

Audit

Report



**Administration of Contracts Funded by the
Development Fund for Iraq**

Report No. 05-008

April 30, 2005

Office of the Special Inspector General for Iraq Reconstruction

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SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

April 30, 2005

MEMORANDUM FOR U.S. AMBASSADOR TO IRAQ
COMMANDER, MULTI-NATIONAL FORCE - IRAQ
DIRECTOR, PROJECT AND CONTRACTING OFFICE
COMMANDER, JOINT AREA SUPPORT GROUP – CENTRAL
(PROVISIONAL)

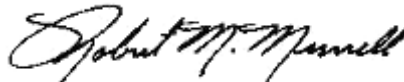
SUBJECT: Administration of Contracts Funded by the Development Fund for Iraq
(Report Number 05-008)

We are providing this audit report for your review and comment. We performed the audit in accordance with our statutory duties contained in Public Law 108-106, as amended, which mandates the independent and objective conduct of audits relating to the programs and operations funded with amounts appropriated or otherwise made available to the Iraq Relief and Reconstruction Fund. Public Law 108-106, as amended, requires that we provide for the independent and objective leadership and coordination of and recommendations on policies designed to promote economy, efficiency, and effectiveness in the administration of such programs and operations and to prevent and detect waste, fraud, and abuse.

The Chief of Mission of the United States Embassy Baghdad and the Commander, Multi-National Force - Iraq did not respond to the draft report. However, we considered comments from the Director, Project and Contracting Office and the Commander, Joint Area Support Group - Central when preparing the final report.

We request comments on the final report from the Chief of Mission of the United States Embassy Baghdad and the Commander, Multi-National Force - Iraq by May 16, 2005. Please send management comments in electronic format (Adobe Acrobat file only) to Mr. James P. Mitchell at jim.mitchell@sigir.mil. Copies of the management comments must contain the actual signature of the authorizing official.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. James P. Mitchell at jim.mitchell@sigir.mil or at (703) 428-1100. For the report distribution, see Appendix E.


Robert M. Murrell
Deputy Inspector General

Office of the Special Inspector General For Iraq Reconstruction

Report Number 05-008

(Project No. D2004-DCPAAF-0033)

April 30, 2005

Administration of Contracts Funded by the Development Fund for Iraq

Executive Summary

Introduction. This audit report discusses procedures used by the Project and Contracting Office (PCO), formerly the Program Management Office (PMO), to monitor the administration of contracts funded by the Development Fund for Iraq (DFI).

On June 15, 2004, in a memorandum for the Director, PMO, "Administration of Development Fund for Iraq (DFI)-Funded Contracts" (the Memorandum), the Iraqi Interim Government Minister of Finance designated the Director of the PMO with the responsibility to monitor and confirm performance, certify and/or make payments, and otherwise administer contracts or grants that:

- were funded with monies from the DFI
- were awarded on or before June 30, 2004, by the Coalition Provisional Authority or the Multi-National Force - Iraq in accordance with Resolution 1483 and implementing regulations
- required the continued performance and/or payment of money originating from the DFI past June 30, 2004
- are not the subject of a fully-funded letter of credit intended to otherwise ensure performance under the contract or grant

The Memorandum required the PMO to provide to the Ministry of Finance, as soon as practicable, a breakdown of contracts by each Iraqi Interim Government ministry to which the PMO was a party. The Memorandum also stated that the aggregate value (the amount awarded) of contracts authorized to be administered by the PMO could not exceed \$800 million but provided that the Minister of Finance or another designated Ministry official could increase this limit at their discretion.

Objective. The overall objective of the audit was to determine whether the PCO complied with the Minister of Finance, Iraqi Interim Government, memorandum, "Administration of Development Fund for Iraq (DFI)-Funded Contracts," June 15, 2004. Specifically, we were to determine whether the Director, PCO, effectively implemented the assigned responsibilities under the Memorandum to monitor and confirm contract performance, certify and/or make payments, and administer contracts or grants funded with monies from the DFI. Due to the absence of documentation and the impracticality of extended travel to all the PCO regions, we were unable to confirm contract performance for all the contracts reviewed or fully assess all aspects of the administration of contracts and grants.

Further, because the Joint Area Support Group - Central (JASG-C) Comptroller, rather than the PCO, had responsibility for certifying and making payments, we modified our original objective to determine whether the Director, PCO, effectively monitored contracts to ensure: the accurate recording of obligations, payments, and unpaid obligations; timely payments; and sufficient documentation for contracts and grants funded with monies from the DFI.

Results. The PCO did not fully comply with the requirements described in the memorandum from the Iraqi Interim Government Minister of Finance to the Director, PMO, “Administration of Development Fund for Iraq (DFI)-Funded Contracts,” June 15, 2004, to monitor DFI contract administration. 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 PCO lacked the necessary controls and adequate documentation to effectively perform its responsibilities to monitor and administer contracts funded by the DFI.

The audit identified material management control weaknesses in the accounting for DFI contract liabilities and significant deficiencies in contract administration. Consequently, there was no assurance that fraud, waste, and abuse did not occur in the management and administration of contracts funded by the DFI, that DFI funds were used in a transparent manner, or that DFI funds were used for the purposes mandated by Resolution 1483.

Management Actions. During our review, PCO officials initiated actions to develop a new database and input data that incorporated DFI payment voucher information and validated contract obligation and liability amounts. However, we completed our audit work before data input was finalized. Therefore, we could not verify the accuracy of data recorded in the new database.

In addition, the JASG-C Comptroller initiated a tasking that was issued by the Chief of Mission of the United States Embassy Baghdad to the “Heads of All American Agencies Represented in Iraq” on January 14, 2005, to provide data for a comprehensive list of DFI contracts and obligations. This data, when obtained, should assist the PCO with the identification of DFI contract liabilities. However, we could not verify the accuracy of the information because we completed our audit work before the Chief of Mission of the United States Embassy Baghdad (Chief of Mission) collected the data.

Because management actions were still ongoing at the time our audit work was concluded, we could not assess the effectiveness of those actions.

Recommendations. We recommend that the Chief of Mission and the Commander, Multi-National Force - Iraq:

- Define and assign the PCO and JASG-C Comptroller roles, responsibilities, and methods to effectively manage and accurately determine the current value of obligations, payments, and unpaid obligations for DFI contracts.
- Direct the assessment of comptroller and financial management tasks to determine if existing functions could incorporate or support management responsibilities for the DFI.
- Provide the PCO and the JASG-C Comptroller with automated accounting and contracting systems to maintain accounting, disbursing, and contract records for the DFI to assemble and maintain accurate and reliable historical records.

We recommend that the Director, PCO and the JASG-C Comptroller develop and coordinate standard procedures, controls, and organizational functions needed to maintain DFI records, paying particular attention to the necessary controls and adequate documentation to effectively monitor and administer contracts funded by the DFI.

We recommend that the Director, PCO establish procedures to verify that contracting officers maintain and monitor contract execution data for each contract awarded.

We recommend that the JASG-C Comptroller require that all agents issuing DFI funds comply with existing guidance for the separation of duties, including specific written instructions and checklists for making proper payments.

Management Comments and Audit Response. The Director, PCO and the Commander, JASG-C concurred with the findings and recommendations. However, both provided suggestions for changes to the draft report to clarify the executive summary, background, findings, and recommendations. We evaluated management's comments, determined that all were responsive, and made all of the changes suggested. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the Director, PCO and the Commander, JASG-C comments.

We provided a draft of this report on April 4, 2005, to the Chief of Mission and Commander, Multi-National Force - Iraq. No management comments to the draft of this report were received. Therefore, we request that the Chief of Mission and Commander, Multi-National Force - Iraq provide comments on this final report by May 16, 2005.

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Introduction

Background

This audit report discusses procedures used by the Project and Contracting Office (PCO), formerly the Program Management Office (PMO), to monitor the administration of contracts funded by the Development Fund for Iraq (DFI).

Coalition Provisional Authority. Coalition Provisional Authority (CPA) Regulation Number 1, May 16, 2003, was issued by Ambassador L. Paul Bremer III, “Pursuant to my authority as Administrator of the Coalition Provisional Authority, relevant United Nations Security Council resolutions, including Resolution 1483 (2003), and the laws and usages of war. . . .” CPA Regulation Number 1 stated:

The CPA shall exercise powers of government temporarily in order to provide for the effective administration of Iraq during the period of transitional administration, to restore conditions of security and stability, to create conditions in which the Iraqi people can freely determine their own political future, including by advancing efforts to restore and establish national and local institutions for representative governance and facilitating economic recovery and sustainable reconstruction and development.

