

New Leaders, New Organizations

On June 25, the President nominated Ambassador James Jeffrey to be the next Chief of Mission in Baghdad. Five days later, the Senate confirmed Lieutenant General Lloyd Austin as the next Commanding General of USF-I. Their partnership with the new Iraqi government will be central in the next phase of the evolving relationship between the United States and Iraq.

This quarter also saw the creation of two new organizations that will play a crucial role in the ongoing reconstruction effort. In May, the President signed an executive order establishing the Iraq Strategic Partnership Office. This DoS office will assume the duties of the now-defunct Iraq Transition Assistance Office. In June, the responsibilities of the former Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) transitioned to the newly established CENTCOM Contracting Command, which will oversee contracts throughout CENTCOM's area of responsibility.

SIGIR Investigations

Since 2004, work conducted by SIGIR's Investigations Directorate has resulted in the conviction of 31 U.S. citizens and 3 foreign military personnel, and the levying of more than \$70.7 million in monetary penalties. This quarter, SIGIR continued to investigate 112 open cases, often collaborating with U.S., Iraqi, third-country, and international law enforcement agencies. Notable achievements this quarter include:

- A former DoS employee was arrested and indicted for his alleged role in a \$147,000 wire-fraud scheme involving the conversion of U.S. government-owned housing and office space for personal use.
- A U.S. Army captain was sentenced to 30 months in prison following his guilty pleas to two federal charges involving the theft of Commander's Emergency Response Program (CERP) funds.
- Another U.S. Army captain was charged with receiving bribes for awarding CERP contracts.
- A U.S. Marine Corps major surrendered on charges that he illegally deposited more than \$440,000 into U.S. bank accounts following a 2005 tour in Iraq as a CERP purchasing officer.

SIGIR Audits

SIGIR published five audits this quarter, including one finding that weaknesses in Department of Defense (DoD) financial and management controls leave it unable to account for 96% of the \$9.1 billion in Development Fund for Iraq (DFI) monies



Motorcycle and automobile seized from DoD contract employee who pled guilty to cash smuggling and other charges.

that it received for reconstruction-related activities in Iraq. SIGIR determined that this situation was largely the result of DoD failing to coordinate with the Department of the Treasury and not designating a single DoD office as the executive agent responsible for managing DFI funds.

SIGIR also audited DoS's management of a \$50 million grant to the International Republican Institute (IRI) for democracy-building activities in Iraq, finding that inadequate DoS oversight and weak IRI compliance with the grant's requirements combined to leave the U.S. government with insufficient information regarding what was achieved—other than the holding of 271 training sessions for about 5,000 Iraqis over two years. SIGIR is currently planning a follow-up audit that will examine the reasonableness of IRI's claimed security costs and the extent to which IRI documented its success in achieving its objectives.

Other audits this quarter:

- examined the \$4.55 billion in Economic Support Fund (ESF) monies allocated to the U.S. Agency for International Development (USAID) and the U.S. Army Corps of Engineers (USACE), finding that most ESF funds have been obligated and liquidated
- reviewed the records-management policies of DoD, DoS, and USAID as they pertain to Iraq reconstruction programs, concluding that improvements are needed to reduce vulnerabilities to waste and theft
- reported on recent progress made by SIGIR's forensic audit initiative, which has reviewed 108,000 transactions valued at \$35.8 billion and uncovered information leading to the opening of 49 criminal investigations

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SIGIR QUARTERLY REPORT

SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

JUL
2010

FROM TRANSITION TO TRANSFORMATION?

On June 14, 2010, Iraq's new Council of Representatives (CoR) convened for the first time—99 days after the March 7 parliamentary elections. In a session lasting less than 30 minutes, 325 deputies took the oath of office and then adjourned. The CoR was scheduled to meet next in late July and attempt to fill the key positions of Speaker of the CoR and President of the Republic.

