

January 2007

SECURING,
STABILIZING, AND
REBUILDING IRAQ

Key Issues for
Congressional
Oversight



Contents

Letter	1
Strategy and Costs	6
Enclosure I: More Comprehensive U.S. Strategy Needed to Achieve Goals and Address Challenges in Iraq	7
Enclosure II: U.S. Commitments Involve Significant Resources, but DOD Cost Reports and Budgets Limit Transparency	13
Security Conditions	19
Enclosure III: Security Conditions Have Deteriorated as Iraq Has Assumed Additional Security Responsibilities	20
Enclosure IV: Assessing the Capabilities of the Iraqi Security Forces Is Critical	27
Enclosure V: DOD May Be Unable to Ensure That U.S.-Funded Equipment Has Reached Iraqi Security Forces	33
Governance Challenges	40
Enclosure VI: The Iraqi Government Needs to Staff an Effective Civil Service and Fight Corruption	41
Enclosure VII: Ministry Capacity Development Efforts Need Integrated Plan	47
Enclosure VIII: Several Factors Affect Iraqi Ministry Efforts to Spend Capital Budgets	54
Enclosure IX: Iraq Owes Significant Foreign Debt and Faces Challenges in Meeting IMF Conditions	59
Reconstruction Challenges	65
Enclosure X: U.S. Efforts to Restore Iraq's Oil Sector Have Been Slowed by Major Challenges	66
Enclosure XI: U.S. Efforts to Improve Iraq's Electricity Sector Have Been Constrained by Security, Management, and Funding Challenges	72
U.S. Military Readiness	79
Enclosure XII: Extended Operations Have Had Significant Consequences for the U.S. Military	80
Enclosure XIII: Securing Munitions Sites and Alleviating Armor Shortages Have Been Serious Problems	86

Enclosure XIV: Deficiencies in Supply Support for U.S. Ground Forces Have Resulted in Shortages of Critical Items	92
Improving Acquisition Outcomes	97
Enclosure XV: DOD Needs to Improve Its Capacity to Manage Contractors	98
Objectives, Scope, and Methodology, and Staff Acknowledgments	105
Enclosure XVI: Objectives, Scope, and Methodology	106
Enclosure XVII: Staff Acknowledgments	114

Abbreviations

CDWG	Capacity Development Working Group
CPA	Coalition Provisional Authority
CSIS	Center for Strategic and International Studies
DOD	Department of Defense
EPSS	Electric Power Security Service
GRD	Gulf Region Division
GWOT	global war on terrorism
HMMWV	High-Mobility Multipurpose Wheeled Vehicle
IAMB	International Advisory and Monitoring Board
IED	improvised explosive device
IMF	International Monetary Fund
IRMO	Iraq Reconstruction Management Office
IRRF	Iraqi Relief and Reconstruction Fund
ISF	Iraqi security forces
ISFF	Iraqi Security Forces Fund
JIEDDO	Joint Improvised Explosive Device Defeat Organization
LOGCAP	Logistics Civil Augmentation Program
MAT	Ministry Assistance Team
mbpd	million barrels per day
MNF-I	Multinational Force-Iraq
MNSTC-I	Multinational Security Transition Command-Iraq
mw	megawatt
NCDP	National Capacity Development Program
NSC	National Security Council
NSVI	National Strategy for Victory in Iraq
OIF	Operation Iraqi Freedom
OMB	Office of Management and Budget
SIB	Strategic Infrastructure Battalions
SIGIR	Special Inspector General for Iraqi Reconstruction
TRA	Transition Readiness Assessment
USAID	United States Agency for International Development

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



United States Government Accountability Office
Washington, DC 20548

January 9, 2007

Congressional Leadership and Committees

As the United States reviews its plans to secure, stabilize, and rebuild Iraq, I have enclosed a series of issue papers for consideration in developing your oversight agenda for the 110th Congress and analyzing the President's revised strategy for Iraq. These papers are based on the continuing work of the U.S. Government Accountability Office and the 67 Iraq-related reports and testimonies we have provided to the Congress since May 2003.

Iraq has had three successful elections, adopted a constitution, and installed its first elected government. At the same time, since the initial ground offensive ended in 2003, the costs to secure and stabilize Iraq have grown substantially, as has the level of violence that afflicts Iraqi society. Such violence stems from an insurgency that has grown more complex and lethal over the past 3½ years and the Sunni-Shi'a conflict, which escalated dramatically in 2006. This instability complicates meaningful political reconciliation among Iraq's religious and tribal groups, reduces the effectiveness of U.S. and Iraqi reconstruction and capacity-building efforts, and diminishes the hopes and expectations of an Iraqi people without adequate jobs, water, fuel, and electricity.

Increasing Iraqi security forces and transferring security responsibilities to them have not resulted in reduced violence. Rather, attacks increased throughout 2006. Although more Iraqi troops have been trained and equipped, high absenteeism and divided loyalties have limited their overall effectiveness. At the same time, our service members are working with great courage and diligence to perform the roles the President has asked of them. Notwithstanding their noble efforts, the U.S. military has sustained significant casualties. In addition, wear and tear on military equipment and growing replacement costs have risen substantially. The resulting stress and strain on American forces have reduced troop readiness levels and the availability of reserve personnel.

The U.S. rebuilding effort in Iraq has focused on helping the Iraqi government establish a sound economy with the capacity to deliver essential services. Although Iraq's economy has grown and U.S. efforts have helped restore portions of Iraq's infrastructure, the poor security environment and mismanagement have diminished the overall results of U.S. investments. Iraq will need U.S. and international support, including

political and economic incentives, to strengthen its fragile government institutions, which have thus far failed to adequately deter corruption, stimulate employment, or deliver essential services.

The enclosures that follow discuss these issues and other critical challenges that the United States and its allies face in the ongoing struggle to help the Iraqis stabilize, secure, and rebuild Iraq. Forthright answers to the oversight questions we pose herein are needed from the U.S. agencies responsible for executing the President's strategy. Congress and the American people need complete and transparent information on the progress made toward achieving U.S. security, economic, and diplomatic goals in Iraq to reasonably judge our past efforts and determine future directions.

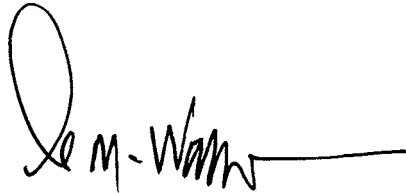
It is also important that the U.S. government account for the funds that it expended on behalf of the Iraqi government through the Development Fund for Iraq. After all, the Coalition Provisional Authority had a fiduciary responsibility to properly safeguard, use, and account for these funds.

These enclosures focus on the U.S. strategy and costs of operations in Iraq; security, governance, and reconstruction issues; the readiness of U.S. military forces; and acquisition outcomes. They are based on our completed and ongoing Iraq-related work, and incorporate information from official documents and relevant officials from the various agencies involved in stabilizing and rebuilding Iraq, including the Departments of Defense, Energy, State, and the Treasury; the U.S. Agency for International Development; the Army Corps of Engineers; the multinational force; and the Defense Intelligence Agency. As part of this work, we made multiple visits to Iraq during 2006. For the enclosures that include new information, we provided copies to the relevant agencies for advanced review and technical comments, which we incorporated as appropriate. We conducted our review in accordance with generally accepted government auditing standards. Enclosure XVI contains a detailed scope and methodology.

We are sending copies of this report to Members of Congress. This report will also be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact the individual listed at the end of each enclosure. Contact points for our Offices of Congressional Relations and Public Affairs can be found on the last page of this report. For press inquiries, please contact Paul Anderson at (202) 512-3823. Key contributors to this report are included in enclosure XVII.

Thank you for your time and consideration. As always, we at GAO stand ready to assist Congress in discharging its constitutional responsibilities for the benefit of the American people.

A handwritten signature in black ink, appearing to read "D. M. Walker", with a long horizontal line extending to the right.

David M. Walker
Comptroller General of the United States

Enclosures

List of Congressional Leadership and Committees

The Honorable Harry Reid
Majority Leader
The Honorable Mitch McConnell
Minority Leader
United States Senate

The Honorable Nancy Pelosi
The Speaker of the House of Representatives

The Honorable John A. Boehner
Minority Leader
House of Representatives

The Honorable Robert C. Byrd
The Honorable Thad Cochran
Committee on Appropriations
United States Senate

The Honorable Carl Levin
The Honorable John S. McCain
Committee on Armed Services
United States Senate

The Honorable Joseph R. Biden, Jr.
The Honorable Richard G. Lugar
Committee on Foreign Relations
United States Senate

The Honorable Joseph I. Lieberman
The Honorable Susan M. Collins
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable David Obey
Chairman
The Honorable Jerry Lewis
Ranking Minority Member
Committee on Appropriations
House of Representatives

The Honorable Ike Skelton
Chairman
The Honorable Duncan L. Hunter
Committee on Armed Services
House of Representatives

The Honorable Tom Lantos
Chairman
The Honorable Ileana Ros-Lehtinen
Ranking Minority Member
Committee on Foreign Affairs
House of Representatives

The Honorable Henry A. Waxman
Chairman
The Honorable Tom Davis
Ranking Minority Member
Committee on Oversight and Government Reform
House of Representatives

The Honorable Christopher Shays
Ranking Minority Member
Subcommittee on National Security and International Relations
Committee on Oversight and Government Reform
House of Representatives

Strategy and Costs

Enclosure I: More Comprehensive U.S. Strategy Needed to Achieve Goals and Address Challenges in Iraq

Enclosure II: U.S. Commitments Involve Significant Resources, but DOD Cost Reports and Budgets Limit Transparency

Enclosure I: More Comprehensive U.S. Strategy Needed to Achieve Goals and Address Challenges in Iraq

Issue

In November 2005, the National Security Council (NSC) issued the National Strategy for Victory in Iraq (NSVI) to clarify the President's strategy¹ for achieving U.S. political, security, and economic goals in Iraq. The U.S. goals included establishing a peaceful, stable, and secure Iraq. Based on a GAO report issued in July 2006² and other GAO reviews, this enclosure discusses (1) the extent to which the NSVI and its supporting documents addressed the six characteristics of an effective national strategy, and (2) how security, political, and economic factors have affected the U.S. strategy for Iraq. Congressional review of the President's 2007 plan for Iraq should consider whether it addresses the key elements of a sound national strategy.

Summary

We reported in July 2006 that the NSVI was an improvement over previous U.S. planning efforts for stabilizing and rebuilding Iraq. The strategy's positive attributes included a clear purpose and scope and identification of U.S. involvement in Iraq as a "vital national interest and the central front in the war on terror." The strategy also provided a comprehensive description of U.S. political, security, and economic objectives in Iraq. However, the discussion of outcome-related performance measures to assess progress in achieving these goals and objectives was limited. Moreover, the strategy fell short in at least three other areas. First, it only partially identified the agencies responsible for implementing key aspects of the strategy. Second, it did not fully address how the U.S. will integrate its goals with those of the Iraqis and the international community, and it did not detail Iraq's anticipated contribution to its future needs. Third, it only partially identified the current and future costs of U.S. involvement in Iraq, including maintaining U.S. military operations, building Iraqi government capacity, and rebuilding critical infrastructure.

Security, political, and economic factors continue to hamper U.S. efforts to stabilize Iraq and achieve key U.S. goals. First, the United States and Iraq are trying to revitalize Iraq's economy and restore the oil, electricity, and other key sectors. However, these efforts have been impeded by security, corruption, and other challenges.

¹The NSVI and key supporting documents are collectively referred to as the U.S. strategy for Iraq.

²GAO, *Rebuilding Iraq: More Comprehensive National Strategy Needed to Help Achieve U.S. Goals*, [GAO-06-788](#) (Washington, D.C.: July 11, 2006).

NSVI Did Not Fully Address All Key Characteristics of an Effective National Strategy

The NSVI aimed to improve U.S. strategic planning for Iraq; however, the NSVI and supporting documents did not fully address all of the six desirable characteristics of effective national strategies that GAO has identified through its prior work.³ We used these six characteristics to evaluate the strategy—that is, the NSVI and supporting documents that Department of Defense (DOD) and Department of State officials said encompassed the U.S. strategy for rebuilding and stabilizing Iraq.⁴

As figure 1 shows, the strategy generally addressed three of the six characteristics but only partially addressed three others, limiting its usefulness in guiding agency implementation efforts and achieving desired results. Moreover, since the strategy was dispersed among several documents instead of one, its effectiveness as a planning tool for implementing agencies and informing Congress about the pace, costs, and intended results of these efforts was limited.

³See GAO, *Combating Terrorism: Evaluation of Selected Characteristics in National Strategies Related to Terrorism*, [GAO-04-408T](#) (Washington, D.C.: Feb. 3, 2004); and *Defense Management: Comprehensive Strategy and Periodic Reporting Are Needed to Gauge Progress and Costs of DOD's Global Posture Restructuring*, [GAO-06-486C](#) (Washington, D.C.: May 26, 2006).

⁴We evaluated the NSVI along with seven related classified and unclassified supporting documents. These documents were identified by State's Office of the Coordinator for Iraq, State's Bureau of Near Eastern Affairs, DOD's Defense Reconstruction Support Office, and DOD's Near Eastern South Asian Affairs office as having key details about the strategy. The documents included (1) the National Security Presidential Directive 36 (May 2004), (2) the MNF-I Campaign Plan (August 2004), (3) the MNF-I/ U.S. Embassy Baghdad Joint Mission Statement on Iraq (December 2005), (4) the Multinational Corps-Iraq Operation Order 05-03 (December 2005), (5) the National Strategy for Supporting Iraq (updated January 2006), (6) State's quarterly section 2207 reports to Congress (January and April 2006); and (7) the April 2006 Joint Campaign Plan issued by the Chief of Mission and the Commander of the MNF-I.

Figure 1: Extent That November 2005 U.S. Strategy for Iraq Addressed GAO’s Desirable Characteristics of an Effective National Strategy

Extent the U.S. strategy for Iraq addresses GAO’s desirable characteristics of an effective national strategy	Generally addresses	Partially addresses
1. Clear purpose, scope, and methodology	✓	
2. Detailed discussion of problems, risks, and threats	✓	
3. Desired goals, objectives, activities, and performance measures	✓	
4. Delineation of U.S. government roles and responsibilities		✓
5. Description of strategy’s integration among and with other entities		✓
6. Description of future costs and resources needed		✓

Sources: GAO analysis of NSC, State, and DOD data.

As shown in figure 1, the NSVI and supporting documents only partially (1) delineated the roles and responsibilities of key U.S. government agencies; (2) described the means by which the strategy will be integrated among U.S. entities, the Iraqi government, and international organizations, and the mechanisms for coordination; and (3) identified the strategy’s costs and sources of financing.

- Although the strategy partially addressed the roles and responsibilities of specific U.S. government agencies and offices and the process for coordination, it is not clear which agency was responsible for implementing the overlapping activities listed under the NSVI’s eight strategic objectives. For instance, one activity was to promote transparency in the executive, legislative, and judicial branches of the Iraqi government; however, the NSVI and supporting documents did not indicate which agency was responsible for implementing this activity, or who was to be held accountable for results. Moreover, little guidance was provided to assist implementing agencies in resolving conflicts among themselves, as well as with other entities.
- The NSVI and supporting documents partially addressed how the strategy related to other international donors and Iraqi government goals, objectives, and activities. For instance, the NSVI and supporting documents identified the need to integrate the efforts of the coalition, the Iraqi government, and other nations, but did not discuss how U.S. goals and objectives would be integrated. In addition, the strategy did not address what it expects the international community or the Iraqi government to pay to achieve future objectives.

- The November 2005 National Strategy for Victory in Iraq and related supporting documents did not clearly identify the costs of U.S. military operations, including the costs to repair and replace equipment used during operations. The strategy did not identify other key related costs, including the costs of training, equipping, and supporting Iraq's security forces; the costs of rebuilding, maintaining, and protecting critical oil and electricity infrastructure; or the costs of building management capacity in Iraq's central ministries and 18 provincial governments. In addition to these costs, the new Iraqi government will need significant help in building the procurement, financial management, accountability, and other key systems needed to govern and provide basic services to its citizens.

Security, Political, and Economic Factors Hamper Efforts to Achieve Strategic Goals

Our July 11, 2006, report and other GAO work show that security, political, and economic factors have hampered and will continue to influence U.S. efforts to stabilize Iraq and achieve key U.S. strategic goals. First, increases in attacks against the coalition and its Iraqi partners, growing sectarian violence, and the influence of militias have adversely affected U.S. and Iraqi efforts to secure Baghdad and other strategic cities. Second, sectarian control over ministries and the lack of skilled employees hinder efforts to improve Iraq's governance by building the capacity of ministries and reconciling differences among sectarian interests. Third, security, corruption, and fiscal problems limit U.S. and Iraqi plans to revitalize Iraq's economy and restore essential services in the oil and electricity sectors.

- Overall security conditions in Iraq have continued to deteriorate and have grown more complex despite recent progress in transferring security responsibilities to Iraqi security forces and the Iraqi government. The number of trained and equipped Iraqi security forces has increased from about 174,000 in July 2005 to about 323,000 as of December 2006, at the same time as more Iraqi army units have taken the lead for counterinsurgency operations in specific geographic areas. Despite this progress, however, attacks on coalition forces, Iraqi security forces, and civilians have all increased, reaching record highs in October 2006. Because of these conditions, the United States could not draw down U.S. force levels in Iraq as planned in 2004 and 2006, and U.S. forces have continued to conduct combat operations in urban areas, especially Baghdad (see encl. III).
- The U.S. government faces significant challenges in improving the capability of national and provincial governments to provide security and deliver services to the Iraqi people. According to State, the Iraqi capacity for self-governance was decimated after nearly 30 years of autocratic rule.

In addition, Iraq lacked competent existing Iraqi governmental organizations. Since 2003, the United States has provided the Iraqis with a variety of training and technical assistance to improve their capacity to govern. As of December 2006, we identified more than 50 capacity development efforts led by at least 6 U.S. agencies (see encl. VII).

- Iraq's oil production and exports have consistently fallen below U.S. program goals. U.S. and Iraqi efforts to restore Iraq's oil sector have been impeded by the lack of security, corruption, sustainability, and funding challenges. The unstable security environment continues to place workers and infrastructure at risk while protection efforts remain insufficient. Widespread corruption and smuggling affect the distribution of refined oil products such as gasoline. The U.S. reconstruction program has encountered difficulty with Iraq's ability to operate and maintain aging infrastructure. Furthermore, uncertainties exist regarding the sources of future funding. These challenges could make it difficult to achieve current production and export goals, which are central to Iraq's economic development (see encl. X).

Prior Recommendations

In our July 2006 report, we recommended that the NSC improve the current strategy by articulating clear roles and responsibilities, specifying future contributions, and identifying current costs and future resources. In addition, the United States, Iraq, and the international community should (1) enhance support capabilities of the Iraqi security forces, (2) improve the capabilities of the national and provincial governments, and (3) develop a comprehensive anti-corruption strategy. State commented that the NSVI's purpose is to provide a broad overview of the U.S. strategy in Iraq rather than a detailed account. GAO's analysis was not based exclusively on the NSVI but included all key supporting documents. Consequently, GAO retained the recommendation for a more complete and integrated strategy.

Oversight Questions

- What is the desired end-state of U.S. involvement in Iraq? How long, and at what cost, will it take to achieve a peaceful, stable, and secure Iraq?
- What political and economic incentives are needed to increase security, improve government capacity, and reduce corruption in Iraq?
- How will revised U.S. plans incorporate enhanced support for Iraqi security forces and national and provincial governments?

**Enclosure I: More Comprehensive U.S.
Strategy Needed to Achieve Goals and
Address Challenges in Iraq**

-
- How will revised U.S. plans assist the Iraqi government in developing a comprehensive anti-corruption strategy?
 - If the President suggests a troop increase, what would be the mission of the additional troops?
 - How long would they stay?
 - How would the success of the mission be measured?
 - What additional costs would the United States incur?
 - To what extent does the administration's revised strategy integrate the input and resources of the Iraqi government?

GAO Contact

Joseph A. Christoff, Director, International Affairs and Trade, (202) 512-8979 or christoffj@gao.gov.

Enclosure II: U.S. Commitments Involve Significant Resources, but DOD Cost Reports and Budgets Limit Transparency

Issue

Since 2001, Congress has appropriated about \$495 billion to U.S. agencies for military and diplomatic efforts in support of the global war on terrorism (GWOT); the majority of this amount has gone to stabilize and rebuild Iraq. Efforts in Iraq involve various activities such as combating insurgents, conducting civil affairs, building capacity, reconstructing infrastructure, and training Iraqi military forces. The Departments of Defense (DOD) and State and the U.S. Agency for International Development, among others, play primary roles. To date, the United States has reported substantial costs¹ for Iraq and can expect to incur significant costs in the foreseeable future, requiring decision makers to consider difficult trade-offs as the nation faces an increasing number of long-range fiscal challenges. Funding for these efforts has been provided through annual appropriations, as well as supplemental appropriations that are outside the annual budget process. Moving more funding into baseline budgets, particularly for DOD, would enable decision makers to better weigh priorities and assess trade-offs. This enclosure describes (1) the reported costs incurred by DOD and other U.S. agencies for military operations, reconstruction efforts, and stabilization activities in Iraq since 2003; and (2) the issues involved in estimating future financial commitments related to U.S. involvement.

Summary

As of September 30, 2006, DOD had reported costs of about \$257.5 billion² for military operations in Iraq. In addition, as of October 2006, about \$29 billion had been obligated for Iraqi reconstruction and stabilization efforts. However, problems with the processes for recording and reporting GWOT costs raise concerns that these data may not accurately reflect the true dollar value of war-related costs. U.S. commitments to Iraq will likely involve the continued investment of significant resources and will depend on several direct and indirect cost variables and, in some cases, decisions that have yet to be made. For DOD, these include the pace and duration of operations, redeployment and basing plans, and the amount of equipment to be repaired or replaced. Cost variables for other U.S. agencies include efforts to help form national and provincial governments, develop management capacity, build capable and loyal security forces, and

¹For purposes of this enclosure, the term “costs” refers to the obligations that have been incurred by U.S. agencies in Iraq. Obligations are incurred through actions such as orders placed, contracts awarded, services received, or similar transactions made during a given period that will require payments during the same or a future period.

²DOD’s reported costs in Iraq do not include the costs of classified activities.

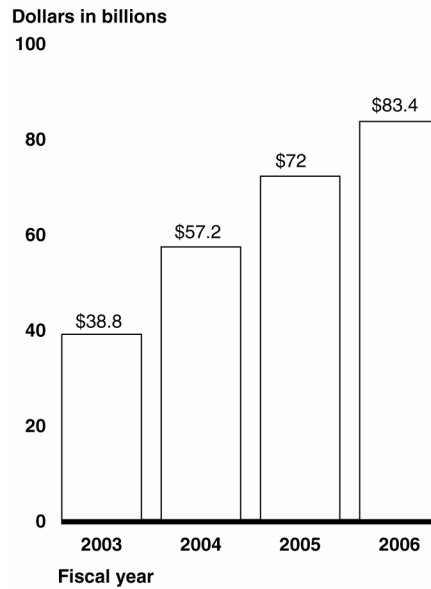
undertake reconstruction activities to restore, sustain, and protect critical infrastructure. With activities likely to continue into the foreseeable future, decision makers will have to carefully weigh priorities and make difficult decisions when budgeting for future costs.

Reported Costs for Operations in Iraq Are Increasing

Since 2003, when DOD began Operation Iraqi Freedom, DOD has reported cumulative costs of about \$257.5 billion for military operations in Iraq. As shown in figure 1, DOD's reported costs show a steady increase from about \$38.8 billion in fiscal year 2003 to about \$83.4 billion in fiscal year 2006. The largest increase has been in operation and maintenance expenses, including items such as support for housing, food, and services; the repair of equipment; and transportation to move people, supplies, and equipment. Between fiscal years 2003 and 2006, DOD reported increases in these expenses from about \$29.9 billion to about \$50 billion. According to DOD officials, some of this increase is attributable to higher fuel costs and higher costs for contracts to provide housing, food, and services. Reported costs for military personnel have increased from about \$8 billion in fiscal year 2003 to about \$14.1 billion in fiscal year 2006, and include military pay and allowances for mobilized reservists, as well as special payments or allowances, such as imminent danger pay. DOD has also reported that costs for procurement of equipment and other items have increased from \$0.7 billion in fiscal year 2003 to about \$13 billion in fiscal year 2006.

Enclosure II: U.S. Commitments Involve Significant Resources, but DOD Cost Reports and Budgets Limit Transparency

Figure 1: DOD's Reported Costs for Operation Iraqi Freedom by Fiscal Year



Source: GAO analysis of DOD data.

Note: DOD spent an additional \$6.1 billion for operations in Iraq that was not included in DOD's reported costs.

Other U.S. government agencies have reported obligating \$29 billion for Iraqi reconstruction and stabilization, as of October 2006. Among other uses, these funds have been used for infrastructure repair of the electricity, oil, water, and health sectors; training and equipping of Iraqi security forces (military and police); and administrative expenses. The Department of State reports that the remaining funds will be used to sustain the infrastructure projects that are completed or under way and to build greater capacity at the national, provincial, and municipal levels.

