

## Chapter 9

### Corruption, Fraud and Gross Malfeasance

*“Everything imaginable has been undertaken in every sector.”*

– US Major General William McCoy<sup>1</sup>

Soon after capturing Baghdad, US commanders and political leaders announced a massive reconstruction program to restore Iraq and bring the country to a new level of prosperity. President Bush even compared the effort to the Marshall Plan in Europe after the Second World War. Washington spent billions of dollars of Iraqi oil revenue – and billions in US aid grants – to finance thousands of projects. But fraud, corruption, and theft wrecked these programs and money was increasingly diverted into shadowy “security” operations. Malfeasance began in the earliest days under the US-run Coalition Provisional Authority. It has continued ever since, while US officials and advisors have looked the other way. Corruption has revealed the greed of the occupiers and the deeply flawed governing system they put in place. Few wrongdoers have been held accountable, corruption appears to grow constantly, and Iraqi citizens suffer the consequences.<sup>2</sup>

#### The Development Fund for Iraq

On May 22, 2003, just three months after the invasion, the UN Security Council established the Development Fund for Iraq (DFI), to manage Iraq’s future oil revenue, as well as remaining monies in the UN’s Oil-for-Food account. The Fund was handed over to the US-dominated Coalition Provisional Authority (CPA), but the Council required that it be “managed in a transparent manner” so as “to meet the humanitarian needs of the Iraqi people.”<sup>3</sup> The Council also set up the International Advisory and Monitoring Board (IAMB) to oversee the Fund and make it accountable.

At the beginning, the CPA completely controlled the Fund.<sup>4</sup> In just thirteen months, CPA officials disbursed or obligated \$19.6 billion – more than 90% of all DFI resources then available.<sup>5</sup> Auditors later found that of major contracts awarded with DFI monies in 2003, 74% went to US firms, 11% went to UK firms, and just 2% went to Iraqi firms. No less than 60% went to US construction firm Halliburton, under abusive no-bid contracts.<sup>6</sup> Financial records were sloppy or non-existent.<sup>7</sup>

When the CPA was finally dissolved on June 28, 2004, management of the Development Fund for Iraq passed to the Iraqi Interim Government and its successors.<sup>8</sup> DFI spending then grew still more murky. The Iraqi Ministry of Finance did not establish any accounting unit for the DFI until February 2005 and by the end of 2006 there was still no separate account to allow proper oversight of DFI monies.<sup>9</sup> At every phase, US advisors had great and even decisive influence within the Ministry of Finance as well as the spending ministries. US assistance programs claimed to address “capacity building,” “audit con-

trols,” “good governance,” “vetting and reforming personnel roles” and the like.<sup>10</sup> Yet corruption and financial malfeasance in Iraq steadily worsened.<sup>11</sup>

### **Blocking and Weakening the Security Council’s Oversight Board**

The International Advisory and Monitoring Board, set up by the Security Council, seemed a potential instrument for accountability. But the United States did everything possible to block and weaken the Board’s authority. Members of the Board – the World Bank, the IMF, the Arab Development Bank and the United Nations – had to negotiate “terms of reference” with the CPA. Washington’s demands caused months of diplomatic wrangling and delays.<sup>12</sup> Though the parties finally agreed on the ground rules in October 2003, the Board did not hold its first meeting until December and it did not sign an audit contract until April 2004. Ten months had passed and oversight had not even begun.<sup>13</sup>

Due to US insistence, the Board lacked mandatory access to financial documents. It had only limited powers to investigate and no enforcement or prosecutorial powers.<sup>14</sup> Further, the Board has had no regular, full-time staff, and its budget was so inadequate it could do little more than hire accountants.<sup>15</sup> The Board “monitors” oil sales and the inflow and outflow of money from the DFI, but it cannot ensure accountability. “We have no authority to require actions arising from our work,” admitted IAMB Chairman Jean-Pierre Halbwachs at a press conference in late 2005.<sup>16</sup> Another member acknowledged that the Board was not set up to discover fraud and in fact had not found a single case of it.<sup>17</sup>

When the IAMB audit team finally arrived in Baghdad in the spring of 2004, it got a frosty reception. Auditors spent weeks trying to get passes to the “Green Zone” where all CPA records were held. They had even more difficulty gaining access to CPA and Ministry records. When audits and accounts were eventually turned over, they were heavily censored and nearly unusable.<sup>18</sup> The Board could not issue its first audit report until mid-July – fourteen months after the oversight process had first been authorized. By then, the CPA was already dissolved.

The Board has complained repeatedly that US and Iraqi authorities have not kept adequate records, that basic fund transfers cannot be reconciled, and that the authorities have been uncooperative. It has also complained about faulty bidding procedures, dubious employment records, and especially oil sales without metering.<sup>19</sup> Iraq Revenue Watch, a US-based NGO, has kept an eye on the process and given it visibility with the press. But the Security Council has turned a blind eye and it has taken no corrective action to protect “the humanitarian needs of the Iraqi people.”

### **Reconstruction Funds from the United States**

The United States government has spent large sums for “reconstruction” in Iraq. In 2003, the Congress voted appropriations of about \$21 billion to create the Iraq Reconstruction and Rehabilitation Fund (IRRF).<sup>20</sup> The US also set up the Iraq Security Forces Fund (ISFF), financed through the Department of Defense, totaling \$11 billion.<sup>21</sup> Programs including the Commanders’ Emergency Response Program (CERP) have added \$6 billion

more, bringing the overall figure to \$38 billion.<sup>22</sup> From the beginning, US authorities blurred the distinction between spending for the reconstruction of Iraq's infrastructure and spending for military programs. Most of the monies originally authorized have now been spent and little more outside the security sector is likely to be appropriated.<sup>23</sup>

Stuart Bowen, the Special Inspector General for Iraq Reconstruction (SIGIR), has monitored the IRRF since October 2004 (before that, he served as Inspector General of the CPA). Bowen has enjoyed compulsory access to financial records and a mandate for rooting out corruption. A protégé of President Bush, Bowen has grown steadily more critical and embarrassing to the White House. With a staff of 55 auditors, inspectors and investigators (2006), he has revealed contract scandals, giving repeated testimony to Congress and referred cases for criminal prosecution. The Bush administration tried (unsuccessfully) to shut down Bowen's office in the fall of 2006.<sup>24</sup> It is tempting to see the Inspector General as a fearless advocate of honest government. But in fact, Bowen has had to work within a carefully-limited mandate and under heavy political pressure. Despite many accomplishments, he has not brought the biggest contractors to account. Nor has he investigated the role of high officials in the Bush administration or uncovered the scandals hidden in the shadowy "security sector" spending.

