

Audit Report



Control of Cash Provided to South-Central Iraq

Report No. 05-006

April 30, 2005

Office of the Special Inspector General for Iraq Reconstruction



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

April 30, 2005

MEMORANDUM FOR COMMANDER, JOINT AREA SUPPORT GROUP – CENTRAL
(PROVISIONAL)

SUBJECT: Control of Cash Provided to South-Central Iraq (Report No. 05-006)

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 mandates the independent and objective conduct of audits relating to the programs and operations funded with amounts appropriated or otherwise made available to the Iraq Relief and Reconstruction Fund. Public Law 108-106, as amended, requires that we provide for the independent and objective leadership and coordination of and recommendations on policies designed to promote economy, efficiency, and effectiveness in the administration of such programs and operations and to prevent and detect waste, fraud, and abuse.

We considered management comments on a draft of this report when preparing the final report. Comments on the draft of this report conformed to requirements and left no unresolved issues. Therefore, no additional comments are required.

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

Stuart W. Bowen, Jr.
Inspector General

Office of the Special Inspector General for Iraq Reconstruction

Report Number 05-006

(Project No. D2004-DCPAAF-0034.1)

April 30, 2005

Control of Cash Provided to South-Central Iraq

Executive Summary

Introduction. This audit report is one of a series of reports addressing controls over cash disbursements in southern Iraq. This audit report discusses control of Development Fund for Iraq (DFI) cash disbursements issued from the Joint Area Support Group - Central (JASG-C) Comptroller, who also serves as the DFI Account Manager/Comptroller (DFI Account Manager), to Division Level Agents and Field Paying Agents located in the South-Central Region, Iraq.

Objective. The overall audit objective was to determine whether disbursing officers in selected locations in southern Iraq complied with applicable guidance and properly controlled and accounted for DFI cash assets and expenditures.

Specifically, we determined whether fund agents adequately controlled cash assets, fully accounted for cash assets and expenditures, and properly returned cash assets. We also determined whether expenditures complied with guidance specifying dollar thresholds and allowed uses.

During the course of the audit, we identified deficiencies in the control of cash provided to the South-Central Region of such magnitude as to require prompt attention and separate reporting. Those deficiencies were so significant that we were precluded from accomplishing our stated objectives. A separate audit report will address the original audit objectives.

Results. The DFI Account Manager's office did not maintain full control and accountability for approximately \$119.9 million of DFI cash issued to South-Central Region paying agents in support of Rapid Regional Response Program projects. The processes employed by the DFI Account Manager's office for completing, controlling, and maintaining accurate records for the issuance of that cash to paying agents in the South-Central Region and for clearing those agents' cash account balances were flawed. Specifically, the DFI Account Manager did not:

- adhere to the clearing process for receipts of cash disbursements to ensure that cash accountability records were complete, accurate, and reconciled
- have required cash accountability documentation to identify the total amount of money provided to paying agents
- properly document transfers of cash between paying agents
- review required documentation and clear the cash accounts of all Division Level Agents every 30 days and instruct those agents to review required documentation and clear the cash accounts of Field Paying Agents every 30 days
- review required documentation in a timely manner
- issue appointment letters to all individuals to whom cash was entrusted

As a result, the DFI Account Manager and paying agents in the South-Central Region did not fully comply with applicable guidance and did not properly control, account for, and turn-in DFI cash assets. We further concluded that the South-Central Region paying agents and the DFI Account Manager cannot properly account for or support over \$96.6 million in cash and receipts.

Material Management Control Weaknesses. The audit identified material management control weaknesses in that the DFI Account Manager and paying agents in the South-Central Region did not fully comply with applicable guidance and did not properly control, account for, and turn-in DFI cash assets. Consequently, there was no assurance that fraud, waste, and abuse did not occur in the management and administration of cash assets.

