The seal of the Office of the Special Inspector General for Iraq Reconstruction is a large, circular emblem in the background. It features an eagle with wings spread, holding an olive branch and arrows. The eagle's chest is covered by a shield with vertical stripes. Above the eagle's head is a sunburst with a crescent moon and stars. The seal is surrounded by text in both English and Arabic. The English text reads "SPECIAL INSPECTOR GENERAL" at the top and "OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION" at the bottom. The Arabic text reads "مفتش العام" at the top and "مكتب المفتش العام لإعادة إعمار العراق" at the bottom.

**IRAQ RECONSTRUCTION FUNDS:  
FORENSIC AUDITS IDENTIFYING  
FRAUD, WASTE, AND ABUSE  
INTERIM REPORT #2**

**SIGIR 10-011  
JANUARY 28, 2010**



# SIGIR

Special Inspector General for IRAQ Reconstruction

January 28, 2010

## IRAQ RECONSTRUCTION FUNDS: FORENSIC AUDITS IDENTIFYING FRAUD, WASTE, ABUSE – INTERIM REPORT # 2

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### Summary of Report: SIGIR 10-011

#### Why SIGIR Is Issuing this Report

Public Law 108-106 requires the Special Inspector General for Iraq Reconstruction (SIGIR) to prepare a final forensic audit report on all funding appropriated for the reconstruction of Iraq, which to date totals over \$50 billion. This interim report presents the results of our ongoing forensic auditing program, including an update on our review of agency expenditures, and an update on our efforts to identify questionable financial activity. The report also presents information on our data mining methodology and discusses the metrics SIGIR is using to measure progress. We are reporting our results quarterly, and a final cumulative report will eventually address all available reconstruction funds.

In our first report, we summarized the results of a series of audits of major reconstruction contracts that were intended, in part, to identify internal control weaknesses. Because such weaknesses provide opportunities for fraud, waste, and abuse, we have used the results from these audits to develop targeted forensic auditing approaches to identify instances of possible wrongdoing.

SIGIR continues its forensic review of Department of Defense (DoD), Department of State (DoS), and U.S. Agency for International Development (USAID) expenditures. These reviews systematically examine Iraq reconstruction program expenditures to identify anomalies in transactional data that may indicate fraud, waste, or abuse. SIGIR's approach combines automated data mining with standard audit and investigative techniques to detect questionable transactions and develop relevant evidence for use in administrative actions or civil or criminal fraud prosecutions.

SIGIR has also initiated a review of Iraq reconstruction program areas known to have weaknesses in internal controls. This effort focuses on programs that afford easy access to cash with weak controls over expenditures.

#### Management Comments

Because this report is for information only, it does not contain findings or recommendations and agencies were not required to comment. We did not receive comments from the agencies.

#### SIGIR's Results to Date

Since our last report, SIGIR has reviewed an additional 51,000 transactions valued at \$17.3 billion, bringing the total transactions reviewed to 73,000 transactions valued at \$28 billion. We continue to identify numerous anomalous transactions, including payments that may be duplicates, payments to possibly fictitious or generic vendors, notable variances in payment activity, payments occurring prior to or on the date of invoice, and oddly sequential contractor invoices. We also identified payments to firms with what appear to be fictitious addresses, and payments to possibly suspended or debarred contractors.

To date, we have identified almost \$340 million in anomalous transactions involving approximately 800 vendors that we are in the process of researching to determine if they are fraudulent or improper. To do this, we are examining the transactions and reviewing relevant contract file documentation. Due to the number of transactions that must be examined, we are prioritizing our work using risk factors such as transaction type and amount and whether there is a prior history of questionable activity. A SIGIR forensic audit team is currently focusing on possible duplicate payments associated with DoD expenditures.

In addition, a SIGIR initiative that focuses on programs that afford easy access to cash associated with weak controls over expenditures continues to identify instances of questionable activity. As a result of this effort, to date SIGIR has opened 27 criminal investigations currently involving a total of 36 subjects. Detailed information regarding ongoing criminal investigations will not be presented in these reports.

The results of SIGIR's forensic audit efforts will generally be reported in the aggregate and specific findings will be included where appropriate and useful. We are also providing lessons learned that can be applied to other contingency operations, such as in Afghanistan.



## SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

January 28, 2010

MEMORANDUM FOR U.S. SECRETARY OF STATE  
U.S. SECRETARY OF DEFENSE  
COMMANDING GENERAL, U.S. ARMY CORPS OF ENGINEERS  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE  
ADMINISTRATOR, U.S. AGENCY FOR INTERNATIONAL  
DEVELOPMENT

SUBJECT: Iraq Reconstruction Funds: Forensic Audits Identifying Fraud, Waste, and Abuse  
– Interim Report #2 (SIGIR 10-011)

We are providing this report for your information and use. The report does not contain any recommendations for agency action. The report discusses the results to date of the Special Inspector General for Iraq Reconstruction's (SIGIR) forensic audits of the Department of Defense and U.S. Agency for International Development expenditures involving Iraq relief and reconstruction. This effort was greatly facilitated by the excellent cooperation of the Defense Finance and Accounting Service, the U.S. Army Corps of Engineers, and the U.S. Agency for International Development.

We performed this review in accordance with our statutory responsibilities contained in Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. This law provides for independent and objective audits of programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Iraq, and for recommendations on related policies designed to promote economy, efficiency, and effectiveness and to prevent and detect waste, fraud, and abuse. These audits are being conducted as SIGIR Projects 9005, 9012, and 9013.

We appreciate the courtesies extended to our staff. For additional information on the report, please contact David Warren, Assistant Inspector General for Audits, (703) 604-0982/ [david.warren@sigir.mil](mailto:david.warren@sigir.mil) or Glenn Furbish, Principal Deputy Assistant Inspector General for Audits, (703) 604-1388/ [glenn.furbish@sigir.mil](mailto:glenn.furbish@sigir.mil).

A handwritten signature in black ink, appearing to read "Stuart W. Bowen, Jr." with a period at the end.

Stuart W. Bowen, Jr.  
Inspector General

cc: U.S. Ambassador to Iraq  
Commander, U.S. Central Command  
Commanding General, U.S. Forces-Iraq

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# Iraq Reconstruction Funds: Forensic Audits Identifying Fraud, Waste, and Abuse – Interim Report #2

SIGIR 10-011

January 28, 2010

## Introduction

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Public Law 108-106, as amended, requires that the Special Inspector General for Iraq Reconstruction (SIGIR) prepare a final forensic audit report on all funding appropriated for the reconstruction of Iraq, which to date totals about \$50 billion. To keep Congress apprised, this report, the second in a planned series of interim reports, describes the methodology and updates the results of our forensic audit efforts to date. Our first interim report discussed our review of Department of Defense (DoD) expenditures. This report includes the results of our analysis of expenditure data from the U.S. Agency for International Development (USAID). The information is being reported cumulatively, and a final report will encompass total reconstruction funds.<sup>1</sup> Table 1 shows total appropriations by program.

**Table 1—Total Appropriations by Fund as of October 2009 (\$ in billions)**

<b>Iraq Relief and Reconstruction Program</b>	<b>Appropriations</b>
Iraq Relief and Reconstruction Fund (IRRF 1)	\$2.48
Iraq Relief and Reconstruction Fund (IRRF 2)	18.39
Iraq Security Forces Fund (ISFF)	18.04
Economic Support Fund (ESF)	4.18
Commander's Emergency Response Program (CERP)	3.65
Other Reconstruction Assistance Programs	3.26
<b>TOTAL</b>	<b>\$50.00</b>

**Note:**

The table excludes various federal agency operating and oversight expenses totaling \$2.21 billion, which are outside the scope of the forensic audits.

*Source: SIGIR Quarterly Report to the Congress, October 30, 2009.*

## Forensic Audits Identify Fraud, Waste, and Abuse through Systematic Examinations of Data

A forensic audit involves the systematic examination of a program's internal controls over expenditures and financial data to identify anomalies in individual transactions that may indicate fraud, waste, or abuse. SIGIR's approach combines automated data mining with standard audit and investigative techniques to identify questionable transactions for further examination and, if

