



**Special Inspector General for
Iraq Reconstruction**

Iraq Reconstruction
Lessons Learned from Investigations, 2004–2012
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Contents

Introduction	1
Top Ten Lessons Learned	2
Oversight during the Initial Stages of the Iraq Reconstruction Program	5
Investigations Grow.....	17
Investigating the Military	26
Increasing Capacity	31
Blossoming of Indictments and Convictions	36
Best Practices.....	40
Conclusion	42
<i>The Bloom-Stein Crime</i>	<i>9</i>
<i>The Cockerham Conspiracy</i>	<i>22</i>
<i>The Schmidt Case</i>	<i>28</i>

*The official version of this report, including any corrections, is available on the SIGIR website: www.sigir.mil.

Introduction

The Iraq reconstruction experience produced a plethora of lessons about what happens when a stabilization and reconstruction operation (SRO) commences without sufficient systemic support in place. Among the most salient is the need to provide a robust on-the-ground team of investigators and auditors from the outset of such an operation. The presence of strong oversight early on in an SRO would deter the kind of fraud, waste, and abuse that occurred all too often during the U.S. reconstruction program in Iraq.

Waste is the product of poor planning and weak controls. Abuse is bad management caused by insufficient systemic order. But fraud is the intentional wrongdoing by persons seeking to enrich themselves amid a chaotic and often kinetic environment.

This report focuses on fraud and the other white-collar crimes that occurred in the course of the Iraq rebuilding endeavor, eliciting a series of lessons drawn from criminal investigations conducted by the Special Inspector General for Iraq Reconstruction (SIGIR), outlining illustrative examples of major cases, and suggesting best practices for future SROs that could obviate or reduce criminality. There will always be crooks in conflict zones who will try to take advantage of the chaos that wartime brings. But ensuring strong oversight in theater from the start of an SRO could stop many who might otherwise abuse the system; at the very least, it would increase the likelihood of catching those who do.

SIGIR investigators have served in Iraq since 2004, frequently under fire. The inherent disorder of life in a war zone—coupled with the challenges of starting up a new organization—meant that substantial investigative results came gradually. The incremental nature of this progress stemmed, in part, from the unpredictable character of the criminal investigative process, which is less structured and more desultory than the audit process. But significant results did come, and their numbers stand as silent testimony supporting the need for robust oversight during SROs. As of March 31, 2012, SIGIR investigations had yielded 86 indictments, 66 convictions, and more than \$175 million in court-ordered fines, forfeitures, restitution payments, and other monetary penalties.

Top Ten Lessons Learned

These are the ten most important lessons that SIGIR derived from its eight years of experience investigating crimes arising from the Iraq reconstruction program:

1. **Ensure that law-enforcement agencies have appropriate investigative plans and procedures in place before an SRO begins, with trained personnel who are well prepared to carry them out.** Upon inception, SIGIR adopted the rules and procedures of the Department of Defense Office of Inspector General (DoD OIG), but these proved ill-suited to operating within a contingency environment. Over time, SIGIR developed its own set of rules and procedures adapted to settings confronted in Iraq. On the personnel front, SIGIR recognized that SRO investigators should have white-collar fraud experience.
2. **Use non-law-enforcement forensic assets, such as auditors and inspectors, to generate leads for investigations.** A number of early cases uncovered by SIGIR had their foundations in audit or inspection findings. This led the Inspector General to form forensic teams that combined auditors and investigators. The melding of their skills opened doors to cases that otherwise might have remained closed.
3. **Pursue a holistic approach to case management that integrates the efforts of in-theater investigators with U.S.-based investigators and prosecutors.** SIGIR developed the regular use of video teleconferences to improve the flow of information between personnel based in the United States and those based in Iraq. In concert with the Department of Justice (DoJ), SIGIR created an unprecedented program called SIGPRO (SIGIR Prosecutorial Initiative), wherein the Inspector General hired his own prosecutors and paralegals, detailing them to DoJ to work on Iraq cases. The application of advanced communication tools and novel prosecutorial initiatives greatly strengthened production and improved outcomes.

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4. **Maintain strong relations with host-country law-enforcement officials to bolster case development, evidence gathering, and the pursuit of potential suspects in country.** The Inspector General met regularly with the leaders of Iraq's law-enforcement agencies as well as its senior judicial officers. SIGIR investigators maintained regular contact with agents within the Iraqi law-enforcement community. These multilevel connections fostered case development, with the salutary effect of furthering U.S.-Iraq relations. Further, they permitted the opportunity for capacity-building training, which SIGIR provided to Iraqi inspector general personnel.
 5. **Deploy a robust in-country presence of investigative personnel, widely publicize the Hotline, and regularly engage with U.S. government organizations in fraud-awareness activities.** SIGIR's success in Iraq was tied to a key principle: to make cases, you have to be there. Trying to develop leads on an "expeditionary" basis will not produce necessary results, nor will it deter crime. A forward-leaning presence is crucial to deter crime, develop leads, and catch criminals. Maintaining a widely disseminated Hotline number for the anonymous reporting of wrongdoing is key to case development.
 6. **Avoid bureaucratic turf battles among law-enforcement agencies by building a task-force approach that brings all agencies together around the law-enforcement mission.** Investigative task forces strengthen case management. The inevitable chaos caused by SROs requires the improved integration of all U.S. agencies operating in theater, including law enforcement. SIGIR's successes generally resulted from effective teamwork realized through task-force investigations—the headquarters level working to coordinate and deconflict cases and the field level working to maximize the available investigative resources.
 7. **Ensure flexibility in personnel requirements, staffing numbers, and deployment procedures.** SIGIR's enabling statute, which created the first Special Inspector General's office in U.S. history, provided employment flexibilities, permitting the dynamic management

of investigative personnel. Standard U.S. government regulations are too unwieldy for use in highly demanding SRO environments. Legal flexibility ought to be the rule for administrative and personnel practices governing law-enforcement efforts executed during contingency operations, whether achieved through the creation of a permanent Special Inspector General for Overseas Contingency Operations—a concept now pending before the Congress—or some future interim Special Inspector General.

8. **Prioritize using advanced criminal-intelligence techniques and developing informants in theater.** SIGIR enjoyed notable success making cases in Iraq via undercover stings, wiring informants, and employing a variety of technical capabilities. The use of task forces improved the success rate of these and other law-enforcement techniques. The watchword is, whenever possible, bring stateside investigative tools to bear during an SRO, notwithstanding the rigors presented by the environment.
9. **Engage with partner-nation law-enforcement agencies to prosecute non-U.S. criminals.** SROs commonly involve a coalition of countries, meaning that multinational personnel may be involved in rebuilding efforts. This was the case in Iraq. SIGIR developed relationships with law-enforcement agencies in Coalition-member countries, producing the prosecution and conviction of non-U.S. personnel in their home jurisdictions.
10. **Develop innovative investigative programs targeted to the specific needs of the SRO.** SIGIR's investigative leadership created a series of novel programs shaped to solve the problems that arose from the Iraq reconstruction enterprise. Some combined personnel within the agency, while others used an interagency approach. In addition, SIGIR emphasized the importance of using the suspension and debarment process in reining in abusive contractors. These innovative efforts were driven by an overarching purpose: the protection of taxpayer interests through the efficient and effective making of cases.

Oversight during the Initial Stages of the Iraq Reconstruction Program

Tracking the Coalition Provisional Authority

In the year following the May 1, 2003, declaration of the end of hostilities in Iraq, more than \$42 billion was made available in varying ways for use by the Coalition Provisional Authority (CPA), the agency authorized by United Nations' mandate to govern Iraq as interim authority. These funds chiefly came from four sources:

- about \$20 billion in Development Fund for Iraq (DFI) monies, comprising Iraqi oil revenues deposited into the Federal Reserve Bank of New York
- about \$2 billion in seized and vested assets, comprising funds recovered in Iraq by the U.S. military or frozen in foreign accounts
- \$2.475 billion in the Iraq Relief and Reconstruction Fund (IRRF 1), approved by the Congress in April 2003 and chiefly used by the U.S. Agency for International Development (USAID)
- \$18.04 billion in the Iraq Relief and Reconstruction Fund (IRRF 2), approved by the Congress in November 2003, but not obligated until the spring of 2004 toward the end of the CPA's tenure.

