

Testimony of
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STATEMENT OF STUART W. BOWEN, JR.
SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION BEFORE THE UNITED STATES SENATE JUDICIARY COMMITTEE SIGIR INVESTIGATIONS IN IRAQ
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Chairman Leahy, Ranking Member Specter, and members of the Committee: thank you for this opportunity to address you today on the role of the Special Inspector General for Iraq Reconstruction (SIGIR) in investigating allegations of fraud, waste, and abuse within the U.S. reconstruction program in Iraq. I look forward to a productive exchange with the Committee regarding this important issue.

The title of this hearing asks the question whether enough is being done to combat fraud in Iraq. Two preliminary points will help put my answer to that question in its proper context. First, corruption in Iraq has been - and is - a problem of great enormity within Iraq's government. I meet regularly with the Commissioner of Public Integrity (Iraq's FBI analogue) on this issue, and he reported to me, during my most recent visit to Iraq - my 15th since being appointed - that his office has 2000 investigations ongoing of Iraqi officials, involving about \$8 billion in missing funds. During my trip, I also met with the President of Iraq's Board of Supreme Audit (the GAO analogue), and he reported that corruption continues to plague virtually every ministry. The Deputy Prime Minister of Iraq previously has told SIGIR that corruption in Iraq "threatens the state." And in our quarterly reports, SIGIR has characterized corruption in Iraq as "a second insurgency."

By contrast, however, corruption within the U.S. program in Iraq, while egregious where we have found it, has been a relatively minor component of the overall effort, as measured against the total U.S. investment in Iraq. Waste, on the other hand, has been a significantly more serious issue. SIGIR's audits have documented examples of this waste, and we are currently planning a forensic audit of the entire Iraq Relief and Reconstruction Fund, which will provide more detailed answers down the road.

As to the question posed by this hearing, the answer is yes: there is always room for more accountability within government, and thus there is room to do more to pursue allegations of corruption in Iraq. Significantly, my Office continues to look for innovative ways to do more, as this testimony will substantiate. As a matter of record, SIGIR has received hundreds of allegations of criminal conduct; but, as a practical matter, proving those allegations to the requisite standard of review is difficult in the dangerous environment that has characterized Iraq for the past three years. SIGIR's investigative process depends on persons being willing to come forward with, and ultimately testify to, information about wrongful conduct. Electronic forensic tracking, the key tool in cracking fraud cases in the United States, is unavailable in Iraq, given that there is no extant electronic funds transfer capacity.

BACKGROUND

The Congress tasked SIGIR to provide oversight of the substantial U.S. investment in Iraq's relief and reconstruction. This includes \$21 billion appropriated to the Iraq Relief and Reconstruction Fund (IRRF), as well as fiscal year 2006 funds designated for the relief and reconstruction of Iraq. The FY 06 funds entail substantial allocations to the Iraq Security Forces Fund (total \$10 billion; SIGIR oversight, \$8.39 billion), the Commander's Emergency Response Program (total \$2.5 billion; SIGIR oversight, \$.708 billion), and the FY 2006 Economic Support Fund programs (total \$1.595 billion; SIGIR oversight, \$1.545 billion).

IMPACT OF SIGIR'S WORK

To date, SIGIR has:

? Produced 12 Quarterly Reports.

? Issued 82 audit reports, with 16 audits ongoing.

? Executed 80 on-site project assessments, with 12 ongoing.

? Opened over 300 criminal and civil investigations leading to 10 arrests, 5 persons indicted, 5 convicted, and 2 imprisoned. SIGIR continues work on 79 live investigations, and these investigations may involve one or more targets. Twenty-eight of SIGIR's investigations currently are being prosecuted by the Department of Justice (DoJ). Some of these cases are civil (5), but the most are criminal cases (23). The vast majority of these 28 cases at DoJ involve allegations arising from misuse of the IRRF.

? Produced two Lessons Learned Reports (one on Human Capital Management and the other on Contracting); with a third lessons learned report (on Program and Project Management) to be released on March 22, 2007.

All of SIGIR's audits, inspections, quarterly reports, and lessons learned reports can be found at www.sigir.mil.

