Report No. D-2008-026 November 30, 2007

Inspector General
United States Department of Defense

Management of the Iraq Security Forces Fund in Southwest Asia - Phase III

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Acronyms

AFCEE	Air Force Center for Environmental Excellence
CEFMS	Corps of Engineers Financial Management System
DFAS	Defense Finance and Accounting Service
FMR	Financial Management Regulation
GAO	Government Accountability Office
IG	Inspector General
INL	Bureau for International Narcotics and Law Enforcement
ISF	Iraq Security Forces
ISFF	Iraq Security Forces Fund
MIPR	Military Interdepartmental Purchase Request
MNSTC-I	Multi-National Security Transition Command-Iraq
SIGIR	Special Inspector General for Iraq Reconstruction
USACE GRD	U.S. Army Corps of Engineers Gulf Region Division

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November 30, 2007

MEMORANDUM FOR COMMANDER, MULTI-NATIONAL SECURITY TRANSITION COMMAND-IRAQ

SUBJECT: Report on Management of the Iraq Security Forces Fund in Southwest Asia – Phase III (Report No. D-2008-026)

We are providing this report for information and use. We considered management comments on a draft of this report in preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. As requested in management comments, we revised Recommendations 3. and 5. to clarify our intention. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Questions should be directed to Ms. Nancee Needham at (703) 604-9633 (DSN 664-9633). See Appendix D for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

Wanda A. Scott
Assistant Inspector General
Readiness and Operations Support

Department of Defense Office of Inspector General

Report No. D-2008-026 **November 30, 2007**
(Project No. D2007-D000LQ-0141.000)

Management of the Iraq Security Forces Fund in Southwest Asia – Phase III

Executive Summary

Who Should Read This Report and Why? DoD acquisition, contracting, and supply chain management personnel should read this report. It identifies challenges in DoD regulations, policies, and procedures pertaining to nation-building efforts in Iraq.

Background. Public Law 109-13, "Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005," May 11, 2005, provided $5.7 billion for the Iraq Security Forces Fund, of which the Commander, Multi-National Security Transition Command-Iraq received $5.2 billion. The funds were to be used to provide equipment; supplies; services; training; and facility and infrastructure repair, renovation, and construction for the Iraq Security Forces.

We performed the audit as required by Public Law 109-234, "Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006," June 15, 2006. This is the third and final in a series of audits on the Iraq Security Forces Fund. For Phase III, we determined whether the Multi-National Security Transition Command-Iraq properly accounted for the services, equipment, and construction purchased for the Iraq Security Forces using the Iraq Security Forces Fund and whether the delivery of services, equipment, and construction was properly made.

Results. The Multi-National Security Transition Command-Iraq was not able to demonstrate proper accountability for and management of the Iraq Security Forces Fund and could not always demonstrate that the delivery of services, equipment, and construction was properly made to the Iraq Security Forces. As a result, the Multi-National Security Transition Command-Iraq was unable to provide reasonable assurance that 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. In addition, several transactions resulted in $1.8 million of funds that could be put to better use. Those transactions were not identified for deobligation by the required Multi-National Security Transition Command-Iraq triannual reviews. See the Finding section of this report for the detailed recommendations.

We recommend that the Commander, Multi-National Security Transition Command-Iraq establish internal controls and specific procedures for forward-deployed personnel to follow in maintaining adequate oversight of obligated funds and retaining accountable property records for expenditure of wartime funding. Also, the Commander, Multi-National Security Transition Command-Iraq should develop standard operating procedures for processing, managing, and overseeing Military Interdepartmental Purchase Requests. In addition, the Commander, Multi-National Security Transition Command-Iraq should identify personnel requirements for proper sourcing in the Joint

Manning Document it submits through Multi-National Force-Iraq, U.S. Central Command, to the Joint Staff and the Office of the Secretary of Defense. We recommend that the Commander, Multi-National Security Transition Command-Iraq establish procedures that ensure compliance with the DoD Financial Management Regulation for performing and documenting triannual validation reviews of unliquidated obligations, and establish controls to deobligate funds efficiently. We also recommend that the Commander, Multi-National Security Transition Command-Iraq, in conjunction with the Defense Finance and Accounting Service, conduct an assessment of financial management functions (such as financial reporting, accounts payable, and cost accounting) that could be transferred outside of Iraq to ease the strain on the Command's accounting personnel.

Management Comments and Audit Response. The Commander, Multi-National Security Transition Command-Iraq concurred with four of the recommendations, nonconcurred with one of the recommendations, and partially concurred with one of the recommendations. The Commander's comments were fully responsive. We agreed with the Commander's comments and revised two of our recommendations. We revised Recommendation 3. to require Multi-National Security Transition Command-Iraq to identify personnel requirements for proper sourcing in the Joint Manning Document it submits through Multi-National Force-Iraq, U.S. Central Command, to the Joint Staff and the Office of the Secretary of Defense. We removed the words "identify discounts" from Recommendation 5. because the Corps of Engineers Financial Management System automatically calculates the discounts at the time of disbursement. We require no further comments from Multi-National Security Transition Command-Iraq.

Although not required to comment, the Director, Defense Finance and Accounting Service Indianapolis Operations concurred with Recommendation 6. The Director stated that the Defense Finance and Accounting Service assessed the financial management functions of the Multi-National Security Transition Command-Iraq and is in the process of transferring two Defense Finance and Accounting Service accountants to augment the Multi-National Security Transition Command-Iraq accounting cell. We require no further comments from the Defense Finance and Accounting Service.

Although not required to comment, the Chief Audit Executive, Headquarters U.S. Army Corps of Engineers Internal Review Office provided comments on the draft report regarding prompt-payment discounts. The Chief Audit Executive stated that, for all transactions entered in it, the Corps of Engineers Financial Management System automatically records the discount taken, returns the discount to the obligation, deobligates the discount, and returns the discount amount to the funding account. We concur that the Corps of Engineers Financial Management System automatically calculates the discounts for transactions, as the Chief Audit Executive stated; however, sufficient documentation has not been provided that all discounts taken were deobligated and returned to the funding account. We require no further comments from the U.S. Army Corps of Engineers. Refer to the Finding section for a discussion of management comments and to the Management Comments section for the complete text of the comments.

Actions by the Command. According to the Commander, Multi-National Security Transition Command-Iraq, Command has already taken steps toward implementing the recommendations in this report. These steps include drafting a standard operating procedure for property accountability; partnering with the Air Force Center for Environmental Excellence to develop a standard operating procedure to improve transfer and acceptance of real property; reviewing and correcting DD Forms 1354; setting up an accounting section to ensure accurate and timely oversight of accounting processes and

documents; initiating an in-depth review of open obligations and commitments, which has already resulted in 950 documents being deobligated (freeing up $831 million); and working with Defense Finance and Accounting Service personnel to improve financial reporting, accounts payable, and cost accounting in the combat zone. We commend Multi-National Security Transition Command-Iraq for promptly taking these steps to implement the recommendations.

Security Conditions. The Commander, Multi-National Security Transition Command-Iraq commented on the level of violence in Iraq, stating that more than 80 percent of the violence in Iraq is limited to four provinces centered around Baghdad, although violence also exists in other population centers, such as Kirkuk, Mosul, and Basrah (as cited in the March and June 2007 - Section 9010 report). The instability in Iraq affects the Coalition's ability to move, communicate (voice and computer connectivity), deliver equipment, assess construction sites, and carry out oversight. According to the Commander, Multi-National Security Transition Command-Iraq, the level of violence in Iraq continued to rise during our site visit to Iraq (from March to May 2007), but began to decline shortly after we departed and has continued to decline since then.

Resources. The Commander, Multi-National Security Transition Command-Iraq highlighted requirements for oversight resources. The table below compares the oversight resources of the Multi-National Security Transition Command-Iraq with those of other large commands in the United States.

Comparison of Oversight Resources Available to U.S. Commands
(as of October 23, 2007)

Command	Auditors	Comptrollers	FY 2007 Budget
Multi-National Security Transition Command-Iraq	1	16	$5.5 billion
U.S. Army Training and Doctrine Command	8	64	$3.2 billion
U.S. Army Forces Command	6	47	$3.0 billion
U.S. Army Tank-Automotive and Armaments Command, Life Cycle Management	7	45	$3.6 billion

Source: Multi-National Security Transition Command-Iraq

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Background

Public Law 109-13. In Public Law 109-13, "Emergency Supplemental Appropriations for Defense, the Global War on Terror, and Tsunami Relief, 2005," specifically Section 3. References, Division A, Title l-Defense Related Appropriations, Congress appropriated $5.7 billion to the Secretary of Defense and allowed the Commander, Multi-National Security Transition Command-Iraq (MNSTC-I) to provide assistance, with the concurrence of the Secretary of State, to the security forces of Iraq.

The Commander, MNSTC-I received $5.246 billion to provide equipment; supplies; services; training; and facility and infrastructure repair, renovation, and construction. The U.S. Army Forces Command received $0.145 billion, and the Defense Security Cooperation Agency received $0.099 billion from the appropriation to assist the Iraq Security Forces (ISF). In addition, $0.210 billion from the appropriation was transferred to the "Operation and Maintenance, Army" appropriation account by Public Law 109-13. The appropriation expired September 30, 2006.

We performed the audit as required by Public Law 109-234, "Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006," June 15, 2006.

MNSTC-I. The primary mission of MNSTC-I is to assist the Iraqi government in developing, organizing, training, equipping, and sustaining ISF. This mission is performed by multiple components of MNSTC-I. Specifically, the Coalition Military Assistance Training Team assists in developing, organizing, training, equipping, and sustaining the Iraq Army and Navy Forces. The Civilian Police Assistance Training Team helps the Ministry of Interior train the Civil Forces sustaining security throughout Iraq. The Joint Headquarters Training Team assists the Iraq Joint Headquarters in continuing to build a self-reliant and effective strategic command and control institution.

On June 27, 2005, the Deputy Secretary of Defense issued a memorandum assigning the Secretary of the Army responsibility for providing support to MNSTC-I from the Army Project and Contracting Office in distributing and accounting for the Iraq Security Forces Fund (ISFF). On December 4, 2005, the Army Project and Contracting Office merged with the U.S. Army Corps of Engineers Gulf Region Division (USACE GRD). The Secretary of the Army is responsible for proper financial management, fiscal controls, and accountability in accordance with statute and with DoD Regulation 7000.14-R, "DoD Financial Management Regulation" (FMR).

Audit of the Iraq Security Forces Fund. We performed the audit in three phases. For Phase I, we reported on the distribution of funds appropriated for the Iraq Security Forces Fund within the Office of the Secretary of Defense and the Department of the Army in Report No. 02007-030, "Management of the Iraq Security Forces Fund in Southwest Asia Phase I," December 8, 2006. We determined that the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) distributed and transferred the $5.7 billion in compliance with the 14 provisions of Public Law 109-13 and appropriation law.

