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

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

#### Interim Audit Report on Inappropriate Use of Proprietary Data Markings by the Logistics Civil Augmentation Program (LOGCAP) Contractor

SIGIR-06-035, OCTOBER 2006

**Introduction.** SIGIR issued this interim audit report because data access and reporting issues impact the transparency of government operations. This review, which was requested by the Office of the Chief of Mission, U.S. Embassy-

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

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

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

on November 5, 2004. Task Order 100 was a continuation of services provided under Task Order 44, which was awarded on March 6, 2003, to provide support to the CPA in support of Operation Iraqi Freedom.

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

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

KBR’s practice of routinely marking almost all of the information it provides to the government as KBR proprietary data, citing the FAR Section 3.104 as the justification, is not consistent with the direction in the FAR as to what constitutes proprietary data. Although this provision of the FAR applies to the protection of bid or source selection information

during the procurement process, it does not apply to data that is reported as part of contractor performance. The result is that information normally releasable to the public must be protected from public release just because the information gathered for the government by KBR, pursuant to KBR's contractual obligations, was marked as proprietary. This inhibits the transparency of government activities and the use of taxpayer funds and places unnecessary requirements on the government to both protect from public disclosure information received from KBR and to challenge inappropriate proprietary markings. It may also impede the government's effort to transition the work currently being performed under the LOGCAP contract to successor contracts. Both the LOGCAP Program Office and Defense Contract Management Agency (DCMA) in its LOGCAP oversight role are seeking to prevent misuse of proprietary markings by KBR.

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

1. In all future LOGCAP task orders and modifications to existing task orders, include language restricting the use of proprietary markings.
2. Exercise appropriate contracting officer authority, either directly or through delegated authority to DCMA, to advise KBR in accordance with the requirements of

FAR 3.104-4(d) whenever contractor submissions appear to inappropriately contain proprietary markings.

3. Include specific statements within the Performance Work Statements for the new LOGCAP contract that address both the issue of proprietary data markings and receipt of contract reports and data submissions in native formats.
4. Establish as a performance metric KBR's use of proprietary markings and responsiveness to requests for information as a factor in the determination of award fee ratings.
5. Exercise appropriate contracting officer authority, either directly or through delegated authority to DCMA, to require KBR to provide information to the government—including SIGIR and any other U.S. government audit activity—in the native electronic format (Excel or Access) in which KBR maintains the information. This will facilitate the government's analysis of the information.

#### **Management Comments and Audit**

**Response.** *Because of the continuing impact of the misuse of proprietary markings and the pressing need to address this practice, SIGIR obtained formal oral comments from the Army Sustainment Command, rather than written comments, to expedite the issuance of this report. SIGIR discussed the findings with command officials from the LOGCAP Program Office on October 10, 2006, who agreed with the content of the report and stated that it was very timely. The Army Sustainment Command*

*agreed with the intent of SIGIR's recommendations, stating that alternative action would be taken to address them. Specifically, these officials said that they will (1) prepare a modification to the existing LOGCAP base contract to provide guidance to KBR on marking of proprietary data, and (2) include guidance on marking proprietary data in the successor LOGCAP contracts. SIGIR believes that these actions are responsive to and fully meet the intent of recommendations number 1 and 2. SIGIR will follow up and comment in the final report on the alternative actions to meet the intent of the remaining recommendations.*

### **Interim Audit Report on Improper Obligations Using the Iraq Relief and Reconstruction Fund (IRRF 2)**

SIGIR-06-037, SEPTEMBER 2006

**Introduction.** In November 2003, Congress passed P.L. 108-106, the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, which appropriated \$18.4 billion for the rebuilding of Iraq. This money is known as the Iraq Relief and Reconstruction Fund 2 (IRRF 2).<sup>370</sup> The funds provided in P.L. 108-106 were to remain available until September 30, 2006; when the authority to initially obligate these funds expired. As of August 24, 2006, according to the financial records of the USACE Finance Center, DoD had about \$464 million remaining in IRRF 2 to obligate by September 30, 2006, as detailed in the Corps of Engineers Financial Management System (CEFMS) report of all DoD IRRF 2 obligations and disbursements allocated to DoD.

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

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

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

**Findings.** SIGIR's review of PCO obligations recorded in USACE's financial records determined that the \$362 million recorded under the vendor name "dummy vendor" do not constitute proper obligations. The establishment of these obligations is not consistent with a 1995 decision by the Comptroller General of the United States on appropriations availability, GAO's Appropriations Law Manual, and the DoD Financial Management Regulation (FMR) requirements for recording and reviewing commitments and obligations.

The obligation of amounts from IRRF 2 were required to be made for *bona fide* purposes before September 30, 2006. If action to obligate these funds, consistent with GAO and DoD guidance on what constitutes proper obligations, had not been taken by September 30, 2006, the obligations would have expired. As a result, USACE actually over-reported its obligations by \$362 million. As of August 24, 2006, \$826 million was remaining to obligate by the end of the fiscal year.

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

**Guidance Exists on Availability and Recording of a Proper Obligation.** The Comptroller General of the United States, GAO's Appropriations Law Manual, and the DoD FMR provide guidance on what constitutes a proper obligation. According to the GAO Appropriations Law Manual, Chapter 7, an "obligation" is an action that creates a liability or definite commitment on the part of the government to make a disbursement at some later time. In a 1995 decision,<sup>371</sup> the Comptroller General stated that it is a fundamental principle of appropriations law that appropriated amounts are limited for obligation to a definite period and are available only for payment of expenses properly incurred during that period of availability. The

Comptroller General further stated that unless properly obligated during their period of availability, any amounts reserved in a contingency account would not be available to support obligations arising after the expiration of their period of availability.

This decision is discussed in detail in GAO's Appropriations Law Manual, Chapter 5.<sup>372</sup> The manual states: "An appropriation may not be used for the needs of some time period subsequent to the expiration of its period of availability." With respect to annual appropriations, a more common statement of the rule is that an appropriation for a given fiscal year is not available for the needs of a future fiscal year. IRRF 2 is a multiple-year appropriation (FY 2004 to FY 2006), and apart from the extended period of availability, multiple-year appropriations are subject to the same principles that apply to annual appropriations.

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

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

On September 7, 2006, SIGIR discussed these results with the USACE Chief Finan-

**IRRF 2 OBLIGATIONS DESCRIBED IN CEFMS UNDER “DUMMY VENDOR” ACCOUNTS**

TYPE OF OBLIGATION	NUMBER OF CEFMS ENTRIES	OBLIGATIONS (\$ IN MILLIONS)	DISBURSEMENTS (\$ IN MILLIONS)
Contingency	30	\$252.2	\$0
Design-build Program Close-out	25	85.1	0
Public Works Center Costs	36	19.4	0
Supervision & Administration	2	0.3	0
Claims & Unknown	3	\$ 5.5	0
<b>Total</b>	<b>96</b>	<b>\$362.5</b>	<b>\$0</b>

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

TABLE 3-2

**IRRF 2 OBLIGATIONS WITH VENDOR NAME OF “DUMMY VENDOR” BY SECTOR**

SECTOR	ENTRIES	OBLIGATIONS (\$ IN MILLIONS)	% OF TOTAL “DUMMY VENDOR” OBLIGATIONS
Security and Law Enforcement	3	\$2.5	.7
Justice, Public Safety Infrastructure, and Civil Society	22	29.0	8.0
Electricity	16	129.6	35.8
Oil Infrastructure	8	119.4	32.9
Water Resources	21	55.7	15.4
Transportation and Telecommunications	12	5.3	1.5
Roads, Bridges, and Construction	9	8.8	2.4
Health Care	4	12.1	3.3
Education, Refugees, Human Rights, and Governance	1	.1	0
<b>Total</b>	<b>96</b>	<b>\$362.5</b>	<b>100.0</b>

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

Table 3-3

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

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

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

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

**Management Comments and Audit Response.** *Because the subject of this report*

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

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

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

The same principle applies to multiple-year appropriations as of the end of the last fiscal year for which they were provided. Once a fixed appropriation has expired, the obligated

balances retain their fiscal year identities in an “expired account” for that appropriation for an additional five fiscal years.<sup>373</sup> During the five-year period, the expired account balance may be used to liquidate obligations properly chargeable to the account before it expired. The expired account balance also remains available to make legitimate obligations adjustments—to record previously unrecorded obligations and to make upward adjustments in previously under recorded obligations.<sup>374</sup>

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

SIGIR-06-038, SEPTEMBER 2006

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

hearing of the Senate Committee on Foreign Relations to report on the capacity of the Iraqi government to protect its infrastructure.

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

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

**Objectives.** This report provides the unclassified summary of a classified SIGIR audit report issued on July 27, 2006,<sup>375</sup> which addresses U.S. efforts to increase the capacity of the Iraqi government to protect its critical oil and electricity infrastructure. Specifically, this report addresses these questions:

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

infrastructure? This is to identify the current and future investment of resources needed to attain the desired capability.

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

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

Attacks against Iraq’s oil infrastructure have ebbed and flowed from January 2005 to April

2006. Like attacks against oil infrastructure, attacks against the electric power infrastructure have also ebbed and flowed between January 2005 and April 2006.

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

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

Both the U.S. Embassy and MNF-I have done considerable planning that addresses Iraq’s energy infrastructure. There are a variety

of individual plans at different levels from the U.S. Embassy and MNF-I's Joint Campaign Plan; to MNF-I and MNC-I plans and orders to their subordinate commands; to the U.S. Embassy's Critical Infrastructure Integrity Plan and Summer 2006 Energy Sector Action Plan. Each pertains to the implementing organization's mission and responsibilities.

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

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

The new Iraqi government is pursuing initiatives to enhance the security and performance of the oil and electricity sectors. Increasing oil exports and providing electricity are the top priorities. The Iraqi government's plan identifies a number of steps that it says it will take to achieve these ends. The challenge for the United States is to help the Iraqi gov-

ernment move forward to undertake the tasks needed to improve infrastructure integrity.

