SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

January 27, 2012

LETTER FOR SECRETARY OF DEFENSE
COMMANDER, U.S. CENTRAL COMMAND
DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY

SUBJECT: Status of Recommendations Made by the Special Inspector General for Iraq Reconstruction to the Department of Defense (SIGIR 12-010)

The Inspector General Act of 1978[1], 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 37 audit recommendations SIGIR made primarily to the Secretary of Defense and other senior Department of Defense (DoD) headquarters officials that were unresolved (i.e., open) as of September 30, 2011. The objectives of this report are to determine whether DoD officials took appropriate action to address these recommendations and whether DoD has a system to track and oversee the status of SIGIR's audit recommendations.

As a result of information received from DoD organizations, and information developed during other SIGIR audits, SIGIR closed 32 of the 37 open recommendations. SIGIR will continue to follow up on the five recommendations that remain open as of December 31, 2011.

DoD has a follow-up process and tracking system for audit recommendations, and the Department of Defense Inspector General (DoDIG) is responsible for that follow-up process and tracking system. In agreement with the DoDIG, all remaining open SIGIR recommendations and all future SIGIR recommendations will be tracked through the DoDIG system.

As a result of its unique position as the first Special Inspector General for a contingency operation, SIGIR has learned important lessons concerning the audit follow-up process that may be helpful to current and future temporary inspector general organizations. Specifically, temporary inspector general organizations should: establish effective tracking and follow-up processes for recommendations early in the organizations' existence to ensure that recommendations are acted upon in a timely manner; work with permanent inspectors general in audited agencies and departments to use their follow-up systems rather than establishing independent systems; direct recommendations to more permanent, higher headquarters management organizations because temporary management organizations may not be in existence long enough to implement the recommendations; and be as specific as possible concerning the actionable authorities for recommendations to avoid confusion concerning specific organizational responsibilities and problems in holding management accountable for implementing the recommendations.

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

Background

The Office of Management and Budget (OMB) Circular A-50, *Audit Follow-up*, 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 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 that 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.[2]

Additionally, Public Law 97-255 "Federal Managers' Financial Integrity Act of 1982"[3] 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 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 Made to DoD

As a result of information received from DoD organizations and information developed during other SIGIR audits, SIGIR was able to close 32 of the 37 open recommendations addressed to DoD officials. The details, as of December 31, 2011, are described below.

- There were 21 open recommendations addressed to officials within the Office of the Secretary of Defense (OSD), including the Secretary of Defense, Under Secretary of Defense (Comptroller), and Deputy Under Secretary of Defense for Business Transformation. Based on responses from OSD offices and documentation provided, SIGIR closed 19 recommendations: 10 because they had been implemented, 5 because they were overtaken by events and became obsolete, and 4 because management decided not to take action. One recommendation remains open because implementing action is planned for March 2012, and the other recommendation remains open because it was referred to another DoD office for action, and we were not able to verify the status of that recommendation.
- There were eight open recommendations addressed to U.S. Central Command (CENTCOM) or its former subordinate command, U.S. Forces–Iraq. Based on responses from CENTCOM and documentation provided, SIGIR closed five recommendations: one because it was implemented and four because they were overtaken by events and became obsolete. Three recommendations remain open because CENTCOM stated that another organization was responsible for their implementation, and we were not able to verify the status of those recommendations.
- There were six open recommendations addressed to the Defense Contract Management Agency (DCMA). Based on responses from DCMA and documentation provided, SIGIR

[2] *Government Auditing Standards: July 2007 Revision*, GAO-07-731G.
[3] "Federal Managers' Financial Integrity Act of 1982," Public Law 97-255 (31 U.S.C. § 3512).

closed all six: three because they were implemented, two because management decided not to take action, and one because it was overtaken by events and became obsolete.

- There were two open recommendations addressed to or referred to Department of the Army officials. Based on responses and documentation provided, SIGIR closed both recommendations: one because it was implemented and the other because it was overtaken by events and became obsolete.

SIGIR will continue to follow up on the five open recommendations. Table 1 in Appendix B lists the five 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.

