



Congress created SIGIR to provide independent oversight of the Iraq Relief and Reconstruction Fund by:

- promoting economy, efficiency, and effectiveness in the administration of programs and operations
- preventing and detecting waste, fraud, and abuse in such programs and operations
- keeping the Secretary of State, Secretary of Defense, Congress, and the American taxpayers informed about problems, deficiencies, and recommendations for corrective action relating to the administration of programs and operations

Stuart W. Bowen, Jr., was appointed Inspector General in January 2004. This past May, the IG made his twelfth trip to Iraq to review progress on the reconstruction effort.

HIGHLIGHTS: July 2006 Quarterly and Semiannual Report

During this quarter, the U.S. reconstruction effort in Iraq achieved some important milestones: production of electricity and oil climbed above pre-war levels for the first time in over a year, with electricity output exceeding 5,000 megawatts and oil production reaching 2.5 million barrels per day. The watershed event of this year, however, occurred in May, when the first permanent, democratically-elected government of Iraq took office. Iraq's new unity government now faces many daunting tasks, including improving security, sustaining the infrastructure, and fighting corruption.

MIDWAY THROUGH THE YEAR OF TRANSITION

At the end of June 2006, \$18.94 billion of the Iraq Relief and Reconstruction Fund (IRRF 1 & 2) had been obligated, and \$14.85 billion had been expended. The U.S. government's authority to obligate the remaining funds in the IRRF expires September 30, 2006, so any IRRF dollars not under contract by that date will revert to the U.S. Treasury. U.S. contracting entities in Iraq are now focused on rapidly obligating the balance of the IRRF.

SECURITY PROBLEMS CONTINUE

Recurring violence in Iraq continues to impede reconstruction efforts, slowing progress on projects, restricting the movement of personnel, and diverting dwindling resources. The lethal environment limits the important work of the U.S. Provincial Reconstruction Teams (PRTs)



The Baiji Power Plant is a major producer of electricity for Iraq.

that are tasked with building governance capacity in Iraq's provinces. SIGIR completed a classified audit of infrastructure security this quarter that raised security concerns, which are being addressed.

CORRUPTION PERMEATES IRAQ

Corruption threatens to undermine Iraq's democracy. Iraqi officials estimate the cost of corruption at \$4 billion a year, and the Commission for Public Integrity has more than 1,400 criminal cases, involving about \$5 billion. A poll conducted this quarter found that one-third of Iraqis reported that they have paid bribes for products or services this year. More resources and stronger support will be needed for Iraq's anticorruption entities to battle corruption effectively. SIGIR sees positive signs in the Iraqi Prime Minister's recent words of support for anticorruption efforts. Additionally, the U.S. Mission in Iraq concurred with (and is implementing) the recommendations in SIGIR's audit of the U.S. anticorruption capacity-building program, which means more resources will be devoted to this important issue.

The first democratically elected government to take office in Iraq now faces the daunting challenges of **sustaining its infrastructure, fighting corruption, and enforcing security** in an increasingly hostile environment.

Highlights, continued

BETTER COORDINATION NEEDED AMONG RECONSTRUCTION AGENCIES

In an audit of transition planning completed this quarter, SIGIR noted that coordination among agencies managing the transition of the reconstruction program needs improvement. IRMO has responsibility for setting priorities, coordinating among agencies, centralizing reporting, and managing ministry advisors. It must be empowered to do more to bring all operating agencies together to effect a successful transition.

CAPACITY BUILDING IS THE KEY TO TRANSITION

The fall of Saddam's regime ended four decades of a state-controlled economy, leaving local officials, many of whom lacked experience, to manage the delivery of provincial government services. Programs to assist these officials in developing management skills are a priority. The PRT program embodies this priority, helping local officials to improve their capacities to govern by teaching them to promote security, rule of law, political participation, and economic development. Currently, the PRTs face serious challenges, including security threats, insufficient staffing, and limited resources. SIGIR has announced an audit of the PRT program, which will examine their effectiveness.

MOVING TOWARD MULTILATERALIZING RECONSTRUCTION

A significant development this quarter was the Iraqi government's request to the UN for help in securing a financial compact with the international donor community. Under this compact, Iraq will pledge to implement reforms in exchange for political and economic support. The compact's goal is to provide a financial framework for the transformation of Iraq's economy and its integration into the regional and global economies. The compact is expected to energize the next phase of reconstruction in Iraq.

SIGIR Audits & Inspections

SIGIR issued 10 audits this quarter with 50 recommendations for program improvements. The audits focus on a broad range of issues, including health care projects, security, and anticorruption activities. SIGIR also issued 12 inspections and has now completed 56 project assessments, 96 limited on-site inspections, and 172 aerial assessments. SIGIR found that most projects visited this quarter showed high-quality workmanship and effective quality-control and quality-assurance programs.

SIGIR Investigations

SIGIR currently has 82 open investigations into alleged fraud, corruption, bribery, kickbacks, and gratuities. Currently, 25 cases are awaiting prosecution at the Department of Justice. On July 7, 2006, LTC Bruce Hopfengardner agreed to plead guilty to conspiracy to commit wire fraud and money laundering. SIGIR recently entered into a partnership with the Federal Bureau of Investigation's Criminal Investigations Division to enhance investigative operations in Iraq and the United States.

Lessons Learned Initiative

SIGIR has released the second report of its Lessons Learned Initiative, *Iraq Reconstruction: Lessons in Contracting and Procurement*, providing detailed insight into the U.S. government's contracting experience in Iraq. The report presents six recommendations for improving the U.S. government's approach to contracting during contingency operations. Both this report and SIGIR's first report, *Iraq Reconstruction: Lessons in Human Capital Management*, are available at www.sigir.mil. SIGIR's next report, *Iraq Reconstruction: Lessons in Program and Project Management* will be published later this year.

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