HISTORY OF SIGIR INVESTIGATIONS

SIGIR is a temporary organization initially created by the

Congress in November 2003 as the Office of the Coalition Provisional Authority's Inspector General. I was appointed CPA IG on January 20, 2004, and immediately began to build the organization from scratch, beginning with 12 detailees. They included auditors, inspectors and a few investigators. The termination of CPA on June 28, 2004, activated CPA IG's sunset clause, and my office prepared to close down by the end of 2004. In late October 2004, however, the Congress acted to continue the CPA IG as the Special Inspector General for Iraq Reconstruction and expanded SIGIR's oversight to the entire Iraq Relief and Reconstruction Fund (\$21 billion).

With this new jurisdiction, SIGIR immediately entered a rapidly increasing operational tempo, wherein our auditing, inspections, and investigations efforts quickly expanded. In December 2006, the Congress again acted to expand SIGIR's jurisdiction, passing the Iraq Reconstruction Accountability Act and thereby providing SIGIR with additional oversight responsibilities over all relief and reconstruction funds appropriated during FY 06. This Act also effectively extended SIGIR's organizational life through 2008. Under current law, SIGIR's term expires 10 months after 80% of relief and reconstruction funds within SIGIR's jurisdiction are expended.

Over the past three years, SIGIR's investigative footprint in Iraq and the United States has steadily expanded. SIGIR now has 19 investigators on staff, the majority of whom are former

FBI agents. Eight of these agents are assigned to Baghdad, with the balance working cases from Arlington, Virginia. The Baghdad agents regularly travel across Iraq and within the region, pursuing leads and interviewing sources.

SIGIR has the largest number of fraud investigators in Iraq (eight), with one of those regularly deploying to Kuwait. The United States Army's Criminal Investigative Division/Major Procurement Fraud Unit has three agents in Iraq (and five in Kuwait); the Department of Defense Inspector General has two agents in Iraq (and one in Kuwait); and the USAID Inspector General has one agent in Iraq. SIGIR is unaware of any other agencies with fraud investigators deployed to Iraq or Kuwait.

SIGIR investigations have resulted in the following convictions and indictments:

? On March 9, 2006, Philip Bloom, a U.S. citizen, who resided in Romania and Iraq, pleaded guilty to conspiracy, bribery, and money laundering in connection with a scheme to defraud the CPA. Bloom admitted that from December 2003 through December 2005, he, along with Robert Stein and numerous public officials, including several high-ranking U.S. Army officers, conspired to rig bids for federally-funded contracts awarded by the CPA-South Central Region (CPA-SC) so that all of the contracts were awarded to Bloom. The total value of the contracts awarded to Bloom exceeded \$8.6 million. Bloom admitted paying Stein and other public officials over \$2 million from proceeds of the fraudulently awarded contracts and an additional at least \$2 million in stolen money from the CPA. On February 16, 2007, Bloom was sentenced to 46 months in prison and two years of supervised release. Additionally, he was ordered to pay \$3.6 million in restitution and forfeit \$3.6 million in assets.

? On February 2, 2006, Robert Stein, the former CPA Comptroller and Funding Officer in Hilla, Iraq, pleaded guilty to conspiracy, bribery, money laundering, possession of machine guns, and being a felon in possession of a firearm. Stein was the primary co-conspirator with Bloom, funneling numerous fraudulent contract payments to Bloom in exchange for kickbacks and bribes. Stein also admitted to facilitating the purchase and possession of at least 50 weapons, including machine guns, gun barrel silencers and grenade launchers with misappropriated CPA funds. On January 29, 2007, Stein was sentenced to nine years in prison and three years of supervised release. Additionally, he was ordered to pay \$3.6 million in restitution and forfeit \$3.6 million in assets.

