

Senate Democratic Policy Committee Hearing

**Monday, September 22, 2008
1:30 pm to 3:30 pm
628 Dirksen Senate Office Building**

“Contracting Waste, Fraud and Abuse in Iraq”

Hearing Transcript

SEN. DORGAN: I'm going to call the hearing to order. This is a hearing of the Senate Democratic Policy Committee. This is the 18th in a long series of hearings we have done on the subject of contracting in Iraq.

This hearing is an inside view of what is called "the second insurgency." Corruption and waste are in many ways undermining the U.S. mission in Iraq.

This hearing will deal with corruption and waste involving both the Iraqi government and U.S. contractors, and especially corruption and waste with respect U.S. funding. I am going to show a couple of charts. This is a photograph on the chart that you see of a two million dollar payment to a U.S. contractor in Iraq. The man who was holding the money on the left side there was a witness at one of my previous hearings. That two million was cash, and he said that it was like the Wild West where he was.

He was working with the -- with the Coalition Provisional Authority, which of course is us, our government. And contractors were told, "Bring a bag, because we pay cash." He said it was like the Wild West.

The amount of money that was airlifted to Iraq -- I have a chart that shows you billions of dollars of airlifted cash to the government of Iraq. This picture shows pallets of cash arriving in that country.

Each pallet contains 640 bundles of 1,000 bills each, weighing 1,500 pounds. They sent 484 of these pallets from New York to Iraq. That's more than 363 tons of U.S. currency, or about \$12 billion.

SEN. BYRD: A lot of money.

SEN. DORGAN: Most of that money, or a lot of that money, Senator Byrd, vanished.

In March the Senate Appropriations Committee, with the chairmanship of Senator Byrd, held a hearing at my request, in which we heard from a very courageous Iraqi judge

named Judge al-Rahdi.

He was the head of the Iraq Commission of Public Integrity. This agency was established by the Coalition Provisional Authority, or our government, with -- charged with rooting out corruption in the new government of Iraq.

Judge al-Rahdi estimated at that hearing that corruption in Iraq's government had resulted in the loss of \$18 billion, a substantial amount of it U.S. taxpayers' dollars.

Judge Rahdi said that instead of supporting his efforts to fight corruption, the top levels of the Iraqi government had ultimately suppressed his investigations.

Some have described Judge al-Rahdi in very heroic terms. Sadly, it turned out that Judge Rahdi was not untouchable. This is a picture of Judge Rahdi's house after it was hit by rockets fired in an apparent retaliation for his investigations.

He's also testified since the establishment of a Commission of Public Integrity, the agency in which he headed and which one witness today worked, 31 of the employees in that Commission of Public Integrity have been assassinated, as well as at least 12 additional family members of employees.

One would expect our government would have been doing everything it could to be supportive of those efforts, but a hearing in this committee back in May disclosed to us that our own State Department was not interested in ensuring accountability of U.S. funds in Iraq or even rooting out corruption or supporting Judge Rahdi.

Two State Department officials -- former officials, rather -- of the State Department, who worked in Iraq, testified at that hearing. In fact, one of the officials, retired Judge Arthur Brennan, said that some of the stolen funds were steered to the Iraq insurgency. And yet the Administration was generally indifferent to that problem.

That indifference, he said, has had deadly consequences. And we'll hear about it from a witness today, one of whom was Judge Rahdi's chief investigator in Iraq, about how stolen U.S. funds have gone to al-Qaeda in Iraq.

The fact is there's been far too little interest in oversight in Iraq by this administration. Let me show a photograph. The Parsons Corporation, to name a contractor, received \$31 million to build an Iraqi prison in Iraq.

Iraqi contractors got paid another nine million dollars on top of the \$31 million. That's \$40 million. Here are a series of pictures that show what the taxpayers received for all that money.

This is formally known as Khan Bani Sa'ad prison, but the locals took to calling it the Whale. The prison was supposed to house 3,600 inmates, but it was never finished, and today it is abandoned.

In fact, the Iraqi government told our Coalition Provisional Authority that they did not wish the prison to be built. It was not needed, not necessary, and would not be used.

And you can see from these pictures that one of the buildings -- the second floor is without a roof. There's no plumbing, no electricity. No windows have been put in. The roads in the complex are in shambles.

And one of the witnesses today will describe a meeting he attended at which the Iraqi Minister of Justice told American officials of the Iraqi government not wanting the prison to be built.

It was nonetheless built. American taxpayers spent \$40 million. And now the Whale, an unused Iraqi prison, sits unused on the desert in desperate disrepair, likely never to be used.

We held a hearing in this committee in 2006 to investigate the failure to build health clinics in Iraq. The Army Corps of Engineers gave Parsons Corporation a \$243 million contract to repair or build 150 health clinics in Iraq.

Two years later the money was gone, and only 20 clinics have been completed. A very courageous Iraqi doctor came and testified before our committee that day.

He traveled around the Iraq to try to figure out where that money had gone. He testified what he found were phantom clinics, meaning they existed only on paper.

Even today, that particular contractor receives tens of millions of dollars of work in Iraq. I've held many hearings on the subject of Halliburton and Kellogg Brown & Root with the same kinds of performance.

I don't mean to single out any specific contractors. I have done that in previous hearings. But we are seeing evidence, in my judgment, of very substantial waste and fraud and abuse and very little effort or interest on the part of the Administration or officials to deal with it.

There's also been widespread corruption in the Iraqi government, which has resulted in the wasting of substantial amounts of American taxpayer money, which is filtered through those ministries.

Today we're going to hear from three witnesses, who have unique firsthand perspectives on these problems. Mr. Salam Adhoub worked as a Chief Investigator in Baghdad for the Iraqi Commission on Public Integrity. I mentioned earlier that 31 members of that commission were assassinated. Twelve members of their family were murdered.

We will also hear from Mr. Abbas Mehdi, who served as Chairman of the board of the government of Iraq's National Investment Commission, a cabinet level position in the al-

Maliki government -- again, someone who held a cabinet level position in the al-Maliki government.

Our third witness has requested anonymity out of concern that revealing his name would prevent him from returning to Iraq to continue to work on these problems. He served, however, as a senior advisor to the U.S. government in Iraq. He will be testifying from a television studio outside of this building, with his face concealed and his voice altered to protect his identity.

That is at his request, but I understand that request, because I understand some of the threats that have been made to those who have previously served as witnesses.

I thank courageous witnesses for appearing today and look forward to their testimony. And I make one final comment.

Our purpose of these hearings is not to just in an ad hominum way embarrass anybody or cast political aspersion or -- or put a spotlight on someone's incompetence. It is because year after year after year the taxpayers of the United States have been bled dry with massive corruption and misuse of federal dollars.

And at the same time, as they attempt to stand up a new government in Iraq, I have had witnesses come to this committee to tell us that we have turned a blind eye to corruption in that government -- much of it corruption with American money.

We've had testimony about billions of dollars going to a Defense Ministry to buy planes and ships and tanks, and the planes and ships and tanks did not materialize, but the money is gone, and those that may well have directed that money to Swiss bank accounts are now living in London capitals.

That's the sort of thing that this government should not put up with.

And so we hold hearings because this administration is -- has precious little interest in the kind of oversight that you would think would be done with taxpayers' money.

I am joined by my colleague, Senator Byrd, the Chairman of the full committee of Appropriations.

Senator Byrd, thank you for being with us. Senator Byrd?

SEN. BYRD: Thank you, Mr. Chairman, for conducting this hearing and for your many previous hearings on this topic.

This is a matter of grave concern for those of us who are responsible for ensuring that American tax dollars are well spent, and not needlessly wasted on overpriced contracts, corrupt practices, poorly made products, or worse, passed along in the form of dollars or weapons directly into the hands of our enemies.

Now, I take my responsibility in this matter very seriously, and I am heartened -- I'm very heartened -- to see that you and the other members here today do also.

The ugly truth is that fraud, waste, and corruption are aiding and abetting our enemies in Iraq and contributing to terrorism in Iraq and elsewhere. The witnesses today will add eyewitness veracity and shocking detail to this sorry tale.

I sent two members of my staff to Baghdad last month to review U.S. and Iraqi efforts to counter fraud and corruption there. They met with U.S. civilian and military investigators, inspectors and auditors, as well as with representatives from the Iraqi government.

