

Barlett, D. L. & Steele, J. B. (October 2007). Billions over Baghdad. *Vanity Fair*.

Between April 2003 and June 2004, \$12 billion in U.S. currency—much of it belonging to the Iraqi people—was shipped from the Federal Reserve to Baghdad, where it was dispensed by the Coalition Provisional Authority. Some of the cash went to pay for projects and keep ministries afloat, but, incredibly, at least \$9 billion has gone missing, unaccounted for, in a frenzy of mismanagement and greed. Following a trail that leads from a safe in one of Saddam's palaces to a house near San Diego, to a P.O. box in the Bahamas, the authors discover just how little anyone cared about how the money was handled.

Hidden in plain sight, 10 miles west of Manhattan, amid a suburban community of middle-class homes and small businesses, stands a fortress-like building shielded by big trees and lush plantings behind an iron fence. The steel-gray structure, in East Rutherford, New Jersey, is all but invisible to the thousands of commuters who whiz by every day on Route 17. Even if they noticed it, they would scarcely guess that it is the largest repository of American currency in the world.

Officially, 100 Orchard Street is referred to by the acronym EROC, for the East Rutherford Operations Center of the Federal Reserve Bank of New York. The brains of the New York Fed may lie in Manhattan, but XEROC is the beating heart of its operations—a secretive, heavily guarded compound where the bank processes checks, makes wire transfers, and receives and ships out its most precious commodity: new and used paper money.

On Tuesday, June 22, 2004, a tractor-trailer truck turned off Route 17 onto Orchard Street, stopped at a guard station for clearance, and then entered the EROC compound. What happened next would have been the stuff of routine—procedures followed countless times. Inside an immense three-story cavern known as the currency vault, the truck's next cargo was made ready for shipment. With storage space to rival a Wal-Mart's, the currency vault can reportedly hold upwards of \$60 billion in cash. Human beings don't perform many functions inside the vault, and few are allowed in; a robotic system, immune to human temptation, handles everything. On that Tuesday in June the machines were especially busy. Though accustomed to receiving and shipping large quantities of cash, the vault had never before processed a single order of this magnitude: \$2.4 billion in \$100 bills.

Under the watchful eye of bank employees in a glass-enclosed control room, and under the even steadier gaze of a video surveillance system, pallets of shrink-wrapped bills were lifted out of currency bays by unmanned "storage and retrieval vehicles" and loaded onto conveyors that transported the 24 million bills, sorted into "bricks," to the waiting trailer. No human being would have touched this cargo, which is how the Fed wants it: the bank aims to "minimize the handling of currency by EROC employees and create an audit trail of all currency movement from initial receipt through final disposition."

Forty pallets of cash, weighing 30 tons, were loaded that day. The tractor-trailer turned back onto Route 17 and after three miles merged onto a southbound lane of the New Jersey Turnpike, looking like any other big rig on a busy highway. Hours later the truck arrived at Andrews Air Force Base, near Washington, D.C. There the seals on the truck were broken, and the cash was off-loaded and counted by Treasury Department personnel. The money was transferred to a C-130 transport plane. The next day, it arrived in Baghdad.

That transfer of cash to Iraq was the largest one-day shipment of currency in the history of the New York Fed. It was not, however, the first such shipment of cash to Iraq. Beginning soon after the invasion and continuing for more than a year, \$12 billion in U.S. currency was airlifted to Baghdad, ostensibly as a stopgap measure to help run the Iraqi government and pay for basic services until a new Iraqi currency could be put into people's hands. In effect, the entire nation of Iraq needed walking-around money, and Washington mobilized to provide it.

What Washington did not do was mobilize to keep track of it. By all accounts, the New York Fed and the Treasury Department exercised strict surveillance and control over all of this money while it was on American soil. But after the money was delivered to Iraq, oversight and control evaporated. Of the \$12 billion in U.S. banknotes delivered to Iraq in 2003 and 2004, at least \$9

billion cannot be accounted for. A portion of that money may have been spent wisely and honestly; much of it probably wasn't. Some of it was stolen.

Once the money arrived in Iraq it entered a free-for-all environment where virtually anyone with fingers could take some of it. Moreover, the company that was hired to keep tabs on the outflow of money existed mainly on paper. Based in a private home in San Diego, it was a shell corporation with no certified public accountants. Its address of record is a post-office box in the Bahamas, where it is legally incorporated. That post-office box has been associated with shadowy offshore activities.

