

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, perched on a shield with vertical stripes. The eagle is surrounded by a wreath. The text "INSPECTOR GENERAL" is written in English and Arabic at the top, and "RECONSTRUCTION" is written at the bottom. The Arabic text "مفتش العام" is also visible.

FOLLOW-UP ON
RECOMMENDATIONS MADE IN
SIGIR AUDIT REPORTS RELATED
TO MANAGEMENT AND CONTROL
OF THE DEVELOPMENT FUND FOR
IRAQ

SIGIR-06-005
APRIL 28, 2006



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

April 28, 2006

MEMORANDUM FOR U.S. AMBASSADOR TO IRAQ
COMMANDING GENERAL, JOINT CONTRACTING
COMMAND-IRAQ/AFGHANISTAN
COMMANDER, JOINT AREA SUPPORT GROUP-
CENTRAL

SUBJECT: Audit Report on the Follow-up on Recommendations Made in SIGIR Audit Reports Related to Management and Control of the Development Fund for Iraq (SIGIR-06-005)

We are providing this report for your information and use. We performed the audit in accordance with our statutory duties contained in the Inspector General Act of 1978, as amended, that requires us to determine by follow-up and report semiannually on actions planned or taken to implement the recommendations made in our reports. We also performed this review, in part, at the request of the Development Fund for Iraq administrator located in Baghdad, Iraq. This report discusses our assessment of the actions taken to address the recommendations made in six reports starting in April 2005.

This report does not contain recommendations; therefore no written response to this report is required. We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Joseph T. McDermott at (703) 343-7926, or by email at joseph.mcdermott@iraq.centcom.mil; or Mr. Glenn Furbish by email at (703) 343-9254, or by email at glenn.furbish@iraq.centcom.mil or at. For the report distribution, see Appendix D.

Stuart W. Bowen, Jr.
Inspector General

cc: Distribution

Special Inspector General for Iraq Reconstruction

SIGIR-06-005

April 28, 2006

Follow-up on Recommendations Made in SIGIR Audit Reports Related to Management and Control of the Development Fund for Iraq

Executive Summary

Introduction. This report follows up on recommendations made in a series of Special Inspector General for Iraq Reconstruction (SIGIR) reports addressing the use of the Development Fund for Iraq (DFI) for relief and reconstruction activities. These recommendations were made to the U.S. Ambassador to Iraq, the Joint Area Support Group-Central (JASG-C), and the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A). Overall, these reports determined that improvements could be made in overall control and accountability for contracts, grants, and cash transactions using the DFI and we made recommendations for such improvements. This report follows up on those recommendations to determine if appropriate corrective actions were taken to address the deficiencies.

Objective. The objective of this review was to determine whether the U.S. Ambassador to Iraq, JASG-C, and JCC-I/A have developed and implemented action plans to correct the deficiencies identified by SIGIR in these reports:

- Control of Cash Provided to South-Central Iraq (SIGIR-05-006, April 30, 2005)
- Administration of Contracts Funded by the Development Fund for Iraq (SIGIR-05-008, April 30, 2005)
- Management of Rapid Regional Response Program Grants in South-Central Iraq (SIGIR-05-015, October 25, 2005)
- Management of the Contracts and Grants Used To Construct and Operate the Babylon Police Academy (SIGIR-05-016, October 26, 2005)
- Management of the Contracts, Grant, and Micro-Purchases Used to Rehabilitate the Karbala Library (SIGIR-05-020, October 26, 2005)
- Management of Rapid Regional Response Program Contracts in South-Central Iraq (SIGIR-05-023, January 23, 2006)

Results. A total of 40 recommendations were made in the six SIGIR reports in our review that addressed the use of the DFI for contracts, grants, and cash transactions. There were 15 recommendations made to the Commander, JASG-C; 19 to the Commanding General, JCC-I/A; and 6 to the U.S. Ambassador to Iraq.¹

¹ Three of the six recommendations were made to the U.S. Ambassador to Iraq and the Commander, Multi-National Force-Iraq.

Our review identified these actions taken in response to the recommendations:

- **JASG-C.** The Commander, JASG-C, implemented appropriate actions to close 8 recommendations from the above reports and has actions underway to address the remaining 7 recommendations. SIGIR recommended that JASG-C establish special action teams to review and reconcile DFI accounts and ensure that all transactions are appropriately supported and documented. JASG-C has contracted for these services and estimates the contractor will complete all tasks by April 30, 2006.²
- **JCC-I/A.** The Commanding General, JCC-I/A, implemented appropriate action to close 13 recommendations and is in the process of implementing a new review process that should address the remaining 6 recommendations. The new reviews, known as Procurement Management Reviews, will provide enhanced monitoring of contracts. JCC-I/A anticipates starting these reviews in the spring of 2006. JCC-I/A is also developing a database of DFI contracts and will be utilizing the JASG-C contractor efforts to assist in completing this database.
- **U.S. Ambassador to Iraq.** The U.S. Ambassador implemented appropriate action to close 2 recommendations and is coordinating actions with JCC-I/A and JASG-C to resolve the issue in the 4 remaining recommendations.

We consider the actions taken or underway to be responsive to our recommendations and as a result we make no further recommendations. However, we do plan to follow-up on the special action team's work at the completion of the contract. For a summary of the six prior reports and the actions taken or underway for each recommendation, see Appendix B.

² At the time the draft of this report was published, there was a modification to this contract to extend it for a short period to address an expanded statement of work. This included automating the contract file documentation. The extension also addressed excusable delays as a result of Iraqi government holidays.

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Introduction

Background

United Nations Security Council Resolution 1483, dated May 22, 2003, assigned responsibility for managing the Development Fund for Iraq (DFI) to the Coalition Provisional Authority (CPA). Resolution 1483 noted that DFI funds should be disbursed at the direction of the CPA, in consultation with the Iraqi interim administration. It also required that the DFI be used in a transparent manner to meet the humanitarian needs of the Iraqi people; the economic reconstruction and repair of Iraq's infrastructure; the continued disarmament of Iraq; 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 to the relief and reconstruction efforts for Iraq.

During the CPA administration of Iraq, the CPA Comptroller managed DFI funds. However, when the CPA was disestablished in June 2004, responsibility for administering DFI funds shifted to the U.S. Army's Joint Area Support Group-Central (JASG-C). The CPA Comptroller was realigned as the JASG-C Comptroller, who assumed responsibility for the DFI and continued to perform the same duties for that portion of the DFI still being administered by the U.S. Government.

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

CPA Memorandum Number 4, "Contract and Grant Procedures Applicable to Vested and Seized Iraqi Property and the Developmental Fund for Iraq" dated August 19, 2003, establishes procedures applicable to the execution of contracts and grants using Iraqi Funds. The memo directs 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 memo also states:

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.

