

SIGIR OBSERVATIONS

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SECTION

1

A SUMMER OF UNCERTAINTY

Five months from the issuance of this report, the U.S.-Iraq Security Agreement will expire. Unless a new agreement is reached, the U.S. military presence in Iraq will conclude by year's end. The Department of State (DoS) and Department of Defense (DoD) are vigorously preparing for the myriad effects of the impending troop withdrawal, while holding open the possibility that the Government of Iraq (GOI) will request a limited U.S. military presence beyond 2011.

On July 7, the Chairman of the Joint Chiefs of Staff, Admiral Mike Mullen, confirmed ongoing negotiations with the GOI to extend the military mission.¹ And during a July 10 press briefing, new U.S. Secretary of Defense Leon Panetta noted that it was incumbent upon the GOI to request such an extension soon, if it wants U.S. forces to stay.²

Forging an Iraqi political consensus for a continuing troop presence has proved challenging for Prime Minister Nuri al-Maliki. Many members of the Iraqi Council of Representatives (CoR) vociferously oppose it. Muqtada al-Sadr has gone so far as to issue ominous *diktats* threatening violence that would ensue if the extension occurs. The following events exemplify the fissures within the GOI on this explosive matter:³

- About 100 members of the CoR—including many of those allied with Muqtada al-Sadr—signed a petition calling for U.S. troops to depart on schedule.
- The speaker of the Kurdistan Regional Government (KRG) parliament stated that the fragile security situation warranted U.S. troops remaining after December.
- The Shia-dominated Basrah Provincial Council passed a resolution “banning” all U.S. troops from the province.

On July 9, President Jalal Talabani requested the political blocs in the CoR to submit their respective



Secretary of Defense Panetta talks to U.S. troops in Baghdad in July. (USF-I photo)

recommendations on the issue of extending the U.S. military presence, stating that the CoR would reach a decision on this matter in August.⁴

If agreement is reached to continue a U.S. troop presence beyond 2011, potential duties for the remaining forces could include:⁵

- supporting and protecting U.S. government civilians and contractor personnel
- maintaining a presence along the “Green Line” separating the Kurdistan Region from the rest of Iraq
- providing an air-defense umbrella for Iraq while the nascent Iraqi Air Force develops its capacity to conduct independent operations
- collecting, analyzing, and disseminating intelligence data on terrorist groups that would enable the Iraqi Security Forces (ISF) to conduct timely counterterrorism operations
- assisting the ISF to improve its logistics capacities

This quarter, the size, scope, and shape of the U.S. reconstruction mission changed dramatically, and the pace of that change will accelerate for the remainder of 2011. By the end of this year, the four remaining Provincial Reconstruction Teams (PRTs) will close, DoS will assume responsibility for Iraqi police training, and the new Office of Security Cooperation-Iraq (OSC-I) will take over most aspects of U.S.-Iraqi military relations. To meet its ever-expanding obligations, U.S. Embassy-Baghdad is doubling the number of personnel under the Chief of Mission (COM)—from 7,980 to approximately 16,000 U.S. government employees, contractors, and locally employed staff.⁶

Forging an Iraqi political consensus for a continuing troop presence has proved challenging.

During June, 14 U.S. servicemembers were killed by hostile fire, the highest monthly total since April 2009.

These manifold transitions and transfers occur against the backdrop of a security situation in Iraq that continues to deteriorate. During the month of June, 14 U.S. servicemembers were killed by hostile fire, the highest monthly total since April 2009.⁷ Iranian-backed Shia militias, which have grown more active this year, were reportedly responsible for some of these deaths. Al-Qaeda also remains a lethal threat, with U.S. intelligence officials estimating that up to 1,000 al-Qaeda-affiliated militants are now in Iraq.

Other security problems this quarter include:⁸

- frequent rocket attacks against the International Zone (IZ) using more destructive and more accurate Iranian-produced munitions
- the assassination of many senior GOI officials, including judges, generals, and civil servants
- a series of suicide bombings targeting ISF personnel and inflicting mass casualties
- renewed efforts on the part of anti-government forces to target Iraq's oil infrastructure

Notwithstanding the very real fragility of Iraq's devolving security environment, which is further detailed below, the U.S. Forces-Iraq (USF-I) continues to contrast the current security status in Iraq to that of mid-2007—when the country was embroiled in a state of near-civil war—noting in late May, for example, that the security trends “are very, very positive.”⁹

RECONSTRUCTION MANAGEMENT AND FUNDING

Reshaping the U.S. Reconstruction Footprint

Several developments this quarter presaged the major transitions that will characterize the rest of 2011:

- **Closing PRTs and Opening New Consulates.** Since April, DoS has closed 10 PRTs and, as

of July 15, only the PRTs in Baghdad, Diyala, Anbar, and Najaf continued to operate—and these will close by mid-September. This quarter, DoS opened two new permanent consulates in Erbil and Basrah, and also intends to have a temporary consulate in Kirkuk. The initial DoS plan for replacing the PRTs also called for a Regional Embassy Office in Mosul, but budgetary constraints forced an indefinite postponement of the plans for that post.¹⁰

