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Mary L. Ugone

Deputy Inspector General for Audit
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on

"Accountability over Several Funds to Support the Iraq War, Including the Iraq Security Forces Fund, the Commander's Emergency Response Program, and the Seized and Vested Assets of the Iraqi People"

Chairman Waxman, Congressman Davis, and distinguished members of the Committee on Oversight and Government Reform, we appreciate the opportunity to appear before you and discuss the Army's internal controls over commercial payments made in Iraq and other locations, accounting for the Commander Emergency Response Fund and seized and vested asset payments made to representatives of foreign governments, and management of the Iraq Security Forces Fund. Today, we will discuss the importance of internal controls. Specifically, we will detail two audits "Internal Controls over Payments Made in Iraq, Kuwait, and Egypt" and "Management of the Iraq Security Forces Fund in Southwest Asia – Phase III." We will also provide information on the efforts of the Defense Criminal Investigative Service as they relate to financial crimes. These audits and criminal investigations will help to highlight the importance of internal controls as they relate to financial payments and the services or products received in return.

Importance of Internal Controls.

The internal control system is a major part of managing any organization – including DoD. These controls are the plans, methods, and procedures used to meet the mission and serve as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Internal control is not one event, but a

series of actions and activities that occur throughout an organization on an ongoing basis. People are what make internal control work. The responsibility for maintaining good internal controls rests with all managers.

Ineffective internal controls include such things as missing documentation, missing signatures from certifying officials, receiving officials, and payees; and missing voucher information. Ineffective internal controls could create an environment where duplicative payments, fraudulent activity, or improper use of funds takes place and is not identified and corrected in the normal course of business. A lack of internal controls can result in either no audit trail or in a complex audit trail, which hinders the search for supporting documents. Ineffective internal controls can result in missing or inadequate documentation. Also, ineffective internal controls can result in unreliable accounts payable and expense amounts reported on DoD financial statements.

We identified material internal control weaknesses related to out-of-country payments made in support of the Global War on Terror and for the Iraq Security Forces Fund as defined by DoD Instruction 5010.40, "Managers' Internal Control Program Procedures". The Army's internal controls did not ensure proper support for the commercial payments and that funds were used as intended. Multi-

National Security Transition Command – Iraq did not have adequate procedures in place to provide reasonable assurance that equipment, construction, and services procured through the Iraq Security Forces Funds were provided to the Iraq Security Forces.

Improved Controls Needed for Payments Made in Iraq, Kuwait, and Egypt.

Our audit of controls over payments made in Iraq, Kuwait, and Egypt¹ was initiated in May 2006, in response to a Defense Criminal Investigative Service (DCIS) assessment that there had been limited review of the completeness, accuracy, and propriety of these payment vouchers. This concern centered on the potential existence of fraud, waste, and abuse related to over \$10.7 billion in payment vouchers related to U.S. Army disbursements which are currently stored at the Defense Finance and Accounting Service (DFAS), Rome, NY.

We identified inadequate supporting documentation and information for payments made by Army contingency disbursing stations and the need for improved processes and guidance used by the Army and DFAS to review payment information. A substantial amount of U.S. and Iraqi funds have been spent to

¹ DoD IG Report No. D-2008-XXX, "Internal Controls Over Payments Made in Iraq, Kuwait, and Egypt," dated May 20, 2008.

safeguard and rebuild Iraq. To date, DoD has been appropriated \$492 billion to support Operation Iraqi Freedom.² In addition, \$2.8 billion from Seized and Vested Assets were to have been returned to Iraq to help rebuild its infrastructure and economy. It is imperative that the DoD maintains accountability and auditability of these funds so that we are assured that the funds were used for their intended purposes. Maintaining transparency over these financial and contracting transactions and operations are an important part of this accountability. Transparency is the visibility and controls of an accounting transaction from the very beginning of the process to the end when it is summarized in a management report or financial statement.

