

ing the Kurdistan Region's first independent anticorruption agency.

- **New agency leadership.** New leaders ascended to the helms of both the COI and Ministry of Electricity, each assuming his post after the controversial departure of his predecessor.
- **New oil production record.** In August, Iraq produced 2.65 million barrels per day of oil, a post-2003 high for monthly production. The prospect of increased revenue from oil exports will lead the GOI to adopt a record-setting budget for 2012, topping more than \$100 billion (up from 2011's \$82.6 billion).
- **New efforts to resolve old issues.** The ongoing contest between Iraq's executive and legislative branches—and between the GOI and the Kurdistan Regional Government (KRG)—was evidenced dramatically this quarter in the political wrangling over the long-awaited oil and gas law. Both the CoR and Council of Ministers (CoM) proposed competing laws, but neither version has become law. The CoM draft would accord significant power over the management of Iraq's hydrocarbon resources to the Office of the Prime Minister, an arrangement adamantly opposed by KRG officials.

### SIGIR Oversight

#### Audits

This quarter, SIGIR published its third audit on the Development Fund for Iraq (DFI), providing an accounting for \$6.6 billion in DFI funds that were under the control of the Coalition Provisional Authority (CPA) when it dissolved in June 2004. The audit found that most of the \$6.6 billion was in the Federal Reserve Bank of New York and the Central Bank of Iraq (CBI) on the day the CPA ended. The money was not missing, as some have speculated.

- Other SIGIR audits published this quarter found that:
  - The United States spent more than \$100 million on the Falluja Waste Water Treatment System over the past seven years—three times its original cost—and it serves far fewer residents than initially planned.
  - U.S. Central Command Contracting Command terminated 16 reconstruction contracts from June 2008 to April

2011—far fewer than its predecessor organization, which terminated 981 from January 2005 through mid-2008. The decline was attributable mostly to the smaller reconstruction program, improved management of contractors by the U.S. government, and improved contractor performance.

- Six nonprofit organizations that received U.S. funds to implement programs in Iraq charged widely varying indirect costs for managing security contracts, ranging from about \$5,000 to more than \$900,000.
- Of SIGIR's 26 open audit recommendations made to the U.S. Central Command, USF-I, and the U.S. Army Corps of Engineers (USACE), sufficient action had been taken to close 24.
- No significant issues existed pertaining to the status of almost \$1.1 billion in International Narcotics Control and Law Enforcement funds for FY 2006–FY 2010 allocated for INL programs in Iraq.

Since 2004, SIGIR's Audits Directorate has published 201 reports.

#### Investigations

To date, SIGIR investigative work has contributed to 68 indictments, 57 convictions, 35 arrests, and more than \$154 million in monetary penalties. Significant investigative accomplishments this quarter included:

- the sentencing of a retired U.S. Army colonel to one year in prison for accepting bribes in return for awarding contracts
- the sentencing of a former lieutenant colonel to 18 months in prison for accepting illegal gratuities from multiple Iraqi contractors and for stealing from Iraqi fuel reserves
- the sentencing of a former U.S. Army sergeant first class to four years probation for conspiring to steal generators from a base in Mosul and sell them on the local black market
- a guilty plea by a U.S. Marine Corps gunnery sergeant to two counts of conspiracy to steal more than 70 electrical generators from two U.S. bases near Falluja
- a guilty plea by a former USACE civilian employee to conspiring to receive bribes from Iraqi contractors

As of early October, SIGIR is continuing to work on 101 open investigations.

#### TO OBTAIN A FULL REPORT

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## SIGIR QUARTERLY REPORT

SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

OCT  
2011

### TRANSFORMING THE U.S.-IRAQ STRATEGIC PARTNERSHIP

December 31, 2011, will signal the beginning of a new phase in the continuing strategic partnership between the United States and the Government of Iraq (GOI). With all U.S. Forces-Iraq (USF-I) bases soon to be closed or transitioned to the Iraqi Security Forces (ISF), the U.S. military's mission in Iraq will be coming to an end. Beginning in 2012, the U.S.-GOI relationship will resemble the ties that the United States enjoys with other sovereign countries receiving significant amounts of U.S. military, economic, and development assistance.

Preparations for this new era have been underway for several years. The Department of State (DoS) has increased the size and scope of its mission. On October 1, 2011, the new Office of Security Cooperation-Iraq (OSC-I) opened. It is now the focal point for U.S. security cooperation with Iraq. October 1 also marked the start of the DoS police-assistance mission. It will differ fundamentally from the previous larger and more tactically focused police training initiatives managed by the U.S. military.