Coalition of the Billing

The first shipment of cash to Iraq took place on April 11, 2003—it consisted of \$20 million in \$1, \$5, and \$10 bills. It was arranged in small bills on the theory that these could quickly be circulated into the Iraqi economy "to prevent a monetary and financial collapse," as one former Treasury official put it. Those were the days when American officials worried that the gravest threat facing Iraq might be low-grade civilian unrest in Baghdad. They didn't have a clue as to the power of the insurgency that was to come. The initial \$20 million came exclusively from Iraqi assets that had been frozen in U.S. banks as long ago as the Gulf War, in 1990. Subsequent airlifts of cash also included billions from Iraqi oil revenues controlled by the United Nations. After the creation of the Development Fund for Iraq (D.F.I.)—a kind of holding pit of money to be spent for "purposes benefitting the people of Iraq"—the U.N. turned over control of Iraq's oil billions to the United States.

When the U.S. military delivered the cash to Baghdad, the money passed into the hands of an entirely new set of players—the staff of the American-led Coalition Provisional Authority. To many Americans, the initials C.P.A. would soon be as familiar as those of long-established government agencies such as D.O.D. or HUD. But the C.P.A. was anything but a conventional agency. And, as events would show, its initials would have nothing in common with "certified public accountant." The C.P.A. had been hastily created to serve as the interim government of Iraq, but its legality and paternity were murky from the start. The Authority was in effect established by edict outside the traditional framework of American government. Not subject to the usual restrictions and oversight of most agencies, the C.P.A. during the 14 months of its existence would become a sump for American and Iraqi money as it disappeared into the hands of Iraqi ministries and American contractors. The Coalition of the Willing, as one commentator observed, had turned into the Coalition of the Billing.

The first mention of the C.P.A. came on April 16, 2003, in a so-called freedom message to the Iraqi people by General Tommy R. Franks, commander of the coalition forces. A week after mobs ransacked Iraq's National Museum of its treasures, unchallenged by American troops, General Franks arrived in Baghdad for a six-hour whirlwind tour. He met with his commanders in one of Saddam Hussein's palaces, held a video conference with President Bush, and then quickly flew off. "Our stay in Iraq will be temporary," General Franks wrote, "no longer than it takes to eliminate the threat posed by Saddam Hussein's weapons of mass destruction, and to establish stability and help Iraqis form a functioning government that respects the rule of law." With that in mind, General Franks wrote that he created the Coalition Provisional Authority "to exercise powers of government temporarily, and as necessary, especially to provide security, to allow the delivery of humanitarian aid and to eliminate weapons of mass destruction." Three weeks later, on May 8, 2003, the U.S. and British ambassadors to the United Nations sent a letter to the U.N. Security Council, effectively delivering the C.P.A. to the United Nations as a *fait accompli*.

The day before, President Bush had appointed L. Paul Bremer III, a retired diplomat, as presidential envoy to Iraq and the president's "personal representative," with the understanding that he would become the C.P.A. administrator. Bremer had held State Department posts in Afghanistan, Norway, and the Netherlands; had served as an assistant to Henry Kissinger and Alexander Haig; and had closed out his diplomatic career in 1989 as ambassador-at-large for counterterrorism. More recently, he had been the chairman and chief executive officer of a crisis-

management business called Marsh Crisis Consulting. Despite his State Department background, Bremer had been selected by the Pentagon, which had elbowed aside all contenders for authority in post-invasion Iraq. The C.P.A. itself was a creature of the Pentagon, and it would be Pentagon personnel who did the C.P.A.'s hiring.

Over the next year, a compliant Congress gave \$1.6 billion to Bremer to administer the C.P.A. This was over and above the \$12 billion in cash that the C.P.A. had been given to disburse from Iraqi oil revenues and unfrozen Iraqi funds. Few in Congress actually had any idea about the true nature of the C.P.A. as an institution. Lawmakers had never discussed the establishment of the C.P.A., much less authorized it—odd, given that the agency would be receiving taxpayer dollars. Confused members of Congress believed that the C.P.A. was a U.S. government agency, which it was not, or that at the very least it had been authorized by the United Nations, which it had not. One congressional funding measure makes reference to the C.P.A. as "an entity of the United States Government"—highly inaccurate. The same congressional measure states that the C.P.A. was "established pursuant to United Nations Security Council resolutions"—just as inaccurate. The bizarre truth, as a U.S. District Court judge would point out in an opinion, is that "no formal document ... plainly establishes the C.P.A. or provides for its formation."

