

CHANGES IN IRAQ RELIEF AND
RECONSTRUCTION FUND
PROGRAM ACTIVITIES
JANUARY THROUGH MARCH
2006

SIGIR-06-023
JULY 28, 2006



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

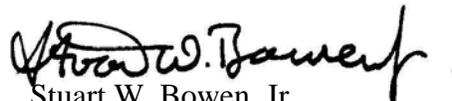
July 28, 2006

MEMORANDUM FOR U.S. AMBASSADOR TO IRAQ

SUBJECT: Changes in Iraq Relief and Reconstruction Fund Program Activities –
January through March 2006
(SIGIR-06-023)

We are providing this audit report for your information and use. We performed the audit in accordance with our statutory duties contained in Public Law 108-106, as amended, which requires that we provide for the independent and objective conduct of audits, as well as leadership and coordination of and recommendations on policies designed to promote economy, efficiency, and effectiveness in the administration of Iraq relief and reconstruction programs and operations and to prevent and detect waste, fraud, and abuse.

This report does not contain recommendations; therefore no written response to this report is required. We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Joseph T. McDermott at (703) 343-7926, or by email at joseph.mcdermott@iraq.centcom.mil; or Mr. Glenn Furbish at (703) 343-9254, or by email at glenn.furbish@iraq.centcom.mil. For the report distribution, see Appendix D.


Stuart W. Bowen, Jr.
Inspector General

cc: Distribution

Special Inspector General for Iraq Reconstruction

SIGIR-06-023

July 28, 2006

Changes in Iraq Relief and Reconstruction Fund Program Activities – January through March 2006

Executive Summary

In January 2006 and again in April 2006 we reported on the challenges faced by the Coalition Provisional Authority, and its successor, the Chief of Mission in Iraq, in directing and supervising Iraq Relief and Reconstruction Fund (IRRF) program activities. Our first report focused on changes that occurred in the United State's original reconstruction plans between November 2003 and September 30, 2005. In April 2006, we issued a second report that updated our earlier report to include project changes that occurred between October 1, 2005 and December 31, 2005. This report provides a further update of changes that occurred between January 1, 2006 and March 31, 2006.

Introduction. In November 2003, Congress appropriated \$18.4 billion for relief and reconstruction activities in Iraq and allocated the funds to specific sectors of Iraqi infrastructure and governance based on lists of project plans developed over the summer of 2003. Our January and April reports addressed the significant changes in reconstruction plans as evidenced by the large-scale movement of funds between sectors. Together, the reports identified \$3.655 billion that had moved between sectors, and another \$2.258 billion that had moved within sectors. According to the reports, the money moved for a number of reasons including:

- dramatically increased spending for security needs
- strategy changes as the Coalition Provisional Authority and the Department of State responded to the changing environment in Iraq
- needed increases in spending for sustainment
- the need to fund IRRF administrative expenses not considered in original planning
- plans made without a clear understanding of actual situational conditions

As a result, we reported that many of the original plans will not be fully achieved in some sectors. The largest changes occurred in the Security and Law Enforcement sector and the Justice, Public Safety Infrastructure, and Civil Society sector indicating the higher priority accorded these sectors, while two service sectors, the Water Resources and Sanitation sector and the Electric sector provided the bulk of the funds.

Objectives. The objectives of this audit were (1) to determine the changes, if any, in the Department of State's Iraq relief and reconstruction plans between January 1, 2006 and March 31, 2006, and (2) to identify reasons for those changes.

Results. Sector funding remained fairly constant through the last quarter with only \$15.9 million in funding moving between sectors, and \$107.8 million moving between IRRF projects. Only 4 of 72 ongoing projects had funding changes greater than \$10 million. One new project was initiated, bringing the number of ongoing projects to 73. The IRRF fund also grew by \$4.95 million during the quarter increasing from \$18.439 billion to \$18.444 billion. The additional funding was added by Public Law 109-102, which transferred the money in from the Department of State's Fiscal Year 2006 Economic Support Fund. The \$4.95 million was earmarked for the Marla Ruzicka Iraq War Victims Fund.

