OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

MANAGEMENT OF THE CONTRACTS AND GRANTS USED TO CONSTRUCT AND OPERATE THE BABYLON POLICE ACADEMY

REPORT NO. SIGIR 05-016
OCTOBER 26, 2005

SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

October 26, 2005

MEMORANDUM FOR DIRECTOR, IRAQ RECONSTRUCTION MANAGEMENT OFFICE
COMMANDING GENERAL, JOINT CONTRACTING COMMAND-IRAQ/AFGHANISTAN
COMMANDER, JOINT AREA SUPPORT GROUP-CENTRAL

SUBJECT: Management of the Contracts and Grants Used To Construct and Operate the Babylon Police Academy (Report No. SIGIR 05-016)

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.

We considered management comments from the Iraq Reconstruction Management Office, 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 on the draft of this report by those organizations conformed to requirements and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Joseph T. McDermott at (703) 428-1100, or at joseph.mcdermott@sigir.mil or Mr. Clifton Spruill at (703) 343-8817, or at clifton.spruill@iraq.centcom.com. For the report distribution, see Appendix H.

Stuart W. Bowen, Jr.
Inspector General

Special Inspector General for Iraq Reconstruction

Report No. SIGIR 05-016 **October 26, 2005**
(Project No. D2004-DCPAAF-0034.4)

Management of the Contracts and Grants Used To Construct and Operate the Babylon Police Academy

Executive Summary

Introduction. This audit report is one of a series of reports addressing controls over cash, contract management, and grant management for the Coalition Provisional Authority South-Central Region. This audit report discusses the deficiencies in the Coalition Provisional Authority South-Central Region's process for managing 11 contracts, 4 grants, and 1 grant modification awarded for more than $7.3 million to establish and operate the Babylon Police Academy (the Academy).

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.

We expanded the scope of our audit to determine whether the South-Central Region properly managed contracts and grants at specific projects because of deficiencies identified in Office of the Special Inspector General for Iraq Reconstruction, Report No. 05-006, "Control of Cash Provided to South-Central Iraq," April 30, 2005, and at the request of the Deputy Secretary of Defense. We chose to review the Academy project because of the multiple contracts and grants that had been awarded to establish and operate the Academy.

Results. South-Central Region personnel, in the management of contracts and grants using Rapid Regional Response Program funds to construct and operate the Academy:

- entered into an unauthorized land grant in violation of conflict-of-interest rules
- circumvented guidance by splitting requirements into more than one contract to avoid seeking the required funding-level approval and needlessly expended funds because work was not consolidated into a single contract
- did not make site visits, did not issue final performance reports, and did not properly prepare certificates of completion forms
- disbursed funds before contracts and grants were signed and that were not tied to performance
- did not establish the required separation of duties as a control over the disbursement of funds
- did not maintain files that contained accurate or required documentation

South-Central Region personnel, under the direction of the Coalition Provisional Authority, did not comply with applicable guidance and did not properly manage approximately $7.3 million of Rapid Regional Response Program funds provided through 11 contracts, 4 grants, and 1 grant modification used to establish and operate the Academy. Specifically, South-Central Region needlessly expended almost $1.3 million in contract funds for duplicate construction; equipment not needed, not delivered, and

overpriced; and inaccuracies not identified in contract documents. Further, the South-Central Region could not account for more than $2.0 million of disbursed grant funds. Although we were able to determine that parts of the project were complete,[1] we were unable to clearly determine that all requirements were accomplished with the remaining contract funds that amounted to almost $4.0 million.

Material Internal Control Weaknesses. The audit identified material internal control weaknesses. South-Central Region personnel, under the direction of the Coalition Provisional Authority, did not comply with applicable guidance and did not properly manage approximately $7.3 million of Rapid Regional Response Program funds. Consequently, there was no assurance that fraud, waste, and abuse did not occur in the management and administration of cash and property used to establish and operate the Academy.

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. Since the Coalition Provisional Authority was dissolved on June 28, 2004, we are addressing the recommendations to three of the four successor organizations: the Iraq Reconstruction Management Office, the Joint Contracting Command-Iraq/Afghanistan, and the Joint Area Support Group-Central.

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.

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.

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.

[1] For example, classrooms and living quarters were built and mobile command posts were delivered.

Management Comments and Audit Response. 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.

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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 deficiencies in the CPA South-Central Region's process for managing 11 contracts, 4 grants, and 1 grant modification awarded for the establishment and operation of the Babylon Police Academy (the Academy).

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 grant 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. R3P funds were derived from the DFI, and the CPA provided those funds to the Iraqi people for necessary repairs and upgrades to the

infrastructure. 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 Commanders' 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 the authorities of two previously funded programs:

- the Directors' 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 2003, comprising the provinces of Anbar, Babil, Karbala, Najaf, Qadisiyah, and Wasit, 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.

Babylon Police Academy. The Academy was established in December 2003.[3] The Academy is the leading institution and the focal point for security, training, and the rapid response of security forces in the South-Central Region. It is essential for ensuring the growth of the South-Central Region's police force. It provides instruction and training on the latest forensic and investigation techniques and coordinates with the Ministry of Interior on standardizing training and providing first response police personnel.

The South-Central Region awarded 11 contracts in support of the Academy for the purchase of equipment and the following services:

- demolishing the former Ba'ath Party Headquarters
- building living quarters and classrooms
- installing a water purification system
- providing security walls
- providing mobile command posts

A single contractor competed for the contracts using two different company names and all 11 contracts were awarded to that single contractor. The 11 contracts are valued at $5,262,015. Details concerning the 11 contracts are shown in Appendix C.

In addition, the South-Central Region awarded four grants and one grant modification to provide operating support for the Academy, establish training of elite police forces and counter-terror teams, and establish a criminal security tracking program. The four grants

[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.

[3] The Academy was located at the former Ba'ath Party Headquarters site in Al Hillah, Iraq.

and one grant modification are valued at $2,050,000. Details concerning the four grants and one grant modification are shown in Appendix D.

The total value of the contracts and grants awarded for the Academy was $7,312,015.

Organizations Responsible for Contract and Grant 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 organizational responsibilities for management of contracts and grants, until it ceased to exist on June 28, 2004, see Appendix E.

After the dissolution of the CPA, four U.S. government organizations assumed responsibilities for the management of contracts and grants in Iraq. For information on the present organizational responsibilities for the management of contracts and grants in Iraq, see Appendix F.

Project and Contracting Office. The Project and Contracting Office now has the responsibility to assess requirements for contracts and grants. 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 for activities in Iraq, including contract and grant 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 and grants. 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 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 and grants.[4] 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 responsibility[5] for contracts and grants. 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.