- **Implementing the Police Development Program (PDP).** The official 90-day handover period for the PDP began on July 1. DoS's Bureau of International Narcotics and Law Enforcement Affairs (INL) is replacing the U.S. military as the lead agency responsible for mentoring the Iraqi police. INL's efforts will focus on building the managerial and investigative capacities of Iraqi police units. About 190 U.S. advisors based in three main sites (Erbil, Baghdad, and Basrah) will implement the PDP, working from more than 20 sites in 10 provinces to advise, mentor, and teach Iraqi police. Aspects of INL's plans remain in flux, including finalizing security and travel arrangements for the advisors and reaching land-use agreements with the GOI. INL will assume complete responsibility for this mission from the U.S. military on October 1, 2011.¹¹
- **Establishing OSC-I.** A DoD organization falling under COM authority, OSC-I will be the conduit for all military-to-military ties between the United States and Iraq. Current plans call for six OSC-I sites (Baghdad, Besmaya, Kirkuk, Taji, Tikrit, and Umm Qasr). Describing plans for OSC-I as “significantly behind schedule,” the Department of State Office of Inspector General (DoS OIG) reported in May that it is unlikely to reach full operational status by October, as originally planned.¹²

U.S. Reconstruction Funding

Since 2003, the United States has appropriated or otherwise made available \$61.64 billion for Iraq reconstruction efforts, primarily through five

major funds: the Iraq Relief and Reconstruction Fund (IRRF), Iraq Security Forces Fund (ISFF), Economic Support Fund (ESF), Commander’s Emergency Response Program (CERP), and International Narcotics Control and Law Enforcement (INCLE). As of June 30, 2011, \$4.27 billion in available budget authority remained unexpended for the five major funds.¹³

For the ESF, \$549 million is available for obligation to new projects, and an additional \$348 million remains in unexpended obligations.¹⁴ For the ISFF, \$1.69 billion is available for obligation to new projects, including more than 99% of FY 2011 funds. An additional \$863 million remains in unexpended ISFF obligations.¹⁵ Table 1.1 details the status of FY 2010–FY 2011 ISFF appropriations. For more on U.S. reconstruction funding, see Section 2 of this Quarterly Report.

Obstruction of SIGIR Oversight

In response to this report’s request for information, U.S. Embassy-Baghdad declined to respond to questions concerning the use of support contracts—including the Logistics Civil Augmentation Program (LOGCAP)—to provide services to DoS posts in Iraq involved in managing reconstruction programs, instead referring SIGIR to DoS OIG for this information.

U.S. Embassy-Baghdad again took an extremely circumscribed view of how many persons under COM authority are involved in the “reconstruction effort.” According to its implausibly narrow approach, as of June 30, 2011, there were only 10 U.S.

government civilian employees and 57 contractors under COM authority overseeing or implementing reconstruction programs in Iraq—or just 0.08% of all personnel.¹⁶

2011 Iraqi Budget

In February, Iraq’s CoR approved an \$82.62 billion budget for 2011, a 14% increase over the previous year’s \$72.36 billion budget. The 2011 budget appropriates \$25.70 billion for capital expenditures and \$56.92 billion for operating expenses. This constitutes a 27% annual increase in the GOI capital budget and a 9% increase in its operating budget.¹⁷

- **Ministries receiving larger budgets.** Of the 26 GOI ministries, 15 saw their budgets increase from 2010 levels. The five ministries receiving the largest increases, as measured by percentage change from 2010 to 2011, are Labor and Social Affairs (285%), Oil (97%), Foreign Affairs (90%), Culture (61%), and Agriculture (49%).¹⁸
- **Ministries receiving smaller budgets.** The five ministries receiving the largest decreases in the CoR-approved budget, as measured by percentage change from 2010 to 2011, are Environment (-28%), Electricity (-28%), Planning and Development Cooperation (-18%), Human Rights (-17%), and Communications (-17%).¹⁹
- **Prime Minister’s Office (PMO) and Secretariat.** The budget allocates a combined \$484 million for the PMO (\$363 million) and its Secretariat (\$121 million), a 13% decrease from last year.²⁰
- **Security ministries.** The 2011 Ministry of Defense (MOD) budget of \$5.85 billion is 19%

U.S. Embassy-Baghdad declined to respond to questions concerning the use of support contracts to provide services to DoS posts in Iraq involved in managing reconstruction programs.

TABLE 1.1
STATUS OF FY 2010–FY 2011 ISFF, AS OF 6/30/2011
\$ Millions

	APPROPRIATED	OBLIGATED	EXPENDED	UNOBLIGATED	UNEXPENDED	EXPIRES
FY 2010	\$1,000	\$810	\$627	\$190	\$373	9/30/2011
FY 2011	\$1,500	\$1	\$0	\$1,499	\$1,500	9/30/2012
Total	\$2,500	\$812	\$627	\$1,688	\$1,873	

Note: Data not audited. Numbers affected by rounding.

Sources: USF-I, response to SIGIR data call, 7/15/2011; OSD, “Justification for FY 2011 Overseas Contingency Operations Request, Iraq Security Forces Fund,” 2/2/2010, p. 4.

more than its 2010 budget, while the Ministry of Interior (MOI) budget of \$6.31 billion represents a 3% annual increase. Of the combined \$12.16 billion the 2011 budget allocates to these two ministries, 97% is for operating expenses, including salaries and maintenance.²¹

- **Rule-of-law institutions.** The budget for the Higher Judicial Council, which oversees Iraqi courts, increased by about 4% to \$278 million. The combined 2011 budgets of Iraq's two primary anticorruption agencies, the Commission of Integrity (COI) and the Board of Supreme Audit (BSA), total \$86 million—a 3% decrease from their combined 2010 budgets.²²

For details on the GOI's 2011 budget, see Section 2 of this Quarterly Report.