The minor adjustments to project activities are likely attributable to the fact that 88.4% of IRRF dollars have been obligated as of the end of the quarter (\$16.3 billion of the \$18.4 billion appropriated). Moreover, 54% of the funds that were moved during the quarter (\$58.6 million of the \$107.8 million moved) represent administrative moves rather than changes in project activities. For example, \$38.6 million was moved from the Rule of Law in Iraq project to the Reconstruction and Modernization of Detention Facilities project because the money was inadvertently placed in the wrong account in the prior quarter. Similarly, \$20 million was moved from the Democracy Building Activities project to a new project, the Marla Ruzicka Iraq War Victims Fund to give the project greater visibility. The remaining \$49.2 million was moved between sectors.

This review follows up on our April 2006 report and, similarly, this report contains no recommendations.

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Introduction

In January 2006 and again in April 2006 we reported on the challenges faced by the Coalition Provisional Authority, and its successor, the Chief of Mission in Iraq, in directing and supervising Iraq Relief and Reconstruction Fund program activities. Our first report focused on changes that occurred in the United State's original reconstruction plans between November 2003 and September 30, 2005. In April 2006 we issued a second report that updated our earlier report to include project changes that occurred between October 1, 2005 and December 31, 2005. This report provides an update to include changes that occurred between January 1, 2006 and March 31, 2006.

Background

Public Law 108-106, the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, appropriated \$18.439 billion for security, relief, rehabilitation, and reconstruction in Iraq. The appropriation, known as the Iraq Relief and Reconstruction Fund (IRRF), was allocated among 10 sectors of Iraqi infrastructure and governance. According to a Congressional report, the provision of basic services, such as electricity, clean water, sewage treatment and disposal is urgently needed to give Iraqis hope for a better future.¹

Section 2207 of Public Law 108-106 requires the Director of the Office of Management and Budget to submit a quarterly report, *Section 2207 Report*, to the Senate and House Committees on Appropriations, on the initial obligation of IRRF funds on a project-by-project basis, the distribution of duties and responsibilities regarding IRRF projects among the agencies of the U.S. government, funds provided by foreign governments and international organizations, and revenues from seized or frozen foreign assets. The Office of Management and Budget prepared these reports from January 2004 through July 2004. The U.S. Mission in Iraq, through its Iraq Reconstruction Management Office, has prepared the reports since October 2004. The U.S. Ambassador to Iraq is the Department of State's Chief of the U.S. Mission in Iraq.

The ten designated sectors of spending were based on project lists prepared by the Coalition Provisional Authority. Initially, projects were identified under 56 project codes, or sub-sectors. However, over the last two years 17 additional project codes have been added bringing the total of sub-sectors to 73.

Our first report, issued in January 2006², stated that although significant progress has been made in developing Iraq's infrastructure, the United States will not complete all of the projects it originally planned to construct through its Iraq Relief and Reconstruction program because of:

- dramatically increased spending for security needs
- strategy changes as the Department of State has responded to the changing environment in Iraq

¹ House Committee on Appropriations Report 108-312, October 14, 2003.

² *Challenges Faced in Carrying Out Iraq Relief and Reconstruction Fund Activities*, SIGIR-05-029, January 26, 2006.

- needed increase in spending for containment
- the need to fund IRRF administrative expenses not considered in initial planning
- plans made without a clear understanding of actual situational conditions

While data was not available on the impact of all of these factors, we reported that the cumulative effect was the reallocation of \$5.6 billion in IRRF monies from their originally planned purposes.

In April 2006 we issued a second report that discussed project changes that occurred between October 1, 2005 and December 31, 2005.³ Significant adjustments to IRRF program plans continued through the quarter with \$353.3 million in program changes. Altogether, \$195.3 million in funding moved between sectors, and another \$158 million moved within sectors. Non-construction programs in the Justice Safety Infrastructure, and Civil Society sector; and the Education, Refugees, and Human Rights sector received the largest increases in funding, receiving \$154.3 million of the \$195.3 million that was reallocated between sectors. The service sectors (Transportation and Telecommunications, Health Care, Electric, and Water Resources and Sanitation) were the source for most of the reallocated funds.

