

SIGIR Observations

FOCUSED FINANCIAL REVIEWS OF THE LARGEST
IRAQ RECONSTRUCTION CONTRACTS
ASSET TRANSFER
IRAQI EMPOWERMENT
RECONSTRUCTION MANAGEMENT
PROGRESS ON THE INTERNATIONAL COMPACT WITH IRAQ
ANTICORRUPTION
BENCHMARKS
NOTABLE SIGIR ACTIVITIES THIS QUARTER
IMPACTS OF SIGIR OPERATIONS
THE HUMAN TOLL

SECTION

1

This 14th Quarterly Report from the Special Inspector General for Iraq Reconstruction (SIGIR) provides comprehensive reporting on the \$44 billion in taxpayer dollars that the United States Congress appropriated for the relief and reconstruction of Iraq. This \$44 billion is part of the \$99 billion in total Iraq reconstruction funding provided through U.S.,

Iraqi, and international donor sources since 2003. Section 2 of this Quarterly Report contains a complete review of funding sources and their uses within the reconstruction program. Section 3 provides details on SIGIR's audits, inspections, and investigations this quarter; Section 4 summarizes other agency oversight work in Iraq.

FOCUSED FINANCIAL REVIEWS OF THE LARGEST IRAQ RECONSTRUCTION CONTRACTS

During the past quarter, SIGIR completed the first in a series of focused financial reviews of large contracts funded by the Iraq Relief and Reconstruction Fund (IRRF). These reviews will meet the "forensic audit" requirement that the Congress imposed upon SIGIR last December through the Iraq Reconstruction Accountability Act of 2006.

This initial review examined the work performed by Bechtel National, Inc. (Bechtel), under its Phase II IRRF contract. SIGIR selected Bechtel as the subject for this audit because it received the largest IRRF contract, a \$1.33 billion cost-plus reconstruction contract issued by the U.S. Agency for International Development (USAID).

The Bechtel audit is emblematic of the many challenges faced by contractors in executing projects within the Iraq reconstruction program. The audit's findings include:

- The government had insufficient contract oversight staff, resulting in a lack of consistent contract management, inadequate contractor direction, and ineffective performance assessments.
- The large number of subcontractors to Bechtel created the need for multiple layers of quality control and oversight, which weakened transparency, yielding poor outcomes in various projects.
- Approximately half the job orders performed under the contract did not meet stated objectives.

The problems addressed in the Bechtel audit include reduction in scope, cancellations, costs that outstripped planned budgets, and significant delays in the completion of projects. During the course of this review, SIGIR uncovered a contractual provision mandating

that all Bechtel invoices be paid within ten days of receipt, without exception. This decision was troubling because only two officials were assigned to review these invoices, raising concerns from an oversight perspective about the reliability of the receipt review process. Section 3 of this Report contains a detailed summary of the Bechtel audit.

SIGIR has announced the next round of focused financial reviews, which will include audits of the large contracts received by: Blackwater; FluorAMEC, LLC; Research Triangle Institute; Parsons Global Services, Inc.; Lucent; Development Alternatives, Inc.; Perini Corporation; and KBR.

ASSET TRANSFER

“Asset transfer” is the process by which U.S.-funded reconstruction projects are transferred upon completion to the Government of Iraq (GOI). Since the fourth quarter of 2005, SIGIR has tracked the asset-transfer process in Iraq, conducting three previous audits, each of which raised significant issues about various aspects of this important process.

SIGIR produced its fourth audit this quarter on the asset-transfer process, finding that the GOI has not accepted a single U.S.-constructed project since July 2006. Although some local Iraqi officials are accepting projects, the national government is not. Moreover, SIGIR learned that the U.S. government is unilaterally transferring many projects to Iraq without GOI consent.

The failure of the asset-transfer program raises concerns about the continuing operation and maintenance of U.S.-constructed projects. In some cases, the United States has continued to pay for maintaining completed projects that have not been accepted by the GOI.

SIGIR’s new asset-transfer audit, summarized in Section 3, recommends that the U.S. Ambassador to Iraq finalize with his Iraqi counterpart a bilateral agreement on asset transfer between the United States and Iraq. The proposed bilateral agreement provides that asset transfer be accomplished through a single process, rather than through a variety of implementing agencies or expedient agreements.