Accountable really to no one, its finances "off the books" for U.S. government purposes, the C.P.A. provided an unprecedented opportunity for fraud, waste, and corruption involving American government officials, American contractors, renegade Iraqis, and many others. In its short life more than \$23 billion would pass through its hands. And that didn't include potentially billions more in oil shipments the C.P.A. neglected to meter. At stake was an ocean of cash that would evaporate whenever the C.P.A. did. All parties understood that there was a sell-by date, and that it was everyone for himself. An Iraqi hospital administrator told *The Guardian* of England that, when he arrived to sign a contract, the army officer representing the C.P.A. had crossed out the original price and doubled it. "The American officer explained that the increase (more than \$1 million) was his retirement package." Alan Grayson, a Washington, D.C., lawyer for whistle-blowers who have worked for American contractors in Iraq, says simply that during that first year under the C.P.A. the country was turned into "a free-fraud zone."

Bremer has expressed general satisfaction with the C.P.A.'s work while at the same time acknowledging that mistakes were made. "I believe the C.P.A. discharged its responsibilities to manage these Iraqi funds on behalf of the Iraqi people," he told a congressional committee. "With the benefit of hindsight, I would have made some decisions differently. But on the whole, I think we made great progress under some of the most difficult conditions imaginable, including putting Iraq on the path to democracy."

The Bottomless Vault

To be fair, the C.P.A. really did need money desperately, and it really did need to start spreading it among the traumatized Iraqi population. It also needed to jump-start Iraq's basic services. As the C.P.A. demanded ever greater amounts of cash, the pallets of \$1, \$5, and \$10 bills were soon replaced by bundles of \$100 bills. During the C.P.A.'s little more than a year of life, the New York Federal Reserve Bank made 21 shipments of currency to Iraq totaling \$11,981,531,000. All told, the Fed would ship 281 million individual banknotes, in bricks weighing a total of 363 tons.

After arriving in Baghdad, some of the cash was shipped to outlying regions, but most of it stayed in the capital, where it was delivered to Iraqi banks, to installations such as Camp Victory, the mammoth U.S. Army facility adjacent to the Baghdad airport, and to Saddam's former presidential palace, in the Green Zone, which had become the home of Bremer's C.P.A. and the makeshift Iraqi government. At the palace the cash disappeared into a vault in the basement. Few people ever saw the vault, but the word was that during one short period it held as much as \$3 billion. Whatever the figure, it was a major repository of the banknotes from America during the brief time the cash was under the care of the C.P.A. The money flowed in and out rapidly. When someone needed cash, a unit called the Program Review Board, composed of senior C.P.A.

officials, reviewed the request and decided whether to recommend a disbursement. A military officer would then present that authorization to personnel at the vault.

Even those who picked up large sums usually did not actually see the vault. Once a disbursement had been made, the cash was brought to an adjoining room for pickup. This "secure room," as one military officer called it, looked a lot like a vault itself: a thick metal door at the entrance, with the room beyond starkly furnished with only a table and chairs. The table would be piled high with cash. An authorized officer would sign papers for the money, then begin carting it upstairs—sometimes in sacks or metal boxes—to the Iraqi ministry or C.P.A. office that had requested it. Upon turning over the cash, the officer would be required to obtain a receipt—nothing more.

C.P.A. officials tried to keep a rough running tab on the amount disbursed to individual Iraqi agencies such as the Ministry of Finance (\$7.7 billion). But there was little detail, nothing specific, on how the money was actually used. The system basically operated on "trust and faith," as one former C.P.A. official put it. Once the cash passed into the hands of the Iraqis or any other party, no one knew where it went. The C.P.A. turned over \$1.5 billion in cash to Iraqi banks, for instance, but later auditors could account for less than \$500 million. The United Nations retained a team of auditors to look over American shoulders. They didn't see much, because they were largely cut off from access while the C.P.A. held power. As a report by the U.N.'s accounting consultant, KPMG, noted dryly, "We encountered difficulties in performing our duties and meeting with key C.P.A. personnel."

"There was corruption everywhere," said one former military officer who worked with the C.P.A. in Baghdad in the months after the invasion. Some of the Iraqis who were put in charge of ministries after Saddam's fall had never run a government agency before. Their inexperience aside, he said, they lived in constant fear of losing their jobs or their lives. All many cared about, he added, was taking care of themselves. "You could see that a lot of them were trying their best to get a quick retirement fund before they were ousted or killed," he added. "You just get what you can while you're in that position of power. Instead of trying to build the nation, you build yourself."