What We Did. The purpose of our audit was to determine whether Army's internal controls provided reasonable assurance that payments were supported and recorded. Internal controls addressed in the report included proper documentation, information, and approvals in accordance with regulations and laws, oversight of payments, and the adequacy of DoD policies and planning for operating in a contingency environment. Our audit of "Internal Controls Over Payments Made in Iraq, Kuwait, and Egypt" showed that planning and guidance was lacking for contingency operations. The scope of our review was 183,486 commercial and

² Source for these numbers is the Congressional Research Service report, "The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11," dated February 8, 2008. The numbers listed are DoD funds.

miscellaneous payments, totaling \$10.7 billion, made by 7 Army contingency disbursing stations. We took a statistical sample of 789 payment vouchers totaling \$3.5 billion that were paid April 2001 through June 2006. Approximately 99 percent of the dollar value of the vouchers reviewed was paid after January 2003. The sample was classified as follows:

<u>Payment Type</u>	<u>Number of Vouchers</u>	<u>Value (in millions)</u>
Contract and Vendor (Commercial)	702	\$1,485.4
Foreign Governments (CERP)	22	134.8
Seized and Vested Assets	53	1,825.8
Advance Iraqi Funds	3	20.1
Other Payments *	<u>9</u>	<u>0.2</u>
Total	789	\$3,466.2

* These payments were properly supported

Review Criteria. The audit team identified 53 requirements that should be met to support and process commercial payments. These requirements are contained in:

- Section 3325, title 31, United States Code;
- Prompt Payment Act as implemented in 5 Code of Federal Regulations;
- Federal Financial Management Improvement Act of 1996 through Federal system and accounting requirements;
- Federal Acquisition Regulation;

- Defense Federal Acquisition Regulation Supplement; and
- DoD Financial Management Regulation.

We reviewed all payment support documentation for compliance with these 53 requirements. We determined that 27 of them were the minimum necessary information to support a payment and mitigate the risk of making erroneous payments. These 27 essential criteria addressed requirements such as receiving reports and their content, invoices and their content, certifying official signatures, payee signatures, contract number, and vouchers and their content. We also determined that the remaining 26 required criteria were not essential information for determining entitlement to a commercial payment, but were still required for compliance with various statutes and regulations. These 26 criteria addressed requirements, such as method of payment, printed names and contact information on receiving reports, payment terms, contact information on invoices, and taxpayer identification numbers. Appendix E of the audit report contains a list of criteria that we believe were essential for determining whether payments were warranted for a properly provided good or service. The appendix also includes a list of criteria that we believe were not essential to support commercial and vendor payments but were still required for compliance with regulations.

Guidance, at the time of the audit, did not address requirements in a military contingency; the same requirements applied during contingency operations as any other time. On September 14, 2007, the Under Secretary of Defense (Comptroller)/Chief Financial Officer issued a memorandum, "Certified Commercial Payments in Contingency Operations," which contained a list of 11 types of documents and information that a certifying official will typically need to certify and make a payment; our 27 requirements essential for determining entitlement to payment complement the 11 types of information listed in the memorandum. On May 16, 2008, the office of the Under Secretary of Defense (Comptroller/Chief Financial Officer) notified us that the Financial Management Regulation, Volume 10, Chapter 8, was substantively revised with respect to guidance on commercial payment vouchers and supporting documents, to include those required in contingency operations.

Contract and Vendor Payments.

Based on our review of the 702 commercial payments, we estimated that the Army made \$1.4 billion in contract and vendor payments that lacked minimum supporting documentation and information for proper payment. When payments were not properly supported, the Army lacked assurance that funds were used as intended. We also estimated \$6.3 billion in commercial payments had the

minimum supporting documents and information for a proper payment but lacked support needed to comply with various laws and regulations.

Result	Statistical Sample Results		Projected Results*	
	Number of Vouchers	Value (in millions)	Number of Vouchers	Value (in billions)
Not Properly Supported	125	\$ 137.0	62,825	\$1.4
Noncompliant	537	\$1,341.5	86,502	\$6.3

* Results for these projections have been calculated at the 90-percent confidence level.