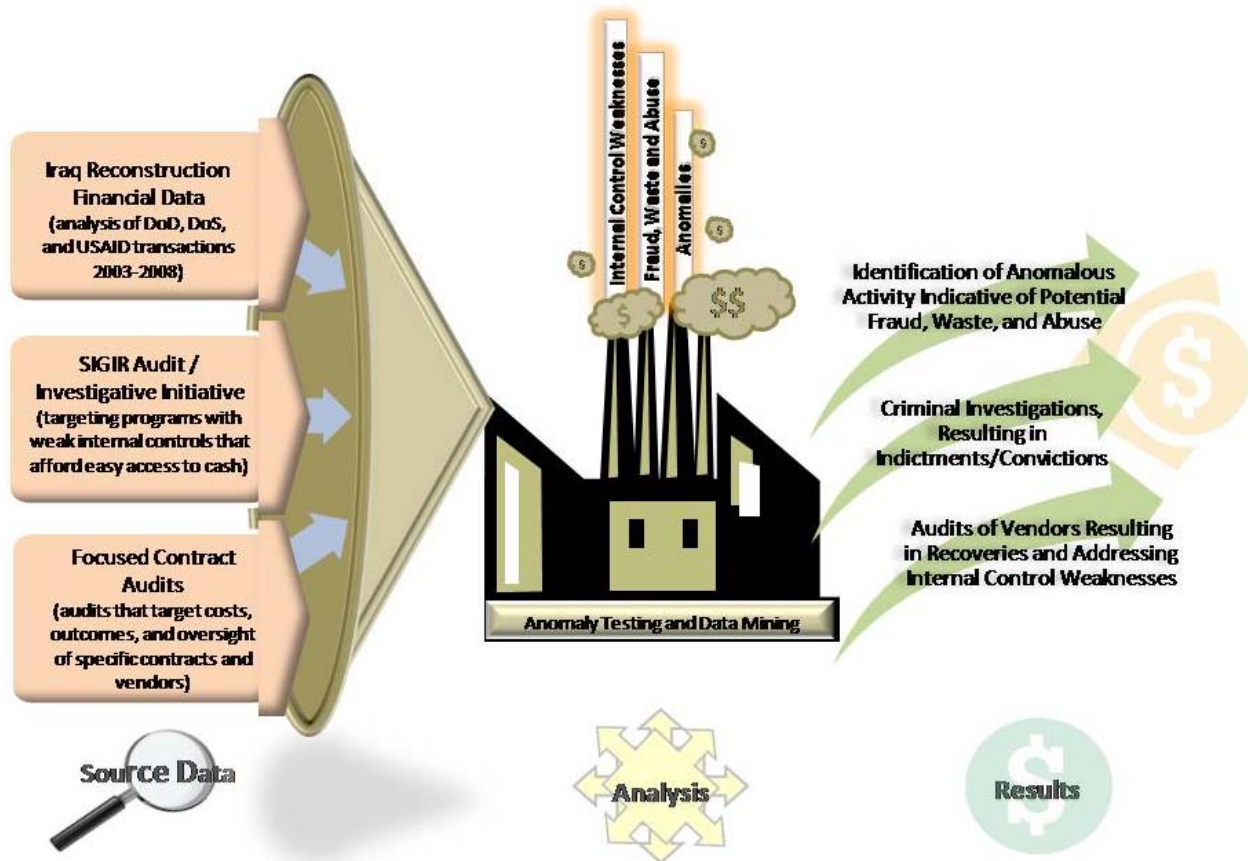
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<sup>1</sup> Detailed information relating to ongoing criminal investigations will not be presented in these reports. However, summaries of the results will be reported, such as the number of opened investigations, arrests, indictments, and convictions.

necessary, to develop relevant evidence for use in administrative actions or civil or criminal fraud prosecutions. Figure 1 illustrates SIGIR’s forensic audit initiative.

Matters most appropriately addressed by administrative resolution, such as cost disallowance and recovery, will be referred through audit reports to agency contracting officials for action. Potential instances of civil or criminal fraud will be referred to SIGIR’s Investigations Directorate for further examination.

**Figure 1—SIGIR’s Forensic Audit Initiative**



Source: SIGIR

## Reporting Objectives

SIGIR’s objectives for this report were to present the results to date of our forensic auditing efforts to include updating the results of our review of agency expenditures; and updating our efforts to identify questionable activity. The report also presents information on our data mining methodology and discusses the metrics SIGIR plans to use to measure progress. As discussed, SIGIR is required to prepare a final forensic audit report on all funding appropriated for the reconstruction of Iraq. To keep Congress apprised, SIGIR plans to issue updated cumulative reports until all DoD, Department of State (DoS), and USAID Iraq reconstruction expenditures are reviewed. At that time, we will provide the final congressionally-mandated forensic audit report on all funding for the reconstruction of Iraq.

For a discussion of our audit scope and methodology, see Appendix A. For acronyms used, see Appendix B. For forensic audit team members, see Appendix C. For the SIGIR mission and contact information, see Appendix D.

