

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, holding an olive branch and arrows. The eagle is positioned over a shield with vertical stripes. The seal is surrounded by text in both English and Arabic. The English text reads "INSPECTOR GENERAL" at the top and "RECONSTRUCTION" at the bottom. The Arabic text reads "المفتش العام" at the top and "إعادة إعمار العراق" at the bottom. The seal is rendered in a light, semi-transparent color.

FOLLOW-UP ON SIGIR  
RECOMMENDATIONS CONCERNING  
THE DEVELOPMENT FUND FOR  
IRAQ (DFI)

**SIGIR-06-036**  
**JANUARY 29, 2007**

# Report Documentation Page

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## SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

January 29, 2007

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

SUBJECT: Follow-up on SIGIR Recommendations Concerning the Development Fund  
for Iraq (DFI) (SIGIR-06-036)

We are providing this audit 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. This report discusses our assessment of the actions taken to address the recommendations made in six reports starting in April 2005.

A draft of this report was provided to the Chief of Mission, Joint Contracting Command-Iraq/Afghanistan, and Joint Area Support Group-Central. This report does not contain additional recommendations; therefore no written responses to this report were required or received. Verbal comments received were addressed in the final report, as appropriate.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Joseph T. McDermott, Assistant Inspector General for Audit, (703-604-0982 / joseph.mcdermott@sigir.mil); or Mr. Glenn Furbish (914-360-3573 / glenn.furbish@iraq.centcom.mil). For the report distribution, see Appendix D.

Stuart W. Bowen, Jr.  
Inspector General

cc: See Distribution

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## Follow-up on SIGIR Recommendations Concerning the Development Fund for Iraq (DFI)

SIGIR-06-036

January 29, 2007

# Executive Summary

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## Introduction

This report follows up on actions taken by U.S. government agencies to address recommendations made in previous Special Inspector General for Iraq Reconstruction (SIGIR) audit reports on the control and accountability for contracts, grants, and cash transactions using the Development Fund for Iraq (DFI). 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). In April 2006, we reported that appropriate actions had been taken to close 23 of 40 SIGIR recommendations.<sup>1</sup> Since then, we have redirected our recommendations that were made to the U.S. Ambassador as more appropriately placed under the purview of the DFI Administrator, who is also the Commanding General, JCC-I/A. This report follows up on the remaining 17 open recommendations to determine whether 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 address 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)

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<sup>1</sup> “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.

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

## Results

As of August 31, 2006, the U.S. government spent about \$1.4 million on audit services and computer equipment to satisfy SIGIR recommendations, but failed to effectively write the contract and monitor the contractor's work. The contract requirements were not specific enough and were changed twice, through modification, late in the performance period. Inspections and quality assurance surveillance were not performed. As a result, DFI accountability has only slightly improved, and seven SIGIR recommendations directed to JASG-C remain open.

As of December 30, 2006, 8 of the 17 recommendations that we reported as open in our April 2006 follow-up report are now closed and 9 remain open. Our review identified these actions taken in response to the open recommendations:

- **JASG-C.** Our April 2006 report identified seven open recommendations made to the Commander, JASG-C. At that time, we reported that JASG-C had taken action to address all seven recommendations by contracting with a private firm to review and reconcile all DFI accounts throughout Iraq. The key deliverable on the contract was a DFI accountability database with embedded scans of supporting DFI documentation. Since then, we have determined that the action did not satisfy any of the open recommendations because U.S. government agencies failed to properly write detailed requirements into the contract's statement of work and failed to effectively monitor contractor performance. Therefore, all seven recommendations remain open. Specifically, since we reported in April 2006:
  - JASG-C has taken additional action on four of the recommendations relating to the review and reconciliation of Statements of Agent Officer's Accounts. The JASG-C Comptroller has taken available records from the DFI accountability database and entered them into a separate Access database. The JASG-C Comptroller has also developed a list of paying agent names whose DFI accounts require reconciliation. We consider the actions underway to be responsive to our recommendations; however a full review and reconciliation of all DFI records has not yet been completed. Therefore, all four recommendations remain open. Our recommendations were intended to ensure that the types of problems we identified with the control and accountability of DFI cash disbursements in South-Central Iraq would also be appropriately addressed if found during the contracted accountability review of other Iraqi regions.
  - The scope of work for the DFI accountability contract did not address the three remaining recommendations, and there has been no subsequent action by JASG-C to address them. Therefore, the status of these three recommendations was downgraded from *open, actions underway*. The three recommendations are: one to establish a special team to review grant

disbursements made in other regions of Iraq to determine if the same condition exists as determined by SIGIR in the South-Central Region (*open, no action*); and two recommendations requiring that complete files supporting payment and contract/grant execution are maintained (*open, action incomplete*).