### **Disappearing Oil and the Meter Mystery**

Billions of dollars in Iraq's vital oil production have been stolen and smuggled out of the country since March 2003, with astonishingly little action by Coalition authorities or the Iraqi government.<sup>25</sup> Smugglers have also re-exported or sold stolen refined products like gasoline and diesel fuel. The government imports these products to make up for refinery shortages and sells them at highly-subsidized rates. Though insurgent attacks take their toll, most oil loss is apparently due to corrupt officials who control the oil system. US officials could possibly be involved alongside the more obvious Iraqis. The smugglers' job has been simplified by the absence of meters – measuring devices to measure oil flows. Usually, oil operations are extensively metered, from well head to refineries to export terminals. But Iraq has had no working meters, making it virtually impossible to monitor the flow of crude or refined products or to trace the location of smuggling operations and corrupt practices.

"It's like a supermarket without a cashier," comments Mike Morris, an oil industry expert who used to work for the State Department in Baghdad.<sup>26</sup> "There is no metering [at the export terminal]. And there's no metering at the well heads either. There is no metering at any of the major pipeline junctions."<sup>27</sup> Morris estimates that "between 200,000 and 500,000 barrels a day" are unaccounted for.<sup>28</sup>

The CPA could have installed metering promptly, but strangely did not. Bremer and his team were advised of the metering problem, but they repeatedly postponed action.<sup>29</sup> When the IAMB pointed to the lapse, neither the Iraqi State Oil Marketing Organization nor US authorities could give a satisfactory explanation.<sup>30</sup> IAMB accountants noted that there were not even working meters on the export loading platforms, making it impossible to know the volume or value of Iraq's crude exports.<sup>31</sup> Officials have apparently been

getting kickbacks from loading of tankers with hundreds of thousands of barrels of oil not included in the bill of lading.

Iraq's Oil Ministry reports that hundreds of small ships sail from the Shatt al-Arab with smuggled Iraqi crude or refined product.<sup>32</sup> These smugglers operate right under the nose of the US Navy and directly within the operational zone of the UK forces. The Oil Ministry suggests that in 2005, the smuggling of refined product, including gasoline and diesel fuel, cost the government \$800 million.<sup>33</sup> But the loss of crude is far more expensive. *Platt's Oilgram*, an industry newsletter, estimates the loss at \$3 billion per year.<sup>34</sup> The Iraq Study Group suggested that in 2006 the rate of theft might have run as high as 180 million barrels, but a more recent report by the US Government Accountability Office suggests a high-end figure of 110 million barrels annually, with a financial loss that can be calculated at about \$5.5 billion.<sup>35</sup>

The metering contract story remains mysterious. IAMB Chairman Halbwachs told the Security Council in July 2004 that meters would soon be installed in the loading platforms. Contracts went first to Halliburton and then to Parsons. Work did not finally begin until March 2006,<sup>36</sup> but Parsons was later responsible for serious contract delays.<sup>37</sup> The Corps of Engineers insists that the Basra Oil Terminal may finally get meters in mid-2007,<sup>38</sup> but the rest of Iraq's vast oil production, transport, refining and storage system remains meterless and with no immediate plans to install them.<sup>39</sup>

### **Airlift of Banknotes**

Occupation authorities have been similarly lax in their management and oversight of Iraq's oil revenues. Using a highly irregular and corruption-prone method, Bremer and the CPA withdrew a total of \$12 billion in the form of US banknotes from the DFI account in the New York Federal Reserve Bank. The cash was then flown to Baghdad aboard US air force C-130 Hercules cargo planes, for spending on reconstruction as well as administration and services.<sup>40</sup>

Cash outlays on this scale are notoriously difficult to verify and they make proper audit controls virtually impossible. In the very first days of the occupation, extensive use of cash was perhaps inevitable. But as the months passed, the CPA could have established proper banking channels, oversight systems, and audit controls. Instead, the CPA steadily *increased* its currency disbursements. In the final week of CPA authority, officials ordered more than \$4 billion in banknotes to be shipped from New York to Baghdad to meet a last-minute burst of spending.<sup>41</sup> On June 24, 2004, a currency airlift worth \$2.4 billion was the largest cash disbursement in the history of the US Federal Reserve.<sup>42</sup>

Over the course of thirteen months between May 2003 and June 2004, these currency shipments totaled 363 tons of newly-printed banknotes, with 281 million individual bills.<sup>43</sup> Frank Willis, a former senior official with the CPA commented that: "Iraq was awash in cash – in dollar bills. Piles and piles of money. We played football with some of the bricks of \$100 bills before delivery. It was a wild-west crazy atmosphere, the likes of which none of us had ever experienced."<sup>44</sup>

After the currency arrived in Baghdad, the CPA kept scant records of who got paid, still less for what purpose. Though the CPA's own regulations called for a public accounting firm to "ensure that the Fund [DFI] is administered and used in a transparent manner," investigations later discovered that the small San Diego firm hired for this purpose was not in the accounting business and never reviewed the CPA's financial records or controls.<sup>45</sup>

The CPA had to store huge sums in cash, an invitation to pilferage in the absence of secure vaults and without well-established procedures for handling the money. Paul Bremer, the senior US official, kept a cash fund of nearly \$600 million for which there was little or no paperwork. \$200 million was reportedly kept in a single room in Saddam's former Republican Palace inside the Green Zone where Bremer's office was located.<sup>46</sup>