We found that the internal controls over commercial payments made by seven Army contingency disbursing stations were inadequate. This occurred because Army finance personnel did not ensure that payment voucher documentation was available and complete, and finance personnel were not adequately trained. In addition, Army and DFAS internal controls for commercial payments in contingency operations needed to be clearly defined. Further, inadequate audit trails for payments resulted in unreliable disbursement amounts reported in the Army management reports and DoD financial statements.

Examples: Not Properly Supported Payments. We believe that these criteria are required to preclude the likelihood of erroneous payments and ensure the goods and services were actually received and the respective payments were appropriate. The following examples came from our review of payment vouchers

against the 27 criteria that we believe were essential to support a proper commercial payment during a military contingency operation.

- **Quantity of Goods or Services.** Army finance personnel paid a \$7.2 million voucher that did not contain all the required information on the supporting vendor invoice. The supporting vendor invoice attached to the voucher did not include the quantity of goods or services rendered. FAR 32.905 “Payment Documentation Process,” and the DoD FMR, volume 10, chapter 1 require that a proper invoice for payment include the quantity of supplies delivered or services performed. The invoice quantity is necessary to ensure the goods or services for an entitlement match what was ordered and what was received.
- **Incomplete Invoice and Receiving Report.** Army finance personnel paid a \$6.3 million voucher that did not contain all the required information on the supporting vendor invoice or receiving report. The supporting vendor invoice and receiving report attached to the voucher did not include the quantity of goods or services and the item description. FAR 32.905 “Payment Documentation Process,” and the DoD FMR, volume 10, chapter 1 require that a proper invoice for payment and a receiving report include the description and quantity of supplies delivered or services performed. The invoice quantity is necessary to ensure the goods or

services for an entitlement match what was ordered and what was received.

The receiving report quantity ensures the goods or services in an entitlement match what was ordered, invoiced and received. The invoice item description provides assurance that what was invoiced is the same as what was ordered and the receiving report description ensures that what was received is the same as what was ordered. Without these descriptions, an individual cannot determine what was paid for.

- **Invoice Contract Number.** Army finance personnel paid a \$3.3 million voucher that did not contain all the required information on the supporting vendor invoice. The supporting vendor invoice attached to the voucher did not contain a contract number. FAR 32.905 “Payment Documentation Process,” and the DoD FMR, volume 10, chapter 1 require that payments be supported by a proper invoice containing the correct contract number. The contract number links other supporting documents in a voucher to the payment and provides assurance that a contract exists.
- **Receiving Report.** Army finance personnel did not include documentation of the receipt of goods or services or the vendor invoices supporting the amount paid for two vouchers, one totaling \$5.0 million and the other totaling \$2.7 million. In both instances, we could not identify the goods and services rendered. According to the DoD FMR, volume 10, chapter 1

and FAR 32.905 "Payment Documentation Process," all invoice payments must be supported by a receiving report. In addition, FAR 32.905 states that payments should be based on receipt of a proper invoice. The DoD FMR, volume 10, chapter 8 states that vouchers should not be certified for payment before receipt of all supporting documents, including the receiving report. It also requires a copy of the invoice be provided to the accounting office and the disbursing office review supporting documents on a periodic basis to ensure that those documents are available for review and to provide a copy of the receiving report to the accounting office.

- **Certifying Officer Signature.** Army finance personnel paid vouchers that were not certified for payment. For example, one voucher did not contain a certifying officer signature and was used to make a contract payment for \$1.1 million. Section 3325, title 31, U.S.C.; Treasury Financial Manual, volume 1, part 4, chapter 2000; and the DoD FMR, volume 5, chapter 11 state that disbursing officers should approve payment only for vouchers that have been signed by an authorized certifying officer. The certification process helps to ensure that payments are charged to the correct appropriation and are the correct amount. Payments made from uncertified vouchers should be reviewed for a potential loss of funds, for which the disbursing officer could be pecuniarily liable. The certifying officer

provides an important separation of duties function by ensuring that the goods or services received are correctly documented to entitle a payee to a disbursement of funds.