The CPA used the DFI to fund Iraq's national budget, which supported ministry operations. Some of the DFI, approximately \$7 billion, went to CPA-approved relief and reconstruction projects. After the 2003 invasion, Iraq had no functioning banking system; virtually all transactions were conducted in cash. This major vulnerability spawned significant criminal activity.

DFI funds were bundled onto pallets and airlifted to Iraq. A typical pallet held 640 bundles of \$100 bills, with a thousand bills per bundle. Each loaded pallet weighed about 1,500 pounds and carried about \$64 million. Under the CPA's aegis, these money-laden pallets were transported to Baghdad through a series of flights originating from Andrews Air Force Base in suburban Maryland throughout 2003 and 2004. The money was deposited in the

BEST PRACTICE
Begin oversight early. As was demonstrated repeatedly in the early days of Operation Iraqi Freedom, many of the temptations and opportunities for criminals were due to the lack of oversight.

Central Bank of Iraq (CBI) and withdrawn, pursuant to CPA directives, for use by the ministries or for projects across the country.

In April 2004, the handover of sovereignty from the CPA to Iraqi control drew near. The CPA's Administrator, Ambassador L. Paul Bremer, III, ordered his staff to expedite the execution of DFI funds, because he wanted all available monies obligated to support the burgeoning reconstruction program. James "Spike" Stephenson, the USAID Mission Director in Iraq, characterized this period as "frenzied."¹

During the final six weeks before the CPA's dissolution, more than \$5 billion was either transferred to Iraq's ministries or committed to CPA-administered reconstruction projects. This amounted to more than a quarter of all the DFI funds disbursed during the CPA's 14-month existence. It was into this chaotic maelstrom of systemic vulnerabilities, physical threats, and weak controls that SIGIR's first law-enforcement officers arrived in the spring of 2004.

Beginning Oversight

On January 20, 2004, Stuart W. Bowen, Jr., was appointed the Coalition Provisional Authority Inspector General (CPA-IG). The Congress created the CPA-IG in early November 2003, and, two weeks later, the Administration announced that the CPA would close by June 30, 2004. The CPA-IG's mandate provided that it should terminate six months after the closing of the CPA. It thus appeared that this fledgling oversight office would experience an abbreviated existence, with its ostensible shuttering to occur on December 31, 2004. But the Congress superseded that expected eventuality by creating the Special Inspector General for Iraq Reconstruction in late October 2004, thereafter giving it oversight of all funds for the reconstruction of Iraq.

The Inspector General's first trip to Iraq revealed an urgent need for aggressive oversight. During that February 2004 visit, he was accosted by various staff within the CPA as well as contractors, who identified, frequently with great alarm, the weak accountability over DFI funds. In an environment awash with cash, the basic safe-

LESSON

Deploy a robust in-country presence of investigative personnel, widely publicize the Hotline, and regularly engage with U.S. government organizations in fraud-awareness activities.

1. SIGIR, *Hard Lessons: The Iraq Reconstruction Experience*, 2/2009, p. 155.

guards common to typical government operations were missing.

One example of a key control weakness was the absence of a record-management policy. The Inspector General discovered this vulnerability during his second visit in early March 2004, when he was told that CPA records were not being



Investigators in Iraq worked in a dangerous environment where roadside bombs and other attacks threatened daily.

maintained pursuant to any guideline or rule but instead were being haphazardly deleted or destroyed. At the IG's request, the CPA's Administrator promptly issued a records-management policy. But this basic safeguard came into being more than nine months after the U.S.-led interim authority had begun operations.

Iraq's disordered situation in the spring of 2004 presented a range of daunting challenges for CPA-IG investigators. First, the flood of funds into the country made the threat of high crime ubiquitous. Second, the volatile and hazardous nature of daily life impeded investigative activity on every front. Third, CPA-IG investigators found themselves thrust into a disjointed community of law-enforcement entities, including the following: the Federal Bureau of Investigation (FBI), which was focused on counterterrorism; the U.S. Army Criminal Investigation Command (CID), which was chiefly focused on non-fraud crime; the Defense Criminal Investigative Service (DCIS), which had three investigators rotating in and out of country but no personnel permanently assigned to Iraq; and the USAID OIG, which had one investigator in country.²

Notwithstanding these difficulties, as of June 28, 2004, the CPA's final day, the CPA-IG had opened 69 cases. This investigative explosion was an early red flag regarding the scope of the fraud problem afflicting the rebuilding program. Some would later describe the Iraq of this period as a "free-fraud zone."

2. SIGIR, *Quarterly Report and Semiannual Report to the United States Congress*, 7/2005.

Managing Cases in a War Zone

CPA-IG's initial investigative efforts quickly affected the CPA's operations. In an early case, a CPA senior advisor to an Iraqi ministry was found to have manipulated the award of a \$7.2 million security contract. To aggravate matters, he had authorized an advance payment of \$2.3 million to the contractor. CPA-IG's intervention resulted in a review by the CPA General Counsel, who recommended voiding the contract. The CPA Administrator revoked the \$7.2 million award, the contractor repaid the \$2.3 million, and the senior advisor was removed.

Early CPA-IG audit findings of waste and abuse spurred further investigative activity. In one instance, a contractor was fined \$3,379,505 for an overcharge uncovered by an audit. Another audit found that a contractor overbilled the government by \$20,000 for security services. The contractor was forced to repay that amount after a CPA-IG investigation. Other early investigations uncovered:

- time-card fraud
- possession of unauthorized automatic weapons
- gambling away of funds designated for reconstruction activities

LESSON

Use non-law-enforcement forensic assets, such as auditors and inspectors, to generate leads for investigations.

LESSON

Ensure flexibility in personnel requirements, staffing numbers, and deployment procedures.

THE BLOOM-STEIN CRIME

The most significant early case made by SIGIR concerned a wide-ranging contract-fraud conspiracy that ensnared several senior CPA officials. It began with a whistleblower's tip, led to a series of audits, and ended with the conviction of eight U.S. citizens.

The Tip

In April 2004, an Air Force sergeant working at CPA's headquarters in Baghdad met with SIGIR auditors to relay concerns about the new comptroller at the CPA's regional office in Hilla. According to the sergeant, the comptroller, Robert Stein, refused to comply with CPA requirements, despite repeated requests.

Rules required regional comptrollers to travel to Baghdad to withdraw funds designated for DFI contracts. After completing payment on the contracts, comptrollers had to provide proof that the contract work was accomplished. Stein was not providing the required proof to Baghdad. He claimed that the roads were too dangerous to make the 40-mile trip east from Hilla. Stein's recalcitrance raised suspicions in the Baghdad Comptroller's Office, but the sergeant was concerned that nothing would be done.

In response to the tip, SIGIR's chief auditor took a team to Hilla for a preliminary inquiry. Stein was on emergency leave, so SIGIR auditors interviewed his deputy, Lieutenant Colonel Debra Harrison; but the records she produced were grossly incomplete. Harrison blamed the poor documentation on her inability to get the copier to work. The implausibility of her explanation, coupled with the odd demeanor she displayed, lent further credence to the allegations of grave impropriety in the Hilla comptroller's office.

The Audit

SIGIR auditors brought the Hilla documentation problem to the attention of CPA's Chief Comptroller, an Air Force Colonel, but he assured them that the paperwork was in order. After making further inquiries, however, SIGIR found that Stein's records were

so severely inadequate as to appear fraudulent. Among other things, he had failed to sign for a \$30 million cash withdrawal. SIGIR announced a full audit of all contracts in Hilla.

Stein, a contract employee brought to Iraq in the fall of 2003, first worked as the security, logistics, and supplies director for the Hilla compound. When the comptroller position became vacant, Lieutenant Colonel Harrison, the Deputy Regional Comptroller, urged Stein's appointment. Harrison's advice was followed, and Stein became the South Central Regional Comptroller, despite possessing neither the training nor the appropriate background for the position. SIGIR investigators later discovered that Stein had a previous federal felony conviction for credit card fraud.

