



### From Surge to Sovereignty

For the first time since April 2003, the U.S. military no longer patrols Baghdad's streets. In keeping with the terms of the Security Agreement, U.S. combat forces withdrew from Iraq's cities at the end of June. This landmark development represents another milestone on Iraq's road toward asserting complete sovereignty over its territory. Iraqi Security Forces (ISF) will still be able to call on their U.S. ally for assistance if they need support, and the U.S. military will continue to conduct joint operations with the ISF around cities and near the borders with other countries; but the Government of Iraq (GOI) now decides the timing and the terms of U.S. combat actions in urban areas.

### Reshaping the U.S. Reconstruction Effort

This quarter, the U.S. military and the Department of State (DoS) took significant steps to reshape their presence in Iraq. On the military side, the Multi-National Security Transition Command-Iraq will conclude its mission in December 2009, transitioning its responsibility for training the ISF to two successor organizations: the Iraq Security Assistance Mission (to assist the Iraqi Army) and the Iraq Training and Advisory Mission (to train Iraq's police forces). These new entities will confront an array of challenges, including improving the ISF's logistics, maintenance, and ability to conduct combined-arms operations. Ultimately, the DoS Bureau of International Narcotics and Law Enforcement Affairs will assume police training duties, as it currently does in more than 40 other countries.

In July, Ambassador Christopher Hill implemented a fundamental restructuring of the U.S. Embassy. No longer will the Embassy in Baghdad be managed by the traditional Ambassador-Deputy Chief of Mission (DCM) leadership structure. Instead, there are now two DCMs. Ambassador Robert Ford will serve as the primary DCM and supervise political matters, including provincial affairs and host-nation diplomatic relations. He will be second in the Embassy's line of succession. Ambassador Patricia Haslach will also serve as DCM, but her focus will be on overseeing U.S. reconstruction programs and ensuring the successful transition of these initiatives to the GOI. This reorganization implicitly recognizes—and seeks to remedy—shortcomings in the U.S. effort that SIGIR has highlighted in more than 300 audit and



MNF-I representative formally transfers control of a Joint Security Station to the Iraqi Army. (MNF-I photo)

inspection reports over the past five years. The Embassy's new management will be responsible for assisting the GOI in locking in the recent gains that it has made in governance, security, and economic developments.

### The Current State of Iraq

The GOI made measured progress on multiple fronts this quarter. In late June, the Ministry of Oil conducted a televised auction for the rights to develop six oil and two gas fields. This marked the first time since 1972 that international firms have been invited to invest in Iraq's hydrocarbons sector. At the auction, a joint British-Chinese venture won the rights to increase the capacity of Iraq's largest oil field. The GOI expects to conduct a second round of bidding later this year. This quarter also saw Iraq's electricity supply increase for the fifth consecutive quarter. Moreover, inflation remained low, and Iraq's economy seems likely to post modest GDP growth for the year. Sustained improvement in the price of oil, and the expectation of higher revenue from increased oil exports and fees from communications firms, prompted the Iraqi Council of Ministers to approve a \$3 billion supplemental budget for 2009. The supplemental will now go before the Council of Representatives.

Charting the course of Iraq's future reconstruction and development will be an assortment of elected representatives at the provincial, regional, and national levels. Fourteen of

Iraq's 18 provinces successfully elected Provincial Councils in January 2009. This quarter, those councils selected provincial governors. In late July, the Kurdistan Region was scheduled to hold elections for its regional presidency and parliament. Most significantly, in January 2010, millions of Iraqi voters are expected to go to the polls and decide whether Prime Minister al-Maliki's government has performed well enough to warrant another term in office.

## **SIGIR Oversight**

Iraq's future largely depends on whether the ISF can keep the peace. Nearly half of all U.S. reconstruction assistance—about \$25 billion—has gone to support the Iraqi military and police. This quarter, SIGIR evaluated three U.S.-funded projects aimed at enhancing the ISF's effectiveness. In Salah Al-Din, SIGIR found that construction of a \$37.8 million support base for the Iraqi Army (IA) is well on the way to successful completion. In Missan, SIGIR inspected a \$1.2 million headquarters complex for a brigade of the IA's 10th Infantry Division. The headquarters was fully operational, and IA personnel were attending to the routine repairs needed to sustain the base's current level of functionality. However, at the Taji National Maintenance Depot, near Baghdad, the story was more mixed. SIGIR auditors determined that poor planning and a lack of committed Iraqi trainees may prevent the IA from being able to repair its heavy equipment when the facility is turned over to the GOI at the end of the year.

SIGIR also inspected two U.S.-funded hospitals this quarter, finding serious deficiencies at both facilities. SIGIR concluded that the long-troubled Basrah Children's Hospital will not meet the original objective of providing a "state of the art" pediatric hospital to serve the people of southern Iraq when it finally becomes fully operational sometime in 2011. Similarly, SIGIR found construction work on the Missan Surgical Hospital to be grievously behind schedule and lacking the essential equipment and staff promised by the GOI.

This quarter, SIGIR audited two projects funded by the Commander's Emergency Response Program (CERP). In the largest CERP project to date, SIGIR found that \$12 million in CERP funds were spent to deliver electricity to about 12,000 Baghdad residents. SIGIR also examined a CERP-funded hotel at the Baghdad airport, finding that although the hotel was fully operational, the project was at least \$1.5 million over budget. Additionally, the hotel complex has not been transferred to the

GOI for fear that furniture and equipment will be taken from the property, as has occurred before at other CERP-funded projects at the airport.

A key component of SIGIR's oversight work is evaluating the performance of private security contractors (PSCs). This quarter, SIGIR issued three audit reports on PSCs. A joint audit with the DoS Office of the Inspector General determined that DoS properly awarded multiple contract task orders to Blackwater, the combined cost of which exceeded \$1 billion. In a separate audit, SIGIR concluded that security incidents involving PSCs firing their weapons were often poorly documented. SIGIR also audited the new rules under which PSCs must operate when traveling outside of secure bases. These procedures were enacted in the wake of the 2007 shooting incident in Nisoor Square involving PSCs, which resulted in multiple Iraqi civilian fatalities. SIGIR found that these rules have been effective and have helped ensure that PSC movements do not conflict with military operations.

SIGIR investigators obtained multiple guilty pleas this quarter and saw several defendants sentenced to prison for fraudulent acts committed during their involvement with the U.S. reconstruction effort. In May, a defense contractor was sentenced to six months detention and an additional year of home arrest for contract fraud. In June, a former lieutenant colonel in the U.S. Army Reserves was sentenced to 30 months in prison and ordered to pay more than \$360,000 in fines. In July, a Department of Defense contract employee received a 50-month prison sentence and agreed to forfeit a sports car and motorcycle he purchased with his ill-gotten gains. SIGIR, in close cooperation with its U.S. and international partners, continues to investigate more than 80 open cases.

Regarding U.S. relief and reconstruction plans, programs, and operations in Iraq, the Special Inspector General for Iraq Reconstruction provides independent and objective:

- oversight and review through comprehensive audits, inspections, and investigations
- advice and recommendations on policies to promote economy, efficiency, and effectiveness
- prevention, detection, and deterrence of fraud, waste, and abuse
- information and analysis to the Congress, the Secretary of State, the Secretary of Defense, and the American people

Stuart W. Bowen, Jr., was appointed Inspector General in January 2004. In May, the IG completed his 23<sup>rd</sup> trip to Iraq to review progress on the reconstruction effort.

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