- **JCC-I/A.** Our April 2006 report identified six open recommendations made to the Commanding General, JCC-I/A. JCC-I/A has implemented a new review process that addresses these six recommendations. The new process, known as Procurement Management Reviews, provides enhanced monitoring of contracts. In addition, JCC-I/A has developed a Principal Assistant Responsible for Contracting-Iraq (PARC-I) Acquisition Instruction, which is a comprehensive guide to JCC-I/A contracting procedures in Iraq. All six recommendations have been closed.
- **DFI Administrator.** Our April 2006 report identified four open recommendations made to the U.S. Ambassador to Iraq. Because the SIGIR recommendations directed to the U.S. Ambassador have now been identified as the purview of the DFI Administrator, we have redirected the recommendations.

JCC-I/A representatives, acting under the direction of the DFI Administrator, have taken action to close two of the recommendations, and action is underway to close one other recommendation relating to the recovery of DFI funds disbursed for grants. In addition, action is underway to satisfy a recommendation to acquire a centralized database system to assemble and maintain accurate and reliable historical DFI records. JCC-I/A personnel have received training on the DFI accountability database and are in the process of reconciling records in that database with records in JCC-I/A's database of contracts. JCC-I/A actions are responsive to the two open recommendations.

## **Recommendations**

Of the 17 recommendations that were open as of our April 2006 report, 9 remain open. We consider the actions underway to be responsive for 6 of the 9. Effective action is not underway on the remaining 3 recommendations. We make no additional recommendations.

## **Management Comments and Audit Response**

We provided a draft of this report to officials with JCC-I/A, JASG-C; and the Chief of Mission. This report contains no additional recommendations; therefore no written responses were required or received. We received verbal comments from JCC-I/A and JASG-C officials. JCC-I/A officials, under the direction of the DFI Administrator, also provided adequate information to support the closure of an outstanding recommendation, which we addressed in this final report. Both JASG-C and JCC-I/A officials verbally concurred with the facts and results of this report, which we consider to be responsive.

## **Observations**

Our recommendations were intended to determine if the unsatisfactory conditions regarding the control and accountability of the DFI that were present in the South-Central Region in 2004 existed in other regions of Iraq. More than two years after we first identified these material control and accountability weaknesses, U.S. government agencies still do not know the extent of the conditions of control and accountability in the other regions.

During our follow-up review, we also observed that under JCC-I/A policy, when a contracting officer representative (COR) departs, the contracting officer has discretion to either appoint a new COR on the contract or terminate the previous COR's appointment and take on the responsibility personally. The contracting officer for the DFI accountability contract failed to follow JCC-I/A policy and appoint a new COR or terminate the departing COR's appointment. During our audit, we discussed this with JCC-I/A officials who acknowledged that the type of COR succession described in the JCC-I/A policy is a part of its internal control procedures, but in this case it was not followed. This failure represents an internal control weakness; however, because the contract has now ended, no action is required on our observation.

## **Lessons Learned**

During the course of our review of the management of the DFI accountability contract, we noted that if the statement of work had been written in sufficient detail, it could have improved the mutual understanding of requirements between the U.S. government officials and the contractor. We found that the turnover of multiple government personnel and an unclear requirements statement resulted in an unsatisfactory result in the administration and execution of the contract.

# Introduction

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## Background

Between April 2005 and January 2006, the Special Inspector General for Iraq Reconstruction (SIGIR) issued six reports addressing the use of Development Fund for Iraq (DFI) for relief and reconstruction activities. These reports were:

- 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)

Overall, these reports determined that improvements could be made in the control and accountability for contracts, grants, and cash transactions using the DFI, and we made recommendations for such improvements. In April 2006, we issued our first report that followed up on the recommendations to determine whether the U.S. Ambassador to Iraq, the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A), and the Joint Area Support Group-Central (JASG-C) have developed and implemented action plans to correct the deficiencies identified in our six DFI reports. Our April 2006 follow-up report found that actions had been taken to close 23 of 40 recommendations.

United Nations Security Council Resolution 1483, dated May 22, 2003 assigned responsibility for managing the Development Fund for Iraq 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.

On April 5, 2005, senior Chief of Mission and Multi-National Force-Iraq officials approved a memo that designated JCC-I as responsible for, “centralized coordination of the administration, accounting and reporting DFI contracts to closure.” The overall responsibility is now under the direction of the DFI Administrator, who is also the Commanding General, JCC-I/A.

## **Objective**

The overall audit objective was to assess actions taken by the DFI Administrator, the JCC-I/A, and the JASG-C on the remaining 17 open recommendations made in prior SIGIR audit reports on the accountability for contracts, grants, and cash transactions using the DFI. We also reviewed the work performed under contract W91GXQ-05-C-0014, which was let in response to our recommendations to capture DFI-related contract and financial records and associated documentation.

For a discussion of the audit scope and methodology, and a summary of prior coverage, see Appendix A. For a summary of recommendations and corrective actions, see Appendix B. 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 Open Recommendations

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This report is a second follow-up on open recommendations from six SIGIR audit reports addressing the use of the DFI for relief and reconstruction activities. The first follow-up report, dated April 28, 2006, closed 23 of the 40 total recommendations and discussed the status of the remaining 17. This report follows up on the remaining 17 recommendations: 7 recommendations to the Commander, JASG-C; 6 recommendations to the Commanding General, JCC-I/A, and 4 recommendations to the U.S. Ambassador to Iraq. Further, as a result of this review, recommendations that were originally directed to the U.S. Ambassador were identified as the purview of the DFI Administrator and have been redirected.

