



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

October 27, 2011

LETTER FOR SECRETARY OF DEFENSE

COMMANDER, U.S. CENTRAL COMMAND
COMMANDING GENERAL, U.S. FORCES–IRAQ
COMMANDING GENERAL, U.S. ARMY CORPS OF ENGINEERS

SUBJECT: Department of Defense Agencies Have Taken Action on Most Open Audit Recommendations (SIGIR 12-004)

The Inspector General Act of 1978¹, as amended, requires the Special Inspector General for Iraq Reconstruction (SIGIR) to identify in its semiannual reports each significant recommendation described in previous semiannual reports on which corrective action has not been completed. This report follows up on 26 audit recommendations SIGIR made to three Department of Defense (DoD) agencies—U.S. Central Command (CENTCOM), U.S. Forces–Iraq (USF-I), and the U.S. Army Corps of Engineers (USACE)—that were unresolved (i.e., open) as of July 31, 2011.² The objective of this report is to determine whether the DoD agencies took appropriate action to address these recommendations.

SIGIR also followed up on 19 open recommendations addressed to the Secretary of Defense and other DoD headquarters officials and worked with DoD to establish a system to track and oversee the status of open SIGIR recommendations. These efforts are ongoing, and we plan to report on them in January 2012.

As a result of information received from the three DoD agencies, and information developed during other SIGIR reviews, SIGIR closed 24 of the 26 open recommendations. Two recommendations remain open because USACE could not determine their status. SIGIR will continue to follow up on the two open recommendations.

Background

The Office of Management and Budget (OMB) Circular A-50, *Audit Followup*, provides guidance to agencies for following up on and resolving audit findings and recommendations. Audit follow up is an integral part of good management and is a shared responsibility of agency management officials and auditors. Corrective action taken by management on resolved findings and recommendations improves the effectiveness and efficiency of government operations.

Each agency is expected to establish systems that ensure the prompt and proper resolution and implementation of audit recommendations. These systems shall provide for a complete record of

¹ “Inspector General Act of 1978” (Pub. L. 95–452, § 1, Oct. 12, 1978, 92 Stat. 1101).

² Recommendations in SIGIR reports issued in late July 2011 are not included in the 26 open recommendations because the agencies were still responding to the recommendations.

action taken on both monetary and non-monetary findings and recommendations. OMB Circular A-50 requires agency heads to designate a top management official to oversee audit follow up. The Circular further states that the agency's audit follow-up official has responsibility for ensuring that (1) systems of audit follow up, resolution, and corrective action are documented and in place, (2) timely responses are made to all audit reports, (3) disagreements are resolved, (4) corrective actions are actually taken, and (5) reporting requirements are met.

OMB Circular A-50 also states that the proper response and follow up to an audit report is written comments by agency officials indicating agreement or disagreement on reported findings and recommendations. Comments indicating agreement on final reports shall include planned corrective actions and, where appropriate, dates for achieving actions. Comments indicating disagreement shall explain fully the reasons for disagreement.

The Inspector General Act defines other terms and requirements used in the audit follow-up process. For example, the term "management decision" is defined as "the evaluation by the management of an establishment of the findings and recommendations included in an audit report and the issuance of a final decision by management concerning its response to such findings and recommendations, including actions concluded to be necessary." The Act defines the term "final action" as "the completion of all actions that the management of an establishment has concluded, in its management decision, are necessary with respect to the findings and recommendations included in an audit report; and in the event that the management of an establishment concludes no action is necessary, final action occurs when a management decision has been made."

SIGIR defines open recommendations as those that the DoD (1) agreed with in its response to the audit report and provided corrective actions that need to be confirmed as having been taken; (2) did not indicate in its response that it either agreed or disagreed, or (3) did not respond before the final report was issued. Additionally, SIGIR considers the recommendation open if the DoD component under review disagreed with the recommendation, but DoD has not issued a final management decision. According to OMB Circular A-50, it is incumbent on both the DoD and the audit agency management to work together to address open recommendations by tracking and coordinating their resolution. Under the Inspector General Act, SIGIR has the authority to obtain information from DoD on the status of corrective actions. This information must be sufficient and appropriate to provide a reasonable basis for the closure decision.³

Additionally, Public Law 97-255 Federal Managers' Financial Integrity Act of 1982⁴ and OMB Circular A-123 Revised, *Management's Responsibility for Internal Control*, which implements the Act, are at the center of the existing Federal requirements to improve internal control. The Federal Managers' Financial Integrity Act states that the standards prescribed by the Comptroller General include standards to ensure the prompt resolution of all audit findings. OMB Circular A-123 states that deficiencies identified by an audit should be evaluated and corrected and that a systematic process be in place for addressing deficiencies. The Circular requires agency managers to follow up on audit recommendations to identify and correct problems resulting from

³ *Government Auditing Standards: July 2007 Revision*, GAO-07-731G.

