

Senate Democratic Policy Committee Hearing

“An Oversight Hearing on Waste, Fraud and Abuse in U.S. Government Contracting in Iraq”

Transcript

February 14, 2005

Sen. Dorgan: I'm going to begin the hearing. We will have some colleagues join us, but I think in the interest of time, when they come I will recognize them for opening statements.

First of all, I want to thank the witnesses who are joining us today.

This is a hearing of the Democratic Policy Committee. We have two policy committees in the United States Senate, a Republican and a Democratic Policy Committee, established by law in 1947, with the anticipation in law that there would be hearings to establish policies and develop the agenda.

And we have indicated earlier this year that there is a serious problem here in the Congress with a lack of oversight hearings. And we have indicated that we would be holding oversight hearings, but would not hold oversight hearings if, in fact, the committees of jurisdiction would be holding the oversight hearings themselves.

The committee of jurisdiction, for example, in some areas when we deal with the issue of contracting in Iraq would be the Government Affairs Committee. And requests have been made for oversight hearings before that committee by my colleague Senator Lautenberg and others, but the hearings have not been forthcoming.

And so, working with our colleagues, we have decided to hold a series of oversight hearings.

Once again, we will not duplicate hearings that are held in the committees of jurisdictions. If the authorizing committee decides to hold hearings on these issues, we don't need to hold hearings.

But there is something that really begs that hearings be held with respect to oversight.

Part of the responsibility of the Congress is to appropriate funding in a wide range of areas. And then another part of the responsibility is to provide oversight to make sure that the way the dollars are used that we appropriate is in conformance with what our intentions are.

We have held other hearings last year on a range of issues dealing with the Halliburton Corporation. And some said, “Well, that's because Halliburton is associated with the vice president.” That is not the case at all — just not the case.

We're not interested in embarrassing anybody, but neither are we interested in avoiding oversight hearings to spare someone embarrassment.

We invited the head of Halliburton — the CEO. We had folks that had previously worked for Halliburton who testified with respect to the purchase of towels — just a tiny little issue. They were going to buy towels, hand towels, and they told us that by the time the hand towels were purchased they had inflated the price nearly double so they could put their logo on the hand towels to be used by soldiers.

That's the sort of thing that goes on both in smaller areas and larger areas that, you know, the American taxpayers ends up paying for.

Halliburton was charging us for 42,000 meals for soldiers every day and serving only 14,000 meals a day. How does that happen?

I come from a town of 300 people where we have a really small cafe. You can understand missing a meal or two — perhaps not charging for a meal or two — but 28,000 meals charged to the federal government that were not served to the soldiers?

I mean, that's the sort of thing that's going on, and it begs for some oversight.

The fact is, dealing with the issue of contracting in Iraq, the question isn't whether we're going contract or whether we are going to make investments in Iraq. We are. Those investments are ongoing. The question is, will those investments be made wisely? Are there inventories or accountability standards that will relate to those investments?

As many of you know, the head of the Coalition Provisional Authority, Ambassador Paul Bremer, appointed top officials of what is called a new Iraqi Board of Supreme Audit. And he talked about high quality, active, independent national audit institution to play a role in the governance of a modern state.

But the inspector general, the I.G., just issued a report a couple of weeks ago. And they concluded that the Coalition Provisional Authority provided less than adequate controls for \$8.8 billion of Development Fund for Iraq funds provided to Iraqi ministers.

You perhaps have all seen the news about these issues. But the inspector general issued a scathing report describing how the Coalition Provisional Authority, CPA — which is really us: It was Ambassador Bremer with American taxpayers' dollars — how they failed to account for nearly \$9 billion. Some of that was Iraqi funding coming from Iraqi oil. Some of it was American taxpayers' dollars.

There were numerous examples of padding payrolls. For example, the inspector general found 8,206 guards were on the payroll at one Iraqi minister — 8,206 — but they could account for only 602. So who's paying 8,206 when only 602 are working?

I mean, these are the kinds of things that are happening. And we are determined to believe here in the Senate it's not too late. It's not too late to have adequate controls on that which is spent on the reconstruction and on the contracting in Iraq.

The stories about money being delivered in paper bags, cash, millions of dollars of cash being delivered in bags without accountability — the American taxpayers ought to be very concerned about that and I believe are concerned about it.

We think it is not too late for us to shine a light on what's happening there and seeing if, as a result of that, we can't have some more accountability.

I think what's happening here is disgraceful. I think there is massive waste of taxpayer funding. As you know, last year the United States Congress approved around \$19 billion in reconstruction funds for Iraq. Those are U.S. taxpayer funds.

Very little of that has now been spent. But the rest will be spent — I personally didn't support that, but the rest will be spent. And when it is spent, the question is: Is there any accountability for it? Or is this just suitcases full of cash being delivered to contractors?

The stories about a contractor that says, "I'm going to bid to put in air conditioning units." And by the time the money gets filtered through to the contractor and the subcontractor, air conditioning units become fans. And yet U.S. taxpayers paid for air conditioners and they end up getting low-grade fans sitting on a counter.

That's the sort of thing that just ought to make all of us pay a lot of attention to what's happening here. As I said, what's happening, I think, is disgraceful.

We did invite Ambassador Bremer, as well as Assistant Defense Secretary Wolfowitz, to come today, as we did at the previous hearing, we invited the CEO of Halliburton. But the point again is not to say, "Got you." It's not to embarrass anybody.

It's to say that we are stewards of the taxpayers' money. And there is a massive amount of waste, fraud and abuse going on here and nobody seems to care very much.

I want to say I appreciate very much the witnesses coming today. I know that you do that at some difficulty for yourselves.

And it is not easy to do this. But I appreciate very much your courage in coming forward.

Let me now call on Senator Reid, the minority leader of the Senate.

Sen. Reid: Thank you very much, Senator Dorgan, for holding this hearing.

This is an opportunity to find the truth. The matter of contracting abuses and how we handle the overall reconstruction of Iraq is tied closely to our chances of success in Iraq.

Of course, there have been vocal disagreements about the president's policies in Iraq, missing weapons of mass destruction and the basis for the war. But now that our troops are mired in a dangerous effort to defeat the insurgency and about 1,500 have been killed, 12,000 wounded, we're also trying to rebuild the country.

Americans of all political persuasion simply want the United States to succeed and our troops to be as safe as possible.

I've been critical of the president for failing to lay out a real and understandable plan for success. I'll continue to press the president to level with the American people and lay out a plan to deal with the many challenges that lie ahead: defeating the insurgents, training Iraqi security forces, getting Iraqi moderates and Sunnis involved in our new government, enlisting the help of more allies, and getting the reconstruction back on track.

I am, though, especially perplexed and disturbed by what has happened with the reconstruction of the contracting. We are close to 24 months into this conflict with Iraq, two years, and the administration still can't seem to get headed in the right direction.

In December 2004, a report by the Center for Strategic and International Studies found that upwards of 30 percent of the reconstruction money is being lost to corruption, fraud and mismanagement.

More than a year ago, the administration urgently requested \$18.4 billion in emergency funding for reconstruction efforts in Iraq. Congress delivered, but the administration hasn't.

Thus far, only 20 percent of the money has been spent. Meanwhile U.S. taxpayers and the Iraqis wait for the administration to roll out a plan — a real plan — to involve Iraqis in small-scale, high- visibility projects that can deliver real impact to the Iraq economy.

While we wait for a real reconstruction plan, the contract and accounting abuses continue to mount. Just recently, as has been said, the special inspector general for Iraq released an audit showing that Coalition Provisional Authority has lost track of \$9 billion in Iraqi oil funds.

Unfortunately, as we will hear today, there are many more examples of mismanagement by the Coalition Provisional Authority.

Senator Dorgan has talked about the security guard scandal.

The State Department found that in 2003 American diplomats pressured Halliburton to keep using Kuwaiti subcontractors to handle fuel sales. The subcontractor charged more than twice the cost of available alternatives. This is small I guess compared to a lot of the scandals: only \$61 million in overbilling.

The company called Custer Battles allegedly bilked the CPA of \$170,000 — \$160,000 for a helicopter pad. The same company also repainted fork lifts that were abandoned by Baghdad Airways and charged CPA thousand of dollars claiming these fork lifts were leased.

Mr. Chairman, it's amazing. You talked about the cash. They were hauling plane loads of cash to Iraq, plane loads of cash.

The fraud, waste and abuse we've seen in contracting process reinforces my view that we had a plan to win the war but had no plan to win the peace, no plan for post-conflict reconstruction trouble that was all but guaranteed in this environment.

But the subject matter of this hearing should not be viewed in isolation, merely counting business irregularities. How we conduct business in Iraq, how we undertake the reconstruction and how successful we are at helping to rebuild the country is directly tied to our overall success and directly tied to the security of our soldiers and the threats they face.

I won't forget what General Myers and General Abizaid have told Congress on more than one occasion. I'm paraphrasing, but they indicated that we have overwhelming firepower in Iraq and we would continue to win every firefight with the enemy, every battle, every incursion, but the war in Iraq would be won by nonmilitary means. That's what they said.