For Phase II, we reported on the obligation of the funds by MNSTC-I in Report No. 02007-060, "Management of the Iraq Security Forces Fund in Southwest Asia - Phase II," February 12, 2007. We determined that, as of June 30, 2006, obligations incurred by MNSTC-I for the audit sample (100 obligations and the associated 395 obligation transactions valued at $3.3 billion, out of an audit universe of $4.6 billion in funds appropriated for ISFF) complied with the intent of Public Law 109-13.

For Phase III, we reviewed public laws, the Federal Acquisition Regulation, DoD regulations, memos from the Office of the Secretary of Defense, and standard operating procedures on providing equipment and construction to ISF. Our objective was to determine whether MNSTC-I properly accounted for the services, equipment, and construction purchased for ISF using ISFF and whether the delivery of services, equipment, and construction was properly made. See Appendix B for criteria. In addition, we examined processes for issuing equipment at the Umm Qasr and the Abu Ghraib warehouses. See Appendix C for details on the equipment distribution processes.

Judgmental Sample. The judgmental sample for Phase III was 317 obligation transactions valued at $2.7 billion. The judgmental sample contains 112 services obligation transactions valued at $1.2 billion, 154 equipment obligation transactions valued at $1.1 billion, and 51 construction obligation transactions valued at $0.4 billion. For more on the scope and methodology, see Appendix A.

Objective

Our overall audit objective was to determine whether MNSTC-I 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. We also reviewed the management control program as it related to the objective. For scope and methodology and for prior coverage related to the objective, see Appendix A.

Review of Internal Controls

We identified material internal control weaknesses for ISFF as defined by DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," January 4, 2006. DoD Instruction 5010.40 states that internal controls are the organization, policies, and procedures that help program and financial managers achieve results and safeguard the integrity of their programs. MNSTC-I did not have adequate procedures in place to provide reasonable assurance that equipment, construction, and services procured through ISFF were provided to ISF. Implementing our recommendations will improve the internal controls over ISFF. We will provide a copy of the report to the senior ISFF official responsible for management controls.

Accountability for and Management of Services, Equipment, and Construction Purchased Through the Iraq Security Forces Fund

MNSTC-I was not always able to demonstrate proper accountability for and management of ISFF purchases and could not always demonstrate that the delivery of services, equipment, and construction was properly made to ISF. This occurred because MNSTC-I did not have sufficient controls and procedures in place, did not maintain adequate oversight, and did not maintain accountable property records. In addition, MNSTC-I did not have adequate resources for efficient management of services, equipment, and construction purchased through ISFF. As a result, MNSTC-I was unable to provide reasonable assurance that funds appropriated for ISF achieved the intended results, that resources were used in a manner consistent with the mission, and that resources were protected from waste and mismanagement. In addition, several transactions resulted in $1.8 million of funds that could be put to better use. Those transactions were not identified for deobligation by the required MNSTC-I triannual reviews.

Criteria

DoD Guidance. DoD FMR, volume 3, chapter 8, section 080401, "Triannual Reviews of Commitments and Obligations," November 2000, states:

> [F]und holders, with assistance from supporting accounting offices, shall review commitment and obligation transactions for timeliness, accuracy, and completeness during each of the four month periods ending on January 31, May 31, and September 30 of each fiscal year. The requirement for reviews of commitments and obligations applies to all appropriations and funds of all DoD Components. This requirement applies not only to direct appropriations, but also to all reimbursable transactions, as well as the Department's revolving and trust funds.

DoD Instruction 5000.64, "Accountability and Management of DoD-Owned Equipment and Other Accountable Property," November 2, 2006, states that DoD Components, which include MNSTC-I, shall:

> 5.2.1. Be accountable for and manage all property acquired, leased, or otherwise obtained throughout an asset's lifecycle . . .
>
> 5.2.2. Establish accountable property systems of record; ensure their appropriate integration with core financial and other systems and processes, particularly those for logistics and acquisition.
>
> 5.2.3. Establish implementing regulations and procedures, including the assessment and reporting of its overall property management maturity level.

The Instruction also states, "property records will be kept current and shall provide a complete trail of all transactions, suitable for audit, i.e., a transaction-based history of asset activity." Specifically, section 6.3. of the Instruction on "Property Furnished to a Third Party" states:

> Although the Department of Defense may not have physical custody, to maintain effective property accountability and control and for financial reporting purposes, DoD Components shall establish records and maintain accountability for property (of any value) furnished to contractors as Government Furnished Property. This requirement also includes property that calls for either loaned and/or otherwise provided to outside entities such as Federal agencies, State and local governments, and foreign governments.

See Appendix B for additional criteria.

Accountability for ISFF Purchases

MNSTC-I was not always able to demonstrate proper accountability for and management of services, equipment, and construction purchased through ISFF and could not always demonstrate that the delivery of services, equipment, and construction was properly made to ISF.

We examined receiving documentation for the 317 obligation transactions by subcategories: services, equipment, and construction projects. We reviewed documentation to determine whether MNSTC-I properly accounted for and delivered the items to ISF.

Accountability for Service Purchases. MNSTC-I contracted for services such as food preparation, maintenance, sanitation, freight, lodging, and security. While MNSTC-I was not able to provide sufficient documentation for services, USACE GRD, which provides accounting support, was able to provide most of the documentation. We examined 112 transactions valued at $1.2 billion. MNSTC-I and USACE GRD had sufficient documentation for 95.5 percent of our sample of obligation documents. Of the 112 transactions, 107 met requirements for sufficient documentation, and 5 transactions had insufficient documentation.

Military Interdepartmental Purchase Requests. One of the five transactions involved multiple Military Interdepartmental Purchase Requests (MIPRs) to the Department of State valued at $664 million, for which we were unable to obtain any documentation of service delivery.

The Department of State MIPRs were to the Bureau for International Narcotics and Law Enforcement (INL). INL is responsible for assisting in the development of police capabilities. INL received portions of the funds appropriated to MNSTC-I for training Iraq police. INL provided trainers and advisors to assist MNSTC-I in developing public security structures and organizations, and developed a curriculum to train Iraq police and corrections personnel.

While MNSTC-I correctly obligated the funds to INL, MNSTC-I did not oversee the $664 million and did not receive or review any documentation on how INL disbursed funds. Of the total transactions we reviewed, valued at $1.2 billion, the MIPRs to INL for $664 million represent 55 percent of the total value of service obligations.

Maintenance Services. To see firsthand the types of maintenance services provided, we visited maintenance facilities for wheeled and tracked vehicles in Taji, Iraq. We observed maintenance services being performed on ISF wheeled vehicles (see Figures 1 and 2). However, maintenance services on ISF tracked vehicles were temporarily halted because of a lack of funding, according to the contractor at the tracked maintenance facility (see Figure 3).

Source: DoD IG auditors on April 14, 2007.

Figure 1. ISF Wheeled Vehicles Await Maintenance at Taji, Iraq

Source: DoD IG auditors on April 14, 2007.

Figure 2. ISF Jeeps Receive Maintenance at Taji, Iraq

Source: DoD IG auditors on April 14, 2007.

Figure 3. A Tracked Vehicle Maintenance Facility Stands Nearly Empty After Work Was Halted

Prompt-Payment Discounts. We reviewed transactions to determine whether MNSTC-I was realizing discounts for prompt-payment of invoices. Overall, it appeared that MNSTC-I was paying invoices on time and was realizing discounts. However, we found that the amount saved by paying invoices within 7 days had not been deducted from the obligation amounts recorded in the Corps of Engineers Financial Management System (CEFMS). USACE GRD stated these savings should have been detected in one of the triannual reviews and deobligated accordingly. On April 1, 2007, we requested supporting documentation from the triannual review for unliquidated obligations in our judgmental sample; however, no documentation was provided. We found $1.1 million that did not appear to be

deobligated. In addition, we looked at other transactions not in our sample and found an additional $0.7 million that needed to be deobligated. The total of all discounts that had not been deobligated, $1.8 million, should be deobligated and returned to ISFF for reobligation. As a result of our review, MNSTC-I initiated an in-depth review (working with Joint Contracting Command-Iraq and USACE GRD) of open obligations and commitments, resulting in 950 documents being deobligated. According to the Commander, MNSTC-I, this review identified $831 million to be deobligated.

After our fieldwork ended, on August 4, 2007, USACE GRD submitted a point paper stating the discount was recorded as an offset to the amount disbursed, not to the obligation line. However, MNSTC-I had no reports to show that discounts were captured and returned to the primary fund.

Accountability for Equipment Purchases. We examined 51 obligations (comprising 154 obligation transactions) valued at $1.1 billion. Of the 51 obligations, 38 were contract obligations comprising 124 transactions totaling $643.1 million, and 13 were MIPR obligations comprising 30 transactions valued at $442.7 million. The obligations were for up-armored vehicles, weapons, ammunition, garbage trucks, communications equipment, and medical supplies.

MNSTC-I did not demonstrate proper accountability for and management of ISFF purchases and could not always demonstrate that the delivery of equipment was properly made to ISF. We went to USACE GRD to obtain documentation that would assist in developing an audit trail[1] for the contracts in the sample. Using documentation provided by MNSTC-I and USACE GRD, we were able to identify an audit trail from contract numbers to hand receipts for 12.9 percent or $82.9 million of the $643.1 million in equipment contract obligations we reviewed. We were unable to identify an audit trail for 99 percent of equipment MIPRs, worth $438.2 million.

Equipment Contract Obligations. We examined $643.1 million in equipment contract obligations. MNSTC-I and USACE GRD provided sufficient documentation establishing an audit trail for $82.9 million of equipment contract obligations for ISF. MNSTC-I and USACE GRD provided documentation for an additional $97.8 million of potential sample equipment contract obligations; however, documentation provided was insufficient and could not be linked to the receiving reports or contracts in question because identification numbers and posting references were missing. An identification number is the unique item identifier or DoD recognized item unique identifier equivalent, to be used when applicable. A posting reference is used to trace the equipment back to the original obligation document, such as a receiving report number, contract, purchase order, procurement identification number, or invoice number. In the end, MNSTC-I did not provide supporting documentation for the transfer or status of $560.2 million in sample equipment contract obligations. See Appendix B for details on DoD regulations on property accountability.

[1] According to DoD Instruction 5000.64, accountable property records will be kept current and shall provide a complete trail of all transactions, suitable for audit.

MNSTC-I does not have a process for tracking ISFF-purchased equipment during the transfer of that equipment to ISF. Consequently, there is no end-to-end audit trail for tracking equipment purchased through ISFF. We could not track from purchase to transfer for two main reasons.

- Receiving reports were not maintained or did not record serial or vehicle identification numbers at the time of government receipt.

- Hand receipts were not maintained or did not record a posting reference to identify the transfer of equipment.

