

MANAGEMENT OF RAPID REGIONAL
RESPONSE PROGRAM CONTRACTS
IN SOUTH-CENTRAL IRAQ

SIGIR-05-023
JANUARY 23, 2006



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

January 23, 2006

MEMORANDUM FOR UNITED STATES AMBASSADOR TO IRAQ
COMMANDING GENERAL, JOINT CONTRACTING COMMAND
– IRAQ/AFGHANISTAN
COMMANDER, JOINT AREA SUPPORT GROUP - CENTRAL

SUBJECT: Management of Rapid Regional Response Program Contracts in South-Central Iraq
(SIGIR-05-023)

We are providing this audit report for your information and use. We performed the audit in accordance with our statutory duties contained in Public Law 108-106, as amended, which mandates the independent and objective conduct of audits relating to the programs and operations funded with amounts appropriated or otherwise made available to the Iraq Relief and Reconstruction Fund. Public Law 108-106, as amended, requires that we provide for the independent and objective leadership and coordination of, and recommendations on, policies designed to promote economy, efficiency, and effectiveness in the administration of such programs and operations and to prevent and detect waste, fraud, and abuse.

The Chief of Mission of the United States Embassy Baghdad did not respond to the draft of this report. However, we considered management comments from the Joint Contracting Command-Iraq/Afghanistan, and the Joint Area Support Group-Central on a draft of this report when preparing the final report. Comments by those organizations conformed to requirements and left no unresolved issues.

We request comments on the final report from the Chief of Mission of the United States Embassy Baghdad by February 13, 2006. Please send management comments, with the signature of the authorized official, in electronic format (Adobe Acrobat) to SIGIRAuditReports@sigir.mil.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Joseph T. McDermott at (914) 822-4618, or by email at joseph.mcdermott@iraq.centcom.mil, or Mr. Clifton Spruill at (703) 343-8816 or (914) 822-2798, or by email at clifton.spruill@iraq.centcom.mil. For the report distribution, see Appendix K.

A handwritten signature in black ink that reads "Stuart W. Bowen, Jr." followed by a period.

Stuart W. Bowen, Jr.
Inspector General

Special Inspector General for Iraq Reconstruction

Report No. SIGIR-05-023

January 23, 2006

Management of Rapid Regional Response Program Contracts in South-Central Iraq

Executive Summary

Introduction. This audit report is one of a series of reports addressing controls over cash, contract management, and grants management for the Coalition Provisional Authority South-Central Region. This audit report discusses the processes used for the authorization, award, execution, and oversight of contracts within the Coalition Provisional Authority South-Central Region.

During 2003-2004, the Coalition Provisional Authority used contracts to purchase products or services. The contracts were intended to help carry out a program or project that directly benefited the Iraqi people or assisted in the reconstruction and recovery of Iraq. Between October 2003 and June 2004, the Coalition Provisional Authority South-Central Region used funds provided from the Development Fund for Iraq through the Rapid Regional Response Program to award 907 contracts and 1,212 micro-purchases worth approximately \$88.1 million.

Objective. The overall audit objective was to determine whether disbursing officers in selected locations in southern Iraq complied with applicable guidance and properly controlled and accounted for Development Fund for Iraq cash assets and expenditures. During our audit, we observed deficiencies in contract award documentation and expanded our scope to determine whether Coalition Provisional Authority South-Central Region personnel properly managed contracts.

Results. South-Central Region personnel, under the direction of the Coalition Provisional Authority, did not effectively manage 907 contracts and 1,212 micro-purchase contracts awarded through the Rapid Regional Response Program in the amount of \$88.1 million. As a result, for 907 contracts and 1,212 micro-purchase contracts we reviewed:

- 4 projects, using 20 contracts (2.2 percent) and several contract modifications, totaling approximately \$9.1 million, appeared to have had the requirements split to keep the contract awards under the \$500,000 approval threshold to circumvent the required reviews
- 158 contracts (17.4 percent), totaling approximately \$16.3 million, were either not competitively awarded or lacked documentation that showed a competitive process had taken place and 26 contract files (3.0 percent), totaling approximately \$2.6 million, did not contain a signed contract
- 11 contracts (1.2 percent), totaling more than \$5.6 million, were issued without proper authorization and 38 contracts (4.2 percent), totaling approximately \$7.0 million, were awarded after the transfer of responsibility for the Development Fund for Iraq to the Iraqi government on June 28, 2004
- 91 projects (10.7 percent), totaling approximately \$11.6 million, were paid in full at the time of contract signing and the completion of the project work was not verified; 11 contracts (1.2 percent) were overpaid by \$571,823;

approximately \$515,000 was disbursed for Coalition Provisional Authority salaries and operations in violation of Program Review Board Guidance 06.2 (amended); approximately between \$47,000 and \$87,000 in cash was lost but not reported to the Coalition Provisional Authority Comptroller; and approximately \$23.0 million was transferred to unauthorized personnel but documentation showed only \$6.3 million disbursed to contractors resulting in the loss of oversight of \$16.7 million

- 286 contract files (31.5 percent), totaling approximately \$31.0 million, did not contain certificates of completion yet \$24.0 million had been disbursed for the projects; while other contract files were missing documentation for approximately \$12.6 million in disbursements and, consequently, it could not be determined whether contractors were paid for work performed
- a property record book to document the property purchased with Rapid Regional Response Program funds was not maintained; contract files for 160 vehicles, totaling approximately \$3.3 million, did not document the receipt of the vehicles and there was limited documentation in the contract files to identify whether the beneficiary actually received the vehicles; and ammunition and weapons were purchased but detailed records of deliveries and distribution were not maintained and not all of the weapons could be located
- 346 micro-purchase contracts (28.5 percent) exceeded the micro-purchase dollar limitation of \$5,000 yet did not maintain the required documentation in the files for awards in dollar amounts greater than \$5,000; 387 micro-purchase contract files (31.9 percent) did not contain disbursement documentation; 786 files (64.9 percent) did not contain a vendor invoice; and 838 files (69.1 percent) did not have a completion document

We concluded, based on the documentation examined during our review that the Coalition Provisional Authority South-Central Region failed to adequately manage its Rapid Regional Response Program contracts and micro-purchases.

Material Internal Control Weaknesses. Our audit identified material internal control weaknesses. U.S. government agents and Coalition partners did not comply with applicable guidance and did not properly control and account for Iraqi cash assets. In addition, based on the award process for contracts and the management of contracts we evaluated, there was no assurance that fraud, waste, and abuse did not occur in the management and administration of assets.

Indications of Potential Fraud. During this audit, we found indications of potential fraud and referred these matters to the Assistant Inspector General for Investigations, Office of the Special Inspector General for Iraq Reconstruction, for action. Related investigations are continuing.

Prior Recommendations. We issued four previous reports addressing controls over cash, contract management, and grant management for the CPA South-Central Region.¹

¹ Those four reports were SIGIR Report No. 05-006, "Control of Cash Provided to South-Central Iraq," April 30, 2005; SIGIR Report No. 05-015, "Management of Rapid Regional Response Program Grants in South-Central Iraq," October 25, 2005; SIGIR Report No. 05-016, "Management of the Contracts and Grants Used to Construct and Operate the Babylon Police Academy," October 26, 2005; and SIGIR Report No. 05-020, "Management of the Contracts, Grant, and Micro-Purchases Used to Rehabilitate the Karbala Library," October 26, 2005.

We made a total of 31 recommendations to management in those four reports. In response to the recommendations made in those four reports, management generally concurred, agreed to take the necessary actions to resolve the problems discussed, and initiated actions on the specific recommendations. Therefore, the recommendations made in those previous four reports that are applicable to this audit will not be repeated.

Recommendations. Since the Coalition Provisional Authority was dissolved on June 28, 2004, we are addressing the recommendations to two of the four successor organizations: the Joint Contracting Command – Iraq/Afghanistan and the Joint Area Support Group-Central, Baghdad; as well as to the United States Ambassador to Iraq.

1. We recommend that the United States Ambassador to Iraq recover specifically the \$571,823 that was overpaid on 11 contracts.
2. We recommend that the Commanding General, Joint Contracting Command – Iraq/Afghanistan establish adequate and required documentation to record the receipt and disposal of all purchased property.
3. We recommend that the Commander, Joint Area Support Group - Central, require paying agents to obtain proper contract approval documentation prior to making disbursements.

Management Comments and Audit Response. The Commanding General, Joint Contracting Command-Iraq/Afghanistan; and the Commander, Joint Area Support Group-Central concurred with the finding and recommendations and the comments received are fully responsive.

We provided a draft of this report on December 29, 2005, to the Chief of Mission of the United States Embassy Baghdad. No management comments to the draft of this report were received. Therefore, we request that the Chief of Mission provide comments on this final report by February 13, 2006.

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Introduction

Background

This audit report is one of a series of reports addressing controls over cash, contract management, and grant management for the Coalition Provisional Authority (CPA) South-Central Region. This audit report discusses the processes used for the authorization, award, execution, and oversight of contracts within the CPA South-Central Region.

Coalition Provisional Authority Regulation Number 1. CPA Regulation Number 1 was issued by the CPA Administrator on May 16, 2003. CPA Regulation Number 1 described the powers and purposes of the CPA and stated:

The CPA shall exercise powers of government temporarily in order to provide for the effective administration of Iraq during the period of transitional administration, to restore conditions of security and stability, to create conditions in which the Iraqi people can freely determine their own political future, including by advancing efforts to restore and establish national and local institutions for representative governance and facilitating economic recovery and sustainable reconstruction and development.

The Development Fund for Iraq. United Nations Security Council Resolution 1483, adopted May 22, 2003, noted the establishment of the Development Fund for Iraq (DFI) and assigned responsibility for managing the fund to the CPA. The resolution noted that the CPA should direct disbursement of DFI funds, in consultation with the Iraqi interim administration. The resolution also required the CPA to use DFI funds in a transparent manner to meet the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq's infrastructure, for the continued disarmament of Iraq, for the costs of Iraqi civilian administration, and for other purposes benefiting the people of Iraq. The DFI was the primary financial vehicle to channel revenue from ongoing Iraqi oil sales, unencumbered Oil for Food deposits, and repatriated Iraqi assets into the relief and reconstruction of Iraq.

During the CPA administration of Iraq, the CPA Comptroller managed the DFI and the Program Review Board (PRB) was responsible for recommending expenditures of resources from the DFI. For a description of CPA Regulation Number 2, which applied to the DFI, and CPA Regulation Number 3, which applied to the PRB, see Appendix B.