[4] The Joint Contracting Command-Iraq/Afghanistan used the Federal Acquisition Regulation and Department of Defense 3210.6-R, "DoD Grant and Agreement Regulations," April 13, 1998, as guidance.
[5] The Joint Area Support Group-Central Comptroller provided funds to the CPA regions to disburse for contracts and grants. Afterward, the disbursement documentation was returned to the Joint Area Support Group-Central Comptroller's office for review and to be cleared.

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.

We expanded the scope of our audit to determine whether contracts and grants were properly managed by the South-Central Region at specific projects because of deficiencies identified in Office of the Special Inspector General for Iraq Reconstruction, Report No. 05-006, "Control of Cash Provided to South-Central Iraq," April 30, 2005, and at the request of the Deputy Secretary of Defense. We chose to review the Academy project because of the multiple contracts and grants that had been awarded to establish and operate the Academy.

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 G. For a list of the audit team members, see Appendix I.

Management of Contracts and Grants Used To Construct and Operate the Babylon Police Academy

South-Central Region personnel, in the management of contracts and grants using R3P funds to construct and operate the Academy:

- entered into an unauthorized land grant in violation of conflict-of-interest rules
- circumvented guidance by splitting requirements into more than one contract to avoid seeking the required funding-level approval and needlessly expended funds because work was not consolidated into a single contract
- did not make site visits, did not issue final performance reports, and did not properly prepare certificates of completion forms
- disbursed funds before contracts and grants were signed and that were not tied to performance
- did not establish the required separation of duties as a control over the disbursement of funds
- did not maintain files that contained accurate or required documentation

This occurred because South-Central Region personnel did not:

- follow established policies and procedures for authorizing, awarding, and consolidating contracts and grants
- use effective procedures to monitor performance and disburse funds for contracts and grants
- maintain complete files to support transactions made for contracts and grants
- ensure that purchased equipment was delivered, construction was completed, and that funds were disbursed for intended purposes

As a result, South-Central Region personnel, under the direction of the CPA, did not comply with applicable guidance and did not properly manage approximately $7.3 million of R3P funds provided through 11 contracts, 4 grants, and 1 grant modification used to establish and operate the Academy. Specifically, South-Central Region needlessly expended almost $1.3 million in contract funds for duplicate construction; equipment not needed, not delivered, and overpriced; and inaccuracies not identified in contract documents. Further, the South-Central Region could not account for more than $2.0 million of disbursed grant funds. Although we were able to determine that parts of the project were complete,[6] we were unable to clearly determine that all requirements were accomplished with the remaining contract funds that amounted to almost $4.0 million.

[6] For example, classrooms and living quarters were built and mobile command posts were delivered.

Guidance for Contracts and Grants

In Iraq, contracts were used to purchase products or services, and grants were used to support or stimulate the efforts of the grant recipients to carry out a program or project. The contracts and grants were to directly benefit the Iraqi people or assist in the recovery of Iraq. The South-Central Region disbursed funds for contracts and grants 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 memorandum defined a large purchase as "A contract with a value of greater than US$500,000."

The appendices to this memorandum provided supplemental instructions on preparing and executing contracts and grants pursuant to the memorandum. Specifically, Appendices 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. The memorandum defined a small purchase as "A contract with a value greater than US$5,000 and less than or equal to US$500,000."

Department of Defense 3210.6-R. Department of Defense 3210.6-R, "DoD [Department of Defense] Grant and Agreement Regulations," April 13, 1998, provided guidance for the management of grants. For a definition of contracts and grants, see Appendix B.

Authorization of Contracts

South-Central Region personnel did not follow established policies and procedures for authorizing and awarding contracts using R3P funds. Specifically, the South-Central Region Chief Operating Officer (also the Division Level Agent) entered into unauthorized land grant in violation of conflict-of-interest rules.

Coalition Provisional Authority Memorandum 4-Conflicts-of-Interest. CPA Memorandum 4, Section 6, "Principles Applicable to Instruments," addressed conflicts-of-interest and stated that "Persons involved in the contracting process, from the development of the requirement through the completion of performance, shall not: . . . knowingly make unauthorized commitments or promises of any kind purporting to bind the CPA."

Contract for Land Transfer. On April 22, 2004, the South-Central Region Chief Operating Officer gave a contractor Iraqi land "seized from the former Saddam Hussein Government" for a period of 10 years. This land grant was officially recorded as a CPA letter and was signed by the South-Central Region Chief Operating Officer.

According to the letter, the contractor was "entitled to operate and develop the property in compliance with its mandate to build the Police Academy and is given the premises 'free and clear' of any liens. Taxes shall be exempt for the same ten (10) year period." The letter further provided that, at the end of 10 years, the contractor "shall have the right to exercise an option to remain as 'title holder' of the property until such time as the beneficiary decides to sell the property. In the event of a sovereign Iraq, a simple signature from the commandant[7] (Iraqi) shall suffice to continue this transfer of land."

The South-Central Region Chief Operating Officer that issued the letter for this land grant was also responsible for approving 8 of the 11 Academy contracts awarded to the single contractor and disbursing the funds for all 11 contracts to that contractor.

Rescission of the Land Transfer Letter. South-Central Region personnel subsequently discovered the letter for the land grant, and the Project and Contracting Office legal department decided that the letter was not "considered a legally binding instrument." Additionally, the Project and Contracting Office legal department stated that "the individual that signed the document did not have the authority to act in this capacity and sign this letter." In July 2004, the South-Central Region Director of Contracting issued a letter to the contractor stating that the previous letter for the land grant was void and was rescinded.

[7] The letter did not identify who the commandant might be or specify the authority by which the commandant could continue the transfer of the land.

Multiple Contracts

South-Central Region personnel did not follow established policies and procedures for consolidating contracts and grants 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 and funds were needlessly expended because work was not consolidated into a single contract.

Coalition Provisional Authority Memorandum 4-Combining and Dividing Awards. CPA Memorandum 4, Section 6, "Principles Applicable to Instruments," addressed combining and dividing awards, stating 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."

Program Review Board Guidance 06.2 (amended)-Discretionary Authority. PRB Guidance 06.2 (amended), states 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. The following examples show how the guidance was circumvented by splitting requirements into more than one contract to avoid having to seek the appropriate funding-level approvals.

Construction Design Contracts. The design of the Academy called for the demolition of the former Ba'ath Party Headquarters; construction of living quarters and classrooms; and the installation of security walls, mobile command posts, power generators, and a water purification system. The single purpose underlying the creation of the Academy required the South-Central Region to complete the project as a whole. However, South-Central Region personnel split the design into 11 separate requirements, awarded 11 separate contracts, and the single contractor was paid for all 11 contracts.