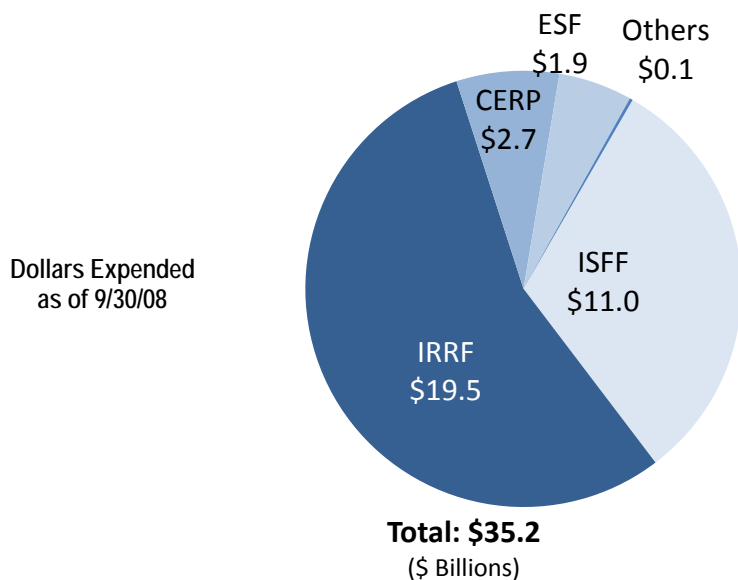
# Forensic Audits of Agency Expenditures Identify Anomalous and Possibly Fraudulent Transactions

Since our last report, SIGIR has reviewed an additional 51,000 transactions valued at \$17.3 billion; bringing the total number reviewed to 73,000 transactions valued at \$28 billion. The transactions include DoD expenditures from the U.S. Army Corps of Engineers (USACE) and a portion from USAID. We are in the process of obtaining State Department expenditures and anticipate that this information will be included in our next interim report.

This report presents the cumulative results to date of our forensic audit of DoD expenditures from the Iraq Security Forces Fund (ISFF) and Iraq Relief and Reconstruction Fund (IRRF), and USAID IRRF expenditures. Our review covered fiscal years 2003-2008.<sup>2</sup>

Of the \$50 billion appropriated to date, approximately \$35.2 billion has been expended, and the 73,000 transactions valued at \$28 billion represent about 80% of the expenditures for fiscal years 2003 through 2008. Figure 2 shows the expenditures by appropriation through fiscal year 2008.

**Figure 2—Total Iraq Reconstruction Expenditures through Fiscal Year 2008 (\$ billions)**



Source: SIGIR Quarterly Report to the Congress, October 30, 2009.

Figure 3 identifies, by appropriation, the status of SIGIR’s work in collecting and testing transaction data for fiscal years 2003 through 2008 for each of the agencies and their respective financial systems. As shown, we have collected about \$32 billion, or 91%, of the total transactions through fiscal year 2008 and, as previously noted, we have analyzed \$28 billion of those transactions.

<sup>2</sup> ISFF was established in 2005; therefore, there were no expenditures in fiscal years 2003 or 2004.



**Figure 3—Status of Anomaly Testing as of December 2009 (\$ billions)**

	Total Expd <sup>1</sup>	Amount Collected <sup>1</sup>	Agency (System)	Data Collection	Data Validation	Manual Review	Anomaly Testing	Case Creation	Case Review
ISFF	\$11.04	\$10.69 (96.8%)	USACE	●	●	●	●	●	●
IRRF	\$19.51	\$13.32 (68.3%)	USACE	●	●	●	●	●	●
		\$0.02 (0.1%)	DoD(CAPS) <sup>3</sup>	●	●	●	●	●	●
		\$4.42 (22.6%)	USAID	●	●	●	●	●	●
		\$1.60 <sup>2</sup> (7.7%)	DoS	◐	○	○	○	○	○
		\$0.26 <sup>2</sup> (1.3%)	DoD (DDS) <sup>4</sup>	◐	○	○	○	○	○
CERP	\$2.68	\$0.01 (0.4%)	USACE	●	●	●	●	●	●
		\$ TBD <sup>5</sup>	DoD(DDS) <sup>4</sup>	◐	○	○	○	○	○
ESF	\$1.93	\$1.60 (82.9%)	USAID	●	●	●	●	●	◐
		\$ TBD <sup>5</sup>	DoS	○	○	○	○	○	○

**Legend:**

Not Started	Started	Partially Completed	Mostly Completed	Completed
○	◐	◑	◒	●

**Notes:**

<sup>1</sup> Total expended amounts and collected amounts are in billions. The percentage listed is the total dollar amount analyzed out of the total expended

<sup>2</sup> Estimated amount

<sup>3</sup> Computerized Accounts Payable System (CAPS)

<sup>4</sup> Deployable Disbursing System (DDS)

<sup>5</sup> To Be Determined (TBD)

Source: SIGIR

# **Automated Data mining to Identify Transactions That Require Additional Analysis**

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SIGIR's forensic audit of 73,000 transactions to date has identified transactions that require additional analysis. This includes payments that may be duplicates, payments to possibly fictitious or generic vendors such as "vendor" and "cash," notable variances in payment activity, payments that occurred before or on the date of the invoice, and sequentially-numbered contractor invoices.

