

The seal of the Office of the Special Inspector General for Iraq Reconstruction is a large, circular emblem in the background. It features an eagle with wings spread, holding an olive branch and arrows. The eagle is positioned over a shield with vertical stripes. The seal is surrounded by text in both English and Arabic. The English text reads "INSPECTOR GENERAL" at the top and "RECONSTRUCTION" at the bottom. The Arabic text reads "مفتش العام" at the top and "إعادة إعمار العراق" at the bottom.

REVIEW OF THE
MULTI-NATIONAL SECURITY
TRANSITION COMMAND-IRAQ
RECONCILIATION OF THE
IRAQI ARMED FORCES
SEIZED ASSETS FUND

SIGIR-06-010
APRIL 28, 2006



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

April 28, 2006

MEMORANDUM FOR COMMANDING GENERAL, MULTI-NATIONAL SECURITY TRANSITION COMMAND-IRAQ

SUBJECT: Audit Report on Review of the Multi-National Security Transition
Command-Iraq Reconciliation of the Iraqi Armed Forces Seized Assets
Fund (SIGIR-06-010)

We are providing this audit report for your information and use. We performed the audit in accordance with our statutory duties contained in Public Law 108-106, as amended, which requires that we provide for the independent and objective conduct of audits, as well as leadership and coordination of and recommendations on policies designed to promote economy, efficiency, and effectiveness in the administration of Iraq relief and reconstruction programs and operations and to prevent and detect waste, fraud, and abuse.

We considered management comments from the Multi-National Security Transition Command-Iraq, on a draft of this report when preparing the final report.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Joseph T. McDermott at (703) 343-7926, or by email at joseph.mcdermott@iraq.centcom.mil; or Mr. Clifton Spruill at (703) 343-9275, or by email at clifton.spruill@iraq.centcom.mil. For the report distribution, see Appendix E.

Stuart W. Bowen, Jr.
Inspector General

cc: Distribution

Special Inspector General for Iraq Reconstruction

SIGIR-06-010

April 28, 2006

Review of the Multi-National Security Transition Command-Iraq Reconciliation of the Iraqi Armed Forces Seized Assets Fund

Executive Summary

Introduction. In response to a U.S. Army Audit Agency recommendation, the Multi-National Security Transition Command-Iraq (MNSTC-I) requested that the Special Inspector General for Iraq Reconstruction (SIGIR) conduct an extended review of the MNSTC-I internal review and reconciliation of the Iraqi Armed Forces (IAF) Seized Assets Fund and associated financial disbursing documents to determine whether there were any issues warranting further investigation. SIGIR subsequently obtained custody of MNSTC-I's internal review workpapers and IAF Seized Assets Fund financial disbursing documents.

Objectives. The audit objectives were to determine whether (1) sufficient documentation existed to complete the MNSTC-I reconciliation of the IAF Seized Assets Fund, and (2) any acts by responsible internal and external certifying officials, pay agents, vendors and contractors could be identified that warranted further investigation.

Results. Our review of the IAF Seized Assets Fund contract and financial documentation provided to SIGIR confirmed MNSTC-I's internal review conclusion that the records were too incomplete and unreliable to be audited and that a valid reconciliation could not be achieved. Overall, there was little apparent oversight during the timeframe covered by the documents reviewed. As a result, we found official records that MNSTC-I did not provide the contracting office. As such, the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) made contracting actions without the benefit of pertinent contract information contained in the records. We also reported separately on our review of the status of the documentation maintained by JCC-I/A.¹

Indications of Potential Fraud. During this review, we also noted indications of potential fraud and referred those matters to the SIGIR Assistant Inspector General for Investigations for action. Related investigations are continuing.

Management Actions. We noted during the course of our review that MNSTC-I had initiated training for its paying officers and developed standard operating procedures and other guidance that, if implemented and enforced, could address many of the problems discussed in this report. However, we did not address the effectiveness of these changes within the scope of this review.

¹ *Iraqi Armed Forces Seized Assets Fund: Review of Contracts and Financial Documents*, SIGIR-06-015, April 2006.

Recommendation. We recommend the Commanding General, MNSTC-I, establish a plan and process and execute the handover of original and copied contract documents and files in so far as possible, in cooperation with the Commanding General, JCC-I/A, to meet the requirements for complete and accurate record keeping.

Management Comments and Audit Response. MNSTC-I and JCC-I/A officials concurred with the finding and recommendation. Actions are underway to implement the recommendation. The comments received are fully responsive.

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Introduction

Background

A prior U.S. Army Audit Agency audit report, "Follow-up Audit of the Commanders' Emergency Response Program and Quick Response Fund, Multi-National Security Transition Command-Iraq," (A-2005-0332-ALE, dated September 30, 2005), recommended that the Multi-National Security Transition Command-Iraq (MNSTC-I) reconcile the Development Fund for Iraq (DFI), Commander's Emergency Response Program fund, and Iraqi Armed Forces (IAF) Seized Assets Fund; and report any accounting discrepancies to the Special Inspector General for Iraq Reconstruction (SIGIR). In addition, the Army Audit Agency, with the permission of MNSTC-I, took possession of IAF Seized Assets Fund contracting, disbursing, and financial records from MNSTC-I Headquarters. These records were secured in the vault maintained by the Joint Area Support Group-Central (Comptroller), U.S. Embassy Baghdad.

In accordance with the Army Audit Agency recommendation, MNSTC-I performed a reconciliation of the IAF Seized Assets Funds, including the records of the Program Review Board.² MNSTC-I concluded the available records were too incomplete and unreliable to be auditable and that a valid reconciliation could not be achieved.