In December 2003, Stein acceded to his new office and, shortly thereafter, drove to Baghdad with three others in two unarmored SUVs to pick up \$63 million in cash. As he later told SIGIR: "The Comptroller's procedures in Baghdad were so lax it was unbelievable."

As the audit of Stein's contracts proceeded, SIGIR auditors compared receipts and paperwork at the Baghdad Comptroller's office with those in Stein's office. Numerous problems surfaced. For example, Baghdad showed Stein withdrawing approximately \$70 million in cash, whereas Stein's documents indicated \$119 million. The CPA Comptroller had lost accountability of the funds it was distributing. Reasons for this failure may have included the heavy turnover in the Comptroller's office

LESSON

Use non-law-enforcement forensic assets, such as auditors and inspectors, to generate leads for investigations.



A typical sandstorm in Baghdad, where working conditions for investigators and auditors could be difficult.

or the pressure to spend money rapidly in 2004. Whatever the case, this key control weakness allowed a massive fraud to occur.

At Hilla, it was common knowledge that Stein had an unusually close relationship with a contractor named Philip Bloom. Stein later disingenuously explained to SIGIR that he did not trust Iraqi contractors and thus funneled work to Bloom because he was the only U.S. contractor in the area. But Stein's preference was more than expedience; he gave Bloom a virtual monopoly on all contracts for criminal reasons: the promise of huge kickbacks.

Stein's scheme was too clever by half. Any contract over \$500,000 had to be approved by CPA headquarters in Baghdad. To circumvent this requirement, Stein awarded Bloom multiple contracts for the same project, each amounting to just under \$500,000. For example, for the Hilla Police Academy project, Bloom received 10 contracts for amounts slightly more than \$480,000. Needless to say, this practice "blinked red" once it showed up on SIGIR's audit radar.

As documented by SIGIR audits, Bloom's actual work, to the extent that it was accomplished, was poor. Buildings at the police college were so poorly constructed as to make them uninhabitable, with construction literally falling apart and electrical fixtures disintegrating. The police cadets were called

BEST PRACTICE

Deploy agents forward. The press of accomplishing the mission offers opportunities for criminals. Enforcement on the ground early, developing the cases and providing deterrence, can counter this trend.

BEST PRACTICE

Hire investigators with fraud experience. A multitude of investigative skills are required to police a contingency operation. However, operations in Iraq showed that fraud investigations were in the greatest demand and could not be compensated for with other types of investigators.



A collapsing septic system at Hilla Police Academy: an example of poor construction under contracts awarded to Philip Bloom.

on to learn their craft in classrooms that reeked of sewage, suffered from broken fixtures, and had no working air-conditioning in a place where temperatures rose to above 120 degrees in the summer. Local Iraqis complained bitterly to SIGIR's auditors about the poor construction. Generators often went missing, and substandard equipment was often installed instead of the material required by the contract. But no matter the weaknesses, U.S. military officers always signed off on Bloom's projects as having been completed satisfactorily.

Under ever-increasing pressure to spend money quickly before the close of the CPA, Stein handed out multiple grants to local Iraqis. Examples included two grants—\$800,000 for democracy building and \$1 million for a local college—all of which were in cash. However, the Iraqis who were supposed to receive these grants claimed, during an interview with SIGIR's auditors, that they never received any of the money.

The Investigation

Once the potential perfidy in Hilla was identified, SIGIR's auditors called Baghdad to give a preliminary report to the Inspector General. He immediately ordered the opening of a formal criminal investigation. SIGIR investigators soon deployed to Hilla to interview suspects and review evidence. They also gained the cooperation of the CBI to trace suspicious financial transactions.



Reinforcement for collapsing building roofs at the Hilla Police Academy: another example of poor construction under a contract awarded to Bloom.

BEST PRACTICE
Intervene with education.
At the beginning of the Operation Iraqi Freedom, many were rushed into service without a grasp of the requirements to handle money and contracting.

DoJ soon assigned a prosecutor to support the investigation, and, at his direction, SIGIR sent the financial records it obtained from the CBI to the Criminal Investigation Division of the Internal Revenue Service (IRS-CI). Upon forensic review, those records demonstrated:

- Stein steered more than \$8 million to Bloom’s companies.
- Stein smuggled money for Bloom on his trips back to the United States.
- Stein deposited stolen money for Bloom in banks in Romania and Switzerland, a portion of which was then transferred to accounts under the control of Stein.
- Bloom sent wire transfers to Stein and Stein’s wife, along with others who worked at the CPA office in Hilla.

The SIGIR-led investigative team then went after the computers and Internet servers from Hilla. The relevant computer drives fortunately were found among IT equipment scheduled for reimaging. The documents recovered from these drives provided ample evidence of illegal activity on the part of Stein, Bloom, and several others. For example, one email message from Bloom ordered Stein to pay \$60,000 to a member of the Hilla staff to “shut him up.”

With substantial incriminating computer documents and bank records in hand, DoJ prosecutors had enough to issue arrest warrants for Bloom and Stein. SIGIR investigators participated in their arrests, snagging Bloom on November 13, 2005, and Stein on the following day.

Investigators and prosecutors then questioned both; and their interrogations led the investigative team to other criminal participants who would soon be indicted.

The interrogations further revealed the simple criminal scheme that underlay the Hilla conspiracy: Stein would offer contracts,



Bloom.

and Bloom would send in dummy bids from fictional companies, with his outfit always being the lowest. Bloom would then do minimal work, keeping the contract payments for himself while kicking back bribes to Stein and others. They often coordinated their illegal activities at Bloom's three-story villa about 10 miles south of Baghdad, where Bloom supplied contracting officers with, in the words of one defendant, "women of the night, Cuban cigars, and booze."

Stein and Bloom's information allowed DoJ to construct cases against several more conspirators:

- Lieutenant Colonel Harrison, the Deputy Comptroller at Hilla, took approximately \$420,000 of stolen money at Stein's direction, hiding it in her residence at Hilla. After Harrison returned to the United States, Bloom contacted her to say that he wanted to give her a new car. In October 2004, Harrison sent an email to Stein stating that she would help Bloom with a SIGIR audit in exchange for the car. Federal authorities arrested Harrison on December 15, 2005. She pleaded guilty and was sentenced to 2.5 years in prison.
- Colonel Curtis Whiteford was the Chief of Staff at Hilla. He was also the senior military officer in the Hilla office. Stein gave Whiteford, among other things, a \$3,200 Breitling watch, \$10,000 in cash, and a \$3,000 laptop. In June 2004,



Stein.



Harrison.



Whiteford.

Whiteford signed an authorization for Stein to take \$250,000 to the United States. Federal authorities arrested Whiteford on February 13, 2007. He took his case to trial and a jury found him guilty of conspiracy to transport firearms and stolen property, wire fraud, and bribery. He was sentenced to 5 years in prison.

- Lieutenant Colonel Bruce Hopfengardner was a project officer at Hilla who recommended expenditures on CPA contracts. He oversaw the procurement of equipment and weapons for the local police. In late December 2003, Bloom offered him \$100,000 up front and \$10,000 per month thereafter to support his fraudulent scheme. Records showed bank transfers to his account totaling \$289,000. He used these ill-gotten gains to purchase, among other things, a Harley Davidson motorcycle, GMC Yukon Denali, expensive photography equipment, and two computers. Federal authorities arrested Hopfengardner on August 25, 2006. He was sentenced to 21 months imprisonment.



Hopfengardner.



Wheeler.



Harley Davidson motorcycle seized from Lieutenant Colonel Bruce Hopfengardner.

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- Lieutenant Colonel Michael Wheeler was a U.S. Army reservist who served at Hilla as the Deputy Civil Administrator and Deputy Chief of Staff. Wheeler worked with Bloom to steer contracts to him, subsequently falsely certifying that he satisfactorily completed these contracts. Federal authorities arrested Wheeler on November 30, 2005. He took his case to trial, and a jury found him guilty of conspiracy to transport firearms and stolen property, wire fraud, and bribery. He was sentenced to 42 months imprisonment.
 - William Driver was the husband of Lieutenant Colonel Debra Harrison. He signed the tax returns that failed to take account of the money and goods she received worth \$347,163. He also helped launder some of the money. Federal authorities arrested Driver on February 13, 2007. He was sentenced to 3 years of probation and 6 months of home confinement.