For a table showing the cumulative changes we have identified in IRRF sectors for the period of November 2003 through December 2005, and some indication of how these changes have impacted U.S. plans, see Appendix B.

Objectives

The objectives of this audit were (1) to determine the changes, if any, in the Department of State's Iraq relief and reconstruction plans between January 1, 2006 and March 31, 2006, and (2) to identify reasons for those changes.

For a discussion of the audit scope, methodology, and a summary of prior coverage, see Appendix A. For definitions of the acronyms used in this report, see Appendix C. For a list of the audit team members, see Appendix E.

³ *Changes in Iraq Relief and Reconstruction Fund Program Activities – October to December 2005*, SIGIR 06-004, April 28, 2006.

Changes in the IRRF Program - January through March 2006

Between January 1, 2006 and March 31, 2006, \$107.3 million in changes were made to IRRF program plans. Almost all changes occurred within the sectors with only \$15.9 million moving between sectors. The IRRF fund also grew by \$4.95 million during the quarter increasing from \$18.439 billion to \$18.444 billion. The additional funding was added by Public Law 109-102, which directed that not less than \$5 million be transferred into the IRRF fund and made available for the Marla Ruzicka Iraq War Victims Fund.

Table 1 identifies changes that occurred between sectors during the January 1, 2006 to March 31, 2006 quarter.

**Table 1. Iraq Relief and Reconstruction Funding Allocation Changes
January 1, 2006 through March 31, 2006 (Dollars in millions)**

Sectors	Allocation as of January 1, 2006	Allocation as of March 31, 2006	Change in Dollars	Percent Change
Sectors with Increases				
Justice, Public Safety Infrastructure & Civil Society	\$2,349.8	\$2,354.7	\$4.9	<1.0%
Transportation & Telecommunications	465.5	469.1	3.6	<1.0%
Health Care	739.0	746.3	7.3	<1.0%
Sectors with Decreases				
Oil	\$1,735.6	\$1,724.7	\$(10.9)	(<1.0%)
Sectors with No Changes				
Security & Law Enforcement	\$5,036.0	\$5,036.0	\$0	0%
Electric	4,220.0	4,220.0	0	0%
Water Resource & Sanitation	2,131.0	2,131.1	0	0%
Road, Bridges, & Construction	333.7	333.7	0	0%
Private Sector Employment Development ^a	805.3	805.3	0	0%
Education, Refugees, Human Rights, & Governance	410.0	410.0	0	0%
Administrative ^b	213.0	213.0	0	0%
Totals	\$18,439	\$18,444	\$4.9	<1.0%

Source: SIGIR analysis of Department of State and Office of Management and Budget data.

^aIncludes \$352.3 million for Iraq Debt Forgiveness.

^bAn additional \$601.3 million was used to cover the FY2004 and 2005 operating expenses of the CPA and its successor, and the implementation costs of the implementing agencies. These costs are not identified and are spread across the sectors. Total FY2004-2005 administrative costs are actually \$785.3 million.

Reasons for Changes in Sector Programs

According to the Department of State, 2006 is a year of transition for the Iraq Relief and Reconstruction Fund. A number of IRRF projects are ending, including projects to:

- build border forts
- provide the Iraqi Army with new facilities
- build the Advanced First Responders Network
- improve educational management
- improve water conservation and irrigation
- improve solid waste management
- improve electricity security

The Department of State also expects that all major IRRF-funded electricity generation and sewerage projects will be completed by the end of the calendar year. Over \$16.4 billion of the \$18.4 billion IRRF fund has been obligated. As a result, fewer changes have occurred in IRRF-project activities.

As discussed, \$107.8 million in IRRF funding was reallocated between projects during the quarter. However, the amount is somewhat misleading because approximately 54% of the funds moved (totaling \$58.9 million) were the result of administrative changes. According to the April 2006 *Section 2207 Report*, \$38.6 million earmarked for detention facilities and previously notified to the Congress was erroneously reported under Rule of Law in the January *Section 2207 Report*. This adjustment reflects the usage of the funds in a more appropriate manner. Another \$20 million in Democracy Building Project funds was moved to a newly established project, the Marla Ruzicka Iraq War Victims Fund. The \$20 million was already earmarked for war victim funding and establishing a new project was done to give the project greater transparency.

