ACQUISITION RESEARCH

CASE STUDY

Procurement Integrity in Contingency Operations: A Case Study of Army Contracting Officer Corruption in Operations Iraqi and Enduring Freedom Utilizing Occupational Fraud Theory

6 December 2011

by

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PROCUREMENT INTEGRITY IN CONTINGENCY OPERATIONS: A CASE STUDY OF ARMY CONTRACTING OFFICER CORRUPTION IN OPERATIONS IRAQI AND ENDURING FREEDOM UTILIZING OCCUPATIONAL FRAUD THEORY

ABSTRACT

The purpose of this project is to analyze the conditions that enabled corruption of Army Contingency Contracting Officers (CCOs) during Operations Iraqi Freedom and Enduring Freedom (OIF/OEF) by applying occupational fraud theory, specifically the classic sociological/criminological Fraud Triangle model, to determine its validity in a contingency operation. By examining the contracting environment in OIF and OEF and utilizing the conceptual framework of occupational fraud theory, I identify the distinctive situational elements of a contingency operation that influence an individual's decision to commit fraud and thus affect the probability of fraud occurring in contingency operations. By analyzing the procurement fraud environment in OIF and OEF using an occupational fraud model, I provide the foundation for understanding why fraud occurs in the context of contingency operations with the intent of preventing future procurement integrity violations. Reducing instances of fraud directly impacts the appropriate utilization of taxpayer funding and the operational readiness of the warfighter, as well as enhances the reputation and standing of the Army CCO Corps.

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LIST OF ACRONYMS AND ABBREVIATIONS

AAC	Army Acquisition Corps
ACC	Army Contracting Command
ACFE	Association of Certified Fraud Examiners
AFN	Armed Forces Network
AL&T	Acquisition, Logistics, and Technology
ASC	American Society of Criminology
CCO	Contingency Contracting Officer
CENTCOM	U.S. Central Command
CID	Criminal Investigative Division
CJCS	Chairman of the Joint Chiefs of Staff
C–JTSCC	Central Command Joint Theater Support Contracting Command
CWC	Commission on Wartime Contracting
DBSAE	Defense Business Systems Acquisition Executive
DCIS	Defense Criminal Investigative Services
DFARS	Defense Federal Acquisition Regulation Supplement
DFI	Development Fund for Iraq
DoD	Department of Defense
DoDIG	Department of Defense Inspector General
DPAP	Defense Procurement and Acquisition Policy
FAR	Federal Acquisition Regulation
FBI	Federal Bureau of Investigation
FERRET	Forensic Evaluation, Research, Recovery, and Enforcement Team
FINCEN	Financial Crimes Enforcement Network
GAO	General Accounting Office (before July 7, 2004); Government Accountability Office (after July 7, 2004)
HQDA	Headquarters, Department of the Army
ICCTF	International Contract Corruption Task Force
JCC–I	Joint Contracting Command–Iraq
JCC–I/A	Joint Contracting Command–Iraq/Afghanistan
MPFU	Major Procurement Fraud Unit
MOS	Military Occupational Specialty
NATO	North Atlantic Treaty Organization
NCO	Noncommissioned Officer

OEF	Operation Enduring Freedom
OER	Officer Evaluation Report
OIF	Operation Iraqi Freedom
PCO	Project and Contracting Office
PD2	Procurement Desktop Defense
R&D	Research and Development
SAS	Statement of Auditing Standards
SFC	Sergeant First Class
SIGAR	Special Inspector General for Afghanistan Reconstruction
SIGIR	Special Inspector General for Iraq Reconstruction
USAID	United States Agency for International Development

I. INTRODUCTION

In this chapter, I present the purpose, research question, and methodology for the analysis of the corruption of Army contracting officers in Operations Iraqi Freedom and Enduring Freedom through the application of occupational fraud theory. I also discuss this report's scope and organization.

A. BACKGROUND

Army contingency contracting officers (CCOs) have been providing critical contracting support to forces in Iraq and Afghanistan for nearly a decade. They, along with other Department of Defense (DoD) contracting officers, enabled the obligation of more than $206 billion on contracts for equipment, supplies, and services from 2002 through 2011 in support of Operation Iraqi Freedom (OIF) and Operation Enduring Freedom (OEF; Thibault et al., 2011b, p. 2). Unfortunately, a small but growing number of CCOs chose personal enrichment over public good and eclipsed the outstanding efforts and integrity of the majority of CCOs; in the process, this minority of Army CCOs broke the law, betrayed Army values,[1] and violated their country's trust. Investigation and conviction rates indicate that Army CCOs are involved in the commission of fraud by a significantly higher percentage in comparison to contracting officers in the other Services, despite being the minority of contracting personnel in theater (Gansler et al., 2007).

The most well-known case of CCO corruption in OIF is that of Major John Cockerham, an Army CCO who was sentenced to 17.5 years in jail after admitting to taking more than $9 million in bribes for awarding contracts at Camp Arifijan, Kuwait, in 2004 and 2005 (Department of Justice, 2009). More than a simple bribery case, Major Cockerham's case involved a complex conspiracy that as of July 2011 involved 17 individuals who had pled or been found guilty, as well as four other individuals pending trial (Department of Justice, 2011). Of the 17 convicted, three individuals, in addition to Cockerham, were Army CCOs (Majors Momon, Murray, and Pressley), while another (Major Davis) committed

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[1] The seven core Army values are loyalty, duty, respect, selfless service, honor, integrity, and personal courage (United States Army, 2011a).

suicide after confessing to an Army investigator that she had accepted bribes (Schmitt & Glanz, 2007). A fifth CCO (Sergeant First Class [SFC] Evick) is currently awaiting trial. Although the dollar value and number of personnel involved in this case may represent an anomaly, Army CCO fraud commission is unfortunately too common.

Several years into operations in Iraq and Afghanistan, corruption in the Army CCO Corps joined other contract-related incidents (e.g., Abu-Ghraib, Nisoor Square),[2] garnering media attention, causing public outrage, and sparking congressional interest. These high-profile events reflected fundamental vulnerabilities in the Army's contracting system, many of which existed well before the commencement of operations in Iraq and Afghanistan, as documented in numerous government agencies' reports (Government Accountability Office [GAO], 2011a; Gansler et al., 2007; Commission on Wartime Contracting, 2010). The scandals, however, compelled the federal government to acknowledge the systemic issues relating to contracting, specifically contingency contracting, and confront them.

An early initiative was the creation in 2008 of an independent and bipartisan commission to review contingency contracting and provide recommendations to Congress. Known as the Commission on Wartime Contracting (CWC) in Iraq and Afghanistan, it has issued several interim and special reports assessing contracting for reconstruction, logistics, and security, as well as documenting the extent of fraud, waste, and abuse. In its final report to Congress, released in August 2011, the CWC reported that between $10.3 and $18.5 billion has been lost to fraud associated with contracts in these operations (Thibault et al., 2011b, p. 90). This dollar amount represents 5% to 9% of the $206 billion spent thus far in contingency contracts in OIF and OEF.

The staggering sums in the CWC report made national headlines, prompting renewed calls for increased oversight and regulatory reforms in federal contracting, specifically in contingency contracting. Senator Claire McCaskill, who, along with Senator Jim Webb, had championed the commission's charter, called the findings "disgusting" and "shocking" (McCaskill, 2011). The extent of the fraud in OIF and OEF is certainly distressing and

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[2] Abu Ghraib: The Army utilized an existing Department of the Interior Blanket Purchase Agreement for Information Technology to sole-source its prisoner interrogation requirement, later determined out of scope (Department of the Interior, 2004); Nisoor Square: Blackwater contractor personnel performing private security are accused of killing 14 unarmed Iraqi civilians and wounding 18 others (Raghavan, 2007).

shameful, but is it surprising? The CWC implied otherwise when noting that its fraud estimate was consistent with the statistics the Association of Certified Fraud Examiners (ACFE) had reported. The ACFE, the world's largest anti-fraud organization, has conducted numerous studies and surveys regarding the size and scope of occupational fraud, finding that the typical U.S. organization loses 7% of its revenues to fraud annually (Association of Certified Fraud Examiners [ACFE], 2008). If the percentage of fraud in OIF and OEF is consistent with the general occupational fraud rate, then I hypothesize that classic occupational fraud theory can explain the occurrence of fraud in OIF and OEF and, by extrapolation, fraud by contracting personnel in a generic contingency operation.

B.   PURPOSE

The purpose of this project is to analyze the conditions that enabled corruption of Army CCOs during OIF and OEF by applying occupational fraud theory, specifically the classic sociological/criminological Fraud Triangle model (Cressey, 1953), to determine its validity in a contingency operation. By examining the contracting environment in OIF and OEF and utilizing the conceptual framework of occupational fraud theory, I identify the distinctive situational elements of a contingency operation that influence an individual's decision to commit fraud and thus affect the probability of fraud occurring in contingency operations.

By analyzing the procurement fraud environment in OIF and OEF using an occupational fraud model, I provide the foundation for understanding why fraud occurs in the context of contingency operations with the intent of preventing future procurement integrity violations. Reducing instances of fraud directly impacts the appropriate utilization of taxpayer funding and the operational readiness of the warfighter, as well as enhances the reputation and standing of the Army CCO Corps.

C.   RESEARCH QUESTION

The primary objective of this research project is to answer the following question: How does occupational fraud theory account for the corruption of Army CCOs in OIF and OEF? Understanding what motivates a CCO's corrupt behavior in a contingency operation and identifying the enabling characteristics of the contracting environment is critical in

preventing and deterring fraud in future contingency operations. Through a holistic analysis of CCO corruption in a contingency operation, the Army will be better postured to implement an effective and comprehensive anti-fraud program for its deployed contracting organizations.

D.   SCOPE

I have limited this report to corruption, substantiated through criminal conviction for fraud, of deployed Army CCOs supporting operations in Iraq and Afghanistan. Inherent in the scope of this report is terminology that requires further definition. *Fraud* is a generic term, and thus there are many definitions and classifications. In essence, however, fraud always entails deception or willful misrepresentation. In this report, I focus on occupational fraud, and specifically corruption, which is the most common fraud scheme. The ACFE defines occupational fraud as "the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets" (ACFE, 2008, p. 6). This definition is very broad and covers a wide range of activities, everything from stealing pens to sophisticated financial accounting schemes; this definition also applies to a variety of perpetrators, including employees, managers, and executives. Thus, the ACFE further classifies occupational fraud into three major categories: asset misappropriations, corruption, and fraudulent statements. The ACFE (2008) defines *corruption* as

> schemes in which fraudsters use their influence in business transactions in a way that violates their duty to their employers in order to obtain a benefit for themselves or someone else. For example, employees might receive or offer bribes, extort funds from third parties, or engage in conflicts of interest. (p. 10)

A complete breakdown of the ACFE's Occupational Fraud and Abuse Classification System appears at Appendix A. The DoD (2003) defines fraud from its own perspective and provides additional examples in its guide for investigators, *Criminal Investigations of Fraud Offenses*:

> Any intentional deception designed to deprive the United States unlawfully of something of value or to secure from the United States a benefit, privilege,

allowance, or consideration to which he or she is not entitled. Such practices include

- Offering payment or accepting bribes or gratuities.

- Making false statements.

- Submitting false claims.

- Using false weights or measures.

- Evading or corrupting inspectors or other officials.

- Deceiving either by suppressing the truth or misrepresenting material fact.

- Adulterating or substituting materials.

- Falsifying records and books of accounts.

- Arranging for secret profits, kickbacks, or commissions or conspiring to use any of these devices.

- Conflict of interest cases, criminal irregularities, and the unauthorized disclosure of official information relating to procurement. (p. 7)

However, this definition encompasses fraud by both government employees and external parties (e.g., private contractors). Because in this report I focus on corruption, I am concerned solely with the government employee, the Army CCO, and thus I do not address the contractor participation in fraud.

For the purposes of this report, the term *CCO* refers to Army Acquisition Corps (AAC) military personnel, either active or reserve components, assigned to a position with the responsibility of awarding contracts and coded as a 51C, Contracting and Industrial Management, one of five career specializations within the AAC. According to the Department of the Army's (2010) pamphlet on officer career management, the 51C is assigned to provide contracting support worldwide to expeditionary operations throughout the entire spectrum of military operations. These officers will lead contingency contracting teams, contracting efforts for installations, military construction, and weapon systems procurement offices. They execute contract awards and contract administration management and industrial management/oversight at contractor facilities worldwide. Officers coordinate with warfighters and program managers for requirement determination. These officers are responsible for making determinations on contracts awards and developing contracting

support plans (Department of the Army, 2010, p. 391). A CCO can also be a noncommissioned officer (NCO), performing the same function and with the same responsibilities as the 51C officer. The Army established the Military Occupational Specialty (MOS) 51C, Acquisition, Logistics, and Technology (AL&T) Contracting NCO, in December 2006 (United States Army, 2011b).[3]

The scope of this report comprises the contingency operations of OIF and OEF, which refer to U.S. military operations in Iraq and Afghanistan, respectively. I provide more information on contingency operations in Chapter III. Although OIF transitioned to Operation New Dawn on October 1, 2010, to mark the end of the U.S. forces' combat operations in Iraq and to emphasize stability operations, I utilize the nomenclature of OIF throughout for continuity purposes. Some contracting support for OIF and OEF took place outside of Iraq and Afghanistan, notably in Kuwait. In this report, I include fraud by CCOs who were forward deployed to provide contracting support in OIF and OEF, even if they were not actually operating within the geographic boundaries of Iraq and Afghanistan.

E.   LIMITATIONS AND ASSUMPTIONS

Inherent in the covert nature of fraud is that it is difficult to accurately identify and measure. Thus, although there have been numerous investigations and prosecutions of Army CCOs, the true extent of Army CCO fraud is unknown. Realistically, many instances may go undetected, thus preventing the Army from determining or definitively quantifying the true extent of CCO corruption. This limitation becomes even more pronounced considering the current constrained resource environment, which could limit investigation and prosecution, in addition to the obvious stake of corrupt parties to prevent their exposure. Despite the challenges associated with identifying Army CCOs as perpetrators of fraud and holding them accountable, numerous Army CCOs are serving prison sentences for their crimes. These cases, like that of Major Cockerham and his accomplices, represent the existence of corruption, which is one category of occupational fraud and which contributed to the potential loss of upwards of $18 billion in OIF and OEF. The fact that this fraud occurred in

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[3] Prior to this date, MOS92 series (Logistics) NCOs were utilized to fill 51C positions, and contracting was not a permanent NCO career track.

a contingency operation provides a unique element in the application of classic occupational fraud models to understanding why and how the fraud took place.

Although the models I utilize in this report have existed for decades and fraud examiners have adopted them as standard methodology, I do not claim that they are perfect tools; no model can adequately predict or explain every single occurrence of fraud. Additionally, I do not attempt to address every theory regarding occupational fraud. The field of research encompassing occupational fraud continues to evolve, and researchers have identified and will continue to identify weaknesses inherent in the existing models by conducting follow-on studies and proposing new models. Although there is not a one-size-fits-all approach to occupational fraud, my research objective is to determine how the classic Fraud Triangle model explains corruption of Army CCOs in OIF and OEF and, indirectly, other contingency operations.