One way to encourage the Iraqi government to take needed action is to focus U.S. congressional attention on what the new government is doing and still needs to do to address the integrity of its energy infrastructure. Current reporting by DoS and DoD<sup>376</sup> to Congress does not provide adequate information on the progress being made by the Iraqi government, the status of specific steps the new Iraqi government has taken, and what further specific steps remain to be taken. Currently, DoS and DoD reports contain only a general description of progress in Iraq, but not specific information on actions that need to be taken by the Iraqi government to enhance infrastructure integrity and progress it is making in taking those actions.

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

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

1. Encourage action by the Iraqi government by continuing to emphasize the actions that the newly formed Iraqi government must

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

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

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

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

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

- Encourage the Iraqi government to take additional actions regarding Iraq's oil and electricity infrastructure involving facilitating foreign investment in Iraq's oil industry.

- Encourage developing a rapid repair capability.

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

### Management Comments and Audit

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

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

## Draft Reports Issued

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

### Fact Sheet: U.S. Government Organizations' Roles and Responsibilities for Iraq Relief and Reconstruction Activities

SIGIR-06-022

This report describes the roles and responsibilities of the principal U.S. government organizations engaged in Iraq relief and reconstruction. This report examines how officials in those

organizations view their authority and role in the Iraq effort and how the officials believe they interface with other organizations. (The validation of those authorities, roles, and interface efforts was not in the scope of this review and, therefore, was not conducted.)

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

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

### **Lessons Learned: Contracting in Iraq Reconstruction: Design-build vs. Direct Contracting**

SIGIR-06-027

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

### **Ongoing Audits Review of Close-out Processes and Procedures for IRRF Contracts**

SIGIR-6006

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

### **Review of DynCorp, Inc., Contract Number S-LMAQM-04-C-0030, Task Order 0338: Iraqi Police Training Program Support**

SIGIR-6017

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

- What were the costs associated with Task Order 0338, including amounts obligated and expended, potential liabilities, and controls over these costs?

- What is the status of property purchased under Task Order 0338, including related internal controls, and what is the salvage value for unused assets?
- What is the cost and program impact of the stop-work order affecting the construction of police training facilities at the Adnan Palace?
- What is the status of construction of facilities to support provincial police training programs?

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

SIGIR-6018

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

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

SIGIR-6025

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

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

SIGIR-6026

The overall objective of this audit is to determine the amount of IRRF unliquidated obligations and whether the U.S. government agencies responsible for reconstruction projects in Iraq have established adequate management controls over IRRF 1 and IRRF 2 unliquidated obligations. SIGIR intends to answer these questions:

- How much IRRF monies remain as unliquidated obligations?
- Have unliquidated obligations or monies committed to complete projects been

de-obligated, decommitted, and moved to cover unfunded requirements?

- What management controls are in place to monitor unliquidated obligations?

### **Iraq Relief and Reconstruction Fund (IRRF) Financial Review: Unmatched Disbursements**

SIGIR-6027

The overall objective of this audit is to determine the amount of IRRF unmatched disbursements and whether the U.S. government agencies have established adequate management controls over IRRF 1 and IRRF 2 unmatched disbursements. SIGIR intends to answer these questions:

- How much IRRF monies have been identified as unmatched disbursements?
- How often are unmatched disbursements reviewed by government officials, and who makes the determination that the disbursement was an IRRF expenditure?
- Have IRRF unmatched disbursements subsequently been identified to other IRRF projects?
- What management controls are in place to eliminate and resolve unmatched disbursements?

### **Review of Spending Under the USAID Bechtel Contract and the Recording and Reporting of Associated Costs**

SIGIR-6028

The objective of this review is to determine, in detail, the costs incurred by the contractor in performing work under selected contracts with USAID for reconstruction projects in Iraq, as

well as the methods used to record and report associated costs. SIGIR intends to answer these questions:

- What cost detail is contained in the invoices and supporting documentation that Bechtel submitted to the government?
- What costs did Bechtel incur in carrying out its contracted tasks, including material, labor, overhead, security, subcontracts, and all other costs?
- How many layers of subcontracts did Bechtel have in performing the contracted work?
- What types of contracts—firm fixed-price, cost plus, or other arrangement—were used for subcontracts?
- At each layer of subcontracting, what costs were billed to the next level of subcontractor?
- What administrative fees were charged by the contracting agency?

### **Review of Logistics Civil Augmentation Program (LOGCAP) Task Order 130**

SIGIR-6029

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

(1) vehicle service and maintenance and (2) fuel procurement, delivery, and pricing. The audit will answer these questions:

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

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

### **Lessons Learned from Management and Organizational Challenges of the Iraq Relief and Reconstruction Fund**

SIGIR-6032

This continues the SIGIR review (SIGIR-6012) on how roles and responsibilities have been

assigned for the management of IRRF. This study will identify leading practices that may be used to guide future multi-organizational interaction for managing similar relief and reconstruction initiatives. The objective of this study is to answer these questions:

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

### **Controls over U.S. Government Property in the Possession of USAID Contactor Bechtel National, Inc.**

SIGIR-6033

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

- Are the properties being accurately documented, including all necessary procedures to track the item from the purchase authorization to disposal?
- Are the properties being accurately inventoried and safeguarded?

- Are the properties being controlled and disposed of in accordance with relevant regulations?

### **Review of Major U.S. Contractors' Security Costs Related to Iraq Relief and Reconstruction Fund (IRRF) Contracting Activities**

SIGIR-6034

These are the objectives of this review:

1. Determine the extent to which the design-build contractors (or other large contractors) have identified, captured, and reported the security costs of their IRRF contracting activities.
2. Determine the impacts of these security costs in relation to the overall original project estimates. Security costs include Personal Security Details; construction site protection (guards, security equipment, and improvements); living area protection (guards, security weapons/equipment, and improvements); security to support convoy or other types of travel; and security-related intelligence.

To meet these objectives, SIGIR requested from select contractors the answers to these questions:

- What total amount of IRRF contract dollars disbursed to you was spent on security costs?
- What percentage of total IRRF funds disbursed to you comprises the prime's security costs?
- What are the initial and subsequent revisions to the projected security costs of your IRRF contracting activities?
- How and when did the magnitude of these costs become evident, and what were the significant causal or contributing factors?
- What method(s) of record-keeping was used for capturing and differentiating between the types of security required, such as personal security details (PSDs), site, perimeter, convoy/material movement, etc.?
- What is the breakdown, by category (billed, charged, estimated) of both the direct and indirect security costs of your IRRF contracting activities?
- Are there any additional security cost increases from subcontractor work?

### **Review of U.S. Government Organizations' Plans and Programs To Support Capacity Development of the Iraqi Government**

SIGIR-6035

The overall objective of this review is to assess whether U.S. government organizations have plans and programs in place for capacity development in the Iraqi government. SIGIR is coordinating this review with GAO to answer these questions:

- Have DoS, USAID, or any other U.S. or coalition government organization assessed the competency of the responsible Iraqi ministries for the long-term management of essential government functions?
- What are the plans of U.S. government organizations to address identified shortcomings, and how is the U.S. government working with other international institutions to coordinate solutions?

- What performance indicators or metrics will be used to measure progress, and who is responsible for measuring progress?
- Have U.S. government organizations identified adequate funding or developed plans in concert with other international donors for carrying out capacity development programs in future years?

### **Final Audit Report on Improper Obligations Using the Iraq Relief and Reconstruction Fund (IRRF 2)**

SIGIR-6036

The objective of this final report is to identify lessons learned and issues associated with funding contingencies related to construction contracts.

### **Review of the Commander's Emergency Response Program (CERP) for Fiscal Year 2006**

SIGIR-6037

This review will determine:

- What controls are in place to ensure the accountability of CERP funds and project records?
- Were CERP funds used for intended and authorized purposes?
- What is the status of coordination of the CERP with other reconstruction funds and programs, particularly for reconstruction projects with strategic value, for FY 2006?
- How do commanders plan forced sustainment by the local Iraqi government for completed CERP projects?

## **Planned Audits**

SIGIR will conduct performance audits that assess the economy, efficiency, effectiveness, and results of Iraq reconstruction programs and operations as necessary. These audits will be accomplished through individual audit projects of specific issues, as well as an audit series that will evaluate several components of related topics. Each of these audits will be announced before the start of any audit field work. For the full text of the audit plan, see the SIGIR website: <http://www.sigir.mil/>.

These audits are planned to be announced during the next quarter:

- Review of Federal Civilian Personnel Staffing Requirements for the Management and Execution of IRRF (IRMO)
- Cost-to-Complete Follow-up and Use of the Project Assessment Report
- Comparative Analysis of Air Force Center for Environmental Excellence Versus Gulf Region Division in IRRF (Project Management and Contracting)
- Review of the Use of Sector Project and Contracting Office Contractors (SPCOC) in Managing IRRF Programs and Projects
- Survey of the INL IRRF Programs and Projects for Iraq
- Review of the Accuracy of IRRF Financial Reporting
- Where did the Money Go? Trickle Down Series
- Property Accountability Series—High-risk Property

## SIGIR INSPECTIONS

During this quarter, SIGIR visited, assessed, and reported on nine construction projects across Iraq, yielding a variety of results. SIGIR found several high-quality projects that had good contractor quality control (QC) and sufficient U.S. government quality assurance (QA) programs in place. In other cases, however, SIGIR found serious construction shortfalls that stemmed from insufficient oversight and inadequate contractor performance. Recurrent construction problems at various projects included deficient concrete pours and substandard plumbing installation. Security also continued to be an impediment to both oversight and construction. Safety concerns at several sites prevented SIGIR assessment teams from conducting full assessments.

SIGIR's presence across Iraq continues to exercise a positive effect on reconstruction efforts. For example, SIGIR's Quick Reaction Report on the Baghdad Police Academy, which SIGIR conducted after receiving complaints about substandard construction work at the site, prompted rapid responses to remediate the problems by both the U.S. government and contractors. As of October 2006, SIGIR has completed 65 project assessments, 96 limited on-site inspections, and 220 aerial assessments.

### Project Assessments: Findings at a Glance

#### Al Karkh Courthouse (\$2.23 million)

- The SIGIR assessment team could not visit the site because of security concerns; there-

fore, the assessment was based on contract files, oversight reports, and satellite imagery reviewed by SIGIR imagery analysts.