Examples: Noncompliant Payments. There were 26 criteria that we believe were not essential to support commercial and vendor payments but are still required to comply with various laws and regulations. The following examples came from our review of payment vouchers compared against the 26 criteria identified as necessary for compliance with law and regulation but not necessary to provide minimal payment support in a military contingency operation.

- **Method of Disbursement.** For 19 of the 702 vouchers in our sample, Army finance personnel did not identify the method of disbursement. One of these was for \$8.1 million. Without the method of disbursement on the voucher, the audit trail for the payment becomes difficult to follow.
- **Contact Information on Receiving Report / Invoice.** Army finance personnel did not ensure that 394 of the 702 vouchers in our sample contained the approving official's contact information on the receiving report. In addition, Army finance personnel did not ensure that 359 of the 702 vouchers contained contact information on the vendor invoices. One voucher with a receiving report that did not have approving official contact

information was for \$20.4 million. Without ready contact information it is more difficult for the certifying officer to contact the approving official to inquire about the receipt of goods or services. In the event of a defective invoice, missing contact information could cause unnecessary delays, resulting in lost discounts from vendors or noncompliance with prompt payment requirements.

- **Taxpayer Identification.** The taxpayer identification number was missing on 67 of the 702 vouchers in our sample. Without the taxpayer identification number, the Internal Revenue Service was not notified when payment was made to a U.S. contractor. This could lead to the potential loss of tax revenue.

CERP Payments.

Public law 108-375, “National Defense Authorization Act for FY 2005,” October 28, 2004, authorized DoD military commanders to use CERP funds for humanitarian relief and reconstruction to assist the Iraqi people. CERP funded projects are performed by both U.S. and coalition forces. On July 27, 2005, the Under Secretary of Defense (Comptroller)/Chief Financial Officer issued a memorandum providing guidance on the use of CERP funds. However, the DoD guidance did not provide adequate procedures to ensure that funds paid to Coalition partners were properly supported and reconciled. DoD guidance did not

require that disbursing personnel obtain and retain documentation accounting for the use of CERP funds.

Twenty-two payment vouchers, totaling \$134.8 million, were for CERP payments to Coalition Partners to initiate and execute a variety of non-construction and construction projects in their areas of responsibility. None of the 22 CERP payment vouchers contained sufficient supporting documentation to provide reasonable assurance that these funds were used for their intended purposes. For example, one payment voucher provided to Multi-National Division – Northeast (South Koreans) for \$8 million contained only a Purchase Request and Commitment form and a memorandum acknowledging that foreign Coalition forces cannot be certified as paying agents for U.S. government funds. From this documentation, we could not verify that the funds provided to Coalition Partners were used for CERP purposes.

In addition, the Army had not performed any reconciliation of funds paid to Coalition Partners. The Army relied on the Coalition Partner's Comptroller to perform the reconciliation. To document CERP payments, the Army required the submission of project folders when projects were completed, but it did not require the reconciliation of payments. However, the Special Inspector General for Iraq

Reconstruction reported that many project files from Coalition Partners did not contain required supporting documentation and that Multi-National Corps – Iraq was unable to supply 29 percent of the requested project files.³ As a result, DoD could not provide a complete audit trail for CERP payments because documentation was insufficient and reconciliations were not performed. During the course of the audit the Multi-National Division-Southeast – United Kingdom began reconciling funds advanced to them. We hope this trend will continue with other coalition forces.

Seized and Vested Assets.

Presidential memorandum, dated April 30, 2003, provided DoD the authority to use Seized and Vested Assets to assist the Iraqi people and support the reconstruction of Iraq. The memorandum further directed the DoD to prescribe procedures to ensure that all Seized and Vested Iraqi assets would be properly accounted for, audited, and used to assist the Iraqi people. The Under Secretary of Defense (Comptroller)/Chief Financial Officer issued guidance in May 2003; however, it did not address roles, responsibilities, or procedures on the use of Seized and Vested Assets. On July 31, 2003, the Under Secretary of Defense (Comptroller)/Chief Financial Officer provided more detailed guidance but \$1.2 billion in Seized and Vested Assets had already been disbursed. In addition, the

³ Office of the Special Inspector General for Iraq Reconstruction Audit Report: “Management of the Commander’s Emergency Response Program in Iraq for Fiscal Year 2006” (Report No. SIGIR-07-006), dated April 26, 2007, page 6.