⁴ "Federal Managers' Financial Integrity Act of 1982," Public Law 97-255 (31 U.S.C. § 3512).

inadequate or poorly designed management controls, and to build appropriate controls into new programs. It also requires agency managers to report any deficiencies in management controls to the agency official responsible for implementing the Federal Managers' Financial Integrity Act.

SIGIR Closed Most Recommendations to DoD Agencies

As a result of information received from USF-I, CENTCOM, and USACE, and information developed during other SIGIR reviews, SIGIR was able to close 24 of the 26 open recommendations addressed to the three agencies. The details for each agency are described below.

- As of July 31, 2011, there were 15 open recommendations addressed to USF-I. On September 11, 2011, USF-I responded to SIGIR that it had taken actions to address the open recommendations. Based on the USF-I response and documentation provided, SIGIR closed all 15 recommendations; eight because they had been implemented and seven because they became obsolete due to changes in the operational environment.
- As of July 31, 2011, there were two open recommendations addressed to CENTCOM. On September 15, 2011, CENTCOM provided responses to the two open recommendations, and SIGIR closed them both as implemented.
- As of July 31, 2011, there were nine open recommendations addressed to USACE. On September 16, 2011, USACE provided a report on the status of the nine recommendations. Based on the report and documentation provided by USACE, SIGIR closed seven of the recommendations. Two remain open because USACE could not determine the status of the recommendations. In its response to SIGIR's draft report, USACE stated that two other DoD organizations are responsible for the recommendations.

SIGIR will continue to follow up on the two open USACE recommendations. Table 1 in Appendix B lists the two recommendations that remain open because additional information is required to close them. Documentation of the actions taken to implement audit recommendations is necessary to provide a reasonable assurance that the intended improvement to DoD's operations is occurring.

The primary intent of SIGIR's audit recommendations is to prevent fraud, waste, and abuse. Additionally, SIGIR's recommendations are intended to improve DoD management of its contracts and grants associated with Iraq reconstruction, and the economy, efficiency, and effectiveness of its Iraq reconstruction programs, operations, and activities. A recommendation may address more than one of these goals. Implementation of the outstanding recommendations would improve DoD management as required by OMB A-123.

Concluding Observations

SIGIR commends USF-I, CENTCOM, and USACE for the actions they took to close out SIGIR's recommendations. Their prompt and thorough responses to SIGIR documented the actions taken to improve management of, and controls over, contracts, grants, and other Iraq reconstruction programs and activities.

Management Comments and Audit Response

In response to our draft report, USACE stated that the two recommendations assigned to USACE for action should be referred to other DoD components; one to the Army Material Command and the other to the Defense Contract Management Agency. SIGIR will follow up with the two organizations.

- - - -

We appreciate the courtesies extended to the SIGIR staff. For additional information on the report, please contact Glenn D. Furbish, Assistant Inspector General for Audits (Washington, DC), (703) 604-1388/ glenn.furbish@sigir.mil, or Jim Shafer, Principal Deputy Assistant Inspector General for Audits (Washington, DC), (703) 604-0894/ james.shafer@sigir.mil.



Stuart W. Bowen, Jr.
Inspector General

Appendix A—Scope and Methodology

In January 2011, the Special Inspector General for Iraq Reconstruction (SIGIR) announced Project 1102 to review the status of open audit recommendations made by SIGIR to the Department of Defense (DoD). Because DoD does not have a central focal point for all SIGIR recommendations, SIGIR worked with individual agencies to determine the status of recommendations addressed to the agencies. The objective of this report is to determine whether DoD agencies—U.S. Central Command (CENTCOM), U.S. Forces–Iraq (USF-I), and the U.S. Army Corps of Engineers (USACE)—took appropriate actions to address their open recommendations. SIGIR also followed up on open recommendations addressed to the Secretary of Defense and other DoD headquarters officials and worked with DoD officials to establish a system to track and oversee open SIGIR audit recommendations. These efforts are ongoing and we plan to report on them in January 2012.

