Pentagon whitewash for Halliburton corruption in Iraq

By Patrick Martin
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In a decision that epitomizes the war profiteering and corruption that have accompanied the American operation in Iraq, US Army officials have decided to override the recommendations of the Pentagon's own internal auditors and pay nearly all of a quarter-billion dollars in disputed billings submitted by a subsidiary of Halliburton, the huge oil services and construction firm headed by Dick Cheney until he became vice president.

The Defense Contract Audit Agency (DCAA) flagged more than $250 million in charges submitted by the subsidiary, Kellogg Brown & Root, as questionable and potentially unjustified. This amounted to more than 10 percent of the $2.41 billion no-bid contract which KBR was awarded in 2003 to deliver fuel and conduct repairs in Iraq's oilfields.

Halliburton and KBR have raked in a total of $11 billion in Pentagon funds for supply, repair and reconstruction projects in Iraq since the US invasion, more than half the total.

Army officials defended the decision in response to questions raised by the *New York Times*, telling the newspaper, "the contractor is not required to perform perfectly to be entitled to reimbursement."

The DCAA found that in some cases KBR was charging the Army fuel transportation costs nearly three times what competitors were charging. A total of $263 million in costs were questioned, but the Army decided to pay $252.9 million of the disputed amount. As the *Times* explained in an article February 27, "That means the Army is withholding payment on just 3.8 percent of the charges questioned by the Pentagon audit agency, which is far below the rate at which the agency's recommendation is usually followed or sustained by the military.... Figures provided by the Pentagon audit agency on thousands of military contracts over the past three years show how far the Halliburton decision lies outside the norm. In 2003, the agency's figures show, the military withheld an average of 66.4 percent of what the auditors had recommended, while in 2004 the figure was 75.2 percent and in 2005 it was 56.4 percent."

The *Times* estimated that Halliburton's profit from the cost-plus contract was about $100 million, meaning that a typical recovery rate for overcharges detected by the auditor would have wiped it out entirely. Instead of such an outcome, an Army official told the newspaper that the company would lose about $7 million in profits because of the auditors' questioning of the costs that were the basis for markups and fees for KBR.

The Iraqi people as well as the American taxpayer will be robbed under this arrangement, since the total of $2.4 billion for Halliburton/KBR will come from $900 million appropriated by the US Congress and $1.5 in Iraqi oil proceeds and funds seized from the ousted government of Saddam Hussein.

A spokesman for the DCAA hinted at the higher-level intervention that influenced—and ultimately decided—the outcome of the case. Lt. Col. Brian Maka told the *Times* that the settlement with KBR was based on "broader business considerations" than the audit and that the DCAA "has no indication of problems with the audit process." The inference clearly to be drawn is that Cheney's well-publicized role, as well as KBR's longstanding connections with top Pentagon brass, secured the whitewash.

The concern for the political impact of the KBR audit has been evident from the beginning of this case. Pentagon officials tried to keep the auditors' findings secret during the fall of 2004, in an effort to avoid a scandal that would do damage to the Bush-Cheney reelection campaign.

The confiscated Iraqi funds have been used for Halliburton contracts under the terms of a UN Security Council resolution which gave after-the-fact authorization for the US occupation. But when UN officials asked to see the audits of money whose disbursement they were responsible for overseeing, they were given copies with most criticism of KBR blacked out. Much of the vitriol directed by congressional Republicans against the UN over the "oil-for-food" scandal has been a preemptive effort to block the international body from exposing the much larger corruption now being practiced by corporate America in Iraq.

The total amounts are staggering. In January 2005, one investigation concluded that $8.8 billion distributed to Iraqi ministries under the Coalition Provisional Authority had little or no oversight or control. Much of this money was simply pocketed by American officials and their Iraqi stooges. Enormous amounts of cash—including the largest single shipment in the history of the US Federal Reserve—flooded Iraq with hundred-dollar bills. From May 2003 to June 2004, for instance, the Federal Reserve shipped $12 billion in cash to Iraq, $4 billion of it in the final month of the CPA, when the orgy of plunder reached its peak.

In January 2006, a more comprehensive audit of thousands of rebuilding contracts found at least $230 million in unjustified payments from some $5.8 billion in Iraqi government funds and oil sales proceeds.

Only the smallest of small fries have been prosecuted for the wholesale looting of Iraq. The vice president of Eagle Global Logistics, a KBR subcontractor, pled guilty to $1.14 million in improper billing for fraudulent "war risk surcharges." Christopher J. Cahill, of Katy, Texas, was named in a sealed plea agreement announced February 16 by a federal district court in Rock Island, Illinois, location of the Army Field Support Command. He will be sentenced May 26.

Another contractor, Robert J. Stein of S&K Technologies, a Montana firm, pled guilty February 2 to charges of conspiracy, money laundering and weapons possession charges. He admitted stealing $2 million in cash and taking additional bribes from businessman Philip H. Bloom, during the period in 2003-2004 when he was a subcontractor for the CPA in the Iraqi city of Hilla. Several middle-ranking Army officers have been charged in the case as well.

Stein was put in charge of distributing over $80 million in reconstruction money in Hilla, despite having a felony fraud conviction. He used his money to buy, among other things, a Lexus, machineguns, a Cessna airplane, expensive watches and jewelry, and two pieces of North Carolina real estate. He also reportedly received sexual favors at a villa in Baghdad which Bloom used to cater to those CPA officials who were involved in the kickback scheme.

As described in press accounts of the case, at one point Stein picked up nearly $60 million in shrink-wrapped $100 bills from CPA headquarters in Baghdad and drove the money back to Hilla, where he had personal control over the vault where it was placed. Of the total of $120 million in Iraqi oil revenues sent to Hilla, only $27 million can be accounted for.

Another corruption case went to trial on February 13, when the two principals of Custer Battles LLC, a security contractor created to cash in on the Iraqi profit bonanza, faced charges of defrauding the US government of $50 million paid to them to provide security for the Iraqi national airline. The major witnesses are whistleblowers inside the company who cited the use of fake invoices to bill for services that were never provided.

A similar case began in Iraq February 5, when the Public Integrity Commission of the US-backed regime in Baghdad filed criminal charges against a member of parliament for allegedly embezzling millions of dollars intended to improve security of a key pipeline.

The scale of the war profiteering in Iraq—which involves such corporate giants as Parsons, Fluor Corporation, Bechtel and Washington Group, as well as Halliburton/KBR—may well increase in the coming year, given Bush's request of another $72.4 billion for the continued war and occupation, on top of a $50 billion special appropriation.

In return for the gargantuan sums already squandered in the occupied country, estimated as high as $500 billion, Iraq's people continue to live under far worse economic and social conditions than under the previous regime. According to a report early this month by the US special inspector general for Iraq reconstruction, Stuart Bowen, filed with the Senate Armed Services Committee, two of three Iraqis have no potable water, only 20 percent have sewage service, and Iraq's electricity generating capacity is below prewar levels. Even oil production, the principal goal of the US invasion, has failed to reach prewar levels.

Meanwhile, those at the top of the American military-industrial complex—who move seamlessly between the upper echelons of the officer corps, corporate boardrooms and the government—fatten their bank accounts and stock portfolios.