The Development Fund for Iraq. United Nations Security Council Resolution 1483 (Resolution 1483), May 22, 2003, noted the establishment of the DFI and assigned responsibility for managing the fund to the CPA. Resolution 1483 noted that DFI funds should be disbursed at the direction of the CPA, in consultation with the Iraqi interim administration. Resolution 1483 also required the DFI funds 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. 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, DFI funds were managed by the CPA Comptroller.

Coalition Provisional Authority Memorandum 4. CPA Memorandum Number 4, “Contract and Grant Procedures Applicable to Vested and Seized Iraqi Property and the Development Fund for Iraq, Implementation of Regulation Number 3, Program Review Board,” August 19, 2003, “establishes procedures applicable to the execution of contracts and grants for the benefit of the Iraqi people using Iraqi Funds . . .” The memo directs that “the CPA will manage and spend Iraqi Funds, which belong to the Iraqi people, for their benefit . . . in a transparent manner that fully comports with the CPA’s obligations under international law, including Resolution 1483.” The memo also states:

Consistent with their programmatic responsibility to ensure that contractors and grantees properly perform their duties, Contracting Officers shall be responsible for regularly monitoring the post-award execution of all Contracts they approve. This monitoring process includes ensuring that the contractor provides the agreed upon goods, services or construction in accordance with the provisions, and that payments are made in a timely manner. Contracting Officers shall include in the Contract file a written report describing post-award performance by contractors or grantees, including a final assessment upon completion of the Contract. Contracting Officers shall rely upon locally available military engineering resources in assessing all repair and construction projects. All documents related to the establishment and execution of Contracts will be maintained in a Contract file that includes the materials described in Appendix A to this Memorandum.

Project and Contracting Office. National Security Presidential Directive 36, “United States Government Operations in Iraq,” May 11, 2004, established the PCO. National Security Presidential Directive 36 directed the PCO to provide acquisition and project management support with respect to activities in Iraq and to the Chief of Mission of the United States Embassy Baghdad (Chief of Mission), as requested by the Secretary of State and heads of other departments and agencies. On June 22, 2004, the Deputy Secretary of Defense established the PCO within the Department of the Army and directed the PCO to provide support related to the close-out of the CPA. The PCO was made responsible for all activities associated with asset, financial, program, and project management and for managing both construction and non-construction activities across six major sectors:

- buildings, education, and health care
- electricity
- oil
- public works and water
- security and justice
- transportation and communications

Project Management Office. The CPA was the authority responsible for the temporary governance of Iraq through June 28, 2004. Thereafter, the Iraqi Interim Government (IIG) was the authority responsible for the governance of Iraq. The responsibility for the DFI transferred from the CPA to the IIG on June 28, 2004. The PMO, as part of the CPA, ceased to exist on June 28, 2004, and the PCO was established to replace the PMO.

Objective

The overall objective of the audit was to determine whether the PCO complied with the Minister of Finance, IIG, memorandum, "Administration of Development Fund for Iraq (DFI)-Funded Contracts," June 15, 2004. Specifically, we were to determine whether the Director, PCO, effectively implemented the assigned responsibilities under the Memorandum to monitor and confirm contract performance, certify and/or make payments, and administer contracts or grants funded with monies from the DFI. Due to the absence of documentation and the impracticality of extended travel to all the PCO regions, we were unable to confirm contract performance for all the contracts reviewed or fully assess all aspects of the administration of contracts and grants.

Further, because the Joint Area Support Group - Central (JASG-C) Comptroller, rather than the PCO, had responsibility for certifying and making payments, we modified our original objective to determine whether the Director, PCO, effectively monitored contracts to ensure: the accurate recording of obligations, payments, and unpaid obligations; timely payments; and sufficient documentation for contracts and grants funded with monies from the DFI.

For a discussion of the audit scope, methodology, and a summary of prior coverage, see Appendix A. For other matters of interest, see Appendix B. For definitions of the acronyms used in this report, see Appendix D. For a list of the audit team members, see Appendix F.

Administration of Contracts Funded by the Development Fund for Iraq

The PCO did not fully comply with the requirements described in a memorandum from the IIG Minister of Finance to the Director, PMO, “Administration of Development Fund for Iraq (DFI)-Funded Contracts,” June 15, 2004, to monitor DFI contract administration. 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 PCO lacked the necessary controls and adequate documentation to effectively perform its responsibilities to monitor and administer contracts funded by the DFI.

These deficiencies occurred because the Chief of Mission and Commander, Multi-National Force – Iraq (MNF-I), did not define and assign roles, responsibilities, and methods to effectively manage DFI liabilities. Further, the Chief of Mission and Commander, MNF-I, did not assess comptroller and financial management tasks to determine if existing functions could incorporate or support management responsibilities for the DFI. In addition, the Chief of Mission and Commander, MNF-I, did not provide automated accounting and contracting systems to maintain accounting, disbursing, and contract records for the DFI; and appropriate actions were not taken to develop such systems. The Director, PCO, did not establish effective procedures or maintain adequate documentation to effectively perform its responsibilities to monitor and administer contracts funded by the DFI. We determined that the Director, PCO and the JASG-C Comptroller did not develop and coordinate standard procedures, controls, and organizational functions to maintain DFI records.

The audit identified material management control weaknesses in the accounting for DFI contract liabilities and significant deficiencies in contract administration. Consequently, there was no assurance that fraud, waste, and abuse did not occur in the management and administration of contracts funded by the DFI, that DFI funds were used in a transparent manner, or that DFI funds were used for the purposes mandated by Resolution 1483.

Authority for the Administration of Contracts

The Memorandum discussed below outlined the specific roles and responsibilities for the administration of DFI-funded contracts by the PMO. However, because the CPA (which included the PMO) was dissolved on June 28, 2004, the requirements of the Memorandum were subsequently applied to the PCO.

Iraqi Interim Government Ministry of Finance Memorandum. On June 15, 2004, in a memorandum for the Director, PMO, “Administration of Development Fund for Iraq (DFI)-Funded Contracts” (the Memorandum), the IIG Minister of Finance designated the Director of the PMO with the responsibility to monitor and confirm performance, certify and/or make payments, and otherwise administer contracts or grants that:

- were funded with monies from the DFI
- were awarded on or before June 30, 2004, by the CPA or the MNF-I in accordance with Resolution 1483 and implementing regulations
- required the continued performance and/or payment of money originating from the DFI past June 30, 2004
- are not the subject of a fully-funded letter of credit intended to otherwise ensure performance under the contract or grant

The Memorandum required the PMO to provide to the Ministry of Finance, as soon as practicable, a breakdown of contracts by each IIG ministry to which the PMO was a party. The Memorandum also stated that the aggregate value (the amount awarded) of contracts authorized to be administered by the PMO could not exceed \$800 million but provided that the Minister of Finance or another designated Ministry official could increase this limit at their discretion. For a copy of the Memorandum, see Appendix C.

The JASG-C Comptroller assumed responsibility for the cash management of the DFI funds for these contracts on the dissolution of the CPA. The IIG incrementally increased the amount to be administered and, as of December 24, 2004, the JASG-C Comptroller was authorized to certify and disburse funds for contracts with an aggregate value of \$2.8 billion of DFI funds.

The Development Fund for Iraq Sub-Account. The Memorandum further stated that as long as the PMO complied with all of the requirements of the Memorandum and CPA Memorandum Number 4, funds would be transferred from the Central Bank of Iraq/Development Fund for Iraq/Transition account¹ into an account in the Central Bank of Iraq, Rafidain Bank, and/or Rasheed Bank for further disbursement by the PMO.

The Memorandum gave the PMO, and subsequently the JASG-C Comptroller, the authority to make disbursements from the latter accounts to carry out the duties prescribed by the Memorandum. The sub-account also included DFI cash maintained by the JASG-C Comptroller for disbursements made to contractors in Iraq that required cash payments. Additionally, the Chief of Mission, MNF-I, and the PMO held and retained \$217.7 million of DFI cash before the transfer of sovereignty for cash payments for existing DFI obligations.

Contract Accounting

The PCO and the JASG-C Comptroller could not accurately identify the current value of obligations, payments, and unpaid obligations for DFI contracts. To evaluate accounting for DFI contract liabilities, we reviewed 225 contracts for which the awards totaled \$327 million. Specifically, we reviewed the contract files to determine whether PCO and the JASG-C Comptroller could identify the current value of paid and unpaid contract obligations.