SIGIR performed this audit under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. SIGIR conducted its work from July to October 2011 in Washington, D.C. and in Baghdad, Iraq.

To determine whether DoD took action to address open audit recommendations, SIGIR reviewed 78 open recommendations. SIGIR administratively closed 16 recommendations because DoD had implemented the recommendations and 17 because DoD did not implement them in a timely manner, and they were overtaken by events. The remaining 45 recommendations were then reviewed to determine the DoD agency to which the recommended action was directed. On August 23, 2011, SIGIR provided USACE a list of nine open audit recommendations that were directed to USACE for action. On August 25, 2011, SIGIR provided USF-I with a list of 15 open recommendations and CENTCOM with a list of 2 recommendations that had been directed to their respective organizations. Each organization was asked to provide SIGIR with a report on the status of the open recommendations. The remaining 19 open recommendations were directed to the Office of the Secretary of Defense.

USF-I, CENTCOM, and USACE each responded to SIGIR’s request. In determining whether the responses were sufficient to close recommendations; we evaluated the explanations and considered if there were any mitigating circumstances affecting the ability to implement the recommendations. For example, we considered the impact of changes in Iraq and the U.S. Embassy–Baghdad operational environment, changes in the organizational makeup of U.S. agencies in Iraq, and the availability of documentation to substantiate corrective action taken. As a result of our evaluations, we were able to close out 24 of the 26 open recommendations.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Use of Computer-processed Data

We did not use computer-processed data in this project.

Internal Controls

An assessment of internal controls related to DoD policies and procedures for its audit follow-up process will be conducted in the above referenced follow-up audit addressing recommendations directed to the Secretary of Defense and other DoD headquarters officials.

Prior Coverage

We reviewed the following SIGIR audit reports:

Iraqi Government Support for the Iraq International Academy, SIGIR 11-009, 1/26/2011.

Iraq Security Forces: Police Training Program Developed Sizeable Force, but Capabilities Are Unknown, SIGIR 11-003, 10/25/2010.

Commander's Emergency Response Program: Projects at Baghdad Airport Provided Some Benefits, but Waste and Management Problems Occurred, SIGIR 10-014, 4/27/2010.

Interim Report on Projects to Develop the Iraqi Special Operations Forces, SIGIR 10-009, 3/25/2010.

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

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

Opportunities to Improve Processes for Reporting, Investigating, and Remediating Serious Incidents Involving Private Security Contractors in Iraq, SIGIR 09-019, 4/30/2009.

The U.S. Has Reduced Its Funding for the Iraqi Security Forces, but Continued Support Will Likely Be Necessary, SIGIR 09-012, 1/26/2009.

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

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

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

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

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

Logistics Civil Augmentation Program Task Order 130: Requirements Validation, Government Oversight, and Contractor Performance, SIGIR 07-001, 6/22/2007.

Status of Ministerial Capacity Development in Iraq, SIGIR 06-045, 1/30/2007.

Appendix B—Open Recommendations

Table 1 lists the two audit recommendations made to the U.S. Army Corps of Engineers (USACE) that remain open. The audit report is identified by the first five digits of the sequence of numbers listed in the Number column. The fifth digit represents the recommendation in the report that remains open. For example, 08-019-3 refers to the third recommendation contained in SIGIR Report 08-019, *Outcome, Cost and Oversight of the Security and Justice Contract with Parsons Delaware, Inc.*

Table 1—Open Audit Recommendations, as of July 31, 2011

Number	Recommendation
08-019-3 (USACE)	“We recommend that the Commanding General, [Gulf Region Division] and the Commander, [Joint Contracting Command—Iraq/Afghanistan]... (3) locate the contract award file and ensure it is made part of the master contract file.”
9-010-2 (USACE)	“SIGIR recommends that the Commanding General of the Gulf Regional Division, the Director of Defense Contract Management Agency, and the Commander of the Joint Contracting Command—Iraq/Afghanistan direct that the following actions be taken as it relates to their respective responsibilities under the contract: (2) Specify in writing the audit role it wants the U.K. Ministry of Defence, Office of Defence Equipment and Support, to perform; the U.S. government organizations that should receive its reports; and which U.S. government organization is responsible for maintaining contact with [Defence Equipment and Support]”

Source: Recommendations to DoD from SIGIR reports issued from 2004 through July 2011.