July 31, 2003, information omitted documentation that would demonstrate how the funds were to be used such as spending plans tied to budgets.

A typical Seized and Vested Asset payment voucher contained only the certifying officer's appointment letter, a Purchase Request and Commitment form, and a brief description of the purpose of the payment. This documentation was inadequate because it did not provide the audit trail needed to validate the basis for the amount, who actually received the funds, or how the funds were to be used. For example, our sample included a \$320 million cash payment to an Iraqi representative for Iraqi salary payments. The only supporting documentation in the payment voucher was two Purchase Request and Commitment Forms to obligate the funds. Information omitted from the voucher included the name of the Iraqi ministry to whom the funds were to be provided and documentation that accounted for how the funds were to be used, such as the number of Iraqi civil servants to be paid. This information could have been provided by attaching a spending plan or budget.

None of the 53 Seized and Vested Asset payment vouchers had spending plans attached or available. The Coalition Provisional Authority was to provide the Office of the Under Secretary of Defense (Comptroller) and the Army

Headquarters Budget Office with the spending plans. However, we were unable to obtain the spending plans or reconcile vouchers with Coalition Provisional Authority budgetary information. Without support for the accountability and use of Seized and Vested Assets there was no audit trail to verify the basis for the amount, who actually received the funds, or how the funds were used.

Advanced Iraqi Funds.

Our sample included three vouchers totaling \$21.1 million in Seized and Vested Asset advances to the Corps. The Corps provided documentation to support the disbursement of \$17.3 million of these advances. The remaining \$3.9 million in seized and vested asset advances were not used on contracts. The Corps Finance Center attempted to return the \$3.9 million of unused funds to the CPA by wire transfer. However, the funds were returned to a suspense account and remained there for 21 months until we identified them in September 2007. In addition, we identified that four additional advances, totaling \$1.9 million, were also placed into the suspense account.

In January 2006 and October 2006, the Corps Finance Center placed \$5.7 million in unused Seized and Vested Asset advance funds in a suspense account, where they remained unavailable to use for their intended purposes. The Corps

Finance Center had been unsuccessful in its attempts to resolve the \$5.7 million of advanced Iraqi seized and vested asset funds. At the time of our review, the Corps Finance Center had not contacted the Office of the Under Secretary of Defense (Comptroller) to obtain direction on the disposition of the funds. As a result, the Corps had not made these funds available for other Iraqi projects or to offset against Iraqi debts with the U.S. Government.

As result of our draft report, a \$1.5 million credit was applied to an open bill reducing the \$10.7 million debt owed by the Government of Iraq to \$9.2 million. The Corps also stated that the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer is preparing a memo allowing the Corps to liquidate delinquent accounts receivable from the Government of Iraq with the remaining \$5.7 million in Iraqi seized assets.

Management Actions.

Since the beginning of the audit we have kept the Under Secretary of Defense (Comptroller)/Chief Financial Officer, Assistant Secretary of the Army (Financial Management and Comptroller), and the Director of DFAS informed of the audit findings. As a result, the financial management community has taken a number of actions to correct the planning and internal control deficiencies. For

example, on April 17, 2008, the Principal Deputy Under Secretary of Defense (Comptroller)/Chief Financial Officer took a major step to establish the “Contingency Operations Financial Management Task Force.” The purpose of the Task Force is to review opportunities for improving financial management during contingency operations and make financial management policies and procedures to be used in Theater operations. We are an advisor on the Task Force. The Task Force held its first meeting on April 24 and 25. A number of issues were visited by the Task Force such as the lack of systems’ integration, lack of transparency in accounting for transactions, and lack of integration of financial and procurement operations; with the focus on financial operations in a contingency environment.