? On February 7, 2007, U.S. Army Colonel Curtis G. Whiteford, U.S. Army Lt. Colonels Debra M. Harrison and Michael B. Wheeler and civilians Michael Morris and William Driver were indicted for various crimes related to the Bloom-Stein scheme in Hilla, Iraq. Whiteford, who was Stein's deputy in the comptroller's office, was charged with one count of conspiracy, one count of bribery and 11 counts of honest services wire fraud. Harrison, at one time the acting Comptroller at CPA-SC who oversaw the expenditure of CPA-SC funds for reconstruction projects, was charged with one count of conspiracy, one count of bribery, 11 counts of honest services wire fraud, four counts of interstate transport of stolen property, one count of bulk cash smuggling, four counts of money laundering and one count of preparing a false tax form. Wheeler, an advisor for CPA projects for the reconstruction of Iraq, was charged with one count of conspiracy, one count of bribery, 11 counts of honest services wire fraud, one count of interstate transport of stolen property and one count of bulk cash smuggling. Morris, who worked for Bloom as a middle-man in the criminal scheme, was convicted of one count of conspiracy and 11 counts of wire fraud. Driver, who is Harrison's husband, was indicted on four counts of money laundering.

? On August 25, 2006, Bruce D. Hopfengardner, a Lieutenant Colonel in the United States Army Reserve, pleaded guilty to conspiracy to commit wire fraud and money laundering in connection with the Bloom-Stein scheme. In his guilty plea, Hopfengardner admitted that while serving as a special advisor to the CPA-SC, he used his official position to steer contracts to Philip H. Bloom, a U.S. citizen who owned and operated several companies in Iraq and Romania. In return, Bloom provided Hopfengardner with various things of value, including \$144,500 in cash, over \$70,000 worth of vehicles, a \$2,000 computer and a \$6,000 watch. Hopfengardner and his coconspirators laundered over \$300,000 through various bank accounts in Iraq, Kuwait, Switzerland and the United States. Finally, Hopfengardner admitted that he stole \$120,000 of funds designated for use in the reconstruction of Iraq from the CPA-SC and that he smuggled the stolen currency into the United States aboard commercial and military aircraft.

? On February 16, 2007, Steven Merkes, a former U.S. Air Force Master Sergeant working for the Department of Defense in Germany, pleaded guilty in U.S. District Court for accepting illegal bribes from Phillip Bloom. Merkes accepted the bribes in exchange for furnishing Bloom with sensitive contract information prior to awarding contracts to Bloom. Merkes faces 12 - 18 month incarceration, conditions of supervised release and restitution orders by the Court.

? On August 4, 2006, Faheem Mousa Salam, an employee of a government contractor in Iraq, pleaded guilty to a violation of the Foreign Corrupt Practices Act for offering a bribe to an Iraqi police official. Salam is a naturalized U.S. citizen employed by Titan Corporation and was living in Baghdad, Iraq. According to court filings, Salam offered a senior Iraqi police officer \$60,000 for the official's assistance with facilitating the purchase by a police training organization of approximately 1,000 armored vests and a sophisticated map printer for approximately \$1 million. On February 2, 2007, Salam was sentenced to three years in prison, two years of supervised release and 250 hours of community service.

A key component of SIGIR's strengthened investigative program over the past two years has been the strategic development of investigative task forces that enable synergistic collaboration among law enforcement agencies pursuing Iraq fraud cases. SIGIR formed the first task force in spring 2005. This initiative, the Special Investigative Task Force on Iraq Reconstruction (SPITFIRE), combined the efforts of SIGIR with investigative assets from the Internal Revenue Service, the Department of Homeland Security's Office of Immigration and Customs Enforcement, the Federal Bureau of Investigation, and the Department of State's Office of Inspector General.

SPITFIRE succeeded in effectively pursuing the investigation of the Bloom-Stein conspiracy, which is the largest case broken by SIGIR to date. It uncovered a criminal scheme in Hilla, Iraq, involving millions of dollars in fraudulent contracting, bribery, and kickbacks. Eight persons have been indicted to date as a result of this investigation and two are in prison.