#### The DoS Police Development Program

After more than two years of planning, the DoS Bureau of International Narcotics and Law Enforcement Affairs (INL) formally inaugurated its Police Development Program (PDP) on October 1. The PDP will employ about 115 U.S. advisors to provide mentoring and other assistance to Ministry of Interior (MOI) officials. Given budget uncertainties, DoS is phasing in the program gradually, without the planned-for aircraft that would have transported advisors to MOI facilities across Iraq. INL's financial documents show that it will use about 12% of program funds to finance advising and mentoring the Iraqi police, with the balance dedicated to paying for security and life-support services.

This quarter, SIGIR published a new audit on the PDP. It identified several significant challenges:

- DoS lacks a current assessment of the baseline capabilities of the Iraqi police.
- DoS does not have a sufficiently comprehensive and detailed plan that sets out clearly defined goals.
- DoS has yet to secure sufficient written commitments from the GOI regarding its support for the PDP.

In October, SIGIR officials interviewed a senior MOI official at length about the PDP. He suggested that U.S. officials



Prime Minister Nuri al-Maliki attends a briefing at the Iraqi Ministry of Defense. (GOI photo)

“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.”

#### Bilateral Security Cooperation

The new OSC-I will manage ongoing efforts to support the ISF, including training in the proper use of advanced U.S. weapon systems (for example, F-16 aircraft and M1 Abrams main battle tanks). By January 2012, OSC-I will support 183 Iraqi-funded Foreign Military Sales (FMS) cases, valued at about \$7.5 billion, and an additional 185 U.S.-funded “pseudo-FMS cases,” valued at approximately \$2.4 billion. It may be years, however, before the ISF is fully capable of providing for Iraq's internal and external defense. This quarter, the GOI announced that it is conducting a province-by-province assessment to determine when the Iraqi police can assume complete responsibility for all security missions in Iraq's cities. In addition, the MOD Chief of Staff recently informed SIGIR that Iraq may not be able to provide fully for its external defense until the first half of the next decade. He emphasized that the Iraqi Air Force has minimal capabilities and could not secure Iraqi airspace for several more years.

#### Developments in Iraq

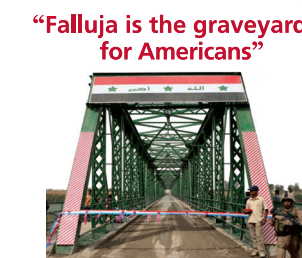
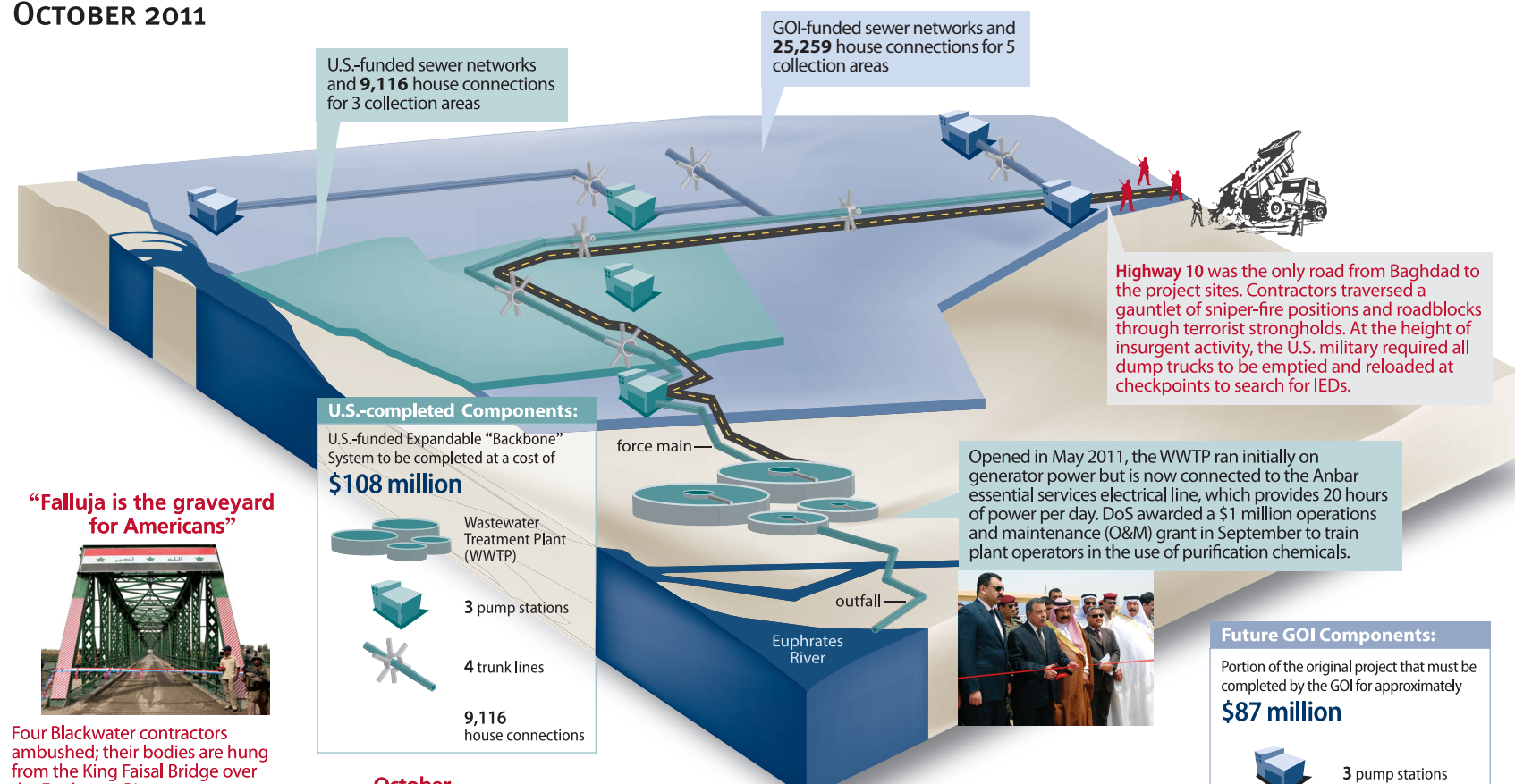
Several key developments occurred this quarter that will affect the nature of Iraq's nascent democratic institutions in the years to come:

- **New anticorruption laws.** The Council of Representatives (CoR) passed new laws reorganizing two of Iraq's main anticorruption agencies, the Commission of Integrity (COI) and the Board of Supreme Audit. Similarly, the Iraqi Kurdistan Parliament approved legislation establish-



## FALLUJA WASTE WATER TREATMENT SYSTEM A CASE STUDY IN WARTIME CONTRACTING

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PROFESSIONALISM  
PRODUCTIVITY  
PERSEVERANCE



**An insurgent sanctuary: 3,000-4,500 insurgent fighters**

**April** Al-Qaeda in Iraq and other militants using the city as a terrorist supply center

**60 of 100 mosques used as weapon caches or fighting positions**

**11 IED factories**

**203 weapon storage areas**

**October** Operation al-Fajr: 1,200 insurgents killed, 1,000 captured; 70 U.S. troops killed, 609 injured; tanks, heavy machine guns, and air strikes rupture water and sewer lines, and destroy pump stations and electrical infrastructure.

**"The smell of death was everywhere."**

**Quarterly Security Incidents in Anbar Province, 2004-2007**



**October** Three Iraqi engineers killed

**The success of the Anbar Awakening/Sons of Iraq and U.S. military surge vastly improved security, but Falluja has been the site of numerous security incidents.**

**May** IED kills three U.S. reconstruction officials returning from the project site

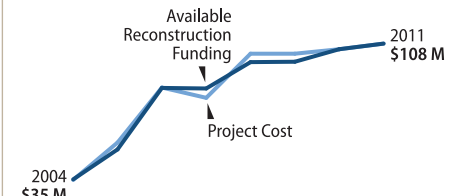
	2004	2011	2014
	Initial Estimate	Snapshot	Estimated Completion
<b>Cost</b>	\$35 M	\$108 M <span style="color:red">▲ 209%</span>	\$195 M <span style="color:red">▲ 457%</span>
<b>Months to Completion</b>	18	88 <span style="color:red">▲ 389%</span>	114 <span style="color:red">▲ 533%</span>
<b>Residents Served</b>	100,000 (estimated)	38,400 (58,300 target) <span style="color:red">▼ 62%</span>	220,000 (estimated) <span style="color:red">▲ 120%</span>
<b>Contracts/Grants</b>	1	42 <span style="color:red">▲ 4,200%</span>	42+GOI <span style="color:red">&gt; 4,200%</span>



**The Falluja Waste Water Treatment System** was meant to rid Falluja's city streets of raw sewage, alleviate contamination of essential water sources, and reduce the instances of illness and death linked to poor sanitation. But the project was undertaken in a city wracked with violence, with almost no planning, with minimal understanding of site conditions, with an unskilled workforce and no clear idea about how much the system would cost. Violence was so prevalent that trenches and pipes laid by U.S. contractors were being blown up and workers killed. Several times, the U.S. military had to direct the contractor to stop construction until security could improve. There were so many adverse conditions facing this project, it is hard to understand why it was initiated and pushed forward:

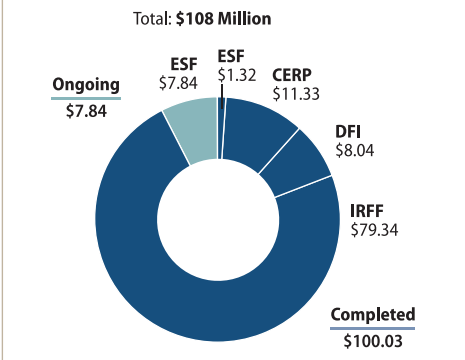
- Necessary site assessments could not be performed before or after award.
- The original task order required FluorAMEC to complete the system in 18 months, but because of late start and security delays, construction did not start until early 2005—leaving less than a year for actual work.
- The 2005 U.S. program shift of \$2.2 billion out of the water sector occurred just as more money was needed to complete the system.
- The choice of a more complicated plant design and the lack of reliable power from the grid made for a costlier solution.
- In mid-2005, the shift from large design-build contracts to smaller contracts carried out by many Iraqi contractors (under the Iraqi First Program) meant that delays or failures of one contractor would compromise the success of the entire project.

**Project Cost versus Available Reconstruction Funding, 2004-2011**  
\$ Millions



Project cost was set at funds available—not the amount needed to complete or sustain the system. The cost of water projects was underestimated by at least 25%-50% in the U.S. reconstruction program.

**Project Cost, by Fund, as of 7/8/2011**  
\$ Millions



Note: Numbers affected by rounding. Two ESF grants—one to complete house connections and fund two additional trunk lines, and one to provide O&M training for WWTP operators—remain ongoing.

Year	Key Events
2004	<ul style="list-style-type: none"> <li><b>June</b> FluorAMEC awarded <b>\$28.6 million</b> design-build task order to design, procure, construct, and commission the system in 18 months</li> <li><b>October-December</b> Project halted by the U.S. Marines for security reasons</li> <li><b>Late 2004</b> Falluja Reconstruction Council requests an oxidation-lagoon plant to be based on plans designed by a local Iraqi contractor; FluorAMEC required to provide its own security at a time when 151 U.S. soldiers are killed and 1,000 wounded (April-December)</li> </ul>
2005	<ul style="list-style-type: none"> <li><b>March</b> FluorAMEC estimates cost to construct a portion of the project will run \$51.3 million</li> <li><b>September</b> U.S. government de-scopes FluorAMEC contract</li> <li><b>August</b> The GOI's Ministry of Municipalities and Public Works (MMPW) rejects the oxidation-lagoon design of the plant 14 months into the project</li> <li><b>November</b> U.S. government agrees to mechanical sludge-process plant</li> </ul>
2006	<ul style="list-style-type: none"> <li><b>February</b> Original completion date of project</li> <li><b>By August</b> Funding allocated for the system totals <b>\$84.4 million</b>; U.S. government sees potential obstacle of delinquent DFI payments</li> <li><b>April</b> USACE provides four project scope options costing \$55.5 million-\$112.2 million; funds available only for baseline option</li> <li><b>December</b> The GOI authorizes \$18 million of the Development Fund for Iraq to be used for construction</li> </ul>
2007	<ul style="list-style-type: none"> <li><b>April-June</b> U.S. Marines suspend all project trench excavations due to threat of IEDs; for security reasons, work stops on 5 of 17 contracts</li> <li><b>November</b> U.S. government finally chooses a project scope; approximately <b>\$97 million</b> available from multiple sources</li> <li><b>December</b> U.S. government terminates DFI contracts and awards new contracts with IRRF funds</li> </ul>
2008	<ul style="list-style-type: none"> <li><b>August</b> As of August 2008, five DFI contracts had outstanding balances of \$2.3 million; from summer 2006 through 2009, project experienced significant construction delays due to Ministry of Finance's non-payment of DFI-funded contracts</li> <li><b>October</b> SIGIR Inspection identifies shortfalls in project scope and significant sustainment issues</li> </ul>
2009	<ul style="list-style-type: none"> <li><b>Early 2009</b> U.S. government holds discussions about terminating the project</li> <li><b>Final Project Scope, August 2009:</b> U.S. government focuses on completing an expandable "backbone" system, decreasing number of homes within the three collection areas as well as the number of trunk lines</li> </ul>
2010	<ul style="list-style-type: none"> <li><b>March</b> U.S. government awards a \$4.6 million grant to the GOI for 9,116 house connections</li> <li><b>October</b> MMPW proposes to commit \$87 million to complete full build-out (by 2014) if the U.S. government increases grant by \$3.0 million to cover additional trunk lines</li> </ul>