I did not conduct any personal interviews with investigators or convicted fraudsters; instead, I relied on publicly available accounts of their cases, obtaining most of the data from government reports, publically available legal documents, and other media sources. The CCOs prosecuted for fraud offenses have, for the most part, kept the motivation for their actions private. It would be pure conjecture to attempt to provide motivations for the fraudsters in specific cases; therefore, in this report I suggest generalized motivations based on findings from previous occupational fraud research and the conditions relevant to the cases. Some may contend that an in-depth analysis of the environment is unnecessary because fraud is solely the byproduct of greed. Although greed is certainly a factor in occupational fraud, it is too simplistic an explanation for the phenomenon of CCO corruption in OIF and OEF. Joseph Wells (1997), founder of the ACFE and a notable examiner and researcher of fraud, observed that greed as a motive for fraud is subjective, and in turn problematic, in terms of providing a metric to predict behavior. He concluded, "There is little we can say about greed as a motive that will help us detect or deter occupational fraud" (p. 514).

Although I focus on CCOs, other Army uniformed personnel committed the majority of fraud in OIF and OEF via their indirect involvement in the contracting process (i.e., acting as project purchasing officers, field ordering officers, and contracting officer

representatives). Although committing fraud was a clear violation of their duty as government employees, the significant difference for the purposes of this report is that these individuals were not acquisition professionals, and procurement was not their primary duty; rather, they were tasked to perform additional duties by, and on behalf of, a non-contracting parent organization. I assume, however, that my findings are applicable to personnel in these positions to some degree, as well as to other Service and agency contracting officers to a much greater degree.

Similarly, although OIF and OEF are presented as case studies for the application of occupational fraud theory to explain the corruption of CCOs in contingency operations, I utilize these operations to allow for generalizations with any contingency operation. Although each contingency operation is unique based on mission, location, duration, and other operational dynamics, there are characteristics that are potentially present in a contingency operation that could affect an individual's propensity to commit fraud based on a variety of perceived pressures, opportunities, and rationalizations.

F.   RESEARCH METHODOLOGY

In my research for this project, I undertook a literature review of contingency contracting with a narrower focus on procurement fraud in contingency environments, specifically fraud that occurred in support of operations in Iraq and Afghanistan. In the literature review, I include applicable government reports and testimony from the GAO, the DoD and special Inspectors General, the CWC, and the Commission on Army Acquisition and Program Management in Expeditionary Operations (commonly referred to as the Gansler Report). I obtained fraud case information and data regarding the number of ongoing investigations and prosecutions involving Army CCOs from the public records of the Department of Justice and supporting investigative agencies.

In the literature review, I also include an examination of occupational fraud theory, including the research of Sutherland (1983), Cressey (1953); Wolfe and Hermanson (2004); Albrecht, Howe, and Romney (1984); and Hollinger and Clark (1983). Occupational fraud theory provides the explanatory models enabling an understanding of the motivation(s)

behind fraud in order to better assess organizational risk and identify effective prevention and detection mechanisms.

Starting from the data on CCO fraud commission provided by the Department of Justice and Special Inspector Generals and utilizing the framework provided by the occupational fraud models, I analyze the contracting environment prior to and during operations in Iraq and Afghanistan to identify elements that influenced pressures, opportunities, and rationalizations that led to Army CCO corruption. The Army's Criminal Investigative Division's (CID) Major Procurement Fraud Unit (MPFU) conducted an assessment of the contracting environment in Iraq over a several-month–long period in 2005 and identified various significant conditions that were conducive to fraud (Ethridge, Greenway, & Kilgore, 2007). Many of these elements are likely to exist in any contingency operation and therefore provide a relevant basis for the application of the fraud theory to account for CCO corruption.

G.   ORGANIZATION OF THE REPORT

I have organized this report into four chapters. In Chapter I, Introduction, I provide a brief background regarding fraud in operations in Iraq and Afghanistan to establish that occupational fraud was a widespread and costly problem in OIF and OEF as contingency operations. I then present the research question and methodology for conducting the research, as well as identify the scope, limitations, and assumptions that impact the research conclusions. In Chapter II, I present a consolidated review of occupational fraud theory and include prominent fraud models, notably Cressey's (1953) Fraud Triangle, to provide the foundation for addressing the problem of fraud in contingencies. In Chapter III, I provide an overview of contingency contracting and then utilize the framework I presented in Chapter II to examine how the contracting environment prior to OIF and OEF, as well as the attributes of OIF and OEF as contingency operations, enabled fraud. In Chapter IV, I present the conclusions and propose areas for further research.

H. SUMMARY

In this chapter, I provided an overview of the body of the research of this report. I presented the research question, scope, and methodology of the research. Finally, I provided a general outline of the report.

In the next chapter, I provide the basic theoretical framework of occupational fraud by presenting notable research and the explanatory models originating from it. My overview of occupational fraud theory serves as an informed foundation for Chapter III, in which I analyze the contracting environment, both prior to and during OIF and OEF, to identify the characteristics of these recent contingency operations that enabled the corruption of U.S. Army CCOs. In order to do so, I present the various explanations of fraud causation, which are fundamental to understanding this corruption.

II. OCCUPATIONAL FRAUD THEORY

In this chapter, I present an overview of occupational fraud theory from the conceptualization of the white-collar criminal to subsequent seminal research studies, from which the most widely accepted explanatory model of financially motivated crime, the Fraud Triangle, originated. In the majority of recent studies, researchers have focused on revisions and expansions of the Fraud Triangle in an attempt to provide a more comprehensive representation of occupational fraud in today's complex and technological society.

A. BACKGROUND

Despite the enormous economic and social impact caused by occupational fraud, relatively little research in the area has been conducted (Wells, 1997). With a recent spate of financial crimes fresh in the public's conscience, however, occupational fraud as a field of study has been garnering considerable attention. Theories are proving relevant in accounting for the commission of crimes making front-page news, ranging from Bernard Madoff's investment fraud to insider trading by the hedge fund Galleon Group's founder, Raj Rajaratnam. With the massive size and scope of potential fraud based on the highly networked, computerized, and global characteristics of financial systems today, understanding the enablers of fraud is more important than ever.

Occupational fraud, as a separate field of research, developed out of criminological and sociological studies in the early 1900s. Up to that time, most research regarding crime had focused on violent offenders, such as murderers and rapists. Research on financially motivated crime was minimal and limited primarily to theft and burglary. Edwin H. Sutherland, a sociologist and university professor, was one of the first to undertake a systematic study of financial crimes and fraud perpetrators. In doing so, Sutherland repudiated the commonly held theories of the early 20th century regarding the origins of criminal behavior: notably, that criminal behavior is caused by genetics, which is exacerbated by environmental conditions like poverty. Sutherland (1983) proposed a contrary thesis that "social and personal pathologies are not an adequate explanation of criminal behavior" (p. 5).

Based on the research he conducted, much of it on the upper class and business elite, Sutherland concluded that criminal behavior is learned. This learning takes place through social interaction and communication with others and thus is largely dependent upon the environment. He postulated a hypothesis of differential association in which he described criminal behavior as

> learned in association with those who define such criminal behavior favorably and in isolation from those who define it unfavorably, and that a person in an appropriate situation engages in such criminal behavior if and only if the weight of the favorable definitions exceeds the weight of the unfavorable definitions. (Sutherland, 1983, p. 240)

In the textbook Sutherland co-authored with Cressey and Luckenbill (1992), *Principles of Criminology*, which remains standard course reading for criminology students to this day, Sutherland further expanded the theory of differential association by outlining its nine essential points:

- Criminal behavior is learned.

- Criminal behavior is learned while interacting with other persons in a process of communication.

- The principal part of the learning of criminal behavior occurs within intimate personal groups.

- When criminal behavior is learned, the learning includes techniques of committing the crime, which are sometimes very complicated, sometimes simple, and the specific direction of motives, drives, rationalizations, and attitudes.

- The specific direction of motives and drives is learned from definitions of the legal codes as favorable or unfavorable.

- A person becomes delinquent because of an excess of definitions favorable to violation of the law over definitions unfavorable to violation of the law.

- Differential associations may vary in frequency, duration, priority, and intensity.

- The process of learning criminal behavior by association with criminal and anti-criminal patterns involves all of the mechanisms that are involved in any other learning.

- Although criminal behavior is an expression of general needs and values, it is not explained by those needs and values, because non-criminal behavior is an expression of the same needs and values. (pp. 88–91)

In shifting the focus away from social and economic determinants (e.g., personal/family background and poverty/wealth levels), the theory of differential association represented a new paradigm in the field of criminology. In his research, Sutherland also provided an impetus for researchers to conduct additional studies of crimes that members of the upper echelons of society, as well as corporations, had committed. In fact, Sutherland is responsible for coining the term *white-collar crime* in 1939 (Wells, 1997, p. 9). In his book *White Collar Crime*, published 10 years later,[4] Sutherland (1983) described the term "principally to refer to businessmen and executives" (p. 265). The term has since come to encompass virtually all economic and financial crimes.

The impact of Sutherland's research on the field of criminology is far-reaching; the American Society of Criminology's [ASC] premier award recognizing exceptional contribution to theory or research is named in his honor, the Edwin H. Sutherland award (ASC, 2011). Sutherland and his theory of differential association, with its focus on the "drives, rationalizations, and motives" (Wells, 1997, p. 9) of criminals, directly influenced subsequent research on occupational fraud. Much of the current literature in the area of occupational fraud is predicated on Sutherland's groundbreaking studies of crimes businesspeople, managers, and corporations have committed.

B. CRESSEY'S FRAUD TRIANGLE

Perhaps unsurprisingly, one of the premier figures in the field of occupational fraud theory was a student of Sutherland's, Donald R. Cressey. Upon his passing in 1987, *The New York Times* lauded Cressey as one of the "nation's leading experts on the sociology of crime" and noted that he was the author of "several highly regarded books on the causes and prevention of crime" ("Prof. Donald R. Cressey," 1987). Cressey incorporated Sutherland's differential association theory while researching a wide variety of areas, including organized crime and criminal rehabilitation.

An early research undertaking, however, ultimately became a landmark study and generated the classic Fraud Triangle model for which Cressey is best known. While Sutherland focused on high-level corporate executives who committed fraud against the

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[4] For this research, I utilized the 1983 publication version, a new edition of the original work.

public or company shareholders, Cressey focused his efforts on low-level embezzlers, interviewing more than 200 inmates at Midwest prisons (Wells, 1997). He published his research findings in *Other People's Money: A Study in the Social Psychology of Embezzlement*. In it, he referred to an embezzler as a trust violator, someone who had earned a position of trust in an organization but later violated this trust when exposed to a given pressure. Cressey's (1953) hypothesis was that

> trusted persons become trust violators when they conceive of themselves as having a financial problem that is non-shareable, are aware this problem can be secretly resolved by violation of the position of financial trust, and are able to apply to their own conduct in that situation verbalizations which enable them to adjust their conceptions of themselves as trusted persons with their conceptions of themselves as users of the entrusted funds or property. (p. 30)

Central to this hypothesis are these three elements: the non-shareable financial problem or pressure that provides the incentive to act, the rationalization that enables an individual to believe the criminal act is justified, and the opportunity, including the skill and information, to commit the act. Over time, Cressey's hypothesis became known as the Fraud Triangle, with each of the three elements representing a leg of the triangle, as shown in Figure 1.

Figure 1.   Fraud Triangle
(Wells, 1997, p. 11)

It is important to note that Cressey (1953) believed all three elements had to be present, a conjuncture of events, in order for the fraud to occur: "The absence of any one or all of the events in the process will preclude the criminal violation of financial trust, together with other information, that when the entire process takes place trust violation results" (p. 34).

1.   Non-Shareable Financial Pressures

The first leg of the triangle, the non-shareable financial pressure, provides a critical differentiation in terms of the fraud commission relative to why an individual has not previously violated the trust of his or her employer. The existence of this pressure explains the responses of the research subjects—the inmates incarcerated for fraud offenses—when asked why they had refrained from fraud at an earlier time: They said, "There was no need for it like there was this time"; "The idea never entered my head"; and "I thought it was dishonest then, but this time it didn't seem dishonest at first" (Cressey, 1953, p. 33). The pressure serves as a catalyst, of which Cressey (1953) identified six types:

- violation of ascribed obligations,
- problems resulting from personal failure,
- business reversals,
- physical isolation,
- status gaining, and
- employer–employee relations.

Violation of ascribed obligations refers to an individual's inability to pay a debt, compounded by the feeling that revealing the situation would make it worse or lead to additional feelings of guilt and shame. Thus, the individual feels that he or she cannot admit his or her problem to another party, even one in a position to help. Frequently, this inability to ask for help has to do with the position of trust the individual holds, at work or home, which is accompanied by expectations from the organization (employer and employees), family (spouse and child), or society in general. Thus, as Cressey (1953) explained, "admission of the loss would amount to an admission of unworthiness" (p. 41). Problems resulting from personal failures can arise from gambling, drug use, credit card abuse, or poor investment decisions, as examples. The individual feels that the problem is a "consequence of his 'own bad judgment,' 'own fault,' or 'own stupidity' (Cressey, 1953, p. 42). Cressey differentiated the third type, business reversals, from personal failures to reflect an individual's belief that business-related financial problems are beyond his or her control and are purely the result of external factors, such as poor market conditions or high interest rates. The fourth category, physical isolation, refers to an individual's belief that no one can

understand his or her problem or assist in solving it; this belief is independent of feelings of fear or shame that would preclude admission. An individual incurs problems related to status-gaining when he or she aspires to status or social standing, a keeping-up-with-the-Joneses mentality. The final category refers to problems associated with the employer–employee relationship. In these cases, an individual may feel that he or she is not being treated fairly, compensated appropriately, or appreciated for his or her contributions. The individual does not believe that he or she can share his or her feelings without retribution or negative impact. In all these categories of non-shareable pressures exists the motivation for the trust violation: embezzlement in Cressey's research, but inclusive of other occupational fraud schemes as well.

2.   Opportunity

According to Cressey, there are two prerequisites that make up the second leg of the triangle, perceived opportunity: the individual must possess general information, as well as the technical knowledge to execute the fraud secretly. The first part, general information, is basically the individual's recognition that the trust can be violated (i.e., the individual recognizes his or her fiduciary capability to execute the fraud). These individuals recognize that their position provides the potential to alleviate their non-shareable problem. Technical knowledge is also often tied to the position; the same skills required to gain and keep the position can be used to commit the fraud. Cressey (1953) noted that "persons trained to carry on the routine duties of a position of trust have at the same time been trained at whatever skills are necessary for the violation of that position" (p. 82). Thus, in execution of his or her crime, an individual does not deviate much from his or her typical occupational routine (i.e., the one in which he or she is skilled). Cressey (1953) observed, "Accountants use checks which they have been entrusted to dispose of, sales clerks withhold receipts, bankers manipulate seldom-used accounts or withhold deposits, real estate men use deposits entrusted to them, and so on" (p. 84). It is not, however, until the opportunity and non-shareable problem are accompanied by rationalization that an individual will commit fraud.

3.   Rationalization

The third leg of the triangle is rationalization, or as Cressey (1953) also referred to it, the "vocabulary of adjustment" (p. 93). This is the process by which an individual convinces himself that the fraud being committed is "(a) non-criminal, (b) justified, or (c) as a part of a general irresponsibility for which he is not completely accountable" (Cressey, 1953, p. 93). This rationalization happens prior to the execution of the fraud and is part of the motivation, allowing the trust violator to frame his or her action in such a way as to make it acceptable behavior. The rationalizations are unique and dependent on the individual and the crime. Cressey, however, delineated three types of offenders with their own rationalizations: independent businesspeople, long-term violators, and absconders.

Common excuses that independent businesspeople who had misused client funds adopted include "(a) that they were merely borrowing the money which they converted, or (b) that the funds entrusted to them were really theirs" (Cressey, 1953, p. 102). These individuals have a much easier time justifying their actions by using the terminology of *borrowing* versus *stealing*, even when they have no intent of actually returning the money. For some businesspeople, committing fraud is made easier by the fact it is a rational extension of how their business is conducted. Additionally, because these individuals are still performing their normal, legitimate duties, they avoid seeing their act as criminal.

