



MESSAGE FROM THE SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

I am pleased to present this 32nd Quarterly Report to the U.S. Congress and the Secretaries of State and Defense.

After nearly nine years, the last U.S. troops departed Iraq in mid-December, leaving behind a young democracy that, while buoyed by increasing oil production, remains imperiled by roiling ethnosectarian tensions and their consequent security threats.

Several events this quarter strained Iraq's governance institutions:

- Tensions between Prime Minister Nuri al-Maliki's Shia-led State of Law coalition and its Sunni-backed coalition partner, al-Iraqiya, came to a head with the issuance of an arrest warrant for Vice President Tariq al-Hashemi and the call by the Prime Minister for a no-confidence vote against Deputy Prime Minister Salih al-Mutlaq. (al-Hashemi and al-Mutlaq are both Sunni Arab members of al-Iraqiya.)
- Several provinces, including the Sunni heartlands of Anbar and Salah Al-Din, pressed for greater autonomy from Baghdad by asking to seek region status, notwithstanding the Prime Minister's clearly stated contention that provincial and local governance institutions are currently too weak to assume the increased powers that would accompany such a change.
- Multiple attacks on members of the Iraqi judiciary killed at least two judges this quarter, and a December 22 car bombing killed 32 employees of the Commission of Integrity (COI), Iraq's main anticorruption agency.

The persistent problem of public corruption affects both governance and security in Iraq. This Quarterly Report's special feature, entitled "Focus on Corruption," provides an overview of the history and mission of Iraqi anticorruption institutions, discusses U.S. assistance to them, and details the largest known criminal fraud to have occurred in Iraq since 2003.

The U.S. Embassy in Baghdad continues to provide broad-based assistance to Iraq. Staffed by almost 14,000 personnel (the vast majority of whom are contractors), the Embassy's operations encompass far more than just traditional diplomacy and development activities. Ambassador James F. Jeffrey leads a mission that is fully responsible for all aspects of the U.S. assistance program, with special focus on supporting the Ministries of Interior (MOI) and Defense (MOD). To that end, the Embassy began implementing last October its largest single assistance effort, the Police Development Program, which supports the MOI chiefly in improving senior management practices. The program faces a number of challenges, including an uncertain security environment that limits the movement of its advisors and skepticism on the part of senior MOI officials about the program's ultimate utility.

Operating under Chief of Mission authority and led by a U.S. Army three-star general, the new Office of Security Cooperation-Iraq (OSC-I) manages continuing U.S. military assistance to Iraq. OSC-I advises the upper echelons of the MOD and administers the Foreign Military Sales program through which the GOI purchases U.S.-made military equipment.

Last November, during my 31st trip to Iraq, I met with President Jalal Talabani and briefed the GOI's High Committee on the Restoration of Iraqi Funds on SIGIR's oversight of the Development Fund for Iraq (DFI). SIGIR issued two more DFI audits this quarter—one finding that the Department of Defense could provide documents to support only about \$1 billion of the approximately \$3 billion in DFI funds it used for reconstruction work in 2004–2005, and the other confirming that \$13.1 million in DFI funds were returned by the United States to the Central Bank of Iraq in March 2009.

The work of SIGIR's investigators yielded significant results this quarter, including:

- the indictment of the former president and CEO of Louis Berger Group, Inc., for allegedly defrauding the U.S. government in connection with hundreds of millions of dollars in overseas reconstruction contracts
- the sentencing of a former U.S. Army major to 12 years in prison for his participation in a conspiracy to defraud the U.S. government that has already led to the convictions of 16 other people
- the sentencing of a former Department of State employee to 33 months in prison for fraud and conspiracy

SIGIR investigators currently have 90 open cases and anticipate multiple indictments arising from these cases in the next few months.

On the lessons-learned front, SIGIR issued its sixth report since 2005, entitled *Iraq Reconstruction: Lessons in Inspections of U.S.-funded Stabilization and Reconstruction Projects* (available at www.sigir.mil). The study details best practices derived from the 170 inspections that SIGIR carried out on projects throughout Iraq. Seeking to apply the lessons of Iraq to the current U.S. approach to stabilization operations, Representative Russ Carnahan (D-MO) and five bipartisan cosponsors recently introduced **H.R. 3660, *The Contingency Operations Oversight and Interagency Enhancement Act of 2011***, which would establish the United States Office for Contingency Operations and assign it the duty to plan, manage, and execute future stabilization and reconstruction operations.

With many billions of dollars yet to be spent in Iraq, U.S. efforts to support the country's fledgling democracy remain substantial. I commend my staff, both here in the United States and in Baghdad, for their continuing commitment to carry out our difficult mission to oversee these funds through audits and investigations, and thereby protect the taxpayers' interests while promoting our country's national security.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Stuart Bowen, Jr.", followed by a period.

Stuart W. Bowen, Jr.