The records show indications that South-Central Region personnel may have intentionally split the requirements. For example, eight Funding Request Forms were submitted for approval to either the South-Central Region Chief Operating Officer or the Division Level Agent[8] within 2 weeks of each other. Those included four requests that amounted to a total of approximately $1.9 million which were submitted for approval on the same day, January 22, 2004.

Further, the total cost of the Academy was approximately $5.3 million and each of the 11 contracts was awarded for slightly less than $500,000. For example, five of the contracts were between $495,000 and $498,600. The Regional Program Coordinator discretionary approval authority was not required in those cases because each contract was less than $500,000. In addition, South-Central Region personnel also circumvented coordinating the contracts with the Head of Contracting Activity, CPA, by avoiding the $500,000 threshold.

[8] The individuals in those positions were not authorized to approve projects.

Mobile Command Posts Contracts. South-Central Region personnel split the purchase of 13 mobile command posts for the Academy in order to keep the cost of each contract under $500,000. A Funding Request Form for seven mobile command posts and a second Funding Request Form for six mobile command posts and six all-terrain vehicles were completed on the same day and both contracts were awarded to the same contractor on the same day. The South-Central Region purchased all 13 mobile command posts for the same price, $65,000 each, but South-Central Region personnel were able to circumvent the $500,000 threshold by splitting the requirement for the 13 mobile command posts into 2 contracts.

Academy Grant. A South-Central Region grant to provide operating support to the Academy also exceeded the discretionary authority level. The grant was initially awarded in the amount of $150,000. However, 2 months later, the grant was increased to a total of $600,000 by a $450,000 modification to the grant. The South-Central Region required the approval of the Regional Program Coordinator because the total grant after the modification was more than $500,000. A review of the grant file produced only one Funding Request Form for $450,000, which had not been approved.

Reconciling the Work Solicited, Required, and Performed. South-Central Region personnel entered into 11 contracts that were issued to the same contractor and this resulted in the duplication of efforts and unnecessary work. A former South-Central Region contracting officer[9] we interviewed had difficulty reconciling the work solicited, the work required, and the actual work performed by the contractor because the requirements for the Academy project were not consolidated into a single contract. According to this contracting officer, he could locate only 8 of the 11 contracts and it appeared to him that some of the contracts were written after the work had been performed. As a result, funds were needlessly expended because work had not been consolidated into a single contract.

Demolition of the Ba'ath Party Headquarters. The South-Central Region awarded two contracts for the demolition of the former Ba'ath Party headquarters for the Academy site. The Funding Request Form for the first contract, awarded in the amount of $491,000 on January 4, 2004, stated the purpose of the contract was to "restore the vacant lot into a usable condition for further construction." This contract was awarded to "destroy an existing building, level and grade, build a wall around the property, and clear, grub, and remove trash, brush, and debris from the site." Further, this contract required the "structural base material over the entire footprint of the camp."

The second contract was awarded in the amount of $452,800 on February 19, 2004, to "destroy all existing buildings from corner to corner, remove, clear, and grub the site of all trash, brush, and debris." This contract also called for importing structural base material over the entire footprint of the camp. The former South-Central Region contracting officer stated he was told that this contract was for the demolition of two existing buildings on a different section of the Academy grounds. However, he also stated that the contract file lacked any documentation to indicate there were two existing buildings anywhere else on the Academy grounds. The former South-Central Region contracting officer said that the Academy design documentation was so lacking that he was not certain if this contract was even necessary and that it may have duplicated other contracts. In our opinion, this second contract appears to be a duplication of the

[9] This South-Central Region contracting officer arrived after all 11 contracts for the establishment of the Academy had been awarded.

first contract. As a result, the contractor was paid for work on the second contract that duplicated payment for the same work obtained through the first contract.

Further, a third contract, awarded in the amount of $498,235, required the same site preparation for the living quarters as one of its deliverables that had been required by the two previous demolition contracts. As a result, the contractor was paid $43,445 for work in this third contract that duplicated payment for the same work obtained through the two previous contracts.

Power Generators. The South-Central Region awarded two separate contracts to purchase power generators for the Academy. It appears from our review that the Academy required a 500 kilowatt generator and a 1 megawatt generator as power sources. However, the two contracts were used to purchase three generators for the Academy-two 500 kilowatt generators and a single 1 megawatt generator. The first contract, awarded February 1, 2004, included one 500 kilowatt generator valued at $177,000. The second contract, awarded March 23, 2004, included a second 500 kilowatt generator and a single 1 megawatt generator valued at a total of $479,550 (the price of each generator was not stated in the contract).

The former South-Central Region contracting officer we interviewed said there were so many contracts for the Academy that he was never able to determine just how many generators were supposed to be there. He also stated that the second 500 kilowatt generator was "more than likely" contracted for in error. Nevertheless, using a separate contract to purchase a generator not required resulted in an unnecessary expenditure of funds (we were unable to determine the value of the second 500 kilowatt generator).

Monitoring Performance

South-Central Region personnel did not use effective procedures to monitor performance for contracts and grants using R3P funds. Specifically, South-Central Region personnel did not make site visits, did not issue final performance reports, and did not properly prepare certificates of completion forms.

Coalition Provisional Authority Memorandum 4-Monitoring Performance. CPA Memorandum 4, Section 8, "Monitoring Contract Performance," addressed the contracting officers monitoring responsibilities. CPA Memorandum 4 states 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 R3P guidance identified performance monitoring as a significant duty to ensure that the recipients were properly performing. Monitoring required South-Central Region personnel to employ some or all of the following methods:

- discussions with the contracting entity or grant recipient about project timelines and implementation of the project

- 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. The South-Central Region contracting officer was responsible for monitoring the Academy projects, including making regular site visits, according to CPA Memorandum 4 and R3P guidance. The contract and grant files lack any evidence that South-Central Region personnel visited the Academy site. In addition, CPA Memorandum 4 states that the "Contracting Officer shall rely upon locally available military engineering resources in assessing all repair and construction projects." South-Central Region personnel did not use local assets that were at their disposal to perform monitoring duties. The Iraqi Forward Engineering Support Team was available to monitor the progress of the Academy contracts.

The Iraqi Forward Engineering Support Team employed Iraqi professional engineers who worked for the U.S. Army Corps of Engineers and oversaw Iraqi construction sites and reported on quality assessments. The Iraqi Forward Engineering Support Team was used by South-Central Region personnel to monitor a contractor's performance at other construction activity sites such as the Karbala Library. In that case, the Iraqi Forward Engineering Support Team found and documented in written reports significant problems with a contractor's performance. However, South-Central Region personnel did not request the Iraqi Forward Engineering Support Team to perform any monitoring duties for the 11 Academy contracts.

