

# *Audit Report*



## **Coalition Provisional Authority Comptroller Cash Management Controls Over the Development Fund for Iraq**

**Report Number 04-009**

**July 28, 2004**

**Office of the Inspector General  
Coalition Provisional Authority**

# Report Documentation Page

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**COALITION PROVISIONAL AUTHORITY**  
**OFFICE OF THE INSPECTOR GENERAL**

July 28, 2004

MEMORANDUM FOR U.S. AMBASSADOR TO IRAQ  
DIRECTOR, IRAQ RECONSTRUCTION MANAGEMENT  
OFFICE

SUBJECT: Coalition Provisional Authority Control Over the Development Fund for  
Iraq

We are providing this audit report for your information and use. We performed the audit in accordance with our statutory duties contained in Public Law 108-106 which mandates the conduct of audits relating to the treatment, handling, and expenditure of funds by the Coalition Provisional Authority or its successor entities on Iraq reconstruction, and of the programs, operations, and contracts carried out in utilizing such funds. We considered management comments on a draft of this report in preparing the final report.

Comments on the draft of this report were responsive to our recommendations. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Brian Flynn at (703) 343-9230 or Mr. William Whitehead at (703) 343-9229. Management may request a formal briefing on the results of this audit. See Appendix D for the report distribution.

A handwritten signature in black ink that reads "Stuart W. Bowen, Jr." with a period at the end.

Stuart W. Bowen, Jr.  
Assistant Inspector General for Auditing  
Coalition Provisional Authority

**Office of the Inspector General  
Coalition Provisional Authority**

**Report Number 04-009**

**July 28, 2004**

**Coalition Provisional Authority Comptroller Cash Management  
Controls Over the  
Development Fund for Iraq**

**Executive Summary**

**Introduction.** The Development Fund for Iraq (DFI) was established solely for the benefit of the people of Iraq. Ninety-five percent of the proceeds of all export sales of petroleum, petroleum products, and natural gas from Iraq, as well as funds from other sources, were deposited into the DFI until an internationally recognized, representative government of Iraq was properly constituted, and that five percent of the proceeds referred to in paragraph 20 of Resolution 1483 were deposited into the Compensation Fund established in accordance with Resolution 687 (1991). The major Coalition Provisional Authority (CPA) objective was to ensure that the newly established DFI and other Iraqi resources, including Iraqi petroleum and petroleum products, are dedicated to the well-being of the Iraqi people.

The DFI was to be used in a transparent manner to meet the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq's infrastructure, for the continued disarmament of Iraq, for the costs of Iraqi civilian administration, and for other purposes benefiting the people of Iraq. CPA Regulation 2 applies to the administration, use, accounting, and auditing of the DFI. The regulation was intended and applied to ensure that the DFI is managed in a transparent manner for and on behalf of the Iraqi people, consistent with Resolution 1483, and that all disbursements from the Fund were for purposes benefiting the people of Iraq. The CPA Comptroller is appointed as the DFI Fund Manager.

**Objective.** The overall objective of the audit was to determine whether the CPA instituted and used appropriate policies and procedures in accounting for, handling, monitoring, and controlling cash.

**Conclusion.** The CPA created policies and regulations which, although well-intended, did not establish effective funds control and accountability over \$600 million in DFI funds held as cash available for disbursement. This included \$200 million with the Comptroller and over \$400 million with agents. Specifically, (1) proper cash accountability was not maintained, (2) physical security was inadequate, (3) fund agent records were not complete and (4) fund managers' responsibilities and liabilities were not properly assigned. While the CPA-IG did not identify any actual losses of cash, these

funds were susceptible to fraud, waste, and abuse. During the audit we noted that management was taking corrective actions to strengthen controls.

**Recommendations.** We are making five recommendations designed to improve the funds control and accountability. We recommend that the Director of the Iraq Reconstruction Management Office, the successor to the CPA, require the Comptroller to implement a single set of existing accounting standards, standardize fund clearing requirements, develop adequate internal controls and oversight, and implement consistency between guidance and agent appointment letters.