Contracts Reviewed. Table 1 shows the dollar amounts awarded for the 225 contracts by the PCO regions reviewed. We selected the contracts from the 2,304 contracts shown in the automated Comptroller/PCO listing dated September 14, 2004, and awarded by PCO in the amount of \$3.07 billion.

Project and Contracting Office Region	Number of Contracts	Amount of Contract Awards
North	75	\$22,675,776
Central	75	\$246,527,556
South	75	\$58,125,885
Total	225	\$327,329,217

¹ The Central Bank of Iraq established this separate sub-account at the Federal Reserve Bank of New York.

Accounting for Contract Liabilities. The PCO and JASG-C Comptroller contract and accounting records did not accurately identify the current value of obligations, payments, and unpaid obligations for DFI contracts during the period of the audit. Our review showed that financial records:

- overstated gross contract obligations by \$11,135,411
- understated payments made by \$108,255,875
- overstated unpaid obligations by \$119,361,286

Table 2 shows the dollar amounts of those overstatements and understatements in the contracts, by the PCO regions reviewed.

Table 2. Accounting Deficiencies in Reported Development Fund for Iraq Contract Liabilities						
Project and Contracting Office Region	Gross Obligations Validated	Gross Obligations Amount Overstated (Understated)	Payments Validated	Payments Amount Overstated (Understated)	Unpaid Obligations Validated	Unpaid Obligations Amount Overstated (Understated)
North	\$22,675,776	(\$770,798)	\$6,441,031	(\$2,738,867)	\$16,234,745	\$1,968,069
Central	\$246,527,556	\$11,188,347	\$153,909,570	(\$84,304,031)	\$92,617,986	\$95,492,378
South	\$58,125,885	\$717,862	\$46,261,217	(\$21,182,977)	\$11,864,667	\$21,900,839
Total	\$327,329,217	\$11,135,411	\$206,611,818	(\$108,255,875)	\$120,717,398	\$119,361,286

Controls Over Contract Payments. The JASG-C Comptroller did not establish adequate procedures to ensure that key contract acceptance and payment duties for cash payments were performed by separate individuals. According to the Government Accountability Office “Standards for Internal Control in the Federal Government” (November 1999):

Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

Although the JASG-C Comptroller had issued guidance for payment procedures, our review of contract payments made for the PCO North Region indicated that, for 13 payments, valued at \$1,436,620, one individual controlled all phases of the payment transactions. Specifically, one individual, as a paying agent signing as a Projects Officer, inappropriately performed all of the following actions:

- signed to receive goods and services
- accepted that the goods and services conformed to the contract
- certified that the voucher was proper for payment
- approved the voucher for payment

Contract Administration

The PCO lacked the necessary controls and adequate documentation to effectively perform its responsibilities to monitor and administer contracts funded by the DFI. To evaluate contract administration, we reviewed 300 contracts with an award value totaling \$332.9 million. Specifically, we reviewed contract files to determine whether PCO was monitoring contractor performance and payments by reviewing receiving documents, vendor invoices, payment vouchers, and other written information in the contract files.

Contracts Reviewed. Table 3 shows the dollar amounts awarded for the 300 contracts, by the PCO regions reviewed. We selected the contracts from the 2,304 contracts awarded by PCO that were in the automated Comptroller/PCO listing dated September 14, 2004, and valued at \$3.07 billion.

Project and Contracting Office Region	Number of Contracts	Amount of Contract Awards
North	75	\$22,675,776
Central	75	\$246,527,556
South-Central	75	\$5,669,554
South	75	\$58,125,885
Total	300	\$332,998,771

Contract Documentation. For 198 of 300 contracts,² documentation was not available in contract files to indicate that contract execution was monitored for performance and payment. Our review showed that for the 198 contracts, files did not contain evidence that goods and services had been received for 154 contracts, that invoices had been submitted for 169 contracts, or that payments had been made for 144 contracts. Table 4 shows the number of contracts for which the documents were not found, by the PCO regions reviewed.

Project and Contracting Office Region	Contracts Reviewed	Number of Contracts No Evidence of Receipts for Goods or Services	Number of Contracts No Evidence of Invoices	Number of Contracts No Evidence of Payments
North	75	60	60	61
Central	75	50	50	54
South-Central	75	37	55	17
South	75	7	4	12
Total	300	154	169	144

² Some contracts have more than one discrepancy.

Contract Files. The PCO did not effectively maintain contract files to ensure that contract execution was monitored for performance and payment. During our initial review, PCO personnel in 3 of the 4 PCO regions could not locate contract files for 13 contracts (4 for the North region, 6 for the Central region, and 3 for the South-Central region), valued at \$7,568,565. During February 2005, based on our request, PCO personnel located contract files for 12 of the 13 contracts previously identified by our review as missing. However, 5 of the 12 contract files included only partial contract information, 1 showed a value of \$68,500 greater than shown in the Comptroller/PCO listing, and 3 that were canceled or not awarded showed a value of \$66,584 less than shown in the same listing.

Contract Funding. The PCO could not accurately identify the total value of contracts funded by the DFI. Our review showed that six contracts, valued at \$25,418, were funded by U.S. Government appropriated funds but were erroneously presented as DFI liabilities in Comptroller/PCO summary records.

Contract Numbering. The PCO did not maintain adequate administrative control over contract numbering. Our review showed that the Comptroller/PCO listing indicated that the PCO issued 34 contracts, valued at \$54,343,349, but used only 14 different contract numbers. Contract values totaled \$27,660,981 for contracts that used the same contract numbers two or more times.

Contract Payments. The PCO did not always properly review contract files prior to making contract payments to ensure that the correct amount was paid. Our review showed that one contract in the South-Central Region was overpaid by \$40,000. Documentation showed that for a contract valued at \$90,777, the paying agent made a partial payment of \$40,000 and a final payment of \$90,777 – for a total payment of \$130,777.

Management of Development Fund for Iraq Liabilities

The Chief of Mission and the Commander, MNF-I, did not specifically define and assign PCO and JASG-C Comptroller roles, responsibilities, and methods to effectively manage DFI liabilities.

Roles and Responsibilities to Manage Development Fund for Iraq Liabilities. The Chief of Mission and the Commander, MNF-I, did not assess comptroller and financial management tasks to determine if existing functions could incorporate or support DFI responsibilities. For example, the JASG-C Comptroller organization was authorized only four positions: the Comptroller, the Deputy Comptroller, the Budget Officer, and the Disbursing Officer. The PCO provided two additional loaned technicians. However, the JASG-C Comptroller organization did not include a traditional accounts payable function to manage individual contract obligation and payment transactions.

Further, although the PCO performed all phases of financial management, including input of accounting transactions to the Corps of Engineers Financial Management System, the PCO did not perform any of these functions for funds other than the Iraq Relief and Reconstruction Fund. Correspondingly, the Multi-National Corps - Iraq Comptroller managed and performed accounting functions for appropriated, seized, and vested funds through automated Department of Defense systems, but provided no support for DFI accounting or cash transactions.

Methods to Manage Development Fund for Iraq Liabilities. The Chief of Mission and the Commander, MNF-I, did not provide the PCO and JASG-C Comptroller with automated accounting and contracting systems to maintain accounting, disbursing, and contract records for the DFI and did not take actions to develop such systems. In addition, the PCO and the JASG-C Comptroller did not establish effective procedures or maintain adequate documentation to

effectively perform their responsibilities to monitor and administer contracts funded by the DFI. Further, the PCO and the JASG-C Comptroller did not develop or coordinate any standard procedures, controls, and organizational functions to maintain DFI records. For example, the JASG-C Comptroller maintained spreadsheets for recording disbursement transactions that were identified by CPA Program Review Board numbers³ while the PCO developed the Comptroller/PCO Listing spreadsheets of contract obligations that were identified by contract numbers. The use of different identifying numbers did not allow the data to be reconciled or compared. The JASG-C Comptroller had been providing electronic copies of payment files to the PCO, but the PCO did not record the payments made in the contract files.

Management Actions

During our review, PCO officials initiated actions to develop a new database and input data that incorporated DFI payment voucher information and validated contract obligation and liability amounts. However, we completed our audit work before data input was finalized. Therefore, we could not verify the accuracy of data recorded in the new database.

In addition, the JASG-C Comptroller initiated a tasking that was issued by the Chief of Mission to the "Heads of All American Agencies Represented in Iraq" on January 14, 2005, to provide data for a comprehensive list of DFI contracts and obligations. This data, when obtained, should assist the PCO with the identification of DFI contract liabilities. However, we could not verify the accuracy of the information because we completed our audit work before the Chief of Mission collected the data.