SIGIR primarily conducts performance audits that assess the economy, efficiency, and effectiveness of reconstruction programs, often with a focus on the adequacy of internal controls and the potential for fraud, waste, and abuse. These include the series of audits of major reconstruction contracts that identified common internal control weaknesses. Certain controls, such as the segregation of duties, are key to minimizing the risk of fraud, waste, and abuse. We relied on SIGIR's extensive body of work related to inadequate controls in Iraq reconstruction programs to develop transaction anomalies likely to be observed as a result of the failure or circumvention of these controls. We have incorporated 10 of these anomaly tests into our automated data mining effort. Table 2 lists the anomaly tests and their intended results.

**Table 2—Anomaly Tests and Intended Results**

<b>Anomaly Test</b>	<b>Intent of Test</b>
Duplicate payments	Identify instances where it appears a contractor may have been paid two or more times for the same invoice, work performed, and/or product delivered
Questionable vendors	Identify vendor names that are generic (e.g., cash, vendor) and vendor names that do not appear to align with the program goals
Notable variances in payment activity	Identify payments outside of the “norm” for a vendor
Invoice analysis	Identify payments occurring prior to or on the date of invoice and sequentially-numbered contractor invoices
Payments to debarred/suspended contractors	Identify payments to debarred/suspended contractors identified in the Excluded Parties List System
Segregation of duties	Identify breakdowns in segregation of duties whereby the same government contracting official originates the request for payment, approves the request, and is the payee
Fictitious addresses/high risk locations	Identify payments to possibly fictitious addresses and/or high risk locations or known high-risk banking centers such as Cyprus and Beirut
Payee validation	Identify payments to debarred/suspended contractors who are also an Approver or Originator.
Fictitious contractors	Identify payments to contractors with no associated D-U-N-S <sup>1</sup> /CAGE <sup>2</sup> number
Application of Benford’s Law <sup>3</sup>	Identify nonrandom transaction amounts to identify instances a contractor submitted false invoices using false invoice totals

**Notes:**

<sup>1</sup> The Data Universal Numbering System or D-U-N-S® Number is Dunn and Bradstreet’s (D&B) copyrighted, proprietary means of identifying business entities on a location-specific basis. Assigned and maintained solely by D&B, this unique nine-digit identification number has been assigned to over 100 million businesses worldwide. The D-U-N-S® Number is widely used by both commercial and federal entities and was adopted as the standard business identifier for federal electronic commerce in October 1994. The D-U-N-S Number® was also incorporated into the Federal Acquisition Regulation in April 1998 as the Federal Government’s contractor identification code for all procurement-related activities.

<sup>2</sup> A CAGE (Commercial and Government Entity) Code is a five-character code that identifies companies doing or wishing to do business with the Federal Government.

<sup>3</sup> Benford’s law states that the leading digit in lists of numbers from many real-life sources of data is distributed in a non-uniform way. Accordingly, the first digit is 1 almost one third of the time, and subsequent digits occur as the first digit in descending frequency, where 9 is the leading digit less than one time in twenty.

Source: SIGIR analysis

## **Detailed Examinations of Contract Files to Validate Fraud**

When a transaction anomaly is identified, SIGIR examines the details to determine whether it is fraudulent or improper. To accomplish this, teams of SIGIR personnel perform additional electronic testing; conduct detailed examinations of relevant contract documentation such as solicitation actions, award selection materials, invoices, and payment files; interview contracting officials as well as vendor management and other staff; and coordinate with other audit and law enforcement agencies. These validation efforts are designed to support determinations about the legitimacy of a transaction and to determine whether improper expenditures are attributable to administrative error or fraud. Transactions are prioritized for review by their risk of fraud and dollar value with high risk/high dollar transactions receiving priority. To date, SIGIR's transaction anomaly examinations have provided critical information to four investigations and four audits. As discussed in detail in the following section, SIGIR is currently focusing on approximately \$340 million in DoD expenditures that may be duplicate payments. An analysis of each transaction is needed to determine whether, in fact, the transactions are improper.

# Review of Possible Duplicate Payments

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SIGIR’s forensic audit of Iraq reconstruction financial transactions has, to date, identified approximately \$340 million in possible duplicate payments. These transactions involve about 800 vendors associated with IRRF and ISFF-funded programs. While these anomalies were revealed during the course of our testing procedures, we expect that many of the transactions will prove to be proper. For example, multiple purchases of an item may have legitimately occurred on the same date. An examination of key documentation, such as invoices, receiving documents, and payment documentation will support conclusions on the validity of these transactions. Table 3 identifies the number of vendors, transactions, and total dollars identified as possible improper payments.