IRAQI EMPOWERMENT

Budget Execution

The U.S. funds for Iraq reconstruction are largely expended. The GOI thus has responsibility for managing the financing of Iraq's national recovery.

This means that the GOI must effectively execute its capital budget, which it failed to do in 2006, spending just 22% of its capital budget.¹ Last year's ministry shortfalls included: the Ministry of Oil, which spent just 3% of its \$3.5 billion capital budget;² the Ministry of Water, which spent just under half its allocation; and the Ministry of Electricity, which spent only a third of its capital budget.

According to the President's *Interim Benchmark Assessment*, released in mid-July, progress on budget execution by the GOI in 2007 has been satisfactory. The ministries have tripled execution rates so far this year. If this trend continues—though avowedly not linear in effect—the capital execution rate may reach 50% by the end of the year. The Ministry of Finance has already moved more than 21% of its capital budgets to individual ministries' capital budget accounts.

The GOI Budget Execution Monitoring Unit (BEMU), under the leadership of Iraq's Deputy

Prime Minister, has helped ministers improve the budget execution process. The Ministry of Oil reportedly leads all ministries in total spending thus far in 2007, executing \$538 million (or 23%) of its capital budget, followed by the Ministry of Public Works (\$174 million or 52%) and the Ministry of Education (\$87 million or 30%).³

A similar budget-execution problem confronts Iraq's provincial governments. The provinces have received a 2007 capital budget allocation of approximately \$5.4 billion. Every province (except Diyala) has established a separate capital budget account, and, by June 2007, every province had received the first 10% of its budget allocation.

Part of the progress in budget execution stems from the work of the Iraqi Procurement Assistance Centers (PACs), which have built the budget execution capacity of ministerial and provincial officials. Created by Iraq's Minister of Planning, with the assistance of the U.S. Joint Contracting Command-Iraq/Afghanistan, the PACs train Iraqis in budget execution systems, including the proper drafting and documenting of budgets and the review and approval of spending requests.

PRT Update

On January 10, 2007, the President announced a new way forward in Iraq, calling for a surge in civilian and military personnel for provincial support and a doubling of the number of Provincial Reconstruction Teams (PRTs).

PRTs are civil-military teams designed to build capacity in local governance across Iraq through direct assistance to and training of provincial government personnel. As of June 2007, the United States had provided \$1.924 billion to support the Iraq PRT program. Another \$937 million has been requested in additional PRT funding for FY 2008.

The evolving PRT strategy will increase the number of PRTs from 10 to 25 and will double the total personnel working in PRTs to 700. The original 10 PRTs, established in 2006, will continue to operate at the provincial level, and an additional 15—called ePRTs—are embedding directly into brigade combat teams and deploying into urban neighborhoods. Initial indications reveal that ePRTs are more capable of operational movement. The existing PRTs, especially those in difficult security environments, are relatively restricted.

This Quarterly Report includes the second of three planned SIGIR audits on the PRT program. The audit reveals that the PRT program has made significant strides toward overcoming challenges that arose from the civil-military integration process, security support issues, and resource and staffing shortfalls. The

audit concludes, however, that PRT planners should better define program objectives and develop an effective metric-based monitoring system to measure the program's performance.

SIGIR is currently conducting fieldwork for the third PRT audit, which will review the effectiveness of the overall PRT program.

Capacity Development

U.S. agencies continue to carry out important capacity development initiatives in Iraq:

- USAID's \$165 million National Capacity Development (NCD) program, which began in August 2006, strengthens the GOI's administrative functions and personnel.
- The U.S. Department of Treasury continues to support the development of a new financial management information system, new payment systems, as well as banking reform and restructuring.
- Since 2003, the New York Federal Reserve Bank and the International Monetary Fund (IMF) have provided regular technical assistance training to strengthen the capability of the Central Bank of Iraq.
- The Embassy Iraq Transition Assistance Office (ITAO) is implementing a program to improve the capacity of key ministries to carry out core functions, such as strategic planning, budgeting, training, and managing a personnel system.⁴
- The new Coordinator for Economic Transi-

tion is leading the Embassy's Budget Execution Initiative, a \$20 million interagency program to manage U.S. support to the GOI on this key issue.⁵

O&M and Sustainment

SIGIR previously raised concerns about the sustainment of U.S.-funded infrastructure and systems after their transfer to the GOI. Pursuant to those concerns, SIGIR initiated a sustainment inspections regime to provide data on this matter.