- The project was sufficiently well-designed by the contractor and will meet objectives.
- The contractor QC plan appeared adequate.
- The U.S. government QA plan appeared adequate.
- The project results to date indicate that the project will meet task order objectives.

#### Thi-Qar Village Roads Segment 3

(\$1.44 million)

- The design provided by the contractor was sufficient to achieve project goals.
- The site construction was consistent with the intent of the project. However, security conditions prevented the SIGIR assessment team from visiting the project site to inspect the roads. Therefore, the assessment was based on contract file information provided by management and on a SIGIR and imagery review of information provided by the National Geospatial-Intelligence Agency (NGA).
- The contractor did not submit a QC plan; however, the U.S. government QA program adequately ensured that the lack of a contractor QC plan did not have a negative impact on the project's successful completion.
- The project met original contract objectives.

## **Critical Care Unit, Ibn Al Bitar Hospital (\$0.58 million)**

- The contractor's design and construction work was sufficient.
- The contractor's QC plan was not sufficiently detailed to effectively guide the contractor's Quality Management (QM) program.
- The U.S. government QA program effectively monitored the contractor's QC program.
- The project, when completed, should be consistent with the contract objectives.

## **Baghdad Municipal Solid Waste Landfill (\$28.8 million)**

- The project components were adequately designed before construction.
- In the vehicle maintenance building, SIGIR noted deficiencies with the electrical generator, electrical wiring, and building exterior.
- The project results should be consistent with the original contract objectives.
- At a site visit in June 2006, SIGIR determined that the landfill was not being used because of security issues in the area; however, a plan to secure the area and use the landfill was being implemented.

## **Al Kut Training Academy (\$22.9 million)**

- With one significant exception, all major components reviewed during this limited scope assessment were sufficiently designed to construct a fully operational training academy. The exception was the newly constructed septic/sewer system, which

could not handle the volume of water directed to it.

- The construction and rehabilitation of the facility appeared to meet the standards of the design, except for construction of some wastewater piping, concrete work, and other areas of construction workmanship.
- QM practices were not completely effective during critical periods of construction because the contractor did not implement a deficiency tracking system to ensure that construction deficiencies were identified, tracked, and corrected in a timely manner.
- The facility was being used for its intended purpose of training Iraqi military and law enforcement personnel.

## **Ninewa Provincial Police Headquarters (\$1.0 million)**

- The design and specification of components before installation and construction were minimally adequate.
- Construction and rehabilitation did not meet design standards or specifications because the contractor did not demonstrate professional quality craftsmanship on construction and completed repair work.
- The contractor's QC program and the government's QA program were not effective.
- Project results were not consistent with the original objective to repair and reconstruct the facility. Numerous required work items were not carried out by the contractor, and finished work was often substandard.

**Bab Eshtar Substation—11 kV Feeder Cable (\$1.22 million)**

- The project components were adequately designed before construction and installation.
- Construction work complied with the design standards.
- The contractor's QC and the government's QA programs were adequate.
- When completed, the project should meet its intended objective to supply, install, test, and place in service a 12 x 11 kV underground cable feeder to the Bab Eshtar substation.

**Baghdad Police College (\$94 million)**

SIGIR identified construction deficiencies that required prompt attention and separate reporting:

- Improperly fabricated wastewater plumbing within the student barracks could potentially result in the reduced load-carrying capacity of the structural slabs, as well as environmental and health hazards to the students, instructors, and workers.
- The extent of potential hazards must be determined before any further work is performed on the facility.

**Planning**

SIGIR selected a cross-section from each of the major reconstruction sectors to assess, survey, and analyze:

- projects involving water, electricity, oil facilities, and transportation

- projects involving large and small contract amounts
- projects of different general contractors
- projects in different sections of the country
- projects in programs of each of the major U.S. agencies
- projects that were fully completed and partly completed

**On-site Project Assessment Program Approach**

Since June 2005, SIGIR has completed 65 project assessments—9 during this quarter. These were the general objectives of the project assessments:

- Were project components adequately designed before construction or installation?
- Did construction or rehabilitation adequately meet the standards of the design?
- Were the contractor's QC plan and the government's QA program adequately carried out?
- Were project sustainability and operational effectiveness adequately addressed?
- Were project results consistent with the original objective?

Table 3-4 lists project assessments completed this quarter. For a complete list of project assessments from previous quarters, see Appendix I. Figure 3-1 shows the approximate location of each project.



## NINE PROJECTS ASSESSED THIS QUARTER (DOLLARS IN THOUSANDS)

PCO ID	PROJECT NAME	GOVERNORATE	BUDGETED TOTAL COST	EXECUTING AGENCY	CONTRACTOR	GRD REGION
16104	Al Karkh Courthouse—Baghdad	Baghdad	\$2,230	GRD	Foreign	Central
17867	Thi-Qar Village Roads Segment 3	Nasiriyah	\$1,440	GRD	Foreign	South
NA	Ibn Al Bitar Hospital—Critical Care Unit	Baghdad	\$580	GRD	Foreign	Central
12485	Baghdad Municipal Solid Waste Landfill Facility	Baghdad	\$28,800	GRD	Fluor-Amec, LLC	Central
NA	Training Academy—Al Kut	Al Kut	\$23,000	GRD	ECCI	North
NA	Ninewa Provincial Police Headquarters	Mosul	\$1,000	GRD	Foreign	North
NA	Bab Eshtar Substation-11 kV Cable Feeder	Mosul	\$1,220	GRD	Foreign	North
NA	Baghdad Police College (Academy) (2 projects)	Baghdad	\$94,000	GRD	Parsons	Central

TABLE 3-4

### PROJECT ASSESSMENTS

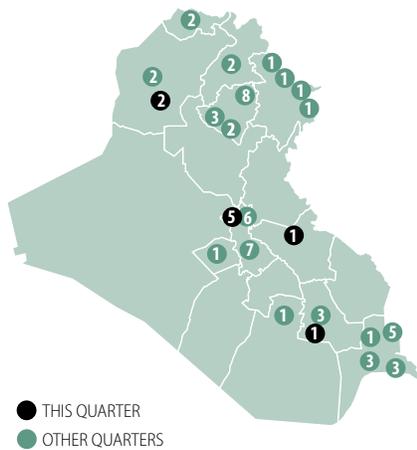


Figure 3-1  
**APPROXIMATE LOCATIONS OF THE 65 PROJECTS WHERE INSPECTIONS WERE CONDUCTED, ANALYZED, AND REPORTED TO DATE**

## SIGIR Project Assessments

### Al Karkh Courthouse, Baghdad, Iraq

SIGIR-PA-06-058

The objective of the Al Karkh Courthouse project was to construct and secure a court facility to support implementation of the rule of law in Iraq. This project was constructed under a design-build contract and funded at \$2,333,582. The courthouse is in the northwestern part of Baghdad in a previously open agricultural area. Based on the design provided by the U.S. Army Corps of Engineers (USACE), the Al Karkh Courthouse project included construction of these buildings and facilities:

- perimeter wall
- checkpoints
- internal roads and parking areas
- courthouse building
- electrical transformer vault building and emergency electrical generators
- maintenance/water storage building
- cafeterias
- exterior bathrooms
- kiosks
- landscaping and gardens

In addition to these facilities, the courthouse complex contained an annex building that was being constructed concurrently with the courthouse project. However, the annex project was a separate requirement under a different task order and not part of the scope of SIGIR's assessment.

At the time of the SIGIR assessment, the project was reported as 92% complete. Remaining work included the completion of construction on the courthouse building, as well as other buildings in the complex (maintenance/water storage, cafeteria, etc). Other required work items—including landscaping and final paving—were not yet accomplished. Remaining work also included the requirements for additional security features at the courthouse building. The compound's utility systems (water, sewer, and electric) also needed to be connected to the municipal systems.

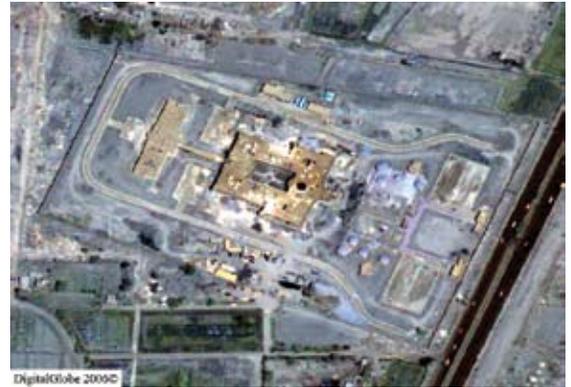
#### What We Found

The SIGIR evaluation was based on a review of the contract file documentation, including QA reports, progress photos, and interviews of USACE Resident Office personnel and GRD-PCO staff. In addition, SIGIR's imagery specialists analyzed commercially available satellite imagery of the courthouse site to independently verify the construction progress (Aerial Images 1 and 2). A site assessment team did not visit the location because SIGIR was advised that doing so would have endangered those working at the site.

SIGIR found that construction from project start though July 3, 2006, appeared to meet the requirements of the design. The workmanship was adequate to construct the courthouse complex buildings and other facilities. SIGIR raised concerns about the ceramic tile installation practices and the quality of the water circulation pumps. However, project documentation



Aerial Image 1. Courthouse site on August 10, 2005.



Aerial Image 2. Courthouse on May 16, 2006.

indicated when the problems in workmanship occurred. USACE Resident Office staff identified deficiencies and managed the contractor's corrective actions.

### **Sustainability**

The contract specifications required the contractor to provide and certify warranties in the name of the appropriate ministry for all equipment—including any mechanical, electrical, and electronic devices—and all operations for 12 months after issuance of the taking-over certificate. The contractor was to provide:

- any other commonly offered extended warranties for equipment and machinery purchased
- two sets of complete operation and maintenance manuals, including all generator and equipment information, electrical single-line diagrams, schematics, and maintenance information
- technical training from the system manufacturer for up to ten personnel
- spare repair parts, as recommended by the

system manufacturer, for one complete year of operation

The contractor was to complete all inspection and commissioning requirements before the final inspection.

No recommendations were included in the project assessment report, and USACE concurred with SIGIR's findings.