**Table 3—Status of Anomaly Testing as of December 2009**

<b>Fund</b>	<b>Number of Vendors</b>	<b>Number of Questionable Transactions</b>	<b>Dollar Value of Questionable Transactions</b>
ISFF	198	1,802	\$149,204,518
IRRF	647	5,196	\$189,968,893
<b>Total</b>	<b>767<sup>a</sup></b>	<b>6,998</b>	<b>\$339,173,411</b>

**Note:**

<sup>a</sup> Difference in sum due to vendors having both ISFF and IRRF transactions.

Source: SIGIR Data mining Results

Due to the number of transactions that must be examined, we are prioritizing our work using risk factors such as transaction type and amount and whether there is a prior history of questionable activity. The purpose of these audits will be to review transactions identified as possible duplicate payments or overpayments (e.g., situations where a contractor may have been paid two or more times for the same invoice, work performed, and/or product delivered) in an effort to validate payment activity. If it is determined that a payment was made in error, SIGIR will: (1) seek reimbursement to the U.S. Treasury, (2) determine how the error occurred, and (3) make recommendations to strengthen internal controls and financial management practices to reduce the risk of similar errors in the future. If a payment appears to be the result of fraudulent or other improper activity, pertinent information will be provided to our Investigations Directorate for review and appropriate action. At this time SIGIR is conducting a review of five vendors associated with possible duplicate payments totaling approximately \$74 million, or about 22%, of the approximately \$340 million identified by our analysis.

Congress has enacted several provisions of law aimed at improving the integrity of the government payment process and the efficiency of its programs and activities, including the Improper Payments Information Act of 2002 (Pub. L. No. 107-300), and Section 831 of the Defense Authorization Act for Fiscal Year 2002, also known as the Recovery Auditing Act (Pub. L. No. 107-107, codified at 31 U.S.C. §§ 3561-3567). SIGIR will use this information as a guide

during our improper payment audit work, as well as Office of Management and Budget Circular A-123, Appendix C, which implements them.

## **USACE Has Developed and Is Using a New Data mining Tool**

Soon after SIGIR announced our data mining efforts, the USACE Finance Center implemented a new data mining tool for use by its Disbursing and Accounts Payable Division. According to the USACE official whose division developed the tool, it is designed to identify possible erroneous or improper payments for further research. Since USACE began using the data mining tool in May 2009, it has researched and cleared thousands of transactions with no funds needing to be recouped. This USACE official said the agency is testing transactions from May 2009 forward. SIGIR will coordinate with USACE in order to avoid a duplication of effort as we begin collecting and analyzing fiscal year 2009 transaction data.

USACE is to be commended for initiating this effort as it will help ensure that the Army is compliant with the Improper Payments Information Act and the Recovery Auditing Act. The Improper Payments Information Act requires federal agencies to review and report improper payment information. The Act requires that all executive branch agencies on an annual basis: (1) identify programs and activities that are susceptible to significant improper payments, (2) estimate the amounts improperly paid under those programs and activities, and (3) report on the amounts improperly paid and their actions to reduce improper payments. In addition, executive branch agencies are required to report on their efforts to recover overpayments made to contractors under the Recovery Auditing Act. This Act requires that all executive branch agencies entering into contracts that exceed \$500 million during a fiscal year have cost-effective programs for identifying errors in paying contractors and for recovering amounts erroneously paid. It is noted that, since fiscal year 2004, executive branch agencies have been required by the Office of Management and Budget to report on the Improper Payments Information Act and recovery auditing efforts in their Performance and Accountability Report.

## **SIGIR Effort Identifies Questionable Activity**

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Considering the climate of vulnerability in Iraq and concerns raised by SIGIR regarding a lack of accountability over programs such as the Commander's Emergency Response Program (CERP), SIGIR initiated a review of Iraq relief and reconstruction program areas known to have questionable internal controls. This effort, identified as the SIGIR Audit/Investigative Initiative, focuses on programs that afford easy access to cash with weak controls over expenditures. Pertinent information is reviewed by a team of investigators, analysts, and auditors to determine whether further action is warranted.

At this time the SIGIR Forensics Team is managing several of these projects and has identified a number of instances of questionable activity. One of the projects involves the handling of funds associated with the Development Fund for Iraq. At one time the Coalition Provisional Authority managed the Development Fund for Iraq, and SIGIR has reported that the Coalition Provisional Authority provided less than adequate control over its funds. The SIGIR Forensics Team has obtained information related to this issue and is analyzing it in an effort to identify questionable activity.