Program Review Board Guidance. The Director of the PRB provided directives that applied to contract management within CPA regions. Two of these directives addressed the management of the Rapid Regional Response Program (R3P):

- PRB Guidance 06, "Rapid Regional Response Program Overview," September 27, 2003
- PRB Guidance 06.2, "Rapid Regional Response Program Overview (amended)," December 14, 2003, and January 25, 2004

Rapid Regional Response Program. The R3P funds were derived from the DFI, and the CPA provided those funds to the Iraqi people for needed infrastructural repairs and

upgrades. The objectives of the R3P were to create local jobs, support local industries, and stimulate the economy. The R3P was initially conceived as a civilian equivalent of the Commander's Emergency Response Program fund.² Further, it was designed to provide maximum flexibility to regional and governorate coordinators in implementing projects responsive to the needs in their areas of responsibility. The program incorporated and expanded upon authorities of two previously funded programs:

- the Director's Emergency Response Program, which provided an emergency response capacity
- the Construction Initiative, which provided greater funding authority for construction activities

The discretionary authority under which regions could execute programs without prior Regional Program Coordinator approval was increased to \$500,000 from \$200,000 through PRB Guidance 06.2, "Rapid Regional Response Program Overview," as amended on December 14, 2003, and January 25, 2004.

South-Central Region. The CPA established the South-Central Regional office in the spring of 2003, and it was comprised of the provinces of Anbar, Babil, Karbala, Najaf, Qadisiyah, and Wasit; which cover approximately half of the land mass of Iraq. South-Central Region personnel worked with the Iraqi people and coalition forces to establish the conditions for a free, sovereign, and democratically-elected representative government in Iraq. The top priorities of the South-Central Region were electricity, human rights, security, strategic communications, tribal democracy, and women's rights.

Organizations Responsible for Contract Management. The CPA was the authority responsible for the temporary governance of Iraq through June 28, 2004. Thereafter, the Iraqi Interim Government assumed the authority to govern Iraq. The responsibility for the DFI transferred from the CPA to the Iraqi Interim Government on June 28, 2004. For information on the CPA's organizational responsibilities concerning contract management, until it ceased to exist on June 28, 2004, see Appendix C.

Due to the dissolution of the CPA, four U.S. government organizations assumed responsibilities for the management of contracts and micro-purchase contracts in Iraq. For information on the present organizational responsibilities for the management of contracts and micro-purchase contracts in Iraq, see Appendix D.

Project and Contracting Office. The Project and Contracting Office now has the responsibility to assess requirements for contracts. National Security Presidential Directive 36, "United States Government Operations in Iraq," May 11, 2004; established the Project and Contracting Office and directed that it provide acquisition and project management support with respect to activities in Iraq, to include contract-related activities. The Project and Contracting Office reports through the Deputy Assistant Secretary of the Army (Policy and Procurement) to the Assistant Secretary of the Army for Acquisition, Logistics, and Technology.

Iraq Reconstruction Management Office. The Iraq Reconstruction Management Office now has the responsibility to approve contracts. National Security Presidential Directive 36, "United States Government Operations in Iraq," May 11, 2004, established the Iraq Reconstruction Management Office within the Department of State and directed

² According to Combined Joint Task Force-7, Fragmentary Order 89, June 19, 2003, DFI funds were to be used to help fund the Commanders' Emergency Response Program, which provides reconstruction assistance to the Iraqi people.

that organization to facilitate the transition in Iraq. The Iraq Reconstruction Management Office reports to the Chief of Mission in Iraq.

Joint Contracting Command – Iraq/Afghanistan. The Head of Contracting Activity, Joint Contracting Command – Iraq/Afghanistan now has the responsibility to administer contracts. The Joint Contracting Command – Iraq/Afghanistan was established in 2004 to consolidate contracting activities and reports through the Deputy Assistant Secretary of the Army (Policy and Procurement) to the Assistant Secretary of the Army for Acquisition, Logistics, and Technology.

Joint Area Support Group - Central Comptroller. The Joint Area Support Group - Central now has the financial responsibility³ for contracts. The CPA Comptroller, as part of the CPA, ceased to exist on June 28, 2004. When the CPA was dissolved, the CPA Comptroller was realigned as the Joint Area Support Group - Central Comptroller. The Joint Area Support Group - Central Comptroller continued to perform the same duties for that portion of the DFI still administered by the U.S. Government. The Joint Area Support Group - Central reports to the Commander, Multi-National Force – Iraq.

Objective

The overall audit objective was to determine whether disbursing officers in selected locations in southern Iraq complied with applicable guidance and properly controlled and accounted for DFI cash assets and expenditures.

During our audit, we observed deficiencies in contract award documentation and expanded our scope to determine whether CPA South-Central Region personnel properly managed contracts.

For a discussion of the audit scope, methodology, and a summary of prior coverage, see Appendix A. For definitions of the acronyms used in this report, see Appendix J. For a list of the audit team members, see Appendix L.

³ The Joint Area Support Group-Central Comptroller provided funds to the CPA regions to disburse for contracts. Afterward, the disbursement documentation was returned to the Joint Area Support Group-Central Comptroller's office for review and to be cleared.

Management of Contracts and Micro-Purchase Contracts in the South-Central Region

South-Central Region personnel, under the direction of the CPA, did not effectively manage 907 contracts and 1,212 micro-purchase contracts awarded through the R3P in the amount of \$88.1 million.

This condition occurred because South-Central Region personnel did not always:

- follow established policies and procedures for authorizing, competing, and properly documenting contract awards
- follow established policies and procedures for consolidating contracts
- properly monitor contractor performance
- use effective procedures to disburse funds for contracts
- account for the funds disbursed for the contracts or determine how those funds were used
- report lost cash to the CPA Comptroller, prevent payments that exceeded the award value of contracts, and prevent payments for unauthorized purposes
- maintain adequate contract file documentation or R3P property book

As a result, for 907 contracts and 1,212 micro-purchase contracts we reviewed:

- 4 projects, using 20 contracts (2.2 percent) and several contract modifications, totaling approximately \$9.1 million, appeared to have had the requirements split to keep the contract awards under the \$500,000 approval threshold to circumvent the required reviews
- 158 contracts (17.4 percent), totaling approximately \$16.3 million, were either not competitively awarded or lacked documentation that showed a competitive process had taken place and 26 contract files (3.0 percent), totaling approximately \$2.6 million, did not contain a signed contract
- 11 contracts (1.2 percent), totaling more than \$5.6 million, were issued without proper authorization and 38 contracts (4.2 percent), totaling approximately \$7.0 million, were awarded after the transfer of responsibility for the DFI to the Iraqi government on June 28, 2004
- 91 projects (10.7 percent), totaling approximately \$11.6 million, were paid in full at the time of contract signing and the completion of the project work was not verified; 11 contracts (1.2 percent) were overpaid by \$571,823; approximately \$515,000 was disbursed for CPA salaries and operations in violation of PRB Guidance 06.2 (amended); approximately between \$47,000 and \$87,000 in cash was lost but not reported to the CPA Comptroller; and approximately \$23.0 million was transferred to unauthorized personnel but documentation showed only \$6.3 million disbursed to contractors resulting in the loss of oversight of \$16.7 million
- 286 contract files (31.5 percent), totaling approximately \$31.0 million, did not contain certificates of completion yet \$24.0 million had been disbursed for the projects; while other contract files were missing documentation for approximately \$12.6 million in disbursements and, consequently, it could not be determined whether contractors were paid for work performed

- a property record book to document the property purchased with R3P funds was not maintained; contract files for 160 vehicles, totaling approximately \$3.3 million, did not document the receipt of the vehicles and there was limited documentation in the contract files to identify whether the beneficiary actually received the vehicles; and, ammunition and weapons were purchased but detailed records of deliveries and distribution were not maintained and not all of the weapons could be located
- 346 micro-purchase contracts (28.5 percent) exceeded the micro-purchase dollar limitation of \$5,000 yet did not maintain the required documentation in the files for awards in dollar amounts greater than \$5,000; 387 micro-purchase contract files (31.9 percent) did not contain disbursement documentation; 786 files (64.9 percent) did not contain a vendor invoice; and 838 files (69.1 percent) did not have a completion document

We concluded, based on the documentation examined during our review, that the CPA South-Central Region failed to adequately manage its R3P contracts and micro-purchases.

Guidance for Contracts

In Iraq, contracts were used to purchase products or services. The contracts were to directly benefit the Iraqi people or assist in the recovery of Iraq. The South-Central Region disbursed funds for contracts by using DFI cash issued by the CPA Comptroller (now the Joint Area Support Group - Central Comptroller).

Coalition Provisional Authority Memorandum 4. CPA Memorandum Number 4, “Contract and Grant Procedures Applicable to Vested and Seized Iraqi Property and the Developmental Fund for Iraq, Implementation of Regulation Number 3, Program Review Board,” August 19, 2003, (CPA Memorandum Number 4) established “procedures applicable to the execution of contracts and grants for the benefit of the Iraqi people using Iraqi Funds. . . .” The memorandum directed that “the CPA will manage and spend Iraqi Funds, which belong to the Iraqi people, for their benefit. . . . in a transparent manner that fully comports with the CPA's obligations under international law, including Resolution 1483.” The memorandum also stated:

Consistent with their programmatic responsibility to ensure that contractors and grantees properly perform their duties, Contracting Officers shall be responsible for regularly monitoring the post-award execution of all Contracts they approve. This monitoring process includes ensuring that the contractor provides the agreed upon goods, services or construction in accordance with the provisions, and that payments are made in a timely manner. Contracting Officers shall include in the Contract file a written report describing post-award performance by contractors or grantees, including a final assessment upon completion of the Contract. Contracting officers shall rely upon locally available military engineering resources in assessing all repair and construction projects. All documents related to the establishment and execution of Contracts will be maintained in a Contract file that includes the materials described in Appendix A to this Memorandum.

Further, the memorandum stated “the Head of Contracting Activity, CPA, shall provide administrative oversight as well as technical supervision” of contracting officers. Finally, the memorandum stated that “Large purchase preliminary award decisions by Contracting Officers appointed by the Head of the Contracting Activity, CPA will be coordinated with the Head of Contracting Activity, CPA, or his designee, prior to award.”

The appendixes to this memorandum provided supplemental instructions on preparing and executing contracts and grants pursuant to the memorandum. Specifically, Appendixes A, B, and C of the memorandum identified the contract file requirements, standard terms and conditions for solicitations and contracts in excess of \$5,000, and contract and grant procedures applicable to vested and seized Iraqi property and the DFI.

Combining and Dividing Awards. CPA Memorandum 4, Section 6, “Principles Applicable to Instruments,” addressed combining and dividing awards and stated that to the “extent practicable, requirements for a project or related projects may be consolidated into one contract, in order to reduce the administrative burden of contracting. Requirements may not be split to avoid the application of these rules.”

Contract Requirements. CPA Memorandum 4, Section 3, “Definitions,” defined a micro-purchase as “A contract with a value of US\$5,000 or less,” a small purchase as “A contract with a value greater than US\$5,000 and less than or equal to US\$500,000,” and a large purchase as “A contract with a value greater than US\$500,000.” Micro-purchases simply required the provision of material contract terms and the receipts or invoices that demonstrated the outcome. Micro-purchases were considered advantageous, because they were subject to less stringent contract file requirements than small purchases. Small purchases required documented solicitations, competition, communication with vendors, and invoices.