**Management Comments.** We received comments on the draft report from the former Comptroller of the CPA and the Office of the Secretary of Defense (OSD). The former CPA Comptroller generally concurred with the findings and all five recommendations. See Appendix B for a copy of the management comments from the former CPA Comptroller. OSD officials provided additional comments to the draft report, which were considered in the preparation of the final report.

The former CPA Comptroller did not agree with our statement that the CPA had over \$400 million in DFI funds disbursed to the field with limited visibility. While acknowledging that visibility could have been improved, the former CPA Comptroller stated that records clearly reflected to whom funds had been issued. We agree that the CPA Comptroller had a record of who had received funds for further disbursement. However, we pointed out, and the former CPA Comptroller agreed, that some documentation and receipts for disbursements provided by paying agents were lacking. We changed the final report to reflect that fact.

**Audit Response.** Management comments addressed the issues raised in the findings and actions planned and taken should correct the problems.

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# Background

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## Responsibilities

**CPA Administrator.** The Coalition Provisional Authority (CPA) Administrator oversees and controls the establishment, administration, and use of The Development Fund for Iraq (DFI) for and on behalf of the Iraqi people, and directs disbursements from DFI for those purposes determined to be for the benefit of the people of Iraq. The administrator appoints a designated representative (Comptroller) as the DFI Funds Manager.

**Director, Economic Policy.** The Director, Economic Policy, CPA, or other CPA officials designated by the Administrator manage DFI, in coordination with the Central Bank of Iraq, the U.S. Federal Reserve Bank of New York, and other financial institutions. The Administrator may direct opening other accounts in other financial institutions such as, the Bank for International Settlements (Switzerland). The Central Bank of Iraq holds DFI on its books and administers DFI as directed by the Administrator or his delegates.

**Program Review Board.** CPA Program Review Board (PRB) assigns available resources to requirements identified for the relief and recovery of Iraq. The PRB in consultation with the Iraqi interim administration develops spending plans, which prioritizes disbursements of DFI.

**International Advisory and Monitoring Board (IAMB).** According to Paragraph 3G of the IAMB Terms of Reference noted in paragraph 14 of UN Resolution 1483 the IAMB<sup>1</sup> performs functions similar to those of outside audit committees and may provide information and comments to the PRB and the Administrator as appropriate to serve the purposes of Resolution 1483. The IAMB shall approve independent public accountants to audit the Fund; the Oil Proceeds Receipts Account; and auditing export sales of petroleum, petroleum products, and natural gas from Iraq.

**Independent Public Accountants.** To ensure DFI is used in a transparent manner and export sales are made consistent with prevailing international market best practices, independent public accountants have been assigned to audit DFI and all export sales of petroleum, petroleum products, and natural gas from Iraq.

## Types of Funding

**Iraqi Funds.** Iraqi funds under the control of the CPA consist of proceeds from Iraqi state-owned property and funds that have been vested<sup>2</sup> or seized<sup>3</sup> in accordance with applicable law and made available to the CPA to assist the Iraqi people and assist in the reconstruction of Iraq. All DFI monies should be used in a transparent manner to meet

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<sup>1</sup> The IAMB includes representatives of the Secretary-General of the United Nations, the Managing Director of the International Monetary Fund, the Director-General of the Arab Fund for Social and Economic Development, and the President of the World Bank.

<sup>2</sup> Vested funds are frozen Iraqi monies from the first Gulf War that were transferred to the CPA and subsequently used for the benefit of the Iraqi people.

<sup>3</sup> Seized funds are former Iraqi regime monies confiscated by coalition forces and subsequently used for the benefit of the Iraqi people.

the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq's infrastructure, for the continued disarmament of Iraq, and for other purposes benefiting the people of Iraq.

Although Iraqi funds are not subject to the same laws and regulations that apply to funds provided to the CPA directly from Coalition governments, they shall be managed in a transparent manner that fully comports with the CPA's obligations under international law, including Resolution 1483.

Funds are allocated through the National Budget Process and will be made available to the interim Iraqi Ministries in accordance with the National Budget. The interim Iraqi Ministries may draw on allocated funds by submitting a request for funds to the Iraqi Ministry of Finance.

