

The seal of the Office of the Special Inspector General for Iraq Reconstruction is a large, circular emblem in the background. It features the text "SPECIAL INSPECTOR GENERAL" at the top and "FOR IRAQ RECONSTRUCTION" at the bottom. In the center is the Iraqi national emblem, which depicts a falcon with its wings spread, perched on a shield with vertical stripes and a sunburst above it. The Arabic text "مفتش العام" is written in the upper arc, and "إعادة إعمار العراق" is written in the lower arc.

**DEVELOPMENT FUND FOR IRAQ:
THE COALITION PROVISIONAL
AUTHORITY'S FINANCIAL CONTROLS
FOR ELECTRONIC FUND TRANSFER
PAYMENTS DIMINISHED OVER TIME**

SIGIR 12-013

APRIL 30, 2012

Report Documentation Page

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SIGIR

Special Inspector General for IRAQ Reconstruction

Summary of Report: SIGIR 12-013

Why SIGIR Did This Study

The Coalition Provisional Authority (CPA) was established in May 2003 to provide for the temporary governance of Iraq. United Nations Security Council Resolution 1483 created the Development Fund for Iraq (DFI) and assigned the CPA full responsibility for managing it. The DFI comprised revenues from Iraqi oil and gas sales, certain remaining Oil for Food deposits, and repatriated national assets. It was used, in part, for Iraq relief and reconstruction efforts.

During its almost 14-month governance, the CPA had access to \$20.7 billion in DFI funds and directed expenditures of about \$14.1 billion. The CPA Administrator had the authority to direct the Federal Reserve Bank of New York (FRBNY) to make Electronic Fund Transfer (EFT) payments for reconstruction activities out of the DFI main account. FRBNY records show that the Administrator directed about 1,100 EFT payments totaling \$5.9 billion in DFI funds from July 2003 through June 2004. EFT payments were made for a variety of items and services such as petroleum products, firearms and ammunition, trucks and other vehicles, firefighting equipment, and Hajj-related food, lodging, and transportation expenses.

The Special Inspector General for Iraq Reconstruction (SIGIR) initiated this audit to determine whether the CPA properly accounted for its use of the \$5.9 billion in EFT payments made with DFI funds.

What SIGIR Recommends

This report does not contain recommendations.

Management Comments and Audit Response

The Office of the Under Secretary of Defense (Comptroller) provided written comments on a draft of this report and, in general, agreed with the report. The comments are printed in their entirety in Appendix C.

April 30, 2012

DEVELOPMENT FUND FOR IRAQ: THE COALITION PROVISIONAL AUTHORITY'S FINANCIAL CONTROLS FOR ELECTRONIC FUND TRANSFER PAYMENTS DIMINISHED OVER TIME

What SIGIR Found

SIGIR accounted for most of the required financial documents supporting EFT payments made in 2003, but many of the required documents supporting payments reviewed for 2004 were missing. Overall, we reviewed 75 EFT payments totaling \$1.3 billion—25 payments from 2003 and 50 from 2004—and found substantially more financial documents missing in 2004 than in 2003. For each payment file, we looked for three financial documents: public voucher, material inspection and receiving report, and vendor invoice. The material inspection and receiving report, which is key to ensuring that products or services paid for were received, was the most frequently missing document. Our review of files for the 25 EFT payments made in 2003 found that almost all contained the three documents supporting each payment. Overall, only three of the 75 required documents (4%) were missing from the 25 payments that we reviewed. However, because all three missing documents were material inspection and receiving reports, SIGIR cannot be certain that the items paid for were received. These items included turbine oil, hydraulic oil, and 10,000 hand-held weapons collectively valued at \$4.7 million, or about 19.6% of the total value for the 2003 sampled payments.

Our review of files for 29 EFT payments made in 2004 found many more documents missing than in the 2003 files. SIGIR reviewed four of the 10 largest DFI payments—three payments to the World Food Program and one payment establishing a letter of credit—and all four had the documents necessary to support the payments. Overall, 11 of the 75 required documents (14.7%) were missing from the remaining 25 payments that we reviewed; 9 EFT payments were missing material inspection and receiving reports, and 2 were missing the vendor invoice. Additionally, SIGIR found that 24 of the 25 public vouchers (96%) were not properly signed and certified. The missing documents supported payments for farm chemicals and equipment, electrical equipment, construction materials, propane gas, vehicles, fuel products, and Hajj-related lodging that were valued at \$11.2 million, or about 19.5% of the total value for these 25 payments.

Because of the percentage of critical documents missing from the 2004 payments files, SIGIR expanded its review to cover an additional 21 payments, 12 for Hajj-related activities and 9 for fertilizer and pesticides. Our expanded review found that 94.4% of the documents supporting 12 Hajj-related payments totaling \$40.4 million were missing, and 37% of the documents supporting 9 fertilizer and pesticide payments totaling \$15.8 million were missing. Altogether, 69.8% of the required documents were missing from this expanded sample. SIGIR has not concluded that fraud, waste, or abuse occurred as a result of the missing documents; but the absence of key financial documents supporting the payments raises serious accountability questions.