Long-term violators also incorporate the rationalization of borrowing, but because their crimes occur over extended periods, additional rationalizations are also common. Examples of supplemental rationalizations include that they embezzled "to keep their families from shame, disgrace, or poverty, that theirs was a case of 'necessity,' that their employers were cheating them and were dishonest, so that trust violation seemed justified" (Cressey, 1953, p. 114). Cressey noted that the long-term violators have difficulty justifying their actions as time goes on, as they start to think about the potential consequences of their actions and the possibility of a prison sentence or other penalties. Many ultimately acknowledge that all they had done was trade one non-shareable problem (the catalyst) for another (the embezzlement).

The final group of offenders is the absconders, those who take the money and run. Cressey found that physical isolation is a common theme among this type of offender. This group has fewer family ties and less meaningful group associations. They tend to be in positions of lower status (e.g., clerks or drivers) versus an executive or accountant. These characteristics influence the decision to flee but also affect the type of rationalizations that absconders utilize. The absconders justify their behavior by telling themselves they do not care what happens to them, that living honestly is impossible, and that the criminality intrinsic in all people had come out in them. While independent businesspeople keep working and convincing themselves that they are normal and it is the situation that is bad, the absconder believes it is himself that is bad, blaming a personal defect instead of an external situation. However, both are rationalizations for socially unacceptable behavior, just with different sources.

Regardless of the type of rationalization, Cressey found that rationalization occurs before the crime takes place versus afterwards. In fact, many offenders abandon their previously held rationalization after the act, finding that the more they engaged in the fraud, the easier the fraud becomes and the less necessary it becomes to provide a reason for doing so. Wells (1997) later cited this phenomenon as a hallmark of occupational fraud, noting that once an offender crosses the line, "the illegal acts become more or less continuous" (p. 17).

Sutherland's and Cressey's seminal efforts in occupational fraud research provide the foundation for what is known regarding the causal factors of fraud. Although Cressey himself did not refer to his hypothesis as the Fraud Triangle, his findings have become ingrained in both academia and the private sector. The auditing profession formally adopted the concept, which appears in the *Statement of Auditing Standards (SAS) 99: Consideration of Fraud in a Financial Statement Audit*, as follows:

> Three conditions generally are present when fraud occurs. First, management or other employees have an *incentive* or are under *pressure*, which provides a reason to commit fraud. Second, circumstances exist—for example, the absence of controls, ineffective controls, or the ability of management to override controls—that provide an *opportunity* for a fraud to be perpetrated. Third, those involved are able to *rationalize* committing a fraudulent act. Some individuals possess an *attitude*, character, or set of ethical values that allow them to knowingly and intentionally commit a dishonest act. However,

even otherwise honest individuals can commit fraud in an environment that imposes sufficient pressure on them. The greater the incentive or pressure, the more likely an individual will be able to rationalize the acceptability of committing fraud. (American Institute of CPAs, 2011, p. 170)

Cressey's contribution to the study of fraud through the formulation of the Fraud Triangle, with its straightforward and easily understandable explanation of why fraud occurs and how good people make bad decisions, is virtually unmatched. Since its introduction more than 60 years ago, it has undergone modifications and expansions as researchers have identified weaknesses and conducted additional studies. Subsequent research findings have incrementally increased the collective knowledge regarding the perpetration of fraud.

C.   WOLFE AND HERMANSON'S FRAUD DIAMOND

One later development was the inclusion of a fourth element, converting the Fraud Triangle into the Fraud Diamond (see Figure 2). In addition to incentive, opportunity, and rationalization, David T. Wolfe and Dana R. Hermanson, a CPA and professor of accounting, respectively, added a fourth consideration: an individual's capability. Wolfe and Hermanson (2004) believed that an individual's personal traits and abilities, in addition to the other three factors, play a significant role in whether fraud occurs.

Figure 2.   Fraud Diamond
(Wolfe & Hermanson, 2004, p. 38)

Based on their extensive experience investigating fraud, Wolfe and Hermanson (2004) identified several essential personality traits regarding fraud commission, usually evident in fraud schemes that involve large sums of money or that take place over a

prolonged period. The following are what Wolfe and Hermanson (2004) referred to as the components of capability:

- position/function,
- brains,
- confidence/ego,
- coercion skills,
- effective lying, and
- immunity to stress.

Clearly, not all these attributes are inherently bad. Being intelligent, confident, and persuasive are the characteristics that most likely contributed to the individual's success in gaining a position of trust at the organization in the first place. It is when the individual decides to utilize these attributes against the company, being at the same time armed with the other capabilities, including the ability to lie effectively and deal with the stress of committing the fraud, that they become extremely dangerous and detrimental to the organization. Recently discovered fraud schemes highlight perpetrators with the capabilities Wolfe and Hermanson described; Bernie Madoff serves as an excellent example. Wolfe and Hermanson (2004) contended that "today's largest frauds are committed by intelligent, experienced, creative people, with a solid grasp of company controls and vulnerabilities" (p. 40).

While acknowledging overlap in the four areas (e.g., position as a capability also serves as opportunity), Wolfe and Hermanson (2004) contended that an individual's capabilities should be evaluated as a separate element in an assessment of fraud risk. Additionally, they advised that assessing the capabilities of employees, particularly senior management, is critical and should not be a one-time effort. People can acquire professional capabilities and hone skills over time. Furthermore, internal processes and technologies are constantly changing, providing new opportunities for someone not previously recognized as a possessing the requisite characteristics to exploit. Wolfe and Hermanson (2004) provided specific recommendations for dealing with personal capability when assessing fraud risk: performing routine background checks; spending time with the person, both at and outside of

the workplace; and paying attention to the little things, like someone who consistently takes shortcuts or cheats at sports (p. 39).

It is the Fraud Diamond's inclusion of the personal characteristics that separates it from the Fraud Triangle, and its major contribution to the occupational fraud canon is its view of fraud opportunity that goes beyond purely environmental and situational dynamics. It clearly owes its origins to Cressey's Fraud Triangle but is arguably a better explanatory model for certain types of fraud, such as financial statement fraud versus corruption or employee asset misappropriation. Another benefit associated with the Fraud Diamond is that capability is a more observable attribute than rationalization or pressure, which are attributes that an individual can keep private. In this manner, the Fraud Diamond enhances the Fraud Triangle by addressing a weakness of its predecessor. Although the Fraud Triangle is a theoretically sound model, brilliant in its simplicity, it is, by itself, an inadequate mechanism for deterring, preventing, and detecting fraud because two of its three elements (pressure and rationalization) are hidden.

D.   ALBRECHT'S FRAUD SCALE

Another pioneer researcher in the field of occupational fraud was Steve Albrecht, who, along with colleagues Keith Howe and Marshall Romney, studied corporate fraud through surveying internal auditors of companies that had been victims of fraud. Their work culminated in the publication of *Deterring Fraud: The Internal Auditor's Perspective* (1984). In one facet of the study, Albrecht, Howe, and Romney (1984) focused on the motivations of the fraud perpetrators; they provided the auditors with a list of 25 motivating factors to identify those most commonly dealt with. The following 10 are the most frequently cited factors:

- the condition of living beyond one's means,
- an overwhelming desire for personal gain,
- a high personal debt,
- a close association with customers,
- the perception that pay was incommensurate with duties,
- a "wheeler–dealer" attitude,

- the condition of feeling challenged to beat the system,

- excessive gambling habits,

- undue family or peer pressure, and

- no recognition for job performance. (Albrecht et al., 1984, p. 48)

Although many of these duplicated Cressey's findings with regard to the non-shareable financial pressures, Albrecht et al. (1984) highlighted some interesting associations between the offenders and the characteristics of the fraud they committed. They observed that perpetrators of large frauds were more likely to use the funds to buy expensive houses and automobiles than perpetrators of small frauds. Another interesting finding was that those motivated by beating the system committed larger frauds.

In addition to identifying personal characteristics, Albrecht et al. (1984) also noted environmental conditions. I provide a complete list of both, referred to as Red Flags, in Appendix B. Albrecht et al. (1984) used the same methodology to identify the most prevalent environmental factors:

- placing too much trust in key employees,

- lacking proper procedures for authorization of transactions,

- inadequately disclosing personal investments and incomes,

- not separating authorization of transactions from the custody of related assets,

- lacking independent checks on performance,

- giving inadequate attention to details,

- not separating custody of assets from the accounting for those assets,

- not separating duties between accounting functions,

- lacking clear lines of authority and responsibility, and

- internal auditors not frequently reviewing the department.

These environmental conditions provide opportunity. Thus, in identifying personal characteristics, Albrecht et al. (1984) found the source of pressure in the environmental conditions and opportunity, as did Cressey. Similarly, Albrecht et al. (1984) concluded that there are three elements involved in occupational fraud:

> a situational pressure (a non-shareable financial pressure), a perceived opportunity to commit and conceal the dishonest act (a way to secretly resolve

the dishonest act or the lack of deterrence by management), and some way to rationalize (verbalize) the act as either being inconsistent with one's personal level of integrity or justifiable. (p. 5)

While incorporating pressure (although encompassing a wider range of what qualifies as a pressure) and opportunity, Albrecht et al. (1984) substituted personal integrity for rationalization. A benefit associated with the inclusion of integrity is that it can be a more easily observed feature than rationalization. This feature provides the same benefit that the capabilities element of the Fraud Diamond provides; and although an individual's integrity certainly impacts his or her process of rationalization, rationalization is an internal process, whereas integrity has observable outputs. An individual's commitment to ethical decision-making can be judged by observing both a person's decisions and his or her decision-making process (Dominey, Fleming, Kranacher, & Riley, 2010).

Providing a model to explain the concept, Albrecht et al. (1984) introduced the Fraud Scale, as seen in Figure 3.
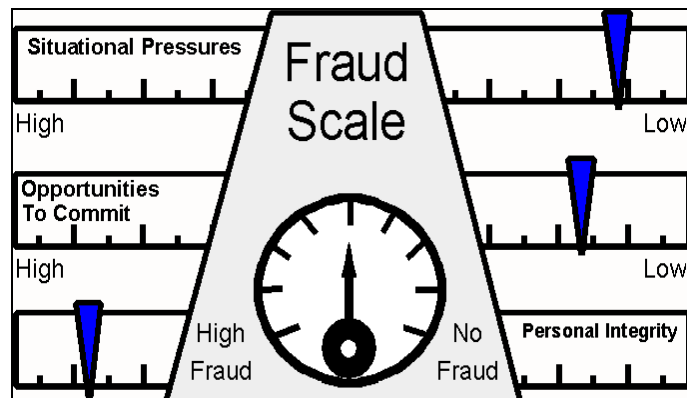
Figure 3.   Fraud Scale
(Albrecht et al., 1984, p. 6)

The Fraud Scale illustrates how the interaction of the three criteria (pressure, opportunity, and integrity) determine the degree of fraud risk. If everything is balanced, then the fraud risk is neutral; but when personal integrity is low and situational pressures and perceived opportunities are high, fraud is more likely to occur. The Fraud Scale, like the Fraud Diamond, supports the Fraud Triangle and attempts to enhance it. While the Fraud Diamond amends the opportunity component of the Triangle, the Fraud Scale amends the

rationalization component. Both models are therefore considered model extensions of the Fraud Triangle.

E.   HOLLINGER AND CLARK

While Albrecht et al. (1984) surveyed auditors, Hollinger and Clark (1983) conducted a survey of 10,000 workers in the retail, hospital, and manufacturing sectors as part of their research regarding employee deviance, which the Department of Justice funded. Investigating the validity of multiple hypotheses, they concluded that employees steal primarily because of workplace conditions. Job dissatisfaction is the primary cause of employee theft. Although not necessarily a non-shareable *financial* problem, Cressey did acknowledge employee dissatisfaction in the employer–employee relations as a problem in the pressure construct of the Fraud Triangle.

In addition to the relationship between job dissatisfaction and theft, Hollinger and Clark (1983) looked for correlations between other various attributes, including position and organizational controls. While confirming a direct relationship between an employee's position and the level of the theft, they noted that because dissatisfaction was the primary motivator, the employee's position only affected the method and amount of the theft after a decision to commit the crime had already been made.

Hollinger and Clark (1983) recommended that management pay attention to four aspects of policy development: (1) a clear understanding regarding theft behavior, (2) continuous dissemination of positive information reflective of the company's policies, (3) enforcement of sanctions, and (4) publicizing the sanctions. Hollinger and Clark (1983) concluded that the most important policy implication

> is that theft and workplace deviance are in large part a reflection of how management at all levels of the organization is perceived by the employee. Specifically, if the employee is permitted to conclude that his or her contribution to the workplace is not appreciated or that the organization does not seem to care about the theft of its property, we expect to find greater involvement. In conclusion, a lowered prevalence of employee theft may be one valuable consequence of a management team that is responsive to the current perceptions and attitudes of its workforce. (p. 146)

Although focused on employee theft, their conclusions are applicable to other forms of occupational fraud, including corruption. Although Hollinger and Clark did not create a new fraud model, and although they did not attempt to modify the Fraud Triangle model, their work regarding the employee theft motivation significantly impacted the field of occupational fraud. Most important, their research findings and recommendations impacted theories and practices regarding the best way for organizations to address employee deviance.

F. SUMMARY

In this chapter, I provided an overview of the evolution of occupational fraud theory and introduced the field's conceptual models, including the benchmark model, the Fraud Triangle, and subsequent model extensions. I presented Sutherland's study of white-collar criminals and Cressey's study of trust violators as seminal works in the field now known as occupational fraud. The Fraud Triangle represents a groundbreaking model in understanding how fraud occurs. Since its introduction more than 60 years ago, it has undergone revisions and expansions, including the insights provided by the Fraud Diamond and the Fraud Scale; nevertheless, the Fraud Triangle remains the standard framework for explaining the necessary conditions under which fraud occurs. Having established the critical tenets of occupational fraud theory, in which I have included a sufficient explanation of the fraud models, in the next chapter I operationalize the theory by applying the Fraud Triangle Model to the contracting environment and instances of Army CCO corruption in OIF and OEF.

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III. ANALYSIS OF THE CONTRACTING ENVIRONMENT UTILIZING OCCUPATIONAL FRAUD THEORY

A. BACKGROUND

In this chapter, I provide a brief overview of contingency contracting and Army CCO fraud in OIF and OEF, then address elements of the DoD's contracting environment prior to these contingency operations that subsequently contributed to the Army's fraud problems in theater. Next, I address the elements that created or stressed weaknesses in the OIF and OEF contingency contracting operation that contracting officers themselves exploited purposefully, or inadvertently allowed other contracting personnel the opportunity to do so. For both periods, prior to and during OIF and OEF, I approach the elements utilizing the construct of the Fraud Triangle model by examining how they could affect the pressures, opportunities, and rationalizations Army CCOs experience that ultimately could lead to a decision to commit fraud.