Our prior work³ found numerous problems with DOD's processes for recording and reporting its war-related costs, including long-standing deficiencies in DOD's financial management systems and business processes, the use of estimates instead of actual cost data, and the lack of

³For example, see GAO, *Global War on Terrorism: Fiscal Year 2006 Obligation Rates Are within Funding Levels and Significant Multiyear Procurement Funds Will Likely Remain Available for Use in Fiscal Year 2007*, [GAO-07-76](#) (Washington, D.C.: Nov. 13, 2006); and *Global War on Terrorism: DOD Needs to Improve the Reliability of Cost Data and Provide Additional Guidance to Control Costs*, [GAO-05-882](#) (Washington, D.C.: Sept. 21, 2005).

adequate supporting documentation. DOD has taken some steps to address these issues, but problems remain. Without transparent and accurate cost reporting, Congress and DOD will continue to not have reliable information on how much the war is costing, sufficient details on how appropriated funds are being spent, or the historical data needed to consider future funding needs.

Future Iraq Costs Are Likely to Be Considerable

U.S. military and diplomatic commitments in Iraq will continue for the foreseeable future and are likely to be in the hundreds of billions of dollars. The magnitude of future costs will depend on several direct and indirect variables and, in some cases, decisions that have not been made. DOD's future costs will likely be affected by the pace and duration of operations, the types of facilities needed to support troops overseas, redeployment plans, and the amount of equipment to be repaired or replaced. Although reducing troops would appear to lower costs, we have seen from previous operations in the Balkans and Kosovo that costs could rise—if, for example, increased numbers of contractors replace military personnel. If the pace of operations remains high or troops are increased, costs for force protection, fuel, and other items could remain high. Lastly, sustained operations will continue to take a toll on the condition of equipment. The Army and Marine Corps will have the largest equipment reset (repaired, recapitalized, or replaced) costs. Although the military services are refining estimates of overall needs, their total requirements and costs are still unclear.

Other future costs to the U.S. government in Iraq include efforts to help form national and provincial governments, develop management capacity, and build capable and loyal security forces. Also, more funds will be needed to restore, sustain, and protect infrastructure. The new Iraqi government will need significant help in building the procurement, financial management, and accountability systems needed to govern and provide basic services to its citizens. The 18 provincial governments will need assistance in building management capacity and delivering results that make a difference in Iraqis' daily lives. Sustaining Iraqi military and police forces of 323,000 personnel will require the Iraqi government to spend more money on personnel, maintenance, and equipment than originally anticipated. Also, the new Iraqi security forces will need additional help in addressing recurring training needs, replacing lost or stolen equipment, and developing improved logistical and sustainment capabilities. Although most of the early U.S. reconstruction monies for Iraq have been obligated, more funds will be needed for remaining

reconstruction needs and to restore, sustain, and protect the infrastructure built to date.

With U.S. commitments in Iraq continuing for the foreseeable future, requiring decision makers to make difficult decisions, we would encourage DOD to consider moving certain costs into the baseline budget, as it has done with Operation Noble Eagle.⁴ This action is consistent with our prior recommendations and testimony⁵ that, once an operation reaches a known level of effort and costs are more predictable, more funding should be built into the baseline budget. We note that Congress, in the John Warner National Defense Authorization Act for Fiscal Year 2007, requires, among other things, that the President’s annual budget submitted after fiscal year 2007 include a request for the funds for ongoing military operations in Iraq and Afghanistan. Doing so would allow decision makers to weigh priorities and consider trade-offs in making financial decisions.

Prior Recommendations

Over the years, we have made a series of recommendations to the Secretary of Defense intended to improve the transparency and reliability of DOD’s GWOT obligation data, including recommendations that DOD (1) revise the cost-reporting guidance so that large amounts of reported obligations are not shown in “miscellaneous” categories, and (2) take steps to ensure that reported GWOT obligations are reliable. We have also recommended that DOD build more funding into the baseline budget once an operation reaches a known level of effort and costs are more predictable. In response, the department has implemented many of our previous recommendations.

Oversight Questions

- What are the key factors causing steady growth in agencies’ reported costs to address the situation in Iraq, and what steps are being taken to control costs?
- To what extent have U.S. government agencies estimated the future costs and financial requirements of continued efforts in Iraq?

⁴This operation, which defends the U.S. homeland against terrorist attacks, began in 2001.

⁵GAO, *Global War on Terrorism: Observations on Funding, Costs, and Future Commitments*, [GAO-06-885T](#) (Washington, D.C.: July 18, 2006); and *Future Years Defense Program: Actions Needed to Improve Transparency of DOD’s Projected Resource Needs*, [GAO-04-514](#) (Washington, D.C.: May 7, 2004).

**Enclosure II: U.S. Commitments Involve
Significant Resources, but DOD Cost Reports
and Budgets Limit Transparency**

- To what extent are improvements being made to existing accounting and management information systems so that they will be able to provide complete and reliable reporting on costs?
- To what extent will the unstable security environment affect reconstruction efforts in Iraq, and what is the impact on future costs?
- What steps are U.S. government agencies taking to move some of their more predictable costs into their baseline budgets?
- Does DOD have a valid basis for determining funding needs for Iraq?

GAO Contacts

Sharon Pickup, Director, Defense Capabilities and Management, (202) 512-9619 or pickups@gao.gov; and Joseph A. Christoff, Director, International Affairs and Trade, (202) 512-8979 or christoffj@gao.gov.

Security Conditions

Enclosure III: Security Conditions Have Deteriorated as Iraq Has Assumed Additional Security Responsibilities

Enclosure IV: Assessing the Capabilities of the Iraqi Security Forces Is Critical

Enclosure V: DOD May Be Unable to Ensure That U.S.-Funded Equipment Has Reached Iraqi Security Forces

Enclosure III: Security Conditions Have Deteriorated as Iraq Has Assumed Additional Security Responsibilities

Issue

Since the fall of 2003, the U.S.-led multinational force in Iraq has developed and refined a series of plans to transfer security responsibilities to the Iraqi government and security forces, with the intent of creating conditions that would allow a gradual drawdown of the 140,000 U.S. military personnel in Iraq. This security transition was to occur first in conjunction with the neutralization of Iraq's insurgency and second with the development of Iraqi forces and government institutions capable of securing their country. According to the November 2005 National Strategy for Victory in Iraq, security conditions in Iraq were expected to improve as the Iraqi government and security forces became more capable and took the lead for security. This enclosure provides information on (1) the evolution of the multinational force's plan to transfer security responsibilities to the Iraqi government and forces, and (2) whether progress in implementing the current security transition plan has led to improved security conditions in Iraq.

Summary

The Multinational Force-Iraq (MNF-I) has revised its security transition plan numerous times over the past 3 years, as Iraqi security forces and government have not effectively taken over security responsibilities within planned time frames.¹ MNF-I first revised its security transition plan in the summer of 2004 following the collapse of Iraqi security forces during an insurgent uprising. This collapse ensued when MNF-I transferred security responsibilities to Iraqi forces before they were properly trained and equipped to battle insurgents. Under the current security transition plan, MNF-I has established partnerships with Iraqi security forces, is developing Iraqi army units so that they can lead counterinsurgency operations, and is assessing when to transfer security responsibilities to provincial Iraqi governments. After provincial transitions occur, the plan calls for MNF-I forces to move out of urban areas and assume a supporting role.

Overall security conditions in Iraq have continued to deteriorate and have grown more complex despite recent progress in transferring security responsibilities to Iraqi security forces and the Iraqi government. The number of trained and equipped Iraqi security forces has increased from about 174,000 in July 2005 to about 323,000 in December 2006, at the same time as more Iraqi army units have taken the lead for counterinsurgency

¹The multinational force in Iraq was known as Combined Joint Task Force-7 until May 2004.

operations in specific geographic areas. Despite this progress, however, attacks on coalition forces, Iraqi security forces, and civilians have all increased, reaching record highs in October 2006. Because of these conditions, the United States could not draw down U.S. force levels in Iraq as planned in 2004 and 2006, and U.S. forces have continued to conduct combat operations in urban areas, especially Baghdad.

MNF-I Revised Security Transition Plan Because Iraq Could Not Effectively Take Over Security Responsibilities

From the fall of 2003 through April 2006, MNF-I revised its security transition plan a number of times because the Iraqi government and security forces have proved incapable of assuming security responsibilities within the time frames envisioned by the plans. For example, in October 2003, the multinational force outlined a four-phased plan for transferring security missions to Iraqi security forces (see table 1). Citing the growing capability of Iraqi security forces, MNF-I attempted to quickly shift responsibilities to them in February 2004 but did not succeed in this effort. In Baghdad, for example, the coalition forces withdrew to bases outside of the city, giving Iraqi forces greater responsibility for security within the city. In April 2004, however, Iraqi police and military units performed poorly during an escalation of insurgent attacks against the coalition.² Many Iraqi security forces around the country collapsed during this uprising, with some units abandoning their posts and responsibilities and in some cases assisting the insurgency. Following the collapse of Iraqi security forces, MNF-I identified a number of problems that contributed to their poor performance, including problems in training and equipping Iraqi forces, and revised its security transition plan.³

²In March 2004, Iraqi security forces numbered about 203,000, including about 76,000 police, 78,000 facilities protection officers, and about 38,000 in the civilian defense corps. The Departments of State and Defense later stopped including facilities protection officers in their count of Iraqi security forces.

³MNF-I first revised the security transition plan in its August 2004 campaign plan and later in the April 2006 joint MNF-I/U.S. Embassy Baghdad Campaign Plan. Detailed information on these plans is classified. See GAO, *DOD Reports Should Link Economic, Governance, and Security Indicators to Conditions for Stabilizing Iraq*, [GAO-06-152C](#) (Washington, D.C.: Oct. 18, 2005) for classified information on MNF-I's original campaign plan; and *Plans for Stabilizing Iraq*, [GAO-06-673C](#) (Washington, D.C.: July 27, 2006) for classified information on the Joint MNF-I/U.S. Embassy Baghdad Campaign Plan.

Enclosure III: Security Conditions Have Deteriorated as Iraq Has Assumed Additional Security Responsibilities

Table 1: MNF-I’s Initial and Current Plans for Transferring Security Responsibilities to Iraq

Phase	Initial security transition plan (October 2003)	Current security transition plan (2005 and 2006)
Phase I	Mutual support: The multinational force establishes conditions for transferring security responsibilities to Iraqi forces.	Partnership: MNF-I and its major subordinate commands establish and maintain partnerships in all Iraqi security force units, from battalion to ministerial level.
Phase II	Transition to local control: Iraqi forces in a local area assume responsibility for security.	Iraqi army lead: Process during which Iraqi army units progress in capability from unit formation to the ability to conduct counterinsurgency operations in specific geographic areas.
Phase III	Transition to regional control: Iraqi forces are responsible for larger regions.	Provincial Iraqi control: Iraqi civil authorities satisfy the conditions required to assume control and exercise responsibility for the security of their respective provinces.
Phase IV	Transition to strategic over watch: Iraqi forces on a national level are capable of maintaining a secure environment against internal and external threats, with broad monitoring from the multinational force.	Iraqi security self-reliance: The government of Iraq is capable of planning, conducting, and sustaining security operations and forces through its security ministries.

Source: GAO analysis of Combined Joint Task Force–7, DOD, and State documents.

Note: The phases of the current security transition plan may occur at different times throughout Iraq.

As shown in table 1, the current version of the security transition plan includes four phases. During the first phase, which occurred from 2005 through 2006, MNF-I expanded the use of military, police, and other transition teams to assist in the development of Iraqi security forces and ministries, and its major subordinate commands established partnerships with Iraqi military units. In the ongoing second phase, Iraqi army lead, MNF-I is attempting to organize and develop Iraqi army units to the point that they can assume the lead for counterinsurgency operations. Units in the lead, however, still require MNF-I support because they need to develop additional capabilities, particularly in the logistics and combat support areas.⁴ For the third phase, provincial Iraqi control, MNF-I and the Iraqi government determine when Iraqi provinces can assume responsibility for security based on the threat level in the province, the capabilities of the Iraqi security forces and the provincial government, and MNF-I’s ability to respond to major threats, if needed. According to an MNF-I official, as these conditions are met, MNF-I forces will then move out of all urban areas and assume a supporting role.

⁴We recently reviewed U.S. efforts to assist the Iraqi Ministries of Defense and Interior in developing support capabilities, particularly in the areas of logistics, command and control, and intelligence. We plan to report separately on these matters due to the sensitive nature of the information.

Progress in Transferring Security Responsibilities to Iraq Has Not Led to Improved Security Conditions

The security situation has worsened despite progress in implementing the current security transition plan (see fig. 1). For example, the State Department has reported that the number of trained and equipped army and police forces has increased from about 174,000 in July 2005 to about 323,000 in December 2006.⁵ As we previously reported, the number of trained and equipped security forces does not provide a complete picture of their capabilities and may overstate the number of forces on duty.⁶ Ministry of Interior data include police who are absent without leave, but Ministry of Defense data exclude absent military personnel. Moreover, according to DOD's November 2006 report to Congress, due to a lack of standardized personnel strength reporting in the Ministry of Interior, it is unclear how many of the coalition-trained police the ministry still employs, or what percentage of the 180,000 police thought to be on the ministry payroll are coalition trained and equipped.

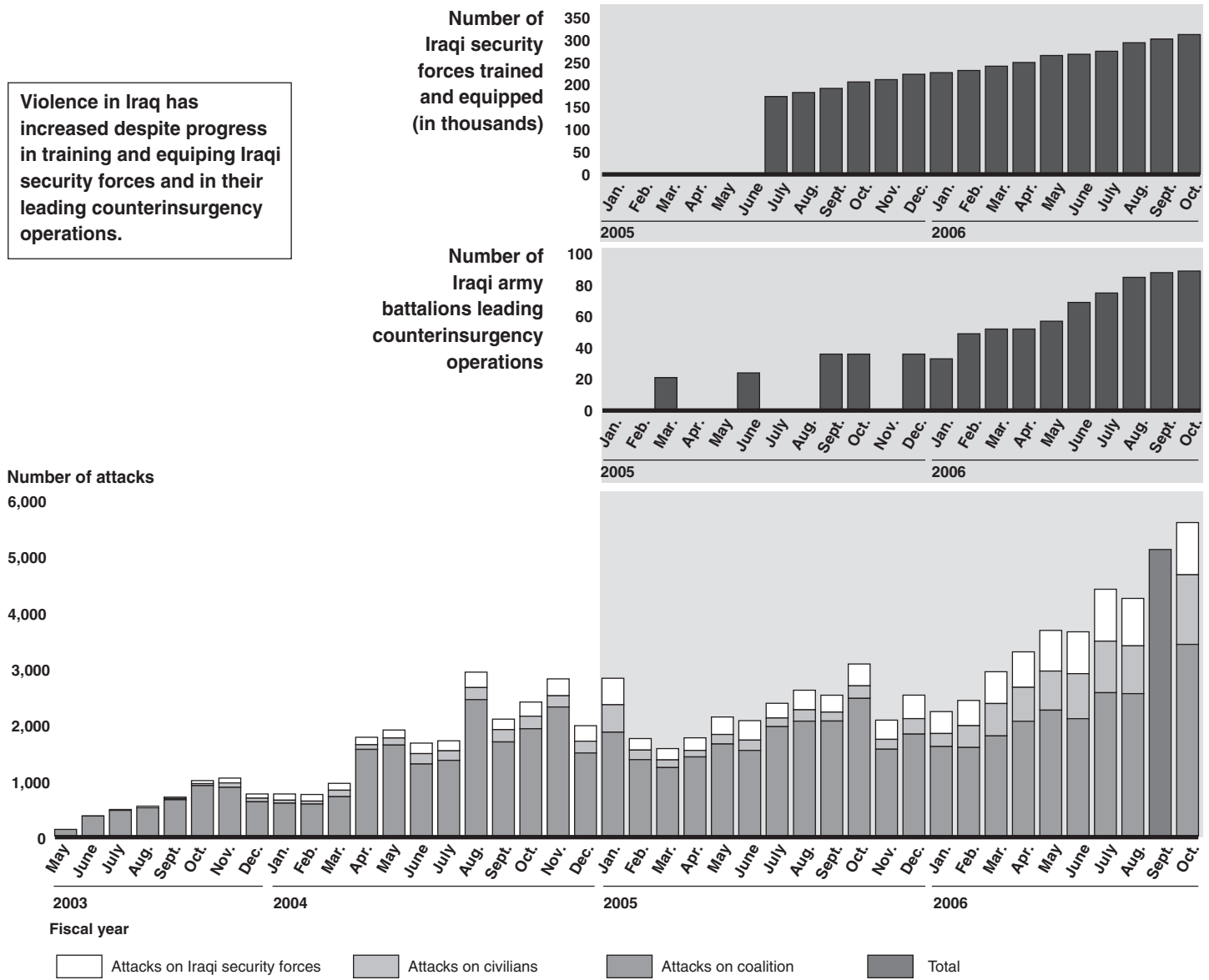
DOD and State also have reported progress in transferring security responsibilities to Iraqi army units and provincial governments. As shown in figure 1, the number of Iraqi army battalions in the lead for counterinsurgency operations has increased from 21 in March 2005 to 89 in October 2006. In addition, 7 Iraqi army division headquarters and 30 brigade headquarters had assumed the lead by December 2006. Moreover, by mid-December 2006, three provincial governments—Muthanna, Dhi Qar, and Najaf—had taken over security responsibilities for their provinces. In November 2006, DOD reported that security responsibility for up to five more provinces could transition to Iraqi government authority by February 2007.

⁵The United States had set a goal of training and equipping about 325,000 Iraqi security forces by December 2006. This figure consists of 137,000 military personnel under the Ministry of Defense and 188,000 Ministry of Interior police and other forces. According to DOD and MNF-I reports, the Prime Minister of Iraq has announced initiatives to man combat units at 110 percent of their authorization levels and to expand the size of the army. If implemented, these moves would raise the end strength of Iraqi security forces to about 362,000 and would extend the training and equipping of Iraqi forces through January 2008.

⁶GAO, *Stabilizing Iraq: An Assessment of the Security Situation*, [GAO-06-1094T](#) (Washington, D.C.: Sept. 11, 2006); and *Rebuilding Iraq: Preliminary Observations on Challenges in Transferring Security Responsibilities to Iraqi Military and Police*, [GAO-05-431T](#) (Washington, D.C.: Mar. 14, 2005).

Enclosure III: Security Conditions Have Deteriorated as Iraq Has Assumed Additional Security Responsibilities

Figure 1: Enemy-Initiated Attacks against the Coalition and Its Iraqi Partners Compared with Progress in Developing Iraqi Security Forces



Sources: Multinational Force-Iraq, DOD and State Reports, and DIA.

Notes: For the number of attacks in September 2006, an unclassified breakout of categories is not available.

As shown in figure 1, the reported progress in transferring security responsibilities to Iraq has not led to improved security conditions. Since

**Enclosure III: Security Conditions Have
Deteriorated as Iraq Has Assumed Additional
Security Responsibilities**

June 2003, overall security conditions in Iraq have deteriorated and grown more complex, as evidenced by the increased numbers of attacks and more recent Sunni-Shi'a sectarian strife after the February 2006 bombing of the Golden Mosque in Samarra. Enemy-initiated attacks against the coalition and its Iraqi partners have continued to increase through October 2006. The average total attacks per day has increased, rising from about 70 per day in January 2006 to about 180 per day in October 2006. These attacks have increased around major religious and political events, including Ramadan⁷ and elections. Coalition forces are still the primary target of attacks, but the number of attacks on Iraqi security forces and civilians also has increased since 2003. In October 2006, the State Department reported that the recent increase in violence has hindered efforts to engage with Iraqi partners and shows the difficulty in making political and economic progress in the absence of adequate security conditions.

Although the Iraqi government and security forces have recently made some progress in taking on security responsibilities, they and MNF-I have been unable to reduce the levels of violence in Iraq. Because of these conditions, the United States has not been able to draw down the number of U.S. forces in Iraq as early as planned. For example, after the increase in violence and collapse of Iraqi security forces during the spring of 2004, DOD decided to maintain a force level of about 138,000 troops until at least the end of 2005, rather than reducing the number of troops to 105,000 by May 2004, as had been announced the prior fall. More recently, DOD reversed a decision to significantly reduce the U.S. force level during the spring of 2006 because Iraqi and coalition forces could not contain the rapidly escalating violence that occurred the following summer. After reducing the number of troops from about 160,000 in December 2005 to about 127,000 in June 2006, the United States increased its force level to 144,000 troops in September and October 2006 and then reduced it to 140,000 the following month.⁸ Moreover, rather than moving out of urban areas, U.S. forces have continued to conduct combat operations in Baghdad and other cities in Iraq, often in conjunction with Iraqi security forces.

⁷Ramadan is the ninth month of the Islamic calendar. Over the past 4 years, Ramadan began about October 27, 2003; October 16, 2004; October 5, 2005; and September 24, 2006.

⁸U.S. force levels for 2005 and 2006 came from Brookings Institution, *Iraq Index: Tracking Variables of Reconstruction & Security in Post-Saddam Iraq* (Washington, D.C: Dec. 21, 2006).

Oversight Questions

- Why have security conditions continued to deteriorate in Iraq even as the number of trained and equipped Iraqi security forces has increased and the Iraqi forces and government have assumed increasing responsibility for security?
- If existing U.S. political, economic, and security measures are not reducing violence in Iraq, what additional measures, if any, will the administration propose to stem the violence and facilitate the achievement of U.S. objectives, including an eventual drawdown of U.S. forces?

GAO Contact

Joseph A. Christoff, Director, International Affairs and Trade, (202) 512-8979 or christoffj@gao.gov.

Enclosure IV: Assessing the Capabilities of the Iraqi Security Forces Is Critical

Issue

Transferring security responsibilities to the Iraqi security forces and provincial governments is a critical part of the U.S. government's strategy in Iraq and key to allowing a drawdown of U.S. forces. Toward this end, the United States has provided about \$15.4 billion to train, equip, and sustain the Iraqi army and police since 2003. However, it is unclear whether U.S. expenditures and efforts are having their intended effect in developing capable forces and whether additional resources are needed. A key measure of the capabilities of Iraqi forces is the Transition Readiness Assessment (TRA) reports prepared by coalition advisors embedded in Iraqi units. These reports serve as the basis for the Multinational Force-Iraq (MNF-I) determination of when a unit is capable of leading counterinsurgency operations and can assume security responsibilities for a specific area. This enclosure (1) assesses limitations in Department of Defense (DOD) and State Department reports on Iraqi security forces, and (2) discusses how unit-level TRA reports provide more comprehensive information on Iraqi security force capabilities.

Summary

Although DOD and State reports indicate progress in the development of Iraqi security forces, the aggregate nature of the reports does not provide comprehensive information on the capabilities and needs of individual units. As of December 2006, MNF-I had trained and equipped approximately 323,000 Iraqi security forces, had assigned specific areas of operations to 128 Iraqi army units, and had transferred security responsibilities to three Iraqi provinces. However, aggregate numbers of trained and equipped forces that are leading operations do not provide information on the capabilities and needs of individual units. This information is found in unit-level TRA reports. These reports provide the coalition commander's professional judgment on an Iraqi unit's capabilities and are based on ratings in personnel, command and control, equipment, sustainment and logistics, training, and leadership. To conduct future work on this issue, GAO has made multiple requests for access to the unit-level TRA reports over the last year. However, DOD has not yet complied with our requests. This serves to limit congressional oversight over the progress achieved toward a critical U.S. objective.

Reports on Iraqi Security Forces Provide Limited Assessments of Capabilities

DOD and State reports provide some information on the development of Iraqi security forces, but they do not provide detailed information on the specific capabilities that affect the readiness levels of individual units. For example, DOD and State provide Congress with weekly and quarterly reports on the progress made in developing capable Iraqi security forces and transferring security responsibilities to the Iraqi army and the Iraqi government. This information is provided in two key areas: (1) the number of trained and equipped forces, and (2) the number of Iraqi army units and provincial governments that have assumed responsibility for security of specific geographic areas.

The State Department reports that the number of trained and equipped Iraqi security forces has increased from about 174,000 in July 2005 to about 323,000 in December 2006.¹ DOD reports that, as of December 5, 2006, 128 Iraqi army units—7 division headquarters, 30 brigade headquarters, and 91 battalions—have assumed the lead for counterinsurgency operations in their areas of responsibility. In addition, Muthanna, Dhi Qar, and Najaf provincial governments assumed security responsibility in July, September, and December 2006, respectively. However, these numbers do not provide a complete picture of Iraqi security forces' capabilities in part because they may overstate the number of forces on duty. For example, Ministry of Interior data include police who are absent without leave, but Ministry of Defense data exclude absent personnel. Moreover, the numbers do not give detailed information on the status of equipment, personnel, training, or leadership. Unit-level TRA reports provide that information. For additional information on the limitations of DOD- and State-reported information on the number of units trained and equipped as well as the transfer of security responsibilities, see enclosure III.

Transition Readiness Assessments Assess Iraqi Security Force Capabilities

MNF-I uses the TRA system to determine when units of the Iraqi security forces can assume the lead for conducting security operations. The TRA is a joint assessment, prepared monthly by the unit's coalition commander and Iraqi commander. According to MNF-I guidance, the purpose of the TRA system is to provide commanders with a method to consistently evaluate units; it also helps to identify factors hindering unit progress, determine resource shortfalls, and make resource allocation decisions.

¹The 2006 number includes special operations forces and support forces.

The basic TRA reports² are used by commanders to determine when an Iraqi army unit is prepared to assume the lead in counterinsurgency operations.

