Will Stolen Iraq Oil Funds and Deals For Cronies Force Cheney Impeachment?

by Michele Steinberg

On June 27, a scandal large enough to lead to the impeachment of Vice President Richard Cheney, emerged when it was revealed at a hearing called by the Senate Democratic Policy Committee, that the latest figures in questionable and unsupported charges to the Department of Defense by the Halliburton Corporation, had reached over $1.4 billion. There are already two criminal investigations by the Justice Department into Halliburton for fraudulent billings related to Iraq war contracts—each of them potentially as explosive as the case of the Valerie Plame CIA leak.

However, another element was added on June 27: The amount of funds that Halliburton has looted from the DoD is nearly equivalent to the $1.5 billion in funds that the Bush Administration had denied the Veterans Administration for vitally needed medical services to the sick and wounded veterans and troops. The public anger over the White House short-changing the VA was so huge, that the Republicans subsequently signed on to a Democratic amendment to pass legislation giving an additional $1.5 billion to the VA.

The $1.4 billion in "questioned and unsupported" monies to Halliburton, was the second bombshell about Iraq-war-related fraud in less than one week. On June 21, the Subcommittee on National Security of the House Committee on Government Reform, released a Minority Staff report, prepared at the request of ranking Democrat Rep. Henry Waxman of California, which showed that *billions* of dollars of money from the "Development Fund for Iraq," was unaccounted for, or stolen, after the frenzy of cash delivery to the U.S. occupation authority, run by Amb. Jerry Bremer in June 2004. (See report excerpts in *Documentation*). Bremer did not appear at the June 21 hearing to answer questions about the lack of control over $19.6 billion in Iraqi funds, noted Rep. Waxman. But the missing money has already had devastating consequences.

On July 6, an article in the London *Financial Times* gave the first major hint that the U.S. occupation's looting of reconstruction funds belonging to the Iraqi people is being called "corruption." "Iraq's financial difficulties, and U.S. concerns over corruption and uncontrolled spending on reconstruction, are adding to tensions between the two governments," wrote the *Financial Times.* Although the economy is seen as a "vital pillar of the . . . strategy to stabilize Iraq," the Iraqi government is already in big trouble. Under U.S. auspices, the government of Iraq had signed a "pre-agreed deficit" agreement with the International Monetary Fund, to limit its budget deficit to $6.7 billion, or 28% of its gross domestic product, but Iraq cannot come near that goal, and is seeking to go far beyond that deficit limit.

The news of Iraq's financial crisis could not come at a worse time for the Bush Administration—because the responsibility for the "corruption" in misuse of the funds, leads right to Cheney's office through the Halliburton corporation.

According to evidence presented on June 21 at the House Subcommittee on National Security hearing, and on June 27, by the Senate Democratic Policy Committee, the following has been established:

- There is more than $1.4 billion in "questioned" and "unsupported" charges paid to Halliburton, according to Defense Department audit reports.
- There are *billions* of dollars unaccounted for, taken in cash from the $19.6 billion Development Fund for Iraq account, created by UN Security Council resolution 1483 in May 2003, and administered solely by the U.S. occupation authority. According to the 25-page official report by the Minority Staff of the Committee on Government Reform, these funds are unaccounted for, have disappeared, or have been misappropriated.
- Halliburton is documented to be the largest recipient of the Development Fund for Iraq funds (about $1.2 billion) and of all Defense Department contracts in Iraq (more than $15 billion).
- Halliburton's contracts were handled *outside* of the professional, competitive bidding process that is standard procedure in the Defense Department. Instead, according to Bunatine Greenhouse, the top civilian contracting official at the U.S. Army Corps of Engineers, the Halliburton contracts were given special handling directly from "the OSD," the Office of the Secretary of Defense. Greenhouse was forced to step down or face demotion after objecting, in writing, to the special treatment granted to Halliburton; instead, she chose to file a whistleblower lawsuit.
- Two executives from Lloyd-Owen International (LOI), a security and management firm with contracts from the Iraqi government, which began after the U.S. occupation handed over power to Iraqis, gave evidence that Halliburton's overcharges for fuel transportation from Kuwait to Iraq are even

greater than previously believed, and that KBR, a Halliburton subsidiary, has not completed crucial fuel distribution work, despite its claim to have done so. In addition, Halliburton "has abused its relationship with the U.S. Army," by attempting to close the Iraq-Kuwait border so that LOI (a competitor of KBR) could not efficiently deliver fuel to the Iraq government.

