



MESSAGE FROM THE SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

I am pleased to present this 31st Quarterly Report to the U.S. Congress and the Secretaries of State and Defense.

Sixty days from now, the mission of the U.S. Forces-Iraq will come to an end. This historic moment will close the books on nearly nine years of U.S. military engagement in Iraq. This moment also inaugurates a new phase in the strategic partnership between the United States and Iraq. Substantial U.S. financial assistance will continue, albeit at levels lower than in previous years. But a more cooperative and collaborative aspect will eventually embrace this crucially important relationship as the State Department's plans and programs develop.

The Iraq that the U.S. military leaves is fundamentally changed from the foundering state that existed in the spring of 2003. Iraq's economy, then at a stand-still, is expected to grow at a robust 9.6% this year; inflation is low; the national budget is 40% larger than it was three years ago; and oil production in 2011 will almost certainly set a post-2003 record. But Iraq still suffers from daily attacks, with Iraqi Security Forces personnel and senior Government of Iraq leaders regularly subject to assassination attempts. This painful reality underscores the continuing need for Iraq to strengthen its military, police, and rule-of-law institutions. Section 1 of this Report features detailed perspectives on the security situation drawn from recent interviews with top officials at the Ministries of Interior and Defense.

There were political clashes within the GOI this quarter over competing versions of the long-awaited new hydrocarbon law, a contentious issue that fundamentally divides the GOI and the Kurdistan Regional Government (KRG). This Report's Focus on the Kurdistan Region provides details on what has been a largely successful reconstruction program in that part of northern Iraq, notwithstanding the unsettling issues that currently daunt relations between the GOI and KRG.

SIGIR's Audits Directorate surpassed the 200-report milestone this quarter. Three notable audits stand out from the seven summarized in Section 5 of this Report:

- **Development Fund for Iraq (DFI).** This audit accounted for the disposition of most of the \$6.6 billion that remained in DFI accounts at the time the Coalition Provisional Authority dissolved in June 2004. SIGIR found that most of the money was held at the U.S. Federal Reserve Bank of New York and the Central Bank of Iraq. Two future audits will examine the use of billions more in DFI funds by the Department of Defense.
- **Falluja Waste Water Treatment System.** In assessing the most important project in the strategically crucial Anbar province, SIGIR found that outcomes fell far below the project's initial goals. The unstable security environment in Anbar, poor planning, and inadequate funding and oversight led to significant cost overruns and lengthy construction delays; and many workers lost their lives.
- **Police Development Program.** SIGIR's review of this important police training program in Iraq makes a number of suggestions for improvement, including developing a baseline assessment of the capabilities of the Iraqi police, preparing a more detailed plan to deliver assistance, and obtaining specific "buy-in" from the GOI.

SIGIR's investigators were exceptionally productive this quarter as well. Their work led to:

- the sentencing of a retired U.S. Army colonel to one year in prison for accepting bribes
- 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 that were later sold on the 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 U.S. Army Corps of Engineers civilian employee to conspiring to receive bribes from Iraqi contractors

In the coming weeks, I will embark on my 31st trip to Iraq. While there, I will present the findings of SIGIR's DFI audit to a panel of senior GOI officials. As SIGIR's results demonstrate, the U.S. reconstruction program still requires robust oversight, a responsibility that I and my professional staff will continue to carry out through 2012.

Respectfully submitted,

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

Stuart W. Bowen, Jr.