The end of the IRRF means that U.S. support to Iraq is evolving toward a more traditional relief and development program.

Notable SIGIR Activities this Quarter

LESSONS LEARNED: On March 22, 2007, SIGIR released its third and final lessons learned report, Iraq Reconstruction: Lessons in Program and Project Management, at a hearing of the Senate Committee on Homeland Security and Governmental Affairs. SIGIR offered nine recommendations for future post-conflict reconstruction operations, focusing on reforms that support further integration between civilian and military agencies.

AUDITS: SIGIR completed four audits, including updates on the status and sustainment of the Advanced First Responder Network, a review of the management of the Commander's Emergency Response Program for FY 2006, and a review of internal controls related to disbursements of IRRF appropriated to the Department of State.

INSPECTIONS: SIGIR completed 9 project assessments (including 8 sustainment reviews and 6 construction reviews). To date, SIGIR has conducted 94 project assessments. Sustainability reviews this quarter included the Tallil Military Base, the Erbil Maternity and Pediatric Hospital, the Bab Shams Police Station, the Baghdad International Airport (BIAP) Power Plant Enhancement, and the BIAP Special Forces Barracks.

INVESTIGATIONS: SIGIR investigators are working on 79 ongoing investigations, 28 of which are audit investigations, 41 of which are special investigations, 35 of which are targeted investigations, and 16 of which are special investigations. SIGIR has obtained 10,000 witnesses, 100,000 pieces of evidence, 100,000 documents, and 100,000 reports.

Moving Beyond the IRRF

In 2003, the Congress appropriated nearly $21 billion to the Iraq Relief and Reconstruction Fund (IRRF). Today, more than 98% of these taxpayer dollars have been obligated, and more than 84% have been spent. Most IRRF projects are now complete, and most of the remaining ones are estimated to be complete by the end of 2007. U.S. support to Iraq is evolving toward a more traditional relief and development program, with U.S. funds and activities now focusing more on targeted technical assistance to enhance the operating capacity of the Government of Iraq (GOI), to promote political and economic reform, and to stimulate growth. Considerable effort continues to center on improving security so that meaningful economic and political development can occur.

With the end of the IRRF, SIGIR will now provide broader reviews of what was achieved through the overall program. Section 2 of this Quarterly Report compares the original goals and expectations of IRRF 2 with the projects and activities actually completed and provides a review of the continuing funding streams supporting Iraq: the Iraq Security Forces Fund; the Economic Support Fund; and the Commander's Emergency Response Program.

Transition

The GOI is assuming most of the financial burden for financing its national recovery. The U.S. government is focusing on four areas essential to furthering a full and successful transfer of relief and reconstruction responsibilities to the GOI:

1. IRAQI CAPITAL BUDGET EXECUTION

In 2006, the GOI expended only a fraction of its allocated capital budgets. The GOI must dramatically increase capital expenditures in 2007, including spending unexpended 2006 funds. To help achieve that end, the GOI directed that any ministry unable to spend 75% of its semiannual budget by June will forfeit the unexpended funds. The unspent balance will be reapportioned by the Ministers of Finance and Planning.

2. PROGRESS OF ANTICORRUPTION EFFORTS

There has been notable progress in promoting Iraqi-led anticorruption programs this quarter. In January 2007, IRMO established the Office of Accountability and Transparency (OAT) to coordinate the U.S. Embassy's anti-

corruption strategy. OAT has achieved some significant milestones already, including the appointment of senior consultants for Iraq's inspectors general and the Board of Supreme Audit (BSA). OAT is also assisting the GOI in the development of the Iraqi Joint Anti-Corruption Council (JACC), which brings together the primary anticorruption entities under the leadership of the Prime Minister.
On February 7, 2007, U.S. Army Colonel Curtis G. Whiteford, U.S. Army Lt. Colonels Debra M. Harrison and Michael B. Wheeler, and civilians Michael Morris and William Driver were indicted for various crimes related to the scheme. Whiteford, Robert Stein’s deputy in the comptroller’s office, was charged with 1 count of conspiracy, 1 count of bribery, and 11 counts of wire fraud. Harrison, who oversaw the expenditure of CPA funds for reconstruction projects, was charged with 1 count of conspiracy, 1 count of bribery, 11 counts of wire fraud, 4 counts of interstate transport of stolen property, 1 count of bulk cash smuggling, 4 counts of money laundering, and 1 count of preparing a false tax form.

Wheeler, an advisor for CPA projects for Iraq reconstruction, was charged with 1 count of conspiracy, 1 count of bribery, 11 counts of wire fraud, 1 count of interstate transport of stolen property, and 1 count of bulk cash smuggling.

William Driver, Harrison’s husband, was charged with 4 counts of money laundering. Michael Morris, who worked for Philip Bloom as a middle-man in the criminal scheme, was charged with 1 count of conspiracy and 11 counts of wire fraud.