Table 2 shows the increases and decreases that occurred in IRRF program sub-sectors between January 1, 2006 and March 31, 2006.

**Table 2: Sub-Sector Allocation Changes January 1, 2006 to March 31, 2006
(Dollars in millions)**

	Allocation as of January 1, 2006	Allocation as of March 31, 2006	Change in Dollars	Percent Change
Sub-Sectors with Increases				
Reconstruction & Modernization of Detention Facilities	\$167.0	\$205.6	\$38.6	23.1%
Railroad Rehabilitation & Restoration (Transportation & Telecommunication)	189.3	198.3	9.0	4.8%
Iraq Communications Systems (Transportation & Telecommunication)	45.5	47.3	1.8	4.0%
Iraq Telecom & Postal Corporation (Transportation & Telecommunication)	20.0	20.8	0.8	4.0%
Equipment Procurement & Modernization (Health)	285.0	292.3	7.3	2.6%
Consolidated Fiber Network (Transportation & Telecommunication)	70.0	71.0	1.0	1.4%
Generation (Electric)	1,608.2	1624.2	16.0	1.0%
Roads & Bridges (Roads, Bridges & Construction)	206.7	208.9	2.2	1.0%
Oil Infrastructure (Oil)	1,713.1	1,719.2	6.1	<1.0%
Marla Ruzicka Iraq War Victims Fund (Justice) ^a	New Program	20.0	20.0	
Sub-Sectors with No Changes				
Emergency Supplies of Refined Petroleum Products (Oil)	22.5	5.5	(17.0)	(75.6%)
Rule of Law in Iraq (Justice)	\$109.8	\$71.2	(38.6)	(35.2%)
Civil Aviation (Transportation)	75.7	66.7	(9.0)	(11.9%)
Democracy Building (Justice)	1,033.8	1,033.8	(20.0)	(1.9%)
Public Buildings Construction & Repair (Roads, Bridges & Construction)	127.0	124.8	(2.2)	(1.7%)
Transmission (Electric)	1,151.8	1,135.8	(16.0)	(1.4%)

Source: Department of State *Section 2207 Report*; April 2006.

^aThe Marla Ruzicka Iraq War Victims Fund also received \$4.95 million from the Department of State's Fiscal Year 2006 Economic Support Fund.

Program Changes Reported in the April 2006 *Section 2207 Report*

Reconstruction and Modernization of Detention Facilities. \$38.6 million earmarked for detention facilities, and previously notified to the Congress, was erroneously reported under the Rule of Law sub-sector in the January *Section 2207 Report*. This adjustment reflects the usage of the funds in a more appropriate manner.

Railroad Rehabilitation and Restoration. The \$9 million increase is to complete the communications backbone for the Iraqi Republic Railway's train control system from the Port of Umm Qaser north through Basrah, Baghdad and Mosul to the connection with the Syrian and Turkish rail systems at Rabiya.

Iraq Communication System. The \$1.8 million increase is to meet sustainment requirements for the Iraqi Telecommunications System.

Iraq Telecommunication and Postal. Not described.

Equipment Procurement and Modernization. The \$7.3 million transfer supports the purchase of medical supplies and consumables for sustainment.

Consolidated Fiber Network. The \$1 million transfer is to provide funding for sustainment for the network.

Generation. \$16 million was reallocated into the generation project to support the Summer Energy program.

Roads and Bridges. Not described.

Oil Infrastructure. The \$6.1 million transfer is to provide funding for infrastructure security.

Marla Ruzicka Iraq War Victims Fund. \$20 million in Democracy Building project funds were moved into this newly established project and \$4.95 million was added from the Department of State's Fiscal Year 2006 Economic Support Fund, providing a total of \$24.95 million for this project. The \$20 million received from the Democracy Building fund was already earmarked for war victim funding. Establishing a new project was intended to give the project greater transparency.

Emergency Supplies of Refined Petroleum Products. \$17 million was reallocated out of Emergency Supplies of Refined Petroleum Products closing out this project. The November 2003 plan was plan to provide \$501 million for emergency supplies; however, only \$5 million was ever obligated for this project.