In the last two Quarterly Reports, SIGIR observed limited progress on the sustainability of reconstruction programs and projects. In three of the four sustainment assessments conducted this quarter, SIGIR found facilities that the GOI was not effectively sustaining. This shortfall poses threats to the current use and future durability of these facilities.

The most notable sustainment problem was at the **Doura Power Station**. The United States paid Bechtel more than \$90 million to rehabilitate two power-generating units at Doura. Although the work was supposed to be completed by April 2004, only one unit had been repaired by April 2006; the other has never been operational. If both were operational today, this key project in the electricity sector would add 7.5% more generated power to Iraq's debilitated electricity grid, providing substantial increases in the power available to Baghdad.

When SIGIR visited this project in June 2007, neither of the refurbished units was operational. U.S. funds had paid for their repair, but the Iraq Ministry of Electricity failed to properly operate and maintain the units. For a summary of the inspection, see Section 3 of this Report.

RECONSTRUCTION MANAGEMENT

This quarter, the U.S. reconstruction management structure in Iraq evolved. A presidential order terminated the Iraq Reconstruction Management Office (IRMO), and created ITAO to continue some of IRMO's remaining work.

On July 18, 2007, the U.S. Embassy implemented a reorganization reflecting the "clustering" structure recommended by a recent Department of State (DoS) assessment. Under the reorganization, the Rule of Law Coordinator now has consolidated management of Rule of Law programs, including anticorruption efforts, police training under the DoS International Narcotics and Law Enforcement Bureau, and Department of Justice activities.⁶

The Embassy's reorganization further consolidated all Mission economic and reconstruction funding under the Coordinator for Economic Transition in Iraq (CETI). CETI oversees the Economic Affairs section of the Embassy, ITAO, USAID, and the U.S. Departments of Treasury, Agriculture, Transportation, Energy, Commerce, and Labor.

Since the beginning of the Iraq reconstruction program, SIGIR has reported on the need for improving coordination among U.S. agencies. This new reorganization should help effect such improvement.

Section 3 has a summary of SIGIR's new review of the roles and responsibilities of the various entities involved in Iraq reconstruction.

PROGRESS ON THE INTERNATIONAL COMPACT WITH IRAQ

During this past quarter, the GOI and the UN launched the International Compact with Iraq, to carry out a comprehensive 5-year program of reform and investment with the support of the international community. The Compact was signed in May in Sharm El-Sheikh, Egypt, at a meeting of more than 30 foreign ministers.

On July 20, 2007, the GOI issued its first report on the implementation of the Compact.

The report lists eight problems that must be resolved:

- insurgent and terrorist activity, which threatens all Iraqis
- high levels of corruption exacerbated by a weak accountability system
- political instability that inhibits progress, causing socially disruptive consequences
- divisions within the population on the

presence of international forces in Iraq, which the insurgency and terrorists exploit to foment instability

- inconsistent, unpredictable, and poorly coordinated development assistance
- continuing consequences of harmful government policies in place before 2003
- continuing exodus of Iraq's "best and brightest" and the concomitant increase in internally displaced persons

- the "resource curse" phenomenon: countries rich in natural resources sometimes tend to have slower rates of economic growth than resource-poor countries⁷

This GOI report will now serve as the baseline against which to measure future progress under the Compact.

ANTICORRUPTION

According to the U.S. Embassy's Anti-Corruption Strategy, the endemic corruption problem in Iraq:

- contributes to capital flight and harms Iraq's ability to obtain foreign investment
- significantly hinders economic growth by permitting black markets
- undermines public confidence in Iraq's public institutions
- funds illegal actors and activities, including terrorism

Notwithstanding these continuing challenges, some progress has been made on several fronts to address the corruption epidemic, which SIGIR views as a "second insurgency." This quarter saw the inception of the Joint Anti-Corruption Council (JACC)—created and managed by Iraqis.