Audits revealed that a "contracting officer kept approximately \$2 million in cash in a safe in his office bathroom" and "a paying agent kept approximately \$678,000 in cash in an unlocked footlocker."<sup>47</sup> An IAMB report notes that in one case \$774,300 was stolen from a division's vault.<sup>48</sup> One contractor received a \$2 million payment in a duffel bag stuffed with shrink-wrapped bundles of US bills and one official was given \$6.75 million in cash and ordered to spend it in one week, before the interim Iraqi government took control.<sup>49</sup>

US authorities handed out millions of dollars in cash in local communities across the country.<sup>50</sup> CPA officials handed stacks of \$100 bills to leaders whose support they wanted and whose intelligence they needed.<sup>51</sup> \$100,000 in cash, nominally for a women's center in al-Hillah, was handed over to a local dignitary who used it to finance his election campaign.<sup>52</sup> In addition to the unaccounted direct spending, the CPA handed over \$8.8 billion to Iraqi ministries during this period, a sum that now cannot be properly accounted for.<sup>53</sup>

Congressman Henry Waxman's investigation into the currency transfers ends in June 2004 with the closure of the CPA.<sup>54</sup> After that time, no one with knowledge is ready to divulge how funds have been transferred from New York to Baghdad. When asked whether planeloads of dollar bills still cross the Atlantic, a spokesperson for the IAMB asserted in early 2007 that the Board "does not know" whether currency or funds wires (or a combination) were in use.<sup>55</sup> It appears that some shipments of US currency have continued. A SIGIR audit in March 2006 found \$7.2 million in cash – mostly in \$100 bills – in a US military command post in Falluja.<sup>56</sup>

### **Gross Performance Failures by the Giant Construction Firms**

The US government awarded many early contracts without competitive bidding ("no-bid") and without specified costs ("cost-plus"). Contractors had a strong incentive to run up their expenses so as to maximize profits.<sup>57</sup> Most contracts went to a few giant firms that had close political ties in Washington. Halliburton, the company that garnered the largest share of contracts, was closely identified with Vice-President Dick Cheney, who

had been the firm's chief executive before taking office. The US Army Corps of Engineers secretly awarded Halliburton a multi-billion-dollar contract to rehabilitate Iraq's oil sector, on a no-bid basis, to specifications the company had itself written. The senior Pentagon procurement officer responsible for the contract tried to object but was overruled.<sup>58</sup>

Even when bidding took place, competition remained a charade. The consulting firm BearingPoint was paid to write the specifications for a contract and then allowed to bid on it. Competitors had only a week to submit their own bids.<sup>59</sup> Generally, the US government abandoned its contracting rules. US agencies exercised little or no oversight. Among the chief beneficiaries, in addition to Halliburton (and its KBR subsidiary), were Bechtel, Fluor, Parsons and a handful of other large US-based engineering companies with longstanding Pentagon ties and strong networks of friends within the administration. Some examples will illustrate the results:

- *Primary Healthcare Centers* were to be a key element of the health sector program, bringing medical services to Iraq's towns and urban neighborhoods. In March 2004, the Parsons Corporation was awarded a \$253 million contract to build 150 local clinics. Two years later, only five of the clinics had been completed while \$186 million of the budget had already been spent.<sup>60</sup> The Army Corps of Engineers, responsible for oversight, had been aware of the shortfalls and done nothing.<sup>61</sup>
- *Basra Children's Hospital*, a flagship project, enjoyed patronage from First Lady Laura Bush and Secretary of State Condoleezza Rice.<sup>62</sup> Bechtel Corporation was awarded a \$50 million contract by USAID in August 2004 with completion set for December 2005.<sup>63</sup> In July 2006, auditors discovered that the project was hopelessly behind schedule and that it would eventually cost \$150-170 million.<sup>64</sup> The US Army Corps of Engineers removed Parsons as contractor, since a dozen other Parsons projects were also flawed, including prisons, fire stations . . . and meters at Basra Oil Terminal.<sup>65</sup>
- *Oil Sector Reconstruction* addressed Iraq's key money-maker, badly run-down after 13 years of sanctions and three wars. Halliburton won a no-bid \$2.4 billion contract to upgrade oilfield facilities, so as to boost exports and gain more revenue. But the company failed to deliver. At a water injection plant at Qarmat Ali, near Basra, powerful new pumps burst aging pipes and the pumps themselves shortly broke down. The ailing plant worked so badly that Iraq's southern oilfields were seriously harmed.<sup>66</sup>
- *Al-Fatah pipeline crossing* was another Halliburton oil project. North of Baghdad, the pipeline crossed the Tigris River on a bridge that had been badly damaged during US bombing in 2003. Halliburton subsidiary KBR was tasked to repair it. But instead of repairing the bridge, estimated to be a \$5 million job, the company insisted on drilling a tunnel under the river, requiring a \$75 million budget. Company engineers ignored warnings of unstable subsoil and rock formations. After

wasting the entire budget, the company halted its work and abandoned the project.<sup>67</sup>

A large number of the most important contracts suffered from gross performance failures. Judging from end-results, the work has produced astoundingly little of lasting benefit to Iraqis.<sup>68</sup>

### **Fraud, Theft and Bribery**

As Paul Bremer and his CPA team doled out hundreds of millions of dollars in cash, smaller companies and individuals saw opportunities for rapid enrichment. Many of these small-timers, sensing that accountability was lax, cash plentiful and rules easy to bend, engaged in fraud, theft, bribery, and other kinds of corruption. "It's like a huge pot of honey that's attracting a lot of flies," said John McCain, Republican senator from Arizona in fall 2003.<sup>69</sup>

Custer Battles, a small US firm, won early contracts for airport security and other services in Baghdad. Its rapid rise ended less than a year later when company principals left behind a computer spreadsheet after a meeting with US government contracting personnel. The spreadsheet revealed that the company was vastly inflating costs in its cost-plus contracts and bilking the US government of at least \$6.5 million.<sup>70</sup> In a March 2006 legal judgment, Custer Battles was found guilty of 37 counts of fraud. The company was found to have set up dummy firms in offshore locations for false billing. It had stolen equipment in Iraq and it had failed to comply with basic contract requirements.<sup>71</sup>

