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LRB | Vol. 27 No. 13 dated 7 July 2005 | Ed Harriman

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Where has all the money gone?

Ed Harriman follows the auditors into Iraq

US House of Representatives Government Reform Committee Minority Office

| Link: <http://www.democrats.reform.house.gov/>

US General Accountability Office

| Link: <http://www.gao.gov/>

Defense Contract Audit Agency

| Link: <http://www.dcaa.mil/>

International Advisory and Monitoring Board

| Link: <http://www.iamb.info/>

Coalition Provisional Authority Inspector General

| Link: <http://www.cpa-ig.com/>

Special Inspector General for Iraq Reconstruction

| Link: <http://www.sigir.mil/>

On 12 April 2004, the Coalition Provisional Authority in Erbil in northern Iraq handed over \$1.5 billion in cash to a local courier. The money, fresh \$100 bills shrink-wrapped on pallets, which filled three Blackhawk helicopters, came from oil sales under the UN's Oil for Food Programme, and had been entrusted by the UN Security Council to the Americans to be spent on behalf of the Iraqi people. The CPA didn't properly check out the courier before handing over the cash, and, as a result, according to an audit report by the CPA's inspector general, 'there was an increased risk of the loss or theft of the cash.' Paul Bremer, the American pro-consul in Baghdad until June last year, kept a slush fund of nearly \$600 million cash for which there is no paperwork: \$200 million of this was kept in a room in one of Saddam's former palaces, and the US soldier in charge used to keep the key to the room in his backpack, which he left



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Stuart Kerr : On Trial in Turkey

on his desk when he popped out for lunch. Again, this is Iraqi money, not US funds.

Degrees of Not Knowing

Rory Stewart : Does anyone know how to govern Iraq?

The 'reconstruction' of Iraq is the largest American-led occupation programme since the Marshall Plan. But there is a difference: the US government funded the Marshall Plan whereas Donald Rumsfeld and Paul Bremer have made sure that the reconstruction of Iraq is paid for by the 'liberated' country, by the Iraqis themselves. There was \$6 billion left over from the UN Oil for Food Programme, as well as sequestered and frozen assets, and revenue from resumed oil exports (at least \$10 billion in the year following the invasion). Under Security Council Resolution 1483, passed on 22 May 2003, all of these funds were transferred into a new account held at the Federal Reserve Bank in New York, called the Development Fund for Iraq (DFI), so that they might be spent by the CPA 'in a transparent manner . . . for the benefit of the Iraqi people'. Congress, it's true, voted to spend \$18.4 billion of US taxpayers' money on the redevelopment of Iraq. But by 28 June last year, when Bremer left Baghdad two days early to avoid possible attack on the way to the airport, his CPA had spent up to \$20 billion of Iraqi money, compared to \$300 million of US funds.

Marching Orders

Ronan Bennett on the new future of Northern Ireland

Short Cuts

Paul Laity : Little England

The 'financial irregularities' described in audit reports carried out by agencies of the American government and auditors working for the international community collectively give a detailed insight into the mentality of the American occupation authorities and the way they operated, handing out truckloads of dollars for which neither they nor the recipients felt any need to be accountable. The auditors have so far referred more than a hundred contracts, involving billions of dollars paid to American personnel and corporations, for investigation and possible criminal prosecution. They have also discovered that \$8.8 billion that passed through the new Iraqi government ministries in Baghdad while Bremer was in charge is unaccounted for, with little prospect of finding out where it went. A further

\$3.4 billion earmarked by Congress for Iraqi development has since been siphoned off to finance 'security'.

That audit reports were commissioned at all owes a lot to Henry Waxman, a Democrat and ranking minority member of the House of Representatives Committee on Government Reform. Waxman voted in favour of the invasion of Iraq. But since the war he's been demanding that the Bush administration account for its cost. Within six months of the invasion, Waxman's committee had evidence that the Texas-based Halliburton corporation was being grossly overpaid by the American occupation authorities for the petrol it was importing into Iraq from Kuwait, at a profit of more than \$150 million. Waxman and his assistants found that Halliburton was charging \$2.64 a gallon for petrol for Iraqi civilians, while American forces were importing the same fuel for \$1.57 a gallon.