Performance Reports. South-Central Region personnel did not issue any final reports for the Academy contracts or grants. None of the contract or grant files contained details regarding the outcome of the contracts and grants or the number of Iraqis directly benefiting from the use of DFI funds.

In addition, South-Central Region contracting officers did not perform a post-award assessment of the contractor and grantee to detail the impact the contracts or grants had upon the community or to detail the performance of the contractor or grantee. The post-award report was necessary to document the benefits for the Iraqi people and to determine whether the contractor or grant recipient could be considered for additional contracts or grants.

Certificates of Completion. South-Central Region personnel were required to be at the construction site to determine whether the contractor was adequately performing or providing the goods and services required. The contract and grant files were required to contain performance verification. Of the 11 Academy contract files, 7 contained signed certificates of completion forms. Of the four grant and one grant modification files, none contained certificates of completion forms. 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. However, South-Central Region personnel used this form to document only that the contractor was paid in full instead of using the form to document the contractor's project performance. Consequently, the project was considered "completed" when using this practice.

Disbursing Funds

South-Central Region personnel did not use effective procedures to disburse funds for contracts and grants using R3P funds. Specifically, funds were disbursed before contracts and grants were signed and were not tied to performance. In addition, the required separation of duties was not established as a control over the disbursement of funds.

Coalition Provisional Authority Memorandum 4-Payment Terms.
CPA Memorandum 4, Section 7, "Contracts," states that "All Small Purchase contracts will contain payment terms including an agree[d] upon payment schedule (preferably with milestones tied to performance) for service contracts. . . ." South-Central Region personnel made one disbursement to the contractor for Academy work before that particular contract had been signed. In addition, disbursements not tied to performance measures were made for two contracts when the contractor came in to sign another contract.

Coalition Provisional Authority Memorandum 4-Specific Milestones.
CPA Memorandum 4, Section 9, "Grants," states that "Grants should be reviewed during implementation and where appropriate funds should be made available on a schedule tied to the accomplishment of specific milestones. . . ." South-Central Region personnel did not tie the disbursement of funds to any specific accomplishments for the four Academy grants. Instead, the South-Central Region disbursed the entire amount of the grants at one time and, in two instances, prior to the grant being signed by the recipient.

Separation of Duties. PRB Guidance 06 states that "the disbursing authority may not be involved in the approval process." We identified 10 examples where the South-Central Region disbursing agent approved the Funding Request Forms for Academy work. However, those Funding Request Forms should have been approved by the South-Central Regional Coordinator who was the appropriate approval authority. The disbursing agent personally authorized and disbursed approximately $4.8 million for contracts and grants although he did not have the discretionary authority to approve any funding requests. We could not determine whether this disbursing agent had approved any additional grant funding because of the lack of documentation in the contract and grant files.

Contract and Grant Documentation

South-Central Region personnel did not maintain complete contract files to support transactions made for contracts and grants using R3P funds. Specifically, South-Central Region personnel did not maintain files that contained accurate or required documentation.

Approval Authority Documentation. PRB Guidance 06 required that "all project proposals must be justified based upon the criteria in the Program Review Board -01 Funding Request Form." We reviewed the files for the 11 contracts and 4 grants for the Academy and none of the files had the required documentation or the proper approval authority. We could not locate any complete contract files during our review.

Of the 11 contracts and 4 grants, 13 had the required Funding Request Forms but none of the 13 forms were signed by an appropriate approving authority. Of the 13 Funding Request Forms in the files, 1 form was unsigned and 12 forms were signed but by South-Central Region personnel that did not possess the appropriate discretionary authority.

Disbursement Documentation. Disbursement documentation for Academy contracts was available for only 3 of the contracts, worth approximately $1.4 million, even though the contractor was paid more than $5.3 million for the 11 contracts.

Accuracy of Documentation. In addition, South-Central Region personnel did not adequately review a contractor's bid on a contract for Academy work and did not identify a mathematical error on the contractor's bid in the amount of $29,600. The total of the contractor's costs was actually $441,200, not $470,800, but the contract was awarded and subsequently paid in the amount of $470,800. As a result, $29,600 was needlessly expended.

Academy Site Evaluation

We visited the Academy in May 2005, to evaluate the results of the work that was required by the contracts and grants. South-Central Region personnel did not ensure that purchased equipment was delivered, construction was completed, and that funds were disbursed for the intended purposes.

Contracts. We reviewed contracting actions for the Academy to determine whether the contractor provided the agreed upon goods and services in the 11 contracts and to determine whether the contractor's performance was adequate.

Power Generators. We identified three generators that were purchased for the Academy—two 500-kilowatt generators and a 1-megawatt generator. The total value of the three generators was $656,550.

We observed the shell of one 500-kilowatt generator which Academy officials stated was delivered in non-operating condition by the contractor. The contractor had removed the generator to have it repaired, but as of the date of this report the generator had not been returned. Photo 1 shows the shell for the 500-kilowatt generator that was undergoing repairs.

Photo 1. Shell for the 500-Kilowatt Generator Undergoing Repairs

Academy officials also stated that the Academy never received the 1-megawatt generator or the second 500-kilowatt generator. Academy officials identified to us the location in which the 1-megawatt generator was to be placed, and we determined that the generator was never delivered to that particular site. Photo 2 shows the site where the missing 1-megawatt generator was to be located.

Photo 2. Site for the Missing 1-Megawatt Generator

The Academy had to rely upon local power, rather the generators, for all of its power needs because the 500-kilowatt generator was not operable and neither the second 500-kilowatt generator, nor the 1-megawatt generator were delivered. The Academy was subsequently expanded in late 2004 to train more students. This Phase II expansion project used funds provided by the Iraq Relief and Reconstruction Fund. The expansion project contract[10] included the purchase and delivery of two generators[11] to provide for the Academy's electric needs during local power outages. It appears that the requirements for generators were duplicative in that two generators would have been sufficient rather than the five ordered, but contract documentation was insufficient for us to reach a firm conclusion.

All Terrain Vehicles. Of the 11 contracts, 1 contract called for the delivery of 6 all-terrain vehicles, valued at $108,600, to the Academy. We reviewed the contract file and could not locate any evidence that the vehicles were delivered. Academy officials stated that they never received any vehicles and were not aware that they were supposed to receive any vehicles.

Grants. We reviewed the four grants made to the Academy to determine how the grant funding was spent. The Academy was the recipient of two grants awarded in March 2004 and two grants awarded in April 2004. The four grants totaled $2,050,000 and were to help support the following projects:

[10] The expansion project contract was awarded to a different contractor than the contractor that was awarded the first 11 Academy contracts.

