



MESSAGE FROM THE SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

I am pleased to present our 35th Quarterly Report to the U.S. Congress and the Secretaries of State and Defense.

On October 16, 2012, the Council of Ministers dismissed Central Bank of Iraq (CBI) Governor Sinan al-Shabibi, amid allegations of corruption leveled against him. This peremptory and constitutionally questionable move occurred as an audit of the CBI's foreign currency auctions surfaced. The audit purportedly found that perhaps 80% of the \$1 billion purchased at weekly CBI-managed auctions was tied to illegal transactions, with the funds subject to those transactions potentially lost abroad to money laundering. This development is symptomatic of a troubled year in Iraq, evidenced by increasing corruption, resurgent violence, deepening ethnosectarian strains, growing apprehensions about the conflict in Syria, and widening divides within the coalition government.

Despite these daunting challenges, Iraq achieved record electricity production this quarter (averaging about 7,300 megawatts), the highest crude oil output since 1990 (more than 3 million barrels per day), and a post-1990 record volume of crude oil exports (almost 2.6 million barrels per day). Moreover, the country's economic growth rate remained at above 10%. The polarity between these evident economic successes and the constraints imposed by a variety of political and security impediments continues to limit Iraq's democratic progress.

On September 10, President Barack Obama nominated Ambassador Robert Stephen Beecroft, a career Foreign Service Officer and deeply experienced Middle East diplomat, to be the next Ambassador to Iraq. After quick confirmation by the U.S. Senate, Ambassador Beecroft presented his credentials to Foreign Minister Hoshiyar Zebari on October 14. The new Ambassador has worked in Iraq since July 2011, first as Deputy Chief of Mission and, since June 2012, as Chargé d'affaires.

On October 1, 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 involving 350 advisors. In response to SIGIR audits, DoS's six-month program review, and the expressed desires of the Ministry of Interior, the program was wisely scaled down, saving substantial taxpayer dollars in the process. PDP 2 now requires 36 advisors, divided evenly between Baghdad and Erbil.

SIGIR published its eighth lessons learned report this quarter, entitled *Iraq Reconstruction: Lessons from Auditing U.S.-funded Stabilization and Reconstruction Activities*. A key aspect of SIGIR's audit work has focused on capturing lessons learned from the Iraq rebuilding experience applicable to other contingencies, including Afghanistan. The lessons in this latest report echo those uncovered in previous work, including the need to reform the U.S. approach to stabilization and reconstruction operations (SROs). A bill to implement those reforms is pending in the Congress.

SIGIR released three audits this quarter:

- **U.S. management of efforts to improve the rule of law in Iraq.** This audit examined INL, Department of Justice, and U.S. Agency for International Development management of a \$209 million program to establish an effective corrections system, reform pretrial detention programs, and modernize the prisons, and another \$198 million program to develop the Iraqi judiciary, establish security, and reform court administration. SIGIR concluded that lasting institutional reform of the judicial system—and the entire rule-of-law system—requires a long-term, sustained commitment by the Iraqi government.

- **Final review of DoS's management of Quick Response Funds in 2007 and 2008.** This is the third report on DoS management of the \$258 million program initiated to provide Provincial Reconstruction Teams in Iraq with a flexible means to pay for local projects. SIGIR concluded that effective internal controls, which were missing at the start of this program, must be included in the design of any cash-transaction assistance program implemented during an SRO.
- **Management of the Development Fund for Iraq (DFI).** SIGIR examined the U.S. Army Corps of Engineers (USACE) management of the \$2.5 billion in DFI monies it received in 2003–2004, finding that USACE failed to establish effective internal controls to document that goods and services paid for using DFI funds were received.

This quarter's 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, and the arrest of a co-conspirator in July by British law-enforcement authorities
- 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 one count of conspiracy to accept illegal gratuities for helping Iraqi contractors gain U.S. government contracts, then purchasing U.S. postal money orders with the illegal proceeds and mailing them back to the United States
- the arrest by SIGIR and Defense Criminal Investigative Service special agents of a former U.S. Army captain following the return of an indictment alleging wire fraud, theft of government property, money laundering, and false statements
- 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 for conspiring to commit kickbacks, wire fraud, and mail fraud, and for filing false tax returns; and the sentencing of the program's deputy manager to 15 months in prison, 3 years of supervised release, and restitution and forfeiture of more than \$300,000 for the same offenses
- 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 in Iraq
- the charging of a U.S. Army captain with conspiracy by taking cash payments and jewelry valued at \$45,000 from two Iraqi contractors in exchange for official acts performed in connection with the contracting process

SIGIR's final reports will be issued in January 2013, including three large-scope audits looking at the Commander's Emergency Response Program, a sector-by-sector analysis of how U.S. rebuilding funds were spent, and a capping DFI report. We also plan to issue *Final Lessons*, a concluding review of what was learned from the Iraq relief and reconstruction program, and a final special report on the many projects implemented in the Rusafa district of Baghdad, where substantial rebuilding monies were expended.

I commend my diligent and effective staff for their continuing commitment to completing our mission.

Respectfully submitted,



Stuart W. Bowen, Jr.