Halliburton's chairman, David Lesar, who took over from Dick Cheney in July 2000, robustly defended his firm. But Waxman raised another question: if Halliburton was being allowed to rip off the Iraqi people, was the Bush administration allowing it to milk the US government as well? Waxman's committee instructed Congress's General Accountability Office to look into Halliburton's biggest contract in Iraq: providing virtually all back-up facilities – from meals to laundry soap – to American forces. LOGCAP (Logistics Civil Augmentation Programme) contracts like this one are a product of the new 'slimmed down' American military, the quartermaster's equivalent of Rumsfeld's 'invasion lite'. Rather than have uniformed troops peel potatoes and scrub floors, base support services have been privatised and contracted out so that, the idea goes, soldiers can get on with the fighting. The contracts are paid on a cost-plus basis, which allows the contractor to charge for what it has spent, then add on a profit. LOGCAP contracts have not been put out to tender, but rather awarded to a few US firms, the largest being Halliburton and its subsidiary Kellogg,

Brown & Root.

The GAO report of July 2004 found that in the first nine months of the occupation, KBR was allowed a free hand in Iraq: a free hand, for example, to bill the Pentagon without worrying about spending limits or management oversight or paperwork. Millions of dollars' worth of new equipment disappeared. KBR charged \$73 million for motor caravans to house the 101st Airborne Division, twice as much as the army said it would cost to build barracks itself; KBR charged \$88 million for three million meals for US troops that were never served. The GAO calculated that the army could have saved \$31 million a year simply by doing business directly with the catering firms that KBR hired. In June 2004, the GAO continued, 'by eliminating the use of LOGCAP and making the LOGCAP subcontractor the prime contractor, the command reduced meal costs by 43 per cent without a loss of service or quality.'

The GAO report makes clear that the Americans had given little thought as to how they might prevent looting and rebuild Iraqi society. They hadn't even planned how they were going to provision the US forces staying on in Iraq: 'the Army Central Command did not develop plans to use the [KBR] contract to support its military forces in Iraq until May 2003' – a month after Saddam fell. Even then, this contract – with an estimated value of \$3.894 billion – did not adequately provide for dining facilities, pest control, laundry services, morale, welfare and recreation, troop transportation or combat support services at the American bases hastily being built across Iraq. Stung by Waxman's revelations about Halliburton's petrol profiteering, and realising that KBR's costs were spiralling out of control (LOGCAP costs in Kuwait, Iraq and Afghanistan rose from a projected yearly total of \$5.8 billion in September 2003 to \$8.6 billion in January 2004), the army vice chief of staff 'asked units to control costs and look for alternatives to the LOGCAP contract'. This was the first admission that the Pentagon could not afford

the occupation on top of the war.

At the same time, the Pentagon's own auditors, the Defense Contracts Audit Agency, went to Houston to have a look at KBR's books. They were not happy with what they found:

Our examination disclosed several deficiencies in KBR's billing system resulting in billings to the government that are not prepared in accordance with applicable laws and regulations and contract terms. We have also found system deficiencies resulting in material invoicing misstatements that are not prevented, detected and/or corrected in a timely manner.

They also found that 'KBR also does not monitor the ongoing physical progress of subcontracts or the related costs and billings.' When the auditors asked to see the files of payments to subcontractors to back up the invoices KBR submitted to the government, there weren't any: 'We found no such documents included in KBR's subcontract files, nor did we find any log of subcontractor payments.' So how did KBR work out its monthly invoices to the government for its whopping \$3.9 billion contract? 'The explanation begins with the costs on a spreadsheet with no indication of where or how these costs are accumulated.' The auditors also wanted to know what happened to the money the government had paid for those three million non-existent meals:

Despite repeated requests over two months, KBR has not been able to provide an adequate explanation or adequate documentation for the payments to any DFAC [dining-hall] subcontractors. The limited documentation that has been provided shows, for example, that KBR has added 'overage' factors of 10

to 35 per cent to each bill for one of the subcontractors. We still do not have an adequate explanation of the 'overage' factor.

KBR's response has been to tough it out. The company wrote to the auditors saying that its position regarding the meals 'had been misquoted as well as misinterpreted'. The auditors, the corporation said, knew full well that KBR had 'established a Tiger Team that is actively researching and analysing the facts and circumstances surrounding each of its DFAC subcontracts'. 'Tiger Teams' are in-house investigative units. KBR's Tiger Team stayed at the five-star Kuwait Kempinski Hotel, where its members ran up a bill of more than \$1 million. This outraged the army, whose troops were sleeping in tents at a cost of \$1.39 a day. The army asked the Tiger Team to move into tents. It refused. As to how the Tiger Team 'actively researched and analysed the facts', we have the sworn testimony that a KBR employee gave to Congressman Waxman's committee: 'The Tiger Team looked at subcontracts with no invoice and no confirmation that the products contracted for were being used. Instead of investigating further, they would recommend extending the subcontract.'

