

OVERSIGHT IN A WAR ZONE

When SIGIR began work in early 2004 as the Coalition Provisional Authority Inspector General, it was the only inspector general office within the U.S. government possessing oversight responsibilities encompassing several federal agencies. Over time, the Congress expanded SIGIR's mission so that, by 2008, its mandate required reporting on all reconstruction funds regardless of provenance.

During most of its nine-year lifespan, SIGIR maintained the largest on-the-ground presence of any U.S. auditing or investigative agency operating in Iraq. In 2008, the number of SIGIR personnel in country exceeded 50. Three operational directorates accomplished the oversight work: Audits, Inspections, and Investigations. They had these common objectives:

- to deter the misuse of taxpayer dollars through the prevention and detection of fraud, waste, and abuse
- to promote improved economy, efficiency, and effectiveness in the Iraq reconstruction program

The Iraq reconstruction program provided a plethora of lessons about what happens when stabilization and reconstruction operations commence without sufficient systemic support in place. Among the most salient is the need to provide a robust in-country team of auditors, inspectors, and investigators from the operation's outset. A substantial IG presence will deter or detect fraud, waste, and abuse, improving mission efficiency and effectiveness. Fraud is the intentional wrongdoing by persons seeking to enrich themselves. Waste is the product of poor planning and weak controls. Abuse is bad management. The absence of a strong oversight force early in the Iraq program allowed too much of each to occur.

SIGIR Audits

Within a month of his appointment, the Inspector General completed 2 trips to Iraq; 32 more would follow. The urgent oversight needs identified during those initial visits led him to deploy two teams of four auditors each to Baghdad, along with investigative support. Those teams were on the ground and working by mid-March 2004, with the agency's first quarterly report to the Congress produced by the end of that month.

SIGIR's auditing presence in Iraq rapidly expanded from 2005 to 2007. Buttressed by the development of innovative oversight practices, auditors focused on quickly producing performance reviews rather



SIGIR auditors interview leaders and villagers in al-Zuhoor village, Qadissiya, on November 18, 2010.

TABLE 1.1

SIGIR Summary of Performance

As of March 2013

Audits	Cumulative
Reports Issued	220
Recommendations Issued	487
Potential Savings if Agencies Implement SIGIR Recommendations to:	
Put Funds to Better Use (\$ Millions)	\$973.62
Disallow Costs SIGIR Questioned (\$ Millions)	\$640.68
Inspections	
Project Assessments Issued	170
Limited On-site Assessments Issued	96
Aerial Assessments	923
Investigations	
Investigations Initiated	637
Investigations Closed or Referred	562
Open (Active) Investigations	75
Arrests	41
Indictments	104
Convictions	82
Sentencings	68
Monetary Results (\$ Millions)	\$191.2
Hotline Contacts	
Email	413
Fax	19
Mail	30
Referrals	26
SIGIR Website	200
Telephone	84
Walk-in	112
Total Hotline Contacts	884
Other Products	
Congressional Testimony	35
Lessons Learned Reports	9
Special Reports	3
Evaluation Reports	1
Quarterly Reports	35

Best Practices for SRO Audit Programs

1. Focus early audit attention on contracting, quality-assurance, and quality-control resources dedicated to programs and projects.
2. Develop a systematic approach to reporting on the sustainability of projects.
3. Develop an integrated database of contracts, grants, and projects to keep track of what is procured and delivered.
4. Develop close working relationships with senior reconstruction managers to encourage improved program implementation.
5. Ensure that implementing agencies develop program goals, with measurable milestones and outcomes.
6. Provide strong oversight of programs involving cash payments to host-country contractors or officials.
7. Develop expertise in grants management to improve oversight of State and USAID programs.

