



SIGIR Audits

SIGIR published five audits this quarter including a review of the Department of State's oversight of three significant DynCorp police training task orders, which found more than \$2.5 billion in U.S. funds had been vulnerable to waste and fraud. SIGIR also reviewed in depth \$114 million in grants to the International Republican Institute (IRI) and National Democratic Institute (NDI), discovering that only 41% of the money was spent on programs, while much of the remainder was expended on overhead and security costs.

SIGIR's forensic audit of all U.S. funds committed to the reconstruction of Iraq continued this quarter with the issuance of a second interim report. SIGIR's forensic auditors have reviewed about 73,000 transactions valued at approximately \$28 billion. As a result of this work, SIGIR has identified almost \$340 million in questioned transactions and opened 27 criminal investigations.

SIGIR Investigations

This quarter, SIGIR investigators, in close cooperation with law enforcement partner agencies throughout the world, achieved several significant accomplishments, including:

- Major John Cockerham and several relatives were sentenced for their participation in a bribery and money-laundering scheme. The jail sentences ranged from 1 to more than 17 years, and the court-ordered restitution totaled more than \$19 million.
- A former DoD contracting officer was sentenced to nine years in prison for failing to report more than \$2.4 million in income.
- A Coalition-partner citizen was arrested for money laundering.
- A former U.S. Army colonel was sentenced to five years in prison for his role in a bribery conspiracy in Hilla, Iraq.

SIGIR Inspections

SIGIR assessed five projects, including three paid for by the Iraq Security Forces Fund (ISFF) and one each financed by the Commander's Emergency Response Program and Iraq Freedom Fund (IFF). Two of the ISFF projects inspected by SIGIR involved construction of training facilities for the Iraqi Security Forces. SIGIR found most work performed on both of these projects to be adequate. SIGIR also looked at a \$3.1 million ISFF-funded contract for construction of a screening facility at Rabeaa, a town along the Syrian border. SIGIR uncovered a number of deficiencies with this project and immediately brought them to the attention of the U.S. Army Corps of Engineers, which assured SIGIR that it would work with the contractors on implementing appropriate remedial measures.

The other two projects that SIGIR evaluated were the renovation of a famous war memorial in downtown Baghdad and the reconstitution of the Abu Ghraib dairy's production capacity. When SIGIR reviewed the Tomb of the Unknown Soldier, it found Multi-National Corps-Iraq's record keeping inadequate and was thus unable to determine accurately the value of the work performed. However, SIGIR concluded that the Tomb's condition had, in fact, been improved by the renovation project. Finally, SIGIR inspected the \$3.4 million renovation of the Abu Ghraib Dairy, funded by the IFF, finding significant flaws in the construction and expressing concern about whether milk production equipment purchased in 2002 will still work.

Peer Review Gives SIGIR Audits High Marks

During 2009, SIGIR's Audits Directorate underwent a comprehensive peer review. Peer reviews are mandated every three years for inspectors general to evaluate whether an IG is in compliance with Government Auditing Standards. On November 20, 2009, the Inspector General of the National Science Foundation, who performed the work, issued a letter informing SIGIR that it had achieved a rating of "pass with no deficiencies," the highest grade possible.

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 August, the IG completed his 25th trip to Iraq to review progress on the reconstruction effort.

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IRAQ RECONSTRUCTION 2010: A YEAR OF DECISION AND DEPARTURE

Six years ago this quarter, the U.S. Congress established the Coalition Provisional Authority Inspector General, which subsequently became the Office of the Special Inspector General for Iraq Reconstruction (SIGIR). In the intervening years, SIGIR has established itself as the leading practitioner of oversight in contingency operating environments.

Shortly after the publication of this 24th Quarterly Report, SIGIR will issue its 5th lessons learned review. Building on the work contained in our 300-plus audits and inspections of the Iraq reconstruction program, *Applying Iraq's Hard Lessons to the Reform of Stabilization and Reconstruction Operations* proposes some solutions for the U.S. government's management of ongoing and future stabilization and reconstruction operations (SROs).

Specifically, SIGIR recommends the creation of a permanent agency to plan and manage SROs: the U.S. Office for Contingency Operations (USOCO). More than a mere coordinating mechanism, USOCO would be accountable for the conduct of all SROs for the life of the engagement. It would also serve as the locus for planning, funding, and managing SROs, replacing the fragmented system that now exists. Supported in concept by prominent figures, including former National Security Advisor General Brent Scowcroft and Ambassador Ryan C. Crocker, USOCO has already garnered positive reviews from a diverse array of leading thinkers in government, academia, and the private sector.



The USF-I activation ceremony. (USF-I photo)

Parliamentary Elections Scheduled for March 7, 2010

For the past four years, Iraq's parliament comprised 275 members. Under the provisions of the new Elections Law, which received final approval in January 2010, 50 additional members will be elected. On January 7, however, the Accountability and Justice Commission—the successor to the de-Ba'athification Commission—announced that it was banning more than 500 candidates from participating in the March elections. Among those banned were Shia and Sunni politicians allegedly linked to the former regime.

The Second Round of Bidding for Service Contracts To Develop Iraq's Oil Fields

On December 11–12, 2009, the Ministry of Oil conducted the second round of bidding for oil service contracts, accepting bids on 7 oil fields. The proceedings were conducted in a transparent manner, with companies placing their oil bids in a clear box before Government of Iraq (GOI) officials and media representatives. A consortium of Russia's Lukoil and Norway's Statoil won the contract for the largest remaining field, West Qurna 2, while Royal Dutch Shell and Malaysia's Petronas submitted the winning bid for the second-largest field, Majnoon.