1. Contingency Contracting

A contingency is an event that requires the deployment of military forces in response to natural disasters, terrorist or subversive activities, collapse of law and order, political instability, or other military operations (Headquarters, Department of the Army [HQDA], 1999, p. 1-2). In accordance with 10 U.S.C. § 101(a)(13), a declared contingency operation of the Department of Defense (DoD) may be

- Designated by the Secretary of Defense when members of the armed forces become involved in military actions against an enemy of the United States, and/or

- Declared by the President or the Congress when members of the uniformed forces are called to active duty (a reserve component mobilization) under Title 10 U.S.C., or any provision of law during a declared war or national emergency. (Director, Defense Procurement and Acquisition Policy [DPAP], 2010, p. 78)

Joint Publication 4-10, *Operational Contract Support*, defines contingency contracting as "the process of obtaining goods, services, and construction from commercial sources via contracting means in support of contingency operations" (Chairman of the Joint

Chiefs of Staff [CJCS], 2008, p. I-2). The *Defense Contingency Contracting Handbook* defines contingency contracting as "direct contracting support to tactical and operational forces engaged in the full spectrum of armed conflict and noncombat contingency operations, both domestic and overseas" (Director, DPAP, 2010, p. 77). In 2010, the Army conducted 108 contingency contracting missions in 39 countries, including combat support in OIF and OEF, as well as humanitarian relief in Haiti and Pakistan (Phillips, 2011).

Contingency contracting is inherently complex because it takes place in an environment that is often hostile. CCOs face challenges associated with not only their physical security, but also a fragile business and financial environment. All of these problems were, and to some extent still are, present in the contingency contracting environments of Iraq and Afghanistan. In the fall of 2001, as operations got underway in Afghanistan, the deploying contracting personnel faced a variety of issues: a lack of a contracting organizational structure, inefficient resource allocation, and minimal training to the incoming CCOs (D'Angelo, Houglan, & Ruckwardt, 2008). Contracting organization, staffing, and coordination were also problems in Iraq. The Iraq Program Management Office was the first contracting agency established in theater in January 2003 to provide support for both reconstruction and coalition forces as early as January 2003. Within months, there were numerous contracting agencies operating in the country, each functionally independent of one another with little coordination taking place. The various contracting agencies included the following:

> the Coalition Joint Task Force, 24 military contracting personnel supporting 120,000 U.S. forces; the CPA's Project and Contracting Office, focusing on Iraq's reconstruction contracting effort; the U.S. Army Corps of Engineers, working construction and civil engineering projects; the Defense Contract Management Agency, coordinating Logistics Civil Augmentation Program support; and Special Operations contracting teams, working various missions throughout the country. (Houglan, 2006, p. 23)

After almost two years of enduring disjointed, ad-hoc contracting processes in theater, U.S. Central Command (CENTCOM) created the Joint Contracting Command–Iraq (JCC–I)[5] in November 2004 to alleviate the absence of any central coordinating authority

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[5] In 2010, JCC–I/A transitioned to the U.S. Central Command Joint Theater Support Contracting Command (C–JTSCC).

managing contracting (Special Inspector General for Iraqi Reconstruction [SIGIR], 2006). In July 2005, CENTCOM ordered contracting in Afghanistan to fall under JCC–I contracting authority, with the organization renamed Joint Contracting Command–Iraq/Afghanistan (JCC–I/A, 2009; Houglan, 2006). While JCC–I/A made progress addressing some of the internal and structural contracting problems, the issue of corruption, both internal and external to the contracting organization, remains.

2. Army CCO Corruption in OIF and OEF

From Department of Justice conviction information available in SIGIR reports, I was able to compile the following data regarding Army CCO prosecutions for fraud in OIF and OEF, presented in Table 1.

Table 1. Army CCO Convictions
(SIGIR, 2011, pp. 142–146)

NAME	RANK	CHARGES	LOCATION	DATE CONVICTED	PRISON SENTENCE	MONETARY AMOUNT OF CRIME
PRESSLEY, EDDIE	MAJ	Bribery, Conspiracy, Money Laundering	KUWAIT	3/1/2011	Pending	$ 2,800,000.00
SANCHEZ, RODERICK	MAJ	Bribery	KUWAIT	10/27/2010	60 months	$ 216,000.00
SUBLETT, CHARLES	MAJ	False statements	IRAQ	7/7/2010	21 months	$ 122,000.00
RUSSELL, THERESA	SSG	Money laundering	IRAQ	1/28/2010	5 yrs Probation	$ 30,000.00
MURRAY, CHRISTOPHER	MAJ	Bribery, False statements	KUWAIT	1/8/2009	57 months	$ 245,000.00
BAKER, THERESA	MAJ	Bribery, conspiracy	IRAQ	12/22/2008	70 months	$ 400,000.00
MOMON, JAMES	MAJ	Bribery, conspiracy	KUWAIT	8/13/2008	Pending	$ 5,800,000.00
COCKERHAM, JOHN	MAJ	Bribery, Conspiracy, Money Laundering	KUWAIT	6/24/2008	210 months	$ 9,600,000.00
RIVARD, JOHN	MAJ	Bribery, Conspiracy Money laundering	IRAQ	7/23/2007	120 months	$ 220,000.00

From court records and public accounts, these CCOs appear to fit the occupational fraud profile Cressey (1953) described. Prior to the commission of the crimes that led to their convictions, these CCOs were military members in good standing, respected by seniors and subordinates alike. For instance, during his career, Major Sanchez "received 28 medals, including a Bronze Star, and was named Army Contracting Officer of the Year in 2004" (Ensslin, 2011). Major Pressley's leadership in Kuwait gave him an excellent Officer Evaluation Report (OER), rating him in the top 10% of all majors and recommending him for early promotion and future battalion command based on "his stalwart belief in the Army

values" (*United States v. Pressley*, 2011, p. A-5). During the sentencing hearing for Major Cockerham, the judge told him the following:

> Mr. Cockerham, let me say that there is so much about your life that's been good. You've really brought yourself up by your shoestrings, by your boot straps, and you had an impressive career in the Army. You've fought for a good education. You've been a good family man, and after this has happened you have worked very hard to make amends, to make it up, to work with the Government. All those things I understand. And it makes this case all the more tragic, that somebody whose record indicates such goodness could have done something that was so wrong. (*United States v. Cockerham*, 2009, pp. 74–75)

These CCO profiles support the tenet that virtually anyone may commit fraud under a certain set of circumstances and that most fraudsters have "profiles that look exactly like their honest counterpart's profiles" (Albrecht, Wernz, & Williams, 1995, p. 7). The conditions enabling all three legs of the Fraud Triangle to exist and fraud to manifest itself through the actions of these CCOs were established through a combination of systemic contracting environment issues and elements attributable to virtually any contingency contracting operation, all of which culminated in a "perfect storm" (Gansler et al., 2007, p. 17) for the Army and its contracting community.

3.   The DoD's Contract Management Designation as High-Risk

Problems associated with the DoD's procurement and related functions are not unique to contingency operations. The DoD faced systemic problems in the field of contracting, as well as in the interrelated fields of financial and property management, that predated the operations in Iraq and Afghanistan (GAO, 2011b). Over a two-decade period, the GAO and other oversight agencies documented shortcomings spanning the entire procurement continuum from requirements identification, contracting, payment and funds control, and equipment receipt and property accountability.

The GAO began formally reporting on areas classified as high-risk to reduce or eliminate vulnerabilities in government operations that were susceptible to fraud, waste, and abuse or mismanagement. Table 2 shows that the GAO has identified these DoD areas as high-risk virtually since the creation of the list in 1990.

Table 2.   Year Areas Were Designated High-Risk

Area	Year designated high-risk
DoD Contract Management	1992
DoD Financial Management	1995
DoD Supply Chain Management	1990

Note. I took the information in this table from a lengthier table found in the *GAO's 2011 High-Risk Series* (GAO, 2011b, p. 173).

To be considered high-risk, the GAO evaluates government programs and functions to consider whether the risk involved qualifies, among other criteria, as an

> inherent problem, such as may arise when the nature of a program creates susceptibility to fraud, waste, and abuse … and could result in significantly impaired service, program failure, injury or loss of life, or significantly reduced economy efficiency or effectiveness … and exposure to loss in monetary or other quantitative terms. (GAO, 2011b, p. 174)

Published annually, the high-risk list identifies risk elements and provides recommendations for improvement; removal from the report is the ultimate goal. As the largest buyer of goods and services in the world (Department of Defense, Inspector General [DoDIG], 2010), the federal government has an obvious stake in ensuring that its procurement, payment, and accountability processes are operating effectively, thereby providing maximum cost savings. The magnitude and complexity of these functions, however, provide substantial challenges, as supported by sustained appearances on the High-Risk report for almost two decades.

The GAO uses *contract management* as an umbrella term to cover various facets of federal contracting, both pre- and post-award, as distinguished from the more narrowly construed definition commonly applied in the contracting community that associates contract management with actions occurring after a contract award, also referred to as contract administration. While the areas that the GAO chooses to highlight as high-risk in the area of contract management vary from year to year, several are recurring: the size and capabilities

of the acquisition workforce, the proper utilization of contract vehicles, and adequate contractor oversight (GAO, 2011b).

The challenges involved in the effective management of contract management, financial management, and property management are not only present in the contingency environment but are heightened. The DoDIG reports that the GAO and other DoD oversight groups issued 302 unclassified reports and testimonies highlighting issues regarding these functions in support of OEF and OIF (DoDIG, 2008a, p. 3). Table 3 shows the number of reports and recommendations compiled by the DoDIG.

Table 3.   OEF and OIF Related Reports and Testimonies (FY2003–2007)
(DoDIG, 2008a, p. 3)

Area	Number of Reports & Testimonies	Recommendations
Contract Management	103	302
Logistics	119	332
Financial Management	133	264
Other	73	119

Note. The total will exceed 302 because reports and testimonies cover multiple functional areas.

In addition to inheriting the problems present in traditional operational contracting, contingency contracting provides unique challenges, such as the accountability of contractor personnel in theater, increased requirement complexity including security and reconstruction operations, and the training of a vast number of non-acquisition personnel to perform oversight functions. These issues are compounded by the lack of reliable information technology and communication systems in a highly distributed and hostile environment, as well as a rapid contracting personnel turnover and operational tempo. In Section C of this chapter, I discuss how these and other environmental elements can impact the CCO's decision to commit fraud.

B. PROBLEMATIC DOD PROCUREMENT TRENDS PRIOR TO OIF/OEF

In the years prior to the operations in Iraq and Afghanistan, several trends emerged that compromised the DoD's ability to properly manage the acquisition of goods and services and, in turn, directly and indirectly impacted the likelihood of fraud. Thus, many of the challenges encountered in Iraq and Afghanistan can be linked to pre-existing conditions that the DoD failed to manage effectively. First was the increasing contract workload, both in terms of number of contract actions and dollars, necessitated by an increasing reliance on contractors to perform services previously done by both government, civilian, and military personnel. Second was the concurrent decrease in the number of contracting personnel to handle the workload. Third was the increasing complexity of contract actions and requisite administration. Fourth was the failure to ensure that adequate audit and investigative assets kept pace with the value of DoD contracts. Finally, several institutional aspects, particularly characteristic of the Army, negatively affected the organization's ability to recognize and address the previous issues.

1. Increasing Reliance on Contractors

Although the military has always, to some extent, augmented organic assets with contracted support, several factors culminated to radically alter the scale of contractor support post–Cold War: a reduction in the overall size of the military along with the implementation of the all-volunteer force, an increase in the number of operations, and the adoption of sophisticated weapons systems (GAO, 2008).

The federal government, particularly the DoD, recognizes numerous benefits of outsourcing. The use of contractors provides the military with flexibility, surge capacity, and access to a pool of talent in specialized fields otherwise unobtainable. Although some debate the cost benefits, they acknowledge the utility of contractors. However, the positives are offset by risks that must be managed to ensure proper oversight, the avoidance of contractor performance of inherently governmental functions, and what is now being identified as an "over-reliance" on contracted support, especially in contingency operations (Thibault et al., 2009).

Although the questions of contractor support appropriateness and over-reliance are outside the scope of this report, what is clear by reviewing the data is that DoD reliance on contractors prior to OIF/OEF had been steadily increasing over time, reaching a one-to-one uniformed personnel-to-contractor ratio in the Balkans. Figure 4 shows the increasing complexity of contracted services over time and the ratio of contractors to military personnel during each conflict.
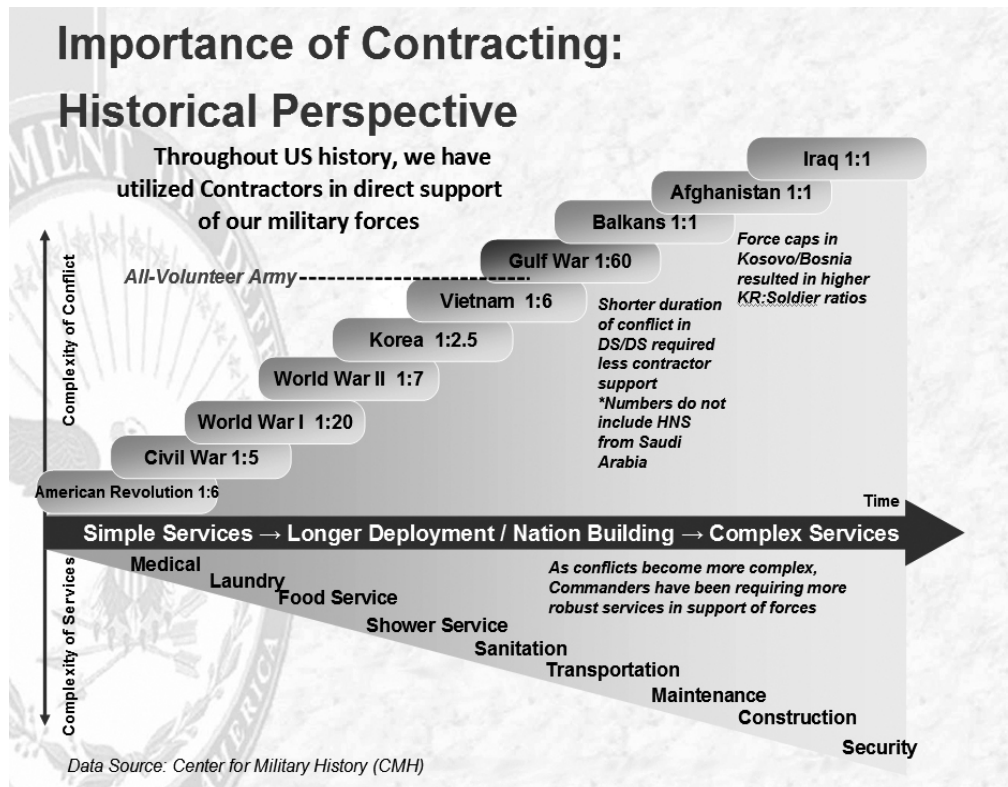
Figure 4.   Evolution of Contracted Support in U.S. Military Operations
(Thibault et al., 2009, p. 21)

Failing to keep pace was the DoD's doctrine to incorporate contractor support, as well as the size and capability of its acquisition workforce required to effectively manage contracts. Additionally, the growing reliance on contractors to perform service requirements necessitated increased auditing and investigative assets, which did not materialize.

The increasing reliance on contractors led to a vast growth in the number of contract actions. The sheer quantity and dollar volume provides greater opportunity for kickbacks, bribery, and other procurement crimes. When increased reliance on contracted support

carries over to a contingency environment, "the opportunity and motive exist to illegally and opportunistically make a fortune in a short period of time" (Ethridge et al., 2007, p. 37).

2. Insufficient Number of Trained Acquisition Personnel

The acquisition workforce shrinkage occurred in part due to the post–Cold War drawdown, as well as a general negative perception resulting from high-profile scandals during the Reagan era, leading to a consensus that the DoD acquisition workforce "underperformed and was too large" (Gates, 2009, p. 7). Additionally, a major acquisition reform movement during the 1990s encouraged the belief that the increased use of technology and more efficient contracting vehicles, including the use of the purchase card, could translate to a smaller acquisition workforce (SIGIR, 2006).