Generally, the large purchase contract process required competition and negotiation but also required written justifications for an award without competition. The justifications were to be “reviewed and approved in writing by either the Contracting Officer’s appointing authority or the Head of Contracting Activity, CPA, or his designee.” Extensive documentation was required for large purchases that was “sufficient to enable review by the Contract Award Committee prior to award and then by auditors during the period of contract performance and thereafter.” CPA Memorandum 4, Appendix A, “Contract File Requirements,” provided details on the required documentation for all types of contracts. For a definition of contracts, see Appendix B.

Program Review Board Guidance 06.2 (amended) - Discretionary Authority. PRB Guidance 06.2 (amended), stated that the “discretionary authority under which Regional Coordinators can execute projects without RPC [Regional Program Coordinator] approval is increased to \$500,000, and projects up to \$100,000 can be executed at the Governorate Coordinators’ discretion.”

Regional Program Coordinator Approval Authority. Projects over \$500,000 required Regional Program Coordinator approval via form PRB-01, “Funding Request Form.” The Regional Program Coordinator was to review and approve the funding request for completeness of the information concerning budget and justification, appropriate clearances, identification of funding sources, and other pertinent factors.

Authorization and Award of Contracts

South-Central Region personnel did not follow established policies and procedures for authorizing, competing, and properly documenting the awarding of contracts issued through the R3P.

Competition in Awarding Contracts. CPA Memorandum 4, Section 6, “Principles Applicable to Instruments” addressed competition and stated that “Unless otherwise exempted under this Memorandum, competition is mandatory for all Contracts. . . . If circumstances required award of a contract without competition, a written justification describing the exigencies requiring contracting without competition will be documented in the Contract file. Contracts will be awarded to the offer providing the greatest value to the CPA or Coalition Forces, based on price and all other evaluation factors contained in the solicitation.”

We determined that 158 (17.4 percent) of the 907 contracts reviewed, totaling approximately \$16.3 million, were either not competitively awarded or lacked documentation that showed a competitive process had taken place. Contract files did not always contain complete bid proposal information, such as bid proposals with no identification of the company that prepared the proposal. In one instance, the contract files contained evidence of competition that appeared to be fraudulent. For example, the contractor told us that he did not submit a bid proposal even though the contract file contained an estimate from his company.

Authorization Authority for Contracts. PRB Guidance 06.2 (amended), stated that “the disbursing authority may not be involved in the approval process” of authorizing contracts or projects. We identified a situation in which a disbursing agent authorized eight contracts totaling approximately \$3.8 million instead of the appropriate approval authority. In addition, in at least two instances, this disbursing agent also signed a receipt for the goods and services for which he disbursed cash in payment.

Discretionary Authority for Contracts. We identified four contracts awarded for amounts greater than \$500,000, and we found that three had not received the proper authorization. Each of the three contracts had been approved by South-Central Region personnel rather than by the Regional Program Coordinator, as required.

Authorization for Development Fund of Iraq Contracts. The CPA was the authority responsible for the temporary governance of Iraq through June 28, 2004. Thereafter, the Iraqi Interim Government assumed the authority to govern Iraq. The responsibility for the DFI transferred from the CPA to the Iraqi Interim Government on June 28, 2004.

An individual appointed as an ordering officer on May 25, 2004, awarded 38 contracts totaling approximately \$7.0 million after the transfer of responsibility for the DFI to the Iraqi government on June 28, 2004. For example, one contract in the amount of \$511,710, was awarded in August 2004. The ordering officer was aware of the expiration of his warrant, since he wrote in an email to a Project and Contracting Office representative on July 13, 2004, “is there a problem with my doing the contracts on an expired CPA warrant or should I just back date them? Where the level exceeds the written CPA guidelines (they gave the field only \$50K instead of \$100K), do I complete them anyway?”

Multiple Contracts

South-Central Region personnel did not follow established policies and procedures for consolidating contracts using R3P funds. Specifically, the South-Central Region personnel circumvented guidance by splitting requirements into more than one contract to avoid having to seek the appropriate funding-level approval or to avoid required documentation and issued contracts for dollar amounts that exceeded the requirement documents.

Dividing Contract Awards. South-Central Region personnel awarded 20 contracts and several contract modifications, totaling approximately \$9.1 million, for four projects. Records show indications that South-Central Region personnel intentionally split the requirements to keep the contract awards under the \$500,000 approval threshold to circumvent the required reviews. We combined the split contracts by project and calculated that the total values for each of the four projects would have been \$5.3 million, \$1.7 million, \$1.3 million, and \$0.8 million.

Combining and Dividing Micro-Purchase Contract Awards. It also appears that, in some cases, South-Central Region personnel circumvented guidance by splitting requirements into more than one micro-purchase contract to avoid the small purchase contracting requirements but, in other cases, awarded micro-purchase contracts that exceeded the \$5,000 micro-purchase dollar limitations yet did not maintain the required documentation for dollar amounts greater than \$5,000. For example, on April 9, 2004, four separate purchases, each in the amount of \$5,000, were made for identical leaflets, all to the same person. In another example, micro-purchases were used to support the Iraqi Olympic Boxing Team. In total, approximately \$427,000 was spent to support the team, including four separate disbursements of \$40,000. Supporting receipts were available for only approximately \$127,000 of the \$427,000 disbursed. We determined that 346 (28.5 percent) of the 1,212 micro-purchase contracts we reviewed were in excess of \$5,000.

Monitoring Performance

South-Central Region personnel did not properly monitor contract performance as required by the guidance provided by CPA Memorandum Number 4 and PRB Guidance 05, "Project Monitoring and Evaluation," September 30, 2003 (PRB Guidance 05). Although CPA Memorandum Number 4 stated that performance monitoring was important to ensure that contractors are properly performing their duties, this guidance and PRB Guidance 05 generally were not followed. Specifically, South-Central Region personnel did not use effective procedures to monitor performance of contracts; and, in some cases, projects were not monitored at all. Further, contract files did not always contain certificates of completion. In addition, for the certificates of completion we reviewed, the certificates were not always used properly or were, in some cases, not completed properly.

Coalition Provisional Authority Memorandum 4 – Monitoring Performance. CPA Memorandum 4, Section 8, "Monitoring Contract Performance," addressed the contracting officers' monitoring responsibilities. CPA Memorandum 4 stated that

Consistent with their programmatic responsibilities to ensure that contractors and grantees properly perform their duties, Contracting Officers shall be responsible for regularly monitoring the post-award execution of all Contracts they approve. This monitoring process includes ensuring that the contractor provides the agree[d] upon goods, services or construction in accordance with the provisions, and that payments are made in a timely manner.

Monitoring Methods. CPA Memorandum 4 and PRB Guidance 05 identified performance monitoring as a significant duty to ensure that the recipients were properly performing. The South-Central Region contracting officer was responsible for monitoring projects within the South-Central Region. Monitoring required South-Central Region personnel to employ some or all of the following methods:

- Discussions with the contracting entity or grant recipient with regard to project timelines and implementation of the project
- Regular site visits
- Production of reports and/or other evidence of project activity by the implementing partner
- Confirmation of delivery of the goods or products and verification that the targeted beneficiary or recipient had received the product
- Discussions with the Iraqi beneficiary of the project to evaluate whether the project achieved the desired outcome
- Documentation or other evidence (pictures) of a satisfactory work product including a completed Certificate of Completion

Monitoring of Project Activity. South-Central Region personnel were required to visit the construction sites to determine whether the contractor was adequately performing or providing the goods and services required. However, monitoring of project activity was not always performed effectively or in some cases, not at all. For example, we determined that 91 projects (10.0 percent) of the 907 contracts reviewed, totaling approximately \$11.6 million, were paid in full at the time of contract signing. South-Central Region personnel confirmed that they did not verify whether the projects were completed.

In a specific example, South-Central Region personnel attempted to verify the completion of 6 of the 91 projects discussed in the previous paragraph, totaling approximately \$500,000, located in the Najaf province. However, an internal South-Central Region memorandum, dated April 3, 2005, stated “we have made multiple attempts to get contract payment and status information from Najaf Governorate Coordinator . . . who assured that he had no certain information about these projects . . . we presume that these projects are complete and all the money was paid in full, so we are closing these contracts.” A similar internal South-Central Region memorandum was prepared for projects located in Anbar province. The conclusion of this memorandum was that “these projects are old . . . we presume the projects are complete and all the money was paid in full.”

Certificates of Completion. The contract files were required to contain documents to verify performance. We determined that 286 contract files (31.5 percent) of the 907 contracts reviewed, totaling approximately \$31.0 million, did not contain certificates

of completion. Regardless, contract file documentation indicated that approximately \$24.0 million had been disbursed for the 286 projects. For example, a contract was awarded in the amount of \$473,000 to install internet service in Ramadi. The contract file did not contain a certificate of completion or inspection reports. In April 2005, South-Central Region personnel, in an internal memorandum, decided to “close this project. There is no way to verify this project was ever completed, because we don’t even know where exactly in Ramadi it was supposed to take place. It appears the contractor was paid. . . .”

Although the remaining 621 of the 907 contracts reviewed had some sort of completion documentation, the paperwork was often questionable. For example, South-Central Region personnel used the certificate of completion to document only that the contractor was paid in full instead of using the form to document the contractor’s project performance. The certificate of completion form was designed to document the status of a project, the payment of funds to the contractor, and comment on the contractor’s work. Consequently, the project was considered “completed” when using the certificate of completion to document only that the contractor was paid in full.

We visited four South-Central Region projects in an attempt to determine the adequacy of the certificates of completion and found the certificates deficient for all four projects.⁴ We discuss two of the four projects below, the renovation of the Al Hillah General Hospital and the Al Hillah Olympic Swimming Pool, for which the certificates of completion were deficient.

Al Hillah General Hospital. The South-Central Region awarded a contract for the renovation of the Al Hillah General Hospital on March 30, 2004, in the amount of \$662,800. The statement of work called for civil, electrical, and mechanical work to rehabilitate the hospital. Specifically, the mechanical work called for the installation of four new elevators. The project officer signed a certificate of completion on June 10, 2004, stating that the final payment had been made even though the project was only 80 percent completed. The project officer stated “I feel confident that he [the contractor] will complete all of his work within the next 20 days.” As a result of the signed certificate of completion, the contractor was paid in full on June 10, 2004.

We visited the Al Hillah General Hospital on September 18, 2004. The hospital administrator immediately escorted us to the site of the elevators. The administrator said that just a couple days prior to our arrival the elevator crashed and killed three people (see Photo 1). The administrator stated that the contractor was attempting to renovate the existing elevator (see Photo 2) rather than install a new elevator. Since the contractor had been paid in full, the contractor’s performance was not held accountable to the requirements of the contract. South-Central Region personnel lost the cash expended to pay for the installation of the new elevators, and three people lost their lives.