[11] This subsequent requirement for two generators was in addition to the original requirement for three generators that were part of the first 11 Academy contracts.

- Babylon Police Academy (two separate grants)[12]
- Babylon Police Community Awareness Project (one grant)[13]
- Babylon Police Security Tracking Project (one grant)[14]

Rescission of the Grants. Three[15] of the four grants were rescinded by the South-Central Region on May 13, 2004. The rescission letters stated that the Academy now fell under the Ministry of the Interior and thus the supporting rationale for the grants ceased. The first Academy grant in the amount of $150,000 was not rescinded even though the Academy was placed under the Ministry of the Interior. South-Central Region internal memoranda indicated that the reason for rescinding the three grants was that the funding was being used for intelligence gathering purposes. This allegation (allegedly about the grant recipient) was said to be based upon "numerous receipts" provided by the grant recipient. However, we did not find those receipts in any of the four grant files. Current and former South-Central Region personnel stated they do not remember any receipts presented by the grant recipient. We were unable to determine for what purposes the $1,450,000 was expended as we could not locate any of the alleged receipts in the grant files.

Grant Modification. The first Academy grant was modified with an increase of funding in the amount of $450,000 and totaled $600,000 after the modification. This was done 13 days after the rescission letter was signed by the contracting officer. The increase in funding was paid in full to the same individual (the grant recipient) who had been originally accused of using the funds from the other three grants for intelligence gathering purposes. In addition, a South-Central Region internal memorandum stated that the "purpose of the grants was not fulfilled and continuing the term of the grant would violate the agreement and policy within the guidelines set forth by CPA requirements." The memorandum further stated that the South-Central Region had "instituted corrective actions to return purchased equipment and supplies." We interviewed current and former South-Central Region personnel who stated there was no return of any equipment or money from this grant.

We spoke to the Dean of Instruction at the Academy who stated that the Academy never received any of the funding disbursed for the four grants. He stated he was unaware that four grants were even awarded to the Academy. The South-Central Region lost oversight of $2,050,000 in grants to the Academy because it did not require monthly reports detailing all expenditures and did not monitor the performance of the grants. The South-Central Region did not know what happened to the disbursements made for the four grants. The information obtained during this audit concerning the four grants was referred to the Assistant Inspector General for Investigations, Office of the Special Inspector General for Iraq Reconstruction.

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[12] The first of two grants for the Academy was initially awarded in the amount of $150,000 and a subsequent modification to the grant added an additional $450,000, for a total award in the amount of $600,000. The second grant was awarded in the amount of $500,000.

[13] This grant was awarded in the amount of $450,000.

[14] This grant was awarded in the amount of $500,000.

[15] The second Academy grant, the Babylon Police Community Awareness Project grant, and the Babylon Police Security Tracking Project grant were rescinded. The amount rescinded was a total of $1,450,000.

Conclusion

South-Central Region personnel, under the direction of the CPA, did not comply with applicable guidance and did not properly manage approximately $7.3 million of R3P funds provided through 11 contracts, 4 grants, and 1 grant modification used to establish and operate the Academy. Specifically, South-Central Region needlessly expended almost $1.3 million in contract funds for duplicate construction; equipment not needed, not delivered, and overpriced; and inaccuracies not identified in contract documents. Further, the South-Central Region could not account for more than $2.0 million of disbursed grant funds. Although we were able to determine that parts of the project were complete,[16] we were unable to clearly determine that all requirements were accomplished with the remaining contract funds that amounted to almost $4.0 million.

Material Internal Control Weaknesses. The audit identified material internal control weaknesses. South-Central Region personnel, under the direction of the CPA, did not comply with applicable guidance and did not properly manage approximately $7.3 million of R3P funds. Consequently, there was no assurance that fraud, waste, and abuse did not occur in the management and administration of cash and property used to establish and operate the Academy.

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

Redirected Recommendations. Since the Coalition Provisional Authority was dissolved on June 28, 2004, we are addressing the recommendations to three of the four successor organizations: the Iraq Reconstruction Management Office, the Joint Contracting Command-Iraq/Afghanistan, and the Joint Area Support Group-Central.

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.

[16] For example, classrooms and living quarters were built and mobile command posts were delivered.

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.

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

Appendix A. Scope and Methodology

In September 2004, we initiated an audit of 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

We expanded the scope of our audit to determine whether contracts and grants were properly managed by the South-Central Region at specific projects because of deficiencies identified in Office of the Special Inspector General for Iraq Reconstruction, Report No. 05-006, "Control of Cash Provided to South-Central Iraq," April 30, 2005, and at the request of the Deputy Secretary of Defense. We chose the Babylon Police Academy (the Academy) project because of the multiple contracts and grants that had been awarded to establish and operate the Academy.

The CPA South-Central Region used Rapid Regional Response Program funds to establish and operate the Academy, and it awarded 11 contracts in the amount of $5,262,015 and 4 grants and 1 grant modification in the amount of $2,050,000 for a total of $7,312,015 for this purpose.

We reviewed all the contracts and grants to establish and operate the Academy that were awarded from January through May 2004 and associated files.

We initially reviewed the Program Review Board minutes to determine whether the South Central Region contracts and grants in excess of $500,000 were approved by the Program Review Board. During the course of our audit, we observed deficiencies in the contract and grant award documentation and expanded our scope to include the entire process.

We spoke with the contracting officials available at the time of our audit regarding the status of the projects and examined documentation maintained in the contract and grant 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 and grants 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 grants. At the U.S. Regional Embassy Office, we reviewed all other aspects of the contracts and grants. In addition, we evaluated the results of the work acquired by the contracts and grants by visiting the Academy to perform an on-site evaluation.

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. 05-020, "Management of the Contracts, Grants and Micro-Purchases Used To Rehabilitate the Karbala Library," October 26, 2005

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

SIGIR Report No. 05-019, "Attestation Engagement Concerning the Award of Non-Competitive Contract DACA63-03-D005 to Kellogg, Brown, and Root Services, Inc.," September 30, 2005

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

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

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

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 and grants is:

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 and grants.

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."

A grant was defined as "A written instrument that transfers Iraqi Funds from the CPA or Coalition Forces to a recipient grantee, in order to carry out a program or project that directly benefits the Iraqi people or assisting in the recovery of Iraq."

Department of Defense 3210.6-R. According to Department of Defense 3210.6-R, "DoD [Department of Defense] Grant and Agreement Regulations," April 13, 1998, a grant is:

> A legal instrument which, consistent with 31 U.S.C. 6304, is used to enter into a relationship:
>
> (a) The principal purpose of which is to transfer a thing of value to the recipient to carry out a public purpose of support or stimulation authorized by a law of the United States, rather than to acquired property or services for the Department of Defense's direct benefit or use.

