The background of the page features a large, faint watermark of the official seal of the Office of the Special Inspector General for Iraq Reconstruction. The seal is circular and contains an eagle with its wings spread, perched on a shield with vertical stripes. The eagle holds an olive branch in its right talon and arrows in its left. The seal is surrounded by text in both English and Arabic. The English text reads "SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION" and the Arabic text reads "مفتش العام لإعادة إعمار العراق".

**IRAQ RECONSTRUCTION FUNDS:
FORENSIC AUDITS IDENTIFYING
FRAUD, WASTE, AND ABUSE
INTERIM REPORT #3**

**SIGIR 10-017
APRIL 28, 2010**



SIGIR

Special Inspector General for IRAQ Reconstruction

April 28, 2010

IRAQ RECONSTRUCTION FUNDS: FORENSIC AUDITS IDENTIFYING FRAUD, WASTE, AND ABUSE – INTERIM REPORT #3

Summary of Report: SIGIR 10-017

Why SIGIR Is Issuing this Report

Public Law 108-106 requires the Special Inspector General for Iraq Reconstruction (SIGIR) to prepare a final forensic audit report on all funding appropriated for the reconstruction of Iraq, which to date totals more than \$53 billion. This interim report presents the results of our ongoing forensic auditing program, including an update on our efforts to identify questionable financial activity and an update on our review of agency expenditures. The report also presents information on our data mining methodology. We are reporting our results periodically, and a final cumulative report will eventually address all available reconstruction funds.

In our first report, we summarized the results of a series of audits of major reconstruction contracts that were intended, in part, to identify internal control weaknesses. Because such weaknesses provide opportunities for fraud, waste, and abuse, we have used the results from these audits to develop targeted forensic auditing approaches to identify instances of possible wrongdoing.

SIGIR continues its forensic review of Department of Defense (DoD), Department of State (DoS), and U.S. Agency for International Development (USAID) expenditures. These reviews systematically examine Iraq reconstruction program expenditures to identify anomalies in transactional data that may indicate fraud, waste, or abuse. SIGIR's approach combines automated data mining with standard audit and investigative techniques to detect questionable transactions and develop relevant evidence for use in administrative actions or civil or criminal fraud prosecutions.

SIGIR continues its review of Iraq reconstruction program areas known to have weaknesses in internal controls. Identified as the SIGIR audit and investigative initiative, this effort focuses on programs that afford easy access to cash with weak controls over expenditures.

Management Comments

Because this report is for information only, it does not contain findings or recommendations, and agencies were not required to comment.

SIGIR's Results to Date

A major aspect of SIGIR's forensic audit effort involves a joint audit and investigative initiative that was established in January 2009. This effort, staffed by SIGIR Audit and Investigative personnel, focuses on programs that afford easy access to cash with weak controls over expenditures. This initiative continues to identify instances of questionable activity. Since our last report in January 2010, an additional 13 criminal investigations involving 18 subjects have been opened. This brings the total number of criminal investigations resulting from the initiative to 45 involving a total of 60 subjects.

Another major aspect of SIGIR's forensic audit effort is the congressionally mandated forensic audit of DoD, DoS, and USAID expenditures. Since our last report, SIGIR has reviewed an additional 10,000 transactions valued at \$4 billion, bringing the total transactions reviewed to 83,000 transactions valued at \$32 billion. In addition to testing for anomalous activity, this forensic effort provides critical information in support of on-going SIGIR audits, investigations, and the audit and investigative initiative.

Among the issues that SIGIR examines in its forensic review are possible duplicate payments and possible fictitious contractors. SIGIR has largely completed its review of possible duplicate payments involving approximately \$300 million in DoD Iraq Relief and Reconstruction Fund (IRRF) and Iraq Security Forces Fund (ISFF) program transactions. As noted in SIGIR Forensic Audit Interim Report #2 (SIGIR 10-011), we anticipated that many of the questionable transactions would prove to be valid when supporting documentation was reviewed, and this proved to be the case. We selected about 1,000 transactions with the highest dollar value totaling about \$150 million for detailed review. Other than approximately 20 transactions, with a value of approximately \$300,000 that remain under investigation, the other selected transactions have been determined not to be duplicate payments.

We have also reviewed possible fictitious contractors associated with DoD's IRRF- and ISFF-funded programs. As with our duplicate payment work, we are performing detailed research to determine whether these contractors were legitimate or were engaged in a scheme to defraud the U.S. government. Again, we anticipate that many of these contractors will prove to be legitimate following our review. An examination of key documentation, such as state business licenses, contracts, invoices, receiving reports, and other pertinent payment information will be used to support conclusions concerning the validity of the questionable vendors.