SIGIR's Open Recommendations Will Be Included in DoD's Follow-up and Tracking System

DoD has a follow-up process and tracking system for audit recommendations, and the DoDIG is responsible for that process and tracking system. DoDIG has agreed to include SIGIR's open recommendations in that process and system.

Under DoD Directive 7650.3, DoDIG is responsible for overseeing and coordinating audit follow-up programs within DoD. Specifically, DoDIG is responsible for (1) working with DoD components to resolve disagreements about applicable reports and submitting information on disagreements that may not be resolved at a lower management level to the Deputy Secretary of Defense for decision, (2) evaluating corrective actions taken by the DoD components on reports issued by the Government Accountability Office and DoDIG and identifying discrepancies to appropriate officials, and (3) establishing policy and procedures for DoD follow up programs.

SIGIR's open recommendations are not currently included in DoD's recommendations follow-up process and system. Because SIGIR was established in 2004 with a limited life, which has been extended over the years, it did not seek to establish formal follow-up systems with the principal U.S. government departments and agency involved in Iraq reconstruction—DoD, Department of State, and U.S. Agency for International Development. In April and July 2011, we reported that the U.S. Agency for International Development and the Department of State, respectively, had

agreed to incorporate SIGIR's open recommendations into their follow-up systems.[4] Over the next few months, DoDIG will incorporate SIGIR's open recommendations in its follow-up system. DoDIG's follow-up process is managed by its Follow-up Division. Follow-up procedures include: (1) monitoring the status of management actions to ensure DoD component managers take timely and effective corrective actions on agreed-upon findings and recommendations, (2) determining and documenting, for semiannual reporting to the Congress, the status of agreed-upon open corrective actions, for all reports exceeding one year from date of issue, (3) determining when final disposition has been made, and (4) maintaining formal records consistent with DoD Directive 7650.3 and OMB Circular A-50 regarding management actions and time schedules for responding to and acting upon findings and recommendations.

Concluding Observations and Lessons Learned

SIGIR commends DoD organizations for their actions 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.

As a temporary organization with broad authority and responsibility for the oversight of Iraq reconstruction, SIGIR develops reports that identify opportunities to improve fiscal accountability and operational effectiveness of reconstruction programs and functions. SIGIR's detailed analysis and evaluations result in recommendations that affect programs across U.S. government departments and agencies. As a result of its unique position as the first Special Inspector General for a contingency operation, SIGIR has learned important lessons concerning the audit follow-up process. The following lessons may be helpful to current and future temporary inspector general organizations.

- First, temporary inspector general organizations should establish effective tracking and follow-up processes for their recommendations early in the organizations' existence to ensure that recommendations are acted upon in a timely manner. Timing is especially important in a contingency environment where temporary management organizations can be established and disestablished in relatively short periods of time and responsibility for implementing those recommendations can quickly be overtaken by events and organizational changes. Working with permanent inspectors general in audited agencies and departments and negotiating to use their follow-up systems can be effective alternatives to establishing independent follow-up systems.
- Second, temporary inspector general organizations should direct recommendations to more permanent, higher headquarters management organizations. As stated above, temporary management organizations may be created to manage contingency operations and may not be in existence long enough to implement the recommendations. Recommendations made to temporary management organizations can easily be overtaken

[4] *USAID Is Responsive to SIGIR Recommendations*, SIGIR 11-017, 4/22/2011, and *Department of State Reports It Has Taken Action on Most Open Audit Recommendations but Further Documentation Is Needed*, SIGIR 11-023, 7/29/2011.

by events and changes in organizational structures. Directing recommendations to higher headquarters establishes accountability when temporary management organizations are disestablished.

- Third, temporary inspector general organizations should be as specific as possible concerning the actionable authorities for recommendations. Directing recommendations to multiple organizations can lead to confusion concerning specific organizational responsibilities and problems in holding management organizations accountable for implementing the recommendations.

Management Comments and Audit Response

CENTCOM commented on its three open recommendations by stating that it no longer has active contracts with Anham; pricing analysis was accomplished prior to contract award and, except for initial and final vouchers, cost vouchers are approved by the Defense Contract Audit Agency using provisional billing rates recommended by DCMA; and DCMA has contract administration authority for these contracts and is the appropriate agency to initiate a systematic review of their billing practices.