Iraqi army TRA reports contain capabilities ratings in the areas of personnel, command and control, equipment, sustainment/logistics, training, and leadership (see fig. 1). Commanders use the TRA results and their professional judgment to determine a unit's overall readiness level. Each Iraqi army unit is assigned a readiness level of 1 through 4, with 1 being the highest level a unit can achieve. Accordingly,

- level 1 units are capable of planning, executing, and sustaining counterinsurgency operations,
- level 2 units are capable of planning, executing, and sustaining counterinsurgency operations with Iraqi security forces or coalition support,
- level 3 units are partially capable of conducting counterinsurgency operations in conjunction with coalition units, and
- level 4 units are forming or are incapable of conducting counterinsurgency operations.

The TRA reports also include the commanders' estimates of the number of months needed before a unit can assume the lead for counterinsurgency operations. DOD also reports readiness assessments for headquarters service companies, such as engineering and signal units that support combat units.³

²The Iraqi army, national police, Department of Border Enforcement, and strategic infrastructure battalions use the basic TRA format. MNF-I assesses the capability of Iraqi police to perform law enforcement operations using a different TRA report.

³Headquarters service companies are rated levels 1 through 4 based on their ability to provide combat support and combat service support to units.

Enclosure IV: Assessing the Capabilities of the Iraqi Security Forces Is Critical

Figure 1: Transition Readiness Assessment (TRA) Report Form for the Iraqi Army

UNCLASSIFIED

TRANSITION READINESS ASSESSMENT				
Unit: _____ Location: _____		Report Date: _____		
1. Personnel		OVERALL ASSESSMENT <input type="radio"/>		
Overall Manning (assigned-On Hand)	< 50% of auth manning	50-69% of auth manning	70-84% of auth manning	≥85% of auth manning
Officer Manning	< 50% of auth manning	50-69% of auth manning	70-84% of auth manning	≥85% of auth manning
NCO Manning	< 50% of auth manning	50-69% of auth manning	70-84% of auth manning	≥85% of auth manning
Admin	Unable to pay troops	Pay System Established	≥80% Personnel paid	<ul style="list-style-type: none"> • S1/G1 maintains current UMR • ≥90% Personnel paid • ≥80% Personnel paid IAW pay grade
2. Command & Control		OVERALL ASSESSMENT <input type="radio"/>		
Intelligence	No Intelligence capability	Able to process, analyze, disseminate info	Participates in decision-making; develops enemy COAs	Able to conduct Intel based ops
Operations	No operational capability	Able to establish TOC; Maintains situational awareness	Able to send and receive reports/orders from higher/lower echelons	Able to conduct Staff Planning and Execution
Communications	No ability to communicate	Able to establish/maintain internal communications	Able to maintain external communications with higher	<ul style="list-style-type: none"> • HSC Signal Platoon/CO formed • ≥70% personnel MIOS qualified
3. Sustainment/Logistics		OVERALL ASSESSMENT <input type="radio"/>		
Supply (I, III, V, IX)	Secure/Store supplies	Account/Issue items	Forecast/Requisition supplies	Maintain Stockage to meet mission requirements
Maintenance	No Maint. conducted	Conducts PMCS and reports equipment status	<ul style="list-style-type: none"> • Conducts 1st line repair • Request repair parts • 30% Personnel qualified 	<ul style="list-style-type: none"> • ≥70% personnel qualified • Utilizes 2nd line or above Maintenance
Transportation	No organic transport capability	Capable of executing limited transport requirements	Capable of executing essential transport requirements	<ul style="list-style-type: none"> • ≥70% transport personnel driver qualified • Able to conduct independent transport operations
Infrastructure	Temporary Billeting	Statement of Work/Construction has begun	Minimal billeting, administrative and perimeter security infrastructure	Adequate billeting, administrative, mess, motor pool and perimeter security infrastructure
Medical	<ul style="list-style-type: none"> • No treatment capability • No evacuation capability 	<ul style="list-style-type: none"> • Limited treatment capability • Limited evacuation capability 	Able to conduct treatment and evacuation operations with ISF or CF support	Able to conduct treatment and evacuation operations
4. Training		OVERALL ASSESSMENT <input type="radio"/>		
METL	Achieves 'P' or 'T' in <25% of all METL tasks	Achieves 'P' or 'T' in 26%-99% of all METL tasks	Achieves 'P' or 'T' in ALL METL tasks	Capable of planning and executing training to sustain 'P' or 'T' in METL tasks
5. Equipment		OVERALL ASSESSMENT <input type="radio"/>		
EQUIPMENT ON HAND				
Weapons	< 50% of authorization	50-69% of authorization	70-84% of authorization	≥ 85% of authorization
Vehicles	< 50% of authorization	50-69% of authorization	70-84% of authorization	≥ 85% of authorization
Commo	< 50% of authorization	50-69% of authorization	70-84% of authorization	≥ 85% of authorization
OPERATIONAL READINESS				
Weapons	< 50% OR	50-69% of OR	70-84% OR	≥ 85% OR
Vehicles	< 50% OR	50-69% of OR	70-84% OR	≥ 85% OR
Commo	< 50% OR	50-69% of OR	70-84% OR	≥ 85% OR
6. Leadership		OVERALL ASSESSMENT <input type="radio"/>		
Leaders and staff primaries are "capable"	< 50% of leaders and staff primaries	50-69% of leaders and staff primaries	70-84% of leaders and staff primaries	≥ 85% of leaders and staff primaries
7. Performance Capability Assessment:				
Annotate total number of pages attached to this report. See supplemental instructions for required categories.				
<ul style="list-style-type: none"> ■ A Level 1 unit is capable of planning, executing, and sustaining counterinsurgency operations. ■ A Level 2 unit is capable of planning, executing, and sustaining counterinsurgency operations with ISF or coalition support. ■ A Level 3 unit is partially capable of conducting counterinsurgency operations in conjunction with coalition units. ■ A Level 4 unit is forming and/or incapable of conducting counterinsurgency operations. 				
This Unit is Currently Assessed at Level <input type="text" value=""/> and will be ready to assume IAL in _____ months. HSC is assessed at level _____ overall.				
UNCLASSIFIED				

Source: MNF-I.

Finally, the TRA reports include the coalition commander's narrative assessment of the Iraqi unit's overall readiness level, known as the Performance Capability Assessment, which is designed to clarify the overall TRA. The narrative assesses the Iraqi unit's leadership capabilities, combat experience, ability to execute intelligence-based operations, and describes any life support issues affecting the Iraqi unit's capabilities. Commanders must explain and address any regression in the unit's overall TRA level and list the top three issues preventing the unit from assuming the lead for counterinsurgency operations or advancing to the next TRA level. Remarks are intended to provide information and details that will help to resolve the problems that degrade the unit's status.

DOD provided GAO with classified, aggregate information on overall readiness levels for the Iraqi security forces—including an executive-level brief—and information on units in the lead, but has not provided unit-level reports on Iraqi forces' capabilities. According to MNF-I's Deputy Chief of Staff for Strategic Effects, the best measure of the capabilities of Iraqi units and improvements in the security situation comes from commanders on the ground at the lowest level. We previously reported that GAO was working with DOD to obtain the unit-level TRA reports because they would be useful in more fully informing Congress on the capabilities and needs of Iraq's security forces and in indicating how accurately DOD reports reflect the forces' capabilities. As of January 2007, DOD still has not provided GAO with this unit-level TRA data.

Oversight Questions

- Why has DOD not provided GAO and Congress with unit-level TRA reports?
- How does DOD assess the reliability of TRA reports and ensure that they present an accurate picture of Iraqi security forces' capabilities and readiness?
- At what TRA rating level would Iraqi army units not require any U.S. military support? What U.S. military support would Iraqi units still require at TRA levels 1 and 2?
- How does DOD use unit-level TRA reports to assess shortfalls in Iraqi capabilities? What do DOD assessments show about the developmental needs of Iraqi security forces?

-
- How have changes in the TRA system and form affected the standards by which units are assessed? Have changes been made in the degree to which the commanders' subjective judgment is used? If so, why?
 - What threat levels, if any, do commanders assess Iraqi units against when determining a unit's overall readiness rating? Is the threat level used consistently across all units?

GAO Contact

Joseph A. Christoff, Director, International Affairs and Trade, (202) 512-8979 or christoffj@gao.gov.

Enclosure V: DOD May Be Unable to Ensure That U.S.-Funded Equipment Has Reached Iraqi Security Forces

Issue

In the fall of 2003, the Coalition Provisional Authority and Multinational Force-Iraq (MNF-I) shared responsibility for the U.S.-funded train-and-equip program for Iraqi security forces, which include military and police forces.¹ After the collapse of Iraqi forces in the spring of 2004, the United States restructured the multinational force and increased resources to train and equip Iraqi forces. Unlike traditional security assistance programs,² the train-and-equip program in Iraq operates under the authority of the Department of Defense (DOD) and is implemented by MNF-I subordinate commands, including the Multinational Security Transition Command-Iraq (MNSTC-I). Since 2003, the United States has provided \$15.4 billion for Iraqi security forces and law enforcement. According to MNSTC-I records, MNF-I has issued about 480,000 weapons, 30,000 vehicles, and 1.65 million pieces of gear (uniforms, body armor, helmets, and footwear), among other items, to the Iraqi security forces as of October 2006. This enclosure provides information on (1) the laws and regulations governing property accountability that DOD may have applied to the U.S. train-and-equip program in Iraq³ and (2) MNF-I's accountability for U.S.-funded equipment that it has issued to Iraqi security forces. We plan on issuing a final report on these and related intelligence matters by March 2007. Our work focuses on the accountability requirements for the transportation and distribution of U.S.-funded equipment and did not review any requirements relevant to the procurement of this equipment.

Summary

Congress funded the train-and-equip program for Iraq outside traditional security assistance programs, which, according to DOD officials, provided DOD with a large degree of flexibility in managing the program. Since the funding did not go through traditional security assistance programs, the accountability requirements normally applicable to these programs—

¹The Coalition Provisional Authority was the U.N.-recognized authority led by the United States and the United Kingdom that was responsible for the temporary governance of Iraq. Multinational Force-Iraq was known as Combined Joint Task Force-7 until May 2004.

²Traditional security assistance programs operate under State Department authority and are managed in country by the Department of Defense through security assistance organizations under the direction and supervision of the Chief of the U.S. Diplomatic Mission.

³DOD defines accountability as the obligation imposed by law, lawful order, or regulation, accepted by an organization or person for keeping accurate records, to ensure control of property, documents or funds, with or without physical possession (DODI 5000.64, *Accountability and Management of DoD-Owned Equipment and Other Accountable Property*, E2.2).

including the registration of small arms transferred to foreign governments—did not necessarily apply. It is currently unclear what accountability measures, if any, DOD has chosen to apply to the train-and-equip program for Iraq, as DOD officials have expressed differing opinions on this matter. As part of our ongoing work, we have asked DOD to clarify what accountability measures it has chosen to apply to the program.

While it is unclear which regulations DOD has chosen to apply, beginning in early 2004, MNF-I established requirements to control and account for equipment issued to the Iraqi security forces by issuing a series of orders that outlined procedures for its subordinate commands. These included obtaining signed records for equipment received by Iraqi units or individuals and recording weapons serial numbers. Although MNF-I took initial steps to establish property accountability procedures, limitations such as the initial lack of a fully operational equipment distribution network, staffing weaknesses, and the operational demands of equipping the Iraqi forces during war hindered its ability to fully execute critical tasks outlined in the property accountability orders. Since late 2005, MNSTC-I has taken additional steps to improve its property accountability procedures, including establishing property books⁴ for equipment issued to Iraqi Ministry of Defense and Ministry of Interior forces. According to MNSTC-I officials, MNSTC-I also recovered existing documentation for equipment previously issued to Iraqi forces. However, according to our preliminary analysis, DOD and MNF-I may not be able to account for Iraqi security forces' receipt of about 90,000 rifles and about 80,000 pistols which were reported as issued before early October 2005. Thus, DOD and MNF-I may be unable to ensure that Iraqi military forces and police received all of the equipment that the coalition procured or obtained for them.

⁴A property book is a formal set of property accounting records and files.

DOD Has Not Clarified What Accountability Requirements Apply to the Train-and-Equip Program for Iraq

The train-and-equip program for Iraq received U.S. funding from sources other than traditional security assistance programs. These funding mechanisms, according to DOD officials, provided DOD with a large degree of flexibility in managing the program. Congress made funds available for developing Iraqi security forces initially through the Iraq Relief and Reconstruction Fund (IRRF) and later through the Iraq Security Forces Fund (ISFF).⁵ According to DOD officials, because the funding did not go through traditional security assistance programs, the equipment procured with these funds was not necessarily subject to the accountability requirements that normally apply to these programs. As specified in DOD regulations, these requirements include procedures for storing, protecting, transporting, and registering small arms and other sensitive items transferred to foreign governments. For example, the *Security Assistance Management Manual*, which provides guidance for traditional security assistance programs, states that the U.S. government's responsibility for equipment intended for transfer to a foreign government under the Foreign Military Sales program does not cease until the recipient government's official representative assumes final control.⁶ Other regulations referenced by the *Security Assistance Management Manual* prescribe minimum standards and criteria for the physical security of sensitive conventional arms and require the registration of small arms transferred outside DOD control.⁷

It is unclear at this time what accountability measures DOD has chosen to apply to the train-and-equip program for Iraq. For example, DOD officials have expressed differing opinions on whether the DOD regulation on the Small Arms Serialization Program, which requires the entry of small arms serial numbers into a DOD-maintained registry, applies to U.S.-funded

⁵See Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004, P.L. 108-106; Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005, P.L. 109-13; Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006, P.L. 109-234; Department of Defense Appropriations Act, 2007, P.L. 109-289.

⁶See DOD 5105.38-M, *Security Assistance Management Manual*, C7.5. The Foreign Military Sales program is a traditional security assistance program where eligible recipient governments purchase from the U.S. government defense articles, services, or training, often using grants provided under the Foreign Military Financing program.

⁷DOD 5100.76-M, *Physical Security of Sensitive Conventional Arms, Ammunition, and Explosives*, C1.1.1; DOD 4000.25-M, *Defense Logistics Management System*, C18.7.4.3; and DOD 4000.25-2-M, *Military Standard Transaction Reporting and Accounting Procedures*, C12.7.4.3.

equipment procured for Iraqi security forces.⁸ If the regulation does apply, then MNSTC-I would be required to provide the serial numbers of all small arms procured for Iraqi forces to the Small Arms Serialization Program. Although the regulation requirements are unclear, MNSTC-I has recently begun to provide weapons serial numbers to the Small Arms Serialization Program, according to MNSTC-I officials. As part of our ongoing work, we have asked DOD to clarify whether MNF-I and MNSTC-I must follow accountability measures specified in DOD regulations, or whether DOD has established other accountability measures.

Despite MNF-I Accountability Orders, DOD and MNF-I May Be Unable to Fully Account for Weapons Issued to Iraqi Security Forces

While it is unclear which regulations DOD has chosen to apply, MNF-I issued orders to its subordinate commands directing steps to account for all equipment distributed to the Iraqi security forces.⁹ These orders tasked relevant coalition forces to collect property accountability items, including signed hand receipts and weapons serial numbers. For example, MNF-I and one of its subordinate commands, Multinational Corps-Iraq (MNC-I), issued two orders in early 2004¹⁰ that together directed U.S. military units responsible for issuing equipment to the Iraqi security forces to conduct the following procedures, among others:

- record the serial numbers for all sensitive items such as weapons and radios;
- enter relevant information onto a Department of the Army hand receipt form and obtain signatures from receiving Iraqi security forces; and
- submit property accountability information to MNSTC-I.

⁸DOD 4000.25-2-M, *Military Standard Transaction Reporting and Accounting Procedures*, C12.7.4.3; DOD 4000.25-M, *Defense Logistics Management System*, C18.7.4.3.

⁹According to former and current MNSTC-I officials, MNF-I has issued equipment from a variety of sources. The equipment includes items procured with funds from the United States, Iraq, and other coalition countries, as well as weapons captured since the start of Operation Iraqi Freedom and then redistributed to Iraqi forces.

¹⁰MNF-I Directive 04-015, *OST Supply and Equipment Distribution Guidance* (May 2004); MNC-I FRAGO 155 [12 June 2004 DTU] to MNC-I OPORD 04-01, *Iraqi Security Force Property Accountability Requirements* (June 2004).

According to a former MNSTC-I official, hand receipts are critical to maintaining property accountability because they document the particular unit or individual that has control over a specific item.

Although MNSTC-I took initial steps to establish property accountability procedures during 2004 and 2005, MNF-I subordinate commands did not fully execute critical tasks outlined in the property accountability orders due to the length of time necessary to fully develop an equipment distribution network, staffing weaknesses, and the operational demands of equipping the Iraqi forces during war:

- The **length of time** necessary to fully develop the equipment distribution network hampered MNSTC-I's ability to collect and maintain appropriate equipment accountability records. According to former MNSTC-I officials, the equipment distribution network for Iraqi military forces and police, which included national warehouses and regional distribution centers, was initiated during 2004. MNSTC-I took initial steps to put in place accountability procedures at the national level warehouses located at Taji and Abu Ghraib. For example, through the summer of 2004 and into early 2005, MNSTC-I consolidated and recorded existing inventory and established a database to track equipment that the national warehouses received, stored, and shipped. In addition, regional equipment distribution centers, from which MNF-I staff and contractors issued equipment to Iraqi units and maintained records of issue, were established to receive equipment from the national warehouses. These and other efforts, however, did not result in a fully operational distribution network until mid-2005, over 1 year after MNF-I began distributing large quantities of equipment to the Iraqi security forces, according to former MNSTC-I officials.
- According to former MNSTC-I and other officials, **staffing weaknesses** also hindered the development of property accountability procedures. According to the former MNSTC-I commander, several months passed after MNSTC-I's establishment before the command received the needed number of staff. As a consequence, MNSTC-I did not have the personnel necessary to open shipping containers and record information on individual items distributed to Iraqi forces, according to former MNSTC-I officials. Moreover, frequent personnel turnover contributed to communications problems and a loss of institutional memory. For example, some former MNSTC-I staff told us that they were not aware that MNF-I had published a property accountability order in early 2004 for equipment issued to Iraqi security forces.

- The **operational demands** of equipping Iraqi forces during war—including the need to distribute weapons rapidly to Iraqi forces conducting combat operations—limited MNSTC-I’s ability to fully comply with accountability procedures, according to former MNSTC-I officials. For example, during late 2004, according to the former MNSTC-I commander, Iraqi insurgents conducted a campaign of intimidation during which they attacked equipment convoys and killed contractors.

Due to these early limitations, MNF-I subordinate commands did not consistently collect and maintain records of equipment issued to Iraqi security forces. As a result, DOD and MNF-I may be unable to ensure that all of the equipment obtained for the Iraqis reached the intended recipients.

As MNSTC-I’s organization matured, it took additional steps to improve accountability procedures for the equipment provided to Iraqi security forces. Since the fall of 2005, MNSTC-I has collected hand receipts for equipment issued to Iraqi security forces, according to former and current MNSTC-I officials. In addition, in the fall of 2005, MNSTC-I logistics staff established separate electronic property books for the equipment provided to Iraqi Ministry of Defense and Ministry of Interior forces, including records for equipment previously issued to those forces. To create the records for equipment already issued to the Iraqis, MNSTC-I staff relied on contract and shipping records stored at MNSTC-I, according to a former MNSTC-I official. In August 2006, according to MNSTC-I officials, MNSTC-I logistics staff began to build on earlier efforts to improve accountability by recovering records maintained at the Umm Qasr port, the national warehouses at Taji and Abu Ghraib, and the regional distribution centers. The information collected since August 2006 includes hand receipts for many shipments, according to MNSTC-I officials. In addition, since the spring of 2006, MNSTC-I has been consolidating weapons serial numbers into an electronic format. MNSTC-I officials stated that they have begun to submit these numbers to the DOD Small Arms Serialization Program, and are also establishing the basis for a weapons serial number registry for the government of Iraq. MNSTC-I officials stated that as a result of these efforts they can account for most of the weapons procured through coalition funding channels and issued to Iraqi security force units.

Despite the steps MNF-I has taken to improve its accountability procedures, our preliminary analysis indicates that DOD and MNF-I may not be able to account for a number of weapons reported as issued to Iraqi forces. The MNSTC-I property books contain records for about 90,000 rifles and about 90,000 pistols issued to Iraqi forces as of September 22,

2005. These numbers incorporate records MNSTC-I recently recovered from earlier phases of the train-and-equip program for Iraq. However, the former MNSTC-I commander reported that about 180,000 rifles and about 170,000 pistols were issued during the same time frame. According to former and current MNSTC-I officials, weapons obtained with non-U.S. funds may comprise a portion of the difference between these sets of numbers. In addition, MNSTC-I continues to recover records and may be able to account for some part of the difference. However, based on our preliminary analysis, because DOD and MNF-I maintained incomplete records for equipment issued to the Iraqi security forces before the fall of 2005, the numbers reported by the former MNSTC-I commander do not necessarily represent the weapons received by Iraqi security forces. Rather, these numbers indicate weapons tracked at the national warehouses and regional distribution centers, according to former MNSTC-I officials. In addition, former MNC-I property book officers told us they had maintained the required records for weapons their units had issued to Iraqi forces between 2004 and 2006. However, MNF-I officials were unaware of such records when we recently requested them. As a result, DOD and MNF-I may not be able to account for Iraqi security forces' receipt of about 90,000 rifles and about 80,000 pistols that were reported as issued but were not recorded during earlier phases of the train-and-equip program for Iraq. Thus, DOD and MNF-I may be unable to ensure that Iraqi military forces and police received all of the equipment that the United States has procured or obtained for them. In our ongoing review, we will continue to assess MNF-I records for equipment distributed to Iraqi forces.

Oversight Questions

- What are the steps being taken to ensure accountability of U.S.-funded equipment issued to the Iraqi security forces?
- Should DOD formulate property accountability rules and regulations that distinguish between times of peace and war?
- What is the potential for insurgents, militias, or other armed groups to obtain U.S.-funded equipment, including weapons?
- What plans do DOD and the State Department have, if any, for transitioning MNSTC-I to a traditional security assistance organization?

GAO Contact

Joseph A. Christoff, Director, International Affairs and Trade, (202) 512-8979 or christoffj@gao.gov.

Governance Challenges

Enclosure VI: The Iraqi Government Needs to Staff an Effective Civil Service and Fight Corruption

Enclosure VII: Ministry Capacity Development Efforts Need an Integrated Plan

Enclosure VIII: Several Factors Affect Iraqi Ministry Efforts to Spend Capital Budgets

Enclosures IX: Iraq Owes Significant Foreign Debt and Faces Challenges in Meeting IMF Conditions

Enclosure VI: The Iraqi Government Needs to Staff an Effective Civil Service and Fight Corruption

Issue

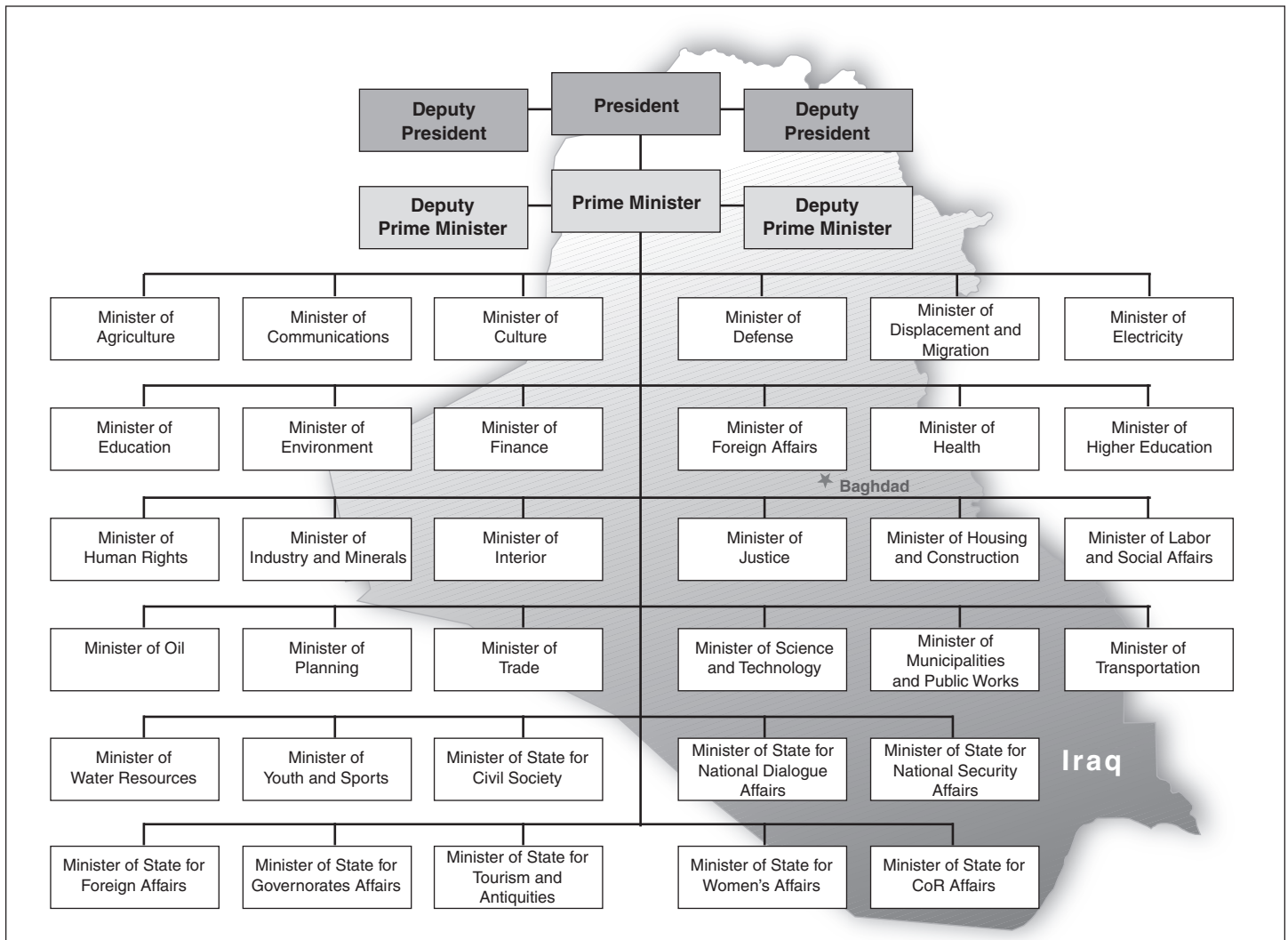
Critical to stabilizing Iraq is ensuring that the nation's central government ministries can provide security to the country and deliver essential government services to all citizens. The Iraqi government has 34 central government ministries that employ an estimated 2 million government workers. The United States has multiple ongoing efforts to strengthen key Iraqi ministries, including programs at the Ministry of Interior and the Ministry of Defense that are implemented by the Department of Defense (DOD). Additional efforts at civilian ministries under the authority of the Department of State and United States Agency for International Development (USAID) are also under way. This enclosure is based on U.S. reports, an assessment by the World Bank, and interviews with U.S. officials.¹ This enclosure discusses U.S. and international assessments of the Iraqi ministries' capacity to (1) build and train a nonpartisan civil service, (2) fight corruption within the ministries, and (3) use technology and effectively manage resources. U.S. and international assessments note that these three critical areas must be strengthened to improve the Iraqi government's ability to provide basic services to its citizens. A classified version of this enclosure will be available in February.

