



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. This past February, the IG completed his 19th trip to Iraq to review progress on the reconstruction effort.

IRAQ'S ECONOMIC PROGRESS HELPS RECONSTRUCTION

Total Iraqi funds made available for reconstruction since 2003 have now reached the \$50 billion mark, roughly equaling the total amount of U.S. funds appropriated to date to support Iraq's relief and reconstruction. Moreover, this year's oil windfall means that the Government of Iraq (GOI) may soon budget significantly more resources—reportedly up to \$7 billion—for new capital investment across the country. Record oil production, steady oil exports, and high oil prices continue to portend the possibility that Iraq's oil revenues will crest \$70 billion by the end of the year. Taking full advantage of this economic boon requires immediate improvement in the GOI's budget execution rates. The most current data indicates that those expenditure rates are still well under expectations.

Over the past year, the GOI committed to spend \$8 billion on U.S. products, ranging from Boeing aircraft to General Electric generators. Nearly \$3 billion of that has been spent on military equipment and supplies purchased through the Foreign Military Sales program, which uses U.S. processes but Iraqi money to purchase the equipment and supplies.

Successful military operations by Iraqi Security Forces in Basrah, Sadr City, Mosul, and Amara have been followed by GOI commitments to spend over \$100 million in reconstruction funds in each of those targeted areas. Iraq also pledged to put \$300 million into the U.S. Commander's Emergency Response Program for projects in provinces that will be managed by the United States but carried out by Iraqi contractors.

PROVINCIAL RECONSTRUCTION SNAPSHOTS

This quarter, SIGIR presents a new approach to reviewing the U.S. relief and reconstruction effort by producing a province-by-province overview of progress, focusing on four key areas—the economy, essential services, governance, and security. These snapshots speak volumes about the nature, scope, and effect of U.S. aid to Iraq, providing an informative and episodic story of achievements and challenges.

Provincial development continues to grow in importance as the GOI slowly tries to move toward new provincial elections—which

will not occur as scheduled in October—and greater financial empowerment of local level officials, who still face significant challenges in executing local capital budgets effectively. The Provincial Reconstruction Teams (PRTs) play important roles in advancing these key developmental efforts. The PRT program expanded this quarter with the first embed of U.S. PRTs at the Iraqi Army facilities in Najaf and Kerbala.



Kahn Bani Sa'ad Correctional Facility: A \$40 million project, incomplete and abandoned.

THE ABANDONED PRISON AT KAHN BANI SA'AD

SIGIR reports this quarter on a failed project, the Kahn Bani Sa'ad Correctional Facility, which sits in the desert 20 minutes from Baquba, the capital of Diyala province. The original contract for this ill-fated Iraq Relief and Reconstruction Fund effort was terminated over two years ago for poor performance, and two follow-on contracts were similarly canceled. The uncompleted project was unilaterally transferred to the GOI last September, after more than \$40 million in taxpayer dollars had been spent on it. SIGIR's audit of the Parsons Delaware security and justice contract reveals manifold shortfalls that occurred before the cost-plus contract

was terminated. About \$142 million was spent on various Parsons projects that were ultimately canceled or not completed, including Kahn Bani Sa'ad. SIGIR inspectors visited the Kahn Bani Sa'ad prison this quarter, and their assessment unfolds a detailed and troubling view of this failed reconstruction project. The audit and the inspection are in Section 3 of this Report.

INFRASTRUCTURE SECURITY BRINGS STABILITY TO THE OIL SECTOR

Iraqi oil production set new records this quarter, with output reaching 2.43 million barrels per day, the highest quarterly average since the 2003 invasion. This increase is attributable, in part, to improved security across Iraq and, in particular, to the success of the U.S.-funded

Pipeline Exclusion Zone (PEZ) program. The \$34 million Kirkuk-to-Baiji PEZ project produced a system of ditches, berms, fences, and concertina wire protecting oil pipelines, all of which are secured by Iraqi security force personnel. The program is part of the reason why there have been no successful attacks on oil pipelines in Iraq this year.

U.S. MONEY AS AN ACCELERANT

GOI officials have proclaimed Iraq to be a "rich country" that is not looking for more financial aid but for partnership and cooperation that could unlock its potential. But, as a SIGIR audit revealed this quarter, the United States continues to fund security infrastructure programs on a large scale, with over \$1 billion remaining in unobligated funds appropriated to the Iraq Security Forces Fund (ISFF). Total appropriations to the ISFF now almost equal those made to the Iraq Relief and Reconstruction Fund 2 (\$18 billion). SIGIR's review examined the U.S. spending strategy for police and training facilities, which has been described by the head of the U.S. security program as an "accelerant." A total of \$27 billion in U.S. reconstruction funds has been put toward Iraq security-related activities since 2003.

AUDIT AND INSPECTIONS LESSONS LEARNED CAPPING REPORTS

This quarter, SIGIR produced two cumulative reviews of SIGIR's audits and inspections, analyzing the 230 reports produced to date

and deriving overarching themes. The reports conclude with a series of lessons learned that supplement and echo the work produced in SIGIR's previous three lessons learned reports. Among other things, these capping reports underscore again how the reconstruction program has been limited by the unstable security environment, the lack of an integrated organizational manage-

ment structure, the absence of program accountability, the inadequate number and frequent turnover of personnel, and the weak collaboration between U.S. and GOI officials. SIGIR also made notable progress this quarter on its major Lessons Learned Capping Report, *Hard Lessons: The Story of Iraq Reconstruction*, which will be produced toward the end of this year.



Pipeline Exclusion Zone in Kirkuk: A success story in the resurgence of Iraq's oil industry.

UPDATES ON SHORTFALLS

Two new SIGIR audits update the challenges that have affected U.S. support for Iraq's anticorruption efforts and the continuing data difficulties in the Iraq Reconstruction Management System (IRMS). In the former, SIGIR found that U.S. support for anticorruption programs requires more investment and attention before it will have substantial effect in improving Iraq's capacity to fight corruption. In the latter, SIGIR found that the IRMS—a database designed to consolidate reconstruction project information—is in danger of becoming obsolete because of inconsistent use and thus unreliable information. SIGIR provides recommendations for improving project-data management that will help managers maintain the necessary clear picture into what has been accomplished in the Iraq relief and reconstruction program and what remains to be done.

THE INVESTIGATIVE FRONT

The work of SIGIR investigators this quarter helped resolve several cases, including one involving an Army major who pleaded guilty to accepting over \$9 million in bribes in exchange for steering Iraq contracts to certain bidders. Additionally, 19 more individuals and companies were suspended from doing business with DoD for improper conduct in Iraq contracting. An update on investigations is included in Section 3.

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