

ONE HUNDRED TENTH CONGRESS  
**Congress of the United States**  
**House of Representatives**

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM  
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**MEMORANDUM**

**February 6, 2007**

**To: Members of the Committee on Oversight and Government Reform**

**Fr: Majority Staff**

**Re: Cash Transfers to the Coalition Provisional Authority**

Between March 19, 2003, when U.S. forces invaded Iraq, and June 28, 2004, when the U.S.-run Coalition Provisional Authority turned power over to the interim Iraqi government, U.S. officials disbursed or obligated nearly \$20 billion in Iraqi funds, including nearly \$12 billion in cash. The vast majority of these funds were withdrawn from the Development Fund for Iraq, the successor to the U.N. Oil for Food Program, while others came from frozen and seized Iraqi assets.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 these funds.

Today's hearing will provide Committee members with an opportunity to ask Ambassador L. Paul Bremer, the former head of the CPA, and Stuart Bowen, the Special Inspector General for Iraq Reconstruction, about the \$20 billion expended by the CPA. Two key questions that Committee members may want to pursue are: (1) What happened to this money, in particular the \$12 billion in cash, once it arrived in Iraq? And (2) why did the CPA fail to implement measures to keep track of the money?

The memorandum provides background on what is currently known about the sums that were shipped to Iraq and disbursed by the CPA.

**I. EXECUTIVE SUMMARY**

Last Congress, the Committee received over 14,000 pages of financial records and other documents from the Federal Reserve Bank of New York about the shipment of funds to Iraq. These documents, as well as records from the Department of Defense, show that between May 2003 and June 2004, the CPA spent or disbursed \$19.6 billion, including nearly \$12 billion in

cash. 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 urgent disbursements 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.

Once the currency from the Federal Reserve arrived in Iraq and came under the control of U.S. officials at the Coalition Provisional Authority, it appears that this cash was disbursed without appropriate financial controls.

Under the terms of the U.N. resolution creating the Development Fund for Iraq, funds from the DFI were to be used “in a transparent manner to meet the humanitarian needs of the Iraqi people ... and for other purposes benefiting the people of Iraq.” Ambassador Bremer, the head of the Coalition Provisional Authority, also issued his own order requiring these funds to “be managed in a transparent manner that fully comports with the CPA's obligations under international law, including Resolution 1483.”

But government audit reports and first-hand accounts of officials on the ground in Iraq indicate that these standards were not met. On January 30, 2005, Mr. Bowen, the Special Inspector General for Iraq Reconstruction, issued an audit report concluding that “the CPA did not establish or implement sufficient managerial, financial, and contractual controls to ensure DFI funds were used in a transparent manner.” In particular, the Inspector General found that “the CPA disbursed over \$8.8 billion in DFI funds to the Iraqi ministries without assurance the monies were properly used or accounted for.”

In addition to these audit reports, officials in Baghdad have provided first-hand accounts of lax physical controls. One CPA official 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 one division's 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 was ordered to spend it in one week before the interim Iraqi government took control of Iraqi funds.

A summary of the minutes from a May 2004 CPA meeting show a single disbursement of \$500 million in security funding labeled merely “TBD,” meaning “to be determined.”

The failure to account for the \$20 billion expended by the CPA appears to have had serious consequences. Many of the funds appear to have been lost to corruption and waste. According to the Inspector General, thousands of “ghost employees” were receiving paychecks

from Iraqi ministries under the CPA's control. Some of the funds could have enriched both criminals and insurgents fighting the United States.

## II. BACKGROUND

On March 20, 2003, President Bush issued an executive order transferring Iraqi assets held in U.S. banks, frozen since Iraq's invasion of Kuwait, to a U.S. Treasury Special Purpose Account (TSPA) established at the Federal Reserve Bank of New York.<sup>1</sup> Two months later, United Nations Security Council Resolution 1483 established the Development Fund for Iraq to hold the proceeds of Iraqi oil sales, Iraqi assets frozen in bank accounts outside of the United States, and \$8.1 billion in funds transferred from the U.N.-administered Oil-for-Food program.<sup>2</sup> Control over these two funds — as well as over cash from the former Iraqi regime seized within Iraq — was given to the U.S.-run Coalition Provisional Authority.