The other major and more recent task force initiative is the International Contract Corruption Task Force (ICCTF). The ICCTF's Joint Operations Center (JOC) became operational at SIGIR headquarters in Arlington, Virginia, on October 2, 2006. SIGIR and five other agencies established the ICCTF:

? MPFU, U.S. Army CID

? Department of State IG Criminal Investigations Directorate

? U.S. Agency for International Development IG

? DCIS

? Federal Bureau of Investigation

The purpose of the ICCTF is to develop leads and sources for fraud cases in Iraq by gathering intelligence and disseminating information regarding criminal allegations. It will provide analytical and target linkage data response reporting for use by all partner agencies. When fully functioning, the ICCTF will reduce travel time and expense, eliminate case overlap, and provide valuable analytical case support for agents operating in Iraq. The ICCTF will also determine and make recommendations regarding prosecutorial jurisdiction and venue. The ICCTF is also designed to facilitate the smooth transition of investigations upon SIGIR's eventual termination.

To date, the ICCTF's JOC has enabled the effective sharing of target information and case intelligence among the federal law enforcement community engaged in Iraq investigations. The JOC is producing a steady flow of federal law enforcement action the fruits of which will become known over the next several quarters.

As part of the ICCTF, the FBI has assigned eight significant SIGIR criminal investigations to FBI field offices throughout the country. Further, as part of a unique federal law enforcement arrangement, the FBI has agreed to run investigative leads for SIGIR, even before task force acceptance of investigations. The FBI's commitment to share resources at U.S. field offices and at legal attachés around the world will add great value to SIGIR criminal investigations originating in Iraq and Kuwait.

SIGIR is also a member of DoJ's National Procurement Fraud Task Force, participating regularly in the International Working Committee (IWC). The IWC is a valuable link between federal law enforcement agencies and the DoJ. It facilitates discussion concerning funding for corruption/ fraud investigations, prosecutorial venue, extraterritorial jurisdiction, liaison with DoS and foreign governments, and coordination with legal attachés.

SIGIR is actively pursuing other forms of potential punitive actions against contractors who allegedly have engaged in wrongful conduct in Iraq. Accumulating evidence of criminal fraud in Iraq is a challenge due to the high threat environment and the disinclination of persons to come forward because of the potential threat to their lives. Thus, SIGIR is generating a robust administrative action program using the corporate suspension and debarment powers available through the Department of the Army's Procurement Fraud Branch. Such administrative action can, among other things, strip parties who commit misconduct of their access to security clearances and restricted employment settings. This important initiative will enable SIGIR to hold wrongful contractors accountable. To date, the Procurement Fraud Branch has suspended 14 individuals and companies based on allegations of fraud and misconduct connected to Iraqi reconstruction and Army support contracts. In addition, 12 other individuals and companies have been recommended by SIGIR for proposed debarment to the Procurement Fraud Branch.

SIGIR investigators also work closely with the DoJ Commercial Litigation Section, Civil Division, pursuing civil remedies against individuals and companies. Along these lines, SIGIR continues to work with the MPFU on suspensions and debarments of individuals and companies. DoJ is supporting SIGIR with sufficient prosecutorial support and that support is increasing. SIGIR works directly with DoJ prosecutors in coordinating investigative strategies.

Pursuant to the authority granted SIGIR by the Inspector General Act of 1978, SIGIR has issued a number of subpoenas seeking information from contractors and others relevant sources to

investigative leads. Additionally, SIGIR recently requested from selected contractors data regarding the internal investigations and audits. The Congress should consider requiring government contracts to include a clause that provides the US Government with access to these records.

THE PROPOSED WAR PROFITEERING ACT

SIGIR is a strong proponent of any legislation that strengthens efforts to punish fraud, waste, or abuse of funds in Iraq and elsewhere. SIGIR will coordinate fully with the DoJ in enforcing this Act should it become law.

CONCLUSION

Pursuing allegations of criminal fraud in Iraq has been a high priority for me ever since I was appointed Inspector General three years ago. And I remain committed to ensuring that SIGIR continues its rigorous investigation of fraud allegations in Iraq. SIGIR's robust oversight efforts to date have doubtlessly helped deter fraud. But I know that there remain criminals yet to be caught. SIGIR will do everything in its power to do more to deter crime and to uncover and prosecute those who have taken advantage of the difficult situation in Iraq to criminally enrich themselves.