Did any withdrawals from the vault pay for secret activities by government personnel? It is an obvious possibility. Much of the cash was clearly destined for American contractors or Iraqi subcontractors. Sometimes the Iraqis came to the palace to collect their cash; other times, when they were reluctant to show up at the American compound, U.S. military personnel had to deliver it themselves. One of the riskier jobs for some U.S. military men was to fill up a car with bags of cash and drive the money to contractors in Baghdad neighborhoods, handing it over like a postal worker delivering mail.

'Fraud' was simply another word for "business as usual." Of 8,206 "guards" drawing paychecks courtesy of the C.P.A., only 602 warm bodies could in fact be found; the other 7,604 were ghost employees. Halliburton, the government contractor once headed by Vice President Dick Cheney, charged the C.P.A. for 42,000 daily meals for soldiers while in fact serving only 14,000 of them. Cash was handed out from the backs of pickup trucks. On one occasion a C.P.A. official received \$6.75 million in cash with the expectation he would shell it out in one week. Another time, the C.P.A. decided to spend \$500 million on "security." No specifics, just a half-billion dollars for security, with this cryptic explanation: "Composition TBD"—that is, "to be determined."

The pervasiveness of this Why-should-I-care? attitude was driven home in an exchange with retired admiral David Oliver, the C.P.A.'s director of management and budget. Oliver was asked by a BBC reporter what had happened to all the cash airlifted to Baghdad:

Oliver: "I have no idea—I can't tell you whether or not the money went to the right things or didn't—nor do I actually think it's important."

Q: "Not important?"

Oliver: "No. The coalition—and I think it was between 300 and 600 people, civilians—and you want to bring in 3,000 auditors to make sure money's being spent?"

Q: "Yes, but the fact is that billions of dollars have disappeared without a trace."

Oliver: "Of their money. Billions of dollars of their money, yeah, I understand. I'm saying what difference does it make?"

The difference it made was that some American contractors correctly believed they could walk off with as much money as they could carry. The circumstances that surround the handling of comparatively small sums help explain the billions that ultimately vanished. In the south-central region of Iraq a contracting officer stored \$2 million in a safe in his bathroom. One agent kept \$678,000 in an unsecured footlocker. Another agent turned over some \$23 million to his team of "paying agents" to deliver to contractors, but documentation could be found for only \$6.3 million of it. One project officer received \$350,000 to fund human-rights projects, but in the end could account for less than \$200,000 of it. Two C.P.A. agents left Iraq without accounting for two payments of \$715,000 and \$777,000. The money has never been found.

To Frank Willis, a senior adviser to the Iraqi transportation ministry, the presence of so much cash circulating so freely gave the Green Zone a "Wild West" feel. A moderate Republican who worked for Reagan and voted for George W. Bush, Willis spent many years in executive roles in the State Department and the Department of Transportation before leaving government service in 1985. He was a top executive of a health institute in Oklahoma when, in 2003, an old friend from Washington called and asked if he would come to Iraq to help the C.P.A. get the various transportation systems running again.

"You've got to be crazy," Willis told him at first. He says he was talked into going for 30 days, but once in Baghdad became caught up in the work and stayed for six grueling months. Willis says he wasn't there a month before he felt the way things were being done was "terribly wrong." One afternoon he returned to his office to find piles and piles of shrink-wrapped \$100 bills stacked on a table. "This just got wheelbarrowed in," one of his American colleagues explained. "What do you think of two million bucks?" The money had been "checked out" of Saddam's old vault in the basement, two floors below, in order to pay a U.S. contractor hired by the C.P.A. to provide security.

The neat bundles of cash looked almost like play money, and the temptation to handle them was irresistible. "We were all in the room passing those things around and having fun," Willis remembers. He and his colleagues played a game of football, tossing the bricks back and forth. "You could spin them but not throw a spiral," Willis says with a laugh. When he called the American contractor to come get his money, Willis advised him, "You better bring a gunnysack."

"Integrity Is a Core Principle"

The American contractor needing the gunnysack was a company called Custer Battles. The name was derived not from Little Big Horn but from the names of the company's owners, Scott K. Custer and Michael J. Battles. Both were former army rangers in their mid-30s, and Battles also had once been a C.I.A. operative. The pair showed up on the streets of Baghdad with the blessing of the White House at invasion's end, looking for a way to do business. At the time, the only American civilians who could gain access to the city were those approved by President Bush's staff.