⁴ In addition to the Al Hillah General Hospital and the Al Hillah Olympic Swimming Pool, we also visited the Babylon Police Academy and the Karbala Library. The certificates of completion for the latter two projects were discussed in SIGIR Report No. 05-016, “Management of the Contracts and Grants Used to Construct and Operate the Babylon Police Academy,” October 26, 2005; and SIGIR Report No. 05-020, “Management of the Contracts, Grant, and Micro-Purchases Used to Rehabilitate the Karbala Library,” October 26, 2005.



Photo 1. Al Hillah General Hospital Elevator



Photo 2. Al Hillah General Hospital Elevator

Al Hillah Olympic Swimming Pool. South-Central Region personnel awarded a contract to renovate the Al Hillah Olympic Swimming Pool on March 22, 2004, in the amount of \$108,140. The statement of work called for replacing all of the pump houses and pipes. A certificate of completion was signed on July 16, 2004, stating that “all work had been completed.” South-Central Region records stated that this “case is considered to be closed.”

Our visit to the Al Hillah Olympic Swimming Pool revealed that the contractor had not replaced the pumps (see Photo 3). The contractor had simply attempted to polish the existing pumps instead of replacing the pumps and pipes. When the pool was filled using the old pumps, the water came out a murky brown due to the accumulated dirt and grime in the old pumps (see Photo 4). The water had to be drained and this caused the cancellation of the re-opening of the pool. It was readily apparent that the pumps were not new or even polished and it did not appear that the author of the certificate of completion could have inspected the site. Since the contractor had been paid in full, the contractor’s performance was not held accountable to the requirements of the contract. South-Central Region personnel lost the cash expended to pay for the installation of the new pumps, and the pool could not be used.



Photo 3. Al Hillah Olympic Swimming Pool Pumps



Photo 4. Al Hillah Olympic Swimming Pool

Disbursement and Accountability for Funds

South-Central Region personnel did not use effective procedures to disburse funds for contracts using R3P funds and could not always account for the funds that were disbursed or how those funds were used. Further, South-Central Region personnel did not always report lost cash to the CPA Comptroller, made payments that exceeded the award value of certain contracts, and made payments for unauthorized purposes. In addition, contract files were missing significant amounts of disbursement documentation and it could not be determined whether contractors were paid for work performed.

Vault Logs. The South-Central Region did not keep a record book to record cash funds deposited and withdrawn from the vault. A vault log should have been maintained to record the individual, amount, and date of each deposit/withdrawal from the vault. The South-Central Region had no tracking system to determine how much money was on-hand and who was responsible for it. Upon the arrival of a new Regional Coordinator in the summer of 2004, procedures were established for a vault log. By the time this procedure was enforced, tens of millions of dollars in cash had gone in and out of the South-Central Region vault without any tracking of who deposited or withdrew the money, and why it was taken out.⁵

In addition, within the vault, cash funds were stored in either a footlocker or a file cabinet. At one point, several paying agents secured their funds in a file cabinet within the vault. Since the cash funds were not separated, the cash ultimately became commingled. As a result, one paying agent withdrew \$100,000 in cash from another paying agent's funds while trying to clear his account balance. This was only discovered because the other paying agent had to make a disbursement that day and realized that he was short cash.

Physical Security of Funds. South-Central Region personnel did not maintain adequate physical control of cash funds. Instead of all cash funds being secured in the vault, cash funds were kept in various places throughout the South-Central Region headquarters. For example, one contracting officer kept approximately \$2 million in cash in a safe in his office bathroom; while a paying agent kept approximately \$678,000 in cash in an unlocked footlocker in his office.

Transfers of Cash. The South-Central Region Division Level Agent (DLA) lost oversight of cash transferred to unauthorized South-Central Region personnel. We identified at least 57 South-Central Region personnel who received cash transfers. Examples of individuals who received cash transfers were project officers, U.S. military officers, contracting officers, and foreign military officers; only two had signed an appointment letter authorizing custody. An appointment letter included pecuniary liability language explaining personal liability for the entire amount entrusted to them. Further, our review identified at least 54 separate transfers to individuals whose signatures could not be determined. The DLA transferred approximately \$23.0 million to these individuals who were supposed to make payments to the contractors. However, contract file documentation showed only \$6.3 million being paid to the contractors. In addition, the DLA transferred the cash with a pay document instead of the required Statement of Agent Officer's Account, a form that maintains each individual's account

⁵ In SIGIR Report No. 05-006, "Control of Cash Provided to South-Central Iraq," April 30, 2005, we stated that the South-Central Region could not account for \$7.2 million in cash and that \$89.4 million in disbursements were not properly supported by required documentation.

balances with the DLA. The DLA failed to require each individual to produce receipts and clear their accounts with him. Therefore, oversight of more than \$16.7 million in cash transfers was lost.

In a specific example concerning transfers of cash, the DLA provided the Iraqi contractor \$420,000 in cash to wire \$412,800 to a Jordanian contractor; the remaining \$7,200 was kept by the Iraqi contractor as a transaction fee. The DLA previously had used the CPA Comptroller's office for wire transfers, but in this case, using the Iraqi contractor resulted in a loss of \$7,200 that could have been used for projects benefiting the Iraqi people. Further, the CPA Comptroller's office did not realize the \$7,200 fee was paid to the Iraqi contractor because the DLA's receipts were not properly scrutinized.

In another specific example concerning transfers of cash, South-Central Region transferred cash to a project officer who failed to properly account for how the money was used. The project officer was provided \$350,000 in cash to fund projects in the human rights sector but could only account for \$192,037 in disbursements. South-Central Region records contain no evidence that the \$154,963 that could not be accounted for was returned or that the South-Central Region made any effort to recover the money. South-Central Region personnel did not advise the CPA Comptroller that it could not account for the missing \$154,963.

Reporting Lost Cash. Several South-Central Region personnel lost cash and did not report the losses to the CPA Comptroller. For example, two Field Paying Agents had cash in the amounts of \$20,000 and \$7,000 stolen during insurgent raids. Although these funds were stolen as a result of insurgent activities, the loss of the cash was never reported to the DLA or the CPA Comptroller. In another instance, a U.S. military assistant accompanying the Iraqi Olympic boxing team on a trip to the Philippines lost between \$20,000 and \$60,000 gambling. The exact amount of the loss is unknown because the DLA was unable to establish how much cash was provided to cover the cost of the trip. The South-Central Region had to provide additional cash to pay for the remainder of the trip, yet there was no record of how much cash was needed to cover the gambling losses. The CPA Comptroller was never advised of the loss of these funds.

Payments to Contractors. South-Central Region personnel overpaid 11 contracts by \$571,823. The contract files contained no evidence indicating that the overpayments were ever returned or that South-Central Region personnel ever asked for the return of this money. For example, South-Central Region records show that one contractor went to two different Field Paying Agents on the same day and was paid \$14,000 on four separate occasions for the same contract modification. For the details of the contracts for which overpayments were made, see Appendix E.

Disbursements Tied to Contractor Performance. CPA Memorandum 4 stated that contracts "will contain payment terms including an agreed upon payment schedule (preferably with milestones tied to performance) for service contracts, and performance requirements clearly defining the responsibilities and time for performance." South-Central Region personnel did not always tie contractor payments to work performed. For example, four contracts for the Karbala Library, worth approximately \$1.3 million, were paid the date the contracts were signed, not when work had been completed.

In many cases South-Central Region personnel paid the contractor the entire contract amount at the time of signing the contract. This put the South-Central Region in a precarious situation if the contractor failed to perform. For instance, a contract in the amount of \$120,000 was awarded for convoy security; the entire contract amount was paid upfront to the contractor. Less than one month into the three month contract, the

contract was terminated for the convenience of the CPA. The South-Central Region Contracting Officer determined the final termination settlement to be \$86,630, which left the contractor owing the South-Central Region \$33,370. South-Central Region personnel sent a letter to the contractor in an attempt to recover the money but never actively pursued the recovery of the money. As a result of paying the entire contract amount upfront to the contractor, \$33,370 was paid for services not rendered.

Payments for Coalition Provisional Authority Salaries and Operations. PRB Guidance 06.2 (amended) stated that R3P funds “cannot be used to support CPA operations or to hire local staff for CPA offices, to equip or support any U.S. or coalition military force, or to pay rewards for information or for weapons ‘buy-back’ programs.” South-Central Region personnel violated this guidance by disbursing approximately \$515,000 for CPA salaries and operations.

For example, South-Central Region personnel disbursed over \$81,000 for CPA employee salaries. In other examples, South-Central Region personnel paid approximately \$160,000 for CPA life support, such as repairs to the office and accommodation buildings, and one Field Paying Agent paid \$45,000 to a provincial council member and a bank employee for information regarding a bank account in Diwaniyah.

In another instance, South-Central Region personnel provided three vehicles and two weapons for two local Iraqi employees of the CPA. One vehicle and both weapons were ultimately returned to South-Central Region personnel, while the remaining two vehicles were sold by one of the Iraqi employees. We could not determine if the sale was authorized or legal and without an accurate property book, we were unable to determine the exact number of vehicles and weapons that were provided to CPA personnel and local Iraqi employees.

Further, one South-Central Region employee and an unknown individual were sent to Lebanon to purchase approximately \$500,000 worth of library books. While the purchase of the library books was a legitimate use of DFI funds, these two individuals spent over \$1,700 on air and hotel expenses, including telephone, room service, and mini bar charges.

Disbursement Documentation. South-Central Region contract files were missing documentation for approximately \$12.6 million in disbursements even though CPA and R3P Guidance 04, “Maintaining Project Files,” required each contract and micro-purchase file to maintain disbursement documentation that recorded the date, amount, and payee for each disbursement made. Without the disbursement documentation, it cannot be determined whether South-Central Region personnel paid contractors for work performed.

Disbursement documentation was also missing from the micro-purchase files. Of 1,212 micro-purchases made by the South Central Region, 387 files (31.9 percent) did not contain disbursement documentation. Those disbursements were documented by either a completion document or a log entry in a spreadsheet, but not by the required disbursement documentation. In addition, 786 files (64.9 percent) did not contain a vendor invoice and 838 files (69.1 percent) did not have a completion document.

Contract Documentation and Property Records

South-Central Region personnel did not maintain any contract files in some cases, or complete contract files in other cases, to support transactions made for contracts using

R3P funds. Further, a property book was not maintained to account for vehicles and weapons purchased with R3P funds.

Contract and Micro-Purchase Files. South-Central Region personnel did not maintain files that contained required documentation. This included entire contract files, missing contracts, missing oversight documentation, missing disbursement documentation, and missing evidence of competition.

During our review, South-Central Region personnel could not locate either the signed contract or the contract file for 22 projects totaling approximately \$2.0 million. Further, for four contracts, totaling approximately \$648,000, South-Central Region personnel could not locate either the signed contract or the disbursement documentation. While these projects were captured in a South-Central Region database, South-Central Region personnel stated they, “do not know whether the contract was awarded or not.”