(b) In which substantial involvement is not expected between the Department of Defense and the recipient when carrying out the activity contemplated by the grant.

Appendix C. Contracts Awarded to Establish and Operate the Babylon Police Academy

The South-Central Region awarded 11 contracts, in support of the Academy, for the purchase of equipment and services. The value of the 11 contracts amounted to $5,262,015. The amount expended for the 11 contracts amounted to $5,262,015.

Contracts Awarded to Establish and Operate the Babylon Police Academy			
Contract Number	**Date the Contract was Signed**	**Contract Amount**	**Scope of Work**
DABV01-04-M-8016	January 4, 2004	$491,000	Renovate the old Ba'ath Party Building for use by the Academy
DABV01-04-M-8064	January 20, 2004	$470,800	Construct eight classrooms and provide furniture
DABV01-04-M-8069	January 24, 2004	$475,000	Security walls for the compound
DABV01-04-M-8070	January 24, 2004	$495,000	Construct two new conference rooms and install a waste water system
DABV01-04-M-8089	January 31, 2004	$455,000	Seven mobile command posts
DABV01-04-M-8091	January 31, 2004	$498,600	Six mobile command posts and six all-terrain vehicles
DABV01-04-M-8092	February 2, 2004	$497,530	Conference and office structures and one 500 kilowatt generator
DABV01-04-M-8093	February 2, 2004	$498,235	Office and living structures and install a waste water system
DABV01-04-M-8167	February 20, 2004	$452,800	Demolition of two structures
DABV01-04-M-8265	March 15, 2004	$448,500	Security upgrades
DABV01-04-M-8326	March 25, 2004	$479,550	One 500 kilowatt and one 1 megawatt generators
Total Contracts Amount		**$5,262,015**	

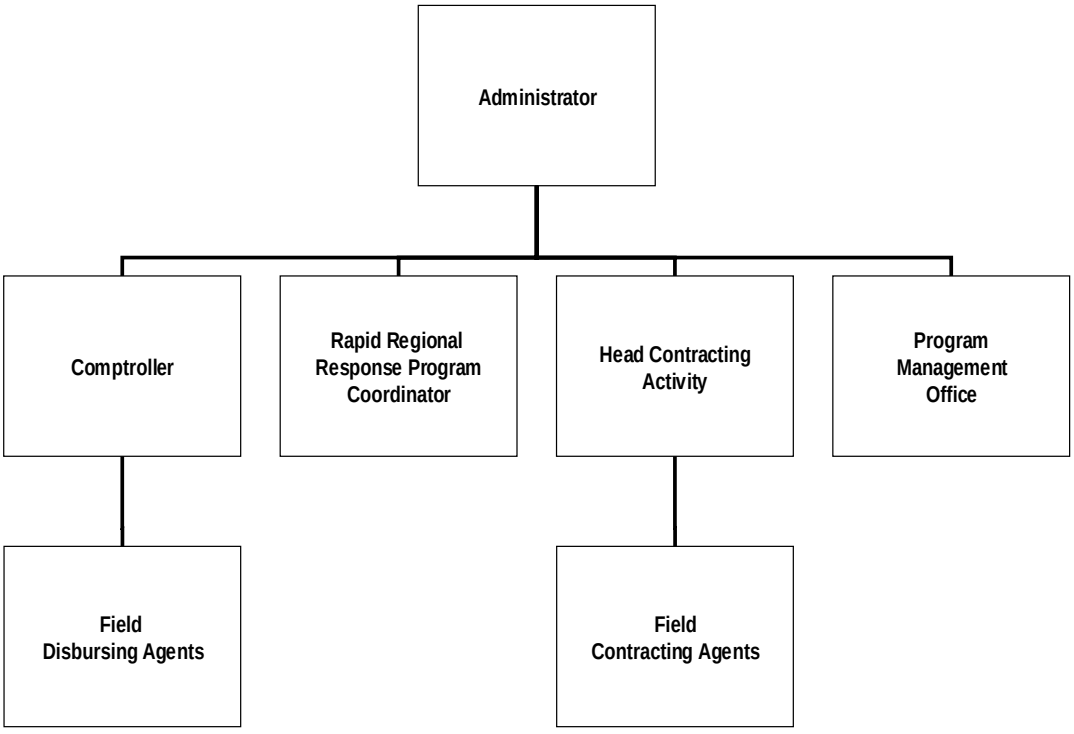
Appendix D. Grants Awarded to Establish and Operate the Babylon Police Academy

The South-Central Region awarded four grants and one grant modification to provide operating support for the Academy, establish training of elite police forces and counter-terror teams, and establish a criminal security tracking program. The value of the four grants and one grant modification amounted to $2,050,000. The amount expended for the four grants and one grant modification amounted to $2,050,000.

Grants Awarded to Establish and Operate the Babylon Police Academy			
Grant Number	**Date the Grant was Signed**	**Grant Amount**	**Purpose of Grant**
DABV01-04-G-8007	March 15, 2004	$150,000	Operating support for the Academy
DABV01-04-G-8007 P001 (modification)	May 26, 2004	$450,000	Operating support for the Academy
DABV01-04-G-8008	March 15, 2004	$500,000	Operating support for the Academy
DABV01-04-G-8013	Unsigned	$450,000	Community awareness program
DABV01-04-G-8014	Unsigned	$500,000	Security tracking program
Total Grants Amount		**$2,050,000**	