The GOI finances its expenditures primarily with funds obtained from the export of oil. For 2011, oil revenue will account for about 90% of government revenue.²³ Crude oil production reached an average of 2.55 million barrels per day (MBPD) this quarter, and exports rose to 2.21 MBPD. Both increases were just enough to surpass the previous quarterly records. However, average oil production this quarter remained below the Ministry of Oil's 2011 target of 2.75 MBPD.²⁴ Among the factors contributing to Iraq's inability to meet what may have been unrealistic production goals are continued security concerns, antiquated pipeline and storage infrastructure, byzantine bureaucratic structures, and labor unrest. In light of these continuing difficulties, Minister of Oil Abdul Kareem al-Luaibi announced in June that the ministry is studying whether to reduce Iraq's stated goal of increasing crude oil production to more than 12 MBPD by 2017, suggesting that a target of 7–8 MBPD might be more realistic.²⁵

SIGIR Oversight of the Development Fund for Iraq

The GOI took in \$20.11 billion in oil-export receipts this quarter—setting a post-2003 record. Beginning on July 1, the GOI assumed control over its oil revenue. In April, it informed the United Nations Security Council that it planned

to open a new account at the Federal Reserve Bank of New York (FRBNY) to replace the UN-mandated Development Fund for Iraq (DFI) account into which all Iraqi oil revenue has been deposited since 2003. The GOI Committee of Financial Experts, under the direction of the BSA president, will oversee this account and another FRBNY account holding Iraqi oil revenue. The end of the UN-mandated arrangements that required Iraq to deposit all proceeds from petroleum export sales into DFI-linked accounts brought with it the end of the immunity from creditor claims afforded to these funds under UN Security Council Resolution 1483.²⁶

SIGIR announced a third audit of the DFI this quarter, which will close out its review of U.S. management of Iraqi revenues. More than \$20 billion in Iraqi funds were under Coalition Provisional Authority (CPA) supervision in 2003–2004. The CPA used them chiefly to run Iraqi government operations and execute reconstruction programs. When the CPA concluded operations in June 2004, a reported \$6.6 billion remained. A 2005 SIGIR audit found that the CPA provided less-than-adequate controls for approximately \$8.8 billion in DFI funds provided to Iraqi ministries. And a SIGIR 2010 audit concluded that another \$8.7 billion of the DFI was not properly accounted for. SIGIR's third audit aims to provide the best accounting possible for the portion of the DFI under U.S. control after June 2004.

This quarter, media accounts mischaracterized SIGIR's position by claiming that \$17 billion was stolen or simply lost. During a recent meeting of the International Advisory and Monitoring Board for Iraq, in Jordan, BSA President Dr. Abdul Bassit stated that Iraq's review of the “\$17 billion issue” is an effort to address “a lack of documentation and enable the auditors to pass clear judgment” on how the DFI was spent. The GOI created a special high-level committee chaired by Deputy Prime Minister (DPM) for Economic Affairs Rowsch Shawayts to review and report on this matter. Other members of the committee include the Ministers of Justice, Oil,

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Foreign Affairs, and Finance, as well as the President of the Central Bank of Iraq, the BSA President, and the Legal Advisor to the Prime Minister.

SIGIR continues to work with DoD to identify remaining balances from DFI accounts that could be returned to the GOI. This quarter, the Under Secretary of Defense (Comptroller) notified the GOI of the impending return of \$8.5 million. In addition, SIGIR has identified \$106 million in unspent DFI funds in an account used by DoD for Iraq reconstruction efforts. Those remaining funds are now under GOI control.

SIGIR's previous findings of inadequate DFI record-keeping indicate that the fund was vulnerable to waste and fraud. To date, our investigations have led to nine convictions on charges stemming from illegal use of DFI funds. SIGIR continues to work with the GOI on accountability for these funds and will release the third and final audit next quarter.

SECURITY

Recent Violence

DoD reported that at least 248 Iraqi civilians and 193 ISF personnel were killed in acts of terrorist violence during April 1–June 19, 2011.²⁷ More than 100 died in mass-casualty suicide attacks, which struck nearly every major Iraqi city, including Mosul (April 30 and June 10), Tikrit (May 10 and June 3), Baghdad (May 22 and June 23) Ramadi (June 2), and Basrah (June 13).

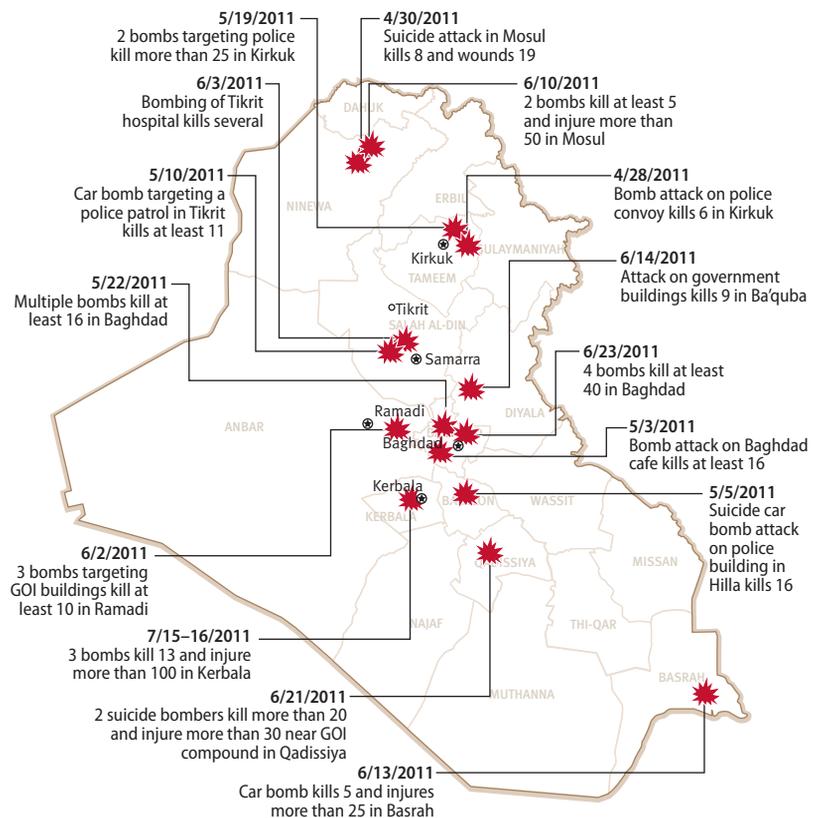
Attacks this quarter continue to target GOI political leaders and security personnel. On May 5, a suicide bomber crashed his vehicle into an Iraqi police barracks in Hilla, killing at least 16 officers. Two weeks later, bombs were detonated in a parking facility frequented by local police in Kirkuk, killing at least 20 police. In June, insurgents carried out brazen suicide attacks against provincial government facilities in Diyala and Qadissiya, causing multiple fatalities. Figure 1.1 shows this quarter's major security incidents.