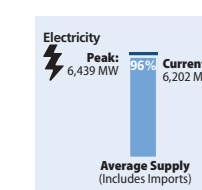
The closely contested nature of the March elections left uncertain the future composition of the Government of Iraq (GOI). None of the political blocs won the 163 seats needed to form a government; negotiations to construct a ruling coalition continue. Former Prime Minister Ayad Allawi's al-Iraqiya alliance won the most seats (91) on a nationalist platform that attracted Shia and Sunni supporters but was not sufficient to form a government. On June 10, the second and third place finishers—Prime Minister Nouri al-Maliki's State of Law Coalition (89 seats) and the Iraqi National Alliance (70 seats) announced their intent to ally, but they have yet to agree on who should be prime minister. Consequently, four months after the vote and on the eve of the CoR's second meeting, Iraq's post-election trajectory remains uncertain.

Once the new government is formed, the prime minister and new cabinet will turn to address a substantial legislative docket. Among the myriad contentious issues to be considered are the need to pass the long-postponed package of hydrocarbon laws, the future of Iraq's anticorruption institutions, the dynamics of the Kurdistan Region's relationship with Baghdad, and amendments to the Iraqi Constitution.



CoR members take the oath of office at the first session of Parliament. (GOI photo)

Minister of Electricity Resigns

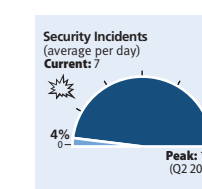


In late June, as temperatures soared above 120 degrees Fahrenheit, Iraqis took to the streets in several southern cities to protest power shortages that have limited many households to under four hours of electricity per day. While the electricity

supply is currently running near its post-war high, outages and shortages remain common occurrences. Demonstrations turned violent in Basrah, when Iraqi Security Forces (ISF) opened fire on the crowd on June 19, killing two protestors.

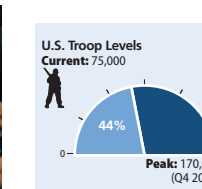
Two days later, Iraq's Minister of Electricity resigned, and the Minister of Oil stepped in to lead both ministries. The move may be a harbinger of reforms to come; a spokesman announced that the GOI was discussing combining the Ministries of Electricity and Oil into a new Ministry of Energy.

Political Uncertainty Threatens Sustainability of Security Gains



This quarter, several large-scale attacks underscored the tenuous security situation in Iraq. In mid-June, unknown gunmen attacked the Central Bank of Iraq, killing approximately 20. This assault was followed one week later by the explosion of two car bombs outside the Trade Bank of Iraq. In early July, approximately 70 Shia pilgrims were killed in a series of bombings in Baghdad. And members of the largely Sunni Sons of Iraq (SOI) were the target of multiple attacks this quarter, including a suicide bombing on July 18 that killed 40 members waiting in line to receive their long-delayed salaries.

On August 31, 2010, the U.S. Forces-Iraq (USF-I) plans to have just under 50,000 U.S. soldiers remaining in Iraq—down 25,000 from mid-July's level and more than two-thirds less than the post-invasion high of about 170,000 reached during the height of the "surge" in 2007. This remaining stabilization force will focus on advising, training, and equipping the ISF and supporting U.S. Provincial Reconstruction Teams. Current plans call for U.S. troop strength to decline gradually over the next 17 months, with all U.S. troops scheduled to depart Iraq by December 31, 2011.