Property Records. South-Central Region personnel did not keep a property record book to document the property purchased with R3P funds. We identified 387 vehicles (including ambulances, armored vehicles, motorcycles, sport utility vehicles, and trucks) totaling approximately \$7.5 million that were purchased through 50 separate contracts awarded by South-Central Region personnel. We found that the contract files did not document the receipt of 160 vehicles, totaling approximately \$3.3 million. In addition, for the vehicles that were delivered to the South-Central Region, there was limited documentation in the contract files to identify whether the beneficiary actually received the vehicles.

Further, South-Central Region personnel contracted for ammunition and weapons, such as assault rifles, Glock 9mm automatic pistols, and hand grenades, without maintaining detailed records of deliveries received and to whom the weapons were provided. South-Central Region personnel, including local Iraqi workers, were provided with weapons purchased with DFI funds. Several months later, South-Central Region personnel attempted to collect and account for the weapons distributed, but according to their own records, were not able to locate all the weapons purchased.

Vehicles and weapons became the concern of the Regional Coordinator, who in an email stated “weapons and armored vehicles were acquired in a manner that raises questions of legal authorities, accountability and propriety. Both sets were possibly acquired in an irregular manner. A number of these items remain on site and we are working to account for them as best we can. . . .” South-Central Region personnel were never able to fully account for all the vehicles and weapons purchased, primarily because they did not know the number of each purchased or to whom the items were given.

Summary

South-Central Region personnel, under the direction of the CPA, issued 907 contracts and 1,212 micro-purchase contracts awarded through the R3P in the amount of \$88.1 million. Of the 907 contracts and 1,212 micro-purchase contracts we reviewed:

- 4 projects, using 20 contracts (2.2 percent) and several contract modifications, totaling approximately \$9.1 million, appeared to have had the requirements split to keep the contract awards under the \$500,000 approval threshold to circumvent the required reviews

- 158 contracts (17.4 percent), totaling approximately \$16.3 million, were either not competitively awarded or lacked documentation that showed a competitive process had taken place and 26 contract files (3.0 percent), totaling approximately \$2.6 million, did not contain a signed contract
- 11 contracts (1.2 percent), totaling more than \$5.6 million, were issued without proper authorization and 38 contracts (4.2 percent), totaling approximately \$7.0 million, were awarded after the transfer of responsibility for the DFI to the Iraqi government on June 28, 2004
- 91 projects (10.7 percent), totaling approximately \$11.6 million, were paid in full at the time of contract signing and the completion of the project work was not verified; 11 contracts (1.2 percent) were overpaid by \$571,823; approximately \$515,000 was disbursed for CPA salaries and operations in violation of PRB Guidance 06.2 (amended); approximately between \$47,000 and \$87,000 in cash was lost but not reported to the CPA Comptroller; and approximately \$23.0 million was transferred to unauthorized personnel but documentation showed only \$6.3 million disbursed to contractors resulting in the loss of oversight of \$16.7 million
- 286 contract files (31.5 percent), totaling approximately \$31.0 million, did not contain certificates of completion yet \$24.0 million had been disbursed for the projects; while other contract files were missing documentation for approximately \$12.6 million in disbursements and, consequently, it could not be determined whether contractors were paid for work performed
- a property record book to document the property purchased with R3P funds was not maintained; contract files for 160 vehicles, totaling approximately \$3.3 million, did not document the receipt of the vehicles and there was limited documentation in the contract files to identify whether the beneficiary actually received the vehicles; and ammunition and weapons were purchased but detailed records of deliveries and distribution were not maintained and not all of weapons could be located
- 346 micro-purchase contracts (28.5 percent) exceeded the micro-purchase dollar limitation of \$5,000 yet did not maintain the required documentation in the files for awards in dollar amounts greater than \$5,000; 387 micro-purchase contract files (31.9 percent) did not contain disbursement documentation; 786 files (64.9 percent) did not contain a vendor invoice; and 838 files (69.1 percent) did not have a completion document

Conclusion

We concluded, based on the documentation examined during our review, that the CPA South-Central Region failed to adequately manage its R3P contracts and micro-purchases.

Management Response to Prior Audit Reports

We issued four previous reports addressing controls over cash, contract management, and grant management for the CPA South-Central Region.⁶ We made a total of 31 recommendations to management in those four reports.

⁶ Those four reports were SIGIR Report No. 05-006, "Control of Cash Provided to South-Central Iraq," April 30, 2005; SIGIR Report No. 05-015, "Management of Rapid Regional Response Program Grants in

In response to the recommendations made in those four reports, management generally concurred, agreed to take the necessary actions to resolve the problems discussed, and initiated actions on the specific recommendations. Therefore, the recommendations made in those previous four reports that are applicable to this report will not be repeated. For the details of the recommendations made in the four previous reports noted above, see Appendixes F, G, H, and I, respectively.

Internal Controls and Indications of Potential Fraud

Material Internal Control Weaknesses. Our audit identified material internal control weaknesses. U.S. government agents and Coalition partners did not comply with applicable guidance and did not properly control and account for Iraqi cash assets. In addition, based on the award process for contracts and the management of contracts we evaluated, there was no assurance that fraud, waste, and abuse did not occur in the management and administration of assets.

Indications of Potential Fraud. During this audit, we found indications of potential fraud and referred these matters to the Assistant Inspector General for Investigations, Office of the Special Inspector General for Iraq Reconstruction, for action. Related investigations are continuing.

Recommendations, Management Comments, and Audit Response

Since the Coalition Provisional Authority was dissolved on June 28, 2004, we are addressing the recommendations to two of the four successor organizations: the Joint Contracting Command – Iraq/Afghanistan and the Joint Area Support Group-Central, Baghdad; as well as to the United States Ambassador to Iraq.

1. We recommend that the United States Ambassador to Iraq recover specifically the \$571,823 that was overpaid on 11 contracts.

Management Comments. No management comments to the draft of this report were received from the Chief of Mission of the United States Embassy Baghdad.

2. We recommend that the Commanding General, Joint Contracting Command – Iraq/Afghanistan establish adequate and required documentation to record the receipt and disposal of all purchased property.

Management Comments. The Commanding General, Joint Contracting Command-Iraq/Afghanistan concurred with the finding and recommendations.

3. We recommend that the Commander, Joint Area Support Group - Central, require paying agents to obtain proper contract approval documentation prior to making disbursements.

South-Central Iraq,” October 25, 2005; SIGIR Report No. 05-016, “Management of the Contracts and Grants Used to Construct and Operate the Babylon Police Academy,” October 26, 2005; and SIGIR Report No. 05-020, “Management of the Contracts, Grant, and Micro-Purchases Used to Rehabilitate the Karbala Library,” October 26, 2005.

Management Comments. The Commander, Joint Area Support Group-Central concurred with the finding and recommendations.

Audit Response. The Commanding General, Joint Contracting Command-Iraq/Afghanistan; and the Commander, Joint Area Support Group-Central comments' to all recommendations are fully responsive.

We provided a draft of this report on December 29, 2005, to the Chief of Mission of the United States Embassy Baghdad. No management comments to the draft of this report were received. Therefore, we request that the Chief of Mission provide comments on this final report by February 13, 2006.

Appendix A. Scope and Methodology

In September 2004, we initiated this audit, Project No. D2004-DCPAAF-0034.5, to review cash controls over disbursing officers in southern Iraq as a result of concerns brought to our attention by staff of the Coalition Provisional Authority (CPA) Comptroller.

We reviewed the following documents issued by the CPA:

- CPA Regulation Number 2, “Developmental Fund for Iraq,” June 10, 2003
- CPA Regulation Number 3, “Program Review Board,” June 18, 2003
- CPA Memorandum Number 4, “Contract and Grant Procedures Applicable to Vested and Seized Iraqi Property and the Developmental Fund for Iraq, Implementation of Regulation Number 3, Program Review Board,” August 19, 2003
- Combined Joint Task Force-7, Fragmentary Order 89, June 19, 2003
- Combined Joint Task Force-7, Fragmentary Order 1268, December 22, 2003
- Director, Program Review Board, Program Review Board Guidance 01, “Coalition Provisional Authority Allocation Process,” June 9, 2003, updated October 4, 2003
- Director, Program Review Board, Program Review Board Guidance 02, “Program Management Model for the Regions,” July 30, 2003
- Director, Program Review Board, Program Review Board Guidance 03, “Program Management Assessment,” July 9, 2003
- Director, Program Review Board, Program Review Board Guidance 04, “Maintaining Project Files,” September 30, 2003
- Director, Program Review Board, Program Review Board Guidance 05, “Project Monitoring and Evaluation,” September 30, 2003
- Director, Program Review Board, Program Review Board Guidance 06, “Rapid Regional Response Program Overview,” September 27, 2003
- Director, Program Review Board, Program Review Board Guidance 06.2, “Rapid Regional Response Program Overview (amended),” December 14, 2003 and January 25, 2004

The CPA South-Central Region used Rapid Regional Response Program funds to award 907 contracts and 1,212 micro-purchase contracts between October 2003 and June 2004 in the amount of approximately \$88.1 million. We reviewed all contracts and micro-purchases.

During our audit, we observed deficiencies in contract award documentation and expanded our scope to determine whether contracts were properly managed by coalition representatives in the South-Central Region to include the authorization, award, execution, and oversight of the contracts. We spoke with the contracting officials available at the time of our audit regarding the status of the contract projects and examined documentation maintained in the contract files. Those contracting officers primarily were located at the South-Central Region, now known as the U.S. Regional Embassy Office, located in Al Hillah, Iraq; but one contracting

officer who had previously worked for the South-Central Region was working for the Joint Contracting Command – Iraq/Afghanistan.

We performed audit work at two locations to review applicable documentation and contract management procedures. At the Joint Area Support Group - Central Comptroller's Office, located in the U.S. Embassy, Baghdad, Iraq; we reviewed receipts submitted by South-Central Region pay agents to confirm disbursements made for the contracts and micro-purchases. At the U.S. Regional Embassy Office, we reviewed all other aspects of the contracts and micro-purchases.

We conducted this performance audit from September 2004 through September 2005, in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We did not use computer-processed data to perform this audit.

Prior Coverage. The Special Inspector General for Iraq Reconstruction (SIGIR), which was formerly the Office of the Inspector General, Coalition Provisional Authority (CPA-IG), issued eight reports related to controls over cash and the management of contracts. The U.S. Army Audit Agency also issued a report related to controls over cash. The reports are listed below and are available at the indicated website addresses.

Special Inspector General for Iraq Reconstruction Reports. Reports can be accessed on its website at <http://www.sigir.mil>.