Therefore, MNSTC-I cannot identify which pieces of equipment from the judgmental sample ISF received and cannot provide sufficient documentation that equipment from the judgmental sample was indeed transferred to ISF.

Equipment Not Accounted For. The following are examples of equipment that MNSTC-I could not properly account for.

- MNSTC-I could not account for 18 of 31 heavy tracked recovery vehicles purchased under W56HZV-06-D-D012 (Delivery Orders 1, 2, 3, and 4) and valued at $10.2 million because a disconnect in the audit trail occurred at the time of government receipt in Umm Qasr, Iraq, when vehicle identification numbers were not recorded. In addition, hand receipts obtained did not record a posting reference to trace back to the contract. See Figure 4 showing an example of a heavy tracked recovery vehicle purchased under W56HZV-06-D-D012.

Source: DoD IG auditors on March 17, 2007.

Figure 4. Heavy Tracked Recovery Vehicle From Contract W56HZV-06-D-D012 Sits at Umm Qasr, Iraq

- MNSTC-I could not prove that ISF received 2,126 of the 2,943 generators purchased under contract W56HZV-06-D-D107 (Delivery Orders 1 through 4) and valued at $7.0 million because a disconnect in the audit trail occurred at the time of government receipt at Abu Ghraib Warehouse, Iraq, when serial numbers were not

recorded. Hand receipts we obtained did record serial numbers but did not record posting references to trace back to the contract. See Figure 5 for the 557 generators MNSTC-I could account for from contract W56HZV-06-D-D107 at Abu Ghraib Warehouse. The remaining 260 generators were to be delivered by the contractor to the Abu Ghraib Warehouse.

Source: DoD IG auditors, April 19, 2007.

Figure 5. Generators From Contract W56HZV-06-D-D107 in Abu Ghraib Warehouse, Iraq

- MNSTC-I could not account for 6 of 18 garbage trucks valued at $0.7 million under contract W56HZV-04-D-B030 (Delivery Order 2) that were delivered to Umm Qasr in April 2006. Receiving reports obtained recorded vehicle identification numbers; however, MNSTC-I could not track vehicle identification numbers to supporting documentation to identify transfer or status of transfer to ISF.

- MNSTC-I could not prove that ISF received 12,712 of the 13,508 weapons[2] procured under contracts W914NS-05-D-9010 (Delivery Orders 4 through 8) and W91GYO-06-M-0713 for two reasons. First, when the U.S. Government receives the weapons at the Abu Ghraib Warehouse, serial numbers are not recorded. Second, when the weapons leave the warehouse for delivery to ISF, although their serial numbers are recorded, there are no references posted that trace back to the acquiring contract.

  MNSTC-I could account for 796 weapons from these two contracts because these weapons were still in the warehouse and not distributed to ISF. These weapons included 499 rocket-propelled grenade launchers from contract W914NS-05-D-9010 and 297 machine guns

[2] These 13,508 weapons included 7,002 pistols, 3,230 assault rifles, 2,389 rocket-propelled grenade launchers, and 887 machine guns.

from contract W91GY0-06-M-0713. See Figures 6 and 7 for examples of the weapons that were still in the warehouse.

Source: DoD IG auditors, April 19, 2007.

Figure 6: Crates of Rocket-Propelled Grenade Launchers From Contract W914NS-05-D-9010 in Abu Ghraib Warehouse, Iraq

Source: DoD IG auditors, April 19, 2007.

Figure 7: Crates of Machine Guns From Contract W91GY0-06-M-0713 in Abu Ghraib Warehouse, Iraq

- MNSTC-I could not account for four fuel tankers, five tractor trailers, and six low boy trailers purchased under contract W56HZV-05-D-D022 (Delivery Orders 1 through 5) and valued at $1.5 million. Receiving reports that we obtained recorded vehicle identification numbers; however, MNSTC-I could not track vehicle identification numbers to supporting documentation to identify transfer or status of transfer to ISF. Figure 8 shows an example of a tractor trailer from contract W56HZV-05-D-D022.

Source: DoD IG auditor on March 18, 2007.

Figure 8: Tractor Trailer From Contract W56HZV-05-D-D022 in Umm Qasr, Iraq

MIPRs for Equipment. We examined $442.7 million in sample equipment obligation MIPRs. MNSTC-I was able to provide sufficient documentation for only one MIPR transaction totaling $4.4 million. The documentation provided by MNSTC-I supported the deobligation of funds. MNSTC-I could not provide sufficient documentation to account for the remaining $438.3 million in sample equipment obligation MIPRs.

Accountability for Construction Project Expenditures. MNSTC-I did not perform proper accounting for completed construction projects, and the management controls on incomplete construction projects needed improvement. Specifically, MNSTC-I did not provide sufficient evidence to reconcile the accounting and project status information in CEFMS and the Iraq Reconstruction Management System. MNSTC-I uses the Air Force Center for Environmental Excellence (AFCEE) and USACE GRD for contracting and construction oversight, which includes maintaining documentation for an audit trail. However, AFCEE was unable to provide adequate supporting documentation for our audit, and MNSTC-I did not exercise sufficient management controls over construction projects. DoD Components are required to provide reasonable assurance that funds, property, and other assets are safeguarded against waste, loss, unauthorized use, and misappropriation. We evaluated in detail completed construction projects, incomplete construction projects, and MIPRs to USACE GRD for construction projects.

Completed Construction Projects. MNSTC-I did not provide sufficient documentation verifying that the construction projects were completed and transferred to ISF. We reviewed documentation transferring the real property from the contractor to MNSTC-I to determine whether the construction project was fully accounted for. DoD Components are required to complete a DD Form 1354, "Transfer and Acceptance of Military Real Property," for the transfer of real property to an outside organization so that an audit trail can be maintained. We examined 32 construction projects valued at $169.6 million that the Iraq Reconstruction Management System identified as completed. The obligated amount of the contract did not reconcile with the documentation for the transfer of the real property. The 32 completed construction projects fell into the following categories.

- For contract number FA8903-04-D-8677, Task Order 26, the DD Form 1354 totaled $3.7 million. However, the Task Order is obligated for $22.0 million.

- For contract number FA8903-04-D-8672, Task Order 20, the DD Forms 1354 totaled $33.2 million with several duplicate forms. However, the Task Order is obligated for $19.9 million.

- For contract number FA8903-04-D-8669, Task Order 6, the DD Form 1354 did not have cost data.

Incomplete Construction Projects. The six incomplete construction projects were valued at $173.1 million. We did not audit the other 84 incomplete construction projects worth $646.6 million[3] because MNSTC-I stated it would be impractical to provide the supporting documentation for that many projects. Therefore, we narrowed our review to six projects that the Iraq Reconstruction Management System indicated were farthest from completion. For each of the six incomplete construction projects, we:

- examined daily reports provided by the contractor implementing the construction project,

- examined daily reports provided by an independent contractor for quality assurance, and

- interviewed applicable MNSTC-I and AFCEE personnel.

AFCEE supports MNSTC-I with contract administration and oversight of construction projects. Therefore, AFCEE officials performed most of the direct contract oversight. AFCEE officials stated that for contractor oversight they rely primarily on daily reports by the independent contractor for quality assurance. MNSTC-I officials stated the independent contractor for quality assurance was more practical and less expensive than placing MNSTC-I or AFCEE personnel at the construction sites throughout Iraq.

After reviewing the incomplete construction projects, we concluded that MNSTC-I and AFCEE needed better management controls over incomplete

[3] Out of the 84 incomplete construction projects for $646.6 million, 12 of the transactions valued at $977,052 are for fees paid to AFCEE for program and project management to support MNSTC-I.

construction projects. Listed below are instances in which MNSTC-I and AFCEE did not provide adequate oversight.

- For contract number FA8903-04-D-8678, Task Order 137, AFCEE provided only one daily report prepared by the independent contractor for quality assurance, which did not record the project's percentage of completion. Therefore, we could not verify the contractor's stated percentage of completion. As of March 31, 2007, the construction contractor claimed the project was 55-percent complete. However, no one has been able to provide evidence, and we were unable to obtain any supporting documentation, indicating completion of 55 percent of the construction project.

- For contract number FA8903-04-D-8670, Task Order 215, numerous buildings had been completed. We requested DD Forms 1354 to document the completion of the construction projects. However, the DD Forms 1354 do not provide the construction costs; therefore, we were unable to reconcile the contract costs with those of the completed buildings.

- For contract number FA8903-04-D-8694, Task Order 17, the contractor did not renovate or build any new facilities. However, the contractor had received, as of May 31, 2007, $31.9 million of the $34.2 million total obligated amount. According to MNSTC-I, the Iraq Ministry of Defense was unable to obtain rights to the land to build the Iraq military facilities that were intended at that location. AFCEE officials stated that the construction project was canceled; however, MNSTC-I and AFCEE did not provide any official documentation canceling the project. According to AFCEE officials, the contractor operated a construction camp and procured raw materials for the construction project. However, the cost vouchers submitted by the contractor did not provide support for any materials being procured for the construction project. This task order may require litigation for resolution, according to AFCEE officials. The independent contractor for quality assurance was not at the site because construction was not started; therefore, no daily reports were provided to AFCEE.

MIPRs to USACE GRD for Construction Projects. MNSTC-I did not provide adequate oversight on the seven MIPRs valued at $26.4 million to USACE GRD for construction projects. MNSTC-I was not able to provide the contracts or the status of the construction projects.

On April 15, 2007, we requested that USACE GRD provide contracts and the status of the construction projects for our judgmental sample of MIPRs. USACE GRD did not provide adequate documentation for our requests. However, on July 23, 2007, we consulted with senior officials at the Defense Finance and Accounting Service (DFAS) on our potential audit findings. Afterwards, DoD officials provided our potential audit findings to USACE Headquarters.

On August 8, 2007, USACE Headquarters provided documentation for the MIPRs from MNSTC-I. We reviewed the documentation to determine the status of the construction projects, the amount owed the contractor for performance, and

whether a government official verified that the work was actually completed by the contractor. Of the MIPRs worth $26.4 million, $25.6 million or 97 percent had adequate documentation to support that ISFF was properly accounted for and that ISF received the intended real property.

Controls and Procedures

MNSTC-I did not have sufficient controls and procedures in place, did not maintain adequate oversight, and did not maintain accountable property records. In addition, MNSTC-I did not have adequate resources for efficient management of ISFF.

MNSTC-I officials provided additional information on some of the causes of the problems identified. MNSTC-I depends on outside agencies to control and track certain processes in theater. For instance, USACE GRD provides financial systems support for ISFF expenditures made by MNSTC-I and is responsible for maintaining all supporting documents. These interagency relationships are critical to maintaining an end-to-end audit trail. MNSTC-I officials concur that they had insufficient resources to comply with all of the reporting requirements.