**Commanders' Emergency Response Program.** According to Combined Joint Task Force-7, Fragmentary Order 89, dated June 19, 2003, DFI funds are used to help fund the Commanders' Emergency Response Program (CERP), which provides reconstruction assistance to the Iraqi people. These efforts include, but are not limited to water and sanitation infrastructure; food production and distribution; agriculture; electrical power generation and distribution; healthcare; education; telecommunications; projects in furtherance of economic, financial, and management improvements; transportation, and other local initiatives which further the restoration of the rule of law and effective governance.

**Rapid Regional Response Program (R3P).** The R3P was provided for in the CPA Memorandum Number 4, "Contract and Grant Procedures applicable to Vested and Seized Iraqi Property and the Development Fund for Iraq." Limited specific guidance was included and much interpretation was left to the reader. The guidance was later simplified in a coordinated effort between the CPA Comptroller's Office and the Regional Program Coordinator Office. The purpose of the program was to rapidly fund projects. These disbursements occur through the CPA Comptroller's Office in the following manner:

- Initial Disbursement-Notify in writing (email) the Regional Program Office and the Comptroller's Office of the date and amount of intended pick-up. Specify that this is for the initial disbursement of DFI funds for R3P. At least a 7-day notice is required to arrange for the pick-up of funds (This is due to the different nature of the funding source).
- Subsequent Disbursements-Regions must physically visit the CPA Comptroller's Office with the following documentation (contract or grant agreement, invoice, receiving report, and payment receipt). Once the documentation has been verified the physical funds will be released up to the funding pace allocation for the region and month. If a region is ahead of their funding pace, they may request an approval for advance release through the Regional Programs Coordinator.



## **Objective**

The overall objective of the audit was to determine whether the CPA instituted and used appropriate policies and procedures in accounting for, handling, monitoring, and controlling cash.

# **Development Fund for Iraq Cash Controls**

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The CPA created policies and regulations which, although well-intended, did not establish effective funds control and accountability over \$600 million in DFI funds held as cash available for disbursement. Specifically, proper cash accountability was not maintained, physical security was inadequate, fund agent records were not complete, and fund managers' responsibilities and liabilities were not properly assigned. Neither the initial CPA operational planners nor the Comptroller adopted existing standards such as the Department of Defense (DoD) Financial Management Regulations (FMR) to control the use of DFI. While the CPA-IG did not identify any actual losses of cash, these funds were susceptible to fraud, waste, and abuse.

**DoD Financial Management Regulations.** DoD FMR could have been easily adapted to establish policies and procedures to account for DFI cash. DoD FMR 7000.14-R, Volume 5, governs DoD financial management by establishing and enforcing requirements, principles, standards, systems, procedures, and practices necessary to comply with financial management statutory and regulatory requirements applicable to the DoD. It directs financial management requirements, systems, and functions for all appropriated, working capital, revolving, and trust fund activities. In addition, it directs statutory and regulatory financial reporting requirements. Volume 5 of the "DoD Financial Management Regulation" establishes policies and procedures for disbursement of funds included in Volume 5 are specific processes for maintaining and reporting fund accountability, appointing and managing field agents, performing cash verifications, accepting and reconciling agent accounts, and physical safeguards and controls for cash instruments. This Volume applies to all DoD Components. By implementing policies and procedures similar to DoD FMR 7000.14-R, CPA would have established proper internal controls.

**Policies and Procedures.** The CPA created policies and procedures, which although well-intended, did not establish effective controls and left accountability open to fraud, waste, and abuse. Weaknesses in accountability and funds control existed in DFI accounts. The CPA Comptroller did not establish effective procedural guidance for all forms of cash instruments in the Statement of Accountability. Additionally, the CPA Comptroller did not have complete and accurate agent fund records. Specifically, during the audit we identified the following:

- The CPA Comptroller did not include on-hand cash amounts with the overall DFI financial statements. The CPA Comptroller reduced the DFI account when the funds were provided to agents; however, these funds were not included in the overall list of DFI assets until the agents actually disbursed the funds.
- Physical security safeguards were inadequate. The CPA Comptroller did not have adequate control or access to their field safe. The key was located in an unsecured backpack.

- Fund managers' responsibilities and liabilities were not properly assigned. The CPA Comptroller was designated as the DFI Fund Manager. However, the appointment did not define the specific responsibilities for the fund manager or designate the manager's pecuniary liability.