The JACC comprises the three main anticorruption organizations—the Board of Supreme Audit (BSA), the Commission on Public Integrity (CPI), and the Iraqi Inspectors General (IGs), as well as other governmental representatives. The JACC's weekly meetings are chaired by the General Secretary to the Iraq Council of Ministers, with the support of the Prime Minister.

Pursuant to the recent rule of law reorganization, the Embassy's Office of Accountability and Transparency (OAT) has been placed under the direction of the Rule of Law Coordinator. The OAT, which began operating at the beginning of this year, comprises the senior consultants assigned to each of the three anti-corruption entities. The OAT reflects staffing and organizational changes that SIGIR recommended in its earlier audit on anticorruption.

This quarter, SIGIR produced a letter audit identifying continuing challenges to the implementation of a coherent anticorruption effort:

- the absence of a program manager with the authority and support to coordinate the overall anticorruption effort
- the lack of a comprehensive, integrated plan that ties anticorruption programs to the overall U.S. Embassy-Iraq strategy

SIGIR's audit followed up on 12 recommendations from the July 2006 audit and determined that 10 of the 12 remained open pending final action. Section 3 contains a summary of the audit.

The Iraqi IGs conducted a peer evaluation this quarter, reviewing 15 offices. Two IGs were relieved of duty as a result of a poor evaluation. A 90-day follow-up is planned for the remaining offices.

The CPI is pursuing hundreds of corruption cases, but institutional and legal hurdles continue to impede its efforts. CPI's cases cover a wide range of alleged criminal activity, including illegal payments, unauthorized transfer of vehicles and apartments, stolen government funds, massive fraud, corruption in Iraqi ports, misspending, and the diversion of government funds to militias.

BENCHMARKS

There are two primary sources for benchmarks aimed at measuring GOI progress. The first is the set of 18 measures set forth in P.L. 110-28, passed by the Congress on May 25, 2007. The other is contained in an appendix to the International Compact for Iraq.

Table 1.1 shows the 18 benchmarks under P.L. 110-28, their comparable GOI-agreed commitments under the Compact, and the President's assessment of the status of each benchmark.

