



CORRUPTION AND CONTROVERSY

On October 16, 2012, the Council of Ministers dismissed Central Bank of Iraq (CBI) Governor Sinan al-Shabibi, replacing him, on an interim basis, with the President of the Board of Supreme Audit, Dr. Abdul Basit Turki al-Sae'ed. The decision to replace Dr. al-Shabibi came amid concerns that the CBI's role in supervising the country's banking system was compromised and that corruption was growing to unprecedented levels. Dr. al-Shabibi was said to be under investigation for possible misconduct in connection with daily currency auctions and other allegedly illegal activities at the CBI.

Sectarian strife intensified in September, exacerbated by the guilty verdict and death sentence handed down in a case against Sunni Vice President Tariq al-Hashimi, who was tried in absentia. Announcement of the verdict and sentence on September 9 triggered a day of violence that claimed more than 100 lives. September reportedly was the most violent month in over two years.

Other significant events this quarter included:

GOI-KRG Relations. The ongoing dispute over control of oil aggravated long-simmering tensions between the Kurdistan Regional Government (KRG) and the Government of Iraq (GOI). Other signs of tension included sharp rhetorical exchanges and a brief standoff between *Peshmerga* and Iraqi Army units near the Syrian border. On a positive note, nearly six months after the KRG halted crude oil exports to protest a lack of reimbursement for oil-field development costs, the GOI and KRG reached an agreement that restarted the flow of northern exports.

Regional Unrest. Intensified fighting in Syria sent new waves of refugees into Iraq, heightening concerns that Sunni militants supporting the overthrow of the regime in Damascus might awaken latent Sunni resistance elements in Iraq to resume their fight against the government in Baghdad. Further, allegations that Iran was supplying Syria's government with arms via Iraqi airspace complicated GOI ties with both Iran and the United States. The U.S. government has pressured Iraq to not permit such overflights. Meanwhile, Turkey's diplomatic overtures to the KRG strained GOI ties with its leading trading partner.



Syrian refugees arrive in Iraq at al-Qaim in Anbar province after the crossing was opened on July 24. (Reuters photo)

Concerns about Corruption. Both Prime Minister Nuri al-Maliki and Chief Justice Medhat al-Mahmoud noted in meetings with SIGIR that, although corruption is a serious problem in Iraq, the degree to which it affected government operations was exaggerated. In other meetings, those actively fighting the problem offered a more dour perspective, saying that corruption had become “an institution” in Iraq.

Energy Outputs. Iraq overtook Iran this quarter as the second-largest OPEC producer of crude oil. Iraq's oil output topped 3.0 million barrels per day (MBPD), and exports reached almost 2.6 MBPD. Both were post-1990 records. Electricity supply on the national grid surged to a new high this quarter, averaging about 7,300 megawatts (MW). This was a 1,000 MW increase over the average supply last quarter and almost 1,400 MW more than the same quarter last year—the largest quarterly and yearly increases ever achieved.

U.S. Mission in Iraq

On September 10, President Barack Obama nominated Ambassador Robert Stephen Beecroft to be U.S. Ambassador to Iraq. After quick confirmation by the U.S. Senate, Ambassador Beecroft presented his credentials to Foreign Minister Hoshyar Zebari on October 14. A career Foreign Service Officer, Ambassador Beecroft has worked in Iraq since July 2011, first as Deputy Chief of Mission and then as Chargé d'affaires.

Police Development Program

On October 1, 2012, the Department of State (DoS) Bureau of International Narcotics and Law Enforcement Affairs (INL)

launched a revised Police Development Program, known as PDP 2. INL's original plan envisioned a program with 350 advisors; however, in response to SIGIR audits, the findings of a six-month program review, and the desires of the GOI's Ministry of Interior, the program wisely was scaled down to a staff of about 36, saving substantial taxpayer dollars in the process. The PDP 2 advisors will be evenly divided between Baghdad and Erbil.