¹See Department of Defense, *Measuring Stability and Security in Iraq* (Washington, D.C.: August 2006 and November 2006); Department of State, *Survey of Anticorruption Programs Embassy Baghdad, Iraq* (Washington, D.C.: August 2006); The World Bank, *Briefing Book for the Government of Iraq Part 1: Key Policy Issues* (Washington, D.C.: July 2006).

Summary

Iraqi government institutions are undeveloped and confront significant challenges in staffing a competent, nonpartisan civil service; effectively fighting corruption; and using modern technology and managing resources effectively. Ministry personnel are frequently selected on the basis of political affiliation rather than competence or skills, and some ministries are under the authority of political parties hostile to the U.S. government. Also, U.S. reports cite widespread corruption in the Iraqi government and a lack of commitment to anti-corruption efforts within the ministries. Finally, reliance on manual processes and antiquated technology hampers efforts to build efficient, modern ministries. Figure 1 provides an organizational chart of the Iraqi executive branch and ministries.

Figure 1: Iraqi Executive Branch and Ministries



Source: State Department.

Iraqi Ministries Lack Trained, Nonpartisan Civil Service

The Iraqi civil service remains hampered by inadequately trained staff whose political and sectarian loyalties jeopardize the ministries' ability to provide basic services and build credibility among Iraqi citizens, according to U.S. government reports and international assessments. According to U.S. officials a significant number of Iraqi ministry staff lack adequate skills, including computer skills. A World Bank assessment notes that political parties play a large role in hiring decisions within the Iraqi government. Also, a U.S. report states that the government ministries and

the associated budgets are used as sources of power for political parties with ministry positions staffed with party cronies as a reward for political loyalty. According to U.S. officials, patronage leads to instability in the civil service as many staff are replaced whenever the government changes or a new minister is named.

Some Iraqi ministries are under the authority of political parties hostile to U.S. goals and use their positions to pursue partisan agendas that conflict with the goal of building a government that represents all ethnic groups. For instance, DOD reports that the Ministry of Interior has been infiltrated by members of the Supreme Council for Islamic Revolution in Iraq or its Badr Organization and Muqtada al-Sadr's Mahdi Army. For example, the Mahdi Army often operates under the authority or approval of Iraqi police to detain, torture, and kill Sunni civilians. According to a November DOD report, steps are being taken to address these issues. The Ministries of Agriculture, Health, Transportation, and Tourism are led by ministers whose allegiance is to al-Sadr. U.S. officials expressed reservations about working in some of these ministries, noting that the effectiveness of programs is hampered by presence of unresponsive or anti-U.S. officials.

Corruption Is a Key Challenge

Corruption in Iraq is reportedly widespread and poses a major challenge to building an effective Iraqi government and could jeopardize future flows of needed international assistance. A World Bank report notes that corruption undermines the government's ability to make effective use of current reconstruction assistance. A 2006 survey by Transparency International ranked Iraq's government as the second most corrupt government in the world. Moreover, between January 2005 and August 2006, 56 officials in Iraq's ministries were either convicted of corruption charges or subject to arrest warrants.

According to U.S. government and World Bank reports, the reasons for corruption in the Iraqi ministries are several, including the following:

- The absence of an effective Iraqi banking system leaves the government dependent on cash transactions.
- The majority of key Iraqi ministries have inadequately transparent, obsolete, or ambiguous procurement systems.
- Key accountability institutions, such as the inspectors general who were installed in each Iraqi ministry in 2004, lack the resources and

independence to operate effectively and consistently.

- The government has no strategy to implement training for its three anti-corruption institutions—the Commission on Public Integrity, the Board of Supreme Audit, and the inspectors general in each ministry.

Furthermore, Embassy Baghdad’s Anticorruption Working Group attributed poor performance by the anti-corruption institutions to the government’s lack of visible and authoritative commitment and engagement.

Most Ministries Lack Technology and Face Challenges in Effectively Managing Resources

The Iraqi ministries lack adequate technology and have difficulty managing their resources, according to U.S. officials and an international assessment. For example, U.S. officials said that the Ministry of Interior relies on manual processes, such as hand-written ledgers and a cash-based payroll system, which have resulted in Iraqi police leaving their posts to deliver paychecks to their families. U.S. officials also said that the Iraqi ministries lack the technology to effectively disseminate information among offices and ministries within the Iraqi government. Finally, a U.S. contractor with a training center in Baghdad noted that the lack of communication technology at the Iraqi ministries increases the risk faced by staff and Iraqi trainees by requiring them to undertake dangerous travel to the National Training Center in Baghdad. This could be obviated through remote or offsite training via video conferences or other computer-based training.

U.S. officials said that the Iraqi ministries have limited capability to manage personnel, and that the Ministry of Interior has limited control of local and provincial police and that loyalty to officials in Baghdad is questionable. For example, the World Bank report states that the Iraqi government pays salaries to nonexistent, or “ghost employees,” that are collected by other officials. According to U.S. officials 20 percent to 30 percent of the Ministry of Interior staff are “ghost employees.” Also, many key ministries have been unable to expend budget resources on capital improvements and are running large surpluses due in part to an ineffective procurement process and the inability to carry out fair, competitive contracting, according to U.S. officials. Finally, U.S. officials said that the civilian ministries need assistance developing long-term and strategic plans, including the ability to plan for and execute capital expenditures.

Oversight Questions

- Given the level of corruption, partisanship, and sectarian loyalties in various ministries, what efforts are being made to ensure that U.S.

Enclosure VI: The Iraqi Government Needs to Staff an Effective Civil Service and Fight Corruption

resources, equipment, and training are appropriately used and are not used to support a single group's agenda?

- How can the United States ensure that the Iraqi government initiates and sustains effective anti-corruption efforts within the ministries?
- Given the limited capacity of the Iraqi ministries to effectively manage government resources, can the Iraqi government effectively absorb significant levels of future U.S. and international assistance?

GAO Contact

Joseph A. Christoff, Director, International Affairs and Trade, (202) 512-8979 or christoffj@gao.gov.

Enclosure VII: Ministry Capacity Development Efforts Need Integrated Plan

Issue

Developing the capacity of Iraq's national ministries to effectively provide security and deliver essential services is critical to U.S. efforts to help Iraq build a legitimate sustainable government. According to U.S. and Coalition Provisional Authority (CPA) assessments and officials, years of neglect, a highly centralized decision-making system under the former regime, and the looting of ministries in 2003 have decimated Iraq's government ministries. Since then, the United States and other donor partners have attempted to strengthen the ministries. Current U.S. activities include efforts targeting 10 key civilian ministries with funding totaling about \$126 million; transition efforts at the Ministries of Defense and Interior with funding of \$43 million; and additional projects by several U.S. agencies. This enclosure (1) assesses the status of U.S. capacity development efforts, (2) examines overall leadership and coordination of these efforts, and (3) describes the metrics used to assess progress. We are continuing to review these issues and will report further on them in the spring of 2007.

Summary

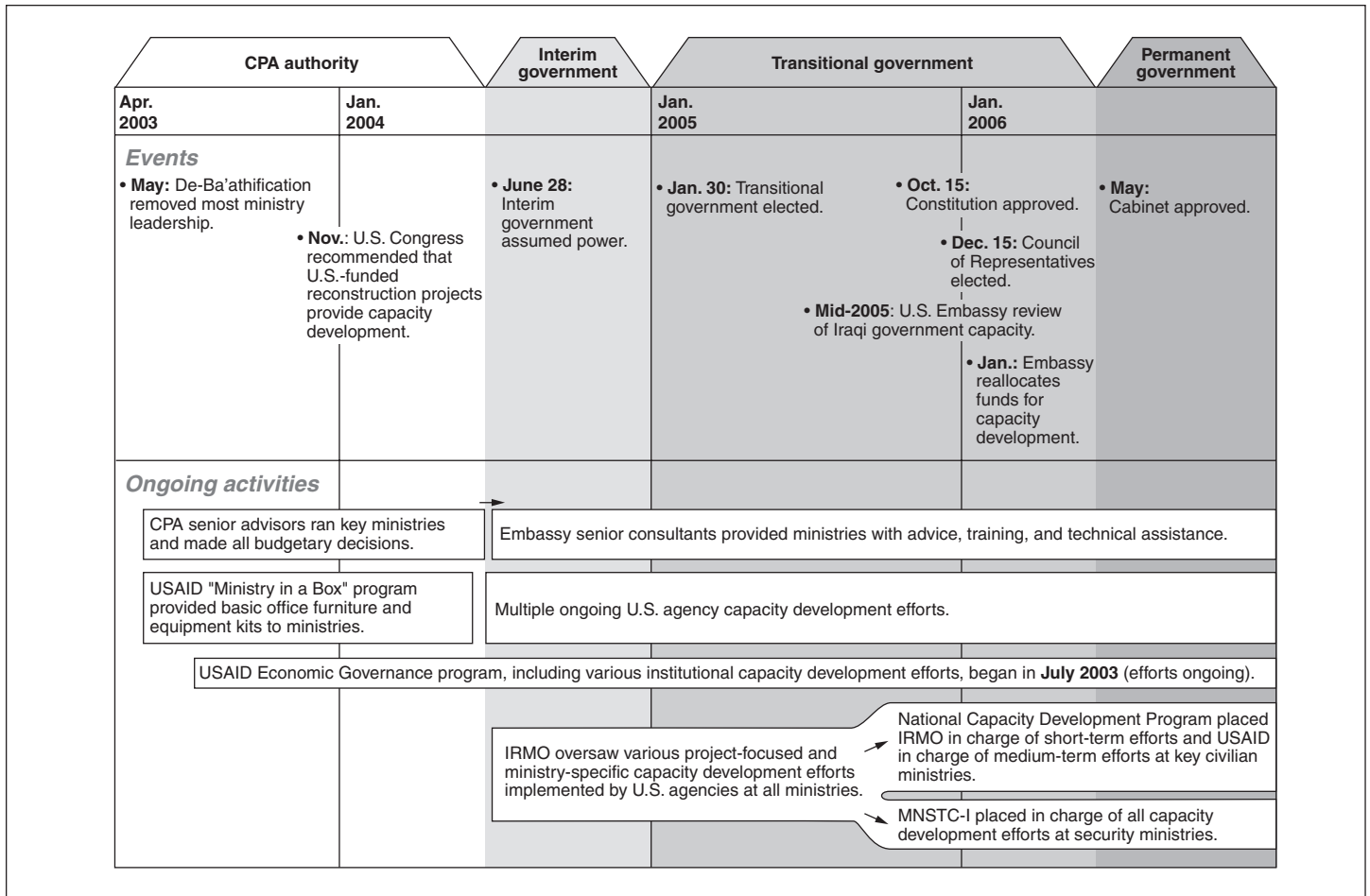
The U.S. government lacks a plan that integrates current efforts to improve Iraq's capacity to provide security and deliver essential services. Although the National Strategy for Victory in Iraq and related policy documents guide all U.S. efforts in Iraq, the United States lacks a specific plan for its capacity development efforts that includes milestones and agreed-upon metrics, integrates all U.S. and coalition efforts, and incorporates Iraqi governmentwide capacity objectives. We identified more than 50 U.S. efforts led by at least six U.S. agencies; however, it is unclear how these efforts address core needs and Iraqi priorities in the absence of an integrated U.S. plan. U.S. officials note that the Iraqi government has taken an increasing leadership role in capacity development efforts in recent months and that coordination of U.S. efforts has improved. However, questions still remain about the extent of Iraqi leadership and ownership of these efforts. Moreover, it is uncertain how the U.S. will make the transition from the temporary U.S. entities leading these efforts to those having permanent post-conflict responsibilities. Finally, U.S. agencies are still developing the metrics to assess progress and effectiveness. After an initial U.S. Embassy effort was deemed inadequate, several efforts are ongoing.

Capacity Development Efforts Lack Integrated Plan

In its efforts to develop the capacity of Iraqi ministries, the United States lacks a plan that includes milestones and agreed-upon metrics, integrates all U.S. and coalition efforts, and incorporates Iraqi governmentwide capacity objectives. Overall U.S. activities in Iraq are guided by the April 2006 Joint Campaign Plan issued by Embassy Baghdad and the Multinational Force-Iraq (MNF-I), the Joint Campaign Action Plan, the National Strategy for Supporting Iraq (updated January 2006), and Iraq's National Development Strategy 2005-2007. However, there is no specific plan for capacity development that considers and integrates all U.S. efforts, according to U.S. officials. A mid-2005 U.S. Embassy assessment first identified the need for a broad, integrated approach. Multiple U.S. agencies had been conducting capacity development efforts since 2003 at individual ministries; however, most of these efforts focused on helping Iraqi officials assume responsibility for sustaining new and restored infrastructure. (Fig. 1 illustrates U.S. capacity development efforts in Iraq since 2003.) In June 2004, CPA reported that all Iraqi ministries had graduated and were capable of managing the Iraqi government.

**Enclosure VII: Ministry Capacity Development
Efforts Need Integrated Plan**

Figure 1: Key U.S. Efforts to Improve Iraqi Ministerial Capacity



Source: GAO analysis of relevant documents and interviews with U.S. government officials.

The mid-2005 assessment and subsequent reviews by the State Department concluded, however, that a broader, Iraqi-led capacity development program with an integrated approach was needed to strengthen the ministries. The embassy conceived a National Capacity Development Program (NCDP) in late 2005. The program called for the U.S. Embassy to assess the current capacity of the ministries in conjunction with the Iraqi government, identify core needs, and work with the Iraqi government to develop a governmentwide strategy. The Multinational Security Transition Command-Iraq (MNSTC-I) assumed responsibility for capacity development at the Ministries of Defense and Interior. Plans to integrate

capacity development efforts at the security and civilian ministries for core common needs, such as budgeting, are ongoing.

As of December 2006, we identified more than 50 capacity development efforts led by at least six U.S. agencies, including 18 programs launched under the NCDP. However, it is unclear how these efforts are addressing core needs and Iraqi priorities in the absence of an integrated U.S. plan. The State Department's Iraq Reconstruction Management Office (IRMO) coordinates the overall effort, which targets 10 key civilian ministries, and is spending \$61.5 million for short-term projects, such as providing English-language training for Iraqi officials, developing a new media center for the Prime Minister's office, and adding budget and procurement components to Iraq's financial management information system, which the U.S. Agency for International Development (USAID) is responsible for implementing. USAID is also implementing a \$65 million medium-term effort initially focused on training the Iraqi civil service. A range of U.S. Army Corps of Engineers projects also currently provide capacity development and technical training at six ministries, including the Ministries of Electricity and Oil. According to U.S. officials and documents, IRMO has begun to identify all U.S. capacity development efforts to develop a comprehensive plan.

The Iraqi government has not developed a governmentwide plan for capacity development that includes core objectives and appropriate benchmarks to measure progress. According to IRMO officials, the U.S. government worked with Iraqis to incorporate Iraq's priorities into current capacity development efforts and to validate these efforts. Nonetheless, a governmentwide capacity development plan for Iraq does not exist. USAID is responsible for helping the government of Iraq to create this plan as part of its longer-term work to strengthen key public administration functions. It is uncertain if the plan will be developed. The contractor responsible for helping with the plan stated that the lack of a central coordinating entity for the government of Iraq, combined with a lack of access at certain ministries, could hamper U.S. efforts. Moreover, only a few ministries, including the Ministries of Defense and Interior, have developed action plans to address core needs and priorities.

Questions Remain about Iraqi Leadership and U.S. Agency Roles and Responsibilities

Questions remain about the extent of Iraqi government leadership and ownership in current capacity development efforts. To ensure Iraqi ownership, a representative from the Iraq Ministry of Planning was to lead the overall effort as chair of the multinational Capacity Development Working Group formed in late 2005 to guide overall efforts. According to IRMO officials, the Iraqi government has become increasingly involved since the permanent government was finalized in May 2006. However, a representative from the Ministry of Planning did not attend any working group meetings until October 2006, according to U.S. officials.

In addition, Ministry Assistance Teams (MAT), comprised of representatives from the Iraqi ministries, the U.S. government, and donor partners, were to create capacity development action plans and to guide and monitor efforts. However, one U.S. official stated that the MATs were largely a planning concept. Other officials noted that Iraqi participation in the MATs was uncertain, as in some cases U.S. advisers completed work that was to be done by Iraqi counterparts. Another official told GAO that membership on the MATs is informal and ad hoc, with relevant representatives participating as needed to address specific issues.

All U.S. capacity development efforts are being coordinated by a joint U.S. government task force. According to U.S. officials, early meetings of the task force involved information sharing rather than coordination. However, U.S. officials stated that the current objectives of the task force include identifying issues, critical paths, and potential overlap in U.S. capacity development efforts. Meetings held since the beginning of November 2006 have helped clarify questions between USAID and IRMO on project-specific issues. Although coordination mechanisms exist, the U.S. agencies' roles and responsibilities for capacity development and for transition to normal post-conflict operations are uncertain:

- IRMO was established as a temporary organization by National Security Presidential Directive 36 in May 2004 and has responsibility for coordination, policy direction, and short-term capacity development efforts. U.S. officials questioned whether IRMO, as coordinator of all U.S. capacity development efforts, should also be implementing programs. In addition, one of IRMO's short-term projects includes providing training on principles of transparent procurement to Iraqi government officials. USAID has also delivered procurement training to Iraqi government officials through its efforts to train the Iraqi civil service, according to a high-level contractor. According to a senior State Department official, although IRMO was expected to cease operations in 2007, it is likely that its authority is going to be extended. However, it is unclear how IRMO will

transition responsibility for capacity development to USAID when it eventually ceases operations.

- MNSTC-I is a temporary organization with more than 130 personnel and contractors that is responsible for leading capacity development at the Ministries of Defense and Interior. However, it is unclear how it will transition these efforts to an embassy-run post-conflict security assistance effort and a civilian-led rule of law program. According to a senior State Department official, U.S. support for the Ministry of Interior is scheduled to transition to State in fiscal year 2007.

U.S. Metrics to Assess Ministerial Effectiveness Are Still Being Developed

U.S. government agencies have developed multiple tools to assess capacity and measure progress at the Iraqi ministries. For example, IRMO developed an initial set of metrics in late 2005 to assess six core functions common to 10 key civilian ministries and 2 security ministries. However, the government of Iraq did not participate in developing these metrics, according to an embassy document. U.S. officials also noted that these metrics were not based on internationally accepted approaches for measuring capacity. The metrics were dropped in early 2006 after they were deemed insufficient for their purpose at certain ministries, according to some U.S. government officials.

Since then, at least three separate sets of metrics have been initiated or are under development. First, in mid-2006, MNF-I began monthly assessments of the capacity of the security ministries to perform nine key functions, such as planning, logistics, and budgeting. Second, IRMO completed a baseline assessment of the key civilian ministries in August 2006, using a new, more detailed ministry capacity assessment that gauges nine core functions, such as the ability to plan and to stem corruption. Third, USAID is developing a ministry self-assessment tool that will help determine Iraqi needs and how USAID will address these needs in its medium-term programs. The assessment also could inform an overall capacity development plan for the government of Iraq.

Questions for Oversight

- What progress has been made in developing an overall integrated plan for capacity development in conjunction with the government of Iraq and the international community?
- To what extent have U.S. efforts to improve Iraq's capacity to provide essential services incorporated lessons learned that have been cited by the World Bank and other international development organizations, such as

the need to establish host-nation ownership?

- How are IRMO, USAID, and DOD clarifying their roles and responsibilities in Iraqi capacity development efforts? What are they doing to ensure there are no gaps or duplicative efforts in the U.S. program?
- How are U.S. agencies developing, coordinating, and reporting metrics for assessing the effectiveness of U.S. assistance to Iraq's ministries? How is the U.S. government validating the usefulness of its capacity development metrics?

GAO Contact

Joseph A. Christoff, Director, International Affairs and Trade,
(202) 512-8979 or christoffj@gao.gov.

Enclosure VIII: Several Factors Affect Iraqi Ministry Efforts to Spend Capital Budgets

Issue

When the Iraqi government assumed control over its finances in 2004, it became responsible for determining how more than \$25 billion annually in government revenues would be collected and spent to rebuild the country and operate the government. However, the government faces difficulties in spending budgeted funds for capital goods and projects in the security, oil, and electricity sectors. In this enclosure, we discuss (1) the factors affecting the Iraqi ministries' efforts to spend approved budgets, and (2) U.S. government efforts to address Iraq's budget execution problems.

Summary

Sound government budgeting practices can help determine the priorities of the new government, provide transparency on government operations, and help decision makers weigh competing demands for limited resources. However, unclear budgeting and procurement rules have affected Iraq's efforts to spend capital budgets effectively and efficiently. The inability to spend the money raises serious questions for the government, which has to demonstrate to citizens who are skeptical that it can improve basic services and make a difference in their daily lives. The U.S. government has launched a series of initiatives in conjunction with other donors to address this issue and improve ministry budget execution.

Iraq Has Spent Little of Its Annual Capital Budget

As of August 2006, the government of Iraq had spent, on average, 8 percent of its annual capital goods budget and 14 percent of its annual capital projects budget. Iraq's fiscal year begins on January 1 of each year. Some of the weakest spending occurs at the Ministry of Oil, which relies on damaged and outdated infrastructure to produce the oil that provides nearly all of the country's revenues (see table 1).

Enclosure VIII: Several Factors Affect Iraqi Ministry Efforts to Spend Capital Budgets

Table 1: 2006 Annual Iraq Budget and Actual Expenditures through August 2006

Dollars in millions

Ministry	2006 Annual Budget			Expenditures through August 2006		
	Capital goods	Capital projects	Total budget	Capital goods	Capital projects	Total budget
Finance	\$10	\$33	\$16,506	\$1	\$74	\$8,895
Planning	4	27	55	0.4	3	9
Interior	233	27	1,919	25	0.2	958
Defense	864	33	3,443	12	0.0	831
Oil	2	3,533	3,590	0.4	4	40
Electricity	4	767	840	0.3	267	279
Water	0.2	200	259	0.0	49	78
Justice	3	10	74	2	0.2	34
Others	272	1,552	7,290	77	480	3,501
Total	\$1,392	\$6,181	\$33,975	\$117 (8.4%)	\$87 (14.2%)	\$14,623 (43%)

Source: GAO analysis of Iraqi budget data.

Since most of the \$34.5 billion in reconstruction funds provided between fiscal year 2003 and 2006 have been obligated, unexpended Iraqi funds represent an important source of additional financing. The capital goods budgets of the Interior and Defense ministries were intended for the purchase of weapons, ammunition, and vehicles, among other items. However, as of August 2006, Interior and Defense had spent only about 11 percent and 1 percent, respectively, of these budgeted funds. The Ministry of Oil's \$3.5 billion 2006 capital project's budget targeted key enhancements to the country's oil production, distribution, and export facilities. As of August 2006, the ministry had spent less than 1 percent of these budgeted funds.

Lack of Clear Budget and Procurement Rules Affect Ministry Efforts to Spend Budgets

According to U.S. officials, Iraq lacks the clearly defined and consistently applied budget and procurement rules that are needed for effective budget planning and implementation. The Iraqi ministries are guided by complex and conflicting sets of laws and regulations, including those implemented under Saddam Hussein, the Coalition Provisional Authority (CPA), and by the current government. According to State officials, the lack of agreed-upon procurement and budgeting rules causes confusion among ministry officials and creates opportunities for corruption and mismanagement.

The World Bank and U.S. Treasury also identified the following budget and financial management problems:

- Ministries do not submit budget execution reports on a timely or complete basis. The Kurdistan Regional Government receives block grants from the central government but does not provide budget execution reports to the central government.
- Reconciliation of government accounts is impossible because the government lacks consolidated information on the balances in government bank accounts or on the exact number of these accounts.
- Donor-financed expenditures take place directly with ministries and outside the budget process. As a result, the Ministry of Finance has limited information on the activities of Iraq's donors.
- Provincial governments do not provide an accounting of the funds they receive (\$2 billion in 2006 and slated to increase to \$2.9 billion in 2007).