The two LOI executives, Alan Waller and Gary Butters, gave dramatic testimony to the Senate that KBR managers had ordered their staff to *deny assistance* to LOI personnel, who had been attacked by insurgents en route to a base managed by KBR, near Fallujah. Four contract employees of LOI had been killed in the attack, and several others were wounded, but a KBR e-mail message presented to the Senators, showed that LOI was not to be helped. Fortunately, the U.S. Marines at the base came to the assistance of LOI.

- KBR threatened personnel in Iraq, who were working under its food service contract, if they talked to U.S. government auditors who had been sent to look into KBR's practice of overcharging for dining hall services. Rory Mayberry, Food Production Manager at Camp Anaconda in Iraq, testified that he was warned, and then transferred to a much more dangerous base near Fallujah in order to keep him from talking further to auditors.

Obstruction of Justice?

There is no question that Cheney's office was *directly* involved in the special treatment given to Halliburton. A further question is whether Cheney's pressure to prevent the Senate and House committees from investigating constitutes obstruction of justice.

More than a year ago, on June 8, 2004, a DoD political appointee, neo-conservative insider Michael Mobbs, who worked directly at the Office of the Secretary of Defense, briefed the House Government Reform Committee that Cheney's Chief of Staff and National Security advisor, I. Lewis "Scooter" Libby, had been consulted and informed by Mobbs about a secret Iraq war contract being awarded to Halliburton, on March 8, 2002, *before* the contract had been awarded, and before the Iraq war had begun.

Mobbs acknowledged that the decision to award the contract to Halliburton, by extending a previous contract, was not made by career civil servants, but by political appointees, in particular by himself and an "Energy Infrastructure Planning Group," in the DoD which he headed. Mobbs determined that other longstanding DoD contractors—Bechtel and Fluor—were not qualified for the job, and were not even allowed to submit bids for the oil infrastructure contract. Mobbs, who was also acting as a special assistant to Assistant Secretary of Defense for Policy, Doug Feith, had been a member of Feith's law firm. Other special operations set up by Feith in 2002, such as the Office of Special Policy, functioned as a secret, parallel intelligence service, reporting to Cheney's office. Like the Iran-Contra operation of the 1980s, the Cheney-OSD-Feith network was a "government within a government."

A year later, the evidence presented at the June 27, 2005 hearing shows that the Halliburton disease has just grown larger and larger through the special relationship with the Vice President, The reason is simple: The appropriate Senate and House committees—under Republican control—have refused to fulfill the Senate's Constitutional responsibility to look into the evidence of massive fraud and "bilking" of the American taxpayers, in the Iraq war. By this, Congress has also jeopardized the well-being of the troops in Iraq.

The four Democratic Senators at the podium June 27 were Byron Dorgan of North Dakota (who chaired the hearing), Harry Reid of Nevada, Frank Lautenberg of New Jersey, and Mark Dayton of Minnesota; they were joined by Rep. Henry Waxman of California, who has led a relentless battle to unearth Pentagon documents about Halliburton's activities since Spring 2003. They made clear they want official, *bipartisan* hearings.

Dorgan, the head of the Senate Democratic Policy Committee investigative committee, used strong language about the American taxpayers being "bilked," "cheated," and "defrauded" in order "to let a few special big companies wallow like hogs in a trough." Dorgan pointed to the Senate hearings in 1941, when the U.S. was about to enter World War II, and Harry Truman began investigations into reports of waste, and he also referenced the manner in which Donald Rumsfeld, as a Congressman in 1966, demanded a "vigorous investigation" into a Vietnam War contractor—Brown & Root! (The same Rumsfeld today who won't allow hearings.)