**Statement of Accountability.** We attempted to reconcile the Statement of Accountability, DFI Sources and Uses of Funds, and the DFI Statement as of April 1, 2004. Although we could cross-reference three amounts from the Statement of Accountability with the other two records, we were unable to reconcile the information overall. Management stated that when the DFI operation was initially created in 2003, guidance was not well defined nor were any clear policies and procedures provided. As a result, each Comptroller continued business as their predecessor. Since the DFI is used to fund Iraq's government operations, business continued at a rapid pace. This made it difficult for the CPA Comptroller to change the process and procedures. The DFI is operated and accounted for on a cash basis. Accountability using cash basis accounting is difficult to manage because funds should be reconciled on a daily basis.

**Physical safeguards.** During our cash verification on April 14, 2004 we observed several physical safeguard violations. Keys to the safe were kept in the disbursing officer's unattended backpack. Also, the disbursement officer left the room and lost prevue over the open safe.

**Fund Agents.** The CPA did not effectively manage their fund agents. Specifically, the following was observed during the audit:

- Disbursing agents had inadequate internal controls.
- Paying agents had unclear guidance.
- Paying agent appointment letters were either not signed or not consistent with published guidance.

**Internal Controls for Disbursing Agents.** Officials at 15 locations did not always properly document or maintain accountability for agent advances and returns. Specifically:

- DD Form 1081 is used to account for the flow of monies to the Division Level Agent (DLA) from the Comptroller. This is the transaction record used to enter withdrawals or deposits into the cash ledger. The documents are negotiable items when completed. The DLA is then fully accountable for the amounts listed. Disbursing agents did not properly complete DD Form 1081. We identified DD Form 1081's that were not signed, improperly filled out, or contained handwritten changes that were not initialed for the advancement of funds.
- Disbursing agents at 14 locations did not provide a register of cleared receipts from their field level agents. As a result, the Comptroller prepared a listing of receipt totals to verify the sum of the receipt submission. In the event of a missing receipt, additional work is required to determine what receipts are missing. The agents should maintain a register at their respective sites to maintain a daily balance in their possession. Providing a copy of this register would expedite the clearing process.

- Disbursing agents did not present proper support to the invoices for funds disbursed. We identified multiple instances of either no receipts or inadequate descriptions for services received. A judgmental sample of 26 cleared receipts were selected for validation, of the 26 receipts, 25 had no supporting invoices in the documentation providing payment support. Additionally, all were missing at least one of the required four signatures on the form and three were missing two of the four required signatures.
- CPA issued guidance requiring receipt submissions at least monthly. Five of the 15 DLA's were in excess of 35 days since their last face-to-face clearing. During April 2004 security problems in the south prohibited personnel movement for about 7 days. The monthly clearing of receipts aids in the loss of vital historical information in the event of unforeseen catastrophic actions in the field. The cleared receipts are then maintained at the Comptroller's office. The DLA is then only responsible for a month's worth of funding at a time.

**Guidance for Funding Agents.** Changes directed in March 2004 by the CPA Comptroller, were included in the new appointment letters signed by the DLAs'. However, the guidance contained in the appointment letters for R3P was not consistent with previous agent responsibilities. The CPA Comptroller directed the R3P funds to be treated the same as the CERP funds for purposes of disbursement and clearing. Of the 15 DLAs on record at the time of the review, 3 appointment letters were missing from the comptroller files.

**Appointment Letters for Funding Agents.** Officers, enlisted members, or civilian employees may be appointed to the position of DLA. Accountable positions as agents are established and approved locally by the CPA Comptroller. The next levels, Field Paying Agent (FPA) or Project Purchasing Officer, are appointed in writing by the appropriate official.

All appointment letters, regardless of agent type, should include the specific duties and limitations, effective date, duration of the appointment, and the name of the individual being relieved, if any. Also, the appointed individual must acknowledge appointment and acceptance of the position on the original and all copies of the appointment letter and the letter must include the statement of accountability and liability. Appointment letters are maintained in a permanent file at the activity to show the successive holders of each position and retained for a period not less than 6 months after the individual ceases to serve in the position.