The Pentagon auditors asked to see 'evidence that KBR's internal audit department is functionally and organisationally independent and sufficiently removed from management to ensure that it can conduct audits objectively and can report its findings, opinions and conclusions without fear of reprisal.' KBR locked them out of its audit department. The auditors then asked who did KBR's audits. Halliburton, KBR wrote back. The Pentagon auditors said that from then on KBR would have to submit all bills to them 'for provisional approval prior to submission for payment'. Tough talk. But, despite all the threats to withhold payment, and with several lawsuits pending, KBR and Halliburton have now been paid more than \$10 billion for quartermastering US

forces in Iraq.

One of KBR's contracts was for transporting supplies between American bases. Fleets of new Mercedes Benz trucks, costing \$85,000 each, travelled up and down Iraq's central highways every day, accompanied by armed US military escorts. If there were no goods to transport, KBR dispatched empty lorries anyway, and billed accordingly. The lorries didn't carry replacement air and oil filters, essential when driving in the desert. They didn't even carry spare tyres. If one broke down, it was abandoned and destroyed so no one else could use it, and left burning by the roadside. For fear of ambush, KBR drivers were told not to slow down. 'The truck in front of the one I was riding ran a car with an Iraqi family of four off the road,' a KBR employee told Waxman's committee. 'My driver said that was normal.'

American profligacy with Iraqi money has been, if anything, even worse. According to the CPA's own rules, the authority 'was expected to manage Iraqi funds in a transparent manner that fully met the CPA's obligations under international law including Security Council Resolution 1483'. Despite repeated efforts, however, it was only in October 2003, six months after the fall of Saddam, that an International Advisory and Monitoring Board (IAMB), with representatives from the United Nations, the World Bank, the IMF and the Arab Fund for Economic and Social Development, was established to provide independent, international financial oversight of the CPA's spending.

The IAMB then spent months trying to find auditors acceptable to the US. The Bahrain office of KPMG was finally appointed in April 2004. It was stonewalled. 'KPMG has encountered resistance from CPA staff regarding the submission of information required to complete our procedures,' they wrote in an interim report. 'Staff have indicated . . . that co-operation with KPMG's undertakings is given a low priority.' KPMG had one meeting at the Iraqi Ministry of Finance;

meetings at all the other ministries were repeatedly postponed. The auditors even had trouble getting passes for the Green Zone.

There was a good reason for the Americans to stall. At the end of June 2004, the CPA would be disbanded and Bremer would leave Iraq. The Bush administration wasn't going to allow independent auditors to be in a position to publish a report into the financial propriety of its Iraqi administration while Bremer was still answerable to the press. The report was published in July. The auditors found that the CPA hadn't kept accounts for the hundreds of millions of dollars of cash in its vault, had awarded contracts worth billions of dollars to American firms without tender, and had no idea what was happening to the money from the Development Fund for Iraq (DFI) which was being spent by the interim Iraqi government ministries.

An Iraqi hospital administrator told me that, as he was about to sign a contract, the American army officer representing the CPA had crossed out the original price and doubled it. The Iraqi protested that the original price was enough. The American officer explained that the increase (more than \$1 million) was his retirement package. Iraqis who were close to the Americans, had access to the Green Zone, or held prominent posts in the new government ministries, were also in a position to benefit enormously. Iraqi businessmen complain endlessly that they had to offer substantial bribes to Iraqi middlemen just to be allowed to bid for CPA contracts. Iraqi ministers' relatives got top jobs and fat contracts.

Hard evidence comes from a further series of audits and reports carried out by the office of the CPA's own inspector general (CPA-IG). Set up in January 2004, it reported to Congress. Its auditors, accountants and criminal investigators often found themselves sitting alone at cafeteria tables in the Green Zone, shunned by their compatriots. Their audit, published in July 2004, found that the American contracts officers in the CPA and the

Iraqi ministries 'did not ensure that . . . contract files contained all the required documents, a fair and reasonable price was paid for the services received, contractors were capable of meeting delivery schedules, or that contractors were paid in accordance with contract requirements'.