On February 16, 2007, Steven Merkes, a former U.S. Air Force Master Sergeant working for DoD in Germany, pled guilty in U.S. District Court for accepting illegal bribes from Phillip Bloom. Merkes accepted the bribes in exchange for furnishing Bloom with sensitive contract information before awarding contracts to Bloom. Merkes faces incarceration of 12-18 months, conditions of supervised release, and restitution orders by the court.

In another matter this quarter, on February 2, 2007, Faheem Mousa Salam was sentenced to 3 years in prison, 2 years of supervised release, and 250 hours of community service for offering a bribe to an Iraqi police official. In August 2006, Salam, a naturalized U.S. citizen employed by Titan Corporation, pled guilty to violating the Foreign Corrupt Practices Act.

**Suspensions and Debarments**

Since December 2005, SIGIR has worked closely with DoJ, CID, DCIS, and the Army Legal Service Agency’s Procurement Fraud Branch to suspend and debar contractors in cases of fraud or corruption within the Army, including those involving Iraq reconstruction or Army support contracts in Iraq. These cases arise both from criminal indictments filed in federal district courts and allegations of contractor irresponsibility requiring fact-based examination by the Army’s Suspension and Debarment Official.

To date, Army CID has suspended 19 individuals or companies based on allegations of fraud and misconduct connected to Iraq reconstruction and Army support contracts. In addition, 16 other individuals or companies have been proposed to the Army Suspension and Debarment Official for debarment, and 9 have been debarred.

This quarter, as a result of SIGIR oversight, the Army has asked Parsons Corporation...
(Parsons) to show cause why the firm should not be proposed for debarment. On March 27, 2007, the Army’s Suspension and Debarment Official sent a letter to Parsons, which stated, “As the result of allegations made by the Special Inspector General for Iraq Reconstruction regarding contracts awarded to Parsons by the U.S. Army Corps of Engineers, Gulf Region Division, the effectiveness of your company’s standards of conduct and internal control systems have come into question.” The letter asked Parsons to provide specific information for the Army to use in its deliberative process.

For details on suspensions and disbarments, see Appendix K.

**SIGIR-issued Subpoenas**

This quarter, to gather information from contractors and other sources, SIGIR investigators have issued a number of Inspector General Subpoenas under the Inspector General Act of 1978, as amended. Also, SIGIR recently asked contractors for data on their internal investigations and audits.

**Proposed New Legislation**

SIGIR notes that the Congress is currently considering new legislation to strengthen efforts to punish fraud, waste, and abuse of funds in Iraq and elsewhere. SIGIR supports the enactment of this new law and will coordinate fully with DoJ to enforce it.
Since December 2005, the Special Inspector General for Iraq Reconstruction (SIGIR) has worked closely with the Department of Justice (DoJ), Army Criminal Investigative Command, Defense Criminal Investigative Service, and the Army Legal Service Agency’s Procurement Fraud Branch to suspend and debar contractors for fraud or corruption within the Army, including those involving Iraq reconstruction or Army support contracts in Iraq. These cases arise as the result of criminal indictments filed in federal district courts and allegations of contractor irresponsibility that require fact-based examination by the Army’s Suspension and Debarment Official.

In June 2003, the Department of Defense designated the Department of the Army as the executive agent for contracting support to the Coalition Provisional Authority (CPA). As a result, the Army’s Suspension and Debarment Program leads the effort to ensure the integrity of contractors performing these contracts. The goal of this program is to ensure that these contracts are awarded to, and performed by, contractors who are honest and ethical and who have the ability to successfully perform this important work. The Procurement Fraud Branch has also taken a leading role within the Army and at joint contracting organizations to train contracting officers to aid in the prevention and early detection of contractor fraud in Iraq reconstruction and support contracts.

To date, the Procurement Fraud Branch has suspended 18 individuals and companies, based on allegations of fraud and misconduct connected to Iraq reconstruction. Included in this list are five individuals involved in the Bloom/Stein conspiracy, as reported in the October 2006 SIGIR Quarterly Report to The Congress. In addition, 17 individuals and companies have been proposed for debarment to the Army Suspension and Debarment Official, resulting in 9 debarments.

In addition to suspension and debarment actions, during the first quarter of 2007, the Suspension and Debarment Official formally requested that Parsons Corporation (Parsons) provide information regarding its current responsibilities as a government contractor. This action was based on allegations made by SIGIR against Parsons Global Services Company, a subsidiary of Parsons Corporation, regarding contracts awarded to Parsons by the U.S. Army Corps of Engineers, Gulf Regional Division. These allegations called into question the effectiveness of the company’s standards of conduct and internal control systems, resulting in an inquiry based on the provisions of Defense Federal Acquisition Regulation Supplement (DFARS) Section 203.7000. No action has been taken to date against Parsons or its subsidiaries pending the outcome of this inquiry.

The Army also entered into an Administrative Compliance Agreement with Eagle Global Logistics, a freight forwarder operating in the Middle East, in May 2006. For information on specific actions by the Army Suspension and Debarment Official, see Table K-1.