SIGIR Report No. 05-006, "Control of Cash Provided to South-Central Iraq," April 30, 2005

SIGIR Report No. 05-008, "Administration of Contracts Funded by the Development Fund of Iraq," April 30, 2005

SIGIR Report No. 05-015, "Management of Rapid Regional Response Program Grants in South-Central Iraq," October 25, 2005

SIGIR Report No. 05-016, "Management of the Contracts and Grants Used to Construct and Operate the Babylon Police Academy," October 26, 2005

SIGIR Report No. 05-020, "Management of the Contracts, Grant, and Micro-Purchases Used to Rehabilitate the Karbala Library," October 26, 2005

CPA-IG Report No. 04-007, "Oil for Food Cash Controls for the Office of Project Coordination in Erbil, Iraq," July 26, 2004

CPA-IG Report No. 04-009, "Coalition Provisional Authority Comptroller Cash Management Controls Over the Development Fund for Iraq," July 28, 2004

CPA-IG Report No. 04-013, "Coalition Provisional Authority's Contracting Processes Leading Up to and Including Contract Award," July 27, 2004

U.S. Army Audit Agency. Reports can be accessed on its website at <https://www.aaa.army.mil/reports.htm>.

U.S. Army Audit Agency Audit Report: A-2005-0095-FFG, “Vested and Seized Assets, Operation Iraqi Freedom,” February 16, 2005

Appendix B. Coalition Provisional Authority Guidance Applicable to Contracts and Micro- Purchase Contracts

Coalition Provisional Authority (CPA) guidance for the Development Fund of Iraq (DFI) and for the Program Review Board's (PRB) operations that are relevant to contracts are:

Coalition Provisional Authority Regulation Number 2. CPA Regulation Number 2, "Development Fund for Iraq," June 10, 2003, described the responsibilities for the administration, use, accounting, and auditing of the DFI. This regulation was intended to ensure that the DFI was managed in a transparent manner for and on behalf of the Iraqi people, consistent with United Nations Security Council Resolution 1483, and that all DFI disbursements would be for purposes benefiting the people of Iraq.

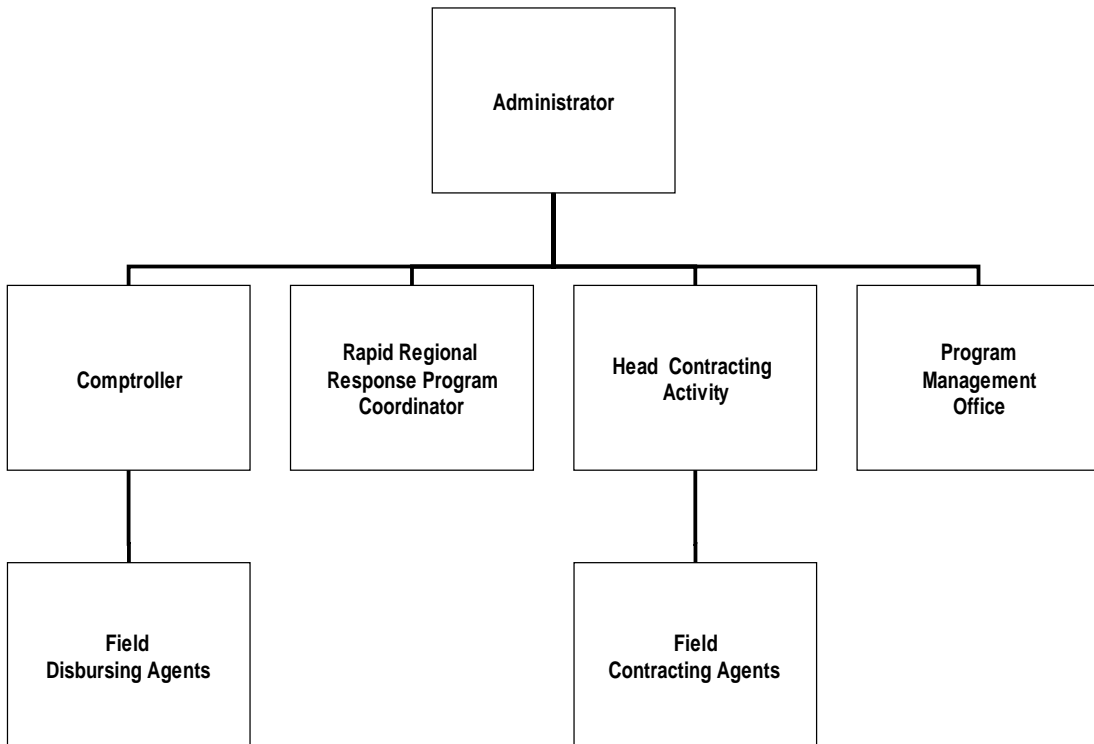
Coalition Provisional Authority Regulation Number 3. CPA Regulation Number 3 "Program Review Board," June 18, 2003, established the procedures applicable to the PRB operations. The PRB was responsible for recommending expenditures of resources from the DFI in a manner that meets the interests of the people of Iraq, furthers CPA policy objectives, and comports fully with CPA stewardship and financial management duties under the applicable laws and regulations, including United Nations Security Council Resolution 1483. The PRB was not responsible for overseeing the manner in which approved spending requirements were executed.

Coalition Provisional Authority Memorandum 4. CPA Memorandum Number 4, "Contract and Grant Procedures Applicable to Vested and Seized Iraqi Property and the Developmental Fund for Iraq, Implementation of Regulation Number 3, Program Review Board," August 19, 2003, defined contracts.

A contract was defined as "A written agreement whereby the CPA or Coalition Forces acquire goods, services or construction from a person or entity under prescribed terms and conditions, for the purpose of assisting the Iraqi people or assisting in the recovery of Iraq."

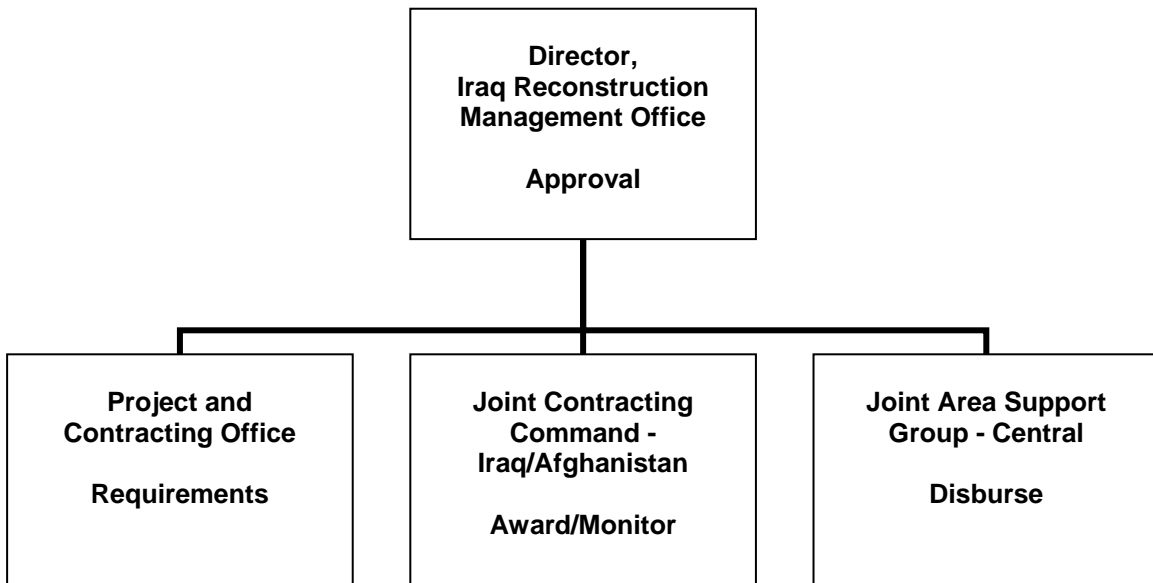
Appendix C. Coalition Provisional Authority Organizational Responsibilities for Contracts and Micro-Purchase Contracts

The diagram shown below identifies organizational entities within the Coalition Provisional Authority (this is not a complete organizational diagram of the Coalition Provisional Authority) that had oversight and administrative responsibilities for contracts until it ceased to exist on June 28, 2004.



Appendix D. Present U.S. Government Organizational Responsibilities for Contracts and Micro-Purchase Contracts

The diagram shown below identifies the present U.S. government organizational entities that had oversight and administrative responsibilities for contracts.



Appendix E. Contracts Overpaid

South-Central Region personnel overpaid 11 contracts by \$571,823. The contract files contained no evidence indicating that the overpayments were ever returned or that South-Central Region personnel ever asked for the return of this money. For a list of the contracts, see the table below.

Overpayments for Contracts Awarded				
Contract Number	Date the Contract was Signed	Contract Amount	Overpayment Amount	Scope of Work
DAVB01-04-M-8007	January 3, 2004	\$27,747	\$3,130	Building improvements for the Meshkahab Council Building
DAVB01-04-M-8022	January 5, 2004	\$86,385	\$8,615	Renovation of the Tribal Democracy Center in Karbala
DAVB01-04-M-8132	November 29, 2004	\$46,880	\$3,120	Upgrade the police department facilities in Hillah
DAVB01-04-M-8134	November 29, 2004	\$32,300	\$780	Upgrades and repairs at the Al Mahawel Fire Department
DAVB01-04-M-8224	March 3, 2004	\$131,400	\$10,000	Jasrah Pedestrian Bridge
DAVB01-04-M-8258	March 11, 2004	\$420,000	\$420,000	2 armored vehicles
DAVB01-04-M-8278	March 18, 2004	\$98,576	\$7,208	Site preparation for the installation of a water treatment compacting unit
DAVB01-04-M-8288	March 18, 2004	\$41,100	\$11,100	Rebuild the Al Nasser School
DAVB01-04-M-8355	April 1, 2004	\$120,000	\$33,370	Convoy security force
DAVB01-04-M-8366 – P0001	June 2, 2004	\$14,000	\$42,000	Oversight in original contract specifications
DAVB01-04-M-8779	June 28, 2004	\$127,500	\$32,500	Road paving in Grait Kabaza in Kharat
Total Contract Amounts		\$1,145,888	\$571,823	

Appendix F. Previous Audit Recommendations - Special Inspector General for Iraq Reconstruction Report No. 05-006, “Control of Cash Provided to South-Central Iraq,” April 30, 2005

We issued four previous reports addressing controls over cash, contract management, and grant management for the Coalition Provisional Authority South-Central Region. We made a total of 31 recommendations to management in those four reports. The recommendations made in those previous reports that are applicable to this report will not be repeated as the organizations to which those recommendations were made generally concurred and agreed to take necessary actions. The recommendations and the management comments from Special Inspector General for Iraq Reconstruction Report No. 05-006, “Control of Cash Provided to South-Central Iraq,” April 30, 2005, are shown below.

We recommend that the Commander, Joint Area Support Group - Central, require these actions of the Development Fund for Iraq Account Manager:

1. Scrutinize, verify, and investigate Statements of Agent Officer’s Account maintained to identify statement errors, omissions, inaccuracies, and incompleteness.