## Joint Area Support Group-Central (JASG-C)

The Commander, JASG-C, did not take effective action to close seven open recommendations, but action is underway to address four of the recommendations. As we reported in April 2006, JASG-C contracted for audit services in September 2005 with a private firm, Reviewer Management International, Ltd (RMI)<sup>2</sup>, in the amount of \$1,025,000 (later increased to \$1,525,000 through modification) to address the seven remaining open recommendations. The total amount included \$260,000 in reimbursable direct costs to purchase computer equipment needed to complete the contract.

The audit services were expected to satisfy SIGIR recommendations to:

- Identify errors and omissions in the Statements of Agent Officer's Accounts (DD Form 1081s) and determine the amount of cash funding provided to each Division Level Agent and Field Paying Agent, the amount of valid receipts presented by each Division Level Agent and Field Paying Agent, and whether outstanding balances exist.
- Determine if grant disbursements throughout Iraq lacked controls, as SIGIR determined they were lacking in the South Central Region.
- Ensure that complete files supporting contracts and grants are maintained.

However, we found that the JCC-I/A and JASG-C Comptroller did not effectively monitor the contract or inspect the services during the period of performance, and was unable to provide any:

- record of inspections
- record of the required bi-monthly progress reports from the contractor
- record of a plan, schedule, or performance of quality assurance

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<sup>2</sup> On September 24, 2005, a contract was awarded to Reviewer Management International, Inc. (RMI), for professional audit services (contract number W91GXQ-05-C-0014).

- monthly report by the contracting officer representative (COR) concerning performance of services under the contract
- appointment letter designating a COR to replace the last one, who left that position on June 30, 2006, as required by JCC-I/A policy

On August 6, 2006, RMI delivered a searchable database combining DFI project, contract, and financial records, with embedded scans of hard copy documents, into one electronic system. However, the outcome of this effort has not produced:

- reconciled Statements of Agent Officer's Accounts
- a review of grant files to determine if grant disbursements throughout Iraq lacked controls
- a database that ensures complete files supporting contracts and grants are maintained

The contractor stated that there were over 300,000 documents and records added to the database system. However, we found that because U.S. government agencies did not effectively state requirements in the contract or monitor the performance of the contractor, there is no assurance that the information in the searchable database is accurate or complete.

As a result, we determined that due to ineffective contract administration, the direction and outcome of these contracted services did not fully satisfy any of the seven recommendations directed to JASG-C. Furthermore, we found that no additional action was taken on three of the recommendations; therefore, the status of those recommendations has been downgraded since the April 2006 follow-up report. For a summary on the status of the seven recommendations, see Table 1.

### ***Paying Agent Accounts***

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

SIGIR recommendations 05-006 (6), (7), and (8) state that 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.

None of the four recommendations relating to pay agent accounts were effectively addressed by the RMI contract. The words "paying agent" and "Statements of Agent Officer's Account" do not appear anywhere in the original contract, the first five modifications, or either the original or revised performance-based work statement.

On June 13, 2006, the contract was modified for the sixth time extending the performance period another month at no additional cost to the U.S. government. The description section of the modification states, "the contractor is to concentrate on reconciliation of the database immediately and add additional information regarding Paying Agents as time permits." Nonetheless, we believe that if the focus of the audit services was intended to be on addressing the paying agent issues, the requirement should have been documented and emphasized in the contract earlier—certainly before the contractor had worked for nine months and the performance period was close to expiring.

JASG-C has started a process of copying thousands of records from the searchable database into an Access database for the purpose of reconciling pay agent receipts. JASG-C has developed a list of DFI paying agents whose accounts need to be reviewed. Because these actions are responsive to our recommendations, but remain in progress, the status of the four recommendations remains: **Open, Actions Underway**.

#### ***Review of Grant Files***

Another open SIGIR recommendation that was expected to be addressed by the RMI contract was recommendation 05-015 (10) relating to grants. The recommendation states, "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."

Although the DFI accountability database does have a field identifying grants, no review of the files had been performed to determine if grant disbursements throughout Iraq lacked controls as they did in the South-Central Region. Furthermore, we did not identify any other action by the JASG-C to address this recommendation. Therefore, the status of this recommendation was downgraded to: **Open, No Action**.

#### ***Supporting Documentation for Complete Contract and Grant Files***

Two SIGIR recommendations require the Commander, JASG-C to 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 complete files support transactions made for contracts and grants are maintained. In our first follow-up, we reported that JASG-C had put in place policies and procedures for disbursing DFI funds. We further reported that JASG-C has an effective follow-up system that ensures proper payments have been made.