COMPARISON OF U.S. STATUTORY BENCHMARKS

U.S. P.L. 110-28 BENCHMARKS	COMPACT COMMITMENTS BY THE GOI	PRESIDENT'S INTERIM PROGRESS REPORT
Constitutional review completed. (i)	An inclusive constitutional review. (3.1.2)	Satisfactory: Constitutional Review Committee formed.
De-Ba'athification legislation enacted. (ii)	De-Ba'athification Committee will be restructured and divested of its political aspects. (3.3.11)	Unsatisfactory: A core U.S. priority, but it cannot be rushed.
Hydrocarbon law implemented. (iii)	Develop an energy sector that meets Iraq's needs and maximizes the benefits of hydrocarbons for all Iraqis and reinforces national unity and institutions. (4.5)	Unsatisfactory: Self-imposed deadlines have elapsed.
Creating semi-autonomous regions. (iv)	No comparable benchmark because USG wants GOI to speed up consideration of the Council of Representatives (COR) October 2006 plan to address this issue in March 2008.	Satisfactory: Regions law has been passed and implementation will follow in March 2008.
Provincial election laws enacted and date set. (v)	The GOI will set a date for governorate and municipal elections for early to mid 2007. (3.1.2)	Unsatisfactory: Although a commission has been established, other key elements are lagging.
Addressing amnesty. (vi)	Proposed law and a series of confidence-building measures for a Disarmament, Demobilization, and Re-Integration (DDR) program, including an amnesty program consistent with accepted norms of transitional justice and appropriate to the Iraqi context. (3.2.3)	Mixed: Prerequisites for general amnesty are not present but current security circumstances may not make it near-term goal.
Legislation for militia disarmament, ISF accountable to central government. (vii)	Create political agreement and the legislative framework necessary for the disbanding of militias, including legislation to control the possession and proliferation of weapons (3.2.3)	Unsatisfactory: Prerequisites for a successful disarmament program are not present.
Baghdad security plan committees established (political, media, economic services). (viii)	Conduct outreach programs to ensure support and implementation of the Baghdad and Basrah security plans. (3.2.1)	Conditional Satisfactory: Requires monitoring over the next 60 days.
3 trained and ready brigades to support the Baghdad Security Plan (BSP). (ix)	Operation (BSP)—specific benchmark.	Satisfactory: Staffing levels continue to be a concern but the GOI has provided the equivalent of three brigades.
Security officers with tactical and operational independence from political interference. (x)	The effective enforcement of state authority will require de-politicized, impartial, accountable, transparent, and professional security forces, including the military and police. The government recognizes the important and urgent need to translate these principles into practical programs in the organization and operations of its security forces. (3.2.1)	Unsatisfactory: There remains "negative political influence at a variety of levels with evidence of sectarian behavior."
Ensure ISF provide even-handed enforcement of law. (xi)	The government will work with international partners to develop well-trained, disciplined, and capable Iraqi security forces that fully understand and respect human rights and the rule of law. (3.2.1)	Unsatisfactory: Progress has been made but the overall judgment is that an expansion of the embedding and partnership process with the ISF is necessary.
Assuring the BSP eliminates safe havens for "outlaws." (xii)	Operation (BSP)—specific benchmark.	Satisfactory: U.S. commanders report overall satisfaction in their ability to target any extremist groups and has received support from the GOI. The PM, however, has "made the decision to delay targeting" one individual.
Sectarian violence reduced. (xiii)	As a priority of the GOI, a Disarmament, Demobilization, and Re-Integration (DDR) program, aimed at the dissolution and re-integration of militias. (3.2.3)	Mixed: Sectarian violence is reduced, but militia control over local security is unsatisfactory.
A plan for joint security stations in Baghdad neighborhoods. (xiv)	Operation (BSP)—specific benchmark.	Satisfactory: "With substantial Coalition assistance" progress has been made toward meeting this benchmark.
Increasing the number of independently capable ISF. (xv)	Developing and sustaining ISF to targeted and authorized strengths and capabilities with the aim of achieving self-sufficiency. (3.2.1)	Unsatisfactory: ISF performance generally adequate when partnered with MNF-I.
Protection for the political rights of minority parties. (xvi)	The government of Iraq will continue its efforts to expand the range of participation for groups interested in the [National Reconciliation] initiative, regardless of their ideological or political orientation, [including] establishment of inclusive, legitimate, and sustainable political institutions. (3.1)	Satisfactory: COR activities are consistent with the role of minority parties in a parliamentary democracy.
\$10 billion of Iraq revenues spent on reconstruction. (xvii)	Commitment will ensure that legislation, regulation, systems, and processes are in place that will allow efficient and effective disbursement of budget resources. (5.3)	Conditional Satisfactory: The benchmark is aggressive, but the trend is positive.
Ensuring that political authorities do not undermine or make false accusations against the ISF (xviii.)	The effective enforcement of state authority will require de-politicized, impartial, accountable, transparent, and professional security forces, including the military and police. The government recognizes the important and urgent need to translate these principles into practical programs in the organization and operations of its security forces. (3.2.1)	Unsatisfactory: Accusations that undermine the professionalism and non-sectarianism of the ISF have not been adequately addressed by the GOI.

TABLE 1.1

NOTABLE SIGIR ACTIVITIES THIS QUARTER

In executing its oversight mission this quarter, SIGIR completed 8 new audits, which included 21 recommendations and 5 audit lessons learned. SIGIR issued 5 new project assessments, 3 of which highlighted Iraqi sustainment problems. SIGIR investigations continued to pursue all allegations of fraud, waste, and abuse in Iraq reconstruction spending.

Audits

To date, SIGIR has completed 94 audit products and continues work on 19 audits. SIGIR plans to start at least 9 more audits next quarter.

This quarter, SIGIR audit products addressed these specific requests:

- In responding to a congressional mandate, SIGIR released its first focused financial product, looking at USAID's Phase II Iraq reconstruction contract with Bechtel National, Inc. This product highlights where the money went, the results of the investment, and lessons learned.
- As part of a U.S. Embassy Baghdad request, SIGIR reported on the need for improved government management controls over the efficiency and cost-effectiveness of the services paid for under Logistics Civil Augmentation Program (LOGCAP) Task Order 130.