The results of SIGIR's forensic audit efforts will generally be reported in the aggregate, and specific findings will be included where appropriate and useful. We are also providing lessons learned that can be applied to other contingency operations, such as in Afghanistan. Detailed information regarding ongoing criminal investigations will not be presented in these reports.



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

April 28, 2010

MEMORANDUM FOR U.S. SECRETARY OF STATE
U.S. SECRETARY OF DEFENSE
COMMANDING GENERAL, U.S. ARMY CORPS OF ENGINEERS
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
ADMINISTRATOR, U.S. AGENCY FOR INTERNATIONAL
DEVELOPMENT

SUBJECT: Iraq Reconstruction Funds: Forensic Audits Identifying Fraud, Waste, and Abuse –
Interim Report #3 (SIGIR 10-017)

We are providing this report for your information and use. The report discusses the results to date of the Special Inspector General for Iraq Reconstruction's (SIGIR) forensic audits of Department of Defense, Department of State, and U.S. Agency for International Development expenditures involving Iraq relief and reconstruction.

We performed this review 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 waste, fraud, and abuse. These audits are being conducted as SIGIR Projects 9005, 9012, and 9013.

We appreciate the courtesies extended to our staff. For additional information on the report, please contact David Warren, Assistant Inspector General for Audits, (703) 604-0982/ david.warren@sigir.mil or Glenn Furbish, Principal Deputy Assistant Inspector General for Audits, (703) 604-1388/ glenn.furbish@sigir.mil.

Stuart W. Bowen, Jr.
Inspector General

cc: U.S. Ambassador to Iraq
Commander, U.S. Central Command
Commanding General, U.S. Forces-Iraq

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Iraq Reconstruction Funds: Forensic Audits Identifying Fraud, Waste, and Abuse – Interim Report #3

SIGIR 10-017

April 28, 2010

Introduction

Public Law 108-106, as amended, requires that the Special Inspector General for Iraq Reconstruction (SIGIR) prepare a final forensic audit report on all funding appropriated for the reconstruction of Iraq, which to date totals more than \$53 billion. To keep Congress apprised, this report, the third in a planned series of interim reports, describes the methodology and updates the results of our forensic audit efforts to date. Our first interim report discussed our analysis of Department of Defense (DoD) expenditures. Our second interim report included results of our analysis of expenditure data from the U.S. Agency for International Development (USAID). This report provides information on our analysis of expenditure data from the Department of State (DoS). The information is being reported cumulatively, and a final report will encompass total reconstruction funds. Table 1 identifies total appropriations by fund.

Table 1—Total Appropriations by Fund as of April 2010 (\$ in billions)

| Iraq Relief and Reconstruction | Appropriations |
|--|-----------------------|
| Iraq Relief and Reconstruction Fund (IRRF 1 and 2) | \$20.86 |
| Iraq Security Forces Fund (ISFF) | 18.04 |
| Economic Support Fund (ESF) | 4.56 |
| Commander's Emergency Response Program (CERP) | 3.74 |
| Other Reconstruction Assistance Programs | 3.77 |
| TOTAL | \$50.97 |

Note:

The table excludes appropriations totaling \$2.3 billion related to various federal agency operating and oversight expenses, which are outside the scope of the forensic audits.

Source: SIGIR Quarterly Report to the Congress, April 2010.

Forensic Audits Identify Fraud, Waste, and Abuse through Systematic Examinations of Data

A forensic audit involves the systematic examination of a program's internal controls over expenditures and financial data to identify anomalies in individual transactions that may indicate fraud, waste, or abuse. In our first report (SIGIR 10-004), we summarized the results of a series of audits of major reconstruction contracts that were intended, in part, to identify internal control weaknesses. Common or crosscutting internal control weaknesses identified include:

- high turnover of contracting officials and inadequate staffing for oversight of contracts

- inadequate oversight of contractors and subcontractors
- inadequate review of contractors' invoices
- missing invoices and other documents
- excessive numbers of task and change orders
- inadequate accounting for property or inventory

The Department of the Army's July 2009 Fiscal Year (FY) 2009 Statement of Assurance on Internal Controls as Required Under the Federal Managers' Financial Integrity Act of 1982 recognized various SIGIR findings regarding weaknesses in the agency's internal controls. For example, the Army reported that within the expeditionary contracting process, its:

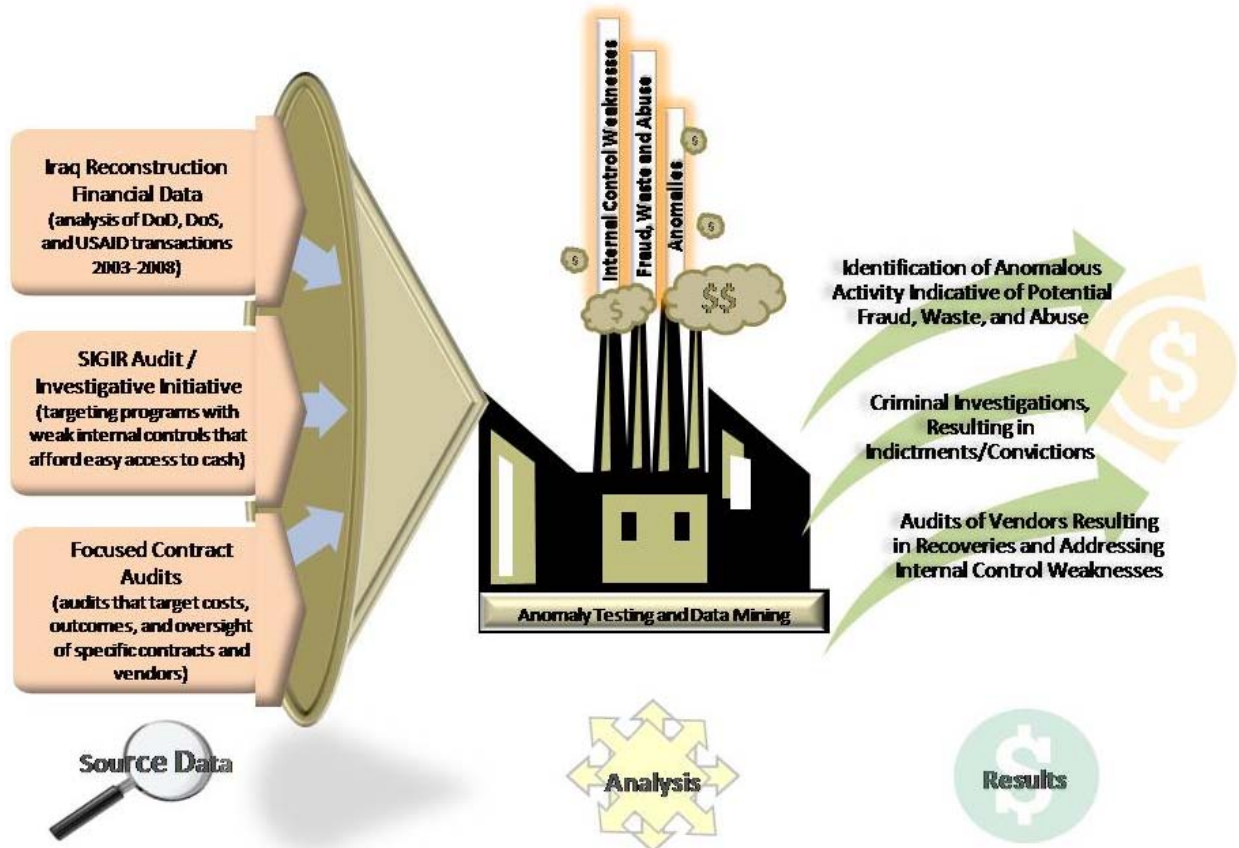
...acquisition workforce is not adequately staffed, trained, structured, or empowered to meet the Army needs of the 21st century deployed Warfighters. The contracting process (requirements definition, contract management, and contract closeout) is not treated as a core competency. Audit reports conclude that internal controls to mitigate risks in the contracting process are ineffective or nonexistent.

Because such weaknesses provide opportunities for fraud, waste, and abuse, we have used the results from these audits to develop targeted forensic auditing approaches to identify instances of possible wrongdoing.

SIGIR's forensic audit approach combines automated data mining with standard audit and investigative techniques to identify questionable transactions for further examination and, if necessary, to develop relevant evidence for use in administrative actions or civil or criminal fraud prosecutions.

Matters most appropriately addressed by administrative resolution, such as cost disallowance and recovery, will be referred through audit reports to agency contracting officials for action. Potential instances of civil or criminal fraud will be referred to SIGIR's Investigations Directorate for further examination. Detailed information relating to ongoing criminal investigations will not be presented in these reports. Figure 1 illustrates SIGIR's Forensic Audit Initiative.

Figure 1—SIGIR’s Forensic Audit Initiative



Source: SIGIR.

Objectives

SIGIR’s objectives for this report were to present the results to date of our forensic auditing efforts to include identifying questionable activity and updating the results of our review of agency expenditures. The report also presents information on our data mining methodology. As discussed, SIGIR is required to prepare a final forensic audit report on all funding appropriated for the reconstruction of Iraq. To keep Congress apprised, SIGIR plans to periodically issue updated cumulative reports until all DoD, Department of State (DoS), and USAID Iraq reconstruction expenditures are reviewed. At that time, we will provide the final congressionally mandated forensic audit report on all funding for the reconstruction of Iraq.

For a discussion of our audit scope and methodology, see Appendix A. For acronyms used, see Appendix B. For forensic audit team members, see Appendix C. For the SIGIR mission and contact information, see Appendix D.