# Forensic Audit Metrics

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SIGIR is measuring the results of the forensic audit effort in a number of ways. Some of the metrics will include:

- Criminal investigations opened
- Number of arrests
- Number of indictments
- Number of convictions
- Funds recovered
- Questioned costs<sup>3</sup> referred to contracting officers for audit

Table 4 identifies progress to date. As shown in the table, SIGIR is just beginning this initiative and has not yet achieved results for all metrics. Future reports will include updates on these metrics:

**Table 4—SIGIR Forensic Audit Accomplishments as of December 2009**

<b>Metric</b>	<b>Results – Interim Report No. 1</b>	<b>Results – Interim Report No. 2</b>	<b>Total Results to Date</b>
Criminal investigations opened	6 investigations	21 investigations	27 investigations

**Note:**

To date, the 27 investigations opened as a result of SIGIR’s forensic audit effort encompass 36 individual suspects.

*Source: SIGIR*

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<sup>3</sup> Questioned Cost: As defined by the Inspector General Act (Pub. L. No. 95-452, as amended), is a cost questioned by SIGIR because of (1) an alleged violation of a provision of law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that an expenditure of funds for the intended purpose is unnecessary or unreasonable.



## **Management Comments and Audit Response**

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Because this report is for information only, it does not contain findings or recommendations and agencies were not required to comment. We did not receive comments from agencies.

## **Appendix A—Scope and Methodology**

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In December 2008, the Special Inspector General for Iraq Reconstruction (SIGIR) initiated its forensic effort as Projects 9005, 9012, and 9013 to examine Iraq relief and reconstruction expenditures by Department of Defense (DoD), Department of State (DoS), and the U.S. Agency for International Development (USAID). SIGIR's objectives for this report were to present the results to date of our forensic auditing efforts to include updating the results of our review of agency expenditures; and updating our efforts to identify questionable activity. The report also presents information on our data mining methodology and discusses the metrics SIGIR plans to use to measure progress.

This quarterly report presents newly acquired expenditure data from the USAID for Iraq relief and reconstruction for fiscal years 2003-2008. The results of the reports will generally be discussed in the aggregate, with specific findings included where appropriate and useful. Cumulative questioned costs will be reported as defined and required by the Inspector General Act of 1978, as amended. This audit was performed under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. The audit work for this report covers the period December 2008 through December 2009 and was conducted in Arlington, Virginia.

To obtain the expenditure data from the DoD, we interviewed officials from the Army Budget Office, the Defense Finance and Accounting Service, and the U.S. Army Corps of Engineers and obtained pertinent appropriation and transactional data, as well as supporting documentation, to include data dictionaries, look-up tables, contract details, and vendor data. To obtain expenditure data from USAID, we interviewed officials from the Middle East Bureau and Chief Financial Officer's office and obtained pertinent appropriation and transactional data, as well as supporting documentation, to include data dictionaries, look-up tables, and vendor data.

To develop our list of anomalies, we used information from discussions with SIGIR auditors and investigators; key agency stakeholders and systems owners; live financial system demonstrations; SIGIR and other agency audit reports; and industry established tests for fraudulent activities.

We conducted this review in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. However, this is an information report, which has no findings or conclusions.

### **Use of Computer-processed Data**

To achieve the assignment's objectives, we relied extensively on computer-processed data from the Defense Finance and Accounting Service, the U.S. Army Corps of Engineers accounting systems, and the USAID Phoenix system. We performed reconciliations of disbursement data received from the various accounting systems to determine that it was complete and reliable. The reconciliation process included a comparison of the detailed disbursement totals to other sources of information, including summary-level data. This reconciliation process yielded a

variance of tolerable amounts. Therefore, we found the data to be adequate and sufficiently reliable to be used in meeting our forensic audit objectives.

We will also be relying extensively on computer-processed data from DoS and, as shown in Figure 3, we are in the process of verifying and validating that data before it is used.

## **Internal Controls**

As discussed in the body of the report, SIGIR has conducted audits of major reconstruction contracts that were intended in part to identify internal control weaknesses. We reported on those weaknesses in each report, which also contained relevant conclusions and recommendations. Because such weaknesses provide opportunities for fraud, waste, and abuse, we used the results of those audits to develop targeted forensic auditing approaches to identify instances of wrongdoing. However, this is an information report and, as such, we draw no conclusions and make no recommendations.

