

Eye on Iraq: Holding Accountable Unchecked Private Contracting

Introduction

One of the first companies to receive a contract for reconstruction work in Iraq was Halliburton, a Texas-based company that provides services to the oil and gas industry and that has a long history of close ties to high-ranking government officials. Those ties have included the late President Lyndon Johnson and the current Vice President Dick Cheney, a former CEO of Halliburton.

The U.S. Army hired Halliburton to put out oil fires and rebuild Iraq's beleaguered oil industry. Iraq's oil industry, one of the world's largest, was in disrepair after years of neglect and damage from the U.S. invasion. The contract was worth up to \$7 billion and was not competitively bid. A recent audit of contracting in Iraq showed how that contract was later expanded to include importation of Kuwaiti oil. That work was also not put up for bidding, and Congress did not know about the expansion at the time because Halliburton was being paid with Iraqi money, not with U.S. reconstruction funds.

This latest discovery is part of a larger set of findings that Common Cause is highlighting as part of our *Holding Power Accountable* series. In July, Common Cause released "[What Went Wrong](#): How the United States Got Into the Mess in Iraq," which looked at the process of going to war and how it led to the Bush administration's miscalculations, misleading statements and undermining of basic democratic principles of openness and accountability.

This report will be the first in a series highlighting the findings of official investigations into contracting procedures in Iraq during the post-war period. These investigations paint a troubling picture of a U.S. occupation plagued by mismanagement and chaos at many levels.

Several federal agencies are reviewing the administration's contracting procedures in Iraq. The [Government Accountability Office](#) (GAO) – formerly the General Accounting Office – is conducting a far-reaching investigation in response to a request by more than 100 members of Congress concerned about the administration's policies. The Pentagon as well as the [inspector general](#) of the now-defunct Coalition Provisional Authority in Iraq are also conducting separate audits of U.S. spending during the reconstruction.

The preliminary results of the investigations support a number of conclusions:

- The White House did not adequately plan for the post-war period in Iraq. It underestimated what it would take to rebuild Iraq, how many troops would be needed and the duration of the occupation and the cost. As a result, the reconstruction has been plagued by mismanagement and chaos. Although the White House blames the violence in

Iraq for the problems with contracting and support services, the GAO says the entire process could have been “more deliberate.”

- The reports call into question the administration’s sweetheart relationship with Halliburton. Audits of the reconstruction portray the company as inefficient and poorly managed. In retrospect, it is difficult to believe that no other company could do the support work in Iraq as well as Halliburton.
- The lack of transparency in the reconstruction has hurt the process in several ways. Not only has it spread suspicion and mistrust among the Iraqis, but it has also led to possibly criminal waste, fraud and abuse. The administration spent the Iraqi money on no-bid contracts with American companies. Neither Congress nor the Iraqi people knew where this money was going at the time, largely because Congress did not require better disclosure on how money from Iraqi oil revenues was spent.
- Congress could have prevented some of these problems if it had exercised more oversight. It was slow to create an inspector general position in Iraq and gave that person relatively limited powers. It did not require adequate disclosure from the administration on spending of Iraqi reconstruction money, even though it amounted to more than \$20 billion.
- The war in Iraq is going to have long-term costs for our military because the occupation of Iraq has required far more money and personnel than expected. All four branches of the military are cutting programs. The GAO reports that this could result in far higher costs in the future. These do not account for the qualitative costs of extended tours for soldiers and recalling troops to service.

Inspector General (IG) Reports

After the invasion of Iraq, the administration set up the Coalition Provisional Authority (CPA) to administer the country until an Iraqi government could take charge. The CPA officially disbanded in June after the U.S. handed nominal control of the country to an interim government. During its tenure, the CPA spent billions of U.S. tax dollars as well as Iraqi money generated from the sale of Iraqi oil and the seizure of Saddam Hussein’s considerable assets – known as the Development Fund for Iraq (DFI).