On August 6, 2006, the contractor, RMI, delivered a searchable DFI accountability database containing DFI project, contract, and financial records, with embedded scans of hard copy documents to JASG-C Comptroller. Although the database does not include a record of every document related to DFI, a knowledgeable official at JCC-I/A stated that the database expands the amount of researchable DFI records available to U.S. government agencies. The searchable database gathers DFI project, contract, and financial data into one electronic system.

However, the database has a significant limitation for users. RMI only entered data into the database that was typed or written on the face of the document. Therefore, many fields in the database are left as default characters because data for those fields were not on the document. For example, if a pay document did not have the associated contract number typed or written on it, then RMI did not enter a contract number into the record for the pay document. Thus, a user who runs a query on a field cannot be confident of receiving the complete package of documents associated with it.

A knowledgeable senior official at the JASG-C Comptroller office stated that the DFI accountability database is only a collection of records that were not audited or effectively connected to each other. The official stated that the DFI accountability database does not add much value because of this significant limitation.

We did not identify any other JASG-C action taken for these two recommendations. Because complete files to support transactions made for contracts and grants are not effectively maintained, the status for each recommendation was downgraded to: **Open, Action Incomplete.**

**Table 1: Status of Recommendations Made to JASG-C**

REPORT NUMBER	TOTAL	CLOSED	OPEN
05-006 (CASH)	4	0	4
05-008 (CONTRACTS)	0	0	0
05-015 (GRANTS)	1	0	1
05-016 (CONTRACTS & GRANTS)	1	0	1
05-020 (CONTRACTS & GRANTS)	1	0	1
05-023 (CONTRACTS)	0	0	0
<b>TOTAL</b>	<b>7</b>	<b>0</b>	<b>7</b>

## Joint Contracting Command-Iraq/Afghanistan (JCC-I/A)

The Commanding General, JCC-I/A, has taken effective action to close six open recommendations by implementing a review process and issuing an acquisition instruction guide to address the six open recommendations directed to JCC-I/A. The reviews, known as Procurement Management Reviews, provide enhanced monitoring of contracts. JCC-I/A developed procedures and a checklist that is used to execute the reviews. The checklist comprises questions under five categories of review with references to the applicable Federal Acquisition Regulations or other criteria. The five categories are Management of the Acquisition Function; Pre-solicitation; Solicitation, Evaluation, and Award; Contract Administration; and Special Acquisition Situations and Requirements.

Also, JCC-I/A developed an acquisition instruction designed to assist incoming contracting officers on the requirements for contracting in Iraq. The instruction is a comprehensive compilation of regulations and procedures covering the entire procurement process. Included are appendices listing required contract file contents and providing examples of key documents. For a summary on the status of the six recommendations, see Table 2.

As the actions taken are responsive to our recommendations to JCC-I/A, the status of all six is now: **Closed**.

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

REPORT NUMBER	TOTAL	CLOSED	OPEN
05-006 (CASH)	0	0	0
05-008 (CONTRACTS)	2	2	0
05-015 (GRANTS)	0	0	0
05-016 (CONTRACTS & GRANTS)	2	2	0
05-020 (CONTRACTS & GRANTS)	2	2	0
05-023 (CONTRACTS)	0	0	0
<b>TOTAL</b>	<b>6</b>	<b>6</b>	<b>0</b>

## DFI Administrator

Because the SIGIR recommendations originally directed to the U.S. Ambassador have now been identified as the purview of the DFI Administrator, we redirected four open recommendations to the DFI Administrator. JCC-I/A representatives, under the direction of the DFI Administrator, have taken action to close one recommendation relating to funds recovery for contracts and one recommendation relating to funds recovery for a grant. Action is underway to close a third recommendation relating to funds recovery for grants. Also, JCC-I/A has taken action to satisfy a fourth recommendation to acquire a centralized database system to assemble and maintain accurate and reliable historical DFI

records. Some of the significant actions taken by the DFI Administrator to resolve the issues identified in our reports include the following:

- We made a recommendation to recover \$571,823 that was suspected to be overpaid on eleven DFI contracts. A JCC-I/A official reviewed the eleven contracts and attempted to resolve the possible overpayments through analysis of available documentation and by contacting contractors through e-mail and demand letters. Although no funds were recovered, JCC-I/A performed a thorough review.
- JCC-I/A representatives determined that \$154,000 in DFI from a rescinded grant remains in a bank account and they have taken steps to recover the funds. Also, JCC-I/A representatives are researching potential overpayments of DFI identified by SIGIR on grants. Following the issuance of the draft of this report, a senior JCC-I/A official provided us with additional information regarding management action taken to recover the \$154,000 from the rescinded grant. The official stated that “the U.S. government has exhausted all avenues to recoup any funds and asked that the Board of Supreme Audit<sup>3</sup> recover these funds.” This action is responsive to our recommendation.
- Action is underway to satisfy a recommendation to acquire a centralized database system in order to assemble and maintain accurate and reliable historical DFI records. JCC-I/A personnel have received training on the DFI accountability database and are in the process of reconciling records in that database with records in JCC-I/A’s database of contracts.