Because management actions were still ongoing at the time our audit work was concluded, we could not assess the effectiveness of those actions.

Conclusion

The PCO did not fully comply with the requirements described in a memorandum from the IIG Minister of Finance for the Director, PMO, "Administration of Development Fund for Iraq (DFI)-Funded Contracts," June 15, 2004, to monitor DFI contract administration. The PCO and the JASG-C Comptroller could not accurately identify the current value of obligations, payments, and unpaid obligations for each DFI contract. However, cash payments appeared to be made in a timely manner. Additionally, the PCO lacked the necessary management controls and adequate documentation to effectively perform its responsibilities to monitor and administer contracts funded by the DFI.

Further, the PCO and/or the JASG-C Comptroller did not:

- establish adequate procedures for cash payments to ensure that key contract acceptance and payment duties were performed by separate individuals (JASG-C)
- effectively maintain documentation to ensure that contract execution was monitored for performance and payment (PCO)
- accurately identify the total value of contracts funded by the DFI (PCO)
- maintain adequate administrative control over contract numbering (PCO)
- always make contract payments in the correct amount (PCO and JASG-C)

³Approved Program Review Board requirements and requests for funds were identified with control numbers.

Material Management Control Weaknesses. The audit identified material management control weaknesses in the accounting for DFI contract liabilities and significant deficiencies in contract administration. Consequently, there was no assurance that fraud, waste, and abuse did not occur in the management and administration of contracts funded by the DFI, that DFI funds were used in a transparent manner, or that DFI funds were used for the purposes mandated by Resolution 1483.

Recommendations

We recommend that the Chief of Mission of the United States Embassy Baghdad and Commander, Multi-National Force - Iraq:

1. Define and assign the Project and Contracting Office and Joint Area Support Group-Central Comptroller roles, responsibilities, and methods to effectively manage and accurately determine the current value of obligations, payments, and unpaid obligations for Development Fund for Iraq contracts.
2. Direct the assessment of comptroller and financial management tasks to determine if existing functions could incorporate or support management responsibilities for the Development Fund for Iraq. At a minimum, establish government or contractor positions to perform accounts payable tasks for Development Fund for Iraq funds to include maintaining a history of individual payments and current contract balances by individual contract.
3. Provide the Project and Contracting Office and the Joint Area Support Group-Central 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.

We recommend that The Director, Project and Contracting Office, and the Joint Area Support Group-Central Comptroller develop and coordinate standard procedures, controls, and organizational functions needed to maintain Development Fund for Iraq records, paying particular attention to the necessary controls and adequate documentation needed to effectively monitor and administer contracts funded by the Development Fund for Iraq.

We recommend that The Director, Project and Contracting Office establish procedures to verify that contracting officers maintain and monitor contract execution data, to include specific payments and outstanding balances, for each contract awarded.

We recommend that The Joint Area Support Group-Central Comptroller require that all agents issuing Development Fund for Iraq funds comply with existing guidance for the separation of duties, to include specific written instructions and checklists for making proper payments.

Management Comments and Audit Response

The Director, PCO, and the Commander, JASG-C, concurred with the finding and recommendations. However, both suggested changes to the draft report to clarify the executive summary, background, findings, and recommendations. We determined that the management's comments were responsive and made the changes suggested. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the Director, PCO and the Commander, JASG-C comments.

We provided a draft of this report on April 4, 2005, to the Chief of Mission and Commander, Multi-National Force - Iraq. No management comments to the draft of this report were received. Therefore, we request that the Chief of Mission and Commander, Multi-National Force - Iraq provide comments on this final report by May 16, 2005.

Appendix A. Scope and Methodology

We evaluated procedures and documents at the Project and Contracting Office (PCO) and the Office of the Comptroller, Joint Area Support Group-Central (JASG-C). We interviewed the Principal Assistant Responsible for Contracts and the JASG-C Comptroller to discuss the procedures and processes used to administer contracts funded by the Development Fund for Iraq (DFI).

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

- CPA Regulation Number 1 (established the CPA), May 16, 2003
- CPA Regulation Number 2, "Developmental Fund for Iraq," June 10, 2003
- CPA Memorandum Number 4, "Contract and Grant Procedures Applicable to Vested and Seized Iraqi Property and the Developmental Fund for Iraq, Implementation of Regulation Number 3, Program Review Board," August 19, 2003
- CPA Memorandum Number 15, "Amendment to Coalition Provisional Authority Memorandum 4," June 15, 2004

We also reviewed the Memorandum for the Director, Program Management Office, "Administration of Development Fund for Iraq (DFI)-Funded Contracts," June 15, 2004, issued by the Iraqi Interim Government Ministry of Finance. For a copy of this memorandum, see Appendix C.

We performed two separate evaluations during this audit concerning the administration of contracts by the PCO that were funded by the DFI. We evaluated accounting for DFI contract liabilities. We also evaluated contract administration. We selected 300 contracts for review – 75 each from PCO regions North, Central, South-Central, and South. We selected the contracts from 2,304 contracts, shown in the automated Comptroller/PCO Listing dated September 14, 2004, and awarded by the PCO in the amount of \$3.07 billion. For both evaluations, we reviewed contract and payment documentation for the period August 2003 through September 2004.

For our assessment of accounting for DFI contract liabilities, we reviewed 225 of the 300 contracts – 75 each from PCO regions North, Central, and South. Specifically, we reviewed the contract files to determine whether the PCO and the JASG-C could identify the current value of paid and unpaid contract obligations.

For our assessment of contract administration, we reviewed all 300 contracts – 75 each from PCO regions North, Central, South-Central, and South. Specifically, we reviewed contract files to determine whether the PCO was monitoring contractor performance, invoices, and payments by reviewing receiving documents, vendor invoices, payment vouchers, and other written information in the contract files.

We conducted this performance audit from August 2004 through April 2005, in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We performed tests to verify automated contract and financial data maintained by the PCO and JASG-C Comptroller through a comparison of data obtained from the Comptroller/PCO Listing database for the 300 contracts selected to source documents such as contracts, invoices, and payment vouchers. The audit results indicated that the data input to the summary PCO and JASG-C Comptroller records was not valid or reliable.

Prior Coverage. The Government Accountability Office (GAO) and the Special Inspector General for Iraq Reconstruction (formerly the Coalition Provisional Authority Inspector General (CPA-IG)) collectively issued seven reports related to the DFI. However, the objectives and scopes of those audits were not the same as discussed in this report. Reports issued by the Special Inspector General for Iraq Reconstruction can be accessed over the Internet at <http://www.sigir.mil>. Also, the International Advisory and Monitoring Board contracted with KPMG in Bahrain for audits concerning DFI Export Sales, Oil Proceeds, and Disbursements. The reports are listed below.

GAO Report No. 04-651T, “United Nations: Observations on the Oil for Food Program,” April 7, 2004

CPA-IG Report No. 04-001, “Coalition Provisional Authority Coordination of Donated Funds,” June 25, 2004

CPA-IG Report No. 04-007, “Oil for Food Cash Controls for the Office of Project Coordination in Erbil, Iraq,” July 26, 2004

CPA-IG Report No. 04-008, “Coalition Provisional Authority Control Over Seized and Vested Assets,” July 30, 2004

CPA-IG Report No. 04-009, “Coalition Provisional Authority Comptroller Cash Management Controls Over the Development Fund for Iraq,” July 28, 2004

CPA-IG Report No. 04-013, “Coalition Provisional Authority’s Contracting Processes Leading Up To and Including Contract Award,” July 27, 2004

CPA-IG Report No. 05-004, “Oversight of Funds Provided to Iraqi Ministries through the National Budget Process,” January 30, 2005

KPMG Report, “Development Fund for Iraq - Statement of Cash Receipts and Payments for the Period from 22 May 2003 to 31 December 2003,” June 29, 2004

KPMG Report, “Development Fund for Iraq – Agreed-Upon Procedures Report for the Period from 22 May 2003 to 31 December 2003 (Disbursements),” June 29, 2004

KPMG Report, “Development Fund for Iraq – Appendix – Matters Noted Involving Internal Controls and Other Operations Issues During the Audit of the Fund for the Period from 22 May 2003 to 31 December 2003,” June 29, 2003

KPMG Report, “Development Fund for Iraq - Statement of Cash Receipts and Payments for the Period from 1 January 2004 to 28 June 2004,” September 30, 2004

KPMG Report, “Development Fund for Iraq – Management Letter on Internal Controls for the Period from 1 January 2004 to 28 June 2004,” September 30, 2004

KPMG Report, “Development Fund for Iraq – Report of Factual Findings for the Period from 1 January 2004 to 28 June 2004 (Disbursements),” September 30, 2004

Appendix B. Other Matters of Interest

Other matters of interest identified by our audit work are discussed below.