SIGIR audit products this quarter also addressed these issues:

- the continuing misunderstanding as to the congressional requirement for the financial reporting of the cost to complete construction projects
- a look at the various sources of FY 2006 appropriations and funds, as well as the uses of these funds for Iraq relief and reconstruction
- the organizational complexity of U.S. government agencies and activities involved in Iraq relief and reconstruction and what each reports as its role and responsibility in Iraq

Inspections

SIGIR completed five project assessments, four of which were sustainment reviews. Since the Inspections program began in summer 2005, SIGIR has completed 95 project assessments, 96 limited on-site inspections, and 304 aerial assessments.

SIGIR's sustainment reviews focus on whether the projects delivered to the Iraqis are being operated by Iraqis at the capacity planned in the original contract or task order objective.

In three of the four sustainment reviews completed this quarter, sustainment was not being properly carried out, posing threats to the condition and durability of the facilities and to health and safety.

Investigations

SIGIR has 57 ongoing investigations into fraud, waste, and abuse in Iraq reconstruction; 28 are currently under the prosecutorial control of DoJ.

This quarter, two more subjects of SIGIR investigations were sentenced to prison. And several new arrests were made arising from fraud investigations of which SIGIR is a part.

As of July 30, 2007, SIGIR investigations have resulted in 5 convictions, 13 arrests, and 5 pending trials on a 25-count indictment. SIGIR's joint task force cases have engendered more than 30 search warrants executed by SIGIR agents. For an overview of all convictions resulting from the work of SIGIR and other agencies in Iraq, see Table 1.2.

Currently, 5 SIGIR agents work in Baghdad, and 14 are in Arlington, Virginia. SIGIR investigators work with the International Contract Corruption Task Force/Joint Operation Center and the National Fraud Procurement Task Force, coordinating on a wide range of efforts to fight fraud. SIGIR agents are also working on a number of Civil False Claims Act matters, and SIGIR is supporting suspension and debarment actions against a variety of individuals and corporations.

The Lessons Learned Capping Report

SIGIR continues to advance a robust lessons learned effort, pursuant to SIGIR's mandate from the Congress to provide recommendations that promote economy, efficiency, and effectiveness in the administration of the reconstruction program in Iraq. Three SIGIR lessons learned reports have already been released, and they already have prompted beneficial reforms within the executive branch, as well as new legislation implementing SIGIR's recommendations.

The Lessons Learned Capping Report, which draws from all of SIGIR's previous and ongoing work, aims to capture the key lessons from the overall Iraq reconstruction experience. These important lessons are aimed at prompting reforms of the post-conflict contingency relief and reconstruction systems in the U.S. government. The Congress and the Departments of State and Defense support SIGIR's lessons learned efforts.