SIGIR Effort Identifies Questionable Activity

A major aspect of SIGIR's forensic audit effort involves a joint audit and investigative initiative that was established in January 2009. This effort, staffed by SIGIR Audit and Investigative personnel, focuses on programs that afford easy access to cash with weak controls over expenditures. At this time the SIGIR audit and investigative initiative team is reviewing several programs with identified instances of questionable activity. One of the projects involves the handling of funds associated with the Development Fund for Iraq. At one time the Coalition Provisional Authority managed the Development Fund for Iraq, and SIGIR has reported that the Coalition Provisional Authority provided less than adequate control over its funds. A second program with identified control weaknesses is the Commander's Emergency Response Program (CERP). SIGIR has issued seven reports on CERP that collectively identify weaknesses in program documentation.

The SIGIR audit and investigative initiative team has obtained information related to these and other programs and is analyzing it in an effort to identify questionable activity. One source of information for this initiative is the congressionally mandated forensic audit of DoD, DoS, and USAID expenditures. Pertinent information is reviewed by SIGIR auditors, analysts and investigators to determine whether further action is warranted. Since our last report in January 2010, SIGIR has opened an additional 13 criminal investigations involving 18 subjects. This brings the total number of criminal investigations to 45 involving a total of 60 subjects.

Detailed information regarding SIGIR's ongoing audit and investigative initiative will not be presented in our reports. However, our results will generally be reported in the aggregate and specific findings will be included where appropriate and useful. We are also providing lessons learned that can be applied to other contingency operations, such as in Afghanistan.

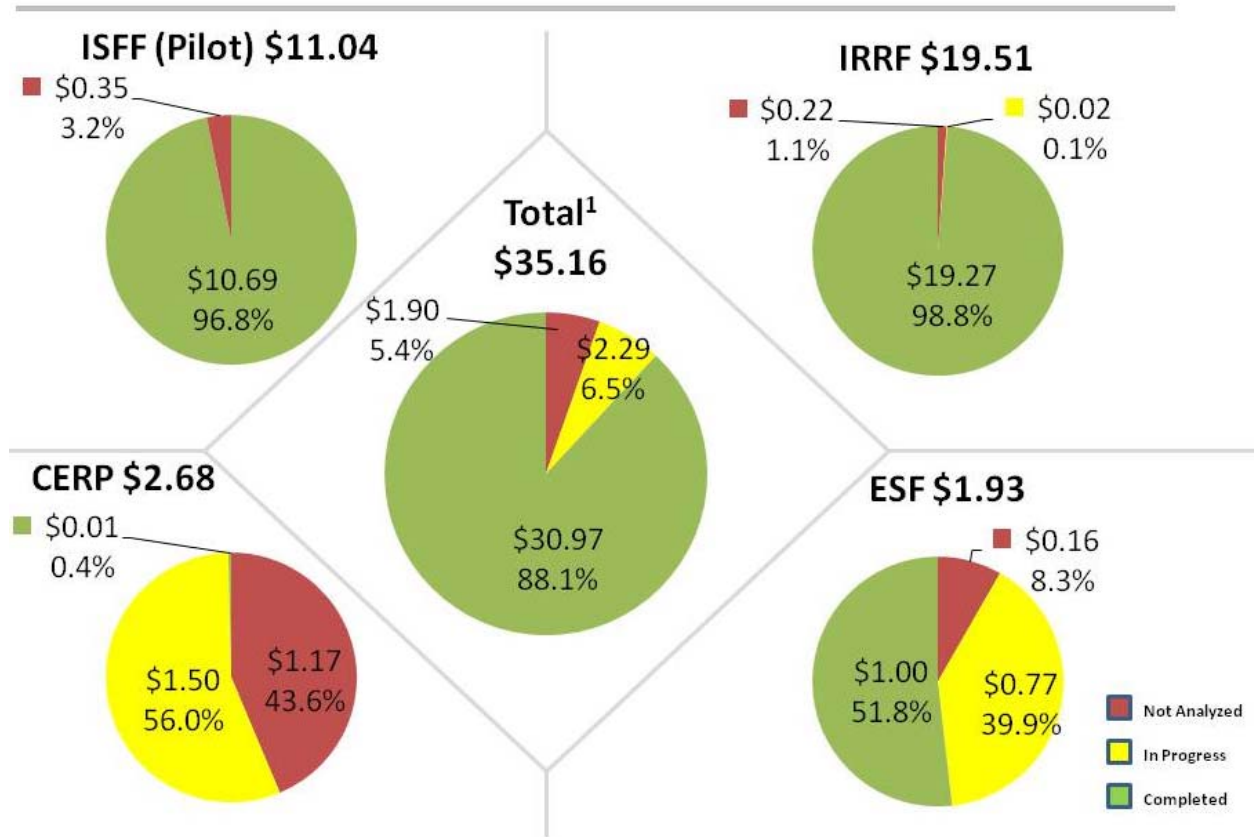
Forensic Audits of Agency Expenditures Identify Anomalous and Possibly Fraudulent Transactions