**As a result, two recommendations are Closed and two remain Open with Action Underway.** For a summary on the status of the four recommendations, see Table 3.

**Table 3: Status of Recommendations Made to DFI Administrator**

REPORT NUMBER	TOTAL	CLOSED	OPEN
05-006 (CASH)	0	0	0
05-008 (CONTRACTS)	1	0	1
05-015 (GRANTS)	1	0	1
05-016 (CONTRACTS & GRANTS)	0	0	0
05-020 (CONTRACTS & GRANTS)	1	1	0
05-023 (CONTRACTS)	1	1	0
<b>TOTAL</b>	<b>4</b>	<b>2</b>	<b>2</b>

<sup>3</sup> The Board of Supreme Audit is the supreme audit institution of Iraq, established as a separate and independent government institution with juridical personality empowered to enhance the economy, efficiency, effectiveness, and credibility of the Iraqi government.

# **Conclusion and Recommendations**

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## **Conclusion**

Based upon our review, we conclude that the actions taken to-date by each of the responsible organizations have closed 8 of the 17 recommendations that remained open as of our April 2006 follow-up report. Nine remain open. The responsible organizations are taking effective action on six of the recommendations; however, effective action is not underway on the remaining three recommendations.

The U.S. government spent about \$1.4 million on audit services and computer equipment to satisfy SIGIR recommendations, but failed to effectively write the contract and monitor the contractor's work. The contract's requirements were not specific enough and were changed twice through modification late in the performance period. Inspections and quality assurance surveillance were not performed. As a result, DFI accountability has only slightly improved for those recommendations that remained open in our April 2006 follow-up report. Currently:

- 6 of 6 recommendations to JCC-I/A are now closed
- 7 of 7 recommendations to JASG-C remain open
- 2 of 4 recommendations redirected to the DFI Administrator are open

## **Recommendations**

We make no additional recommendations.

## **Management Comments and Audit Response**

We provided a draft of this report to officials with JCC-I/A, JASG-C; and the Chief of Mission. This report contains no additional recommendations; therefore no written responses were required or received. We received verbal comments from JCC-I/A and JASG-C officials. JCC-I/A officials, under the direction of the DFI Administrator, also provided adequate information to support the closure of an outstanding recommendation, which we addressed in this final report. Both JASG-C and JCC-I/A officials verbally concurred with the facts and results of this report, which we consider to be responsive.

# **Observations and Lessons Learned**

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## **Observations**

Our recommendations were intended to determine if the unsatisfactory conditions regarding the control and accountability of the DFI that were present in the South-Central Region in 2004 existed in other regions of Iraq. More than two years after we first identified these material control and accountability weaknesses, U.S. government agencies still do not know the extent of the conditions of control and accountability in the other regions.

During our follow-up review, we also observed that under JCC-I/A policy, when a contracting officer representative (COR) departs, the contracting officer has discretion to either appoint a new COR on the contract or terminate the previous COR's appointment and take on the responsibility personally. The contracting officer for the DFI accountability contract failed to follow JCC-I/A policy and appoint a new COR or terminate the departing COR's appointment. During our audit, we discussed this with JCC-I/A officials who acknowledged that the type of COR succession described in the JCC-I/A policy is a part of its internal control procedures, but in this case it was not followed. This failure represents an internal control weakness; however, because the contract has now ended, no action is required on our observation.

## **Lessons Learned**

During the course of our review of the management of the DFI accountability contract, we noted that if the statement of work had been written in sufficient detail it could have improved the mutual understanding of requirements between the U.S. government officials and the contractor. We found that the turnover of multiple government personnel and an unclear requirements statement resulted in an unsatisfactory result in the administration and execution of the contract.

## **Appendix A—Scope and Methodology**

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In July 2006, we initiated this audit (Project No. 6025), to determine if appropriate corrective actions were taken to address the 17 remaining open recommendations made in six SIGIR audit reports related to deficiencies with the management and control of the Development Fund for Iraq (DFI). We also reviewed the work performed under contract W91GXQ-05-C-0014, which was let in response to the recommendations. 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, we met with the JASG-C Comptroller to obtain information regarding action taken in response to the SIGIR recommendations. Assisted by the JASG-C Comptroller staff, we also reviewed the capabilities of the searchable DFI accountability database delivered under the audit services contract with Reviewer Management International, Ltd (RMI). We obtained printouts of screen displays as evidence of the system's limitations. The JASG-C Comptroller office also provided a list of the paying agents whose records they plan to reconcile. We reviewed all documentation provided.

At the Regional Contracting Office, Baghdad, we met with the contracting officer on the DFI accountability contract and we reviewed the hard copy of the contract file. At the Republican Palace in Baghdad, we reviewed the electronic copy of the contract file.