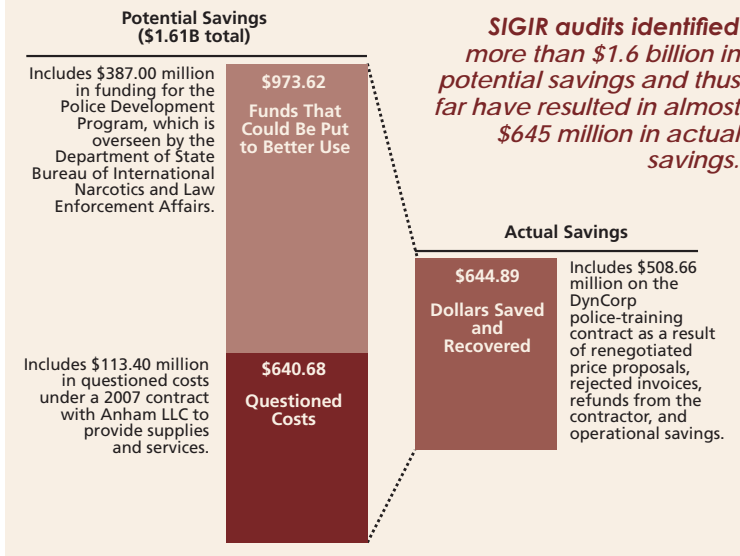
than slow-moving *ex post facto* financial audits. By forming the Iraq Inspectors General Council, which met quarterly for seven years, the Inspector General emphasized coordination among executive branch audit and investigative agencies working in Iraq. This improved the planning and execution of oversight activities.

At its peak in 2008, SIGIR had 35 auditors permanently stationed in Baghdad conducting audits to root out fraud, waste, and abuse. This in-country presence received steady support from audit managers based in Arlington, Virginia, who regularly traveled to Iraq to strengthen specific reviews.

SIGIR's audit plan sought to determine whether reconstruction managers effectively and efficiently oversaw programs and operations funded by the United States. Further, it aimed at promoting on-the-ground change through near-real-time reporting, producing audits at an average rate of six per quarter, usually within 90 to 120 days of an audit's announcement.

From 2004 to 2013, SIGIR published 220 audit reports covering a wide variety of reconstruction issues, including contingency contracting, the promotion of democracy, the transfer and sustainment

FIGURE 1.1
Potential and Actual Financial Accomplishments From SIGIR Audits
 \$ Millions



of completed projects, contract award fees, the management of programs and projects, and the development of Iraq's security forces.

SIGIR's audits questioned about \$641 million in costs and identified an additional \$974 million in funds to be put to better use—a combined potential financial benefit of \$1.61 billion. As of September 2012, the actual savings to the government from renegotiated contracts, refunds, and operational savings resulting from SIGIR findings had reached nearly \$645 million (see Figure 1.1).

Among others, SIGIR's audits effected these positive changes within the Iraq program:

- In October 2005, a report examining contract award fees found that none of the contracts reviewed contained the required criteria for awarding fees. Subsequent actions by Defense remedied the deficiency.
- In January and April 2006, three reports reviewed the transfer of completed construction projects to the GOI, finding that U.S. agencies had policies on asset transfer applicable at the local level,

SIGIR Audit 11-022

The Anham Contract: Oversight Was an Oversight

In September 2007, Defense awarded a \$300 million contract to Anham, LLC, to operate and maintain two warehouse and distribution facilities, one near Baghdad International Airport and the other at the Port of Umm Qasr. Two years later, the contract had incurred obligations of approximately \$119.1 million, with Anham subcontractors providing at least \$55 million in supplies and services.

A SIGIR audit found weak contract oversight practices that left the government vulnerable to improper overcharges:

- The Defense Contract Audit Agency failed to review Anham's cost-estimating system.
- The Defense Contract Management Agency recommended approval of Anham's purchasing system, despite identifying significant gaps in documentation.
- Contracting officer's representatives failed to effectively review invoices.

SIGIR questioned almost 40% of the costs it reviewed. These overbillings by an Anham subcontractor were especially egregious:

- \$900 for a control switch valued at \$7.05 (a 12,666% markup)
- \$80 for a small segment of drain pipe valued at \$1.41 (a 5,574% markup)
- \$75 for a different piece of plumbing equipment also valued at \$1.41 (a 5,219% markup)
- \$3,000 for a circuit breaker valued at \$94.47 (a 3,076% markup)

- \$4,500 for another kind of circuit breaker valued at \$183.30 (a 2,355% markup)

SIGIR further found that there had been questionable competition practices, inappropriate bundling of subcontractor items, and close working relationships—with possible ownership affiliations—between Anham and its subcontractors.