During the audit we identified 15 DLA's that received funds from the Comptroller. Three agents did not have a signed appointment letter and two DLA's that disbursed funds to the FPAs, had signed appointment letters from the field commanders. Without the signed letters, signature verification of the receipts during the clearing process is unverifiable.

During the audit, Comptroller personnel developed and implemented a DLA training program to standardize practices in the field. Also, new agent appointment letters were prepared consistent with applicable guidance.

**Fund Managers.** Fund managers' responsibilities and liabilities were not properly assigned. The CPA Comptroller was designated as the DFI Fund Manager. However, the appointment did not define the specific responsibilities for the Fund Manager or designate the manager's pecuniary liability.

Neither the initial CPA operational planners nor the Comptroller did not establish controls such as controls outlined in the DoD FMR. The CPA Comptroller should have established policies to ensure DFI cash was properly administered. If the DoD FMR were used as guidance, the Fund Manager's responsibilities and pecuniary liability would be spelled out in appointment letters. More importantly, by establishing DoD FMR type controls, an appointee would be required to acknowledge receipt and understanding of the policies and procedures. This is important documentation to ensure that a Fund Manager understands their liability for any losses or misuse.

**Internal Controls.** These conditions occurred because the CPA Comptroller did not initially develop adequate internal controls to provide sufficient oversight of the DLA's, clear guidance on CERP and R3P Fund accountability, and ensure consistency between the guidance and the agent appointment letters. Also, the Comptroller did not standardize the requirements for clearing the funds.

Of the \$400 million available for disbursement in the field, as much as \$50 million was cleared without proper receipts to validate payments. Seven of the fifteen DLAs cleared receipts in the Comptroller's Office. We reviewed a judgmental sample of the DLAs cleared receipts (one submission for each DLA). During the review, we found that there were no supporting receipts for some invoices; receipts were cleared with limited explanations of services or materiel received; and funds were disbursed for services that were contradictory to the allowable expenses.

**Financial Contractor Performance.** CPA Regulation 2 required the CPA to obtain the services of an independent certified public accountant firm to ensure the DFI was administered and used in a transparent manner for the benefit of the people of Iraq. In October 2003 a \$1.4 million contract was awarded to North Star Consultants, Inc. that required the contractor to perform a review of internal controls and provide the CPA a written report of their evaluation. The North Star Consultants did not perform a review of internal controls as required by the contract. Consequently, internal controls over DFI disbursements were not evaluated. In addition, the Comptroller verbally modified the contract and employed the contractor to primarily perform accounting tasks in the Comptroller's office.

**Recommendations.** We recommend that the Director of the Iraq Reconstruction Management Office, the successor to the Coalition Provisional Authority, require the Comptroller to establish adequate internal controls including:

1. Implement a single set of existing standards such as the DoD FMR to control the use of DFI.
2. Standardize the requirements for clearing the funds.

3. Establish oversight of the division level agents.
4. Provide clear guidance on CERP and R3P Fund accountability.
5. Implement consistency between guidance and agent appointment letters.

**Management Comments.** We received comments on the draft report from the former Comptroller of the CPA and the Office of the Secretary of Defense (OSD). The former CPA Comptroller generally concurred with the findings and all five recommendations. See Appendix B for a copy of the management comments from the former CPA Comptroller. OSD officials provided additional comments to the draft report, which were considered in the preparation of the final report.

The former CPA Comptroller did not agree with our statement that the CPA had over \$400 million in DFI funds disbursed to the field with limited visibility. While acknowledging that visibility could have been improved, the former CPA Comptroller stated that records clearly reflected to whom funds had been issued. We agree that the CPA Comptroller had a record of who had received funds for further disbursement. However, we pointed out, and the former CPA Comptroller agreed, that some documentation and receipts for disbursements provided by paying agents were lacking. We changed the final report to reflect that fact.

**Audit Response:** Management comments addressed the issues raised in the findings and actions planned and taken should correct the problems.

## **Appendix A: Scope and Methodology**

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We reviewed the Coalition Provisional Authority (CPA) Regulation 2 “Developmental Fund for Iraq,” June 10, 2003; CPA Memorandum 4 “Contract and Grant Procedures Applicable to Vested and Seized Iraqi Property and the Developmental Fund for Iraq,” August 19, 2003; and Fragmentary Orders 89 and 1268. We performed this audit from April through June 2004 in accordance with generally accepted government auditing standards.