Continuing a trend that has worsened since last quarter, more than 70 senior GOI military and civilian officials were targeted for assassination this quarter. At least 44 of these attempts succeeded, including the assassination of the Chairman of the Accountability and Justice (De-Ba'athification) Commission in late May. Although precise statistics on these targeted attacks are difficult to obtain, this quarter marked the highest number of assassination attempts that SIGIR has recorded since it began tracking this information.²⁸

In a grim reminder of what Chief Justice Medhat al-Mahmoud told SIGIR was the most crucial

More than 70 senior GOI military and civilian officials were targeted for assassination this quarter.

FIGURE 1.1
SELECTED SIGNIFICANT SECURITY INCIDENTS, 4/15/2011–7/16/2011



Note: All casualty figures are based on best available information.

Source: SIGIR analysis of GOI and U.S. government documents and open-source information in Arabic and English.

problem facing the judiciary, assassins also targeted several judges this quarter:²⁹

- On April 20, an appellate judge in Salah Al-Din province survived an improvised explosive device (IED) attack.
- Ten days later, a Baghdad judge was killed when gunmen stormed his residence.
- In mid-May, police disarmed a bomb attached to Ninewa's criminal court chief's car.
- On June 6, police disarmed a bomb planted next to the residence of another Ninewa judge.
- Three days later, a civic court judge was shot and killed while driving in Baghdad.

Since 2003, at least 47 judges have been killed in Iraq.³⁰

Targeting of U.S. Installations and Personnel

This quarter, Shia militant groups, including the Hezbollah Brigades, the Promised Day Brigades, and the Asaib Ahl al-Haq (League of the Righteous), stepped up their attacks on U.S. personnel.³¹ Two fatal attacks in June possibly involved improvised rocket-assisted munitions (IRAMs).³² On June 6, six U.S. servicemembers were killed at Camp Loyalty in Baghdad,³³ and three more were killed later in June in an attack on a U.S. base in the southern province of Wassit.³⁴ Larger and more lethal than mortar rounds, IRAMs were first seen in Iraq about four years ago and are known to be supplied by Iran to Shia militias.

On July 7, two U.S. servicemembers were killed when a probable explosively formed penetrator (EFP) detonated near an entrance to USF-I's Victory Base Camp headquarters facility.³⁵ EFPs are a signature weapon of Iranian-backed Shia militias.

Other attacks on U.S. personnel this quarter included:³⁶

- On May 15, eleven rockets landed inside the IZ, damaging U.S. facilities. This was just one of several similar indirect-fire attacks on the IZ this quarter, including a July 12 incident that followed Defense Secretary Panetta's visit to Baghdad.

- On June 23, Dr. Steven Everhart, a U.S. Agency for International Development contractor, was killed when a bomb detonated near his vehicle in Baghdad. He was leaving a meeting at Baghdad's al-Mustansiriya University when the attack occurred.
- On June 26, two U.S. servicemembers were killed by grenades and small-arms fire in Diyala province.

For more on the state of Iraqi security and U.S. assistance to the ISF, see the Security subsection of this Quarterly Report.

Attacks on Oil Infrastructure

Iraq's oil sector continues to confront myriad challenges, including insurgent attacks. In July, the head of Iraq's Oil Police stated that al-Qaeda in Iraq's main objective for 2011 is to disrupt Iraq's economic development by damaging its pipelines, storage tanks, and refineries. Echoing those concerns, DPM for Energy Affairs Hussein al-Shahristani described the February attack on the large refinery complex at Baiji as "the most dangerous moment since the fall of the Ba'athist regime." While it took three weeks to restore full production, DPM al-Shahristani told the Inspector General in May that it could have had far graver consequences, as less than one-third of the explosive devices planted by the attackers actually detonated. Underscoring the continued threat to the oil sector, in early June, insurgents attempted to bomb the Doura refinery in Baghdad and succeeded in damaging an al-Zubair oil-storage facility in southern Iraq.³⁷

DPM al-Shahristani described the February attack on the large refinery complex at Baiji as "the most dangerous moment since the fall of the Ba'athist regime."

ECONOMY, PUBLIC SERVICES, AND THE RULE OF LAW

Although reverberations of the Arab Spring movement echoed throughout the region, Iraqis took to the streets in smaller numbers this quarter than last, with protests diminishing in size and frequency. However, the underlying issues that drove citizens into the streets this past winter—such as power shortages and public corruption—remain unresolved.