Service Contracts. MNSTC-I lacked adequate policies and procedures to record the deobligation of discounts and did not conduct triannual reviews, as required by DoD FMR, volume 3, chapter 8, cection 080401, "Triannual Reviews of Commitments and Obligations."

Service MIPRs. MNSTC-I lacked adequate policies and procedures for adjusting accounts to reflect amounts paid in advance on the basis of the actual cost of equipment or services provided by the agency or unit filling the order. USACE GRD provided Intra-Governmental Payment and Collection System receipts recording the transfer of $664.0 million to the Department of State. However, neither USACE GRD nor MNSTC-I could demonstrate that the transfers were either advance payments or bills for delivery of equipment. In addition, MNSTC-I did not maintain adequate oversight once the $664.0 million was obligated to the Department of State. Therefore, it was not possible to determine whether all or any of the funds transferred to Department of State was, in fact, disbursed.

MNSTC-I stated it did not have adequate staff for efficient management controls on service obligations. MNSTC-I had 16 people in the comptroller's office during 2007 to provide oversight of $1.2 billion of ISFF in our judgmental sample of service obligations.

Equipment Contracts. MNSTC-I lacked adequate policies and procedures and did not provide adequate oversight for an end-to-end audit trail of equipment purchased and transferred to ISF. MNSTC-I could not track equipment from contract issue to hand receipt on every sample equipment contract because there was no audit trail linking the equipment received at warehouses to the equipment issued to ISF. MNSTC-I relies heavily on other DoD Components in the field to do their part to ensure proper accountability. DoD Components in the field do not report directly to MNSTC-I. According to MNSTC-I, these constraints make it difficult to track individual procurements by contract.

Equipment MIPRs. On hand receipts for equipment issued to ISF, MNSTC-I did not include the data elements required by DoD Instruction 5000.64. The lack of accountable property records is a direct result of the omission of key data elements such as posting references, serial numbers, and costs.

MNSTC-I officials stated they did not have adequate staff or management tools to exercise management controls over equipment obligations. MNSTC-I had 64 people in its logistics office during 2007 to provide oversight of $1.1 billion worth of ISFF equipment obligations we reviewed. As for management tools, MNSTC-I used electronic spreadsheets to record how much equipment had been issued to ISF. Given the amount of equipment issued to ISF, MNSTC-I officials stated they need improved management tools for efficient oversight of equipment.

Construction. The foregoing difficulties in managing construction projects occurred for the reasons listed below.

- For completed construction projects, AFCEE officials stated that they were not including indirect costs in the DD Forms 1354. On April 18, 2007, AFCEE officials revised their standard operating procedures to ensure the accurate completion of DD Forms 1354 and began training staff on how to complete DD Forms 1354 and transfer real property to ISF.

- For incomplete construction projects, MNSTC-I and AFCEE officials stated that they have too many projects to oversee; therefore, they usually rely on the independent contractor to ensure the construction projects are completed properly.

- For MIPRs for construction projects, MNSTC-I did not have policies and procedures in place to ensure USACE GRD was completing those construction projects.

- In addition, MNSTC-I had limited resources to ensure efficient management oversight of construction obligations. MNSTC-I had 24 people in its engineering office during 2007 to provide oversight of 129 ISFF projects totaling $1.0 billion identified in our judgmental sample for construction obligations.

Conclusion

MNSTC-I was unable to provide reasonable assurance that ISFF 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. Without proper records, MNSTC-I cannot determine:

- whether reimbursable MIPR funds transferred to external agencies were properly obligated and disbursed by those agencies;
- what equipment is due in, due out, issued, and on hand; or
- which construction projects have been completed and transferred to ISF.

While we identified a large amount of equipment that was unaccounted for, we realize that it would not be feasible or prudent to request MNSTC-I to continue to try to account for that equipment. However, given the amount of equipment unaccounted for, it is imperative that MNSTC-I immediately address the recommendations in this report to rectify the problem.

Because MNSTC-I received $5.2 billion in ISFF funds during FY 2005, and DoD received an additional $4.7 billion since then, MNSTC-I needs to improve its management controls to protect ISFF resources from waste and mismanagement. MNSTC-I should implement more supervisory checks, carry out additional physical inspections of construction sites, conduct internal audits, develop standard operating procedures, and develop suitable accounting tools to maintain an end-to-end audit trail. In addition, due to the lack of resources of MNSTC-I in the Iraq theater of operations, MNSTC-I, in conjunction with DFAS, should complete an assessment to determine which MNSTC-I functions could be transferred outside of Iraq to relieve strain on personnel.

Management Comments on the Finding and Audit Response

Management Comments on Accountability for ISFF Purchases. The Commander, MNSTC-I provided comments on the finding and made suggestions for changes to the Executive Summary. Refer to the Management Comments section for the complete text of the comments. In addition, the Commander provided the following table comparing MNSTC-I oversight resources with those of other large commands in the United States.

Comparison of Oversight Resources Available to U.S. Commands
(as of October 23, 2007)

Command	Auditors	Comptrollers	FY 2007 Budget
Multi-National Security Transition Command-Iraq	1	16	$5.5 billion
U.S. Army Training and Doctrine Command	8	64	$3.2 billion
U.S. Army Forces Command	6	47	$3.0 billion
U.S. Army Tank-Automotive and Armaments Command, Life Cycle Management	7	45	$3.6 billion

Source: MNSTC-I

The Commander also highlighted the level of violence in Iraq, stating that more than 80 percent of the violence in Iraq is limited to four provinces centered around Baghdad, although violence also exists in other population centers, such as Kirkuk, Mosul, and Basrah (as cited in the March and June 2007 - Section 9010 report). The instability in Iraq affects the Coalition's ability to move, communicate (voice and computer connectivity), deliver equipment, assess construction sites, and carry out oversight. According to the Commander, the level of violence in Iraq continued to rise during our site visit to Iraq (from March to May 2007), but began to decline shortly after we departed and has continued to decline since then.

The Commander expressed his appreciation to us for helping MNSTC-I improve ISFF accountability and oversight. Furthermore, the Commander requested a follow-up inspection 90 days following the official release of this report.

Audit Response. We considered management's comments and revised the report as appropriate to include the Executive Summary. In conclusion, we will consider the Commander's request for a follow-up inspection following the release of this report based on the availability of agency resources.

Recommendations, Management Comments, and Audit Response

Revised Recommendations. As a result of management comments, we revised Recommendation 3. to clarify how MNSTC-I should indicate a need for proper staffing. We also removed the words "identify discounts" from Recommendation 5. because CEFMS automatically calculates the discounts at the time of disbursement.

We recommend that the Commander, Multi-National Security Transition Command-Iraq:

> **1. Establish internal controls and specific procedures for forward-deployed personnel to follow in maintaining adequate oversight of obligated funds and retaining accountable property records for expenditure of wartime funding.**

MNSTC-I Comments. The Commander, MNSTC-I concurred. The Commander provided a draft property accountability standard operating procedure for equipment distribution and accountability that is applicable to all MNSTC-I activities. The Commander stated MNSTC-I partnered with AFCEE to develop a standard operating procedure to improve procedures for transfer and acceptance of real property. The Commander stated MNSTC-I reviewed and removed the duplicate DD Forms 1354 identified in our report and that MNSTC-I has corrected and updated other DD Forms 1354. In addition, the daily reports from the independent contractor for quality assurance were updated to reflect the status of construction projects. The Commander also stated MNSTC-I has established a collaborative Web portal in order to increase transparency and accountability of construction efforts. Moreover, MNSTC-I set up an accounting section within the comptroller's office to improve overall accounting processes. According to the Commander, this new section will ensure accurate and timely oversight of documents and provide an in-depth review of all accounting transactions. MNSTC-I established an internal auditing process to monitor various daily, weekly, and monthly reports on all commitments and obligations in the accounting system. Furthermore, MNSTC-I established a training plan to develop a baseline of requirements and expectations for the accounting section. The estimated completion date for all these actions is November 30, 2007.

Audit Response. The Commander's comments are fully responsive.

> **2. Develop standard operating procedures for processing, managing, and overseeing Military Interdepartmental Purchase Requests.**

MNSTC-I Comments. The Commander concurred. The Commander stated that MNSTC-I will produce a standard operating procedure for processing, managing, and reviewing MIPRs following the completion of the triannual review. MNSTC-I is working on a training package to distribute to individuals receiving MIPRs and made continuity books showing the processes and reconciliation of MIPRs. Furthermore, the Commander stated that MIPRs would be reconciled monthly in the future. The expected completion date is November 30, 2007.

Audit Response. The Commander's comments are fully responsive.

> **3. Identify personnel requirements for proper sourcing in the Joint Manning Document it submits through Multi-National Force-Iraq, U.S. Central Command, to the Joint Staff and the Office of the Secretary of Defense.**

MNSTC-I Comments. The Commander nonconcurred. The Commander concurred with identifying personnel requirements for proper sourcing in the Joint Manning Document it submits through Multi-National Force-Iraq, U.S. Central Command, to the Joint Staff and the Office of the Secretary of Defense. According to the Commander, MNSTC-I is conducting a bottom-up review of

MNSTC-I functions to determine appropriate staffing requirements. Estimated completion date of the MNSTC-I bottom-up review is November 1, 2007.

Audit Response. The Commander's comments are fully responsive. Because of the Commander's comments, we revised Recommendation 3. to require MNSTC-I to identify personnel requirements for proper sourcing in the Joint Manning Document it submits through Multi-National Force-Iraq, U.S. Central Command, to the Joint Staff and the Office of the Secretary of Defense.

4. Establish standard operating procedures that will ensure compliance with the DoD Financial Management Regulation in performing and documenting triannual validation reviews of unliquidated obligations.

MNSTC-I Comments. The Commander concurred. The Commander stated that MNSTC-I has established an accounting section to improve overall accounting processes that include reviews of system reports daily, weekly, and monthly. The Commander states that MNSTC-I will ensure oversight of documents and provide in-depth review of all documents in the accounting system. In addition, the Commander stated that MNSTC-I, as part of the new process, will conduct 25 percent of the triannual review each quarter in the future.

Audit Response. The Commander's comments are fully responsive.

5. Establish controls to deobligate funds in an efficient manner.

MNSTC-I Comments. The Commander partially concurred. The Commander concurred with establishing controls to deobligate funds in an efficient manner. The Commander stated that controls to identify discounts in an efficient manner already exist. According to the Commander, MNSTC-I worked with Joint Contracting Command-Iraq and USACE GRD to initiate an in-depth review and validation of all open obligations and commitments. As of September 14, 2007, the review revealed 950 documents to be deobligated, freeing up $831 million. The Commander states that actions to comply with the recommendation have been completed.

Audit Response. The Commander's comments are fully responsive. We removed the words "identify discounts" from Recommendation 5. because CEFMS automatically calculates the discounts at the time of disbursement.

