

Iraq Contracting Scandals Mushroom

by Carl Osgood

Rep. Henry Waxman (D-Calif.) has again put a spotlight on the hypocrisy of Congressional Republicans who are refusing to conduct oversight of the activities of the Bush Administration, especially when it comes to contracting in Iraq.

In a July 29 letter to House Government Reform Committee chairman Tom Davis (R-Va.), Waxman pointed out that while Davis wants to vigorously pursue an investigation of the United Nations' oversight of the Iraq Oil for Food program, he has blocked a similar inquiry into the subsequent U.S. takeover of that same program, now called the Development Fund for Iraq (DFI). Waxman noted that on July 9, he had requested that the committee subpoena documents relating to the management of the funds deposited in the DFI because, at that time, the International Advisory and Monitoring Board, the UN agency charged with monitoring U.S. actions with respect to the DFI, had already identified "serious problems" with its management. These problems included an accounting system that was "open to fraudulent acts," and the refusal of Bush Administration officials "to comply with requests for information about Iraqi funds used to pay Halliburton under sole-source contracts."

"Investigating the UN's stewardship of the Oil for Food Program while ignoring the actions of the Bush Administration conveys to the world the appearance of a double standard," Waxman wrote, saying that he was therefore renewing his request for a committee subpoena for documents on the management of the DFI.

The management of the DFI was not the only scandal involving private contracting to emerge during the last week of July. The Inspector General of the now-disbanded Coalition Provisional Authority (CPA) released two reports, one on the DFI, which Waxman referred to in his July 29 letter, and one on Halliburton's management of government property under its control in Iraq. At the same time, the Washington, D.C.-based Center for Public Integrity obtained, through Freedom of Information Act requests, 11 work orders issued to CACI International for work in Iraq, which showcase just how far the privatization of military intelligence has progressed. CACI, of course, became infamous, last spring, because two of its employees were implicated in the Abu Ghraib prison scandal.

Fraud and Waste at the CPA

In its June 30 report to Congress, the CPA Inspector General (IG) reported that it had received 69 criminal cases, 42 of

which it had closed or referred to other investigative agencies, leaving 27 cases still under investigation, although none has yet resulted in criminal prosecutions. Among the cases handled by the IG include one where a senior advisor improperly orchestrated the award of a \$7.2 million security contract without going through the required bid process. The contract award was revoked and the advisor was fired. In another case, the IG found weak contract monitoring in the context of an ongoing fraud investigation, regarding a contract for oil pipeline repair. Personnel were not in the field performing the contracted work, among other deficiencies that were uncovered. The CPA's Contract Management Office deducted more than \$3.3 million in improper charges from the invoice as a result of the IG investigation.

The CPA IG audit of the DFI concluded that "The CPA created policies and regulations which, although well-intended, did not establish effective funds control and accountability over \$600 million in DFI funds held as cash available for disbursement." This included lack of cash accountability, lack of physical security, incomplete fund agent records, and fund managers' responsibilities and liabilities that were not properly assigned. The IG did not identify any actual cash losses but the "funds were susceptible to fraud, waste, and abuse."

Halliburton's KBR subsidiary came under withering fire from the CPA IG in the second audit. This audit randomly examined 164 property records out of 20,531 pieces of government property in Halliburton's custody, and found that 52 of the items were missing. These included two power generators worth \$880,000, and 13 trucks valued at over \$1.1 million. At least one of the missing trucks had not been seen in almost a year.

"KBR did not effectively manage government property as it did not properly control CPA property items and its property records were not sufficiently accurate or available to properly account for CPA property items," the audit concludes. Furthermore, the Defense Contract Audit Agency, which has oversight responsibilities for the KBR contract, was unaware of the missing property and the poor record-keeping. The Audit projected that KBR could not account for 34% of the property—worth \$18 million—it controlled.

Inspector General Stuart W. Bowen called the overall picture "mixed," and attributed the problems to the difficult working environment in Iraq. That environment includes, of course, the eruption of asymmetric warfare against the U.S. occupation, which was willfully not anticipated by the Bush Administration while it was planning its invasion.

Privatization of Military Intelligence

The records which have been disclosed relating to the CACI contract, demonstrate the extent to which the Bush Administration is willing to go, in turning over military functions to private contractors. The documents consist of 11 work orders issued to CACI under a contract known as a Basic Purchase Agreement. The BPA, with a value capped at \$500 million, is managed by the Department of the Interior. Six of

the work orders are related to intelligence, interrogation, and security services, and demonstrate just how deeply CACI is embedded into the intelligence function of the military command structure in Iraq.