In light of these many deficiencies, SIGIR questioned the entire contract and recommended that the U.S. military initiate a systematic review of billing practices on all Anham contracts in Iraq and Afghanistan. At the time of SIGIR's review in 2011, Anham held about \$3.9 billion in U.S. government contracts. That number has since increased.



Anham billed the U.S. government \$80 for this PVC plumbing elbow, 5,574% more than a competitor's offer of \$1.41.

but none addressing the GOI ministries responsible for sustaining completed projects. The Congress responded by requiring U.S. agencies to certify that they had implemented an asset-transfer agreement that secured GOI commitments to maintaining U.S.-funded infrastructure.

- In January 2008, SIGIR issued a report on the Commander's

Emergency Response Program, finding that an increasing amount of CERP funds was being spent on large projects rather than small-scale urgent projects, as required by CERP guidance. The Congress responded to SIGIR's finding in the National Defense Authorization Act for FY 2009, setting a limit of \$2 million for any CERP project. In the Ike Skelton National Defense Authorization Act for FY 2011, the Congress acted further, requiring that program funds be used only for small-scale projects.

Our audit findings identified a number of critical deficiencies in reconstruction planning, implementation, and oversight, making recommendations for improvement. These problems ranged from poor quality-control programs, ineffective quality-assurance programs,

SIGIR PA-08-138 and Audit 08-019

Khan Bani Sa'ad Prison: Waste in the Desert

Years of neglect, war damage, and looting left Diyala province's prisons in deplorable condition. In May 2004, the CPA awarded Parsons Delaware an \$80 million task order to build the Khan Bani Sa'ad Prison, which would add 3,600 beds to the province's correctional capacity.

In February 2006, three months after the scheduled completion date, Parsons submitted notification that its new projected completion target was September 2008—a 990-day schedule slippage. In June 2006, the U.S. government terminated the contract for "failure to make sufficient progress on the project" and "massive cost overruns."

Still believing the prison was wanted by the Iraqi Ministry of Justice, reconstruction managers awarded three successor contracts to complete the work. In June 2007, the U.S. government terminated all work on the project for convenience, citing security issues.

At the time of termination, the United States had spent almost \$40 million, but no building was complete. Two months later, USACE unilaterally transferred the unfinished project to the GOI even though Ministry of Justice officials told

USACE they did not plan to "complete, occupy, or provide security for" the poorly and partially constructed facility.

SIGIR visited the site in June 2008, finding it neither secured nor occupied by the GOI. SIGIR's assessment documented poor-quality workmanship by Parsons, including many potentially dangerous conditions. Several sections were recommended for demolition. The site still sits dormant in Diyala and apparently will never be used.



The Khan Bani Sa'ad Prison was abandoned after the United States spent almost \$40 million on it.

lack of sufficient in-country contracting officer representatives, inadequate invoice review procedures, and poor controls over funds such that vulnerabilities to fraud, waste, and abuse were significant. Departmental responses almost always concurred with SIGIR's findings, usually agreeing to implement all recommended changes.

SIGIR Inspections

During his initial visits to Iraq in 2004, the Inspector General heard conflicting stories about U.S.-funded stabilization and reconstruction projects. On the one hand, U.S. agencies and private construction companies commonly reported construction projects as success stories. But many Iraqis and some U.S. military and civilian personnel privately registered strong complaints about the program. They pointed to unwanted projects and to equipment that was either too sophisticated for the Iraqis to use or of very poor quality.

SIGIR auditors began to discover inadequately designed projects, which were poorly constructed and unsustainable. With billions of taxpayer dollars at stake, the Inspector General took action to expand SIGIR's oversight capacity. In June 2005, he created the Inspections Directorate to assess and report on reconstruction work by visiting project sites.



Members of SIGIR team inspect work at Mosul Dam.