The President's executive order and the subsequent U.N. Security Council resolution directed that these funds were to be used by the CPA for the benefit of the Iraqi people. Under the terms of the Security Council resolution, these funds were to be used "in a transparent manner to meet the humanitarian needs of the Iraqi people ... and for other purposes benefiting the people of Iraq."<sup>3</sup>

On June 10, 2003, CPA Administrator Bremer issued Regulation Number 2, which governed the DFI and provided:

[This] Regulation is intended and shall be applied to ensure that the Fund is managed in a transparent manner for and on behalf of the Iraqi people, consistent with Resolution 1483, and that all disbursements from the Fund are for purposes benefiting the people of Iraq.<sup>4</sup>

Shortly thereafter, Ambassador Bremer again set forth these obligations:

As steward for the Iraqi people, the CPA will manage and spend Iraqi funds, which belong to the Iraqi people, for their benefit. ... [T]hey shall be managed in a transparent

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<sup>1</sup> U.S. Department of the Treasury, *Fact Sheet* (Mar. 20, 2003) (online at [www.ustreas.gov/press/releases/docs/sheet.pdf](http://www.ustreas.gov/press/releases/docs/sheet.pdf)).

<sup>2</sup> U.N. Security Council, *Resolution 1483* (May 22, 2003) (online at <http://daccessdds.un.org/doc/UNDOC/GEN/N03/368/53/PDF/N0336853.pdf?OpenElement>); CPA, *Development Fund for Iraq Financial Reporting Matrix as of June 28, 2004* (Aug. 3, 2004).

<sup>3</sup> *Id.*

<sup>4</sup> CPA, *Regulation No. 2: Development Fund for Iraq* (June 18, 2003).

manner that fully comports with the CPA's obligations under international law, including Resolution 1483.<sup>5</sup>

In order to monitor U.S. actions involving the Iraqi funds, U.N. Security Council Resolution 1483 established the International Advisory and Monitoring Board (IAMB) to ensure that the DFI "is used in a transparent and equitable manner."<sup>6</sup> The IAMB included representatives from the United Nations, the Arab Fund for Economic and Social Development, the International Monetary Fund, and the World Bank.<sup>7</sup> To fulfill its oversight role, the IAMB was authorized to retain independent public accountants to conduct external audits and monitor the internal controls of the DFI. On April 5, 2004, the IAMB named KPMG as the external auditor.<sup>8</sup>

Congress also established a body to oversee the expenditures of the funds: the Inspector General of the Coalition Provisional Authority.<sup>9</sup> Authority for the CPA Inspector General was to terminate six months after the dissolution of the CPA, which occurred on June 28, 2004. However, Congress amended the original authorization to redesignate the CPA Inspector General as the Special Inspector General for Iraq Reconstruction and to extend the life of the Special Inspector General's authority.<sup>10</sup>

As of June 28, 2004 — the date that the CPA transferred authority over the DFI to the interim Iraqi government — \$20.7 billion had been deposited into the DFI.<sup>11</sup> During the CPA's control of Iraq, the CPA disbursed \$14 billion in DFI assets and obligated another \$3.1 billion, leaving a \$3.5 billion balance transferred to Iraqi control.<sup>12</sup> In the same period, approximately \$1.9 billion was deposited into the TSPA, of which \$1.7 billion was disbursed in cash shipments to Iraq and \$210 million transferred to the DFI (included in the DFI totals above).<sup>13</sup> Coalition

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<sup>5</sup> CPA, *Memorandum No. 4: Contract and Grant Procedures Applicable to Vested and Seized Iraqi Property and the Development Fund for Iraq* (Aug. 19, 2003).

<sup>6</sup> IAMB Press Release, *Establishment of the International Advisory and Monitoring Board: Terms of Reference* (Oct. 24, 2003).

<sup>7</sup> IAMB, *Terms of Reference (Revised)* (online at <http://www.iamb.info/tor.htm>).

<sup>8</sup> IAMB Press Release, *Statement by the International Advisory and Monitoring Board on Iraq* (Apr. 5, 2004).

<sup>9</sup> Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, § 3001, Pub. L. No. 108-106 (Nov. 6, 2003).

<sup>10</sup> National Defense Authorization Act for FY 2005, Pub. L. No. 108-375.

<sup>11</sup> CPA, *Development Fund for Iraq Financial Reporting Matrix as of June 28, 2004* (Aug. 3, 2004).

<sup>12</sup> *Id.*

<sup>13</sup> Federal Reserve Bank of New York, *Summary: Special Currency Shipments to Iraq*; Letter from Federal Reserve Bank of New York to Minority Staff, House Committee on Government Reform (Feb. 15, 2005).

military forces seized \$926.7 million in cash from the former regime, and the CPA obligated or expended \$774.4 million of that amount.<sup>14</sup>

In total, the CPA controlled \$23.3 billion in Iraqi funds and spent or disbursed \$19.6 billion. See Figure 1. Of the amount expended, almost two-thirds — nearly \$12 billion — was disbursed in cash.