U.S. Troop Withdrawal Continues on Schedule

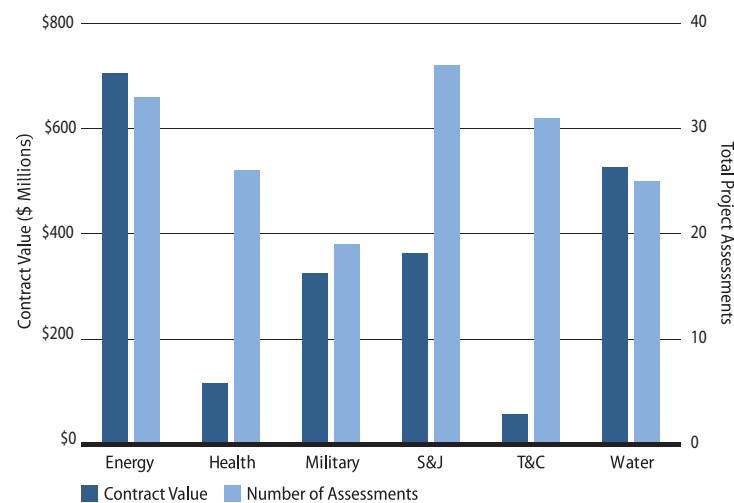
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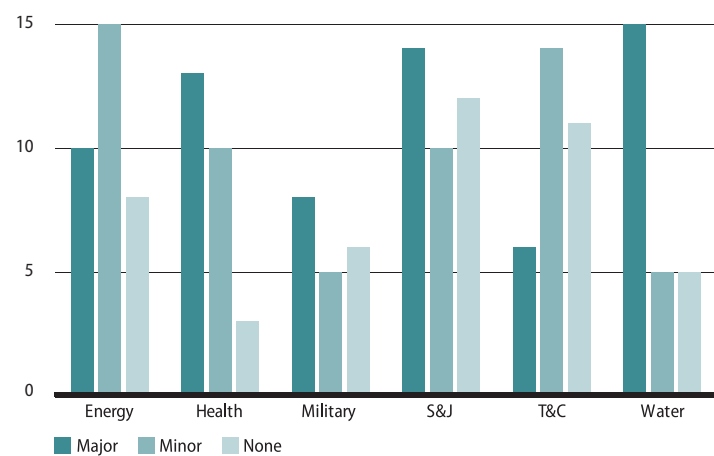
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SIGIR Assessments, by Sector



Deficiencies in Assessed Projects, by Sector



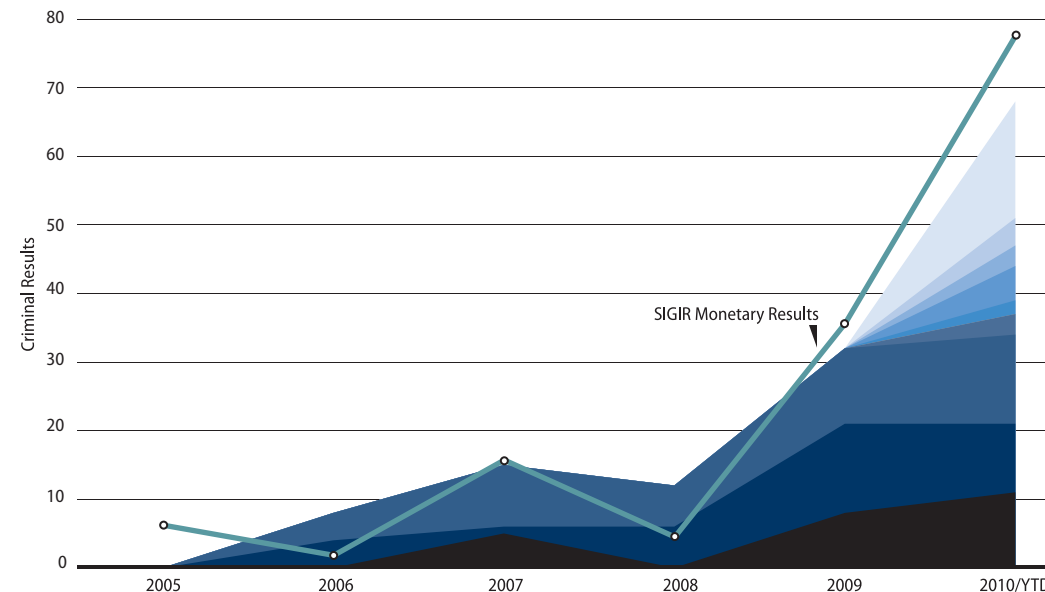
Note: S&J refers to the projects in the security and justice sectors. T&C refers to projects in the transportation and communications sectors and includes assessments of school projects. A major deficiency prevents the project from functioning as it was designed. A minor deficiency does not preclude the project from functioning as designed, but it must be corrected to comply with contract specifications.