MNSTC-I identified

- six (6) projects approved by the Program Review Board and funded for \$6,434,199 which had errors on the financial documents (funds were also inappropriately commingled between DFI, Seized, and Vested Assets funds);
- unresolved documentation to support transactions estimated at \$32,641,723 in US dollars and 1,320,493,541 in Iraqi Dinars (converted @ 1461 to \$1 = \$903,829 in US dollars); and
- unreconciled funds showing a potential shortage of approximately \$920,477.

MNSTC-I also identified discrepancies associated with approved Program Review Board projects, including

- erroneous Program Review Board numbers identified on disbursements documents;
- payments not posted in Coalition Military Army Training Team /MNSTC-I expense reports;
- missing signatures on DD Form 2665, Daily Agency Accountability Record;
- payments without supporting documents and/or contract numbers; and
- Program Review Board project numbers that could not be identified (i.e., not matched to a specific contract or funds type.)

² Coalition Provisional Authority Regulation Number 3, "Program Review Board," June 18, 2003, was established as part of the Coalition Provisional Authority entity for recommending disbursements of the DFI, Seized and Vested funds assets to assist the Iraqi people and assist in the reconstruction of Iraq.

In April 2005, the MNSTC-I Comptroller turned in the remaining cash balance of \$4,371,383 to the Defense Finance and Accounting Service and the 3153rd Finance Detachment in Baghdad, Iraq. The Defense Finance and Accounting Service and the 3153rd Finance Detachment established a plan to return funds to the Program Review Board for other uses. This allowed a cash turn in of the residual cash balance.

Also, in accordance with the Army Audit Agency recommendation, MNSTC-I requested that SIGIR conduct a further review to determine whether there were issues in its report that required further investigation. SIGIR subsequently obtained custody of the audit workpapers used for MTSTC-I's reconciliation and the IAF Seized Assets Fund financial disbursing documents.

Objectives

The overall audit objectives were to determine whether (1) sufficient documentation existed to complete the MNSTC-I reconciliation of the IAF Seized Assets Fund, and (2) acts by responsible internal and external certifying officials, pay agents, vendors and contractors could be identified that warranted further investigation.

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

Iraqi Armed Forces Seized Assets Fund Records

We began this review in January 2006 after obtaining MNSTC-I draft Audit Report on the Iraqi Armed Forces (IAF) Seized Assets Fund, (Project IA-2005-01, dated November 14, 2005), and supporting workpapers; at which time we conducted an independent cross-reference to the supporting documentation. We reviewed MNSTC-I's internal audit report and workpapers on the reconciliation of the IAF Seized Assets Fund for the period of July 31, 2003 – April 20, 2005. We also reviewed contract records, disbursement documents, and financial accountability documents that were related to the IAF Seized Assets Fund and covered the time period of July 2003 - April 2005. We identified numerous weaknesses in management and financial controls.

Spreadsheets Rather Than Bank Statements. MNSTC-I did not maintain bank account number(s) or bank statements to validate deposits and withdrawals of the IAF Seized Assets Fund. All checkbooks and checkbook records were turned over in August 2004 to the Iraqi Ministry of Defense. The only documents available were spreadsheets showing transactions of deposits and withdrawals from July 2003 – June 2004, and the fund estimated value of \$117,873,387. These spreadsheets were not reliable source documents but were the only documents available for the attempted fund reconciliation.

Questionable Payments. Disbursed payment vouchers to contractors and vendors were not always supported by required documents, such as invoices, receipts, or receiving reports to identify the purpose of payments. Payments to contractors did not always reference a contract number on the payment vouchers. We also identified payments against DD-250 receiving reports that did not have the required signatures to authorize payments.³ Disbursing Officer's signed DD-1081's for advance payments issued to pay agents without support documents to indicate the purpose of the assigned funds or when remaining funds were returned.⁴ We also identified SF-44's paid to vendors that exceeded the \$2,500 - \$5,000 limit.⁵ Table 1 summarizes the potential overpayment, de-obligations, erroneous payments, and other problems we found during the course of our review. For additional details, see Appendix C.⁶

³ A DD Form 250 is a Material Inspection and Receiving Report.

⁴ A DD Form 1081 is a Statement of Agent Officer's Account.

⁵ An SF-44 is a Purchase Order-Invoice-Voucher. SF-44s were initially limited to \$2,500, but the limit was later increased to \$5,000.

⁶ De-obligation is a redistribution of either unobligated balances of budget authority provided in a previous year or budget authority provided in the current year between appropriations or funds for the benefit of the gaining appropriation or fund.

**Table 1. Summary Findings
Contract Files and Financial Supporting Documentation
(Years 2003 and 2004)**

<u>Contract Issues</u>	2003 Contracts		2004 Contracts	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Potential Overpayment Actions	10	\$3,343,847	7	\$3,910,236
Potential De-obligations	18	\$96,876,208	19	\$169,196,520
No Contract/Contract Number	21*	\$3,358,512	75**	\$12,919,802
Payments to Wrong Contractor	2	\$584,192	5	\$1,723,254
DD-250s without SF-1034	51	\$30,226,132	27	\$13,875,150
SF-44s payments over \$2,500	6	\$34,303	57	\$751,695

*19 contract numbers with no contract found, 2 transactions with no contract number.

