



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

April 23, 2010

LETTER FOR COMMANDING GENERAL, U.S. FORCES-IRAQ

SUBJECT: Most Iraq Security Forces Fund Appropriations Have Been Obligated
(SIGIR 10-016)

This letter addresses the Special Inspector General for Iraq Reconstruction's (SIGIR) review of Iraq Security Forces Fund (ISFF) appropriations. Since 2005, Congress has appropriated \$18.04 billion to the Department of Defense (DoD) for the ISFF to train and equip the Iraqi Security Forces, and U.S. Forces-Iraq (USF-I) has obligated 93% and liquidated 90% of these obligations.

Background

Between May 2005 and June 2009, Congress appropriated \$18.04 billion for ISFF. ISFF is used to train, equip, and maintain all elements of the Iraqi Security Forces, including the Iraqi Army, Navy, Air Force, Special Operations Forces; Iraqi police forces; special task forces; the Iraqi Intelligence Agency; and border security forces. The Commanding General, USF-I, is the statutory custodian of the ISFF and is responsible for training and equipping the Iraqi Security Forces.¹

The ISFF was appropriated through supplemental funding acts and the Congress specified the period of time each appropriation can be used. In each case, Congress made the funds available for periods between 12 and 19 months, and funds must be obligated within the period for which Congress made them available. Any funds not obligated within their designated period of availability are considered expired. Expired funds cannot be used for new obligations; however, they can be used up to five years after they expire to pay for (i.e., liquidate) authorized increases to existing obligations made from the same appropriation. Any funds remaining in USF-I's accounts after the five-year period must be returned to the U.S. Treasury. Table 1 summarizes ISFF appropriations between May 2005 and June 2009 and the periods in which the appropriations may be used.

¹ Prior to USF-I's establishment on January 1, 2010, the Multi-National Security Transition Command-Iraq managed and allocated the ISFF for the Multi-National Force-Iraq, which was the custodian of the ISFF. Both of these commands were subsumed into USF-I.

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Table 1—ISFF Appropriations between May 2005 and December 2009 (\$ millions)

Appropriation For Use in Fiscal Years	Appropriation Date(s)	Public Law No.	Amount Appropriated ^b	Expiration Date ^c	Funds Available Through ^d
2005-2006	5/11/2005	109-13	\$5,490	9/30/2006	09/30/2011
2006-2007	6/15/2006	109-234	\$3,007	9/30/2007	09/30/2012
2006-2008	9/29/2006 5/25/2007	109-289 110-28	\$5,542	9/30/2008	09/30/2013
2008-2009	12/26/2007 6/30/2008	110-161 110-252	\$3,000	9/30/2009	09/30/2014
2009-2010	6/24/2009	111-32 ^a	\$1,000	9/30/2010	09/30/2015
Total			\$18,039		

Notes

^a This appropriation rescinded \$1 billion from Public Law 110-252 and made this amount available through September 30, 2010.

^b Appropriated funds must be obligated in the fiscal year(s) for which they were made available.

^c Appropriations expire on the date specified in the specific appropriation language. Funds cannot be used for new obligations after this date.

^d Expired funds can be used for up to five years to cover increases to existing obligations for the fiscal year(s) in which the funds were appropriated.

Source: SIGIR analysis of DoD appropriation law and Financial Management Regulation as of Jun 24, 2009

Obligations are recorded when an authorized agent of the federal government enters into a legally binding agreement to purchase specific goods or services. As bills are received and payments made, the recorded obligation is reduced by the amount of the payments received, with the balance—that is, the money still owed—referred to as the *unliquidated obligation balance*. When all services or goods have been received and paid for, the obligation is considered “liquidated,” and any remaining unliquidated obligation balance not needed for payments should be de-obligated and reduced to zero. If at any time the unliquidated obligation balance is no longer needed, the unliquidated obligation should be de-obligated and the funds made available for other uses.²