**FIGURE 1: Iraqi Funds Under Coalition Provisional Authority Control**  
(rounded to thousands)

<b>Deposits</b>	
Development Fund for Iraq:	\$20,706,395,000
Treasury Special Purpose Account:	\$ 1,916,496,000
Seized Iraqi Cash	\$ 926,700,000
<i>(Transfer from TSPA to DFI)</i>	<i>(\$ 208,564,000)</i>
<u>Total Iraqi deposits under U.S. control:</u>	<u>\$23,341,027,000</u>
<b>Withdrawals</b>	
Disbursements from DFI:	\$14,058,659,000
Cash shipped to Iraq from TSPA:	\$ 1,707,931,000
Seized cash disbursed or obligated:	\$ 774,400,000
Commitments from DFI:	\$ 3,104,909,000
<u>Total amount disbursed or obligated by U.S.:</u>	<u>\$19,645,899,000</u>
<b>Balance</b>	
<u>Transferred from CPA to interim Iraqi gov't:</u>	<u>\$ 3,695,128,000</u>

### III. THE SHIPMENT OF \$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.<sup>15</sup> 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.

<sup>14</sup> Special Inspector General for Iraq Reconstruction, *Quarterly and Semiannual Report to the United States Congress* (July 30, 2004).

<sup>15</sup> Federal Reserve Bank of New York, *Summary: Special Currency Shipments to Iraq*; Letter from Federal Reserve Bank of New York to Minority Staff, House Committee on Government Reform (Feb. 15, 2005).

This currency was shipped to Iraq on pallets loaded into C-130 cargo planes. A standard pallet of U.S. currency contains 640 bundles of 1,000 bills and weighs 1,500 pounds.<sup>16</sup> See Figure 2. In the thirteen months that the U.S. administered the DFI and TSPA, 484 pallets 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.<sup>17</sup>

**FIGURE 2: Pallets of U.S. Currency Arriving in Iraq**



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 \$20,008,000 in \$1, \$5, and \$10 bills.<sup>18</sup> 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.

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<sup>16</sup> Federal Reserve Bank of New York, *Summary: Special Currency Shipments to Iraq*; Letter from Federal Reserve Bank of New York to Minority Staff, House Committee on Government Reform (Feb. 15, 2005).

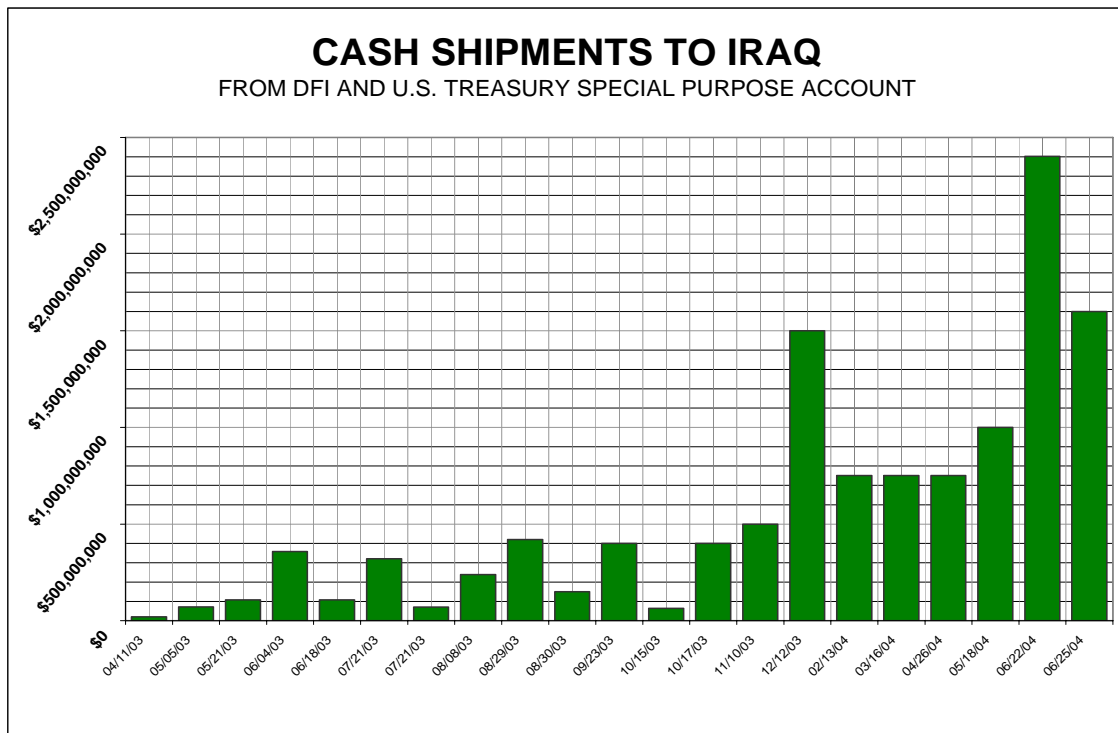
<sup>17</sup> *Id.*

<sup>18</sup> *Id.*

The December 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.”<sup>19</sup>