Personnel Management. The Joint Area Support Group-Central (JASG-C) Comptroller and the Principal Assistant Responsible for Contracts cited the lack of resources as a factor in maintaining accurate data. Per the Principal Assistant Responsible for Contracts, the Project and Contracting Office (PCO) had primarily focused its available resources on awarding contracts, because a significant number of vacant positions limited the resources available to emphasize monitoring and documenting contract execution.

During the audit work, we also observed that the 90-day Air Force tours of duty (through July 20, 2004, for Comptrollers and through October 4, 2004, for Disbursing Officers) may have contributed to the JASG-C Comptroller's inability to standardize the management of Development Fund for Iraq operations.

We are planning to commence an audit to determine whether U.S. Government organization recruitment and deployment processes for qualified personnel supporting Iraq reconstruction is effective. We will concentrate our efforts on the effectiveness of legislative and regulatory guidance and processes used to identify personnel requirements, the methods to recruit and retain the personnel, and the procedures to measure recruitment and retention success.

Records Management. This audit determined that the PCO and the JASG-C Comptroller lacked the necessary controls and adequate documentation to effectively perform their responsibilities to monitor and administer contracts funded by the Development Fund for Iraq. We found that faulty record management produced these results:

- an inaccurate identification of the current value of obligations, payments, and unpaid obligations for DFI contracts
- of 198 contract files reviewed, 154 did not contain evidence that goods and services were received, 169 did not contain invoices, and 144 did not contain evidence of payment
- missing contract files
- duplicate contract numbers

We are planning to commence an audit to determine whether U.S. organizations have established adequate requirements, systems, and processes to manage and maintain records to facilitate future audits and investigations of the identification and use of funds provided by the Iraq Relief and Reconstruction Fund.

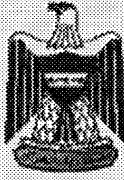
Appendix C. Memorandum for the Administration of Development Fund for Iraq (DFI)-Funded Contracts

The Iraqi Interim Government Minister of Finance issued a memorandum, "Administration of Development Fund for Iraq (DFI)-Funded Contracts" for the Director, Project Management Office on June 15, 2004. That memorandum is shown below.

جمهورية العراق
وزارة المالية
مكتب الوزير

العدد
التاريخ الهجري
التاريخ الميلادي

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



REPUBLIC OF IRAQ
MINISTRY OF FINANCE
OFFICE OF THE MINISTER
Telex : 2459 Malia IK
Fax : 8160848

June 15, 2004

MEMORANDUM FOR: Director, Program Management Office

SUBJECT: Administration of Development Fund for Iraq (DFI)-Funded Contracts

Pursuant to my authority as Minister of Finance, acknowledged under CPA Regulation No. 10, Members of Designated Iraqi Interim Government, (CPA/REG/9 June 2004/10), exercising the power granted to me under CPA Memorandum 4, Contract and Grant Procedures, (CPA/MEM/19 August 2003/04), as amended by CPA Memorandum 15, Amendment to Coalition Provisional Authority Memorandum 4, (CPA/MEM/13 June 2004/15), and consistent with the principles set forth in the Law of Administration for the State of Iraq for the Transitional Period, I hereby designate you with responsibility to monitor and confirm performance, certify and/or make payments, and otherwise administer contracts or grants funded with monies from the Development Fund for Iraq (DFI) that:

- were entered into on or before June 30, 2004 by the Coalition Provisional Authority or the Multi-National Force-Iraq in accordance with United Nations Security Council Resolution 1483 and implementing regulations;
- require the continued performance and/or payment of money originating from the DFI post June 30, 2004; and
- are not the subject of a fully-funded letter of credit intended to otherwise ensure performance under the contract or grant.

The Program Management Office (PMO) will provide as soon as practicable to the Ministry of Finance a breakdown by Ministry of contracts to which the PMO is a party.

The aggregate value of contracts authorized to be administered hereunder cannot exceed \$800 million, provided that I or another Ministry official designated by me may, at our discretion, increase this limit.

جمهورية العراق

وزارة المالية

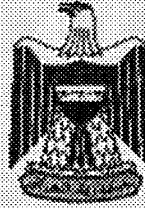
مكتب الوزير

المدد

التاريخ الهجري

التاريخ الميلادي

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



REPUBLIC OF IRAQ
MINISTRY OF FINANCE
OFFICE OF THE MINISTER
Telex : 2459 Malia IK
Fax : 8160848

The powers, privileges, rights, and authorities granted to you under this designation shall be exercised in coordination with relevant officials from the Iraqi Interim Government (IIG) and, consistent with U.N. Security Council Resolution 1546 (2004), to satisfy outstanding obligations against the DFI. This designation does not authorize you to terminate, amend, or novate any contracts or grants covered by this designation. However, if requested by the IIG, you shall assist the IIG if it decides to terminate, amend, or novate any such contract.

All disbursements made under the authority of this memorandum shall be accounted for on the books of the sub-account entitled "Central Bank of Iraq/Development Fund for Iraq/Transition," established pursuant to CPA Regulation No. 2 as amended, or otherwise, in accordance with internationally recognized auditing and accounting standards.

As directed by the Ministry of Finance, you shall submit monthly records of all payments made on behalf of the IIG under this designation, and a final report of all expenditures, payments, and outflows.

So long as you comply with all of the requirements set forth in this designation and those prescribed in CPA Memorandum 4, Contract and Grant Procedures, (CPA/MEM/19 August 2003/04), as amended, I will direct, as I deem appropriate, the Central Bank of Iraq to transfer (from time to time) funds from the Central Bank of Iraq/Development Fund for Iraq/Transition account into an account in the Central Bank of Iraq, Rafidain Bank, and/or Rasheed Bank, and you shall have the authority to make disbursements from that account in order to carry out your duties herein.

The powers, privileges, rights, and authorities granted to you under this designation may be further delegated. They shall transfer to the Chief of Mission of the United States Embassy Baghdad and the Commander of the Multi-National Force-I on June 30, 2004, both of whom shall also have the authority to delegate these powers, privileges, rights, and activities further. I retain the right to terminate this designation in writing at any time and for any reason whatsoever. You shall have the right to do the same. In any event, this designation shall expire on December 31, 2004 unless extended in writing by me or another duly authorized official of the Iraqi Interim Government.

جمهورية العراق

وزارة المالية

مكتب الوزير

العدد

التاريخ الهجري

التاريخ الميلادي

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



REPUBLIC OF IRAQ

MINISTRY OF FINANCE

OFFICE OF THE MINISTER

Telex : 2459 Malin IK

Fax : 8166848

Nothing in this designation shall authorize the PMO, the MNF-I, and/or its designees, to enter into any contracts funded by the DFI after June 30, 2004.

A handwritten signature in black ink, appearing to read 'Adil Mahdi'.

Adil Abdul Mahdi
Minister of Finance
Iraqi Interim Government

Appendix D. Acronyms

CPA	Coalition Provisional Authority
CPA-IG	Coalition Provisional Authority Inspector General
DFI	Development Fund for Iraq
IIG	Iraqi Interim Government
JASG-C	Joint Area Support Group - Central
MNF-I	Multi-National Force - Iraq
PCO	Project and Contracting Office
PMO	Program Management Office

Appendix E. Report Distribution

Department of State

U.S. Ambassador to Iraq
Director, Iraq Reconstruction Management Office
Inspector General, Department of State

Department of Defense

Deputy Secretary of Defense
Director, Defense Support Office - Iraq
Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Inspector General, Department of Defense

Department of the Army

Assistant Secretary of the Army (Acquisition, Logistics and Technology)
Principal Deputy to the Assistant Secretary of the Army (Acquisition, Logistics and Technology)
Deputy Assistant Secretary of the Army for Policy and Procurement
Director, Project and Contracting Office
Assistant Secretary of the Army (Financial Management and Comptroller)
Auditor General of the Army

U.S. Central Command

Commander, Multi-National Force – Iraq
Commander, Joint Contracting Command - Iraq
Commander, Joint Area Support Group - Central

Other Defense Organizations

Director, Defense Contract Audit Agency

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, Health and Human Services
Inspector General, U.S. Agency for International Development

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

U.S. Senate

Senate Committee on Appropriations

 Subcommittee on Defense

 Subcommittee on Foreign Operations

Senate Committee on Armed Services

Senate Committee on Foreign Relations

 Subcommittee on Near Eastern and South Asian Affairs

 Subcommittee on International Operations and Terrorism

Senate Committee on Homeland Security and Governmental Affairs

 Subcommittee on Government Efficiency and Financial Management

 Subcommittee on Financial Management, the Budget, and International Security

U.S. House of Representatives

House Committee on Appropriations

 Subcommittee on Defense

 Subcommittee on Foreign Operations, Export Financing and Related Programs

House Committee on Armed Services

House Committee on International Relations

 Subcommittee on Middle East and Central Asia

House Committee on Government Reform

 Subcommittee on Government Efficiency and Financial Management

 Subcommittee on National Security, Emerging Threats and International Relations

Appendix F. Audit Team Members

The Office of the Assistant Inspector General for Auditing, Office of the Special Inspector General for Iraq Reconstruction, prepared this report. The staff members who contributed to the report include:

Brian Flynn

Mary Davis

Ramon B. Miller Jr.