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

April 30, 2012

MEMORANDUM FOR U.S. SECRETARY OF DEFENSE
U.S. SECRETARY OF STATE

SUBJECT: Development Fund for Iraq: The Coalition Provisional Authority's Financial Controls for Electronic Fund Transfer Payments Diminished over Time (SIGIR 12-013)

We are providing this audit report for your information and use. The report discusses issues related to the Coalition Provisional Authority's accountability for electronic fund transfer payments made in 2003 and 2004 using Development Fund for Iraq funds. We performed this audit in accordance with our statutory responsibilities contained in Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. This law provides for independent and objective audits of programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Iraq, and for recommendations on related policies designed to promote economy, efficiency, and effectiveness and to prevent and detect fraud, waste, and abuse. The Special Inspector General for Iraq Reconstruction (SIGIR) conducted this audit as Project 1112c.

We appreciate the courtesies extended to the SIGIR staff. For additional information on the report, please contact James Shafer, Assistant Inspector General for Audits, (703) 604-0894/ fred.j.shafer.civ@mail.mil or Tinh Nguyen, Principal Deputy Assistant Inspector General for Audits, (703) 604-0545/ tinh.t.nguyen4.civ@mail.mil.

A handwritten signature in black ink, appearing to read "Stuart W. Bowen, Jr." with a period at the end.

Stuart W. Bowen, Jr.
Inspector General

cc: U.S. Ambassador to Iraq
Office of the Secretary of Defense (Comptroller)

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Development Fund for Iraq: The Coalition Provisional Authority's Financial Controls for Electronic Fund Transfer Payments Diminished over Time

SIGIR 12-013

April 30, 2012

Introduction

The Coalition Provisional Authority (CPA) was established in May 2003 to provide for the temporary governance of Iraq following the conclusion of major combat operations in that country. United Nations Security Council Resolution 1483 established the Development Fund for Iraq (DFI) in May 2003 and assigned the CPA full responsibility for managing the fund. Resolution 1483 specified the DFI should be used in a transparent manner and for: (1) the humanitarian needs of the Iraqi people, (2) the economic reconstruction and repair of infrastructure, (3) the continued disarmament of Iraq, (4) the costs of civilian administration, and (5) other purposes benefiting the Iraqi people.

The DFI comprised revenues from ongoing Iraqi oil sales, unencumbered Oil for Food deposits, and repatriated national assets. During its almost 14-month governance, the CPA had access to \$20.7 billion in DFI funds and directed expenditures of about \$14.1 billion. Federal Reserve Bank of New York (FRBNY) records show that \$5.9 billion of the \$14.1 billion in total expenditures were made using Electronic Fund Transfer (EFT) payments. SIGIR initiated this audit to determine whether the CPA properly accounted for its use of the \$5.9 billion in EFT payments made with DFI funds.

Background

The CPA managed the DFI from May 2003 through June 2004 and had full responsibility for administering, using, and accounting for DFI funds. During that time period, funds were held in the DFI main account at the FRBNY until the CPA Administrator directed shipments of U.S. currency to Baghdad. SIGIR previously reported that there were 12 DFI currency shipments totaling about \$10.2 billion to Iraq during the CPA's governance.¹ In addition to directing the use of DFI funds that had been flown to Iraq, the CPA Administrator had the authority to direct the FRBNY to make EFT payments for reconstruction activities out of the DFI main account.

The CPA Administrator designated the CPA Comptroller as the DFI funds manager. The Administrator also issued 12 Regulations which defined the institutions and authorities of the CPA. For example, Regulation Number 2, entitled the Development Fund for Iraq, described the responsibilities for the administration, use, accounting, and auditing of the DFI fund. The CPA also issued a DFI Policies and Procedures Manual which addressed the procedures to be followed when making payments by cash, check, or wire transfer. Some of the key supporting

¹ *Development Fund for Iraq: The Coalition Provisional Authority Transferred Control over Most of the Remaining DFI Funds to the Central Bank of Iraq*, SIGIR 12-001, 10/26/2011.

documentation associated with these transactions included contracts, purchase orders, public vouchers, material inspection and receiving reports, vendor invoices, and certificates of completion.

The FRBNY provided us with an Excel spreadsheet showing that the CPA Administrator directed about 1,100 EFT payments totaling \$5.9 billion in DFI funds from July 2003 through June 2004. These payments ranged in value from less than \$100 to \$450 million. EFT payments were made for a variety of items and services such as petroleum products, firearms and ammunition, trucks and other vehicles, firefighting equipment, radios and antennas, military uniforms, air transportation to deliver procured items, and Hajj-related expenses.² Overall, SIGIR reviewed 75 EFT payments, including 4 of the 10 largest dollar valued payments, to determine whether the CPA properly accounted for them.