Lautenberg put the emphasis on Cheney: "[T]he bottom line is that the Republican leadership in the Congress is giving Halliburton a free pass. And I don't know whether that's because Vice President Cheney still receives a paycheck from Halliburton. That goes on through 2007. On that payroll was stock options."

But the Cheney/Halliburton relationship is much deeper. In 1991, when Cheney was Secretary of Defense, he rescued the faltering Halliburton from disaster, by putting it on the gravy train of the Defense Department, at the very outset of the process of replacing in-house logistics capabilities with outsourcing.

The DoD contracts breathed new life into Halliburton, which then took on Cheney as its Chief Executive Officer in 1995. In 2000, after he had selected himself to be George W. Bush's Vice Presidential candidate (the Bush family had put Cheney in charge of the search committee), Cheney resigned from Halliburton, with a $20 million retirement package, including six-figure salaries through 2007, and 433,333 shares of unexercised stock options.

Nobody knows the full extent of the Cheney relationship to Halliburton after 2001, since the records of the discussions that Cheney held with Halliburton while heading the "Energy Task Force," are still top secret. Only a series of Congressional investigations, backed by mass public support can answer those questions.

Documentation

House Committee Reports Mismangement of Iraq Funds

On June 21, 2005, the first official investigation of massive fraud, waste, and abuse in the U.S. handling of the "Development Fund for Iraq," took place in the House of Representatives under the auspices of the Government Reform Committee's Subcommittee on National Security. The report excerpted here, prepared by the Committee's Special Investigations Division Minority Staff, was released that day. It was requested by Rep. Henry A. Waxman (D-Calif.), who is the ranking member of the Committee. The report is titled "Rebuilding Iraq: U.S. Mismanagement of Iraqi Funds." Footnotes are not included. The full report can be found at www.democrats.reform.house.gov.

Executive Summary

Between March 19, 2003, when U.S. forces invaded Iraq, and June 28, 2004, when the U.S.-run Coalition Provisional Authority [CPA] turned power over to the interim Iraqi government, U.S. officials disbursed or obligated over $19.6 billion in Iraqi funds. The vast majority of these funds were withdrawn from the Development Fund for Iraq, the successor to the UN Oil for Food Program, while others came from frozen and seized Iraqi assets. Yet despite the magnitude of the sums involved, there has been little scrutiny of how U.S. officials managed the Iraqi assets entrusted to their care.

At the request of Rep. Henry Waxman, this report examines U.S. management of these Iraqi funds. It is based on a review of over 14,000 pages of financial records and other documents from the Federal Reserve; over 15,000 pages of documents from the Department of Defense; audit reports from the Special Inspector General for Iraq Reconstruction, the Defense Contract Audit Agency, the Government Accountability Office, and other auditors; and interviews with auditors, federal officials involved in the management or disbursement of the Iraqi funds, and Iraqi officials.

The report has three principal findings: (1) unprecedented sums of cash were withdrawn from Iraqi accounts at the Federal Reserve Bank in New York and transferred to U.S. officials at the CPA; (2) CPA officials used virtually no financial controls to account for these enormous cash withdrawals once they arrived in Iraq; and (3) there is evidence of substantial waste, fraud, and abuse in the actual spending and disbursement of the Iraqi funds.

Billions in Cash Withdrawals

The documents from the Federal Reserve indicate that the United States shipped nearly $12 billion in U.S. currency to Iraq between May 2003 and June 2004, an international currency transfer of unprecedented scale. The cash was drawn from accounts containing revenues from sales of Iraqi oil and frozen and seized assets of the former regime.