### **Thi-Qar Village Roads Segment 3, Thi-Qar, Iraq**

SIGIR PA-06-059

The project objective of the Thi-Qar Village Roads Segment 3 project was to construct a 7.1-km paved village road in the governorate of Thi-Qar for everyday use by the local population. The 170-day project was contracted at \$1,441,858. The project was completed on July 26, 2005. At the time of the SIGIR assessment, in April 2006, security conditions prevented the team from visiting the project site to observe the completed roadway.



Site Photo 1. Section of Thi-Qar Village Road before construction. (Photo provided by USACE)

**What We Found**

Based on the SIGIR assessment team’s review of the contract file, a summary of information received from NGA, and interviews with the USACE staff, SIGIR found that the construction appeared to be consistent with the intent of the project. The government QA program effectively monitored the project quality. The contract documentation provided to the assessment team did not include a QC plan, QC reports, or deficiency logs. However, the USACE Area Engineer’s appraisal evaluated the overall quality of workmanship as above average.

The USACE Resident Office had dispatched a Quality Assurance Representative (QAR)—a local Iraqi national—to the project site to inspect the Thi-Qar Village Road and to take pictures showing current conditions. SIGIR’s assessment team reviewed the photos (Site Photos 1 and 2). Minor discrepancies noted during the inspection process do not appear to have adversely affected the overall condition of the road. The summary prepared by NGA

Site Photo 2. Section of Thi-Qar Village Road after construction. (Photo provided by USACE)



stated that the Thi-Qar Village Road Project “was completed according to contract specifications. The original road was constructed from an unpaved, loose gravel route that paralleled a canal. Aggregate was probably added to the road’s surface and the canal bank. The road was paved, and several small foot bridges that span the canal were constructed. The southernmost section of the Thi-Qar Village road was improved most by the project. Before construction, it was not able to support vehicular traffic because of erosion and neglect.”

No recommendations were included in the project assessment report, and USACE concurred with SIGIR’s findings.

**Critical Care Unit, Ibn Al Bitar Hospital, Baghdad, Iraq**  
 SIGIR PA-06-066

The objective of the project was to design and construct the Critical Care Unit (CCU) at Ibn



Site Photo 3. First-floor columns and beams supporting roof.

Al Bitar Cardiac Hospital because the original facility had been looted and burned down. USACE executed a firm fixed-price, design-and-construct contract for the facility, and the contract was awarded to a local Iraqi firm for \$579,285. The hospital is in an urbanized area of Baghdad.

#### **What We Found**

Although the original scope of work required a two-story building, the Bill of Quantities (BOQ) in the original contract did not plan for enough material to complete the work required for a two-story CCU building. Further, there were not enough funds to provide construction material to complete the building's first floor (the second story). Therefore, with input from the Director General of the Ibn Al Bitar Hospital, the USACE Resident Office negotiated an agreement with the contractor to use the available funds to completely construct

the ground floor and only a shell for the first floor (structural concrete frame, including the roof, Site Photo 3). Further, the telephone and oxygen piping systems were removed from the scope. In addition, the central HVAC system was replaced by individual room HVAC units.

Based on a review of USACE QA reports, construction photos, and a visit to the site, SIGIR found that the work completed to date appeared to be consistent with the standards of the contract design. The USACE Deputy Resident Engineer and staff capably managed the project. As a result, the Ibn Al Bitar Cardiac Hospital should receive a new and functional Critical Care Unit.

The contractor's QC plan was not sufficiently detailed to effectively guide the contractor's QM program. However, the contractor submitted daily QC reports with information on work accomplished each day, specifying the location, activity, test results,



Site Photo 4. Exposed geomembrane liner.

### Baghdad Municipal Solid Waste Landfill, Baghdad, Iraq

SIGIR PA-06-067

deficiencies and corrective actions, equipment used, and material received on site.

The government QA program was effective in monitoring the contractor's QC program. The QAR prepared daily QA reports about the project to document construction progress and to highlight deficiencies, including detailed photographs to support the narrative. The USACE QAR did not maintain a continuous QA deficiency log, but deficiencies were documented in daily non-conformance logs and in the QA reports. Further, the QAR and District Resident Engineer (DRE) ensured that the deficiencies cited during QA inspections were corrected.

#### Sustainability

A review of the contract file and discussions with the USACE DRE disclosed no sustainability issues associated with the project. The contract required the contractor to warrant its equipment, material, design furnished, and workmanship, for one year from the date of acceptance. There is an additional requirement for on-the-job training for operations and maintenance of the fire-alarm and water systems, including the water heaters, water softener, and pumps.

No recommendations were included in the project assessment report, and USACE concurred with SIGIR's findings.

The objective of the Baghdad Landfill project was to design and construct a regional municipal solid waste (MSW) landfill for Baghdad. An ancillary objective was to make maximum use of subcontractors, suppliers, craftsmen, and laborers in the local area to maximize rapid employment opportunities for local Iraqis.

The Baghdad Municipal Solid Waste Landfill was constructed under a design-build, indefinite-delivery/indefinite-quantity contract with a \$600 million ceiling. The contract required the design, construction, equipment procurement, commissioning, initial operations, and training for a solid waste landfill. The project was funded with an allocation from the DFI, with total funding at \$28,849,930. At the time of SIGIR's assessment, the project was reported in the July 7, 2006 USACE-PCO database as 100% complete.

#### What We Found

The MSW landfill construction project involved approximately 24 acres on the eastern part of the site. The MSW landfill site components visible for inspection included the geomembrane liner system, a drainage layer, a perimeter berm, and a leachate collection system. The geomembrane liner and geotextile cover were in place in every part of the 24-acre section (Site Photo 4). However, on approximately 25% of the section in the northeast quadrant, the gravel base and sand cover had

not been spread over the liner and geotextile protective cover. Many sections of the geotextile fabric in the uncovered part of the MSW landfill needed to be seamed.

The drainage layer of sand over gravel is supported by a compacted cohesive soil subgrade. The geomembrane liner and the geotextile cover lie between the subgrade layer and the gravel. The drainage layer was in place on approximately 75% of the 24-acre MSW landfill. SIGIR could not verify thicknesses of the sand layer and gravel layer, but the surface of the sand layer appeared to be graded and finished in accordance with the design (Site Photo 5).

The perimeter berm around the MSW landfill comprised an embankment of various heights constructed with a horizontal to vertical slope. SIGIR observed the berm in place along the perimeter of the MSW landfill. In the unfinished areas of the landfill, the liner along the inside of the berm will require remedial work to ensure that it is placed and anchored properly (Site Photo 6).

As designed, the leachate generated within the landfill, when operational, will percolate through the sand-gravel drainage layer to the liner. The landfill floor and overlaying liner is sloped so that the leachate will drain into a collection trench. SIGIR also inspected the four leachate collection pump stations—the



Site Photo 5. Surface of the drainage layer.



Site Photo 6. Section of the perimeter berm requiring remedial work to anchor the liner.

exposed features of the pump stations (concrete housing, access cover, ventilation pipe, etc.) appeared to be constructed as designed.

The Baghdad MSW Landfill Facility was substantially complete in November 2005. However, the project was closed out before completion because security issues presented a health threat and security risk to coalition forces and Iraqis working at the site. The landfill site is in an area of recurring violence. The contractor reported that since the beginning of earthwork construction, the project site had been the scene of vandalism, violence, extortion, kidnappings, and the death of subcontractor personnel.

Additionally, the contractor's workers at the landfill site were subject to indirect and direct fire, as well as threats and warnings not to work on the landfill project. Because

of the security issues, the contractor filed a claim for the escalating costs on the previously negotiated material and labor agreements. In November 2005, the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) settled the claim for approximately \$2.4 million.

Because of funding limitations, increasing costs, and the degraded security situation, JCC-I/A directed the contractor to complete all work on the project no later than October 31, 2005. When construction ended at the landfill site, approximately 25% of the MSW landfill's liner still needed to be covered with the sand-gravel drainage layer.

#### **Sustainability**

The contract design package included the operations and maintenance (O&M) manuals for the day-to-day operation of the landfill and

for the leachate collection system pumps. The contractor was required to submit a training plan to accommodate the required number of staff to manage and operate the landfill and to provide at least one full-time person for at least two months of on-site training and supervision. The contractor provided training materials, including two study guides.

Since construction ended and the contractor demobilized, the landfill has not been used. According to one U.S. Embassy Military Liaison Officer to the Amanat, the public works directorate for the city of Baghdad:

Ongoing security incidents—ranging from IED emplacement, murder of Amanat sewer staff at the adjacent Al Kerkh WWTP, small arms and mortar attacks, and the intimidation of WWTP and landfill workers—have prevented the local Iraqi government from commissioning these two key infrastructure sites [Al Kerkh WWTP and the landfill facility] supporting public health/security within the city of Baghdad.

As a result, the Baghdad MSW landfill remains vacant. However, there is a plan to reactivate the landfill and promote its usage. According to the U.S. Military Liaison to the Iraqi Municipal Government, coalition forces are coordinating with the U.S. Agency for International Development (USAID) to establish a management staff with the local government. Implementation of the plan is ongoing, and the local government started using the landfill for trash disposal on August 13, 2006. Full implementation, with trucks hauling solid waste to the landfill, is projected

for November 2007.

No recommendations were included in the project assessment report, and USACE-GRD concurred with SIGIR's findings.

### **Al Kut Training Academy, Al Kut, Iraq**

SIGIR PA-06-069

The initial objective of the Al Kut Training Academy project was to plan, construct, and renovate a complete, secure training academy—including perimeter walls, barracks, office space, classrooms, a dining facility, fencing, firing ranges, a laundry, and a physical conditioning field for Iraqi security and safety forces. Subsequently, the project's objective expanded to include training facilities, housing, classrooms, offices, dining facilities, a clinic, a gymnasium, a warehouse, a laundry, and other support facilities for the cadets and instructors of the Iraqi Police (IP), Department of Border Enforcement (DBE), and for the Iraqi National Guard (ING).

The Al Kut Training Academy facility is approximately 180 km southeast of Baghdad and across the Tigris River from the city of Al Kut. The training academy was to be constructed on a small part of an old Iraqi military base. Currently, the base is used by MNF-I coalition forces. The construction site is secure within the guarded perimeter of the existing MNF-I base. The flat site, with some existing structures and road access, posed no significant obstacles to construction.