The FRBNY's Excel spreadsheet provided a line-by-line listing of EFT payments made using DFI funds, but specifics regarding the transactions were limited. To make an EFT payment, the FRBNY needed only a letter from the CPA Administrator instructing it to make the payment.

The CPA Comptroller was responsible for preparing the letter sent by the CPA Administrator to the FRBNY instructing it to make an EFT payment. These letters required, among other things, the signature of two CPA officials, the specified purpose of the transfer, and a recipient of the payment. The FRBNY executed EFT payments using Society for Worldwide Interbank Financial Telecommunications (SWIFT) messages. SWIFT messages provide a highly secure network to allow financial and non-financial institutions to exchange payment instructions and account information for EFT transactions.

Three key documents were required to support each payment, and SIGIR's evaluation focused on locating and reviewing these documents. The three documents are:

- Public Voucher—we looked to see whether one authorized CPA official approved the voucher and another authorized CPA official certified the voucher for payment;
- Material Inspection and Receiving Report—we looked to see whether there was documentation that a CPA official inspected and accepted the items or services procured; and
- Vendor Invoice—we looked to see whether the invoice provided sufficient detail of the items (description, quantity, and unit price) or services procured so they could be compared to the material inspection and receiving report.

According to a former CPA Comptroller, his office was responsible for obtaining the required financial documents to support a requested EFT payment. Once the Comptroller's office had the documents, it prepared the letter whereby the CPA Administrator instructed the FRBNY to make an EFT payment for a specified amount of money from the DFI account to a specified recipient.

² Hajj is a pilgrimage to Mecca in Saudi Arabia. One of a Muslim's duties is to go on a Hajj, if in good health and with the means to do so, at least once during his or her lifetime.

Objective

SIGIR's objective for this report was to determine whether the CPA properly accounted for its use of the \$5.9 billion in EFT payments made with DFI funds.

SIGIR initially selected 81 EFT payments for review, including the 10 largest EFT payments. Six of the 10 largest payments were made to the U.S. Army Corps of Engineers. These six payments were eliminated from the original sample because SIGIR plans to perform a broader review of the U.S. Army Corps of Engineers' controls over both EFT and cash payments. SIGIR's final sample size was 75, and they accounted for \$1.3 billion in payments. SIGIR evaluated 25 payments from 2003 and 50 payments from 2004. SIGIR originally selected 29 payments for 2004. Four of these payments had different documentation requirements and are treated separately in the report. Of the remaining 25 payments, two of the three key documents were missing from two of the files. As a result, SIGIR expanded its original sample for 2004 to include an additional 21 related payments. Table 1 provides a breakdown of the 75 EFT sampled payments reviewed for 2003 and 2004.

Table 1—Breakdown of the 75 EFT Sampled Payments Reviewed for 2003 and 2004

Year	Number of Payments Sampled	Dollar Value
2003	25	\$24.0 million
2004 Initial Sample	29	\$1,250.5 million
2004 Expanded Sample	21	\$56.2 million
Totals	75	\$1,330.7 million

Source: SIGIR analysis of CPA data.

For a discussion of the audit scope and methodology, see Appendix A. For the results of SIGIR's documentation review of selected EFT payments for 2003 and 2004, see Appendix B. For the Department of Defense's management comments, see Appendix C. For a list of acronyms used, see Appendix D. For the audit team members, see Appendix E. For the SIGIR mission and contact information, see Appendix F.

Documentation Supporting EFT Payments Made Using DFI Funds Was Better in 2003 than in 2004

SIGIR found 96% of the required documents supporting the 25 EFT payments made in 2003 in our sample. Our initial review of 29 EFT payments made in 2004 found many more documents missing than in 2003. We reviewed four of the 10 largest DFI payments—three payments to the World Food Program and one payment establishing a letter of credit—and found all of the documents necessary to support the payments. However, we found only 85.3% of the required documents supporting the remaining 25 payments that we initially reviewed in 2004. Due to the large number of documents missing in 2004, we expanded our sample to include another 21 EFT payments for that year and found only 30.2% of the required documents.

Few Documents Were Missing from 2003 EFT Payment Files

SIGIR found all but three of the required documents supporting 25 EFT payments made in 2003. These payments had a combined value of about \$24 million. The results of our review are shown in Table 2. Data for each individual payment is presented in Appendix B.

Table 2—Results of SIGIR Review of 25 Selected EFT Payments Made in 2003

Document	Documents required	Documents missing	Percent missing
Public Voucher	25	0	0
Material Inspection and Receiving Report	25	3	12
Invoice	25	0	0
Totals	75	3	4%

Source: SIGIR Analysis of CPA data.