The appendices to the 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 DFI.

The United States used DFI cash to help fund the Commander's Emergency Response Program and the Rapid Regional Response Program. The Commander's Emergency Response Program enables U.S. military commanders in Iraq to respond to urgent humanitarian relief and reconstruction requirements of the local population by providing funds for repairs and condolence payments after combat operations; providing equipment such as electrical generators to support critical infrastructure, and large scale civic cleanup and construction activities to employ as many Iraqis as possible. The Rapid Regional Response Program was conceived as a civilian equivalent of the Commander's Emergency Response Program fund intended to create local jobs, support local industries, and stimulate the economy.

Military regulations and guidance provide additional requirements for managing cash funds. Department of Defense 7000.14-R Financial Management Regulation Volume 5 establishes disbursing policy principles, standards, responsibilities, procedures, practices, and liability for disbursing officers, certifying officers and accountable officials throughout the Department. The military also issued an instruction titled *Guidance on the Use of the Development Fund for Iraq In Support of the Commander's Emergency Response Program*. The guidance applied to all parties involved in receiving, disbursing, accounting for, securing, and reporting for the DFI. It designates the CPA Comptroller as the DFI Account Manager with the responsibilities of overall financial and program accountability for the use of DFI monies in the Commander's Emergency Response Program and the Rapid Regional Response Program. The CPA Comptroller's responsibilities included accounting and reconciling DFI monies that were used in the Commander's Emergency Response Fund and appointing Division Level Agents in addition to his other duty as the appropriated funds manager. As noted earlier, the JASG-C Comptroller assumed the role of the DFI Account Manager when the CPA was disestablished.

The Division Level Agents were responsible for receiving and disbursing DFI cash to support the Commander's Emergency Response Program and the Rapid Regional Response Program. The Division Level Agents were required to maintain cash accountability using the Statement of Agent Officer's Account, to maintain an accounting ledger of all cash received and payments processed, to reconcile and clear with the DFI Account Manager's office at least monthly, and to advance DFI cash to Field Paying Agents. The Field Paying Agents were responsible for issuing cash payments to designated entities (individuals and/or businesses) and for clearing their accounts with Division Level Agents. The Comptroller's (DFI Account Manager's) office was required to maintain an accounting ledger of cash accountability that included evidence of cash issued and receipts returned. The Comptroller's (DFI Account Manager's) office was to advance cash to the appointed Division Level Agents using the DD Form 1081, "Statement of Agent Officer's Account."

Objective

The overall audit objective was to determine whether the U.S. Ambassador to Iraq, the Joint Contracting Command-Iraq/Afghanistan, and the Joint Area Support Group-Central have developed and implemented action plans to correct the deficiencies identified by the Special Inspector General for Iraq Reconstruction in these reports:

- Control of Cash Provided to South-Central Iraq (SIGIR 05-006, April 30, 2005)
- Administration of Contracts Funded by the Development Fund for Iraq (SIGIR 05-008, April 30, 2005)
- Management of Rapid Regional Response Program Grants in South-Central Iraq (SIGIR 05-015, October 25, 2005)
- Management of the Contracts and Grants Used To Construct and Operate the Babylon Police Academy (SIGIR 05-016, October 26, 2005)
- Management of the Contracts, Grant, and Micro-Purchases Used to Rehabilitate the Karbala Library (SIGIR 05-020, October 26, 2005)
- Management of Rapid Regional Response Program Contracts in South-Central Iraq (SIGIR 05-023, January 23, 2006)

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 C. For a list of the audit team members, see Appendix E.

Follow-up on Recommendations

This report follows up on 40 recommendations from 6 SIGIR audit reports addressing the use of the Development Fund for Iraq for relief and reconstruction activities.

Specifically, this report discusses 15 recommendations made to the Commander, Joint Area Support Group-Central (JASG-C); 19 recommendations made to the Commanding General, Joint Contracting Command-Iraq/Afghanistan (JCC-I/A), and 6 recommendations made to the U.S. Ambassador to Iraq.

Joint Area Support Group-Central (JASG-C). The Commander, JASG-C, took appropriate actions to close 8 recommendations from the reports and has actions underway to address the remaining 7 recommendations. One of the key recommendations made was for the JASG-C to establish special action teams to review and reconcile all JASG-C DFI accounts and ensure all transactions are appropriately supported and documented. Some of the significant actions taken by JASG-C to resolve the issues identified in our reports include the following:

- JASG-C has contracted with a private firm to review and reconcile its DFI accounts. These reviews will establish the amount of cash provided to each Division Level Agent and Field Paying Agent, and its disposition. Statements of Accountability (DD Form 1081s) are prepared each time there is a turn-in or settlement of account occurs. The DD Form 1081s will be reviewed for errors, omissions, inaccuracies, and completeness along with receipts presented by each Division Level Agent and Field Paying Agent. The contractor is expected to complete all tasks by April 30, 2006.³
- JASG-C has revised its checklist and Appointment Letter for Division Level Agents. This should provide greater assurance that all required documentation is submitted in reconciliation packages and that the Division Level Agents have complied with all established policies.
- JASG-C has added pecuniary liability language to its Appointment Letters for Division Level Agents. This makes Division Level Agents personally liable for errors in their accounts.

³ At the time the draft of this report was published, there was a modification to this contract to extend it for a short period to address an expanded statement of work. This included automating the contract file documentation. The extension also addressed excusable delays as a result of Iraqi government holidays.

Table 1: Status of Recommendations made to JASG-C

SIGIR REPORT NUMBER.	TOTAL	CLOSED	OPEN
05-006 (Cash)	8	4	4
05-008 (Contracts)	1	1	0
05-015 (Grants)	3	2	1
05-016 (Grants & Contracts)	1	0	1
05-020 (Cash & Contracts)	1	0	1
05-023 (Contracts)	1	1	0
Total	15	8	7

Joint Contracting Command - Iraq/Afghanistan (JCC-I/A). The Commanding General, JCC-I/A, took appropriate action to close 13 recommendations and is in the process of implementing a new review process that should address the remaining 6 recommendations. The new reviews, known as Procurement Management Reviews, should provide enhanced monitoring of contracts. JCC-I/A anticipates starting these reviews in the spring of 2006. Some of the significant actions taken by JCC-I/A to resolve the issues identified in our reports include the following:

- JCC-I/A enhanced its contract award process to provide a more thorough inspection and review. Contracts over \$1 million in value are reviewed by a Contract Specialist, a Contracting Officer, the Chief of Policy, and the legal office. Once the contract is sourced, the process is repeated before the contract is signed. Contracts less than \$1 million go through a less intensive review, but are reviewed by both a Contract Specialist and a Contracting Officer. The contracts are also spot checked by the Chief of Policy. JCC-I/A has also established a training program on source selection, and the Contracting Officer reviews the solicitation on all contracts during the awarding process. These actions closed 7 recommendations.
- JCC-I/A established a database of DFI contracts called the Rebuilding of Iraq database. The Chief of Policy currently reviews the “Rebuilding of Iraq” database every two weeks.
- JCC-I/A established policies and procedures to record the receipt and disposal of all purchased property. Contracting Officer Representatives now verify purchases and work performed, and contracts are following Department of Defense and Army regulations. Contractors are being held responsible for adhering to Federal Acquisition Regulations dealing with construction inspection and property clauses, and are required to establish inventory systems, which are

audited on a regular basis by the JCC-I/A Property Sector. Finally, when a contract is expiring or about to be terminated, the contractor is given disposition instructions for government property and a final inventory is conducted.