For example, work order number 35 calls on the contractor to provide "Interrogation Support Cells, as directed by military authority," through Iraq, "to assist, supervise, coordinate, and monitor all aspects of interrogation activities, in order to provide timely and accurate intelligence to the commander." It describes an interrogation support program as "designed to increase the effectiveness of dealing with detainees, persons of interest, and enemy prisoners of war, that are in the custody of U.S./Coalition forces" in Iraq, "in terms of screening, interrogation, and debriefing of persons of intelligence value." The period of performance of the order is from Aug. 14, 2003 to Aug. 14, 2004, which includes the period during which the documented abuses at Abu Ghraib took place.

The remaining five orders cover the provision of a screening cell to screen Iraqis for access to U.S. military base camps, an open source intelligence team, senior security manage-

ment, human intelligence support packages down to brigade level, and an intelligence support staff. In every case, the contractor personnel are to be embedded within the U.S. military command's intelligence directorate, or C2, as if they were part of the military intelligence structure. Each of the work orders include statements regarding contractor access to classified information, including "sensitive compartmented information"—the most sensitive of all.

Furthermore, an Interior Department Inspector General review, dated July 16, found that the 11 task orders were outside the scope of the BPA, which, under General Services Administration supply schedules, is for information technology services. "Information Technology services and products," the DOI concluded "do not include interrogation and intelligence" and the use of the IT schedule "to obtain such services was therefore improper and outside the schedule's scope." Five of the 11 task orders were for logistics services covered under a different GSA schedule. The DOI IG recommended, therefore, that the 11 task orders be terminated, because of the improper contracting methods used.

Cheney Dodges a Bullet

Just as the U.S. Securities & Exchange Commission was letting Vice President Dick Cheney off the hook on one investigation, other investigations, involving the SEC, the Justice Department, and foreign law-enforcement agencies, are expanding, and the Valerie Plame investigation is nearing a conclusion—all of which increases the likelihood that Bush's puppetmaster could be indicted in the period running up to the November elections.

On Aug. 3, the SEC announced that Halliburton—headed by Cheney from 1995 through 2000—had agreed to pay a \$7.5 million fine for a federal securities law violation, for not disclosing a major change in its accounting practices to investors. Although Cheney—Chief Executive Officer at the time—was not charged, two of his immediate subordinates, the company's Chief Financial Officer, and the Controller were accused of wrong-doing, and the Controller agreed also to pay a personal fine.

What many find inconceivable, is that Halliburton could have made a major accounting change which boosted profits by 46% in 1998, without the company's CEO knowing about it. The accounting change, although dubious, was not illegal, but the failure to disclose the change to investors *was* illegal. Cheney personally participated in conference calls with investors—yet, according to the SEC—he somehow overlooked the fact that his investors were being kept ignorant of a major change in accounting, which had boosted profits by almost 50%.

One defense offered on Cheney's behalf, from "a source close to the case" who was quoted in BusinessWeek Online, was that Cheney was not a "hands-on" type of manager, but that he was "more of a chairman than a CEO, flying around the world making nice to governments so that he could land these big contracts."

This may not be such a smart defense. For at the same time the SEC was settling that action, it was revealed that the SEC and the Justice Department have both stepped up their investigations of a foreign bribery scandal, involving a \$180 million slush fund which was allegedly used for payoffs to Nigerian officials, and from which illegal payments to the head of Halliburton's subsidiary KBR were also taken.

A French magistrate is investigating the charges, which also involved a French partner (See *EIR* July 16). *EIR* has been informed that Cheney is personally a target of this investigation.

In its quarterly SEC filing on Aug. 4, Halliburton disclosed to investors that the SEC and DOJ investigations of the Nigeria deal have expanded, that it had been subpoenaed to provide documents to the SEC, and that former KBR executive Jack Stanley had also received a subpoena.

Moreover, Halliburton stated, "the Department of Justice has expanded its investigation to include whether Mr. Stanley may have received payments in connection with bidding practices on certain foreign projects." If Dick Cheney was indeed flying around the world "making nice to governments" in order to land contracts, then the Nigeria investigation is getting pretty close to home.

—Edward Spannaus