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 again: \$1 billion was shipped in May 2004, followed by two massive shipments totaling more than \$4 billion in the week before the transfer of sovereignty. See Figure 3.

**FIGURE 3**



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.”<sup>20</sup> Another Federal Reserve employee put the size of the shipment into perspective:

BTW — the plan is to depart DC on the 18<sup>th</sup>. The number requested is 2,401,600,000.00. In bricks of 100’s this equates to 1,501.<sup>21</sup>

<sup>19</sup> E-mail from Robert Kraus to Joseph Botta (Dec. 12, 2003) (DFI-Cash00220).

<sup>20</sup> E-mail from Timothy Fogarty to Dino Kos et al. (June 11, 2004) (FRBNY 003949 DFI-Email).

<sup>21</sup> E-mail from Don D. Davis to Timothy Fogarty (June 11, 2004) (FRBNY 003949 DFI-Email).



The bricks referenced in the email were “bricks” of \$400,000 distributed by the Federal Reserve. See Figure 4.

**FIGURE 4. “Brick” of \$400,000 in U.S. Currency (4,000 \$100 bills)**



Source: Federal Reserve Bank of New York.

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.<sup>22</sup>

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.”<sup>23</sup> 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:

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<sup>22</sup> E-mail from LTC Bill McQuail to Tina Smith (June 15, 2004) (DFI-LGL000607) (quoting COL Don Davis) (emphasis in original).

<sup>23</sup> E-mail from Marybeth Butkus to Timothy Fogarty (June 16, 2004) (DFI-LGL000606).



[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.<sup>24</sup>

In an e-mail with the subject "RE: Pocket Change," a CPA official again emphasized the need to move up the schedule:

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.<sup>25</sup>

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 2003 shipment as the largest pay out of U.S. currency in Federal Reserve history.

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

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 am 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 ear marked 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.<sup>26</sup>

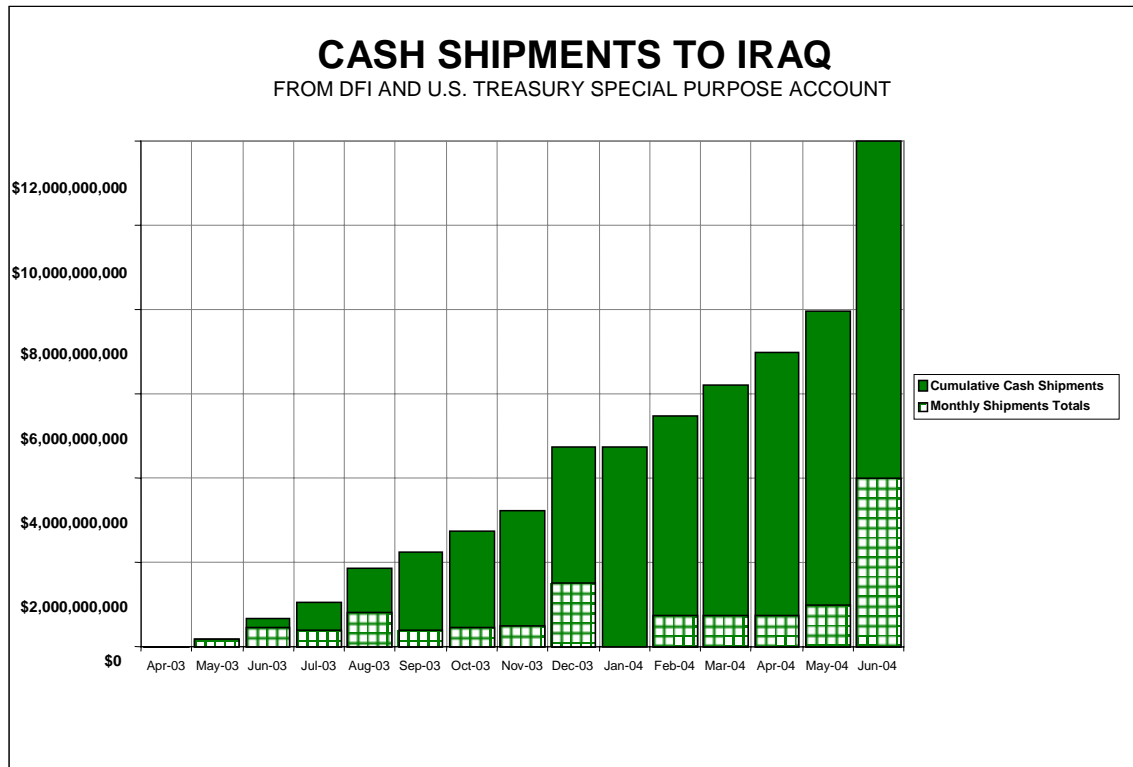
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<sup>24</sup> E-mail from Timothy Fogarty to Felicia Wiggin (June 18, 2004) (FRBNY 003912 DFI-Email) (emphasis in original).