Before construction, structures at the project location included a number of deteriorated masonry buildings, dining facilities, and



Site Photo 7. Standing wastewater pooled on academy grounds. (Photo courtesy of ECCI)

a gymnasium. Although looted and vandalized, the existing structures were evaluated and considered structurally sound. Suitable electrical, water, and wastewater systems were not available on site. Therefore, the contract requirements included the design and installation of electrical, water, and wastewater systems.

#### **What We Found**

On July 3-4, 2006, SIGIR's assessment team conducted on-site inspections of the Al Kut Training Academy. At the time of the site visits, construction and facility functionality was almost complete. The facility was in use for the intended purpose of training IP, ING, and DBE personnel. All of the buildings were constructed. However, a major barracks building was not in use because of significant subcontractor work activities to repair damages that resulted from previous construction deficiencies. Although the utility systems were operating, plans to correct deficiencies in the wastewater and electrical systems were in progress at the time of the site visit.

Construction deficiencies were not identified during initial construction because the contractor did not implement an effective deficiency-tracking system during critical periods of construction from May 1 to August

31, 2005. At the same time, government QA personnel did not effectively interact with contractor personnel to ensure effective quality management. During this timeframe, the project completion grew from 25% to 97%.

As a result, latent construction deficiencies that were not evident when accepted by the government subsequently turned into much larger rework issues. In addition, SIGIR observed many examples of substandard workmanship quality during the site visit; some have the potential to become significant rework or safety issues in the future. Included in this summary are the more significant observations.

The design and installation of the septic tanks system were inadequate to support the population of the academy. There was no requirement for a drain field in the original design, which depended on pump trucks to remove any excess effluent. Insufficient soil drainage, limited pump truck capacity, and a daily water volume input that exceeded septic tank capacity contributed to the problem, resulting in substantial overflow of wastewater from the septic system and pooled on academy grounds (Site Photo 7).

Dormitories accepted by the government on August 31, 2005, and December 9, 2005, required extensive rework of the bathrooms to correct defective plumbing construction that should have been detected, monitored, and corrected during construction (Site Photo 8). Specifically, the connections between the smaller-diameter feeder drain lines and the larger-diameter main drain line system were

not water-tight because positive connection (glued or threaded) reducers and fittings were not used until the deficiencies were corrected. When corrected, the contractor improved the plumbing design and upgraded the materials (Site Photo 9).

While on site, the assessment team observed several concrete issues. For example, a section of roadway was poured with no hydration until much later in the day. July afternoon temperatures at Al Kut often exceed 110 degrees Fahrenheit. In addition, the concrete was not cast to the full thickness of the roadway along the long edge of the casting. Rather, the fresh concrete was layered unevenly over the existing roadway. Several meters away on the same road, a SIGIR inspector pulled up several pieces of cured cement by hand (Site Photo 10). In addition, concrete patchwork was often cast too thin or placed unevenly (Site Photo 11).

The assessment team observed horizontal fractures that ran almost the entire perimeter

of the newly constructed middle and eastern barracks building foundations (Site Photos 12 and 13). Although not as obvious, similar horizontal fissures were observed on the second floors of the dormitories.

During the assessment, the contractor's Project Manager confirmed that concrete placement was conducted using small batches mixed by hand. Small hand-batch mixing and improper joining techniques could have contributed to the horizontal fractures and other concrete issues observed: the numerous small batches mixed by hand were not consistent. For expediency, each small batch was not subjected to a slump test.

Although the capacity of the electrical generators installed proved to be insufficient, the contractor was in the process of supplementing generator capacity at the time of the site visit. Specifically, an additional 1.0-MW generator was on order and pending delivery to ensure sufficient power capacity and increased emer-



Site Photo 8. Extensive rework was required in dormitories to install watertight plumbing fittings. (Photo courtesy of ECCI)



Site Photo 9. Reworked drain lines with upgraded material and improved "Y" design.

Site Photo 10. Weak and crumbly concrete piece pulled from roadway by hand.



Site Photo 11. Substandard patchwork in Academy HQ sidewalk.



Site Photo 12. Horizontal fracturing along foundation of Middle Barracks.



Site Photo 13. Close-up of the horizontal foundation fracture in the East Barracks.

gency or standby capability for the IP area. In addition, a 400-KW generator for the ING area was on-site and pending commissioning.

## **Sustainability**

The U.S. government planned to turn over operations of the facility to the Iraqi government after project completion. The initial contract required a one-year construction warranty on all materials and workmanship for the buildings and facilities constructed or renovated. The task order required as-built drawings depicting buildings and footprints, O&M manuals in English and Arabic, manufacturer warranties, a preventive maintenance plan, and mechanical systems training and manuals. Although latent defects could become problematic, long-term sustainability will be enhanced by the government's action to obtain an extended warranty coverage period to offset the effects of any latent defects.

The USACE concurred with SIGIR's findings and is having the warranty extended to ensure that deficiencies are corrected.

## **Ninewa Provincial Police Headquarters, Mosul, Iraq**

SIGIR PA-06-072

The objective of the project was to repair and construct facilities at the Ninewa Provincial Police Headquarters. The facilities to be refurbished included a large, three-story masonry block structure, a two-story masonry block structure, an auditorium, and a pedestrian entry building. New construction concentrated on a visitor's center and a large latrine and

shower. Project requirements included design-build plans for new construction, repair, and refurbishment for existing facilities, as well as debris removal and general cleanup for the facility.

The Ninewa Provincial Police Headquarters project was funded for \$988,178 through a firm fixed-price contract, awarded August 18, 2005, to a local Iraqi company by USACE.

## **What We Found**

The construction or rehabilitation did not meet design standards or specifications because the contractor did not demonstrate professional-quality craftsmanship on construction and completed repair work. The contractor did not follow design criteria specified in the Statement of Work (SOW) and BOQ. SIGIR noted many defects and poor workmanship throughout the site; substantial rework and work will be necessary to correct defective workmanship or finish uncompleted tasks required by the SOW and BOQ.

For example, the contractor was required to construct a new shower/latrine facility attached to the guard company building, comprising 10 individual showers, 12 toilets, 10 urinals, 10 sinks, and a changing room. However, the contractor built only a small shed-size facility with just one shower, one toilet, one sink, and no changing room. If the contractor had built the shower/latrine in compliance with contract requirements, two trees would have required removal. Neither tree was removed. The first tree is shown to the far left of the photo, and the second tree is shown in the photo's center.



Site Photo 14. Trees were not removed when the new latrine was built.

Rather than removing the second tree, the contractor cast the latrine's concrete roof around the tree (Site Photo 14). The new latrine was not only missing numerous requirements, but the finished construction was substandard.

Although the SOW and Statement of Requirements and Specifications (SORS) clearly required latrines/bathrooms and showers to have tiled and grouted walls from floor to ceiling, with new piping, fixtures, and faucets, the contractor's performance was substandard in nearly all the bathrooms observed during SIGIR's on-site visit. Generally, plastered walls and existing tile throughout the facility were merely painted over (Site Photos 15 and 16).

In addition to substandard construction issues throughout the facility, SIGIR found many instances of inadequate quantity of deliverables. For example, the contractor installed



Site Photo 15. Painted plaster shower wall should have been grouted tile, floor to ceiling.



Site Photo 16. Existing wall tile was painted, and existing leaking faucets were not replaced. The left faucet in the photo's center was capped/disabled rather than replaced as required.

only two of six required split-unit air conditioner systems in the new reception center building (Site Photo 17).

Table 3-5 shows the status of air conditioner installation on the project. The contractor installed only 53 of 134 air conditioners.

On February 20, 2006, the contractor reported, “Today we operate generator with new wiring and connections.” However, the contractor merely delivered the generator—without starting or load-testing it (Site Photo 18). U.S. Army personnel familiar with the history of the generator attested that IP personnel placed the generator on a concrete pad and installed an old fuel-truck tank to supply the generator (Site Photos 19 and 20). At the time of the assessment team’s August 3, 2006 site visit, the generator was non-operational.

QM practices were not effective. The government’s QAR did not effectively engage the contractor’s QC personnel or effectively monitor project status throughout the life of the project. In addition, the contractor submitted vague QC reports that included very little detail related to specific tasks and locations, and none included accurate disclosure about completion percentages. SIGIR inspectors concluded that it was not prudent for the government’s QAR to rely on the contractor’s QC reports as a basis for monitoring the project. In short, the government’s QAR did not implement an effective system to detect deficiencies as they occurred and to monitor and initiate corrective action in a timely manner.

In November 2005, the contractor was paid 50% (\$494,089) of the value of the fixed-price

contract. USACE rejected the contractor’s March 10, 2006 invoice that demanded final payment because the contractor claimed all work was complete. To minimize harm to the government, an action to terminate the contract was pending at the time of the assessment team’s site visit on August 3, 2006. That action was based on USACE’s technical evaluation of work performed by the contractor. Based on the circumstances, contract termination was the most practical solution.

### Sustainability

Project sustainability was adequately addressed by including sufficient repair and construction requirements in the contract’s SOW, BOQ, and SORS. The contract also required a one-year warranty on all construction. If all repair and construction work would have conformed to contract requirements, facility functionality and sustainability would have been much improved. However, non-conforming performance by the contractor will impact this project’s sustainability in years to come.

### INSTALLATION SHORTAGES

AIR CONDITIONER (AC) DESCRIPTION	BOQ REQUIREMENTS	UNITS INSTALLED	SHORTAGE
36,000 BTU AC	1	0	1
48,000 BTU AC	10	10	0
24,000 BTU Window AC	32	4	28
24,000 BTU Split-type AC	79	35	44
30,000 BTU Split-type AC	12	4	8
<b>Totals</b>	<b>134</b>	<b>53</b>	<b>81</b>

TABLE 3-5



Site Photo 17. Only two (left rear edge of rooftop) of six split-unit air conditioners required were installed in the new reception center.



Site Photo 18. Contractor delivered generator (bottom left), but never connected and load tested it.



Site Photo 19. Final site where generator was placed by Iraqi Police (IP).



Site Photo 20. Old fuel truck tank placed by IP to supply the generator.