Another major aspect of SIGIR's forensic audit effort is the congressionally mandated forensic audit of DoD, DoS, and USAID expenditures. Since our last report SIGIR has reviewed an additional 10,000 transactions valued at \$4 billion; bringing the total number reviewed to 83,000 transactions valued at \$32 billion. The transactions include DoD expenditures as well as expenditures from USAID and DoS. This report presents the cumulative results to date of our forensic audit of fiscal years 2003-2008 and includes DoD expenditures from the Iraq Security Forces Fund (ISFF), Iraq Relief and Reconstruction Fund (IRRF), and CERP; USAID IRRF and Economic Support Fund (ESF) expenditures; and DoS IRRF expenditures.¹

Of the \$53 billion appropriated to date, approximately \$35 billion has been expended through FY 2008, and the 83,000 transactions valued at \$32 billion represent about 91% of the expenditures for fiscal years 2003 through 2008. Figure 2 shows the expenditures by appropriation through fiscal year 2008.

¹ ISFF was established in 2005; therefore, there were no expenditures in fiscal years 2003 or 2004.

Figure 2—Total Iraq Reconstruction Expenditures through Fiscal Year 2008 (\$ billions)



Notes

¹ Total dollars expended on Iraq reconstruction through FY08 is \$35.24 billion. The difference of \$0.08 billion relates to funds other than the four listed above.

Source: SIGIR analysis of agency data.

Figure 3 identifies, by appropriation, the status of SIGIR’s work in collecting and testing transaction data for fiscal years 2003 through 2008 for each of the agencies and their respective financial systems.

Figure 3—Status of Anomaly Testing as of March 2010 (\$ billions)

| | Total Expd ¹ | Amount Under Analysis ¹ | Data Owner | System | Data Collection | Data Validation | Manual Review | Anomaly Testing | Case Creation | CMT Review |
|------|-------------------------|------------------------------------|------------|-----------------------|-----------------|-----------------|---------------|-----------------|---------------|------------|
| ISFF | \$11.04 | \$10.69 (96.8%) | USACE | CEFMS | ● | ● | ● | ● | ● | ● |
| IRRF | \$19.51 | \$13.30 (68.2%) | USACE | CEFMS | ● | ● | ● | ● | ● | ● |
| | | \$0.02 (0.1%) | DFAS | CAPS ³ | ● | ● | ● | ● | ● | ● |
| | | \$4.36 (22.3%) | USAID | Phoenix | ● | ● | ● | ● | ● | ● |
| | | \$1.59 (8.1%) | DoS | GFMS ⁴ | ● | ● | ● | ● | ● | ◐ |
| | | \$0.02 (0.1%) | DFAS | DDS ⁵ | ◐ | ◐ | ◐ | ○ | ○ | ○ |
| CERP | \$2.68 | \$0.01 (0.4%) | USACE | CEFMS | ● | ● | ● | ● | ● | ● |
| | | \$1.17 ² (43.6%) | DFAS | STANFINS ⁶ | ◐ | ○ | ○ | ○ | ○ | ○ |
| | | \$1.50 (56.0%) | DFAS | DDS | ◐ | ◐ | ◐ | ○ | ○ | ○ |
| ESF | \$1.93 | \$1.00 (51.8%) | USAID | Phoenix | ● | ● | ● | ● | ● | ● |
| | | \$0.77 (39.9%) | DoS | GFMS | ◐ | ◐ | ◐ | ○ | ○ | ○ |

| Legend: | Not Started | Started | Partially Completed | Mostly Completed | Completed |
|---------|-------------|---------|---------------------|------------------|-----------|
| | ○ | ◐ | ◑ | ◒ | ● |

Notes

¹ Total expended amounts and collected amounts are in billions. The percentage listed is the total dollar amount analyzed out of the total expended.

² Estimated amount

³ Computerized Accounts Payable System (CAPS)

⁴ Global Financial Management System (GFMS)

⁵ Deployable Disbursing System (DDS)

⁶ Standard Army Finance System (STANFINS)

Source: SIGIR analysis of agency data.

Automated Data Mining To Identify Transactions That Require Additional Analysis

SIGIR’s forensic audit of 83,000 transactions to date has identified transactions that require additional analysis. This includes payments that may be duplicates, payments to possibly fictitious or generic vendors such as “Vendor” and “Cash,” notable variances in payment activity, and payments that occurred before or on the date of the invoice.