Of particular relevance was the GS-1102, the civilian contracting series, which since 1987 has undergone a 15% reduction in personnel at the same time that contract actions started to increase sharply. Figure 5 shows the substantial reduction that began in the early 1990s.

Figure 5.   DoD Acquisition Workforce Trends
(Defense Acquisition University, 2007, pp. 3–8)

Because of their shrinking numbers and the concurrent increase in contract actions, the contracting personnel had to assume additional r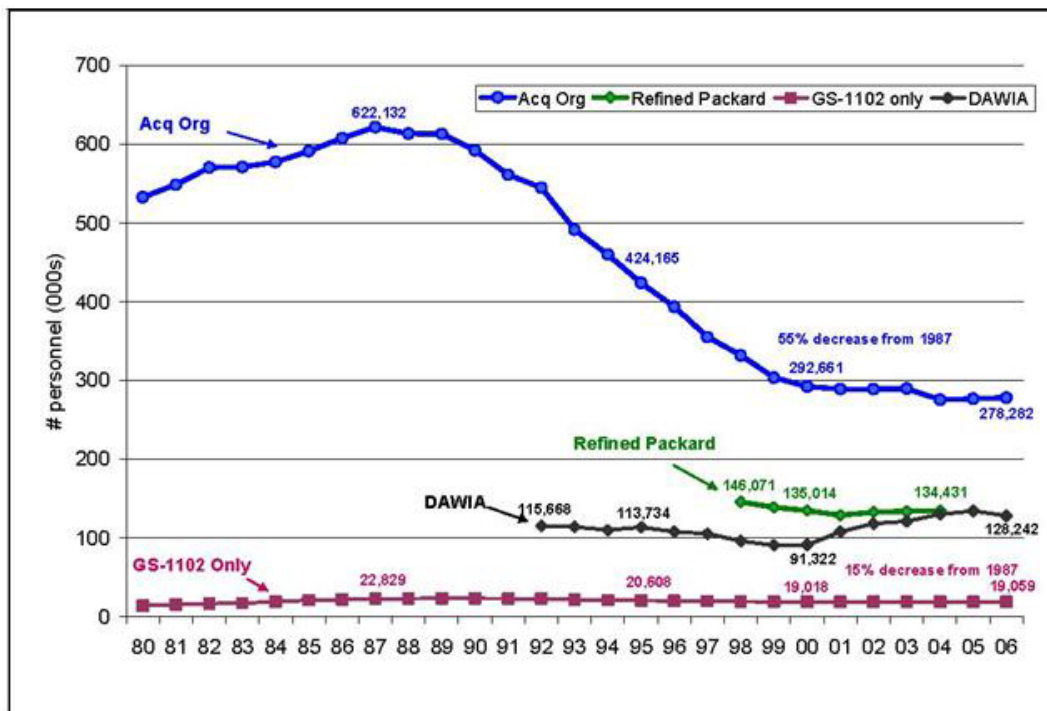esponsibilities and deal with greater expectations regarding required skills to perform their job, as described in a GAO report:

> Over the last decade, the federal acquisition workforce has had to adapt to changes in staffing levels, workloads, and the need for new skill sets. Procurement reforms have placed unprecedented demands on the acquisition workforce. For example, contracting specialists are required to have a greater knowledge of market conditions, industry trends, and the technical details of the commodities and services they procure. (GAO, 2003, p. 20)

Exacerbating the problem, the remaining acquisition personnel had to deal with budgetary cuts to training programs, which made it more difficult for them "to adapt to the increasingly complex and demanding environment in which they were called upon to function" (Acquisition Advisory Panel, 2007, p. 336). These factors influence potential work-related pressures that could influence an individual to commit fraud. Although other pressures include those of a financial nature (e.g., living beyond one's means, high personal debt) or vices (e.g., gambling or drugs), work-related pressures include factors such as "getting little recognition for job performance, having a feeling of job dissatisfaction, … and feeling underpaid" (Albrecht et al., 1995, p. 24).

3. Increasing Complexity of Contract Actions

The capability gap of the federal contracting workforce was further widened by the increasing complexity of contract actions that resulted from the tremendous expansion of service contracts, as shown in Table 4, which are more time-intensive and require significant surveillance resources, as well as the move towards performance-based acquisition and the best-value evaluation approach, which require greater skill and sophistication to execute in comparison to a lowest-price award basis.

Table 4.   Changes in the DoD's Use of Service Contracts (FY 1996–2005)
(Abusive Practices in DoD Contracting, 2007, p. 15)

Service Category	Service obligations Fiscal Year		Percentage of service Obligations, Fiscal Year 2005	Percentage change, Fiscal Years 1996 to 2005
	1996	2005		
Professional, admin & mgmt	$10.8	$28.3	20.0	161

Construction of facilities	7.3	11.7	8.3	62
Maintenance & repair	6.6	11.4	8.1	74
Information technology	4.9	10.3	7.3	110
Medical services	1.6	8.0	5.6	412
Transportation, travel	2.4	6.2	4.4	154
Housekeeping services	2.4	4.8	3.4	98
All other services, excl R&D	22.7	23.6	16.7	4
Research & Development	23.7	37.0	26.2	56
Total, all service contracts	$82.3	$141.2	100.0	72

Note. FY 2005 dollars in billions.

Even measures implemented to streamline the government contracting process often had the opposite effect when fully realized. Although the institution of simplified acquisition procedures was intended to "promote efficiency and economy in contracting; and avoid unnecessary burdens for agencies and contractors" (Federal Acquisition Regulation [FAR], 2005, subpart 13.002), in some instances the unintended consequence was an increase in workload, that is, the implementation and oversight of the Government Purchase Card program.

The increased use of contractors to provide services continues in OIF and OEF, where 66% of overall contract spending is for services (Thibault et al., 2011b, p. 7). The greater technical knowledge required to award and administer contracts for services is part of the prerequisite in the opportunity leg of the Fraud Triangle. Although CCOs are sufficiently trained to carry out their duties in their positions of trust, they are simultaneously receiving the training they need to violate those positions of trust. Additionally, because technical certification guidelines in contracting require a baccalaureate degree and at least 24 semester hours in areas encompassing accounting, law, business, finance, contracts, purchasing, and economics, the CCO is postured to take advantage of this knowledge to circumvent the system. The conspiracy scheme in Kuwait is an example of CCOs utilizing a sophisticated system to defraud the government: Pressley "established three shell companies to launder money, produced false documents to camouflage money transfers, and enlisted family member to serve as nominal owner of one of the shell companies" and "engaged in 'layering,' *i.e.*, two or more wire transfers involving criminally derived funds that were intended to appear legitimate" (*United States v. Pressley*, 2011, p. 11).

4. Inadequate Audit and Investigative Assets

DoD auditors and investigators faced the same predicament as contracting professionals, with capabilities and resources failing to keep pace with the unprecedented growth in the number and value of contract actions. The ratio of DoDIG auditors to the Defense budget had declined significantly so that by 2007, there was one DoDIG auditor for each $657 million of the Defense budget. The DoDIG reported that contracting fraud investigation is one area of many that has "dropped in priority" and "largely been neglected" (DoDIG, 2008b, p. 21). This shift is due in part to the new focus on intelligence and terrorism and a corresponding shift in resources, which led the DoDIG to conclude that its "coverage of high risk area and Defense priorities is weakened and will continue to weaken by insufficient personnel to accomplish our statutory duties" (DoDIG, 2008b, p. 11).

This diminished capability negatively affected the DoD's ability to prevent and detect fraud, as the lack of adequate audit and investigative assets provide a fraudster both opportunity and easier rationalization to commit a crime.

5. Institutional Challenges Specific to the Army

While the DoD as a whole struggled with the challenges associated with the evolving procurement environment, the Army as an institution had cultural characteristics that contributed to contract support problems in OIF/OEF. One was the existence of a warfighter-centric culture that had little regard for its contracting workforce and the value it provided, and which, in turn, prevented a meaningful acknowledgment of the requirement to institutionalize operational contract support.

A persistent challenge faced by the Army, that in part explains the historical mismanagement of its acquisition workforce, is a culture that fundamentally lacks an understanding of the tremendous value its procurement community provides, as well as the inherent complexity involved in contracting for goods and services. Dr. Jacques Gansler, who served as Under Secretary of Defense for Acquisition, Technology, and Logistics from 1997 to 2001, explained the Army culture.

Army culture is focused on warfighting and therefore neither recognizes the critical and complex nature of contracting nor rewards people in the contracting community.

Contracting personnel have been characterized incorrectly as "shoppers" by some both inside and outside of the Army (and, consequently, they have been reduced in both quantity and stature), as opposed to being viewed as true professionals (Gansler et al., 2007, p. 29). Its sister Services also struggled to adapt, but the Army was notably further behind in several key areas, according to a Center for Naval Analysis report issued in 2001 (as cited in Gansler et al., 2007). The result was an Army contracting workforce that was "understaffed, overworked, under-trained, under-supported, and … most importantly, under-valued" (Gansler et al., 2007, p. 3). The Army failed to recognize the importance of CCOs and their contributions to the contingency mission as reflected in their personnel numbers and projected career path. When operations in Iraq and Afghanistan commenced, military personnel made up only 3% of the Army's contracting workforce, and only half had the requisite certification for their current positions (Gansler et al., 2007, p. 24). Additionally, the Army offered a stunted career path in contracting by preventing officers from beginning their contracting careers earlier than eight years after commissioning and with no contracting general officer positions, limiting upward career mobility and longevity.

Although the inability to receive a promotion to general officer may not have motivated any CCO to commit fraud, these policies did not contribute to an overall positive work environment. Research indicates that having positive personnel and operating policies are important factors in contributing to high- or low-fraud environments (Albrecht, Albrecht, & Albrecht, 2006). As previously noted, limited promotion opportunities, job dissatisfaction, and lack of recognition for job performance can be factors in motivating fraud.

C. **CHARACTERISTICS OF THE CONTINGENCY CONTRACTING ENVIRONMENT IN OIF/OEF CONDUCIVE TO FRAUD**

Although integrity can be an issue regardless of the contracting environment, there are elements associated with contingency contracting that make it uniquely susceptible to fraud, either by introducing unconventional components into the contracting equation or by exacerbating existing systemic weaknesses. After conducting a comprehensive review of reports documenting procurement fraud in OIF and OEF, I compiled the salient factors and categorized them into the following topic areas: Environment, Procedures, Personnel, and Control Mechanisms. I do mean to represent this categorization as an all-inclusive list, but

instead it reflects the most frequently cited factors by investigators that make contingency contracting operations highly conducive to fraud. These factors can clearly overlap, be interrelated, or work in concert, and not all characteristics will be present in every contingency, as they are dependent on the mission, location, duration, and other operational dynamics. Additionally, some characteristics of a contingency contracting environment may contribute to its overall complexity or otherwise distinguish it from a non-emergency situation but not necessarily affect the likelihood of fraud.

1. Environment Issues

a. *Operational Tempo*

Operational tempo—characterized by a high workload ratio or volume, and an extremely demanding customer base with urgent life, health, and safety requirements—can singularly or collectively influence a CCO to take a variety of shortcuts. The shortcuts can, in turn, increase the government's risk and create vulnerabilities to fraud, waste, or abuse. A run-away workload also means less oversight by senior contracting personnel and chiefs, which enables opportunities for fraud by other CCOs and contractors. Lieutenant General N. Ross Thompson III, the Military Deputy to the Assistant Secretary of the Army for Acquisition, Logistics, and Technology, in his testimony before Congress, noted that the fraud that occurred in OIF and OEF was in large part due to "the lack of oversight and being overworked, a small office with just too many contracts to manage, too many contracts to cut" (*Department of Defense Appropriations*, 2009, p. 24). Figure 6 depicts the enormous increase in contract obligations in OIF and OEF.
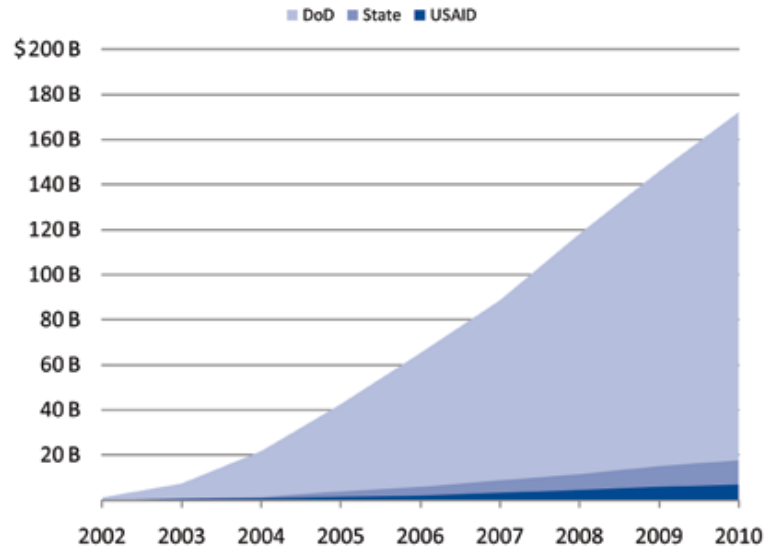
Figure 6. **Cumulative Obligations on Contracts and Grants (in $ Billions) Performed in Iraq, Afghanistan, Bahrain, Kuwait, and Qatar**
(Thibault et al., 2011a, p. 6)

The DoD and the Army have had significant challenges resourcing contracting personnel to keep pace with the workload in OIF and OEF. As late as 2010, despite the enormous amount of attention contingency contracting received from Congress and DoD leadership, CCO billets in JCC–I/A had a fill rate of only 88% (*Department of Defense Contingency Contracting Initiatives*, 2010, p. 5).

b. *Pressure to Award Procurements Faster*

Efforts to meet urgent needs in a combat or other high-threat environment can lead to "less than prudent contracting practices" (DoDIG, 2010, p. 1), such as the use of unclear or out-of-scope requirements, the inappropriate use of inter-agency contract vehicles or contract type (time and materials, cost-reimbursement), or lack of file documentation. These practices can subsequently lead to undesirable outcomes, including higher costs, schedule delays or rework, and, ultimately, unmet requirements, which jeopardize the overall mission. The stress of operating in a contingency environment with constant pressure from customers for expedited contract awards can also negatively affect a CCO's morale, in turn feeding general job dissatisfaction and feelings of not being appreciated. This mindset can provide the rationalization to commit fraud.

c.   *Cultural Norms Regarding Corruption*

"Most crimes uncovered by U.S. investigators in the two war zones include bribery, kickbacks and theft, inspired in part by the deep and pervasive cultures of corruption indigenous to the countries themselves" (Jelinek, 2011). The cultural norms of the host country in which a contingency operation takes place may influence a CCO to engage in corrupt activities if continually exposed to offers of gratuities or kickbacks, which from the offerer's perspective may be considered legitimate or accepted business practices. Local contractors may not understand or may choose to ignore U.S. government procurement laws that govern improper business practices and, since corruption can be deeply embedded in the cultural psyche, it can be a difficult force to overcome. In fact, Stuart W. Bowen, SIGIR, referred to corruption as "the second insurgency" in Iraq (*Assessing the State of Iraqi Corruption*, 2007) and compared it to a cancer that had overtaken the country. Both Iraq and Afghanistan were countries in which government corruption was the norm prior to the arrival of U.S. forces. In fact, both countries still rank near the bottom of 178 countries rated on a scale on which zero is the most corrupt and ten is the least corrupt, as shown in Table 5.