Site Photo 21. 3 X 150 mm<sup>2</sup> electrical cable supplied on rolls 503 m long. (Photo provided by USACE)

## Bab Eshtar Substation 11 kV Feeder Cable, Mosul, Iraq

SIGIR PA-06-073

The project objective was to provide a 12 x 11 kV underground cable feeder system comprising four buried cables for the newly constructed Bab Eshtar 33 kV/11 kV substation, a new addition to the local electrical network. The project was intended to physically install the underground cable feeder system to the new Bab Eshtar 33 kV/11 kV substation. Specifically, the cable was placed in an urban area along and across city streets. Trenching, installation, backfilling, and testing made up most of the requirements. Ministry of Electricity standards laid the groundwork for the entire process.

### What We Found

Based on a review of documentation, discussions with USACE personnel familiar with the project, and a brief site visit, the assessment team found that the project was sufficiently planned, designed, and constructed by the contractor. In addition, the contractor's QC and the U.S. government's QA programs were effective. The government effectively adapted to security issues in the area by implementing procedures to use local nationals to perform on-site QA functions for the project.



Site Photo 22. Manufacturer's tag documented amount, size, voltage rating, and insulation.

The assessment team verified that the contractor used cable that met Ministry of Electricity standards. Specifically, the cable was an XLPE-insulated 11 kV 3 x 150 mm<sup>2</sup> cable supplied on rolls 503 meters long (Site Photo 21). Factory tags affixed to each roll documented cable specifications (Site Photo 22).

After the route of the cable was surveyed, the surface often required special equipment to break up hard surfaces common to an urban environment before trench excavation could proceed (Site Photos 23 and 24).

The Ministry of Electricity required the



Site Photos 23 and 24. Hard surface break-up equipment in preparation of material removal. (Photos provided by USACE)



Site Photos 25 and 26. After the trench was excavated and the base compacted (left), the cable was positioned on a sand layer (right). (Photos provided by USACE)



Site Photos 27 and 28. Cables were spliced together with splice kit (left), and heat was applied (right) to shrink outer cover used to protect cable splice. (Photos provided by USACE)

trench to be compacted and made free from stones, with a standard trench depth of 90 cm. The cable was to be placed in the trench on top of 10 cm of smooth sand to provide a cable bedding material (Site Photos 25 and 26).

Cables were spliced together using a shrinkable splice kit for 3 x 150 mm<sup>2</sup>, 11 kV XLPE cable. This kit includes joining components

and a shrinkable outer cover that tightened when heat was applied (Site Photos 27 and 28).

On July 30, 2006, SIGIR attempted a site visit, but all roads leading to the area with the latest construction activity were blocked. However, on July 31, 2006, the assessment team observed an open trench area at the edge of a city street along the route approved

by the Ministry of Electricity. The assessment team observed an open trench, exposed cable, and tile and warning tape over covered cable, which correlated with the information and documentation provided by the Project Engineer.

### **Sustainability**

The SIGIR engineer reviewed and evaluated sustainability coverage under the current contract for the Bab Eshtar substation 11 kV Feeder Cable project. Because the feeders are buried stationary cables, they offer a high degree of sustainability. Once the feeders have been successfully energized, they are designed to remain in place to carry power to the substation for many years.

USACE-GRD concurred with SIGIR's findings. No recommendations were included in the project assessment report.

### **Baghdad Police College, Baghdad, Iraq** SIGIR PA-06-078.1 and SIGIR PA-06-079.1

The overall objective of the project was to design and construct a modern police training academy campus at the Baghdad Police College. The new campus is to include new and renovated barracks and training facilities, with an upgraded and new storm-water system, sanitary sewer collection system, potable water system, and electrical service distribution systems. Other improvements included new dining facilities, administrative offices, firing ranges, laundry, athletic and communication facilities, and an improved security perimeter.



Site Photo 29. Existing barracks at the Baghdad Police College.



Site Photo 30. Outside view of new cadet barracks building.

The existing facility comprised a number of buildings, constructed approximately from 1935 to 1940, which were in various stages of decay (Site Photos 29 and 30). These buildings had the capacity to house and train approximately 1,200-1,500 cadets. The ultimate goal of the project was to house and train approximately 4,000 cadets.

### **What We Found**

SIGIR identified construction deficiencies that required prompt attention and separate



Site Photo 31. View of pipe leaking wastewater.



Site Photo 32. Damage to the wall from leaking wastewater.

reporting. Specifically, the improperly fabricated wastewater plumbing (Site Photo 31) in the student barracks could potentially result in reducing load-bearing capacity of the structural slabs and could pose environmental and health hazards to the students, instructors, and workers at the Baghdad Police College.

The extent of potential hazards needs to be determined before any future work at the Baghdad Police College. In an effort to quickly identify and correct the construction problems within the barracks, SIGIR issued a report documenting the deficiencies identified only in the barracks, the apparent cause, and potential recommendations and/or solutions. A separate assessment report will follow next quarter that will thoroughly assess the original objectives for the entire Baghdad Police College project.

During the site visit, the team immediately identified water damage and staining on the ceiling and walls of the ground floor (Site Photo 32).

Because of the inferior plumbing techniques, methods, and bonding materials used

by the contractor to join the wastewater pipes, water, and other waste material continually drains from showers, wash basins, and toilets through the reinforced concrete floors—from the top floor to the second floor to the ground floor. Results include permeating, filling, and contaminating light fixtures, showers, and toilet areas with liquids, including diluted urine and fecal matter (Site Photo 33).

For example, SIGIR observed a light fixture so full of diluted urine and feces that it would not operate. In the second floor bathroom, the assessment team found evidence of large quantities of diluted urine dripping from the top floor through the ceiling. The urine was so pervasive that it had crystallized and permanently stained the ceiling tiles (Site Photo 34). During the SIGIR visit, a substance dripped from the ceiling onto an assessment team member's shirt.

From SIGIR's assessment and discussions with Baghdad Police College personnel, these appear to be the causes of the water damage:

- Floor drains are not adequately sealed to



Site Photo 33. Water damage from leaking ceiling.



Site Photo 34. Crystallized urine on ceiling tile.



Site Photo 35. Typical contractor-built wastewater pipe connection method.



Site Photo 36. Contract-specified wastewater pipe connection is shown on the lower left.

the floor surface and/or properly affixed to adjacent fittings with the proper adhesive or sealant, which causes water to drain outside rather than inside the drain collectors.

- Drains were assembled without the specified molded plastic fittings, which resulted in water and waste materials flowing from the collection trees through the improperly fabricated joints directly into the concrete floors. The contractor used pipes with holes that were hand-cut with secondary pipes inserted (Site Photo 35), rather than the appropriate type of pipe (Site Photo 36).

#### **Corrective Actions Taken by the Contractor**

As soon as the buildings started to leak from the top floor to the ground floor, the Director of the Baghdad Police College contacted the contractor. The contractor directed the subcontractor who performed the original work to correct the problem. The subcontractor is currently changing the pipes that contributed to the leaks. The subcontractor also plans to use the pipes with molded plastic fittings, such as the one identified in Site Photo 36, which should eliminate water and waste materials from flowing directly onto the concrete floors.

SIGIR recommended that all project-related work at the Baghdad Police College be assessed and appropriate remedial action be taken to provide assurance that project-related work is structurally sound and that no environmental or health hazards exist. Specifically, USACE should perform an assessment of all wastewater plumbing installations in all

newly constructed buildings, both single- and multiple-storied. This assessment will determine whether similar methods of inadequate plumbing techniques were used in other project locations as were discovered in the cadet barrack buildings.

SIGIR's second recommendation was to perform a critical technical study of the structural integrity and load-carrying capacity, as well as the potential environmental and health hazards posed by the rust, mold, and urine and fecal matter within the concrete floor slabs of the cadet buildings. GRD concurred with the conclusions and recommendations in the report.

The full assessment of the college is underway and will be reported in the next SIGIR Quarterly Report.

#### **Aerial Project Survey Program**

The SIGIR Satellite Imagery Group has continued contributing to the SIGIR mission by conducting aerial assessments of U.S.-funded reconstruction projects throughout Iraq. SIGIR imagery analysts provide information obtained through analyses to the project assessment teams in Iraq to help them evaluate project sites that are inaccessible because of security concerns or because they are remotely located. SIGIR also shares the information obtained through aerial assessments with the responsible U.S. government contracting officials in Iraq. The Satellite Imagery Group assists SIGIR with imagery for audits and investigations as needed.



Aerial Image 3. This image provided by NGA shows a completed border fort located along the Iraq/Syria border.

## NATIONAL GEOSPATIAL-INTELLIGENCE AGENCY SUPPORT

This quarter, SIGIR imagery analysts have continued working with NGA to provide imagery analysis of Iraqi reconstruction projects. To date, this continuing relationship has resulted in analysis of 76 sites and 6 road segments. This quarter, NGA completed analyses of 25 project sites and 1 road segment for SIGIR. NGA's continued assistance provides an invaluable resource to SIGIR inspectors and proves essential in efficiently carrying out SIGIR's mission in Iraq. These are some of NGA's notable findings provided to SIGIR for the quarter:

- 19 sites appeared to be completed.
- 5 sites appeared to still be under construction.
- 1 border fort could not be located using the supplied coordinates.

The partnership of SIGIR and NGA combines greater resources to meet mission requirements. NGA's assistance and knowledge base increases the number and depth of analysis of projects that can be reviewed and

helps SIGIR provide a more accurate picture of Iraq's reconstruction progress. Above is an example of the imagery provided by NGA.