**28 contract numbers with no contract found, 47 transactions with no contract number.

Missing Contracting Documents. We determined that numerous contracts, modifications, invoices, receipts and receiving reports needed to support or justify making payments were missing. Our comparisons of contract numbers against the JCC-I/A database identified inconsistencies such as missing contract numbers or annotations by JCC-I/A stating, for example, that no record of a contract award existed even though we found documentation showing payments. Our analysis to validate costs of some contracts, including modifications that increased or decreased the value of the contract, resulted in finding potential overpayments or funds that could be de-obligated and put to other uses. JCC-I/A appears to have followed its established procedures in attempting to validate the completion of contracts and contract payments with the individual contractors. For additional details, see Appendix C.

Conclusion

Our review of the IAF Seized Assets Fund contract and financial documentation confirmed MNSTC-I's internal review conclusion that the records were incomplete and too unreliable to be audited and that a valid reconciliation could not be achieved. Overall, there was little apparent oversight during the timeframe covered by this review. We identified numerous weaknesses in management and financial controls, including: (1) spreadsheets used in lieu of bank statements, which were not available to confirm deposits; (2) questionable payments made without supporting documentation; and (3) numerous shortcomings in financial record keeping and accountability in the IAF Seized Assets Fund financial records. We found, for example, that the JCC-I/A was not aware of the numerous contracting documents among the IAF Seized Assets Fund financial records. As such, the JCC-I/A made contracting actions without the benefit of pertinent contract information contained in the records. We also reported separately on our review of the status of the documentation maintained by JCC-I/A.⁷

⁷ *Iraqi Armed Forces Seized Assets Fund: Review of Contracts and Financial Documents*, SIGIR-06-015, April 2006.

Indications of Potential Fraud. During this review we noted indications of potential fraud and referred those matters to the SIGIR Assistant Inspector General for Investigations for action. Related investigations are continuing.

Management Actions. We noted during the course of our review that MNSTC-I had initiated training for its paying officers and developed standard operating procedures and other guidance that, if implemented and enforced, could address many of the problems discussed in this report. However, we did not address the effectiveness of these changes within the scope of this report.

Recommendation, Management Comments and Audit Response

We recommend the Commanding General, Multi-National Security Transition Command-Iraq, establish a plan and process and execute the handover of original and copied contract documents and files in so far as possible, in cooperation with the Commanding General, Joint Contracting Command-Iraq/Afghanistan, to meet the requirements for complete and accurate record keeping.

MNSTC-I and JCC-I/A officials concurred with the finding and recommendation. Actions are underway to implement the recommendation. The comments received are fully responsive.

Appendix A. Scope and Methodology

We began this review in January 2006 (SIGIR Project No. 6001) after obtaining MNSTC-I draft Audit Report on the Iraqi Armed Forces (IAF) Seized Assets Fund, (Project IA-2005-01, dated November 14, 2005), and supporting workpapers, at which time we conducted an independent cross-reference to the supporting documentation. We reviewed MNSTC-I's internal audit report and workpapers on the reconciliation of the IAF Seized Assets Fund for the period of July 31, 2003 – April 20, 2005. We developed multiple automated spreadsheets to evaluate MNSTC-I's reconciliation results for this period, enabling easier checking and cross-referencing of the numbers. We also reviewed contract records, disbursement documents, and financial accountability documents that were related to the IAF Seized Assets Fund and covered the time period of July 2003 - April 2005. See Appendix B for the MNSTC-I reconciliation.

To determine the extent to which the IAF Seized Assets Fund deposits and withdrawals could be verified, we examined all available files. We also requested official bank slips to determine initial deposits made by the Ministry of Finance. MNSTC-I provided some check stubs from Rafidain Bank which proved essentially useless due to lack of account numbers; however, we scanned the bank stubs for possible comparison to account and check numbers we identified during our review. MNSTC-I provided two spreadsheets (1) New Iraqi Army Account Status – US Funds, and (2) New Iraqi Army Bank Account Status – Iraqi Funds, prepared by a former Coalition Military Assistance Training Team/MNSTC-I Budget Analyst that listed deposits and withdrawal of funds. We determined the spreadsheets were not reliable documents without actual bank statements to support the numbers, but were the only documents MNSTC-I had to attempt a reconciliation of the IAF Seized Assets Fund.

To determine the extent IAF Seized Assets Fund final contract values and payments could be reconciled; we obtained financial reports and contract records from the (1) Joint Contracting Command-Iraq/Afghanistan contracting database, and (2) the Iraq Reconstruction Management System database. This data was compared to MNSTC-I financial documentation and analyzed to validate and determine contractors, contract numbers, contract awards, modifications, and payments. Our analysis discovered inconsistencies, such as documentation on hand not posted or identified in the databases and databases not having similar information to adequately determine final value of contracts and payments.

To determine the extent IAF Seized Assets Fund contract payments were valid based on appropriate and complete documentation, we evaluated DA 3953,⁸ contracts, contractors' records, contract numbers and Contracting Officer Representatives' records. We reviewed check and cash payments in US dollars and Iraqi Dinars issued by SF-1034's⁹ and SF-44's,¹⁰ validated signatures of approving, certifying, and disbursing officials. We analyzed record files of daily transactions for years 2003 and 2004, which included DD-1081's, DD-250's, invoices, receipts and memorandums and email validating receipt of purchases, deliveries and payments. As a result of our analysis we identified deficiencies so significant we are unable to determine whether payments were properly executed. In addition, disbursing documents indicated payments were made from both the IAF Seized Assets Fund and the DFI.

⁸ Department of the Army 3953, Purchase Request and Commitment

⁹ Standard Form 1034 Public Voucher For Purchases and Services Other Than Personal

¹⁰ Standard Form 44 Purchase Order Invoice Voucher

To determine the extent IAF Seized Assets Fund expenditures for various contracts were approved at the appropriate level of decision making, we obtained minutes of the Coalition Provisional Authority Program Review Board meetings to determine project programs approved by the board for the period of June 2003 to June 2004 funded with the IAF Seized Assets Fund. During our review of contracts and payment vouchers we were unable to determine contracts related to particular projects approved by the Program Review Board because documentation did not identify Program Review Board project numbers.