The World Bank also found that Iraq's procurement procedures and practices are not in line with generally accepted public procurement practices, such as effective bid protest mechanisms and transparency on final contract awards.¹

U.S. Government and Donors Have Made Efforts to Address Budget Execution Challenges

The U.S. government, World Bank, and International Monetary Fund (IMF) have taken steps to address some of the existing deficiencies in ministry budget planning and execution. U.S. government officials stated that reform of budget and procurement processes is urgently needed but would be challenging due to the cultural resistance to change within the ministries.

The U.S. Embassy has formed a "budget execution" task force charged with mapping out current ministry budgeting and procurement procedures to help ministry officials and external parties understand how their budgets are planned and implemented. This task force will identify the "rules of the road" for key agencies and help them streamline budget procedures. Treasury and the U.S. Agency for International Development (USAID) are also working with the Ministry of Finance to implement a

¹World Bank, *IRAQ: Operation Procurement Review* (June 2005).

state-of-the-art financial management information system to provide it with more complete and timely information on ministry budgets.

The United States, World Bank, IMF, and other donors are also planning additional steps to strengthen Iraq's budget and procurement processes. First, the United States and other donors are training Ministry of Finance staff on budget preparation and execution. Second, according to U.S. officials, the IMF and World Bank helped implement a new budget classification system that is being used for the 2007 budget. This is an important step since it creates an accounting system for the entire government and provides a sound basis for budgeting and planning. (See enclosure X on Iraq's debt and progress in meeting international economic milestones). Third, the World Bank recommends bringing all donor projects into the budget by means of a unified reporting framework and reflecting this information in the Donor Assistance Database, a database of donor commitments and projects.

Over the longer term, the World Bank recommends that Iraq's budget include all of the government's significant revenues and expenditures—including the full economic costs of the oil subsidies, which are currently excluded. The Bank also recommended that the international donor community help the Ministry of Finance, inspector general offices, and Board of Supreme Audit provide greater oversight of budgeted and expended funds.

Oversight Questions

- What are the key challenges that Iraq's government faces in planning and managing budgets and procurement in the near term and in the future?
- What strategy guides U.S. efforts to build Iraqi ministry capacity to plan and execute budgets? Are the roles and responsibilities of the various U.S. agencies, international donors, and Iraqi ministries involved in these budget execution efforts clearly defined?
- What types of assistance has the United States provided to improve ministry capacity to plan and implement budgets. What is the impact of this assistance?
- Given the large unspent capital budgets, why should additional U.S. reconstruction assistance be provided to Iraq?

GAO Contact

Joseph A. Christoff, Director, International Affairs and Trade, (202) 512-8979 or christoffj@gao.gov.

Enclosure IX: Iraq Owes Significant Foreign Debt and Faces Challenges in Meeting IMF Conditions

Issue

Iraq has significant foreign debt remaining from the Saddam Hussein regime, which presents financial challenges for Iraq's reconstruction and economic development. Although Iraq has negotiated some debt restructuring under an IMF reform program, implementing these reforms is challenging and, as of December 2006, has not been wholly successful. Nonetheless, Iraq's progress in economic development is tied to the reforms and the debt reduction they secure. This enclosure describes (1) the nature and extent of Iraq's debt and (2) challenges that Iraq faces in implementing economic reforms to secure additional debt restructuring.

Summary

The United States has led efforts to forgive Iraq's bilateral debt and to secure greater debt relief and foreign assistance in exchange for political and economic reforms. At the end of 2004, Iraq owed about \$120 billion to foreign creditors—an amount almost five times the size of its economy. The country owed about \$36 billion to official creditors that were members of the Paris Club, a group of 19 creditor nations that includes the United States. In 2004, Paris Club members made a commitment to forgive 80 percent of that debt. As part of this effort, the United States forgave all of Iraq's outstanding debt (\$4.1 billion). However, the majority of Iraq's debt—about \$69 billion—is owed to non-Paris Club countries, particularly those in the Persian Gulf region, such as Saudi Arabia. Negotiations with non-Paris Club countries are ongoing. Iraq's foreign debt at the end of 2006 is estimated at about \$89 billion—almost twice the size of its economy.

As a condition of Paris Club debt relief, Iraq agreed to follow a reform program developed by the International Monetary Fund (IMF). The IMF program stipulates a series of reforms that Iraq must undertake to qualify for debt relief and access to IMF funds. The reforms are intended to help Iraq restructure its economy, spark economic development, and attract investment. However, some of these reforms are challenging to implement due to the difficult security situation in Iraq and the government's relative inexperience. In addition, the Iraqi government has not been able to complete all of the reforms stipulated under the IMF agreement, such as completing a census of government employees. The IMF, however, allowed Iraq to reschedule implementation of the reforms.

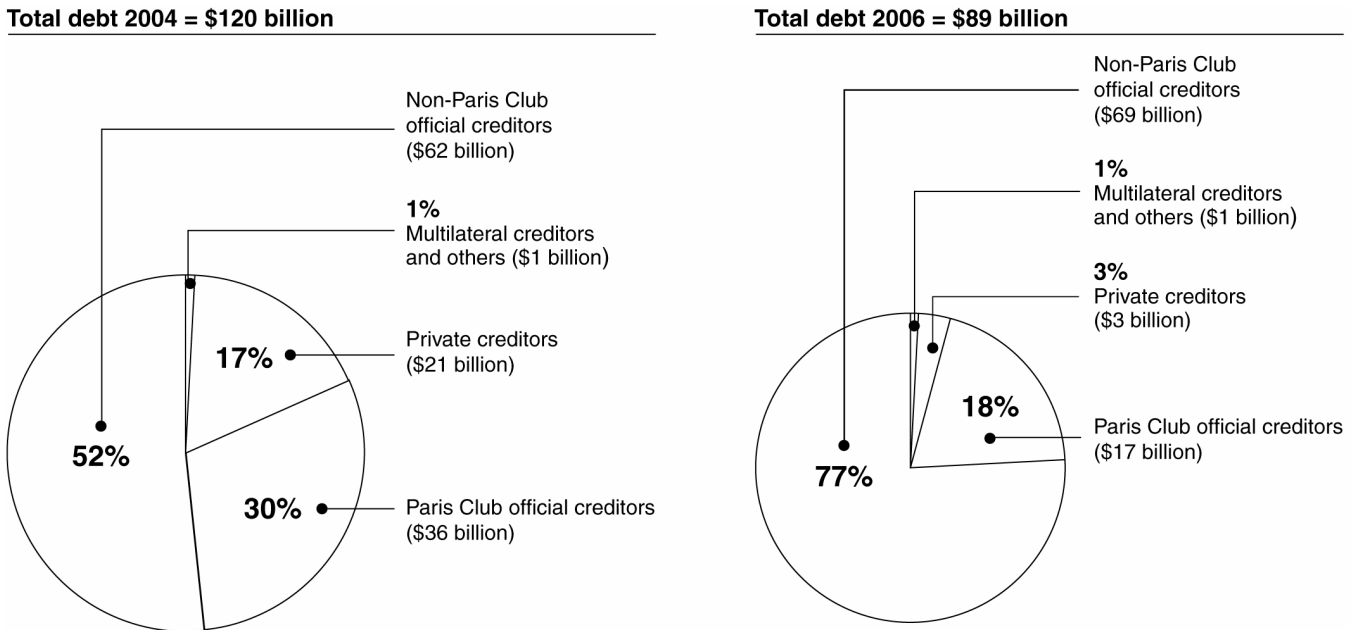
Debt Reduction Has Been Promised, with Conditions

After Saddam Hussein's regime fell in 2003, Iraq's international creditors sought payment on the nearly \$120 billion in outstanding debt owed them. This outstanding debt was nearly five times the size of Iraq's economy in 2004 and was believed to inhibit Iraq's ability to attract the investment needed to finance its economic reconstruction. Figure 1 shows that official

Enclosure IX: Iraq Owes Significant Foreign Debt and Faces Challenges in Meeting IMF Conditions

Paris Club creditors—including the United States, United Kingdom, France, Japan, Russia, and 14 other countries—accounted for about \$36 billion (30 percent) of Iraq’s total foreign debt in 2004. However, the largest amount (about \$62 billion) was owed to non-Paris Club bilateral creditors, particularly Persian Gulf states such as Saudi Arabia and Kuwait.¹ The remaining debt was held by private creditors and multinational creditors.

Figure 1: Change in Iraq’s Debt, 2004 to 2006



Source: GAO analysis of International Monetary Fund and U.S. Treasury Department data.

Note: Summations may differ from totals due to rounding. Non-Paris Club official creditor debt is based on estimates since it has not been reconciled. The estimate of this debt for 2004 was made by the IMF, while the estimate for 2006 was provided by the U.S. Treasury Department.

¹Most of the debt to Persian Gulf states is for financial assistance offered to the former Saddam Hussein regime during the 1980-1988 Iraq-Iran war.

Iraq has engaged its creditors in negotiations to restructure and forgive portions of its foreign debt.² Paris Club official creditors agreed to reduce Iraq's outstanding debt by 80 percent over three phases, one of the largest debt reductions ever agreed to by the Paris Club creditors. The United States, a member of the Paris Club, forgave all of Iraq's outstanding debt (\$4.1 billion) in December 2004. Iraq received the first 30-percent tranche when it agreed to an IMF Emergency Post-Conflict Assistance program in November 2004. The second 30-percent tranche took effect in December 2005 when Iraq agreed to a stand-by arrangement with the IMF. Iraq will receive the remaining 20-percent reduction following satisfactory performance for 3 years under the IMF reform program. Iraq cleared its arrears with the IMF and World Bank in 2004. By the end of July 2006, Iraq had settled almost \$20 billion in private creditor claims, receiving overall (private) debt reduction of more than 80 percent. The Iraq Minister of Finance stated that the pace and scale of the commercial debt restructuring program was unprecedented.

However, even with Paris Club, private, and multilateral debt reductions, at the end of 2006, Iraq will still owe foreign creditors about \$89 billion—almost twice the size of its economy. In addition, Iraq owes an additional \$31 billion in compensation claims for damages and losses resulting from Iraq's invasion and occupation of Kuwait in 1990. Iraq is continuing to negotiate with other countries outside the Paris Club, including its largest creditors from the Persian Gulf region and China. It is unclear whether certain economic or political conditions may be requested by creditors to forgive or restructure this outstanding debt. U.S. government officials stated that political factors, not progress on the IMF program, will ultimately determine the degree to which Iraq succeeds in negotiating debt relief on the amounts owed to the Gulf states. Given the large share of Iraq's outstanding debt, these negotiations and their outcome represent an important factor that could affect Iraq's reconstruction and economic development efforts. As part of a larger effort to assist Iraq's economic development, the United States is strongly supporting efforts by the U.N. and Iraq to create an "International Compact for Iraq." The compact is

²In 1990, the United Nations (UN) imposed economic sanctions on Iraq following the invasion of Kuwait. The Iraqi government subsequently defaulted on its debts to the United States and other international creditors. Following the end of major combat operations in May 2003, the UN lifted sanctions and sheltered Iraq from certain debt claims. UN Security Council Resolution 1483 decided that, until December 31, 2007, Iraqi petroleum, natural gas, and petroleum products shall generally be immune from legal proceedings against them.

aimed at providing greater debt relief and foreign assistance in exchange for political and economic reforms. However, this initiative, launched in the fall of 2006, is still being negotiated.

Iraq Has Met Some IMF Targets, but Others Are More Challenging

To achieve debt restructuring, Iraq agreed to implement IMF conditions that stipulate specific economic reforms and milestones that the government needs to meet. The central objective of these reforms is to maintain macroeconomic stability with sustainable growth over the medium term. These conditions are contained in the IMF stand-by arrangement, which was approved in December 2005 and in subsequent reviews of the stand-by arrangement in July 2006. They include a wide range of reforms such as reducing the subsidies on petroleum products (e.g., raising prices of gasoline, kerosene, and similar products), limiting the budget deficit, and developing financial systems and audits that adhere to international standards.

The new Iraqi government affirmed its commitment to the IMF program that had been agreed to by the transitional government. However, due to the delay in forming a permanent government and the inherent challenges in implementing economic reforms in the midst of an active insurgency, the government did not meet all its commitments, according to the IMF. Table 1 provides a selective list of conditions for Iraq and their status.

Table 1: Status of Selected IMF Conditions for Iraq Debt Restructuring

IMF condition	Status
Government budget deficit maintained below specific levels	Iraq has maintained a budget surplus, due in part to the lack of spending by certain ministries of their capital budgets (see enclosure 8).
Ceiling on government imports of petroleum products	Iraq has reached the agreed-upon ceiling for the cost of these imports (\$2.8 billion in 2006) and has requested a waiver from the IMF to import more. Since refinery capacity remains limited, this will likely be a problem in the future. The government committed to allow private imports of diesel, kerosene, and other fuel products to increase supplies and allow prices to rise to neighboring country levels (see enclosure 10).
Reduced subsidies on petroleum products (gasoline, LPG, kerosene, diesel)	The government has increased prices on fuel products twice—once in 2005 and again in June 2006—to keep them roughly in line with the IMF program. For example, the price of kerosene was increased from \$0.01 to \$0.19 per gallon and the price of gasoline from \$0.05 to \$0.40 per gallon in June 2006. Further price increases are necessary to reduce price differentials with neighboring countries, but domestic fuel prices may still remain below prices in neighboring countries, according to the World Bank.

Enclosure IX: Iraq Owes Significant Foreign Debt and Faces Challenges in Meeting IMF Conditions

IMF condition	Status
Adoption of a government budget classification and chart of accounts in line with IMF standards	Scheduled for completion June 30, 2006, this condition was rescheduled for December 31, 2006. According to U.S. officials, Iraq completed this condition. It is critical because it creates an accounting basis for the entire government and facilitates budgeting and planning.
Complete a census of all public service employees (including the military)	Scheduled for completion June 30, 2006, this condition was rescheduled for December 31, 2006. Because wages and pensions account for 28 percent of the operational budget, the government needs an accurate employee count.

Source: International Monetary Fund.

As the government seeks to implement the IMF reform program, it faces several challenges. Oil production and exports have been below expected levels, making overall economic expansion and job creation dependent on growth in the non-oil sectors of the economy. Inflation of approximately 50 to 60 percent in 2006 and increases in the prices of basic necessities such as food, fuel and electricity continue to be growing concerns. Corruption and lost oil revenues account for more than a billion dollars per year in lost government revenue, according to a 2006 report by the Ministry of Oil Inspector General. Unemployment, estimated at 25 percent to 40 percent in 2005 and even higher in 2006, contributes to the country's instability. Over the medium term—even with debt restructuring—Iraq will still have significant outstanding debt and accumulating interest. Without growth in oil revenues, the IMF notes that Iraq may need additional external financial assistance when the restructured loans become due.

Oversight Questions

- What is the status of efforts to restructure Iraq's remaining foreign debt? Does it present challenges for Iraq's reconstruction and economic development?
- What types of conditions are Persian Gulf creditor nations seeking with Iraq to restructure or forgive outstanding debt?
- How will the International Compact with Iraq help secure additional debt relief?
- Are the pace and substance of IMF-required reforms realistic, given the security and political situation in Iraq?
- In what areas can the U.S. government provide additional technical assistance to help Iraq meet its IMF reform goals?

**Enclosure IX: Iraq Owes Significant Foreign
Debt and Faces Challenges in Meeting IMF
Conditions**

GAO Contact

Joseph A. Christoff, Director, International Affairs and Trade, (202) 512-8979 or christoffj@gao.gov.

Reconstruction Challenges

Enclosure X: U.S. Efforts to Restore Iraq's Oil Sector Have Been Slowed by Major Challenges

Enclosure XI: U.S. Efforts to Improve Iraq's Electricity Sector Have Been Constrained by Security, Management, and Funding Challenges

Enclosure X: U.S. Efforts to Restore Iraq's Oil Sector Have Been Slowed by Major Challenges

Issue

Iraq's oil reserves, estimated at 115 billion barrels, are the third largest in the world. The oil sector currently accounts for about two-thirds of Iraq's gross domestic product and over 90 percent of exports and revenues. However, Iraq's oil wells and associated infrastructure have deteriorated due to years of neglect, mismanagement, and international sanctions. Considerable looting after Operation Iraqi Freedom, the government of Iraq's reluctance or inability to approve equipment replacement or rehabilitation of oil field construction projects, and continued attacks on crude and refined-product pipelines also have contributed to Iraq's reduced oil production and export capacities. As of October 2006, the U.S. government allocated about \$1.7 billion in Iraq Relief and Reconstruction Funds (IRRF) for the Iraqi oil sector, of which about \$1.6 billion has been obligated and \$1.1 billion disbursed.¹ In this enclosure, we discuss (1) the status of efforts to meet U.S. goals for Iraq's oil sector and (2) key challenges the United States faces in improving Iraq's oil sector.

Summary

Iraq's oil production and exports have consistently fallen below U.S. program goals. U.S. and Iraqi efforts to restore Iraq's oil sector have been impeded by the lack of security, corruption, sustainability, and funding challenges. The unstable security environment continues to place workers and infrastructure at risk while protection efforts remain insufficient. Widespread corruption and smuggling affect the distribution of refined oil products, such as gasoline. The U.S. reconstruction program has encountered difficulty with Iraq's ability to operate and maintain aging infrastructure. Further, uncertainties exist regarding the sources of future funding. These challenges could make it difficult to achieve current production and export goals, which are central to Iraq's government revenues and economic development.

Iraq's Oil Production and Exports Have Not Met U.S. Program Goals

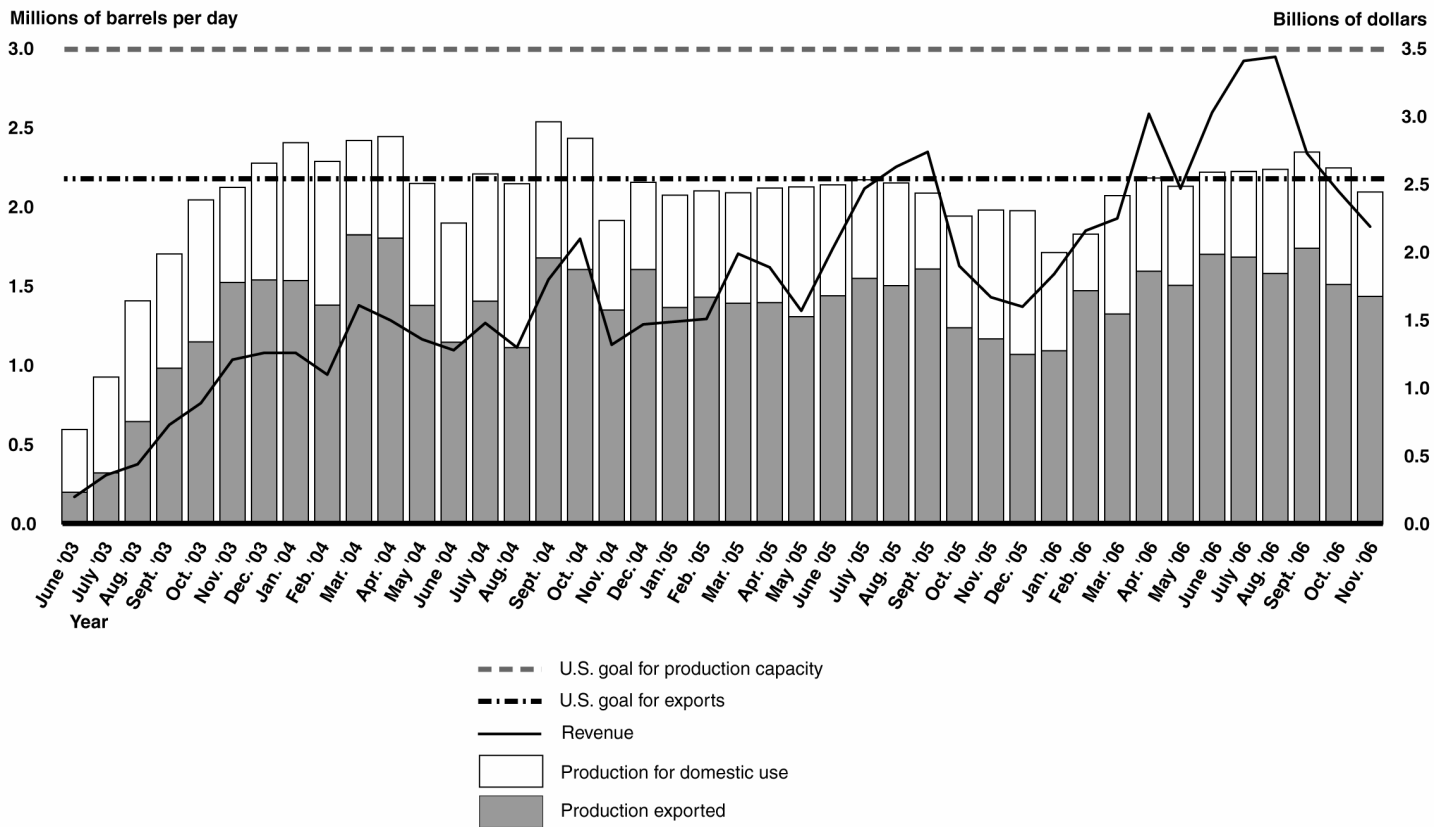
U.S.-funded projects have focused on restoring Iraq's oil production infrastructure, improving refining and export capacity, and providing training for operations and maintenance. As of December 11, 2006, the Army Corps of Engineers Gulf Region Division reported completing 97 of 182 planned projects and is expected to complete the others by July 2007. These projects are intended to help improve Iraq's oil production infrastructure, refinery, and export capacity.

¹Department of State, *Quarterly Update to Congress; 2207 Report* (Washington, D.C.: Oct. 2006).

Enclosure X: U.S. Efforts to Restore Iraq's Oil Sector Have Been Slowed by Major Challenges

Despite U.S. efforts, Iraq's oil production and exports have consistently fallen below their respective program goals. After initially rebounding in 2003, oil production and exports averaged, respectively, 2.1 million and 1.5 million barrels per day (mbpd) in 2006. U.S. program goals are to reach an average production capacity of 3 mbpd and export levels of 2.2 mbpd.² Despite not meeting U.S. production and export goals, export revenue has generally grown as world prices for crude oil have risen.

Figure 1: Iraqi Oil Production, Export, and Revenue, June 2003 through November 2006



Source: Iraq Ministry of Oil data.

²According to State Department officials, the U.S. goals differ from the government of Iraq's official production goal of 2.5 mbpd and the International Monetary Fund (IMF) target of 2.3 mbpd (annual average).

Security, Corruption, Sustainability, and Funding Challenges Hinder Efforts to Improve Iraq's Oil Infrastructure

The U.S. government and Iraq face several key challenges in improving Iraq's oil sector.

Addressing Infrastructure Security

Security conditions have affected Iraq's oil production and have, in part, led to project delays and increased costs. Insurgents have destroyed key oil infrastructure, threatened workers, compromised the transport of materials, and hindered project completion and repairs by preventing access to work sites. U.S. officials reported that major oil pipelines in the north continue to be sabotaged, shutting down oil exports and resulting in lost revenues. Pipe line repair crews are overwhelmed by the amount of work and unable to make rapid repairs.

The U.S. government has developed a number of initiatives to protect the oil infrastructure and transfer this responsibility to the Iraqi government.³ Such efforts include improving the capabilities of infrastructure protection forces such as the Oil Protection Force, a protection force for static infrastructure sites. The U.S. military, with the assistance of other coalition forces, is also working to improve the capabilities of the Strategic Infrastructure Battalions (SIB). However, according to U.S. officials, some units are of questionable capability and loyalty. According to U.S. government officials and a recent Center for Strategic and International Studies report,⁴ such security forces are underpaid, underequipped, poorly led, and of questionable quality. Additional information on the effectiveness and quality of the SIBs is classified.

³The Special Inspector General for Iraq Reconstruction, *Unclassified Summary of SIGIR's Review of Efforts to Increase Iraq's Capability to Protect Its Energy Infrastructure*, SIGIR-06-038 (Arlington, Va.: Sept. 27, 2006).

⁴Anthony Cordesman, Center for Strategic and International Studies, *Iraqi Force Development and the Challenge of Civil War: The Critical Problems and Failures the U.S. Must Address if Iraqi Forces Are to Eventually Do the Job*, (Washington, D.C.: Nov. 30, 2006).

Combating Corruption and Smuggling

U.S. and international officials note that corruption in Iraq's oil sector is pervasive. In 2006, the World Bank and Ministry of Oil's Inspector General estimated that millions of dollars of government revenue is lost each year to oil smuggling or diversion of refined products. According to State Department officials and reports, about 10 percent to 30 percent of refined fuels is diverted to the black market or is smuggled out of Iraq and sold for a profit. According to U.S. Embassy documents, the insurgency has been partly funded by corrupt activities within Iraq and from skimming profits from black marketers.

In addition, Iraq lacks fully functioning meters to measure oil production and exports. In 1996, the United Nations (UN) first cited the lack of oil metering during the time Iraq was under UN sanctions. In addition, in 2004, the International Advisory and Monitoring Board for the Development Fund for Iraq recommended that metering equipment be expeditiously installed. According to the Ministry of Oil and the International Advisory and Monitoring Board (IAMB), an absence of functioning meters precludes control over the distribution and sale of crude and refined products. The U.S. government is currently taking steps to replace old and broken meters at the Al-Basra export terminal, Iraq's major oil export terminal. This project is scheduled for completion in April 2007.