Nearly half of the currency shipped into Iraq under U.S. direction—more than $5 billion—flowed into the country in the final six weeks before control of Iraqi funds was returned to the interim Iraqi government on June 28, 2004. In the week before the transition, CPA officials ordered the urgent delivery of more than $4 billion in U.S. currency from the Federal Reserve, including one shipment of $2.4 billion—the largest shipment of cash in the bank's history.

In total, more than 281 million individual bills—including more than 107 million $100 bills—weighing 363 tons were shipped to Iraq.

Lack of Financial Controls

Once the cash from the Federal Reserve arrived in Iraq and came under the control of U.S. officials at the Coalition Provisional Authority, the cash was spent and disbursed with virtually no appropriate financial controls.

Under the terms of the UN resolution creating the Development Fund for Iraq [DFI], the fund was to be used "in a transparent manner to meet the humanitarian needs of the Iraqi people . . . and for other purposes benefitting the people of Iraq. But no certified public accounting firm was hired to audit disbursements, and hundreds of millions of dollars in overcharges were withheld from international auditors. According to the Special Inspector General for Iraq Reconstruction, U.S. officials cannot account for the spending of billions of dollars in cash.

An official involved in the spending and disbursement of the Iraqi proceeds described an environment awash in $100 bills. One contractor received a $2 million payment in a duffel bag stuffed with shrink-wrapped bundles of currency. Auditors discovered that the key to a vault was kept in an unsecured backpack. They also found that $774,300 in cash had been stolen from a vault. Cash payments were made from the back of a pickup truck, and cash was stored in unguarded sacks in Iraqi ministry offices. One official was given $6.75 million in cash and ordered to spend it in one week, before the interim Iraqi government took control of Iraqi funds.

Evidence of Waste, Fraud, and Abuse

Because of the lack of proper financial controls, there is no reliable accounting of how the Iraqi funds under U.S. control were spent or disbursed. There is, however, evidence that the expenditure and disbursement of these funds was characterized by significant waste, fraud, and abuse.

Examples of wasteful and potentially corrupt spending include the following:

• The largest single recipient of Iraqi funds is Halliburton, which received $1.6 billion in Iraqi oil proceeds under a contract to import fuel and repair oil fields. According to DCAA [Defense Contract Audit Agency] auditors, Halliburton's overcharges under this contract are more than $218 million.

• An inexperienced but politically connected security firm, Custer Battles, received over $11 million in Iraqi funds, including over $4 million in cash. The company has been barred from receiving federal contracts and faces a False Claims Act lawsuit for multiple fraudulent billings.

• Over $600 million in cash was shipped from Baghdad to four regions in Iraq to allow commanders flexibility to fund local reconstruction projects. An audit of one of the four regions found more than 80% of the funds could not be properly accounted for and that over $7 million in cash was simply missing. . . .

Need for Further Investigation

The findings in this report underscore the need for a comprehensive investigation into how the United States spent and disbursed billions of dollars in Iraqi funds. There is substantial evidence of widespread mismanagement, waste, and corruption in the spending and disbursement of over $19.6 billion in Iraqi funds during the period of U.S. control. The full extent of the waste, fraud, and abuse will not be known without additional investigation. . . .

III. Findings

A. The Federal Reserve Shipped Nearly $12 Billion in U.S. Currency to Iraq

The Federal Reserve shipped $11,981,531,000 in U.S. currency to Iraq between May 2003 and June 2004, according to documents from the Federal Reserve Bank of New York. The cash was drawn from the DFI and TSPA accounts containing revenues from sales of Iraqi oil and frozen and seized assets of the former regime. The CPA also controlled $926,700,000 in U.S. currency seized within Iraq, mainly from the vaults of the former regime.

This currency was shipped to Iraq on pallets loaded into C-130 cargo planes. A standard pallet of U.S. currency contains 40 cashpaks of 16,000 bills each and weighs 1,500 pounds. In the 13 months that the United States administered the DFI and TSPA, 484 pallets containing 19,360 cashpaks were shipped from New York to Iraq. These pallets held more than 281 million individual bills, weighing 363 tons. In total, the U.S. shipped to Iraq more than 107 million $100 bills.