To determine effectiveness of Division Level Agent (DLA) funds accountability we conducted a review of the fifteen DLAs having funds in their possession on March 17, 2004. Seven of the fifteen had cleared receipts and a judgmental sampling was conducted of those receipts to determine if cleared in accordance with published procedures.

To determine whether effective procedures were in place, we conducted a surprise cash count on April 14, 2004 and reviewed physical safeguard procedures. We reviewed policies and procedures within the Comptroller’s office.

**Scope Limitation.** Our scope was limited due to time and resource constraints. Specifically, the lack of secure transportation prevented us from traveling to any field paying agents to conduct cash counts and funds reconciliation.

**Use of Computer-Processed Data.** We did not use computer-processed data to perform this audit.

## **Appendix B: Management Comments from Project and Contracting Office Disbursing Officer**

**PROJECT AND CONTRACTING OFFICE**  
Baghdad, Iraq

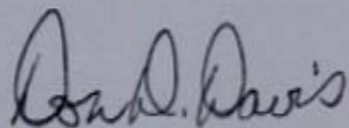
20 July 2004

MEMORANDUM FOR DIRECTOR, IRAQ RECONSTRUCTION AND  
MANAGEMENT OFFICE

Subj: Draft Report – Audit of the Coalition Provisional Authority Control of the  
Development Fund for Iraq (Project No. D2004-DCPAAF-0002)

The following audit contains five recommendations in the subject draft is directed at the Coalition Provisional Authority (CPA) Comptroller's Office. The CPA is no more. As the former Comptroller for the CPA, I provide these comments on the subject report. While we agree in general with these comments and findings, many corrective actions were underway prior to this audit.

More specific comments are attached at Tab A. If you wish further information on this memorandum, please contact me at 703-343-8955.



DON D. DAVIS, Col, USAF  
PCO Disbursing Officer



## Management Comments for Draft Report

**Management Comments:** This draft report addresses five specific findings. Specifically, these findings address **cash accountability, physical security, internal controls, fund managers' responsibilities and liabilities, and financial contractor performance.**

While we agreed in general with comments and findings in this draft report related to oversight of the DFI, it is important to recognize that during the timeframe this audit covered, DFI procedures were continuously being improved and modified. In fact, many of the findings identified in this report were already being addressed by this staff. In some cases, this office requested assistance in working solutions with the CPA IG. These efforts along with assistance from the CPA IG have resulted in improved accountability of the DFI.

**Cash Accountability: Concur with Comment.** The issue at question relates to the transfer of cash from the Central Bank of Iraq to the Palace Vault prior to being issued to the disbursing liaison agents (DLA). Periodically, Comptroller was required to issue cash to CERP and R3P DLAs. Upon notification of these requirements, Comptroller would arrange to withdraw funds from the Central Bank of Iraq to issue to DLAs. This cash was temporarily stored in the palace vault under the control of the 126<sup>th</sup> Finance Battalion for very short periods of time, usually one or two days. The funds were then transferred on 1081s to the DLA. We did not record the transfer of cash to the vault for these transactions—but rather from bank to the DLAs. In mid May, we assume responsibility of the vault and modified our financial statement to reflect the movement of funds from the bank to our vault. At this time, the CPA-IG staff raised the issue of funds in the vault. As a result, the financial statement was modified to reflect temporary holdings.

**Physical Security Safeguards. Concur.** We concur that this instance in question that security procedures were breached.

**Internal Controls for Disbursing Agents. Concur with Comment:** We concur that some of records were incomplete at the time of this audit. We further concur that funds passed to Field Level Agents were not always complete. In addition, we concur that many documents and receipts were not in compliance. This is attributed primarily to the quick implementation of the R3P program and lack of training. At the time of this audit, we were in the process of updating appointment letters and providing training. Initial plans to conduct mass training in April were cancelled due security problems. Instead, we provide refresher training as DLAs come in for periodic reconciliation of accounts before any additional funds were provided. We also revised guidelines for R3P DLAs to mirror procedures under the CERP program.