As shown in Table 2, three of the 75 required documents (4%) were missing from the 25 payments that we reviewed. All three missing documents involved material inspection and receiving reports. Due to the absence of these reports, SIGIR cannot be certain that the items or services paid for using DFI funds were received. The items included 55-gallon drums of turbine oil, 55-gallon drums of hydraulic oil, and 10,000 hand-held weapons. Together, the three payments missing material inspection and receiving reports totaled \$4.7 million or about 19.6% of the total value for the 25 sampled payments in 2003.

Substantially More Documents Were Missing from 2004 EFT Payment Files

SIGIR found more documents missing in 2004 than in 2003. From our review of financial documents supporting SIGIR's original sample of 29 EFT payments made in 2004, 11 key documents could not be found. For two payments, SIGIR could not locate two of the three key

financial documents, which resulted in SIGIR expanding its sample to include 21 additional payments. All documentation was found for the three payments to the World Food Program and the one payment establishing a letter of credit. The results of our review for the remaining 25 payments totaling \$57.5 million are shown in Table 3. Data for each individual payment is presented in Appendix B.

Table 3—Results of SIGIR Review of 25 Selected EFT Payments Made in 2004

Document	Documents required	Documents missing	Percent missing
Public Voucher	25	0	0
Material Inspection and Receiving Report	25	9	36
Invoice	25	2	8
Totals	75	11	14.7%

Source: SIGIR Analysis of CPA data.

As shown in Table 3, of the 75 required documents, 11 were missing—9 material inspection and receiving reports, and 2 invoices (14.7%). Without material inspection and receiving reports, SIGIR cannot be certain that the items or services paid for were received. The missing material inspection and receiving reports were for farm chemicals, electrical equipment, construction materials, propane gas, gasoline, farm equipment, vehicles, fuel products, and lodging for the 2004 Hajj. Together, the missing reports totaled \$11.2 million or about 19.5% of the total value of our sample.

SIGIR’s sample also found that, although all 25 payments had a signed public voucher approving payment, a CPA official had not signed and certified as correct 24 of the 25 public vouchers (96%).

SIGIR Expanded Its Sample of 2004 Payments

Because of the value of the missing 2004 documentation in our original sample, SIGIR expanded its sample to include an additional 21 payments. The additional payments included 12 payments to support the 2004 Hajj and 9 payments to a fertilizer and pesticide distribution company.

Hajj Payments

SIGIR found that 34 of the 36 documents required to support the 12 Hajj-payments were missing. These 12 payments totaled \$40.4 million and ranged in value from \$200,000 to \$13.9 million. The results of our review are shown in Table 4. Data for each of the 12 additional Hajj-related payments is presented in Appendix B.

Table 4—Results of SIGIR Review of 12 Additional 2004 Hajj-Related Payments

Document	Documents required	Documents missing	Percent missing
Public Voucher	12	10	83.3
Material Inspection and Receiving Report	12	12	100
Invoice	12	12	100
Totals	36	34	94.4%

Source: SIGIR Analysis of CPA data.

SIGIR found only two payments, both advance payments, that had a signed public voucher approving payment—one for \$900,000 to an individual for Hajj air transportation and the other for \$5 million to an individual for Hajj lodging. We could not find any other financial documents supporting the other 10 payments. A former CPA official told us that he constantly asked the Iraqis for contracts and receipts to support Hajj-related payments but rarely got them. He said that on one occasion he was provided a document that was identified as a contract but he was not certain because it was in Arabic.

There is also a question about one of the two payments supported by a public voucher. SIGIR found documents showing that two days after the \$900,000 payment for air transportation was made, the contract was terminated because the contractor was unable to provide proof of certification and insurance for five planes as stipulated in the contract. However, we could not find any documents indicating that the money was recovered.

An FRBNY Excel spreadsheet listing EFT payments, states that the Hajj-related payments were for food, lodging, and transportation for Iraqis making the 2004 pilgrimage to Saudi Arabia. For example, the spreadsheet identifies a \$9 million payment to an individual for “lodging, transportation, and other fees for 30,000 pilgrims in Saudi Arabia.” However, SIGIR could not find any documents showing how the funds were spent.

SIGIR also found conflicting information regarding how many Iraqis attended the 2004 Hajj which further confuses the issue of how much was likely to have been spent and for what purposes. Program Review Board minutes dated December 29, 2003, stated that the Minister of Finance’s 2004 Hajj budget (\$37.5 million) was based on Saudi Arabia authorizing 25,000 Iraqis to attend the Hajj.³ The Board minutes also noted that the Minister was requesting \$5.5 million in supplemental funding for 10,000 additional Iraqis that Saudi Arabia approved for Hajj travel. Further, an e-mail among CPA officials, dated January 5, 2004, and the \$9 million EFT payment noted above that was made on January 13, 2004, references 30,000 Iraqis traveling for the Hajj. Lastly, a former CPA official informed us he calculated that the number of Iraqis attending the Hajj was closer to 40,000.