PROSECUTIONS OF FRAUD-RELATED CASES IN IRAQ

NAME	POSITION	CONTRACTOR/ COMPANY/ AGENCY	CHARGE	PLEA	DATE OF CONVICTION	SENTENCE	DATE OF SENTENCE
Investigations Led by SIGIR							
Philip Bloom	Owner	Global Business Group, GBG Holdings & GBG- Logistics Division	Conspiracy, Bribery, Money Laundering	Conspiracy, Bribery, and Money Laundering in Connection with a Scheme to Defraud the Coalition Provisional Authority-South Central Region (CPA-SC), during the occupation of Iraq	3/10/2006	46 months in prison; 2 years of supervised release; \$3.6M in restitution and \$3.6M in forfeiture	2/16/2007
LTC Bruce D. Hopfengardner	Special Advisor to the CPA-SC	U.S. Army Reserves	Conspiracy to Commit Wire Fraud, Money Laundering	Conspiracy in a scheme to defraud the CPA-SC in Hilla, Iraq, and conspiring to commit wire fraud and to launder funds in connection with a scheme to steal currency designated for the reconstruction of Iraq and to steer contracts to a contractor in exchange for money and property. Also, smuggling stolen currency into the United States.	8/25/2006	21 months in prison	6/25/2007
Steven Merkes	DoD Civilian	U.S. Army	Accepting a Gratuity	Accepting illegal gratuities while serving as an operational support planner in the Future Operations Division of the U.S. Army Headquarters, Special Operations Command-Europe (HQSOCEUR)	2/16/2007	12 months and 1 day in prison; \$24,000 in restitution	6/1/2007
Faheem Mousa Salam	Interpreter	Titan Corporation	Violation of the Foreign Corrupt Practices Act (bribery)	One count of Violating the FCPA's Anti- bribery Provisions	8/4/2006	3 years in prison; 2 years of supervised release; 250 hours of community service	2/2/2007
Robert Stein	CPA-SC Comptroller and Funding Officer	CPA	Conspiracy, Bribery, Money Laundering, Possession of Machine Guns, Felon in Possession of a Firearm	Felon in Possession of a Firearm, Possession of Machine Guns, Bribery, Money Laundering, and Conspiracy in connection with a scheme to defraud the CPA-SC in Hilla, Iraq	2/2/2006	9 years in prison; 3 years of supervised release; \$3.5M in restitution and \$3.6M in forfeiture	1/29/2007
Led by Other Agencies							
Jennifer Anjakos	Military Reservist	California Army National Guard/223rd Finance Detachment	Embezzlement	One count of Conspiracy to Commit Wire Fraud on related charges	11/13/2006	Re-scheduled for sentencing September 10, 2007	
Christopher Cahill	VP, Middle East & India	Eagle Global Logistics, Inc. (EGL)	Major Fraud	Major fraud against the United States	2/16/2006	30 months in prison; 2 years supervised release; \$10,000 fine; \$100 assessment (a civil settlement with EGL arising from the same facts resulted in settlement of \$4M)	8/30/2006
Lomeli Chavez	Enlisted, Grade- 05, Military Reservist	California Army National Guard/223rd Finance Detachment	Embezzlement	One count of Conspiracy to Commit Wire Fraud on Related Charges	11/13/2006	Re-scheduled for sentencing September 10, 2007	
Derryl Hollier	Enlisted, Grade- 05, Military Reservist	California Army National Guard/223rd Finance Detachment	Embezzlement	One count of Conspiracy to Commit Wire Fraud on Related Charges	11/13/2006	Re-scheduled for sentencing September 10, 2007	
Shabbir Khan	Director Of Operations, Kuwait & Iraq	Tamimi Global Co., Ltd (subcontractor for KBR)	Wire Fraud, Witness Tampering, Conspiracy to Commit Witness Tampering, Conspiracy to Commit Money Laundering, False Statements	Paying kickbacks to secure two military dining subcontracts, valued at \$21.8 million dollars	6/23/2006	51 months in prison; 2 years supervised release; \$10,000 fine; \$133,860 in restitution; \$1,400 assessment	12/1/2006

PROSECUTIONS OF FRAUD-RELATED CASES IN IRAQ

NAME	POSITION	CONTRACTOR/ COMPANY/ AGENCY	CHARGE	PLEA	DATE OF CONVICTION	SENTENCE	DATE OF SENTENCE
Jesse D. Lane	Military Reservist	California Army National Guard/223rd Finance Detachment	Conspiracy	One count of Conspiracy and one count of Honest Services Wire Fraud	6/5/2007	Re-scheduled for sentencing September 24, 2007	
Luis Lopez	Enlisted, Grade-05, Military Reservist	California Army National Guard/ 223rd Finance Detachment	Embezzlement	One count of Conspiracy to Commit Wire Fraud on related charges	11/13/2006	Re-scheduled for sentencing September 10, 2007	
Anthony J. Martin	Subcontract Administrator	KBR	Kickbacks	Violating the Anti-Kickback Act in awarding a \$4.67M subcontract to a Kuwaiti company in 2003	7/13/2007	Pending	
Bonnie Murphy	Contracting Officer's Representative (COR)	DoD-Defense Reutilization and Marketing Service (DRMS)	Accepting Unlawful Gratuities and Unlawful Compensation	Accepting Unlawful Gratuities		1 year supervised release; \$1,500 fine	
Gheevarghese Pappen	Army Corps of Engineers (Civilian Employee, GS-12)	U.S. Army/Area Support Group, Host Nation Office, Camp Arifjan, Kuwait	Illegal Gratuities	Soliciting and accepting nearly \$50,000 in illegal gratuities.	10/12/2006	2 years in prison	1/30/2007
CWO Peleti Peleti, Jr.	Army's Food Service Advisor for Kuwait, Iraq & Afghanistan	U.S. Army	Bribery	Accepting a \$50,000 bribe to influence a foodservice supply contract, and trying to smuggle cash into the United States.	2/9/2007	Re-scheduled for sentencing August 17, 2007	
Glenn Powell	Subcontracts Manager	KBR	Major Fraud, Violation of the Anti-Kickback Act	One count of Major Fraud against the United States and one count of Violation of the Anti-Kickback Act	8/1/2005	15 months in prison; 3 years supervised release; \$90,973.99 in restitution; \$200 assessment	11/18/2005
Stephen Seamans	Subcontracts Manager	KBR	Major Fraud, Conspiracy to Commit Money Laundering	One count each of Wire Fraud and Money Laundering Conspiracy	3/1/2006	12 months and 1 day in prison; 3 years supervised release; \$380,130 in restitution; \$200 assessment	12/1/2006
Kevin A. Smoot	Managing Director	Eagle Global Logistics, Inc.	Anti-Kickback Act False Statements	Anti-Kickback Act False Statements	7/20/2007	Pending	
John Allen Rivard	Major	U.S. Army Reserves	Bribery, Conspiracy, Money Laundering	Bribery, Conspiracy, Money Laundering	7/23/2007	Pending	