This was a startling statement from two senior military officers but they were telling the truth.

When pressed, the generals explained that defeating a counter-insurgency requires a complete arsenal of American power: military, economic, diplomatic and political.

When, for example, the unemployment rate among young Iraqis still stands at more than 50 percent, when Iraqis have to stand in line for hours for a single gallon of gasoline, when water and electricity are only sporadically available, you begin to have the conditions that allow insurgencies to thrive.

I heard on the way here today that they blew up another the pipeline. It'll mean no gasoline coming into Iraqi cities for a week.

Many ordinary Iraqis are, the fence-sitters, as some call them, are prone to either join those fighting U.S. forces or at least give aid and support to the insurgents as the quality of their own life is degraded.

The commander of the 1st Cavalry in Baghdad has that said when his troops were given the resources to work on reconstruction projects on sewer systems and power lines, the number of threats against his troops went down.

When we talk about an absence of contracting controls, badly qualified contractors, poor management by inexperienced officials, overbilling, profiteering, corruption and a failure to deliver basic services to the Iraqis, not only is this wrong and in some cases possibly criminal, but it also contributes to the poor security position we find ourselves in today. And it makes achieving success even harder. We must do better.

So again, Senator Dorgan, I appreciate your leadership and your staff for convening this important hearing.

With billions and billions of dollars and security forces — our security forces — at stake, we have to get this contract and the reconstruction right. We owe it to our troops, the United States taxpayers and the Iraqi people.

Sen. Dorgan: Senator Reid, thank you very much.

I think that the points you made that needs to be emphasized is that we support our troops and we want our country to succeed in Iraq. We are there. We very much want to do everything we can to allow them to succeed in their mission.

The issue of contracting abuse and contracting fraud and waste is an issue, in my judgment, that undermines, rather than strengthens, this country's role and our troops who are in Iraq today.

But it's very important to point out that the purpose of these inquiries is not in any way to do anything other than support our troops and support our country's mission.

Let me call on Congressman Waxman. Congressman Waxman, perhaps more than almost anyone else in the Congress, has spent more time over a longer period of time working on these oversight issues with respect to contracting.

Congressman Waxman, thank you for joining us today.

Rep. Waxman: Thank you very much, Senator Dorgan, for inviting me to be with you today. Leader Reid, I'm pleased to be with you as well.

Over the past several months, we've heard a lot about the oil-for-food scandal. Several congressional committees — in fact, I think there are six separate committees have launched hearings, investigations.

And while I believe it is appropriate to investigate these allegations, I also think we should be investigating our own administration's conduct.

The United States controlled Iraq's oil proceeds from May 2003 until June 2004, yet Congress has not held a single hearing to examine the evidence of mismanagement, overpricing, a lack of transparency in the successor to the oil-for-food program, which was the Development Fund for Iraq, DFI.

The DFI was run by the Bush administration through the Coalition Provisional Authority. Under U.S. control, it received over \$20 billion in Iraqi funds and spent over \$14 billion.

While Congress has been ignoring the DFI, a series of reports by both U.S. and international auditors have raised serious red flags about the administration's stewardship of the Iraqi funds.

Two weeks ago, the special inspector general for Iraq reconstruction reported that the Coalition Provisional Authority disbursed \$8.8 billion — almost \$9 billion — in cash to Iraqi ministries without adequate oversight.

The inspector general found that, “Proper cash accountability was not maintained and physical security was inadequate.”

These funds were turned over to the ministries without assurance that the monies were properly used or accounted for.

In one case, CPA transferred funds for 8,206 Iraqi guards on the payroll, even though only 602 guards could actually be found. The inspector general concluded there was no assurance that funds were not provided to ghost employees.

In fact, the inspector general determined that CPA’s stewardship of the Iraqi funds was so poor that it did not meet the basic requirements of the U.N. Security Council resolution that established the DFI.

An earlier I.G. report detected several physical safeguard violations, including a vault key kept in an unsecured backpack. In another instance, a disbursement officer left a room with the safe open.

Similarly, international auditors found that CPA had inadequate accounting systems, inadequate record keeping and inadequate controls over Iraqi oil proceeds.

They also reported that CPA’s entire accounting system consisted of just one contractor maintaining Excel spreadsheets. That’s one person who was assigned to be the accountant for \$20 billion.

We also know that \$1.5 billion in DFI funds were used to pay Halliburton’s inflated fuel prices. Custer Battles, whose schemes we’ll hear about today, also was paid with DFI funds.

One of today’s witnesses, Frank Willis, was a former senior official with the Coalition Provisional Authority. He will provide a firsthand perspective on the \$8.8 billion in cash from the DFI that was transferred to Iraqi ministries without adequate controls.

My staff had an opportunity to speak with Mr. Willis before he came to Washington to testify. He told us that Iraq was like the Wild West, awash in brand new \$100 bills. He also explained that the CPA’s cash transfers to Iraqi ministries for the most part were done on faith because CPA couldn’t confirm that the employees being paid actually worked at the ministries and couldn’t track the funds.

I look forward to his testimony today.

Accountability, transparency are long overdue. I hope this hearing is just the beginning of congressional oversight of the administration’s inept stewardship of Iraqi funds.

Thank you, Mr. Chairman.

Sen. Dorgan: Congressman Waxman, thank you very much.

At a previous hearing and from previous information, the examples of what has been happening admittedly and in part country where it's difficult to do business, but I'll give you some examples of what's been testified to.

A truck driver described instances in which \$85,000 new trucks were abandoned or torched if they got a flat tire or experienced a minor carburetor problem.

That particular truck driver brought that to the attention of the president or the CEO — rather the CEO of the subsidiary for which he worked. He was fired in about two weeks.

Paying \$45 for a case of soda.

Staying in five-star hotels in Kuwait for the employees of one contractor. When the Army asked them to move, they didn't move.

\$7,500 a month for the leasing of SUVs. Let me say it again: the leasing of SUVs, \$7,500 a month.

The ordering of 25,000 pounds of nails that arrived and they were the wrong size, so they're sitting on the ground someplace in Iraq: 25,000 pounds of nails abandoned.

The point is, there's a lot happening here that ought to be the subject of aggressive oversight hearings to find out whose minding the store. And that's the purpose of these hearings.

We're joined by Frank Willis. Franklin Willis served in Baghdad, Iraq, as a senior adviser for the Coalition Provisional Authority. He is currently executive vice president and chief operator officer at the Lynn Institute in Oklahoma City.

He spent nearly 15 years in federal government service, served as the deputy assistant secretary of both the Department of Transportation and State in the Reagan administration.

After leaving government he became a group vice president for legal and environmental affairs for Rollins Environmental Services in Wilmington, Delaware.

Harvard, Michigan Law School, very distinguished background.

And my understanding is that when you served in Iraq, you were serving as a senior aviation official engaged in trying to help put together the transportation system.

Mr. Willis, thank you for being willing to come forward and talk about this. I know it is not easy. And you no doubt will be criticized and have been criticized for speaking out. But we think it is a service to the American taxpayers to do that.

Mr. Willis, you may proceed.

Franklin Willis: Thank you very much. It's a privilege to appear before the committee and you distinguished representatives in Congress and Senators in Congress.

Senator Dorgan, I was heartened by your opening remarks because, while reflecting on the past, they focused on what's happening now.

Obviously what happened in the past happened and the question is can we now properly disburse almost \$18 billion still of the supplemental appropriation?

And I appreciate the approach that the committee would take in looking at that issue in a dispassionate and measured way. That's the basis for my participation in this committee hearing.

I intend not to read my statement, but submit it for the record and just summarize a few points.

I noticed I was described as a whistleblower for this committee. I think that's a little bit inapt. Staff came to me rather than me to them.

But in raising questions and asking if I could participate here, I agreed to do that because I am a concerned taxpayer. I participated in what I think is a noble venture in Iraq, a noble venture which unfortunately has been naive in some respects and which has involved poor execution in other respects.

I hope that by focusing on some of the problems that happened during the period of the CPA, we will learn something for the future and we will draw conclusions from that that will guide us as we go forward in that country and in spending the supplemental appropriation.

I know that we can do a better job. There was nothing that ordered that the problems we have had to happen. And I think there could have been much greater execution. Certainly there can be greater execution now.

The basis for my involvement is an absolute faith that this kind of process and shedding light on problems is the way this country goes about making its decisions and its execution of policy better in the future.

I want to simply summarize the six reasons that I thought we were far less effective when we worked for the CPA than we could otherwise have been.

The first is that there simply were not enough people there. I think there were about 500. I believe we needed perhaps up to 5,000.

Those of us who worked there typically worked every day. Typically our first staff meeting was at 7:30 in the morning and we continued on to 10 o'clock or 11 o'clock at night. Frankly, I'm 61 years old and in that process I wore out. Other people wore out.

Talking about difficult legal problems involving Iraqi airways at 11 p.m. with a representative from the legal adviser's office, for example.

Many of the problems, whether it was waste associated with lack of auditing or simply an inability to track contracts, the reason for that was not enough people.