## SIGIR IMAGERY

This quarter, SIGIR imagery analysts completed 9 imagery assessments and created 22 imagery products using commercial satellite imagery and limited available contract information. This imagery provided visual assessments of progress at construction sites. SIGIR shares the imagery products with government contracting agencies to update their project information and to identify any obvious deficiencies. SIGIR assessed and reviewed these sites during the reporting period:

IMAGERY ASSESSMENTS	IMAGERY PRODUCTS
---------------------	------------------

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• 4 clinics</li> <li>• 2 garrison units</li> <li>• 1 firing range</li> <li>• 1 courthouse</li> <li>• 1 landfill site</li> </ul> | <ul style="list-style-type: none"> <li>• 6 hospitals/health clinics</li> <li>• 4 border posts</li> <li>• 3 electrical substations</li> <li>• 2 water treatment facilities</li> <li>• 2 garrison units</li> <li>• 1 landfill site</li> <li>• 1 courthouse</li> <li>• 1 firing range</li> <li>• 1 road segment</li> <li>• 1 gas generation facility</li> </ul> |
|--|--|

**SIGIR Imagery Assessments**

This quarter, SIGIR completed 9 imagery assessments based on satellite imagery and limited contract information. These assessments have been helpful in reviewing the accuracy of inspection reports, providing a visual assessment, and verifying project progress. Geo-coordinates and limited contract information are provided to the imagery analysts from contract databases and contract documents in Iraq. These are some of SIGIR's notable findings from imagery assessments this quarter:

- 8 sites reviewed appeared to be functional, meeting project requirements.
- 1 site reviewed appeared to still be under construction.
- 5 sites could not be reviewed because of inaccurate coordinates.

These findings are provided to the responsible government agencies in Iraq that conduct further reviews of contract status and plan follow-up project assessments.

Imagery taken on March 19, 2005, shows the initial construction of the clinic in progress, with the building support beams visible. Imagery taken on May 15, 2006, shows what appears to be the completed clinic structure with vehicles in the parking lot. There are no visible indications that the project is incomplete or will not meet project requirements (Aerial Image 4).

On imagery taken on March 14, 2005, the only noticeable construction is the ground preparation of the Construction Debris Landfill portion of the Baghdad Landfill. Imagery from February 19, 2006, shows what appears to be a completed landfill. Structures visible as of



Aerial Image 4. A review of imagery taken between March 19, 2005, and May 15, 2006, shows progress made at the Al Thubbat clinic in Baghdad.



Aerial Image 5. A comparison of two images taken on March 14, 2005, and February 19, 2006, shows construction progress of the Baghdad Landfill, outlined in red.

February 19, 2006, comprise the Administration and Truck Maintenance buildings. Also noted are the signs of activity in the first Landfill Cell area. There are no visual indicators that this project does not or will not meet mission requirements (Aerial Image 5).

### Imagery Products and Support

This quarter, SIGIR has created imagery products of 22 different sites throughout Iraq. The imagery is used to create imagery assessments, build a visual record of project sites, and provide imagery to support SIGIR's mission. Any visual deficiencies are reported after the imagery is reviewed.

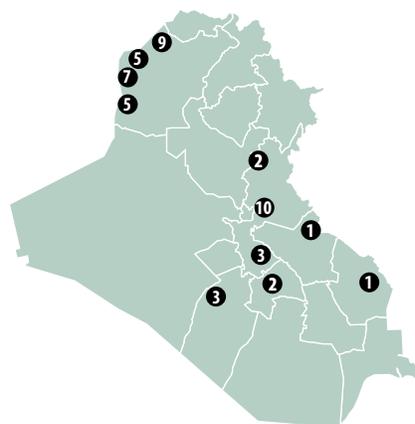
The SIGIR Satellite Imagery Group has also provided imagery to support SIGIR's audit and inspection missions during previous quarters. Imagery support products are used to prepare

for site visits and to identify possible problems; these products include site overviews, project site break-outs, and site assessments. This quarter, the imagery team provided products that SIGIR inspection teams included in the Al Karkh Courthouse and the Baghdad MSW Landfill assessment reports. In partnership with the NGA during the past four quarters, SIGIR imagery analysis has resulted in the completion of 220 cumulative satellite imagery assessments and products, including 48 assessments and products completed this quarter.

Figure 3-2 shows the approximate locations of Aerial Imagery Assessments completed during this reporting quarter.

### AERIAL IMAGERY ASSESSMENTS

Figure 3-2  
**APPROXIMATE LOCATIONS OF THE 48 SITES WHERE AERIAL ASSESSMENTS WERE CONDUCTED, ANALYZED, AND REPORTED THIS QUARTER.**



## SIGIR INVESTIGATIONS

SIGIR continues to field the largest number of U.S. criminal fraud investigators in Iraq, as it aggressively investigates a variety of cases alleging a broad range of potential wrongdoing.

During this quarter, SIGIR opened 20 new cases—including preliminary and criminal investigations—and closed 10 cases. To date, SIGIR has opened 256 preliminary and criminal cases and has either referred or unsubstantiated 164 of those cases.

- This quarter, two SIGIR investigative targets were convicted in federal court.
- SIGIR is in the process of formalizing a task force with six law enforcement partners to improve cooperation in the investigations of contract fraud and public corruption in Iraq.
- To concentrate federal law enforcement efforts in combating procurement fraud, the Department of Justice (DoJ) has forged a partnership with SIGIR, other inspector general offices, U.S. Attorney's offices, the Federal Bureau of Investigation (FBI), and other law enforcement agencies to form a National Procurement Fraud Task Force.

In addition, SIGIR has 92 open preliminary and criminal investigations. Approximately half of SIGIR's open investigations involve DFI funds. Twenty-five of those cases are at DoJ, and many are in the final stages of prosecution. Four cases have resulted in convictions and the defendants are currently pending sentence. Fifteen cases are the direct result of the Bloom/Stein conspiracy, in which convicted defendants—Philip Bloom and Robert Stein—conspired with several U.S. Army officers and

other public officials to rig bids on federally funded contracts awarded by the Coalition Provisional Authority (CPA). As that conspiracy continues to unravel, SIGIR investigators are working closely with DoJ prosecutors to identify potential witnesses and persons of interest. For details of the conspiracy, see Appendix J.

SIGIR also recently presented two additional cases to DoJ that are not related to the Bloom/Stein conspiracy. SIGIR agents are currently investigating the remaining ten cases in cooperation with investigative partners.

### International Contract Corruption Task Force

On October 2, 2006, SIGIR established the International Contract Corruption Task Force (ICCTF) in conjunction with a group of law enforcement agencies, thereby formalizing important partnerships to investigate and prosecute cases of contract fraud and public corruption related to Iraq reconstruction. These partnerships ensure that SIGIR criminal



Undercover sting operation.

investigations will continue effectively in the hands of other agencies after SIGIR is terminated as an organization. These participating agencies are:

- U.S. Agency for International Development, Office of the Inspector General
- U.S. Army Criminal Investigations Division, Major Procurement Fraud Unit
- Department of Defense Criminal Investigative Service
- Department of State Office of the Inspector General
- Federal Bureau of Investigation

The ICCTF is operating a Joint Operations Center at the SIGIR office in Arlington, Virginia. The Joint Operations Center promotes effective case coordination and uses the FBI's criminal intelligence capabilities to strengthen leads developed in Baghdad.

## SIGIR Sting Undercover Operation Yields Conviction

In March 2006, SIGIR investigators conducted a successful undercover sting operation that resulted in the arrest of an American contractor who offered a bribe to an Iraqi general and a SIGIR undercover agent. Defendant Faheem Salam, a U.S. civilian translator employed by a U.S. Army subcontractor working in Iraq, was arrested by SIGIR criminal investigators at Dulles International Airport on March 23, 2006, and charged with offering to bribe a foreign official. On August 4, 2006, Salam pled guilty to one count of a violation of the Foreign Corrupt Practices Act of 1997. His sentencing is set for November 3, 2006.

## Special Investigative Task Force for Iraq Reconstruction

The Special Investigative Task Force for Iraq Reconstruction (SPITFIRE) continues to pursue joint investigative and prosecutorial efforts through the work of SIGIR and these partners:

- Department of Homeland Security, Immigration and Customs Enforcement
- Department of Treasury, Internal Revenue Service Criminal Investigations Division
- U.S. Army Major Procurement Fraud Unit, Criminal Investigations Division
- Department of State Office of the Inspector General
- Department of Justice Criminal Division, Bureau of Alcohol, Tobacco, Firearms, and Explosives
- Federal Bureau of Investigation

SPITFIRE is primarily used to coordinate resources to investigate the Bloom/Stein conspiracy and its spin-off cases. As reported in the SIGIR July 30, 2006 Quarterly Report, contractor Bloom and CPA regional comptroller Stein pled guilty that quarter to participating in a scheme to defraud the CPA of more than \$8.6 million. Bloom faces up to 40 years in prison and a fine of \$750,000. Under the terms of his plea agreement, Bloom must pay \$3.6 million in restitution. Stein admitted stealing \$2 million and taking bribes to award contracts to Bloom; Stein faces up to 30 years in prison. This quarter, the court set a sentencing date for Bloom of February 9, 2007, and for Stein of January 12, 2007.

LTC Bruce Hopfengardner, USAR, was convicted this quarter as part of the Bloom/Stein

conspiracy. The Army reservist conspired with Stein to direct millions of dollars in construction contracts to a company owned by Bloom. Hopfengardner also gave Bloom material information to ensure that Bloom's company received the contracts.

On August 25, 2006, Hopfengardner pled guilty to two conspiracy charges in the scheme, including conspiracy to commit wire fraud and to launder funds. Hopfengardner also admitted to smuggling stolen currency into the United States when he returned from Iraq on leave in March 2004. He faces up to 20 years in prison, a 5-year term of supervised release, and a \$500,000 fine.

### **Department of Justice National Procurement Fraud Initiative**

On October 10, 2006, DoJ announced the launch of the National Procurement Fraud Initiative to promote the early detection, prevention, and prosecution of procurement fraud associated with the increase in contracting activity for national security and other government programs. To concentrate federal law enforcement efforts in combating procurement fraud, DoJ is joining SIGIR, other inspectors general, the U.S. Attorney, the FBI, and other

law enforcement agencies to form a National Procurement Fraud Working Group. Furthermore, pursuant to the Conference Report accompanying the National Defense Authorization Act for FY 2007, the Attorney General will provide to Congress a written assessment of the level of resources dedicated by DoJ to the investigation and prosecution of alleged fraud cases arising out of contracting abuses in Iraq, Afghanistan, and GWOT.