Best Practices for SRO Inspection Programs

1. Provide reconstruction officials with near real-time reporting.
2. Team engineers with auditors.
3. Report on complex technical topics in accessible language.
4. Execute inspections rapidly.
5. Visit project sites in person.
6. Visit as many projects as possible early in the program.
7. Always consider sustainability in assessing reconstruction projects.

Over the next five years, inspection teams composed of experienced engineers and auditors traveled to sites all over Iraq. The Inspections Directorate selected projects for review from each reconstruction sector, covering large and small contractors, different geographical areas, each of the major U.S. agencies operating in country, and all funding sources. The selection criteria asked the following questions:

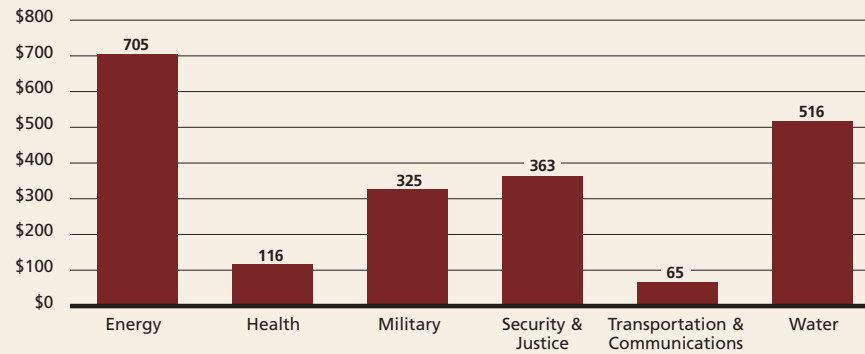
- Was the request from a military commander or a State Department official?
- Was the project significant?
- Was there a likelihood of fraud or waste?
- Were there existing concerns about the project under consideration or its contractor?

In assessing construction projects, SIGIR asked the following questions:

- Was the project properly designed?
- Was the project built according to contract specifications?
- Was an adequate contractor-managed quality-control program and government-managed quality-assurance program in place?
- Was sustainability considered and planned for?
- Was the project likely to meet contract objectives?

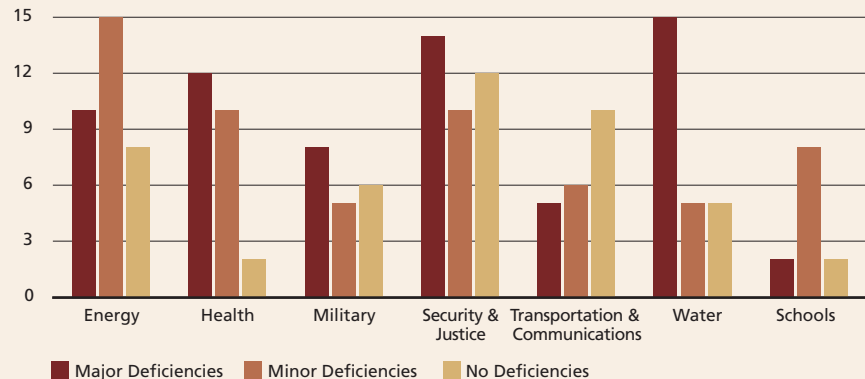
As the program matured, the Inspections Directorate added project sustainment inspections into the mix, examining whether a completed

FIGURE 1.2
Contract Value of Projects SIGIR Inspected, by Reconstruction Sector
 \$ Millions



SIGIR inspected a cross-section of projects collectively valued at nearly \$2.1 billion.

FIGURE 1.3
Deficiencies for Projects SIGIR Assessed, by Reconstruction Sector



Almost 40% of the projects had major deficiencies.

project was operating as intended and whether the Iraqis were sustaining it through effective operations and maintenance.

Unstable conditions in Iraq sometimes prevented SIGIR’s inspectors from conducting on-site assessments. Because of security threats, SIGIR had to cancel visits to 18 project sites between June 2005 and August 2008. In 2008, General David Petraeus, the Multi-National Force-Iraq Commanding General, authorized SIGIR’s inspectors to travel under Defense Department authority, which subsequently ensured access and transport to all sites.