And if you see my statement about Custer Battles, much of the problems with Custer Battles involved an inability for us to simply get one person working on the contract. One additional person would have saved us, I think, \$4 million to \$8 million on the Custer Battles contract.

But we needed one person to focus on that problem solely. When people came in, they were yanked this way and that way and, as a consequence, the abuse of the Custer Battles case occurred. And it's representative of the problem that was over there.

The second problem is a lack of quality people. There should have been a delegation to those of us in the ministries — advisers to the ministries; an opportunity to select people and bring them over rapidly to support the needs that we thought were out there.

We did not have that ability. When we sought people, there were delays. We simply couldn't bring them at all. Or otherwise, somewhere in the process, they got lost.

We didn't have enough people at our level of 50, but we never even had the 50. We usually operated at 40 to 50 percent. And when I left in December, Ambassador Trent has advised me that there were only 18 of our 50 people actually in place.

Many of us knew the right people to come. They were willing to come. We couldn't get them there.

The third is micromanagement. I don't want to pat myself on the back, but I think others and myself had a fair amount of experience in our area. But when we got over there, we were unable to make decisions. The smallest of decisions went forward to the front office where they waited for a decision which sometimes required additional paperwork.

Our system, as a British friend described to me, was constipated within three months.

Decisions as simple as, "Can we operate out of the second floor of a terminal of the airport or the first floor?" had to be taken by the front management.

The fourth reason are the de-Baathification decision was simply too sweeping. That decision took all Baathists out of government and we lost top people, many of whom, I

think, were Baathists simply because they had to be, in the Saddam regime, to have any position of significance.

And I think the sweeping elimination left us with third- and fourth-level Iraqis trying to run an operation without ever having had that experience, in an environment in which no one had learned to make decisions anyway, because making decisions in the Saddam regime always required passing up to a higher level.

The fifth is, I think, the decision to disband the army was a mistake. I, in fact, talked with members of the army up to the colonel level. Many of them are patriotic Iraqis. They were in the army and they served the master at the time they served them.

I think they would have been perfectly loyal to the new regime. Not all of them, but I think the sweeping disbanding of them left us with a terrible hole, a vacuum of security, and that problem of security, even early, even in the summer of 2003, made things inefficient and allowed some of the problems to occur.

Finally, the sixth reason is I think we simply didn't do our homework before we set up the CPA. I think there are, for example, people who worked in the recovery period in Germany post–World War II and in Japan. They're still in our midst.

I worked with one, Eric Stein, he's a professor of international law that I studied under at Michigan. He had lots to say about how you figure out who are bad Fascists and good Fascists in 1944.

He had never been reached for his advice. I don't know but I suspect others were not.

And I think simply doing homework ahead of time would have had us — we would have had a better CPA.

Finally, again, would I like to underscore that clearly there were problems in the past, clearly there were mistakes made, clearly there were inefficiencies. Please take into context these six problems that we worked under. They don't justify the inefficiencies, but they help to explain them.

I think that our focus now — that's history, it's happened, it's useful to study so that we can learn from it. But what we really have are the issues of today.

And I urge focus on the last two pages of my statement. That talks about expenditures of money under the \$18 billion appropriation. That is something we can do something about. And I hope this committee, through this oversight, helps us get in that direction.

Thank you, Mr. Chairman.

Sen. Dorgan: Mr. Willis, thank you very much.

I am going to ask you a series of questions, but I want to go through the other witnesses first.

But the questions — I agree with you that the question is, what do we do now?

A substantial amount of money is going to be moved into Iraq. We have approved \$18 billion plus. A rather small amount of that has now been spent. So a massive amount of additional money is going there.

It is important, I think, to understand what has happened previously and whether that is still happening, whether there are adequate controls now.

In your testimony, I believe you have talked about bags of money moving around and how contractors are paid. I want to ask about that during the question period.

But I appreciate very much your thoughtful presentation.

Don North is an independent journalist and producer, former senior television executive to Iraq Media Network.

Mr. North has a career that began in Vietnam as a cameraman and later as a correspondent for both ABC and NBC News.

Turning from Vietnam to the Middle East, Mr. North studied Arab Nationalism at Columbia University Graduate School, where he received a degree in advanced international reporting and served as NBC News bureau chief in Cairo where he directed “The Carlos Connection,” which won him a gold medal at the New York Film Festival.

I’m not going to go through your entire background, but it’s very impressive. In March of 2003, you were embedded with the 101st Airborne 1st Brigade for the invasion of Iraq and reported to National Public Radio and the Canadian television news.

You have a very distinguished background. And my understanding is that you were under contract, or at least working, rather, with the CPA in Iraq to put together a broadcasting network.

Mr. North, thank you very much for joining us.

Don North: Thank you, Senator Dorgan, Senator Reid, Congressman Waxman.

In the coming months Iraqis, buoyed by the success of the recent elections, will be entering a phase of intense national debate, negotiation and compromise, leading to the creation of a new constitution.

I believe the linchpin of a developing democracy is open and rigorous debate. It's best achieved through access to a robust and independent media which encourages this debate in an impartial and intelligent way.

Unfortunately, almost two years after the fall of Baghdad and millions of dollars in U.S. taxpayer funds, establishing this type of independent media has fallen far short of reasonable goals in Iraq.

I'm not sure why the plans for such an independent Iraq media network went so far off the rails, because the original plan was a good one. It was written here in Washington in January of 2003 by a variety of Pentagon advisers, Iraqi expatriates, and journalists like myself. It was to model IMN as a public broadcast network, similar to PBS or the BBC. It stated, "Whilst democracy requires a free press, at the same time it requires one that is accountable to the society and the individuals within it which it serves."

With that plan in mind, an international group of media professionals landed in Baghdad just a few days after the fall. We established IMN radio broadcasts April 10th and television broadcasts May 13th.

It been anticipated that we might inherit the well-equipped studios of Saddam Hussein's Ministry of Information. However, just four days before the fall of Baghdad, most of these facilities were bombed and what was not bombed was looted.

For me and my original colleagues this job was a real challenge and, I must admit, a great adventure. I'd worked training journalists in other postwar situations like Bosnia, Romania, Afghanistan, where similar tyrannies had been overthrown and journalists found themselves working in free and open media. But in Iraq we would have to build again from the ashes.

Our group of about 10 professional journalists and engineers had been hired by SAIC, Science Applications International, a respected Pentagon contractor. We were led by Michael Furlong (ph) and Robert Reilly (ph), both experienced in journalism and in establishing postwar broadcasting.

Within two months the two managers were fired after disputes with SAIC. After six months every one of the original 10 professionals had been either fired or resigned.

The disputes began with General Jay Garner's ORHA and continued with Ambassador Paul Bremer's CPA, the Coalition Provisional Authority.

These disputes varied. They ranged from day to day from petty censorship of any news items critical of CPA, an order to ban the traditional reading of the Koran to sign on our broadcasts, and once even to having the wife of a Kurdish political leader review our newscasts before they went on the air.

While these early disputes were settled largely by our news director, Ahmad Al Rikaby (ph) and myself either ignoring them or compromising. However, it was after an

executive from SAIC who replaced Michael Furlong (ph) arrived in mid-June that matters went seriously downhill.

News director Al Rikaby (ph) and I had previously met each morning with CPA officials to discuss policy and problems. Now we were disinvited from those meetings.

Sen. Dorgan: Mr. North, I did not interrupt Mr. Willis, but for purposes of understanding, the CPA is the Coalition Provisional Authority, which was headed by Mr. Bremer, is essentially the umbrella group paid for by U.S. taxpayers, established prior to the elections in Iraq.

They ran things in Iraq, but it was a U.S. organization. Is that correct?

Mr. North: Yes, exactly. I had mentioned originally General Jay Garner's organization was called ORHA. And then when Ambassador Bremer took over, the name changed to Coalition Provisional Authority.

At the time the new executive arrived and we were disinvited from the policy meetings, instead of covering stories of consequence to Iraqis, like the difficulties of establishing security, the electricity problem, obtaining gasoline, getting jobs, we were inundated with orders to cover CPA press conferences, photo opportunities, interviews.

This seriously taxed our limited cameras and crews and it resulted in our newscasts appearing to be a laundry list of CPA activities.

There was no longer any pretext on the part of SAIC management or CPA that we were setting up an IMN, an Iraq Media Network, to be a public broadcast network run by Iraqis.

News director Al Rikaby (ph) and I were told in no uncertain terms, we were running a public diplomacy operation for CPA and that was to be our primary task.

In spite of what I understand was an initial \$25 million budget, there were serious deficiencies in our broadcasts, in our equipment — basic equipment that caused us to run on a shoestring and look like it on the air.

I constantly asked for new camera batteries, tripods, editing equipment: very basic broadcast tools. In four months that I was there, they never came.

A request for a \$500 satellite dish that could have been purchased locally and would allow us to downlink the Reuters daily news feed was denied. I had negotiated with Reuters to supply a daily news feed free for a trial of four or five months.

Without the satellite dish, we couldn't bring it in.