<sup>25</sup> E-mail from COL Don Davis to LTC Herman Asberry (June 20, 2004) (DFI-LGL000598).

<sup>26</sup> E-mail from Michael Silva to Larry McDonald (June 28, 2004) (DFI-CBIAS0000199).

FIGURE 5



Source: Federal Reserve Bank of New York, *Summary: Special Currency Shipments to Iraq*.

#### IV. THE CPA'S LACK OF FINANCIAL TRANSPARENCY OR ACCOUNTABILITY

Once the nearly \$12 billion arrived in Iraq, the cash was placed under the control of U.S. officials at the Coalition Provisional Authority. Contrary to the requirements of U.N. Security Council Resolution 1483 and its own regulations, however, it appears that the CPA spent and disbursed the cash without appropriate financial or security controls.

Resolution 1483 required that Iraqi funds under the CPA's control "be audited by independent public accountants approved by the International Advisory and Monitoring Board of the Development Fund for Iraq."<sup>27</sup> 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.<sup>28</sup>

<sup>27</sup> U.N. Security Council, *Resolution 1483* (May 22, 2003).

<sup>28</sup> CPA, *Regulation Number 2: Development Fund for Iraq* (June 10, 2003).

On April 20, 2004, however, a CPA official 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.”<sup>29</sup> 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.”<sup>30</sup> The firm is so small that it reportedly operates out of a private home near San Diego.<sup>31</sup> See Figure 6.

**FIGURE 6: San Diego Business Address of North Star Consultants, Inc.**



Source: NBC News, *What Happened to Iraq's Oil Money?* (Nov. 30, 2004).

When the Special Inspector General for Iraq Reconstruction audited North Star's work, the Inspector General found that North Star did not perform any review of the CPA's 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

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<sup>29</sup> E-mail from Greg McCarthy, Coalition Provisional Authority, to Minority Staff, House Government Reform Committee (Apr. 20, 2004).

<sup>30</sup> *Id.*

<sup>31</sup> *What Happened to Iraq's Oil Money?*, NBC News (Nov. 30, 2004).

contract and employed the contractor to primarily perform accounting tasks in the Comptroller's office.<sup>32</sup>

As a result, the primary means to trace cash payments was by examining weekly spreadsheets posted on the CPA website. These spreadsheets, however, were only two sheets long and lacked specificity regarding to whom payments were made. The spreadsheets did not itemize payments within each ministry. See Figure 7.

**FIGURE 7. Sample Spreadsheet from CPA Website<sup>33</sup>**

COALITION PROVISIONAL AUTHORITY BAGHDAD	
Date: 26-Jun-04	
Disbursements by Agency since inception:	
Baghdad Central	\$3,294,750.00
Central Bank of Iraq	\$19,674,105.44
C-111-#7	\$9,608,184.18
Coalition Military Assistance Training Team	\$16,248,317.94
Commanders Emergency Response Program	\$360,554,507.03
Communication Support Office	\$1,659,897.06
Comptrollers Office	\$3,565,200.00
CPA Front Office	\$2,774,978.44
Governance	\$10,000.00
Ministry of Agriculture	\$31,250,385.80
Ministry of Communications	\$2,080,000.00
Ministry of Culture	\$20,000.00
Ministry of Defense	\$562,711.50
Ministry of Education	\$1,100,000.00
Ministry of Electricity	\$639,205,316.51
Ministry of Finance	\$7,711,940,159.57
Ministry of Health	-\$55,033,103.15
Ministry of Housing and Construction	\$405,031.66
Ministry of Industry and Minerals	\$18,950.00
Ministry of Interior	\$47,852,851.64
Ministry of Justice	\$1,000,219.50
Ministry of National Security & Defense	\$3,130,506.39
Ministry of Oil	\$2,012,397,915.48
Ministry of Planning	\$5,558,698.00
Ministry of Public Works	\$26,116.00
Ministry of Trade	\$444,076,620.36
Ministry of Transportation	\$1,706,687.00
Office of Security Cooperation	\$40,419,321.46
Private Sector Development	\$13,665.00
Program Management Office	\$76,720,000.00
Rapid Regional Response Program	\$244,216,497.75
Regional Projects - CPA South	\$46,703,067.16
State Oil Marketing Organization	\$76,620,172.65
Strategic Communications	\$361,000.00
World Food Programme	\$143,376,100.00
<b>Grand Total</b>	<b>\$11,893,196,850.37</b>