Management Comments. The Commander, Joint Area Support Group - Central (JASG-C) Comptroller concurred and is taking corrective actions. The Development Fund for Iraq (DFI) Account Manager has assessed all Statement of Agent Officer’s Account forms that were also reviewed by the previous Deputy Disbursing Officer and JASG-C Comptroller. As such, the DFI Account Manager is currently accounting for all cash disbursements to Division Level Agents for all regions and is verifying the accuracy of cash amounts recorded. The JASG-C Comptroller has also initiated actions in accordance with the Department of Defense Financial Management Regulation provisions to ensure proper disposition of Division Level Agents files that included irreconcilable balances. Additional review required will be performed by special action teams. The JASG-C Comptroller estimated the completion date to be September 30, 2005.

2. Ensure that the Statement of Agent Officer’s Account documentation is used for recording all transfers of cash between agents and the total amount of money provided to Division Level Agents.

Management Comments. The JASG-C Comptroller concurred and took corrective actions. The JASG-C Comptroller is currently maintaining and completing accurate Statement of Agent Officer’s Account forms for all Division Level Agents. All Division Level Agents are currently maintaining Statements of Agent Officer’s Account when advancing funds to Field Paying Agents, as well as requiring Field Paying Agents to reconcile their accounts every 30 days. The JASG-C Comptroller does not entrust funds to any persons unless they have been properly appointed as a Division Level Agent by the JASG-C Comptroller. Division Level Agents are provided with both instruction and training regarding their responsibilities to ensure that they are aware of their authority to

issue and control funds. All Division Level Agents are required to provide proper documentation of any cash advances/returns of Field Paying Agents upon reconciliation with the JASG-C Deputy Disbursing Officer. The JASG-C Comptroller stated that the corrective actions were completed as of April 1, 2005.

3. Initiate actions to resolve instances of noncompliance.

Management Comments. The JASG-C Comptroller concurred and is taking corrective actions. The JASG-C Comptroller is establishing a receipt clearing process to include the use of a newly implemented checklist for the Division Level Agents/Field Paying Agents and verification by the DFI Disbursing Officer so that Division Level Agents can properly reconcile and clear their accountability. The disbursements checklist is required to be presented by the Division Level Agent, for every voucher submitted, to properly document and account for each disbursement of funds. All submitted forms are verified to ensure they include dates and valid signatures from authorized individuals. The JASG-C Comptroller estimated the completion date to be September 30, 2005.

4. Direct Field Paying Agents to present required documentation to the Division Level Agents every 30 days and clear their cash accounts and direct Division Level Agents to present required documentation to the Development Fund for Iraq Account Manager every 30 days and clear their cash accounts only after all required documentation has been reviewed and verified.

Management Comments. The JASG-C Comptroller concurred and took corrective actions. The JASG-C Comptroller has directed Division Level Agents and Field Paying Agents and is enforcing requirements to ensure strict adherence to cash accountability requirements to include any Division Level Agent relieved of their duties and served with a revocation letter; that includes instructions pertaining to clearing their account with the appropriate Disbursing Officer, returning all cash and disbursement documentation to the appropriate Disbursing Officer, and ceasing all disbursements within 72 hours of receiving the revocation letter. The JASG-C Comptroller requires all Division Level Agents to properly reconcile their account with the JASG-C Deputy Disbursing Officer prior to departing the country. Although there were prior instances where Division Level Agents left the country without notifying the Deputy Disbursing Officer or their respective Program Manager, the JASG-C Comptroller and Deputy Disbursing Officer have reviewed these accounts and taken disposition action in accordance with the Department of Defense Financial Management Regulation. The JASG-C Comptroller stated that the corrective actions were completed as of April 1, 2005.

5. Issue and maintain required appointment letters for all paying agents that include pecuniary liability language.

Management Comments. The JASG-C Comptroller concurred and took corrective actions. The JASG-C Comptroller has validated that all agents have been issued appointment letters that include pecuniary liability language. Additionally, all Division Level Agents who are appointed and sign their appointment letter acknowledge they will reconcile prior to being relieved of their duties. The JASG-C Comptroller stated that the corrective actions were completed as of April 1, 2005.

6. Establish special action teams with these responsibilities:

a. Thoroughly review the receipts previously provided by each Division Level Agent and Field Paying Agent to determine the exact amount of valid receipts presented.

Management Comments. The JASG-C Comptroller concurred and is taking corrective actions. The JASG-C is establishing a special action team to conduct and complete the review, in addition to actions taken as described in the preceding. We will include receipts for Division Level Agent/Field Paying Agent accounts that did not reconcile and were referred for investigation and will determine the validity of all receipts presented. The JASG-C Comptroller estimated the completion date to be September 30, 2005.

b. Reconcile the previous Statements of Agent Officer's Account for errors and omissions to establish the amount of cash funding provided to each Division Level Agent and Field Paying Agent.

Management Comments. The JASG-C Comptroller concurred and is taking corrective actions. Based on known discrepancies and as a result of those identified during the audit, the JASG-C Comptroller reconciled Division Level Agents and Field Paying Agents Statement of Agent Officer's Account forms and identified agents whose accounts did not completely reconcile. Although the Comptroller referred accounts for investigations, we plan to also review these accounts for accuracy to determine the exact amount of funds advanced and any errors or omissions. The Comptroller has also established procedures to emphasize that it is the responsibility of the Division Level Agents to reconcile their respective Field Paying Agents before reconciling with the DFI Disbursing Officer and to determine possible errors or omissions to establish amount of cash funding provided to the Field Paying Agent. The JASG-C is establishing a special action team to conduct and complete the review of Division Level Agents' Statement of Agent Officer's Account forms. The JASG-C Comptroller estimated the completion date to be September 30, 2005.

c. Reconcile each Division Level Agent's and Field Paying Agent's previous accounts to determine if outstanding balances exist. If an outstanding balance exists, take appropriate actions to collect the cash.

Management Comments. The JASG-C Comptroller concurred and is taking corrective actions. The JASG-C is establishing a special action team that will reconcile Division Level Agents and Field Paying Agents accounts to identify outstanding balances. Accordingly, if outstanding balances do exist, the JASG-C Comptroller will take appropriate actions to collect cash owed. The JASG-C Comptroller estimated the completion date to be September 30, 2005.

Special Inspector General for Iraq Reconstruction Position. The Commander, JASG-C concurred with the audit finding and recommendations and was fully responsive. The Commander, JASG-C has taken actions or is in the process of taking actions to correct the reported deficiencies. There were three different individuals filling the position of JASG-C Comptroller, who also serves as the DFI Account Manager, from the initiation of the audit in September 2004 to its completion in April 2005. During the course of the audit, the audit team informed each of the JASG-C Comptrollers of deficiencies being detected. As a result, those JASG-C Comptrollers initiated corrective actions as noted in the management comments. Reasonable estimated completion dates have been established for the corrective actions not yet completed.

Appendix G. Previous Audit Recommendations - Special Inspector General for Iraq Reconstruction Report No. 05-015, “Management of Rapid Regional Response Program Grants in South-Central Iraq,” October 25, 2005

We issued four previous reports addressing controls over cash, contract management, and grant management for the Coalition Provisional Authority South-Central Region. We made a total of 31 recommendations to management in those four reports. The recommendations made in those previous reports that are applicable to this report will not be repeated as the organizations to which those recommendations were made generally concurred and agreed to take necessary actions. The recommendations and the management comments from Special Inspector General for Iraq Reconstruction Report No. 05-015, “Management of Rapid Regional Response Program Grants in South-Central Iraq,” October 25, 2005, are shown below.

1. We recommend that the U.S. Ambassador to Iraq determine the party responsible for collecting the overpaid grant amounts and direct the responsible individual to take action to seek reimbursement for the overpaid grant amounts.

Management Comments. We are awaiting a response from the U.S. Ambassador to Iraq to this recommendation.

2. We recommend that the Director, Iraq Reconstruction Management Office, ensure proper authorization and oversight of the grant approval and administrative process for all existing and future grants.

Management Comments. The Director, Iraq Reconstruction Management Office concurred.

3. We recommend that the Commanding General, Joint Contracting Command – Iraq/Afghanistan require that contracting officers, for all existing and future grants:
 - a. Follow the Department of Defense 3210.6-R, Grants and Agreements, for the award and administration of grants.
 - b. Require grant recipients to provide receipts for all expenditures.
 - c. Require monthly reports from the grant recipients detailing expenditures and achievements.
 - d. Ensure regular site-visits to the grant recipient location.
 - e. Require reports at the end of the grant to assess the performance of the grantee and to document the outcome of the grant in relation to the grant goals.

Management Comments. The Commanding General, Joint Contracting Command – Iraq/Afghanistan concurred and noted that Joint Contracting Command – Iraq/Afghanistan currently has no grants officers and the normal requirement for grants reporting is quarterly.

4. We recommend that the Commander, Joint Area Support Group - Central:
 - a. Require paying agents to obtain proper grant approval documentation prior to making disbursements.
 - b. Require the appropriate separation of duties.
 - c. Establish a special team to review disbursements made in other regions of Iraq to determine if the same conditions exist as determined by the Special Inspector General for Iraq Reconstruction in the South-Central Region.

Management Comments. The Commander, Joint Area Support Group - Central generally concurred with all recommendations and took corrective actions. The Commander, Joint Area Support Group - Central partially concurred with the recommendation to seek reimbursement for overpayments, stating that the responsibility for seeking reimbursement of any overpayments is up to the office that managed the grant, not the disbursing office. However, it will support whatever guidance it is provided by the office that is responsible. As a result, we deleted the recommendation to the Commander, Joint Area Support Group - Central to seek reimbursement for the overpayments.

Special Inspector General for Iraq Reconstruction Position. The Director, Iraq Reconstruction Management Office; the Commanding General, Joint Contracting Command – Iraq/Afghanistan; and the Commander, Joint Area Support Group - Central generally concurred with the finding and recommendations. The comments that concurred with recommendations are responsive. However, for one recommendation, the Joint Area Support Group - Central stated it did not have the responsibility for seeking recovery of overpayments to grantees. Therefore, we added a recommendation to the United States Ambassador to Iraq in the final report to establish who is responsible to recover these funds and deleted the recommendation directed to the Joint Area Support Group - Central to seek recovery of overpayments.

Appendix H. Previous Audit Recommendations - Special Inspector General for Iraq Reconstruction Report No. 05-016, “Management of the Contracts and Grants Used to Construct and Operate the Babylon Police Academy,” October 26, 2005

We issued four previous reports addressing controls over cash, contract management, and grant management for the Coalition Provisional Authority South-Central Region. We made a total of 31 recommendations to management in those four reports. The recommendations made in those previous reports that are applicable to this report will not be repeated as the organizations to which those recommendations were made generally concurred and agreed to take necessary actions. The recommendations and the management comments from Special Inspector General for Iraq Reconstruction Report No. 05-016, “Management of the Contracts and Grants Used to Construct and Operate the Babylon Police Academy,” October 26, 2005, are shown below.

