



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

April 18, 2012

LETTER FOR SECRETARY OF DEFENSE
COMMANDING GENERAL, U.S. ARMY CORPS OF ENGINEERS

SUBJECT: USACE Used or Deobligated Residual Funds on Terminated Contracts
(SIGIR 12-014)

This is the third report by the Special Inspector General for Iraq Reconstruction (SIGIR) on the outcomes of U.S. Department of Defense's (DoD) Iraq reconstruction contract terminations. The two previous reports looked at DoD agencies' controls over terminated contracts and whether U.S. funds were wasted as a result of the termination of the contracts.¹ This report examines whether the U.S. Army Corps of Engineers (USACE) had unliquidated obligations on 55 terminated contracts.

SIGIR found no unliquidated obligations on the 55 terminated contracts. More broadly, it also found that as required by DoD regulations, USACE reviewed its unliquidated obligations for contracts in Iraq for the period ending January 31, 2012.

Background

Our January 2012 report focused on the 55 reconstruction contracts USACE terminated from June 2008 through April 2011. We had planned to report on the status of unliquidated obligations for the contracts, but that information was not available in time. USACE's reconstruction contracts in Iraq were funded primarily by the Iraq Relief and Reconstruction Fund, the Commander's Emergency Response Program, and the Iraq Security Forces Fund.

Obligations are recorded when an authorized agent of the federal government enters into a legally binding agreement to purchase specific goods or services. As bills are received and payments made, the recorded obligation is reduced by the payment amounts, with the balance referred to as the unliquidated obligation. Funds no longer needed should be deobligated.

DoD Financial Management Regulation volume 3, chapter 8, paragraph 080401, requires fund holders, with assistance from supporting accounting offices, to perform tri-annual reviews of dormant commitments, unliquidated obligations, accounts payable, and accounts receivable transactions for timeliness, accuracy, and completeness. The reviews are to be completed each year for the four-month periods ending on January 31, May 31, and September 30.

¹ U.S. Central Command Contracting Command Had Few Contract Terminations That Resulted in Wasted Funds in Iraq, SIGIR 12-005, 10/28/2011 and Few Contracts Terminated by the U.S. Army Corps of Engineers Resulted in Wasted Funds in Iraq, SIGIR 12-011, 1/29/2012.

USACE Had No Unliquidated Funds for Terminated Contracts

We found that USACE had no residual funds for the 55 terminated contracts. For 46 of the 55 contracts, reports from USACE's financial management system showed the obligated funds were either used to pay contractors or deobligated, thus leaving zero balances. For the remaining nine contracts, USACE officials stated that no financial transactions occurred after the funds were obligated and, therefore, USACE deobligated the funds. However, the financial management system cannot produce a status of obligations report that supports this information. Nevertheless, our review of the nine contract files confirmed that no financial transactions occurred after the funds were obligated, supporting the USACE officials' statements.

USACE Completed the Required Tri-annual Review

We found that USACE had performed the required review of unliquidated obligations for contracts in Iraq for the period ending January 31, 2012. This was in compliance with the DoD Financial Management Regulation. The USACE Middle East District Budget Officer signed the tri-annual review confirmation statement on February 7, 2012. The review covered 3,441 records with a total dollar value of more than \$956 million.

Concluding Observation

As the Iraq reconstruction program winds down and contracts are completed or terminated, it is important that agencies properly account for remaining obligated funds. USACE executed this responsibility by deobligating residual funds from its recently terminated contracts.

Management Comments

Because this report does not contain recommendations, USACE was not required to, and did not, submit comments.

We appreciate the courtesies extended to the SIGIR staff. For additional information on the report, please contact James Shafer, Assistant Inspector General for Audits (Washington, DC), (703) 604-0894/ fred.j.shafer.civ@mail.mil or Tinh Nguyen, Principal Deputy Assistant Inspector General for Audits (Washington, DC), (703) 604-0545/ tinh.t.nguyen4.civ@mail.mil.