Improving Infrastructure Management and Sustainability

Problems in managing key oil projects have also led to delays. U.S. agency and contractor officials have cited difficulties in initially defining the scope, schedule, and cost of oil projects, as well as completing projects. The Ministry of Oil has had difficulty operating and maintaining its aging infrastructure, including some refineries originally constructed in the 1950s, 1960s, and 1970s. The ministry will have difficulty maintaining future production levels unless it initiates an ambitious rehabilitation program, according to State's Iraq Reconstruction Management Office (IRMO). Iraq's refineries are inefficient in their yield; for every barrel of crude oil sent to refineries only about half a barrel of refined fuel products is produced, according to IRMO. U.S. officials report that the sector's rebuilding efforts continue to be impeded by the lack of modern technology; qualified staff and expertise at the field, plant, and ministry level; an effective inventory control system for spare parts within the oil sector's 14 operating companies; and difficulties in spending budgets for equipment upgrades and replacements (see related brief on budget execution). The U.S. government has provided additional training and management assistance in response to these needs.

Developing Adequate Sources of Future Funding

According to U.S. and foreign officials, the ability and willingness of the Iraqi government to fund improvements in its oil sector remain uncertain for a number of reasons:

- Iraq lacks effective procurement, budgeting, and financial management systems to execute budgets efficiently, ensure transparency of oil revenues, and ensure the accountability of Iraqi ministry and plant managers. As of August 2006, the Ministry of Oil had spent only 0.1 percent of its \$3.5 billion capital budget, according to U.S. government reporting.
- Current government subsidies have kept prices for refined oil products low and constrain opportunities for growth and investment. U.S. and international officials report that Iraq's low domestic fuel prices have stimulated black market activities and fuel smuggling out of the country; inadequate funding for maintenance and refinery upgrades; and domestic overconsumption. According to U.S. and international officials, the Iraqi budget is directly affected, since state-owned refineries cover less than half the domestic demand, and the Iraqi government has to import the rest at world market prices.
- Iraq lacks a clear legal and fiscal framework to attract foreign investment. According to U.S. officials, until a new hydrocarbon law is passed, uncertainties exist surrounding the enforceability of contracts, how future oil revenues will be distributed, and what authority, if any, regional governments will have in signing oil exploration contracts with foreign firms. In addition, according to State officials, implementing regulations have yet to be issued for Iraq's Fuel Import Liberalization Law passed in early September 2006. These regulations could allow the private sector to import and distribute some refined products at market prices.

Oversight Questions

- What is the Ministry of Oil's current strategy for meeting Iraq's growing fuel needs, and what assistance is the U.S. government planning to provide to help implement this strategy?
- To what extent will an adequate fuel supply for electricity generation be included in Ministry of Oil planning?
- What is the status of actions to ensure adequate security and maintenance of facilities built or renovated with U.S. funding?

Enclosure X: U.S. Efforts to Restore Iraq's Oil Sector Have Been Slowed by Major Challenges

-
- How effective have U.S. efforts been in transferring responsibility for operations and maintenance of U.S. oil projects to the Iraqi government? How are these efforts integrated among U.S. agencies and the international community?
 - What U.S. efforts will help ensure that Iraq develops an adequate legal and regulatory framework to provide transparency and accountability of current and future oil revenues?

GAO Contact

Joseph A. Christoff, Director, International Affairs and Trade, (202) 512-8979 or christoffj@gao.gov.

Enclosure XI: U.S. Efforts to Improve Iraq's Electricity Sector Have Been Constrained by Security, Management, and Funding Challenges

Issue

Iraq's electricity infrastructure has deteriorated due to years of neglect during the previous regime, international sanctions, and the destruction caused by conflict, looting, and vandalism. An inadequate and unreliable supply of electricity affects both public perceptions of the government's ability to deliver basic services and the productivity of Iraq's oil sector, which is crucial to rebuilding the economy. As of October 2006, the U.S. government allocated about \$4.2 billion of the Iraq Relief and Reconstruction Fund (IRRF) to Iraq's electricity sector; almost \$2.7 billion of this amount has been disbursed.¹ In this enclosure, we discuss (1) the status of efforts to meet U.S. goals for Iraq's electricity sector and (2) the key challenges the U.S. faces in improving Iraq's electricity sector.

Summary

In 2006, electricity reached 4,317 megawatt (mw) peak generation capacity per day but continued to fall short of the U.S. goal of 6,000 mw. Production was also outpaced by increasing demand, which has averaged about 8,210 mw per day. The Ministry of Electricity's 2006-2015 master plan aims to rehabilitate and expand the national grid and will require substantial funding of about \$27 billion. If this plan is implemented, the ministry estimates that Iraq will be able to meet projected demand for electricity in 2009.

U.S. and Iraqi efforts to restore Iraq's electricity sector have been impeded by security, infrastructure management and sustainability, and funding challenges. The unstable security environment continues to put electrical workers and infrastructure at risk and protection efforts have been insufficient. It is also unclear whether Iraq can or will adequately manage and sustain U.S. projects, given inadequacies in operations and maintenance and an uncertain fuel supply. Further, uncertainties exist regarding the sources of future funds for the Iraqi electricity sector. These challenges could make it difficult to achieve an effective and efficient Iraqi electrical grid.

¹U.S. Department of State, *Quarterly Update to Congress; 2207 Report* (Washington, D.C., October 2006). Funds were appropriated to the Iraq Relief and Reconstruction Fund in the Emergency Wartime Supplemental Appropriations Act, 2003, P.L. 108-11, and the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004, P.L. 108-106.

Restoring Iraq's Electricity Sector Has Been Difficult

U.S. efforts focus on restoring or constructing generation, transmission, distribution, and automated monitoring and control system projects. As of December 2006, the Army Corps of Engineers Gulf Region Division (GRD) reported that 293 of its 523 planned projects had been completed and that it is expected to complete most of the others by the end of 2007. The U.S. Agency for International Development (USAID) reported completing all of its 29 projects. According to the State Department, as IRRF projects are completed, efforts are increasingly shifting from building large, U.S.-funded infrastructure projects to better protecting, maintaining, and sustaining the current infrastructure.

Despite these gains, Iraq's electrical supply has not met initial program goals, remains unreliable, and is not meeting growing demand. While completed U.S. projects have added an estimated 2,093 mw² of new and rehabilitated generation capacity, U.S. efforts have not met the program goal of 6,000 mw established by the Coalition Provisional Authority (CPA) in 2004. Peak generation for 2006 averaged 4,317 mw per day, slightly above the prewar levels of 4,200 mw. Moreover, electricity supply across the nation continues to be unreliable. From July through September 2006, the nation averaged 11.1 hours, with Baghdad averaging 6.2 hours of power per day. Demand has also exceeded supply. In 2006, demand averaged 8,210 mw³ per day and reached a peak of 9,622 mw⁴ during the week of August 21, 2006 (see fig. 1). According to the U.S. government, the growth in demand for electricity has been stimulated by government energy subsidies and a surge in consumer purchases of appliances and electronics.

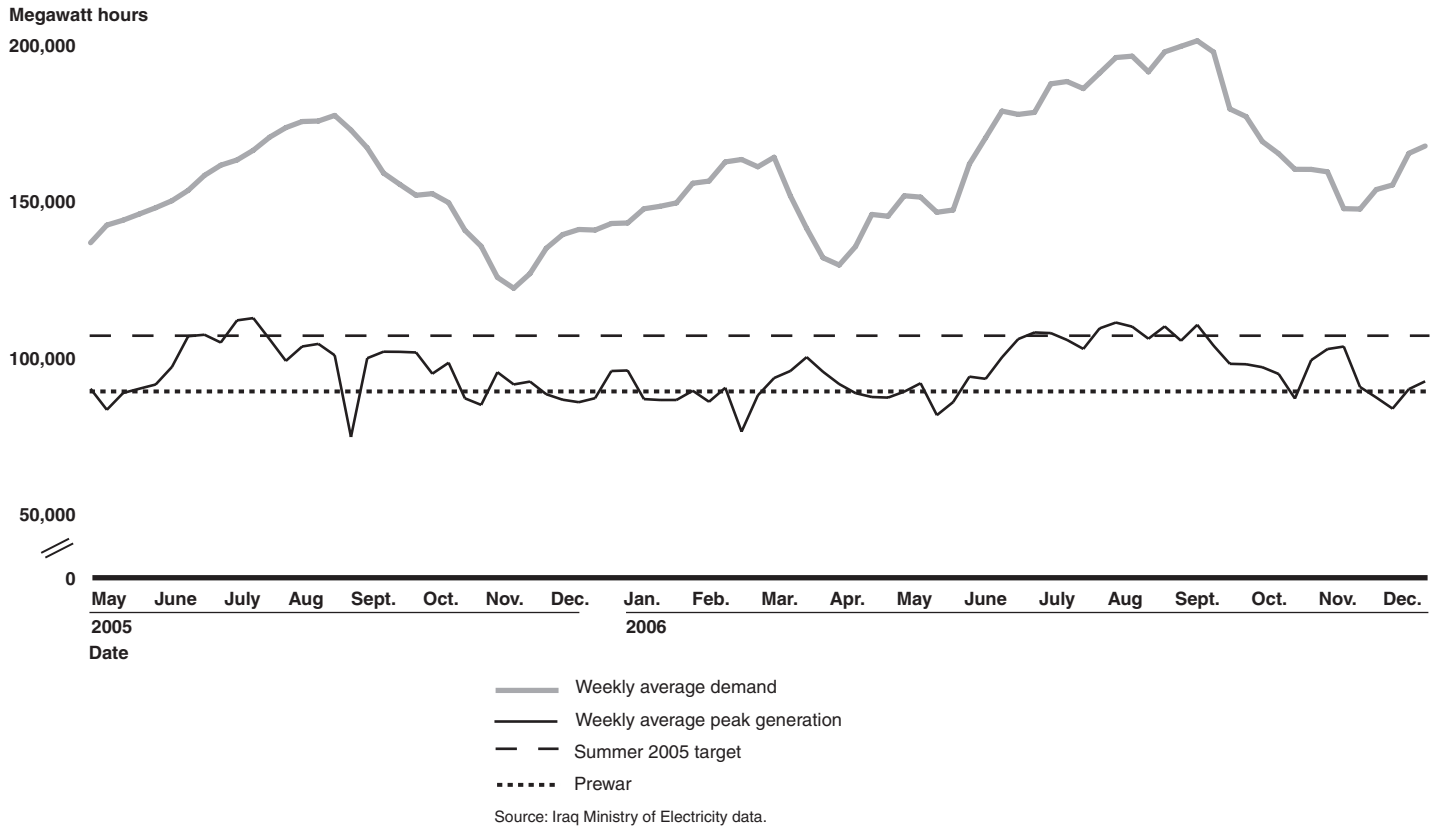
²A megawatt is a measure of the rate at which electric energy can be transferred and is used as a measure of electric generation capacity. One megawatt equals 1 million watts.

³This number is equal to 164,939 megawatt hours and is calculated by multiplying 8,210 megawatts by 20.09 hours.

⁴This number is equal to 193,306 megawatt hours and is calculated by multiplying 9,622 megawatts by 20.09 hours.

Enclosure XI: U.S. Efforts to Improve Iraq's Electricity Sector Have Been Constrained by Security, Management, and Funding Challenges

Figure 1: Peak Electricity Produced and Demand in Iraq, May 2005–November 2006



In November 2006, the Ministry of Electricity presented an ambitious master plan for 2006 to 2015 to rehabilitate and expand the national grid; the plan will require substantial funding of about \$27 billion. If this plan is implemented, the ministry estimates that Iraq will be able to meet its projected demand for electricity in 2009.

Factors Hindering Efforts to Meet Electricity Needs

The U.S. government and Iraq face key challenges in meeting Iraq's electricity needs.

Addressing Infrastructure Security

The deteriorating security environment continues to pose a serious challenge to Iraq's electricity system,⁵ leading, in part, to project delays and increased costs for security services. Electrical workers and infrastructure are inadequately protected and are subject to targeted attacks. The security situation also makes it difficult to get workers, parts, and equipment to sites. Moreover, looting and vandalism have continued since 2003, and major electrical transmission and fuel lines have been repeatedly sabotaged, cutting power to other parts of the country. According to Ministry of Electricity and U.S. officials, workers are frequently intimidated by anti-Iraqi forces, and have difficulty repairing downed lines.

In an effort to stop the sabotage, the ministry contracted with tribal chiefs to protect the transmission lines running through their areas, paying them about \$60 to \$100 per kilometer, according to State's Iraq Reconstruction Management Office (IRMO). However, in October 2006, IRMO officials reported that this scheme was flawed and did not result in improved infrastructure protection.

The U.S. government has developed other initiatives to better protect energy infrastructure.⁶ The United States has trained and equipped the Electrical Power Security Service (EPSS) and the Strategic Infrastructure Battalions (SIB) and partnered these security services with coalition forces. However, a U.S. official stated that the EPSS effort was unsuccessful and that some of the SIB units have questionable capability and loyalty. According to a U.S. government official and a recent Center for Strategic and International Studies report,⁷ these security forces have been underpaid, underequipped, and poorly led, and are of questionable quality. Additional information on the status of the SIBs is classified.

⁵MNF-I attack data on infrastructure are classified. The Iraq Reconstruction and Management Office (IRMO) has worked with the Ministry of Electricity to improve its infrastructure attack data, but it is not always feasible to distinguish between attacks, weather events, and equipment failures, according to IRMO officials.

⁶The Special Inspector General for Iraq Reconstruction (SIGIR), *Unclassified Summary of SIGIR's Review of Efforts to Increase Iraq's Capability to Protect Its Energy Infrastructure*, SIGIR-06-038 (Washington, D.C., Sept. 27, 2006).

⁷Anthony Cordesman, Center for Strategic and International Studies, *Iraqi Force Development and the Challenge of Civil War: The Critical Problems and Failures the U.S. Must Address if Iraqi Forces Are to Eventually Do the Job* (Washington, D.C., Nov. 30, 2006).

Improving Infrastructure Management and Sustainability

The U.S. reconstruction program has encountered difficulties with Iraq's ability to sustain new and rehabilitated infrastructure and address fuel requirements. Iraq's electricity sector suffers from deteriorated, outdated, and inefficient infrastructure resulting from two decades of underinvestment in operations and maintenance, replacement, and expansion. This weakened infrastructure has led to unplanned outages.⁸

The rebuilding of the electricity sector has been slowed by the lack of training to enhance the skills of plant workers, inadequate spare parts, and an ineffective asset management and parts inventory system. Moreover, plants are sometimes operated beyond their recommended limits and use poor-quality fuels that rapidly deteriorate parts, involve longer maintenance downtimes, and increase pollution. According to U.S. government officials, Iraq needs to develop cleaner and more reliable sources of natural gas for its generators and to formulate an integrated fuel strategy to address these needs. Currently, Iraq's fuel supply does not meet demand and its quality is inconsistent.

For example, of the 35 natural gas turbines the U.S. government installed in power generation plants, 16 are using diesel, crude, or heavy fuel oil due to the lack of natural gas and lighter fuels. As a result, maintenance cycles are reportedly three times as frequent and three times as costly. Poor-quality fuels also decrease the power output of the turbines by up to 50 percent and can result in equipment failure and damage, according to U.S. and Iraqi power plant officials. The U.S. government also estimates that Iraq is flaring enough natural gas to generate at least 4,000 mw of electrical power. Because of natural gas shortages, diesel has to be imported at a cost of about \$1.2 billion a year, thus straining economic resources.

The U.S. government is providing assistance to address these shortfalls through long-term operations and maintenance programs for thermal and gas turbine power plants and through other initiatives to help the ministry develop a sound operations and maintenance program.

⁸Also, Iraq continues to lack an automated control system that would decrease reliance on manual operators and help alert operators of imbalances in power transmission. According to the State Department, the United States is funding improvements that will help increase the current system's reliability.

Developing Adequate Sources of Future Funding

Despite the Ministry of Electricity's recent development of a 10-year master plan, Iraq's ability to fund improvements in its electricity sector remains uncertain.

- According to a World Bank assessment, Iraq lacks an adequate legal and regulatory framework and the procurement, budgeting, and financial management systems to execute budgets efficiently and ensure accountability at government ministries.
- Iraq's electricity tariff, one of the lowest in the world, is below the cost of delivery and makes it difficult for Iraq to finance the improvements it needs to make. Moreover, Iraq's cost recovery is low due to inadequate metering, billing, and illegal taps into the system.
- The ministry faces uncertainty regarding future donor commitments, although some future international support is expected to come through an International Compact launched in July 2006. Under the compact, Iraq would undertake economic, political, and security reforms to receive increased support from the international community. Donors have yet to agree on this compact.

Oversight Questions

- What is the Ministry of Electricity's strategy for meeting Iraq's growing future electrical needs, and what assistance is the U.S. government providing to help implement this strategy?
- What is the status of actions taken to ensure adequate security and maintenance for transmission lines and facilities built or renovated with U.S. funding?
- How effective have U.S. efforts been in transferring responsibility for operations and maintenance efforts for U.S. electricity projects to the Iraqi government? How are these efforts integrated among U.S. agencies and with international efforts? How is success measured?
- What efforts are needed to ensure an adequate fuel supply for electricity generation in Iraq? How are the needs of the electricity sector integrated into Ministry of Oil planning?
- Why did the United States purchase natural gas turbines to generate electricity when the necessary supply of natural gas was not assured in Iraq?

**Enclosure XI: U.S. Efforts to Improve Iraq's
Electricity Sector Have Been Constrained by
Security, Management, and Funding
Challenges**

GAO Contact

Joseph A. Christoff, Director, International Affairs and Trade, (202) 512-8979 or christoffj@gao.gov.

U.S. Military Readiness

Enclosure XII: Extended Operations Have Had Significant Consequences for the U.S. Military

Enclosure XIII: Securing Munitions Sites and Alleviating Armor Shortages Have Been Serious Problems

Enclosure XIV: Deficiencies in Supply Support for U.S. Ground Forces Have Resulted in Shortages of Critical Items

Enclosure XII: Extended Operations Have Had Significant Consequences for the U.S. Military

Issue

Since September 11, 2001, U.S. military forces have experienced a high pace of operations to support homeland security missions, Operation Enduring Freedom in Afghanistan, and various combat and counterinsurgency operations in Iraq. These operations have required many units and personnel to deploy for multiple tours of duty and, in some cases, to remain for extended tours. The Department of Defense (DOD) faces significant challenges in maintaining readiness for overseas and homeland missions and sustaining rotational deployments of duty, especially if the duration and intensity of current operations continue at the present pace. Pursuant to a congressional mandate, we are examining readiness issues, including DOD's ability to support ongoing operations as well as other commitments. This enclosure highlights some of the consequences that extended operations have had on the U.S. military regarding personnel, equipment, and training. It also discusses some of the challenges DOD faces as it adjusts the composition and size of its forces.

Summary

Although DOD has overcome difficult challenges in maintaining a high pace of operations over the past 5 years, extended operations in Iraq and elsewhere have had significant consequences for the U.S. military. Our work on personnel, equipment, and training issues has found problems with (1) DOD's ability to provide active and reserve forces, especially for some skills; (2) the recruitment and retention of personnel to fill shortages of critical positions, including those requiring the ability to speak foreign languages such as Arabic; (3) policies and guidance affecting the availability of reserve personnel; (4) heavy wear and tear on equipment, as well as equipment shortages in the reserve components; and (5) the effects of continued deployment of U.S. ground forces on military training. In addition, extended operations present challenges in determining the

adjustments needed to the size and composition of the Army to meet both near- and long-term requirements.¹

Operations Have Challenged DOD's Ability to Provide Forces

Ongoing operations in Iraq have challenged DOD's ability to supply active and reserve forces that are ready to deploy, particularly with regard to the Army and Marine Corps. Although the Army's goal is to deploy active personnel only 1 of every 3 years, many soldiers have deployed more frequently, and some personnel are preparing for their third rotations to Iraq. Active Marine Corps personnel are also deploying more frequently than the goals established by Marine Corps leaders. Moreover, ongoing operations have created a particularly high demand for certain combat support and combat service support skills, such as engineering, civil affairs, transportation, and military police. With limits placed on the availability of reserve component members with these skills (see discussion below), DOD is increasingly turning to the Navy and Air Force to help meet requirements for certain types of forces needed to support ground operations. The longer operations in Iraq continue, the greater the likelihood DOD will face increasing challenges in identifying sufficient numbers of such skilled personnel.

¹For further information on the issues discussed in this enclosure, see GAO, *Military Personnel: DOD Needs Action Plan to Address Personnel Recruitment and Retention Challenges*, [GAO-06-134](#) (Washington, D.C.: Nov. 17, 2005); *Military Personnel: Reserve Components Need Guidance to Accurately and Consistently Account for Volunteers on Active Duty for Operational Support*, [GAO-07-93](#) (Washington, D.C.: Oct. 31, 2006); *Reserve Forces: Army National Guard and Army Reserve Readiness for 21st Century Challenges*, [GAO-06-1109T](#) (Washington, D.C., Sept. 21, 2006); *Force Structure: DOD Needs to Integrate Data into Its Force Identification Process and Examine Options to Meet Requirements for High-Demand Support Forces*, [GAO-06-962](#) (Washington, D.C.: Sept. 5, 2006); *Defense Logistics: Preliminary Observations on Equipment Reset Challenges and Issues for the Army and Marine Corps*, [GAO-06-604T](#) (Washington, D.C.: Mar. 30, 2006); *Military Training: Funding Requests for Joint Urban Operations Training and Facilities Should Be Based on Sound Strategy and Requirements*, [GAO-06-193](#) (Washington, D.C.: Dec. 8, 2005); *Military Personnel: DOD Needs to Address Long-Term Reserve Force Availability and Related Mobilization and Demobilization Issues*, [GAO-04-1031](#) (Washington, D.C.: Sept. 15, 2004); *Homeland Defense: DOD Needs to Assess the Structure of U.S. Forces for Domestic Military Missions*, [GAO-03-670](#) (Washington, D.C.: July 11, 2003); *Force Structure: Army Needs to Provide DOD and Congress More Visibility Regarding Modular Force Capabilities and Implementation Plans*, [GAO-06-745](#) (Washington, D.C.: Sept. 6, 2006); and *Reserve Forces: Plans Needed to Improve Army National Guard Equipment Readiness and Better Integrate Guard into Army Force Transformation Initiatives*, [GAO-06-111](#) (Washington, D.C.: Oct. 4, 2005.)

DOD Faces Enlisted Personnel Recruitment and Retention Challenges

Operations in Iraq have contributed to the U.S. military's significant challenge in recruiting and retaining hundreds of thousands of service members each year. While the services have generally met their aggregate recruiting and retention goals, DOD has had problems recruiting and retaining sufficient numbers of individuals with the right skills and knowledge. Over 40 percent of DOD's 1,484 occupational specialties were consistently underfilled for fiscal years 2000 through 2005, raising concerns about the military's ability to meet all of its missions. For example, during fiscal year 2003 when the Iraq war began, DOD was unable to fill almost 103,000 positions in consistently underfilled occupations; this number grew to 112,000 unfilled positions by 2005. Many of these consistently underfilled occupations are in critical areas, such as health care, human intelligence collection, and explosive ordnance disposal.

DOD Policies and Guidance Have Limited the Availability of Reserve Forces

DOD has recognized that the department cannot execute major military operations without significant participation from its reserve components. However, its current mobilization and deployment policies and guidance restrict flexibility in staffing long-term operations such as the global war on terrorism. After September 11, 2001, DOD issued a series of policies and guidance to guide the use of reserves for the global war on terrorism in order to limit deployments and help sustain the all-volunteer force. Most significantly, it limited the services to one involuntary mobilization of their reserve component members for the global war on terrorism and limited reserve component mobilizations to Iraq and Afghanistan to 12 months "on the ground" in the U.S. Central Command area of operations, plus additional time for mobilization and demobilization activities. Thus, under the current policy, reserve component members who were involuntarily mobilized for operations related to the global war on terrorism cannot be involuntarily mobilized for the ongoing operation now referred to as "the long war." As additional personnel have been involuntarily mobilized, the services have come to rely more heavily on active forces, repeat volunteers, and new recruits to meet their sourcing requirements.

Ongoing Operations Are Taking a Heavy Toll on Equipment

Ongoing military operations in Iraq are inflicting heavy wear and tear on equipment. Some equipment items used by U.S. forces are more than 20 years old, and harsh combat and environmental conditions over time have further exacerbated equipment condition problems. The Army and the Marine Corps have initiated programs to reset (repair or replace) equipment and are likely to incur large expenditures in the future. We are currently assessing these programs, including the extent to which the

services are tracking reset costs and the extent to which their reset plans maintain unit equipment readiness while meeting ongoing operational requirements.

In addition, the Army National Guard and Army Reserve have transferred large quantities of equipment to deploying units, an approach that has contributed to growing equipment shortages in nondeployed units. Also, reserve units have left large quantities of equipment overseas, and DOD has not yet developed plans to replace the equipment. The Army National Guard reports that its nondeployed units have less than one-third of their required equipment, and the Army Reserve reports that its units have about half of the modern equipment they need to deploy. These shortages also could adversely affect reserve units' ability to perform homeland defense missions and provide support to civil authorities in the event of natural disasters or terrorist attacks.