Stein was sentenced to 9 years in prison and 36 months of supervised release, and he was ordered to pay \$3.6 million in restitution. Philip Bloom was sentenced to 46 months in prison and 2 years of supervised release, and he was ordered to pay \$3.6 million in restitution.

Investigations Grow

After the CPA dissolved on June 28, 2004, it appeared that the CPA-IG would similarly conclude operations six months later. Staffing numbers began to plummet, and plans for a December shutdown developed. But the Congress had other ideas: it created the Office of the Special Inspector General for Iraq Reconstruction in October 2004. With the advent of SIGIR, the Inspector General quickly reversed course and began staffing up again on all fronts.

LESSON

Ensure that law-enforcement agencies have appropriate investigative plans and procedures in place before an SRO begins, with trained personnel who are well prepared to carry them out.

To achieve its new personnel goals, SIGIR began to hire, train, and deploy additional criminal investigators. Working in conjunction with the U.S. Army Civilian Personnel Online, SIGIR developed job announcements for Criminal Investigator (GS-1811) positions. The hiring process yielded more than 50 applicants. To strengthen investigative procedures, report formats, and other administrative requirements, SIGIR developed a new manual for its special agents and established a memorandum of agreement with the Financial Crimes Enforcement Network.

The variety of skills necessary to succeed as an investigator in Iraq included experience in financial analysis, forensics, lead development, undercover work, and white-collar case management. But, to be effective, these skills had to be brought to bear cumulatively through interagency teamwork. At times, investigations were stifled by agencies that deployed investigators lacking the required skills. Departmental bureaucracies also occasionally impeded the development of criminal cases, causing distrust to seep into agent-to-agent relationships.

When interagency efforts worked, however, it was due chiefly to the strong individual relationships developed among investigators who were willing to share burden and credit equally. Good production occurred whenever transparent case-management strategies allowed the participating agencies to see what others were doing. When this synchronous convergence happened, agents integrated operationally to make cases, each applying his or her agency's respective strengths.

Nearly all of the successes outlined in this report sprang from integrative investigator-to-investigator relationships.

Overcoming Challenges

Despite the handicap of starting up an IG shop in a war zone, then preparing to close it, then starting up again, all within six months, SIGIR's investigative team began to produce a number of successful cases in 2005, the Bloom-Stein cases foremost among them. For example, in mid-2005, SIGIR received allegations from officials at the Project and Contracting Office (PCO) in Iraq that a contractor was over-billing by \$15 million for oil-pipeline repairs and security. SIGIR investigators found that the contractor failed to provide the necessary personnel and the equipment promised in the contract. With SIGIR support, the PCO denied \$15 million in payments to the contractor.

SIGIR teamed with several investigative agencies that had uncovered a 2005 cash-smuggling operation involving Army Major Charles Sublett, who served as a contracting officer at the Balad Regional Contracting Center in North-Central Iraq. Sublett was responsible for evaluating and supervising contracts with companies that provided goods and services to the U.S. Army. While in Iraq, he sent a package to Texas, which was seized by U.S. Customs and Border Protection officers in Memphis. A task force comprising investigators from SIGIR, the Army's Criminal Investigative Division-Major Procurement Fraud Unit (CID-MPFU), DCIS, FBI, IRS-CI, and U.S. Immigration and Customs Enforcement (ICE) investigated Sublett. Upon interrogation, he made false claims by describing the contents of the intercepted package as books, papers, a jewelry box, and clothes, with a total declared customs value of \$140. In fact, the package contained \$107,900 in U.S. currency and 17,120,000 Iraqi dinar (valued at approximately \$14,000). Sublett eventually pleaded guilty. The Sublett task-force investigative approach became a paradigm for SIGIR.

SPITFIRE

In summer 2005, SIGIR created the Special Investigative Task Force for Iraq Reconstruction (SPITFIRE) to enhance its capacity to detect fraud, trace international money transactions, and monitor the travel

of suspects. SPITFIRE's fellow investigative partners included:

- ICE/Department of Homeland Security
- IRS-CI
- Department of State Office of Inspector General (DoS OIG)

LESSON
Develop innovative investigative programs targeted to the specific needs of the SRO.

SPITFIRE investigative teams employed electronic databases and specialized forensic analysis to expeditiously support complex financial investigations. Working closely with DoJ's Asset Forfeiture and Money Laundering Section (AFMLS), SPITFIRE applied a synergistic process to investigate and prosecute individuals involved in fraud and to recover reconstruction funds. In late 2005, SIGIR secured \$2 million in funding from the Congress for AFMLS to fund four full-time prosecutors to work on SIGIR cases generated by SPITFIRE.

SPITFIRE succeeded in recovering illicitly obtained funds and other contraband, including the following:

- \$4 million that was part of the theft of \$8 million fraudulently secured under unauthorized contracts issued for the maintenance of a police training facility
- \$670,000 in DFI monies, then returned for use in reconstruction
- \$527,456 in DFI funds, first identified in a SIGIR audit, which was returned to the Comptroller for reconstruction use
- 21 automatic assault rifles valued at \$37,800 and a sniper rifle valued at \$3,400
- five government computers and several unauthorized weapons from a contractor in an investigation involving the overbilling of personnel and equipment costs

Policing Procurement Fraud

Contractors in Iraq occasionally attempted to manipulate the award system to cut out competition. One such case involved Diana Demilta, the president of a Green Zone-based company. Demilta devised a scheme involving the submission of sham bids from dormant companies ostensibly competing for a bullet-proof vest contract. After an investiga-



\$4 million in cash seized by SIGIR agents in Baghdad.



\$670,000 in DFI funds returned to U.S. comptroller in Iraq.

tion by SIGIR and CID-MPFU, Demilta admitted that she paid \$60,000 to influence award of the contract. She was sentenced to 6 months in prison, 12 months home confinement, and 24 months supervised probation. Demilta was also ordered to pay \$70,000 in restitution and a \$25,000 fine.

In early 2006, SIGIR began using “sting” operations to combat procurement fraud. One such sting led to the arrest of a U.S. civilian translator employed by a DoD subcontractor on charges of offering a bribe to a foreign official. Specifically, the defendant offered an Iraqi police official approximately \$60,000 in exchange for assistance with the purchase of about 1,000 armored vests and a sophisticated map printer. In furtherance of this scheme, the defendant then offered a \$28,000 bribe to an undercover SIGIR investigator posing as a procurement officer. The individual pleaded guilty to a violation of the Foreign Corrupt Practices Act and was sentenced to 36 months in prison.



A contracting officer due to leave Iraq within two days was found in possession of \$670,664, for which he had no record of origin.



In a bribery investigation, an undercover special agent was offered money in exchange for the contract to produce 1,000 armored vests.

THE COCKERHAM CONSPIRACY

The case of former U.S. Army Major John Cockerham was perhaps the most significant criminal conspiracy uncovered during the Iraq reconstruction effort. It involved an insidious web of contractors, U.S. contracting officials, and third-country nationals, who participated in various acts of fraud, including the exchange of millions of dollars in bribes for tens of millions of dollars in contracts in Iraq and Kuwait. The case was fraught with intrigue: one military officer who received bribes committed suicide upon being caught; another key player was murdered. To date, a total of 19 individuals have been convicted, with additional suspects still facing charges. Prison sentences have ranged up to 17.5 years.

The scope of criminal activity discovered by the Cockerham Task Force was significant, revealing a pattern of widespread contract fraud at Camp Arifjan, Kuwait, the principal supply hub for the Iraq reconstruction program. The gargantuan investigation involved the analysis of more than 2 million documents, the issuance of about 50 search warrants, and the conduct of more than 400 interviews.

Catching John Cockerham

The Cockerham task force initially comprised Army CID-MPFU, SIGIR, and DCIS. CID-MPFU managed the overall effort, with SIGIR and DCIS providing investigative support. FBI, ICE, and IRS-CI eventually became partners. Four different offices within DOJ played roles in the prosecution of Cockerham defendants: the Criminal Division-Fraud and Public Integrity Sections, Anti-Trust Division, and Office of International Affairs.