Keith Fujimura



**Joint Area Support Group - Central (Provisional)
Multi National Force - Iraq
US Embassy Baghdad**

JASG-C-IZ

16 April 2005

MEMORANDUM FOR SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

SUBJECT: Report on Administration of Contracts Funded by the Development Fund of Iraq
REFERENCE:

- A. Administration of Contracts Funded by the Development Fund of Iraq, Project Number D2004-DCPAAF-0033, April 4, 2005.

PURPOSE: Provide JASG-C comments to subject audit report.

SCOPE:

1. Reference the report on Administration of Contracts Funded by the Development Fund of Iraq, Project Number D2004-DCPAAF-0033, April 4, 2005. We have prepared the following comments for the areas the JASG-C Comptroller had responsibility.

a. Executive Summary, page i, 3rd paragraph, last sentence. Modify the sentence to include the full quote from the MoF memo, since a key piece of the last sentence was omitted. Since this limit was increased to \$2.8M, modify the phrase ".....exceed \$800 million" to add "provided that I or another Ministry official designated by me may, at our discretion, increase this limit. "

b. Finding, summary paragraph, page 3, 1st paragraph. Modify or delete the inaccurate statement that"the JASG-C Comptroller lacked the necessary controls and adequate documents to effectively perform their responsibility to monitor and administer contracts funded by the DFI." JASG-C Comptroller was responsible for monitoring obligations, certifying funds availability, and tracking and disbursing payments and was not responsible for monitoring and administering contracts.

c. Finding, summary paragraph, page 3, 2nd paragraph, next to last sentence. Modify or delete the inaccurate sentence that states...."the JASG-C Comptroller did not establish effective procedures or maintain adequate documentation to effectively perform their responsibilities to monitor and administer contracts funded by the DFI." As stated for the previous paragraph, JASG-C does not monitor and administer contracts.

d. Background, page 4, 2nd paragraph. Modify the inaccurate statement that "the JASG-C comptroller was authorized to administer contracts with an aggregate value of \$2.8 billion of DFI funds." The Comptroller was authorized to disburse funding for the contracts. To ensure separation of duties, the PCO administered the contracts and the Comptroller certified funds and disbursed payments. The Comptroller's Office was never authorized to, nor did they administer any contracts.

e. Finding, Contract Accounting, page 4, 5th paragraph. Concur. "The PCO and the JASG-C Comptroller could not accurately identify the current value of obligations, payments, and unpaid obligations for DFI contracts." JASG-C Comptroller was tracking funds for each PRB. We had visibility over the total funds allocated and disbursed but did not track them readily by

JASG-C-IZ

SUBJECT: Report on Control of Cash Provided to South-Central Iraq

contract. Additionally, when we issued cash to paying agents, we showed the total amount as disbursed.

f. Finding, Controls Over Contract Payments, page 5, 3rd paragraph. Concur. Paying agents in the field did not always have separation of duties due to manning levels. However, electronic funds transfer (EFT) payments were approved by separate parties. As such, the statement "The PCO and the JASG-C Comptroller did not establish adequate procedures to ensure that key contract acceptance and payment duties were performed by separate individuals." Should be modified to reflect that this refers only to cash payments.

g. Finding, summary paragraph, Contract Administration, page 6, 1st paragraph. Modify the inaccurate statement "The PCO and the JASG-C Comptroller lacked the necessary controls and adequate documentation to effectively perform their responsibility to monitor and administer contracts funded by the DFI." JASG-C is not tasked to, and does not administer contracts.

h. Finding, Roles and Responsibilities to Manage Development Fund for Iraq Liabilities, page 7, 7th paragraph. Concur. The JASG-C Comptroller organization does not include a traditional accounts payable function.

i. Finding, Methods to Manage Development Fund for Iraq Liabilities, page 7, 9th paragraph. Concur with intent. The COM and the Commander, MNF-1 did not provide the PCO and JASG-C Comptroller with automated accounting and contracting systems to maintain accounting, disbursing, and contract records for the DFI and did not take actions to develop such systems. While it is true that the "automated accounting" was not done in an approved accounting system, the JASG-C Comptroller performed tracking and daily balancing for every DFI dollar spent and was reconciled and validated amounts daily with other internal JASG-C payment records and the actual Federal Reserve Bank of New York bank statements. KPMG also stated in their audits to the IAMB that we did have 100 percent accountability for every dollar processed thru JASG-C Comptroller. In addition, the JASG-C Comptroller did develop procedures to track disbursement of DFI funds and provided the information on a weekly basis to PCO.

j. Conclusion, page 8. Concur in part, as shown below:

(1) Concur in part. The conclusion summary states that "the JASG-C Comptroller could not accurately identify the current value of obligations, payments and unpaid obligation for DFI contracts." However, the JASG-C Comptroller could accurately state any and all payments made for DFI contracts.

(2) Concur. The conclusion summary states that "the PCO and JASG-C Comptroller lacked the necessary controls and adequate documentation to effectively perform their responsibility to monitor and administer contracts funded by the DFI." The JASG-C Comptroller lacked controls to effectively monitor payments by contract. However, modify this statement to correct the inaccuracies. The JASG-C Comptroller does not, and is not responsible for administering contracts.

(3) Concur that the JASG-C Comptroller could not accurately identify the total value of contracts funded by the DFI.

(4) As previously noted, concur that adequate procedures weren't established to ensure that key contract acceptance and payment duties were performed by separate individuals

JASG-C-IZ

SUBJECT: Report on Control of Cash Provided to South-Central Iraq

for cash payments made by paying agents in the field. However, this should be modified to reflect that this refers only to cash payments made by paying agents.

(5) Modify two statements shown to indicate that the JASG-C Comptroller is not responsible for maintaining documentation in contract files to indicate that contract execution was monitored for performance and payment. "Maintain documentation in contract files..." and "effectively maintain contract files in place" appear to be saying the same thing; however, the JASG-C Comptroller isn't responsible for maintaining contract documentation. Notably, the JASG-C Comptroller's office did provide disbursement information on all contracts to the PCO to facilitate effective monitoring and maintenance of contract files.

(6) Concur that the PCO and JASG-C Comptroller collectively did not accurately identify the total value of contracts funded by the DFI.

(7) Modify the statement shown to indicate that the JASG-C Comptroller has no responsibility for maintaining adequate administrative control over contract numbering.

(8) Concur regarding the one payment shown as an overpayment.

k. Recommendations, page 9. For the recommendations shown for the Director, Project and Contracting Office, and the Joint Area Support Group-Central Comptroller, modify this to accurately show that these are not joint responsibilities, as stated.

(1) Recommendation 1. Concur. The JASG-C Comptroller will develop procedures to monitor the funding portion of the DFI contracts and work with the PCO to coordinate standard operations. Estimated Completion Date: September 2005.

(2) Recommendation 2. Modify this to show that this is not a JASG-C Comptroller responsibility. Closed.

(3) Recommendation 3. Concur. The JASG-C Comptroller has retrained all paying agents in the field and currently has a checklist that is required for all paying agents for all payments against contracts to effectively reconcile their accounts. Completed: March 2005.

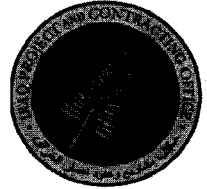
2. POC for this action is Col Suski at DSN: 318-239-8625, COM: 703-343-8625, or via email at Deborah.suski@iraq.centcom.mil.