British firm Zeroline won a contract of \$8.48 million in late 2003 for 51 armored vehicles to be used by the Iraqi government. Two other firms, APTx and Alchemie Technology, were also involved. The vehicles were subcontracted to be built in Russia. Though the main contract was paid in full in late 2004, using DFI funds, the vehicles were never delivered.<sup>72</sup>

A number of individuals have been guilty of conspiracy, money laundering, bribery, and other criminal acts. Robert J. Stein, the CPA's Comptroller and Funding Officer for the South Central Region of Iraq was responsible for \$82 million in cash and he handed it out to friendly contractors in exchange for cash, goods and other favors. Little, if any, contract work was done while Stein stole at least \$2 million, took \$1 million in cash bribes and took an additional \$683,000 in jewelry, automobiles, cash and other favors.<sup>73</sup> He was sentenced to nine years in prison in January, 2007.<sup>74</sup> Philip Bloom, a businessman who worked with Stein, bribed a number of US officials, both civilian and military, providing cash payments, jewelry, automobiles, and more. He was sentenced to prison in early 2007.<sup>75</sup>

In a related case, US Army Lieutenant Colonel Bruce D. Hopfengardner admitted to a conspiracy to steal from the reconstruction funds, involving kickbacks, smuggling and sexual favors. On August 25, 2006, he pled guilty to wire fraud and money laundering. Hopfengardner received \$175,000 from Bloom, as well as a fancy automobile, motorcy-

cle, camera, Breitling watch and computer.<sup>76</sup> Three military officers have also been charged with granting contracts in exchange for cash bribes and luxury goods. Colonel Curtis Whiteford, Lieutenant-Colonel Debra Harrison and Lieutenant-Colonel Michael Wheeler were all working as senior contract officers for the CPA in Baghdad. They have also been accused of taking cash directly from CPA funds.<sup>77</sup>

We will never know how many military and civilian personnel were involved in these corrupt acts and how much altogether was stolen, but it is clear that malfeasance was widespread. Cynicism was nearly universal and many felt justified in taking what they could. Colonel Harrison told arresting officers she felt it was her right to take the money.<sup>78</sup> The welfare of ordinary Iraqis clearly counted for very little.

### **“Security” Costs**

Further billions of reconstruction funds were lost through diversions to “security.” As the insurgency grew, contractors budgeted for heavy security costs, devouring millions of dollars in the high-cost protection of building sites, bodyguards for key personnel, protection of building materials en route to the site, expensive armored vehicles and other means to deal with a violent and unstable environment.<sup>79</sup> Private security guards cost as much as \$1,000 per day and security subcontracting firms charge heavy premiums for this kind of work. The Special Inspector General surveyed nine major contractors, finding that their average security outlays were 12.5% of total contract costs, inevitably eating into the sums available for actual project end-results.<sup>80</sup>

Beginning in the fall of 2004, Washington decided to shift the basic spending priorities of the reconstruction effort. More than \$5 billion of the total \$21 billion was “reprogrammed” into security.<sup>81</sup> Nearly \$2 billion was deducted from the water and sanitation sector, cutting this program in half, while more than \$1 billion was sliced from the faltering electricity sector.<sup>82</sup> Most of those monies flowed into Iraq’s new military, commando and police units through programs of training, weaponry, and other kinds of direct support, as well as programs for prisons, training camps, and logistics.<sup>83</sup>

Some of these reprogrammed budgets paid for buildings and other construction in the security sector, with predictable results. A \$75 million Parsons contract to construct a new Baghdad Police College was to be “the most essential civil security project in the country” according to SIGIR,<sup>84</sup> but after new recruits arrived in May 2006, cadets protested intolerable conditions. Inspectors discovered that toilets overflowed into living quarters, foundations sank, and floors heaved.<sup>85</sup> Engineers eventually decided that the work was so seriously flawed that several of the newly-constructed buildings would have to be torn down and completely re-built.<sup>86</sup> Dozens of other “security” projects for police stations, prisons, border forts, and army barracks likewise failed spectacularly.<sup>87</sup>

As “security” programs ramped up, Iraqi politicians and government ministers demanded DFI funds for projects of their own. A consortium affiliated with Pentagon favorite Ahmed Chalabi initially garnered a \$327 million contract in January 2004 for supply of weapons, trucks, uniforms and other equipment, but the items were apparently never de-



livered.<sup>88</sup> General Hazem Shaalan, Defense Minister in the Interim Government, got \$1.3 billion for new tanks, helicopters and armored vehicles as well as rifles, body armor and helmets. Later investigations showed extensive corruption.<sup>89</sup> Funds had been transferred through intermediaries and secret accounts. Few records had been kept.

On May 16, 2005, Iraqi warrants were issued for the arrest of former Defense Minister Shaalan, chief of procurement Ziad Cattani, and several others in the Defense Ministry, based on findings by the Iraqi Supreme Board of Audit.<sup>90</sup> But Shaalan was by then settled in exile in London and Amman. A number of other ministers, similarly accused, had also left the country.<sup>91</sup> Ali Allawi, the former Finance Minister, estimated that \$800 million had been stolen outright and \$400 million spent on dangerously inferior equipment.<sup>92</sup> As Judge Radhi al-Radhi, the official investigating the corruption, told a journalist “We have American experts in the Defense Ministry. When they saw such violations, why didn’t they do something?”<sup>93</sup>

Still more seriously, “security sector” spending funneled money into irregular security forces and abusive Iraqi prisons. When Washington reallocated US reconstruction program funds, the largest sum – \$1.4 billion – went to projects under the Ministry of the Interior, notorious for its shadowy counter-insurgency work and its stark neglect of human rights.<sup>94</sup> These monies paid for equipment, transportation, training, operations, and “sustainment” of unspecified ministry forces. Reports have suggested that these funds, as well as parallel UK aid money, supported units involved in abusive activities, such as the Special Police Commandos, an outfit within the ministry implicated in torture and atrocities.<sup>95</sup> The US Institute for Peace has issued a report concluding that the Interior Ministry’s National Police is “a patchwork organization of commando-style, counter-insurgency units that harbors sectarian death squads.”<sup>96</sup> Reconstruction funds in the amount of \$73 million were also allocated to “detainee operations” of the ministry, even though the ministry has been responsible for notorious cases of prisoner abuse.<sup>97</sup> SIGIR has scarcely investigated these contracts, nor has there been effective public oversight or evaluation by anyone else.