For perspectives on early problems documented with contracting in Iraq, we analyzed prior audits which identified similar problems, to include SIGIR Audit Report Number 04-009, "Management Controls over the Development Fund for Iraq", dated July 28, 2004; and Audit Report Number 05-006, "Control of Cash Provided to South-Central Iraq" dated April 30, 2005.

We compared the process used for managing financial documentation to statutory, Coalition Provisional Authority, Defense Finance and Accounting Service, and Department of Defense Financial Management Regulation guidance to determine compliance and ascertain if seized funds were properly executed. We held discussions with MNSTC-I internal auditors and SIGIR investigators to obtain knowledge and documentation relative to the seized funds.

We conducted this review from January 2006 through March 2006, in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We used computer-processed data from the JCC-I/A contracting database, and the Iraq Reconstruction Management System to perform this audit. We did not assess the general or application controls of any database or system.

Prior Coverage. We reviewed the following reports:

Special Inspector General for Iraq Reconstruction. Reports can be accessed on its website <http://www.sigir.mil>.

- "Control of Cash Provided to South-Central Iraq," (SIGIR 05-006, April 30, 2005)
- "Coalition Provisional Authority Comptroller Cash Management Controls Over the Development Fund for Iraq," (SIGIR 04-009, July 28, 2004)

U.S. Army Audit Agency.

- "Followup Audit of the Commanders' Emergency Response Program and Quick Response Fund, Multi-National Security Transition Command-Iraq", (A-2005-0332-ALE, September 30, 2005)

Appendix B. MNSTC-I Reconciliation of Iraqi Armed Forces Seized Assets Fund, July 31, 2003 – April 20, 2005

Item	US Dollars	Iraqi Dinars	Notes
A. IA Computed Sources Of Funds:			
Seized Cash	96,062,208	22,465,767,870	1
PRB 548	1,500,000		2
PRB 549	400,000		2
PRB 284	3,650,000		2
PRB 503	647,309		2
PRB 348-1	131,890		2
PRB 621	105,000		2
Total Computed Funds	102,496,407	22,465,767,870	
		\$15,376,980**	
B. IA Computed Uses Of Funds:			
Expenses:			
With Documentation	71,905,934	9,546,472,915	3
Unresolved Documentation	32,641,723	1,320,493,541	3
Adjustments	(98,572)	(175,976,400)	4
Funds With Agents	129,714	1,000,991,895	5
Total Computed Funds Uses	104,578,779	11,691,981,951	
		\$8,002,728**	
C. IA Computed Ending Balance			
(A-B)	(2,082,392)	10,773,785,919	6
Net \$5,291,860		\$7,374,252**	
D. Actual End Of Program			
Net Turn In - \$4,371,383	3,307,147	1,569,479,500	7
		\$1,064,236**	
E. Ending Balance Difference			
(C-D) Net (\$920,477)	(5,389,539)	9,204,306,419	6
(Potential Shortfall in Funds)		\$6,310,016**	
** converted @ IQD 1461 to \$1			

Appendix C. Iraqi Armed Forces Seized Assets Fund Financial Disbursing Records

Our analysis of the secured financial documents revealed several potential issues addressed below:

Summary Findings of 2003 and 2004 Contract Files and Financial Supporting Documentation

<u>Contract Issues</u>	2003 Contracts		2004 Contracts	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Potential Overpayments	10	\$3,343,847	7	\$3,910,236
Potential De-obligation Actions	18	\$96,876,208	19	\$169,196,520
No Contract/Contract Number	21*	\$3,358,512	75**	\$12,919,802
Payments to Wrong Contractor	2	\$584,192	5	\$1,723,254
DD-250s ⁽²⁾ without SF-1034 ⁽⁶⁾	51	\$30,226,132	27	\$13,875,150
SF-44s ⁽⁷⁾ payments over \$2,500	6	\$34,303	57	\$751,695

*19 contract numbers with no contract found, 2 transactions with no contract number.

**28 contract numbers with no contract found, 47 transactions with no contract number.

Potential Overpayments

Our analysis disclosed that potential overpayments may have resulted for several reasons to include

- personnel lacking knowledge of the existence of contract and financial documentation;
- payments made with unstated or incorrect contract numbers; and
- reliance on contractor affirmation where adequate information was not available.

As a result, we found potential overpayments for years 2003 and 2004. We identified 10 contracts from 2003 with potential over payments, estimated at \$3,343,847 and 7 contracts from 2004 with potential over payments estimated at \$3,910,236. A summary of these overpayments is in Exhibit 1. Additionally, we have included excerpts from the JCC-I/A database captured during our review.