According to the Special Inspector General for Iraq Reconstruction, the CPA also provided inadequate physical controls to safeguard the billions of dollars of U.S. currency shipped to Iraq. In a July 2004 report, the Inspector General described “several physical

<sup>32</sup> Special Inspector General for Iraq Reconstruction, *Coalition Provisional Authority Comptroller Cash Management Controls Over the Development Fund for Iraq* (Report No. 04-009) (July 28, 2004).

<sup>33</sup> CPA, *The Development Fund for Iraq Disbursements by Agency Since Inception* (June 26, 2004) (online at <http://www.iraqcoalition.org/budget/DFI>).

safeguard violations” observed during the audit process.<sup>34</sup> In one example, the “CPA Comptroller did not have adequate control or access to their field safe” and “[t]he key was located in an unsecured backpack.”<sup>35</sup> In another, “the disbursement officer left the room and lost prevue [sic] over the open safe.”<sup>36</sup>

In a January 2005 report, the Inspector General again raised concerns with the physical control of funds. According to the Inspector General, “proper cash accountability was not maintained, physical security was inadequate, fund agent records were not complete, and fund managers’ responsibilities and liabilities were not properly assigned.”<sup>37</sup> The Inspector General reported, for example, that cash was stored in unsecured gunnysacks in Iraqi ministry offices.<sup>38</sup>

The IAMB found similar problems. One audit by KPMG reported that \$774,300 in cash had been stolen from one division’s vault.<sup>39</sup>

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.<sup>40</sup>

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.<sup>41</sup> Mr. Willis personally witnessed a \$2 million payment to contractor Custer Battles in shrink-wrapped stacks of \$100 bills retrieved from a vault.<sup>42</sup> See Figure 8.

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<sup>34</sup> Special Inspector General for Iraq Reconstruction, *Audit Report: Coalition Provisional Authority Comptroller Cash Management Controls Over the Development Fund for Iraq* (Report No. 04-009) (July 28, 2004).

<sup>35</sup> *Id.*

<sup>36</sup> *Id.*

<sup>37</sup> Special Inspector General for Iraq Reconstruction, *Oversight of Funds Provided to Iraqi Ministries through the National Budget Process* (Report No. 05-004) (Jan. 30, 2005).

<sup>38</sup> *Id.*

<sup>39</sup> KPMG, *Development Fund for Iraq: Report of Factual Findings in Connection with Disbursements for the Period from 1 January 2004 to 28 June 2004* (Oct. 14, 2004).

<sup>40</sup> Testimony of Frank Willis, *An Oversight Hearing on Waste, Fraud and Abuse in U.S. Government Contracting in Iraq*, Senate Democratic Policy Committee (Feb. 14, 2005).

<sup>41</sup> Interview of Frank Willis, House Committee on Government Reform, Minority Staff (Jan. 27, 2005).

<sup>42</sup> Testimony of Frank Willis, *An Oversight Hearing on Waste, Fraud and Abuse in U.S. Government Contracting in Iraq*, Senate Democratic Policy Committee (Feb. 14, 2005).



**FIGURE 8: CPA Officials Posing with \$2 Million in Cash**



Ambassador Timothy Carney, who served as the senior advisor to the Ministry of Minerals and Industry, reported stacking money in the back of his vehicle to quickly make payments to Iraqis:

In late May, a capable U.S. Treasury team worked out an emergency payment scheme for government workers — and I became one of the deliverymen. Without a functioning banking system, cash was the only way to inject money into the economy. We packed wads of money into metal trunks — just under \$1 million in small bills for the \$20-per-head payments — and loaded them into the back of my Suburban. A humvee traveled in front and an armored scout car in the rear.<sup>43</sup>

Controls appeared to break down completely in the final weeks 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.<sup>44</sup>

<sup>43</sup> Timothy Carney, *We’re Getting In Our Own Way*, Washington Post (June 22, 2003).