It became very apparent that despite the billions of dollars that the Congress has put into the Iraq mission, not enough effort or manpower is being put behind ensuring that those billions are spent only on their intended purposes.

Amazingly, the Department of State Inspector General still has no full-time investigators or auditors in Iraq. Other agencies urged that their manpower and their resources to be expanded to match the magnitude of their workload.

Nor has enough been done to ensure that U.S. and Iraqi oversight audit and investigative assets can work effectively together.

My staff learned that in one instance U.S. weapons that were provided directly to Baghdad police forces turned up for sale in public markets before the Iraqi central government even knew that they had been distributed.

Worse, hundreds of U.S. provided weapons have been seized from criminal and terrorist elements operating beyond Iraq's borders.

The U.S. judicial system is also not doing its part to deter corruption and fraud by aggressively prosecuting the perpetrators of these crimes.

Many cases that are painstakingly built in Iraq by U.S. investigators are, my staff was told, turned over to the Department of Justice or the U.S. Attorney offices for prosecution, only to fall into a black hole -- and this of cynical indifference to punishing criminals and recovering the billions in lost funds.

We are not deterring fraud and corruption. And we are not demonstrating the benefits of a just rule of law. How, then, can we ask Iraqi investigators and judges to arrest and to prosecute their citizens for these crimes, often at great risk to their own personal safety, when the Americans there doing the very Same thing go unpunished?

Senator Dorgan, as you know, I invited Secretary of State Condoleezza Rice and Attorney General Michael Mukasey to an Appropriations Committee hearing on

September 17 to address the problems that my staff uncovered.

Overcoming these barriers is neither insurmountable nor expensive. But it does require attention, and it requires sincere commitment from these cabinet officers.

However, neither Secretary Rice nor Attorney General Mukasey could find the time to address these serious problems for which they have personal responsibility -- problems that have squandered our nation's resources and problems that are arming our enemies.

Our witnesses today will bring more attention to the scope and the consequences of these problems. And I look forward to hearing their testimony.

SEN. DORGAN: Senator Byrd, thank you very much. And thank you for your leadership. And we -- we certainly hope that the Secretary of State and the Attorney General will see fit to come to the full Appropriations Committee when requested to address these issues with you.

SEN. BYRD: Thank you. I hope so.

SEN. DORGAN: Let me call on my colleagues for brief comments, and then we will go to the witnesses.

Senator Tester?

SEN. TESTER: Yes, thank you, Mr. Chairman. I want to echo -- echo my appreciation for you holding this hearing. Thank Senator Byrd and -- and Senator Bingaman for being here also.

I -- I want to thank the witnesses more importantly. I appreciate you folks being willing -- willing to come forward and testify. It would be much easier to do nothing. And I think it's very important that you are here, and I -- I look forward to your testimony.

In Montana, where I come from, a billion dollars is still a whole lot of money. And the fact is as anytime these dollars are spent improperly, it -- it not only takes away from our folks who are fighting in the field, but it also takes away from our children's future, because these are -- these are borrowed dollars.

And so I -- I appreciate the fact that you are here. It comes at an interesting time, a time when the Bush Administration is asking us to increase the debt limit by \$11.3 trillion -- every one of these dollars that needs to be accounted for and -- and we need to figure out where it went.

And the fact that some of it may have went to our enemies is even further troubling. So I want to thank you all for being here.

Appreciate it, Senator Dorgan.

SEN. DORGAN: Senator Tester, thank you very much.

Senator Bingaman?

SEN. BINGAMAN: Mr. Chairman, thank you for having this hearing. I know it's one of a long series of hearings you've had to try to shine a light on the problem of waste and -- and fraud, corruption that's -- has gone into -- that has accompanied our involvement in Iraq.

And so I appreciate very much you continuing to do that, and I look forward to hearing from the witnesses.

SEN. DORGAN: Senator Bingaman, thank you very much.

We will hear today first from Mr. Salam Adhoub. Mr. Adhoub was the former chief investigator in Baghdad of the Iraq Commission on Public Integrity, a commission that was sanctioned, and I believe actually formed, as a result of activities of the Coalition Provisional Authority.

That commission investigated the corruption in the government of Iraq, and as I indicated earlier, 31 employees of that commission were assassinated, a number of their family member murdered. Judge al- Radi, formerly the chairman of that commission, has testified before this committee.

Mr. Adhoub is testifying today through an interpreter.

And, Mr. Adhoub, you may proceed with your testimony. And we will hear from you interpreted by -- interpreter, if he will identify himself.

And then we will turn to Mr. Mehdi. And then we will turn to our third witness, who is testifying from a television studio outside of this building.

Mr. Adhoub, you -- you may proceed.

MR. ADHOUB (interpreted): My name is Salam Adhoub, and before obtaining asylum in the United States, I served as a chief investigator in Baghdad at Iraq's top anti-corruption agency, the Commission of Public Integrity, CPI, which Stuart Boland, the special investigator general for Iraqi construction, described as being, quote-unquote, "analogous to the FBI in the United States."

I worked at the CPI from October 2004 to August 2007, and as Chief Investigator, I supervised a team of 100 investigators and 100 support staff, who conducted more than 4,000 investigations. Many of us would work from 8 a.m. to 2 a.m. every day, often sleeping in our offices.

My experience at the CPI provided me with a firsthand -- with a firsthand, up-close look at the corruption and waste in Iraq. Based on the cases that I have personally investigated, I believe that at least \$18 billion have been lost in Iraq through corruption and waste, more than half of which was American taxpayer money.

Of this \$18 billion, I believe at least \$4 billion have been lost due to corruption and criminal acts in the ministry of defense alone. Corruption in Iraq does not only waste American taxpayer dollars, however.

Corrupt Iraqi government officials have used American funds to support the al-Qaeda terrorists, militias, and the insurgents who are killing U.S. soldiers in Iraq.

Allow me to state this as clearly as possible. There are powerful people in Iraq, who do not want this story to be told. I investigated corruption in Iraq for three years, but eventually had to flee to the country because of numerous death threats against me and my family.

There is every reason to believe that those threats would have been acted upon, had I stayed in Iraq. Thirty-two of my co-workers were murdered in retaliation against our efforts to investigate, arrest and convict corrupt officials in Iraq. The same number had their lives threatened, and quit as a result.

During my time at the agency, the CPI worked closely with the Bureau of Supreme Audit, BSA, which is Iraq's version of the Government Accountability Office, the GAO.

In 2007 the BSA conducted an extensive audit of American reconstruction projects in Iraq. The BSA attempted to track every American-funded project in the country, visit the project sites, interview Iraqi government officials about the status of the projects, and review contracting documents that were available for inspection.

In a report that has never been made public, the BSA revealed that it could not probably - properly account for more than \$13 billion in American reconstruction funds.

During the audit of American reconstruction contracts, BSA officials uncovered both projects that never existed -- these are projects that the Iraqi government deemed unnecessary -- and work that either was not performed at all or run in a shabby manner by both American and Iraqi contractors.

To cite just for an example from the BSA audit, approximately \$24.4 million was spent on an electricity project in Ninewa province that the BSA concluded existed only on paper.

While the BSA found that many of these projects were not needed, and many were never built, this very real fact remains. The billions of American dollars that paid for these projects are now gone.

Our investigations at the CPI revealed that corruption and waste were widespread at the Iraqi Ministry of Defense, where cronyism, party favoritism, nepotism, and the lack of even minimum financial controls resulted in the embezzlement, theft and waste of billions of American taxpayer dollars.

My investigators uncovered an elaborate scheme at the ministry of defense that was used by senior ministry officials to enrich themselves, their friends and relatives, and party cronies.

I want to describe the results of the CPI investigation into the ministry of defense, which I will -- I will in a moment. But you should know that this is just one example of how corruption has wasted billions of dollars, most of it American taxpayer money, and even more importantly, undermined the U.S. mission in Iraq.

There are many more examples.

The scheme of the ministry of defense involved the establishment of two front companies al-Ain al-Jariya and Safeem (ph). Al-Ain al- Jariya was jointly owned by Naya Mohammed Ahmed Jemali (ph), the brother-in-law of the current Minister of Defense, Abdul Hamid Aziz Merza (ph), an advisor for the then Deputy of the President of Iraq, and Roshka Nouri Shawiz (ph), who was the brother of the Defense Secretary General.