Exhibit 1. Potential Over Payments			
2003		2004	
<u>Contract Number</u>	<u>Amount</u>	<u>Contract Number</u>	<u>Amount</u>
DABV01-03-A-0005	\$10,295	APFCRP40420001	\$81,000
DABV01-03-C-0034	\$173,246	DABV01-04-D-0001	\$710,251
DABV01-03-D-0002	\$806,333	DABV01-04-A-0013	\$645,046
DABV01-03-M-0003	\$290,230	DABV01-04-C-3075	\$2,403,399
DABV01-03-M-0004	\$28,392	DABV01-04-M-0016	\$8,500
DABV01-03-M-0006	\$83,453	W914NS-04-C-9005	\$42,000
DABV01-03-M-0007	\$66,500	W914NS-04-M-9040	\$20,040
DABV01-03-M-0034	\$1,880,728	Total	\$3,910,236
DABV01-03-M-0043	\$3,670		
DABV01-03-M-0072	\$1,000		
Total	\$3,343,847		

Year 2003 Contracts by number:

- (1) DABV01-03-A-0005: SF-1449 and multiple SF-30s indicated contract awards totaling \$361,140; while SF-1034s/DD-250s showed payments of \$371,435 resulting in potential overpayments of \$10,295. The JCC-I/A database indicated funding totals of \$360,000 but no records of any payments made or electronic copies of any contract files were in the database.
- (2) DABV01-03-C-0034: SF-1449 and two SF-30s showed a contract award of \$8,789,274; while SF-1034s showed supporting payments of \$8,962,520. The difference of \$173,246 is a possible overpayment. Funding included the \$173,246 amount and showed one single payment of \$8,940,921. The JCC-I/A indicated the contract was *paid in full and closed*.
- (3) DABV01-03-D-0002: SF-1449 validated a contract award of \$213,500. SF-1034/Coalition Provisional Authority Form-1034/DD-250s support payments of \$1,019,833, with a potential overpayment of \$806,333. *The JCC-I/A database contains a statement from the contractor that he has been paid in full for this contract. Our review indicates that the contractor did not bill for the entire shipping costs amount on the contract; thus leaving a remaining balance of \$2,200.00 in excess funds.*
- (4) DABV01-03-M-0003: SF-1449 and multiple SF-30s totaled \$271,200 in contract awards. Payments totaling \$561,430 were supported by SF-1034s and DD-250s with a potential overpayment of \$290,230. *The JCC-I/A database indicated no record of services provided, invoices, receiving documents, nor payment vouchers/receipts. There is a potential excess of DFI payments of \$551,038.*

- (5) DABV01-03-M-0004: SF-1449 and multiple SF-30s show total awards of \$130,508. SF-1034s and DD-250s indicate payments to the contractor of \$158,900, with a potential overpayment of \$28,392. *The JCC-I/A database noted no record of services provided, invoices, receiving documents, nor payment vouchers/receipts. There is a potential excess of DFI payments of \$183,428.*
- (6) DABV01-03-M-0006: Contract awards totaling \$917,690 are supported by SF-1449 and multiple modifications on SF-30s. Payments of \$1,001,143, supported by SF-1034s and DD-250s, indicate a potential overpayment of \$83,453. *JCC-I/A database revealed the contractor was paid a partial award amount based on deliveries made services performed. The contract is closed in accordance with JCC-I/A's close-out policy with DFI excess payments of \$935,262. Based on the Program Review Board information, the DFI excess has been changed to \$867,762.*
- (7) DABV01-03-M-0007: SF-1449, multiple SF-30s, and DA-3953 supported contract awards of \$192,350. SF-1034s and DD-250s verified payments of \$258,850 with a potential overpayment of \$66,500. *JCC-I/A records show that the contractor was paid \$60,350 and attempts to contact the contractor were unsuccessful. The contract is closed in accordance with JCC-I/A's close-out policy with DFI excess payments of \$135,850. Based on the Program Review Board information, the DFI excess has been changed to \$101,350.*
- (8) DABV01-03-M-0034: Our analysis of MNSTC-I records shows a contract award for \$4,302,337 supported by SF- 1449 and multiple SF-30s, and payments of \$6,183,065 based on SF-1034s and DD-250s. This indicates a potential overpayment of \$1,880,728. A note in the JCC-I/A database stated that the contractor was overpaid but returned the overpayment. However, we could not reconcile the numbers in JCC-I/A's database.
- (9) DABV01-03-M-0043: SF-1449 and two SF-30s verified the contract award at \$125,630 while SF-1034s and DD-250s supported payments of \$129,300, with a potential overpayment of \$3,670. *The JCC-I/A database noted the contractor was paid the full amount according to the contractor's email.*
- (10) DABV01-03-M-0072: The contract award of \$39,475 is supported by a SF-1449 and a SF-30. The payments of \$40,475 are supported by SF-1034s and DD-250s. The difference and potential overpayment totaled \$1,000. *There are records of invoices and payment vouchers/receipts for \$23,249. There is a potential excess of DFI payments of \$16,226.*

Year 2004 Contracts by number:

- (1) APFCRP40420001: We validated a DA-3953 funding \$500,000 and a payment on SF-44 for \$500,000. In addition another payment was identified on an SF-1034 for \$81,000 in cash; thus indicating a potential overpayment of \$81,000. No record was identified in the JCC-I/A database.
- (2) DABV01-04-D-0001: Multiple SF-1449's and SF-30's funded the contract about \$1,642,084 and multiple payments of SF-1034's and DD-250's totaled \$2,352,335, resulting in possible overpayments of \$710,251. *The JCC-I/A database noted problems of missing invoices, vouchers and DD-250's. JCC-I/A coordinated with the Defense Finance Accounting Service, Millington TN and determined the contract was closed. Also, payment files on hand did not match JCC-I/A payment records. The contract was*

funded by DFI. This contract is posted in JCC-I/A with incorrect contract number). (See Payments to Wrong Contractor #1 and DD-250's paid without SF-1034's.)

