

# SIGIR OBSERVATIONS

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## SECTION

# 1

## OCTOBER 2011: TRANSFORMING THE U.S.-IRAQ STRATEGIC PARTNERSHIP

On New Year's Day 2012, the U.S. relief and reconstruction mission in Iraq will enter a new phase. Under the guiding polestar of the U.S.-Iraq Strategic Framework Agreement, the defining characteristic of this new phase will be the State Department's complete responsibility for the full constellation of continuing efforts to assist the Iraqi government's economic, security, and governance institutions. Reaching this event horizon in the U.S. program means that the U.S.-Iraq partnership is evolving into a relationship that will more closely resemble the bilateral ties the United States enjoys with other sovereign nations.

On October 21, President Obama announced that all remaining U.S. troops in Iraq will be withdrawn by December 31, 2011, pursuant to the U.S.-Iraq Security Agreement. When the last of the remaining U.S. soldiers depart Iraq at the end of the year, the military will be virtually absent from the country for the first time since March 2003. The Department of Defense (DoD) exit is significant, in part, because it marks the end of the Commander's Emergency Response Program (CERP) in Iraq, which contributed more than \$4 billion to relief and reconstruction efforts. A limited cadre of uniformed personnel will continue to serve in country within the Office of Security Cooperation-Iraq (OSC-I); but this training-and-assistance organization reports to the U.S. Ambassador, not to a Commanding General.

Several long-planned changes in the U.S. Mission's assistance structure occurred this quarter. On October 1, the Department of State (DoS) Bureau of International Narcotics and Law Enforcement Affairs (INL) began its police-assistance program. This effort distinctly differs from the

military-managed training regime that preceded it. A recent SIGIR audit, summarized in Section 5 of this Report, examined the planning for DoS's new Police Development Program (PDP). It identified several steps the Department could take to improve the program's posture.

This quarter also brought the inauguration of the OSC-I, which will provide long-term assistance to the still-developing Iraqi Security Forces (ISF). Another milestone recently reached was the conclusion of the Provincial Reconstruction Team (PRT) program in Iraq. U.S. Embassy-Baghdad's Office of Provincial Affairs, which had managed the PRTs for the past four years, closed its doors in late August; and the last PRT was shuttered in early September. At its apogee in 2008, the program comprised 31 PRTs across Iraq.

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## U.S. RECONSTRUCTION PRESENCE, FUNDING, AND OVERSIGHT

### The DoS Police Development Program

Since 2003, the United States has spent approximately \$8 billion to train, staff, and equip Iraq's police forces. This quarter, INL formally initiated the new PDP, which will provide mentoring and assistance in organizational management to senior police officials across Iraq. SIGIR's new audit on the PDP found that DoS should assess the baseline capabilities of Iraq's police forces and develop a more detailed training plan, including better metrics and goals. Notably, a senior Ministry of Interior (MOI) official recently told SIGIR that he had serious doubts about the usefulness of the entire program.<sup>1</sup>

INL significantly downsized the PDP since its original conception two years ago, reducing the number of police advisors from an initially planned 350 to the current 115. Final decisions on the number of personnel and sites will not be made



Ongoing renovation work at Forward Operating Base Shield, the main PDP basing area.



USF-I and Iraqi Police officials marking the end of a two-year partnership between the U.S. military and the MOI at the Iraqi Police Criminal Justice Center in Baghdad in August 2011. (DoD photo)

Just 12% of funds allocated to the PDP will be used to pay for the advising, mentoring, and developing of the Iraqi police.

until after FY 2012 appropriations are known. However, INL expects the FY 2012 program to cost between \$500 million and \$900 million, with the annual cost per advisor averaging as much as \$6 million.<sup>2</sup> According to information provided to SIGIR by DoS, just 12% of funds allocated to the PDP will be used to pay for the advising, mentoring, and developing of the Iraqi police, while 88% will go to security, life-support, and other costs.<sup>3</sup>

A recent visit by SIGIR officials to Forward Operating Base (FOB) Shield in Baghdad (the main PDP basing area) revealed some of the program's continuing challenges:<sup>4</sup>

- **Uncertain real-estate rights.** The U.S. government has secured a provisional land-use agreement for the real estate at FOB Shield, but it still requires approval by the Government of Iraq (GOI).
- **Incomplete facilities.** FOB Shield is undergoing renovation, with existing buildings being demolished to make way for a new housing area. The construction work will not be completed until April 2012.
- **Vaguely defined advisory roles.** The police advisors' roles are quite generally defined and fundamentally differ from those of the previous U.S. Forces-Iraq (USF-I) trainers. They will mentor more senior Iraqi police officials in leadership methods, offering suggestions to MOI

managers on how to resolve the police force's pressing operational challenges.

One potentially important benefit from the PDP program could be the development of closer ties with key MOI leaders, which is vital to ensuring good lines of communication between the MOI and the Embassy. For an Iraqi perspective on the PDP, see the summary of SIGIR's recent meeting with Iraq's Senior Deputy Minister of Interior.

### Office of Security Cooperation-Iraq

On October 1, 2011, Lieutenant General Robert Caslen, Jr., became the OSC-I Chief. General Caslen previously served in Iraq as the Commanding General, Multi-National Division-North. OSC-I manages security cooperation efforts in support of the GOI, including the U.S.-Iraq Foreign Military Sales (FMS) program. The organization currently operates out of ten offices, five of which are located near Iraqi military bases (Kirkuk, Tikrit, Umm Qasr, Taji, and Besmaya).<sup>5</sup> Figure 1.1 shows OSC-I staffing, by location. For more information on OSC-I and the FMS program, see the Security subsection of this Report.

### Post-PRT Provincial Engagement

The closure of the final PRT in Iraq in September ended a six-year civilian-military program that engaged local officials across Iraq in governance

## Perspectives on Policing from the Senior Deputy Minister of Interior

This quarter, SIGIR met with Senior Deputy Minister of Interior Adnan al-Asadi to discuss the current state of the MOI and obtain his thoughts on the PDP. After spending several years in exile in Denmark, he returned to Iraq after the fall of Saddam Hussein and almost immediately joined the new government.