Rule of Law in Iraq. As discussed above, \$38.6 million earmarked for detention facilities and previously notified to the Congress was erroneously reported under Rule of Law in the January *Section 2207 Report*. This adjustment reflects the usage of the funds in amore appropriate manner.

Civil Aviation. Not described.

Democracy Building. \$20 million in Democracy Building project funds were moved to the Marla Ruzicka Iraq War Victims Fund. The \$20 million was already earmarked for war victim funding under Democracy Building Activities. Establishing a new project was intended to give the project greater transparency.

Public Buildings Construction and Repair. This project was completed and the remaining \$2.2 million was reallocated to other projects.

Transmission. \$16 million was reallocated out of the transmission project. The funding was the balance of the Kirkuk-Diyala Overhead 400 Kilovolt line project, which was cancelled earlier.

Appendix A. Scope and Methodology

We initiated this audit in April 2006 (Project No. 6024) to review the changes that occurred between January 1, 2006 and March 31, 2006, in the Department of State's Iraq Relief and Reconstruction Fund (IRRF) program plans. To determine the changes, we reviewed reports submitted to meet the requirements of Section 2207 of Public Law 108-106. These reports, which have been submitted every three months since January 2004, identify ten sectors of Iraqi infrastructure and governance, and identify how IRRF funds have been allocated between those sectors. The reports also identify any changes that have occurred in a sector's allocation since the previous quarter. We tracked these changes to determine how funds moved between the sectors, and to identify, where possible, the reasons for the changes. We then identified the primary reasons for the changes, and aggregated the amount of funding moved for each of the primary reasons we had identified.

To identify reasons for changes in U.S. plans, we also reviewed the *Section 2207 Reports*. In the body of the *Section 2207 Reports*, reasons were generally given as to why funding changes were made. We then summarized these changes for the report.

We conducted this audit between April and June, 2006, in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We did not use computer-processed data to perform this audit.

Prior Coverage. Special Inspector General for Iraq Reconstruction (SIGIR)

SIGIR reported on January 26, 2006, in "Challenges Faced in Carrying Out Iraq Relief and Reconstruction Fund Activities" (SIGIR-05-029), that the United States would not complete all of the projects it originally planned to construct through its Iraq Relief and Reconstruction program because of:

- dramatically increased spending for security needs
- strategy changes as the Department of State responded to the changing environment in Iraq
- needed increases in spending for sustainment
- the need to fund IRRF administrative expenses that were not considered in initial planning
- plans made without a clear understanding of actual situational conditions

SIGIR reported on April 30, 2006, in "Changes in Iraq Relief and Reconstruction Fund Program Activities-October through December 2005" (SIGIR 06-004), that significant adjustments to the IRRF program plans continued through the last quarter with \$353.3 million in program changes. Cumulatively, \$195.3 million moved between sectors, and another \$158 million moved within sectors. Non-construction programs in the Justice, Public Safety Infrastructure, and Civil Society sector, and the Education, Refugees, and Human Rights sector received the largest increases in funding--\$154.3 million of the \$195.3 million that was reallocated between sectors. The service sectors (Transportation and Telecommunications, Health Care, Electric, and Water Resources and Sanitation) were the source for most of the reallocated funds.

Appendix B. Cumulative Changes in the Iraq Relief and Reconstruction Fund Sector Allocation

November 1, 2003 through December 31, 2005
(Dollars in millions)

Sectors	Congressional Allocation November 2003	Allocation as of December 2005	Change in Dollars	Percent Change
Sectors with Increases				
Private Sector Development ¹	153.08	453.0	300.0	196.0%
-- Iraq Debt Forgiveness	No allocation	352.3	352.0	
Justice, Public Safety Infrastructure & Civil Society	1,318.0	2,349.8	1,031.8	78.3%
Security & Law Enforcement	3,243.0	5,036.0	1793.0	55.3%
Education, Refugees & Human Rights	280.0	410.0	130.0	46.4%
Administrative ²	No allocation	213.0	213.0	0.0%
Sectors with Decreases				
Water Resource & Sanitation	4,332.0	2,131.1	(2,200.0)	(50.8%)
Electric	5,560.0	4,220.0	(1,340.0)	(24.1%)
Oil Infrastructure	1,890.0	1,735.6	(154.4)	(8.2%)
Transportation & Telecommunication	500.0	465.5	(34.5)	(6.9%)
Roads, Bridges & Construction	370.0	3337.7	(36.3)	(9.8%)
Health Care	793.0	739.0	(54.0)	(6.8%)
Totals	\$18,439	\$18,439	\$(0.0)	0

Source: SIGIR analysis of Department of State and office of Management and Budget data.