Pilfering was rife. Millions of dollars in cash went missing from the Iraqi Central Bank. Between \$11 million and \$26 million worth of Iraqi property sequestered by the CPA was unaccounted for. The payroll was padded with hundreds of ghost employees. Millions of dollars were paid to contractors for phantom work: \$3,379,505 was billed, for example, for 'personnel not in the field performing work' and 'other improper charges' on a single oil pipeline repair contract. An Iraqi sports coach was paid \$40,000 by the CPA. He gave it to a friend who gambled it away then wrote it off as a legitimate loss. 'A complainant alleged that Iraqi Airlines was sold at a reduced price to an influential family with ties to the former regime. The investigation revealed that Iraqi Airlines was essentially dissolved, and there was no record of the transaction.' Most of the 69 criminal investigations the CPA-IG instigated related to alleged 'theft, fraud, waste, assault and extortion'. It also investigated 'a number of other cases that, because of their sensitivity, cannot be included in this report'. At around this time, 19 billion new Iraqi dinars, worth about £6.5 million, were found on a plane in Lebanon which had been sent there by the American-appointed Iraqi interior minister.

The IAMB, meanwhile, discovered that Iraqi oil exports were unmetered. Neither the Iraqi State Oil Marketing Organisation nor the American authorities could give a satisfactory explanation for this. 'The only reason you wouldn't monitor them is if you don't want anyone else to know how much is going through,' one petroleum executive told me. Officially, Iraq exported oil worth \$10 billion in the first year of the American occupation. Christian Aid has estimated that oil worth up to an additional \$4 billion may also have been exported and is

unaccounted for. If this is correct, it would have created an off the books slush fund that both the Americans and their Iraqi allies could use with impunity to cover expenditures they would rather keep secret – among them the occupation costs, which were rising far beyond what the Bush administration could comfortably admit to Congress and the international community.

America's situation in Iraq took a turn for the worse in April 2004, with the uprisings in Najaf and Fallujah, the Abu Ghraib prison scandal and mass defections from the new Iraqi security forces. 'At the beginning of April,' one of the audits says, 'the Iraqi National Guard force held steady at around 32,000 personnel. Between 9 and 16 April this number dropped to a low of 17,500.' As for the police, 'the Iraqi Ministry of Interior has decided to reduce the number of police officers to 89,000' – from 120,000 – 'by trimming from its rolls those who have proved to be unsuitable.' At the same time, 'recent attacks on the pipelines reduced exports in April to an average of 1.7 million barrels per day and 1.4 million barrels per day in May. The total could possibly be lower in June.' That's a million barrels per day fewer than under Saddam. Across Iraq, hospitals and schools were derelict, electricity was intermittent, and water supplies were polluted.

The American response to the militant insurgency and to the loss of their moral credentials at Abu Ghraib was a 'hearts and minds' campaign. Law-abiding Iraqis were to be shown respect and given buckets of money, while Bremer and the CPA prepared to hand over the management of Iraq to an interim government picked by the Americans. KBR's lorry drivers were told not to run Iraqis off the road. And millions of dollars in cash – most of it Iraqi money – were handed out by American commanders in local communities across Iraq in an attempt to buy friends. 'The Commanders' Emergency Reconstruction Programme continues to be a very effective programme . . . which has built trust and support for the United States at

grass roots level,' the CPA-IG report said. 'As of 19 June 2004, the local commanders have spent \$364.6 million . . . on over 27,600 small projects . . . repairing and refurbishing water and sewer lines, cleaning up highways by removing waste and debris, transporting water to remote villages, purchasing equipment for local police stations, upgrading schools and clinics, purchasing school supplies, removing ordnance from public spaces . . .' It was too little too late. With the concentration on big infrastructure projects and contracts for American corporate cronies and Iraqi businessmen 'friends', there had been little for ordinary Iraqis to benefit from or to take part in. Rumsfeld knew by the beginning of 2004 that his and Bremer's management was in deep trouble. 'Iraqis are puzzled; they truly don't know what the US really intends for them. We haven't communicated well. The "story" has not been believed,' a Personnel Assessment Team reported to Rumsfeld on 11 February 2004. 'We have in essence a pick-up organisation in place to design and execute the most demanding transformation in recent history.'