Table 5.   2010 Corruption Perceptions Index

Rank	Country	Score
1	Denmark	9.3
1	New Zealand	9.3
1	Singapore	9.3
175	Iraq	1.5
176	Afghanistan	1.4

Note. I took the information in this table from a lengthier table found at the Transparency International website (Transparency International, 2011).

Of course, CCOs operating in the U.S. (which ranks 22nd) are not immune from similar temptations. Hurricane Katrina is an example of a U.S. contingency that was in no way immune from fraud; the Department of Justice set up an entire task force to deal with Katrina fraud. However, during the course of executing contracts in countries where

corruption is a way of life, the CCO may have an easier time rationalizing complicit behavior. Several CCOs tried to defend their actions in court on the basis that bribery is common in the Middle East. Major Pressley claimed that the contractors who paid him bribes were "more than glad to do so" (*United States v. Pressley*, 2011, p. 17). Major Cockerham and his lawyer even attempted to provide a religious characterization of the bribes received as "blessings" from Muslim contractors. The courts rejected this argument. As Judge Ferguson explained in sentencing John Cockerham,

> You know, I don't think it makes any difference what words you use, a bribe is a bribe and, of course. I mean we—we know we're fighting two wars, we're fighting a war in Afghanistan where you just have to read the papers to know that one of the great concerns in that war is the corruption of high level officials in Afghanistan and, you know, people just need to tell people, "No, that's not the way we do business. We don't take these kind of blessings." We just don't do that; this is the United States of America. (*United States v. Cockerham*, 2009, pp. 34–35)

These instances show how cultural norms regarding corruption affect both the opportunity and rationalization sides of the Fraud Triangle.

d. *Less Sophisticated Local Business Practices/Contractors*

Contingency operations executed in foreign countries provide inherent challenges, such as language barriers and contractors unfamiliar with U.S. contracting procedures. In lesser-developed areas, the business environment may be extremely immature, causing the CCO to do business with contractors who are illiterate, or who are accustomed to completing transactions via verbal agreements. In such instances, it can be easier for a CCO to take advantage of a contractor seeking to do business with the U.S. government because of the contractor's naiveté regarding the contracting process or their trust in the CCO as a representative of the U.S. government. A contractor may not be aware of the fact that they do not have to pay a fee to request a solicitation or submit an offer, or that bribes and kickbacks are illegal. A deputy contracting chief in Afghanistan astutely summarized the environmental factors at work in OEF: "Afghan business practices are challenged in several areas, such as ethics, technical capability, and links to criminal patronage networks" (Center, 2011, p. 109). Thus, the degree of the contracting environment's maturity and the local contractor's

familiarity with U.S. contracting procedures can impact a CCO's opportunity to commit fraud by creating opportunities to take advantage of contractors and commit economic extortion,[6] which the contractor may not even recognize as such.

2. Procedural

a. *Waived Contracting Officer Appointment Standards*

The Defense Federal Acquisition Regulation Supplement (DFARS) waives the education, training, and certification requirements for contracting officer appointment if supporting a contingency contracting force (DFARS, 2010, subpart 201.603.2(2)(ii)). The regulation's intent is to provide maximum flexibility by relaxing the prerequisites involved in obtaining a contracting warrant to meet the urgent need of a contingency operation. However, the flexibility must be tempered with the recognition that the requirements exist as safeguards to prevent inexperienced and potentially unqualified personnel from having authority that exceeds their capabilities. Injudicious application can provide an opportunity for personal enrichment through corrupt practices by an unscrupulous CCO. Unfortunately, even an ethical CCO or contracting chief, if lacking the necessary knowledge, skills, and abilities to carry out his or her duties, can enable fraud by other parties, including other CCOs taking advantage of a perceived weakness. As the United States Agency for International Development (USAID) publication *Fraud Indicators* points out,

> The manager, auditor, or investigator must know the industry, the system, or the field and must establish what are accepted practices. It is hard to spot an aberration when you don't know the norm. It is difficult, if not almost impossible, to detect a well designed fraud if you do not know what you are looking for. (USAID, 2005, p. 2)

Waived contracting officer appointment standards and less than judicious vetting of contracting authority increase the likelihood of unethical personnel placed into positions of authority and, presented with opportunities, taking advantage of their newfound trust. However, it also increases the likelihood of ethical, but untrained or unprepared,

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[6] Economic extortion is a form of corruption in which "an employee demands a payment from a vendor in order to make a decision in that vendor's favor" (Albrecht et al., 2006, p.529).

individuals assigned responsibilities that they are ill equipped to handle. In this regard, the waiver of standards affects the opportunity for personnel, CCOs included, to commit fraud.

b.   Cash-Based Business Practices

In addition to the risks associated with the provision of procurement authority to inexperienced personnel in contingency operations, cash-based contractor payment procedures create risk through inherently weaker accountability protocols. In many operations, the austere environment does not lend itself to electronic commerce, specifically electronic fund transfer, whether resulting from a lack of infrastructure, a constrained information technology platform (lack of bandwidth, connectivity issues), or contractor distrust of public institutions. While standard operating procedures typically prevent a CCO from making payments to avoid a conflict of interest, other government personnel in close proximity such as field ordering officers/pay agents, project purchasing officers, and finance personnel have access. The influx of cash in close proximity to military personnel, many with little prior exposure to large sums of money, can present a strong enticement to commit fraud. Mr. Quinn, the Chief of Staff for Army Criminal Investigation Command noted, "It was just so much money, and a lot of it in cash, that bribery is the number one issue we have looked at" (*Department of Defense Appropriations*, 2009, p. 19).

Audit trails for cash payments can be difficult to maintain, which reinforces the likelihood of fraud. The prosecuting attorney in the case against Major Cockerham observed that he was smart because he kept all the money in cash, noting, "It's very hard for the Government to trace money in cash. There are no wire transfers, there's no bank receipts, there's no means by which to trace the flow of funds, absent ledgers that people make" (*United States v. Cockerham*, 2009, p. 40). The issues with utilizing cash are systemic. Numerous assessments from various agencies, including the GAO, the DoDIG, and the SIGIR, "reveal a lack of accountability for large sums of money spent for Iraq contracts" (Grasso, 2010, p. 12). As of June 13, 2011, $6.6 billion in cash was still unaccounted for, prompting the SIGIR to state that the missing money could be "the largest theft of funds in national history" (Richter, 2011).

c.   *Utilization of Manual Contracting Methods*

Similarly, manual contracting methods provide further opportunity to circumvent controls inherent in an automated procurement system. Procurement Desktop Defense (PD2), an application of the Standard Procurement System, is the standard automated contracting system in the DoD (Defense Business Systems Acquisition Executive [DBSAE], 2010). It prevents the accidental or purposeful duplication of procurement instrument identification numbers (i.e., contract numbers) and computational errors in contract amounts. PD2 also provides an electronic repository of contracts accessible to personnel with permissions, thereby providing transparency. Another benefit the system provides is the capability to run reports identifying the status of various contract actions enabling workload analysis, funding information, and critical tools for contract administration. Findings from an early SIGIR report, as shown in Table 6, highlight the problems associated with manual contracting methods.

Table 6.   Deficiencies Identified by SIGIR During Contract Review, Iraq 2005
(SIGIR, 2005, p. 7)

Area	Finding
Contract Files	The PCO did not effectively maintain contract files to ensure that contract execution was monitored for performance and payment. During our initial review, PCO personnel in three of four PCO regions could not locate contract files for 13 contracts, valued at $7,568,565.
Contract Funding	The PCO could not accurately identify the total value of contracts funded by the DFI. Our review showed that six contracts, valued at $25,418 were funded by U.S. Government appropriated funds but were erroneously presented as DFI liabilities in Comptroller/PCO summary records.
Contract Numbering	The PCO did not maintain adequate administrative control over contract numbering. Our review showed that the Comptroller/PCO listing indicated the PCO issued 34 contracts, valued at $54,343,349, but used only 14 different contract numbers. Contract values totaled $27,660,981 for contracts that used the same contract number two or more times.
Contract Payments	The PCO did not always properly review contract files prior to making contract payments to ensure that the correct amount was paid. Our review showed that one contract in the South–Central Region was overpaid by $40,000.

Note. PCO is the Project and Contracting Office; DFI is the Development Fund for Iraq.

As manual methods promote and enable file manipulation, as well as often lead to an irreversible lack of an audit trail, they create an opportunity-providing factor. No

accountability exists without documents and "without accountability, it is much easier to perpetrate a fraud and not get caught" (Albrecht et al., 1995, p. 35).

3.   Personnel Issues

a.   *Deployment May Exacerbate Personal and Financial Hardships*

A long-term deployment has the potential to cause or intensify existing personal and financial problems a CCO experiences. Multiple and/or lengthy deployments can trigger considerable stress and lead to low morale, making the CCO susceptible to the perceived benefits of fraudulent activity. Some Reserve and National Guard CCOs[7] may incur a substantial decrease in salary resulting from activation; 28% of activated reservists experience a loss in earnings according to a 2005 RAND report, and DoD reports place the number as high as 51% (Klerman, Loughran, & Martin, 2005). This financial pressure, coupled with extended separation from family, can provide motivation to engage in corrupt activities. CCOs may rationalize their actions in the belief that the Army "owes" them, or they may feel compelled by financial hardships back home. A CCO may resent the Army, and the act of fraud represents an opportunity to "get even." The demanding, and frequently dangerous, environment that a CCO is exposed to may further impair judgment and, in conjunction with other contingency unique factors, impact a CCO's proclivity to engage in corrupt behavior.

b.   *Insufficient Skills, Inadequate Staffing, and Rapid Personnel Turnover*

The SIGIR observed that acquisition numbers and skills were a challenge for all contracting agencies operating in Iraq, but the DoD, in particular, suffered from insufficient contracting personnel in theater, as well as problems ensuring that contracting personnel possessed the requisite skills to operate in a contingency contracting environment (SIGIR, 2006). The SIGIR report noted that the DoD's contracting staff lacked experience in large construction contracts, a critical component of a contingency focused on reconstruction. The report quoted an official from the JCC–I who believed that deployment of contracting

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[7] Three of the convicted CCOs were Army Reservists, although their civilian salary information is unknown.

personnel was tied to the need to "have a warm body" and not necessarily to skills (SIGIR, 2006, p. 108). The Gansler Report emphasized, "Contracting personnel sent into a theater of operations need to be highly skilled, adequately trained, and prepared for the challenging, fast-paced demands of expeditionary operations" (Gansler et al., 2007, p. 6). It further concluded that the Army, even after six years enduring less than optimal contracting outcomes in theater, was failing to support its mission in Iraq and Afghanistan:

> There are far too few Army contracting personnel in-theater. According to the JCC–I/A Commander, even those that are there are not adequately qualified for their responsibilities: only 38 percent of the total Army Acquisition/Contracting Workforce in-theater are certified for the positions held; and, overall, Army contracting people mostly are not certified for the position occupied. (Gansler et al., 2007, p. 28)

Personnel issues were compounded by high turnover, among not only contracting personnel, but also legal support. A senior DoD contracting official observed, "many of the lawyers did not have contracting backgrounds or the temperament and experience to work in a war zone. Instead, they were all trying to learn on the job" (SIGIR, 2006, p. 108). High personnel turnover can impact a CCO's rationalization process. They may believe that due to the continuous change out of personnel, it is less likely they will be caught. Additionally, CCOs may feel less accountable and, therefore, less obligated to act ethically due to the short-term nature of the relationships formed between themselves and senior leadership or peers.

4.   Control Mechanisms

a.   *Insufficient Internal Controls and Oversight*

Numerous reports cite poor oversight of both contractor and contracting personnel as the most significant factor leading to fraud, waste, and abuse in OIF and OEF. The shortage of contracting personnel and the shortage of supporting staff functions, including legal and auditing personnel, contributed to the perception of, if not actual, weak or nonexistent internal controls. Additionally, distributed operations, coupled with transportation challenges and security concerns, weakened supervision by senior contracting personnel and inspectors. CCOs, presented with the real or perceived autonomy provided by remote locations and poor communication systems, were presented with an increased

opportunity for fraud. The massive contracting fraud involving multiple CCOs in Kuwait, for instance, occurred in an environment in which contracts were "awarded by a small group of officers who seemed to be barely supervised by senior officers" (Millman, 2009).

b. Lack of Formal Investigative Procedures/Protocols and Resources

When the Army CID's MPFU conducted its assessment of the contracting environment in Iraq in 2005, it found the fraud threat high for a variety of reasons, including the lack of a formal structure for reporting and investigating allegations of procurement fraud (Ethridge et al., 2007). Contracting operations had been taking place for more than three years before the MPFU established a fraud investigation office in Iraq in December 2005. Although the office was manned with trained special agents, most had never previously worked in a combat environment. As the increased requirement for investigative assets became known, the Army subsequently opened offices in Afghanistan and Kuwait, as well as an additional office in Iraq.

Ultimately, the extent of fraud in theater necessitated the creation of a joint investigative task force, the International Contract Corruption Task Force (ICCTF), whose purpose was to coordinate efforts, share resources, and expand capabilities (Ethridge et al., 2007). Members from the Army CID, Defense Criminal Investigative Services (DCIS), SIGIR, and the Federal Bureau of Investigation (FBI) made up the ICCTF. The establishment of the MPFU, and later the ICCTF, was a critical, if belated, step in ensuring appropriate investigative resources were available in theater. The presence of these organizations in theater was an integral step in implementing formal protocols for reporting fraud, as well as potentially preventing fraud from occurring in the first place. As Colonel Joe Ethridge of the Army CID notes regarding special agents in a contingency operation,

> First, their mere visible presence will tend to deter procurement fraud. Second, they can work with procurement officials to identify weaknesses in contracting procedures and enhance awareness of fraud indicators before the situation gets out of hand. (Ethridge et al., 2007, p. 40)

D. SUMMARY

By examining the contracting environment in OIF and OEF and utilizing the conceptual framework of occupational fraud theory, specifically Cressey's Fraud Triangle, I

was able to identify distinctive situational elements that influence a CCO's decision to commit fraud and thus affect the probability of fraud occurring in contingency operations. My research indicates that the Fraud Triangle provides an efficient conceptual model to explain the Army CCO corruption in OIF and OEF. Figure 7 provides a summation of my findings regarding the various factors influencing a CCO's opportunities, pressures, and rationalizations.
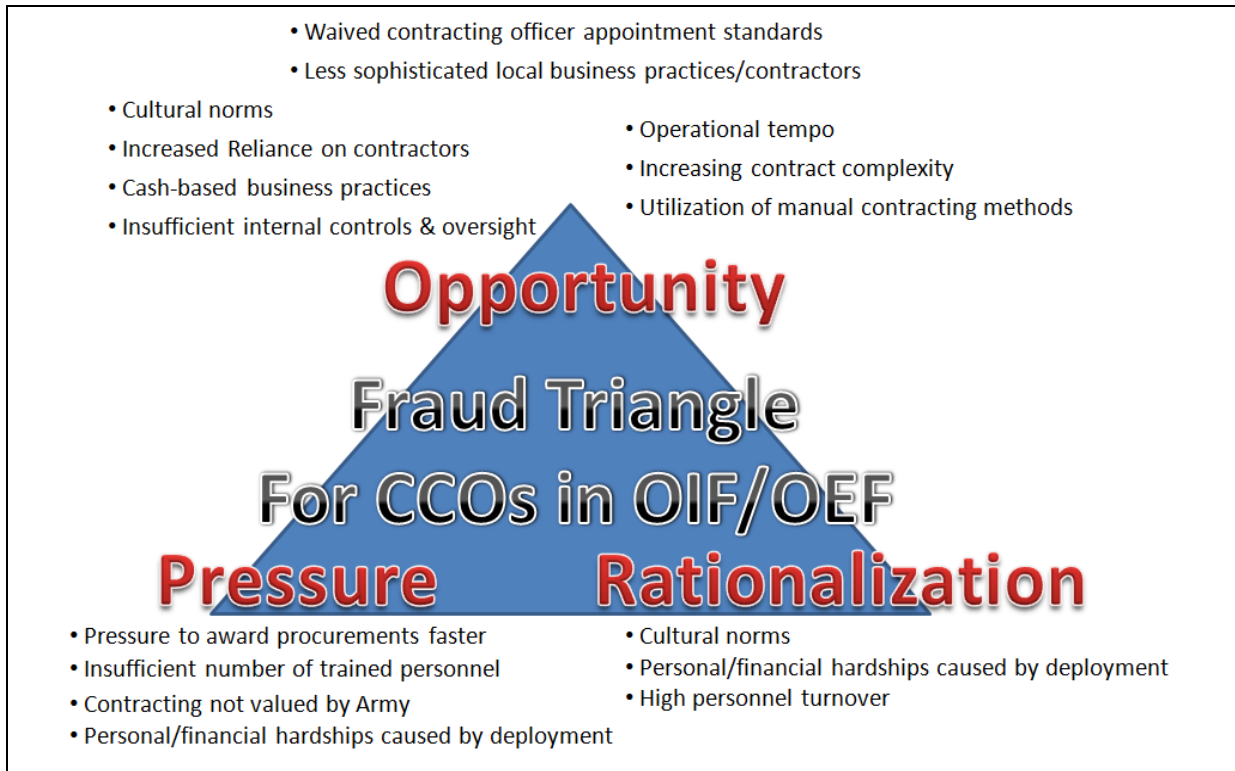

Figure 7.   Fraud Triangle for Army CCOs in OIF and OEF

IV. CONCLUSION AND RECOMMENDATIONS

In this chapter, I provide my research conclusions and recommend actions that the Army can take in an effort to prevent fraud, utilizing proven private sector methods with a basis in occupational fraud theory. Although the complete elimination of fraud in contingency operations may not be possible, taking a proactive approach and implementing a comprehensive anti-fraud program is the most effective way for the Army to decrease fraud occurrence by its CCOs.