SIGIR primarily conducts performance audits that assess the economy, efficiency, and effectiveness of reconstruction programs, often with a focus on the adequacy of internal controls and the potential for fraud, waste, and abuse. These include the series of audits of major reconstruction contracts that identified common internal control weaknesses. Certain controls, such as the segregation of duties, are key to minimizing the risk of fraud, waste, and abuse. We

relied on SIGIR’s extensive body of work related to inadequate controls in Iraq reconstruction programs to develop transaction anomalies likely to be observed as a result of the failure or circumvention of these controls. We have incorporated 10 of these anomaly tests into our automated data mining effort. Table 2 lists the anomaly tests and their intended results.

Table 2—Anomaly Tests and Intended Results

| Anomaly Test | Intent of Test |
|--|--|
| Duplicate payments | Identify instances where it appears a contractor may have been paid two or more times for the same invoice, work performed, and/or product delivered |
| Questionable vendors | Identify vendor names that are generic (e.g., Cash, Vendor) and vendor names that do not appear to align with the program goals |
| Notable variances in payment activity | Identify payments outside of the “norm” for a vendor |
| Invoice date analysis | Identify payments occurring prior to or on the date of invoice and sequentially-numbered contractor invoices |
| Payments to debarred/suspended contractors | Identify payments to debarred/suspended contractors identified in the Excluded Parties List System |
| Segregation of duties | Identify breakdowns in segregation of duties whereby the same government contracting official originates the request for payment, approves the request, and is the payee |
| Fictitious addresses/high risk locations | Identify payments to possibly fictitious addresses and/or high risk locations or known high-risk banking centers such as Cyprus and Beirut |
| Payee Validation | Identify payments to debarred/suspended contractors who are also an Approver or Originator |
| Fictitious contractors | Identify payments to contractors with no associated D-U-N-S ¹ /CAGE ² number |
| Application of Benford’s Law ³ | Identify nonrandom transaction amounts to identify instances a contractor submitted false invoices using false invoice totals |

Notes:

¹ The Data Universal Numbering System or D-U-N-S® Number is Dunn and Bradstreet's (D&B) copyrighted, proprietary means of identifying business entities on a location-specific basis. Assigned and maintained solely by D&B, this unique nine-digit identification number has been assigned to over 100 million businesses worldwide. The D-U-N-S® Number is widely used by both commercial and federal entities and was adopted as the standard business identifier for federal electronic commerce in October 1994. The D-U-N-S Number® was also incorporated into the Federal Acquisition Regulation in April 1998 as the Federal Government's contractor identification code for all procurement-related activities.

² A Commercial and Government Entity (CAGE) Code is a five-character code that identifies companies doing or wishing to do business with the Federal Government.

³ Benford's law states that the leading digit in lists of numbers from many real-life sources of data is distributed in a non-uniform way. Accordingly, the first digit is 1 almost one third of the time, and subsequent digits occur as the first digit in descending frequency, where 9 is the leading digit less than one time in twenty.

Source: SIGIR analysis

Detailed Examinations of Contract Files to Validate Fraud

When a transaction anomaly is identified, SIGIR examines the details to determine whether it is fraudulent or improper. To accomplish this, teams of SIGIR personnel perform additional electronic testing; conduct detailed examinations of relevant contract documentation such as solicitation actions, award selection materials, invoices, and payment files; interview contracting

officials as well as vendor management and other staff; and coordinate with other audit and law enforcement agencies. These validation efforts are designed to support determinations about the legitimacy of a transaction and to determine whether improper expenditures are attributable to administrative error or fraud. Transactions are prioritized for review by their risk of fraud and dollar value with high-risk/high-dollar transactions receiving priority. To date, these examinations have provided information related to five SIGIR audits and eleven SIGIR investigations. As discussed in detail in the following section, SIGIR is currently focusing on DoD expenditures that may be duplicate payments as well as possible fictitious contractors associated with DoD expenditures.

Review of Possible Duplicate Payments

Our forensic audit of DoD expenditures for Iraq Relief and Reconstruction Fund (IRRF) and Iraq Security Forces Fund (ISFF) programs initially identified approximately \$300 million in possible duplicate payments. The purpose of this particular review was to determine the validity of payments. We reviewed transactions that were identified by data mining as possible duplicate payments (e.g., situations where a contractor may have been paid two or more times on the same date, for the same item, work performed, and/or product delivered). If we determine that a payment was made in error, SIGIR will: (1) seek reimbursement to the U.S. Treasury, (2) determine how the error occurred, and (3) make recommendations to strengthen internal controls and financial management practices to reduce the risk of similar errors in the future. If a payment appears to be the result of fraudulent or other improper activity, pertinent information will be provided to our Investigations Directorate for review and appropriate action. The aforementioned questionable transactions involved about 800 vendors associated with DoD IRRF- and ISFF-funded programs. While these questionable transactions were revealed during the course of our testing procedures, as noted in SIGIR Forensic Audit Interim Report #2 (SIGIR 10-011), we expected that most of these transactions would prove to be proper. Further review determined that most of these payments were explainable.