Appropriated funds must be obligated in the fiscal year(s) for which they are made available. These obligated funds may be paid out as bills for services are received. If the goods and services are received and paid for during the contract period and the procurement is complete, any remaining unliquidated obligation balance can be de-obligated and used for other needs consistent with the source appropriation. Funds expire if they are not obligated in the fiscal year(s) for which they are appropriated. Expired funds can be used in the subsequent five years to liquidate obligations properly chargeable to the account prior to its expiration. The expired account balance also remains available to make legitimate obligation adjustments, that is, to both record previously unrecorded obligations and to make upward adjustments in previously under-recorded obligations.

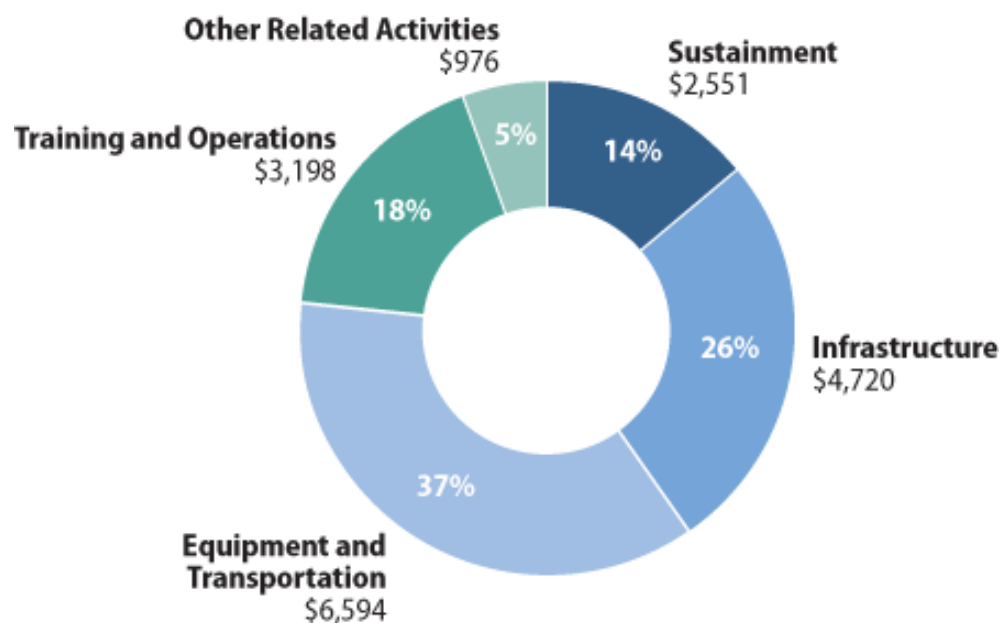
² Appropriations Law, Volume II, Chapter 7, GAO 06-382SP

Since 2005, USF-I and its predecessor organizations planned to obligate ISFF funds in five categories:

- equipment purchases and transportation of equipment, weapons, ammunition, vehicles, communication gear, and spare parts
- infrastructure projects such as construction and improvements of police stations, military bases, training centers, maintenance facilities, and border enforcement facilities among other infrastructure projects
- training and operations projects and programs such as training school and maintenance facilities, vehicles for training centers, and training of security forces
- sustainment of security forces through maintenance programs, human resources, information management system support service, and medical services
- other activities such as detainee operations and disarmament, demobilization, and reintegration

Figure 1 summarizes the amounts planned for each category through December 31, 2009.

Figure 1—Planned ISFF Obligations by Category (\$ millions)



Source: SIGIR Analysis of Department of Defense data as of December 31, 2009

Our objective for this report is to determine the status of the ISFF appropriations.