The instigator of this criminal scheme, Major John Cockerham, was assigned to Camp Arifjan

LESSON

Pursue a holistic approach to case management that integrates the efforts of in-theater investigators with U.S.-based investigators and prosecutors.

LESSON

Avoid bureaucratic turf battles among law-enforcement agencies by building a task-force approach that brings all agencies together around the law-enforcement mission.

from June 2004 to December 2005. He served as the contracting officer responsible for soliciting and reviewing procurement proposals for bottled-water contracts and other ongoing support needs. Cockerham's criminality was relatively straightforward: he guaranteed contract awards in return for kickbacks. He also would modify contracts in exchange for cash payments. He even developed a price list tying award amounts to kickbacks required.

Major Cockerham brought several members of his family into the conspiracy, including his wife, his sister, and his niece. The cash accumulated from his criminal activity was deposited into safe deposit boxes and accounts in Kuwait, Dubai, and other locations under Cockerham's name as well as the names of his wife, Melissa, and his sister, Carolyn Blake.

Major Cockerham received more than \$9 million in bribes. Task Force representatives, including a SIGIR agent, arrested Cockerham on July 22, 2007, and he subsequently pleaded guilty to fraud charges and was sentenced to 17.5 years in prison and ordered to pay \$9.6 million in restitution. Melissa Cockerham and Carolyn Blake were also arrested on July 22, 2007, and they both subsequently pleaded guilty. Melissa Cockerham was sentenced to 3 years and 5 months in prison, while Blake received 5 years and 10 months.



More than \$1.7 million in currency seized in Cockerham case.



Former Army Major John Cockerham is escorted into federal court for sentencing. (Photo by Shaminder Dulai, Copyright 2009 San Antonio Express-News, reprinted with permission)

Cockerham Spin-Offs

The Cockerham Task Force investigation resulted in the suspension or debarment of more than 60 companies and individuals, as well as the conviction of numerous other personnel who were involved, including the following:

- Major Charles Bowie deployed to Camp Arifjan from April 2004 to April 2005 where he worked with Cockerham on bottled-water contracts. While serving in Kuwait, Bowie became friends with Cockerham, who directed a government contractor to pay Bowie money in exchange for the award of bottled-water contracts. After pleading guilty, a federal court sentenced Bowie to 2 years of imprisonment and ordered him to pay \$400,000 in restitution.
- Major Derrick Shoemake was assigned to Camp Arifjan from 2004 to 2006, working with Cockerham on contracts for the purchase of bottled water for troops in Iraq and Afghanistan. He accepted \$250,000 in bribes for awarding contracts. Shoemake pleaded guilty and is awaiting sentencing.
- Major James Momon took over duties from Cockerham at Camp Arifjan in 2005. He was involved in a criminal conspiracy to accept cash bribes from five DoD contractors that supplied bottled water and other goods and services to DoD. Momon accepted about \$5.8 million from his co-conspirators as payment for his actions. On August 13, 2008, Momon pled guilty, and he is awaiting sentencing.
- Major Christopher Murray served as a contracting specialist in the small purchases branch of Camp Arifjan's contracting command. Murray solicited and received approximately \$225,000 in bribes from DoD contractors in exchange for recommending the award of contracts for various goods and services. He was sentenced to 4 years and 9 months in prison and ordered to pay \$245,000 in restitution.

Other cases spinning out of the widespread wrongdoing at Camp Arifjan included:

-
- Lieutenant Colonel Levonda Selph, while serving in 2005 as chair of a selection board for an annual \$12 million contract to build and operate DoD warehouses in Iraq, accepted fraudulent bids from a contracting firm and helped that firm win the contract award. In return for these actions, Selph admitted to accepting a vacation to Thailand and other things of value totaling approximately \$9,000. She pleaded guilty, was sentenced to 12 months imprisonment, and was ordered to pay a \$5,000 fine and \$9,000 in restitution.
 - Justin Lee provided items valued at more than \$1.2 million to public officials in return for official acts that helped him obtain lucrative DoD contracts. Lee and his father, George H. Lee, Jr., were charged in an indictment unsealed on May 27, 2011, in the Federal Court of the Eastern District of Pennsylvania. Justin Lee pleaded guilty on July 15, 2011, but his father is still at large.

BEST PRACTICE
Use task forces. The cases that came out of Camp Arifjan demonstrate the advantages of a task-force approach.

Investigating the Military

U.S. servicemembers who had control over large sums of weakly controlled cash sometimes succumbed to the temptation to unjustly enrich themselves. This most often occurred within the Commander's Emergency Response Program (CERP), a novel rebuilding initiative begun in 2003 to provide military officers in the field rebuilding funds they could use to support emergency response projects aimed at winning Iraqi hearts and minds. From 2004 to 2010, the Congress appropriated nearly \$4 billion for the CERP in Iraq. This entirely cash-driven program commonly involved the distribution of hundreds of thousands of dollars for projects in the field.

SIGIR has made a number of cases against military personnel who stole CERP cash. The following are selected examples:

- Captain Michael Nguyen, a West Point graduate, served in Iraq as the CERP project purchasing officer for the 1st Battalion, 23rd Infantry Regiment. The currency he controlled was intended to pay for security contracts with the Sons of Iraq as well as for humanitarian relief and reconstruction programs. Nguyen stole significant amounts of CERP funds, mailing them back to the United States. He deposited \$387,550 of the purloined cash into private accounts in Oregon and elsewhere. SIGIR, IRS-CI, FBI, Army CID-MPFU, and DCIS jointly conducted the Nguyen investigation, determining that he stole and converted to his own use approximately \$690,000. During the execution of a search warrant, investigators discovered more than \$300,000 in stolen CERP funds hidden in the attic of Nguyen's Portland family home. The court ordered Nguyen to serve 30 months in prison, pay restitution in the amount of \$200,000, and forfeit all personal property he bought with the stolen money as well as the remaining funds seized by the government at the time of his arrest.
- Major Mark Fuller, a former U.S. Marine Corps fighter pilot, deployed to Iraq in 2005 and served as a CERP project purchasing officer at Camp Fallujah. Fuller identified and selected reconstruction projects, awarded reconstruction contracts to Iraqi contractors, and verified the completion of projects. Between October

2005 and April 2006, Fuller made 91 cash deposits, totaling more than \$440,000, into private stateside bank accounts, all under \$10,000 for the purpose of evading the reporting requirements under federal law. SIGIR, IRS-CI, DCIS, and the Naval Criminal Investigative Service (NCIS) investigated Fuller's crimes, and he was eventually sentenced to serve 1 year and 1 day in prison and ordered to pay a fine of \$198,510.

- Major Kevin Schrock was deployed to Mosul from September 2004 to September 2005 as the pay agent for CERP contracts. When Schrock was at home on leave in April 2005, he deposited \$18,900 into his bank accounts. From September to December 2005, he deposited \$28,000 more. An investigation was initiated by SIGIR, Army CID-MPFU, and DCIS. When questioned in January 2010, Schrock claimed the deposits in April were from the sale of a car. In June 2010, Schrock was interviewed and admitted that he stole \$45,000 from funds he was to administer in Iraq and that he smuggled the cash home on his person. Schrock pleaded guilty on February 8, 2011, and was sentenced on March 2, 2012, to 3 years probation and ordered to pay restitution of \$47,241.62.
- Captain Faustino Gonzales received cash bribes for awarding contracts under the CERP. SIGIR, Army CID-MPFU, DCIS, and the U.S. Postal Inspection Service initiated a cooperative investigation that found the contracts Gonzales awarded were based on inflated prices. Gonzales admitted that portions of the bribe money were deposited into bank accounts located in Texas and that he used some of the bribe money to purchase a vehicle. On June 24, 2010, Gonzales pleaded guilty to receiving a gratuity by a public official. He was sentenced to 15 months in prison and ordered to pay a \$10,000 fine and \$25,500 in restitution.

THE SCHMIDT CASE

On June 21, 2009, state police in California were called to the home of Captain Eric Schmidt, USMC, on a domestic violence complaint. Schmidt had served in Iraq from January 2008 to January 2009 as a contracting officer's representative at Camp Fallujah. The police arrested Captain Schmidt for assaulting his wife. During their investigation, the police determined that the husband and wife were arguing about financial matters. They searched Schmidt, finding \$10,000 in \$100 bills on his person. One of the officers noticed that money was stamped with the imprint of an Iraqi bank.