An experienced official who has spent more than seven years in the senior ranks of the GOI working on security matters, and a long-standing ally of the Prime Minister, he runs the ministry's day-to-day operations. Significant topics discussed during the October meeting included:

- **The PDP.** Al-Asadi was explicit about the limitations of ongoing U.S. assistance to the MOI. Although grateful for the continued U.S. commitment to Iraqi security and confident about the future of relations between the two countries, he expressed grave doubts as to the efficacy of the PDP, rhetorically asking, "What tangible benefit will Iraqis see from this police training program? With most of the money spent on lodging, security, support, all the MOI gets is a little expertise, and that is if the program materializes. It has yet to start." He noted that DoS preparations for the PDP have been discussed for more than a year. He suggested that the United States "take the program money and the overhead money and use it for something that can benefit the people of the United States, because there will be very little benefit to the MOI from the \$1 billion." The Senior Deputy Minister added that if the PDP were to be terminated right now, such a step would not affect the MOI from a practical point of view, adding that "the training

discussed is more focused on secondary issues, like administration, finance, information technology, and planning. I don't need it. I won't ask for it. But if you provide it, it will be a benefit and will add to our Ministry." He also remarked that some MOI officials have grandiose expectations about the scope of assistance to be provided under the PDP, incorrectly envisioning it as similar to the massive U.S. assistance provided to the MOD. He ascribed these erroneous views to their fundamental misapprehensions about the program's limited scope.

- **U.S. Military Withdrawal.** When asked what effect the end of USF-I's mission will have on the MOI, al-Asadi replied that it would have no impact because of the ministry's self-sufficiency. He stated that the MOI has conducted independent operations since 2008, and will continue to do so after U.S. troops depart, attributing this capability to the shared sacrifices of U.S. and Iraqi forces over the past eight years. He added that the MOI "capitalized on the support from U.S. forces and created an independent entity that is now able to function on its own, unlike the MOD, which still needs assistance from the U.S. military." The Senior Deputy Minister noted that U.S. support was helpful to the MOI's continued development after 2008, citing training, equipment, and services procured via the FMS program, as well as limited support from USF-I as having been of significant assistance to the ministry during this period.
- **MOI's relationship with the Ministry of Defense.** With almost 650,000 personnel, the MOI is Iraq's largest security agency, dwarfing the MOD, which is about 43% as large (with a force strength of approximately 280,000). Though nominally having



SIGIR Deputy Inspector General meeting with Senior Deputy Minister of Interior Adnan al-Asadi on October 8, 2011.

external defense as its mission, MOD units have been deeply involved in internal-security operations over the past several years, forced by the unstable security situation to fight in Iraq's cities and towns. One of al-Asadi's priorities is to collaborate with the MOD to clarify the two ministries' respective roles. His goal is to return primary responsibility for internal security to the MOI. The MOI now has primacy over security in certain areas, such as Muthanna, that have seen little insurgent violence, but the MOD continues to lead joint security efforts in some more dangerous cities, including Baghdad. Al-Asadi noted that the GOI has established an interagency committee to evaluate the security situation in each province and determine the appropriate apportionment of responsibilities between the MOI and MOD.

- **MOI Reforms.** On the issue of accountability, al-Asadi was particularly proud that, three months ago, the MOI began to post job openings on its website and accept applications online. Since then, the MOI has received 30,000 applications. He stated that, in his opinion, this served as an effective way of reducing the bribe taking known to occur when applications were submitted in person. Now, he said, applicants are being chosen on merits and qualifications, not on party affiliation.

## Perspectives on Security from the MOD Chief of Staff

Three days after meeting with Senior Deputy Minister of Interior al-Asadi, SIGIR visited with the MOD Chief of Staff, General Babakir Zibari. With more than four decades of military experience, General Zibari, a Kurd, is one of Iraq's most experienced soldiers. After briefly serving in the Iraqi Army (IA) in the early 1970s, he sought refuge in the north, joining the Kurdish armed resistance to the regime in Baghdad. In 1991, General Zibari was one of the leaders in the short-lived Kurdish rebellion against Saddam Hussein. During Operation Iraqi Freedom, he led his *Peshmerga* units alongside U.S. forces, defeating Ba'athist formations across northern Iraq. General Zibari is a recipient of the U.S. Legion of Merit, a military award often given to distinguished foreign soldiers.

In a wide-ranging interview with SIGIR, General Zibari discussed:

- **Internal security operations after December 2011.** On Iraq's ability to conduct independent internal-security missions after the scheduled withdrawal of the U.S. military in December, General Zibari stated that it was possible the Iraqi Security Forces may be able to execute such missions satisfactorily. He noted that the ISF is significantly more capable of providing for Iraq's internal security than for its external security.
- **Defending Iraq's borders after the departure of U.S. troops.** He estimated that it will take several more years before Iraq can provide for its external defense without assistance from international partners. General Zibari suggested that the MOD will be unable to execute the full spectrum of external-defense missions until sometime between 2020 and 2024, citing GOI funding shortfalls as the main

reason for the delay. To illustrate this point, he cited the long-standing plan to purchase U.S.-built F-16 aircraft, noting that the deal was delayed last year to dedicate additional resources to public-welfare programs. He said that while the order is now finalized, he does not expect to take delivery of the first plane for several years.