At the JCC-I/A office, located in the Project and Contracting Office (PCO) Annex, Baghdad, we interviewed the Chief of Policy to obtain information regarding improvements to procedures and internal controls made in response to the recommendations, and we reviewed documentation supporting those changes. We interviewed JCC-I/A personnel to determine actions taken to account for potential overpayments on DFI contracts and grants. We obtained documentation of those actions.

Furthermore, we obtained supporting documentation in order to verify management action on SIGIR recommendations directed to JCC-I/A. Supporting documentation obtained and reviewed included a list of procedures and questions to be used in Procurement Management Reviews. We also obtained documentation of the review conducted by JCC-I/A at the Baghdad Regional Contracting Center from October 15-17, 2006, as well as a schedule of future reviews at other Regional Contracting Centers. In addition, we obtained and reviewed the Principal Assistant Responsible for Contracting-Iraq (PARC-I) Acquisition Instruction.

We met with a representative of the contractor, RMI, to discuss action taken to perform on the contract.

We conducted this follow-up audit from July 2006 through November 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, as well as one follow-up report. 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)
- 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)

## Appendix B—Summary of Recommendations and Corrective Actions

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This audit report is the second follow-up report on initially 40 recommendations made in six prior SIGIR reports addressing controls over DFI contracts and grants and DFI cash disbursements. In our April 2006 follow-up report we closed 23 of the 40 recommendations. This report discusses the remaining 17 recommendations.

Also, in the April 2006 follow-up report, we identified four open recommendations made to the U.S. Ambassador to Iraq that have now been identified as under the purview of the DFI Administrator. As such, we redirected those recommendations to the DFI Administrator. This report discusses action taken on the 17 recommendations that remained open, including six recommendations to the Commanding General, JCC-I/A; seven recommendations to the Commander, JASG-C; and four recommendations to the DFI Administrator. The six prior reports and their recommendation status are discussed below.

### Summary of Follow-up Status of Recommendations

Report No.	Total	JCC-I/A open	JCC-I/A closed	JASG-C open	JASG-C closed	DFI Admin. <sup>1</sup> open	DFI Admin. closed
05-006	4	0	0	4	0	0	0
05-008	3	0	2	0	0	1	0
05-015	2	0	0	1	0	1	0
05-016	3	0	2	1	0	0	0
05-020	4	0	2	1	0	0	1
05-023	1	0	0	0	0	0	1
<b>Total</b>	<b>17</b>	<b>0</b>	<b>6</b>	<b>7</b>	<b>0</b>	<b>2</b>	<b>2</b>

<sup>1</sup>DFI Admin is the DFI Administrator. The open recommendations identified in our April 2006 follow-up report as the responsibility of the Chief of Mission were redirected to the DFI Administrator.

### 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 following recommendations were reported as "open" in our April 2006 follow-up report:

**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, but the direction and outcome did not satisfy the recommendation. However, the JASG-C Comptroller has a plan to enter records from the RMI database into an Access database to facilitate reconciliation. As of August 28, 2006, 4,147 voucher records and 9,898 contract records have been entered into the Access database. The JASG-C Comptroller office has also developed a list of paying agents whose accounts need to be reviewed. Because these actions are responsive to our recommendations, but remain in progress, the status of the four recommendations remains: **Open, Actions Underway.**

**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.** In September 2005, the JASG-C Comptroller contracted for the recommended services, but the direction and outcome did not satisfy the recommendations. However, the JASG-C Comptroller has a plan to enter records from the RMI database into an Access database to facilitate reconciliation. As of August 28, 2006, 4,147 voucher records and 9,898 contract records have been entered into the Access database. The JASG-C Comptroller office has also developed a list of paying agents whose accounts need to be reviewed. The actions that are underway are responsive to our recommendations. However, because action is in progress, these recommendations remain open. **Status: Open, Actions 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 (PCO) 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 PCO complied with the memorandum.

The audit found that the Program Management Office and its successor organization, the PCO, did not fully comply with the requirements in the memorandum. The PCO 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 PCO lacked the necessary controls and adequate documentation to effectively perform its responsibilities to monitor and administer contracts funded by the DFI.

The following recommendations were reported as “open” in our April 2006 follow-up report:

**Recommendation 05-008 (3).** The Chief of Mission should provide the PCO 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 the 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 database. 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 database, it is not possible to sort the database to identify all water sector projects, nor is it possible to link specific projects to the contracts because these identifiers are not in the database.