³ The Program Review Board, established by the CPA Administrator, was responsible for reviewing and making recommendations on which DFI contracts should be awarded.

Fertilizer and Pesticide Distribution Payments

Of the nine payments for fertilizer and pesticide distribution, SIGIR found that 10 of the 27 required supporting documents were missing (37%). The nine payments totaled \$15.8 million in DFI funds and ranged in value from \$101,016 to \$4.15 million. The results of our review are presented in Table 5. Data for each individual payment is presented in Appendix B.

Table 5—Results of SIGIR Review of Nine Additional Agricultural-related EFT Payments Made in 2004

Document	Documents required	Documents missing	Percent missing
Public Voucher	9	0	0
Material Inspection and Receiving Report	9	8	88.9
Invoice	9	2	22.2
Totals	27	10	37%

Source: SIGIR Analysis of CPA data.

As shown in Table 5, eight payments were missing material inspection and receiving reports and two were missing the vendor invoice. Without the material inspection and receiving reports, there is no evidence that the items or services were received. The items paid for included fertilizer, pesticides, and agricultural materials and equipment. Together, the eight payments totaled \$11.6 million or about 73.4% of the total value for the nine additional payments that we reviewed.

World Food Program and Letter of Credit

The final four payments reviewed for 2004 included three payments to the World Food Program and one payment to establish a letter of credit. These four payments were selected because they were among the 10 largest EFT payments. The World Food Program payments were covered in a Memorandum of Understanding between the United Nations World Food Program, the Ministry of Trade of Iraq, and the CPA. The Memorandum of Understanding stipulated that the CPA was responsible for making installment payments to the World Food Program based on a mutually agreed-upon schedule. For example, the first of three installments was for \$110 million and was due within seven days of signing the Memorandum of Understanding. The Memorandum of Understanding also stated that the World Food Program would contract with suppliers using its rules and regulations to ensure procurement of commodities. As a result, the CPA only provided the money, and the World Food Program did the contracting.

Lastly, throughout the CPA's governance, multiple letters of credit were established between the Trade Bank of Iraq, a financial institution, and the CPA, that served to guarantee payment for future products or services. The \$283 million payment, which was the third largest EFT payment, served only to establish the letter of credit and, as such, there were no products or services involved with the transaction for review during this audit. However, SIGIR reviewed CPA as well as FRBNY records to verify that this payment and the three payments made to the United Nations World Food Program mentioned above were properly made.

Conclusions and Recommendations

Conclusions

The CPA did a better job of documenting EFT payments in the first half of its governance of Iraq than it did in the last half. The material inspection and receiving report was the most frequently missing financial document among those that we looked for in our original as well as our expanded sample of payments, particularly for 2004. In the absence of these reports there are no assurances that the products or services paid for were received. The almost complete absence of financial documents for more than \$44 million in 2004 Hajj-related payments using DFI funds also provides no assurances that products or services paid for were actually received or that the funds were not lost or stolen. SIGIR has not concluded that fraud, waste, or abuse occurred with these Hajj-related or other 2004 payments, but the absence of key financial documentation and the corresponding lack of transparency for the amount of funds expended or how the funds were spent raises the overall risk that these problems could have occurred.

Recommendations

This report does not contain recommendations.

Management Comments and Audit Response

The Office of the Under Secretary of Defense (Comptroller) provided written comments on a draft of this report and, in general, agreed with the report. The comments are printed in their entirety in Appendix C.

Appendix A—Scope and Methodology

Scope and Methodology

In January 2012, the Special Inspector General for Iraq Reconstruction (SIGIR) initiated Project 1112c to review the extent to which the Coalition Provisional Authority (CPA) retained records documenting Electronic Fund Transfer (EFT) payments made through the Federal Reserve Bank of New York (FRBNY) using Development Fund for Iraq (DFI) funds. SIGIR's objective for this report was to determine whether the CPA properly accounted for its use of the \$5.9 billion in EFT payments made with DFI funds. This audit was performed under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978, as amended. SIGIR conducted its review from January through April 2012, in Arlington, Virginia.

To determine whether the CPA properly accounted for EFT payments made using DFI funds, we reviewed CPA policies, procedures, and regulations for making wire transfer payments and accounting for DFI funds. We also reviewed FRBNY and Department of Defense EFT payment records for May 2003 through June 2004. These records consisted of Excel spreadsheets containing EFT payment information as well as hard copy and electronic data files containing financial information associated with EFT payments made using DFI funds. In addition, we met with Office of the Under Secretary of Defense (Comptroller) officials and a former CPA official in Washington, D.C. We also had a telephone discussion with another former CPA official affiliated with the Iraqi Ministry of Finance.

To evaluate the adequacy of the CPA's internal controls, we selected 75 EFT payments for review. Six additional EFT payments made to the U.S. Army Corps of Engineers were part of an original sample of 81 payments but SIGIR eliminated them from the sample because they will be reviewed as part of a broader review of U.S. Army Corps of Engineers' controls over both EFT and cash payments. These payments were among the 10 largest made by the FRBNY.

