

Why GAO Did This Study

Since 2003, the United States has reported obligating \$642 billion for U.S. military operations in Iraq and provided about \$24 billion for training, equipment, and other services for Iraqi security forces. To assist Congress in overseeing efforts to encourage the Iraqi government to contribute more toward the cost of securing and stabilizing Iraq, this report provides information on (1) the amount and availability of Iraq's budget surplus or deficit, (2) the amount of Iraq's financial deposit balances, and (3) the extent to which Iraq has spent its financial resources on security costs. To conduct this audit, GAO analyzed Iraqi financial data, reviewed U.S. and Iraqi documents, and interviewed U.S. and Iraqi officials.

What GAO Recommends

GAO believes that Congress should consider Iraq's available financial resources when reviewing the administration's fiscal year 2011 budget request and any future funding requests for securing and stabilizing Iraq. Also, GAO recommends that the Departments of State and the Treasury work with the Iraqi government to further identify available resources. This includes assisting Iraq in completing IMF-required reviews of outstanding advances and central government accounts. State and Treasury agreed with the recommendation, although State, Treasury, and DOD had different perspectives on how much money would be available for cost-sharing.

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IRAQI-U.S. COST-SHARING

Iraq Has a Cumulative Budget Surplus, Offering the Potential for Further Cost-Sharing

What GAO Found

GAO analysis of Iraqi government data showed that Iraq generated an estimated cumulative budget surplus of \$52.1 billion through the end of 2009. This estimate is consistent with the method that Iraq uses to calculate its fiscal position. Adjusting for \$40.3 billion in estimated outstanding advances as of September 2009 reduces the amount of available surplus funds to \$11.8 billion. In April 2010, a senior Ministry of Finance official stated that advances should be deducted from the budget surplus because they are committed for future expenditures or have been paid out. According to this official and Board of Supreme Audit reports on Iraq's financial statements, advances include funds for letters of credit, advance payments on domestic contracts, and other advances. However, Iraq's Board of Supreme Audit has raised concerns that weaknesses in accounting for advances could result in the misappropriation of government funds and inaccurate reporting of expenditures. Furthermore, the composition of some of these advances is unclear; about 40 percent of the outstanding advances through 2008 are defined as "other temporary advances." Under the terms of a February 2010 International Monetary Fund (IMF) arrangement, Iraq agreed to prepare a report on its outstanding advances, which will identify those advances that are recoverable and could be used for future spending, and set a time schedule for their recovery. This Iraqi report is to be completed by September 30, 2010.

Another means of assessing Iraq's fiscal position is to examine its financial deposit balances. Iraqi government data and an independent audit report show that, through the end of 2009, Iraq had accumulated between \$15.3 billion and \$32.2 billion in financial deposit balances held at the Central Bank of Iraq, the Development Fund for Iraq in New York, and state-owned banks in Iraq. This range reflects a discrepancy between the amount of government-sector deposits reported by the Central Bank of Iraq to the IMF and the amount that the Ministry of Finance asserts is available for government spending. In November 2009, the Ministry of Finance reclassified \$16.9 billion in state-owned banks as belonging to state-owned enterprises and trusts, leaving \$15.3 billion of \$32.2 billion available to the Iraqi government for other spending. The IMF is seeking clarification on the amount of financial deposits that is available for government spending. Under the terms of Iraq's 2010 arrangement with the IMF, the Ministry of Finance is required to complete a review of all central government accounts and return any idle balances received from the budget to the central Iraqi Treasury by March 31, 2010. As of August 2010, according to the IMF, this review was still under way.

Iraqi government data show that Iraq's security ministries—the Ministries of Defense and Interior—increased their spending from 2005 through 2009 and set aside about \$5.5 billion for purchases through the U.S. Foreign Military Sales program. However, over this 5-year period, these ministries did not use between \$2.5 billion and \$5.2 billion of their budgeted funds that could have been used to address security needs. The administration is requesting \$2 billion in additional U.S. funding in its fiscal year 2011 budget request to support the training and equipping of Iraq's military and police.