- (3) DABV01-04-A-0013: SF-1449 for \$316,000 with a payment on SF-1034 for \$17,500 and a disbursing memo indicating a wire transfer of \$179,887, leaving a balance of \$118,613. However, according to the JCC-I/A database, *JCC-I/A informed the contractor of overpayments in the amount of \$463,940. The contractor agreed and was to wire back the overpayment, but the overpayment was never received. Based on the Program Review Board Operational Security Control, the contractor was overpaid by \$645,046. A formal letter was issued stating that the contract would be closed if no response was received within one week.*
- (4) DABV01-04-C3075: The incomplete contract has an estimated value of \$2,355,008 with multiple payments totaling about \$4,758,407, resulting in possible overpayment of \$2,403,399. Per the JCC-I/A database, *the contractor confirmed the contract was paid in full. The JCC-I/A database showed award of \$4,214,731 and payments of \$3,061,339.*
- (5) DABV01-04-M-0016: No contract was on file or in the JCC-I/A database. SF-1034/DD-250 paid \$3,000 on 10 Apr 04. Another payment with SF-1034 and no DD-250 paid \$3,000 on May 2, 2004. A cash payment SF-1034 and no DD-250 paid \$2,500 on July 6, 2004 resulting in a possible overpayment of \$8,500. *JCC-I/A indicated no contract or documentation could be found. JCC-I/A made attempts to contact the contractor but was unsuccessful. The contract was closed in accordance with a memo from JCC-I/A PARC dated March 8, 2005 regarding close out of old contracts. The contract closed with DFI excess of \$16,400, no record of a contract.*
- (6) W914NS-04-C-9005: This file does not have an original contract. An SF-30 for \$265,000 and two DD-250's with record of payments of \$307,000 resulting in a possible overpayment of \$42,000. *Per the JCC-I/A database, the contract was awarded for \$983,982 with a modification of \$265,000 and payments of \$1,220,200.*
- (7) W914NS-04-M-9040: SF-1449 show a contract value of \$64,000. DD-250's with invoices totaled \$84,040, resulting in a potential overpayment of about \$20,040. *Per the JCC-I/A database, payments equaled the contract amount and will be closed out by ACO.*

Potential De-obligation Actions

We identified 37 contracts with potential for de-obligation in the JCC-I/A Contracting database, including 18 contracts with potential de-obligations for 2003, estimated at \$96,876,208 and 19 contracts for 2004, with potential de-obligations estimated at \$169,196,520. Exhibit 2 identifies the potential de-obligation actions.

Exhibit 2. Potential De-Obligation Actions			
2003		2004	
<u>Contract Number</u>	<u>Amount</u>	<u>Contract Number</u>	<u>Amount</u>
DABV01-03-C-0002	\$66,886,587	DABV01-04-A-0013	\$118,613
DABV01-03-C-0018	\$1,312,935	DABV01-04-C-0005	\$956,488
DABV01-03-C-0021	\$18,890,092	DABV01-04-C-3023	\$34,800
DABV01-03-C-0033	\$1,206,892	DABV01-04-C-3069	\$3,177
DABV01-03-M-0005	\$1,186,700	DABV01-04-M-0020	\$1,142,880
DABV01-03-M-0009	\$4,900	DABV01-04-M-0022	\$19,110
DABV01-03-M-0011	\$57,795	DABV01-04-M-0049	\$495,600
DABV01-03-M-0015	\$277,560	DABV01-04-M-0106	\$260,480
DABV01-03-M-0021	\$2,300	DABV01-04-M-J003	\$27,705
DABV01-03-M-0022	\$24,320	DABV01-04-M-J007	\$8,688
DABV01-03-M-0027	\$178,339	DABV01-04-M-J011	\$3,500
DABV01-03-M-0029	\$1,441,759	DABV01-04-M-J010	\$107,100
DABV01-03-M-0032	\$1,191	FY5866-04-C-0002	\$6,157,850
DABV01-03-M-0036	\$4,473,369	FY5866-04-C-0003	\$6,459,300
DABV01-03-M-0093	\$900,000	W56HZV-04-D-0181	\$117,434,509
DABV01-03-M-0094	\$1,325	W914NS-04-C-9001	\$21,237,903
DABV01-03-M-0100	\$23,594	W914NS-04-D-0107	\$1,293,887
DABV01-03-M-5048	\$6,550	W914NS-04-D-0116	\$13,025,430
Total	\$96,876,208	W914NS-04-M-9193	\$409,500
		Total	\$169,196,520

Below are examples for year 2003 and year 2004:

- (1) DABV01-03-M-0029: The JCC-I/A database indicated the contract award was \$2,472,031 with no documented payments. We located documentation (SF-1034s and DD-250) to support \$1,030,272 in payments to the contractor, leaving a balance of \$1,441,759 for potential de-obligation.
- (2) W914NS-04-D-0116: The JCC-I/A database indicated the contract award was \$14,014,139 with no payments documented. We located documentation (DD-250) to support \$988,709 in payments to the contractor, leaving a balance of \$13,025,430 for potential de-obligation.

- (3) W56HZV-04-D-0181: The JCC-I/A database showed no contract or payments for this contract number. Our records indicated a contract award of \$120,125,151 and possible payments totaling \$2,690,642, leaving about \$117,434,509 for potential de-obligation.
- (4) DABV01-03-C-0002: The JCC-I/A database showed the contract award was for \$101,386,373 with payments totaling \$34,499,786, leaving a potential de-obligation of \$66,886,587.