### **Army Legal Service Agency's Procurement Fraud Branch**

Since December 2005, SIGIR has worked closely with DoJ, the Army Criminal Investigative Division, the Army Procurement Fraud Branch, and other agencies to suspend 15 individuals and companies involved in Iraq contracting as a result of criminal indictments. Also, the Procurement Fraud Branch has proposed 11 debarments to the Suspension and Debarment Official, resulting in 6 debarments of individuals and companies. Of these actions, one suspension and two proposed debarments occurred this quarter. One letter was sent asking a contractor to show cause why a proposal for debarment should not be made.

## SIGIR HOTLINE

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

### Third Quarter Reporting

As of September 30, 2006, the SIGIR Hotline had initiated 523 Hotline cases, and 55 are currently open. A summary of these cases is provided in Table 3-6.

### New Cases

During this reporting period, the SIGIR Hotline received 22 new complaints, which brings the cumulative total of Hotline cases to 523. The new complaints were classified in these categories:

- 12 involved fraud.
- 9 involved mismanagement.
- 1 involved miscellaneous/personnel issues.

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

- 18 by electronic mail
- 2 by SIGIR Hotline phone calls
- 1 by mail
- 1 by fax

### SUMMARY OF SIGIR HOTLINE CASES

OPEN CASES				
Investigations				32
Inspections				19
Audit				4
<b>Total</b>				<b>55</b>
CLOSED CASES	1ST QTR 2006	2ND QTR 2006	3RD QTR 2006	CUMULATIVE*
FOIA	0	0	0	4
OSC Review	0	0	0	2
Assists	0	0	0	43
Dismissed	2	6	4	82
Referred	13	13	10	196
Inspections	0	1	0	79
Investigations	1	5	4	55
Audit	0	0	4	7
<b>Total Closed</b>	<b>16</b>	<b>25</b>	<b>22</b>	<b>468</b>
<b>Cumulative* Open &amp; Closed</b>				<b>523</b>

\*Cumulative totals cover the period since the SIGIR Hotline began operations—from March 24, 2004, to September 30, 2006.

Table 3-6

## Closed Cases

During this quarter, 22 Hotline cases were closed:

- 10 were referred to other Inspector General agencies.
- 4 were dismissed for lack of sufficient information.
- 4 complaints were closed based on information received from SIGIR Investigations.
- 4 complaints were closed based on information received from SIGIR Audit.

## Referred Complaints

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

- 7 were sent to the OIG, Multi-National Force-Iraq.
- 2 were sent to the OIG, Joint Contract Command-Iraq/Afghanistan.
- 1 was sent to the DoS OIG.

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## SIGIR LESSONS LEARNED INITIATIVE

SIGIR's Lessons Learned Initiative focuses on three areas of the U.S. relief and reconstruction program in Iraq:

- human capital management
- contracting and procurement
- program and project management

Through expert forums and research, this initiative has been identifying significant challenges facing the U.S. reconstruction mission in Iraq. SIGIR's goal is to develop actionable recommendations for enhancing ongoing efforts in Iraq and to inform future U.S. reconstruction and stabilization operations.

### Human Capital Report

In February 2006, SIGIR released *Iraq Reconstruction: Lessons in Human Capital Management*. The report is the product of SIGIR audits, other research, and a Lessons Learned forum held in September 2005 at Johns Hopkins University's Washington, D.C. campus. The document identifies and discusses four key components of effective human resource management:

- policy alignment
- workforce planning
- recruitment
- continuity

The full report is available at the SIGIR website: [www.sigir.mil](http://www.sigir.mil).

### Contracting and Procurement Report

In December 2005, SIGIR hosted two Lessons Learned forums to evaluate the procurement and contracting processes associated with Iraq reconstruction. The first panel—held at the George Washington School of Law in Washington, D.C.—gathered senior officials from key U.S. government agencies and distinguished members of the academic and independent research communities. SIGIR hosted a second panel of executives from a broad spectrum of industry service providers supporting the reconstruction mission in Iraq; this meeting was held at the Professional Services Council in Arlington, Virginia.

The SIGIR report, *Iraq Reconstruction: Lessons in Contracting and Procurement*, examines the establishment and evolution of the contracting process to identify challenges in planning, systems, policies, and procedures. SIGIR released this report on August 2, 2006, at a hearing of the Senate Committee on Homeland Security and Governmental Affairs. On September 28, 2006, the House Committee on Government Reform also conducted a hearing on this topic.

The full report is available at the SIGIR website: [www.sigir.mil](http://www.sigir.mil).

## Program and Project Management Report

The third Lessons Learned report focuses on program and project management during the U.S.-led reconstruction mission, capturing the evolution of the key agencies tasked to oversee the effort. A forum of experts gathered on April 12, 2006, at the National Defense University in Washington, D.C., to discuss this issue and to provide recommendations for improving the U.S. government's capacity to manage programs and projects in contingency environments. The panel included senior U.S. government officials, academics, and industry executives. SIGIR researchers are incorporating the panelists' comments into the report and completing the final phase of research for this initiative. The final report, *Iraq Reconstruction: Lessons in Program and Project Management*, is expected to be released during the winter of 2006-2007.

## Capping Report: The Story of Iraq Reconstruction

In keeping with SIGIR's mandate from Congress—to provide recommendations that promote economy, efficiency, and effectiveness

in the administration of reconstruction programs in Iraq—SIGIR is producing a cumulative account of these efforts, *The Story of Iraq Reconstruction*. This capping report draws together SIGIR's quarterly reports to Congress, audits, inspections, investigations, interviews with key decision-makers, and SIGIR's three reports on the lessons learned from Iraq reconstruction.

The United States, Iraq, and the international community have committed more than \$94 billion to Iraq reconstruction; \$38 billion comes directly from nine bills passed by Congress. *The Story of Iraq Reconstruction* will provide a narrative history of the planning and execution of this reconstruction, with a primary focus on the role of the Office of Reconstruction and Humanitarian Assistance (ORHA), CPA, USAID, DoD, and DoS. The report will begin with preparations for reconstruction in 2002, follow progress through 2006, and conclude with recommendations on how reconstruction efforts can be better carried out in the future. SIGIR will publish *The Story of Iraq Reconstruction* in summer 2007.

On October 17, 2006, the President signed the John Warner National Defense Authorization Act for FY 2007 (Public Law 109-364), which contains two provisions affecting SIGIR. One expands SIGIR's authority to oversee all FY 2006 Iraq reconstruction funds beyond the IRRF. The other sets the SIGIR termination date as October 1, 2007. The accompanying conference report specifies that SIGIR and the inspectors general for DoS, DoD, and USAID must submit to Congress—by April 1, 2007—a plan for the transition of SIGIR's oversight responsibilities to these IGs. This is the section of the act that pertains to SIGIR:

#### **NATIONAL DEFENSE AUTHORIZATION ACT, FY 2007**

SEC. [S1054]. MODIFICATION OF AUTHORITIES RELATING TO THE SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION.

(a) DUTIES—For purposes of carrying out the duties of the Special Inspector General for Iraq Reconstruction under section 3001(f) of the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004 (Public Law 108-106; 117 Stat. 1235 et seq.; 5 U.S.C. App., note to section 8G of Public Law 95-452), any United States funds appropriated or otherwise made available for fiscal year 2006 for the reconstruction of Iraq, irrespective of the designation of such funds, shall be deemed to be amounts appropriated or otherwise made available to the Iraq Relief and Reconstruction Fund.

(b) TERMINATION—Section 3001(o) of the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004 (Public Law 108-106; 117 Stat. 1238; 5 U.S.C. App., note to section

## **LEGISLATIVE UPDATE**

8G of Public Law 95-452) is amended to read as follows:

(o) TERMINATION—The Office of the Inspector General shall terminate on October 1, 2007, with transition operations authorized to continue through December 31, 2007.

The National Defense Authorization Act FY 2007 also contains language addressing issues that have been highlighted in SIGIR reports.

Section 814 of the act directs DoD to issue guidance on linking contract award and incentive fees directly to acquisition outcomes. (In its July 2005 Quarterly Report, SIGIR issued an audit of award fees associated with Iraq reconstruction contracts.) The guidance shall cover elements including:

- linking award fees to acquisition outcomes, which will be defined in terms of program cost, schedule, and performance
- establishing standards to identify the level of officials authorized to approve award fees
- providing guidance on how performance is measured
- establishing the percentage of the available award fee
- ensuring that no award fee is paid for contractor performance deemed to be below satisfactory performance or not meeting the basic requirements of the contract

Section 854 of the act establishes a policy requirement for contingency program management and contingency contracting. This section directs the Secretary of Defense, in consultation with the Chairman of the Joint

Chiefs of Staff, to develop joint policies for contingency program management and contingency contracting during combat operations and post-conflict operations. The policy will, at a minimum, call for appropriately experienced individuals to lead each process, require a preplanned organizational approach to activi-

ties, identify a deployable pool of experts, and require appropriate training for personnel. These policies reflect action on several of the recommendations and lessons learned provided in SIGIR's August 2006 report on Iraq contracting and procurement.

## WEBSITE

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

- More than 500 users visited the SIGIR website per day, double the number of visitors from previous quarters.
- Most users were from within the United States (84%). The remaining 16% were from 140 different countries, mainly in Western Europe (6.30%), Asia (3.14%), and the Middle East (2.48%).
- The Arabic language section of the site received more than 750 visits.
- A significant percentage of visitors to the SIGIR website were from government agencies, most notably DoD and DoS.
- Users visited the SIGIR Reports section most often.
- The most frequently downloaded documents were the SIGIR July 2006 Report to Congress and the SIGIR Lessons Learned report, *Iraq Reconstruction: Lessons in Contracting and Procurement*.

# ACRONYMS & DEFINITIONS

ACRONYMS	DEFINITIONS
UNICEF	United Nations Children's Emergency Fund
UNOPS	United Nations Office for Project Services
UNSCR	United Nations Security Council Resolution
USAAA	United States Army Audit Agency
USACE	United States Army Corps of Engineers
USAID	United States Agency for International Development
USAID OIG	United States Agency for International Development Office of Inspector General
USDA	United States Department of Agriculture
USIP	United States Institute of Peace
WBNN	Wireless Broadband Network
WSSP	Water Sector Sustainment Program
WTO	World Trade Organization
WWTP	Wastewater Treatment Plant
XLPE	Crosslinked Polyethylene