Most of the ISFF Appropriations Were Obligated and Liquidated, but Some Funds Remain

Of the \$18.04 billion appropriated for the ISFF, \$16.746 billion (93%) has been obligated for contracts to train and equip the Iraqi Security Forces as of December 31, 2009. Only about \$825 million, all from the fiscal year 2009 appropriation, remains available for new obligation. At our exit conference on this review, USF-I officials told us that the amount remaining for new obligation as of March 31, 2010, is about \$340 million. However, we did not have time to review this number prior to issuing this report. At the time of our exit conference, USF-I had six more months to obligate these funds.

Of the \$16.746 billion obligated as of December 31, 2009, \$15.088 billion (90%) has been liquidated. An obligation is considered liquidated when all services or goods have been received and paid for. About \$1.657 billion in outstanding obligations remains to be liquidated. As reported in 2007,³ SIGIR found that DoD was conducting its required tri-annual reviews of unliquidated obligations. However, SIGIR notes that some of these unliquidated obligations are approaching five years in age and may need to be reviewed to determine why they remain unpaid. According to USF-I officials, the balances for these years have not been liquidated, in part, because USF-I has limited resources available to track down contractors in order to request, approve, and process invoices. In written comments on a draft of our report, USF-I stated that other DoD components are working to address the unliquidated ISFF obligations.

About \$469 million (3%) of the funds appropriated were not obligated during the period in which they were authorized to be obligated and have, therefore, expired. Expired funds cannot be used for new obligations, but can be used to cover adjustments to other obligations recorded in fiscal years 2005 through 2008. DoD regulations do not specify the amount that USF-I should keep on hand to cover potential adjustments. If the funds are not needed to cover potential adjustments, the expired funds for each fiscal year will remain in USF-I's accounts for five years.

Table 2 shows the status of the ISFF funds for each fiscal year that funds were appropriated, as of December 31, 2009.

³ *Controls Over Unliquidated Obligations in the Iraq Relief and Reconstruction Fund*, SIGIR 07-011, October 23, 2007.

Table 2—Status of ISFF Funds by Fiscal Year as Reported by DoD (\$ millions)

Fiscal Year	Amount Appropriated	Amount Obligated	Amount Liquidated	Amount Remaining for New Obligation	Amount Expired	Unliquidated Obligations
2005	\$5,490	\$5,367	\$5,335	\$0	\$123	\$32 ^d
2006	\$3,007	\$2,807	\$2,726	\$0	\$200	\$80
2007 ^a	\$5,542	\$5,493	\$5,000	\$0	\$49	\$493
2008 ^b	\$3,000	\$2,904	\$1,923	\$0	\$96	\$980
2009	\$1,000	\$175	\$103	\$825 ^c	\$0	\$72
Total	\$18,039	\$16,746	\$15,088	\$825	\$469	\$1,657

Notes

^a Fiscal year 2007 includes ISFF funds appropriated under Public Laws 109-289 and 110-028 (\$1,700 and \$3,842 million, respectively) that could be obligated until 9/30/2008

^b Fiscal year 2008 includes ISFF funds appropriated under Public Law 110-161 and 110-252 (\$1,500 and \$1,500, respectively) that could be obligated until 9/30/2009

^c USF-I has until 9/30/2010 to obligate this amount

^d In commenting on a draft of this report, USF-I stated that it had reduced the amount of unliquidated obligations for fiscal year 2005 by \$4 million. However, we did not have time to verify this amount prior to issuing the report.

Source: *SIGIR Analysis of Department of Defense data and appropriations laws as of December 31, 2009*

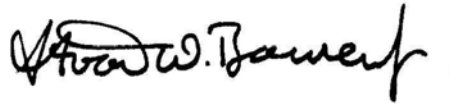
Concluding Observation

USF-I and its predecessors have obligated the majority of funds appropriated for the ISFF and USF-I is in the process of developing a spend plan for the remaining funds.

Management Comments and Audit Response

In written comments on a draft of this report, the USF-I stated that it generally concurred with the information presented in this report. USF-I also provided additional information on the status of ISFF funds, including a \$4 million reduction to the total amount of unliquidated obligations for fiscal year 2005, and DoD processes to oversee unliquidated obligations. We made revisions to the report based on these technical comments, as appropriate.