Last September was the crucial month. By then the US government had spent \$60 billion on the US forces in Iraq, and \$1 billion on the Iraqi security forces. The Americans knew that they were widely hated. 'In the war of ideas or the struggle for hearts and minds . . . American efforts have not only failed, they may also have achieved the opposite of what they intended' was the principal finding of the Pentagon's Defense Science Board. The answer was a big rethink – a strategic spending review. The \$18.4 billion Iraq Relief and Reconstruction Fund that Congress had voted to rebuild Iraq, and which Bremer had left largely untouched and possibly never intended to spend as mandated, would be spent on counter-insurgency warfare directed by US commanders and John Negroponte from the new US embassy in Baghdad.

First, \$3 billion was diverted from the budgets to restore Iraq's destroyed electricity supply, water

supply and sewers to security and law enforcement. The reduced electricity budget (down from \$5.6 billion to \$4.4 billion) was to be spent patching up neighbourhoods flattened by American fire power, and electricity pylons and stations sabotaged by the insurgents. The electricity supply had become one of the war's main battlegrounds.

This meant fewer large contracts for American and international energy firms, which were further discouraged from staying in Iraq as their personnel were attacked and the price of private security soared. It also meant flickering lights and hours of power cuts for ordinary Iraqis. Yet development and reconstruction were officially deferred. Or, as the auditors put it, 'this redistribution of funds . . . appears to be generally consistent with the stated management objective of de-emphasising longer-term development projects as funds are shifted toward more immediately realisable goals.'

'The country's widely failing sewage management infrastructure and the sporadic availability of potable water,' the auditors wrote, 'continue to pose health threats and tarnish overall impressions of reconstruction achievements.' Yet the water and sanitation budget was cut almost in half, as long-term development was again handed over to the Iraqi government so US funds could be doled out to Iraqis in neighbourhoods where the insurgents held sway and it was now unsafe for foreigners to go. 'Initial plans to rehabilitate large portions of the country's water and wastewater system through the IRRF have been curtailed,' the auditors wrote. 'Water resources and sanitation sector funds have been reallocated to security, governance, debt relief and efforts to boost Iraqi employment opportunities . . . creating local water and wastewater projects to stimulate Iraqi employment and deliver needed services to high-risk areas.'

The budget for employing Iraqis rose by more than 350 per cent, to be spent largely on 'local projects that will visibly impact Iraqi communities before the 30 January 2005 national election'. At the same

time, 'the construction sector saw the withdrawal of the prime design-and-build road contractor from Iraq, reportedly because of concern for personnel and site security.' The insurgents had forced a fundamental reshaping of US spending priorities, further widened the no man's land between themselves and US troops, polarising Iraq, and assuming the initiative in the war.

None of this has changed. In December 2004, the US Mission in Iraq allotted an extra \$457 million to keep the electricity working and 'to boost short-term employment through health, electricity and water initiatives in Najaf, Samarra, Sadr City and Fallujah. Together,' the auditors reported, 'the two adjustments reflect a significant change in US spending priorities.'

In March this year, a further \$832 million 'was reprogrammed for management initiatives', largely 'for operations and maintenance at various power and water plants, urgent work in the electrical and oil sectors' to repair sabotage damage, and to pay for building contracts on which it had become extremely dangerous and expensive to work. The most recent audit, issued in April, reports that projects are running between 50 and 85 per cent above the original estimated costs. The free-spending days are over. Americans are having to divert increasing amounts of US development money just to keep what remains of Iraq's damaged public utilities working, and to finance the Iraqi police and army.

Six months into the occupation, in autumn 2003, the Americans planned to transfer security to the Iraqi police and army so they could 'draw down US forces from Iraq'. The goal was to have 250,000 Iraqis in the security forces by the following summer. However, as a GAO report submitted to Congress in March this year explains, most of the recruits were neither vetted nor properly trained. The result has been that the 'Ministry of Interior's security forces committed numerous serious human rights abuses'; the Iraqi police and army

have been easily infiltrated by former Ba'athists and other insurgents; and morale is low.

As the GAO put it,

police and military units performed poorly during an escalation of insurgent attacks against the Coalition in April 2004 . . . Many Iraqi security forces around the country collapsed during this uprising . . . units abandoned their posts and responsibilities and in some cases assisted the insurgency . . . Police manning a checkpoint in one area were reporting convoy movements by mobile telephone to local terrorists. Police in another area were infiltrated by former regime elements.

