MESSAGE FROM THE SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

I am pleased to provide the Congress and the Secretaries of State and Defense with SIGIR's 26th Quarterly Report on the status of U.S. reconstruction efforts in Iraq.

The theme for this report—*From Transition to Transformation?*—reflects the reality that the United States and Iraq stand together on the threshold of an array of manifestly substantial and diverse changes that will fundamentally alter the nature of the countries' continuing bilateral relationship. As Iraq struggles to manage the politically delicate process of forming a new government, the United States is but a month away from concluding combat operations and reducing its in-country troop strength to the lowest level since spring 2003. When the new Iraqi government is eventually seated, which probably will not occur before September, it will have to reckon with a multitude of crucial issues, including:

- passing the long-delayed package of hydrocarbon laws
- clarifying the relationship between the Kurdistan Regional Government and the central government, especially regarding Kirkuk
- conducting a national census
- integrating former Sunni insurgents into the Government of Iraq (GOI)
- reforming the country's legal and regulatory systems, especially with regard to the fight against corruption
- moving forward on privatization

In May, I traveled to Iraq for the 27th time, investigating a variety of transition and transformation issues with key U.S. and GOI leaders. I was briefed about the ongoing transfer of the hugely significant police-training mission from the Department of Defense (DoD) to the Department of State (DoS), a process that is scheduled to be completed by October 2011. The police-training mission will consume the largest portion of reconstruction dollars in Iraq over the next two years. SIGIR is currently auditing DoS's police-training management practices, and we expect to issue our report in October.

While in Baghdad, I also conferred with, among others, the Governor of the Central Bank of Iraq and leading officials from Iraq's anticorruption entities, including the Commissioner of Integrity, the President of the Board of Supreme Audit, and several ministry inspectors general. These meetings generated a recurrent theme—the deleterious effects on Iraq's political and economic development caused by the continued prevalence of public corruption. The GOI recently began to implement its new anticorruption strategy, which was developed with UN support. The plan is ambitious and impressive, but much remains to be done to achieve the necessary accountability and transparency Iraq needs.

This quarter, SIGIR's investigators continued to pursue more than 100 open cases, following leads in the United States, Iraq, and elsewhere throughout the world. Notable investigative achievements included:

- the indictment and arrest of a former DoS employee charged in a $147,000 wire-fraud scheme
- the 22-count indictment of a U.S. Marine Corps major for alleged illegal acts conducted during his tenure as a Commander's Emergency Response Program (CERP) purchasing officer in Iraq
- the filing of a criminal information charging a former employee of a U.S. construction company with conspiracy to defraud the U.S. government
• the conviction of a U.S. Marine Corps master sergeant for bribery and graft involving awarding and managing reconstruction contracts
• the sentencing of a U.S. Army captain to 30 months in prison for theft of CERP funds

SIGIR's Audits Directorate produced five reports this quarter, three of which took a step back from looking at a particular program or project, considering instead larger questions concerning management oversight of reconstruction efforts. The reports reviewed:

• **DoD management of the Development Fund for Iraq (DFI).** SIGIR examined DoD's financial and management controls for the use of DFI funds, finding that weaknesses in DoD's internal controls leave it unable to account for $8.7 billion of the $9.1 billion it received for reconstruction activities.

• **Records-management policies used by DoD, DoS, and USAID to preserve Iraq reconstruction data.** This audit concluded that while the three agencies have records-management policies, they have not been fully implemented for preserving Iraq reconstruction records. SIGIR is particularly concerned about the lack of progress in preserving information concerning programs and projects funded by the Iraq Security Forces Fund and the CERP.

• **DoS and U.S. Agency for International Development (USAID) use of Economic Support Fund (ESF) monies in Iraq.** SIGIR's audit determined that most ESF funds allocated for use in Iraq have been obligated and liquidated. DoS received approximately $1.40 billion in ESF funds between fiscal years 2006 and 2008, of which approximately 99% has been obligated and nearly 75% has been liquidated. As for USAID, it received approximately $2.33 billion in ESF funds between fiscal years 2006 and 2009, of which about 95% has been obligated and 83% has been liquidated.

The other two audits assessed:

• **DoS management of a $50 million grant to the International Republican Institute (IRI) for democracy-building activities.** Here, SIGIR concluded that inadequate DoS oversight and weak IRI compliance with federal and DoS grant requirements combined to leave the U.S. government with little insight as to what was actually achieved save for the holding of 271 training classes for about 5,000 Iraqis.

• **SIGIR's forensic audit of all funds made available for the reconstruction of Iraq.** Since the inception of this initiative, SIGIR has examined 108,000 transactions valued at approximately $35.8 billion and uncovered information resulting in the opening of 49 new criminal investigations.

This Quarterly Report makes plain that the size and scope of the U.S. involvement in Iraq is evolving—and diminishing, as it should. But the need for robust oversight remains. I and my staff thus continue to be firmly committed to protecting the taxpayers' interests within the Iraq program by preventing, detecting, and deterring waste, fraud, and abuse, as well as applying hard lessons learned to improve the United States' continuing engagement in "the land between two rivers."

Respectfully submitted this 30th day of July 2010,

Stuart W. Bowen, Jr.
Special Inspector General for Iraq Reconstruction