## **Accountability**

After four years of massive corruption in Iraq, there has been astonishingly little accountability for the wrongdoing. The UN-established IAMB, by its own admission, has not pursued a single case of fraud, theft or corruption concerning the Development Fund for Iraq, nor has it inquired into whether the Fund, as specified by the Security Council, is functioning “to meet the humanitarian needs of the Iraqi people.” Under intense pressure from the United States and the United Kingdom, the Security Council has not addressed this serious failure or sought new and more robust means to enforce the Council’s own mandate.<sup>98</sup>

The US Special Inspector General has been far more active. As of December 31, 2006, he had carried out 85 detailed contract inspections<sup>99</sup> as well as many audits, investigations and analyses. He has uncovered numerous cases of corruption and brought them before the public and as of May 1, 2007 he had referred 28 cases to the US Department of Jus-

tice for prosecution from which there had been 10 arrests and 5 convictions.<sup>100</sup> Considering the extent of the fraud, though, the convictions are few. Most seriously, SIGIR has failed to bring high-level government and corporate officials to account. Military and civil prosecutors have likewise acted only on relatively few cases, mostly those involving small contractors and persons relatively low in the civilian and military chain of command.

The Iraqi government has set up various anti-corruption bodies, including the Commission on Public Integrity, the Board of Supreme Audit, ministerial Inspector Generals, and the Iraqi Joint Anti-Corruption Council. But they have not been able to stem the tide of rising corruption, nor have they been able to pursue corrupt practices involving US or other foreign contractors.

No executive of a major contractor like Halliburton or Parsons has been convicted, tried, indicted or even investigated by any oversight body and no serious fine, disgorgement order, or other meaningful penalty has been imposed on any of the companies, even though their contract failures, false statement of costs, and general malfeasance have been massive, flagrant and systematic.<sup>101</sup>

No high-level US military or civilian official has been charged with a criminal act for any of the flagrantly negligent oversight, and all the other acts that led to the massive corruption. Nor has anyone been brought to account for failure to ensure proper oversight in the Iraqi ministries – despite hundreds of advisors working in the ministries and millions of dollars in US-funded programs supposedly designed to promote accountability, honesty, good governance, proper contracting procedures, and the like. SIGIR has approached US policy on corruption in Iraq with ineffective credulity, and SIGIR’s oversight of these “good governance” contracts has failed to give them the scrutiny they so badly require.<sup>102</sup>

Washington has acted at every turn to minimize accountability for theft and fraud. Paul Bremer’s “Order Number 17” (2004) gives sweeping exemption from Iraqi law to Coalition forces and contractors.<sup>103</sup> US Presidential Executive Order 13003 (2003) gives oil companies virtually total exemption from legal claims concerning their operations in Iraq.<sup>104</sup> The US and the UK shaped the IAMB to have scarcely any capacity and SIGIR’s mandate placed many of the most important issues out of bounds. Little wonder, then, that so few have been brought to account and that Iraq under the occupation is now second only to Haiti in the list of the world’s most corrupt nations.<sup>105</sup>

## **Conclusion**

From the first days, the US and its occupation partners built a wasteful, unaccountable and corrupt system in Iraq. Massive theft, fraud, bribery, and malfeasance of every kind have infected the reconstruction, procurement and governance process. There are hundreds of fraudulent, incomplete, failed or useless projects that have drained Iraq’s revenues of tens of billions of dollars. Judging from end-results, the projects have produced astoundingly little of lasting benefit to Iraqis. These corrupt acts are in clear violation of the occupiers’ responsibilities under the Geneva Conventions, the UN Convention

Against Corruption (2003) and Security Council Resolutions. The Council and the international community should take action – to recover the billions of dollars of misspent and stolen funds and to bring to justice those fundamentally responsible for such serious violations of international law.

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<sup>1</sup> Iraq Operational Update, *Briefing by Major General William McCoy, Commander, Gulf Regional Division of the US Army Corps of Engineers* (July 10, 2006)

<sup>2</sup> Among the extensive sources for these scandals are the reports of the US Special Inspector General for Iraq Reconstruction, the US Government Accounting Office, Iraq Revenue Watch, the International Advisory and Monitoring Board, the US Congressional Research Service, and the US General Accounting Office, as well as court cases, media reports, and hearings and reports of committees of the US Congress.

<sup>3</sup> UN Security Council Resolution S/RES/1483 (2003) operative paragraphs 12 and 14

<sup>4</sup> The Programme Review Board established by the CPA to manage the Development Fund for Iraq was composed of CPA officials; US military; USAID staff; representatives of the Australian and UK governments, the IMF, the UN and the World Bank; and representatives of several Iraqi ministries. Voting Iraqi members were always in the early period far outnumbered by voting US members.

<sup>5</sup> Development Fund for Iraq, *Financial Reporting Matrix* (June 26, 2004) Although Washington had its own pot of reconstruction funds, the CPA spent DFI monies almost exclusively, since Iraqi monies were not subject to Congressionally-mandated rules for open bidding, nor covered by criminal liability under US or Iraqi law.

<sup>6</sup> Iraq Revenue Watch, Report No. 7, *Disorder, Negligence and Mismanagement: How the CPA Handled Iraq Reconstruction Funds* (September, 2004) p. 2. The contracts at issue were those over \$5 million in value.

<sup>7</sup> The problem of CPA financial records is discussed at length below, based on reports of the IAMB, the Special Inspector General for Iraq Reconstruction (SIGIR) and the General Accounting Office in particular.