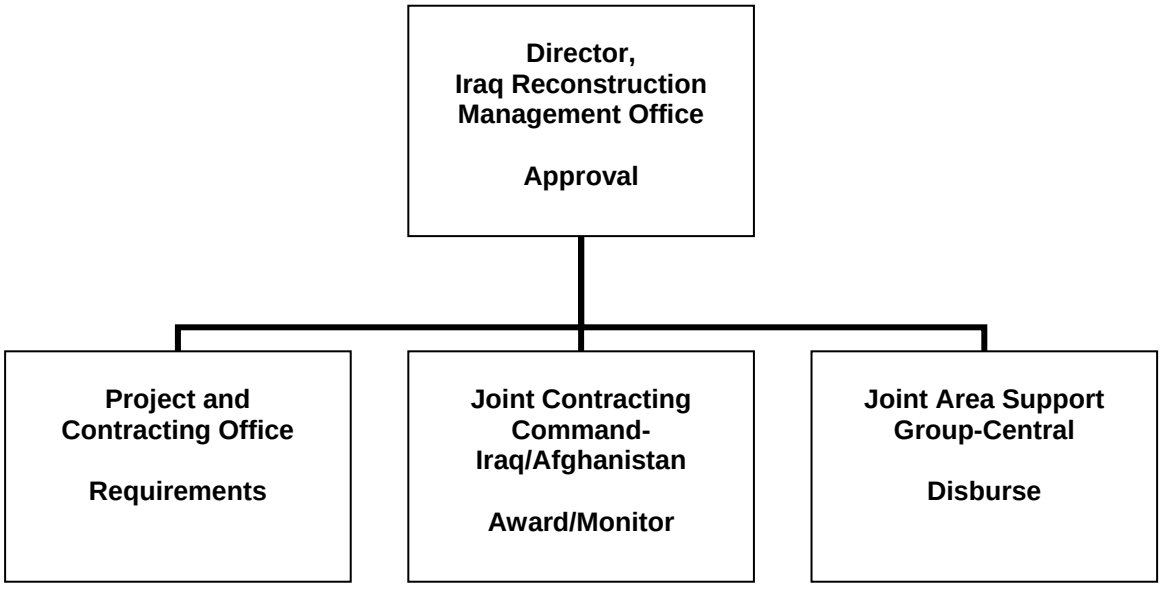
Appendix E. Coalition Provisional Authority Organizational Responsibilities for Contracts and Grants

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 and grants until it ceased to exist on June 28, 2004.



Appendix F. Present U.S. Government Organizational Responsibilities for Contracts and Grants

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



Appendix G. Acronyms

CPA	Coalition Provisional Authority
CPA-IG	Coalition Provisional Authority Office of the Inspector General
DoD	Department of Defense
DFI	Development Fund for Iraq
PRB	Program Review Board
RPC	Regional Program Coordinator
R3P	Rapid Regional Response Program
SIGIR	Special Inspector General for Iraq Reconstruction

Appendix H. 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

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
    Commander, 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 I. Audit Team Members

The Office of the Assistant Inspector General for Auditing, Office of the Special Inspector General for Iraq Reconstruction, prepared this audit report. The Office of the Special Inspector General for Iraq Reconstruction staff members who contributed to the report include:

Angelina Johnston

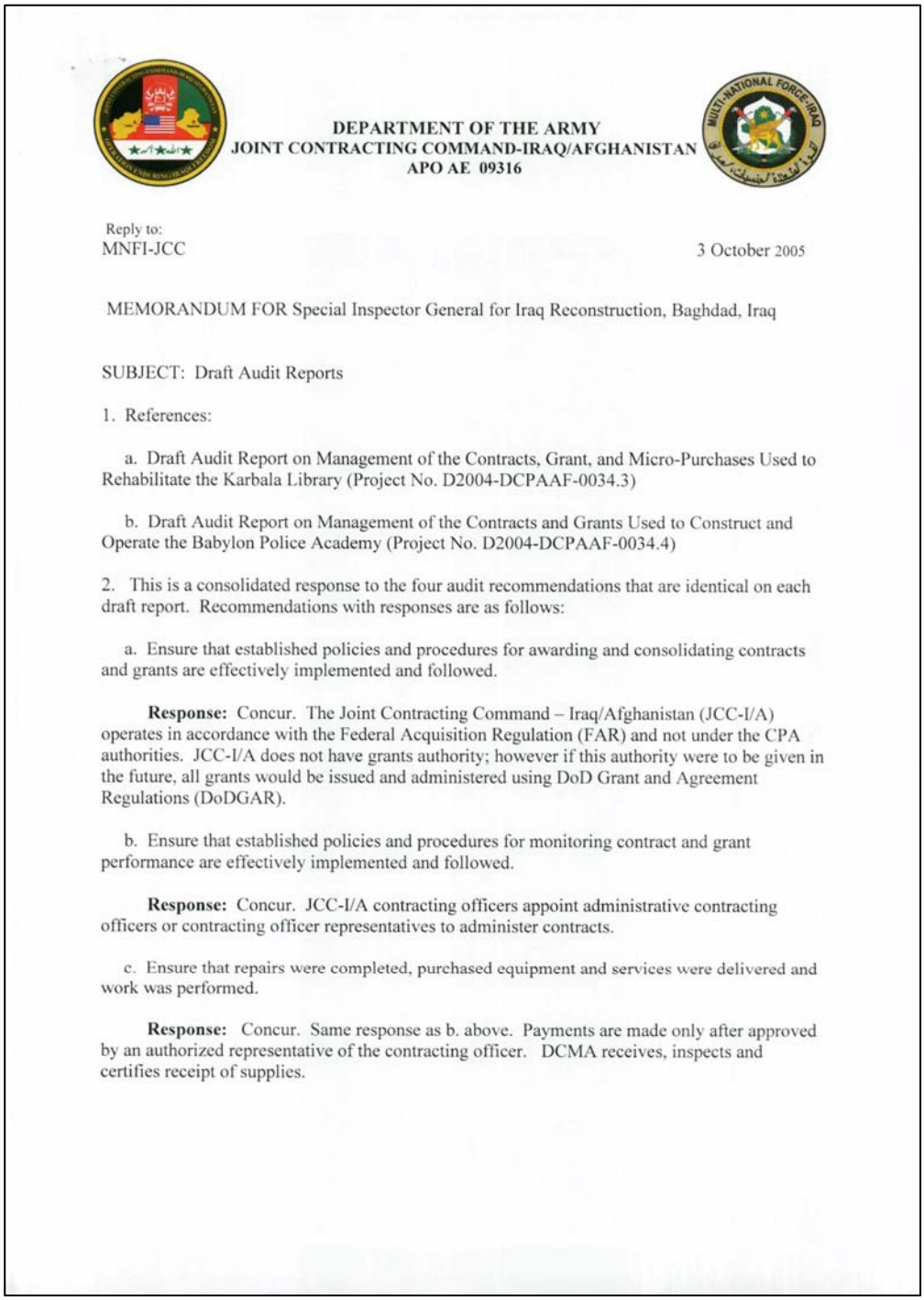
Robert Murrell

Kevin O'Connor

William Shimp

William Whitehead

Management Comments
Commanding General, Joint Contracting Command-Iraq/Afghanistan



DEPARTMENT OF THE ARMY
JOINT CONTRACTING COMMAND-IRAQ/AFGHANISTAN
APO AE 09316

Reply to:
MNFI-JCC

3 October 2005

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

SUBJECT: Draft Audit Reports

1. References:

a. Draft Audit Report on Management of the Contracts, Grant, and Micro-Purchases Used to Rehabilitate the Karbala Library (Project No. D2004-DCPAAF-0034.3)

b. Draft Audit Report on Management of the Contracts and Grants Used to Construct and Operate the Babylon Police Academy (Project No. D2004-DCPAAF-0034.4)

2. This is a consolidated response to the four audit recommendations that are identical on each draft report. Recommendations with responses are as follows:

a. Ensure that established policies and procedures for awarding and consolidating contracts and grants are effectively implemented and followed.