The 75 sampled payments fell into three categories: (1) four of the 10 largest dollar-valued EFT payments, (2) 50 additional EFT payments that were judgmentally selected from remaining 2003 and 2004 payments, and (3) 21 payments that were associated with two of the 25 payments we reviewed for 2004 that were missing multiple financial documents.

For each payment, we looked for three key financial supporting documents—a public voucher, a material inspection and receiving report, and a vendor invoice. Once we determined whether these documents were contained in the sampled project files, we then looked for several specifics associated with each document. For example, for the public voucher we determined whether one authorized CPA official approved it for payment and another authorized CPA official certified it as correct and proper for payment.

To evaluate internal controls, we initially selected the 10 largest dollar valued EFT payments made using DFI funds which totaled \$2.4 billion or more than 40% of the total value of CPA-directed EFT payments made using DFI funds. Three of these payments were made to a United Nations food organization based on a Memorandum of Understanding which did not require the

CPA to obtain financial supporting documentation. Six of the seven remaining 10 largest payments will be the subject of a follow-on audit on which SIGIR plans to report later this year. The last of the 10 largest payments served only to establish a letter of credit and, as such, there were no products or services involved with the transaction for review during this audit. However, SIGIR verified that this payment and the three payments to the United Nations food organization were made.

To further evaluate internal controls, we judgmentally selected 50 additional payments from two time periods—25 payments each from 2003 and 2004. For each time period, we selected a cross section of vendors, products and services, and payment amounts, and looked for and evaluated the adequacy of the public vouchers, material inspection and receiving reports, and the vendor invoices. If we could not find one of these documents in the CPA’s electronic database of payment files or available hard-copy contract files, we recorded the document as missing. The results for all 50 payments reviewed are presented in Appendix B.

Questions about the absence of supporting documentation for two of the first 25 sampled payments for 2004 that were missing material inspection and receiving reports and vendor invoices led us to review other payments related to them but outside of the original sampled payments. We found 21 additional payments made in 2004 associated with the two payments that were missing two of the three key financial documents that we looked for. In the expanded review, we looked for the same three financial documents—public vouchers, material inspection and receiving reports, and vendor invoices—and used the same sources in searching for the documents as we did in the 25 sampled payments. The results of the 21 additional payments reviewed are presented in Appendix B.

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

Use of Computer-processed Data

In performing this audit, SIGIR obtained FRBNY computer-generated data but did not assess the system’s general controls because this was a basic FRBNY accounting system that is reviewed as part of the agency’s annual financial statements audit. Moreover, our substantive testing of the 75 transactions revealed no material errors. Therefore, we concluded that the computer-processed information was sufficiently reliable and the best available for purposes of our audit.

Internal Controls

In performing this audit, we reviewed the CPA’s internal controls for administering DFI payments. As a key part of this work, we reviewed the CPA’s project and payment files as well as FRBNY accounting records. We also held discussions with FRBNY and former CPA officials to gain an understanding of the internal controls governing EFT payments. We concluded that controls governing the payment of DFI funds were sufficiently reliable for use in

this audit. We presented the results of our review of internal controls in this report, as appropriate.

Prior Coverage

We reviewed the following SIGIR reports:

Development Fund for Iraq: Department of Defense Cannot Fully Account for the Funds It Used after the Coalition Provisional Authority Dissolved, SIGIR 12-008, 1/27/2012.

Development Funds for Iraq Returned to the Central Bank of Iraq, SIGIR 12-012, 1/13/2012.

Development Fund for Iraq: The Coalition Provisional Authority Transferred Control over Most of the Remaining DFI Funds to the Central Bank of Iraq, SIGIR 12-001, 10/26/2011.

Process for Continuing Invoice Payment for the Development Fund for Iraq Needs Attention, SIGIR 10-014, 4/27/2010.

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

Appendix B—Results of SIGIR’s Documentation Review of Selected Electronic Fund Transfer Payments for 2003 and 2004

For each payment in the following four tables, we looked for three financial documents: public voucher, material inspection and receiving report, and vendor invoice. If we found the document in the files, we recorded it with an X, and if it was not found in the files, we recorded it with a dash (-). Table 1 shows the results of SIGIR’s documentation review of 25 electronic fund transfer payments the CPA authorized from July through December 2003.