Stuart W. Bowen, Jr.
Inspector General

Appendix A—Scope and Methodology

Scope and Methodology

In April 2011, the Special Inspector General for Iraq Reconstruction (SIGIR) initiated Project 1108 to examine U.S. Department of Defense terminated contracts in Iraq and identify potential waste. In October 2011, we issued a report on the U.S. Central Command Contracting Command's terminated contracts.² In January 2012, we issued a report on the U.S. Army Corps of Engineers' (USACE) terminated contracts.³ Our objectives for this report are to determine the extent of unliquidated obligations on USACE contracts terminated between June 2008 and April 2011. This audit was performed by SIGIR 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. SIGIR conducted its work from January 2012 through March 2012 in Baghdad, Iraq. It used information gathered in Winchester, Virginia, during previous reviews.

To identify unliquidated obligations on terminated contracts, we obtained copies of the U.S. Army Corps of Engineers Financial Management System Obligation Status Reports for the contracts, when available. We also corresponded with knowledgeable officials to account for exceptions and gaps in the data.

The audit was conducted 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Use of Computer-processed Data

To achieve the audit objectives, we relied on computer-processed data generated by the U.S. Army Corps of Engineers Financial Management System. We did not test the general or application controls of the system. However, we compared system data to source documents (contracts, contract modifications, memorandums for record) to determine data validity. Based on these tests, we conclude the data are sufficiently reliable to be used in meeting the audit's objectives.

Internal Controls

In conducting the audit, we assessed certain management controls pertinent to the audit objective with respect to USACE's contract management. Specifically, we identified and assessed

² *U.S. Central Command Contracting Command Had Few Contract Terminations That Resulted in Wasted Funds in Iraq*, SIGIR 12-005, 10/28/2011.

³ *Few Contracts Terminated by the U.S. Army Corps of Engineers Resulted in Wasted Funds in Iraq*, SIGIR 12-011, 1/29/2012.

management controls for reviewing unliquidated obligations on contracts. The assessment is discussed in the body of our report.

Prior Coverage

We reviewed the following reports by SIGIR and the Government Accountability Office:

Special Inspector General for Iraq Reconstruction

Few Contracts Terminated by the U.S. Army Corps of Engineers Resulted in Wasted Funds in Iraq, SIGIR 12-011, 1/29/2012.

U.S. Central Command Contracting Command Had Few Contract Terminations That Resulted in Wasted Funds in Iraq, SIGIR 12-005, 10/28/2011.

Iraq Reconstruction Project Terminations Represent a Range of Actions, SIGIR 09-004, 10/27/2008.

Interim Report on Iraq Reconstruction Contract Terminations, SIGIR 08-013, 4/28/2008.

Controls over Unliquidated Obligations in the Iraq Relief and Reconstruction Fund, SIGIR 07-011, 10/23/2007.

Government Accountability Office

Contingency Contracting: Improved Planning and Management Oversight Needed to Address Challenges with Closing Contracts, GAO-11-891, 9/26/2011.

Appendix B—Acronyms

Acronym	Description
DoD	Department of Defense
SIGIR	Special Inspector General for Iraq Reconstruction
USACE	U.S. Army Corps of Engineers

Appendix C—Audit Team Members

This report was prepared and the audit conducted under the direction of James Shafer, Assistant Inspector General for Audits, Office of the Special Inspector General for Iraq Reconstruction.

The staff members who conducted the audit and contributed to the report include:

Angelina Johnston

Robert Pelletier

William Shimp

Appendix D—SIGIR Mission and Contact Information

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

Obtaining Copies of SIGIR Reports and Testimonies

To obtain copies of SIGIR documents at no cost, go to SIGIR’s Web site (www.sigir.mil).

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
- Phone: 703-602-4063
- Toll Free: 866-301-2003

Congressional Affairs

Hillel Weinberg
Assistant Inspector General for Congressional Affairs
Mail: Office of the Special Inspector General
for Iraq Reconstruction
2530 Crystal Drive
Arlington, VA 22202-3940
Phone: 703-428-1059
Email: hillel.weinberg.civ@mail.mil

Public Affairs

Christopher Griffith
Director of Public Affairs
Mail: Office of the Special Inspector General
for Iraq Reconstruction
2530 Crystal Drive
Arlington, VA 22202-3940
Phone: 703-604-0693
Fax: 703-428-0818
Email: PublicAffairs@sigir.mil
