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Money for Nothing

Billions of dollars have disappeared, gone to bribe Iraqis and line contractors' pockets.

By Philip Giraldi

10/18/05 " American Conservative " -- -- The United States invaded Iraq with a high-minded mission: destroy dangerous weapons, bring democracy, and trigger a wave of reform across the Middle East. None of these have happened.

When the final page is written on America's catastrophic imperial venture, one word will dominate the explanation of U.S. failure—corruption. Large-scale and pervasive corruption meant that available resources could not be used to stabilize and secure Iraq in the early days of the Coalition Provisional Authority (CPA), when it was still possible to do so. Continuing corruption meant that the reconstruction of infrastructure never got underway, giving the Iraqi people little incentive to co-operate with the occupation. Ongoing corruption in arms procurement and defense spending means that Baghdad will never control a viable army while the Shi'ite and Kurdish militias will grow stronger and produce a divided Iraq in which constitutional guarantees will be irrelevant.

The American-dominated Coalition Provisional Authority could well prove to be the most corrupt administration in history, almost certainly surpassing the widespread fraud of the much-maligned UN Oil for Food Program. At least \$20 billion that belonged to the Iraqi people has been wasted, together with hundreds of millions of U.S. taxpayer dollars. Exactly how many billions of additional dollars were squandered, stolen, given away, or simply lost will never be known because the deliberate decision by the CPA not to meter oil exports means that no one will ever know how much revenue was generated during 2003 and 2004.

Some of the corruption grew out of the misguided neoconservative agenda for Iraq, which meant that a serious reconstruction effort came second to doling out the spoils to the war's most fervent supporters. The CPA brought in scores of bright, young true believers who were nearly universally unqualified. Many were recruited

through the Heritage Foundation website, where they had posted their résumés. They were paid six-figure salaries out of Iraqi funds, and most served in 90-day rotations before returning home with their war stories. One such volunteer was Simone Ledeen, daughter of leading neoconservative Michael Ledeen. Unable to communicate in Arabic and with no relevant experience or appropriate educational training, she nevertheless became a senior advisor for northern Iraq at the Ministry of Finance in Baghdad. Another was former White House Press Secretary Ari Fleischer's older brother Michael who, though utterly unqualified, was named director of private-sector development for all of Iraq.

The 15-month proconsulship of the CPA disbursed nearly \$20 billion, two-thirds of it in cash, most of which came from the Development Fund for Iraq that had replaced the UN Oil for Food Program and from frozen and seized Iraqi assets. Most of the money was flown into Iraq on C-130s in huge plastic shrink-wrapped pallets holding 40 "cashpaks," each cashpak having \$1.6 million in \$100 bills. Twelve billion dollars moved that way between May 2003 and June 2004, drawn from accounts administered by the New York Federal Reserve Bank. The \$100 bills weighed an estimated 363 tons.

Once in Iraq, there was virtually no accountability over how the money was spent. There was also considerable money "off the books," including as much as \$4 billion from illegal oil exports. The CPA and the Iraqi State Oil Marketing Board, which it controlled, made a deliberate decision not to record or "meter" oil exports, an invitation to wholesale fraud and black marketeering.

Thus the country was awash in unaccountable money. British sources report that the CPA contracts that were not handed out to cronies were sold to the highest bidder, with bribes as high as \$300,000 being demanded for particularly lucrative reconstruction contracts.

The contracts were especially attractive because no work or results were necessarily expected in return. It became popular to cancel contracts without penalty, claiming that security costs were making it too difficult to do the work. A \$500 million power-plant contract was reportedly awarded to a bidder based on a proposal one page long. After a joint commission rejected the proposal, its members were replaced by the minister, and approval was duly obtained. But no plant has been built.

Where contracts are actually performed, their nominal cost is inflated sufficiently to provide handsome bribes for everyone involved in the process. Bribes paid to government ministers reportedly exceed \$10 million.

Money also disappeared in truckloads and by helicopter. The CPA reportedly distributed funds to contractors in bags off the back of a truck. In one notorious

incident in April 2004, \$1.5 billion in cash that had just been delivered by three Blackhawk helicopters was handed over to a courier in Erbil, in the Kurdish region, never to be seen again. Afterwards, no one was able to recall the courier's name or provide a good description of him.

Paul Bremer, meanwhile, had a slush fund in cash of more than \$600 million in his office for which there was no paperwork. One U.S. contractor received \$2 million in a duffel bag. Three-quarters of a million dollars was stolen from an office safe, and a U.S. official was given \$7 million in cash in the waning days of the CPA and told to spend it "before the Iraqis take over." Nearly \$5 billion was shipped from New York in the last month of the CPA. Sources suggest that a deliberate attempt was being made to run down the balance and spend the money while the CPA still had authority and before an Iraqi government could be formed.