- Six recommendations directing JCC-I/A to establish policies and procedures for monitoring contracts are pending. According to the Chief of Policy, JCC-I/A will begin conducting Procurement Management Reviews during the spring of 2006. The Procurement Management Reviews are periodic reviews of the contracts from each JCC-I/A Sector. When implemented, the Procurement Management Review should address the 6 remaining recommendations.
- We considered 6 recommendations related to grants closed because JCC-I/A has not awarded and, at this time, does not administer any DFI grants. The grants in question were made by the CPA Administrator. The CPA was disestablished in June 2004. JCC-I/A officials told us that they would follow the appropriate U.S. Department of Defense and Federal Acquisition Regulations if any grants were to be awarded in the future.

Table 2: Status of Recommendations made to JCC-I/A

SIGIR REPORT NUMBER.	TOTAL	CLOSED	OPEN
05-008 (Contracts)	2	0	2
05-015 (Grants)	6	6	0
05-016 (Grants & Contracts)	5	3	2
05-020 (Cash & Contracts)	5	3	2
05-023 (Contracts)	1	1	0
Total	19	13	6

U.S. Ambassador to Iraq. The U.S. Ambassador took appropriate action to close 2 recommendations, and is coordinating actions with JCC-I/A and JASG-C to resolve the issues in the 4 remaining recommendations. The significant actions taken by the U.S. Ambassador to Iraq to resolve the issues identified in our reports include the following:

- We made recommendations to the Ambassador to resolve the recovery or collection of over payments and/or duplicative payments of about \$3.2 million and another \$154,000 unspent in a bank account. We did this because the Ambassador has overall responsibility for relief and reconstruction in Iraq. The Embassy in Baghdad responded to our recommendation that it does not have legal standing to recover funds. However, the U.S. Ambassador has stated that he is working with the Commanding General of the Multi-National Force-Iraq to recover overpayments. JCC-I/A and JASG-C were working together to recover the DFI funds.

Table 3: Status of Recommendations made to the U.S. Ambassador to Iraq

SIGIR REPORT NUMBER.	TOTAL	CLOSED	OPEN
05-008 (Contracts)	3	2	1
05-015 (Grants)	1	0	1
05-020 (Cash & Contracts)	1	0	1
05-023 (Contracts)	1	0	1
Total	6	2	4

Conclusion

Based upon our review, we conclude that the actions taken by each of the responsible organizations to date and the planned actions are responsive to our recommendations to improve controls and management of DFI.

Appendix A: Scope and Methodology

In January 2006, we initiated this audit (Project No. 6002), to determine if appropriate corrective actions were taken to address the recommendations made in six SIGIR audit reports related to deficiencies with the management and control of the Development Fund for Iraq (DFI). We conducted interviews with agency officials and reviewed documentation to support the implementation of corrective actions taken or underway. For a discussion of the corrective actions taken, see Appendix B.

We performed audit work at several locations to review applicable documentation and procedures. At the JASG-C Comptroller's Office, located in the Republican Palace, Baghdad, Iraq, we met with the JASG-C Comptroller (who also serves as the DFI Account Manager and DFI Disbursing Officer) and the DFI Manager to obtain information regarding changes made in response to the recommendations. Supporting documentation reviewed included:

- Appointment Letters for paying agents
- "Statement of Agent Officer's Account," DD Form 1081s (May 75) issued for all Division Level Agents who received cash from the JASG-C Comptroller's Office since May 2005
- a judgmental sample of payment packages for recent Division Level Agents to determine whether the procedures established met the goals of the recommendations and provided the supporting documentation as required in the Appointment Letter, and whether the payment packages supported the amount of cash funding
- the contract that was awarded to the vendor who was engaged to address recommendations which were to be completed by a special action team. The recommendation for a special action team was to provide a full and accurate accounting of the management of the DFI funds.

At the JCC-I/A office, located in the Project and Contracting Office Annex, Baghdad, Iraq, we interviewed the Chief of Policy to obtain information regarding policy changes made in response to the recommendations. In addition, we reviewed contract clauses that applied to contract administration.

Supporting documentation was obtained in order to verify that the indicated policies had been changed. Supporting documentation reviewed included administrative contract checklists.

We also spoke with the Director of JCC-I/A, to discuss improvements in the grants administration process and reviewed administrative contract checklists.

We met with a representative of the Chief of Mission (COM), the U.S. Ambassador to Iraq, who was provided with copies of the reports and a list of the six recommendations that were addressed to the Office of the U.S. Ambassador to Iraq. We received correspondence from the Ambassador pledging active participation and coordination of remedial action with JCC-I/A and JASG-C.

We reviewed the following documents issued by the Coalition Provisional Authority (CPA):

- CPA Regulation Number 1, “Coalition Provisional Authority,” May 16, 2003
- 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
- CPA Memorandum Number 15, “Amendment to Coalition Provisional Authority Memorandum Number 4,” June 18, 2004

We also reviewed:

- United Nations Security Council Resolution 1483, Adopted May 22, 2003
- DoD 7000.14-R, Federal Management Regulation, Volume 51, Disbursing Policy and Procedures, August 1999 (with changes through June 2005)

We conducted this follow-up audit from January 2006 through March 2006, 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) issued six reports addressing controls over cash disbursements in southern Iraq. Reports issued by SIGIR can be accessed on its website <http://www.sigir.mil>. The reports are:

- Control of Cash Provided to South-Central Iraq (SIGIR 05-006, April 30, 2005)
- Administration of Contracts Funded by the Development Fund for Iraq (SIGIR 05-008, April 30, 2005)
- Management of Rapid Regional Response Program Grants in South-Central Iraq (SIGIR 05-015, October 25, 2005)
- Management of the Contracts and Grants Used To Construct and Operate the Babylon Police Academy (SIGIR 05-016, October 26, 2005)
- Management of the Contracts, Grant, and Micro-Purchases Used to Rehabilitate the Karbala Library (SIGIR 05-020, October 26, 2005)
- Management of Rapid Regional Response Program Contracts in South-Central Iraq (SIGIR 05-023, January 23, 2006)

Appendix B. Summary of Recommendations and Corrective Actions

This audit report follows up on 40 recommendations made in 6 prior SIGIR reports addressing controls over DFI cash disbursements. This report discusses 19 recommendations made to the Commanding General, JCC-I/A; 15 recommendations to the Commander, JASG-C; and 6 recommendations directed to the U.S. Ambassador to Iraq – The Chief of Mission (COM). The six prior reports and their recommendation status are discussed below.