A. CONCLUSIONS

Fraud has been, and continues to be, a real and widespread problem in OIF and OEF, as evidenced by the CWC's estimate of $10.3–$18.5 billion. But the price tag tells only part of the story. More importantly, it reveals the corruption of a system designed to be fair, accountable, and transparent—a contracting system that enables mission critical operations to occur and, when compromised, risks soldiers' lives and, ultimately, national security. The North Atlantic Treaty Organization (NATO) recognizes the pernicious effects of corruption, noting it "hinders the development and undermines the security of modern societies and decreases trust in public institutions" (Tagarev, 2010, p. 3). Procurement fraud, including CCO corruption, has been a problem in OIF and OEF from the beginning. Yet even as operations in Iraq wind down, the number of people indicted and convicted for bribery and theft, among other crimes, continues to rise, as seen in Figure 8.
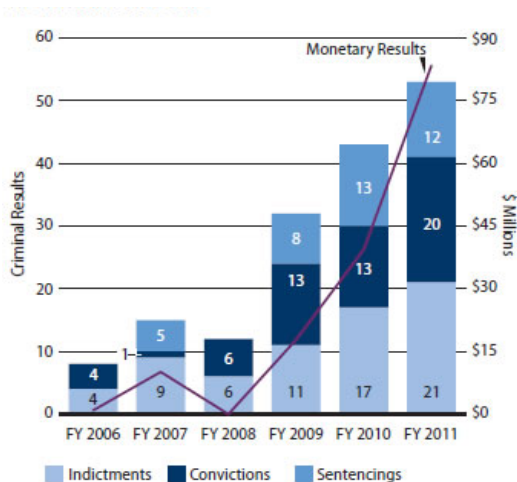
Figure 8.   SIGIR Investigations: Criminal and Monetary Results
(SIGIR, 2011, p. 117)

The SIGIR is just one of several agencies investigating fraud and criminal activities in theater. Table 7 shows that there are 376 open cases in Iraq and Kuwait for all investigative agencies as of September 30, 2011.

Table 7.   Status of Investigative Activities of Other U.S. Agencies, as of September 30, 2011
(SIGIR, 2011, p. 138)

AGENCY	INVESTIGATORS IN IRAQ	INVESTIGATORS IN KUWAIT	OPEN/ONGOING CASES*
U.S. Army Criminal Investigation Command, Major Procurement Fraud Unit	1	2	104
Defense Criminal Investigative Service	0	2	154
DoS OIG	2	0	20
FBI	2	1	76
Naval Criminal Investigative Service	0	1	3
U.S. Air Force, Office of Special Investigations	0	0	6
USAID	1	0	13
Total	**6**	**6**	**376**

* Numbers include pending cases worked with other agencies within the Joint Operations Center.

In Afghanistan, there are 111 open cases, of which about 61% involve contract fraud and 27% involve corruption and bribery (Special Inspector General for Afghanistan Reconstruction [SIGAR], 2011, p. 24). However, the statistics regarding ongoing investigations do not provide a breakdown of how many personnel are Army CCOs. However, my research indicates that the Department of Justice has successfully prosecuted at least nine Army CCOs for fraud, with one CCO still pending trial. The current open case statistics indicate the persistent nature of fraud in OIF and OEF. Although the Army and the

DoD are obtaining improved metrics in fraud investigations, fraud prevention remains the greater and more cost-effective goal.

1. Answer to Research Question

The primary objective of this research project was to answer the following question: How does occupational fraud theory account for the corruption of Army CCOs in OIF and OEF? My hypothesis was that occupational fraud theory could account for CCO corruption in OIF and OEF and could therefore offer insight into effective prevention methods. Based on my literature review identifying the fraud-influencing elements of the contingency contracting environment, and the application of the Fraud Triangle, I conclude that occupational fraud theory provides a valid explanation of CCO corruption in OIF and OEF.

During the course of my research, I identified 14 unique elements of the contingency contracting environment:

- waived contracting officer appointment standards,
- less sophisticated local business practices/contractors,
- cultural norms,
- increased reliance on contractors,
- cash-based business practices,
- insufficient internal controls and oversight,
- operational tempo,
- increasing contract complexity,
- utilization of manual contract methods,
- pressure to award procurements faster,
- insufficient number of trained personnel,
- contracting not valued by the Army,
- personal/financial hardships caused by deployment, and
- high personnel turnover.

These elements represent the perceived opportunities, pressures, and rationalizations—the Fraud Triangle's three legs. Some of these elements are applicable to more than one characterization; however, in aggregate they represent the most frequently

cited factors of procurement fraud in OIF and OEF. The findings lead me to believe that many of the factors are not specific to OIF and OEF and therefore could be present in future contingency operations. With this in mind, I provide a variety of possible courses of action for the Army to take in countering future potential fraud. These recommendations support a proactive fraud prevention approach, which addresses all elements of the Fraud Triangle more effectively than the traditional, reactive-based approach. A comparison of the two approaches is shown in Figure 9.
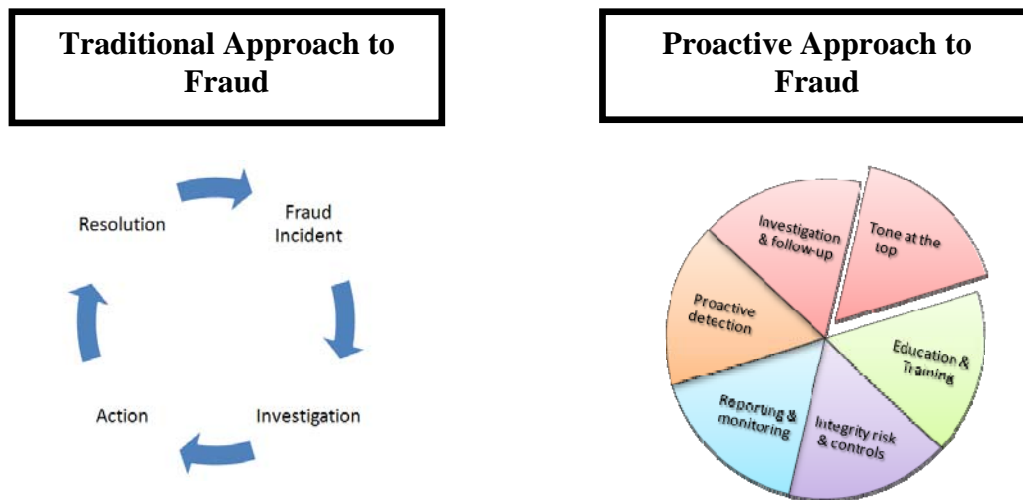
Figure 9.   Comparison of Organizational Fraud Approaches
Note. I created these graphics based on graphics found in Albrecht et al. 2006 (pp. 110–111).

B.   RECOMMENDATIONS BASED ON OCCUPATIONAL FRAUD THEORY

Occupational fraud theory recognizes that numerous factors must work in congruence in order for organizations to be successful in their efforts to prevent fraud. Fraud prevention encompasses two fundamental activities: assessing the risk for fraud in order to eliminate opportunities via internal controls, and creating and maintaining a culture of honesty and ethics.

1. Internal Controls

In regards to limiting a fraudster's opportunity, an organization must establish strong internal controls and, just as importantly, must enforce those controls. Some examples of internal controls include the following (Albrecht et al., 1995, p. 31):

- segregation of duties, or dual custody,
- system of authorizations,
- independent checks,
- physical safeguards, and
- documents and records.

a. Stricter Deployment and Warranting Procedures

In February 2011, the Army instituted a policy mandating that a CCO have at least one year of operational contracting experience before deploying to ensure a minimum level of contracting proficiency (Director, Acquisition Career Management, 2011). This is a step in the right direction and implements the Gansler commission's recommendation that expeditionary contracting should never be a first assignment (Gansler et al., 2007, p. 6). JCC–I/A now also has minimum warranting guidelines, based on contracting authority on education, certification, and experience (JCC–I/A, 2009). Other possible courses of action include formal warranting interviews or warrant boards. This provides the contracting leadership with an opportunity to assess firsthand a CCO's technical competence, as well as a CCO's ethical decision-making process.

b. Proactive Fraud Auditing

Organizations are rarely proactive in their audits for fraud and instead investigate fraud only if reported or otherwise discovered (Albrecht et al., 1995). However, organizations that undertake a proactive approach to fraud raise employee awareness that, at any time, their work is subject to review, which increases the fear (and probability) of getting caught. This response, in turn, decreases the likelihood of fraudulent behavior. The Army should establish routine procurement fraud assessments in addition to procurement management reviews for its contracting organizations, focused on identifying weaknesses in contracting procedures and recognizing fraud indicators. In addition to revealing potential

gaps, such assessments also serve to determine whether systems function as designed and whether organizations are enforcing existing controls.

Because contracting is a data-rich environment, it is ideal for continuous monitoring applications. The Army should optimize the use of available forensic tools and data-mining techniques to identify contracting fraud. New automated programs can quickly identify irregular transactions and anomalies that are indicators of potential fraud instead of waiting for an audit to occur or a tip to come across a hotline. One example of such technological advances in proactive fraud auditing is the FERRET program, an acronym for Forensic Evaluation, Research, Recovery and Enforcement Team. FERRET is a program developed by the SIGIR that utilizes "investigative and audit techniques combining sophisticated data analysis with traditional investigative technique and coordination with organizations such as the Financial Crimes Enforcement Network, or FINCEN, within the Department of Treasury" (Commission on Wartime Contracting in Iraq and Afghanistan, 2010, p. 14). Utilizing this tool enabled the SIGIR to open 45 new investigations involving 60 subjects.

c. *Deployable Automated Procurement System*

The SIGIR in its report, *Iraq Reconstruction: Lessons in Contracting and Procurement*, recommended that the DoD develop deployable contracting and procurement systems before mobilizing for post-conflict efforts and test them to ensure that they can be effectively implemented in contingency situations (SIGIR, 2006). After reconstruction operations began in Iraq, contracting entities developed ad hoc operating systems and procedures for monitoring contracts and maintaining contracting and procurement histories; this limited contracting efficiency and led to inconsistent documentation of contracting actions.

The Gansler Report also noted the lack of eBusiness tools and found that existing contract writing systems were "insufficient and not standardized, negatively impacting the ability to accomplish the mission. Information systems to track contractor personnel, assets, and performance are critical but lacking" (Gansler et al., 2007, p. 7). Implementing a more effective suite of contracting program tools will not only improve

contracting operations but will also eliminate the possibility of manual system manipulation and facilitate data reporting in fraud audits.

2. Creating a Culture of Honesty and Ethics

Although controls are important, the organization's culture is also critical in preventing fraud by creating an environment of honesty and openness. Five factors essential to realizing such an environment are as follows (Albrecht et al., 1995, p. 255):

- hiring honest people and the provision of fraud awareness training,
- creating a positive work environment,
- having a well understood and respected code of ethics,
- providing an employee assistance program that helps employees deal with personal pressures, and
- creating an expectation that dishonesty will be punished.

These elements can affect an individual's reactions to pressures and affect their rationalizations.

a. Personnel

One of the issues noted in the Gansler Report was that the Army lacked a defined and well-developed career path for military contracting professionals. In stark contrast to the Air Force, the Army does not allow officers or soldiers to enter the contracting field upon entering the Service. As a result, they are "not prepared to act as mentors; nor are they able to oversee and work on the more complex and high-dollar contract actions ... and do not have technical experience to command a contracting operation" (Gansler et al., 2007, p. 33). To address these problems, the Gansler Report recommended that the Army establish a separate, centrally managed contracting corps and conduct separate Army contracting promotion boards.

The Army, however, did not implement either of these recommendations. Rather than creating a separate corps, the Army decided that its needs would be best met by ensuring that contracting expertise is shared across all acquisition corps disciplines (DoD Task Force, 2008, p. 25). Regarding separate promotion boards, the Army countered that the

intent could more effectively be met with special instructions to existing promotion boards, as it saw no added benefit to conducting separate boards because public law[8] already required that the Army promote acquisition personnel at rates commensurate with the overall promotion rates. However, the Army did institute a policy to accelerate accession by two to three years.

The Army asserts that a cross-functional acquisition corps is beneficial because officers move in and out of the contracting field and, in a sense, cross-pollinate the organization with contracting knowledge. In a recent interview, almost four years after the initial report, Gansler still advocated for a separate contracting corps, arguing that program management and contracting personnel are not interchangeable. He also expressed concern that major weapon systems procurement issues dilute the contracting command's focus on contingency/expeditionary contracting (Army Contracting Command [ACC], 2011, p. 14). I recommend a reevaluation of Gansler's recommended course of action in light of his concerns, and taking into consideration that the Army experienced a much higher incidence of CCOs committing fraud in OIF and OEF than other Services did, notably the Air Force. I recommend further research be conducted regarding the differences in the career paths, training, and ethical decision-making between the Services.

b. Ethics Training

The National Defense Authorization Act for 2007 directed the DoD to establish a panel on contracting integrity. This panel, made up of senior leadership across the DoD, was given the mandate to conduct an assessment of the DoD's progress to eliminate fraud, waste, and abuse by eliminating vulnerabilities in the contracting process. The panel created a subcommittee to review integrity in a combat/contingent environment. The subcommittee found that

> the annual DoD mandatory ethics training is not sufficiently tailored to the integrity issues found in a combat/contingent environment and that DoD should increase the quality, availability, and frequency of contracting integrity training provided prior to and during deployment in a combat/contingent environment. ... Finally, the subcommittee found that deployed contracting

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[8] *Goldwater–Nichols DoD Reorganization Act of 1986, Public Law 99-433.*

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personnel do not always train as they fight, and are not all adequately prepared with the appropriate skill-sets to perform effectively. (DoD, 2007, p. 31)

The Joint Ethics Regulation provides the DoD's written policy establishing its ethics program (DoD, 1996). The purpose of the DoD's ethics program is to emphasize "training and counseling to raise awareness of standards of ethical behavior and to prevent misconduct" (GAO, 2005, p. 4). It focuses primarily on post-government employee restrictions, financial disclosure requirements, and conflict-of-interest issues, and not necessarily situations that CCOs will find themselves confronting in a contingency environment. Tailoring ethics training toward contingency contracting operations is one way to improve. The Army should also keep in mind key features of effective training programs, which are based on the practices of 41 leading, U.S.-based, multinational companies, including the following (Ponemon, 1996, p. 66):

- live instruction,
- small class sizes,
- decision-based focus,
- use of a professional trainer,
- powerful senior executive message,
- realistic case materials, and
- significant group interaction.

