



MINORITY STAFF  
COMMITTEE ON GOVERNMENT REFORM  
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## Fact Sheet

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# Mismanagement of the Development Fund for Iraq: Selected Quotes from International Advisory and Monitoring Board Audits

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On May 23, 2005, the International Advisory and Monitoring Board (IAMB) released several audits of the Development Fund for Iraq (DFI), the successor to the Oil for Food Program. These audits were posted on the IAMB's website at <http://www.iamb.info/dfiaudit.htm>. They were completed by the international accounting firm KPMG, and they cover the period from June 29, 2004, to December 31, 2004. Although the Iraq government nominally controlled the DFI after June 29, 2004, the auditors made several findings of U.S. mismanagement of the DFI. In addition, many of the findings critical of the Iraqi government can be traced directly to flaws in U.S. policies prior to the transfer of authority in June 2004.

### Auditor Findings

- I. **U.S. officials failed to properly track DFI funding. Millions of dollars are unaccounted for, more cost overruns are expected, and future funding sources for reconstruction projects are uncertain.**

*Management Letter on Internal Controls*, at 14:

The US Army Corps of Engineers (USACE) administers several large projects funded by the DFI. ... We noted that the USACE does not specifically monitor the amount of cash received from the DFI against project disbursements and remaining obligations on DFI-funded contracts and task orders.

At our request, the USACE performed a reconciliation of cash received from the DFI per USACE accounting records to the accounting records of the DFI Disbursing office. We were informed that as at the date of this report, the amount received by the USACE of \$2,243,984,978 for the period from inception to 31 December 2004, was \$9,700,000 more than the amount transferred by the DFI Disbursing Office. We were informed by the DFI Disbursing Office that they are investigating these reconciling items.

We were informed that the finalization of completion costs on large construction contracts will take several years. Additional costs are expected, including cost over-runs. ... The funding source of these additional costs has not yet been determined.

**II. U.S. officials frequently exercised poor or nonexistent oversight over contracts funded with hundreds of millions of dollars from Iraqi proceeds.**

*Report of Factual Findings in Connection with Disbursements*, at 18-19:

We found six cases where contracting files could not be located (disbursements of \$51,672,632).

We found 19 cases where evidence of contract monitoring over the delivery of goods and performance of services was not documented in the contract file (\$302,102,325).

We found one case where a contractor increased the price of their proposal by \$4,018,017 to include, in part, the accelerated delivery of equipment. Although the first delivery of equipment was three months after the due date, a payment of \$5,988,433 was made in accordance with the accelerated delivery schedule.

**III. U.S. officials failed to obtain the required approval for numerous DFI disbursements for contracts administered by the United States.**

*Report of Factual Findings in Connection with Disbursements*, at 15, 19:

We found 17 cases where there was no formal approval of funding for contracts or payments (payments of \$242,160,103).

We found ten cases where payments were authorized by only one individual and six cases where payment were not authorized at all (\$159,365,102). These payments were to be approved by two individuals.

**IV. U.S. officials issued contracts using DFI funds without soliciting bids and used DFI funds to purchase equipment for the United States.**

*Report of Factual Findings in Connection with Disbursements*, at 17:

We noted one case where a task order to a contract, for the assessment of security requirements at a particular location used partly by Coalition Forces, was competitively tendered and awarded to the lowest bidder (\$51,607). As a result of this assessment, the contractor was awarded a task order, on a non-competitive basis, to provide security services at the location (\$24,999,908).

*Report of Factual Findings in Connection with Disbursements*, at 16:

We noted one case where armored vehicles were purchased for US Agencies from DFI funds (disbursements of \$988,000).

**V. Over 600,000 tons of Iraqi oil, worth \$69 million, produced between June 29, 2004 and December 31, 2004, is missing.**

*Management Letter on Internal Controls*, at 4:

A complete and operational metering system to monitor production, local consumption and exports of petroleum and petroleum products, has not been in place in Iraq since post hostilities.

The absence of a fully operational metering system reduces the ability of the Ministry of Oil to ensure that all exports of petroleum and petroleum products are recorded and invoiced. ...

A reconciliation of the quantity of fuel oil produced, consumed locally, injected into the pipeline and wells, and exported contained unreconciled quantities of 618,203 tons of fuel oil.

The implication is that the fuel oil produced was greater than that consumed and exported. Consistent with these unreconciled quantities, we noted that recorded export sales of fuel oil decreased by 561,596 tons during the current period, when compared with export sales for the prior period.

The estimated sale value of the unreconciled quantities is approximately \$69,000,000, when calculated using an average price per ton for fuel oil export sales for the current period. We were not provided with a satisfactory explanation for these differences.

The Government of Iraq should investigate these differences.

**VI. U.S. officials are withholding important information about how DFI funds were spent for oil reconstruction and fuel imports.**

*Report of Factual Findings in Connection with Disbursements*, at 15:

For oil reconstruction and fuel import contracts, we were informed by the [U.S. Army Corps of Engineers] that due to ongoing US federal investigations, we would not be provided with access to complete contract files.

**VII. Criminals may be using the protection of the DFI to illegally launder funds.**

*Management Letter on Internal Controls*, at 6:

We found that the DFI was used for commercial purposes by Iraqi banks, offering international wire transfer services to customers, using the DFI as an intermediary.

The use of the DFI for non-governmental transactions may result in criminals, or associates of criminals, being able to conceal the source of funds transferred and their identity. The immunities afforded to the DFI may result in correspondent banks being unaware of the process by which monies are transferred and consequently, bypass anti-money laundering procedures.