The only certified public-accounting firm used by the CPA to monitor its spending was a company called North Star Consultants, located in San Diego, which was so small that it operated out of a private home. It was subsequently determined that North Star did not, in fact, perform any review of the CPA's internal spending controls. Today, no one can account for billions of those dollars or even suggest how the money was spent. And as the CPA no longer exists, there is also little interest in re-examining its transparency or accountability.

Bremer escaped Baghdad by helicopter two days before his proconsulship expired to avoid a possible ambush on the road leading to the airport, which he had been unable to secure. He has recently been awarded the Presidential Medal of Freedom, an honor he shares with ex-CIA Director George "Slam-dunk" Tenet.

Considerable fraud has been alleged regarding American companies, much of which can never be addressed because the Bush administration does not regard contracts with the CPA as pertaining to the U.S. government, even though U.S. taxpayer dollars were involved in some transactions.

Many of the contracts for work in Iraq were awarded on a cost-plus basis, in which an agreed-upon percentage of profit would be added to the actual costs of performing the contract. Such contracts are an invitation to fraud, and unscrupulous companies will make every effort to increase their costs so that the profits will also increase proportionally.

Halliburton, Vice President Dick Cheney's former company, has a no-bid monopoly contract with the Army Corps of Engineers that is now estimated to be worth \$10 billion. In June 2005, Pentagon contracting officer Bunny Greenhouse told a congressional committee that the agreement was the "most blatant and improper contracting abuse" that she had ever witnessed, a frank assessment that subsequently earned her a demotion.

Halliburton has frequently been questioned over its poor record keeping, and critics claim that it has a history of overcharging for its services. In May 1967, a company called RMK/BRJ could not account for \$120 million in materiel sent to Vietnam and was investigated several times for overcharging on fuel. RMK/BRJ is now known as KBR or Kellogg, Brown and Root, the Halliburton subsidiary that has been the focus of congressional, Department of Defense, and General Accountability Office investigations. Defense Contract Audit Agency auditors have questioned Halliburton's charges on a \$1.6 billion fuel contract, claiming that the overcharges on the contract exceed \$200 million. In one instance, the company charged the Army more than \$27 million to transport \$82,000 worth of fuel from Kuwait to Iraq. Halliburton has also been accused of billing the Army for 42,000 daily meals for soldiers, though it was only actually serving 14,000. In another operation, KBR purchased fleets of Mercedes trucks at \$85,000 each to re-supply U. S. troops. The trucks carried no spare parts or even extra tires for the grueling high-speed run across the Kuwaiti and Iraqi deserts. When the trucks broke down on the highway, they were abandoned and destroyed rather than repaired.

Responding to complaints, Halliburton refused to permit independent auditing and inspected itself using so-called "Tiger Teams." One such team stayed at the five-star Kuwait Kempinski Hotel while it was doing its audit, running up a bill of more than \$1 million that was passed on to U.S. taxpayers.

Another U.S. firm well connected to the Bush White House, Custer Battles, has provided security services to the coalition, receiving \$11 million in Iraqi funds including \$4 million in cash in a sole-source contract to supply security at Baghdad International Airport. The company had never provided airport security before receiving the contract. It also received a \$21 million no-bid contract to provide security for the exchange of Iraqi currency. It has been alleged that much of the currency "replaced" by Custer Battles has never been accounted for. The company also allegedly took over abandoned Iraqi-owned forklifts at the airport, repainted them, and then leased them back to the airport authority through a company set up in the Cayman Islands. Custer Battles reportedly set up a number of shell companies in offshore tax havens in Lebanon, Cyprus, and the Cayman Islands to handle the cash flow.

Two former company managers turned whistleblowers have charged that the company defrauded the U.S. government of at least \$50 million. The Bush administration's Justice Department has only reluctantly, and under pressure from a Newsweek exposé, supported the rights of the plaintiffs in the case. The White House has indicated that it is not interested in assisting other investigations of fraud in Iraqi contracting, preferring to regard the CPA as a "multinational entity" and thereby limiting its vulnerability in American courts.

Another American contractor, CACI International, which was involved in the Abu Ghraib interrogations, was accused by the GAO in April 2004 of having failed to keep records on hours of work that it was billing for and of routinely upgrading employee job descriptions so that more could be charged per employee per hour. Both are apparently common practices among contractors in Iraq, and audits routinely determine that there is little in the way of paperwork to support billings. The GAO report also confirms that many private security contractors in Iraq have been charging the U.S. government exorbitant fees for their services, frequently because the contracts allow security costs to be rolled into the overall cost of the contract without being itemized. In one case, contract security guards were effectively being billed at \$33,000 per guard per month while the average rate for a security specialist worked out to between \$13,000 and \$20,000 per month.