Due to the number of questioned transactions we prioritized our work using risk factors such as transaction type and amount. We selected about 1,000 transactions, totaling approximately \$150 million, for detailed review. We focused on transactions with the highest dollar value that appeared to indicate that a contractor may have been paid two or more times for the same invoice, work performed, and/or product delivered. We requested pertinent contract documentation from the United States Army Corps of Engineers Finance Center (Finance Center). Documentation provided by Finance Center personnel included contracts, invoices, receiving reports, and other pertinent payment information.

Based upon a detailed review of the documentation associated with the subject transactions, we determined that nearly all of the questioned transactions were not duplicate payments. For example, our review revealed that some payments were for different products, services, or locations. We also noted separate shipping dates for similar transactions. In still other instances we discovered that two or more potential duplicate payments were actually part of one payment. While additional review of invoices and other documents would be required to ensure that these transactions were proper, we believe that the information reviewed was sufficient to conclude that they were not duplicate payments. At this time, we are continuing to review DoD IRRF- and ISFF-funded transactions, including about 20 possible duplicate payments for a total of about \$300,000. We are working with Finance Center officials in an effort to obtain additional supporting documentation regarding these transactions.

USACE's Improper Payment Reviews and Data Mining Efforts

Congress has enacted several provisions of law aimed at improving the integrity of the government payment process and the efficiency of its programs and activities, including the Improper Payments Information Act of 2002 (Pub. L. No. 107-300), and Section 831 of the Defense Authorization Act for Fiscal Year 2002, also known as the Recovery Auditing Act (Pub. L. No. 107-107, codified at 31 U.S.C. §§ 3561-3567). SIGIR will use this information as a guide during our improper payment audit work, as well as Office of Management and Budget (OMB) Circular A-123, Appendix C, which implements them.

The Improper Payments Information Act requires federal agencies to review and report improper payment information, which would include duplicate payments. Specifically, the Act requires that all executive branch agencies on an annual basis: (1) identify programs and activities that are susceptible to significant improper payments, (2) estimate the amounts improperly paid under those programs and activities, and (3) report on the amounts improperly paid and their actions to reduce improper payments. In addition, executive branch agencies are required to report on their efforts to recover overpayments made to contractors under the Recovery Auditing Act. Since fiscal year 2004, executive branch agencies have been required by OMB to report on the Improper Payments Information Act and recovery auditing efforts in their Performance and Accountability Report.

In May 2009, the Finance Center implemented a new data mining tool designed to identify possible erroneous or improper payments. The Finance Center is testing transactions from May 2009 forward. Similar to our results, the Army Corps of Engineers' efforts have revealed few duplicate payments. SIGIR will continue to coordinate with Finance Center officials to avoid duplication of effort as we begin collecting and analyzing fiscal year 2009 transaction data.

Review of Possible Fictitious Contractors

We have also initiated a forensic audit of possible fictitious contractors associated with DoD IRRF- and ISFF-funded programs. As with our duplicate payment work, we are performing detailed research to determine whether these contractors were legitimate or were engaged in a scheme to defraud the U. S. government. An examination of key documentation, such as state business licenses, contracts, invoices, receiving reports, and other pertinent payment information will be used to support conclusions concerning the validity of the questionable vendors. Our initial anomaly testing identified over 400 possible fictitious contractors.

We tested for three anomalies in DoD transaction data that could be indicative of a fictitious contractor:

- payments to contractors with no associated D-U-N-S/CAGE number
- payments to possibly fictitious addresses and/or high risk locations or known high-risk banking centers such as Cyprus and Beirut
- payments to vendor names that are generic (e.g., cash, vendor) and vendor names that do not appear to align with program goals

While these anomalies were revealed during the course of our testing procedures, as with our possible duplicate payment review, we expect that many of the vendors will prove to be legitimate. An examination of key documentation, such as state business licenses, web sites, invoices,

receiving documents, and payment records, will be used to support conclusions on the validity of the vendors.

Management Comments and Audit Response

Because this report is for information only, it does not contain findings or recommendations and agencies were not required to comment.

Appendix A—Scope and Methodology

In December 2008, the Special Inspector General for Iraq Reconstruction (SIGIR) initiated its forensic effort as Projects 9005, 9012, and 9013 to examine Iraq relief and reconstruction expenditures by Department of Defense (DoD), Department of State (DoS), and the U.S. Agency for International Development (USAID). SIGIR's objectives for this report were to present the results to date of our forensic auditing efforts to include identifying questionable activity and updating the results of our review of agency expenditures. The report also presents information on our data mining methodology.