The California police passed the information to Schmidt's superiors in the U.S. Marine Corps, who notified NCIS who, in turn, shared it with DCIS, IRS-CI, and SIGIR. SIGIR's Arabic language and cultural specialists were shown police photographs of the \$100 bills and confirmed that the stamps on the cash indicated that the money had come from Iraq. Ultimately, a search warrant was executed on the Schmidt residence, resulting in the seizure of \$50,000 in cash from a safe inside the residence.

Subsequent investigations revealed that, while serving in Iraq, Schmidt illegally steered contracts to a specific Iraqi vendors. The contractors, in turn, used Schmidt's wife's company, Jenna International, Inc., to request bids and supply parts.

Jenna International bought the parts, but fewer than required by the contracts and of inferior quality. The contractor would then sign a false invoice, claiming it had delivered all the goods called for in the contracts, with Schmidt certifying the goods as received and the



Part of \$40,000 in cash with Iraqi marking seized at Schmidt's residence.



Seized property that had been purchased by Schmidt with stolen funds.

contract completed. Financial analysis by the task force showed substantial sums of money moving through Janet Schmidt's financial accounts.

Investigators encountered several difficulties in developing their case against Schmidt and his wife. The Iraqi contractors were referred to by a variety of different names, making identification difficult. The agents also did not have access to the business and financial records of the Iraqi contractors. Further, the Iraqis interviewed denied any inappropriate activity.

On May 17, 2010, Schmidt pleaded guilty to conspiracy to commit wire fraud and filing a false tax return. The court sentenced him to 6 years in prison and ordered restitution of \$2.1 million. On March 18, 2010, Janet Schmidt pleaded guilty to tax fraud and was sentenced to 1 year of home confinement and 3 years of probation.

The investigative team uncovered another scheme utilizing special investigative techniques. Schmidt's subordinate at Camp Fallujah from May to September 2008, a staff sergeant named Eric Hamilton, managed the military's storage yard, which held electrical generators, air-conditioners, water containers, fuel tanks, and portable shower and toilet trailers. Hamilton admitted that he entered into a scheme with Schmidt to facilitate the theft



of electrical generators from the base by Iraqi contractors. He would mark the generators to be stolen by painting a red circle on them and would then unlock the gate to allow the contractors and their trucks access to the yard, whereupon they would steal the designated generators. For his participation in this criminal scheme, Hamilton received more than \$124,000 from Schmidt and the Iraqi contractors. Hamilton pleaded guilty on August 10, 2011, to two counts of conspiracy to steal public property. He was sentenced on February 6, 2012, to 18 months in prison and ordered to pay \$124,944 in restitution.

Increasing Capacity

By the fall of 2007, SIGIR had 19 investigators on staff, with 8 assigned to Baghdad and the remainder chiefly in Arlington, Virginia. Then fielding the largest number of investigators in Iraq, SIGIR was able to provide personnel for various joint investigative teams working in Baghdad and beyond. As of October 30, 2007, SIGIR had opened 332 cases and closed or referred 275. Further, SIGIR investigations by that time had resulted in \$17.24 million in court-ordered restitutions, forfeitures, and recoveries. The increased investigative capacity at SIGIR improved its ability to catch Americans violating the law in Iraq.

David Ricardo Ramirez worked for a DoD contractor at Balad Air Base from November 2006 to November 2007, where he helped plan the construction of base facilities. He sent more than \$155,000 in cash back to Texas, where it was deposited into his personal account. A task force involving SIGIR, CID-MPFU, the Air Force Office of Special Investigations, ICE, and FBI investigated Ramirez. He was charged with smuggling bulk cash and sentenced to 4 years and 2 months in prison. He also forfeited a \$95,000 condominium, a \$25,000 real-estate lot, a 2007 Ducati motorcycle valued at \$33,000, and a 1989 Lamborghini valued at \$80,000.

BEST PRACTICE
Integrate law-enforcement efforts. Without question, most of SIGIR's success was due to a team approach in investigations.

SIGIR's Proactive Programs

In 2008, SIGIR established the Forensic Evaluation Research and Recovery Enforcement Team (FERRET), designed to identify suspicious financial transactions by U.S. personnel and contractors who worked



Motorcycle and car seized from David Ramirez.

in Iraq. The Investigations Directorate also shifted to an approach that emphasized hiring persons with expertise in financial crimes.

The deployment of SIGIR investigators also evolved, with personnel operating from varying regions across the United States. By July 2008, SIGIR had five agents in Baghdad, eight at SIGIR headquarters in Virginia, and nine distributed among offices in Pennsylvania, Florida, Ohio, Michigan, Maryland, and Texas.

Efforts invested in building cooperation between SIGIR and foreign authorities began to pay off. Four Coalition partner military officers were arrested in 2008, with three eventually convicted in a foreign military court. The case involved extortion and bribery in connection with a contract for projects funded by the CERP and administered by a Coalition partner. The loss to the U.S. government was estimated to be \$2.9 million. Army CID played a major role in the investigation and coordination with the foreign military on this case.

In 2009, SIGIR and the DoJ collaborated to initiate the new SIGPRO prosecutorial effort, which allowed SIGIR to hire and fund prosecutors who were detailed to the Fraud Section of the DoJ Criminal Division to prosecute cases. SIGPRO quickly returned results, with a SIGIR attorney obtaining the guilty plea of Richard Razo who had entered into a scheme to enrich himself by fraudulently providing Iraqi contractors with confidential bidding information. Razo did so first as an employee of an international company doing business in Iraq under contracts with the U.S. government and then as a DoS employee. The investigators found that Razo had collected more than \$106,000 in kickbacks. He was sentenced in U.S. District Court in San Antonio to 33 months in prison and ordered to pay \$106,820 in restitution.

In 2010, SIGPRO prosecuted Lieutenant Colonel David Pfluger, who was deployed to Iraq from October 2003 through April 2004, serving as the “mayor” of a forward operating base. In this capacity, he had authority over the day-to-day operations of the physical assets and security

LESSON

Engage with partner-nation law-enforcement agencies to prosecute non-U.S. criminals.

BEST PRACTICE

Dedicate specific prosecutors. Early on, it became clear that many prosecutors new to the types of cases coming out of Iraq and unfamiliar with the difficulties in acquiring evidence were slowing down the prosecutions and development of cases.

on base. Pfluger accepted more than \$10,000 in cash, as well as gifts of jewelry and clothing, from contractors. In return, Pfluger encouraged awarding projects to specific contractors, bypassed or relaxed security procedures at the base for specific contractors, issued weapon permits without legal authority, and converted government property in his control for use by these contractors. SIGIR, DCIS, and Army CID-MPFU conducted a joint investigation, and a SIGPRO prosecutor successfully obtained the conviction. On July 29, 2011, a court sentenced Pfluger to 18 months in prison for accepting illegal gratuities.

Another SIGPRO success came in 2011 in a case involving DoS employee Osama Esam Saleem Ayesh. Ayesh, a resident of Jordan, was hired by DoS as a shipping and customs supervisor at U.S. Embassy-Baghdad, where he oversaw the shipments of personal property of Embassy officials and personnel in Iraq. He was involved in establishing and operating blanket purchase agreements for the provision of customs clearance and delivery services to the Embassy from which he illegally benefited. DoS OIG and FBI opened the investigation, which was successfully prosecuted by a SIGPRO attorney. Ayesh was sentenced to 3.5 years in prison and ordered to pay \$243,416 in restitution and a \$5,000 fine. As a result of the SIGPRO program, prosecutions of investigations originating or as a result of the Iraq War drastically increased and moved through the judicial system at a much faster pace.