6. In conjunction with the Defense Finance and Accounting Service, conduct an assessment of financial management functions (such as financial reporting, accounts payable, and cost accounting) that could be transferred outside of Iraq to ease the strain on the Command's accounting personnel.

MNSTC-I Comments. The Commander concurred. The Commander stated that DFAS performed an initial assessment of MNSTC-I financial management functions in September 2007 and that two DFAS accountants are being transferred to the MNSTC-I accounting cell (due to arrive in November 2007). According to the Commander, plans are being developed to retrograde financial management functions to the continental United States where feasible. Furthermore, the Commander stated that MNSTC-I has coordinated with the U.S. Central Command Lean Six Sigma team for a review of processes for

improvement in the first quarter of 2008. According to the Commander, MNSTC-I actions on this recommendation have been completed.

Audit Response. The Commander's comments are fully responsive.

DFAS Comments. Although not required to comment, the Director, DFAS Indianapolis Operations concurred. The Director stated that DFAS performed an initial assessment of MNSTC-I financial management functions and that actions are in process to augment the existing MNSTC-I accounting cell with two DFAS accountants. The Director also stated that plans are being developed to retrograde, where feasible, financial management functions to the continental United States. In addition, the DFAS MNSTC-I support cell will help staff improve financial execution, reconciliations, training, reporting, and audit support. The estimated date of completion is March 30, 2008.

Audit Response. The comments of the Director are fully responsive.

USACE Comments. Although not required to comment, the Chief Audit Executive from the USACE Headquarters Internal Review Office provided comments on the draft report regarding prompt-payment discounts. The Chief Audit Executive stated that CEFMS automatically records each discount, returns the discount to the obligation, deobligates the discount, and returns the discount amount to the funding account.

Audit Response. We concur that CEFMS automatically calculates the discounts for transactions as the Chief Audit Executive stated. However, sufficient documentation has not been provided to show that all discounts taken were deobligated and returned to the funding account.

Appendix A. Scope and Methodology

We conducted this performance audit from February 2007 through October 2007 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We planned the audit in three phases. In the first phase, we examined how the Office of the Under Secretary of Defense (Comptroller) and the Office of the Assistant Secretary of the Army for Financial Management and Comptroller distributed the $5.7 billion for ISFF to determine whether the distribution complied with the 14 provisions of Public Law 109-13 and applicable appropriations law. We determined that the funds were distributed properly.

In the second phase, we examined whether the obligations recorded for MNSTC-I using ISFF were made in accordance with legislative intent and applicable appropriations law. We reviewed a randomly selected sample of 100 obligations made by MNSTC-I (comprising 395 obligation transactions) valued at $3.3 billion from a universe of 1,074 obligations (comprising 2,114 obligation transactions) and valued at $4 .6 billion. As of June 30, 2006, the Commander, MNSTC-I had obligated $4.6 billion of the $5.2 billion as required by Public Law 109-13.

In this phase, the third phase, we reviewed Public Laws, the Federal Acquisition Regulation, DoD regulations, memos from the Office of the Secretary of Defense, and standard operating procedures on providing services, equipment, and construction to ISF. Our audit objective was to determine whether MNSTC-I properly accounted for the services, equipment, and construction purchased for ISF using ISFF and whether the delivery of services, equipment, and construction was properly made. In addition, we examined processes for issuing equipment at Umm Qasr and Abu Ghraib Warehouse.

Scope Limitations. The audit was limited to the review of MNSTC-I management controls for ISFF. Strict time and resource constraints caused us to narrow the audit scope to the key management controls reviewed during this audit. We did not test the supporting documentation for construction projects and services. We did not physically inspect construction sites to verify that ISF occupied facilities whose construction MNSTC-I declared complete. Furthermore, we did not observe contractors performing their contracted services. We examined supporting documentation to verify that a government official approved and inspected the construction site or services received from the contractors. The construction projects built and services performed by contractors were transferred to ISF throughout Iraq. We did not visit most of ISF sites or construction sites because of logistics and security impracticalities. As a result, there is a possibility that the documentation we relied upon for construction and services projects may be inaccurate. However, the overwhelming amount of supporting documentation received supports our audit finding of flaws in the accountability of ISFF.

Audit Universe. Resource management personnel of the USACE GRD recorded the incurred obligations of MNSTC-I. As of June 30, 2006, we extracted an audit universe of 1,074 obligations from CEFMS. The 1,074 obligations comprised 2,114 obligation transactions valued at $4.6 billion. As of June 30, 2006, $4.6 billion had been obligated from the $5.2 billion provided to the Commander, MNSTC-I, as required by Public Law 109-13.

Judgmental Sample. Our initial sample was a statistical sample of 100 obligations comprising of 395 obligations transactions valued at $3.3 billion. We attempted to obtain receiving reports, real property transfer hand receipts, equipment hand receipts, and warehouse inventories. However, due to time constraints and the inability of MNSTC-I to produce the documentation, we reduced our statistical sample in two ways:

- For equipment transactions with a value of less than $50,000, we did not pursue hand receipts but stopped with the DD Form 250, "Material Inspection and Receiving Report."

- We then narrowed our review to 6 of 84 incomplete construction project transactions. We selected six projects that were 50-percent complete or less and reviewed management controls on those projects. The majority of the 84 transactions were reported as 80- to 95-percent complete.

Therefore, our judgmental sample for Phase III was 317 obligation transactions valued at $2.7 billion. The categories making up that judgmental sample were 112 services obligation transactions valued at $1.2 billion, 154 equipment obligation transactions valued at $1.1 billion, and 51 construction obligation transactions valued at $0.4 billion.

Audit Projection. Because of the above-mentioned scope limitations—made after the Quantitative Methods Directorate at the Office of Inspector General randomly selected a sample—the audit cannot be projected to the audit universe.

Use of Computer-Processed Data. The audit relied on computer-processed data from CEFMS. Data from CEFMS were used to establish an audit universe for the audit. The audit universe was used by the Quantitative Methods Directorate at the Office of Inspector General to select a statistical sample for testing the incurred obligations. We did not perform a reliability assessment of the computer-processed data from CEFMS. We did not find errors that would preclude use of the computer-processed data to meet the audit objective or that would change the conclusions reached in the review of our judgmental sample.

Use of Technical Assistance. We received technical assistance from the DoD Office of Inspector General's Quantitative Methods Directorate.

Government Accountability Office High-Risk Area. The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the Defense Financial Management high-risk area. In addition, this audit pertains to the high-risk areas of DoD Supply Chain Management, DoD Weapons Systems Acquisition, Contract Management, and Management Interagency Contracting.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO), the Special Inspector General for Iraq Reconstruction (SIGIR), and the Department of Defense Inspector General (DoD IG) have issued five reports discussing Iraq Security Forces. Unrestricted GAO reports can be accessed over the Internet at http://www.gao.gov. Unrestricted SIGIR reports can be accessed over the Internet at http://www.sigir.mil. Unrestricted DoD IG reports can be accessed at http://www.dodig.mil/audit/reports.

GAO

GAO Report No. GAO-07-711, "Stabilizing Iraq: DOD Cannot Ensure That U.S.-Funded Equipment Has Reached Iraqi Security Forces," July 2007

GAO Report No. GAO-07-308SP, "Securing, Stabilizing, and Rebuilding Iraq: Key Issues for Congressional Oversight," January 2007

SIGIR

SIGIR Report No. SIGIR-06-033, "Iraqi Security Forces: Weapons Provided by the U.S. Department of Defense Using the Iraq Relief and Reconstruction Fund," October 2006

DoD IG

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

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

Appendix B. Criteria

Federal Guidance. Public Law 97-255, "Federal Managers Financial Integrity Act of 1982," September 8, 1982, states internal accounting and administrative controls shall be established in accordance with standards prescribed by the Comptroller General, and shall provide reasonable assurances that:

- obligations and costs are in compliance with applicable law;
- funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- expenditures applicable to operations are properly recorded and accounted for to maintain accountability over the assets.

Office of Management and Budget Circular No. A-123, "Management Accountability and Control," June 21, 1995, states that management controls have to reasonably ensure that programs achieve their intended results. Resources are used consistent with agency mission. Programs and resources are protected from waste, fraud, and mismanagement. Reliable and timely information is obtained, maintained, reported and used for decision making.

DoD Guidance. DoD Instruction 5000.64, "Accountability and Management of DoD-Owned Equipment and Other Accountable Property," November 2, 2006, states that DoD Components, which includes MNSTC-I, shall:

- be accountable for and manage all property acquired, leased, or otherwise obtained throughout an asset's lifecycle;
- establish accountable property systems of record; ensure their appropriate integration with core financial and other systems and processes, particularly those for logistics and acquisition; and
- establish implementing regulations and procedures, including the assessment and reporting of its overall property management maturity level.

To maintain adequate property records, DoD Components shall maintain property records that have a unit acquisition cost of $5,000 or more and assets that are sensitive or classified. Property records will be kept current and shall provide a complete trail of all transactions, suitable for audit, i.e., a transaction-based history of asset activity. Documentation (calls for either original documents or hard, or both, and electronic copies of original documentation) shall be maintained in a readily available location, during the applicable retention period, to permit the validation of information pertaining to the asset such as the purchase cost, purchase date, and cost of improvements. Supporting documentation may include, but is not limited to, purchase invoices or sales and procurement contracts. Although the Department of Defense may not have physical custody, to maintain effective property accountability and control and for financial reporting purposes, DoD Components shall establish records and maintain accountability for property (of any value) furnished to contractors as Government

Furnished Property. This requirement also includes property that calls for either loaned or otherwise provided to outside entities such as foreign governments.

The following data elements, at a minimum, are required of accountable property systems of record:

- name, part number and description (noun, nomenclature), model number and National Stock Number, if known;
- quantity (e.g., calls for either received or fabricated, or both, issued, and on-hand) and unit of measure;
- value at full cost (baseline and net book value), if applicable; or original acquisition cost if the property does not require capitalization;
- unique Item Identifier or DoD recognized Item Unique Identifier equivalent, if available and necessary for unique identification; and
- posting reference (e.g., receiving report number, contract, purchase order, or other procurement identification number, invoice number).

DoD FMR, Volume 3, Chapter 8, "Standards for Recording and Reviewing Commitments and Obligations," states fund holders, with assistance from supporting accounting offices, shall review commitment and obligation transactions for timeliness, accuracy, and completeness during each of the four month periods ending on January 31, May 31, and September 30 of each fiscal year. Furthermore, DoD FMR, Volume 3, Chapter 8, Section 080401, "Triannual Reviews of Commitments and Obligations," states the requirement for reviews of commitments and obligations applies to all appropriations and funds of all DoD Components. This requirement applies not only to direct appropriations, but also to all reimbursable transactions, as well as the Department's revolving and trust funds.