The Battles half of the team brought the White House access, secured when Michael Battles became the G.O.P.-backed candidate in the 2002 Rhode Island congressional primary for the privilege of losing to the Democratic incumbent, Patrick Kennedy. Battles not only lost the primary but was fined by the Federal Election Commission for misrepresenting campaign contributions. Nevertheless, he forged important political connections. His contributors included Haley Barbour, the longtime Washington power broker and former chairman of the Republican National Committee, who is now governor of Mississippi, and Frederic V. Malek, a former special assistant to President Nixon, who survived the Watergate scandal and went on to become an insider in the Reagan administration and both Bush administrations.

The C.P.A. awarded Custer and Battles one of its first no-bid contracts—\$16.5 million to protect civilian aircraft flights, of which at the time there were few, into Baghdad International Airport. The company faced immediate obstacles: Custer and Battles didn't have any money, they didn't have a viable business, and they didn't have any employees. Bremer's C.P.A. had overlooked these shortcomings and forked over \$2 million anyway, in cash, to get them started, simply ignoring long-

standing requirements that the government certify that a contractor has the capacity to fulfill a contract. That first \$2 million cash infusion was followed shortly by a second. Over the next year Custer Battles would secure more than \$100 million in Iraq contracts. The company even set up an internal Office of Corporate Integrity. "Integrity is a core principle of Custer Battles' corporate values," Scott Custer stated in a press release.

The U.S. business community was impressed by this upstart. In May 2004, Ernst & Young, the global accounting firm, announced the finalists for its New England Entrepreneur of the Year Awards, honoring an ability "to innovate, develop, and cultivate groundbreaking business models, products, and services." Among the honorees were Scott Custer and Michael Battles.

Four months later, in September 2004, the air force issued an order barring Custer Battles from receiving any new government contracts until 2009. The company had come to epitomize the way business was done in Baghdad. Custer Battles had billed the government \$400,000 for electricity that cost \$74,000. It had billed \$432,000 for a food order that cost \$33,000. It had charged the C.P.A. for leased equipment that was stolen, and had submitted forged invoices for reimbursement—all the while moving millions of dollars into offshore bank accounts. In one instance, the company claimed ownership of forklifts used to transport the C.P.A.'s cash (among other things) around the Baghdad airport. But up until the war the forklifts had been the property of Iraqi Airways. They were "liberated," along with the Iraqi people, following hostilities. Custer Battles seized them, painted over the old name, and transferred ownership to its offshore businesses. The forklifts were then leased back to Custer Battles for thousands of dollars a month, a cost that Custer Battles passed along to the C.P.A. In 2006, a federal-court jury in Virginia ordered the company to pay \$10 million in damages and penalties for defrauding the government. The jury found more than three dozen instances of fraud in which Custer Battles used shell companies in the Cayman Islands and elsewhere to manufacture phony invoices and pad its bills. During the same period Battles personally withdrew \$3 million from the company coffers as a kind of bonus—or, as he put it, "a draw." The jury decision in the whistle-blower lawsuit was subsequently overturned when the trial judge set the verdict aside, pointing out that the C.P.A. was not in fact a U.S.-government entity and hence Custer Battles could not be tried under the federal fraud act. That decision is under appeal.

The NorthStar Contract

How can billions of dollars simply vanish? Wasn't there any accounting mechanism in place to keep track of the money?

La Jolla, California, is about as far away from Iraq in both distance and mind-set as one can get. The house at 5468 Soledad Road is a two-story dwelling with six bedrooms and five and a half baths, a typical California home of beige stucco under a red tiled roof. The neighborhood is lush and well kept. But in one respect 5468 Soledad is not a typical suburban house at all.

On October 25, 2003, the C.P.A. awarded a \$1.4 million contract "to provide accountant and audit services" to help "in the management and accounting of the Development Fund for Iraq." In other words, the purpose was to help Bremer and the C.P.A. keep tabs on the billions of dollars under their control, and to help make sure that the money was properly spent. The one-year C.P.A. contract was awarded to a company called NorthStar Consultants.

When a request was made to the U.S. government for a copy of this contract, officials at the Pentagon, which has oversight, dragged their feet for weeks. The document they eventually supplied had been strategically redacted. Nearly all the information about the contractor had been blacked out, including the name and title of the company officer who had executed the contract, the name of the person to call for information about the company, the last four digits of the company's phone number, and the name of the U.S.-government official who had awarded the contract in the first place. But by cross-referencing public records and other sources it was possible to fill in some of the missing data. One path led to 5468 Soledad Road.