'In response to the unwillingness of a regular army battalion to fight Iraqi insurgents in Fallujah', the Americans created a special Iraqi Intervention Force. Then last autumn they decided to beef up the Iraqi police service from 90,000 to 135,000, to add 20 battalions to the Iraqi National Guard and double the border guard. This February, the State Department glowingly reported that almost 82,000 Iraqi police and 60,000 troops had been trained.

These figures are grossly misleading. According to the GAO's March report to Congress 'the reported number of Iraqi police is unreliable because the Minister of the Interior does not receive consistent and accurate reporting from the police forces around the country. The data does not exclude police absent from duty.' As for the army, 'Ministry of Defense reports exclude the absent military personnel from its totals. According to DOD officials, the number of absentees is probably in the tens of thousands.' Furthermore the State Department no longer reports on whether Iraqi security forces have the required weapons, vehicles, communication equipment and body armour.

Bluntly, 'US government agencies do not report reliable data on the extent to which Iraqi security forces are trained and equipped.' The GAO further found that the Iraqi police are being trained for 'community policing in a permissive security environment' rather than getting 'paramilitary training for a high-threat hostile environment'. It's hardly surprising that close to 2000 Iraqi police have been killed.

This is all horribly reminiscent of American policy in Vietnam. American troops are staying in Iraq to stiffen Iraqi forces who are dying in droves in an escalating counter-insurgency war that neither the Americans nor the Iraqi forces are prepared for. The Americans originally allocated \$5.8 billion to build the Iraqi security forces. In February this year, George Bush asked Congress for another \$5.7 billion to go towards this task.

What's happened to the rebuilding of Iraqi society, and real governance based on transparency and accountability? In the few weeks before Bremer left Iraq, the CPA handed out more than \$3 billion in new contracts to be paid for with Iraqi funds and managed by the US embassy in Baghdad. The CPA inspector general, now called the Special Inspector General for Iraq Reconstruction, has just released an audit report on the way the embassy has dealt with that responsibility. The auditors reviewed the files of 225 contracts totalling \$327 million to see if the embassy 'could identify the current value of paid and unpaid contract obligations'. It couldn't. 'Our review showed that financial records . . . understated payments made by \$108,255,875' and 'overstated unpaid obligations by \$119,361,286'. The auditors also reviewed the paperwork for a further 300 contracts worth \$332.9 million. 'For 198 of 300 contracts, documentation was not available . . . to indicate that contract execution was monitored for performance and payment . . . Files did not contain evidence that goods and services had been received for 154 contracts, that invoices had been submitted for 169 contracts, or that payments had been made for 144 contracts.'

Clearly the Americans see no need to account for spending the Iraqis' national income now any more than they did when Bremer was in charge. Neither the embassy chief of mission nor the US military commander replied to the auditors' invitation to comment. Instead, the US army contracting commander lamely pointed out that 'the peaceful conditions envisioned in the early planning continue to elude the reconstruction efforts.' This is a remarkable understatement. It's also an admission that Americans can't be expected to do their sums when they are spending other people's money to finance a war.

Not only the Americans are guilty of a lack of accountability. In January this year, the SIGIR issued a report detailing evidence of fraud, corruption and waste by the Iraqi Interim Government when Bremer was in charge. They found that \$8.8 billion – the entire Iraqi Interim Government spending from October 2003 through June 2004 – was not properly accounted for. The Iraqi Office of Budget and Management at one point had only six staff, all of them inexperienced, and few of the ministries had budget departments. Iraq's newly appointed ministers and their senior officials were free to hand out hundreds of millions of dollars in cash as they pleased, while American 'advisers' looked on. 'CPA personnel did not review and compare financial, budgetary and operational performance to planned or expected results,' the auditors explained. One ministry gave out \$430 million in contracts without its CPA advisers seeing any of the paperwork. Another claimed to be paying 8206 guards, but only 602 could be accounted for. There is simply no way of knowing how much of the \$8.8 billion went to pay for private militias and into private pockets.