- **The Iraqi Air Force (IqAF).** General Zibari emphasized the necessity of building up the IqAF, observing that "an army without an air force is exposed" and that, at the moment, the IqAF is not capable of supporting ground combat operations. He stated that Iraq will not be able to defend its own air space until 2020, at the earliest.
- **MOD's relationship with the MOI.** MOD's objective is to build a small but powerful IA that is capable of defending the state and securing the borders. But MOD forces continue to play a significant role in assisting the Iraqi police with security operations in several key cities, including Baghdad and Mosul. Provinces where the MOI is in charge of most security functions include Tameem, Diyala, Salah Al-Din, and Anbar—although IA units continue to provide assistance to the police in these provinces, when requested. General Zibari stated that the IA is eager to return to its primary duty: protecting Iraq from external aggression.
- **Regional relations.** Summarizing the GOI's relations with neighboring states, he said that, "while we have no enemies, we also have no real friends." He mentioned the recent dispute with Kuwait over the construction of new port facilities at the head of the Gulf as one example of how a small state can still cause Iraq significant problems. General Zibari also surveyed relations with Iraq's other neighbors, noting the unique challenges presented by



MOD Chief of Staff Babakir Zibari during a meeting with SIGIR officials in October 2011.

relations with Saudi Arabia, Iran, Syria, and Turkey.

- **U.S.-funded security-sector reconstruction projects.** General Zibari spoke highly of the U.S. contribution to rebuilding the MOD. In his view, "the reconstruction programs have provided useful facilities for us... From an operational point of view, the assets are great, they work." He stated that the Foreign Military Sales program has been beneficial to the MOD, saying, "even though it is expensive, it provides us a means of getting high-quality equipment." He added that the GOI's contracting capacities were still too immature to handle such sophisticated transactions, noting that "if we did this ourselves, some contractors would not be able to deliver."
- **Corruption.** General Zibari stated that corruption remains one of the main challenges facing the ministry. For example, he cited a case involving an IA soldier who he had previously punished for corruption, only to see him subsequently resurface and request a transfer to the duty station where he had committed the offenses that led to his punishment. He noted that senior MOD officials are attempting to institutionalize reforms that would make it easier to deter and detect corruption, but added that the process is an ongoing one.



Lt. Gen. Caslen (center) assuming command of NATO Training Mission-Iraq from Lt. Gen. Ferriter (right) at a change-of-command ceremony led by USF-I Commanding General Lloyd Austin (left) on October 1, 2011. The ceremony also marked the official activation of OSC-I. (DoD photo)

and economic capacity-building and fostered a variety of development and assistance programs. The Iraq Strategic Partnership Office has taken responsibility for the remaining PRT projects, with the Embassy’s Political Section now responsible for provincial outreach.

### U.S. Reconstruction Funding and the End of the CERP in Iraq

The United States has appropriated or otherwise made available \$61.83 billion for Iraq reconstruction efforts since 2003, primarily through five major funds.

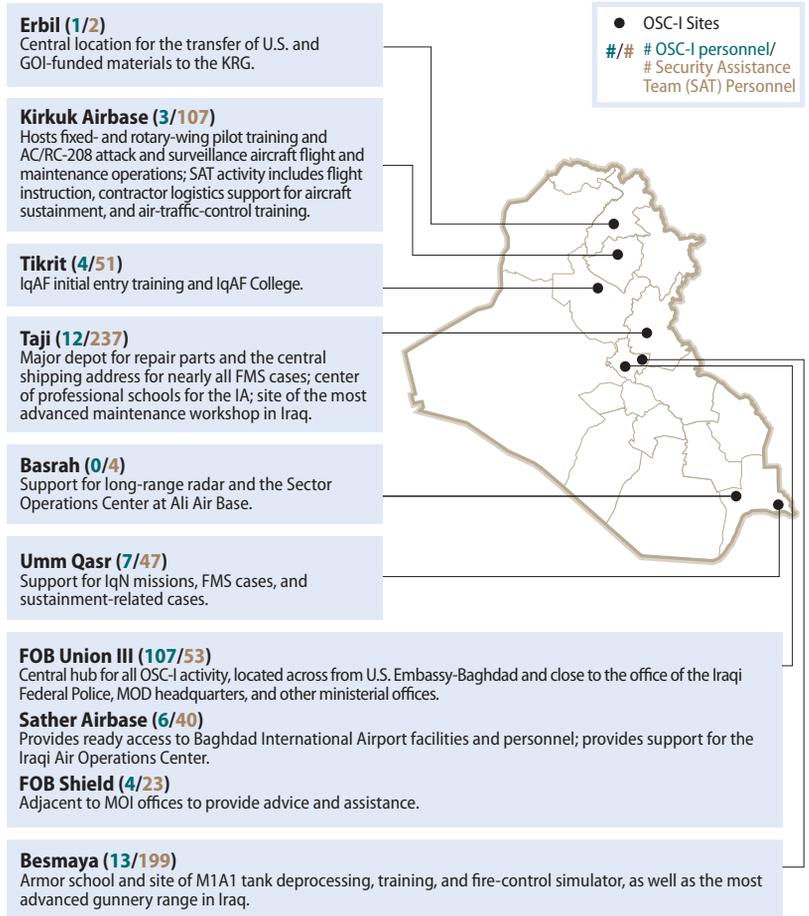
According to USF-I, the CERP program was officially closed out in Iraq at the end of September. CERP funding is not available for obligation to new projects. Figure 1.2 shows current and requested funds that may be used for new projects from the five major funds.<sup>6</sup> For more on U.S. reconstruction funding, see Section 2 of this Report.

### Data Gaps

As the U.S. civilian reconstruction program diminishes and the USF-I prepares to finally withdraw, the number of regular sources that SIGIR uses to inform this Quarterly Report continues to decrease, including:

- **Iraq Status Report.** Since 2004, DoS published this wide-ranging survey of political, economic,

FIGURE 1.1  
OSC-I SITES



Source: OSD, response to SIGIR data call, 10/3/2011.