The house is owned by Thomas A. and Konsuelo Howell, according to San Diego County records. The couple apparently bought it new in 1999. State records indicate that several

companies operate from the house. One of them is called International Financial Consulting, Inc., though it isn't clear what this company actually does. Incorporated in 1998, I.F.C. was described as a venture in "business consulting," according to papers Howell filed with the state. The Howells are listed as the only directors.

Another company operating out of 5468 Soledad is called Kota Industries, Inc., whose stated business is the "sale of furniture, home furnishings, flooring," according to California records. Numerous business directories in the San Diego area ascribe similar activities to Kota, listing it as a remodeling, repairing, or restoration contractor. One directory describes its specialty as "kitchen, bathroom, basement remodeling." Again, the Howells are the only officers and directors.

In January 2004, in the business-names index of San Diego County, Thomas Howell indicated that a third company was now based at 5468 Soledad, noting that it was owned by International Financial Consulting. This new company was NorthStar.

How did someone whose line of work includes home remodeling end up getting the contract to audit the billions being airlifted to Iraq? Thomas Howell is 60; he and his wife have lived in San Diego for at least two decades. Over the years, the couple has also maintained addresses in Fort Lauderdale, Florida, and Laredo, Texas. Neighbors describe the Howells as pleasant, but can add little else. "I know them, but I don't know what they do," said one. "That's all I can tell you." Two others could say only that they saw the Howells occasionally in the neighborhood. Were they aware that a company with an Iraqi contract had operated from the house? "Really?" said one. "No. I didn't know that."

Thomas Howell refuses to discuss the NorthStar contract in detail. A telephone exchange with him, reached at 5468 Soledad Road, went as follows.

A woman answered, "Kota Industries."

"Could I speak with Mr. Thomas Howell?"

"May I ask who is calling?" the woman asked.

"My name is Jim Steele."

"Wait just a second," the woman said.

A few moments later, a man came on the line. "Tom Howell," he said.

"My name is Jim Steele, and I am a writer with the magazine *Vanity Fair*. I would like to talk to you about NorthStar Consultants."

Howell said, "Well, let me find a contact who can talk all this stuff with you. What is your phone number, Jim?"

Howell repeated the number and added, "O.K. Let me get somebody who can discuss all this stuff for you."

"I'd just like to make sure here. Aren't you president of the company?"

"That's right," said Howell.

"But you can't ..."

"Well, I'm not ... I can't ... You want to talk about the D.F.I. [Development Fund for Iraq] and that sort of stuff?" asked Howell.

"Well, yeah."

"O.K.," Howell replied, "I'll get someone who's authorized to talk about all that. I'll have them give you a call or I'll call you and give you their number."

"Is this the military or your lawyer?"

"The military," said Howell, abruptly ending the conversation with "O.K. Thanks. Good-bye."

The next attempt was a visit to Howell's home the following day. A stylishly dressed woman emerged from behind a locked fence. "May I help you?" she asked. The woman confirmed that she was Konsuelo Howell, and explained that it would be impossible to speak with her husband. "He is out of the country."

He never did call back with the name of a Pentagon official "authorized" to speak about NorthStar. Nor did anyone from the Pentagon call. When a Pentagon public-affairs officer was queried about who might be able to discuss the contract, the officer said she needed a name, which, as it turned out, only Howell could provide. The Pentagon also failed to respond to a request

for the information deleted from the NorthStar contract and the name of the person who had ordered it deleted.

When Howell was contacted again, three months later, he stated that the Department of Defense had told him that "they didn't have anybody anymore specifically tasked with answering these questions." As far as D.O.D. was concerned, Howell added, the issue was "closed." Once again he refused to discuss the NorthStar contract in any detail: "The way I normally work with all my clients is: my work is confidential," he said. "If they want to let it out, that's fine. But I work for them. It's their business." Howell did say that NorthStar was his one and only U.S. government contract. How did he land it? "I saw it published on the Web, that it was out for bids," he said.

As for how much auditing NorthStar really did in Iraq, the missing billions provide the best answer. The company did have personnel in Baghdad, though how many, and for how long, and for what purpose, is not known—another point Howell declines to discuss. Under the terms of C.P.A. Regulation No. 2, signed by Bremer on June 15, 2003, money coming into Iraq was supposed to be tracked by an "independent certified public accounting firm." Howell was not a certified public accountant, nor were any of the people who worked for him. Bremer seems to have been unaware of this detail. When he was asked at a congressional hearing earlier this year about NorthStar, he answered, "I don't know what kind of firm it was, other than it was an accounting firm." Would it upset him, a congressman asked, if he found out there were no accountants on NorthStar's staff? "It would," Bremer answered, "if it were true."