The company was formed and registered with the government at the end of August 2004 with a backing of only \$2,000 in capital to cover the billions of dollars in contracts the company would receive.

At the same time, these individuals helped from the register a second company, Safeem (ph), which was owned by Azza Safaf (ph), who was a chief of staff for the then Deputy President of Iraq.

In the summer of 2004, the minister of defense, Hazim al-Shaalan, the Defense Secretary General, Roshka Nouri Shawiz (ph), and the Deputy Secretary of Contracts, Ziadh al-Kafan (ph), requested \$1.7 billion from the then Iraqi Prime Minister Ayad Alawi to form two divisions of Iraqi Special Forces.

Once the \$1.7 billion in American funds were received by the Ministry, a significant amount of money was given to the front companies to acquire airplanes, helicopters, armored vehicles, new weapons and bulletproof vests.

The two companies received this money without the benefit of any of the bonds or guarantors usually required for government contractors.

SEN. DORGAN: Mr. Adhoub, I wonder if -- if I might inquire just for a moment, if you would provide a courtesy to the committee. Your testimony is especially revealing and critically important, and we wish to have time to be able to ask questions, and you to be able answer questions through your interpreter.

I wonder if -- if -- I know that you had provided your statement to the interpreter, and I have a full copy of your statement. And I think we have five pages remaining. I want to make sure that we get it all on the record.

Would you, as a courtesy to the committee, allow us to have, with your being there, your interpreter read the remainder of the statement so that we retain time to ask you questions when we have the other two witnesses?

MR. ADHOUB: No problem.

SEN. DORGAN: You're -- you're very courteous to do that, and we deeply appreciate this testimony. It's very important.

MR. ADHOUB: Thank you.

SEN. DORGAN: And let me ask the interpreter if you would proceed through the remainder of this important statement...

INTERPRETER: Right.

SEN. DORGAN: ... and then we will have the other two witnesses.

MR. ADHOUB (interpreted): The -- the first front company, al-Ain al- Jariya, was given several contracts totaling \$850 million. Three of these contracts were for M-18 military helicopters. The front company charged \$4.5 million for helicopters that cost only \$1.5 million during Saddam Hussein's regime.

Not only did al-Ain al-Jariya overcharge the Iraqi government, the company never delivered the M-18 helicopters.

A team of Iraqi army officers traveled to Poland and Russia to inspect helicopters that were scheduled for delivery to Iraq. When the team arrived to inspect the equipment, they did not find the 64 M- 18 helicopters. Instead, they found four repainted defective helicopters that were more than 25 years old.

The team rejected the helicopters, and the Iraqi army refused to accept them, but instead of demanding repayment from al-Ain al-Jariya for the useless helicopters, the Ministry of Defense renegotiated with the companies for a series of mobile toilets and kitchens, which have never been delivered.

Helicopters were not the only military equipment that was not delivered by these front companies. Despite having been paid in full, the two companies delivered only a small percentage of the other weapons and military equipment that had been ordered by the Ministry of Defense.

Major items like airplanes and vehicles either never arrived in Iraq or were unusable. Rusted, decades-old weapons were painted over to look new, but many of them did not work. Bulletproof vests were defective and could not be used.

All of this left the Iraqi army without the helicopters, airplanes, armored vehicles, functioning weapons and bulletproof vests that the army needed to stand up and shoulder the burden of this war.

Even as the Iraqi army could not fight for lack of equipment, corrupt Ministry of Defense officials used these front companies to enrich themselves by diverting hundreds of millions of dollars, which should have gone to military equipment and weapons.

Iraqi and U.S. soldiers have died as a result of these criminal acts, yet not one of these criminals has been held accountable by the Iraqi or U.S. governments.

SEN. BYRD: Shame.

MR. ADHOUB (interpreted): American financial assistance meant to strengthen the Iraqi military and stabilize Iraq not only made it into the pockets of corrupt officials -- these same funds actually helped to finance al-Qaeda terrorists, who have been killing American soldiers and Iraqi citizens.

CPI investigators uncovered the transfer of funds from these front companies, al-Ain al-Jariya and Safeem (ph), to terrorists. The CPI discovered that one of the owners of al-Ain al-Jariya, Naya Mohammed Ahmed Jemali (ph), the brother-in-law of the current Minister of Defense, diverted a portion of these funds to al-Qaeda in Iraq.

Informers have told me that Mr. Jemali (ph) traveled to Amman, Jordan, to deposit money into the accounts of al-Qaeda operatives. In this way -- on his way back from Jordan, he was given safe passage through the city of Ramadi, Iraq, which was controlled by al-Qaeda at the time.

Mr. Jemali (ph) was a well-known al-Qaeda supporter, and he and his attorney also worked with the Minister of Defense to release imprisoned al-Qaeda terrorists.

Mr. Jemali (ph) also enriches himself through kickbacks to the Ministry of Defense officials and as a middleman for contracts between the Iraqi government and American companies.

As a middleman for the American company AM General, Mr. Jemali's front company received \$59.7 million on a contract to deliver Humvees to the Iraqi army. In a letter dated June 8, 2005, AM General authorized Mr. Jemali's company to quote-unquote, "conduct all financial transactions," end quote, related to its contract with the Ministry of Defense.

In its contract, AM General was to deliver 510 Humvees. It delivered no more than 167,

despite the fact that AM General received all its dues since 2005.

I have copies of these invoices and documentation from Iraq's independent auditing agency, the Bureau of the Supreme Audit, that support this finding.

Another middleman, Raymond Samir Zena (ph), served as a go between for contracts between the Ministry of Defense and the American company Wye Oak Technology.

Like Mr. Jemali (ph), Mr. Zena (ph) illegally skimmed money off the top of contracts and kickbacks and paid kickbacks to the ministry of defense officials.

SEN. BYRD: Shame.

MR. ADHOUB (interpreted): Roshka Nouri Shawiz (ph), the Minister of Defense's Secretary General, gave Wye Oak Technology (ph) a contract to, quote-unquote, "inventory, assess, recover and sell all of the Iraqi Ministry of Defense material described as scrap military equipment in the territory of Iraq," end quote.

Mr. Shawiz (ph) also gave Wye Oak Technology a \$24 million contract to repair tanks. Although Wye Oak Technology (ph) submitted millions of dollars worth of invoices to the Ministry of Defense, the work was never performed.

I have copies of these invoices and documentation from the Bureau of Supreme Audit that the contracts were not properly executed. Mr. Zena (ph), with authority from Wye Oak Technology (ph) and the front company, the general investment group received \$24.7 million from the Iraqi government for this contract, despite the fact that the work was never completed.

During my three years as an investigator at CPI, I investigated hundreds of areas of fraud and corruption. I am convinced beyond a shred of doubt that American soldiers died because of this corruption.

Because of corruption, the Iraqi army's tanks were not repaired by Wye Oak Technology (ph). Because of corruption, Iraq never received the armored vehicles it ordered from AM General. Because of corruption, al-Qaeda had better weapons than the Iraqi army.

The Iraqi army had to ask the United States for help because it did not have sufficient weapons, which resulted in even more American deaths.

Mr. Jemali (ph) also enriches himself through kickbacks, as I mentioned before.

This overall picture of corruption existed not only at the ministry of defense, but across the government of Iraq. Many of the American and Iraqi-funded projects registered at Iraq's ministry of planning never existed. But this did not prevent the Iraqi ministries from fraudulently paying contractors for, quote-unquote, "ghost projects," end quote.

The Iraqi companies that registered these contracts with the Ministry of Planning would receive payment for the bogus projects and then loaned the money back to Iraq through a non-Iraqi bank, usually in Syria, the United Arab Emirates, or Jordan.

Having enriched themselves by keeping the money and not performing the work, and enriching the Iraqi government officials by paying bribes and kickbacks, these companies would then routinely reincorporate themselves under different names for the purpose of receiving new contracts.

You might think that the Iraqi government would support our efforts to uncover this corruption. That is not so. Many in the Iraqi government profit from the corruption I have described, so sadly our efforts did not have the support of many in the Iraqi government, most notably the prime minister, who actively interfered with the anti-corruption efforts of CPI.

Prime Minister al-Maliki routinely blocked corruption investigations and directed government officials not to cooperate with our efforts. Ministers and other top government officials routinely blocked the investigative efforts and threatened CPI employees.