Table 4: Follow-up Status of Recommendations

Report No.	Total	JCC-I/A open	JCC-I/A closed	JASG-C open	JASG-C closed	COM ¹ open	COM closed
05-006	8	0	0	4	4	0	0
05-008	6	2	0	0	1	1	2
05-015	10	0	6	1	2	1	0
05-016	6	2	3	1	0	0	0
05-020	7	2	3	1	0	1	0
05-023	3	0	1	0	1	1	0
Total	40	6	13	7	8	4	2

¹ Chief of Mission (COM) is the Ambassador to Iraq.

Control of Cash Provided to South-Central Iraq (SIGIR 05-006, April 30, 2005)

This audit report discusses control of DFI cash disbursements issued by the JASG-C Comptroller to Division Level Agents and Field Paying Agents located in the South-Central Region, Iraq.

The audit found that the DFI Account Manager's office did not maintain full control and accountability for approximately \$119.9 million of DFI cash issued to South-Central Region paying agents in support of Rapid Regional Response Program projects. The processes employed by the DFI Account Manager's office for completing, controlling, and maintaining accurate records for the issuance of cash to paying agents in the South-Central Region and for clearing those agents' cash account balances were flawed.

Specifically, the DFI Account Manager did not:

- adhere to the clearing process for receipts of cash disbursements to ensure that cash accountability records were complete, accurate, and reconciled
- have required cash accountability documentation to identify the total amount of money provided to paying agents
- properly document transfers of cash between paying agents
- review required documentation and clear the cash accounts of all Division Level Agents every 30 days and instruct those agents to review required documentation and clear the cash accounts of Field Paying Agents every 30 days
- review required documentation in a timely manner
- issue appointment letters to all individuals to whom cash was entrusted

As a result, the DFI Account Manager and paying agents in the South-Central Region did not fully comply with applicable guidance and did not properly control, account for, and turn-in DFI cash assets. We further concluded that the South-Central Region paying agents and the DFI Account Manager cannot properly account for or support over \$96.6 million in cash and receipts.

The report made the following recommendations:

Recommendation 05-006 (1). The JASG-C Commander should direct the DFI Account Manager to scrutinize, verify, and investigate Statements of Agent Officer's Account maintained to identify statement errors, omissions, inaccuracies, and incompleteness.

Action taken. In September 2005, the JASG-C Comptroller contracted for the recommended services. The Comptroller estimates the contractor will complete all tasks by April 30, 2006. **Status: Open, corrective action underway.**

Recommendation 05-006 (2). The JASG-C Commander should direct the DFI Account Manager to ensure that the Statement of Agent Officer's Account documentation is used for recording all transfers of cash between agents and the total amount of money provided to Division Level Agents.

Action taken. The JASG-C Comptroller reports that he has taken a number of actions to include maintaining and completing accurate Statements of Agent Officer's Account (DD Form 1081) for all Division Level Agents entrusted with DFI funds. All Division Level Agents are currently maintaining DD Form 1081s when advancing funds to Field Paying Agents, as well as requiring Field Paying Agents to reconcile their accounts every 30 days. The JASG-C Comptroller also reports that he does not entrust funds to any persons unless they have been properly appointed as a Division Level Agent by the JASG-C Comptroller. Finally, Division Level Agents are provided with both instruction and training regarding their responsibilities to ensure that they are aware of their authority to issue and control funds. All Division Level Agents are required to provide proper documentation of any cash advances/returns of Paying Agents upon reconciliation with the JASG-C Deputy Disbursing Officer. We randomly reviewed several recent payment packages and found one payment package with a missing DD Form 1081. Upon further review we obtained the missing document and the account was reconciled to the authorized records. **Status: Closed.**

Recommendation 05-006 (3). The JASG-C Commander should direct the DFI Account Manager to initiate actions to resolve instances of noncompliance.

Action taken. The JASG-C Comptroller reports that he has established a thorough receipt clearing process to include the use of a newly implemented checklist for the Division Level Agent/Paying Agents and verification by the DFI Manager so that Division Level Agents can properly reconcile and clear their accountability. This disbursement checklist is required to be presented by the Division Level Agent for every voucher submitted to properly document and account for each disbursement of funds. However, we found two payment packages missing receipts. We then tested additional reconciliation records and found only one checklist was missing from these records. Copies of missing documentation were provided by JASG-C. **Status: Closed.**

Recommendation 05-006 (4). The JASG-C Commander should direct the DFI Account Manager to direct Field Paying Agents to present required documentation to the Division Level Agents every 30 days and clear their cash accounts. The DFI Account Manager should also direct Division Level Agents to present required documentation to the DFI Account Manager every 30 days and clear their cash accounts only after all required documentation has been reviewed and verified.

Action taken. The JASG-C Comptroller reports that he is enforcing requirements to ensure strict adherence to cash accountability requirements to include any Division Level Agent relieved of their duties and served with a revocation letter. The revocation letter includes instructions pertaining to clearing their account with the appropriate Disbursing Officer. The JASG-C Comptroller also requires all Division Level Agents to properly reconcile their account with the JASG-C Deputy Disbursing Officer prior to departing the country. In those past incidents where Division Level Agents left country without notifying the Deputy Disbursing Officer or their respective Program Manager, the JASG-C Comptroller and Deputy Disbursing Officer have taken action in accordance with the DoD Financial Management Regulation. **Status: Closed.**

Recommendation 05-006 (5). The JASG-C Commander should direct the DFI Account Manager to issue and maintain required appointment letters for all paying agents that include pecuniary liability language.

Action taken. The JASG-C Comptroller has validated that all current agents have been issued letters with pecuniary liability language. This makes Division Level Agents personally liable for errors in their accounts. **Status: Closed.**

Recommendation 05-006. The JASG-C Commander should direct the DFI Account Manager to establish special action teams with these responsibilities:

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

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

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

Action taken. These three recommendations remain open. In September 2005, the JASG-C Comptroller contracted for the recommended services. The Comptroller estimates the contractor will complete all tasks by April 30, 2006.⁴

Status: Open, implementation underway.