FIGURE 1
SIGIR CASE PROSECUTORS

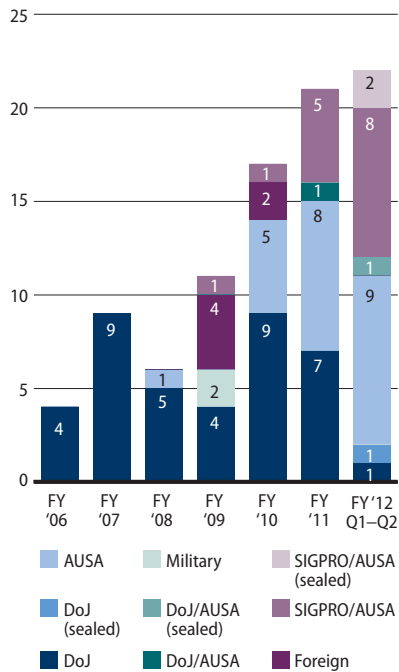


Figure 1 shows the involvement of prosecutors who worked Iraq reconstruction cases from FY 2006 through FY 2012.

Suspension and Debarment

In June 2003, the Department of Defense designated the Department of the Army as the executive agent for contracting support for Iraq's reconstruction. The Army's Suspension and Debarment Program has led the effort to ensure the integrity of contractors performing these contracts. The goal of this program is to ensure that these contracts are awarded to, and performed by, contractors who are honest and ethical and who have the ability to successfully perform their work.

SIGIR used the suspension and debarment process to strengthen investigations and prevent financial losses to the government. Contractors fear the use of this tool, perhaps even more than the criminal process, because it prevents them from receiving future government contracts. The Army's Procurement Fraud Branch has worked closely with DoJ, SIGIR, and its investigative partners to suspend and debar contractors for fraud or corruption involving reconstruction contracts in Iraq and Afghanistan. These cases commonly arise from criminal indictments filed in federal district courts or allegations of contractor irresponsibility. They require fact-based examinations by the Army's Suspension and Debarment Official.

In the Cockerham case, many individuals and companies were suspended prior to indictment based on findings by the Army's Procurement Fraud Branch. These actions disqualified the affected contracting firms or persons from government contracting, subcontracting, or participation in covered transactions. They also assisted investigators in furthering various ongoing criminal investigations.

As of March 31, 2012, the Army's Procurement Fraud Branch had suspended 135 individuals and companies involved in sustainment and reconstruction contracts in Iraq and Kuwait; and 191 individuals and companies had been proposed for debarment, resulting in 138 finalized debarments that ranged in duration from 9 months to 10 years.

On March 26, 2007, Robert Grove, a retired U.S. Army colonel working as an employee for a private contractor, returned to the United States from Iraq and was arrested for concealing approximately

\$50,000 in U.S. currency that he failed to report on his U.S. Customs declaration. On September 21, 2007, Grove pleaded guilty to a three-count indictment charging him with smuggling bulk cash, failing to file a report regarding monetary instruments, and making false statements. Grove was sentenced to 5 months in prison followed by 2 years probation, and ordered to pay a fine of \$30,000. He also was debarred from further U.S. government contracting; but he later returned to Iraq as a consultant, representing an Iraqi contractor in meetings with the U.S. Army Corps of Engineers (USACE) on DoD contracts worth \$67 million. During a meeting with USACE, Grove was questioned and denied that he was a convicted felon or that he had been debarred. SIGIR and DCIS agents investigated the case, quickly developing information that resulted in Grove being terminated and deported from Iraq. On March 26, 2009, Grove was found guilty of violation of supervised release concerning the prior conviction and ordered to serve 2 months in prison followed by 22 months of supervised release.

Blossoming of Indictments and Convictions

Focus Shifts to the United States

In 2010, SIGIR continued to expand its investigative efforts and add personnel, but the emphasis gravitated toward stateside work, involving the pursuit of persons who had committed crimes in Iraq but had since returned home. By September 2011, SIGIR had 2 investigative personnel assigned to Baghdad, 6 at SIGIR headquarters in Arlington, and 11 in other offices throughout the United States. And, as of March 31, 2012, the work of SIGIR investigators had resulted in 86 indictments, 66 convictions, and more than \$175 million in fines, forfeitures, recoveries, restitution, and other monetary results.

Figure 2 shows criminal and monetary results since FY 2008. See Figure 3 for a breakdown of indictments by type of criminal activity. Figure 4 shows monetary results by affiliation of wrongdoer, and Figure 5 shows convictions by affiliation of wrongdoer.

FIGURE 2
SIGIR INVESTIGATIONS:
CRIMINAL AND MONETARY RESULTS

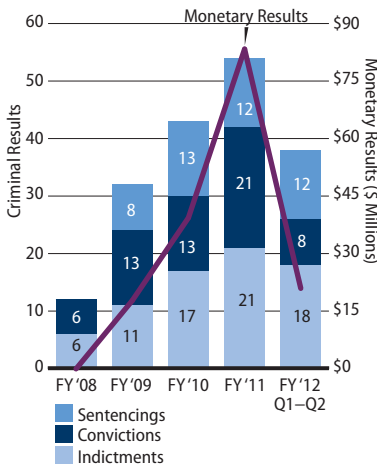


FIGURE 3
TYPES OF CRIMINAL ACTIVITY
At Indictment

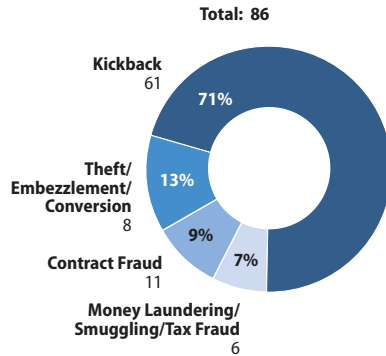
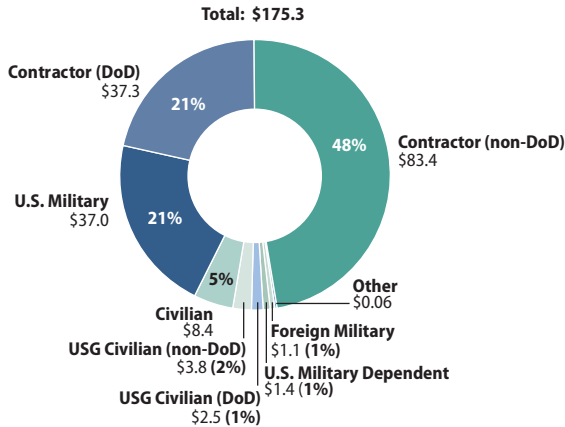


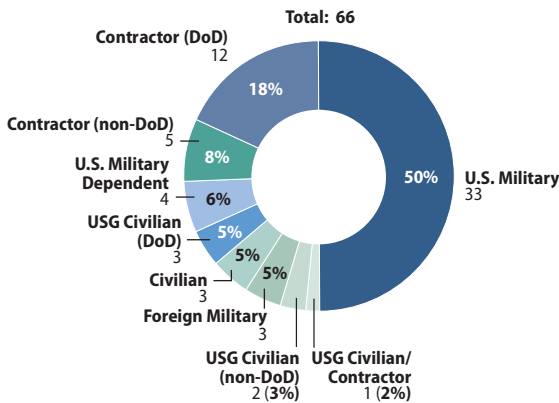
FIGURE 4
SIGIR INVESTIGATIONS MONETARY RESULTS, BY AFFILIATION
OF WRONGDOER, AS OF 3/31/2012

\$ Millions



Note: Numbers affected by rounding.

FIGURE 5
SIGIR CONVICTIONS, BY AFFILIATION OF WRONGDOER, AS OF 3/31/2012



More Cockerham

The Camp Arifjan investigation produced another major outcome in 2011 when Major Eddie Pressley came to trial. This case, like the other Cockerham cases, was jointly conducted by a task force that included SIGIR, Army CID-MPFU, DCIS, ICE, IRS-CI, and FBI. Pressley had served as an Army contracting officer at Camp Arifjan during 2004–2005.

In February 2005, Pressley arranged for a contractor to obtain a blanket purchase agreement to deliver goods and services to DoD and its components in Kuwait and elsewhere. DoD would order supplies on an as-needed basis, and the contractor would then be obligated to deliver the supplies ordered at the price agreed to in the blanket purchase agreement. The term for such an order by DoD is a “call.” Pressley demanded a \$50,000 bribe before he would issue calls for bottled water.