Attached is a copy of the training package used. **Note: This management comment applies to both the Guidance for Funding Agents, and Appointment Letters.**

**Adoption of DoD Financial Management Regulation policies. Concur with Comment.** The finding states that CPA could have used these policies to improve visibility of the DFI. We used the DoD FMR as a guide for developing policy and procedures. However, the DFI are not appropriated funds. The wide uses of the DFI along with factors encountered in this environment required flexibility not affordable under the strict interpretation of DoD FMR. Again, we did apply these DoD guidelines whenever possible.

**Funds Managers Responsibilities and Liabilities: Non concur.** The audit suggests that we had limited oversight of over \$400M. This statement is incorrect. While we agree that visibility could have been improved, Comptrollers records clearly reflect to whom these funds were issued. Once distributed to Disbursing Liaison Agents (DLA), funds are further disbursed to Field Paying Agents (FPA). DLAs reconcile with FPAs and then return all money and receipts. In addition, monthly reports were provided by CERP via CJTF-7 and the R3P program coordinator on the status of the programs monthly. We concur that some documentation and receipts provided by paying agents were lacking. In fact, some of these problems were highlighted to the CPA IG. Nevertheless, oversight of these funds was always known and tracked to the disbursing liaison agent.

**Financial Contractor Performance. Concur.** Northstar did not perform a review of internal controls down to the ministry level. However, this was the result of change in the CPA mission. The decision to dissolve the CPA on 30 June, shortly after the initial contract was in force resulted in a modification to initial Northstar requirements. We concur that the contract should have been modified to reflect this change.

#### **RECOMMENDATIONS:**

1. Implement a single set of existing standards such as the DoD Financial Management Regulations to control the use of DFI. **Concur with comment.** DFI are not appropriated funds. The variety of uses of the DFI, the sensitivity of priority and time sensitive use of these funds along with the operating environment—both here in Baghdad as well as in the field required flexibility to operations not affordable under the strict interpretation of DoD FMR. Nevertheless, with possible and practical we used the DoD FMR as a guide for our operations.
2. Standardize the requirements for clearing the funds: **Concur**
3. Develop adequate internal controls which provide for sufficient oversight of the division level agents. **Concur**
4. Provide clear guidance to CERP and R#P Fund accountability. **CONCUR**
5. Implement consistency between guidance and agent appointment letter. **CONCUR<sup>4</sup>**

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<sup>4</sup> Recommendations 4 and 5 were inadvertently left off the PDF file received from Col Davis and were added with his verbal permission to ensure management comments were included in this report as intended.

## Appendix C: Acronyms

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CPA	Coalition Provisional Authority
CERP	Commanders' Emergency Response Program
DFI	Development Fund for Iraq
DLA	Division Level Agent
DoD	Department of Defense
FMR	Financial Management Regulation
FPA	Field Paying Agent
IAMB	International Advisory and Monitoring Board
OSD	Office of the Secretary of Defense
PRB	Program Review Board
R3P	Rapid Regional Response Program
UN	United Nations

## **Appendix D: Report Distribution**

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### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)/Chief Financial Officer  
Director, Program Analysis and Evaluation  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Inspector General, Department of Defense  
Director, Defense Procurement and Acquisition  
Department of Defense, Iraq Support Group  
Deputy for Policy

### **Office of the Secretary of State**

Inspector General, Department of State  
Director, Iraq Project and Contracting Office  
Director, Iraq Reconstruction Management Office

### **Department of the Army**

Assistant Secretary of the Army, Acquisition, Logistics & Technology  
Auditor General, Department of the Army

### **Other Defense Organizations**

Director, Defense Contract Audit Agency  
Director, Defense Contract Audit Agency

### **Federal Government Organizations**

Office of Management and Budget  
Government Accountability Office  
Inspector General, Department of Commerce  
Inspector General, Health and Human Services  
Inspector General, U.S. Agency for International Development

### **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
Senate Committee on Foreign Relations  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform  
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform  
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

## **Appendix E: Audit Team Members**

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The Financial Management Division, Office of the Assistant Inspector General for Auditing, Coalition Provisional Authority, prepared this report.

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