We appreciate the courtesies extended to the SIGIR staff. For additional information on the audit report, please contact David Warren, Assistant Inspector General for Audits (703) 604-0982/ david.warren@sigir.mil or Glenn Furbish, Principal Deputy Assistant Inspector General for Audits , (703) 604-1388/ glenn.furbish@sigir.mil.

A handwritten signature in black ink, appearing to read "Stuart W. Bowen, Jr.", followed by a period.

Stuart W. Bowen, Jr.
Inspector General

cc: U.S. Secretary of State
U.S. Ambassador to Iraq
U.S. Secretary of Defense
Under Secretary of Defense (Comptroller)
Commander, U.S. Central Command

Appendix A—Scope and Methodology

In November 2009, the Special Inspector General for Iraq Reconstruction (SIGIR) announced Project 1003 to audit the status of the Iraq Security Forces Fund (ISFF). Our objective for this report is to determine the status of the ISFF appropriations. This audit was performed under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. SIGIR conducted its work during December 2009 through March 2010 in the United States and in Baghdad, Iraq.

To accomplish our audit objective, we obtained and analyzed documents and data provided by officials from the Department of Defense (DoD) and U.S. Forces-Iraq (USF-I) on processes and procedures used to track and account for obligations and expenditures made from appropriations for the Iraqi Security Forces Fund (ISFF). The data provided by these offices originated from the U.S. Army Corps of Engineers' Financial Management System, which is the financial management system of record for the ISFF. We discussed this information with those officials and also queried them about the project and activity planning for the latest ISFF-appropriated funds such as spending plans or project metrics. Further, we obtained and reviewed relevant portions of the laws and regulations governing the appropriation and use of the ISFF.

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Use of Computer-processed Data

We used computer processed data in this report from the Corps of Engineers' Financial Management System. We did not verify the data, but we determined that the controls used by DoD for tracking the status of the ISFF appropriations ensured us that the data from this system was sufficiently reliable for purposes of the audit.

Internal Controls

In conducting the audit, we reviewed the internal controls used by DoD and USF-I to track the status of funds appropriated for the ISFF. In addition, we examined documents and held discussions with key officials to gain an understanding of the internal controls governing the use of ISFF. We determined that DoD and USF-I's internal controls were sufficiently reliable for tracking the status of ISFF appropriations, obligations, and expenditures for the purpose of the audit. The results of our review in terms of the status of ISFF appropriations are discussed in the report.

Prior Coverage

We reviewed the following reports by SIGIR for this audit:

- *Government of Iraq Increasingly Funding Iraqi Security Forces Infrastructure Development, but Substantial U.S. Support Remains*, SIGIR 08-022, 7/26/2008.
- *Agency Management of the Closeout Process for Iraq Relief and Reconstruction Fund Contracts*, SIGIR 07-010, 10/24/2007.
- *Controls Over Unliquidated Obligations in the Iraq Relief And Reconstruction Fund*, SIGIR 07-011, 10/23/2007.

Appendix B—Definitions of Terms

The following terms were used in the report.

Appropriation	An appropriation is a statute that generally provides legal authority for federal agencies to incur obligations and to make payments out of the Treasury for specified purposes.
Availability of Funds	After an appropriation expires, unobligated balances remain available for five years to process expenditures, collections, and increases to existing obligations due to adjustments to the scope of work on contracts.
Expenditures	The actual spending of money; an outlay of funds is an expenditure.
Expired Funds	Funds expire if they are not obligated within the time period specified in its appropriation for incurring obligations.
Liquidated Funds	Funds are considered liquidated when all services or goods have been received and paid for.
Obligation	A definite commitment that creates a legal liability for the payment of goods and services ordered or received.
Unliquidated Obligation	The amount of an obligation that has yet to be expended.