A \$200 request to print my training manual in Arabic for journalists was never acted upon.

Staff training should have been a priority, but my request for a full-time trainer was denied. I started training classes myself each Friday morning: the only day scheduled for me and my staff to have off. The classes were very successful and resulted in about 35 of our TV and radio journalists getting the first formal training they'd ever experienced.

For the first two months, the local staff of about 200 journalists and technicians were not paid their salaries. Finally they went on strike. CPA would not negotiate. Striking staffers were told to go back to work or the U.S. Army would remove them from the studios.

They were also told that their salary levels would be based on Saddam's Ministry of Information pay scale. It would pay a reporter or a camera operator the equivalent of \$120 U.S. per month: drivers for the station got \$60.

The rationale was that Ambassador Bremer did not want to encourage inflation, although inflation had already, indeed, taken place with a vengeance.

With pay scales like that, I couldn't hire experienced journalists. Or if I did, they soon left to work for other U.S. government agencies or as translators.

In spite of all of this, I must admit we did have some encouraging moments. We managed to cover the first soccer match in Baghdad with our mobile van.

We actually produced a two-hour live broadcast of the Baghdad Symphony Orchestra concert.

Within a few months, the news, "Baghdad Tonight," with a male and female anchor, was being produced for a half-hour, often with some exceptional, exclusive news stories produced on the Baghdad street.

But by mid-July, news director Ahmad Al Rikaby's (ph) authority was so compromised he was forced to resign. He had fired five troublemakers and Baathists from the staff and the following day SAIC management hired them back and reprimanded Al Rikaby (ph).

The credibility of radio and television networks is a fragile commodity. When it's lost, it's hard to regain.

At the outset, we estimated a window of opportunity of perhaps three or four months to establish reasonably competent, radio and TV under Iraqi management. It didn't happen, and I left after four months of frustration.

The original plan for IMN, the Iraq Media Network, seems to have been jettisoned by CPA officials who were more interested in managing news for both Iraqis and Americans.

I believe the United States certainly has the responsibility to explain its policies to Iraqis, and indeed the world, but not at the price of making IMN, the Iraq Media Network, into another Voice of America.

One of our greatest exports to the world, our Bill of Rights and our First Amendment rights, and our know-how to establish free and open media, should have been a priority in Iraq as one of the foundations of a budding democracy.

These are ideals were seriously derailed in Iraq, and I commend this committee, Senator Dorgan, for trying to find answers as to why it happened.

There's a quotation from *Seven Pillars of Wisdom*, a book written by T.E. Lawrence, better known as Lawrence of Arabia, who had much experience in advising developing nations in the Middle East.

"It is better that they do it imperfectly than that you do it perfectly, for it is their war and their country and your time here is limited."

I gave that quote both to General Garner and Ambassador Bremer. There is no evidence either of them kept it in mind.

Thank you very much.

Sen. Dorgan: Mr. North, thank you very much.

I think it is the case, as you suggest at the end of your testimony, that democracy only works with a free press and the free flow of information.

And one of the curious points that I recalled in reading over your testimony, you indicated that some of the training for IMN reporters was turned over to Al Jazeera. Could that be correct?

Mr. North: Yes. This is correct.

After I left, several of my students, my reporters that I had trained, reported to me that they were sent to a training course in Dubai for several weeks that was managed by the two stations, Al Arabiya and Al Jazeera.

Sen. Dorgan: So we might have ended up paying to train Iraqi reporters with the training provided by Al Jazeera?

Mr. North: This seems to be the case. This was what was reported to me. It surprised me very much.

First of all, the huge expense of sending 10 or 20 reporters to a foreign country to learn news broadcasting when they should be taking training in their own atmosphere, in their own studio, with the equipment that they would be using. It seemed to really be questionable to do this.

Sen. Dorgan: And also, I want to get on to the rest of the testimony, but would you have chosen Al Jazeera to train?

Mr. North: Certainly not. I would not have.

Sen. Dorgan: That's a curious, strange decision, is it not?

Mr. North: It is.

Sen. Dorgan: Well, let me finish the testimony here by calling Mr. Grayson and Mr. Ellis.

Mr. North, thank you very much for being with us. We'll have some questions.

Alan Grayson is a principal at Grayson, Kubli and Hoffman, a law firm he founded in 1991, in the area of government contract law. The firm represents clients and claims, bid protests, false action claims and so on.

Prior to starting the firm, Mr. Grayson was a founder and president of IDT Corporation, today a publicly traded billion dollar telecommunications company.

We had previously had two people scheduled to testify on the subject that Mr. Grayson will address. Both of them have sent us rather lengthy e-mails describing why they felt they should not testify today. But the record in terms of their presentation is fascinating and a very disappointing one.

And so, Mr. Grayson, why don't we call on you to proceed?

Alan Grayson: Thank you very much, Senator.

My name is Alan Grayson. I'm an attorney. I represent whistleblowers in the first case involving fraud by a government contractor in Iraq to be unsealed by the court. My testimony is based on what the whistleblowers have told me and told to the court.

I wish I could tell you that the Bush administration has done everything it could to detect and punish fraud in Iraq, but if I said that to you, I would be lying.

In our case, the Bush administration has not lifted a finger to recover tens of millions of dollars that our whistleblowers allege was stolen from the government.

The defendant in our case is Custer Battles. This company was organized by an individual named Mike Battles. In 2002, with the invasion of Iraq eminent, Battles set himself up as a security contractor. He and his colleague, Scott Custer, were featured repeatedly on Fox News and other forums as so-called security experts.

Following the invasion of Iraq, Custer and Battles sought contracts from the U.S. government. Battles later told the Wall Street Journal that the "fear and disorder in Iraq offered real promise" to him.

Up to this point, their security company had garnered less than \$1 million in total revenue. Indeed, when one of them traveled to Baghdad, according to my sources, he had to borrow the cab fare. Yet in the next 13 months, the Bush administration lavished over \$100 million in contracts on Custer Battles.

In a matter of weeks, Custer Battles received two government contracts worth around \$15 million a piece. One was to provide security inspection for civilian flights at Baghdad International Airport. Of course, there were no civilian flights at Baghdad International Airport. The Bush administration paid Custer Battles anyway.

While at the airport, Custer Battles found some abandoned Iraqi Airways forklifts. They painted these over to hide the Iraqi Airways markings and then billed them to the government as materials under a different contract.

The other contract that Custer Battles quickly received was to provide security and logistical support for the distribution of new Iraqi dinars.

Reports indicate that after the contract was awarded one Custer Battles staffer hopped on a Custer Battles chartered flight to Beirut with over \$10 million in new Iraq dinars inexplicably in his luggage. Lebanese customs officials confiscated the money.

The currency exchange contract was a time and materials contract. This meant that Custer Battles could bill the government dollar for dollar for its non-labor expenses.

Sensing great entrepreneurial possibilities in that arrangement, Custer Battles set up some Cayman Island subsidiaries. The Air Force has referred to these subsidiaries as the "sham companies."

Custer Battles backdated and forged signatures on invoices from these sham companies. Custer Battles then directed employees to sign the fabricated invoices without even looking at them and then turn those invoices in for payment to the government.

One of our whistleblowers, a Custer Battles subcontractor and former FBI agent, was recruited to participate in this scheme. He refused twice and said, “You all are going to prison.”

The second time, he was held at gunpoint in Baghdad, stripped of his weapons and security identification, and then he was released defenseless on the streets of Baghdad. I’m talking about Americans holding guns on Americans. He made his way from Baghdad through Fallujah to the Jordanian border.

It is worth noting that the contracts awarded to Custer Battles were signed by U.S. contracting officers on behalf of “the United States of America.”

Custer has testified that he reported to U.S. military supervisors every single day.

Custer Battles was paid \$4 million in brand new U.S. \$100 bills, fresh from government printing presses and still wrapped in plastic, as well as with U.S. Treasury checks imprinted with the Statue of Liberty and wire transfers from U.S. Treasury accounts at the Federal Reserve Bank in New York.

On October 18, 2003, Custer and Battles attended a meeting with the U.S. military staff responsible for the currency exchange program. One of them accidentally left the Custer Battles spreadsheet on the table.

One column of this spreadsheet listed what Custer Battles had spent for materials on this contract: \$3.5 million. Another column listed what Custer Battles had billed to the government for these materials: almost \$10 million. This spreadsheet was documentary evidence of over \$6 million in fraud against the government.

Not long after another whistleblower, this one a Custer Battles employee, complained to Custer Battles that it was submitting fraudulent invoices to the government.

Custer Battles asked its so-called corporate integrity officer to report. And this is what he found:

“Indicated in this report are enormous areas of discrepancies and irregularities that lend themselves to elements of criminal fraud. A broader issue of criminal intent has become evident. The documents are *prima facie* evidence of the course of conduct consistent with criminal activity and content.

“The concerns and issues raised by the whistleblower, Mr. Baldwin, in his response to my e-mail significantly reinforces my concern that criminal activity transpired here on the money exchange project.