SIGIR's inspections commonly identified deficiencies in design, construction, quality control, quality assurance, and sustainability. The Directorate referred these to the appropriate relief and reconstruction agencies for corrective action. Indicators of potential

SIGIR Investigations

The Bloom-Stein Conspiracy: Life in a Free Fraud Zone

Following a whistleblower complaint, SIGIR auditors reviewed contracts that the CPA's regional office in Hilla had awarded to a contractor, Philip Bloom, for construction work. The auditors found inflated charges, the circumvention of regulations, false claims, and improper payments.

These fraud indicators caused the Inspector General to order a team of investigators to Hilla. It soon uncovered a sordid scheme involving bribery, money laundering, and the theft of millions of dollars of reconstruction money.

At the center of the conspiracy was Robert Stein, a convicted felon, who served as the CPA's comptroller in Hilla—a position entrusted with overseeing and disbursing hundreds of millions in reconstruction funds. From December 2003 to December 2004, Stein used a rigged bidding process to award approximately 20 contracts, collectively valued at more than \$8.6 million, to Bloom's companies. In return, Bloom:

- provided bribes and kickbacks, expensive vehicles, business-class airline tickets, computers, jewelry, and other items
- laundered in excess of \$2 million in cash stolen from the vault at CPA headquarters
- used Romanian and Swiss bank accounts to send stolen funds to co-conspirators

SIGIR's investigation led to eight convictions with combined sentences totaling more than 26 years:

- Stein received nine years in prison and forfeited \$3.6 million.
- Bloom received 46 months in prison and forfeited \$3.6 million.
- U.S. Army Reserve Lieutenant Colonel Bruce

Hopfengardner, a security advisor at the regional office, received 21 months in prison and forfeited \$144,500.

- Steven Merkes, a DoD operational support planner, received 12 months in prison.
- Lieutenant Colonel Debra Harrison, the acting comptroller at the regional office, received 30 months in prison and forfeited \$366,340.
- William Driver, Harrison's husband, received three years probation and six months of house arrest, and was ordered to pay \$36,000 in restitution.
- Colonel Curtis Whiteford, the second-most-senior official in the office, received five years in prison and was ordered to pay \$16,200 in restitution.
- U.S. Army Reserve Lieutenant Colonel Michael Wheeler, the office's Deputy Chief of Staff, received 42 months in prison and was ordered to pay \$1,200 in restitution.



The CPA gave \$58.8 million in cash to Robert Stein, the South Central Regional Comptroller (and a convicted felon), to disburse for the benefit of the Iraqi people.

fraud were referred to investigators for analysis, investigation, and possible Department of Justice action. For example, in 2008, SIGIR's inspectors at the Sarwaran Primary School and the Binaslawwa Middle School discovered possible illegal activity by two Korean Army officers and a master sergeant who had authorized a contract requiring the use of prohibited Iranian parts. SIGIR's inspectors referred the matter to SIGIR investigators, who carried out an inquiry that led to the three individuals eventually being convicted by a Korean military court.

SIGIR's Inspections Directorate concluded operations in April 2010, just as major U.S. construction projects were winding down and as Iraq was assuming control of the rebuilding program. In all, SIGIR issued 170 inspection reports covering projects valued at nearly \$2.1 billion (see Figure 1.2).

Of the 116 ongoing projects that SIGIR inspected, almost one-half did not meet contract specifications and had major deficiencies. Of the 54 completed projects that SIGIR inspected, more than three-fourths had deficiencies, with 14 suffering major defects that, if left unaddressed, would place the survival of the project in jeopardy. In all, 40% of the inspected projects had major deficiencies (see Figure 1.3).

SIGIR Investigations

SIGIR investigators served in Iraq from 2004 to 2013, frequently under fire. The inherent disorder of life in a war zone—coupled with the challenges of starting up a new organization—meant that substantial investigative results came gradually. The incremental nature of this progress stemmed in part from the unpredictable character of the criminal investigative process, which is less structured than the audit or inspection processes.