Appendix C—Acronyms

Acronym	Description
DoD	U.S. Department of Defense
ISFF	Iraq Security Forces Fund
SIGIR	Special Inspector General for Iraq Reconstruction
USF-I	United States Forces-Iraq

Appendix D—Audit Team Members

This report was prepared and the review conducted under the direction of David R. Warren, Assistant Inspector General for Audits, Office of the Special Inspector General for Iraq Reconstruction.

The staff members who conducted the review and contributed to the report include:

Mohamed K. Abdou

Ziad M. Buhaissi

Nancee K. Needham

Jason G. Venner

Appendix E—Management Comments



REPLY TO
ATTENTION OF:

UNITED STATES FORCES-IRAQ
BAGHDAD, IRAQ
APO AE 09348

USF-I J8 FWD

9 April 2010

MEMORANDUM FOR Special Inspector General for Iraqi Reconstruction

SUBJECT: Draft Report "Most Iraq Security Forces Fund Appropriations Have Been Obligated" (SIGIR 10-016)

1. This memorandum provides the United States Forces-Iraq (USF-I) response to the subject report.
2. USF-I generally concurs with the concluding observation contained in the report. See the enclosure for our comments.
3. We appreciate your assessment of the subject project. Thank you for the opportunity to provide written comments for incorporation in the final report.
4. If you have any question please contact MAJ April Myrick at DSN 318-239-5947 or email april.myrick@iraq.centcom.mil.

Encl

A handwritten signature in dark ink, appearing to read "Kenneth D. Hubbard".
KENNETH D. HUBBARD
COL, USA
USF-I J8 FWD

**USF-I COMMAND RESPONSE
SIGIR DRAFT REPORT "MOST IRAQ SECURITY FORCES FUND
APPROPRIATIONS HAVE BEEN OBLIGATED" (SIGIR 10-016)**

OVERALL: Concur, with the following clarification.

1. In reference to unliquidated obligations expiring: The United States Army Corps of Engineers (USACE) has established policies and procedures to conduct the required tri-annual reviews in support of USF-I efforts to liquidate all obligations in a timely manner. USACE also has a closeout team that is currently working canceling appropriations and fourth year canceling appropriations. During second quarter FY10 they reduced the ISFF 1 program by over \$4M dollars. There is still over \$20M in un-liquidated obligations but they are being actively worked. USACE is coordinating with Joint Contracting Command Iraq (JCCI), Air Force Center for Engineering and the Environment (AFCEE), Army Material Command (AMC) and other contracting offices to closeout open contracts. This mutually agreed upon support allows the USF-I resources to concentrate on the immediate task of committing and obligating ISFF.

Appendix F—SIGIR Mission and Contact Information

SIGIR’s Mission	Regarding the U.S. reconstruction plans, programs, and operations in Iraq, the Special Inspector General for Iraq Reconstruction provides independent and objective: • oversight and review through comprehensive audits, inspections, and investigations • advice and recommendations on policies to promote economy, efficiency, and effectiveness • deterrence of malfeasance through the prevention and detection of fraud, waste, and abuse • information and analysis to the Secretary of State, the Secretary of Defense, the Congress, and the American people through Quarterly Reports
Obtaining Copies of SIGIR Reports and Testimonies	To obtain copies of SIGIR documents at no cost, go to SIGIR’s Web site (www.sigir.mil).
To Report Fraud, Waste, and Abuse in Iraq Relief and Reconstruction Programs	Help prevent fraud, waste, and abuse by reporting suspicious or illegal activities to the SIGIR Hotline: • Web: www.sigir.mil/submit_fraud.html • Phone: 703-602-4063 • Toll Free: 866-301-2003
Congressional Affairs	Hillel Weinberg Assistant Inspector General for Congressional Affairs Mail: Office of the Special Inspector General for Iraq Reconstruction 400 Army Navy Drive Arlington, VA 22202-4704 Phone: 703-428-1059 Email: hillel.weinberg@sigir.mil
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