“These leases were the cornerstone of identifying a clear and definite pattern of deception and misrepresentation while the M.X. program was in operation. Further discussions and decisions concerning the M.X. project should be coordinated through the corporate criminal defense attorney.”

Despite this, the Bush administration continued to award new contracts and approve new subcontracts to Custer Battles for almost a year after the spreadsheet fell in its hands, all the way through to the end of September of 2004.

Our whistleblowers filed a lawsuit under seal under the Civil False Claims Act at the beginning of 2004. We immediately provided a copy to the attorney general. We know that both the FBI and the Defense Criminal Investigative Service investigated these allegations.

The Air Force has said in a formal finding that there is adequate evidence that Custer Battles has defrauded the government and that this evidence justifies shutting off the flow of government contracts to Custer Battles.

We estimate that the government’s total losses are tens of millions of dollars. Yet for more than a year, the Bush administration has done nothing to recover these ill-gotten gains from Custer Battles, much less bring the wrongdoers to justice.

In fact, in October of 2004, in our False Claims Act case, the very purpose of which is to recover this money on behalf of the U.S. government, the Bush administration declined to participate in the case.

When we asked why, the assistant U.S. attorney indicated the Bush administration had decided, as a matter of policy, that cheating the Coalition Provisional Authority is not the same as cheating the United States.

In an interview with two federal agents, Scott Custer suggested a different answer, and I’m quoting this: “Battles is very active in the Republican Party and speaks to individuals he knows at White House almost daily.”

It is perhaps understandable why, a few weeks before a close presidential election, the Bush administration might try to make it seem like the Coalition Provisional Authority was the multinational coalition of the willing, rather than simply an appendage of the U.S. military. But does this justify letting corrupt war profiteers go scot-free?

Our judge invited the Bush administration to state, by this coming Friday, February 18, 2005, once and for all, whether it believes that fraud against the CPA cannot be punished. To this date, the Bush administration hasn’t even said whether it will respond.

The fraud alleged here, perpetrated by a company that the U.S. military hired, was to provide security services in a war zone.

If that company never has to answer serious allegations, then perhaps the next fraud will provide the military with bombs that explode before they're dropped, flak jackets made of cheap polyester, empty fire extinguishers or parachutes that don't open.

The False Claims Act was enacted in 1863 because, among other things, contractors back then were selling defective rifles to the Union Army. If Custer Battles can evade this law so simply, it can happen again.

Thank you.

Sen. Dorgan: Mr. Grayson, thank you very much.

Would you identify for us the assistant U.S. attorney that you referred to?

Mr. Grayson: Yes, his name is Richard Sponseller, and he's an assistant U.S. attorney in the Eastern District of Virginia in Alexandria.

Sen. Dorgan: And to whom did he make that remark?

Mr. Grayson: He made that remark to Victor Kubli, my colleague.

Sen. Dorgan: And finally, the last witness is Mr. Steve Ellis, vice president of Taxpayers for Common Sense, where he oversees programs and serves as a leading spokesperson for Taxpayers for Common Sense.

I know that this organization has been very involved in these issues.

And Mr. Ellis served formerly in the Coast Guard for six years — has been working now on these issues for a good many years.

Mr. Ellis, thank you for joining us. You may proceed.

Sen. Reid: Senator Dorgan, if I could just say — now, I have things to do and I wanted to come and give my statement and leave. The testimony here is compelling. This is just unbelievable. I couldn't leave.

So I'm anxious to hear you and ...

Sen. Dorgan: Thank you.

Mr. Ellis?

Steve Ellis: Thank you.

Good morning, Chairman Dorgan, Senator Reid, Congressman Waxman. I want to thank you for inviting me here to testify.

I am Steve Ellis, vice president of programs at Taxpayers for Common Sense, a national nonpartisan budget watchdog.

We heard much today about the fiscal oversight shortcomings at the Coalition Provisional Authority.

Despite the difficult task at hand, the CPA had an obligation to develop adequate safeguards and record-keeping procedures that would ensure good stewardship of taxpayer dollars. Failure to enact strong fiscal controls over reconstruction funding not only guarantees waste, fraud and abuse, but also undercuts our efforts to win the hearts and minds of the Iraqi people.

The rhetorical argument that the CPA is not a U.S. federal agency exists solely to avoid further accountability and oversight. The president settled any debate on November 6, 2003, when he signed legislation providing funding for the CPA, “in its capacity as an entity of the United States government.”

Simply put, American taxpayers’ money, managed by American contracting officers, is paying American contractors to rebuild the country of Iraq. As keepers of the federal pocketbook, Congress has an obligation to conduct oversight over how this money is spent.

Furthermore, when our nation’s sons and daughters are in harm’s way is precisely when we need to be most concerned with efficiency and accountability. A quick, efficient and effective reconstruction process is an important part of protecting our troops and advancing the war effort.

Despite the administration’s disappointing lack of interest in oversight, the congressionally mandated inspector general position has borne significant dividends.

The latest I.G. report is far from our first indication that all was not right with Iraq contracting. A steady stream of audits and investigations of the CPA and successor operations over the past year have found that poor oversight and a lack of accountability plague everyday operations. Failures cited by the I.G. included “inadequate financial controls” at CPA, which created an environment where waste, fraud and abuse were bound to occur.

Additionally, the I.G. found that the Development Fund for Iraq suffered from “severe inefficiencies and poor management” and that it was “susceptible to waste, fraud and abuse.” The CPA “provided less than adequate controls” to ensure that \$8.8 billion in DFI funds paid to Iraqi government ministries were spent to achieve our overall policy goals.

Separately, a United Nations-sanctioned audit from last year concluded that about half of the \$5 billion in the Iraq reconstruction fund could not be accounted for because of poor financial controls.

No one really knows what we got for billions of dollars in Iraqi reconstruction funds. The DFI is supposed to be directed to humanitarian needs in Iraq and toward infrastructure development, not lining people’s pockets.

In a late July audit, the I.G. noted poor accounting of \$600 million in DFI funds that were available for disbursement as cash. The I.G. recommended that the comptroller be required to implement “a single set of existing accounting standards, standardized fund clearing requirements, develop adequate internal controls and oversight and implement consistency between guidance and agent appointment letters.”

Unfortunately, the January 2005 report found many of the same problems that they first reported on in July.

This deplorable system created an opportunity for unscrupulous officials and contractors. In October, the I.G. reported that one Iraqi official had embezzled \$500,000 from the DFI. Luckily, this money was reclaimed, but poor record-keeping may well have kept similar incidents from coming to light.

As of January 11th of this year, the I.G. was investigating 11 cases of theft; seven cases of bribery, kickbacks or gratuities; six cases of posthumous charging or product substitution; six cases of procurement fraud; four cases of public corruption; and a dozen assorted other allegations.

Poor management of the reconstruction process threatens to undermine both the trust of the American taxpayers and the security of the Iraqi people.

In one case, as Senator Dorgan mentioned in the opening statement, 8,206 guards were listed on a payroll, but only 602 individuals could be verified. At another ministry, payrolls listed 1,471 security guards when only 642 were actually working.

Iraqi citizens in particular are all too familiar with kleptocracy and misuse of government funds. They witnessed this firsthand under Saddam Hussein.

The Government Accountability Office pointed out, “Building internal control and accountability measures into the operations of the Iraqi ministries will be critical to safeguarding billions of dollars in U.S. and international funds that will be provided for reconstruction.” But the only example we have set for the new government agencies is one of a lack of fiscal accountability.

If there is any good news, it's that there is still time and opportunity to get our financial control house in order.

As of January 30, 2005, less than 15 percent of the Iraqi relief and reconstruction funds have been expended. We can and we must establish clear financial controls over existing and new contracts if we are going to reassure the American and Iraqi people that we are wisely and responsibly spending their precious resources rebuilding Iraq.

Thank you very much.

Sen. Dorgan: Thank you, Mr. Ellis. Thank you very much.

I'm going ask one question and then I'm going call on my colleague Senator Reid who, I think, has to be elsewhere.

But I wanted to start — Mr. Willis, in your testimony that I had read, you talked about the issue of people being paid cash in bags and a substantial amount of that kind of thing going on.

We understand this is a very difficult circumstance in Iraq. And it's not like normal times. You've got major security problems and so on. But I think you described it as, kind of, a Wild West approach where somebody is to bring a bag and they get money in the bag, cash in the bag.

You also indicated that, although you didn't have personal knowledge, you were advised that upwards of \$3 billion cash was in a bank vault at the CPA.

Is that correct? Can you respond to some of that?

Mr. Willis: Yes, that was a rumor. I don't have personal knowledge. There had to be a lot of money there, whatever the sum was, because when we had to pay the second payment to Custer Battles of \$2 million, an Air Force captain went down, got the money and brought it up. I've submitted to the committee a picture of that payment, in fact.

Let me give you...

Sen. Dorgan: The captain went and got \$2 million in cash?

Mr. Willis: Yes. \$100 bills in plastic wrap. We played football with the plastic wrapped bricks for a little while. There is picture evidence of that particular transaction.