<sup>8</sup> Special Inspector General for Iraq Reconstruction, Quarterly Report to Congress (January 30, 2005)

<sup>9</sup> See KPMG Iraq, *Development Fund for Iraq - Statement of Cash Receipts and Payments For the period from 1 January 2005 to 30 June 2005* (September 28, 2005) note 3 ; KPMG Iraq, *Development Fund for Iraq – Management Report on Internal Controls for the period from 1 Jan 2005 to 30 June 2005* (September 29, 2005) p.3 ; Special Inspector General for Iraq Reconstruction, *Quarterly Report to Congress* (January 2007)

<sup>10</sup> Special Inspector General for Iraq Reconstruction, *Quarterly Report to Congress* (January 2007) esp. p. 91

<sup>11</sup> See, for example Transparency International, *Corruption Perceptions Index for the years 2003-2006*. During those years, Iraq declines from 113<sup>th</sup> to 160<sup>th</sup> position in the index.

<sup>12</sup> Iraq Revenue Watch, Report No. 6, *Racing the Deadline: the Rush to Account for Iraq's Public Funds* (April, 2004) p. 1

<sup>13</sup> *Ibid.* pp. 2-3

<sup>14</sup> *Ibid.* p. 3. Iraq Revenue Watch says among other things that the IAMB had “no power to sanction the CPA for financial mismanagement, nor compel it to cooperate in the IAMB’s investigations.”

<sup>15</sup> Member representatives, apparently, had many other, separate responsibilities within their organizations. The IAMB is said to have a “virtual secretariat.” (Conversation with Mary Hoare, IMF staffer and spokesperson for the IAMB (January, 2007)

<sup>16</sup> International Advisory and Monitoring Board, *Press Conference*, New York (December 28, 2005)

<sup>17</sup> *Ibid.*

<sup>18</sup> See reports of Iraq Revenue Watch, notably Report No. 7, *op.cit.* and Briefing No. 8, *Auditors Find Poor Practices in Management of Iraqi Oil Revenue* (June, 2004). See also Gareth Smyth and Thomas Catan, “UN Auditors Attack US Occupiers over Spending of Iraq’s Oil Revenues” *Financial Times* (June 22, 2004)

<sup>19</sup> See for example, International Advisory and Monitoring Board on the Development Fund for Iraq, *Press Release* (December 18, 2006)

<sup>20</sup> Special Inspector General for Iraq Reconstruction, *Quarterly Report to Congress* (January 2007) pp. 113-114

<sup>21</sup> *Ibid.*

<sup>22</sup> *Ibid.* The official US total, which includes so much “security” spending, conveys an exaggerated idea of the real “reconstruction” spending.

<sup>23</sup> *Ibid.*, p. 5

<sup>24</sup> James Glanz, “Congress Tells Auditor in Iraq to Close Office” *New York Times* (November 3, 2006). The termination of the SIGIR office was buried in the military finance authorization bill, where it was inserted by Republican leaders. The office was given a new mandate by PL109-440, The Iraq Reconstruction Accountability Act, signed into law on December 20, 2006, due to public pressure following the November Congressional elections.

<sup>25</sup> Oil is central to Iraq’s economy, accounting for 70% of the country’s GDP and more than 95% of the government revenues. James A. Baker III and Lee H. Hamilton et al. “The Iraq Study Group Report” *Vintage Books, New York* (December 2006) p. 22

<sup>26</sup> Robert Riggs, “Meters Cost Iraq Billions in Stolen Oil” *CBS News* (February 8, 2007)

<sup>27</sup> *Ibid.*

<sup>28</sup> *Ibid.*

<sup>29</sup> See, for example, Rob Collier, “Black Market Drains Iraq Oil: Pentagon Out to Stop Ships Plying Booming Trade” *San Francisco Chronicle* (October 22, 2003). Christian Aid, *Fuelling Suspicion: The Coalition and Iraq’s Oil Billions* (June 2004)

<sup>30</sup> See first round of IAMB audit reports (July 15, 2004). The issue is noted by Ed Harriman, “Where Has All The Money Gone?” *London Review of Books* (July 7, 2005). See also Iraq Revenue Watch, Briefing No. 9, *Audit Finds More Irregularities and Mismanagement of Iraq’s Revenues* (December 2004)

<sup>31</sup> Colum Lynch, “US Won’t Turn Over Data for Iraq Audits” *Washington Post* (July 16, 2004)

<sup>32</sup> The Iraqi Oil Ministry report notes that enforcement operations led to the seizure of 166 ships in 2006 alone. Iraq Oil Ministry, Office of the Inspector General, *Smuggling Crude Oil and Oil Products: Second Transparency Report* (2006) p. 5

<sup>33</sup> *Ibid.* p. 42. See also “Iraq Oil Hit by Graft and Attacks” *BBC* (April 25 2006)

<sup>34</sup> As cited by Pratap Chatterjee, “Mystery of the Missing Meters” *CorpWatch* (March 22, 2007) For information on a further type of crude oil loss, see Philip Shishkin, “Pipeline Thefts Cripple Iraqi Oil Production,” *Wall Street Journal* (May 25, 2007)

<sup>35</sup> Iraq Study Group, *op.cit.* p. 22. The Study Group made its upper range estimate as 500,000 barrels daily, information on a further type of crude oil loss, see Philip Shishkin, “Pipeline Thefts Cripple Iraqi Oil Production,” *Wall Street Journal* (May 25, 2007) which, based on revenue of \$50 per barrel, would produce a loss of about \$9 billion annually. SIGIR, in its January 2007 report estimates losses from all causes during the period 2004 through 2006 at \$15 billion (*op.cit.* p. 44). For the GAO Report, see James Glanz, “Billions in Oil Missing in Iraq, U.S. Study Finds” *New York Times* (May 12, 2007)

<sup>36</sup> “Iraq Oil Metering System Mysteriously Delayed” *Reuters* (February 9, 2006); Irwin Arief, “Work Set on Oil Metering System” *Reuters* (March 25, 2006)

<sup>37</sup> Chatterjee, *op. cit.* SIGIR is expected to issue a report on the metering in mid-2007.

<sup>38</sup> US Army Corps of Engineers, *ABOT Isolation Spools Installed Ahead of Time* (January 20, 2007). The article says that there will be 14 new meters and 10 rebuilt meters on the site as part of a \$55 million project.