But significant results did come, and their numbers stand as testimony supporting the need for robust oversight during SROs: 104 indictments, 82 convictions, and over \$191 million in court-ordered fines, forfeitures, restitution payments, and other monetary penalties (see Figure 1.4). SIGIR's investigative work also produced 114 debarments and 98 suspensions of contractors and government personnel for fraud or other corrupt practices.

Best Practices for SRO Investigation Programs

1. Integrate law-enforcement efforts. Prior integrative planning must occur for law-enforcement agencies to function well together.
2. Begin oversight early. As soon as the planning for an SRO begins, the relevant investigative entities should develop joint investigative programs.
3. Deploy agents forward. A strong and widely noticed law-enforcement presence in theater will deter crime.
4. Intervene with education. All government and contractor personnel operating in an SRO need fraud-awareness training.
5. Use task forces. Investigative task forces improve the likelihood of success because pooled resources mitigate the lack of technical capacities in some law-enforcement offices.
6. Hire investigators with fraud experience. Investigators should have backgrounds in contract fraud, financial transactions, and asset tracing.
7. Dedicate specific prosecutors. SIGIR's hiring of its own prosecutors produced outstanding results.

Other SIGIR Oversight Work

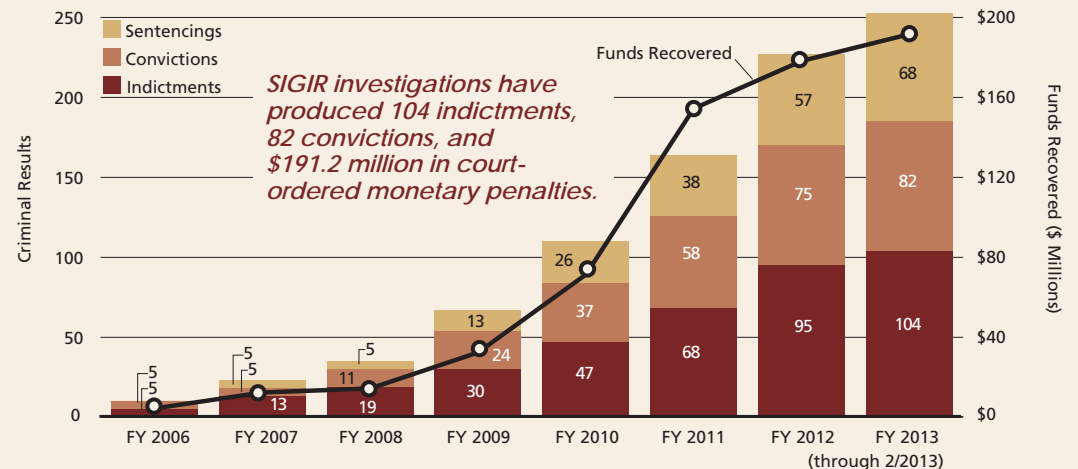
Lessons Learned

In 2005, SIGIR developed a novel lessons-learned initiative to convert the findings derived from its oversight work into lessons for operators in theater. The initiative yielded nine reports, including this one.

The first three reports focused on human capital management, contracting and procurement, and program and project management. Published in 2006 and 2007, they contributed to a number of helpful changes in U.S. reconstruction policy. SIGIR's contracting report, for example, exposed the Defense Department's weak contingency contracting resources, practices, and procedures. The Congress responded in these ways:

- The John Warner National Defense Authorization Act required

FIGURE 1.4
SIGIR Investigations Criminal Results and Funds Recovered, Cumulative to Date, by Fiscal Year