Congress, at first, exercised little oversight over the reconstruction spending. In November 2003, Common Cause reported the following on the [\\$87 billion Iraq emergency spending bill](#) passed by Congress:

Originally both the House and Senate agreed that more transparency and accountability were necessary in the reconstruction process. But many of the provisions that members voted for were later removed when House and Senate negotiators agreed on a single bill. For example:

- The Senate originally voted 97 to 0 to have the GAO conduct audits of the Coalition Provisional Authority (CPA) in Iraq. That provision was stripped in the conference committee on a party line vote.
- Responding to the uproar about non-competitive bidding in Iraq, the House passed an amendment requiring competitive bidding on oil contracts. But that was also removed during a conference committee vote.

Six months into the reconstruction, Congress finally created the IG position in Iraq, whose job was to investigate any misconduct in the reconstruction process. The position had fewer subpoena powers than other inspectors general in the federal government, and the candidate for the job did not require Senate confirmation. Congress at that time also began requiring the administration to report on reconstruction spending. But the new disclosure rules applied to only about half the reconstruction funds since roughly \$23 billion of Iraqi money at the administration's disposal was not subject to the same Congressional reporting requirements as U.S. tax dollars.

More No-Bid Contracts. Halliburton was the largest single recipient of Iraqi money. The IG in Iraq found that Halliburton's no-bid contract to rebuild the Iraqi oil industry was expanded using Iraqi money, also without competition. At the time, some members of Congress were criticizing the administration's use of no-bid contracts. But because the importation work was paid with Iraqi money, Congress was not notified that Halliburton was once again getting more money. According to the IG, in some cases payments to U.S. companies working in Iraq were switched from U.S. tax dollars to Iraqi money, which required less reporting to Congress. Shortly after the Army canceled a \$327 million contract with the politically connected Nour USA after competing companies cried foul, Nour landed a smaller contract paid out of the Iraqi money. A Florida company, Harris Corp., was criticized when spending reports showed it had chartered a jet to fly a Hummer H2 to Iraq for one of its managers, at taxpayers' expense. The company reportedly was later awarded a \$48 million contract funded with Iraqi oil money to run Iraq's media network.

Neither Congress nor the Iraqi people were aware of how the Iraqi money was being spent at the time due to the inadequate disclosure rules. And despite being an obvious source of badly needed revenue to jump-start the Iraqi economy, 85 percent of the Iraqi money went to American companies like Halliburton. "There was practically no Iraqi voice in the disbursements of these funds," said Fared Yaseen, one of Iraq's ambassadors, about the Halliburton contract to import fuel.

Poor Oversight of Contracting. The IG also found that general management of the Iraqi funds was poor. The conclusion of one audit report reads as follows:

The CPA Contracting Activity had not issued standard operating procedures or developed an effective contract review, tracking, and monitoring system. In addition, contract files were missing and incomplete. Further, contracting officers did not always ensure that contract prices were fair and reasonable, contractors were capable of meeting delivery schedules, and payments were made in accordance with contract requirements.

The audit found a significant number of contracts with missing documentation. According to the report, “29 (67 percent) of the 43 small and large purchase contracts we analyzed had incomplete or missing documentation and the current status of five contracts was unclear.” The audit reported specific contracts where the contracting officers did not look for competition for a contract, could not ensure a fair and reasonable price for a specific contract worth \$31.7 million, and could not provide documentation showing that a contractor had actually delivered the products after receiving payment. The IG has found enough evidence of fraud, waste and abuse in the use of the Iraqi money that it has triggered more than 25 criminal investigations.

Government Accountability Office (GAO)

The GAO plans to release a series of reports over the next several months evaluating the contracting procedures of the administration in the reconstruction of Iraq. The GAO initiated the investigations partly in response to a letter from more than 100 members of Congress expressing concerns about the administration’s contracting procedures. It has already released a [number of reports](#) critical of the contracting in Iraq.

Cost of War Far Higher Than Expected. The [most recent report](#) found that the military would fall **\$12.3 billion short** before the end of the fiscal year, mainly because of the continued violence in Iraq. In April, Air Force Gen. Richard B. Myers, chairman of the Joint Chiefs of Staff, projected the armed forces would need roughly one-third this amount. Gen. Myers’ estimate was based on a spending rate of \$4 billion per month in Iraq. Congressional budget analysts have calculated the actual rate around \$5.5 billion per month. In response, Congress recently passed another emergency spending bill worth \$25 billion.