Economic Development

The International Monetary Fund projected Iraq's real gross domestic product (GDP) growth rate for 2011 at more than 12%, up from an estimated real GDP growth rate of less than 1% in 2010, making it one of the world's fastest growing economies.³⁸

Sustainable economic growth and tangible improvement to quality of life depends, in part, on the GOI's ability to construct a multitude of long-delayed infrastructure projects, including:³⁹

- the Mansuriya natural gas field in Diyala province
- multiple pipeline projects
- a series of telecommunications projects intended to quadruple the number of fixed landlines in Iraq by 2016
- more than a dozen electricity-production plants using combustion turbines purchased from General Electric

In addition, the GOI must close, reform, privatize, or find funding for more than 170 state-owned enterprises. Although these initiatives—and many others—have been widely publicized by the GOI, it will be several years before any are fully implemented. For more information on these projects and the overall state of the Iraqi economy, see the Public Services and Economy subsections of this Quarterly Report.

Electricity

Power shortages remain a fact of life in Iraq. As temperatures rose with the onset of summer, demand averaged almost 11,500 megawatts (MW), 22% above what it was during the same quarter in 2010. July is on course to set a monthly record for demand. The supply of electricity on the national grid cannot keep pace with this growing demand, having remained relatively flat since late 2009. This quarter, the total supply of electricity on the grid averaged 6,574 MW, enough to achieve a new record high (albeit by just 0.5%), but not enough to provide noticeable improvement in the daily lives of Iraqi citizens.⁴⁰

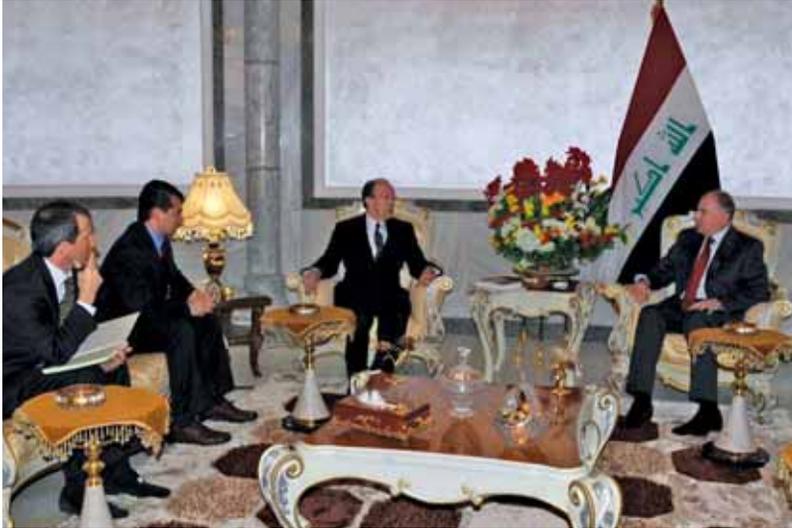
In an effort to avert a reprise of last summer's electricity riots, which led to several deaths and the resignation of the Minister of Electricity, DPM al-Shahristani told SIGIR in May that the ministry is taking a series of emergency measures to improve the near-term supply of electricity, including fast-tracking the construction of small diesel power plants, increasing the supply of generator fuel made available to the public, and importing more power from neighboring countries. However, DPM al-Shahristani cautioned that significant improvements will not occur before mid-2012, at which point he hopes the Ministry of Electricity (MOE) will have doubled the supply of electricity available on the national grid.⁴¹

Corruption

Corruption remains a significant challenge for Iraq. While the country's three main anticorruption agencies—the COI, BSA, and ministry inspectors general (IGs)—have increased their capacities to investigate criminal activity since 2004, they remain stymied by political resistance and lack of capacity and have difficulty pursuing cases involving complex crimes and high-level officials.

As COI Commissioner Judge Rahim al-Ugaili explained to SIGIR officials in May, corrupt government contracting practices lie at the heart of most major corruption cases under investigation by his office. Describing this problem as “the father of all corruption issues in Iraq,” the Commissioner

The country's three main anticorruption agencies remain stymied by political resistance and lack of capacity.



The Inspector General meets with CoR Speaker al-Nujaifi. (GOI, CoR photo)

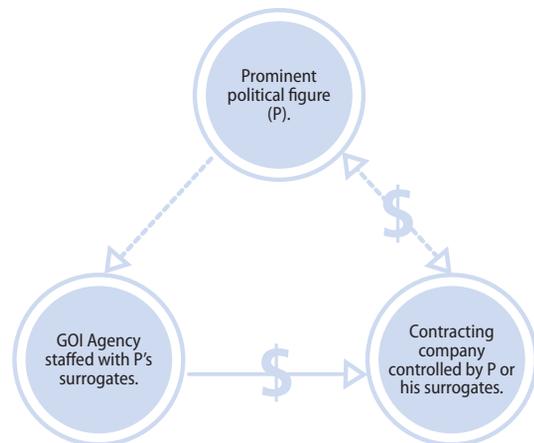
detailed how a significant portion of major GOI contracts are given to companies controlled by powerful Iraqi political figures or their surrogates. He stated that “many” of the major firms in Iraq are allied with a political faction, enabling them to win contracts at vastly inflated prices. Because of their close ties with the GOI, these firms receive significant down payments prior to beginning work and usually are not at risk of suffering financial penalties in the event of nonperformance or poor performance. The Commissioner also noted that the Iraqi Penal Code, much of which was written in 1969, makes it difficult to prosecute these cases, a flaw that the COI is currently trying to remedy by drafting new legislative proposals.⁴² Figure 1.2 illustrates the incestuous ties among politicians, GOI officials, and contracting companies in Iraq.

This quarter, however, one of the main legal obstacles to the effective enforcement of anticorruption statutes was removed with the repeal of Article 136(b) of the Iraqi Criminal Procedure Code. This provision—twice previously repealed only to be subsequently reinstated—allowed ministers to block legal action from being taken against their subordinates.