Missing Contracts/Contract Numbers

We identified 96 contracts with potential issues with missing contract and/or contract numbers. These include 21 contracts with payments totaling about \$3,358,512 for 2003, and 75 contracts with payments totaling \$12,919,802 for 2004. One contractor received multiple payments estimated about \$93,474 with no contract or contract number to support the expenditures. For example:

- (1) DABV01-03-C-0102: Cash payment on SF-1034 dated January 24, 2004, paid a corporation \$810,248. The contract is not listed in JCC-I/A and PCO contracting databases.
- (2) Missing Contract Number: Payment in cash was made to a corporation on SF-1034 dated December 24, 2003, for \$182,810.
- (3) DABV01-04-M-0007: This contract number could not be identified to a specific contract. We located an SF-1034 with Iraqi receipts totaling 79,095,000 Iraqi Dinars (converted @ 1500 to \$1 = \$52,730). According to the JCC-I/A database there is no record of services provided, invoices, receiving documents, or payment voucher receipts. This contract was likely not awarded or cancelled after the award. Attempts to contact the contractor were unsuccessful. There is a potential excess of DFI payments of \$24,000.

Payments to Wrong Contractors

We identified 7 payments that went to the wrong contractors. These disbursement and payment actions totaled \$548,192 and \$1,735,254 for years 2003 and 2004, respectively. The payments to wrong contractors are shown in exhibit 3.

Exhibit 3. Payments to Wrong Contractor			
2003		2004	
Contract Number	Amount	Contract Number	Amount
DABV01-03-D-0001	\$514,894	DABV01-04-C-0002	\$1,665,863
DABV01-03-M-0094	\$69,298	DABV01-04-M-0021	\$2,750
Total	\$584,192	DABV01-04-M-0129	\$28,074
		DABV01-04-M-3005	\$12,700
		DABV01-04-M-3006	\$13,867
		Total	\$1,723,254

Below are examples for year 2003 and year 2004:

- (1) DABV01-03-D-0001 and DABV01-03-M-0094: We identified four payments totaling \$584,192 under these two contract numbers improperly paid to other contractors.
- (2) DABV01-04-C-0002: A payment of \$1,665,863 was paid to one corporation. We obtained copies of the contract and all related documents from the PCO/JCC-I/A database and verified the contractor under this contractor number was a different company. In addition, we identified five (5) improper contract payments totaling \$57,391 possibly paid to wrong contractors.

DD-250 - Receiving Reports without SF-1034 - Public Vouchers

We identified 51 payments made against DD-250's, Material Inspection and Receiving Reports, valued at approximately \$30,226,132 for 2003, and 27 payments valued at approximately \$13,875,150 for 2004. Payments were made without supporting SF-1034's vouchers, required receipts, and the signatures required to validate the receipt of services or products. For example:

- (1) DABV01-03-M-0005: Of the eight payments paid against DD-250's totaling \$706,000, one that authorized a payment of \$32,140 had no signature on the corresponding DD-250.
- (2) DABV01-04-D-0001: Multiple DD-250's totaling potential payments for \$1,760,698. without supporting SF-1034's. Payment files on hand did not match JCC-I/A payments. The contract was funded by DFI. Also, this contract is posted in the JCC-I/A database with an incorrect contractor. (See Potential Overpayments and Payments to Wrong Contractor #1).

Standard Form 44 - Purchase Order Invoice Vouchers Exceeded Limits

During our review we identified numerous SF-44 payments that exceeded the limit of \$2,500 - \$5,000.¹¹ Payments were made in cash to vendors with either US dollars or Iraqi Dinars. SF-44's had documented contract numbers that we were unable to locate in either the JCC-I/A or PCO databases. We were unable to determine the origin of the contract numbers. Some examples of SF-44's paid in cash that exceeded the threshold limit follow below:

- (1) DABV01-03-P-4023: SF-44 dated October 14, 2003 cash payment for \$8,298.
- (2) DABV01-03-P-4027: SF-44 dated November 19, 2003 cash payment for \$7,950.
- (3) Order Number: 926(B)-0801: SF-44 dated February 25, 2004, from 336th Finance Command paid \$500,000 cash to Tel' Afar Castle in Mosul. The attached DA-3953 indicates that the payment is from the 926th Engineer Group to the 9th Finance Command for Tel' Afar Castle in Mosul and for the New Iraqi Army. Further, the funds are labeled as Commander's Emergency Response Program funds, indicating a possible commingling of funds.
- (4) DABV01-04-M-3006: SF-44 dated January 4, 2004 Paid cash of 20,800,000 Iraqi Dinars (converted @1500 to \$1 = \$13,867).

We also found during our review of the financial documents 9 additional projects referenced in Program Review Board meeting minutes as approved for the expenditure of seized funds. The records were not complete and we were not able to match the Program Review Board project numbers to specific contracts and financial disbursing documents. However, 6 of the 9 Program Review Board projects totaled \$2,838,522. No amounts were available for the other 3 projects.

¹¹ SF-44s were initially limited to \$2,500, but the limit was later increased to \$5,000.

Appendix D. Acronyms

DFI	Development Fund for Iraq
IAF	Iraqi Armed Forces
JCC-I/A	Joint Contracting Command-Iraq/Afghanistan
MNSTC-I	Multi-National Security Transition Command-Iraq
PCO	Project and Contracting Office
SIGIR	Special Inspector General for Iraq Reconstruction
USAAA	U.S. Army Audit Agency

Appendix E. Report Distribution

Department of State

Secretary of State

Senior Advisor to the Secretary and Coordinator for Iraq

U.S. Ambassador to Iraq

Director, Iraq Reconstruction Management Office

Mission Director-Iraq, U.S. Agency for International Development

Inspector General, Department of State

Department of Defense

Secretary of Defense

Deputy Secretary of Defense

Director, Defense Reconstruction Support Office

Under Secretary of Defense (Comptroller)/Chief Financial Officer

Deputy Chief Financial Officer

Deputy Comptroller (Program/Budget)

