



MESSAGE FROM THE SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

I am pleased to present our 34th Quarterly Report to the U.S. Congress and the Secretaries of State and Defense.

On July 23, attacks occurring in most of Iraq's major cities killed more than 100 people in what was reportedly the deadliest single day of violence in Iraq since 2010. These attacks came during a period marked by political uncertainty. This quarter, a loose coalition of Iraqi political leaders, led by Kurdistan Regional Government President Massoud Barzani and former Prime Minister Ayad Allawi, spearheaded efforts to remove Prime Minister Nuri al-Maliki from office. Their efforts stalled when Shia cleric Muqtada al-Sadr backed away from supporting them—at least for now.

Projected to expand by more than 11% this year, Iraq's economy remains one of the fastest growing in the world. The Iraqi oil sector dominates national commerce, providing more than 90% of the roughly \$100 billion national budget. Oil production averaged 2.93 million barrels per day (MBPD) in April and May, and exports averaged 2.45 MBPD over the entire quarter. Both were new post-2003 records. But oil exports began to decline in June, in part because of infrastructure problems, underscoring the need for the Government of Iraq (GOI) to move forward quickly with its planned upgrades if it hopes to maintain its robust expansion.

The U.S. Mission in Iraq continues to “right-size” through downsizing. The Department of State (DoS) reported that 1,235 U.S. government civilian employees were working in Iraq as of June 30, a 10% decline from the previous quarter. The number of contractors also fell. According to Department of Defense (DoD) data, the number of employees working for U.S. government contractors or grantees in Iraq declined from 16,973 on April 1 to 12,477 on July 2, a 26% decrease.

DoS wisely reduced the scope and size of the Police Development Program (PDP) this quarter, responding to Iraqi demands. Relevant to that point, SIGIR recently published its third audit of the PDP, confirming limited GOI support for the program as envisioned by DoS. Indicative of the ongoing reductions, the DoS Bureau of International Narcotics and Law Enforcement Affairs (INL) reported that it had cut the amount of funds allocated to the PDP for FY 2012 from \$171 million to \$76.3 million. INL also ceased PDP operations in Basrah and removed all police advisors from the Baghdad Police College Annex, which had served as the program's primary hub.

In addition to the PDP report, SIGIR issued three other audits this quarter:

- **Status of FY 2011 Funds Allocated to the Iraq Security Forces Fund (ISFF).** As of late June, approximately \$765.33 million of the \$1.15 billion in FY 2011 ISFF funds had been committed or obligated for the purchase of equipment and training for the Iraqi Security Forces. DoD has stated that it intends to obligate the remaining FY 2011 ISFF before the end of the fiscal year. If it does so, DoD would likely be required to certify to the Congress that the GOI is taking the necessary steps to ensure that ISFF-funded purchases will be maintained.
- **U.S. Agencies' Reviews of Contractor Business Systems.** In this review of Defense Contract Audit Agency and Defense Contract Management Agency monitoring of four key business systems used by DoD contractors operating in Iraq, SIGIR found that the U.S. government reviewed all four systems for only 5 of the 35 contractors included in the sample.
- **Final Forensic Audit.** Pursuant to SIGIR's congressional mandate to produce a final forensic audit, this

report recapitulated how SIGIR oversight work has found serious weaknesses in the U.S. government's controls over Iraq reconstruction funds, thereby placing billions of taxpayer dollars at risk of being wasted, misused, or stolen.

This quarter's investigative accomplishments included:

- the convictions of a U.S. Army sergeant first class and his associate for their role in steering nearly \$24 million in contracts in exchange for \$170,000 in bribes
- the guilty plea of a British citizen on charges of paying almost \$1 million in unlawful kickbacks
- the sentencing of a retired U.S. Army lieutenant colonel to three years and five months in prison and \$250,000 in monetary penalties for accepting bribes in return for improperly assisting government contractors
- the sentencing of a former U.S. government contractor to two years in prison, three years of supervised release, and \$160,000 in monetary penalties for conspiring to steal U.S. government generators

With 97 active investigations as of mid-July, SIGIR and its investigative partners continue to pursue allegations concerning the criminal misuse of Iraq reconstruction funds.

SIGIR issued its second Special Report this quarter, entitled *The Human Toll of Reconstruction and Stabilization during Operation Iraqi Freedom*. The study marks the first time a U.S. agency attempted to account for the number of U.S. military personnel, U.S. civilians, Iraqis, and third-country nationals who died while performing stabilization and reconstruction (as opposed to combat) operations in Iraq. SIGIR found that at least 719 individuals died while engaging in reconstruction missions from May 1, 2003, to August 31, 2010: 318 U.S. citizens (264 military and 54 civilians), 271 Iraqis, 111 third-country nationals, and 19 others. This total most certainly is low because of the paucity of good recordkeeping.

SIGIR will produce another Quarterly Report in October, along with three more audits. In January 2013, we will issue a major capping report and two final audits, thereby marking the end of nine years as the U.S. taxpayer's watchdog in Iraq. Much work remains to be done, and I thank my professional and productive staff for their collective commitment to persevering in our mission until we complete it.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Stuart W. Bowen, Jr.", with a period at the end.

Stuart W. Bowen, Jr.