The continued economic dominance of the public sector means that governmental corruption

One of the main legal obstacles to the effective enforcement of anticorruption statutes was removed with the repeal of Article 136(b).

FIGURE 1.2
THE TIES THAT BIND: RELATIONSHIPS THAT FOSTER CORRUPTION IN SOME GOI CONTRACTS



Source: GOI, COI Commissioner, meeting with SIGIR, 5/5/2011.

adversely affects all aspects of Iraqi life. Recent developments illustrate how corruption cuts across boundaries, limiting the GOI’s capacity to improve security, deliver services, and educate its citizens. Key sectors affected by corruption, or allegations thereof, include:

- **Security.** Earlier this year, the MOD Legal Consultant was sentenced to three years in jail for embezzling funds from the ministry. Moreover, in a May meeting with the Inspector General, former Prime Minister Ayad Allawi claimed that many defense contracts are awarded to relatively obscure Eastern European firms because those companies are more willing to pay bribes than Western counterparts and are not prevented from doing so by anticorruption statutes, such as the U.S. Foreign Corrupt Practices Act. Although Allawi’s contentions must be viewed in light of his current estrangement from Prime Minister al-Maliki, the CoR Integrity Committee is also pursuing investigations into corrupt contracting practices at the MOD, allegations of which have plagued the ministry since its reconstitution after the 2003 overthrow of the Ba’athist regime.⁴³
- **Electricity.** In June, the MOE IG issued a detailed public statement on the MOE website

describing how corrupt networks within the ministry steal diesel fuel intended for electricity plants. The stolen fuel is then sold on the black market, reducing the amount available to the plants that supply power to the national grid.⁴⁴

- **Education.** Most mid- and senior-level GOI posts require applicants to present proof of their educational and professional accreditations. Under Iraqi law, submitting fraudulent certificates is a crime punishable by jail time. In the first five months of 2011, the COI referred 597 forgery cases to investigative judges (IJs) for adjudication, the vast majority of which involved allegedly fraudulent educational or professional certificates. Last year, COI investigators uncovered and dismantled a criminal conspiracy at the Ministry of Education involving several employees who were selling fake credentials to job applicants.⁴⁵

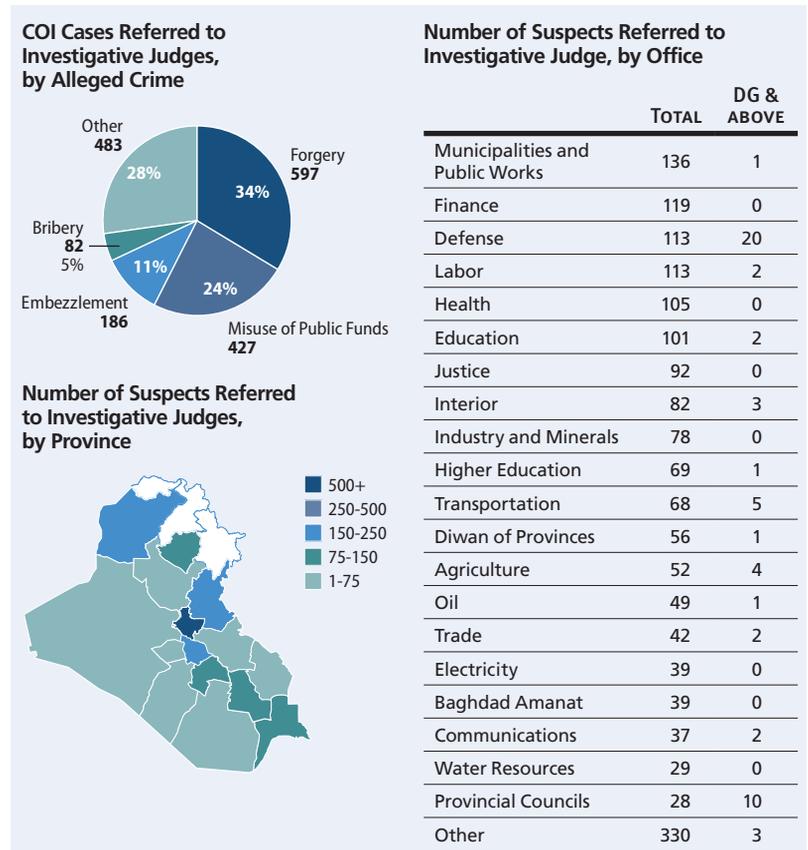
On June 20, the COI issued its mid-year report, detailing its anticorruption activities through the end of May 2011. Since January 1, the COI referred 1,777 subjects to IJs, including 66 officials holding the rank of director general or higher. Figure 1.3 summarizes the COI's performance during January 1–May 31, 2011. For more details on corruption in Iraq, see the Rule of Law subsection of this Quarterly Report.

Public Perceptions about Conditions in Iraq

Recent public opinion data collected on behalf of the U.S. National Democratic Institute (NDI) shows the mixed nature of popular sentiment among Iraqis. Overall, respondents viewed the security situation as improving (62%), but felt that corruption (58%) and the electricity supply (51%) were getting worse. Further, despite positive macroeconomic trends, 56% described Iraq's economy as weak, citing lack of jobs (63%) and poor public services (47%) as their two top concerns.⁴⁶

Almost three-quarters (71%) of respondents believe that democracy “will likely” have a positive

FIGURE 1.3
COI, KEY INDICATORS, 1/1/2011–5/31/2011



Source: GOI, COI, “The Most Important Indicators for 2011,” 6/1/2011, www.nazaha.iq/pdf_up/300/The%20most%20important%20indicators%20for%202011.pdf, accessed 7/10/2011.

effect on their quality of life—someday. However, other data suggests that this effect has yet to be felt. Iraqis are split on whether their country is currently a “real democracy”—42% believing that it is and 39% stating that it is not. Moreover, 49% believe that the overall situation in Iraq is deteriorating (a 5% increase from the previous survey conducted in November 2010), while 42% believe the country is on the right track. The main demographic groups that feel conditions are getting worse are Sunni Arabs (71%) and young males under the age of 35 (54%)—two groups that played significant roles in the worst days of the insurgency.⁴⁷

Overall, respondents viewed the security situation as improving, but felt that corruption and the electricity supply were getting worse.