Administration of Contracts Funded by the Development Fund for Iraq (SIGIR 05-008, April 30, 2005)

The audit report discusses procedures used by the Project and Contracting Office and its predecessor, the Program Management Office, to monitor the administration of contracts funded by the DFI. The Interim Iraqi Government issued a memorandum assigning responsibility to the Director of the Program Management Office to monitor and confirm performance, certify and/or make payments, and otherwise administer contracts or grants that were funded with monies from the DFI. The audit objective was to determine whether the Project and Contracting Office complied with the memorandum.

The audit found that the Program Management Office and its successor organization, the Project and Contracting Office, did not fully comply with the requirements in the memorandum. The Project and Contracting Office and the JASG-C Comptroller could not accurately identify the current value of obligations, payments, and unpaid obligations for DFI contracts. However, cash payments appeared to be made in a timely manner. Additionally, the Program Management Office and Project and Contracting Office lacked the necessary controls and adequate documentation to effectively perform its responsibilities to monitor and administer contracts funded by the DFI.

The report made the following recommendations:

Recommendation 05-008 (1). The Chief of Mission should define and assign the Project and Contracting Office and JASG-C Comptroller roles, responsibilities, and methods to effectively manage and accurately determine the current value of obligations, payments, and unpaid obligations for DFI funded contracts.

Action taken. The U.S. Ambassador to Iraq requested that the Department of Defense, who was delegated responsibility for DFI administration, take the action to implement this recommendation. Our review determined that both the JASG-C and JCC-I/A have defined their respective roles and are working very well together on DFI management issues. **Status: Closed.**

⁴ At the time the draft of this report was published, there was a modification to this contract to extend the time for a short period due to expanding the statement of work to include automating the contract file documentation and for excusable delays as a result of Iraqi government holidays.

Recommendation 05-008 (2). The Chief of Mission should direct the assessment of comptroller and financial management tasks to determine if existing functions could incorporate or support management responsibilities for the DFI. At a minimum, establish government or contractor positions to perform accounts payable tasks for the Development Fund for Iraq to include maintaining a history of individual payments and current contract balances by individual contract.

Action taken. The JCC-I/A maintains a database to keep the current value of obligations, payments, and unpaid obligations. This database is called the Rebuilding of Iraq database and it is maintained by the U.S. Army Corps of Engineers, Gulf Region Division. Also, the JASG-C Comptroller maintains an Excel spreadsheet of the payments made and the remaining DFI cash balance.

Status: Closed.

Recommendation 05-008 (3). The Chief of Mission should provide the Project and Contracting Office and the JASG-C Comptroller with automated accounting and contracting systems to maintain accounting, disbursing, and contract records for the Development Fund for Iraq. A centralized database or system should be acquired and used to assemble and maintain accurate and reliable historical records.

Action taken. JCC-I/A is now managing contracts for PCO. JCC-I/A maintains a database of JCC-I/A contracts called the Rebuilding of Iraq database. The Chief of Policy, JCC-I/A reviews the database every two weeks. According to the JCC-I/A Chief of Policy, they have entered over 9,000 DFI contracts into this data base. However, the data base has a limited research capability because not all key identifier fields are entered. For example, according to the contractor building the data base, it is not possible to sort the data base to identify all water sector projects, nor is it possible to link specific projects to the contracts because these identifiers are not in the data base.

Further, JCC-I/A has also contracted to build a centralized database of DFI financial records associated with the above contracts. However, we could not determine how these two data bases will be reconciled since the new database is limited to financial records for the contracts and does not contain all the contract records. We plan to follow up on these actions once the special action team completes its contract. **Status: Open, action underway.**

Recommendation 05-008 (4). The Director, Project and Contracting Office, and the JASG-C Comptroller should develop and coordinate standard procedures, controls, and organizational functions needed to maintain DFI records, paying particular attention to the necessary controls and adequate documentation needed to effectively monitor and administer contracts funded by the DFI.

Action taken. JCC-I/A is now managing contracts for PCO. Corrective actions addressing this recommendation are in progress. Although JCC-I/A has a process to award the contracts, no periodic review is done by management at this time. However, JCC-I/A will start conducting Procurement Management Reviews during the spring of 2006. Procurement Management Reviews are periodic reviews of contracts by Contract Specialists, Contract Officer Representatives, and the Contracting Officer from each JCC-I/A sector. **Status: Open, partially implemented, actions continue to be implemented.**

Recommendation 05-008 (5). The Director of the Project and Contracting Office should establish procedures to verify that Contracting Officers maintain and monitor contract execution data, to include specific payments and outstanding balances, for each contract awarded.

Action taken. JCC-I/A is now managing contracts for PCO. Corrective actions addressing this recommendation are in progress. Although JCC-I/A has a process to award the contracts, no periodic review is done by management at this time. However, JCC-I/A will start conducting Procurement Management Reviews during the spring of 2006. Procurement Management Reviews are periodic reviews of contracts by Contract Specialists, Contract Officer Representatives, and the Contracting Officer from each JCC-I/A sector. **Status: Open, partially implemented, actions continue to be implemented.**

Recommendation 05-008 (6). The JASG-C Comptroller should require that all agents issuing DFI funds comply with existing guidance for the separation of duties, to include specific written instructions and checklists for making proper payments.

Action taken. JASG-C maintains Excel spreadsheets for tracking DFI transactions to Division Level Agents and has instituted changes to the Appointment Letter and revised the checklists. Also, the JASG-C Comptroller said that policies and procedures have been established to guide paying agents in taking custody of and making disbursements of the DFI. **Status: Closed.**

Management of Rapid Regional Response Program Grants in South-Central Iraq (SIGIR 05-015, October 25, 2005)

This audit report discusses the process used for the authorization, award, execution, and oversight of grants within the CPA South-Central Region. During 2003-2004, the CPA used DFI funds for grants intended to help carry out programs or projects that directly benefited the Iraqi people or assisted in the reconstruction and recovery of Iraq. Between February and June 2004, the CPA South-Central Region awarded 74 grants worth approximately \$20.8 million.

The audit found that South-Central Region personnel did not effectively manage the grants. South-Central Region personnel cannot account for more than \$20.5 million in DFI funds provided for the grants, and made payments that exceeded the total value or grants awarded by more than \$2.6 million. For example, the audit found that CPA South-Central Region personnel disbursed a total of almost \$23.5 million for the 74 grants, although the award value of these grants was only \$20.8 million. Additionally, no documentation to support grant performance could be found. Consequently, it is unknown whether the grants met their intended goals, or if the work for which the grants were awarded was started or satisfactorily completed.

The report made the following recommendations:

Recommendation 05-015 (1). The Chief of Mission should determine the party responsible for collecting the overpaid grant amounts and direct the responsible individual to take action to seek reimbursement for the overpaid grant amount.