DoD FMR, volume 3, chapter 8, section 080402, "Responsibilities of Accounting Offices," prescribes that:

> [A]ccounting offices shall provide fund holders with listing(s) or automated media identifying both outstanding commitments and unliquidated obligations recorded for the funds holder. The accounting office also shall provide listing(s) or automated media identifying accounts payable and accounts receivable which enable the funds holder to verify proprietary accounts (as well as budgetary accounts) and, thus, ensure that proprietary and budgetary accounts are valid, accurate and reconciled. The transaction media must be such that the review can be documented and individual transactions can be annotated if the review reveals further action is required.

The DoD FMR states that the accounting office, if requested, shall assist fund holders in the conducting their reviews by:

> a. Assisting in the identification and organization of transaction groupings in such a manner so as to facilitate the review by different segments of the funds holder's organization;

> b. Assisting in the identification and correction of situations that may delay the recording of commitments or obligations, or the matching of disbursements to obligations; and
>
> c. Entering corrections identified by the funds holder when such corrections are adequately documented and the entry of such transactions is the normal function of the accounting office.

DoD FMR, volume 3, chapter 8, section 080403, "Responsibilities of Fund Holders," reads that fund holders are responsible for conducting reviews of outstanding commitments and unliquidated obligations (to include accounts payable and accounts receivable), irrespective of whether the funds holder or the accounting office actually records the commitments or obligations in the official accounting records. This responsibility is placed on the funds holder because the funds holder initiates those actions that result in commitments and obligations and, therefore, is in the best position to determine the accuracy and the status of such transactions. The following minimum reviews shall be accomplished by the funds holder no later than 14 days following the end of January and of May, as well as by September 30 of each fiscal year.

DoD FMR, volume 11A, chapter 3, section 030101, on "Economy Act Orders," prescribes "policies and procedures applicable to transactions where services, equipment, and construction are procured from other federal agencies under the Economy Act, Title 31, United States Code, Sections 1535 and 1536." In addition, transactions include interservice and intergovernmental support, where an activity needing supplies or services obtains them from another activity. Within DoD, Economy Act orders typically are executed by issuance of DD Form 448, "Military Interdepartmental Purchase Request (MIPR)."

According to DoD FMR, volume 11A, chapter 3, section 030501, an Economy Act order may:

> [B]e placed on any form that is acceptable to both the requesting and servicing agencies involved based upon the documentation standards in Chapter 1, paragraph 010204, of this Volume. Typically, between DoD Components, a DD Form 448, MIPR is used to place the order. A DD Form 448-1, "Acceptance of MIPR," is used to show acceptance. Economy Act orders may be placed on a reimbursable or direct fund citation basis. Whether the order is on a reimbursable or direct cite basis generally is negotiated between the two parties. An Economy Act order should include:
>
> A. A description of the supplies or services ordered;
>
> B. Delivery requirements;
>
> C. A funds citation (either direct or reimbursable);

D. A payment provision which may include the citation of the account number associated with a DoD purchase card (acquired under the General Services Administration Smart Pay Program) or the United States of America Card (acquired from the Treasury Department); and

E. Acquisition authority as appropriate.

DoD FMR, volume 11a, chapter 3, section 030502, states that payment shall be made promptly upon the written request (or billing) of the agency or unit filling the order. Payment may be made in advance or upon delivery of the services, equipment, and construction ordered and shall be for any part of the estimated or actual cost as determined by the agency or unit filling the order. A bill submitted or a request for payment is not subject to audit or certification in advance of payment. Proper adjustment of amounts paid in advance shall be made as agreed to by the heads of the agencies or units on the basis of the actual cost of services, equipment, or construction provided.

Furthermore, DFAS Indianapolis Regulation 37-1, Chapter 12, "ORDERS, EARNINGS AND BILLINGS," September 2000, calls for either documentation to support the recording of reimbursements earned, (consists of job orders, issue and turn-in slips, shipping documents, sales documents or equivalent instruments that are evidence of performance) or administratively prepared estimates of accruals where performance documents do not exist. At a minimum, earnings documents will include:

- a dollar amount of the earning;
- a complete description of the services performed or supplies issued;
- the period of performance;
- identification of the earnings, to match them with the related order; and
- name and telephone number of the performing activity.

Unified Facilities Criteria 1-300-08, "Criteria for Transfer and Acceptance of Military Real Property," June 30, 2004, is applicable to all DoD Components, and it requires a DD Form 1354, "Transfer and Acceptance of Military Real Property," for the transfer of real property to an outside organization, like the Iraq Government. A DD Form 1354 requires at least the following data elements:

- contract number with the delivery order number;
- category code description, which identifies the facility;
- cost of the facilities; and
- the signature and title of the individual responsible for accepting accountability for the properties described on the DD Form 1354.

Appendix C. Equipment Distribution Processes

According to MNSTC-I, USACE GRD, and contractor support personnel, the following three figures show the equipment distribution process for providing equipment to ISF, as of March 2007. More specifically, the second and third figures in the appendix show the processes for receiving, accepting, storing, and transferring equipment to ISF through Umm Qasr and Abu Ghraib Warehouses, as of March and April 2007 respectively.

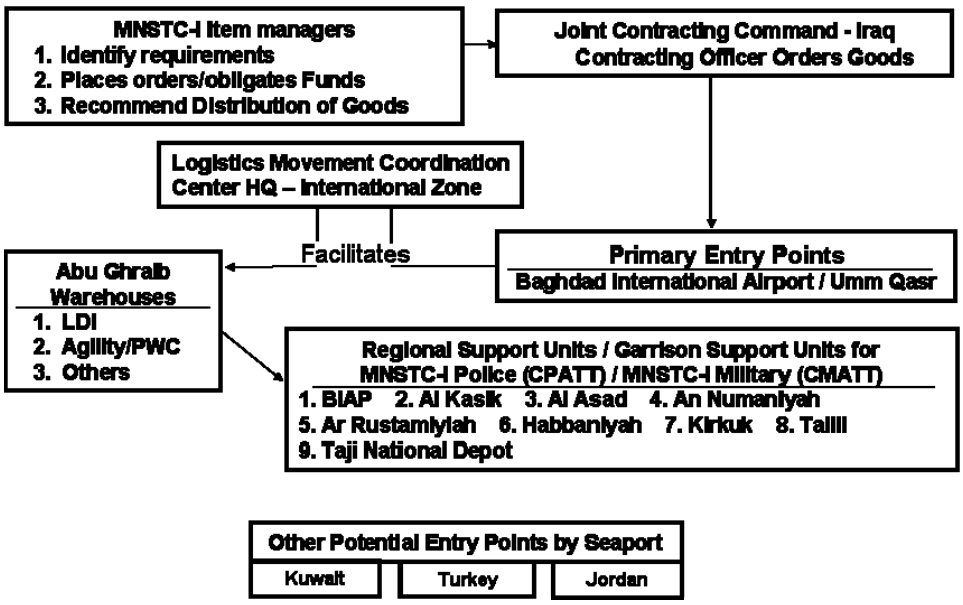

Figure C-1. Equipment Distribution Processes for ISF

MNSTC-I Item Managers: The determination of requirements done by the planners in MNSTC-I J5, Coalition Military Assistance Training Team, and Civilian Police Assistance Training Team. Once the requirement is established, officials in MNSTC-I J4 determine what items are on-hand and what must be procured. The J4 works closely with the planners to ensure the most effective and efficient means is used to distribute the equipment.

Joint Contracting Command-Iraq: MNSTC-I does not have contracting officers within its organization. Therefore, the majority of equipment needing procurement is contracted by the Joint Contracting Command–Iraq. However, MNSTC-I also uses MIPR to "piggyback" off existing contracts. Therefore, much of their procurement goes through numerous other commands. Examples of other contracting agencies include the USACE GRD; the U.S. Army TACOM Life Cycle Management Command; the Defense Logistics Agency; the AFCEE; the U.S. Army Medical Materiel Center, Europe; and the Defense Security Cooperation Agency.

Primary Points of Entry: If equipment is arriving via aircraft, the majority of the time it lands at the Baghdad International Airport. If it comes by sea, Iraq has

only one seaport, Umm Qasr. Both sites are owned and operated by the Iraqi Ministry of Transportation.

Logistics Movement Coordination: The Logistics Movement Coordination Center is the logistics nerve center for equipment destined for Iraq Government agencies. It's official mission is to provide all resources including equipment, supplies, personnel, administration, and management required to plan, organize, facilitate, direct, control and perform necessary logistics, supply, maintenance, communication, and transportation functions to receive, accept, account for, hold, store, secure, pick, repackage, and redistribute equipment, supplies, and material. Operate and maintain two Distribution Center Warehouse and Staging Areas at the Port of Umm Qasr and Abu Ghraib Warehouse as part of a supply chain management system supporting the reconstitution of Iraqi Security Forces and reconstruction support of Iraq Civil Infrastructure. Operations also include the management and receipt of inventory at Baghdad International Airport and Basrah Airport. Lastly, coach, train, and mentor an Iraqi workforce for the eventual turnover of this compound and operation solely into the hands of the Iraqis.

Umm Qasr and Abu Ghraib Warehouses: The two main warehouses are Umm Qasr and Abu Ghraib Warehouses. Both sites are manned by a small US Government contingent, but primarily run by a USACE GRD contractor. Security is provided by contractors at Umm Qasr and Kurdish Militia at Abu Ghraib Warehouse. Abu Ghraib Warehouse also uses a large contingency of local Iraq workers. Quality assurance inspectors are located at both sites. The quality assurance inspectors are the US Government officials that inspect all incoming equipment for damage and completeness. They sign the DD Form 250 receiving reports. At that point, the US Government takes official ownership and responsibility for the equipment. If items are rejected, the contracted company must send a representative to the location to fix the discrepancy since they still own the product until accepted by the US.

Regional Support Units and Garrison Support Units: The Regional Support Units and Garrison Support Units are the retail warehouses for distribution of equipment. Once equipment is dropped off at these locations, the equipment belongs to the Iraq Government since these sites are completely owned and operated by them. These are the primary locations for Iraqi units to pick up their equipment. When equipment is dropped off, the receiving station signs a contractor generated receipt and an Iraqi Army Form 102. Current RSU/GSU locations include the BIAP, Al Kasik, Al Asad, An Numaniyah, Ar Rustamiyiah, Habbaniyah, Kirkuk, Tallil, and Taji National Depot.

Other Potential Points of Entry: Equipment transported by sea can be dropped off at Kuwait, Turkey, and Jordan. These locations may incur tariffs and added levels of bureaucracy, but allow for certified shippers to be used. However, these locations require ground transportation through large areas of Iraq since the quality assurance inspectors are located at Umm Qasr and Abu Ghraib Warehouse.