Let me give you an example of what would happen, because we were responsible at transportation for 14 state-owned enterprises: bus companies, limousine operators, truck

operators. The executive office, say of Land Transport, a trucking company, when it was time to pay salaries would, through a voucher system, get cash.

There was no way to wire money in — they had no banking system and then a very, very primitive banking system later in the summer. No way to wire cash, no tracking of transfers of that kind.

So he would get a bag of cash — it might be dollars, it might be dinars —and travel to Baqouba, say, where one of our regional Land Transport operations was. The regional president believed that not all the money in the bag got to him by the time the money got to Baqouba.

Then the regional manager had that bag of cash and that was used for distribution to the truck drivers. And the truck drivers felt that not all of the money that the regional president had got to them.

That was the kind of way, if you looked at the payment in the voucher system for the Iraqis, 14 state-owned enterprises, the ministry itself, 2,400 people at Iraqi Airways, that was how the process worked.

And it worked on I think on a trust system that we did have a mindset that this was Iraqi money. The DFI is Iraqi money. And we said, “Well, it may not be traced very well, and we got a lot of trust and we know there’s a lot of abuses, but at least it’s the Iraqis handling their own money and it’s getting to Iraqis in one form or fashion.”

I would distinguish that from the Custer Battles case where Iraqi money went to Americans.

Sen. Dorgan: The photograph that you reference is up here on a chart. It shows — I believe that’s the way money was transferred there. Is that correct?

It sounds to me your description of passing money around to three, four different places in order to get it to somebody who that it’s owed is kind of like passing an ice cube around. You know, by the time the person at the end of the line gets the ice cube, it’s a radically different ice cube. Much smaller, I might suggest.

Well, let me call on my colleague Senator Reid.

Sen. Reid: What is the setting of that picture behind us?

Mr. Willis: That’s the office of the advisers’ group to the Ministry of Transportation. That’s actually my desk right behind me. I’m the person in the middle there.

Sen. Reid: What is the —

Mr. Willis: We're in the palace ...

Sen. Reid: What are you doing with the money?

Mr. Willis: CPA headquarters. There was a payment due to Custer Battles of \$2 million on July 31, 2003. And so we brought the money up, called in Mike Battles and said, "Bring a bag."

Sen. Reid: You know, I'm from Nevada and in years past there's been criticism about the cash involved in some of the old Nevada operations. I mean that's baby stuff compared to what we see even in this picture.

How much money do you think we see right there in that picture?

Mr. Willis: Well I know exactly how much money that is. That's \$2 million in \$100,000 plastic-wrapped bricks. My right hand is holding \$100,000 in that picture.

Sen. Reid: Someone told me — and I have no doubt, if I told you the name, we would all agree that that person knew what they were talking about — is that they hauled to Iraq airplane loads of American cash, dollars.

Do you have any doubt that statement's untrue; or true, however you want to say it? They had to get the piles of money there some way, didn't they?

Mr. Willis: Well, certainly, when they changed the dinars from the old dinars that had Saddam's face on them to the new dinars, there was an active operation, there was a 747 that came in loaded with cash.

That money was kept out at the airport in a special area and then other flights took that cash to various of the regional banks. And that occurred in the late November or December period for a month or so.

I mean, we changed all of the money in Iraq.

Sen. Reid: It seems so easy, as you've indicated in a very gentlemanly way, to take money that didn't belong to you.

Mr. Willis: There was leakage, no doubt. I think the ice cube metaphor is a good one.

Sen. Reid: Mr. Chairman, I have a number of questions but I have other things to do. I would like, maybe, to submit these and have the witnesses respond to them. Would that be permissible?

Sen. Dorgan: Without objection.

Mr. Willis: I want to just say, Senator Dorgan, thank you very, very much for holding this hearing.

I mean, the sad part about this — we shouldn't be holding this hearing. This should be done by committees having jurisdiction to do oversight of these government operations.

This is a scandal. I don't know — you know, this is only the tip of the iceberg. This is absolutely unbelievable. I mean, I can't imagine that our government is allowing something like this to happen. We're talking about billions of dollars — billions of dollars.

Sen. Dorgan: Senator Reid, thank you very much for joining us today.

I think it's important to say that, again, this isn't about "got you," it's not about going after someone. It's about a process that seems to me to be promoting a dramatic amount of waste fraud and abuse. And nobody seems to take a look at it.

I mentioned at a previous hearing — Congressman Waxman will know this well — but in 1941, a Missouri Senator started moving around the country touring military installations. And then he began holding a series of investigative hearings because he thought there was so much waste and abuse.

That became the Truman Committee — the famous Truman Committee. He was a Democrat. The occupant of the White House was a Democrat. I'm sure they were not too happy about it. But the fact is, he did a great service to this country.

That was a domestic issue about a substantial amount of waste that was occurring.

In this case, you know, we have a very unusual situation with the attempt to try to reconstruct Iraq, bring order to Iraq, create security in Iraq, and a dramatic amount of money is being spent in that pursuit.

We've just been asked for another \$80 billion. Most of that is to replenish Army accounts.

Last year we approved somewhere around \$18 billion to \$19 billion for reconstruction. That will not be military money. That money, most of which has yet to go to Iraq, will go over — and if it goes over in circumstances like this, in bundles of cash with very little accountability, I fear the American taxpayer is the victim here.

So, I think the reason that we asked these questions is, again, to see if we can shine a spotlight on something that desperately needs fixing. This system is broken and it has to be fixed. And that's the purpose of these hearings.

I will defer questions to the end, but let me call on my colleague, Congressman Waxman.

Rep. Waxman: Thank you very much, Senator Dorgan.

I want to express my appreciation for your holding this hearing and join with my colleagues in saying, “Why aren’t the people running the Congress holding hearings like this?”

The Congress is an independent branch of government. And one of our responsibilities under the Constitution is to provide checks and balances with what happens with the executive branch. And if we don’t provide checks and balances, if they don’t feel they have to answer to anybody, we see what kinds of things happen.

Power corrupts and this seems to have happened where a lot of money was involved. We have theft, bribery, fraud, corruption because no one’s watching those people who are in charge of the money.

The Coalition Provisional Authority was set up by the U.S. and our allies, but really run by the U.S. to help form a government in Iraq. And what we’re hearing from the witnesses today is we’re supposed to set up an independent media which became a propaganda source for the provisional authority to try to convince the Iraqi people what a good thing the occupation was.

And Mr. Grayson has told us about one of the American contractors that seems to be taking a lot of money in cash — as it appears, anyway — without any explanation.

But, Mr. Willis, you’re, to me, so important to our inquiry because you were there. You have firsthand knowledge to tell us about what was going on with the money being used to run Iraq by the Coalition Provisional Authority.

You personally paid CPA contractors in cash, is that right?

Mr. Willis: Yes. Yes.

Rep. Waxman: And, in fact, that photo behind me is a photo of \$2 million in cash for payment to Custer Battles, that was a CPA contractor, an American contractor that seems to be paid by the authority to do work that it never did. Is that right?

Mr. Willis: Well, it did do work. It simply didn't do the work related to the contract that they had won.

Because the civilian flights that were anticipated with the opening of Baghdad Airport on July 15, 2003, never happened. In fact, there were no scheduled civilian flights in the life of the CPA. And the contract was to provide security relating to those civilian flights. When that was canceled, Custer Battles had guards in place so, in effect, contract went searching for a scope.

Rep. Waxman: Let me ask you about a specific example. Iraqi Airways had 2,400 employees in late 2003, but hadn't been operational for some time. Isn't that right?

Mr. Willis: That's correct.

Rep. Waxman: And has the airline been fully operational, how many individuals could reasonably have been employed?

Mr. Willis: Three hundred, 400 maximum.

Rep. Waxman: Yet the provisional authority — here you have an airline that's not even operating, the provisional authority wanted to make sure the employees are paid and they paid the salaries of 2,400 people, regardless of whether these employees were actually working. Do you know if the 2,400 employees were actually real people?

Mr. Willis: I presume that some of them are ghost employees, but we paid them — we paid everyone in the 14 state-owned enterprises — I think everyone who had a government job and had been paid under the Saddam regime continued to be paid by the CPA. There was a high-level decision, I think, made that at least until January 1 of 2004, salaries would continue to be paid to employees whether they worked or not, because there was a fear if they were unemployed of riots and other complications.

Rep. Waxman: Yet at the same time, the de-Baathification program was to disband the army and to take key leaders that had been in power and put them out.

Mr. Willis: It made them unemployed and they did not receive money. They did not receive a salary.

Rep. Waxman: So was there a screening of Iraqi employees to see whether they were part of the Baathist Party or not?

Mr. Willis: What happened in the case of the army, of course, there was just no salaries paid to the army.

In the case of the Baathists, they were, in effect, fired from their jobs. And therefore they didn't receive a salary because they weren't employees.

Rep. Waxman: In addition to paying contractors, the CPA also used the Iraqi funds to make payments to the Iraqi ministries and the cash was disbursed to the ministries so that they could pay the salaries. So they wanted to make sure that people were paid.