It is true. And rather than reissue the contract to a certified public accountant, someone in the government contract office simply eliminated the requirement, thereby making Howell eligible for the work.

The Baghdad-Bahamas Connection

When an unknown official at the Pentagon meticulously went through the NorthStar contract and used a thick-tipped marker to black out Thomas Howell's name, title, office address, and phone number, he or she neglected to conceal one of the most intriguing aspects of the contract: NorthStar's mailing address. It was P.O. Box N-3813 in Nassau, in the Bahamas.

High on a hill in Nassau, the main post office commands panoramic views of the capital city—the pink stuccoed Parliament building, bustling Bay Street with its hordes of tourists, and, beyond it, the giant cruise ships that dock in Nassau's harbor. Just as you enter the post office, on a sprawling plaza beneath an overhang offering protection from the tropical sun and rain, there stand row after row of metal boxes, each bearing the capital letter *N* followed by a series of numbers. These are the private post-office boxes of Nassau. Because there is no home delivery in the city, it is the way people in the capital get their mail.

Box N-3813, four inches wide by five inches high, looks like all the other post-office boxes. It harbors many secrets that its users want to keep. No one knows whether anyone at the C.P.A. or the Pentagon questioned why one of its contractors used an offshore post-office box. It is undeniably true, however, that foreigners often use post-office boxes in the Bahamas and other tax havens for three purposes: to conceal assets, to avoid taxes, and to launder money. NorthStar would not be at all unusual among Iraq contractors in setting up its affairs this way. Post-office boxes in tax havens around the world have been flooded with contractor business based in Iraq.

Box N-3813, it turns out, has been the locus for all sorts of transactions by Americans and others looking to move money offshore. In addition to Howell's NorthStar, this particular box also served as the address of record for a man named Patrick Thomson and for his Bahamian business called Lions Gate Management. Both figured prominently in one of the more spectacular offshore frauds in recent years, the collapse of Evergreen Security. The Caribbean-based Evergreen enticed thousands of investors, many of them U.S. retirees, to pour money into its so-called tax-sheltered offshore funds, with the promise of handsome returns. Some of the money came from hundreds of Caribbean trusts for which Thomson acted as trustee. A Ponzi scheme masquerading as a mutual fund, Evergreen siphoned \$200 million from investors in the United States and two dozen other countries. One of its ringleaders was William J. Zylka, a New Jersey "con artist who

falsified his background, credentials and wealth in order to perpetrate elaborate schemes," according to court documents. He pocketed \$27.7 million of Evergreen's money.

Throughout the looting of Evergreen, Thomson was one of the firm's three directors. During that time he also arranged for Howell to establish the same Nassau post-office box as NorthStar's legal home. Identified in Nassau as a member of one of Scotland's oldest publishing families, Thomson has operated out of one or more office buildings in the heart of Nassau for many years. Like most of those in the shadowy world of offshore deals, he has generally kept a low profile, the scandal over Evergreen Security being the one great exception. Thomson incorporated NorthStar for Howell in the Bahamas in January of 1998, as what is known as an "international business company," or I.B.C. Despite their impressive name, I.B.C.'s are little more than paper operations. As a rule, they don't carry on any business; they are empty vessels that can be used for anything. They have no real chief executive officer or board of directors, and they don't publish financial statements. An I.B.C.'s books, if there are any, can be kept anywhere in the world, but no one can inspect them. I.B.C.'s aren't required to file annual reports or disclose the identity of their owners. They're shells, operating in total secrecy. In the last two decades, they have sprouted by the hundreds of thousands in tax havens worldwide.

In a telephone interview, Thomson discussed with great reluctance his role in creating NorthStar for Thomas Howell. How did they meet?

"I believe I was introduced to him through a friend with Citibank," Thomson replied. "I believe Howell used to work for Citibank." He said it was his recollection that Howell initially established NorthStar because of some consulting work he was doing in the Far East, not the Middle East. "This was before the Iraq war started," he noted. "All we did was supply a company name." Thomson said he had had no contact with Howell in years. He had heard that Howell was in Iraq, but declined to discuss the matter further.