Appendix C—Acronyms

Acronym	Description
CENTCOM	U. S. Central Command
DoD	Department of Defense
OMB	Office of Management and Budget
SIGIR	Special Inspector General for Iraq Reconstruction
USACE	U.S. Army Corps of Engineers
USF-I	United States Forces–Iraq

Appendix D—Audit Team Members

This report was prepared and the review conducted under the direction of Glenn D. Furbish, Assistant Inspector General for Audits, Office of the Special Inspector General for Iraq Reconstruction.

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

Allan J. Jones

Robert Pelletier

Robert Whiteley

Appendix E—Management Comments



DEPARTMENT OF THE ARMY
U.S. ARMY CORPS OF ENGINEERS
WASHINGTON, D.C. 20314-1000

CEIR


20 October 2011

MEMORANDUM FOR U.S. Deputy Assistant Inspector General for Audit, Special
Inspector General for Iraq Reconstruction, Attn:
Robert Pelletier, Arlington, Virginia 22202-3940

SUBJECT: U.S. Army Corps of Engineers (USACE) Response to SIGIR Report:
Department of Defense Agencies Have Taken Action on Most Open Audit
Recommendations (SIGIR 12-004)

1. Reference SIGIR report, subject as above.
2. The USACE comments are enclosed.
3. Please contact the undersigned or my point of contact, Mr. John Byrne, at (202) 761-1371 or via email at john.b.byrne@usace.army.mil if you have any further questions

Encl


BRENDA L MAYES
Deputy Chief
HQ Internal Review Office



DEPARTMENT OF THE ARMY
U.S. Army Corps of Engineers
441 G Street, NW
Washington DC 20314-1000

REPLY TO
ATTENTION OF:

OCT 18 2011


CEMP-TAD

MEMORANDUM FOR Office of the Special Inspector General for Afghanistan
Reconstruction (SIGAR)

SUBJECT: U.S. Army Corps of Engineers (USACE) Response to SIGIR Draft Report
Department of Defense Agencies Have Taken Action on Most Open Audit
Recommendations (SIGIR 12-004).

1. The U.S. Army Corps of Engineers (USACE) welcomes the opportunity to review the draft report and appreciates the cooperation of SIGIR staff.
2. The report lists two recommendations still open for USACE. As discussed in the enclosure USACE is not the appropriate agency to provide information to close out these recommendations. One of the recommendations should be referred to Army Materiel Command (AMC) and the other should be referred to the Defense Contract Management Agency (DCMA).
3. My point of contact for these comments is Mr. John Daley (202) 761-5844.

Enclosure


Timothy Hess, P.E.
Acting Chief, Transatlantic Division Regional
Integration Team,
Directorate of Military Programs

ENCLOSURE 1

Headquarters
U.S. Army Corps of Engineers
Response to Draft SIGAR Audit-12-004

RECOMMENDATIONS

Recommendation 08-019-3: *We recommend that the Commanding General, GRD and the Commander, JCC-I/A ... (3) locate the contract award file and ensure it is made part of the master contract file.*

USACE Response: The custodian of the master contract files for the IRRF funded cost-plus contracts is Army Materiel Command (AMC), Rock Island, IL. USACE does not possess the contract award file and is not in a position to take the action required by this recommendation. As a result, AMC should be listed as the responsible agency for this recommendation.

Recommendation 009-010-2: *SIGIR recommends that the Commanding Generals of the Gulf Region Division, the Defense Contract Management Agency, and the Joint Contracting Command-Iraq/Afghanistan direct that the following actions be taken as it relates to their respective responsibilities under the contract: ... (2) specify in writing the audit role it wants the U.K. Ministry of Defence, Office of Defence Equipment and Support, to perform; the U.S. government organizations that should receive its reports; and which U.S. government organization is responsible for maintaining contact with DE&S.*

USACE Response: The original DCMA response to the audit appears to have answered the requirements of the recommendation. USACE recommends that any clarification regarding the status of the recommended actions should be referred to DCMA.

Appendix F—SIGIR Mission and Contact Information

SIGIR’s Mission

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

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

Obtaining Copies of SIGIR Reports and Testimonies

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

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

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

- Web: www.sigir.mil/submit_fraud.html
- Phone: 703-602-4063
- Toll Free: 866-301-2003

Congressional Affairs

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

Public Affairs

Deborah Horan
Office of Public Affairs
Mail: Office of the Special Inspector General
for Iraq Reconstruction
2530 Crystal Drive
Arlington, VA 22202-3940
Phone: 703-428-1217
Fax: 703-428-0817
Email: PublicAffairs@sigir.mil