For political reasons, the Bush administration lumps funding for Iraq and Afghanistan together, even though they are separate conflicts. The total cost of both operations is about \$190 billion, but the vast majority of the money is going to Iraq. This amount is roughly equivalent to the inflation-adjusted cost of World War I. Although the White House has said it needs more money, the administration is waiting until next year (after the elections) to request it. Most observers estimate next year’s request will be in the neighborhood of an additional \$50 billion.

The armed forces have curtailed a number of programs to rein in spending as a result of increased costs in Iraq. Among the cuts are training programs, and a variety of maintenance and refurbishment plans. The GAO warns that while these measures save money up front, they can create a so-called “bow wave” in later years, referring to a pattern of huge spending increases. The report also noted that evaluating military spending was difficult because almost half of military spending in 2003 for the war on terror appears in “miscellaneous” categories.

Part of the higher than expected costs in Iraq are due to increased spending on support services for troops provided by Halliburton. As a cost saving measure, the Army has asked units to look for alternatives to using the services provided by Halliburton. It will also institute higher-level review of Halliburton’s work for jobs worth more than \$10 million as a result of the rising costs, according to the GAO. After this report was released, the Army announced it was going to end its contract for support work with Halliburton and put the work up for competitive bidding.

Poor Post-War Planning. In a separate report, the GAO analyzed the defense department's use of support services from private contractors. In Iraq, it found numerous problems with Halliburton's work under the support contract, which has cost at least \$5.6 billion so far. It highlighted problems with government planning and oversight as well as a variety of problems with Halliburton's performance under the contract.

Halliburton provides support services, including food, housing, and laundry services, to U.S. military personnel in Iraq under an arrangement known as the Logistical Civil Augmentation Program (LOGCAP). According to the GAO, "planning for the use of the LOGCAP contract to support the troops in Iraq did not begin until after the fall of Baghdad... [Although] Army guidance recommends that a comprehensive statement of work be developed during the early phases of contingency planning... [the Department of Defense] did not follow that guidance when planning for Operation Iraqi Freedom." According to a congressional report, planning for troop support in Iraq did not commence until May 2003 – three months *after* the administration had completed its contingency plans for Iraqi oil fields.

As a result, plans for troop support in Iraq were "piecemeal" and changed frequently, according to the GAO. Plans for troop support in Iraq changed seven times in less than 12 months. Support for troops in Kuwait "changed 18 times from September 2002 through December 2003, including five changes in one month, some on consecutive days." Had plans been "more deliberate," it would have "resulted in a better product at a lower cost," reported the GAO.

Lack of Transparency. Finally, the GAO pointed out that it was "difficult to know how much the contractor has actually spent on the individual task orders," because Halliburton's managers "have no knowledge of the costs associated with their task orders." Managers for Halliburton also could not "produce task order schedules as required by the contract," and the company "is behind schedule on both big and small projects," the GAO said. But, according to the GAO, military officials were ill-suited to deal with the problems with Halliburton because they "did not fully understand their contract management responsibilities," and "had little or no training on using contractors, including the LOGCAP contractor, on the battlefield."

Conclusions

The Bush Administration did not adequately plan for the post-war period. Reconstruction work has also been affected by poor planning as contracting procedures were unorganized and badly managed. Planning for troop support services began far too late and changed frequently. Management of support work, especially with regard to Halliburton, has been poor. This has resulted in higher costs and inferior support services to U.S. troops in Iraq. Audits of large numbers of contracts found missing documentation as well as possibly criminal waste, fraud and abuse.

President Bush recently admitted that the administration has made some mistakes in Iraq. Some of those mistakes have cost the lives of American soldiers and innocent Iraqi civilians. Other mistakes have been more mundane, but still have had profoundly negative effects on the United

States, our military and, perhaps most importantly, the ability of the Iraqi people to rebuild their country.