



Congress created SIGIR to provide independent oversight of U.S. funds used for the reconstruction of Iraq 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 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 September, the IG returned from his thirteenth trip to Iraq to review progress on the reconstruction effort.

The Year of Transition Enters the Fourth Quarter

Foremost among the challenges confronting transition this quarter was the U.S. government's effort to ensure the obligation of remaining money in the Iraq Relief and Reconstruction Fund (IRRF) by the September 30, 2006 statutory deadline. As of October 18, 2006, SIGIR had yet to obtain complete information on this effort, but it appears that the goal of full and effective obligation of the IRRF was met.



Water storage facility at the Al Kasik Military Training Base

Challenges Confronting Transition

As the U.S.-led phase of Iraq reconstruction nears its conclusion, it is vital that the Iraqi government attract broader international donor and private-sector support to finance continued development and reconstruction efforts. The Iraqi government faces several serious challenges to this endeavor.

DETERIORATING SECURITY SITUATION

Continued violence and the resulting lack of security have seriously impeded progress on reconstruction programs, causing construction delays, preventing travel to project sites, increasing security costs, and endangering the lives of contractors. Baghdad suffered the most acute security problem this quarter. The electricity sector was especially hard hit. Recent attacks on power lines providing electricity to Baghdad isolated the capital from the national power grid, and power-line repair continues to be difficult. Iraq's Minister of Electricity recently stated:

Every day I send repair teams, but they can't get to the area: there are too many insurgents...I've spoken to [everyone] ...no one can help.

WEAK IRAQI CAPITAL BUDGET EXECUTION

The execution of the Iraqi capital budget for 2006 is well behind schedule. Many government ministries, particularly the Ministry of Oil, are seemingly unable to obligate capital

funds to programs and projects. SIGIR is concerned that, unless the Iraqi government demonstrates an ability to spend its own funds more effectively, international donors will likely be reluctant to provide further financial support to Iraq.

TRANSPARENCY AND THE FIGHT AGAINST CORRUPTION

SIGIR continues to support Iraq's anticorruption institutions. This quarter, SIGIR worked to build support for the Board of Supreme Audit, the Commission on Public Integrity, and the inspectors general of the Iraqi ministries. Without visible and authoritative oversight, corruption could derail Iraq's efforts to rebuild and sustain itself.

INCOMPLETE TRANSFER OF U.S. ASSETS TO IRAQI MINISTRIES

The asset recognition and transfer process, begun in 2005 to catalogue and transfer IRRF assets to the Iraqi government, appears to have broken down. The Iraqi government and the U.S. Embassy must work together to complete the asset transfer process and ensure that Iraq is in a position to take responsibility for IRRF facilities and inventories.

Continued violence and the resulting **lack of security** have seriously **impeded progress** on reconstruction programs, causing construction delays, preventing travel to project sites, increasing security costs, and **endangering the lives** of contractors.

The Need for Continued U.S. Assistance

In SIGIR's view, any future relief and reconstruction funding for Iraq should be tied to specific actions by the Iraqi government to meet concrete milestones and political and economic benchmarks. Providing a portion of future U.S. assistance through conditional loans should be considered.

RULE-OF-LAW EFFORTS NEED DOJ EXPERTISE

U.S. support of rule-of-law reform in Iraq has been fragmented and has not taken full advantage of the expertise and resources of the Department of Justice (DoJ). DoJ should have a greater role in developing the strategic approach in this key area.

PROVIDE THE PROVINCIAL RECONSTRUCTION TEAMS (PRTs) MORE PERSONNEL AND RESOURCES

The PRTs were created to help build local governance capacity in Iraq's provinces and to help identify, prioritize, and implement U.S.-funded projects.

Four concerns about the PRT program emerged from SIGIR's audit:

- 1) DoD and DoS need to clarify their respective responsibilities to the PRT mission.
- 2) The PRTs need more resources and appropriate personnel.
- 3) Security concerns continue to inhibit the work of most PRTs.
- 4) The PRTs require more funding and more time to accomplish the mission.

BUILD THE CAPACITY OF THE IRAQI MINISTRIES

SIGIR is concerned that the current capacity-building efforts in Iraq might not be adequate to ensure that IRRF-funded infrastructure projects are effectively managed and maintained after transfer to the Iraqi government. Because there is no generally agreed-on baseline for the capacity of the Iraqi ministries, it is difficult to measure the results of the U.S.-funded capacity-building programs.

PROMOTE THE INTERNATIONAL COMPACT FOR IRAQ

The International Compact for Iraq is intended to create a partnership that commits the Iraqi government to specific reforms. In return, the international community will commit to supporting Iraq's recovery program, including a five-year goal of financial self-sufficiency.

Notable SIGIR Activities this Quarter

SIGIR continues to apply a balanced approach to provide insight, foresight, and oversight (through audit and non-audit activities) to organizations working on reconstruction projects both in Iraq and those who support these organizations outside Iraq.

AUDITS

Among the eight audit reports issued by SIGIR this quarter, two addressed Iraq Security Forces logistics. They were requested by the Chairman of the Senate Armed Services Committee. Another audit examined the overhead costs of the largest IRRF contractors. For executive summaries of these and other audits, see Section 3 of the SIGIR Quarterly Report.

INSPECTIONS

SIGIR inspectors have now completed 65 project assessments, including the 9 project assessments executed this quarter. In addition, 96 limited on-site inspections and 220 aerial assessments have been completed to date. Most IRRF projects that SIGIR assessed this quarter met contractual specifications, although problems with contractor performance and quality assurance resulted in deficiencies at some sites, most notably at the Baghdad Police College.

INVESTIGATIONS

SIGIR continues to field the largest number of U.S. criminal fraud investigators in Iraq and has formed a new interagency task force to investigate contract fraud. SIGIR has 92 open cases; 25 of those are at DoJ, and many are in the final stages of prosecution. Four cases have resulted in convictions and are currently pending sentence.

Financial Impact of SIGIR Operations

SIGIR audits—which have secured cost savings, recovery of funds, improved use of funds, challenged payments, and recommendations for improved property accountability—have provided a net potential beneficial impact of approximately \$405.1 million. Recommendations by SIGIR inspections could potentially increase Iraq's annual oil revenues by \$1.278 billion. SIGIR investigators have seized or recovered \$11.69 million.

TO OBTAIN A FULL REPORT