When funds were paid to these ministries, how did the authority know who needed to be paid what the salaries were?

Mr. Willis: The Iraqis did that. There would be a financial officer, actually, in our case, a very fine fellow named Isam (ph), who was responsible for those funds being disbursed for salaries.

Rep. Waxman: You got any way of confirming what the nice guy said was accurate, whether these employees were actually working or whether they ever really existed?

Mr. Willis: Isam (ph), himself, questioned that. But there were difficulties — there were so many difficulties at that time between transportation, security problems, paper-tracking — remember the country had been looted. It had been cleaned out.

If you saw the place in July, it was with utter disbelief that I saw ministries, railroad stations, others — they were cleaned out, stripped, even electrical sockets were pulled out. There was nothing, no records, no recordkeeping, no computers — tables, desks, chairs, all gone. All you had was empty buildings.

Rep. Waxman: That was looting after the war?

Mr. Willis: After the war. But when I arrived on July 19th, that still was very much a problem.

They were starting absolutely from scratch. They had no records so there was a lot of trust and faith that went on. But the Iraqis, themselves, recognized that there was leakage in the system.

Rep. Waxman: Many people have criticized the U.S. in running the postwar activities, because while we won the military battle, we didn't have enough people there to stop the looting and the lawlessness, and therefore the Iraqi people had a sense of enormous insecurity.

The authority was set up, and in order to try to win back the loyalty of the Iraqi people, we decided we would pay the old employees, but we had no idea who they really were. And we were handing money over to these ministries in cash hoping it got to the right people, but we had no idea who the right people were. A lot of them were ghost employees.

Did we have any sense that the Iraqis would later come back and say, "What did you do with this money? It belonged to the Iraqi people."

It might have gotten to some Iraqi people, but this was just throwing money around, wasn't it?

Mr. Willis: We counted on the rudimentary Iraqi system that you had after de-Baathification had removed the top officials to find out who the employees were to make sure those distributions occurred. It was a reliance on the Iraqis themselves to accomplish that task.

By the way, I need to correct the record. I said that the army was not paid after it was disbanded. I believe a decision was made to pay the salaries of the army. I would have to double-check my facts on that.

One other thing I should say to clarify, by the end of August, money didn't go in bags to the ministries. It went to banks, and vouchers were drawn for money from those banks. The Ministry of Transportation had a bank that we would go to with vouchers, that others would go to with vouchers, to pull the money out.

Where the bags of money then occurred was that the various officers who had to distribute money out into other regions had to get it out, because there was no way simply to wire it to Mosul, for example, or Tikrit or Baqouba.

And so, you still had money transported. And one of the persons who worked in our office mentioned that, for example, in September in the Communications Ministry, there was a huge gunny sack full of money. It must have been pulled out of the bank by a voucher system for someone to disburse that to Iraqis on that day.

Rep. Waxman: What we have here is a very clear picture of lack of transparency, poor management, people just using money in a throwing-it-around kind of way. Maybe with good intentions, but the U.S. had a real responsibility, because we were entrusted by the United Nations to use the Iraqi money from the sale of their oil to help the Iraqi people.

Now, some people got benefited, whoever was able to grab onto some money. But I don't know if the Iraqi people believe they were benefited by our stewardship over their funds.

I think what we're seeing is a picture of a U.S. government set up in Iraq, or we hope to eventually turn it over to the Iraqis now, but where the people see us misusing their money, setting up a pro-CPA propaganda using their media, American contractors getting paid off for not doing their work and cheating everybody involved, and a sense that after we let the looting take place that we were not very good stewards, but instead occupiers of a country.

That is a very difficult problem we're now trying to work through as we try to turn over power to the Iraqis to run their own affairs.

I think this administration has failed to meet its obligations as stewards of the funds from the Iraqi oil and for the U.S. taxpayers. And it's not just a waste of money: It has cost American lives because we've had to fight against insurgents who are angry — some of whom are angry, some are just against the whole idea of democracy in Iraq — but some of whom are angry because they see the U.S. not as a source of help, but a source of taking advantage of the Iraqi people.

And that, to me, is a problem that's going to be with us for some time. And we have to still try to overcome as we muddle our way through under this Iraqi — the way that the administration is trying to handle the Iraq policy.

I hope we succeed. You're right, Senator Dorgan, we certainly want America to succeed in getting the Iraqis to run their own affairs. But I don't think we've set a very good

example for them in the way that we've thrown money around and wasted it and not given the benefit to the Iraqi people that they deserve from the use of their own funds.

Thank you.

Sen. Dorgan: Congressman Waxman, thank you very much.

Mr. North, let me ask you about the Iraq Media Network. You went to Iraq, along with others, to create an Iraq Media Network.

You have been critical of a whole series of things that occurred in the construction of that network. But where are we today, based on your knowledge? Is the Iraq Media Network up, operating and successful? Or is it not?

Mr. North: It's up and operating.

I can't overstep my knowledge by giving you firsthand knowledge of it. I really don't know. I keep in touch with many of my students and journalists at the Iraq Media Network.

I think, to me, one of the best examples of what could have been for Iraq Media Network is what the news director, Ahmad al Rikaby (ph), after he was fired or resigned, he went out and raised \$300,000 mainly from Swedish foundations and media benefactors.

He brought it back to Iraq and established Radio Dijla (ph). And Radio Dijla (ph) became a 24-hour talk radio station, where Iraqis could essentially speak truth to power or argue or debate what was going on in their streets; the type of thing we tried to do at Iraq Media Network.

But I can remember one day, someone from CPA coming and saying, "This Iraqi complaining about some sort of hospital service he wasn't getting — that, you know, that's too much. Take that off."

And the Iraqis really needed, at that time, in those early months, to let off steam, to be able to debate and then find out where they were going. And Ahmad (ph) has established that with only \$300,000. And it's the most popular radio station, by far, in all the central area around Baghdad.

And it is now completely self-sufficient. He is selling advertising and it's sustaining itself.

Iraq's an example of what we could have done.

Sen. Dorgan: It's quite a literate people, isn't it? I mean, the Iraqis are people who have a history of great literacy and interest in information.

Mr. North: Exactly. They were really hungry for this type of information broadcasting. There's a saying in the Middle East, something like, "Cairo writes, Beirut publishes and Baghdad reads." They're a very educated and literate people and they were waiting.

Many of them said to me, "Well, you haven't done very well with the electricity, and we haven't got security yet, and we have to stand in line for two or three days for gasoline. But you Americans sure know how to produce good television. We're looking forward to what you can do with IMN."

And after a few weeks, a few months, they were bitterly disappointed.

Sen. Dorgan: Well, some of our television fare is wanting from time to time in this country.

But bringing an opportunity for television and radio in a free democracy, with the free flow of information to the country of Iraq, was the goal. And I assume a substantial amount of money was spent in that pursuit.

My understanding is that something like one in 10 Iraqis now watch the Iraq network, far more than are watching Al Jazeera. Is that correct?

Mr. North: Yes. This is my understanding, that Al Jazeera and Al Arabiya, the two main Arabic satellite stations, get the most viewership.

There's also some encouraging signs that local commercial television and radio is gaining ground. One station, Al Sharqia (ph), has gained a great deal of success -- doing, again, local programs, the type of programs that, again, IMN should have been doing.

I was told that just a month ago an Iraqi manager at Al Iraqiya, which IMN is now called, resigned because the current contractor was buying a series of quiz programs from Beirut that cost \$28,000 per half-hour program. He resigned in protest because he said those programs should have been produced in Baghdad, by Iraqis, for perhaps \$2,000.

Sen. Dorgan: Mr. Grayson, let me ask you a couple of questions.

We had originally invited a couple of "whistleblowers," I think, who have whistleblower status at this point, to testify. Both of them are clients of yours, I believe. Is that correct?

Mr. Grayson: Yes, that's correct.

Sen. Dorgan: And they had both agreed to testify and then we received very length e-mails from both, indicating that they chose not to testify.

Can you tell us why?

Mr. Grayson: Well, there's a longstanding reason and a new reason.

The longstanding reason is that they faced death threats. And one of them's had a \$50,000 bounty on his head since the case was filed, and it became known to the defendants. And they've been afraid of that for a long time.

Mr. Grayson: The new reason is that they now fear retaliation from the Bush administration. They both are government contractors. They work for government contractors. And they are concerned that the Bush administration might cut off the flow of work to the companies that they work for if they step forward and testify today.

Sen. Dorgan: Has the company for which they worked for debarred at this point?

Mr. Grayson: No, the company for which they work, no, but Custer Battles has been suspended.

Sen. Dorgan: Custer Battles has been suspended. Is that an Air Force action?

Mr. Grayson: Yes, but it's effective throughout the entire government.

The Air Force stepped forward and saw to it that the contracts were cut off, but only a year after the government had documentary evidence of fraud against the government here.

Sen. Dorgan: Mr. Ellis, your organization takes a look at a broad range of these issues. Tell us your assessment of what we've heard today and what you know from other research that you've done about the contracting that's going on in Iraq.

Mr. Ellis: Sure.