## **Prior Coverage**

We reviewed the following reports for this audit:

### ***SIGIR***

*Developing a Depot Maintenance Capability at Taji Hampered by Numerous Problems, SIGIR 09-027, 7/30/2009.*

*Tikrit Location Command Project Achieving Contract Goals by Using Sound Management Practices, SIGIR 09-024, 7/30/2009.*

*Commander's Emergency Response Program: Muhalla 312 Electrical Distribution Project Largely Successful, SIGIR 09-025, 7/26/2009.*

*Commander's Emergency Response Program: Hotel Construction Completed, But Project Management Issues Remain, SIGIR 09-026, 7/26/2009.*

*Joint Audit of Blackwater Contract and Task Orders for Worldwide Personal Protective Services in Iraq, AUD/IQO-09-16 and SIGIR 09-021, June 2009.*

*Security Forces Logistics Contract Experienced Certain Cost, Outcome, and Oversight Problems SIGIR 09-014, 4/26/2009.*

*Need To Enhance Oversight of Theater-Wide Internal Security Services Contracts, SIGIR 09-017, 4/24/2009.*

*Oversight of Aegis's Performance on Security Services Contracts in Iraq with the Department of Defense, SIGIR 09-010, 1/14/2009.*

*Cost, Outcome, and Oversight of Iraq Oil Reconstruction Contract with Kellogg Brown & Root Services, Inc., SIGIR 09-008, 1/13/2009.*

*Review of Cost, Outcome, and Oversight of Local Governance Program Contracts with Research Triangle Institute, SIGIR 09-003, 10/21/2008.*

*Outcome, Cost, and Oversight of the Security and Justice Contract with Parsons Delaware, Inc., SIGIR 08-019, 7/28/2008.*

*Review of Outcome, Cost, and Oversight of Water Sector Reconstruction Contract with FluorAMEC, LLC, SIGIR 08-018, 7/15/2008.*

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## Appendix B—Acronyms

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<b>Acronym</b>	<b>Description</b>
CERP	Commander's Emergency Response Program
DoD	Department of Defense
DoS	Department of State
ESF	Economic Support Fund
IRRF	Iraq Relief and Reconstruction Fund
ISFF	Iraq Security Forces Fund
SIGIR	Special Inspector General for Iraq Reconstruction
USACE	U.S. Army Corps of Engineers
USAID	U. S. Agency for International Development

## **Appendix C—Forensic Audit Team Members**

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This report was prepared and the forensic audit conducted under the direction of David R. Warren, Assistant Inspector General for Audit, Office of the Special Inspector General for Iraq Reconstruction.

The SIGIR staff members who are participating in this forensic audit and contributed to the report include:

Richard C. Newbold

Adam T. Hatton

William F. Bedwell

Thomas J. Bonnar

Robin L. Rowan

David Childress

George S. Salvatierra

Robert A. Whiteley

Benjamin H. Comfort

Donald V. McNamara

Mark D. Lehner

## **Appendix D—SIGIR Mission and Contact Information**

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### **SIGIR’s Mission**

Regarding the U.S. reconstruction plans, programs, and operations in Iraq, the Special Inspector General for Iraq Reconstruction provides independent and objective:

- oversight and review through comprehensive audits, inspections, and investigations
- advice and recommendations on policies to promote economy, efficiency, and effectiveness
- deterrence of malfeasance through the prevention and detection of fraud, waste, and abuse
- information and analysis to the Secretary of State, the Secretary of Defense, the Congress, and the American people through Quarterly Reports

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### **To Report Fraud, Waste, and Abuse in Iraq Relief and Reconstruction Programs**

Help prevent fraud, waste, and abuse by reporting suspicious or illegal activities to the SIGIR Hotline:

- Web: [www.sigir.mil/submit\\_fraud.html](http://www.sigir.mil/submit_fraud.html)
- Phone: 703-602-4063
- Toll Free: 866-301-2003

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### **Congressional Affairs**

Hillel Weinberg  
Assistant Inspector General for Congressional Affairs  
Mail: Office of the Special Inspector General  
for Iraq Reconstruction  
400 Army Navy Drive  
Arlington, VA 22202-4704  
Phone: 703-428-1059  
Email: [hillel.weinberg@sigir.mil](mailto:hillel.weinberg@sigir.mil)

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### **Public Affairs**

Danny Kopp  
Office of Public Affairs  
Mail: Office of the Special Inspector General  
for Iraq Reconstruction  
400 Army Navy Drive  
Arlington, VA 22202-4704  
Phone: 703-428-1217  
Fax: 703-428-0818  
Email: [PublicAffairs@sigir.mil](mailto:PublicAffairs@sigir.mil)

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