Continuing Deployment of Ground Forces Has Affected Military Training

The continuing deployment of ground forces to support ongoing operations has affected military training. The military services have been focused on preparing units to assume missions and to operate in conditions specific to Iraq and Afghanistan, with less time available to prepare for other wartime and homeland defense missions. In addition, personnel and units are being asked to perform missions or functions different from those they were designed for and are being retrained accordingly. For example, field artillery units have been used to perform some military police duties and therefore spend time training for these missions before deploying. To support deploying units, units that remain behind must give up personnel and equipment, thus limiting their ability to train as a unit or to train on certain equipment that they might be required to operate once deployed. Also, units are faced with replacing officer and senior enlisted personnel pulled to serve as trainers for Iraqi and Afghani security forces.

Challenges Remain in Adjusting the Composition and Size of Forces

Ongoing operations have raised questions about whether DOD has adequately reassessed and adjusted the size and composition of its forces, particularly with regard to the Army. Although the Army has begun to adjust its force structure, significant challenges remain. For example, in 2004, the Army began to implement a \$52.5 billion initiative throughout the active and reserve components to establish modular brigades that are intended to be more readily deployable to overseas operations such as Iraq than their predecessor units, which were designed for Cold War postures. The Army's goal of establishing fully capable modular units will be difficult

given long-standing equipment and personnel shortfalls, particularly while the Army is also managing the training and deployment of forces to Iraq.

Further, to help support operations in Iraq, the Army has made some adjustments in its active-reserve mix to establish additional units that are in high demand. The Marine Corps has made similar changes. However, the Office of the Secretary of Defense had not conducted a recent comprehensive data-driven analysis to assess the number of active personnel needed by the services to implement the defense strategy and to provide needed capabilities within acceptable levels of risk.

Prior Recommendations

In prior reports, we have made numerous recommendations addressing the military issues covered in this paper, including the following:

- With regard to the recruitment and retention of enlisted personnel, we recommended that DOD develop a management action plan to help components identify and address the causes of their recruiting and retention challenges.² DOD partially concurred with this recommendation.
- As the result of our work on the availability of reserve forces, we recommended that DOD develop a strategic framework that sets human capital goals concerning the availability of its reserve component forces to meet the longer-term requirements of the global war on terrorism under various mobilization authorities and identify personnel policies that should be linked within the context of the strategic framework.³ DOD partially concurred with this recommendation.
- In our work on Army National Guard equipment readiness, we recommended that the Army develop and submit to Congress a plan and funding strategy that addresses the equipment needs of the Army National Guard for the global war on terrorism and addresses how the Army will transition from short-term equipping measures to long-term equipping solutions.⁴ DOD agreed with this recommendation.
- In reporting on the Army's modularity program, we recommended that the Army develop and provide the Secretary of Defense and Congress with a

²[GAO-06-134](#).

³[GAO-04-1031](#).

⁴[GAO-06-111](#).

comprehensive plan for assessing the Army's progress toward achieving the benefits of modularity. We recommended the plan include specific, quantifiable performance metrics to measure progress toward meeting the goals and objectives established in the Army Campaign Plan.⁵ DOD agreed to develop expanded performance metrics.

Oversight Questions

- To what extent has DOD evaluated its ability to support any adjustments in troop levels in the administration's revised strategy, including the availability of personnel, equipment and training necessary if the strategy calls for increases?
- What options are available to DOD for making more personnel, including both active duty and reserve personnel, available for future rotations while sustaining an all-volunteer force?
- To what extent have DOD components developed a management action plan to identify and address the causes of their recruiting and retention challenges?
- To what extent will equipment reset plans maintain unit equipment readiness while meeting ongoing operational requirements?
- What is the state of readiness of our armed forces? To what extent has DOD evaluated whether units are ready and trained to respond to operations other than Iraq or Afghanistan?
- Are the Army and Marine Corps appropriately sized, with the right composition and mix of units and personnel skills, to support ongoing operations, while remaining prepared for missions that could arise at home or abroad?

GAO Contact

Henry L. Hinton, Jr., Managing Director, Defense Capabilities and Management, (202) 512-4300 or hintonh@gao.gov.

⁵[GAO-06-745](#).

Enclosure XIII: Securing Munitions Sites and Alleviating Armor Shortages Have Been Serious Problems

Issue

U.S. ground forces in Iraq have come under frequent and deadly attacks from insurgents using weapons such as improvised explosive devices (IED), mortars, and rocket launchers. IEDs, in particular, have emerged as the number one threat against U.S. forces. Insurgents have made many IEDs from munitions looted from storage sites in Iraq. This enclosure discusses (1) the security provided by U.S. forces over conventional munitions storage sites in Iraq and (2) the challenges the Department of Defense (DOD) has faced in meeting increased requirements for body and truck armor to protect U.S. ground forces.

Summary

As a result of the overwhelming size and number of conventional munitions storage sites in Iraq, combined with prewar planning assumptions that proved to be invalid, U.S. forces did not adequately secure those sites and looting was widespread. Despite the potential risk posed by unsecured sites, DOD's actions in response to lessons learned during Operation Iraqi Freedom (OIF) have focused on countering IEDs and not on the strategic implications of munitions sites for future operations.¹

Efforts to protect U.S. ground forces with increased body and truck armor have been characterized by shortages and delays, which have reduced operational capabilities and forced combat commanders to accept additional risk in completing their missions.² We are currently reviewing force protection measures, including body armor, for current operations, as well as the organization and management of the Joint IED Defeat Organization (JIEDDO), which was established in January 2006 with a mission of countering the IED threat.

¹These issues are discussed in a classified GAO report, *Operation Iraqi Freedom: DOD Should Apply Lessons Learned Concerning the Need for Security over Conventional Munitions Storage Sites to Future Operations Planning*, [GAO-07-71C](#) (Washington, D.C.: December 20, 2006). We plan to issue an unclassified version of this report in January 2007.

²For further information on these issues, see GAO, *Defense Logistics: Actions Needed to Improve the Availability of Critical Items during Current and Future Operations*, [GAO-05-275](#) (Washington, D.C.: Apr. 8, 2005); *Defense Logistics: Several Factors Limited the Production and Installation of Army Truck Armor during Current Wartime Operations*, [GAO-06-160](#) (Washington, D.C.: Mar. 22, 2006); and *Defense Logistics: Lack of a Synchronized Approach between the Marine Corps and Army Affected the Timely Production and Installation of Marine Corps Truck Armor*, [GAO-06-274](#) (Washington, D.C.: June 22, 2006).

U.S. Did Not Prevent Looting of Munitions Sites

A fundamental gap existed between OIF war plan assumptions and the experiences of U.S. and coalition forces in Iraq, contributing to an insufficient number of troops on the ground to prevent the widespread looting of conventional munitions storage sites. Looted munitions have emerged as a continuing asymmetric threat to U.S. and coalition forces. The human, strategic, and financial costs of the failure to provide sufficient troops on the ground have been high, since IEDs made from looted explosives have caused about half of all U.S. combat fatalities and casualties in Iraq and have killed hundreds of Iraqis. In addition, unsecured conventional munitions sites have helped sustain insurgent groups and threatened the achievement of the OIF strategic goal of creating a stable Iraqi nation.

DOD's actions have primarily focused on countering IEDs and not on the security of conventional munitions storage sites as a strategic planning and priority-setting consideration for future operations. Although good first steps, these actions do not address what we believe is a critical OIF lesson learned: If not secured during initial combat operations, an adversary's conventional munitions storage sites can represent an asymmetric threat to U.S. forces that remain in country.

Acquisition Delays and Distribution Problems Resulted in Body Armor Shortages

DOD faced challenges in supplying sufficient quantities of body armor to meet the requirements for U.S. military forces in Iraq. Temporary shortages of body armor occurred because of acquisition delays related to the lack of key materials and distribution problems in theater. Increasing military requirements for body armor exceeded the manufacturer's capacity to produce enough of the Army's new Interceptor body armor,³ particularly after October 2003, when U.S. Central Command required body armor for all U.S. personnel in its area of responsibility. Before that, the Army required body armor for all soldiers in Iraq but not for all U.S. personnel. As a result of the shortages, many individuals purchased body armor that was available in the private sector with their own funds.

According to the Defense Logistics Agency, the organization that manages body armor for the Army, the shortfall in vests and ceramic plates was due to the lack of Kevlar (a type of fiber) for manufacturing the vests and a lack of material for manufacturing the plates. Attempts to accelerate the

³The Interceptor body armor is designed to provide protection against rifle rounds through the combined use of ceramic tiles and polyethylene fiber.

fielding of the new armor had some success but also created additional logistics problems, including the inaccurate reporting of on-hand quantities.

We are currently reviewing force protection measures, including body armor requirements, testing, and oversight, for current operations.

Production and Installation Problems Resulted in Shortages of Army and Marine Truck Armor

DOD also faced the challenge of supplying sufficient amounts of armor for Army and Marine Corps trucks. U.S. military forces in Iraq have experienced shortages of truck armor due to problems with production and installation of armor kits. Although the Army first identified a requirement for 3,780 truck armor kits for five types of trucks⁴ in November 2003, it did not produce all of the kits until February 2005 and did not install the kits to meet the initial requirement until May 2005—18 months after the requirement was identified. Requirements continued to increase after May 2005, but the time lag to meet them lessened. A number of factors contributed to the time needed to provide truck armor to deployed Army troops. As a result, troops were placed at greater risk as they conducted wartime operations in vehicles not equipped with the preferred level of protection. For example, the Army missed a valuable opportunity to have substantial numbers of truck armor kits available for OIF by not fully capitalizing on approved requirements for these kits established in 1996. In addition, production time lengthened because contracts were awarded for amounts less than total requirements due to increasing needs for truck armor and inadequate funding. Sufficient documentation was lacking to determine why funding was not available when needed, limiting effective oversight over funding decisions. Material shortages and limited kit installation rates also affected the availability of truck armor.

The Marine Corps also experienced shortages of truck armor during OIF. The Marine Corps belatedly met requirements for the production and installation of add-on truck armor in September 2004—8 months after the requirements were identified. Two factors affected the timely production and installation of Marine Corps truck armor. First, the lack of a synchronized approach between the Marine Corps and the Army resulted in the Marine Corps identifying its truck armor requirements and seeking

⁴This requirement excludes tanker trucks. The completion of armor kit installation for tankers was expected by January 2007.

armor solutions 2 months after the Army. This delay may have limited the Marine Corps' ability to field interim armor that met IED protection requirements and may have contributed to delays in providing add-on truck armor to deployed Marine Corps forces. The Marine Corps did not officially identify a requirement for truck armor and did not begin seeking out armor materials from industry until January 2004—2 months after the Army began its truck armor program in November 2003. According to Marine Corps officials, the armor-grade steel needed for sufficient IED protection was not available from suppliers in time to meet the Marine Corps' deployment timeline of March 2004. As a result, the Marine Corps fielded the interim armor with only limited IED protection. Second, mission needs restricted the rate at which the Marine Corps could replace its interim armor with add-on armor and install integrated armor.

DOD has taken actions to improve the timely availability of truck armor. For example, the Army is developing a long-term armoring plan to improve the availability of truck armor for future operations. The Marine Corps increased the rate of installation for integrated armor by expanding its armor installation capacity. The Marine Corps is also taking longer-term actions, such as developing a plan to address the availability of truck armor for future operations.

GAO Is Reviewing JIEDDO

In response to Senate Report 109-292, we have initiated a review of JIEDDO. The objectives of our ongoing review are to determine (1) whether JIEDDO's overall management and organizational structure, including funding, personnel, and strategic planning processes, effectively support its mission; (2) the challenges, if any, that affect JIEDDO's ability to quickly and effectively identify, develop, test, and support technology and training solutions; and (3) the level of coordination that exists between JIEDDO and other DOD and non-DOD organizations to leverage existing capabilities and prevent duplication of efforts.

Prior Recommendations

In December 2006, we recommended that the Chairman of the Joint Staff conduct a theaterwide survey and risk assessment regarding unsecured conventional munitions in Iraq and incorporate conventional munitions storage site security as a strategic planning factor into all levels of planning policy and guidance, including joint doctrine, instructions,

manuals, and other directives.⁵ DOD partially concurred with our recommendations.

In prior reports, we have recommended actions to ensure funding needs for urgent wartime requirements are identified quickly, requests for funding are well documented, and funding decisions are based on risk and an assessment of the highest priority requirements. For example, in March 2006, we recommended that the Army establish a process to document and communicate all urgent wartime funding requirements for supplies and equipment at the time they are identified and the disposition of funding decisions.⁶ DOD concurred with the intent of the recommendation. More recently, we have recommended actions to ensure that the services make informed and coordinated decisions about what materiel solutions are developed and procured to address common urgent wartime requirements.⁷ DOD generally agreed with these recommendations.

Oversight Questions

- Has DOD conducted a theaterwide survey and risk assessment regarding unsecured conventional munitions storage sites in Iraq? Has DOD developed a risk mitigation strategy for unsecured sites in Iraq?
- Has DOD incorporated the security of conventional munitions storage sites as a strategic planning factor into all levels of planning policy and guidance?
- Is the supply chain adequately supporting the troops' needs for body armor and truck armor during combat operations? Are the Army and Marine Corps coordinating the requirements, testing, and production of body armor and evaluating its effectiveness in the field?
- Is JIEDDO structured to effectively accomplish its mission and account for its expenditures?
- What steps has DOD taken to stay abreast of evolving force protection threats and to identify and employ appropriate mitigation measures?

⁵GAO-07-71C.

⁶GAO-06-160.

⁷GAO-06-274.

**Enclosure XIII: Securing Munitions Sites and
Alleviating Armor Shortages Have Been
Serious Problems**

GAO Contacts

Davi M. D'Agostino, Director, Defense Capabilities and Management, (202) 512-5431 or dagostinod@gao.gov; and William M. Solis, Director, Defense Capabilities and Management, (202) 512-8365 or solisw@gao.gov.

Enclosure XIV: Deficiencies in Supply Support for U.S. Ground Forces Have Resulted in Shortages of Critical Items

Issue

To support Operation Iraqi Freedom (OIF), the Department of Defense (DOD) undertook a massive logistics effort, moving millions of tons of cargo, including critical equipment, spare parts, and other supplies several thousand miles to the Persian Gulf. This effort began in late 2001, accelerated in the fall of 2002 just before major combat operations were launched in March 2003, and continues today as U.S. forces undertake stabilization efforts in Iraq. However, U.S. forces have still experienced shortages of critical supply items. This enclosure discusses (1) systemic deficiencies in DOD's supply support for U.S. ground forces during OIF and (2) actions DOD has taken to improve supply support.

Summary

OIF tested the DOD logistics system and the industry's capability to meet rapidly increasing demands, and in many instances the supply chain failed to respond quickly enough to meet the needs of modern warfare. In prior reports, we have reported on shortages of critical items¹ and the systemic deficiencies in supply support that led to these shortages. These deficiencies included (1) inaccurate and inadequately funded Army war reserve requirements, (2) inaccurate supply forecasts, (3) insufficient and delayed funding, (4) delayed acquisition, and (5) ineffective distribution.² DOD developed short-term solutions to manage item shortages during OIF, and DOD and the services have begun to undertake systemic, long-term changes to fix some of the supply problems identified.

Inaccurate and Inadequately Funded Requirements

The Army's out-of-date and inadequately funded war reserve requirements for spare parts negatively affected the availability of armored vehicle track shoes, lithium batteries, and tires. At the time of our April 2005 report, the Army had not conducted annual updates to its war reserve requirements since 1999. In addition, Army war reserve requirements had not been fully

¹Items we reviewed included lithium batteries, tires, vehicle track shoes, add-on body armor, Meals-Ready-to-Eat, up-armored High-Mobility Multi-Purpose Wheeled Vehicles (HMMWV) and kits, and vehicle generators. We have also reviewed delays in the production and installation of Army and Marine Corps truck armor.

²For further information on issues discussed in this enclosure, see GAO, *Defense Logistics: Actions Needed to Improve the Availability of Critical Items during Current and Future Operations*, [GAO-05-275](#) (Washington, D.C.: Apr. 8, 2005); *Defense Logistics: Several Factors Limited the Production and Installation of Army Truck Armor during Current Wartime Operations*, [GAO-06-160](#) (Washington, D.C.: Mar. 22, 2006); and *Defense Logistics: Lack of a Synchronized Approach between the Marine Corps and Army Affected the Timely Production and Installation of Marine Corps Truck Armor*, [GAO-06-274](#) (Washington, D.C.: June 22, 2006).

funded for many years, indicating that the Army had made a risk management decision not to fund war reserves. This decision forced war reserve managers to prioritize the use of available funding, which meant that some items had no war reserve to support initial operations. In our March 2006 report on Army truck armor, we similarly found that the Army made a decision not to fund prior requirements for truck armor identified in 1996; thus, the Army did not have a significant number of add-on armor kits available when the need for them arose in Iraq.

Inaccurate Supply Forecasts

DOD was unable to accurately forecast supply requirements for armored vehicle track shoes, lithium batteries, Meals-Ready-to-Eat, and tires. The Army's computer models for forecasting item demand did not have the capability to switch to a wartime forecasting mode as required. Further, the Defense Logistics Agency's model was not effective for all supply items. As a result, item managers had to manually develop forecasts for OIF, but they did not always have sufficient or timely information on estimated deployment sizes or the duration of operations. In some cases, they underestimated the actual demand, which resulted in supply shortages during operations.

Insufficient and Delayed Funding

In April 2005, we reported that delays in funding impeded the availability of armored vehicle track shoes, lithium batteries, and tires. Specifically, during OIF, the Army Materiel Command asked for additional funding to support forecasted OIF requirements but did not receive these funds in a timely manner. In March 2006, we similarly reported that funding was not always available to award truck armor contracts when requirements were identified. As a result, production time lengthened because contracts were awarded for amounts less than total requirements. In all of the cases we reported, sufficient documentation was lacking to determine why funding was not available when needed, thus limiting effective oversight over funding decisions.

Delayed Acquisition

Problems with delayed acquisition led to several shortages of critical supply and equipment items. For example, in April 2005, we reported that a lack of key materials and long production lead-times resulted in shortages of body armor and lithium batteries. Similarly, in March and June 2006, we reported that shortages of key materials, such as steel, negatively affected the availability of Army and Marine Corps truck armor kits. In addition to these shortages, in April 2005, we reported that DOD's decision not to maximize available production capacity adversely affected

the availability of up-armored High-Mobility Multi-Purpose Wheeled Vehicles (HMMWV) and add-on armor kits. The acquisition challenges we reported impeded DOD's ability to quickly respond to rapidly increasing demands, resulting in equipment items not being available to warfighters when needed.

Ineffective Distribution

As a result of an ineffective joint distribution system during OIF, DOD was unable to distribute sufficient quantities of four items we reported on in April 2005—assault amphibian vehicle generators, body armor, Meals-Ready-to-Eat, and tires. Among the problems we identified with theater distribution were (1) conflicting doctrine, or military principles, defining the authority of the geographic combatant commander to synchronize the distribution of supplies from the United States to the theater; (2) improper packaging of air shipments from the United States, which forced personnel in theater to spend extra time opening and sorting shipments; (3) insufficient transportation equipment and supply personnel in theater; and (4) the inability of logistics information systems to support the requisition and shipment of supplies into and throughout Iraq. To address OIF distribution problems, DOD established a deployment and distribution operations center in Kuwait to coordinate the arrival of supplies in theater and consolidated air cargo pallets for shipment to a single supply support activity. According to DOD, these two initiatives improved the flow of supplies into and around the OIF theater.

DOD Actions Taken to Improve Supply Support

DOD, the services, and the defense agencies have taken actions to improve supply availability. Many short-term solutions to lessen the impact of supply shortages were instituted during combat operations. For example, as a result of the lithium battery shortage, the Joint Staff developed the "critical few list" to improve the availability of items that the services and combatant commands report as critical to their worldwide operations. DOD is also beginning to make systemic, long-term changes to correct some of its supply problems. One of the more notable is that the Secretary of Defense designated the U.S. Transportation Command as responsible for improving distribution. With the encouragement of the Office of Management and Budget, DOD has also developed a plan to improve supply chain management. The plan focuses on three areas—forecasting requirements, materiel distribution, and asset visibility. We have

previously reported on DOD's efforts to improve supply distribution and supply chain management.³

Prior Recommendations

We have made a number of prior recommendations aimed at improving the effectiveness of DOD's supply system in supporting deployed forces for contingency operations. For example, we have made recommendations to improve the accuracy of war reserve requirements, support prewar planning through supply forecasting, minimize future acquisition delays, and improve supply distribution. DOD agreed with the intent of the recommendations and cited actions it had taken or was taking to eliminate supply chain deficiencies. However, it did not clearly identify timelines for fully implementing most of these recommendations, and we subsequently modified our recommendations to require that DOD specify when actions will be completed.

Oversight Questions

- What actions has DOD taken to improve the accuracy of war reserve requirements and wartime supply requirements?
- To what extent has DOD funded its war reserve and other equipment requirements, and what are the operational impacts of any unfunded requirements?
- What actions has DOD taken to improve the timely availability of funding for wartime supply needs and emerging equipment requirements?
- What actions has DOD taken to assess the industrial base's capacity to meet increasing wartime supply and equipment needs and to minimize acquisition delays?
- What actions have DOD and the U.S. Transportation Command implemented to improve theater distribution during wartime?

³GAO, *Defense Logistics: DOD Has Begun to Improve Supply Distribution Operations, but Further Actions Are Needed to Sustain These Efforts*, [GAO-05-775](#) (Washington, D.C.: Aug. 11, 2005); *DOD's High-Risk Areas: High-Level Commitment and Oversight Needed for DOD Supply Chain Plan to Succeed*, [GAO-06-113T](#) (Washington, D.C.: Oct. 6, 2005); and *DOD's High-Risk Areas: Challenges Remain to Achieving and Demonstrating Progress in Supply Chain Management*, [GAO-06-983T](#) (Washington, D.C.: July 25, 2006).

**Enclosure XIV: Deficiencies in Supply Support
for U.S. Ground Forces Have Resulted in
Shortages of Critical Items**

GAO Contact

William M. Solis, Director, Defense Capabilities and Management, (202)
512-8365 or solisw@gao.gov.

Improving Acquisition Outcomes

Enclosure XV: DOD Needs to Improve Its Capacity to Manage Contractors

Enclosure XV: DOD Needs to Improve Its Capacity to Manage Contractors

Issue

The Department of Defense (DOD) has relied extensively on contractors to undertake major reconstruction projects and provide logistical support to its troops in Iraq. For example, DOD has responsibility for a significant portion of the more than \$30 billion in appropriated reconstruction funds and has awarded and managed many of the large reconstruction contracts, such as the contracts to rebuild Iraq's oil, water, and electrical infrastructure, and to train and equip Iraqi security forces. Further, U.S. military forces in Iraq have used contractors to a far greater extent than in prior operations to provide interpreters and intelligence analysts, as well as more traditional services such as weapons systems maintenance and base operations support. The Army alone estimates that almost 60,000 contractor employees currently support ongoing military operations in Southwest Asia and has spent about \$15.4 billion on its single largest support contract—the Logistics Civil Augmentation Program (LOGCAP)—between 2001 and 2004. These contracts are often cost-plus type contracts, which allow the contractor to be reimbursed for reasonable, allowable, and allocable costs to the extent prescribed in the contracts. This enclosure discusses actions needed to improve (1) DOD's reconstruction outcomes and (2) its use of logistics support contractors.

Summary

The United States has made significant investments through reconstruction and logistics support contracts, but this investment has not always resulted in the desired outcomes. Many reconstruction projects have fallen short of expectations, and DOD has yet to resolve long-standing challenges in its management and oversight of contractors in deployed locations. These challenges often reflect shortcomings in DOD's capacity to manage contractor efforts, including having sufficiently focused leadership, guidance, a match between requirements and resources, sound acquisition approaches, and an adequate number of trained contracting and oversight personnel. Further, because information on the number of contractor employees and the services they provide is not aggregated within DOD or its components, DOD cannot develop a complete picture of the extent to which it relies on contractors to support its operations. With about 29 percent of DOD's planned construction work remaining and the need for continued logistical support for deployed forces, it is essential to improve DOD's capacity to manage its contractors if the department is to increase its return on its investment.

Better Reconstruction Outcomes Require Improved Contract Management

Amid some signs of progress, the United States and its coalition partners face numerous political, security, and economic challenges in rebuilding Iraq. Within this environment, many reconstruction projects have fallen short of expectations, resulting in increased costs, schedule delays, and reduced scopes of work. These outcomes have contributed to the inability of the United States to fully meet its goals with respect to oil, electricity, and water sectors. Poor acquisition outcomes are not unique to Iraq, and the contracting challenges are emblematic of systemic issues faced by DOD. In fact, GAO designated DOD's contract management activities as a high-risk area more than a decade ago. In our January 2005 report, we noted that DOD needed to use sound business practices when buying goods and services and have the right skills and capabilities in its acquisition workforce to properly manage these acquisitions.¹

A prerequisite to having good outcomes is a match between well-defined requirements and available resources. Shifts in priorities and funding invariably have a cascading effect on individual contracts. To produce desired outcomes within available funding and required time frames, DOD and its contractors need to clearly understand reconstruction objectives and how they translate into the contract's terms and conditions: the goods or services needed, the level of performance or quality desired, the schedule, and the cost. When such requirements were not clear, DOD often entered into contract arrangements that posed additional risks. In June 2004, we reported that DOD often authorized contractors to begin work before key terms and conditions, including the work to be performed and its projected costs, were fully defined.² In September 2006, we reported that, under this approach, DOD contracting officials were less likely to remove the costs questioned by auditors if the contractor had incurred these costs before reaching agreement on the work's scope and price.³ In one case, the Defense Contract Audit Agency questioned \$84 million in an audit of a task order for an oil mission. In this case, the contractor did not submit a proposal until a year after the work was authorized, and DOD and the contractor did not negotiate the final terms

¹GAO, *High-Risk Series: An Update*, [GAO-05-207](#) (Washington, D.C.: January 2005).