Mr. al-Maliki and top Iraqi government officials eventually ordered CPI to close its investigations into government officials. The government also interfered with judicial orders to comply with our investigations, and as a result the CPI employees would be intimidated and prevented from doing their work.

When the United States government ignores corruption and waste at the highest levels in Iraq, the government does -- does a grave disservice to the American people. American taxpayers are cheated. American soldiers are killed. And the American mission in Iraq is undermined.

All of this sends a terrible message to Iraqis and millions of people in the Middle East, who look to the United States to show us how democracy should work.

SEN. DORGAN: Mr. Adhoub, thank you very much. You -- your job in Iraq required great courage, and so, too, does your testimony to come before this Congress and provide the opportunity for us to understand learn from you.

Next, we'll hear from Mr. Abbas Mehdi, who served as chairman of the board of government of Iraq's National Investment Corporation, which is a cabinet level position in the al-Maliki government in Iraq.

Mr. Mehdi, you may proceed.

MR. MEHDI: Thank you.

SEN. DORGAN: Thank you for being here.

MR. MEHDI: Good afternoon, Mr. Chairman and other distinguished member of this committee. Thank you very much for the invitation to testify here today. I am honored.

Since 1988 I have been a Professor of Sociology Organization and Management at St. Cloud State University in Minnesota. From May through December of 2006, I served in Iraq as a Senior Advisor to the Prime Minister's office, the Council of Ministers and the Ministry of Planning as part of USAID-funded project to develop national capacity in public management.

From February through April 2007, I served as a Chairman of the board of government of Iraq National Investment Commission, NIC, a cabinet level position in the al-Maliki government that promote and coordinates investment in Iraq.

The NIC powers include issuing license and granting tax incentive to encourage domestic and foreign investment in Iraq.

My return to Iraq in 2004 was the first time I had visited my native country since I left as a young man in 1977 to study in England. During these 27 years away, I remained deeply concerned about Iraq and its problem, but my involvement with the Iraqi opposition to Saddam Hussein prevented me from going there and seeing my family.

Two years ago I was very happy to have the opportunity to serve my country and the Iraqi people and to see my family and my friend in Iraq. When I returned to Iraq to serve as an advisor and later as an Iraqi official -- government official, I thought that I would have a chance to contribute to a process of bringing great hope and a sense of security for Iraqi people.

Sadly, that would not be the case. Not only did I not get to see my family, tragically while I was in Baghdad, my mother died in Najaf before I could see her again. But I was disappointed at what I saw in Iraq three years after the fall of Saddam Hussein.

While in power, Saddam Hussein's government oppressed rather than served the Iraqi people. There was certainly no interest in good governance in Saddam Hussein's Iraq. His institution were corrupt. Civil society was crushed.

But after Iraqis' liberation in 2003, the institution of government of Iraq suffered yet another calamity as literal sacks and destroying ministry building and the government infrastructure.

This misery was combined by exclusion of many good and competent Iraqi professionals from their senior position in the government as part of the de-baathification process that took place after the liberation.

The pendulum swung the other way as Iraqi politics came to be dominated by sectarian Sunni and Shi'a and ethnic Arab and Kurd identity politics. Let me give you one example

of how corrupt Iraq government official have taken advantage of officially sanctioned sectarianism.

While I was worked on USAID-funded project to develop national capacity in public management in 2006, the project wanted to bring an -- in an expert from Egypt to consult on the project. The rules in Iraq require any Arab national entering Iraq to secure their mission from the Iraqi Internal Minister.

After the project was unable for many months to secure approval, I made an informal request at the ministry. An official at the Ministry asked for \$10,000 bribe to fulfill the request. This official was a perfect example for a bureaucratic who had received his position not because of his competence for the job, but because of his ethnic and sectarian connection.

Because we refused to pay the bribe, the project was never able to bring the expert into Iraq.

Large and small-scale corruption is endemic in Iraqi society. Based on my experience and firsthand observation in Iraq, I would estimate that a significant percentage of Iraqi official are involved in corruption in one way or another.

My personal observation are backed up by the recent study by Transparency International, which ranked Iraq 192 out of 194 countries in its corruption index, behind only Somalia and Myanmar.

Even worse, the government has now taken a proactive step to obstruct effort to root out corruption. At the press conference on August 5th, 2008, the head of the CPI also complained that the amnesty law passed by Iraqi parliament on January 12th, 2008, would prevent the investigation of some 700 cases of alleged corruption, some at the cabinet level, in Baghdad alone.

The cost of corruption fell most heavily on Iraq -- on ordinary Iraqi citizens. They are the ones who suffer from the complete absence of service -- now water, no electricity, no oil, and too little security.

Just to give you one example, \$17 billion of Iraqi money plus four billion to five billion of U.S. money has been spent on electricity infrastructure in Iraq. But what has more than \$20 billion bought the Iraqi people?

In Baghdad today, more than five years after the start of the war, resident have electricity for about one hour in every seven-hour period.

The view that American official are involved in corruption is widely shared throughout Iraq. To give you one example, in the wake of 9/11 the United States established agreement with the Bank for the Middle East to allow the United States to track the movement of money through the region.

As a result, it is extremely difficult for me to, for example, to wire \$2,000 to a friend in need in Jordan. However, corrupt Iraqi apparently face no obstacle as they establish account and wire money -- million of dollar -- between bank through the Middle East.

People ask how this is possible if the movement of money is being tracked by the United States. How does this money move so easily? I know one of the Iraqi, who was living in the United Arab Emirates before the war began in 2003. He had complained that he had very little money and was looking for a new business opportunity elsewhere.

In 2003 he returned to Iraq to work with the Iraqi government. I have it on the personal knowledge that this man now has \$120 million in various accounts throughout the Middle East in his own name and the name of his wife and brother.

There is also a consensus among Iraqi people that U.S. personnel were involved in the flight of Ayham al-Samarie, the former Minister of Electricity. On October 11th, 2006, Mr. al-Samarie was jailed on charge of embezzlement. Two months later he was smuggled out of prison and whisked out of the country on a private jet waiting for him on tarmac at the Baghdad International Airport.

SEN. BYRD: Shame.

MR. MEHDI: You have to wonder how this possible under the nose of American official in Iraq. The Iraqi public respect for the United States has fallen because of this corruption. This is a clear example how the United States has not only failed to win the heart and the minds of Iraqi people, but has actively alienated them.

I want to be clear that this problem are not only deceptive in their own right. They also sway Iraqis' faith in the possibility of unity, potential reconciliation and legitimate representative government.

Their effect on Iraqis' hope for a viable state for Saddam have been coercive in the extreme as it become clear that Iraq -- Iraqis at every level have failed to put their nation's interest ahead of their own personal agenda.

So unless this corruption is rooted out, there will be very little chance of achieving any long-lasting stability and political reconciliation in Iraq.

Thank you for the opportunity to share this observation with you. I would be happy to answer any question you may have. Thank you.

SEN. DORGAN: Mr. Mehdi, thank you very much for your service and for your testimony today.

Finally, we will hear from a third witness, who has requested anonymity out of concern that revealing his name or identity would prevent him from returning to Iraq to address

these problems.

He is a former senior advisor to the U.S. government in Iraq, and he joins us now, I believe, from a television studio behind a screen, I believe, with a voice distortion. So we are very appreciative of him being willing to testify as well.

And you may proceed.

ANONYMOUS: Good afternoon, respectful Senator. Good afternoon.

I am an Iraqi American, who for the last five years has served as a senior advisor for high-ranking Department of Defense and State Department officials in Iraq.

As a native of Iraq forced to leave the country because of my opposition to Saddam Hussein and his regime, I have been -- I have a deep understanding of Iraqi politics, culture and history.

I also have an extensive network of professional and social contacts through the country and including current and former top Iraqi government officials.

Since 2003 I have been able to use my knowledge of Iraqi society to benefit both my home country, Iraq, and my adopted country, the United States. I have requested anonymity this afternoon not because I fear for my life -- God always -- God has always been my protector -- but because showing my face now would probably prevent me from being able to serve in Iraq in the future.

Shielding my face, Senator, bothers me, but it is a necessity I need to use to remain an effective tool in Iraq.

Respectful Senators, corruption in Iraq, like my both friends, they just stated ahead of my testimony -- the corruption in Iraq has undermined the U.S. mission and made life so difficult for both American soldiers and innocent Iraqis.