This interim report presents newly acquired expenditure data from the USAID and DoS for Iraq relief and reconstruction for fiscal years 2003-2008. The results of these reports will generally be discussed in the aggregate, with specific findings included where appropriate and useful. Cumulative questioned costs will be reported as defined and required by the Inspector General Act of 1978, as amended. 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. The audit work for this report covers the period December 2008 through March 2010 and was conducted in Arlington, VA; Indianapolis, IN; Millington, TN; Rome, NY; and Washington, DC.

To obtain the expenditure data from the DoD, we interviewed officials from the Army Budget Office, the Defense Finance and Accounting Service, and the U.S. Army Corps of Engineers. To obtain expenditure data from USAID, we interviewed officials from the Middle East Bureau and Chief Financial Officer's office. To obtain expenditure data from DoS, we interviewed officials from the Deputy Chief Financial Officer's Office. From these offices, we obtained pertinent appropriation and transactional data, as well as supporting documentation, to include contract details and vendor data.

To develop our list of anomalies, we used information from discussions with SIGIR auditors and investigators; key agency stakeholders and systems owners; live financial system demonstrations; SIGIR and other agency audit reports; and industry-established tests for fraudulent activities.

We conducted this review 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. However, this is an information report, which has no findings or conclusions.

Use of Computer-processed Data

To achieve the assignment's objectives, we relied extensively on computer-processed data from the Defense Finance and Accounting Service, the U.S. Army Corps of Engineers accounting systems, the USAID Phoenix System, and the DoS Global Financial Management System. We performed reconciliations of disbursement data received from the various accounting systems to determine that it was complete and reliable. The reconciliation process included a comparison of the detailed disbursement totals to other sources of information, including summary-level data. This reconciliation process yielded a variance of tolerable amounts. Therefore, we found the data to be adequate and sufficiently reliable to be used in meeting our forensic audit objectives.

Internal Controls

As discussed in the body of the report, SIGIR has conducted audits of major reconstruction contracts that were intended in part to identify internal control weaknesses. We reported on those weaknesses in each report, which also contained relevant conclusions and recommendations. Because such weaknesses provide opportunities for fraud, waste, and abuse, we used the results of those audits to develop targeted forensic auditing approaches to identify instances of wrongdoing. However, this is an information report and, as such, we draw no conclusions and make no recommendations.

Prior Coverage

We reviewed the following reports for this audit:

SIGIR

Developing a Depot Maintenance Capability at Taji Hampered by Numerous Problems, SIGIR 09-027, 7/30/2009.

Tikrit Location Command Project Achieving Contract Goals by Using Sound Management Practices, SIGIR 09-024, 7/30/2009.

Commander's Emergency Response Program: Muhalla 312 Electrical Distribution Project Largely Successful, SIGIR 09-025, 7/26/2009.

Commander's Emergency Response Program: Hotel Construction Completed, But Project Management Issues Remain, SIGIR 09-026, 7/26/2009.

Joint Audit of Blackwater Contract and Task Orders for Worldwide Personal Protective Services in Iraq, AUD/IQO-09-16 and SIGIR 09-021, June 2009.

Security Forces Logistics Contract Experienced Certain Cost, Outcome, and Oversight Problems SIGIR 09-014, 4/26/2009.

Need To Enhance Oversight of Theater-Wide Internal Security Services Contracts, SIGIR 09-017, 4/24/2009.

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

Cost, Outcome, and Oversight of Iraq Oil Reconstruction Contract with Kellogg Brown & Root Services, Inc., SIGIR 09-008, 1/13/2009.

Review of Cost, Outcome, and Oversight of Local Governance Program Contracts with Research Triangle Institute, SIGIR 09-003, 10/21/2008.

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Appendix B—Acronyms

| Acronym | Description |
|----------------|---|
| CAGE | Commercial and Government Entity Code |
| CAPS | Computerized Accounts Payable System |
| CERP | Commander's Emergency Response Program |
| DDS | Deployable Disbursing System |
| DoD | Department of Defense |
| DoS | Department of State |
| DUNS | Data Universal Numbering System |
| ESF | Economic Support Fund |
| FY | Fiscal Year |
| GFMS | Global Financial Management System |
| IRRF | Iraq Relief and Reconstruction Fund |
| ISFF | Iraq Security Forces Fund |
| OMB | Office of Management and Budget |
| SIGIR | Special Inspector General for Iraq Reconstruction |
| STANFINS | Standard Army Finance System |
| USACE | U.S. Army Corps of Engineers |
| USAID | U.S. Agency for International Development |

Appendix C—Forensic Audit Team Members

This report was prepared and the forensic audit conducted under the direction of David R. Warren, Assistant Inspector General for Audits, Office of the Special Inspector General for Iraq Reconstruction.

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Appendix D—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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