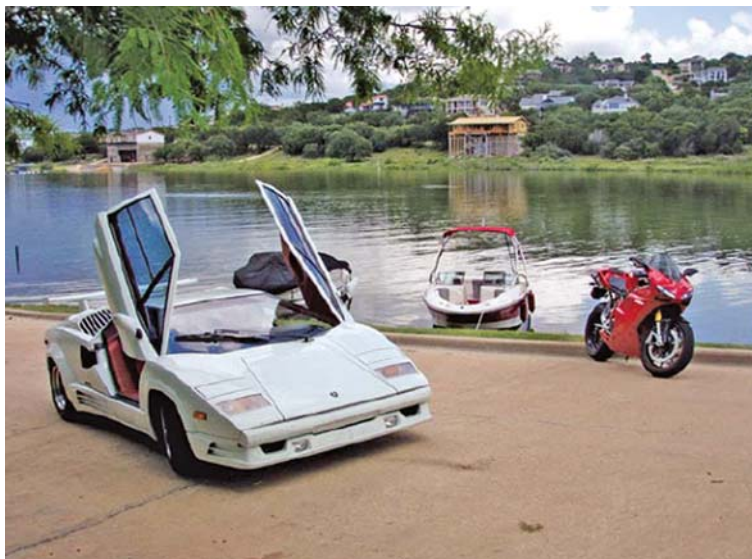


Defense to develop policies and procedures that defined contingency contracting requirements, identified a deployable cadre of contracting experts, and provided training in contingency contracting.

- The Congress further required contracting training for personnel outside the acquisition workforce because of the broad reach of contracting activities in Iraq, particularly regarding the CERP.
- The Accountability in Government Contracting Act of 2007 strengthened the federal acquisition workforce by establishing a contingency contracting corps and providing specific guidance to encourage accountability and limit fraud, waste, and abuse.

SIGIR's report on program and project management helped the development of an updated Emergency Acquisitions Guide issued by the Office of Management and Budget's Office of Federal Procurement Policy. The guide included a number of best practices that agencies should consider when planning for contingency operations.

In February 2009, SIGIR published its fourth lessons-learned



David Ricardo Ramirez was sentenced to more than four years in prison and forfeiture of real estate and the vehicles and boat shown here for stealing bulk cash while working as a Defense Department contractor in Iraq during 2006–2007.

report—*Hard Lessons: The Iraq Reconstruction Experience*—which provided a detailed primary-sourced narrative and analysis of the U.S. reconstruction program, presenting 13 lessons applicable to stabilization and reconstruction operations. After reviewing *Hard Lessons*, General David Petraeus concluded that the U.S. Central Command would apply 9 of the 13 lessons in Afghanistan.

Building on *Hard Lessons*, SIGIR issued its fifth lessons learned report in February 2010, *Applying Iraq's Hard Lessons to the Reform of Stabilization and Reconstruction Operations*. This study proposed an innovative solution to the question of who should be accountable for planning and executing stabilization and reconstruction operations. *Learning From Iraq* further fleshes out this proposal. SIGIR's next three reports, published in 2011 and 2012, captured lessons from SIGIR's inspections, auditing, and investigative activities.

Special Studies

To deepen insight into the Iraq reconstruction program, SIGIR accomplished these four focused studies:

- *Review of Major U.S. Government Infrastructure Projects in Iraq: Nassiriya and Iqra' Water Treatment Plants* (October 2010). To accomplish this evaluation, SIGIR visited two major water treatment plants, one in southern Iraq and the other in the Kurdistan Region. The evaluation assessed the local populations' perceptions of these plants, as well as the projects' contributions to U.S. reconstruction goals. SIGIR concluded that the northern project was a success, while the one in southern Iraq fell far short of its goals.
- *Reconstruction Leaders' Perceptions of the Commander's Emergency Response Program in Iraq* (April 2012). In this first Special Report, SIGIR surveyed U.S. Army and Marine Corps battalion commanders and civilian agency officials to obtain their views about the use of CERP funds in Iraq. Their revealing responses indicated weak interagency coordination on CERP projects.
- *The Human Toll of Reconstruction or Stabilization during Operation Iraqi Freedom* (July 2012). In this second Special Report, SIGIR sought to account for the number of personnel killed while specifically engaged in reconstruction activities in Iraq. The report concluded that at least 719 people (U.S., Iraqi, and third-country nationals) died working on reconstruction-related programs or projects.
- *Interagency Rebuilding Efforts in Iraq: A Case Study of the Rusafa Political District* (February 2013). In this third Special Report, SIGIR took a deep look into one geographic area—Baghdad's Rusafa Political District—to detail the collective U.S. investment. The report found that project tracking was very weak and thus the actual number of projects accomplished could not be precisely identified. 🗳️