SIGIR OVERSIGHT

Audits

This quarter, SIGIR published six audit reports:

- DoD Management of Iraq Commander's Emergency Response Program (I-CERP).** The I-CERP was a joint U.S.-Iraqi program whereby the U.S. military implemented reconstruction projects using \$270 million in GOI-provided DFI funds. SIGIR's review, however, found that USF-I's management of the I-CERP led to U.S. funds being used instead of I-CERP in some cases. At present, \$24.4 million in I-CERP funds remain that could be used to pay for planned or ongoing reconstruction projects. SIGIR recommended that USF-I identify planned CERP projects that could be funded with I-CERP and, where appropriate and feasible, use I-CERP funds to pay for these projects—allowing U.S. funds to be put to better use elsewhere.
- Plans for Monitoring Serious Incidents Involving PSCs once U.S. Military Forces Leave Iraq.** SIGIR found that the system for reporting and investigating serious incidents involving U.S. government PSCs has changed little since SIGIR's 2009 report on this issue. Moreover, DoD's system is projected to remain unchanged through the end of 2011. The system's future is less certain as responsibilities for monitoring the activities of DoD PSCs have not been fully determined and may be disestablished even though U.S.-funded PSCs will continue to support DoD and DoS organizations and the U.S. Agency for International Development. SIGIR could not determine DoS' plans for its PSCs that currently report serious security incidents using DoD's system because DoS would not provide SIGIR with that information.
- U.S. Government Oversight of Anham, LLC, and Its Subcontracting Procedures.** This report examined subcontracts associated with a reconstruction and logistics contract awarded to Anham. The contract was funded by both the

SIGIR's review found significant weaknesses in the government's oversight of Anham's business systems and other contract administration functions.



Anham, through a subcontractor, billed \$20,000 for installation of a "plug and play" voice system.

ISFF (\$91.7 million) and Army Operations and Maintenance Fund (\$28.5 million). At its conclusion, the contract had obligations of approximately \$119.2 million, with Anham subcontractors providing at least \$55 million of supplies and services. SIGIR's review found significant weaknesses in the government's oversight of Anham's business systems and other contract administration functions that left the government at significant risk of paying unreasonable costs. For example, the Defense Contract Audit Agency (DCAA) did not review Anham's estimating system and found weaknesses in its billing system. Further, the Defense Contract Management Agency (DCMA) recommended approval of Anham's purchasing system despite identifying significant gaps in documentation on the degree of price competition obtained.

SIGIR also determined that contract oversight by the contracting officer's representatives (CORs) was weak. SIGIR also conducted a limited incurred-cost review of Anham and questioned almost 39% of the costs (\$4.4 million) reviewed. SIGIR questioned whether these costs were fair or reasonable because of questionable competition practices, inappropriate bundling of subcontractor items, and close working relationships—or possible ownership affiliations—between Anham and certain subcontractors. As a result of the multiple problems identified in this report, SIGIR is questioning

all of the costs on this contract, \$113.4 million, and recommends that the U.S. military initiate a systematic review of billing practices on all Anham contracts in Iraq and Afghanistan. Currently, Anham holds about \$3.9 billion in U.S. government contracts.

- DoD Use of FY 2011 CERP Funds.** The CERP's purpose is to enable U.S. military commanders to respond to urgent humanitarian relief and reconstruction requirements by funding programs and projects that will immediately assist the Iraqi people. However, SIGIR's review determined that many of the capacity-development projects undertaken with FY 2011 CERP funds do not appear related to DoD's counterinsurgency mission. SIGIR also found that DoS personnel are often involved in planning and implementing CERP projects, raising questions about whether the CERP has evolved into another U.S. development program similar to those run by the U.S. Agency for International Development (USAID) and DoS. Additionally, SIGIR recommended that DoD take steps to improve CERP performance metrics. Recognizing the need for improved metrics, DoD stated that it is working on developing better metrics to assess more accurately the impact of CERP projects on a community.
- DoD Oversight of Theater-wide Internal Security Services (TWISS) Contracts.** This audit reviewed DoD oversight of five contracts to PSCs, finding that the CORs charged with monitoring the TWISS contracts often received insufficient training to carry out their mission. Of the CORs surveyed by SIGIR, 40% said the training they received did not prepare them for their duties, and 25% said they lack sufficient time to conduct effective oversight. In addition, DCMA, which appoints and trains CORs, does not provide CORs or their rating officers with regular written feedback on their performance. SIGIR also determined that CORs are not completing, nor is DCMA maintaining, all monthly checklists that should be used to monitor contractor compliance with the terms of the task order.

- Status of SIGIR Recommendations to DoS.** The second in a series reviewing agency actions on SIGIR recommendations, this report reviewed the status of recommendations made to DoS. In early July 2011, DoS provided SIGIR with a report stating that it has closed 38 of the 45 recommendations. SIGIR closed 13 recommendations based on this information in the report, but DoS provided insufficient information for SIGIR to close the other 25. SIGIR also found that DoS has a follow-up process and tracking system for audit reports and recommendations and has agreed to use that process for SIGIR reports.