FIGURE 1.2  
MAJOR U.S. FUNDS: CURRENT AND REQUESTED AMOUNTS FOR NEW PROJECTS, AS OF 9/30/2011

\$ Billions

FUND	NOT OBLIGATED	FY 2012 REQUESTED
Iraq Security Forces Fund (ISFF)		1,394
International Narcotics Control and Law Enforcement (INCLE)	220	1,000
Economic Support Fund (ESF)	301	326
Iraq Relief and Reconstruction Fund (IRRF)	0	
Commander’s Emergency Response Program (CERP)	0	

Note: Does not include \$154 million of obligated ISFF, ESF, and INCLE funds that are still within the period for reobligation to new projects.

and reconstruction data on a weekly or bi-weekly basis. This quarter, the report ceased production.

- **Electricity Reports.** At the end of July 2011, USF-I issued the final ITAO/ESD *Electric Daily Performance Report*, bringing to an end the U.S. government's only published source of detailed daily data on supply and demand in Iraq's electric-power sector.
- **Gallup polling.** Since late 2007, the U.S. military had contracted with the Gallup organization to survey Iraqi public opinion on a wide range of topics. This September, the contract concluded and polling ceased.

SIGIR is adapting to these losses by developing primary sources within the GOI.

## SECURITY

Iraqi casualty totals this quarter were about the same as those seen during April 1–June 19, 2011.

DoD recently reported that at least 335 Iraqi civilians and 207 ISF personnel were killed in acts of terrorist violence from June 20 to September 23, 2011—almost 6 persons per day<sup>7</sup>—down about 20% from 681 Iraqi civilians and ISF personnel killed during the same period in 2010.<sup>8</sup>

### U.S. Military Presence

August 2011 marked the first month since 2003 in which no U.S. military personnel were killed in Iraq.<sup>9</sup> Five U.S. troops were killed during the course of the entire quarter.<sup>10</sup> Indirect-fire attacks and roadside bombs remain a threat. On October 12, three U.S. soldiers were injured by a Katyusha rocket attack on a U.S. base in the southern province of Missan.

As of mid-October, approximately 39,500 U.S. troops remained in Iraq, with that number dropping by the day.<sup>11</sup> USF-I still occupies 18 bases, down 96% from a 2008 zenith of 505.<sup>12</sup> Between



U.S. soldier speaks with an Iraqi Police officer at a checkpoint in Baghdad. (DoD photo)

April and October 2011, the number of individuals in Iraq employed by DoD contractors dropped by more than 27,000.<sup>13</sup>

Drawing down the remaining forces is an immense logistical challenge. During one week in early October, 399 convoys with 13,909 trucks were used to remove troops and equipment from Iraq.<sup>14</sup> As of January 2012, a small contingent of military personnel will remain in Iraq to serve under the auspices of OSC-I.<sup>15</sup>

### Continuing Security Challenges

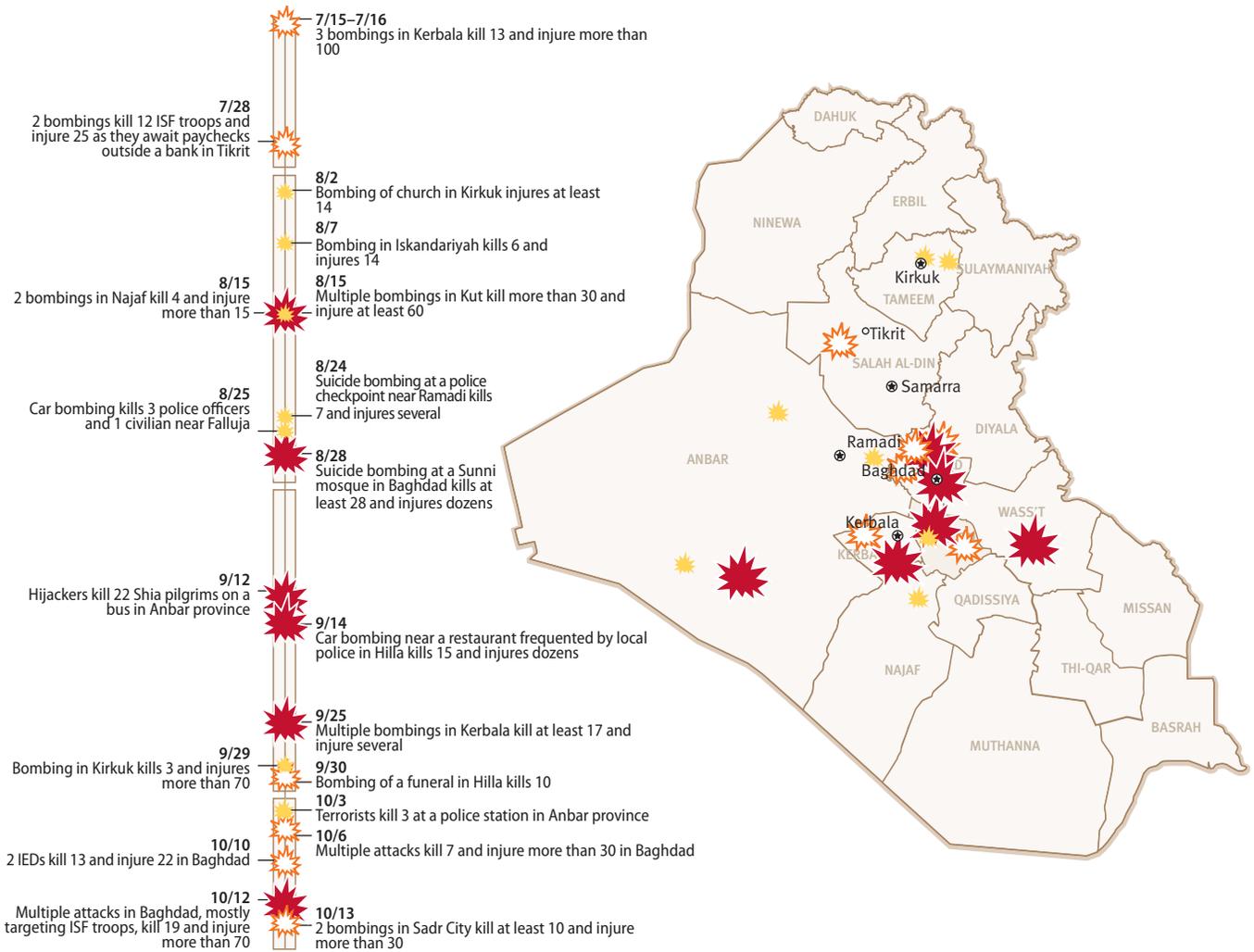
August 15 reportedly marked the deadliest single day of insurgent violence in 2011. Multiple attacks across Iraq killed more than 70 people and wounded over 300. Two weeks later, a suicide bomber linked to al-Qaeda in Iraq (AQI) attacked Baghdad's largest Sunni mosque during a Ramadan prayer service, killing more than two dozen worshippers.