<sup>44</sup> Special Inspector General for Iraq Reconstruction, *Control of Cash Provided to South-Central Iraq* (Report No. 05-006) (Apr. 30, 2005).

In some cases, officials allocated hundreds of millions of dollars without designating the actual recipients of funds. The CPA disbursed funds through an entity called the Program Review Board, which consisted of U.S., allied, and Iraqi officials responsible for allocating Iraqi budgetary resources under U.S. control. On May 15, 2004, the Program Review Board considered and approved the disbursement of \$2 billion for reconstruction projects in Iraq, one of the largest disbursements recorded.<sup>45</sup> A summary of minutes from that meeting show a single disbursement of \$500 million for “security” services accompanied by the note “Composition TBD,” which apparently meant “to be determined.” The summary also shows several other categories with hundreds of millions of dollars in expenditures, but without any information other than the broad reconstruction sector to which it was allocated. See Figure 9.

**FIGURE 9: CPA Summary of Minutes of May 15, 2004 PRB Meeting<sup>46</sup>**

<b>Program/ activity</b>		
<u>(\$ in millions)</u>	<u>Decision</u>	<u>Note</u>
Iraq Property Claims Commission	180	Post-July only
Revenue Stabilization Fund	125	
Victims Fund	25	Post-July only
Food Basket	200	
Security	500	Composition TBD
Electricity Sector	315	
Oil Infrastructure	460	
Agriculture Reconstruction and Development	65	
State-Owned Enterprise Rehab.	50	
Vocational Training	65	
<b>Total</b>	<b>1985</b>	

Officials on the Program Review Board from allied nations sometimes raised concerns about these transfers. In one instance, the minutes of a Program Review Board meeting state that the “[r]epresentative from the UK noted there was insufficient detail on some of the requests and there was no reference to recurring costs for operations and maintenance.”<sup>47</sup>

<sup>45</sup> CPA, *Program Review Board (PRB) Minutes – May 15, 2004* (May 15, 2004) (online at [www.iraqcoalition.org/budget/PRB/May15\\_PRB.html](http://www.iraqcoalition.org/budget/PRB/May15_PRB.html)).

<sup>46</sup> E-mail from Jeff Green, CPA, to Minority Staff, House Government Report Committee (June 14, 2004).

<sup>47</sup> CPA, *Program Review Board (PRB) Minutes – May 15, 2004* (May 15, 2004) (online at [www.iraqcoalition.org/budget/PRB/May15\\_PRB.html](http://www.iraqcoalition.org/budget/PRB/May15_PRB.html)).

## V. THE SPECIAL INSPECTOR GENERAL'S REPORT AND AMBASSADOR BREMER'S RESPONSE

On January 30, 2005, the Special Inspector General for Iraq Reconstruction issued an audit report concluding that “the CPA did not establish or implement sufficient managerial, financial, and contractual controls to ensure DFI funds were used in a transparent manner.” As a result, the Inspector General found that these funds were “susceptible to waste, fraud, and abuse.”<sup>48</sup> In particular, the Inspector General found that “the CPA disbursed over \$8.8 billion in DFI funds to the Iraqi ministries without assurance the monies were properly used or accounted for.”<sup>49</sup>

Since this audit report was issued, the Inspector General has informed Chairman Waxman that the \$8.8 billion figure is too low. The Inspector General's audit was limited to funds disbursed to Iraqi ministries between October 2003 and June 24, 2004 to pay for budget items.<sup>50</sup> Mr. Bowen stated that he now believes that the lack of accountability and transparency extended to the entire \$20 billion expended by the CPA.

In a response to the Inspector General's 2005 report, Ambassador Bremer argued that the report assumed that “western-style budgeting and accounting standards” could be implemented in the “midst of war.”<sup>51</sup> He stated further: “The IG auditors presume that the Coalition could achieve a standard of budgetary transparency and execution which even peaceful Western nations would have trouble meeting within a year, especially in the midst of a war.”<sup>52</sup>

According to the Inspector General, however, the chaotic conditions in Iraq were a reason for greater, not lesser, controls because of the risk the funds could be used to support the insurgency fighting U.S. forces. The Inspector General stated:

The CPA should have established controls and provided oversight over the financial management of the DFI funds precisely because there was no functioning government, no experience within the Ministry of Finance in managing the national budget, no budget or personnel records, and the payroll systems were corrupted by cronyism and ad hoc fixes. On an individual basis, any of these conditions should have sent strong signals to financial managers that weaknesses were widespread, posed unacceptable risks, and called for forceful action. Those weaknesses should have represented goals for corrective action, not reasons for inaction.<sup>53</sup>

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<sup>48</sup> Special Inspector General for Iraq Reconstruction, *Oversight of Funds Provided to Iraqi Ministries through the National Budget Process* (Report No. 05-004) (Jan. 30, 2005).