I promised to be testifying at the same hearing as Mr. Salam Adhoub and Mr. Mehdi. Mr. Salam Adhoub -- Adhoub -- he is a true hero, while serving the Iraqi people so courageously as the Chief Investigator of Baghdad office of the Commission on Public Integrity, the CPI.

I heard Mr. Adhoub describe the Bureau of Supreme Audit report that could not account for more than \$13 billion in American reconstruction funds, including this project that never existed and a project that the Iraqi government never wanted.

Before I describe the pervasive corruption in Iraqi -- in the Iraqi government and discuss my fears that we are losing Iraq to the criminals and the corrupted, I would like to relate my own personal experience with one major American reconstruction project that the Iraqi minister suggested did not need should be built.

I attended meetings in 2005 and 2006 between U.S. government officials, the Iraqi Minister of Justice and his deputy, and representative of the Parsons Corporation to discuss the Khan Bank Sa'ad prison project, the same project Senator Dorgan just mentioned.

During the meetings both of the Ministers of Justice and his deputy clearly stated that the government of Iraq did not want the prison to be built because, among other reasons, it was total loss to the Iranian builders.

The U.S. government official and the front of the American contractor said that the prison was going to be built anyway, despite the opposition of the Iraqi government.

Even now, four years and \$40 million later, roads are missing, floors have collapsed. There is no plumbing or electricity. Windows have not been installed. Roads in the complex remain unpaved. And I believe everybody saw these pictures at the beginning of the session.

And the Special Inspector General of Iraqi Reconstruction, SIGIR Mr. Stuart Bowen, has -- has claimed it the worst project he has seen. When U.S. officials attempt to transfer the prison to the Iraqis, the Iraqi government decision to abandon the project was based not only on its deplorable condition, but also on the fact that the Iraqis did not want the prison in the first place.

As billions of dollars have been wasted on the construction projects, many of which were either not needed or not built, billions more have been lost due to rampant widespread corruption in the Iraqi government.

This corruption has gone largely unchecked, because the Iraqi judicial system has been thoroughly corrupt as well.

On the other hand, the American government, which has looked the other way, has been complicit in creation of this culture of corruption and has allowed the rule of law in Iraq to become a sword in the hands of corrupted officials and Islamic extremists that have no loyalty to Iraq and the U.S.A. whatsoever.

There are thousands of examples of corruption in the Iraqi government, but allow me to give you three significant examples based on my own experience in Iraq.

First, top Iraqi government officials with the Ministry of Oil and other ministries have worked with al-Qaeda and Iraqi Islamic states terrorists at the major northern oil refinery at Baiji to steal oil from refinery -- from the refinery and sell it on the black market to enrich themselves and fund al-Qaeda terrorist attacks against U.S. and Iraqi troops.

When the estimates arrested the head of the oil refinery, Mr. Ibrahim Muslit, one year ago, the same corrupt Iraqi officials used their influence through the U.S. embassy to

secure Mr. Muslit's release.

Second example, high-ranking Iraqi government officials, including ministers, members of Parliament and judges, have received monthly salaries and gifts from foreign governments, including Iran and Saudi Arabia. They have been protecting these countries' interests in controlling and running Iraq.

The third example, officials in the Iraqi ministries have created private detention -- detainee operations through which innocent Iraqis are detained, essentially kidnapped and then released in exchange for ransoms.

This wildfire of corruption in Iraq has been fueled by a non- functioning legal system that is just not an equal justice under law, but on sectarianism, cronyism and graft.

There have been and still are many honest law enforcement official in Iraq, including Judge al-Rahdi and Mr. Adhoub and the CPI, but their efforts have been stopped cold by top Iraqi government officials.

Again, there are many, many examples. Here are just a few that illustrate the point that the rule of law in Iraq has been hijacked by criminals and corrupted government officials.

The first example is top Iraqi government officials took advantage of the recently passed amnesty law to release hundreds of CPI suspects, some of whom fraudulently profited hundreds of millions of American taxpayer dollars and smuggled Iraqi oil in exchange for bribes.

And the second example in ending 2005, brave American soldiers arrested two individuals at Baghdad checkpoint, who were attempting to drive into the Green Zone with plastic explosives hidden in their car.

After the U.S. Army detained them and then passed them to an Iraqi court, the cases of this individual were dismissed, despite all the evidence that had been compiled against them.

I contacted the U.S. government officials, and including representative from the Defense and the State Department, to a meeting with the top judges in the central criminal court of Iraq. During the hearing exchange -- heated exchange, I heard that -- I heard the last name of two detainees and immediately understood why they had been released.

Under Saddam, no one dared to pass sentence on any Sunni with a Tikriti last name. Now, in a Shi'a dominated Iraq, no judge will dare to convict anyone with a Hakim last name.

This fact was driven home once again in March 2008, when Hakim al-Zamini, a former Deputy Health Minister who, after a year-long investigation had been accused of turning hospitals into death zones for Sunnis, was ordered released when prosecutors suddenly

dropped the case against him on the second day of his trial.

The third example -- Mr. Mehdi mentioned it, and I will go over it again -- in one case in which it happened that justice might be served, a former Ministry of Electricity, Ayham al-Samarie, was convicted of taking kickbacks from contractor and sentenced to two years in the prison. He had three more corruption cases pending against him.

While serving his sentence, Mr. al-Samarie was smuggled -- again, I will say was smuggled out of his cell by American private security contractors and taken to Baghdad International Airport, from where he flew to Jordan and then to Chicago.

When the American security contractors arrived at the prison, I received a call from a CPI investigator and an Iraqi police officer. With the approval of my boss, I called Prime Minister al-Maliki direct line to spoke -- and spoke to both him and his Chief of Staff.

Mr. al-Maliki told me and promised to put immediate action to prevent Mr. al-Samarie from fleeing -- fleeing Iraq. No action was taken to prevent his flight. However, Mr. al-Samarie is now free in the United States, despite the fact that both the Iraqi police and Interpol consider him to be a fugitive for justice -- from justice.

Unfortunately, each time I tried to convince U.S. officials to use their influence to force Iraqis to crack down and to crack down on corrupt and criminal officials and restore the rule of law, I got the same answer. This is an important issue for the Iraqis to work out.

Gentlemen, to me this is total nonsense. When American troops are sacrificing their lives on a daily basis in Iraq and billions of U.S. taxpayer dollars are being stolen and (inaudible) poor innocent Iraqis are still living unsafe, harsh daily lives, I do not believe that the United States, with the stability and political reconciliation of Iraq hanging in the balance, can afford to do nothing.

Here are my recommendations for steps the United States can take to respond to the crimes and corruption crisis in Iraq.

One, form a special summit committee to aggressively and effectively investigate corruption in the Iraqi government immediately. And as necessary recommend that the Department of Justice initiate legal action against those suspects suspected of stealing American and Iraqi money for (inaudible) to attack American troops in Iraq.

Second, create a special anti-corruption investigative team that operates in Iraq and that turns directly to the special Senate committee.

And three, pass legislation that empowers the U.S. government to freeze all assets of persons or institutions that have conspired with terrorists to engage in corrupt practices and to prevent them from entering the United States.

Respectful Senators, this is a test of how much willing and ready U.S.A. is in support --

supporting Iraqi people, not supporting the corrupted officials.

Despite all these problems, I am optimistic about the future of my homeland. But U.S. policymakers must take wise and quick action to ease the struggle of the Iraqi people.

Gentlemen, Iraqis are good and honest people, who deserve good and honest government, which they never had. But the Iraqi people will not achieve this goal and will not achieve stability or political reconciliation without the active support of the U.S. government to crack down on corruption and restore the rule of law.

Please allow me to say one more time the Iraqis have not given up hope, and never will, but they are puzzled by the United States continuous to support corrupt Iraqi officials and Islamic extremists in Iraq.

I have heard the Iraqis say they have never failed us, but American decision makers have repeatedly over the last six years. While I agree with this statement, I also believe we, the United States, can turn course immediately and work with honest, law-abiding Iraqis to root out corruption and put the criminals behind bars.

Ordinary Iraqis are ready to do whatever it takes to bring safe and happy lives for their children and leave democracy for Iraq. Are we ready to help them? Are we -- all of them -- not the corrupted criminal officials. History will tell.

Thank you, gentlemen. God bless U.S. God bless Iraq. God bless all the honest Iraqis and all the honest Americans. Thanks for giving me the opportunity. I'm ready for any questions.