Since 2004, SIGIR has issued 194 audits. For more on this quarter's audits, see Section 5 of this Quarterly Report.

Investigations

As of July 15, SIGIR's investigative work has resulted in 35 arrests, 64 indictments, 54 convictions, and more than \$153.9 million in court-ordered monetary penalties.

On April 22, 2011, the United States settled a whistleblower lawsuit against DynCorp International LLC and its subcontractor, The Sandi Group (TSG). The suit alleged that DynCorp and TSG submitted or caused to be submitted false claims for payment under DynCorp's police-training contract with DoS. Under the terms of the settlement, DynCorp agreed to pay the United States \$7.7 million to resolve allegations that it submitted inflated claims for the construction of base camps at various locations in Iraq. TSG agreed to pay just more than \$1 million to resolve allegations that it sought reimbursement from the U.S. government for danger pay that it falsely claimed to have paid its employees working in Iraq.

Other notable investigative accomplishments this quarter included:

- On May 11, 2011, Charles Bowie, a retired U.S. Army major, pled guilty to one felony count for his role in a wide-ranging contract-fraud scheme involving former U.S. Army Major John

DynCorp agreed to pay the United States \$7.7 million to resolve allegations that it submitted inflated claims for the construction of base camps at various locations in Iraq.

Cockerham and several other military and civilian officials. Bowie admitted to receiving about \$100,000 from a contractor in exchange for the award of a bottled-water contract. Bowie faces a maximum of 10 years in prison and has agreed to pay \$400,000 in restitution.

- In a related case, Derrick Shoemake, a former U.S. Army major, pled guilty to two counts of bribery on June 13. While serving as a COR in Kuwait, Shoemake accepted approximately \$250,000 from two contractors for improperly assisting them with contracts for the delivery of bottled water to U.S. troops serving in Iraq and Afghanistan. He faces up to 15 years in prison and has agreed to repay \$250,000.
- On June 21, an 11-count indictment was unsealed in a West Virginia federal court charging a U.S. Army sergeant first class and his associate, a former U.S. Army master sergeant, for their alleged roles in a bribery and money-laundering scheme. The indictment alleges that the sergeant, a senior procurement specialist who served in Kuwait during 2005–2006, and two former U.S. Army majors awarded contracts and improperly disclosed information to two contracting firms. According to the indictment, as a result of the actions taken by the sergeant and the two majors,

The cash was then allegedly stolen, concealed inside a stuffed toy animal, and mailed back to the United States.

these firms received nearly \$25 million worth of business. In exchange, the sergeant and the two majors allegedly received cash, airplane tickets, and numerous other items of value.

- On June 28, Robert Nelson, a former U.S. Army sergeant first class, pled guilty to conspiring to steal U.S. Army equipment from a base in Mosul. While serving there in 2008, Nelson agreed with a U.S. Army translator to steal eight generators that the translator later sold on the black market. Nelson admitted receiving \$44,830 from this scheme. At sentencing, Nelson faces up to five years in prison, a maximum fine of \$250,000, and up to three years of supervised release following a prison term.
- On July 7, 2011, a former U.S. Army sergeant was arrested and charged with receiving more than \$12,000 in stolen cash that was allegedly mailed to him from Iraq by another former U.S. Army sergeant. The funds were supposed to have been used to pay a local contractor who never showed up to collect his fee. The cash was then allegedly stolen, concealed inside a stuffed toy animal, and mailed back to the United States.

For additional information on SIGIR investigations, see Section 5 of this Quarterly Report. ♦

QUICK FACTS

\$ Reconstruction Funding

Cumulative Funding
\$ Billions

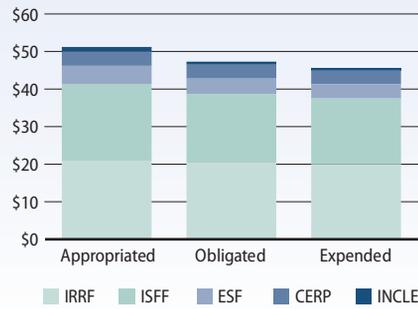


Recent Funding

FY 2011 U.S. Funding	2011 Iraqi Capital Budget	2011 International Commitments
\$3.70 B	\$25.70 B	\$471 M

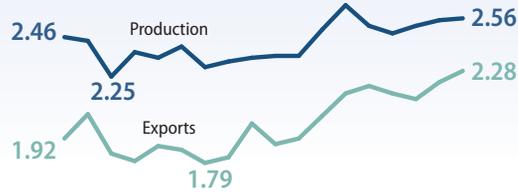
Major U.S. Funds

\$ Billions



Oil

MBPD, by Month (1/2010–6/2011)



Average Price per Barrel, by Week (1/2010–6/2011)



Electricity

Supply vs. Demand, by Quarter (1/1/2010–6/30/2011)
MW

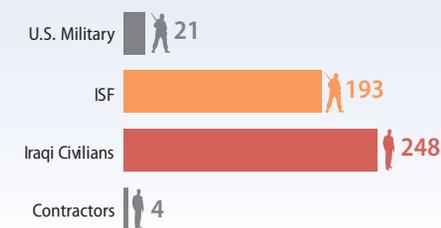


Security

Average Daily Security Incidents, by week (1/2010–6/2011)



Persons Killed (4/1/2011–6/30/2011)



Note: ISF and Iraqi civilian data is through June 19, 2011, and U.S. military and contractor data is through June 30, 2011. Contractor number represents personnel working under contract for the U.S. government who died as a result of both combat and non-combat incidents.