According to internal Federal Reserve Bank records, CPA officials who controlled the DFI and TSPA ordered an initial shipment of currency to Iraq in April 2003, comprising

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More than 281 million bills, including more than 107 million $100 bills, were shipped to Iraq—weighing 363 tons, and without much disbursement control.

$20,008,000 in $1, $5, and $10 bills. Over the next two months, the shipments became larger: $179,340,000 in May 2003 and $465,920,000 in June 2003. Cash shipments from New York into Iraq continued at an average rate of once or twice a month for the rest of the year: $391,200,000 in July, $808,200,000 in August, $400,000,000 in September, $463,975,000 in October, and $500,000,000 in November.

The Dec. 12, 2003, shipment was markedly larger—$1.5 billion—and was described by a Federal Reserve official in an e-mail message as "the largest pay out of U.S. currency in Fed history."

In 2004, the shipments became more regular. The records show shipments of $750,400,000 in February, March, and April. As the CPA prepared to transfer authority to the interim Iraqi government, however, the scale of shipments increased suddenly and sharply: $1 billion was shipped in May 2004, followed by two massive shipments totalling more than $4 billion in the week before the transfer of sovereignty.

In the words of one Federal Reserve official, "Just when you think you've seen it all . . . the CPA is ordering $2,401,600,000 in currency to be shipped out on Friday June 18th." While the Federal Reserve was preparing this shipment, the CPA pushed back the delivery date, and requested an additional shipment:

"The new date is 22 June departure with arrival/delivery on 23 June. *It is important that we make these dates as we have little flex. HEADS UP!* We are going to request a second mission for a 28 June delivery" [emphasis in original].

A Federal Reserve official confirmed the delivery: "I checked the dates with Col. Davis and yes, they want delivery to Baghdad on Monday [June 28]. However, a Monday delivery to Baghdad would have required the Federal Reserve to take the unusual step of opening its vaults on a Sunday. The Federal Reserve and CPA sought to avoid that problem:

"[T]he CPA is now asking if INSTEAD OF doing the Sunday 6/27 shipment, we can ADD $1 bn to the already-scheduled Tuesday 6/22 shipment. If that is do-able, it avoids the whole Sunday accounting problem. . . but also makes it a *$3 bn* shipment . . . if the USAF [U.S. Air Force] agrees to do it, I would like to give the CPA an answer today on our ability to put another $1 bn in $100's on the plane."

In an e-mail with the subject "RE: Pocket Change," a CPA official again emphasized the need to push the schedule ahead: "We need to work the second mission as originally planned to arrive on 26th if at all possible. The 27th at latest. I am not sure we can get anything in here from the 28th through the 5 July. We have been ordered to limit travel out of the green zone between 28 June and 5 July. I am just hoping we don't have to back this date up."

Ultimately, the last-minute cash was sent to Iraq in two separate shipments: $2,401,600,000 on June 22, 2004, and $1,600,000,000 on June 25, 2004. The $2.4 billion delivered on these days replaced the December 2004 shipment as the largest pay out of U.S. currency in Fed history.

In total, nearly $12 billion in cash flowed into Iraq. Of this amount, nearly half—more than $5 billion—was shipped into the country in the month before the transition. . . .