¹ In September 2004, Private Sector Development received \$352.3 million for Iraq Debt Forgiveness. Because debt forgiveness is not a program, it has been reported separately to provide a clearer picture on how sector programs changed.

² An additional \$60.3 million was used to cover FY2004 and 2005 operating expenses of the CPA and its successor, and the implementation costs of the implementing agencies. These costs are not identified and are spread across the sectors. Total FY2004-2005 administrative costs are actually \$785.3 million.

Appendix C. Acronyms

CPA	Coalition Provisional Authority
IRRF	Iraq Relief and Reconstruction Fund
SIGIR	Special Inspector General for Iraq Reconstruction

Appendix D. Report Distribution

Department of State

Secretary of State

Senior Advisor to the Secretary and Coordinator for Iraq

U.S. Ambassador to Iraq

Director, Iraq Reconstruction Management Office

Mission Director-Iraq, U.S. Agency for International Development

Inspector General, Department of State

Department of Defense

Secretary of Defense

Deputy Secretary of Defense

Director, Defense Reconstruction Support Office

Under Secretary of Defense (Comptroller)/Chief Financial Officer

Deputy Chief Financial Officer

Deputy Comptroller (Program/Budget)

Inspector General, Department of Defense

Director, Defense Contract Audit Agency

Director, Defense Finance and Accounting Service

Director, Defense Contract Management Agency

Department of the Army

Assistant Secretary of the Army for Acquisition, Logistics, and Technology

Principal Deputy to the Assistant Secretary of the Army for Acquisition,
Logistics, and Technology

Deputy Assistant Secretary of the Army (Policy and Procurement)

Director, Project and Contracting Office

Commanding General, Joint Contracting Command-Iraq/Afghanistan

Assistant Secretary of the Army for Financial Management and Comptroller

Chief of Engineers and Commander, U.S. Army Corps of Engineers

Commanding General, Gulf Region Division

Auditor General of the Army

U.S. Central Command

Commanding General, Multi-National Force-Iraq

Commanding General, Multi-National Security Transition Command-Iraq

Commander, Joint Area Support Group-Central

Other Federal Government Organizations

Director, Office of Management and Budget

Comptroller General of the United States

Inspector General, Department of the Treasury

Inspector General, Department of Commerce

Inspector General, Department of Health and Human Services

Inspector General, U.S. Agency for International Development

President, Overseas Private Investment Corporation

President, U.S. Institute for Peace

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

U.S. Senate

Senate Committee on Appropriations

Subcommittee on Defense

Subcommittee on State, Foreign Operations and Related Programs

Senate Committee on Armed Services

Senate Committee on Foreign Relations

Subcommittee on International Operations and Terrorism

Subcommittee on Near Eastern and South Asian Affairs

Senate Committee on Homeland Security and Governmental Affairs

Subcommittee on Federal Financial Management, Government Information and International Security

Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia

U.S. House of Representatives

House Committee on Appropriations

Subcommittee on Defense

Subcommittee on Foreign Operations, Export Financing and Related Programs

Subcommittee on Science, State, Justice and Commerce and Related Agencies

House Committee on Armed Services

House Committee on Government Reform

Subcommittee on Management, Finance and Accountability

Subcommittee on National Security, Emerging Threats and International Relations

House Committee on International Relations

Subcommittee on Middle East and Central Asia

Appendix E. Audit Team Members

This report was prepared and the audit work was conducted under the direction of Joseph T. McDermott, the Assistant Inspector General for Audit, Office of the Special Inspector General for Iraq Reconstruction. The staff member who contributed to this report:

Glenn D. Furbish