Table 1—Documentation Check List for 2003 Electronic Fund Transfer Payments

Payment Description	Payment Amount	Payment Date	Public Voucher	Material Inspection and Receiving Report	Vendor Invoice
Assault Rifles	\$2,832,000	08/23/2003	X	X	X
Power Station Reconstruction	\$1,952,637	09/24/2003	X	X	X
Electrical Equipment	\$79,265	09/28/2003	X	X	X
Telecommunications Equipment	\$217,800	10/14/2003	X	X	X
Gas Generators	\$113,850	10/14/2003	X	X	X
Firearms and Ammunition	\$4,569,670	10/15/2003	X	-	X
Gas Generators	\$60,076	10/23/2003	X	X	X
Chartered Aircraft	\$616,680	10/23/2003	X	X	X
Gas Turbine	\$2,005,377	10/29/2003	X	X	X
Imported Electricity	\$1,652,365	10/27/2003	X	X	X
Turbine Motors	\$21,564	10/29/2003	X	X	X
Hydraulic Oil	\$60,480	11/03/2003	X	-	X
Technical Services for Turbines	\$64,200	11/07/2003	X	X	X
Copying Services	\$195,000	11/10/2003	X	X	X
Fire Fighting Equipment	\$85,520	11/14/2003	X	X	X
Fire Fighting Equipment	\$483,800	11/14/2003	X	X	X
Electrical Products	\$211,503	11/14/2003	X	X	X
Logistics Support	\$3,759,312	12/03/2003	X	X	X
Specialized Vehicles	\$3,746,000	12/03/2003	X	X	X
War Insurance	\$172,580	12/08/2003	X	X	X
Vehicle Supply and Delivery	\$748,800	12/15/2003	X	X	X
Advertising Fees	\$14,954	12/15/2003	X	X	X

Legal Fees	\$36,095	12/15/2003	X	X	X
Turbine Oil	\$84,000	12/22/2003	X	-	X
Hand-held Radios	\$186,000	12/30/2003	X	X	X
Totals	\$23,969,528		25	22	25
Documents Required	75				
Documents in File	72				
Documents Missing	3				
Percentage of Documents Missing	4%				

Source: SIGIR analysis of CPA data.

Table 2 shows the results of SIGIR's documentation review of 25 electronic fund transfer payments the CPA authorized from January through June 2004.

Table 2—Documentation Check List for 2004 Electronic Fund Transfer Payments

Payment Description	Payment Amount	Payment Date	Public Voucher	Material Inspection and Receiving Report	Vendor Invoice
Hajj Lodging	\$4,250,237	01/05/2004	X	-	-
Legal Services	\$266,500	02/02/2004	X	X	X
Electrical Sub-Stations	\$2,400,000	03/12/2004	X	X	X
Pipeline Repair Equipment	\$5,996,508	03/16/2004	X	X	X
Farm Chemicals	\$100,747	03/18/2004	X	-	-
Legal Services	\$275,488	08/05/2004	X	X	X
Telecommunications System	\$5,637,072	04/07/2004	X	X	X
Electrical Equipment	\$133,029	04/21/2004	X	-	X
Imported Electricity	\$3,899,817	04/28/2004	X	X	X
Construction Materials	\$213,450	04/29/2004	X	-	X
Plant and Equipment	\$12,078,570	05/06/2004	X	X	X
Advertising Equipment	\$1,145,400	05/10/2004	X	X	X
Propane Gas	\$823,486	05/10/2004	X	-	X
Pipe Fittings	\$221,262	05/10/2004	X	X	X
Gasoline	\$95,504	05/10/2004	X	-	X
Media Network Fees	\$6,761,064	05/11/2004	X	X	X
Security Services	\$5,634,571	05/11/2004	X	X	X
Farm Equipment	\$1,211,640	05/11/2004	X	-	X
Equipment, Tools, and Spare Parts	\$1,085,399	05/11/2004	X	X	X
Street Lighting	\$377,205	05/11/2004	X	X	X

Power Transformer	\$328,000	05/11/2004	X	X	X
Condenser Tube	\$124,860	05/11/2004	X	X	X
Education Materials	\$70,720	05/11/2004	X	X	X
Vehicles	\$3,917,529	06/07/2004	X	-	X
Fuel Products	\$420,497	06/28/2004	X	-	X
Totals	\$57,468,555		25	16	23
Documents Required	75				
Documents in File	64				
Documents Missing	11				
Percentage of Documents Missing	14.7%				

Source: SIGIR analysis of CPA data.

Table 3 shows the results of SIGIR's expanded documentation review of 12 electronic fund transfer payments associated with the 2004 Hajj.