In addition, the Under Secretary of Defense (Comptroller)/Chief Financial Officer, the Assistant Secretary of the Army (Financial Management and Comptroller), and the Director, DFAS have initiated several actions to address the internal control deficiencies related to commercial payments. The Army and DFAS are transferring disbursing operations for contract payments back to the U.S., and DFAS deployed vendor pay and military pay subject matter experts to Iraq and Kuwait. They are issuing guidance regarding the minimum acceptable level of supporting documentation for a commercial payment, as well as implementing a voucher support check list and metrics to measure compliance. They are also providing in-theater scanning technology to facilitate the review of

voucher support documentation. The Army and DFAS are also taking actions to improve the training of finance personnel. These actions should improve effectiveness and reduce the burden on units in Iraq and Kuwait.

Referrals to DCIS.

As a result of the review of out-of-country payments, we referred 28 vouchers totaling \$35.1 million to DCIS for potential follow-up because of deficiencies in support documentation and information, the unusual nature of the transaction, or because DCIS was interested in those payees. As a result of the referrals to DCIS, 2 vouchers were included in a lead referral package developed by DCIS which later resulted in a case initiation, 8 vouchers were incorporated into ongoing DCIS investigations, 10 vouchers were referred to a DCIS field office for action and action deemed appropriate, 7 vouchers are under review by DCIS headquarters, and 1 voucher was referred to a DCIS field office for information. DCIS continues to examine the referrals to determine if additional investigations are warranted.

Follow-on Audit.

As follow-on to the audit of Iraqi, Kuwait, and Egypt payments, we are reviewing the Deployable Disbursing System (DDS), which is used for travel pay,

military pay, accounts payable, disbursing functions, collection processes, and reporting requirements. The DDS was developed for use in tactical and overseas operations and it replaced manual non-standard disbursing practices. DDS was initially deployed at Fort Jackson, South Carolina, in January 2004; was later deployed to Southwest Asia in August 2004 at Army contingency disbursing stations in Saudi Arabia, Iraq, Kuwait, and Egypt; and is also deployed in Germany, Belgium, Italy, Serbia (Kosovo), Japan, and Korea. The U.S. Marine Corps uses DDS at Camps Pendleton and Lejeune, as well as Okinawa and Southwest Asia. The DoD OIG initiated the “Audit of Internal Controls and Data Reliability in the Deployable Disbursing System” to determine whether the internal controls over transactions processed through DDS are adequate to ensure the reliability of the data processed. The audit includes financial information processed by disbursing stations supporting the GWOT and also the recording of related obligations.

Management of the Iraq Security Forces Fund in Southwest

Asia – Phase III

In May 2006, the OIG began a series of three audits evaluating: DoD’s distribution and obligation of funds provided for the Iraq Security Forces Fund; and DoD’s accountability and delivery of goods and services purchased for the Iraq Security Forces. These reviews were performed in response to language

contained in the Conference Report for the “Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006,” June 15, 2006 (House Report 109-494).

Public Law 109-13, titled, “Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005”, made available \$5.7 billion to the Secretary of Defense for the Iraq Security Forces Fund. The purpose of these funds was to allow the Commander, Multi-National Security Transition Command – Iraq to provide assistance, with the concurrence of the Secretary of State, to the security forces of Iraq. The funds were to be used to provide equipment, supplies, services, training, facility and infrastructure repair, renovation, and construction.

Our phase III audit report, issued in November 2007,⁴ concluded that Multi-National Security Transition Command – Iraq could not always demonstrate proper accountability of purchases using Iraq Security Forces Funds, or that delivery of services, equipment, and construction were properly made to the Iraq Security Forces. In addition to this audit, we also performed two additional audits of the Iraq Security Forces Fund. Our phase I audit report, issued in December

⁴ DoD IG Report No. D-2008-026, “Management of the Iraq Security Forces Fund in Southwest Asia – Phase III,” dated November 30, 2007.