SEN. DORGAN: Let me thank all three of the witnesses for their statements -- statements that provide a troubling picture, I believe, of corruption and waste and fraud -- in some cases in large measure with American funds, in other cases inside the Iraq government, and I guess in other cases directly connected between the Iraq government and American funds.

We -- we are joined also by my colleague from Minnesota. I know when she asks questions -- I will ask questions last, in deference to my colleagues, so they can begin to ask their questions. I know that she has an acquaintance with one of our witnesses, Mr. Mehdi, and wishes to say a few words about that.

Let me ask Senator Byrd if he has questions.

SEN. BYRD: Mr. Adhoub, as your investigators uncovered evidence implicating American contractors or officials in cases of fraud or corruption, who was responsible for building that case and making those arrests? And did you work with or receive good cooperation from your American counterparts?

MR. ADHOUB (interpreted): I was already responsible for a lot of investigations, and

some American counselors and advisors helped me. However, I have to say, in order to be honest, that not all the advisors and counselors at the American Embassy were helpful.

I would also go far as saying that some of these have helped the corrupt people.

Here is an example that one American advisor specialized in human rights, and he works for the Iraqi Ministry of Defense. He visited him in his office, and he screamed at his face. And this is the quote that he says -- asking him not to investigate a particular case, screaming again and again, "Why are you investigating this case? This is American money. This is not your money."

And he also sent a message in that -- in that regard. There are many -- unfortunately, many Americans who are like that particular advisor, who again asked him not to investigate with a particular American person, because, quote-unquote, "the money is American money."

SEN. BYRD: Mr. Adhoub, if corrupt officials illegally move funds outside Iraq, what resources did you have to continue investigation, make an arrest, or recover the stolen funds?

MR. ADHOUB (interpreted): He is giving one example. He says I give you one example here that there is a person, an -- an American, who have helped the officials -- some officials in the Ministry of Defense and Mr. Jemali that he mentioned in his statement.

He helped them to smuggle outside of Iraq \$600 million to Jordan and \$100 million to Beirut. And that person was an advisor to the Iraqi central bank.

The -- when the officials in the airport -- in the Baghdad International Airport -- were -- were again sending or -- or leaving this money, these huge sums of money, to leave Iraq, he would use -- that advisor would use his influence with the central bank in order to overcome the objections of the officials of the international airport.

SEN. BYRD: Mr. Adhoub, the allegations of corruption in Iraq are widespread. But when someone steals millions of dollars -- when someone steals millions of dollars, the money has to go somewhere -- somewhere.

Did your investigations establish which countries or specific banks corrupt Iraqi officials were using to hide these funds?

MR. ADHOUB (interpreted): The great majority of this money went to the Jordanian housing bank. Other chunks of this money went to the -- the national bank in Jordan also, the international bank of Beirut, and to other banks in the UAE, the United Arab Emirates.

From the Jordanian housing bank in particular, which received the biggest chunk of this money, the money flowed to Germany. A good chunk of this money flowed to Germany

and...

SEN. BYRD: Where? Flowed where?

MR. ADHOUB (interpreted): To Germany.

SEN. BYRD: Germany?

MR. ADHOUB (interpreted): Germany. And he has documents to prove that. The reason for Germany in particular is that Mr. Jemali, that he talked about in his statement, has accounts in Germany. In addition, the Minister -- the current Minister of Defense has accounts in Germany also.

Other smaller chunks of money settled finally in New York and Pennsylvania.

SEN. BYRD: In New York and Pennsylvania.

MR. ADHOUB (interpreted): And Pennsylvania.

SEN. BYRD: Mr. Mehdi, you say that 50 percent of Iraqi officials are involved in corruption. Do you really believe that?

Mr. Mehdi, do you really believe that?

MR. MEHDI: Yes. I can't hear the question. Fifty percent of?

SEN. DORGAN: Senator Byrd asked that you indicated 50 percent of the Iraqi officials are involved in corruption.

MR. MEHDI: Yes. Yes. This is educated guess. I mean it is very difficult to have exact number.

SEN. BYRD: Yes.

MR. MEHDI: But I would like to believe, actually, my original statement. I put 90 percent, but because I don't have evidence, I reduced the number.

Indeed, there is a popular saying now in Iraq that said every one dollar spent in Iraq, 50 percent of it will go to corruption, 40 percent will go to security and other issues. In the end, only five percent may go to Iraqi people.

And that's why five years to the moment, there is no one strategical project being built for Iraqi people.

And a good example for that is the electricity. Almost \$30 billion spent on the electricity, and the production of electricity today only 4,700, and Iraq needs 10,000 megawatt.

SEN. BYRD: Mr. Mehdi, you say that 50 percent of Iraq officials are involved in corruption. Now, please tell us what type of corruptive activities you're talking about, and tell us how the corruption occurs.

MR. MEHDI: Corruptions takes different forms. I mean people thinks corruption just commission, for example, from the contract. But I think corruption beyond -- beyond that.

Academic certification -- some people claim, for example, they have Ph.D.s, they have a Masters, they have this. Then they are appointed in certain important offices, and these people do not have the degrees.

Corruptions, because the society, the institution and the psyche are weak, people are depending very much on the family. Every Iraqi official holding a position is going to bring all his family members with him and give them position.

Corruption -- there are people most in Bremen. There are people who are sitting in London, sitting in different parts of the world, but they receive monthly payment.

Corruption takes so many different forms. And, of course, the most common one as commission on the contract. And I may add...

SEN. BYRD: What? Excuse -- what?

MR. MEHDI: Commission on the contract -- where there is a contract to build or to do something, there is a certain percentage go to this individual.

SEN. BYRD: Yes.

SEN. DORGAN: Kickback bribes.

Mr. Mehdi, would another word for "commission" be "kickback?"

MR. MEHDI: Kickback, yes. So that's what I meant.

SEN. DORGAN: Senator Byrd, thank you very much.

Senator Tester?

SEN. BYRD: Thank you.

SEN. TESTER: Thank you, Mr. Chairman. A couple of questions to Mr. Adhoub.

Mr. Adhoub, you talked about -- you gave a example of a technology outfit that was skimmed -- skimmed thousands, if not millions of dollars maybe were kicked back.

Was there any -- is there any other agency besides yours that did oversight?

MR. ADHOUB (interpreted): He says quite frankly he was -- he didn't know about this particular contract that you may be asking about. But he knew about it through a particular report that came from the financial auditing, the Supreme Audit office.

And that report was kind of an order to disburse money for Mr. Raymond Zena (ph) in cooperation and with the agreement of the American company officials in the Ministry of Defense, and he says also unfortunately with American advisors.

SEN. TETER: OK. So I need to back up just a little bit. So were there -- so you heard this from a -- from another auditing agency? Is that what I gathered?

MR. ADHOUB (interpreted): From the Supreme Audit.

SEN. TESTER: Oh, OK.

MR. ADHOUB (interpreted): It was a report by the Supreme Audit.

SEN. TESTER: And -- and you had said that your agency, your particular agency, was stopped from continuing your work by the government.

MR. ADHOUB (interpreted): Right now, yes.

SEN. TESTER: Yes, and so were you able to point that out to any of the -- like the Inspector General for Iraq construction -- reconstruction, SIGIR or -- or the Embassy? And was there any concern shown? Or did they just blow you off?

MR. ADHOUB (interpreted): The -- the Iraqi law -- according to that law in Iraq that the Iraqis have no authority whatsoever to investigate any misdoing by Americans or anything wrong that Americans would do. That's since the days of Paul Bremer.

And any violations by Americans should be just reported to the Inspector General for Iraq Reconstruction. He has delivered such condemning documents to the Inspector in April of 2007.

SEN. TESTER: And was anything done that you know of?

MR. ADHOUB: I think no.

SEN. TESTER: OK. I understood that.

Just curious. You -- you spoke about 850 helicopters and -- being purchased. And you talked about I think 500 Humvees, and only a hundred -- about only about a third of them were delivered.

Was this reconstruction money, or was this military? Was this U.S. reconstruction money, or was this military money? Was this -- was this part of reconstruction dollars, if you know what I mean?

MR. ADHOUB (interpreted): This money normally came from the Iraqi treasury. However, the Iraqi government until recently did not have assets enough to spend this money. So most of the money are American money, and the rest would be Iraqi.