The last-minute rush to spend Iraqi funds was halted by the Federal Reserve when the CPA transferred sovereignty to the interim Iraqi government on June 28, 2004, two days earlier than had been scheduled. After the transfer on the morning of June 28, CPA officials twice sought additional withdrawals from the Federal Reserve accounts, but these were rebuffed. The documents show that the Federal Reserve took:

"a strong view that effective as of the time AMB Bremer transferred authority (which is being reported in the press as 10:26 a.m. in Baghdad), the CPA no longer had control over Iraq's assets. . . . [S]ubsequent to transfer of sovereignty, COL Davis of the CPA sent us $200 million in payment orders to be executed today in New York. We have informed the Colonel that we are not in a position to honor these instructions. Second, also subsequent to the transfer of sovereignty, COL Davis sent us an instruction to transfer $800 million from the DFI main account into the new DFI subaccount, which we understand informally was created by AMB Bremer to hold funds that are earmarked internally within Iraq for payments connected to existing contracts. We have also informed COL Davis that we are not in a position to honor this instruction either (especially since it would require liquidating $1 billion worth of the CBI's [Central Bank of Iraq] holdings of USG [U.S. Government] securities."

B. The CPA Failed to Provide Adequate Financial or Physical Controls

Once the nearly $12 billion in cash arrived in Iraq, the cash was placed under the control of U.S. officials at the Coalition Provisional Authority. *Contrary to the requirements of the UN Security Council resolution and its own regulations, however, the CPA spent and disbursed the cash without appropriate financial or security controls. According to the Special Inspector General for Iraq Reconstruction, the result is that literally billions of dollars cannot be properly accounted for* [emphasis added].

In June 2003, the CPA issued a regulation requiring that an independent, certified public accounting firm oversee the expenditures of the Iraqi funds. The regulation directed:

"The CPA shall obtain the services of an independent, certified public accounting firm to support the objective of ensuring that the Fund is administered and used in a transparent manner for the benefit of the people of Iraq, and is operated consistent with Resolution 1483."

On April 20, 2004, however, CPA officials reported that the "CPA did not obtain the services of a certified public accounting firm as it was determined that these services were not those required." Instead, the CPA hired an obscure consulting firm called North Star Consultants, Inc., "to promote the effective administration of DFI Funds in a transparent manner for the benefit of the Iraqi people." The firm is so small that it reportedly operates out of a private home near San Diego.

When the Special Inspector General for Iraq Reconstruction audited North Stars work, the Special Inspector General found that North Star did not perform any review of the CPAs internal controls:

"In October 2003, a $1.4 million contract was awarded to North Star Consultants, Inc. that required the contractor to perform a review of internal controls and provide the CPA a written report of their evaluation. The North Star Consultants did not perform a review of internal controls as required by the contract. Consequently, internal controls over DFI disbursements were not evaluated. In addition, the Comptroller verbally modified the contract and employed the contractor to primarily perform accounting tasks in the Comptrollers office."

The CPA also provided inadequate physical controls to safeguard the billions of dollars of U.S. currency shipped to Iraq, according to the Special Inspector General. In an audit report, the Special Inspector General described "several physical safeguard violations" observed during the audit. . . .

The IAMB found similar problems. One audit by KPMG reported that $774,300 in cash had been stolen from one division's vault.

Frank Willis, a former CPA official, provided a first-hand account of the vast amounts of cash flowing through Iraq and the lack of financial and physical controls over the funds. During the second half of 2003, Mr. Willis served in Iraq as

Deputy Senior Advisor to the Ministry of Transportation and Communications and as the CPA's senior aviation official. Mr. Willis explained that under CPA control, a "wild west" atmosphere prevailed and the country was awash in brand new $100 bills.

According to Mr. Willis, when contractors needed to be paid by the CPA, they were told to "bring a big bag" for a cash payment. Mr. Willis personally witnessed a $2 million payment to contractor Custer Battles in shrink-wrapped stacks of $100 bills retrieved from a vault. . . .

The Special Inspector General for Iraq Reconstruction reported that cash payments to Iraqi contractors and Iraqi ministries similarly lacked physical security. According to the Special Inspector General, cash payments to contractors were made from the back of a pickup truck, and cash was stored in unsecured gunnysacks in Iraqi ministry offices.

Controls appeared to break down completely in the final days of CPA authority, just as billions of dollars in cash were being rushed into the country. A Special Inspector General audit found that CPA staff members were encouraged to spend cash quickly in its last days before the interim Iraqi government took control of the funds. In the South-Central region of Iraq, one disbursing official was given $6.75 million in cash on June 21, 2004, "with the expectation of disbursing the entire amount before the transfer of sovereignty" on June 28, 2004.