Terrorists also targeted Iraqi Shia this quarter. On September 12, a bus filled with Shia pilgrims traveling through Anbar province was hijacked by militants who killed 22 passengers. Figure 1.3 displays some of the most significant recent violent incidents in Iraq.<sup>16</sup>

The targeted killing of GOI officials and political leaders continued this quarter. The total number of assassinations, however, dropped slightly from the previous quarter. From July 20 to October 15,

During one week in early October, 399 convoys with 13,909 trucks were used to remove troops and equipment from Iraq.

FIGURE 1.3  
SIGNIFICANT SECURITY INCIDENTS, 7/15/2011–10/15/2011



Note: All casualty data based on best-available information at time of publication.

Source: SIGIR analysis of GOI and U.S. government documents and open-source information in Arabic and English, 7/2011–10/2011.

2011, at least 40 senior GOI personnel and Iraqi community leaders were assassinated, down from the 44 senior officials killed mid-April to mid-July 2011. (SIGIR's estimate of attempted and successful assassinations excludes lower-ranking GOI personnel.) The Security subsection of this Quarterly Report provides additional information on assassinations that took place this quarter.<sup>17</sup>

The Commanding General of U.S. forces in northern Iraq recently stated that AQI and other insurgent groups are increasingly turning to criminal activities, including bank robberies and extortion schemes, to finance their operations because the flow of foreign funds—and foreign fighters—into the country has apparently diminished. USF-I officials ascribed these positive developments, in

part, to the increasing capability of ISF units operating near the Syrian border, but noted that the ISF still receives significant intelligence assistance from the U.S. military—assistance that will diminish over time.<sup>18</sup>

### ISF Developments

As the MOI Senior Deputy Minister and the MOD Chief of Staff informed SIGIR during recent interviews, the Iraqi police forces are currently unable to secure all of Iraq's urban areas without assistance from the Iraqi Army. The GOI is conducting a province-by-province assessment to determine when the MOI can assume complete responsibility for security in all of Iraq's major cities.

Of the myriad organizations comprising the ISF, the Counter-Terrorism Force, which received a significant amount of U.S. training, equipment, and assistance, is widely regarded as the most capable.<sup>19</sup>

The status of other ISF components is mixed:

- **Iraqi Army (IA).** The IA has made notable progress in building a capacity to defend Iraq's borders from potential outside attacks. This is partly the result of a “dramatic shift” over the past 10 months by U.S. military advisors toward training efforts focusing on traditional defensive operations. The IA has conducted battalion-level live-fire exercises with some regularity. One U.S. general described their proficiency to be “as good as some American infantry battalions.” The IA, however, continues to lack necessary logistical and intelligence capabilities—areas that OSC-I will focus on improving in the coming year.<sup>20</sup>
- **Iraqi Air Force (IqAF).** This quarter, the GOI made its first payment on the \$1.5 billion FMS order of 18 U.S.-made F-16 aircraft. But it will be several more years before the IqAF can secure its own air space and provide reconnaissance and close fire-support for IA ground units.<sup>21</sup>
- **Iraqi Navy (IN).** In August, the IN accepted 2 new Swift Boats from the U.S. Navy, bringing to 5 the number of these patrol boats it has received under an FMS purchase of 12 vessels.<sup>22</sup> Bearing responsibility for safeguarding Iraq's coastal and



A U.S. Air Force F-16 aircraft, similar to the aircraft purchased by the GOI for the Iraqi Air Force. (DoD photo)

offshore oil installations, the IN constitutes an integral part of the ISF. But its ability to provide the regular and rigorous maintenance essential to keeping these craft at sea and on patrol remains an open question.

In addition to the regular ISF, the Sons of Iraq (SOI) continue to operate in nine provinces. These security personnel—many of whom were former Sunni insurgents—now number about 48,000. The SOI program transitioned from U.S. to Iraqi control in 2009, with the understanding that the GOI would endeavor to find government jobs for SOI members. This placement effort, however, has stalled. Currently, the GOI is considering reforming aspects of the program to ensure that SOI in provinces such as Anbar receive the same pay as their better-compensated compatriots in Baghdad.<sup>23</sup>

## GOVERNANCE

### New Leaders for Key Agencies

In late September, the acting Commissioner of the Commission of Integrity (COI), Judge Raheem al-Ugaili, “retired” suddenly, returning to a position in the judiciary. In a letter to the CoR Integrity Committee explaining his decision, Judge Raheem cited political interference with COI corruption investigations as one of the driving factors behind his decision.<sup>24</sup> He was replaced as acting

The Iraqi police forces are currently unable to secure all of Iraq's urban areas without assistance from the Iraqi Army.

Commissioner by Judge Alla'a Jwad Hameed. Like the MOI and MOD, the COI has managed to operate for more than three years with an acting head, making modest progress in the challenging fight against public corruption.<sup>25</sup>

On October 10, the Council of Representatives (CoR) voted to confirm Abdul Kareem Aftan as the new Minister of Electricity.<sup>26</sup> He replaces the former head of the Ministry of Electricity, who departed in mid-August amid a public scandal related to contracts for “emergency” power plants that have yet to be built.<sup>27</sup>

## Legislative Developments

In late July, Prime Minister Nuri al-Maliki moved forward with a plan to shrink his cabinet, eliminating many Minister of State positions. These positions had provided a place on the Council of Ministers (CoM) for their occupants, with little real capacity or responsibility attached to them. The Governance subsection of this Report contains a new organizational chart of the GOI's reformed structure and senior leadership.