An effective training program is the first line of defense in fraud awareness and prevention. The Gansler Report, in explaining the much higher ratio of Army contracting personnel involved in fraud versus Air Force personnel, suggested that "focused, in-depth training given U.S. Air Force personnel on Government contracting helps to prevent opportunistic, fraudulent behavior" (Gansler et al., 2007, p. 23). Even if the training offered fails to deter the fraudster, it may raise a team member's or office mate's awareness of fraud indicators and reporting procedures, increasing the probability that they will be able to identify and report the crime.

c. Training for and by Senior Contracting Officials

In addition to the recommendation that the Army should expand and improve its ethics training regarding contingency environments, the Army should also ensure that it

provide focused training for its senior contracting officials, including CCO team leaders and contracting battalion commanders. It is employees and managers, not auditors, who detect most frauds (Albrecht et al., 2006). Therefore, it behooves an organization to provide instruction on how to recognize the signs, or red flags, of fraud.

The Army should also consider having contracting leadership personally instruct ethics and fraud prevention training. The legal staff, in its capacity as ethics advisors, traditionally do this task. If the contracting leadership provided the training, however, it would reinforce appropriate modeling, commonly referred to in the Army as the command climate or the tone at the top. Showing by example that fraud prevention and ethics training is important sends a clear message of expectations and standards.

d. Assistance Program

The stresses of multiple deployments and other military hardships, including frequent moves, can cause a CCO or family members to adopt negative coping mechanisms, including drug and alcohol abuse, gambling, excessive spending, and domestic violence. These behaviors, in turn, can provide the pressure to commit fraud. Although there are already programs, including chaplains and mental health counseling, in place to assist service members with various personal issues, contracting leadership and the routine pre- and post-deployment training should reinforce the availability of these services.

Additionally, contracting leaders who build a strong relationship with their CCOs are better positioned to notice changes in a CCO's behavior resulting from dealing with a pressure. Increased awareness and monitoring of personal situations could result in a leader ensuring that a CCO with a "nonsharable" problem receive appropriate assistance. This awareness would prevent leadership from putting a CCO in a position in which the three elements of the Fraud Triangle are present, which increases the probability that a crime such as fraud is committed. The restructuring of Army contracting to mirror traditional Army units should facilitate this by enabling closer proximity between CCOs and their leadership, and potentially creating a closer bond between them as well.

e.   Established Relationships With Investigative Agencies

From its experience with fraud, including the corruption of CCOs in OIF and OEF, Army leadership has since realized the value in having auditors and criminal investigators present at the beginning of a contingency operation. According to General Thompson, the Army is considering including auditors and criminal investigators "as part of the deployable structure, both to have that presence there from the beginning, and also to act as a deterrent" (*Department of Defense Appropriations*, 2009, p. 23).

Another recommendation is to establish a permanent office of the inspector general for contingency operations. Although departments like the DoD and the Department of State have their own respective IGs, their authority is limited. The temporary special inspectors general, SIGIR and SIGAR, are similarly restricted by time and function. According to the CWC, which supports the establishment of a permanent office,

> Having a small, but expandable, permanent inspector-general staff devoted to contingency operations would provide critical monitoring from the onset of a contingency, permit collaboration with agency inspectors general to regularly assess the adequacy of agency planning and coordination for contingencies, and provide a logical center for developing and coordinating needed training among agencies. (Thibault et al., 2011b, p. 9)

f.   Expectation of Punishment

Despite the growing number of investigations, few cases of wartime-contracting fraud are actually prosecuted. Many cases are simply closed, due to a lack of evidence, the difficulty investigating them, and the cost of prosecution (Thibault et al., 2011b). Although prosecution can be time-consuming and expensive, not prosecuting a corrupt CCO or other government personnel sends the wrong message—that fraud is tolerated. The lack of prosecution can give other CCOs "a 'perceived opportunity' that when combined with pressure and rationalization, will result in additional frauds" (Albrecht et al., 1995, p. 39). Opportunity is removed when perpetrators believe they will be punished, not just discovered.

Having a strong policy of punishment can also help overcome a CCO's rationalizations. To send the message that fraud will be prosecuted, the Army should consider creating a multi-faceted media campaign and include the actual cases of CCOs

prosecuted and convicted in ethics and other training in order to "communicate consistent expectations about punishment of violators" (Albrecht et al., 2006, p. 68). Examples of initiatives include the expanded use of public service announcements on the Armed Forces Network (AFN), which was available in Iraq and Afghanistan, and posters and hotline information posted near key target-population areas, such as dining facilities and contracting offices.

g. Comprehensive Anti-Fraud Program

As there are many factors involved in preventing fraud, an organization must address fraud prevention in a holistic manner. Focusing on one factor alone—ensuring adequate internal controls, for instance—is not enough. To be successful, an organization should understand the elements of the Fraud Triangle and implement measures addressing all three. Although ensuring adequate internal controls is a necessary step in eliminating opportunities, an organization should also focus on the pressures motivating fraud and on the rationalizations of the perpetrators, although these are potentially more difficult to identify and address. Since the Army discovered massive fraud in its CCO ranks, it has implemented much more stringent contracting controls, including mandatory peer, management, policy, and legal reviews. In some cases, it has removed contracting authority from CCOs completely; for example, the Army transferred the award and administration of large-dollar contracts from Kuwait to the U.S. Army Sustainment Command in Rock Island, IL (*Department of Defense Appropriations*, 2009, p. 9).

In an effort to improve support, as well as to establish oversight through the chain of command, the Army also reorganized its contracting structure, creating an Expeditionary Contracting Command with contracting brigades, battalions, and teams. It has also expanded its CCO ranks in an effort to address the personnel shortage. These efforts should positively affect the fraud environment during a contingency operation. In other regards, however, the DoD has taken a short-term, piece-meal approach to dealing with fraud. Publishing an article, developing a web-cast, and holding a conference are all examples of actions that the Panel on Contracting Integrity touted as accomplishments in 2009 (Department of Defense, 2009). It is doubtful these efforts, although praise-worthy, will

have any significant, long-term effect on preventing fraud in future contingencies. Similarly, the GAO observed that although the DoD has announced various new policies, guidance, and training initiatives to alleviate problems in contingency contracting, not all have been implemented, and for real and lasting change to occur, sustained leadership and commitment is required (GAO, 2011a, p. 7).

C.   SUMMARY

> Acts of fraud and abuse, especially if they go unpunished, erode morale, invite cynicism, encourage others to cheat, and undermine America's standing among allies and host nations.

> (Commission on Wartime Contracting, 2010, p. 2)

The purpose of this report was to analyze the conditions that enabled corruption of Army CCOs during OIF and OEF by applying occupational fraud theory, specifically the classic sociological/criminological Fraud Triangle model (Cressey, 1953), to determine its validity in a contingency operation. From my research, I conclude that the Fraud Triangle model does provide a valid framework in accounting for CCO corruption based on the unique pressures, opportunities, and rationalizations that contracting in a contingency environment creates.

By examining the contracting environment in OIF and OEF and utilizing the conceptual framework of occupational fraud theory, I identified the distinctive situational elements of a contingency operation that influence an individual's decision to commit fraud and thus affect the probability of fraud occurring in contingency operations. My intent in analyzing the procurement fraud environment in OIF and OEF using an occupational fraud model was to provide a foundation for understanding why fraud occurs in the context of contingency operations in order to prevent procurement integrity violations in the future. Although corruption is virtually inevitable to some extent in any contingency environment, much of the contingency-contract waste and fraud in OIF and OEF could have been avoided, according to the CWC (Thibault et al., 2011b). Understanding the factors involved in how and why a CCO may decide to commit fraud is critical to preventing fraud in future contingency operations.

Establishing a comprehensive anti-fraud program, including the implementation of appropriate prevention and detection measures, is the most effective way to reduce instances of fraud by CCOs. The Army's failure to do so essentially constitutes a breach of the fiduciary duty to manage its resources, both people and money. Reducing CCO corruption is necessary if the Army wants to reestablish and maintain public confidence in its contingency contracting personnel's abilities to spend taxpayer money legally and wisely. To this end, I have provided various recommendations to help the Army address the issue of CCO corruption. Applying appropriate counter-fraud measures will also positively affect the Army's ability to accomplish its mission at all levels—tactical, operational, and strategic—in contingency operations.

APPENDIX A: ASSOCIATION OF CERTIFIED FRAUD EXAMINERS FRAUD CLASSIFICATION MODEL
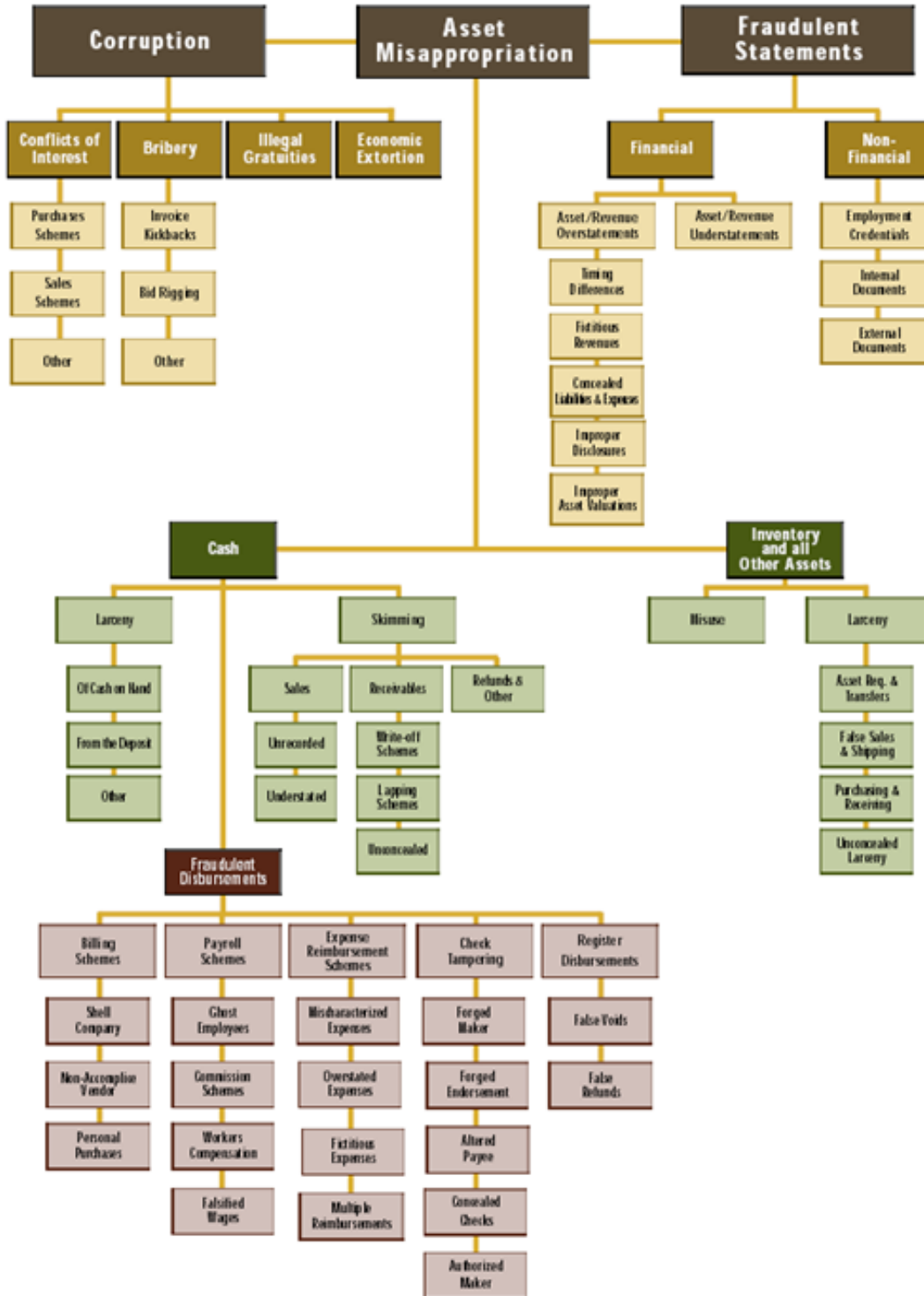
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APPENDIX B: OCCUPATIONAL FRAUD RED FLAGS

Personal Characteristics	Organizational Environment
1. Unusually high personal debts	**26.** A department that lacks competent personnel
2. Severe personal financial losses	**27.** A department that does not enforce clear lines of authority and responsibility
3. Living beyond one's means	**28.** A department that does not enforce proper procedures for authorization of transactions
4. Extensive involvement in speculative investments	**29.** A department that lacks adequate documents and records
5. Excessive gambling habits	**30.** A department that internal auditors do not frequently review
6. Alcohol problems	**31.** Lack of independent checks (other than internal auditor)
7. Drug problems	**32.** No separation of custody of assets from accounting for those assets
8. Undue family or peer pressure to succeed	**33.** No separation of authorization of transactions from the custody of related assets
9. Feeling of being underpaid	**34.** No separation of duties between accounting functions
10. Dissatisfaction or frustration with job	**35.** Inadequate physical security in the employee's department, such as locks, safes, fences, guards, etc.
11. Feeling of insufficient recognition for job performance	**36.** No explicit and uniform personnel policies
12. Continuous threats to quit	**37.** Failure to maintain accurate personnel records of disciplinary actions
13. Overwhelming desire for personal gain	**38.** Inadequate disclosures of personal investments and incomes
14. Belief that job is in jeopardy	**39.** Operating on a crisis basis
15. Close associations with suppliers	**40.** Inadequate attention to details

Personal Characteristics	Organizational Environment
16. Close associations with customers	**41.** Not operating under a budget
17. Poor credit rating	**42.** Lack of budget review or justification
18. Consistent rationalization of poor performance	**43.** Placing too much trust in key employees
19. Wheeler-dealer attitude	**44.** Unrealistic productivity expectations
20. Lack of personal stability; frequent job/residence changes	**45.** Pay levels not commensurate with the level of responsibility assigned
21. Intellectual challenge to "beat the system"	**46.** Inadequate staffing
22. Unreliable communications and reports	**47.** Failure to discipline violators of company policy
23. Criminal record	**48.** Not adequately informing employees about rules of discipline or codes of conduct within the firm
24. Defendant in a civil suit (other than divorce)	**49.** Not requiring employees to complete conflict-of-interest questionnaires
25. Not taking vacations of more than two or three days	**50.** Not adequately checking background before offering employment

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