2006,⁵ concluded that DoD distributed and transferred the \$5.7 billion provided to the Iraq Security Forces Fund in compliance with the provisions established in Public Law 109-13. Our phase II audit report, issued in February 2007,⁶ concluded that the obligations incurred by the Multi-National Security Transition Command – Iraq were in compliance with intended purposes of the law. The remainder of this discussion will focus on the findings of our phase III audit report.

What We Did. Our overall audit objective was to determine whether Multi-National Security Transition Command – Iraq properly accounted for the goods and services purchased for ISF using ISFF and whether the delivery of goods and services was properly made to ISF. To achieve our objective, we judgmentally sampled 317 obligation transactions valued at \$2.7 billion. The sample included the following:

<u>Transaction Category</u>	<u>Number of Obligation Transactions</u>	<u>Value (in billions)</u>
Transactions for Services	112	\$1.2
Transactions for Equipment	154	1.1
Transactions for Construction	<u>51</u>	<u>0.4</u>
Total	317	\$2.7

⁵ DoD IG Report No. D-2007-030, "Management of the Iraq Security Forces Fund in Southwest Asia – Phase I," dated December 8, 2006.

⁶ DoD IG Report No. D-2007-060, "Management of the Iraq Security Forces Fund in Southwest Asia – Phase II," dated February 12, 2007.

Accountability of Purchases for Services, Equipment and Construction.

We found that the Multi-National Security Transition Command – Iraq could not provide an adequate audit trail or proper documentation allowing us to track services, equipment, or construction from the purchase through the transfer to the Iraq Security Forces for approximately \$2.0 billion out of our sampled obligation transactions valued at \$2.7 billion.

Because the Multi-National Security Transition Command – Iraq did not have sufficient controls and procedures in place, did not maintain adequate oversight, and did not maintain accountable property records, they were unable to provide reasonable assurance that the Iraq Security Forces Fund achieved the intended results, that resources were used in a manner consistent with the mission, and that the resources were protected from waste and mismanagement.

Examples: Lack of Documentation. The following examples came from our review of available documentation used to support the purchase and transfer of services, equipment, or construction.

- **Transactions for Services.** Multi-National Security Transition Command – Iraq could not provide supporting documentation for

approximately 5 of 112 obligation transactions for services. One of the five obligation transactions not supported, equaled approximately 55 percent (\$664 million) of the total value of the service obligations reviewed.

- **Transactions for Equipment.** Multi-National Security Transition Command – Iraq could not provide supporting documentation for the transfer of approximately 91.5 percent of the \$1.1 billion in sampled obligation transactions for equipment purchases. For example, Multi-National Security Transition Command – Iraq could not account for 18 of 31 heavy tracked recovery vehicles purchased and valued at \$10.2 million because upon receipt of those vehicles in Iraq, vehicles identification numbers were not recorded. In addition, hand receipts did not record a posting reference to trace back to the contract.
- **Transactions for Construction.** Multi-National Security Transition Command – Iraq did not provide adequate oversight of approximately 93 percent of the sampled construction projects to ensure completion and transference to the Iraq Security Forces.

Prompt-Payment Discounts Not Realized.

In our review of the Multi-National Security Transition Command – Iraq’s payment of invoices, we identified that discounts earned by Multi-National Security Transition Command – Iraq for paying invoices within 7 days, were not deducted from the obligation amounts recorded in the Corps of Engineers Financial Management System. As a result, we identified approximately \$1.8 million that could be deobligated and returned to the primary fund. As a result of our determination, Multi-National Security Transition Command – Iraq took on their own review of open obligations and identified an addition \$831 million that should have been deobligated and transferred back to the primary fund.

Management Actions.

The Commander, Multi-National Security Transition Command –Iraq provided comments that fully addressed our recommendations. According to the Commander, Multi-National Security Transition Command-Iraq, Command has taken the following steps towards implementing our recommendations. Command has partnered with the Air Force Center for Environmental Excellence to develop a standard operating procedure to improve transfer and acceptance of real property; set up an accounting section to ensure accurate and timely oversight of accounting processes; and worked with the Defense Finance and Accounting Service personnel to improve financial reporting, accounts payable, and cost

accounting in the combat zone. In addition, the Commander, Multi-National Security Transition Command-Iraq developed a draft property accountability standard operating procedure for equipment distribution and accountability.