Well, certainly, as Senator Reid pointed out and I think all of you have pointed out, is that the testimony today is very compelling and very illustrative of some of the problems that are going on in Iraq and about the contracts.

We had talked before — you mentioned earlier the Truman Commission — about trying to set up something very similar to that, that we think really is in the best interests of the country and of the president's administration as well to try to get to the bottom and really understand what is happening on our contracting process and being sure that we're getting what we're paying for.

We think it's important both domestically, for the American people, but also in Iraq, for the Iraqi people and for our own soldiers.

One thing that has been concerning to us, particularly, has been even when you look at the inspector general's report, in a lot of the cases when the findings were not to the CPA's liking, there was very little response or very angry response, rather than a mea culpa or some other sort of decision that, "We have a problem here and we need to fix it."

If that had been the response back in July, we might have had a much better approach as we went forward on the funding in the DFI and a much different inspector general report in January than the one that we got was essentially the same as in July, and that produced a very angry response from Ambassador Bremer.

We have an obligation as we go forward. As I pointed out, we've only put — we've only spent 15 percent of the money — a little over half of the money has been contracted out over the Iraqi reconstruction funds.

We still have a chance to try to fix this process and to be sure that we're actually getting what we're contracting for.

When we were talking before about the leakage, it made me think of a car that's burning oil. You can just keep pouring more oil into that car but you're not fixing any problems and you're certainly creating bigger problems outside for the environment or other entities.

And so we really need to get a grip on the contracting process and we think a Truman-like committee would be one key way of doing that.

Sen. Dorgan: Yes, well some of us have suggested that, but there's not a lot of appetite in Congress to do this sort of thing.

And, you know, the fact is, I don't care who's in the White House or who controls the Congress, in areas like this, it's not like partisanship, it's not about a political party, it's

about whether someone has the instinct and the interest to pursue these important questions.

And we have the largest budget deficit in the history of our country. When you think about this it's pretty startling. The budget deficit is really close to \$650 billion. They say \$400 billion and something, but that excludes the \$80 billion they're asking for for Iraq and it also includes the use of \$150 billion in Social Security funds. So the real budget deficit's around \$650 billion, a trade deficit of \$620 billion.

We have a very serious problem in this country. We're off track financially and in fiscal policy and trade policy. And we ought to start caring. We better start caring about how money is spent, where it's spent, whether we have accountability for it.

And I know there will be some who will take a look at this hearing and they'll say, "Well, a hearing like this will undermine what we're trying to do in Iraq." Not at all, in fact it will strengthen what we're trying to do in Iraq.

The way to strengthen what we're trying to do in Iraq — and ultimately we all want the same goal. We want to turn the country of Iraq over to the Iraqi people so they can live in freedom and bring our soldiers home. We want the country of Iraq to be turned back to the Iraqi people. And that process is well under way.

We will hasten the day to do that, in my judgment, when we more effectively use the funding that this country has committed to deal with the issues in Iraq, whether it's security or information or television communications or contracting or any one of dozens of things.

We will serve this country's interest most aggressively, in my judgment, and most successfully, by asking the tough questions and requiring accountability. It does no service to American taxpayers and it does no service to our mission in Vietnam -- excuse me, Iraq, I should say — for that matter, Mr. North, you talked about Vietnam and all of the other missions we've had.

It has never served our interest and will not serve our interest if we don't have accountability. And, you know, the accountability issue comes up on the question of, were people tortured? And it goes all the way back to the question of did somebody order 25,000 pounds of nails that were the wrong size? Are they laying on the ground some place?

This is about accountability and there virtually is none at this point. That's why I appreciate very much your coming forward.

Let me call again on Congressman Waxman.

Rep. Waxman: Before we adjourn, I do want to ask Mr. Grayson another question.

You testified that the Bush administration indicated it may not pursue contractors who bilked the CPA.

You discussed this in the context of the contract with Custer Battles.

Relatively speaking, that contract was smaller than some others. As you may know, Halliburton also had a contract that was paid for out of Iraqi funds. In fact, the Bush administration paid Halliburton \$1.5 billion in Iraqi funds.

Now, I've contended, and the Pentagon auditors have concluded, that Halliburton overcharged significantly by tens of millions of dollars.

Are you concerned that the Bush administration position in your case is just the tip of the iceberg; that they want to stop the use of the Fraudulent Claims Act as way to go after the money that has been wasted?

Mr. Grayson: Yes, Congressman. I'm very concerned about that.

As I indicate, our case is the first case involving fraud by a government contractor in Iraq to be unsealed, and it will set the precedent for all of the other cases.

In fact, one reporter suggested to me that he felt that we were the sacrificial lamb; that the Bush administration wants to establish a precedent in our case that there will be no punishment for contractors who committed fraud against the CPA — basically that Iraq became a free fraud zone, if you will, because other contractors who are larger and even better connected politically will therefore benefit from that.

And, in fact, what that means there will be no punishment for any of this, because one of the first things that the CPA did when it was established was to say that American contractors were not subject to Iraqi law. So if they're not subject to Iraqi law and they're not subject to American law, then how could they ever be held accountable?

None of this money will be recovered unless this administration changes position and pursues this money from Custer Battles, from Bechtel, from everybody who might have cheated the U.S. government.

Well, the recovery of the money that's been misspent — by fraud and corruption — is up to, first of all, the administration. But, since they seem to have been part of the wasting of the money without safeguards, transparency and protections to be sure that that money wasn't wasted as it was, they may be reluctant to admit that they handled it so poorly.

One of the safeguards we have when an administration doesn't pursue money that's been stolen, or otherwise taken improperly, is for the Congress to oversee them. And that we're seeing not being done.

And the other is to provide for lawsuits by whistleblowers under the False Claims Act, where those who have submitted false claims have to face private lawsuits should the government not pursue its legitimate claim.

And those private lawsuits are on behalf of the taxpayers of the United States.

So if the government doesn't pursue recovery of the money, and they block the lawsuits and they tell their friends who run the Congress not to do any oversight, you're really talking about a no fraud zone in Iraq and no fraud zone wherever this administration is involved. Is that the case?

Mr. Grayson: That is 100 percent true.

Rep. Waxman: Halliburton, of course, was paid not just by Iraqi funds but by U.S. taxpayers' funds as well, and it would be pretty ironic to have a taxpayers' lawsuit to recover the money that they overcharged for that part which the U.S. tax money was used but not for that part of the money that the Iraqi funds were used by the U.S. government as a trustee for the Iraqis for the use of the Iraqis' money. That just seems to be a very strange result.

Thank you, Mr. Chairman.

Sen. Dorgan: Let me just follow on that point.

Again, Mr. Grayson, you indicated that an assistant U.S. attorney has said — apparently not in writing but has said orally to someone — that defrauding the Coalition Provisional Authority would not be the same as defrauding the U.S. taxpayer or the federal government. Can you describe that again?

Mr. Grayson: Yes, the irony of that is that Congress passed and the president signed a law that specifically said that the Coalition Provisional Authority is an entity of the U.S. government.

The Coalition Provisional Authority head was appointed by a general. And when he resigned, he handed in his resignation to a general. He reported by law to the secretary of defense and indirectly to the United States president.

And yet when it comes to fighting fraud in Iraq, the government takes the position —the Bush administration takes the position that somehow the Coalition Provisional Authority cannot have its rules enforced, particularly the rule against fraud, by the U.S. government when in fact the U.S. government provided the funding — you see the dollar bills yourself — it signed the contracts, it staffed the contracts and these contracts that Custer Battles did, for all practical purposes, the United States government contracts.

It seems irresponsible to say that nothing will be done to recover the tens of millions of dollars in this case alone that the government was defrauded simply because of some technicality in the minds of someone or other who's never been identified.

Sen. Dorgan: Well, let me thank all of you for being here today.

Again, let me emphasize, it is our interest in making sure that we have accountability. We hope to provide strength to those that want to do the right thing and to make certain that our investments that are occurring in Iraq — and those investments will increase because the money that's in the pipeline now — I think there's around \$15 billion that is of yet unspent that's been appropriated by the Congress — we do want to make sure that that money is spent in accordance with the interests of the American people and Congress, and in support of not only the interests of being able to bring U.S. soldiers home at some point, but also being able to turn over to the Iraqi people a country that works and one that is free and one that will allow us to be able to withdraw.

So our goal here is very simple: We want there to be accountability for what is happening. There appears to be virtually none.

And that lesson, the lack of accountability, is found in dozens and dozens and dozens of reports, in the request by Congressman Waxman, my colleague Frank Lautenberg, who couldn't be here today, and many others who have requested hearings, but those hearings have not been held.

And so there's not only a lack of accountability, there's a lack of interest enforcing accountability, I think, by the administration and by the Congress. And I think that's unfortunate.

Because they seem to have that lack of interest, we will hold hearings. And the minute they decide to begin to hold hearings, we will no longer need to hold hearings in our policy committee.

Again, let me thank the witnesses who have taken their time to be with us, in some cases at some difficulty. And we appreciate very much your willingness to testify.

This hearing is closed.