SIGIR does not consider CENTCOM's comments on the three open recommendations to be responsive. SIGIR plans to keep the recommendations open and will continue to pursue a solution to the problems identified in the Anham report.

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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.d.furbish.civ@mail.mil or Jim Shafer, Principal Deputy Assistant Inspector General for Audits (Washington, DC), (703) 604-0894/ fred.j.shafer.civ@mail.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 primarily to the Secretary of Defense and other senior Department of Defense (DoD) headquarters officials that were unresolved (i.e., open) as of September 30, 2011. The objectives of this report are to determine whether DoD officials took appropriate action to address these recommendations and whether DoD has a system to track and oversee the status of SIGIR's audit recommendations.

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 through December 2011 in Arlington, Virginia and in Baghdad, Iraq.

To determine whether DoD took action to address open audit recommendations, SIGIR reviewed 94 open recommendations that were directed to DoD officials. SIGIR closed 33 of those recommendations: 16 because DoD had implemented the recommended actions and 17 because they were overtaken by events. Another 24 were closed as a result of SIGIR's work that resulted in the SIGIR report, *Department of Defense Agencies Have Taken Action on Most Open Audit Recommendations*, SIGIR 12-004, issued October 27, 2011. The remaining 37 open recommendations were the focus of this audit.

To determine the status of the 37 open recommendations, SIGIR contacted several DoD organizations, including: the Under Secretary of Defense for Acquisition, Technology, and Logistics; the Under Secretary of Defense (Comptroller); the Under Secretary of Defense for Policy; the Deputy Under Secretary of Defense for Business Transformation; the U.S. Central Command; and the Defense Contract Management Agency. We requested that each organization provide updated information on the recommendations, including: actions taken or planned, documentation of actions taken, and confirmation if no action is planned. In determining whether the responses were sufficient to close recommendations; we evaluated their explanations and considered if there were mitigating circumstances affecting the ability to implement the recommendations. For example, we considered the impact of changes in the Iraq and 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 32 of the 37 open recommendations.

To determine whether DoD has a system to track and oversee the status of SIGIR's audit recommendations, we contacted the Office of the Deputy Secretary of Defense. We learned that DoD did not have a centralized follow-up system for SIGIR recommendations. However, the Department of Defense Inspector General (DoDIG) maintains a follow-up system for its recommendations and those of the Government Accountability Office. As a result of discussions with DoDIG officials, they agreed to include SIGIR's open recommendations in their follow-up process and tracking system.

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 report.

Internal Controls

In conducting the audit, we assessed DoD's policies and procedures for its audit follow-up process. The results of this review are presented in the body of the report.

Prior Coverage

We reviewed the following SIGIR audit reports:

Department of Defense Agencies Have Taken Action on Most Open Audit Recommendations, SIGIR 12-004, 10/27/2011.

Poor Government Oversight of Anham and Its Subcontracting Procedures Allowed Questionable Costs To Go Undetected, SIGIR 11-022, 7/30/2011.

Management of the Iraq Commander's Emergency Response Program Needs To Be Improved, SIGIR 11-021, 7/29/2011.

Commander's Emergency Response Program for 2011 Shows Increased Focus on Capacity Development, SIGIR 11-020, 7/29/2011.

Control Weaknesses Remain in Oversight of Theater-Wide Internal Security Service Contracts, SIGIR 11-018, 7/28/2011.

Sons of Iraq Program: Results Are Uncertain and Financial Controls Were Weak, SIGIR 11-010, 1/28/2011.

Interim Report: Action Needed To Address Missing Deployable Disbursing System Data, SIGIR 11-008, 1/28/2011.

Guidance Needed for Use of Residual Iraqi Vested and Seized Funds, SIGIR 11-002, 10/15/2010.

Development Fund for Iraq: Department of Defense Needs To Improve Financial and Management Controls, SIGIR 10-020, 7/27/2010.

Commander's Emergency Response Program: Projects at Baghdad Airport Provided Some Benefits, but Waste and Management Problems Occurred, SIGIR 10-013, 4/26/2010.