<sup>39</sup> The Iraqi government has said in 2007 that it is in discussions with Shell to do this work.

<sup>40</sup> US House of Representatives, Committee on Government Reform, *Minority Staff, Rebuilding Iraq: U.S. Mismanagement of Iraqi Funds* (June, 2005) p. 10

<sup>41</sup> *Ibid.* p. 12

<sup>42</sup> *Ibid.* p. 13. The previous record had also been set by an earlier CPA withdrawal.

<sup>43</sup> *Ibid.* p. 10

<sup>44</sup> Callum Macrae and Ali Fadhil, “Iraq Was Awash in Cash. We Played Football with Bricks of \$100 Bills” *Guardian* (March 20, 2006)

<sup>45</sup> US House of Representatives, *op.cit.*, p. 16

<sup>46</sup> Harriman, “Where Has All The Money Gone?” *op. cit.*

<sup>47</sup> Tim Reid, “How US Lost Billions in Wild West Gamble to Rebuild Iraq” *Times, London* (January 26, 2006)

<sup>48</sup> Iraq Revenue Watch, Briefing No. 9, *Audits Find More Irregularities and Mismanagement of Iraq’s Revenues* (December, 2004)

<sup>49</sup> Robert L. Borosage, Eric Lotke and Robert Gerson, “War Profiteers: Profits Over Patriotism in Iraq”

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*Campaign for America's Future* (September 2006)

<sup>50</sup> Harriman, "Where Has All The Money Gone?" *op.cit.*

<sup>51</sup> Ed Harriman, "Cronyism and Kickbacks: The Economics of Reconstruction in Iraq" *London Review of Books* (January 26, 2006)

<sup>52</sup> *Ibid.*

<sup>53</sup> *Ibid.*

<sup>54</sup> Until early 2007, when the balance in the Congress changed, Waxman was acting as senior minority member of the House Committee on Oversight and Government Reform, thereafter as Chairman.

<sup>55</sup> Phone conversation with Mary Hoare of the IMF, IAMB Spokesperson (January 5, 2007). SIGIR has reported that likewise he does not know this very important fact.

<sup>56</sup> The SIGIR audit report of March, 2006 looked into the management of cash funds from the DFI under the control of the US military. Special Inspector General for Iraq Reconstruction, *Development Fund for Iraq Cash Accountability Review: Joint Area Support Group – Central/Falluja* (April 28, 2006)

<sup>57</sup> In a cost-plus contract, there is no price fixed in advance. The project is agreed and payments are eventually based on costs submitted by the contractor, plus a profit markup that is commonly 15%. This is a method that is common in Pentagon contracting, but obviously open to much abuse and cost-padding. See the discussion in T. Christian Miller, *Blood Money* (New York, 2006).

<sup>58</sup> *Ibid.* pp. 84-91. Soon thereafter, the procurement officer lost her job.

<sup>59</sup> Seth Borenstein, "Sweetheart Deal of Iraq Contract" *Knight Ridder* (March 27, 2004)

<sup>60</sup> Stuart W. Bowen, Jr., Special Inspector General for Iraq Reconstruction, *Statement before the U.S. House Committee on Governmental Reform, Oversight Hearing on: "Reconstruction Contracting in Iraq"* (September 28, 2006) p. 3. See also Special Inspector General for Iraq Reconstruction, *Audit Report on Management of the Primary Healthcare Centers Construction Projects* (April 29, 2006). SIGIR reported in April 2007 that only 8 PHCs were open.

<sup>61</sup> Statement by Stuart W. Bowen, Jr. (September 28, 2006), *op.cit.* pp. 3-4. A further problem arose in this case, because \$43 million dollars in medical equipment, furniture and medical supplies were also purchased under parallel contracts to be used in these facilities. These items could not be used in the short term, had to be stored, and were subject to theft and deterioration.

<sup>62</sup> T. Christian Miller, *Blood Money* (New York, 2006) pp. 46-51

<sup>63</sup> Statement by Stuart W. Bowen, Jr. (September 28, 2006), *op.cit.* p. 5 and the related special report dated July 31, 2006.

<sup>64</sup> *Ibid.*

<sup>65</sup> James Glanz, "Series of Woes Mar Iraq Project Hailed as Model" *New York Times* (July 28, 2006)

<sup>66</sup> Miller, *op.cit.* pp. 100-103.

<sup>67</sup> Special Inspector General for Iraq Reconstruction, *Al Fatah Pipe River Crossing, Al Fatah, Iraq* (March 7, 2006). See also James Glanz, "Rebuilding of Iraqi Pipeline as Disaster Waiting to Happen," *New York Times* (April 25, 2006)

<sup>68</sup> See James Glanz, "U.S. Agency Finds New Waste and Fraud in Iraqi Rebuilding Projects" *New York Times* (February 1, 2007) and Ian Austin, "Iraq Reconstruction Is Doomed Ex-Chief of Global Fund Says" *New York Times* (May 3, 2007)

<sup>69</sup> As quoted in Thomas B. Edsall and Juliet Eilperin, "Lobbyists Set Sights On Money-Making Opportunities in Iraq" *Washington Post* (October 2, 2003)

<sup>70</sup> Charles R. Babcock, "Contractor Fraud Trial to Begin Tomorrow" *Washington Post* (February 13, 2006)

<sup>71</sup> Laura Parker, "Jury Fines Defense Contractor in Iraq \$10M" *USA Today* (March 10, 2006). In a very significant move, the judge overturned the jury's decision, ruling that Custer Battles could not be legally prosecuted because it was paid with Iraqi funds and thus not working for the US government, even though the contracts had been signed by the US-controlled CPA. The judge's ruling was upheld on appeal, so Custer Battles and its principals have suffered no punishment.

<sup>72</sup> Nick Fielding and Ian Cobain, "British Firms Face Fraud Allegations over 'Phantom' Armoured Vehicles" *Guardian* (March 20, 2007). Zeroline was headed by retired UK army and police officials. The case only came to light in 2007.