THOMAS S. STEFANKO
COL, IN, USA
Commanding

Management Comments, Director, Project and Contracting Office - Iraq



DEPARTMENT OF THE ARMY
PROJECT AND CONTRACTING OFFICE – IRAQ
APO AE 09316



SAAL-PCO

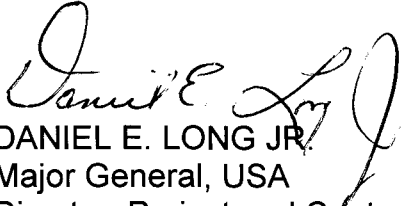
April 20, 2005

MEMORANDUM FOR Office of the Special Inspector General
for Iraq Reconstruction

SUBJECT: Draft Report on Administration of Contracts Funded by the
Development Fund for Iraq

1. Reference the Special Inspector General for Iraq Reconstruction Draft Report on Administration of Contracts Funded by the Development Fund for Iraq, Project No. D2004-DCPAAF-0033.
2. We appreciate the effort that SIGIR put into the audit and will use many of its points in establishing more clearly delineated roles and responsibilities for managing the DFI funding. Anyone reviewing the DFI account must be aware of the complexity of the execution process and the confusion that occurred because of the transition. PCO acknowledges that confusion did exist in the early management of the DFI, but must point out those responsibilities have been clarified and a taskforce organized to close DFI accounts. Generally, I am satisfied with the current controls and newly established reconciliation process. Unfortunately this process will remain a manual effort.
3. The conditions in Iraq have changed somewhat since June 2004 but the peaceful conditions envisioned in the early planning continue to elude the reconstruction efforts. This context is important to appreciate some of the decisions made during the time periods covered by this audit. All reconstruction operations executed with DFI funds were and continue to be managed in a combat theater. As DFI funds were not appropriated, resulting processes lacked the substantiation of automated systems that could provide peacetime transactional level review. Nonetheless, we are modifying our reconciliation processes to be more closely aligned with those of appropriated funds.

4. As evidenced in your report, we have already taken many corrective actions and will continue to do so. General comments and clarifications to the draft report, in addition to PCO management comments to the draft report findings, are provided at Enclosure A. PCO management comments to each of the audit recommendations are provided at Enclosure B.


DANIEL E. LONG JR.
Major General, USA
Director, Project and Contracting Office

ENCLOSURES

Enclosure A: General Comments

Enclosure B: Specific Audit Response

**GENERAL COMMENTS, CLARIFICATIONS
AND PCO MANAGEMENT COMMENTS TO AUDIT FINDINGS**Overview

1. The Project and Contracting Office (PCO) has evolved since it was first organized last year. As it is currently organized, PCO has a contract responsibility. The contracting "chain-of-command" however falls under the DASA-P&P. Contracting authority runs from the Head of the Contracting Activity (HCA), Joint Contracting Command-Iraq (JCC-I) through the DASA-P&P to the Army Acquisition Executive who is Mr. Bolton. FRAGO 09-668, Contracting and Organizational Changes, dated November 12, 2004, created the separate organization known as the JCC-I to perform the contracting function. JCC-I handles the DFI as well as Iraq Relief and Reconstruction Fund (IRRF) contracts. PCO has no command and control over JCC-I nor the Joint Area Support Group-Central (JASG-C) which is responsible for disbursing DFI monies.
2. The draft report does not attempt to describe the state of processes and controls prior to June 30, 2004. This is relevant for measuring progress since that date.
3. The last paragraph of the "Introduction" section under the Executive Summary states that "the aggregate value (the amount awarded) of contracts authorized to be administered by the PMO could not exceed \$800 million". However, the Iraqi Interim Government Minister of Finance memorandum, "Administration of Development Fund for Iraq (DFI)-Funded Contracts" dated June 15, 2004, also states "... provided that I or another Ministry official designated by me may, at our discretion, increase this limit". In addition, the first background paragraph on page 4 also references the \$800 million aggregate value. This clarification is important because additional funding was requested and approved by the Ministry of Finance.
4. As noted in the cover memorandum, the usefulness of issuing this draft report at this time is questionable. SIGIR was "unable to confirm contract performance for all the contracts reviewed or fully assess all aspects of the administration of contracts and grants". Further, the "Management Actions" section of the Executive Summary acknowledges that PCO "initiated actions to develop a new database" that included DFI payment voucher information, contract obligations and outstanding liability amounts. However, SIGIR completed its fieldwork before the database was completed. As a result, SIGIR "could not verify the accuracy of data recorded in the new database". This new database, when completed, will identify the contract value of obligations, payments, and unpaid obligations for DFI contracts. This new database demonstrates the progress made since June 30, 2004. Further, the identification of obligation amounts and payments will correct the deficiencies cited for contract accounting and contract liabilities.

PCO Management Comments to Draft Report Findings

5. The draft report findings, by finding section, and associated PCO management comments are detailed below.

Accounting for Contract Liabilities (Page 5)

6. Neither the PCO nor the JASG-C Comptroller could accurately identify the contract value of obligations, payments, and unpaid obligations for DFI contracts.

- PCO concurs with comment. The following comments are intended to provide a clearer understanding of the handling of DFI funding in theatre. The PCO took the lead to create a June 28, 2004 outstanding liabilities list. That PCO listing of liabilities was used as the basis for the JASG-C Comptroller's formal list of liabilities as of September 4, 2004. The goal was for each Ministry to certify the reconstruction effort that was to continue. In addition, DCMA was tasked in October 2004 with contract administration but did not effectively arrive in theatre until December 2004. DCMA has since closed out over 1,500 contracts and made improvements to the DFI contract database. DCMA's core function is contract administration. DCMA has assisted in correcting the DFI funding and payment problems at hand. DCMA has modified the contract database to include a payment section and notes section, so that a good record of events is captured on the database without having to pull the contract file to discover payment information status.
- It should be noted that this finding erroneously links the JASG-C Comptroller with PCO in the monitoring, administration and tracking of obligations and unpaid obligations of DFI funded contracts. JASG-C was solely responsible for certifying funds were available prior to the award of the contract and for accurately disbursing the funds once the contract or portion of the contract was complete. This reference to JASG-C for tasks other than certification and disbursement of funds should be removed. In fact, naming particular DoD or Army units is confusing. The Iraqi memorandum of June 15, 2004, delegating DFI to the PMO also re-delegated it to the Chief of Mission and MNF-I on June 30, 2004. We recommend using either DoD or Army when assigning responsibility for the various responsibilities.

Controls Over Contract Payments (Page 5)

7. The PCO and the JASG-C Comptroller did not establish adequate procedures to ensure that key contract acceptance and payment duties were performed by separate individuals. The review of contract payments made for the PCO North region indicated that for 13 payments one individual controlled all phases of the payment transactions. The paying agent signing as a Projects Officer inappropriately signed to receive goods and services, to provide acceptance that the goods and services conformed to the

contract, to certify that the voucher was proper for payment, and to approve the voucher for payment.

- PCO acknowledges that there have been past instances of an individual performing all phases of the payment transaction. In the past the paying agents have not involved the contracting officers in the payment process. However, the paying agents come under the responsibility of the JASG-C Comptroller. This finding erroneously links the JASG-C Comptroller with PCO in the monitoring, administration and tracking of obligations and unpaid obligations of DFI funded contracts. JASG-C was solely responsible for certifying funds were available prior to the award of the contract and for accurately disbursing the funds once the contract or portion of the contract was complete. Because paying agents come under the responsibility of the JASG-C Comptroller, PCO defers the formal management comments to the Comptroller's office.

Contract Administration (Page 6)

8. The PCO and the JASG-C Comptroller lacked the necessary controls and adequate documentation to effectively perform its responsibilities to monitor and administer contracts funded by the DFI. Contract files did not contain evidence that goods and services had been received, that invoices were submitted or that payments had been made.

- PCO concurs with comment. At one point approximately 5,500 contracts were being administered by 41 people who were also responsible for awarding and monitoring those contracts valued at some \$6.7 billion. The working conditions did not include a normal office environment where training was the standard. The team was brought together in emergency conditions under hostile fire to stand up a new Iraqi government. This situation led to some of the shortcomings being cited in the draft report. That said, ensuring that the contract files include all necessary documents is a primary focus because of contract closeout requirements. JCC-I is working with the JASG-C Comptroller's office to correct this deficiency.
- This finding erroneously links the JASG-C Comptroller with PCO in the monitoring, administration and tracking of obligations and unpaid obligations of DFI funded contracts. JASG-C was solely responsible for certifying funds were available prior to the award of the contract and for accurately disbursing the funds once the contract or portion of the contract was complete. This reference to JASG-C for tasks other than certification and disbursement of funds should be removed.