SEN. TESTER: OK. In -- in the contracts that you looked at, was -- was the money -- I -- I guess what I'm trying to get at is how was it appropriated? Was it lump sum up front? Was it paid for after -- after the project was done?

Can you give me any sort of idea on how it was construction? And were there any controls within that contract -- U.S. contract -- that dictated how that money was to be spent?

MR. ADHOUB (interpreted): All the contracts by the ministry of defense with companies, whether these companies are American or -- or Iraqis, the payments are done lump sum in advance without any guarantees and without any particular stipulations for how the delivery should be done.

Therefore, the company would have all the power to do what it likes with the delivery. In many cases the arms that were delivered were obsolete, or they were downgraded. Like for instance, he says that you can contract on some Russian equipment. Then you receive the equivalent, but Chinese made, and so on.

A -- not only the -- the American companies that would be like that, but I mean all companies in -- in general. And the program -- the FMS program -- under this program, the Iraqi government transferred \$2.6 billion. And for that Iraq obtained M-16s, M-4s, but the -- the year was 1975. They got 1975 M-16s, M-4s. And the -- the weapons were used and rusty.

SEN. TESTER: I want to...

MR. ADHOUB (interpreted): I'm sorry.

SEN. TESTER: Well, I just -- just want to say I mean I'm -- I'm -- the picture -- the picture you're painting is not a good one. And it confirms -- confirms some of my fears, and I -- unfortunately, I was hoping to hear different.

I just -- before I close, I just want to thank the chairman once again. Even though I didn't focus any questions at the anonymous testimony or -- or you, Mr. Mehdi, I certainly appreciate all of you being here today. I appreciate all of your testimony. Thank you very much.

(OFF-MIKE)

SEN. DORGAN: Ma'am? Ma'am, please. Ma'am, I thank you for being here, but let me continue. We'll call on Senator Klobuchar.

SEN. KLOBUCHAR: Thank you very much.

And thank you for our panelists to have the courage to come forward today and address this important hearing.

Thank you, Mr. Chairman, for holding all these hearings about the corruption and the loss of money. And one of the things that I've taken away from these hearings, in response to what the woman just said, is that the Iraqi citizens have suffered because of this corruption and loss of money.

And we've also learned that the really credibility of the Iraqi government has suffered, and also our American soldiers have suffered, as we've had other hearings where we've learned about contractors in a black market where ice is taken from our -- and sold on the black market -- that was supposed to go to our soldiers when it's 110 degrees outside.

So I want to thank you, Mr. Chairman, for holding -- holding these hearings.

And I also wanted to welcome Dr. Mehdi to this hearing. I have known him for many years, first through my father, and then my family has eaten dinner at his home.

He's a very good cook, Chairman Dorgan, so maybe at some point he'll cook for us here in Washington.

And he's also a well-respected academic in Minnesota and has worked on a bipartisan basis to work with many elected officials and give them his insight into what is going on in Iraq.

So thank you very much for your service.

Mr. Mehdi, you said that unless corruption is rooted out, there is very little chance of achieving stability in Iraq. And I think that the members of this committee would strongly agree with your assessment.

Given how pervasive this corruption is, as we've heard from you and our other witnesses, what recommendations would you give U.S. officials on how to combat corruption, and what role can Congress play?

MR. MEHDI: Thank you, Senator. You know, Senator, when United States went to Iraq, they went with high-minded mission. And the goal for Iraq was really high-minded mission. Redeem Iraq socially, economically, politically. And Iraqi people in the beginning were happy and believed what the U.S. said.

Now, five years on, Iraq today in a bad shape, worse than even during Saddam -- sadly to tell you this.

So what can be done? There were so many mistakes. And as a basic principle, you need to recognize the mistakes first, then to admit these mistakes, then to go from there.

I think when Bremer went to Iraq, made a serious mistake. There are some problem with the constitution. There is a problem with the ethnic policy. And there is a problem they brought wrong people, and they gave them power and authority.

Now, if you really want to do it right, because there is no hope now, you have to move everybody, and you start from the beginning. Is the United States is ready to do that? I don't think so.

Maybe it's for the international community, because until now Iraqi people are dying, suffering, and it's still in Baghdad. This is the capital. Only one hour every seven hours we receive electricity. There is no medicine. There is no food. How long is going to take?

So either the United States able to help Iraqi people and to do something dramatic, or leave them alone.

SEN. KLOBUCHAR: All right. You -- you talked about how the U.S. has played a significant role in allowing the corruption to occur, both in failing to properly administer United States funds sent to Iraq, and then this perception that some of these contractors and others have been involved in the corruption.

The committee has heard numerous reports from U.S. officials about U.S. officials failing to properly account for reconstruction funding, particularly under the coalition Provisional Authority.

Do you believe that the lack of accountability demonstrated by the Coalition Provisional Authority in the early stages of the reconstruction was a signal to the Iraqis that this was OK?

MR. MEHDI: Yes, it is, in the beginning. And there were some individuals involved in corrupt activities. And as a result of that, the United States lost the most important captor in Iraq is the perception that's huge, because right now, for the fairness for the United States, there are many good activities now.

They hate this. The perception toward U.S. has become negative, and the average citizen looking -- they don't have medicine, they don't have food, they don't have electricity, so they lost the hope.

SEN. KLOBUCHAR: And -- in one minor point here, but in -- maybe not in its implications, but in your testimony you discussed how no government officials have yet

filed their official financial disclosure statements that they are required to file at the start of their employment.

Does this mean that officials who embezzled U.S. and Iraqi construction funds could still be hired to work by the Iraqi government?

MR. MEHDI: Well, what I was referring that every Iraqi official should declare how much wealth they have. And then, after they leave, they want to see how much.

There are a problem with this. No one -- first, no one declared how much they have. But even there is a problem with that, because most of these Iraqi officials, even when they steal the money, they will -- most likely they will not put it under their names. They put it in their wife, brothers, relative, and so forth.

The culture -- the system is different. So it is very difficult to track the money, if you are looking under the name of that person.

But I believe the United States knows very well where is the money in the Middle East, because this money are in millions. And they are in Jordan, in Dubai, in Lebanon, in that area. And the United States exactly knows where is the money.

I send \$2,000 to Jordan. I get ten of questions from here. I send it to France. They ask me why you are sending the money? Where does the moneys go? Do you think they are -- people are opening account with millions of dollars -- the United States does not know?

SEN. KLOBUCHAR: Yes.

MR. MEHDI: They know.

SEN. KLOBUCHAR: OK. And one question for you, and then I'll turn it over to our chairman.

Mr. Adhoub, in your testimony you stated that 32 of your co- workers at the CPI were murdered in retaliation for attempts to investigate corrupt Iraqi officials. I'm a former prosecutor. This obviously concerns me.

Were any of these murders prosecuted? Or did the government do anything to address the extreme danger that the CPI officials were working under?

MR. ADHOUB (interpreted): There has been no investigation whatsoever, no, quote, "hearings" whatsoever concerning these crimes.

An example he is raising now. One employee -- he just went to the -- to -- to collect some passports from the ministry of interior for some guys who would go to Egypt for training, and that guy was kidnapped, tortured and killed because he was a Sunni.

He was kidnapped from -- in daylight from inside the building, where he was going to collect the passports. And in conclusion, he says that this is -- this is a country of gangs right now. Gangs control the day. And again, there was no investigation whatsoever.

SEN. KLOBUCHAR: OK. Thank you very much. And thank you for your courage and your work.

SEN. DORGAN: Senator Klobuchar, thank you very much.

I wish to ask a question of the gentleman who is in another television studio. You indicated that you attended meetings in 2005 and 2006 about the Khan Bani Sa'ad prison project.

If I might, hold up the -- if we could hold up the photographs again. This is a prison that we spent \$40 million building.

You indicated you were present at meetings in which the Iraqi officials explicitly said they didn't want it built and wouldn't use it, because it was too close to the Iranian border. Is that correct?

ANONYMOUS: Yes, sir.

SEN. DORGAN: And -- and what was the response of the American officials? Were American officials in that room? You were an advisor to the American officials. Is that correct?

ANONYMOUS: That's correct.

SEN. DORGAN: What was the response of the American officials in that meeting?

ANONYMOUS: The project is on its way, and we advise you to accept it, because the Iraqi government, especially the Ministry of Justice and the need for space for additional detainees, mostly terrorists, and therefore take it. It's a -- it's a done project.