Turning Off the Spigot

By the spring of 2004 the clock was winding down for L. Paul Bremer and the C.P.A. Within several months—on June 30—the Authority was scheduled to turn government operations over to the Iraqis, at least formally. There was palpable anxiety among officials and contractors about what would happen under the new Iraqi regime, and they launched an aggressive effort to get as much money into the pipeline as possible. On April 26, another shipment of cash-laden pallets, this one holding \$750 million, arrived at Baghdad International Airport. On May 18 the Fed made a \$1 billion shipment, which was followed on June 22 by the biggest single shipment ever made by the Fed anywhere—\$2.4 billion. Another \$1.6 billion arrived three days later, bringing the total of cash shipments to Iraq to \$5 billion in the C.P.A.'s final three months.

The C.P.A. sought to make one more huge withdrawal. On Monday, June 28, as Bremer stole away from Baghdad unannounced—two days ahead of the scheduled handover of authority—another C.P.A. official put in hurried pleas to the Federal Reserve Bank for an additional \$1 billion infusion, hoping to get the money before an Iraqi provisional government came to power. Internal e-mails from the Federal Reserve Bank show that the requests for money came from Don Davis, an air-force colonel serving as the C.P.A. comptroller and manager of the Development Fund for Iraq. But the Fed would have no part of the plan. Because Bremer had already "transferred authority (which is being reported in the press as 10:26 a.m. in Baghdad)," a Fed official explained, "the C.P.A. no longer had control over Iraq's assets."

In one of his last official acts before leaving Baghdad, Bremer issued an order—prepared by the Pentagon, he says—declaring that all coalition-force members "shall be immune from any form of arrest or detention other than by persons acting on behalf of their Sending States." Contractors also got the same get-out-of-jail-free card. According to Bremer's order, "contractors shall be immune from Iraqi legal process with respect to acts performed by them pursuant to the terms and conditions of a Contract or any sub-contract thereto." The Iraqi people, who had had no say over Saddam Hussein's illegal conduct during his dictatorship, would have no say over illegal conduct by Americans in their new democracy.

And the "Sending State" itself is not interested in pursuing misconduct. With the exception of a few low-level individuals, the Bush administration's Justice Department has resolutely avoided the prosecution of corporate fraud stemming from the occupation of Iraq.

"In our fifth year in the war in Iraq," according to Alan Grayson, the attorney for whistle-blowers, "the Bush administration has not litigated a single case against any war profiteer under the False Claims Act." This at a time, Grayson told a congressional committee, when "billions of dollars are missing and many billions more wasted." Grayson knows what he is talking about. He represented the whistle-blowers in the Custer Battles case brought under the False Claims Act—a case in which the Justice Department refused to get involved, and the only one that has gone to trial.

There is no true method of calculating the human cost of the war in Iraq. The monetary cost, grossly inflated by theft and corruption, is another matter. One simple piece of data puts this into perspective: to date, America has spent twice as much in inflation-adjusted dollars to rebuild Iraq as it did to rebuild Japan—an industrialized country three times Iraq's size, two of whose cities had been incinerated by atomic bombs. Understanding how and why this happened will take many years—if understanding comes at all. There has been no rush to explain even this one small part of the story, that of the missing Iraqi billions. No one in the U.S. government wants to talk about NorthStar Consultants, much less about the money that disappeared. Bradford R. Higgins was the C.P.A.'s chief financial officer, on loan from the State Department, where he is assistant secretary for resource management and chief financial officer. Higgins says it was "a Department of Defense–managed operation"; he says that "I don't know anyone at NorthStar" and that he did not oversee its operations. The C.P.A.'s comptroller and D.F.I. fund manager during the NorthStar days in 2003 was air-force colonel Don Davis. Through the air-force public-affairs office in the Pentagon, Davis declined to comment. L. Paul Bremer III, who wrote a 400-page book on his experiences as the C.P.A.'s administrator, stated in an interview that he had no input in the decision to hire NorthStar. He explained that "all of the contracting was done, by order of the secretary of defense, by the department of the army. They were our contracting arm ... I don't think I ever heard of NorthStar until some questions came up after I left." Nor did he have any dealings with NorthStar's Howell, he said. "If I met him, I have no memory of it." Queries sent repeatedly to the army's public-affairs desk in Baghdad and the Pentagon have gone unanswered, as have those to the office of the secretary of defense.

The simple truth about the missing money is the same one that applies to so much else about the American occupation of Iraq. The U.S. government never did care about accounting for those Iraqi billions and it doesn't care now. It cares only about ensuring that an accounting does not occur.