Action taken. We made recommendations to the Ambassador to resolve the recovery or collection of over payments of about \$2.7 million for eight grants. We did this because the Ambassador has overall responsibility for relief and

reconstruction in Iraq. The Embassy in Baghdad responded to our recommendation that it does not have legal standing to recover funds. However, the U.S. Ambassador has stated in a February 22, 2006, letter that he is working with the Commanding General of the Multi-National Force-Iraq to recover overpayments. JCC-I/A and JASG-C were working together recover the DFI funds. **Status: Open, corrective actions underway.**

Recommendation 05-015 (2). The Director of the Iraq Reconstruction Management Office should ensure proper authorization and oversight of the grant approval and administrative processes for all existing and future grants.

Action taken. JCC-I/A does not award or administer grants. The grants in question were made by the CPA Administrator. The CPA was disestablished in June 2004. **Status: Closed.**

Recommendation 05-015. The Commanding General, JCC-I/A, should require Contracting Officers to:

- (3) follow DoD 3210.6-R, Grants and Agreements, for the award and administration of grants
- (4) require grant recipients to provide receipts for all expenditures
- (5) obtain monthly reports from the grant recipients for all expenditures
- (6) make regular site visits to the grant recipient's locations
- (7) require reports at the end of the grant to assess the performance of the grantee and to document the outcome of the grant in relation to the grant goals

Action taken. JCC-I/A no longer awards or administers grants. According to the JCC-I/A Chief of Policy, the grants discussed in the report are closed and JCC-I/A has no grant authority. We considered six recommendations related to grants closed because JCC-I/A has not awarded and, at this time, does not administer any DFI grants. The grants in question were made by the CPA Administrator. The CPA was disestablished in June 2004. JCC-I/A officials told us that they would follow the appropriate U.S. Department of Defense and Federal Acquisition Regulations if any grants were to be awarded in the future. **Status: Closed.**

Recommendation 05-015. The Commander, JASG-C, should require:

- (8) paying agents to obtain proper grant approval documentation prior to making disbursements
- (9) the appropriate separation of duties

Action taken. Relating to recommendations (8) and (9), the CPA was disestablished in June 2004. JASG-C officials told us that they would follow the appropriate U.S. Department of Defense and Generally Accepted Accounting Standards and the Federal Acquisition Regulations if any grants were to be awarded in the future. **Status: Closed.**

Recommendation 05-015 (10). The Commander, JASG-C, should establish a special team to review disbursements made in other regions of Iraq to determine if the same condition exists as determined by SIGIR in the South-Central Region.

Action taken. JASG-C has contracted with private firm to evaluate the DFI disbursements across Iraq. **Status: Open, but actions underway to complete.**

Management of the Contracts and Grants Used to Construct and Operate the Babylon Police Academy (SIGIR 05-016, October 26, 2005)

This audit discusses the deficiencies in the CPA South-Central Region's process for managing contracts and grants awarded to establish and operate the Babylon Police Academy. Altogether, the South Central Region awarded 11 contracts, 4 grants, and 1 grant modification totaling \$7.3 million.

The audit found that in managing these contracts and grants, South-Central Region personnel:

- 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 accurate or required documentation

South-Central Region personnel 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 million of disbursed grant funds. Although we were able to determine that parts of the project were complete, we were unable to clearly determine that all requirements were accomplished with the remaining contract funds that amounted to almost \$4 million.

The report made the following recommendations:

Recommendation 05-016 (1). The IRMO Director should 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.

Action taken. JCC-I/A assumed responsibility for IRMO contracting in January 2005. As an established contracting office, JCC-I/A has a process for inspecting and reviewing contracts during the contract award process. For contracts valued at \$1 million or more, a Contract Specialist puts the contract packet together, and forwards it, in turn, to the Contracting Officer, the Chief of Policy, and the legal

office for review. The packet is then sent back to the Contract Specialist to advertise the contract. Once the contract is sourced, the process is repeated, except that the contract packet is sent from legal to the Contracting Officer for signature.

There are several actions underway for improving the DFI contract files. First, JCC-I/A has been conducting detailed close out reviews of completed projects. Further, as part of the special contractor assessment team scope of work, the contractor is reviewing contract files for completeness not only for the South-Central Region but for DFI contracts across Iraq. JCC-I/A also plans to initiate Procurement Management Reviews of contract and grant files in the Spring of 2006. According to the JCC-I/A Chief of Policy, these reviews should ensure the completeness of contract and grant files. **Status: Open, actions underway.**

Recommendation 05-016 (2). The Commanding General, JCC-I/A, should ensure that established policies and procedures for awarding and consolidating contracts and grants are effectively implemented and followed.

Action taken. JCC-I/A has a process for inspecting and reviewing contracts during the contract award process. For contracts valued at \$1 million or more, a Contract Specialist puts the contract packet together, and forwards it, in turn, to the Contracting Officer, the Chief of Policy, and the legal office for review. The packet is then sent back to the Contract Specialist to advertise the contract. Once the contract is sourced, the process is repeated, except that the contract packet is sent from legal to the Contracting Officer for signature. Additionally, JCC-I/A has conducted training on source selection; the Contracting Officer reviews the solicitation on all contracts during the awarding process; and the U.S. Army Corps of Engineers, Gulf Region Division (GRD) has brought in Quality Assurance Specialists and Construction Inspectors to ensure purchased equipment is delivered and construction is complete. **Status: Closed.**

Recommendation 05-016 (3). The Commanding General, JCC-I/A, should ensure that established policies and procedures for monitoring contract and grant performance are effectively implemented and followed.

Action taken. JCC-I/A is now managing contracts for PCO. Corrective actions addressing this recommendation are in progress. Although JCC-I/A has a process to award the contracts, no periodic review is done by management at this time. However, JCC-I/A will start conducting Procurement Management Reviews during the spring of 2006. Procurement Management Reviews are periodic reviews of contracts by Contract Specialists, Contract Officer Representatives, and the Contracting Officer from each JCC-I/A sector. **Status: Open, partially implemented, actions continue to be implemented.**

Recommendation 05-016 (4). The Commanding General, JCC-I/A, should ensure that purchased equipment is delivered and construction completed.

Action taken. The U.S. Army Corps of Engineers, Gulf Region Division (GRD) has brought in Quality Assurance Specialists and Construction Inspectors to ensure purchased equipment is delivered and construction is complete. **Status: Closed.**

Recommendation 05-016 (5). The Commanding General, JCC-I/A, should maintain complete files to support transactions made for contracts and grants.