Pressley enlisted the help of his wife, Eurica Pressley. She traveled to Dubai in May 2005 and to the Cayman Islands in June 2005 to open bank accounts for the bribe money. Bank statements and wire-transfer reports demonstrated that, in total, the Pressleys received approximately \$2.9 million in bribes. They used the money to purchase real estate and expensive automobiles, among other things.

Eddie Pressley was sentenced to 12 years in prison and ordered to forfeit the millions he had illegally received. Eurica Pressley was sentenced to 72 months in prison.

The Value of Whistleblowing

After the invasion of Iraq, uncontrolled munitions in old Iraqi depots represented a significant threat to U.S. servicemembers. USACE contracted for an ammunition clearance program that ended up costing about \$413 million. There was no reason for U.S. oversight officials to think anything was wrong with the contract until several government workers came forward to SIGIR with concerns that their colleagues were taking bribes. SIGIR initiated an investigation, looked into the contracts, and confirmed that the criminal activity was going on.

The contractor had hired a program manager and deputy program manager to supervise the disposal work. These two then entered into an agreement with subcontractors to receive kickbacks on awards totaling \$23 million. Investigators eventually tracked \$974,000 paid in

kickbacks to the managers from March 2006 through April 2007. An indictment unsealed on March 9, 2012, charged the managers with fraud, and the case is pending court disposition. While the skills of the investigators to make the case were crucial to its success, the lead investigator importantly noted: “We would have never caught these guys had someone not had the courage and integrity to make that first report.”



Iraqi ammunition stockpiles like this were vulnerable to exploitation by insurgents, posing a threat to Coalition forces.

The Success of the Task-force Approach

The task-force concept proved to be an integral part of SIGIR’s investigative successes. The impacts began at the headquarters level of the affected investigative organizations. It ensured cooperation on cases, subjects, and allegations, as well as prosecutorial coordination and deconfliction. In 2006, the International Contract Corruption Task Force (ICCTF) was established for Iraq cases, and it subsequently was expanded to include Afghanistan. When SIGPRO came into being, the ICCTF successfully utilized it in prosecuting cases arising from Iraq.

At the field level, the task force concept was used to ensure that all available investigative and support resources were identified and deployed to produce the timely execution of investigations. The task-force concept was the driving force in the multiple convictions arising from the Major John Cockerham investigation—one of many examples of its successful use in Iraq.

Best Practices

From extensive experience developed while pursuing more than 600 investigations arising from the Iraq reconstruction enterprise, SIGIR suggests seven best practices, the implementation of which could help mitigate the waste, fraud, and abuse of U.S. taxpayer funds in future SROs.

- **Begin oversight early.** As soon as the planning for a contingency begins, the relevant investigative entities must develop programs to integrate oversight operations in theater. Federal law-enforcement agencies should collaborate on an integrated contracting database that incorporates information about past contracting activities so as to better identify potential trouble spots well in advance.
- **Deploy agents forward.** A strong in-theater presence is crucial to deterring crime during an SRO. Trying to thwart bad conduct in a chaotic situation with a smattering of investigators who rotate in and out simply will not work. There must be a continuous, widely noticed law-enforcement presence to stop crime and catch those who commit it.
- **Intervene with education.** SROs occur in environments that offer manifest temptations to criminal minds. Fraud-awareness training is needed for all government and contractor personnel operating in the SRO. DoJ also should publicize convictions to leverage their deterrence value.
- **Integrate law-enforcement efforts.** Agencies with jurisdiction over SRO investigations may include inspector general offices, as well as DoD, DoS, DoJ, IRS, FBI, and ICE. Prior integrative planning must occur for this broad and diverse spectrum of law-enforcement agencies to function well together. The creation of a Special Inspector General for Overseas Contingency Operations would facilitate such integrative planning.

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- **Use task forces.** Investigative task forces improve the likelihood of success in criminal cases because pooled resources strengthen the effort. Not every law-enforcement office has the means to maintain a broad array of technical capacities. Integrative operations—from headquarters to the field levels—improve outcomes in the investigative world, just as they improve results in the military world.
 - **Hire investigators with fraud experience.** Although the particular requirements may vary depending on the nature of the SRO, most investigators should have substantial knowledge of complex contracting procedures, financial transactions, asset tracing, and the like. This means that having white-collar crime experts in country produces more convictions. Investigative agencies operating in Iraq often deployed inexperienced agents or sent senior investigators whose career experience was inapposite.
 - **Dedicate specific prosecutors.** The SIGPRO experience, which entailed SIGIR hiring its own prosecutors and deploying them to DoJ, demonstrably proved the wisdom of well-targeted prosecutorial capacities. After the formation of SIGPRO, SIGIR conviction rates rose. Events unfold rapidly in contingency operations; having a special team of prosecutors focused on the operation ensures better results.

Conclusion

SIGIR's experience in Iraq points to a singularly important overarching lesson: the United States must reform its approach to SROs. The fraud and the waste that occurred during the reconstruction program—certainly matched in Afghanistan—caused fiscal loss, but they also damaged U.S. national security interests. Resolving the weaknesses in U.S. planning and management structures for SROs would increase the likelihood of future success and better protect U.S. national security interests.

After a challenging start, SIGIR's Investigations Directorate enjoyed considerable success, forcing crooks to pay a just penalty for their criminal wrongdoing. But the total number of wrongdoers caught by SIGIR is probably less than the number that escaped justice. Nevertheless, the Congress's creation of the Special IG office was a successful remedial measure because it met the need for increased oversight during the initial stages of the Iraq rebuilding operations. SIGIR certainly reduced the level of fraud and waste that might otherwise have occurred. Creating a permanent Special IG would prevent the recurrence of the kind of fraud, waste, and abuse encountered early on in Iraq. But it would not resolve the larger issue that still daunts SRO planning and management: the lack of unity of command and unity of effort.

If the Congress addresses current weaknesses in planning and executing contingency rebuilding operations in a straightforward manner, then the United States could strengthen the protection of its national security interests. To date, the varying attempts to reform the U.S. structure for resourcing and executing SROs have failed to produce an enduring remedy. Absent meaningful and permanent reform, there is every reason to expect that the serious levels of fraud, waste, and abuse that occurred in Iraq will recur in future stabilization operations.

ACRONYMS AND DEFINITIONS

AFMLS	Asset Forfeiture and Money Laundering Section
AIRP	Accelerated Iraqi Reconstruction Program
ATF	Bureau of Alcohol, Tobacco, Firearms, and Explosives
AUSA	Assistant U.S. Attorney
CERP	Commander's Emergency Response Program
CID	U.S. Army Criminal Investigation Command
CID-MPFU	U.S. Army Criminal Investigation Command Major Procurement Fraud Unit
COR	Contracting Officer's Representative
CPA	Coalition Provisional Authority
CPA-IG	Coalition Provisional Authority Office of Inspector General
DCIS	Defense Criminal Investigative Service
DEA	Drug Enforcement Administration
DFI	Development Fund for Iraq
DoD	Department of Defense
DoJ	Department of Justice
DoS	Department of State
DoS OIG	Department of State Office of Inspector General
FERRET	Forensic Evaluation Research and Recovery Enforcement Team
FBI	Federal Bureau of Investigation
ICE	U.S. Immigration and Customs Enforcement
IG	Inspector General
IRRF 1	\$2.475 billion Iraq Relief and Reconstruction Fund provided by P.L. 108-11 for the program of humanitarian relief and reconstruction planned by the National Security Council
IRRF 2	\$18.6 billion Iraq Relief and Reconstruction Fund (\$18.4 billion after subtracting \$210 million assistance for Jordan, Liberia, and Sudan) provided by P.L. 108-106
IRS	Internal Revenue Service
IRS-CI	Internal Revenue Service Criminal Investigation
LSA	Logistical Support Area
MCTF	Major Crimes Task Force

Continued on next page

ACRONYMS AND DEFINITIONS

NCIS	Naval Criminal Investigative Service
PCO	Project and Contracting Office
SIGIR	Special Inspector General for Iraq Reconstruction
SIGOCO	Special Inspector General for Overseas Contingency Operations
SIGPRO	SIGIR Prosecutorial Initiative
SPITFIRE	Special Investigative Task Force for Iraq Reconstruction
SRO	Stabilization and Reconstruction Operation
USAID	United States Agency for International Development