This quarter, the CoR again considered establishing the National Council for Higher Policies (NCHP), the creation of which was a key part of the “Erbil Agreement” entered into last December to resolve the nine-month post-election deadlock. An essential element of the Erbil Agreement was that former Prime Minister Ayad Allawi, whose party garnered a plurality of the seats in the last election, be appointed head of the NCHP. This has not happened, causing resentment and dissension among some Iraqi political factions.<sup>28</sup>

In late September, the CoR passed new laws reorganizing two of Iraq's three primary anticorruption agencies, the COI and the Board of Supreme Audit (BSA). Under these new laws, the CoR, and not the Prime Minister, will possess the power to select these agencies' future leaders.<sup>29</sup>

In the coming months, the CoR will debate the GOI budget for 2012. The CoM has begun to draft a preliminary budget proposal for next year, with initial versions totaling more than \$100 billion,

based on oil-price projections ranging from \$80 to \$90 per barrel.<sup>30</sup> If a final budget law resembling these initial drafts is approved by the CoR, it would be significantly larger than this year's \$82.6 billion budget.

## ECONOMY

The Iraqi economy remains one of the fastest growing in the world. This quarter, however, the International Monetary Fund downward revised its 2011 growth forecast for Iraq from 12.2% to 9.6%.

Maintaining robust growth in 2012 will depend on the continued prosperity of Iraq's oil and gas industry. This quarter's oil production levels averaged 2.56 million barrels per day (MBPD), virtually the same as last quarter's average. Iraq exported 2.18 MBPD, bringing in receipts of \$19.6 billion, a 2.3% decline from last quarter's record. Despite this modest decline, Iraqi oil receipts for the first eight months of 2011 exceeded the receipts for all of 2010.<sup>31</sup> To achieve the GOI's stated goal of producing more than 12 MBPD by 2017, the GOI must overcome several obstacles, including Iraq's weak infrastructure, its lack of a new hydrocarbon law, and its relatively insecure working environment.

This quarter, the CoM approved a draft hydrocarbon law, which, if adopted by the CoR, would grant the Prime Minister significant power over the oil and gas sector. But this draft is far from being enacted, and it was vociferously denounced by Kurdish leaders, who view it as an encroachment on the Kurdistan Region's efforts to exploit its natural resources. Underscoring Kurdish-Arab tensions on the oil front, Deputy Prime Minister for Energy Affairs Hussein al-Shahristani declared illegal the more than 40 oil and gas contracts entered into between the Kurdistan Regional Government (KRG) and foreign companies.<sup>32</sup>

Notwithstanding this dispute, the Ministry of Oil moved forward at the operational level this

The Iraqi economy remains one of the fastest growing in the world.

quarter with a variety of modernization initiatives, including:<sup>33</sup>

- finalizing a contract with South Korea's Kogas to develop the large Akkas gas field near the Syrian border, which is estimated to contain 5.6 trillion cubic feet of gas
- signing initial agreements with an Italian firm to construct a refinery in Kerbala province and an Egyptian company to build a new refinery in Ninewa province
- entering into a memorandum of understanding with Iran and Syria to build a \$10 billion pipeline that, if constructed, would export natural gas to Europe
- qualifying 46 firms to participate in the upcoming fourth energy-licensing round that will award exploration contracts for 12 gas and oil fields that, to date, have gone largely unexamined by modern surveying techniques

The vulnerability of Iraq's hydrocarbon infrastructure remains a concern. In early October, two explosions damaged one of the primary southern pipelines, briefly halting production at al-Rumaila, Iraq's largest oil field. As the GOI and its international partners modernize and expand Iraq's oil and gas infrastructure in the coming years, the challenges faced by MOI's 31,000-strong Oil Police force in securing the country's far-flung facilities will multiply.

## ELECTRICITY

Iraq must improve its electricity situation. Excepting the Kurdistan Region (and portions of Tameem province), power shortages persist across most of the country, affecting about 80% of the population. Cognizant of the need to provide a steady supply of electricity to the national grid, the GOI prioritized the development of its electricity sector. However, despite fast-tracking new projects and committing significant financial resources

to new programs, the MOE has been unable to significantly close the supply-demand gap.

In a May meeting with SIGIR, Deputy Prime Minister for Energy al-Shahristani expressed the hope that the GOI could close that gap by the summer of 2012. He indicated that the MOE would expedite construction of 50 smaller projects that could add about 5,000 megawatts to the national grid by that time. Simultaneously, the MOE would continue to move forward with the long-planned construction of several larger power plants.<sup>34</sup>

The fast-track plan to build 50 small plants encountered problems from the start. First, the plan was scaled down to 40 plants. Second, the three firms the MOE contracted with to build them proved unable to deliver, and the ensuing scandal forced the Minister of Electricity to resign. As of September 30, no contracts had been signed and none of these plants have been built.<sup>35</sup> Acknowledging these shortfalls, the new Minister of Electricity moderated expectations recently and made no public promises about the amount of electricity the MOE might add to the national grid by next summer.

## CORRUPTION AND PUBLIC-SECTOR INEFFICIENCY

Public-sector corruption exacerbates every problem in Iraq. In describing the electricity sector as "a great area of failure," CoR Speaker Osama al-Nujaifi stated in October that corruption has spread through the GOI "like an octopus," with its tentacles exercising a particularly strong grip on the MOE.<sup>36</sup> In recent months, the GOI has enacted a series of reforms aimed at strengthening Iraq's anticorruption institutions, including passing new legislation for the COI and BSA, establishing a new anticorruption court in Baghdad, and repealing Article 136(b) of the Iraqi Criminal Procedure

CoR Speaker Osama al-Nujaifi stated that corruption has spread through the GOI "like an octopus."

