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House of Representatives

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June 16, 2008

The Honorable Claude M. Kicklighter
Inspector General
U.S. Department of Defense
400 Army Navy Drive
Arlington, VA 22202-4704

Dear Mr. Inspector General:

I am writing to seek your assistance in investigating potentially thousands of criminal cases involving fraudulent contracts in Iraq.

On May 22, 2008, your deputy, Mary Ugone, testified before the Oversight Committee and released a report assessing the Defense Department's oversight of billions of dollars in procurement expenditures in Iraq. The primary finding in the May 22 report was that the Defense Department "did not maintain adequate internal controls over commercial payments to ensure that they were properly supported."¹ The report estimated that \$7.8 billion out of a pool of \$8.2 billion in commercial payments "did not meet all statutory or regulatory requirements."² Of this amount, the report estimated that \$1.4 billion in commercial payments "lacked the minimum documentation for a valid payment, such as properly prepared receiving reports, invoices, and certified vouchers" and thus "do not provide the necessary assurance that funds were used as intended."³

You arrived at these estimates using a sampling methodology. Specifically, the report examined 702 transactions worth \$1.5 billion. It found that 40 transactions worth \$6.9 million complied with contracting statutes and regulations, while 662 transactions worth \$1.3 billion did

¹ U.S. Department of Defense, Office of the Inspector General, *Internal Controls Over Payments Made in Iraq, Kuwait and Egypt* (Report No. D-2008-098) (May 22, 2008) (online at <http://oversight.house.gov/story.asp?ID=1965>).

² *Id.*

³ *Id.*

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not. The sample was selected to be representative of the larger pool of more than 180,000 transactions worth approximately \$8.2 billion that was the subject of your report.⁴

During your examination of the 702 transactions worth \$1.5 billion, you identified 28 transactions worth \$35 million that appeared to involve criminal misuse of taxpayer funds. According to the report:

Ineffective internal controls could create an environment conducive to fraudulent activity or improper use of funds. We referred 28 vouchers totaling \$35.1 million to the Defense Criminal Investigative Service (DCIS) for potential follow-up because of their support deficiencies; the unusual nature of the transaction; or because they pertained to payees of interest to DCIS.⁵

Your report did not estimate the extent of potentially criminal transactions outside of the sample you examined. My staff, however, has done this extrapolation. Among the transactions you examined, approximately 4% resulted in criminal referrals. When this percentage is applied to the entire pool of 180,000 transactions, it appears that there may be more than 7,000 potential criminal cases involving more than \$190 million in federal spending that have not been identified. This is an astounding amount of potential criminal fraud.

In subsequent discussions with Committee staff, officials from your office have confirmed that the projected number and value of criminal cases in the unexamined pool of transactions is substantial and merits further investigation.⁶ They have also informed my staff that since the Oversight Committee's May 22 hearing, the Defense Criminal Investigative Service has launched a new effort to review additional transactions for potential criminal activity. According to your staff, DCIS is now working with the Defense Finance and Accounting Service to scrutinize thousands of additional transactions over the next several months.⁷

This new initiative is welcome. During the course of the Iraq war, however, the Defense Department has repeatedly failed to take reports of waste, fraud, and abuse seriously. This was demonstrated once again when the Department failed to acknowledge the critical problems highlighted by your report and refused to send Pentagon officials to testify voluntarily at the

⁴ *Id.*

⁵ *Id.*

⁶ Telephone calls between Majority Staff, House Committee on Oversight and Government Reform, and Staff, U.S. Department of Defense, Office of Inspector General (June 2 and 3, 2008).

⁷ *Id.*

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Oversight Committee's May 22 hearing. It is difficult to have confidence that the Department will take adequate steps to address the full magnitude of the potential criminal fraud.

I therefore request that your office assess the extent of potential criminal fraud in the expenditure of U.S. funds in Iraq. I also request that you make recommendations to the Defense Department and Congress on the steps needed to identify, investigate, and prosecute cases of criminal conduct involving the expenditure of U.S. funds in Iraq and to recoup any missing funds for the taxpayer.

I thank you and Ms. Ugone for your cooperation with the Committee and your efforts on behalf of U.S. taxpayers. If you have any questions about this request, the Committee staff contact is David Rapallo at (202) 225-5420.

Sincerely,

A handwritten signature in black ink that reads "Henry A. Waxman". The signature is written in a cursive, slightly slanted style.

Henry A. Waxman
Chairman

cc: Tom Davis
Ranking Minority Member