<sup>49</sup> *Id.*

<sup>50</sup> *Id.*

<sup>51</sup> *Id.*

<sup>52</sup> *Id.*

<sup>53</sup> *Id.*

Retired Admiral David Oliver, Ambassador Bremer's principal deputy for financial matters at the CPA, has stated that transparency and accountability were not primary interests of the CPA. When asked what had happened to the \$8.8 billion in DFI funds, Admiral Oliver responded:

Oliver: I have no idea, I can't tell you whether or not the money went to the right things or didn't — nor do I actually think it's important.

Question: Not important?

Oliver: No. The coalition — and I think it was between 300 and 600 people civilians — and you want to bring in 3,000 auditors to make sure money's being spent?

Question: Yes, but the fact is billions of dollars have disappeared without trace...

Oliver: Of their money. Billions of dollars of their money, yeah I understand, I'm saying what difference does it make? ...

Oliver: I chose to give that money to the Iraqis, they got the power working within eight days in the major hospitals in Baghdad.<sup>54</sup>

## VI. UNANSWERED QUESTIONS

One of the principal unanswered questions the hearing will seek to address is what happened to the \$20 billion expended by the CPA, particularly the \$12 billion in cash that appears to have been spent without adequate controls.

The January 2005 report by the Special Inspector General for Iraq Reconstruction concluded that the CPA used much of the money to pay the salaries for nonexistent "ghost employees." According to the audit report, a large portion of funds given to the Iraqi ministries were to pay for personnel, but the "CPA did not implement adequate controls to ensure DFI funds were properly used for salaries of Iraqi employees."<sup>55</sup> When transferring funds to Iraqi ministries, the CPA relied on lists of employees and salaries that were prepared by Iraqi ministries and could not confirm that employees actually worked at the ministries.

At one ministry audited, 8,206 employees were on the payroll, but only 602 could be validated, according to the Inspector General.<sup>56</sup> At another site, the CPA was paying salaries for

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<sup>54</sup> *Baghdad's 'Missing' Billions*, BBC News (Nov. 9, 2006); *Iraq's Billions – Part 1*, BBC World Service (Nov. 9, 2006).

<sup>55</sup> Special Inspector General for Iraq Reconstruction, *Oversight of Funds Provided to Iraqi Ministries through the National Budget Process* (Report No. 05-004) (Jan. 30, 2005).

<sup>56</sup> *Id.*

1,471 employees, but only 642 could be validated. As a result, the Inspector General concluded that “there was no assurance funds were not provided for ghost employees.”<sup>57</sup>

Frank Willis, the former CPA official, corroborated these findings. According to Mr. Willis, the state-run Iraqi Airways, which had not been operational for a year, had 2,400 employees on the payroll, when the airline should have had a staff of 400 or fewer. Mr. Willis said that once the cash was turned over to the ministries, there were no CPA controls on or tracking of the funds: the transfer of cash was “all based on trust.” Mr. Willis concluded that in the absence of any accounting system, Iraqi officials skimmed funds as the cash went through the system. In his view, there was “leakage of assets all over the place.”<sup>58</sup>

The Inspector General reported that thousands of “ghost employees” were receiving paychecks from Iraqi ministries under the CPA’s control. Ambassador Bremer apparently believed that paying ghost employees would foster peace. The Inspector General has a different perspective. In a recent interview he asserted that the CPA’s failure to establish better financial transparency and accountability structures within Iraqi ministries contributed to the widespread corruption that exists in Iraq today, stating: “This money that’s stolen doesn’t merely enrich criminals but frequently goes out to fund criminal militias or insurgents.”<sup>59</sup>

Another important question is why U.S. officials did not implement their own directives or change course to better control the expenditure of funds. As noted above, officials from other nations sometimes protested the lack of financial controls, but this did not appear to deter the spending or result in the establishment of stronger mechanisms for financial oversight.

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<sup>57</sup> *Id.*

<sup>58</sup> Testimony of Frank Willis, *An Oversight Hearing on Waste, Fraud and Abuse in U.S. Government Contracting in Iraq*, Senate Democratic Policy Committee (Feb. 14, 2005).

<sup>59</sup> *Iraq Corruption ‘Cost Billions,’* BBC News (Nov. 9, 2006).