Code (which had allowed ministers to immunize their subordinates from investigation for fraud). Despite these much-needed changes, it will likely be years before the reforms have noticeable effect.

Iraq's anticorruption agencies have moved this quarter to increase their own transparency. The COI released its "Annual Report for 2010" at [www.nazaha.iq](http://www.nazaha.iq), which notes the progress the agency has made in tackling small-scale corruption, while cautioning that its capacity to pursue cases against high-level officials remains limited. And the BSA recently released its annual report via its website, [www.bsairaq.net](http://www.bsairaq.net), noting that many GOI agencies suffer from poor record keeping and weak internal controls. The BSA's findings included:<sup>37</sup>

- instances of GOI entities accumulating as much as five years or more of unexpended funds without returning these funds to the Ministry of Finance, as required by law
- the co-mingling of funds across budget years and expenditure categories
- more than 15,000 cases of fraud, including the taking of double salaries by GOI officials and frequent pension fraud

The BSA has also begun publishing its financial and performance audits, including a recent review of the State Company for Battery Industries (one of Iraq's state-owned enterprises). It found that this company, with 2,138 employees, produced 158 batteries in 2010. This amounts to about 13 workers per battery, meaning that each battery had a production cost of about \$100,000. The per-unit market price of these batteries is about \$60.<sup>38</sup>

## SIGIR OVERSIGHT

### Audits

This quarter, SIGIR issued seven audits, passing the 200 mark in total reports produced to date. Since 2004, SIGIR's Audits Directorate has published 201 reports, including these released in October:

- **DoS Police Development Program.** Although this audit was initially impaired by DoS's lack of cooperation, resulting in limited access to officials and documentation, SIGIR was able to reach several significant conclusions that raise serious concerns about the PDP's long-term viability. First, SIGIR found that DoS does not have a current assessment of the capabilities of the Iraqi police forces. Second, DoS has not drafted a detailed plan providing specifics on what is to be accomplished, including intermediate and long-term milestones, benchmarks to assess progress, and transparency of and accountability for costs and performance outcomes. Third, current DoS spending plans indicate that only 12% of program funds will be used to assist directly the Iraqi police. Finally, DoS has yet to secure sufficient written commitments from the GOI regarding either its support for the PDP or its planned financial contributions, even though DoS written policy guidelines require GOI matching contributions and congressional language appropriating funds for Iraq assistance specifies the use of these guidelines.
- **Development Fund for Iraq (DFI).** SIGIR was able to account for the DFI funds remaining when the Coalition Provisional Authority (CPA) was dissolved in June 2004, finding sufficient evidence that most of the \$6.6 billion remaining in DFI accounts at the time of the CPA's dissolution was properly deposited into accounts at the Federal Reserve Bank of New York and the Central Bank of Iraq. However, the CPA did not always follow its own policies and procedures governing the transfer and deposit of U.S. currency once it arrived in Baghdad.
- **Falluja Waste Water Treatment System.** In this review of one of the costliest U.S.-funded reconstruction projects, SIGIR found that heavy fighting in Falluja, poor planning, unrealistic cost estimates, and inadequate funding led to significant cost overruns and lengthy construction delays; and many workers lost their lives. After seven years and the expenditure of more than

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It is difficult to conclude that the project was worth the cost in lives and reconstruction funds.

\$100 million, the backbone of a wastewater treatment system is now in place. It currently serves approximately 38,000 residents, far less than the 183,000 that was envisioned in 2004. Additionally, the absence of information or analysis on whether progress was made toward achieving any of the project's secondary goals, such as stabilizing Falluja, makes an assessment of this project's worth or wisdom difficult. Although the GOI has since assumed financial and operational responsibility for the system's build-out, it is difficult to conclude that the project was worth the cost in lives and reconstruction funds.

- **Contracts Terminated by U.S. Central Command Contracting Command (C3).** From June 2008 through April 2011, C3 terminated 16 reconstruction contracts—far fewer than the 981 contracts terminated by C3's predecessor, the Joint Contracting Command-Iraq/Afghanistan, from January 2005 through mid-2008. C3 officials informed SIGIR that this reduction is attributable to a much smaller reconstruction program, improvements in contract management systems, and improved contractor performance. Of the 16 contracts terminated, 10 were because the services were no longer needed, and 6 were terminated for cause or default due to poor contractor performance. SIGIR identified potential waste of more than \$16.6 million in two contracts. In one case, poor planning led to the expenditure of \$16 million on the construction of the Al Ghizlani Location Command—a facility that conferred little, if any, benefit upon the Iraqi Army.
- **Indirect Costs of Managing Private Security Contracts in Iraq.** SIGIR examined six non-profit organizations that received U.S. awards for work in Iraq to determine the indirect costs they charged for managing their private-security contracts. As more money is charged as an indirect cost, less is available for program activities. SIGIR found that the organizations charged widely varying indirect costs for managing security contracts in Iraq that appeared to require a similar level of effort. For some organizations,

the indirect costs charged may be unreasonable relative to the actual administrative costs necessary to support the program. For instance, one organization charged \$5,225 for managing its \$3.18 million Iraq security contract, while another charged more than \$900,000 to manage its \$5.39 million security contract.