Development Fund for Iraq: Policy Guidance Needed To Enhance Accountability of USACE-managed Funds, SIGIR 10-006, 10/29/2009.

Full Impact of Department of Defense Program To Restart State-owned Enterprises Difficult To Estimate, SIGIR 09-009, 1/30/2009.

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

Agencies Need Improved Financial Data Reporting for Private Security Contractors, SIGIR 09-005, 10/30/2008.

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

Differences in Services and Fees for Management and Administration of Iraq Reconstruction Contracts, SIGIR 08-005, 1/29/2008.

Agency Management of the Closeout Process for Iraq Relief and Reconstruction Fund Contracts, SIGIR 07-010, 10/24/2007.

Appendix B—Open Recommendations

Table 1 lists the open audit recommendations made to the Office of the Secretary of Defense (OSD) and the U.S. Central Command (CENTCOM), as of December 31, 2011. 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, 11-022-1 refers to the first recommendation contained in SIGIR Report 11-022, *Poor Government Oversight of Anham and Its Subcontracting Procedures Allowed Questionable Costs To Go Undetected*.

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

Number	Recommendation
10-020-1 OSD	SIGIR recommends that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to update the DoD Financial Management Regulation to specify procedures for the accounting and reporting of all non-U.S. government funds made available to DoD organizations for use in future contingency operations. This guidance should also include the designation of an executive agent within DoD to be responsible for establishing and overseeing policy on the use of these funds.
11-022-1 OSD	SIGIR recommends that the Office of the Secretary of Defense change its guidance to contracting officers to give them responsibility, in cooperation with DCAA, for reviewing the reasonableness of prices charged to the government.
11-022-2 CENTCOM	SIGIR recommends that the Commander, CENTCOM, take actions to determine whether Anham and its subcontractors on this contract are “affiliates” as defined by the FAR [Federal Acquisition Regulation].
11-022-3 CENTCOM	SIGIR recommends that the Commander, CENTCOM, take actions to review all vouchers submitted under this contract to ensure that appropriate pricing analysis was conducted and that prices are fair and reasonable.
11-022-4 CENTCOM	SIGIR recommends that the Commander, CENTCOM take actions to initiate a systematic review of billing practices on all Anham cost-type prime contracts in Iraq and Afghanistan.

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

Appendix C—Acronyms

Acronym	Description
CENTCOM	U. S. Central Command
DCMA	Defense Contract Management Agency
DoD	Department of Defense
DoDIG	Department of Defense Inspector General
OMB	Office of Management and Budget
OSD	Office of the Secretary of Defense
SIGIR	Special Inspector General for Iraq Reconstruction

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 L. Pelletier

Appendix E—U.S. Central Command Comments

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UNITED STATES CENTRAL COMMAND
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CCJ4-C

23 January 2012

MEMORANDUM FOR RECORD

SUBJECT: Tasker # USCC1110610128 SIGIR Draft Audit Report 12-010

The following response is provided on SIGIR recommendations under SIGIR Draft Audit Report:

Open Recommendation 11-022-2:

Response: SCO-I has no active Anham contracts. All Anham contracts are either closed or in the process of being closed due to the December 2011 transition from C-JTSCC to OSC-I and DoS. The Anham contracts will not continue with OSC-I and DoS.

Open Recommendation 11-022-3:

Response: Price analysis is the responsibility of the Procuring Contracting Officer and was accomplished prior to contract award. Except for initial and final vouchers, cost vouchers are approved by DCAA using the provisional billing rates recommended by DCMA. Final price reasonableness (for rates only) is determined by DCMA, when the final rates are resolved and the value of the cost voucher is determined.

Open Recommendation 11-022-4:

Response: DCMA has contract administration authority for these contracts and is the appropriate agency to initiate systematic review of their billing practices. USCENTCOM does not have the authority to task DCMA as they are not a subordinate organization.

POC is Mr. Edwin Johnson, CCJ4-C, DSN 529-4087 Comm (813) 529-4087.

LEELLEN M. HALE
GS-15, DoD
Division Chief, J4-Contracting

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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.civ@mail.mil
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