Iraq's goal is to significantly raise production from its current level of 2.42 million barrels per day (MBPD). The Minister of Oil said that Iraq could produce 7 MBPD within the next six years, and perhaps much more. To accomplish this, however, the GOI will need to address several pressing challenges, including corruption, legal uncertainty (because of the failure to pass a package of Hydrocarbons Laws), continued insurgent violence, persistent sectarian tensions, and a ramshackle infrastructure.

Violence Strikes GOI Facilities and Leaders

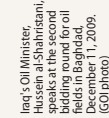
The August 19, 2009, bombings of the Ministries of Finance and Foreign Affairs heralded an ominous trend in the patterns of insurgent violence—the targeting of new key GOI facilities and personnel. That trend continued this quarter, most notably with bombings in Baghdad striking the following significant sites: the Ministry of Justice, Baghdad Provincial Council headquarters, a Ministry of Labor facility, and the Ministry of Finance's new location. Several prominent local political leaders were also targeted for assassination, including the mayor of Mosul, who survived, and the district council chief of Telafar, who did not.

SIGIR



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Iraq's Oil Minister, Hassan al-Sharhan, speaks at the second bidding round for oil contracts awarded on December 11, 2009. (GOI photo)

Ministry of Oil Facts

- Iraq's Estimated Proved Oil Reserves: 115 billion barrels
- 2009 Production: 2.4 million barrels per day
- 2009 Exports: 1.9 million barrels per day
- Number of Ministry Employees: 108,158
- Budget (\$ Millions):
 - Capital: \$2,206 (2009), \$2,650 (2010)
 - Operating: \$954 (2009), \$983 (2010)
- Companies:
 - **Downstream** (4): Oil Products Distribution Co., Oil Pipeline Co., LPG Bottling Co., Iraqi Tanker Co.
 - **Upstream** (6): North Oil Co., South Oil Co., Oil Exploration Co., Iraqi Drilling Co., Maysan Oil Co., Dhi Qar Oil Co.
 - **Midstream** (6): North Refinery Co., Midlands Refinery Co., South Refinery Co., North Gas Co., South Gas Co., State Co. for Oil Projects
 - **Marketing** (1): State Oil Marketing Organization

Attacks on Oil Infrastructure
In 2009, there were at least 9 attacks on Iraq's oil infrastructure. No attacks occurred in Iraq's Pipeline Exclusion Zones (PEZs), which are guarded by elements of the Oil Police (now 29,500 strong).

Najma
Winning Bid: Sonangol* (100%)
Remuneration Fee: \$6.00/barrel
Production Plateau Target: 110,000 barrels per day
Current Production Capacity: None
Proved Reserves: 0.9 billion barrels

Qaiyarah
Winning Bid: Sonangol* (100%)
Remuneration Fee: \$5.00/barrel
Production Plateau Target: 120,000 barrels per day
Current Production Capacity: 2,000 barrels per day
Proved Reserves: 0.8 billion barrels

Badra
Winning Bid: Gazprom* (40%), Kogas (30%), Petronas* (20%), TPAO* (10%)
Remuneration Fee: \$5.50/barrel
Production Plateau Target: 170,000 barrels per day
Current Production Capacity: None
Proved Reserves: 0.1 billion barrels

Halifaya
Winning Bid: CNPC* (50%), Petronas* (25%), Total (25%)
Remuneration Fee: \$1.40/barrel
Production Plateau Target: \$35,000 barrels per day
Current Production Capacity: 3,000 barrels per day
Proved Reserves: 4.1 billion barrels

Garraf
Winning Bid: Petronas* (60%), Japex (40%)
Remuneration Fee: \$1.49/barrel
Production Plateau Target: 230,000 barrels per day
Current Production Capacity: None
Proved Reserves: 0.9 billion barrels

Rumaila
Winning Bid: BP (51%), CNPC* (49%)
Remuneration Fee: \$2.00/barrel
Production Plateau Target: 2,850,000 barrels per day
Current Production Capacity: 1 million barrels per day
Proved Reserves: 17.8 billion barrels

Zubair
Winning Bid: Eni* (44%), Occidental (31%), Kogas (25%)
Remuneration Fee: \$2.00/barrel
Production Plateau Target: 1.2 million barrels per day
Current Production Capacity: 205,000 barrels per day
Proved Reserves: 4 billion barrels

West Qurna 1
Winning Bid: ExxonMobil (80%), Shell (20%)
Remuneration Fee: \$1.90/barrel
Production Plateau Target: 2,325,000 barrels per day
Current Production Capacity: 270,000 barrels per day
Proved Reserves: 8.6 billion barrels

West Qurna Phase-2
Winning Bid: Lukoil (75%), Statoil* (25%)
Remuneration Fee: \$1.15/barrel
Production Plateau Target: 1.8 million barrels per day
Current Production Capacity: None
Proved Reserves: 12.9 billion barrels

Majnoon
Winning Bid: Shell (60%), Petronas* (40%)
Remuneration Fee: \$1.39/barrel
Production Plateau Target: 1.8 million barrels per day
Current Production Capacity: 55,000 barrels per day
Proved Reserves: 12.6 billion barrels

Challenges to Increased Production
Aging Infrastructure: Existing pipeline and export infrastructure unable to accommodate anticipated production increases
Corruption: Substantial amounts of oil lost to smuggling each year
Human Capital: Insufficient number of skilled workers to handle 10 major new projects
Legal Uncertainty: Many multinational oil companies wary of contracts signed before passage of hydrocarbons legislation
OPEC Tensions: Significant Iraqi production increase could greatly influence the price of oil
Violence: No attacks in PEZs, but interdictions still cause lost export revenue

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