- **SIGIR Recommendations Made to Three DoD Agencies.** Earlier this year, SIGIR issued two reports examining the status of SIGIR recommendations previously made to USAID and DoS. As part of this ongoing effort to determine whether agencies have acted to remedy deficiencies identified by SIGIR, this report followed up on the status of 26 audit recommendations made to three DoD agencies that remained open as of July 31, 2011. The agencies reviewed were U.S. Central Command, USF-I, and the U.S. Army Corps of Engineers (USACE). As a result of information received from these agencies, and data developed during other SIGIR reviews, SIGIR closed 24 of the 26 open recommendations. Two recommendations remain open because USACE could not determine their status. SIGIR is continuing to follow up on the two open recommendations.
- **Status of INCLE Funds Allocated for Iraq Reconstruction.** This report found no significant issues related to INCLE obligations and expenditures for Iraq reconstruction. For FY 2006 to FY 2010, SIGIR found that INCLE funds for Iraq set forth in the DoS Budget Summary reports to the Congress matched the amounts reported in the INL program reviews and DoS's Global Financial Management System. During this time, funds totaling almost \$1.1 billion have been allocated for INL programs in Iraq. As of June 30, 2011, approximately \$845 million of the \$1.1 billion had been obligated and \$717 million had been expended. The majority of the unobligated and unexpended funds were allocated for FY 2010. There were no expired funds as of June 30, 2011, and \$223 million had not been obligated.

For more on these audits, see section 5 of this Report.

## Investigations

To date, SIGIR investigative work has resulted in 68 indictments, 57 convictions, and approximately \$154.8 million in fines, forfeitures, and other monetary penalties. This quarter, significant investigative accomplishments included:

- On July 19, 2011, Francisco Mungia pled guilty to one count of conspiracy for his role in laundering approximately \$150,000 in bribes received by a U.S. Marine Corps (USMC) contracting officer in Iraq.
  - On July 29, David Pfluger, a former U.S. Army lieutenant colonel, was sentenced to 18 months in prison for accepting illegal gratuities from multiple Iraqi contractors and for stealing from Iraqi fuel reserves. Pfluger was also sentenced to three years of supervised release and ordered to pay \$24,000 in restitution. While serving in Iraq as the “Mayor” of FOB Ridgway, Pfluger accepted cash, jewelry, and clothing from various contractors. In return, he improperly accorded these contractors special privileges, including encouraging the granting of contracts to them, relaxing security procedures for them, and providing them with fuel from Iraqi fuel reserves.
  - On August 5, a former U.S. Army sergeant was charged with receiving more than \$12,000 in stolen funds. The money had been stolen by another U.S. Army soldier who was deployed to Iraq in 2008 and mailed to the former U.S. Army sergeant. The funds were a cash payment intended for an Iraqi contractor who failed to appear to collect the money.
  - On August 9, a U.S. contractor in Iraq was indicted for lying to federal agents during the course of an investigation. The agents are investigating a fraud scheme involving the theft and resale of generators in Iraq to various entities, including the U.S. government. The contractor is currently incarcerated in Texas.
  - On August 10, Eric Hamilton, a USMC gunnery sergeant, pled guilty to two counts of conspiracy to steal more than 70 electrical generators from two U.S. bases near Falluja in 2008.
- He conspired with another USMC officer to facilitate the theft of the generators by Iraqi contractors. Hamilton admitted that he identified the generators to be stolen by painting identifying markings on them and provided the Iraqi contractors with the access they needed to steal the generators. He also entered into a separate scheme with another Iraqi contractor to facilitate that contractor’s theft of electrical generators from the base. In return, Hamilton received more than \$124,000 from his co-conspirators. He faces a maximum of five years in prison and three years of supervised release.
- On August 16, Levonda Selph, a retired U.S. Army colonel, was sentenced to one year in prison for her role in a bribery scheme. In addition to her prison term, she was sentenced to three years of supervised release and ordered to pay a \$5,000 fine and \$9,000 in restitution. While serving as the head of a contract-selection board in Iraq, Selph accepted fraudulent bids from a contracting firm and helped that firm to win the contract. For improperly assisting this firm, she received a trip to Thailand and other items of value.
  - On September 19, Thomas Manok, a former USACE employee, pled guilty to conspiring to receive bribes from Iraqi contractors in exchange for recommending that these contractors receive contracts and other payments. In one instance, he received \$10,000 from a contractor involved in constructing a kindergarten and girls’ school in the Abu Ghraib neighborhood of Baghdad. At sentencing, Manok faces a maximum of five years in prison.
  - On October 5, Robert Nelson, a former U.S. Army sergeant first class, was sentenced to four years probation, of which the first six months will be home confinement, for conspiring to steal U.S. Army equipment. While serving in Mosul, Iraq in 2008, he assisted a U.S. Army translator in the theft of eight generators, which were then sold on the local black market. Nelson admitted receiving half of the proceeds of the

A USMC gunnery sergeant pled guilty to two counts of conspiracy to steal more than 70 electrical generators from two U.S. bases near Falluja.

sales, totaling more than \$44,000—all of which the court ordered him to pay back in restitution.

As of September 30, 2011, SIGIR had 101 ongoing investigations.

## COMMISSION ON WARTIME CONTRACTING

This quarter, the Commission on Wartime Contracting in Iraq and Afghanistan (CWC) issued its final report, bringing to an end its three-year examination of the U.S. government's use of contracting in Southwest Asia. Drawing on a diverse array of sources, including SIGIR reports and testimony, the CWC estimated that between \$31 billion and \$60 billion in U.S. taxpayer funds were vulnerable to waste, fraud, and abuse during the past decade. Among the reasons for these abuses cited by the CWC were poor contract management, inadequate planning, and insufficient government oversight.<sup>39</sup>

The CWC report included more than two dozen recommendations aimed at reforming the manner



The Inspector General discusses contingency contracting reform at a CWC hearing.

in which the U.S. government uses contractors during contingency operations. Several of these suggested changes explicitly echo recommendations previously made by SIGIR, including establishing a permanent inspector general (IG) for contingency operations, developing a deployable cadre of contingency-contracting experts, and improving interagency coordination regarding the use of private security contractors. On September 9, 2011, more than a dozen members of the House of Representatives introduced a bill to create a special IG for contingency operations.<sup>40</sup> The bill was referred to the Committees on Foreign Affairs, Armed Services, and Oversight and Government Reform for further action. ♦

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