SIGIR Investigations Directorate

- 112 Investigations Open
- 402 Investigations Closed or Referred to Other Agencies
- 29 Arrests
- 43 Indictments
- 34 Convictions
- >\$70.7M Fines, Forfeitures, Recoveries, Restitution, and Other Monetary Results

OVERSIGHT IN A CONTINGENCY ENVIRONMENT

Results of SIGIR Investigations



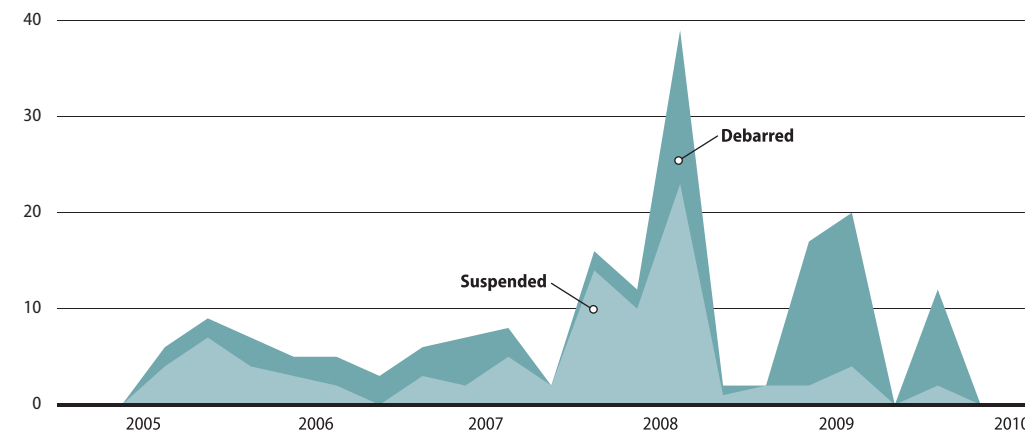
SIGPRO
In late 2009, SIGIR detailed three former DOJ prosecutors to the Fraud Section of the Criminal Division of DoJ, to prosecute SIGIR investigation cases. These prosecutors handle their own DoJ caseloads and work closely with the SIGIR General Counsel and other DoJ prosecutors who are assigned SIGIR cases. Additionally, they collaborate with Assistant U.S. Attorneys throughout the United States, as well as foreign prosecutors. The SIGPRO prosecution team continues to make a substantive positive impact on the productivity of the SIGIR criminal investigation program, and DoJ enthusiastically supports the initiative.

FERRET

SIGIR's Forensic, Evaluation, Research, Recovery, and Enforcement Team (FERRET) combines automatic data-mining with standard audit and investigative techniques to detect problematic transactions and develop evidence for use in administrative actions or civil or criminal fraud prosecutions. This effort focuses on Iraq relief and reconstruction programs that afford easy access to cash associated with weak controls over expenditures. SIGIR coordinates with other organizations, such as FinCEN (Department of Treasury).

Criminal Investigations: 49
Subjects Involved: more than 60

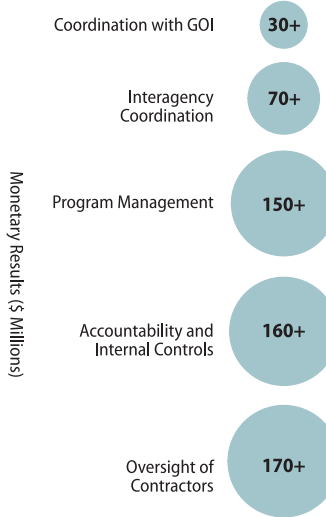
Contractor Suspensions and Debarments, 2005-2010



Suspension temporarily disqualifies a contracting firm or person from government contracting, government-approved subcontracting, or participation in covered transactions.