SIGIR Lessons Learned

This month, SIGIR published its eighth lessons learned report, entitled *Iraq Reconstruction: Lessons from Auditing U.S.-funded Stabilization and Reconstruction Activities*. A key aspect of SIGIR's approach to auditing in Iraq has been the capturing of lessons learned from the reconstruction experience that are applicable to other contingencies, including Afghanistan. This new SIGIR report describes how the weaknesses in the rebuilding effort's planning and execution reduced program effectiveness and increased the potential for fraud, waste, and abuse. The report concludes that if actions are not taken to forestall their recurrence, negative outcomes could resurface in future similar operations.

SIGIR Audits

Since 2004, SIGIR has issued 217 audit reports, 3 of which were issued this quarter. They reviewed:

- **U.S. management of efforts to improve the rule of law in Iraq.** This audit examined two INL-managed programs: a \$209 million program to develop and establish an effective corrections system, reform pretrial detention programs, and modernize the prisons; and a \$198 million program to develop the Iraqi judiciary system, establish security for the judicial sector, and reform court administration. SIGIR found empirical evidence of improvements in the corrections systems but no written analyses of program outcomes to reform the judiciary. SIGIR concluded that lasting institutional reform of the judicial system—and the entire rule-of-law system—is a generational undertaking, requiring sustained GOI commitment.
- **Final review of DoS management of Quick Response Funds in 2007 and 2008.** This is the third report on the management of a \$258 million program that provided Provincial Reconstruction Teams a flexible means to pay for local projects that supported community-based leaders and Iraqi organizations and institutions to improve access to public services, employment, and education. This report demonstrated that requisite internal controls must be included in the design of cash-transaction assistance programs to ensure that the funds are not vulnerable to fraud, waste, and abuse.

- **Management of the Development Fund for Iraq (DFI).** In this latest in a series of reports addressing U.S. management of DFI monies used for reconstruction projects, SIGIR examined U.S. Army Corps of Engineers (USACE) management of the \$2.5 billion in DFI it received for projects in 2003–2004. SIGIR found that USACE did not establish effective internal controls to document that goods and services paid for using DFI funds were received.

SIGIR Investigations

Since 2004, the work of SIGIR's Investigations Directorate has produced 97 indictments, 75 convictions, and more than \$180 million in court-ordered fines, forfeitures, and other monetary penalties. This quarter, significant investigative accomplishments included:

- the guilty plea of the former chief of party in Baghdad for the United States Institute of Peace to one count of conspiring to commit wire fraud. A co-conspirator was arrested on July 6, 2012, by British law-enforcement authorities and is currently awaiting extradition to the United States to face charges.
- the guilty plea of a former co-owner of a U.S. civilian contracting company to one count of providing false statements to a government agency in connection with Iraq reconstruction government contracts that involved the rental of two villas and purchase of armored vehicles
- the guilty plea of a retired U.S. Army master sergeant to a charge of one count of conspiracy to accept illegal gratuities for helping Iraqi contractors gain U.S. government contracts and then purchasing U.S. postal money orders with the illegal proceeds
- the arrest of a former U.S. Army captain following the return of a nine-count indictment alleging wire fraud, theft of government property, money laundering, and false statements in connection with his military service in Iraq
- the sentencing of a prime contractor's program manager to 27 months in prison, 3 years of supervised release, and restitution of more than \$1.1 million. The program's deputy manager was sentenced to 15 months in prison, 3 years of supervised release, and restitution and forfeiture of more than \$300,000 for the same offenses. A British citizen who paid nearly \$1 million in unlawful bribes awaits sentencing after pleading guilty to conspiracy, kickbacks, wire fraud, and mail fraud.
- the sentencing of a civilian contractor to time served (9 months), 2 years of supervised release, and fine or forfeiture of more than \$815,000 for receiving hundreds of thousands of dollars in illegal kickbacks from subcontractors
- the charging of a U.S. Army captain with conspiracy for taking cash payments and jewelry valued at \$45,000 from two Iraqi contractors in exchange for official acts performed in connection with Iraq contracting

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