Table 3—Documentation Check List for Expanded Review of 2004 Hajj-Related Electronic Fund Transfer Payments

Payment Description	Payment Amount	Payment Date	Public Voucher	Material Inspection and Receiving Report	Vendor Invoice
Advance Payment to Individual for Yearly Hajj Event	\$5,000,000	12/24/2003	X	-	-
Payment to Individual for Lodging, Transportation and Other Fees for 30,000 Pilgrims in Saudi Arabia	\$9,000,000	01/13/2004	X	-	-
Payment to Individual for Air Transportation	\$900,000	01/14/2004	-	-	-
Advance Payment to Airline for Transportation	\$2,072,280	01/16/2004	-	-	-
Advance Payment to Airline for Transportation	\$1,795,500	01/16/2004	-	-	-
Advance Payment to Airline for Transportation	\$1,165,000	01/16/2004	-	-	-
Advance Payment to Airline for Transportation	\$942,400	01/26/2004	-	-	-
Payment to Airline for Transportation	\$2,483,880	1/26/2004	-	-	-
Payment to Airline for Transportation	\$1,795,500	01/26/2004	-	-	-

Payment to Airline for Transportation	\$1,178,000	01/26/2004	-	-	-
Payment to Individual for Administrative Expenses	\$200,000	01/29/2004	-	-	-
Payment to Individual for Hajj	\$13,900,000	02/02/2004	-	-	-
Totals	\$40,432,560		2	0	0
Documents Required	36				
Documents in File	2				
Documents Missing	34				
Percentage of Documents Missing	94.4%				

Source: SIGIR analysis of CPA data.

Table 4 shows the results of SIGIR's documentation review of nine electronic fund transfer payments associated with a Lebanese fertilizer and pesticide distribution company.

Table 4—Documentation Check List for Expanded Review of Electronic Fund Transfer Payments Made to a Lebanese Fertilizer and Pesticide Distribution Company

Payment Description	Payment Amount	Payment Date	Public Voucher	Material Inspection and Receiving Report	Vendor Invoice
Fertilizer	\$2,739,395	02/02/2004	X	-	X
Fertilizer	\$2,473,880	03/02/2004	X	-	X
Fertilizer	\$629,330	03/18/2004	X	-	-
Fertilizer	\$405,140	03/18/2004	X	-	-
Agricultural Pipes	\$101,016	03/18/2004	X	-	X
Fertilizer	\$4,076,470	04/14/2004	X	-	X
Pesticides	\$445,422	04/21/2004	X	-	X
Agricultural Materials	\$762,904	04/29/2004	X	-	X
Fertilizer	\$4,152,150	06/25/2004	X	X	X
Totals	\$15,785,707		9	1	7
Documents Required	27				
Documents in File	17				
Documents Missing	10				
Percentage of Documents Missing	37%				

Source: SIGIR analysis of CPA data.

Appendix C—Department of Defense Comments



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

April 26, 2012

Mr. James Shafer
Assistant Inspector General for Audits
Office of the Special Inspector General
for Iraq Reconstruction
2530 Crystal Drive
Arlington, VA 22202

Dear Mr. Shafer:

Thank you for the opportunity to review the Special Inspector General for Iraq Reconstruction (SIGIR) draft report, "Development Fund for Iraq: The Coalition Provisional Authority's Financial Controls for Electronic Fund Transfer Payments Diminished Over Time" (SIGIR 12-013), dated April 13, 2012. Our comments are provided below.

The draft report shows the Coalition Provisional Authority (CPA) performed better at retaining supporting documentation during the first part of its governance than the latter. For clarification, the Department of Defense (DoD) and CPA were separate and distinct organizations. The CPA was a temporary organization established pursuant to United Nations Security Council Resolution 1483 (2003). DoD involvement began after dissolution of the CPA at the request of the Iraqi government.

I appreciate the collaborative effort extended by your team throughout the series of audits on the Development Fund for Iraq. Through this collaborative effort, DoD obtained CPA records from the U.S. National Archives that included information about the Hajj-related payments to Iraqi officials highlighted in the draft report. The Department will continue to support SIGIR audit efforts to ensure transparency and proper accountability.

Thank you again for the opportunity to review and provide comments on the draft report. My point of contact in this matter is Ms. Charlotte Beacham. She can be reached at 703-602-0371 or charlotte.beacham@osd.mil.

Sincerely,

Mark E. Easton
Deputy Chief Financial Officer

Appendix D—Acronyms

Acronym	Description
CPA	Coalition Provisional Authority
DFI	Development Fund for Iraq
EFT	Electronic Fund Transfer
FRBNY	Federal Reserve Bank of New York
SIGIR	Special Inspector General for Iraq Reconstruction
SWIFT	Society for Worldwide Interbank Financial Telecommunications

Appendix E—Audit Team Members

This report was prepared and the audit conducted under the direction of James Shafer, Assistant Inspector General for Audits, Office of the Special Inspector General for Iraq Reconstruction.

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

Benjamin H. Comfort

L. Michael Welsh

Appendix F—SIGIR Mission and Contact Information

SIGIR’s Mission

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

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

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- Phone: 703-602-4063
- Toll Free: 866-301-2003

Congressional Affairs

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

Public Affairs

Christopher Griffith
Director of Public Affairs
Mail: Office of the Special Inspector General
for Iraq Reconstruction
2530 Crystal Drive
Arlington, VA 22202-3940
Phone: 703-604-0693
Fax: 703-428-0818
Email: PublicAffairs@sigir.mil