'It's remarkable that the inspector general's office could have produced even a draft report with so many misconceptions and inaccuracies,' Bremer said in his reply to the SIGIR report. 'At Liberation, the Iraqi economy was dead in the water. So CPA's top priority was to get the economy going.' The

SIGIR responded by releasing another audit this April, an investigation into the way Bremer's CPA managed cash payments from the Development Fund for Iraq in just one part of Iraq, the region around Hillah: 'During the course of the audit, we identified deficiencies in the control of cash . . . of such magnitude as to require prompt attention. Those deficiencies were so significant that we were precluded from accomplishing our stated objectives.' They found that CPA headquarters in Baghdad 'did not maintain full control and accountability for approximately \$119.9 million', and that agents in the field 'cannot properly account for or support over \$96.6 million in cash and receipts'. These agents were mostly Americans in Iraq on short-term contracts. One agent's account balance was 'overstated by \$2,825,755, and the error went undetected'. Another agent was given \$25 million cash for which Bremer's office 'acknowledged not having any supporting documentation'. Of more than \$23 million given to another agent, there are only records for \$6,306,836 paid to contractors. Many of the American agents submitted their paperwork hours before they headed to the airport. Two left Iraq without accounting for \$750,000 each; the money has never been found. CPA head office cleared several agents' balances of between \$250,000 and \$12 million without any receipts. One agent who did submit receipts, on being told that he still owed \$1,878,870, turned up three days later with exactly that amount. The auditors thought that 'this suggests that the agent had a reserve of cash,' pointing out that if his original figures had been correct, he would have accounted to the CPA for approximately \$3.8 million more than he had been given in the first place, which 'suggests that the receipt documents provided to the DFI account manager were unreliable'.

Staff at the CPA head office in Baghdad usually worked 12 hours a day, seven days a week, often on three-month postings. They didn't trust the computer network so many of them put their records on USB sticks and in private computer files

that couldn't be opened by their replacements. At one point there was only one officer at the CPA account manager's office clearing all the paying agents throughout Iraq. Paying agents in the field often couldn't get – let alone be bothered with – the paperwork, which was frustrating for the honest ones and a boon to their crooked colleagues. So where did the money go? You can't see it in Hillah. The schools, hospitals, water supply and electricity, all of which were supposed to benefit from this money, are in ruins. The inescapable conclusion is that many of the American paying agents grabbed large bundles of cash for themselves and made sweet deals with their Iraqi contacts.

And so it continues. The IAMB's most recent audit of Iraqi government spending, which is yet to be published, talks of 'incomplete accounting', 'lack of documented justification for limited competition for contracts at the Iraqi ministries', 'possible misappropriation of oil revenues', 'significant difficulties in ensuring completeness and accuracy of Iraqi budgets and controls over expenditures', and 'non-deposit of proceeds of export sales of petroleum products into the appropriate accounts in contravention of UN Security Council Resolution 1483'.

Bremer re-established the Iraqi Board of Supreme Audit a month before he left Baghdad. It is now said to have more than a thousand auditors and support personnel spread throughout Iraqi government ministries. A new Iraqi Commission on Public Integrity, the equivalent of the FBI, is said to have 200 staff and 15 US advisers. Yet according to the latest American figures, of more than 3400 complaints, only about one in 50 has been passed to the Commission on Public Integrity for possible prosecution.

There is an explanation for this lack of activity. On Thursday, 1 July 2004, two days after Bremer left Baghdad, Ehsan Karim, the new head of the Board of Supreme Audit, was killed by a bomb as he left the Finance Ministry. Two weeks later, Sabir Karim

(no relation) was murdered in a drive-by shooting as he set off for work at the Ministry of Industry, where he was in charge of investigating corruption. A few weeks ago, another senior official investigating corruption was murdered. The IAMB keeps the names of its Iraqi delegates secret to keep them alive.

In the absence of any meaningful accountability, Iraqis have no way of knowing how much of the nation's wealth is being handed out to ministers' and civil servants' friends and families or funnelled into secret overseas bank accounts. Given that many Ba'athists are now back in government, some of that money may even be financing the insurgents.

Both Saddam and the US profited handsomely during his reign. He controlled Iraq's wealth while most of Iraq's oil went to Californian refineries to provide cheap petrol for American voters. US corporations, like those who enjoyed Saddam's favour, grew rich. Today the system is much the same: the oil goes to California, and the new Iraqi government spends the country's money with impunity.

Ed Harriman is a journalist and television documentary film-maker.

From the *LRB* letters page: [4 August 2005] [James Hamilton-Paterson](#).