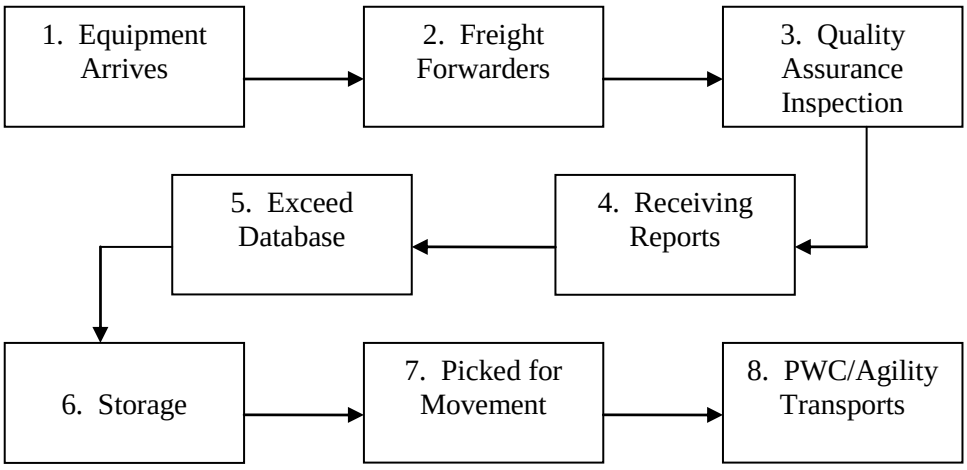

Figure C-2. Equipment Processes at Umm Qasr, Iraq

1. Umm Qasr is administered by the Iraqi Port Authority, with the Umm Qasr Port Manager reporting to the Iraqi Director General of Ports, who in turn reports to the Iraqi Minister of Transportation. Iraqi Military, Port Personnel, and Private Iraqi Security are noticeable security forces at the port.

Cargo is primarily and almost exclusively received at the North Port via ships, however there are some overland shipments received. Equipment is shipped to Iraq whatever way the contractor decides to send the cargo. When cargo arrives at the North Port, the Freight Forwarders identify equipment and off-load the ships. The North Port only has two operating cranes, one Roll on- Roll off ramp, and one vehicle ramp. When possible, most cargo shipments are unloaded by hand.

2. Freight Forwarders, which are all Iraqi Companies, are responsible for getting cargo to the main compound. A USACE GRD contractor owns and operates the main compound at Umm Qasr.

3. American contractors, under USACE GRD, who perform the inspection of equipment can not physically touch the items until unloaded within the main compound or soft stand area. Defense Contract Management Agency performed quality assurance at Umm Qasr until December 2006. There was no overlap in quality assurance because USACE GRD did not take over the role until January 2007. Inspectors perform their duties within the main compound and outside lot area for vehicles and large equipment.

4. Quality assurance personnel will inspect and accept equipment by signing receiving reports (most often DD Forms 250), which then are provided back to finance offices in the United States for proper payment. Deficiencies with the equipment that do not pass inspection are reported back to the original contractor/supplier of the equipment.

5. Quality assurance personnel provided receiving reports to the PWC/Agility personnel, who will input the shipments into the Exceed Database. Once information is put into the database all the Iraqi Ministries can view their available equipment. Exceed is the software system utilized by PWC/Agility to

manage warehouse inventories. It is accessible via a web portal for customers and a remote desktop for administrators.

6. The equipment is stored within the main compound and outside lot area. The main compound is 26,000 square meters with a 10-foot concrete wall with single strand concertina wire surrounding the perimeter. The main compound is comprised of two large warehouses, watchtowers and only one Entry/Exit Point. The soft stand area is surrounded by a chain-link fence and a single layer of barriers, contains watchtowers and only one Entry and Exit Point, which enters into the main compound.

7. The Logistics Movement Coordination Center is headquartered at Camp Freedom Compound within the International Zone, Iraq. The Logistics Movement Coordination Center organizes the missions to move cargo throughout Iraq for all the Ministries. The Logistics Movement Coordination Center sets up the cargo convoys, which move requested equipment to their final destinations within Iraq. The Logistics Movement Coordination Center uses Logistic Support Requests received from the various Commands (for example, MNSTC-I) to determine and coordinate convoy movements.

When the Logistics Movement Coordination Center determines which equipment is to be shipped, the equipment is picked or pulled for transport by USACE GRD contractor personnel.

8. The USACE GRD contracting company located at Umm Qasr retains all records pertaining to equipment shipped out of that location. The contracting company under USACE GRD maintains transportation records, which identify items, dates, and locations for each transport. Some times equipment identification numbers and/or contract numbers are tracked back to a convoy via mission numbers assigned.

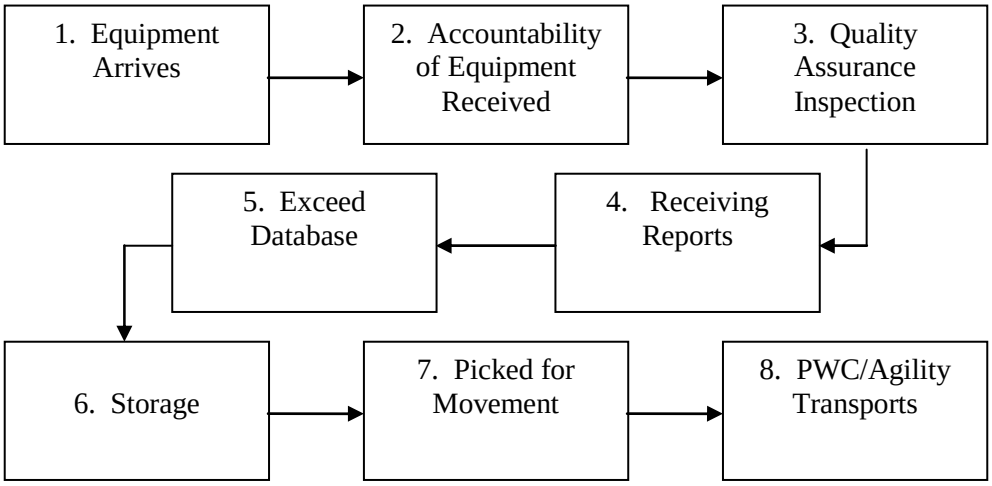

Figure C-3. Equipment Processes at Abu Ghraib Warehouse, Iraq

1. Equipment coming into the Abu Ghraib Warehouse Compound is first positioned at the open deck receiving area behind the main warehouse known as W100. After convoy paperwork is verified, warehouse personnel employed by the USACE GRD contractor unload and separate the cargo by contract number.

2. Warehouse personnel inspect, count, and repackage the equipment into smaller more controllable pallets.

3. American contractors, under USACE GRD, must inspect and accept the equipment. USACE GRD took over performing quality assurance roles at Abu Ghraib Warehouse in January 2007. At time of our site visit, USACE GRD employed only one quality assurance reviewer at Abu Ghraib Warehouse. Defense Contract Management Agency performed quality assurance at Abu Ghraib Warehouse until December 2006. There was no overlap in quality assurance and not all records from the prior quality assurance reviews were available.

4. Quality assurance personnel inspect and accept equipment by signing receiving reports (most often DD Forms 250), which then are provided back to finance offices in the United States for proper payment.

5. Quality assurance personnel provide receiving reports to the USACE GRD contractor personnel. The quality assurance reviewer currently at Abu Ghraib Warehouse also provides the USACE GRD contractor personnel with the contract information. All dollar values are blacked out on the contract and receiving reports, however having the contract information helps all involved understand what has been received and what is still expected. Using the contract information and receiving report information, the USACE GRD contractor personnel input data into the Exceed Database. This Exceed Database is the same database used at Umm Qasr.

6. Equipment is stored within 64 warehouses comprising more than 810,000 square feet of covered space and an outside storage lot for vehicles, with

a capacity of approximately 5,000. Equipment is separated into categories, for example: Warehouse 100 is the main warehouse (used for a number of functions) with use of cameras in designated areas for surveillance over weapons, computers, printers, copiers, and electronic equipment; Warehouse 200 is for office supplies; Warehouse 202 is for climate controlled items; and Warehouse 300 is used for medical storage. Ammunition is stored in old airline hangers with security guards providing extra surveillance.

Every three weeks a full 100-percent accountability of all items at Abu Ghraib Warehouse is conducted (by hand) by USACE GRD contractor personnel. USACE GRD contractor personnel do an inventory on ammunition and other sensitive items every Thursday.

7. The Logistics Movement Coordination Center is headquartered at Camp Freedom Compound within the International Zone, Iraq. The Logistics Movement Coordination Center organizes the missions to move cargo throughout Iraq for all the Ministries. The Logistics Movement Coordination Center sets up the cargo convoys, which move requested equipment to their final destinations within Iraq. The Logistics Movement Coordination Center uses Logistic Support Requests received from the various Commands (for example, MNSTC-I) to determine and coordinate convoy movements.

When the Logistics Movement Coordination Center determines which equipment is to be shipped, the equipment selected and picked for transport is relocated to Charlie Bay within Warehouse 100, the main warehouse. If there is not enough room within Warehouse 100, the remain equipment selected and picked for transport is stored on semi trucks.

8. The USACE GRD contractor performs the cargo movement as well. Cargo manifests are drawn to illustrate where and what quantities of items are on every cargo truck. The equipment on the shipping lists and shipment summaries are identified by the stock keeping unit code and not contract numbers.

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
    Director, Acquisition Resources and Analysis
Under Secretary of Defense (Comptroller)/Chief Financial Officer
    Deputy Chief Financial Officer
    Deputy Comptroller (Program/Budget)
Director, Program Analysis and Evaluation
Director, Defense Procurement and Acquisition Policy

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Auditor General, Department of the Army
Commander, U.S. Army Corps of Engineers

Department of the Navy

Auditor General, Department of the Navy
Naval Inspector General

Department of the Air Force

Auditor General, Department of the Air Force
Director, Air Force Center for Environmental Excellence

Combatant Commands

Commander, U.S. Joint Forces Command
    Inspector General, U.S. Joint Forces Command
Commander, U.S. Central Command
    Commander, Multi-National Forces-Iraq
    Commander, Multi-National Security Transition Command-Iraq
    Commander, Joint Contracting Command-Iraq/Afghanistan

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Information Systems Agency
Director, Defense Logistics Agency

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Homeland Security and Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Oversight and Government Reform
House Subcommittee on Oversight and Investigations, Committee on Armed Services
House Subcommittee on Government Management, Organization, and Procurement, Committee on Oversight and Government Reform
House Subcommittee on National Security and Foreign Affairs, Committee on Oversight and Government Reform

Multi-National Security Transition Command-Iraq Comments

Final Report Reference

MULTI-NATIONAL SECURITY TRANSITION COMMAND – IRAQ
NATO TRAINING MISSION – IRAQ
Baghdad, Iraq
APO, AE 09348

MNSTC-I-CG 18 October 2007

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Report on Management of the Iraq Security Forces Fund (ISFF) in Southwest Asia Phase III (Project No. D2007-D000LQ-0141.000)

1. The draft audit report entitled "Management of the Iraq Security Forces Fund (ISFF) in Southwest Asia Phase III" was forwarded for review and comment.