Further, JASG-C contracted to build a centralized database of DFI financial records associated with the above contracts. Although the delivered searchable database is a centralized system comprising project, contract, and financial records, including embedded scans of documents, JASG-C personnel stated that the database does not effectively maintain accurate and reliable records. However, JCC-I/A personnel have received training on the DFI accountability database and are in the process of reconciling records in that database with records in JCC-I/A’s database of contracts. This recommendation was redirected to the DFI Administrator. **Status: Open, Actions Underway.**

**Recommendation 05-008 (4).** The Director, PCO, 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. JCC-I/A has begun executing Procurement Management Reviews. These are periodic reviews of contracts by contract specialists, contract officer representatives, and the contracting officers from each JCC-I/A sector. JCC-I/A provided to us documentation of the first review conducted at the Baghdad Regional Contracting Center. The review, based on a checklist, satisfactorily addressed the completeness of contract and grant files. In addition, JCC-I/A provided a schedule of future Procurement Management Reviews. Also, JCC-I/A has issued a PARC-I Acquisition Instruction, which establishes contracting procedures for the PARC-I. The instruction provides internal guidance including delegations of authority, work-flow procedures, and internal reporting requirements. **Status: Closed.**

**Recommendation 05-008 (5).** The Director, PCO, 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. JCC-I/A has begun executing PARC-I Management Reviews. These are periodic reviews of contracts by contract specialists, contract officer representatives, and the contracting officers from each JCC-I/A sector. JCC-I/A provided to us documentation of the first review conducted at the Baghdad Regional Contracting Center. The review, based on a checklist, satisfactorily addressed the completeness of contract and grant files. In addition, JCC-I/A provided a schedule of future Procurement Management Reviews. Also, the JCC-I/A DFI Officer, who reports to the DFI Administrator, maintains a list of pending payments on DFI contracts and receives periodic updates from the JASG-C Disbursing Officer. **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 of 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 following recommendations were reported as “open” in our April 2006 follow-up report:

**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.** JCC-I/A personnel are reviewing the grant records to identify actions to recoup possible overpayments of about \$2.7 million in DFI for eight grants. This recommendation was redirected to the DFI Administrator. **Status: Open, Actions Underway.**

**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.** In April 2006, we reported that JASG-C contracted with RMI to evaluate the DFI disbursements across Iraq. However, our latest review determined that the direction and outcome did not satisfy the recommendation. Therefore, the status of the recommendation has been downgraded since our April 2006 follow-up report. **Status: Open, No Action.**

## **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 \$2.0 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 \$4.0 million.

The following recommendations were reported as “open” in our April 2006 follow-up report:

**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 one million dollars 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 personnel have been conducting detailed close-out reviews of completed projects. JCC-I/A has begun executing Procurement Management Reviews. These are periodic reviews of contracts by contract specialists, contract officer representatives, and the contracting officer from each JCC-I/A sector. JCC-I/A provided to us documentation of the first review conducted at the Baghdad Regional Contracting Center. The review, based on a checklist, satisfactorily addressed the completeness of contract and grant files. In addition, JCC-I/A provided a schedule of future Procurement Management Reviews. Second, JCC-I/A has issued a PARC-I Acquisition Instruction, which establishes contracting procedures for the PARC-I. The instruction provides internal guidance including delegations of authority, work-flow procedures, and internal reporting requirements. **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 the PCO. JCC-I/A has begun executing Procurement Management Reviews. These are periodic reviews of contracts by contract specialists, contract officer representatives, and the contracting officer from each JCC-I/A sector. JCC-I/A provided to us documentation of the first review conducted at the Baghdad Regional Contracting Center. The review, based on a checklist, satisfactorily addressed the completeness of contract and grant files. In addition, JCC-I/A provided a schedule of future Procurement Management Reviews. In addition, JCC-I/A has issued a PARC-I Acquisition Instruction, which establishes contracting procedures for the PARC-I. The instruction provides internal guidance including delegations of authority, work-flow procedures, and internal reporting requirements. **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.** In April 2006, we reported that JASG-C had put in place policies and procedures for disbursing DFI funds. They also had an effective follow-up system whereby they periodically review the payment files to ensure proper payments have been made. We also reported that JASG-C contracted to build a centralized database of DFI financial records associated with the above contracts. The delivered searchable DFI accountability database is a centralized system comprising project, contract, and financial records, including embedded scans of documents. However, JASG-C personnel stated that the database does not effectively support complete files for contracts and grants. Therefore, the action that was underway regarding the database did not satisfy the recommendation, and the status of the recommendation for this remaining corrective action has been downgraded since our April 2006 follow-up report. **Status: Open, Action Incomplete.**

## **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 following recommendations were reported as “open” in our April 2006 follow-up report:

**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. In November 2006, JCC-I/A personnel determined that the DFI funds were still in the bank. This recommendation was redirected to the DFI Administrator. After the issuance of our draft report, a JCC-I/A senior official, under the direction of the DFI Administrator, provided additional information regarding management action on this recommendation. The official stated that “the U.S. government has exhausted all avenues to recoup any funds and asked that the Board of Supreme Audit recover these funds.” This action is responsive to our recommendation. **Status: Closed.**

**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 one million dollars 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.