TABLE 1.2

IMPACTS OF SIGIR OPERATIONS

SIGIR oversight continues to produce tangible financial benefits for Iraq and the U.S. government. Through July 30, 2007, SIGIR audits have saved or recovered \$57.8 million, and SIGIR investigations have recovered or seized \$16 million in court-ordered restitution and forfeiture. For the data supporting these benefits, see Appendix C.

SIGIR's work has also improved the U.S. capability to respond to future reconstruction efforts. SIGIR and the Government Accountability Office (GAO) identified a number of lessons learned and best practices in emergency contracting.

This quarter, the OMB Office of Federal Procurement Policy produced the *Emergency Acquisitions Guide*, which helps federal agencies plan for contingency operations, anti-terrorism activities, and national emergencies.

The guide made these specific recommendations, citing SIGIR's lessons learned work:

- Designate a single unified contracting entity to coordinate all contracting activity in theatre.
- Clearly define, properly allocate, and effectively communicate essential contracting roles and responsibilities to all participating agencies.
- Develop deployable contracting and procurement systems before mobilizing for post-conflict efforts and test them to ensure that they can be effectively implemented in contingency situations.
- Emphasize contracting methods that support smaller projects in the early phases of a contingency reconstruction effort.
- Avoid using expensive design-build contracts to execute small-scale projects.
- Generally avoid using sole-source and limited-competition contracting actions.

THE HUMAN TOLL

Security problems in Iraq posed a continuing danger for reconstruction staff, management, and contractors. Attacks on the International Zone have grown more frequent and more deadly during this quarter. On June 5, the UN Secretary-General reported to the Security Council that “the major development in this reporting period was the increased threat of indirect fire into the International Zone.”⁸

Throughout Iraq, contractors, journalists, and Iraqi citizens live and work in a dangerous environment:

- The Department of Labor (DoL) reported 79 new death claims this quarter for civilian contractors working on U.S.-funded projects in Iraq. Since Iraq reconstruction began, 1,001 such death claims have been filed.⁹ The reported deaths this quarter are 26.3% above the quarterly average since the beginning of Iraq reconstruction.
- DoS reports that 8 U.S. civilians died in Iraq this quarter. Since the beginning of the U.S. reconstruction effort, 232 U.S. civilian workers have died in Iraq.

- This quarter, 12 journalists were killed in Iraq; 112 Iraqi and other journalists have been killed since March 2003. Also, 40 media support workers have been killed in Iraq since hostilities began, including two this quarter, according to the Committee To Protect Journalists.¹⁰
- Violence continues to force Iraqis to leave their homes. The UN High Commissioner for Refugees estimates that one out of every eight Iraqis has been displaced by the conflict in Iraq.¹¹

According to the Army Corps of Engineers’ Logistics Movement Control Center, attacks on contractor-protected supply convoys have tripled since June 2006, killing or wounding 206.¹²