Response: Concur. The Joint Contracting Command – Iraq/Afghanistan (JCC-I/A) operates in accordance with the Federal Acquisition Regulation (FAR) and not under the CPA authorities. JCC-I/A does not have grants authority; however if this authority were to be given in the future, all grants would be issued and administered using DoD Grant and Agreement Regulations (DoDGAR).

b. Ensure that established policies and procedures for monitoring contract and grant performance are effectively implemented and followed.

Response: Concur. JCC-I/A contracting officers appoint administrative contracting officers or contracting officer representatives to administer contracts.

c. Ensure that repairs were completed, purchased equipment and services were delivered and work was performed.

Response: Concur. Same response as b. above. Payments are made only after approved by an authorized representative of the contracting officer. DCMA receives, inspects and certifies receipt of supplies.

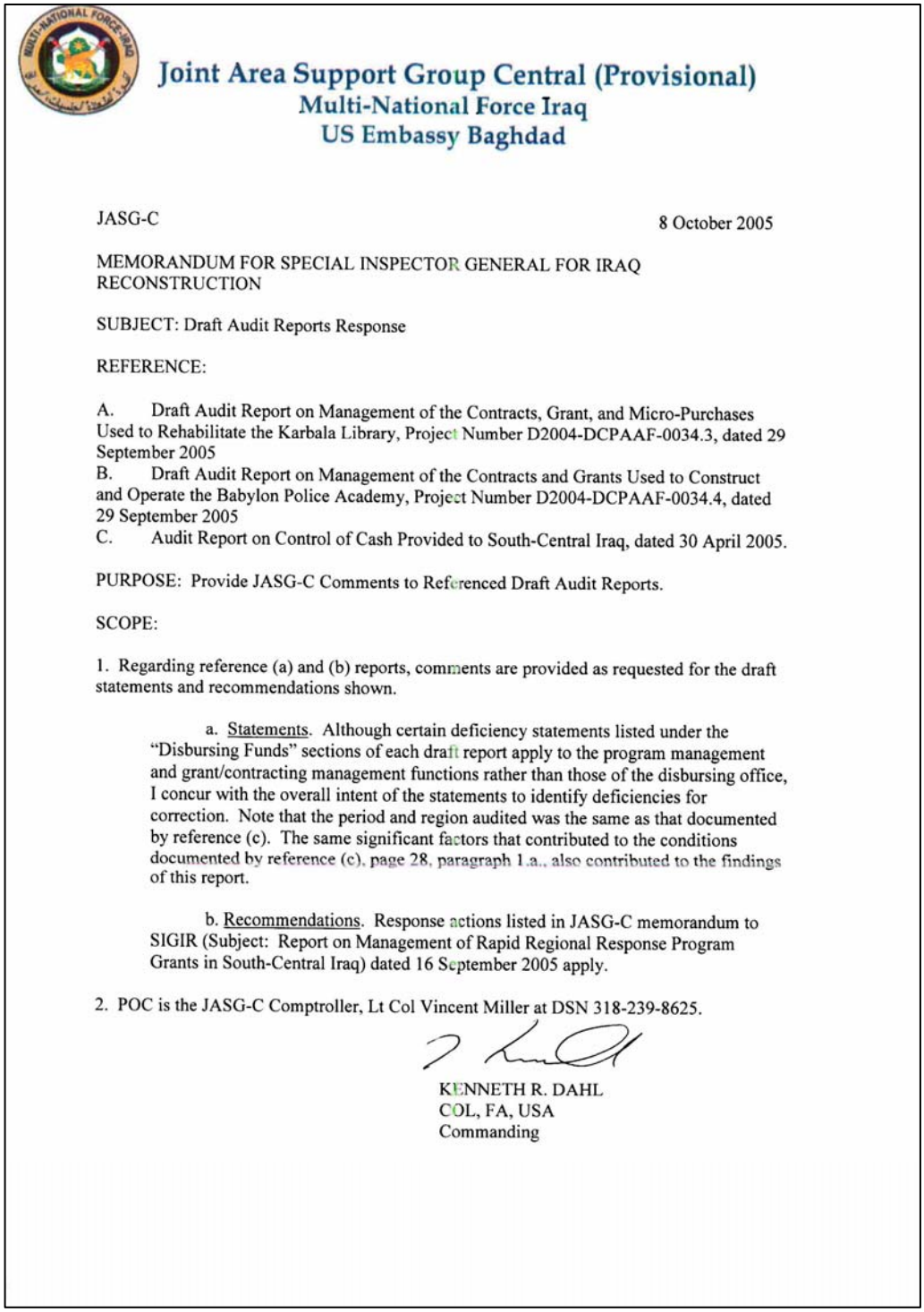
d. Maintain complete files to support transactions made for contracts and grants.

Response: Concur.

3. Point of contact is Ruth Anne Ijames, 703-544-6979.

JOHN M. URIAS
MG, USA
Commander, Joint Contracting Office
Iraq/Afghanistan

Management Comments
Commander, Joint Area Support Group Central



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

JASG-C

8 October 2005

MEMORANDUM FOR SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

SUBJECT: Draft Audit Reports Response

REFERENCE:

A. Draft Audit Report on Management of the Contracts, Grant, and Micro-Purchases Used to Rehabilitate the Karbala Library, Project Number D2004-DCPAAF-0034.3, dated 29 September 2005
B. Draft Audit Report on Management of the Contracts and Grants Used to Construct and Operate the Babylon Police Academy, Project Number D2004-DCPAAF-0034.4, dated 29 September 2005
C. Audit Report on Control of Cash Provided to South-Central Iraq, dated 30 April 2005.

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

SCOPE:

1. Regarding reference (a) and (b) reports, comments are provided as requested for the draft statements and recommendations shown.

a. Statements. Although certain deficiency statements listed under the "Disbursing Funds" sections of each draft report apply to the program management and grant/contracting management functions rather than those of the disbursing office, I concur with the overall intent of the statements to identify deficiencies for correction. Note that the period and region audited was the same as that documented by reference (c). The same significant factors that contributed to the conditions documented by reference (c), page 28, paragraph 1.a., also contributed to the findings of this report.

b. Recommendations. Response actions listed in JASG-C memorandum to SIGIR (Subject: Report on Management of Rapid Regional Response Program Grants in South-Central Iraq) dated 16 September 2005 apply.

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

KENNETH R. DAHL
COL, FA, USA
Commanding