Contract Files (Page 7)

9. The PCO did not effectively maintain contract files to ensure that contract execution was monitored for performance and payment.

- PCO concurs. At one point approximately 5,500 contracts were being administered by 41 people who were also responsible for awarding and monitoring those contracts valued at some \$6.7 billion. The working conditions did not include a normal office environment where training was the standard. The team was brought together in emergency conditions under hostile fire to stand up a new Iraqi government. This situation led to some of the shortcomings being cited in the draft report. That said, ensuring that the contract files include all necessary documents is a primary focus because of contract closeout requirements. JCC-I has 12 contracting officers and 10 Quality Assurance Representatives from DCMA monitoring contractor performance in concert with PCO Logistics. JCC-I is also working with the JASG-C Comptroller to get all payment information from past payments so that the payment history can be inserted into the contract files and the DFI contract database.
- DCMA was tasked in October 2004 with contract administration but did not effectively arrive in theatre until December 2004. DCMA has since closed out over 1,500 contracts and made improvements to the DFI contract database. DCMA's core function is contract administration. DCMA has assisted in correcting the DFI funding and payment problems at hand. DCMA has modified the contract database to include a payment section and notes section, so that a good record of events is captured on the database without having to pull the contract file to discover payment information status.

Contract Funding (Page 7)

10. The PCO could not accurately identify the total value of contracts funded by the Development Fund for Iraq.

- PCO concurs. DCMA was tasked in October 2004 with contract administration but did not effectively arrive in theatre until December 2004. DCMA has since closed out over 1,500 contracts and made improvements to the DFI contract database. DCMA's core function is contract administration. DCMA has assisted in correcting the DFI funding and payment problems at hand. DCMA has modified the contract database to include a payment section and notes section, so that a good record of events is captured in the database without having to pull the contract file to discover payment information status.

Contract Numbering (Page 7)

11. The PCO did not maintain adequate administrative control over contract numbering.

- PCO concurs. When DCMA arrived in force in December 2004 there were over 370 duplicate contract numbers. There are now no duplicate contract numbers.

Contract Payment (Page 7)

12. The PCO did not always properly review contract files prior to making contract payments to ensure that the correct amount was paid.

- PCO concurs. The audit identified a single overpayment. Note that the paying agent who made the overpayment is under SIGIR investigation. In addition, standard operating procedures are being staffed to ensure that contract files are reviewed to ensure DD250s have been received and verified and that proper reconciliation has been completed prior to future payments being made to contractors.

Roles & Responsibilities To Manage DFI For Iraq Liabilities (Page 7)

13. Although the PCO performed all phases of financial management, including input of accounting transactions to the Corps of Engineers Financial Management System, the PCO did not perform any of these functions for funds other than the Iraq Relief and Reconstruction Fund.

- PCO concurs with comment. On the second page of the Iraqi June 15, 2004 memorandum, DFI was transferred to the Chief of Mission and MNF-I fifteen days later on June 30, 2004. This transfer of responsibility is also evident from the fact that the extension letter of February 28, 2005 is addressed to the Chief of Mission and MNF-I, not PCO. PCO believed that the only clear responsibility PCO had was the administration of the AIRP and R3P legacy programs. PCO believed that DFI contracts were the responsibility of IRMO with the JASG-C Comptroller responsible for disbursement of DFI monies. As such, PCO did not perform financial management of DFI contracts.

Methods to Manage Development Fund for Iraq Liabilities (Page 7).

14. The COM and the Commander, MNF-I, did not provide the PCO and JASG-C Comptroller with automated accounting and contracting systems. In addition, the PCO and JASG-C Comptroller did not establish effective procedures and maintain adequate documentation to effectively perform their responsibilities to monitor and administer contracts funded by DFI. Further, the PCO and the JASG-C Comptroller did not develop or coordinate any standard procedures, controls, and organizational functions to maintain DFI records.

- PCO concurs with comment. The COM and the Commander, MNF-I, did not provide PCO with automated accounting and contracting systems. PCO defers to the COM and the Commander, MNF-I for the explanation as to why PCO was not provided automated accounting and contracting systems. The PCO did not establish separate procedures for the monitoring and administering of DFI funded contracts because PCO believed DFI contracts were the responsibility of

IRMO. Further, PCO and the JASG-C Comptroller did not develop or coordinate any standard procedures, controls or organizational functions for the maintenance of DFI records. JASG-C was solely responsible for certifying funds were available prior to the award of the contract and for accurately disbursing the funds once the contract or portion of the contract was complete. As a result, since the functions were split, PCO and the Comptroller's office would not have coordinated procedures, controls or organizational functions. All references to JASG-C for tasks other than certification and disbursement of funds should be removed.

RECOMMENDATIONS AND PCO MANAGEMENT COMMENTS

Recommendation 1: We recommend that the Director, Project and Contracting Office, and the Joint Area Support Group-Central Comptroller development and coordinate standard procedures, controls, and organizational functions needed to maintain Development Fund for Iraq records, paying particular attention to the necessary controls and adequate documentation needed to effectively monitor and administer contracts funded by the Development Fund for Iraq.

Response: PCO concurs with comment. In a meeting on April 5, 2005, Ambassador James Jeffrey, Charge d'Affaires, decided that the administration of DFI contracts should be centralized under the control of JCC-I. As a result of that decision, JCC-I will be responsible for the roles and responsibilities of the various agencies involved in the management, administration and payment of DFI contracts. JCC-I will also be responsible for the administration and control of the centralized DFI contract database and accounting records. It is anticipated that by December 31, 2005, JCC-I will have a complete DFI contract database that identifies outstanding liabilities. Upon receipt of PCO's roles and responsibilities, PCO will staff the requirement.

Note 1: This recommendation erroneously links the JASG-C Comptroller with PCO in the monitoring, administration and tracking of obligations and unpaid obligations of DFI funded contracts. JASG-C was solely responsible for certifying funds were available prior to the award of the contract and for accurately disbursing the funds once the contract or portion of the contract was complete. All references to JASG-C for tasks other than certification and disbursement of funds should be removed.

Recommendation 2: We recommend that the Director, Project and Contracting Office, and the Joint Area Support Group-Central Comptroller establish procedures to verify that contracting officers maintain and monitor contract execution data, to include specific payments and outstanding balances, for each contract awarded.

Response: PCO concurs with comment. In a meeting on April 5, 2005, Ambassador James Jeffrey, Charge d'Affaires, decided that the administration of DFI contracts should be centralized under the control of JCC-I. As a result of that decision, JCC-I will be responsible for the roles and responsibilities of the various agencies involved in the management, administration and payment of DFI contracts. JCC-I will also be responsible for the administration and control of the centralized DFI contract database and accounting records. It is anticipated that by December 31, 2005, JCC-I will have a complete DFI contract database that identifies outstanding liabilities. Upon receipt of PCO's roles and responsibilities, PCO will staff the requirement.

Note 2: This recommendation erroneously links the JASG-C Comptroller with PCO in the monitoring, administration and tracking of obligations and unpaid obligations of DFI

funded contracts. JASG-C was solely responsible for certifying funds were available prior to the award of the contract and for accurately disbursing the funds once the contract or portion of the contract was complete. The recommendations for JASG-C for tasks other than certification and disbursement of funds should be removed.

Recommendation 3: We recommend that the Director, Project and Contracting Office, and the Joint Area Support Group-Central Comptroller require that all agents issuing Development Fund for Iraq funds comply with existing guidance for the separation of duties, to include specific written instructions and checklists for making proper payments.

Response: PCO concurs with alternative approach. In a meeting on April 5, 2005, Ambassador James Jeffrey, Charge d'Affaires, decided that the administration of DFI contracts should be centralized under the control of JCC-I. As a result of that decision, JCC-I will be responsible for the roles and responsibilities of the various agencies involved in the management, administration and payment of DFI contracts. JCC-I will also be responsible for the administration and control of the centralized DFI contract database and accounting records. It is anticipated that by December 31, 2005, JCC-I will have implemented corrective actions on the recommendation.

Note 3: This recommendation erroneously links the PCO with the JASG-C Comptroller for the disbursement of DFI monies. Because the JASG-C Comptroller has been the responsible entity for disbursing DFI monies, references to PCO should be removed.