Action taken. There are several actions underway for improving the DFI contract files. First, JCC-I/A has been conducting detail close out reviews of completed projects. Further, as part of the special contractor assessment team scope of work, it is reviewing contract files for completeness not only for the South-Central Region but for DFI contracts across Iraq. JCC-I/A also plans to initiate Procurement Management Reviews of contract and grant files in the Spring of 2006. According to the JCC-I/A Chief of Policy, these reviews should ensure the completeness of contract and grant files. **Status: Closed.**

Recommendation 05-016 (6). The Commander, JASG-C, should ensure that established policies and procedures for disbursing funds obtained through the DFI for contracts and grants are effectively implemented and followed, that funds are disbursed for intended purposes, and that complete files support transactions made for contracts and grants are maintained.

Action taken. JASG-C has put in place policies and procedures for disbursing DFI funds. They also have an effective follow-up system where by they periodically review the payment files to ensure proper payments have been made. Further, JASG-C has also contracted for an independent review of contract and grant files and to ensure that the financial records support and are available to ensure proper support for payment and contract/grant execution. **Status: Open, actions underway.**

Management of the Contracts, Grant, and Micro-Purchases Used To Rehabilitate the Karbala Library (SIGIR 05-020, October 26, 2005)

This audit report discusses the Coalition Provisional Authority South-Central Region's processes for managing 5 contracts, 1 grant, and 33 micro-purchase contracts awarded for more than \$2.1 million for the rehabilitation of the Karbala Library.

The audit found that in managing these contracts and grants the South-Central Region:

- circumvented guidance by splitting requirements into more than one contract to avoid seeking the required funding-level approval or to avoid required documentation
- issued contracts for dollar amounts that exceeded the requirement documents
- did not monitor the contracts, the grant, or micro-purchase contracts; did not make any site visits; did not issue performance reports; did not prepare post-award assessments; and did not act on the reports that the contractor was not performing to the standards set in the contracts
- needlessly disbursed funds for contracts, a grant, and micro-purchase contracts for which work was not performed and the contracted amount was exceeded
- paid-in-full, on the day the contracts, a grant, and micro-purchase contracts were signed, but did not require that progress payments be tied to project performance
- did not maintain files that contained accurate or required documentation

Altogether, South-Central Region personnel disbursed approximately \$1.6 million for which work was not performed. Further, the Region disbursed approximately \$2.3 million on the contracts and grants although the total value of the contracts, grant, and micro-purchase was only approximately \$2.1 million. The report made the following recommendations:

Recommendation 05-020 (1) The U.S. Ambassador to Iraq should recover the \$154,000 in rescinded grant funds remaining on deposit along with any other funds related to the rescinded grant and funds that exceeded the contracted amount and return the recovered funds to the Iraqi government.

Action taken. We made recommendations to the Ambassador to resolve the recovery of \$154,000 unspent on a grant that we discovered still in a bank account. We did this because the Ambassador has overall responsibility for relief and reconstruction in Iraq. The Embassy in Baghdad responded to our recommendation that it does not have legal standing to recover funds. However, the U.S. Ambassador has stated that he is working with the Commanding General of the Multi-National Force-Iraq to recover overpayments. JCC-I/A and JASG-C were working together recover the DFI funds. **Status: Open, action underway.**

Recommendation 05-020 (2). The Director of IRMO should 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.

Action taken. JCC-I/A assumed responsibility for IRMO contracting in January 2005. As an established contracting office, JCC-I/A has a process for inspecting and reviewing contracts during the contract award process. For contracts valued at \$1 million or more, a Contract Specialist puts the contract packet together, and forwards it, in turn, to the Contracting Officer, the Chief of Policy, and the legal office for review. The packet is then sent back to the Contract Specialist to advertise the contract. Once the contract is sourced, the process is repeated, except that the contract packet is sent from legal to the Contracting Officer for signature.

There are several actions underway for improving the DFI contract files. First, JCC-I/A have been conducting detail close out reviews of completed projects. Further, as part of the special contractor assessment team scope of work, it is reviewing contract files for completeness not only for the South-Central Region but for DFI contracts across Iraq. JCC-I/A also plans to initiate Procurement Management Reviews of contract and grant files in the Spring of 2006. According to the JCC-I/A Chief of Policy, these reviews should ensure the completeness of contract and grant files. **Status: Open, actions underway.**

Recommendation 05-020 (3). The Commanding General, JCC-I/A, should take action to ensure that established policies and procedures for awarding and consolidating contracts and grants are effectively implemented and followed.

Action taken. The actions taken in response to recommendation 05-020 (2), discussed above, are considered responsive to this recommendation. **Status: Closed.**

Recommendation 05-020 (4). The Commanding General, JCC-I/A, should take action to ensure that established policies and procedures for monitoring contract and grant performance are effectively implemented and followed.

Action taken. Action has not yet been taken to ensure complete files that support contract and grant transactions are maintained. JCC-I/A plans to initiate Procurement Management Reviews of contract and grant files in the Spring of 2006. According to the JCC-I/A Chief of Policy, these reviews should ensure the completeness of contract and grant files. **Status: Open, actions underway.**

Recommendation 05-020 (5). The Commanding General, JCC-I/A, should take action to ensure that repairs were completed, purchased equipment and services were delivered, and work was performed.

Action taken. The Chief of Policy, JCC-I/A, stated that there are Contracting Officer Representatives in place now to verify purchases and work performed. Contracts are following DoD and Army regulations and policy is being developed. The contractors are being held responsible by Federal Acquisition Regulations (FAR) dealing with construction inspection clauses. **Status: Closed.**

Recommendation 05-020 (6). The Commanding General, JCC-I/A, should take action to maintain complete files to support transactions made for contracts and grants.

Action taken. The administration of all contracts is explained in the FAR and the Defense FAR (DFAR). JCC-I/A uses a contract file checklist to ensure the completeness of contract and grant files. **Status: Closed.**

Recommendation 05-020 (7). The Commander, JASG-C, should ensure that established policies and procedures for disbursing funds obtained through the DFI for contracts and grants are effectively implemented and followed, that funds are disbursed for intended purposes, and that complete files support transactions made for contracts and grants are maintained.

Action taken. JASG-C has put in place policies and procedures for disbursing DFI funds. They also have an effective follow-up system where by they periodically review the payment files to ensure proper payments have been made. Further, JASG-C has also contracted for an independent review of contract and grant files and to ensure that the financial records support and are available to ensure proper support for payment and contract/grant execution. **Status: Open, actions underway.**

Management of Rapid Regional Response Program Contracts in South-Central Iraq (SIGIR 05-023, January 23, 2006)

This audit report discusses the processes used for the authorization, award, execution, and oversight of contracts within the CPA's South-Central Region. During 2003-2004, the CPA used contracts to purchase products or services. The contracts were intended to help carry out a program or project that directly benefited the Iraqi people or assisted in the reconstruction and recovery of Iraq. Between October 2003 and June 2004, the CPA South-Central Region used funds provided from the DFI through the Rapid Regional Response Program to award 907 contracts and 1,212 micro-purchases worth approximately \$88.1 million.