The CPA also spread its largesse around the U.S. armed forces, distributing over \$600 million in cash to four regional commanders to fund reconstruction projects as part of the Commanders' Emergency Response Program. An audit of one region disclosed that 80 percent of the funds could not be accounted for, and more than \$7 million in cash was missing. It is widely believed that many of the contracting agents working under the regional commands literally stole the money. In one reported instance, an American contracting officer doubled the price of a multimillion-dollar contract and brazenly explained that the extra money would be for his retirement fund.

Unfortunately, the corruption of the occupation outlived the departure of Paul Bremer and the demise of the CPA. A recent high-level investigation of the Iraqi interim government concluded that the corruption is now so pervasive as to be irreversible. One prominent businessman estimates that 95 percent of all business activity involves some form of bribery or kickback. The bureaucrats and fixers who live off of bribery are referred to by ordinary Iraqis as "Ali Babas," named after the character in *The Thousand and One Nights* who was able to access riches from a treasure cave by saying "open sesame." For the average Iraqi businessman, there was formerly only one hand out, that of Saddam's designated minion. Now every hand is out. The educated and entrepreneurial are leaving the country in droves, as is most of the beleaguered Christian minority. Huge government appropriations are approved by Iraqi lawmakers and then simply disappear. Meanwhile, life for the average Iraqi does not improve, and oil production, water supplies, and electricity generation are all at lower levels than they were when the U.S. took control in 2003. The only thing that everyone knows is that all the money is gone and daily life in Iraq is worse than it was under Saddam Hussein.

The undocumented cash flow continued long after the CPA folded. Over \$1.5 billion was disbursed to interim Iraqi ministries without any accounting, and more than \$1 billion designated for provincial treasuries never made it out of Baghdad. More than \$430 million in contracts issued by the Petroleum Ministry were

unsupported by any documentation, and \$8 billion were given to government ministries that had no financial controls in place. Nearly all of it disappeared, spent on “payroll,” wages for “ghost employees” in the Ministries of the Interior and Defense. In one case, an Army brigade receiving money to support 2,200 men was found to have fewer than 300 effectives. 602 actual guards at the Ministry of the Interior were billed as more than 8,200 for payroll purposes.

Iraqi Airways carried 2,400 employees even though it had not operated for over a year and had no planes. The airline itself was sold to an unidentified buyer without any paperwork to show for how much it was sold and what assets were included. It has been alleged that the buyer might well have been Pentagon favorite Ahmad Chalabi.

Nearly all payrolls in the national guard and national police were also inflated, leading to uncertainty over how large the security forces actually were—still an open question. Absentees from the nominal rolls of police and soldiers provided by government ministries are believed to number in the tens of thousands, and as the United States Congress has figured out, frequently cited figures on available trained manpower are largely imaginary.

Even the “coalition of the willing” partners have been quick to cash in. Polish helicopters purchased as part of a \$300 million deal with arms maker Bumar Ltd. were found to be obsolete, largely unflyable, and were actually rejected by the Iraqis. Bullets purchased from Poland by the Defense Ministry cost three times the normal international price. Five Polish peacekeepers have been arrested for demanding \$90,000 in bribes. Both British and American soldiers have also demanded bribes from shopkeepers and travelers.

In yet another instance of take-it-while-you-can, a senior Interior Ministry official flew to Beirut in a helicopter accompanied by \$10 million in newly printed Iraqi dinars. He has yet to return. Interim Iraqi President Iyad Allawi’s Defense Minister Hazem Shaalan transferred \$500 million to a bank account in Lebanon, allegedly to buy weapons, in a case that continues to be murky. Shaalan is reportedly vacationing abroad and has not returned to Iraq. A Bremer favorite at the Defense Ministry, Ziad Tareq Cattan, was responsible for a number of shady arms-procurement deals. A warrant has been issued for his arrest, an unusual occurrence, and he is avoiding detention by staying with family in Erbil in Kurdistan.

Countless billions will never be accounted for, and the full cost of corruption has yet to be tallied. Sources report that much of the money that was designated for the development of a national army and police force is actually going to units that are exclusively Kurd or Shi’ite in expectation of a day of reckoning over the country’s oil supplies. The Kurds have made no secret of their desire to continue their autonomy-bordering-on-independence and have stated that they regard Kirkuk as

their own. The Shi'ites have possession of the oil-producing region to the south and are using their control of the Interior Ministry to fill police ranks with their own pro-Iranian Badr Brigade members as well as militiamen drawn from radical cleric Moqtada al-Sadr's Mehdi Army. The Sunnis are the odd men out, virtually guaranteeing that, far from becoming the model democracy the U.S. set out to build, Iraq will descend deeper into chaos—aided in no small part by the culture of corruption we helped to fortify.

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