Inspector General, Department of Defense

Director, Defense Contract Audit Agency

Director, Defense Finance and Accounting Service

Director, Defense Contract Management Agency

Department of the Army

Assistant Secretary of the Army for Acquisition, Logistics, and Technology

Principal Deputy to the Assistant Secretary of the Army for Acquisition, Logistics,
and Technology

Deputy Assistant Secretary of the Army (Policy and Procurement)

Director, Project and Contracting Office

Commanding General, Joint Contracting Command-Iraq/Afghanistan

Assistant Secretary of the Army for Financial Management and Comptroller

Chief of Engineers and Commander, U.S. Army Corps of Engineers

Commanding General, Gulf Region Division

Auditor General of the Army

U.S. Central Command

Commanding General, Multi-National Force-Iraq

Commanding General, Multi-National Security Transition Command-Iraq

Commander, Joint Area Support Group-Central

Other Federal Government Organizations

Director, Office of Management and Budget

Comptroller General of the United States

Inspector General, Department of the Treasury

Inspector General, Department of Commerce

Inspector General, Department of Health and Human Services

Inspector General, U.S. Agency for International Development

President, Overseas Private Investment Corporation

President, U.S. Institute for Peace

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

U.S. Senate

Senate Committee on Appropriations
 Subcommittee on Defense
 Subcommittee on State, Foreign Operations and Related Programs
Senate Committee on Armed Services
Senate Committee on Foreign Relations
 Subcommittee on International Operations and Terrorism
 Subcommittee on Near Eastern and South Asian Affairs
Senate Committee on Homeland Security and Governmental Affairs
 Subcommittee on Federal Financial Management, Government Information and International Security
 Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia

U.S. House of Representatives

House Committee on Appropriations
 Subcommittee on Defense
 Subcommittee on Foreign Operations, Export Financing and Related Programs
 Subcommittee on Science, State, Justice and Commerce and Related Agencies
House Committee on Armed Services
House Committee on Government Reform
 Subcommittee on Management, Finance and Accountability
 Subcommittee on National Security, Emerging Threats and International Relations
House Committee on International Relations
 Subcommittee on Middle East and Central Asia

Appendix F. Audit Team Members

This report was prepared and the review was conducted under the direction of Joseph T. McDermott, Assistant Inspector General for Audit, Office of the Special Inspector General for Iraq Reconstruction. The staff members who contributed to the report include:

Clifton Spruill
Diane N. Recio
Nancy Soderlund

Management Comments

Commanding General, Multi-National Security Transition Command-Iraq



MULTI-NATIONAL SECURITY TRANSITION COMMAND-IRAQ
BAGHDAD, IRAQ
APO AE 09316

29 March 2006

Mr. Joseph T. McDermott
Assistant Inspector General for Audit
Special Inspector General for Iraq Reconstruction
400 Army Navy Drive
Arlington, VA 22202

Sir,

I am pleased to provide our response to the one recommendation addressed to this command as contained in your draft audit report on Review of the Multi National Security Transition Command – Iraq Reconciliation of the Iraqi Army Forces Seized Assets Fund, Report No. SIGIR-06-010, 20 March 2006. We appreciate your efforts to help us to perform our mission better.

If you have any questions or require other assistance, please contact LTC Kenneth Wherry, Chief, Command Audit at DSN (318) 852-1351.

Sincerely,


JAMES K. GREER
COL, AR
Chief of Staff

Encl

COMMAND REPLY
OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR IRAQ
RECONSTRUCTION
REVIEW OF THE MULTI-NATIONAL SECURITY TRANSITION COMMAND
– IRAQ (MNSTC-I) RECONCILIATION OF THE IRAQI ARMY FORCES (IAF)
SEIZED ASSETS FUND
SIGIR-06-010, 20 MAR 2006

Review Objective: The overall objectives were to determine whether (1) sufficient documentation existed to complete the MNSTC-I reconciliation of the IAF (Seized Assets Fund), and (2) acts by responsible internal and external certifying officials, vendors and contractors could be identified that warranted further investigation.

Review Conclusion: Our review of the IAF Seized Assets Fund contract and financial documentation confirmed MNSTC-I's internal review conclusion that the records were incomplete and too unreliable to be auditable and that a valid reconciliation could not be achieved. Overall, there was little apparent oversight during the timeframe covered by this review. We identified numerous weaknesses in management and financial controls, including: (1) spreadsheets were used in lieu of bank statements, which were not available to confirm deposits; (2) questionable payments were made without supporting documentation; and (3) numerous shortcomings in financial record keeping and accountability in the IAF Seized Assets Fund financial records. We found, for example, that the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) was not aware of the numerous contracting documents among the IAF Seized Assets Fund financial records. As such, the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) made contracting actions without the benefit of pertinent contract information contained in the records.

Recommendation: We recommend the Commanding General, Multi-National Security Transition Command- Iraq, establish a plan and process and execute the handover of original and copied contract documents and files in so far as possible, in cooperation with the Commanding General, Joint Contracting Command-Iraq/Afghanistan, to meet the requirements for complete and accurate record keeping.

Command Reply: Concur. On 27 Mar 06, MNSTC-I, in coordination with SIGIR and JCCI representatives, met to identify what records should be turned over to JCCI for their use. It was agreed that SIGIR would return all records previously provided by MNSTC-I to MNSTC-I's control once SIGIR's Special Investigator on the case was contacted and concurred to the records release. JCCI and MNSTC-I representatives are presently coordinating transfer of all applicable records to JCCI from MNSTC-I. Target completion date for the records transfer to JCCI is expected not later than 15 Apr 06.