Since the issuance of our report, the Multi-National Security Transition Command-Iraq released last month, April 2008, Logistics Accountability Standard Operating Procedures, referencing our audit report and our identification of significant weaknesses in the accountability and management of Iraq Security Forces Fund procured purchases.

Investigative Efforts.

In May 2005, DCIS launched a proactive project to analyze the payment vouchers at DFAS in an attempt to identify fraudulent activity related to the war effort in Iraq and Afghanistan and to support ongoing DCIS investigations. The Office of the Inspector General has been working in collaboration with the Army Audit Agency to identify the various U.S. Army and Department of Defense contract and payment databases to supplement the review of the payment records for anomalies. The Defense Contract Audit Agency has assigned an auditor to assist DCIS in the manual review of payment vouchers at DFAS. The Office of the Inspector General is also working in partnership with the Army Audit Agency

to derive a methodology to efficiently and effectively mine the payment vouchers and records through the use of data mining techniques.

Additionally, DCIS currently has 113 open investigations relating to Southwest Asia. The majority of these investigations are being jointly investigated with one or more law enforcement partners. Of these 113 investigations, 10 are being conducted by agents deployed throughout Southwest Asia; the other 103 investigations are being conducted by special agents in the U.S. and Germany. DCIS attempts to transfer investigations developed in Southwest Asia to an appropriate CONUS venue as soon as practical so as to ensure we maximize the best use of our in-theater investigative resources and to begin and facilitate prosecution efforts.

Of the 113 ongoing DCIS investigations, 44 investigations involve public corruption offenses (bribery, gratuities, kickbacks, and conflicts of interest); 51 investigations involve procurement fraud offenses (false claims and statements, undelivered products, defective products, cost/labor mischarging); 16 investigations involve theft and technology protection offenses (theft of funds, property, equipment, supplies; and export violations involving U.S. technology

and vehicles), and 2 miscellaneous investigations (terrorism-related and other offense).

As a result of closed and ongoing investigations in Southwest Asia, 24 Federal criminal indictments and 26 Federal criminal informations have been issued, and 3 hearings have been conducted under Article 32 of the Uniform Code of Military Justice (UCMJ). In total, 31 persons have been convicted of felony crimes, resulting in a total of approximately 36 years of confinement and 42 years of probation; 10 individuals and 4 companies were debarred from contracting with the U.S. Government; 12 companies and 16 individuals were suspended from contracting; and 2 contractors signed settlement agreements with the U.S. Government. A total of \$11.1 million was paid to the U.S. in restitution; \$386,125 was levied in fines and penalties; \$1.76 million was forfeited; and \$2.6 million was seized.

In December 2006, a former Director of Operations in Kuwait and Iraq for a DoD subcontractor and a former employee of a DoD prime contractor were sentenced for their role in a kickback scheme involving two military dining subcontracts valued at \$21.8 million. The investigation revealed that in return for a kickback, the prime contractor employee awarded a \$14.4 million dining

subcontract to the subcontractor. The prime contractor employee later released bid information to the same subcontractor employee, allowing the subcontractor to secure the award for a six-month, \$7.4 million, dining facility services subcontract at a palace in Baghdad. The subcontractor employee admitted to paying \$133,860 in kickbacks to the prime contractor employee. The individuals were sentenced to a total of 63 months in prison and \$513,990 in restitution.

Closing.

We appreciate the DoD and Congressional support in our efforts to provide oversight on financial accountability, acquisition, corruption, waste, fraud, abuse. We are expanding our footprint in all of Southwest Asia. We will continue to keep our leadership and Congress fully and promptly informed. Again, thank you for the opportunity to appear before the committee today to address our ongoing oversight work regarding the Department of Defense to include our efforts in Southwest Asia.