Several actions were implemented to improve the DFI contract files. First, JCC-I/A personnel have been conducting detail close-out reviews of completed projects. JCC-I/A has begun executing Procurement Management Reviews. Procurement Management Reviews are periodic reviews of contracts by contract specialists, contract officer representatives, and the contracting officer from each JCC-I/A sector. JCC-I/A provided to us documentation of the first review conducted at the Baghdad Regional Contracting Center. The review, based on a checklist, satisfactorily addressed the completeness of contract and grant files. In addition, JCC-I/A provided a schedule of future Procurement Management

Reviews. Second, JCC-I/A has issued a PARC-I Acquisition Instruction, which establishes contracting procedures for the PARC-I. The instruction provides internal guidance including delegations of authority, work-flow procedures, and internal reporting requirements. **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.** JCC-I/A has addressed this recommendation. JCC-I/A has begun executing Procurement Management Reviews. These are periodic reviews of contracts by contract specialists, contract officer representatives, and the contracting officer from each JCC-I/A sector. In addition, JCC-I/A has issued a PARC-I Acquisition Instruction, which establishes contracting procedures for the PARC-I. The instruction provides internal guidance including delegations of authority, work-flow procedures, and internal reporting requirements. **Status: Closed.**

**Recommendation 05-020 (7).** The Commander, JASG-C 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.** In April 2006, we reported that JASG-C had put in place policies and procedures for disbursing DFI funds. They also had an effective follow-up system where by they periodically review the payment files to ensure proper payments have been made. We also reported that JASG-C contracted to build a centralized database of DFI financial records associated with the above contracts. The delivered database is a centralized researchable system comprising project, contract, and financial records, including embedded scans of documents. However, JASG-C personnel stated that the database does not effectively support complete files for contracts and grants. Therefore, the action that was underway regarding the database did not satisfy the recommendation, and the status of the recommendation for this remaining corrective action as been downgraded since our April 2006 follow-up report. **Status: Open, Action Incomplete.**

## **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%) 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%), 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%), totaling approximately \$2.6 million, did not contain a signed contract
- 11 contracts (1.2%), totaling more than \$5.6 million, were issued without proper authorization and 38 contracts (4.2%), 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%), 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%) 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%), 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%) 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%) did not contain disbursement documentation; 786 files (64.9%) did not contain a vendor invoice; and 838 files (69.1%) 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 recommendation:

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

**Action taken.** We made recommendations to the Ambassador to resolve the recovery or collection of overpayments 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 stated that he was working with the Commanding General of the Multi-National Force-Iraq to recover overpayments. This recommendation has now been identified as coming under the purview of the DFI Administrator and as a result was redirected to the DFI Administrator. JCC-I/A officials reviewed the eleven contracts and attempted to resolve the possible overpayments through analysis of available documentation and by contacting contractors through e-mail and demand letters. This information was made available for our review. Although no funds were recovered, JCC-I/A performed a thorough review and took appropriate actions to implement the intent of the recommendation. **Status: Closed.**

## Appendix C—Acronyms

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### Acronym

COM	Chief of Mission, the U.S. Ambassador to Iraq
COR	Contracting Officer Representative
CPA	Coalition Provisional Authority
DFI	Development Fund for Iraq
JASG-C	Joint Area Support Group-Central
JCC-I/A	Joint Contracting Command-Iraq/Afghanistan
PARC-I	Principal Assistant Responsible for Contracting-Iraq
PCO	Project and Contracting Office
RMI	Reviewer Management International, Ltd.
SIGIR	Special Inspector General for Iraq Reconstruction

## **Appendix D—Report Distribution**

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### **Department of State**

Secretary of State

Senior Advisor to the Secretary and Coordinator for Iraq

Director of U.S. Foreign Assistance/Administrator, U.S. Agency for  
International Development

Director, Office of Iraq Reconstruction

Assistant Secretary for Resource Management/Chief Financial Officer,  
Bureau of Resource Management

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

Under Secretary of Defense (Comptroller)/Chief Financial Officer

Deputy Chief Financial Officer

Deputy Comptroller (Program/Budget)

Deputy Assistant Secretary of Defense-Middle East, Office of Policy/International  
Security Affairs

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

Chief Financial Officer, U.S. Army Corps of Engineers

Auditor General of the Army

### **U.S. Central Command**

Commanding General, Multi-National Force-Iraq

Commanding General, Multi-National Corps-Iraq

Commanding General, Multi-National Security Transition Command-Iraq

Commander, Joint Area Support Group-Central\*

\*Recipient of the draft audit report

## **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**

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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:

Karen Bell

Glenn Furbish

Arlene Hunt

William Shimp

Clifton Spruill

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<b>Congressional Affairs</b>	<p>Marthena Cowart  Assistant Inspector General for Congressional Affairs  Mail: Office of the Special Inspector General for Iraq Reconstruction  400 Army Navy Drive  Arlington, VA 22202-4704  Phone: 703-604-0368  Email: <a href="mailto:marthena.cowart@sigir.mil">marthena.cowart@sigir.mil</a></p>
<b>Public Affairs</b>	<p>Denise Burgess  Assistant Inspector General for Public Affairs  Mail: Office of the Special Inspector General for Iraq Reconstruction  400 Army Navy Drive  Arlington, VA 22202-4704  Phone: 703-428-1217  Fax: 703-428-0818  Email: <a href="mailto:PublicAffairs@sigir.mil">PublicAffairs@sigir.mil</a></p>