<sup>73</sup> *Ibid.*

<sup>74</sup> US Department of Justice, Press Release, *Former DoD Contractor Sentenced in Case Involving Bribery, Fraud and Money-Laundering Scheme in al-Hillah, Iraq* (January 29, 2006)

<sup>75</sup> Bloom was sentenced on February 16, 2007. See "Contractor gets 46 Months for Iraq Bribery"

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*Associated Press* (February 17, 2007)

<sup>76</sup> Department of Justice, Press Release, *Army Reserve Officer Pleads Guilty to Money Laundering Conspiracy Involving Stolen Currency and Fraud in Iraq* (August 25, 2006). See also Griff Witte, "Reservist Pleads Guilty in Iraq Bribery Scheme" *Washington Post* (August 26, 2006).

<sup>77</sup> "US Army Officers Accused of Reconstruction Scam in Iraq" *Evening News* (February 8, 2007); Miller, *Blood Money*, *op.cit.*, p. 200.

<sup>78</sup> Miller, *Blood Money*, *op.cit.*, p. 200.

<sup>79</sup> Peter Grier, "Funds for Iraq Run Low" *Christian Science Monitor* (June 15, 2006)

<sup>80</sup> Special Inspector General for Iraq Reconstruction, *Fact Sheet on Major U.S. Contractors' Security Costs Related to Iraq Relief and Reconstruction Fund Contracting Activities* (January 30, 2007)

<sup>81</sup> The reprogramming affected the Iraq Reconstruction and Redevelopment Fund. See SIGIR (January, 2007), *op.cit.*, p. 6; Charles J. Hanley, "Can Iraq Fill the Reconstruction Gap?" *Associated Press* (October 15, 2006)

<sup>82</sup> The final tally of the shifts was \$1.32 billion in electricity and \$2.20 billion in water/sanitation [Special Inspector General for Iraq Reconstruction, *Quarterly Report to Congress* (April 2007), pp. 18 and 36]

<sup>83</sup> SIGIR (January, 2007), *op.cit.*, p. 6

<sup>84</sup> Special Inspector General for Iraq Reconstruction, *Quick Reaction Report on the Baghdad Police Academy, Baghdad, Iraq* (September 27, 2006). See also Amit Paley, "Heralded Iraq Police Academy a 'Disaster'" *Washington Post* (September 28, 2006) and Griff Witte, "Iraq Contractor's Work is Further Criticized" *Washington Post* (September 29, 2006)

<sup>85</sup> Special Inspector General for Iraq Reconstruction, "Baghdad Police Academy," *op. cit.*

<sup>86</sup> *Ibid.*

<sup>87</sup> Parsons was responsible for many of these projects, as detailed in SIGIR Reports.

<sup>88</sup> Knut Royce, "Start-Up Company with Connections" *Newsday* (February 15, 2004). According to some reports, the non-delivery was due to cancellation of the contract, as Iraqi factions battled over access to these lucrative contracts.

<sup>89</sup> Miller, *op.cit.*, pp. 236-237. Harriman, "Cronyism" *op.cit.*

<sup>90</sup> Harriman, "Cronyism" *op.cit.*

<sup>91</sup> *Ibid.*

<sup>92</sup> "Iraqi Officials 'Stole Millions'" *BBC* (October 24, 2006)

<sup>93</sup> Miller, *op.cit.*, p. 241. Finance Minister Ali Allawi has noted that the US and the UK have done little to recover the stolen money or to catch the suspects. ("Iraqi officials" *BBC op.cit.*).

<sup>94</sup> Special Inspector General for Iraq Reconstruction (January 2007) *op.cit.* For the Interior Ministry's flaws, see Robert Perito "Reforming the Iraqi Interior Ministry, Police and Facilities Protection" *US Institute for Peace* (February 2007). See also the chapter of this report on Prisoner Abuse and Torture for details on this ministry and its secret prisons.

<sup>95</sup> Peter Beaumont and Martin Bright, "UK Air Funds Iraqi torture Unit" *Observer* (July 3, 2005). For information on the Special Police Commandos, see Peter Maas, "The Way of the Commandos" *New York Times* (May 1, 2005).

<sup>96</sup> Robert Perito, "Reforming the Iraqi Interior Ministry, Police and Facilities Protection Service" *US Institute of Peace* (February, 2007)

<sup>97</sup> On November 13 and December 8, 2005, raids in Baghdad revealed Interior Ministry prisons with large numbers of seriously abused detainees, some whom reported that they had been subject to electric shock or had their nails pulled out. See Ellen Knickmeyer, "Abuse Cited in 2<sup>nd</sup> Jail Operated by Iraqi Ministry" *Washington Post* (December 12, 2005)

<sup>98</sup> Private discussions by the authors with Council delegates reveal that this pressure has been intense and unremitting and includes arm-twisting with heads of government and foreign ministers.

<sup>99</sup> Special Inspector General for Iraq Reconstruction (January 2007) *op.cit.*, Appendix J, pp. 1-4

<sup>100</sup> SIGIR communication to the authors (May 1, 2007)

<sup>101</sup> Debarment or suspension from future contracts has been the only penalty so far imposed by the US government and this only to smaller companies and (mostly) individuals. SIGIR reports that as of the end of the first quarter of 2007, the US Army Criminal Investigation Division had suspended 19 individuals or companies and 9 have been debarred. For a list of those affected, see Special Inspector General for Iraq Reconstruction (April, 2007), Appendix K.

<sup>102</sup> See Special Inspector General for Iraq Reconstruction, *Joint Survey of the U.S. Embassy-Iraq's Anti-*

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*Corruption Program* (July 28, 2006)

<sup>103</sup> Coalition Provisional Authority, Order 17: *Status of the CPA, MNFI, Certain Missions and Personnel in Iraq with Annex Revised* (June 27, 2004)

<sup>104</sup> White House, George W. Bush, *Executive Order: Protecting the Development Fund for Iraq and Certain Other Property in Which Iraq has an Interest* (May 22, 2003)

<sup>105</sup> See Transparency International, *Corruption Perceptions Index* (2006). Iraq was tied with Myanmar and Guinea for 160<sup>th</sup> position, just above last-place Haiti among 163 countries studied.