²GAO, *Rebuilding Iraq: Fiscal Year 2003 Contract Award Procedures and Management Challenges*, [GAO-04-605](#) (Washington, D.C.: June 1, 2004).

³GAO, *Rebuilding Iraq: Continued Progress Requires Overcoming Contract Management Challenges*, [GAO-06-1130T](#) (Washington, D.C.: Sept. 28, 2006); and *Iraq Contract Costs: DOD Consideration of Defense Contract Audit Agency's Findings*, [GAO-06-1132](#) (Washington, D.C.: Sept. 25, 2006).

of the contract until more than a year after the contractor had completed the work. The absence of well-defined requirements and clearly understood objectives complicates efforts to hold DOD and contractors accountable for poor acquisition outcomes.

An unstable contracting environment—when wants, needs, and contract requirements are in flux—also requires greater attention to oversight, which relies on a capable government workforce. However, the Special Inspector General for Iraq Reconstruction found that one of the Coalition Provisional Authority’s (CPA) critical shortcomings in personnel was the inadequate link between position requirements and necessary skills. Similarly, in January 2004, an interagency assessment team found that the number of contracting personnel was insufficient to handle the increased workload expected with the influx of fiscal year 2004 funding. In part, the CPA’s decision to award seven contracts in early 2004 to help better coordinate and manage the fiscal year 2004 reconstruction efforts recognized this shortfall. As a result, however, DOD is relying on contractors to help manage and oversee other contractors.

DOD’s lack of capacity contributed to challenges in using interagency contracting vehicles.⁴ In certain instances, rather than develop and award its own contracts, DOD used contracts already awarded by other agencies. While this practice may improve efficiency and timeliness, these contracts need to be effectively managed and their use requires a higher than usual degree of business acumen and flexibility on part of the workforce. During the initial stages of reconstruction, we and the DOD Inspector General found instances in which DOD improperly used interagency contracts. For example, we found that the lack of effective management controls, including insufficient oversight and a lack of adequate training, led to breakdowns in the issuance and administration of task orders for interrogation and other services by the Department of the Interior on behalf of DOD.⁵ Similarly, the Inspector General found that a DOD component circumvented contracting rules when awarding contracts on behalf of the CPA by using the General Services Administration’s federal supply schedule, in part due to DOD’s failure to plan for the acquisition support the CPA needed to perform its mission.

⁴GAO identified management of interagency contracting a high-risk area in January 2005. See [GAO-05-207](#).

⁵GAO, *Interagency Contracting: Problems with DOD’s and Interior’s Orders to Support Military Operations*, [GAO-05-201](#) (Washington, D.C.: Apr. 29, 2005).

The need to award contracts and begin reconstruction efforts quickly also contributed to DOD using other than full and open competition during the initial stages of reconstruction. While full and open competition can be a tool to mitigate acquisition risks, DOD officials had only a relatively short time—often only weeks—to award the first major reconstruction contracts. We recently reported that available data indicate that between October 1, 2003, through March 31, 2006, the vast majority of DOD’s contract obligations were on competed contracts.⁶

To improve its capacity to plan and award contracts and manage contractor performance, DOD has merged the Project and Contracting Office with the U.S. Army Corps of Engineers’ Gulf Region Division. Additionally, DOD established the Joint Contracting Command–Iraq to consolidate and prioritize contracting activities and resolve contracting issues, among other things. In some sectors, DOD has attempted to directly contract with Iraqi firms, rather than rely on the large U.S. design-build contracts that it had awarded in early 2004. Although DOD expects this approach will reduce costs, it will likely increase the administrative and oversight burden on DOD’s acquisition workforce. Overall, about 29 percent of DOD’s planned construction program was incomplete as of October 2006.

Action Needed to Address Long- standing Problems with Management and Oversight of Military Support Contractors

DOD has long used contractors to provide supplies and services to deployed forces, but the scale of contractor support that DOD relies on in locations such as Iraq has increased considerably from prior operations. Since 1997, we have reported on DOD’s management and training shortcomings related to contractors supporting deployed forces, including the lack of senior DOD leadership, the lack of visibility and knowledge of the number of contractors and the services they provide, and an inadequate number of trained personnel to ensure the efficient and effective use of contractor resources.

We recently found these long-standing problems continue to hinder DOD’s management and oversight of support contractors.⁷ For example, despite

⁶GAO, *Rebuilding Iraq: Status of Competition for Iraq Reconstruction Contracts*, [GAO-07-40](#) (Washington, D.C.: Oct. 6, 2006).

⁷GAO, *Military Operations: High-Level DOD Action Needed to Address Long-standing Problems with Management and Oversight of Contractors Supporting Deployed Forces*, [GAO-07-145](#) (Washington, D.C.: Dec. 18, 2006).

DOD actions to improve its guidance on the use of contractors to support deployed forces, we found few measures had been taken by the relevant office within the Office of the Secretary of Defense to ensure that DOD components complied with this guidance. Similarly, despite facing many of the same difficulties in managing and overseeing contractors in Iraq as it faced in prior operations, no organization within DOD or its components is responsible for systematically collecting and sharing institutional knowledge regarding using support contractors. As a result, new units deploying to Iraq run the risk of repeating past mistakes. DOD has recently established an office to address contractor support issues, but the office's specific roles and responsibilities have not yet been clearly defined.

Further, because information on the number of contractor employees or the services they provide is not aggregated by any organization within DOD or its components, senior leaders and military commanders cannot develop a complete picture of the extent to which they rely on contractors to support their operations. For example, when senior military leaders began to develop a base consolidation plan, officials were unable to determine how many contractors were deployed and therefore ran the risk of over- or under-building the capacity of the consolidated bases. Having limited visibility can also unnecessarily increase contracting costs to the government. For example, an Army official estimated that about \$43 million is lost every year on free meals provided to contractor employees at deployed locations who also receive a per diem food allowance.

Additionally, DOD does not have sufficient numbers of contractor oversight personnel at deployed locations, precluding its ability to obtain reasonable assurance that contractors are meeting contract requirements efficiently and effectively. An Army official acknowledged that the Army is struggling to find the capacity and expertise to provide the contracting support needed in Iraq. A LOGCAP program official noted that, if adequate staffing had been in place, the Army could have realized substantial savings on the LOGCAP contract through more effective reviews of new requirements. DOD is also at risk of being unable to monitor and assess contractor performance. A Defense Contract Management Agency official responsible for overseeing the LOGCAP contractor's performance at 27 locations noted that he was unable to visit all of those locations during his 6-month tour to determine the extent to which the contractor was meeting the contract's requirements.

Military personnel continue to receive limited or no training on the use of contractor support as part of their predeployment training. The lack of training hinders commanders' ability to adequately plan for the use of

contractor support and inhibits the ability of contract oversight personnel to manage and oversee contractors in deployed locations. Limited or no training also can lead to confusion regarding roles and responsibilities military commanders have in overseeing contractors at deployed locations. For example, in several instances, military commanders attempted to direct or ran the risk of directing a contractor to perform work outside the scope of the contract, even though commanders are not authorized to do so and such cases can result in increased costs to the government.

Prior Recommendations

We have made several recommendations to improve DOD acquisition outcomes, including those intended to assure that adequate acquisition staff and other resources are available to support future operations, to emphasize the need to define contract requirements in a timely manner, to improve the management of interagency contracting, and to resolve long-standing issues with regard to the management and use of support contractors. DOD has generally agreed with our recommendations and has actions under way to address them.

Oversight Questions

- What steps is DOD taking to ensure it has the capacity and knowledge to successfully execute remaining reconstruction efforts?
- What actions has DOD taken to ensure that its business arrangements, including its use of contracts awarded by other agencies, result in the acquisition of goods and services in an appropriate, timely, and cost-effective manner?
- To what extent is DOD improving its ability to identify the number of contractor employees and the types of services they provide as it considers how to support deployed forces in Iraq?
- What steps is DOD taking to ensure that contractor support training is consistently provided to deployed forces?
- What actions has DOD taken to ensure that it has a sufficient number of trained contracting and contract management personnel in place in Iraq?
- What can be done to establish contracting arrangements in advance to support future contingency operations?
- What limitations should be placed on the role that contractors play in conflict zones?

GAO Contacts

John P. Hutton, Acting Director, Acquisition and Sourcing Management, (202) 512-4841 or huttonj@gao.gov; and William M. Solis, Director, Defense Capabilities and Management, (202) 512-8365 or solisw@gao.gov.

Objectives, Scope, and Methodology, and Staff Acknowledgments

Enclosure XVI: Objectives, Scope, and Methodology

Enclosure XVII: Staff Acknowledgments

Enclosure XVI: Objectives, Scope, and Methodology

To monitor U.S. efforts in Iraq, we focused on (1) the U.S. strategy and costs of operations in Iraq, (2) security issues, (3) governance challenges, (4) reconstruction challenges, (5) U.S. military readiness, and (6) acquisition outcomes. Our analysis is based on completed and ongoing work. As part of this work, we made multiple visits to Iraq during 2006. For the enclosures that include new information, we provided copies to the relevant agencies for advanced review and technical comments, which we incorporated as appropriate. We conducted our review in accordance with generally accepted government auditing standards. The information on foreign law in this report does not reflect our independent legal analysis, but it is based on interviews and secondary sources.

Strategy and Costs

We examined (1) the U.S. strategy in Iraq, and (2) U.S. resource commitments in Iraq.

To assess the U.S. strategy in Iraq, we obtained and analyzed records, reports, and data from U.S. government and military officials in Washington, D.C., and Baghdad, Iraq. We also examined the reports of other oversight entities that performed internal control and management reviews. We assessed the strategy using the six desirable characteristics of an effective national strategy developed in previous GAO work. National strategies with these characteristics offer policymakers and implementing agencies a management tool that can help ensure accountability and more effective results. The six characteristics are (1) a clear purpose, scope, methodology; (2) a detailed discussion of the problems, risks, and threats the strategy intends to address; (3) the desired goals and objectives, and outcome-related performance measures; (4) a description of the U.S. resources needed to implement the strategy; (5) a clear delineation of the U.S. government roles, responsibilities, and mechanisms for coordination; and (6) a description of how the strategy is integrated internally among U.S. agencies and externally with the Iraqi government and international organizations. We evaluated the National Strategy for Victory in Iraq (NSVI) alone and in conjunction with seven related classified and unclassified supporting documents that Department of State (State) and Department of Defense (DOD) officials said encompassed the U.S. strategy.

To describe U.S. resource commitments in Iraq, we reviewed prior GAO products examining the reported obligations and funding for military operations in support of the global war on terrorism (GWOT). We also reviewed DOD's reported obligations as of September 2006. In our prior work, we compared supplemental and annual appropriations identified for

GWOT to the military services' reported obligations and cost projections and examined the extent to which DOD has taken steps to improve its cost-reporting procedures and the reliability of its reported GWOT obligation data. To compare the military services' reported obligations against available funding appropriated for GWOT, we analyzed copies of DOD's monthly *Supplemental and Cost of War Execution Report* and reviewed applicable supplemental and annual appropriations and DOD reports on the transfer of funds between various appropriation accounts. We also interviewed key officials from the Office of the Under Secretary of Defense (Comptroller) and the Army, Navy, Marine Corps, and Air Force to determine if their projected GWOT obligations are within funding levels. As previously reported, we found the data in DOD's monthly *Supplemental and Cost of War Execution Report* to be of questionable reliability. Consequently, we are unable to ensure that DOD's reported obligations for GWOT are complete, reliable, and accurate, and they should therefore be considered approximations. In addition, DOD has acknowledged that systemic weaknesses with its financial management systems and business operations continue to impair its financial information. To examine the steps DOD has taken to improve the reliability of its reported GWOT obligations, we interviewed key officials from the DOD Comptroller and the Army, Navy, Marine Corps, and Air Force to determine the extent to which our previous recommendations have been implemented. We also reviewed any new guidance issued by DOD regarding the analysis and reporting of obligations for contingencies. In addition, we performed limited testing of the reported GWOT obligations for military personnel and discussed with DOD and military service financial managers their specific processes and procedures used to ensure that reported GWOT obligation data provided by the subordinate commands are accurate and reliable.

Security Conditions

To address security issues, we focused on (1) trends in security conditions in Iraq and in Multinational Force-Iraq's (MNF-I) plans for transferring security responsibilities to the Iraqi government and security forces, (2) how MNF-I measures the capabilities of the Iraqi security forces, and (3) accountability procedures for U.S.-funded equipment provided to the Iraqi security forces. Although we reviewed classified documents during our completed and ongoing Iraq security engagements, the information in this report is based on unclassified documents only.

To provide information on areas (1) and (2), we relied extensively on a number of prior GAO reports.¹ Where appropriate, we updated data on security trends and progress in developing Iraqi security forces and transferring security responsibilities to them. To update data on trends in the security situation, we obtained and assessed MNF-I data on enemy-initiated attacks against the coalition and its Iraqi partners from the Defense Intelligence Agency. We determined that the data were sufficiently reliable for establishing general trends in the number of attacks. To assess and update data on progress in developing Iraqi security forces, we reviewed DOD and State reports, transcripts of MNF-I and U.S. Embassy press conferences, and MNF-I guidance on Iraqi readiness assessments.

To address accountability for U.S.-funded equipment provided to the Iraq security forces, we reviewed (1) the laws and regulations governing property accountability for U.S.-funded equipment that DOD has applied to the U.S. train-and-equip program for Iraq, and (2) MNF-I's accountability for U.S.-funded equipment that it has issued to Iraqi security forces.

To examine the laws and regulations that govern property accountability, we reviewed relevant legislation appropriating funds to train and equip the Iraqi security forces, pertinent DOD regulations, and relevant U.S. military orders. We interviewed officials from State and DOD, including the DOD Office of the Secretary of Defense, Deputy Undersecretary of Defense (Logistics and Material Readiness); Defense Security and Cooperation Agency; the Defense Logistics Agency; Tank-automotive and Armaments Command; and Defense Reconstruction and Support Office. We did not review individual contracts to determine whether they contained equipment accountability provisions.

To review MNF-I's accountability for U.S.-funded equipment that it has issued to Iraqi security forces, we reviewed documentation and interviewed current and former officials of the U.S. Central Command (CENTCOM), MNF-I, and Multinational Security Transition Command-Iraq (MNSTC-I) in Baghdad, Iraq; Tampa, Florida; Washington, D.C.; and Fort

¹GAO, *Stabilizing Iraq: An Assessment of the Security Situation*, [GAO-06-1094T](#) (Washington, D.C.: Sept. 11, 2006); *Rebuilding Iraq: Preliminary Observations on Challenges in Transferring Security Responsibilities to Iraqi Military and Police*, [GAO-05-431T](#) (Washington, D.C.: Mar. 14, 2005); and *Rebuilding Iraq: Resource, Security, Governance, Essential Services, and Oversight Issues*, [GAO-04-902R](#) (Washington, D.C.: June 28, 2004).

Leavenworth, Kansas. To provide our preliminary observations on the amount of equipment reported by MNF-I as issued to the Iraqi security forces, we interviewed key officials to gain an understanding of the MNSTC-I property book data and information reported by the former MNSTC-I commander. We determined that the property books, as of October 2006, were sufficiently reliable for the purposes of our report. We did not assess the reliability of the commander's data. According to former MNSTC-I officials, the data represent equipment tracked at the national warehouses or the regional distribution centers. Based on interviews with current and former MNSTC-I officials, we noted the weaknesses in the data and determined that the data were sufficiently reliable for the purposes of our report.

Governance Challenges

To address governance issues, we examined (1) U.S. and international assessments of Iraq's ministries, (2) the status of ministry capacity development efforts, (3) the factors affecting Iraqi ministry efforts to spend capital budgets, and (4) Iraq's foreign debt and the challenges it faces in meeting International Monetary Fund (IMF) conditions.

To describe U.S. and international assessments of Iraq's ministries, we reviewed official reports, such as *Measuring Stability and Security in Iraq* (Department of Defense), *Survey of Anticorruption Programs* (Department of State), and *Briefing Book for the Government of Iraq* (World Bank). We interviewed officials from the Departments of State and Defense, the U.S. Agency for International Development (USAID), and the World Bank about the status of Iraq's ministries and the challenges they face. We also discussed the status of Iraq's ministries with U.S. officials at the U.S. Embassy in Iraq.

To address U.S. efforts to build Iraq ministry capacity, we reviewed U.S. documents, such as the *Iraq Reconstruction Management Office (IRMO) Weekly Status Reports*, contracts and statements of work for capacity development efforts, reports to Congress pursuant to Section 1227 (c) of the National Defense Authorization Act for fiscal year 2006, and multiple U.S. briefings and status reports about U.S. capacity development efforts and coordination. We interviewed U.S. officials from the Departments of State, Defense, Justice, and the Treasury and USAID who are responsible for implementing capacity development programs. We discussed with them (1) coordination among their agencies and (2) their roles. We interviewed officials of the World Bank and the United Nations about lessons learned from international capacity building and their current program efforts in Iraq. We identified and reviewed the various

approaches to assessing ministry capacity used by USAID, State, and Defense.

To address the factors affecting Iraqi ministry efforts to spend capital budgets, we reviewed budget expenditure reports of Iraqi Ministries prepared by the Department of the Treasury. We compiled these data to provide summary data. We also discussed these data with U.S. Treasury officials in the United States and Iraq. We also reviewed IMF and World Bank documents on developments in Iraq. We interviewed officials from the Departments of State, IRMO, USAID, and the World Bank about issues related to budget execution.

To identify oversight questions related to Iraq's foreign debt and the challenges it faces in meeting IMF conditions, we examined documents from the IMF (including Iraq's stand-by arrangement), the Paris Club of international creditors, and relevant U.S. agencies and international organizations. To determine the amount of outstanding debt in 2004 (prior to debt restructuring) and 2006, we used official IMF estimates of Iraq's external debt. Since the IMF estimates for 2006 included debt restructuring by non-Paris Club official creditors that had not been completed, we used the IMF estimate from 2004 for these countries.

Reconstruction Challenges

To address reconstruction challenges, we examined (1) U.S. efforts to restore Iraq's oil sector, and (2) U.S. efforts to improve Iraq's electricity sector.

To determine the progress made in restoring oil and electricity, we reviewed weekly and daily status reports prepared by U.S. agencies, including the Army Corps of Engineers, State, and IRMO. We compiled these data and analyzed the results to provide summary data. To discuss progress in improving the electricity sector, we also met with U.S., Iraqi, and United Nations (UN) officials at a November 2006 electricity conference sponsored by the UN Development Program at the Dead Sea, Jordan. To determine the effect of Iraq's security environment on the U.S. rebuilding program, we interviewed Army Corps of Engineers, Defense, State, USAID, and Department of Energy officials in the United States and Iraq. We also obtained documents from State and Defense on security issues and funding. To help assess U.S. oversight of the program, we interviewed U.S. agency officials in the United States and Iraq and reviewed management reports used to help monitor progress, including the Corps' Sector Consolidated Results Updated Meeting reports for the oil and electricity sectors.

U.S. Military Readiness

To address the impact of U.S. operations on U.S. force readiness, we examined (1) the impact of extended operations in Iraq on the U.S. military, (2) munitions security and protection of U.S. ground forces, and (3) supply support for U.S. ground forces.

To discuss the impact of extended operations on the U.S. military, we relied extensively on a number of prior GAO products addressing personnel, force structure, equipment, training, and other Iraq-related military issues. These products, which are cited in Encl. XII, provide detailed information on our scope and methodology.

To assess the security provided by DOD over conventional munitions storage sites captured in Iraq, we reviewed DOD, Joint Staff, and service policies, guidance, procedures, and plans. We obtained documentation and interviewed officials from the U.S. Joint Forces Command; the U.S. Central Command, U.S. Army Forces Command; Third Army, which is also known as the U.S. Army Central and Coalition Forces Land Component Command; Joint Improvised Explosive Device (IED) Defeat Task Force; Defense Intelligence Agency; National Geospatial-Intelligence Agency; National Ground Intelligence Center; and Central Intelligence Agency. In addition, we interviewed previous command officers and active duty personnel who served as operational war planners prior to Operation Iraqi Freedom (OIF). Finally, we reviewed various iterations of operational plans and stability plans prepared by U.S. Central Command and the Coalition Forces Land Component Command. To assess DOD's actions to mitigate risks associated with an adversary's conventional munitions storage sites for future operations based on OIF lessons learned, we examined joint staff and service-specific lessons learned reports. We also reviewed joint doctrine and multiservice doctrines, tactics, techniques, and procedures, and the Joint IED Defeat handbook to determine how those documents address the security of conventional munitions storage sites.

To address protection of U.S. ground forces in Iraq, we focused on the availability of body armor and truck armor to meet requirements. Our methodology for evaluating the supply of body armor—one of nine supply items we selected for detailed case studies—is discussed in the section below on supply support for U.S. ground forces. To examine the availability of truck armor, we focused on medium and heavy tactical trucks used by Army and Marine Corps forces in the U.S. Central Command area of responsibility, which included those in Iraq and Afghanistan. To identify the extent to which truck armor was produced and installed to meet identified requirements, we visited numerous DOD,

Army, and Marine Corps organizations to obtain data on the requirements, funding, production, and installation of truck armor kits. We considered the armor requirement as met for each type of truck when the quantity of armor kits produced and installed onto vehicles equaled the requirement. Based on the information gathered, we identified factors that affected the time to provide truck armor kits to deployed forces. We also identified DOD's, the Army's, and the Marine Corps' short-term and long-term efforts to improve the availability of truck armor.

To assess supply support for U.S. ground forces, we developed detailed case studies of nine supply items that were reported to be in short supply during OIF between October 2002 and September 2004. To identify the extent and impact of supply shortages, we visited numerous DOD logistics organizations to obtain data on the production, availability, and distribution of supply items at the national level. We interviewed members of units that had returned from the theater to determine the extent and impact of item shortages on their operations. We identified deficiencies that affected the availability of two or more of the case study items. We worked with DOD logistics agencies, operational units, and service and geographic commands to evaluate the significance of these deficiencies. We also identified DOD's and the military services' short-term and long-term efforts to address these shortages. Our methodology for assessing supply support of truck armor is discussed in the section above on protection of U.S. forces. To assess DOD's progress in resolving supply distribution deficiencies, we reviewed DOD's organizational structure, transformation strategy, and major initiatives to improve the distribution system, including the U.S. Transportation Command's progress in implementing its responsibilities as DOD's "distribution process owner" and the extent to which DOD's logistics transformation strategy provides a framework for guiding and synchronizing distribution improvement efforts. We obtained information on five initiatives that DOD highlighted as major efforts to resolve distribution problems. We also reviewed DOD's plan to address long-term systemic weaknesses in supply chain management.

Improving Acquisition Outcomes

To examine efforts to improve acquisition outcomes, we relied primarily on our completed and ongoing reviews of efforts to rebuild Iraq that we have undertaken since 2003, as well as our work related to selected DOD contract management issues. We also reviewed audit reports and lessons learned reports issued by the Special Inspector General for Iraq Reconstruction and work completed by the Inspector General,

Department of Defense. To determine the extent to which DOD has improved its management and oversight of contractors supporting deployed forces, we met with DOD and military department officials and reviewed changes to key policies and guidance. We visited selected DOD components and military commands in the United States and held discussions with military commanders, staff officers, and other officials that had deployed to Iraq or elsewhere in Southwest Asia during the 2003-2006 time frame to discuss their experiences and the challenges they faced managing and overseeing contractors in a deployed location. We also traveled to Southwest Asia, including Iraq, to meet with combat units and to discuss the use of contractor support with military and installation commanders and other military personnel. We also met with 26 U.S. and foreign contractors who provide support to DOD in Southwest Asia to discuss contracting and contract management issues.

Enclosure XVII: Staff Acknowledgments

Key contributors to this report include Nanette Barton, Ann Borseth, David Bruno, Donna Byers, Dan Cain, Joseph A. Christoff, Carole Coffey, Lynn Cothorn, Tracey Cross, Davi D'Agostino, Tim DiNapoli, Mike Ferren, Rich Geiger, Tom Gosling, Whitney Havens, Lisa Helmer, Patrick Hickey, Henry L. Hinton Jr., Rhonda Horried, John Hutton, Mike Kennedy, Bruce Kutnick, Steve Lord, Judy McCloskey, Tet Miyabara, Kate Monahan, Dave Moser, Mary Moutsos, Ken Patton, Sharon Pickup, Jason Pogacnik, Jim Reynolds, Donna Rogers, Cary Russell, Dave Schmitt, Amy Sheller, William Solis, Lorelei St. James, Janet St. Laurent, Derek Stewart, John Van Schaik, and Tim Wedding.

Ben Atwater, Rob Ball, Leslie Bharadwaja, Michael Derr, Susan Ditto, George Duncan, Etana Finkler, Muriel Forster, Brent Helt, Wesley Johnson, Hynek Kalkus, Andy Marek, Jim Michels, Don Morrison, Marc Schwartz, Michael Simon, Jena Sinkfield, Cynthia Taylor, Gergana Trainor, Kristy Williams, Wilda Wong, and Tony Wysocki provided technical assistance.

GAO's Mission

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
TDD: (202) 512-2537
Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, D.C. 20548

Public Affairs

Paul Anderson, Managing Director, AndersonP1@gao.gov (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, D.C. 20548