The end result is that billions in Iraqi funds spent or disbursed by the CPA cannot be accounted for. The Special Inspector General concluded that "the CPA did not establish or implement sufficient managerial, financial, and contractual controls to ensure DFI funds were used in a transparent manner" and that funds were "susceptible to waste, fraud, and abuse.". . .

C. There Is Mounting Evidence of Extensive Waste, Fraud, and Abuse

Due to the lack of proper controls, there is no reliable accounting of how the $19.6 billion in Iraqi funds was spent and disbursed during the period of U.S. control. There is, however, growing evidence that there was significant waste, fraud, and abuse of these Iraqi funds. Multiple audits of specific expenditures have found mismanagement, wasteful spending, and fraud.

1. Overcharges by Halliburton

The largest single recipient of DFI funds is Halliburton. Under a no-bid, monopoly contract with the U.S. Army Corps of Engineers, a Halliburton subsidiary, KBR, was paid approximately $2.5 billion for the importation of fuel for the Iraqi people, the preparation of oil field damage assessments, and the repair of oil facilities. Of the $2.5 billion Halliburton received, $1.6 billion came from Iraqi funds from the DFI.

Halliburton's work in Iraq has been plagued by overcharges. According to audits prepared by the Defense Contract Audit Agency (DCAA), the company's overcharges under the oil contract exceed $218 million. Of this amount, $177 million in overcharges were paid from funds in the DFI. . . .

DCAA also detailed numerous specific problems with Halliburton's charges. The agency found that Halliburton had failed to demonstrate that its prices for Kuwaiti fuel were "fair and reasonable" and had failed to negotiate better prices with its Kuwaiti subcontractor. In addition, Halliburton repeatedly refused to provide information requested by DCAA auditors, including its actual costs for fuel from Turkey and Jordan and the process it used to choose its Kuwaiti subcontractor.

Although Security Council Resolution 1483 requires "transparency," U.S. officials affirmatively sought to withhold information about Halliburton's overcharges from the IAMB. After failing for months to respond to repeated requests by the IAMB for DCAA's audits, U.S. officials finally provided the IAMB with "redacted copies of the DCAA audit reports on sole sourced contracts, at its meeting in October 2004." These audits were so heavily redacted, however, as to be nearly meaningless. Every reference to every overcharge in every audit submitted to the IAMB was blacked out. In total, references to overcharges and other questioned costs were redacted 463 times by Halliburton and U.S. officials.

2. Fraud by Custer Battles

In July 2003, a newly formed U.S. security firm with political connections, Custer Battles, was awarded a $16.8 million sole-source contract to provide security at Baghdad International Airport. In August 2003, the company also received a $21.3 million contract to provide security for the exchange of Iraqi currency. One of the principals in the company, Michael Battles, was a Republican candidate for Congress in Rhode Island in 2002 with White House ties. In addition to receiving millions of dollars in wire transfer payments from the DFI, Custer Battles also received over $4 million in cash from the CPA's vault in Baghdad. . . .

The performance of Custer Battles appears to be rife with waste, fraud, and abuse. In just one example, Custer Battles allegedly seized forklifts from Baghdad airport abandoned by Iraqi Airways, repainted them to cover the Iraqi Airways markings, claimed the forklifts were owned by a Cayman Islands shell company created by Custer Battles, and billed the government to lease the same forklifts under the currency exchange contract.

At a meeting between U.S. officials and Custer and Battles, a Custer Battles representative accidentally left behind a spreadsheet detailing the amounts that Custer Battles had overcharged the government. Government investigators subsequently verified that Custer Battles "fraudulently increased profits by inflating its claimed costs."

The company has been barred from receiving federal contracts, and it is now facing a federal lawsuit under the False Claims Act. . . .