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

- 4 projects, using 20 contracts (2.2 percent) and several contract modifications, totaling approximately \$9.1 million, appeared to have had the requirements split to keep the contract awards under the \$500,000 approval threshold to circumvent the required reviews
- 158 contracts (17.4 percent), totaling approximately \$16.3 million, were either not competitively awarded or lacked documentation that showed a competitive process had taken place and 26 contract files (3.0 percent), totaling approximately \$2.6 million, did not contain a signed contract
- 11 contracts (1.2 percent), totaling more than \$5.6 million, were issued without proper authorization and 38 contracts (4.2 percent), totaling approximately \$7.0 million, were awarded after the transfer of responsibility for the DFI to the Iraqi government on June 28, 2004
- 91 projects (10.7 percent), totaling approximately \$11.6 million, were paid in full at the time of contract signing and the completion of the project work was not verified; 11 contracts (1.2 percent) were overpaid by \$571,823; approximately \$515,000 was disbursed for CPA salaries and operations in violation of Program Review Board Guidance 06.2 (amended); approximately \$47,000 to \$87,000 in cash was lost but not reported to the CPA Comptroller; and approximately \$23.0 million was transferred to unauthorized personnel but documentation showed only \$6.3 million disbursed to contractors resulting in the loss of oversight of \$16.7 million
- 286 contract files (31.5 percent), totaling approximately \$31.0 million, did not contain certificates of completion, yet \$24.0 million had been disbursed for the projects; while other contract files were missing documentation for approximately \$12.6 million in disbursements and, consequently, it could not be determined whether contractors were paid for work performed
- a property record book to document the property purchased with R3P funds was not maintained; contract files for 160 vehicles, totaling approximately \$3.3 million, did not document the receipt of the vehicles and there was limited documentation in the contract files to identify whether the beneficiary actually received the vehicles; and ammunition and weapons were purchased but detailed records of deliveries and distribution were not maintained and not all of the weapons could be located
- 346 micro-purchase contracts (28.5 percent) exceeded the micro-purchase dollar limitation of \$5,000 yet did not maintain the required documentation in the files for awards in dollar amounts greater than \$5,000; 387 micro-purchase contract files (31.9 percent) did not contain disbursement documentation; 786 files (64.9 percent) did not contain a vendor invoice; and 838 files (69.1 percent) did not have a completion document

The CPA South-Central Region failed to adequately manage its Rapid Regional Response Program contracts and micro-purchases. In addition, based on the award process for contracts and the management of contracts we evaluated, there was no assurance that fraud, waste, and abuse did not occur in the management and administration of assets.

The report made the following recommendations:

Recommendation 05-023 (1). The U.S. Ambassador to Iraq should recover the \$571,823 that was overpaid on the 11 contracts.

Action taken. We made recommendations to the Ambassador to resolve the recovery or collection of over payments and/or duplicative payments of about \$3.2 million and another \$154,000 unspent in a bank account. We did this because the Ambassador has overall responsibility for relief and reconstruction in Iraq. The Embassy in Baghdad responded to our recommendation as we expected that it does not have legal standing to recover funds. However, the U.S. Ambassador has stated that he is working with the Commanding General of the Multi-National Force-Iraq to recover overpayments. JCC-I/A and JASG-C were working together recover the DFI funds. In an update to SIGIR, dated March 13, 2006, JCC-I/A provided notification that their DFI team has researched the eleven contracts; found no evidence of overpayments; but will be issuing demand letters to the contractors. Their final report will be provided to SIGIR and we will follow-up to ensure appropriate documentation supports the actions taken.

Status: Open, actions underway.

Recommendation 05-023 (2). The Commanding General, JCC-I/A, should establish adequate and required documentation to record the receipt and disposal of all purchased property.

Action taken. The JCC-I/A Property Chief reviews all property solicitations and contracts to ensure proper disposition of purchased property. The property sector provides the full contract to the Quality Assurance Specialist for contracts that have a property clause. The Quality Assurance Specialist provides payment documents to the paying official and to the contract officer once the material is delivered or service has been completed. The contract clause explains that the property purchased for the contract will become Contractor Furnished Government Owned Property. The contract cites the Federal Acquisition Regulation clause that explains how the property will be maintained and disposed of once the contract is fulfilled. Contractors who are purchasing Government property must also establish an inventory system, which is audited on a regular basis by the JCC-I/A Property Sector. When it is determined that a contract is expiring or will be terminated, the contractor is given disposition instructions for government property and a final inventory is conducted. **Status: Closed.**

Recommendation 05-023 (3). The Commander, JASG-C, should require paying agents to obtain proper contract approval documentation prior to making disbursements.

Action taken. During the review, the JASG-C Comptroller stated that corrective actions were taken immediately upon receiving the recommendations for this report that established policies and procedures for disbursing DFI funds for contracts and grants. Corrective action consisted of adding the word "grant" to the checklist. In addition, the Comptroller stated that his office now ensures that payment packages are complete and all supporting documentation attached prior to the Division Level Agent clearing his account. **Status: Closed.**

Appendix C: Acronyms

COM	Chief of Mission, the U.S. Ambassador to Iraq
CPA	Coalition Provisional Authority
DFI	Development Fund for Iraq
DoD	Department of Defense
JASG-C	Joint Area Support Group-Central (Provisional)
JCC-I/A	Joint Contracting Command-Iraq/Afghanistan
SIGIR	Special Inspector General for Iraq Reconstruction

Appendix D. 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

Mission Director-Iraq, U.S. Agency for International Development

Inspector General, Department of State

Department of Defense

Secretary of Defense

Deputy Secretary of Defense

Director, Defense Reconstruction Support Office

Under Secretary of Defense (Comptroller)/Chief Financial Officer

Deputy Chief Financial Officer

Deputy Comptroller (Program/Budget)

Inspector General, Department of Defense

Director, Defense Contract Audit Agency

Director, Defense Finance and Accounting Service

Director, Defense Contract Management Agency

Department of the Army

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

Principal Deputy to the Assistant Secretary of the Army for Acquisition,

Logistics, and Technology

Deputy Assistant Secretary of the Army (Policy and Procurement)

Director, Project and Contracting Office

Commanding General, Joint Contracting Command-Iraq/Afghanistan

Assistant Secretary of the Army for Financial Management and Comptroller

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

Commanding General, Gulf Region Division

Auditor General of the Army

U.S. Central Command

Commanding General, Multi-National Force-Iraq

Commanding General, Multi-National Security Transition Command-Iraq

Commander, Joint Area Support Group-Central

Other 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

President, Overseas Private Investment Corporation

President, U.S. Institute for Peace

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 E. Audit Team Members

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

Glenn Furbish

Arlene Hunt

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