That was the attitude in that -- in that room. And the minister and his deputy, both were upset. And that time they told -- they told them that they will not accept that project, but they were realistic, Senator. They were saying we call ourselves sovereign country. We are not. Americans -- they can do whatever they want here. And that was the case, at least with this particular project.

SEN. DORGAN: So the United States built it. My understanding is it cost \$40 million when the Iraqi did not want it, and we now have tried to transfer it to the Iraq government, and they have refused to accept it. Is that your understanding?

ANONYMOUS: Yes, sir. And I believe, Senator, the money -- the total amount is more than \$40 million.

SEN. DORGAN: Well, I mean my understanding is they refer to it as the Whale in Iraq. It's -- it is not in any way a laughing matter, because it's a massive amount of money that has been wasted.

And the photograph shows the condition of it at this point. And it apparently will forever remain a -- a significant wasted amount of money to build a project that should never have been built.

It -- it is -- it seems to me kind of the hood ornament of a -- of an -- of the example of what's wrong with respect to the expenditure of U.S. taxpayers' money in Iraq.

Mr. Adhoub, you indicate that there was a report by the Bureau of Supreme Audit in Iraq, which is the Iraq version of the government accountability -- the GAO in the United States.

You say that report has never been made public, but that it revealed it could not properly account for \$13 billion in American reconstruction funds. Have you seen that report personally?

MR. ADHOUB (interpreted): He -- he -- this report was basically going to the presidency and the prime ministry, the cabinet and some high circles in the government. And he was able to obtain through his personal sources in the government a copy of it.

He looked at it, and it was not published, and it was not focused on, because nobody cares about American funds.

SEN. DORGAN: Would -- would he have any knowledge of whether American officials were provided a copy of that report? Or was it an internal Iraqi government report that would not have been provided to American officials?

MR. ADHOUB (interpreted): Right now, the inspector general is investigating that particular report, and the Commission of Public Integrity also -- although the Commission of Public Integrity is -- may not be described as really serious in investigating that, because it is dealing with American funds here.

SEN. DORGAN: Did you mean the Inspector General -- the U.S. Special Inspector General for Iraq? Or are you speaking of some inspection inside the country of Iraq, or the Iraqi government?

MR. ADHOUB: Right now, American money. It's American money -- not care.

MR. ADHOUB (interpreted): It's the inspector general in Iraq. The American Inspector General in Iraq.

SEN. DORGAN: That would be -- that would be something we call SIGIR, the Special

Inspector General. And I'm -- this is the -- the Bureau of Supreme Audit of American reconstruction projects in Iraq. And you indicate that the report you saw said they could not account for more than \$13 billion in American funds.

I am, with some of my colleagues, going to request through the inspector general a copy of that report, if he has access to it, or if our government has access to it. That's information I have not previously been acquainted with.

The -- the testimony today has been pretty sobering testimony about stealing funds both from the Iraqi government, and especially from the American government, about a substantial amount of corruption, about money that is now in foreign bank accounts that our country provided the Iraqis with which to arm and to equip and train Iraqi soldiers instead being diverted to foreign bank accounts in the names of previous Iraqi officials.

All of this is pretty sobering, and it gives us o joy to -- to have hearings to listen to this and to hear about it. On the other hand, our country cannot continue to be blind or oblivious to what is happening.

And the special -- special inspector general for Iraq has done an extraordinary job. We rely substantially on the material that he's provided. He's provided material to us on, for example, the abandoned prison and this -- this unbelievable scandal of that investment -- I should say that spending, which I think is a corruption of the process as well.

One final question, if I might. Mr. Adhoub, are there security issues that concern you for you or those appointed with you these days? I mean I know that you live in this country at this point, but 31 of those who worked in the agency in which you were the lead investigator -- 31 people have been murdered previously.

Does your coming forward to testify publicly raise security issues for you?

MR. ADHOUB (interpreted): Yes, he does feel that his life and his family's life are -- are threatened all the time. Also, he is concerned about the lives of those who work with him or under his authority there in the investigative committees.

However, he says that he has decided to do whatever duty dictates. And he decided to attend this session not anonymously -- publicly -- because his main purpose is to send a message to the American people.

He wants to send a message to the American people to tell them what is going on in Iraq. And therefore, he is risking his life for this particular message, and his family's -- family member lives also for the message.

He says that it is very important for him personally to see that the Americans know what is going on in Iraq, why there is no success so far in Iraq, why there are a lot of Americans killed in Iraq so far, and why the Iraqis are suffering.

And he would like really to feel that the -- more sympathy to the plight of the Iraqi people nowadays.

SEN. DORGAN: Let me finally ask our anonymous witness. You -- you have watched the Special Inspector General for Iraq operate in Iraq. Do you have any comments on the effectiveness?

ANONYMOUS: Well -- well, Senator, I am grateful you've given me this opportunity to talk about SIGIR. SIGIR people are good people. I'm sure they came to Iraq with good intentions.

But, Senators, simply all the documents with Mr. Adhoub were given to SIGIR over two years ago. SIGIR to me were so polite, and -- and they go by the book. They -- they -- I cannot hear myself in here -- they -- they go by the book, and they apply their bureaucratic rules.

Simply, SIGIR -- they don't have teeth -- Iraqi corrupt officials to be afraid of them. Iraqi corrupt officials, they steal in daylight billions of American dollars and Iraqi dollars, and SIGIR just do a reporting.

I mean it's not an effective tool for United States to fight corruption in Iraq. SIGIR -- they have to be more aggressive, and they have to be keen on issues.

I give you a simple example, Senator. The -- the present judge of CPI, Mr. Rahim al-Avedji (ph) -- he ordered SIGIR not to allow -- SIGIR -- they have three interpreters in Iraq right now dependent on. One of them -- he's a Lebanese, the other one is a Sudanese, and one Iraqi.

The Sudanese and Lebanese -- they are hard-working guys, but I don't think they can be effective, because they don't have the means to contact Iraqis the way an Iraqi can do. But yet SIGIR are dependent on them.

And this judge ordered SIGIR not to allow the Iraqi interpreter from entering SIGIR building for over a month and a half. SIGIR -- they are obeying whatever Iraqi officials are telling them, knowing that these Iraqi officials are corrupt on every level.

That's why, Senator, please -- I can sit with SIGIR and -- and tell them exactly what I mean, but what I am hoping through your courageous effort and through this Senate committee to put more pressure on SIGIR or to keep SIGIR and from this special committee I recommended to this session -- in this session.

Like Dr. Mehdi said and like Mr. Adhoub said, the level of corruption in Iraq is -- is much bigger than SIGIR alone to fight it. And you have to move fast before it is too late. The corruption in Iraq is like cancer.

Imagine corrupted Iraqis teaming up with Islamic extremists, who are taking our money

and turning it into weapons to kill American soldiers and innocent Iraqi children.

It's a shame there is no electricity in Iraq right now in the capital. I mean that's why -- I mean I agree 100 percent with Dr. Mehdi -- Iraqi people, even though right now we go back and -- and say we are going to help you. It will take us long time to go back again and gain the trust of Iraqis.

But I disagree with him there is no hope. There is hope. We have to start, and we have to start immediately.

SEN. DORGAN: Well, again, let me thank you for your testimony. I think what we have heard today is policies that undermine the U.S. taxpayer, policies that put the lives of American soldiers at risk, policies that disserve the Iraqi citizens as well.

And I -- I think that the effort of our government to do oversight has been pathetic. And what we have heard about the corruption is almost unbelievable.

When you hear that billions and billions and billions and billions of dollars of American money is moving overseas with very little control, very little oversight, into the hands of those engaged in corruption, when we hear the consequences of all that, it just makes my blood boil.

And this government has a responsibility -- a responsibility to do its job. And my hope is that these hearings, combined with the courage of witnesses who are willing to come forward and testify publicly at this hearings, will shine all the lights on the same spot and perhaps if not persuade, at least embarrass those who are responsible for oversight to do the right thing on behalf of this country.

I thank Mr. Mehdi for coming from Minnesota.

I thank Mr. Adhoub for your willingness to speak out today and for your work in Iraq as an investigator to unearth corruption.

And I thank the anonymous witness, who has served as an advisor in Iraq to U.S. interests.

This hearing is adjourned.