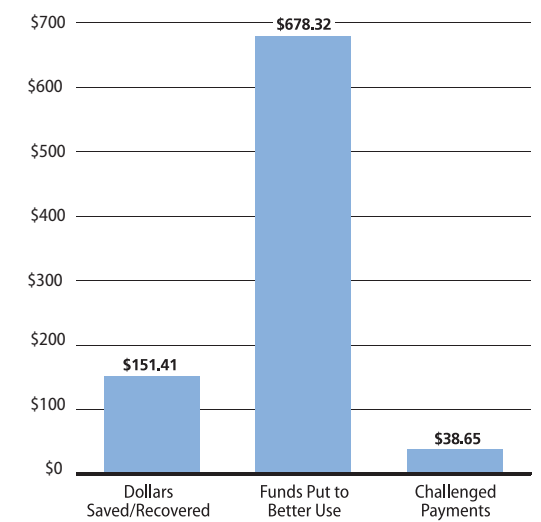
Debarment excludes a contracting firm or person for a reasonable and specified period of time from participating in such activities. Suspension and debarment actions are not punitive; they are imposed to protect the U.S. government's business interests.

Audit Recommendations by Issue, 2004-2010



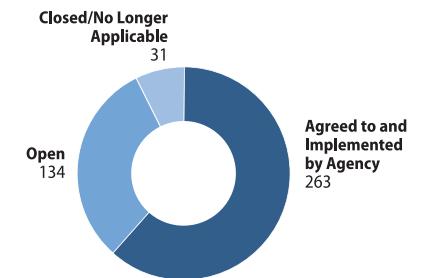
Note: Total exceeds 428 because many recommendations address more than one type of deficiency.

Impact of SIGIR Audits \$ Millions

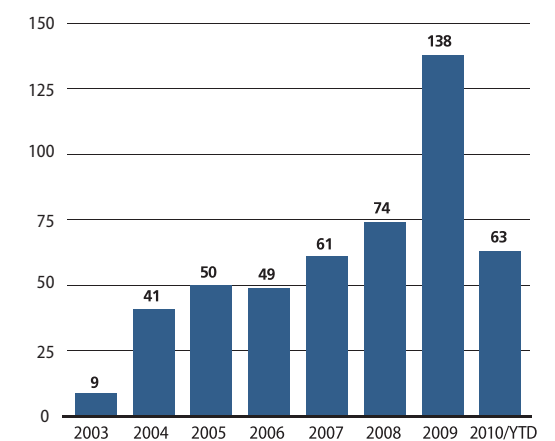


Status of SIGIR Audit Recommendations

Total Recommendations=428



All Iraq Audits by Other Oversight Organizations, 2003-2010



Note: Includes audits conducted by DoD OIG, DoS OIG, GAO, USAAA, and USAID OIG.

- 3 South Korean military personnel convicted of stealing CERP funds
- \$13.1 million DFI funds returned to the Government of Iraq
- 49 New cases opened because of SIGIR's forensic audit
- 17 Convictions stemming from crimes committed during CPA era
- 17.5 years Longest prison sentence resulting from SIGIR investigations
- \$9.6 million Largest restitution payment resulting from SIGIR investigations
- \$15.8 million Largest forfeiture ordered by a court as a result of SIGIR's work
- 10.5 million gallons Fuel stolen from U.S. military by four co-conspirators
- \$300,000+ Stolen CERP funds found stashed in the attic of West Point graduate's family home
- 40+ Times KBR supervisor accepted illegal gifts
- 62 days Length of sentence given to Marine Corps master sergeant convicted of bribery, graft, and failure to obey a direct order

PROFESSIONALISM PRODUCTIVITY PERSEVERANCE