2. MNSTC-I comments on the recommendations of the report:

Recommendation 1. Establish internal controls and specific procedures for forward-deployed personnel to follow in maintaining adequate oversight of obligated funds and retaining accountable property records for expenditure of wartime funding. **Concur.**

MNSTC-I Action:
Developed a draft property accountability standard operating procedure (SOP) (Enclosure 1) for equipment distribution and accountability that is applicable to all MNSTC-I activities. The property accountability SOP is currently being reviewed by the DoDIG team who are in theater to assess weapons and ammunition accountability procedures. We will incorporate DoDIG's comments into the SOP to improve our procedures.

MNSTC-I also partnered with the Air Force Center for Environmental Excellence to develop a SOP (Enclosure 2) to improve procedures for transfer and acceptance of real property. We have reviewed and removed the duplicate DD 1354s identified in the report and have corrected and updated other DD 1354s. The daily reports from the independent contractor for quality assurance have been updated to reflect the current status of construction projects. In order to increase transparency and accountability of construction efforts, MNSTC-I has established a collaborative web portal. This web portal enables the real-time exchange of all cost, schedule and quality information.

In June 2007, we set up an accounting section within J8 to improve our overall accounting processes. This new section will ensure an accurate and timely oversight of documents as well as provide an in-depth review of all accounting transactions. To ensure accuracy we established an internal auditing process to monitor various daily, weekly, and monthly reports to stay abreast of all commitments and obligations in the accounting systems. We have established a training plan (first of its kind) (Enclosure 3) for the accounting section to develop a baseline of requirements and expectations.

Enclosures 2 and 3 were omitted because of length. Copies will be provided upon request.

Final Report Reference

MNSTC-I-CG
SUBJECT: Report on Management of the Iraq Security Forces Fund (ISFF) in Southwest Asia Phase III (Project No. D2007-D000LQ-0141.000)

The Gulf Region District (GRD) Corps of Engineers provides all accounting services to process accounting documents from start to finish (Purchase Request & Commitment to payment) for MNSTC-I. GRD is required to maintain all supporting documents to support the financial transactions within the system.

Estimated completion date: 30 Nov 07

Recommendation 2. Develop standard operating procedures for processing, managing, and overseeing Military Interdepartmental Purchase Requests (MIPR). **Concur.**

MNSTC-I Action:
We will produce an SOP for processing, managing, and reviewing MIPRs following the completion of the Tri-annual review. We are currently working on a training package to distribute to individuals receiving MIPRs. We have also made continuity books showing the processes/reconciliation of the MIPRs. MIPRs will be reconciled monthly in the future.

Expected completion date: 30 Nov 07

Recommendation 3. Ensure sufficient staff and management tools are provided for proper accountability. **Non-Concur.**

Revised Page 17

Recommend DoDIG change the recommendation to require MNSTC-I to identify our requirements via Joint Manning Document submission through MNF-I, CENTCOM and to the Joint Staff and OSD for proper sourcing. MNSTC-I does concur that given the amount of dollars we oversee that we are comparatively undermanned. See comparison table below.

Organization	Auditors	Comptrollers	FY07 Budget
MNSTC-I	1	16	5.5 Billion
HQ, TRADOC	8	64	3.2 Billion
HQ, FORSCOM	6	47	3 Billion
TACOM, AMC	7	45	3.6 Billion

MNSTC-I Action:
We are also looking at our internal resources by conducting a Bottom-Up review of MNSTC-I functions to determine appropriate personnel staffing requirements.

Estimated **completion date of our Bottom-Up review: 1 Nov 07**

2

MNSTC-I-CG
SUBJECT: Report on Management of the Iraq Security Forces Fund (ISFF) in Southwest Asia Phase III (Project No. D2007-D000LQ-0141.000)

Recommendation 4. Establish standard operating procedures that will ensure compliance with the DoD Financial Management Regulation in performing and documenting triannual validation reviews of unliquidated obligations. **Concur.**

MNSTC-I Action: Established an accounting section to improve overall accounting processes that include reviews of system reports on a daily, weekly, and monthly basis. We will ensure oversight of documents and provide in-depth review of all documents in the accounting system. As a part of the new process we will conduct 25% of the Tri-annual review every quarter. As the accounting office for MNSTC-I, GRD is responsible for performing this task.

Estimated completion date: Complete with quarterly reviews in the future.

Recommendation 5. Establish controls to identify discounts and deobligate funds in an efficient manner.

Revised Page 19

Non-Concur with establishing controls to identify discounts in an efficient manner. These controls already exist. The Corps of Engineer Financial Management System (CEFMS) automatically calculates the amount of the discounts at the time of disbursement.

Concur regarding establishing controls to deobligate funds in an efficient manner.

MNSTC-I Action: Starting in June 2007, we worked with JCC-I and GRD to initiate an in-depth review and validation of all open obligations and commitments. As of 14 Sep 07, the review revealed 950 documents to be deobligated /decommitted, freeing up $831M. Our newly established accounting section will monitor and control our funds to ensure timely and efficient use of ISFF in the future.

Estimated completion date: Complete

Recommendation 6. In conjunction with the Defense Finance and Accounting Service, conduct an assessment of financial management functions (such as financial reporting, accounts payable, and cost accounting) that could be transferred outside of Iraq to ease the strain on the Command's accounting personnel. **Concur.**

MNSTC-I Action:
DFAS performed an initial assessment (Enclosure 4) of MNSTC-I financial management functions on 4-6 September 2007. Actions are in process to augment the existing MNSTC-I accounting cell with two DFAS accountants. 15 November 2007 is the estimated arrival date for the accountants. Plans are being developed to retrograde financial management functions to CONUS where feasible. In addition, the DFAS MNSTC-I support cell will assist staff in

Enclosure 4 on Page 41

Final Report Reference

MNSTC-I-CG
SUBJECT: Report on Management of the Iraq Security Forces Fund (ISFF) in Southwest Asia Phase III (Project No. D2007-D000LQ-0141.000)

improving financial execution, reconciliations, training, reporting and audit processes. Furthermore, we have coordinated with the ARCENT Lean Six Sigma team for a review of processes for improvement in the first quarter of 2008.

Estimated completion date: Complete.

3. MNSTC-I submits administrative comments.

Per agreement with the IG, we have enclosed our proposed Executive Summary (Enclosure 5). Recommend these changes be adopted and inputted into the final report.

Enclosure 5 omitted because of length. Copies will be provided upon request.

Page 14 - "MNSTC-I had an average of 83 people in its logistics office…". Change to "MNSTC-I had 64 people in its logistics office…". This information is from the MNSTC-I Joint Manning Document.

Revised Page 15

Page 15 – "MNSTC-I was unable to provide reasonable assurance that ISFF achieved the intended results, that resources were used in a manner consistent with the mission..." Change to "MNSTC-I was unable to provide an end to end document audit trail to provide reasonable assurance that ISFF achieved the intended results".

Revised Page 14

Page 16 – "MNSTC-I officials believe that the chain of command limits the ability to control and track all processes in theater". Change to "MNSTC-I depends on outside agencies to control and track certain processes in theater. For instance, GRD provides financial systems support for MNSTC-I ISFF expenditures and is responsible for maintaining all supporting documents. These interagency relationships are critical to maintaining an end to end audit trail".

Revised

Page 16 – "However, those personnel do not report directly to MNSTC-I". Delete the sentence.

Page 17

4. I request a follow up inspection 90 days following the official release of this report. Furthermore, I appreciate your support in assisting us in improving our ISFF accountability and oversight.

5. Point of contact is LTC Kimo Dunn, DSN (318) 852-1359.

JAMES M. DUBIK
Lieutenant General, US Army
Commanding

Enclosures

4

Defense Finance and Accounting Service Comments

Final Report Reference

DEFENSE FINANCE AND ACCOUNTING SERVICE
8899 EAST 56TH STREET
INDIANAPOLIS, INDIANA 46249

DFAS-JBI/IN

OCT 04 2007

MEMORANDUM FOR MULTI-NATIONAL SECURITY TRANSITION COMMAND–IRAQ (MNSTC-I), J8

SUBJECT: Management of the Iraq Security Forces Fund in Southwest Asia – Phase III, Project D2007-D000LQ-0141.000, Recommendation 6

DFAS Indianapolis Operations is providing management comments as follows:

Recommendation 6: In conjunction with the Defense Finance and Accounting Service, conduct an assessment of financial management functions (such as financial reporting, accounts payable, and cost accounting) that could be transferred outside of Iraq to ease the strain on the Command's accounting personnel.

Management Comments: Concur. DFAS performed an initial assessment of MNSTC-I financial management functions. Actions are in process to augment the existing MNSTC-I accounting cell with two DFAS accountants. Plans are being developed to retrograde, where feasible, financial management functions outside of Iraq to CONUS support. In addition, the DFAS MNSTC-I support cell will assist staff to improve financial execution, reconciliations, training, reporting and audit support. Stakeholder: Mr. Tom Roberts, 317-510-2133.

Page 20

Estimated Completion Date: March 30, 2008

Steve R. Bonta
Director, Indianapolis Operations

U.S. Army Corps of Engineers Comments

Final Report Reference

DEPARTMENT OF THE ARMY
U.S. ARMY CORPS OF ENGINEERS
441 G ST. NW
WASHINGTON, D.C. 20314-1000

CEIR

22 October 2007

SUBJECT: Report on Management of the Iraq Security Forces Fund in Southwest Asia – Phase III (Project No. D2007-D000LQ-0141.0000)

MEMORANDUM FOR Department of Defense Inspector General, 400 Army Navy Drive, Arlington, VA 22202-4704

1. Subject report contains no recommendations to the U. S. Army Corps of Engineers. Nevertheless, we would like to offer one clarification to the discussion contained in the draft report:

Page 20

Page 6 – Prompt Payment Discounts. The Corps of Engineers Financial Management System (CEFMS) generated transactions automatically record the discount taken, return the discount to the obligation, deobligate the discount and return the discount amount to the funding account. Please refer to enclosed 3 Aug 07 Information Paper, Subject: CEFMS Process for Discounts Taken.

2. Please also refer to the enclosed 6 Oct 07 e-mail, with attachment.

3. Questions should be referred to Mr. Milton Naumann, 540-665-5021, or Ms. Donna F. Johnson, 202-761-8518.

Donna F Johnson

for: DONALD J. RIPP
Chief Audit Executive
HQ, USACE Internal Review Office

2 Enclosures
As Stated

Enclosures omitted because of length. Copies will be provided upon request.

Copy Furnished:e
CEGRD-IR
CERM-F

Team Members

The Department of Defense Office of the Deputy Inspector General for Auditing, Readiness and Logistics Support prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

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Inspector General
Department of Defense