1. We recommend that the Director, Iraq Reconstruction Management Office, ensure that established policies and procedures for authorizing, awarding, and consolidating contracts and grants are effectively implemented and followed and that complete files to support transactions made for contracts and grants are maintained.

Management Comments. The Director, Iraq Reconstruction Management Office did not provide written comments to the report but verbally concurred with the finding and recommendations through a telephone conversation with the Inspector General.

2. We recommend that the Commanding General, Joint Contracting Command-Iraq/Afghanistan:
 - a. Ensure that established policies and procedures for awarding, and consolidating contracts and grants are effectively implemented and followed.
 - b. Ensure that established policies and procedures for monitoring contract and grant performance are effectively implemented and followed.
 - c. Ensure that purchased equipment is delivered and construction is completed.
 - d. Maintain complete files to support transactions made for contracts and grants.

Management Comments. The Commanding General, Joint Contracting Command-Iraq/Afghanistan concurred with the finding and recommendations.

3. We recommend that the Commander, Joint Area Support Group-Central, ensure that established policies and procedures for disbursing funds obtained through the Development Fund for Iraq for contracts and grants are effectively implemented and followed, that funds are disbursed for intended purposes, and

that complete files to support transactions made for contracts and grants are maintained.

Management Comments. The Commander, Joint Area Support Group-Central concurred with the finding and recommendations.

Special Inspector General for Iraq Reconstruction Position. The Director, Iraq Reconstruction Management Office; the Commanding General, Joint Contracting Command-Iraq/Afghanistan; and the Commander, Joint Area Support Group-Central concurred with the finding and recommendations and the comments to all recommendations are fully responsive.

Appendix I. Previous Audit Recommendations - Special Inspector General for Iraq Reconstruction Report No. 05-020, “Management of the Contracts, Grant, and Micro-Purchases Used to Rehabilitate the Karbala Library,” October 26, 2005

We issued four previous reports addressing controls over cash, contract management, and grant management for the Coalition Provisional Authority South-Central Region. We made a total of 31 recommendations to management in those four reports. The recommendations made in those previous reports that are applicable to this report will not be repeated as the organizations to which those recommendations were made generally concurred and agreed to take necessary actions. The recommendations and the management comments from Special Inspector General for Iraq Reconstruction Report No. 05-020, “Management of the Contracts, Grant, and Micro-Purchases Used to Rehabilitate the Karbala Library,” October 26, 2005, are shown below.

1. We recommend that the United States Ambassador to Iraq recover specifically the \$154,000 in rescinded grant funds remaining on deposit, any other funds related to the rescinded grant, and funds that exceeded the contracted amount and return the recovered funds to the Iraqi government.

Management Comments. We are awaiting a response from the U.S. Ambassador to Iraq to this recommendation.

2. We recommend that the Director, Iraq Reconstruction Management Office, ensure that established policies and procedures for authorizing, awarding, and consolidating contracts and grants are effectively implemented and followed and that complete files to support transactions made for contracts and grants are maintained.

Management Comments. The Director, Iraq Reconstruction Management Office did not provide written comments to the report but verbally concurred with the finding and recommendations through a telephone conversation with the Inspector General.

3. We recommend that the Commanding General, Joint Contracting Command-Iraq/Afghanistan:
 - a. Ensure that established policies and procedures for awarding and consolidating contracts and grants are effectively implemented and followed.
 - b. Ensure that established policies and procedures for monitoring contract and grant performance are effectively implemented and followed.
 - c. Ensure that repairs were completed, purchased equipment and services were delivered, and work was performed.

- d. Maintain complete files to support transactions made for contracts and grants.

Management Comments. The Commanding General, Joint Contracting Command-Iraq/Afghanistan concurred with the finding and recommendations.

4. We recommend that the Commander, Joint Area Support Group-Central, ensure that established policies and procedures for disbursing funds obtained through the Development Fund for Iraq for contracts and grants are effectively implemented and followed, that funds are disbursed for intended purposes, and that complete files to support transactions made for contracts and grants are maintained.

Management Comments. The Commander, Joint Area Support Group-Central concurred with the finding and recommendations.

Special Inspector General for Iraq Reconstruction Position. The Director, Iraq Reconstruction Management Office; the Commanding General, Joint Contracting Command-Iraq/Afghanistan; and the Commander, Joint Area Support Group-Central concurred with the finding and recommendations and the comments to all recommendations are fully responsive.

Appendix J. Acronyms

CPA	Coalition Provisional Authority
CPA-IG	Coalition Provisional Authority Office of the Inspector General
DFI	Development Fund for Iraq
DLA	Division Level Agent
PRB	Program Review Board
R3P	Rapid Regional Response Program
SIGIR	Special Inspector General for Iraq Reconstruction

Appendix K. Report Distribution

Department of State

Secretary of State

Senior Advisor to the Secretary and Coordinator for Iraq

U.S. Ambassador to Iraq

Director, Iraq Reconstruction Management Office

Inspector General, Department of State

Department of Defense

Secretary of Defense

Deputy Secretary of Defense

Director, Defense Reconstruction Support Office

Under Secretary of Defense (Comptroller)/Chief Financial Officer

Deputy Chief Financial Officer

Deputy Comptroller (Program/Budget)

Inspector General, Department of Defense

Department of the Army

Assistant Secretary of the Army for Acquisition, Logistics, and Technology

Principal Deputy to the Assistant Secretary of the Army for Acquisition,
Logistics, and Technology

Deputy Assistant Secretary of the Army (Policy and Procurement)

Director, Project and Contracting Office

Commanding General, Joint Contracting Command – Iraq/Afghanistan

Assistant Secretary of the Army for Financial Management and Comptroller

Chief of Engineers and Commander, U.S. Army Corps of Engineers

Commanding General, Gulf Region Division

Auditor General of the Army

U.S. Central Command

Commanding General, Multi-National Force – Iraq

Commanding General, Multi-National Security Transition Command – Iraq

Commander, Joint Area Support Group – Central

Other Defense Organizations

Director, Defense Contract Audit Agency

Other Federal Government Organizations

Director, Office of Management and Budget
Comptroller General of the United States
Inspector General, Department of the Treasury
Inspector General, Department of Commerce
Inspector General, Department of Health and Human Services
Inspector General, U.S. Agency for International Development
Mission Director – Iraq, U.S. Agency for International Development

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

U.S. Senate

Senate Committee on Appropriations
 Subcommittee on Defense
 Subcommittee on State, Foreign Operations and Related Programs
Senate Committee on Armed Services
Senate Committee on Foreign Relations
 Subcommittee on International Operations and Terrorism
 Subcommittee on Near Eastern and South Asian Affairs
Senate Committee on Homeland Security and Governmental Affairs
 Subcommittee on Federal Financial Management, Government Information and International Security
 Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia

U.S. House of Representatives

House Committee on Appropriations
 Subcommittee on Defense
 Subcommittee on Foreign Operations, Export Financing and Related Programs
 Subcommittee on Science, State, Justice and Commerce and Related Agencies
House Committee on Armed Services
House Committee on Government Reform
 Subcommittee on Management, Finance and Accountability
 Subcommittee on National Security, Emerging Threats and International Relations
House Committee on International Relations
 Subcommittee on Middle East and Central Asia

Appendix L. Audit Team Members

This audit report was prepared and the audit work was conducted under the direction of Joseph T. McDermott, the Assistant Inspector General for Auditing, Office of the Special Inspector General for Iraq Reconstruction. The staff members who contributed to the report include:

Angelina Johnston

Kevin O'Connor

Robert Murrell

William Shimp

William Whitehead

Management Comments

Commanding General, Joint Contracting Command-Iraq/Afghanistan



Reply to
MNFI-JCC

HEADQUARTERS
JOINT CONTRACTING COMMAND-IRAQ/AFGHANISTAN
BAGHDAD, IRAQ
APO AE 09316



8 January 2005

MEMORANDUM FOR Special Inspector General for Iraq Reconstruction, Baghdad, Iraq

SUBJECT: Draft Audit Report on Management of Rapid Regional Response Program Contracts in South-Central Iraq (Report No. SIGIR-05-023, Project No. D2004-DCPAAF-0034.5)

1. Refer to the draft report dated 29 December 2005.
2. JCC-IA was requested to review the report and the recommendations. Comments are as follows for the recommendation for JCC-IA.
3. **Recommendation:** Commanding General, Joint Contracting Command – Iraq/Afghanistan establish adequate and required documentation to record the receipt and disposal of all purchased property.

JCC-IA Response: Concur with the recommendation. In September 2004, property administrators were added to the PCO. Then in September 2005, JCC-IA established a property administration sector in PARC-R. Currently all solicitation documents are reviewed to ensure that appropriate property clauses are included and that contract line items (CLINs) are established to track purchase of and payment for property items, such as vehicles, by the Government. A tracking system has been established to maintain visibility of contractor-acquired and government-furnished property.

4. My point of contact for questions regarding administration and management of property acquired by and/or in possession of contractors is Mr. Michael Gallagher, 703-544-1513.

Edwin H. Martin
COL, USA
Principal Assistant Responsible
for Contracting

Management Comments

Commander, Joint Area Support Group Central (Provisional), Multi-National Force Iraq



Joint Area Support Group Central (Provisional) Multi-National Force Iraq US Embassy Baghdad

JASG-C

9 January 2006

MEMORANDUM FOR SPECIAL INSPECTOR GENERAL FOR IRAQ
RECONSTRUCTION

SUBJECT: Response to Draft Audit Report on Management of Rapid Regional Response
Program Contracts in South-Central Iraq, dated 29 December 2005

PURPOSE: Provide JASG-C Comments to Referenced Draft Audit Report.

1. Regarding subject report, comments are provided as requested for the draft
recommendation shown.

a. Recommendation. We recommend that the Commander, Joint Area
Support Group-Central, require paying agents to obtain proper contract approval
documentation prior to making disbursements.

b. Management Comment. Concur. The appointment letter that each Paying
Agent must sign specifically identifies the documentation required for each payment.
The appointment letter states:

For each disbursement action, the appointee must maintain either a) all
disbursement-related records (i.e., contract, receiving report(s), invoice, and
disbursement voucher, b) a Std Form 44 (Purchase Order-Invoice-Voucher), c)
a CPA 1034 (Public Voucher for Purchases of Services Other Than Personal),
invoice, and contract, d) and a Disbursing Checklist verifying all disbursing
documents have been presented and verified by all appointed paying agents.

Further, before a paying agent can clear their funds accountability with the
Comptroller, the Disbursing Officer ensures that all required documentation is
provided.

2. The POC for this action is the JASG-C Comptroller, Lt Col Vincent Miller at DSN 318-
239-8625.

KENNETH R. DAHL
COL, FA, USA
Commanding