Indications of Potential Fraud. During this audit, we found indications of potential fraud and referred these matters to the Assistant Inspector General for Investigations, Office of the Special Inspector General for Iraq Reconstruction, for such actions deemed appropriate.

Recommendations. We recommend that the Commander, Joint Area Support Group - Central, require these actions of the Development Fund for Iraq Account Manager:

- Scrutinize, verify, and investigate Statements of Agent Officer's Account maintained to identify statement errors, omissions, inaccuracies, and incompleteness.
- Ensure that the Statement of Agent Officer's Account documentation is used for recording all transfers of cash between agents and the total amount of money provided to Division Level Agents.
- Initiate actions to resolve instances of noncompliance.
- Direct Field Paying Agents to present required documentation to the Division Level Agents every 30 days and clear their cash accounts and direct Division Level Agents to present required documentation to the Development Fund for Iraq Account Manager every 30 days and clear their cash accounts.
- Issue and maintain required appointment letters for all paying agents that include pecuniary liability language.
- Establish special action teams to resolve existing issues.

Management Comments and Audit Response. The Commander, JASG-C concurred with the audit finding and recommendations and has taken actions or is in the process of taking actions to correct the reported deficiencies. The Commander, JASG-C comments are fully responsive. We commend the Commander, JASG-C for prompt and thorough actions to correct these significant deficiencies. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the Commander, JASG-C, comments.

Table of Contents

Executive Summary	i
Introduction	
Background	1
Objective	3
Finding	
Control of Development Fund for Iraq Cash Disbursements	4
Appendixes	
A. Scope and Methodology	15
B. Other Matters of Interest	17
C. Types of Funding	18
D. Documentation Problems in the Receipt Clearing Process	20
E. Revocation of Paying Agents' Authorization as Part of the Receipt Clearing Process	22
F. Acronyms	24
G. Report Distribution	25
H. Audit Team Members	27
Management Comments	
Commander, Joint Area Support Group - Central (Provisional)	28

Introduction

Background

This audit report is one of a series of reports addressing controls over cash disbursements in southern Iraq. This audit report discusses control of Development Fund for Iraq (DFI) cash disbursements issued from the Joint Area Support Group - Central (JASG-C) Comptroller, who also serves as the DFI Account Manager/Comptroller (DFI Account Manager), to Division Level Agents and Field Paying Agents located in the South-Central Region, Iraq.

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

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

The Development Fund for Iraq. United Nations Security Council Resolution 1483 (Resolution 1483), May 22, 2003, noted the establishment of the DFI and assigned responsibility for managing the fund to the CPA. Resolution 1483 noted that DFI funds should be disbursed at the direction of the CPA, in consultation with the Iraqi interim administration. It also required that the DFI funds be used in a transparent manner to meet the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq’s infrastructure, for the continued disarmament of Iraq, for the costs of Iraqi civilian administration, and for other purposes benefiting the people of Iraq. The DFI was the primary financial vehicle to channel revenue from ongoing Iraqi oil sales, unencumbered Oil for Food deposits, and repatriated Iraqi assets to the relief and reconstruction efforts for Iraq. During the CPA administration of Iraq, the CPA Comptroller managed DFI funds.

Joint Area Support Group - Central Comptroller. The CPA was the authority responsible for the temporary governance of Iraq through June 28, 2004. Thereafter, the Iraqi Interim Government (IIG) was the authority responsible for the governance of Iraq. The responsibility for the DFI transferred from the CPA to the IIG on June 28, 2004. The CPA Comptroller, as part of the CPA, ceased to exist on June 28, 2004. When the CPA was disestablished, the CPA Comptroller was realigned as the JASG-C Comptroller. The newly designated JASG-C Comptroller continued to perform the same duties for that portion of the DFI still being administered by the U.S. Government.

Coalition Provisional Authority Regulation Number 2. CPA Regulation Number 2 (the Regulation), “Development Fund for Iraq,” June 10, 2003, described the responsibilities for the administration, use, accounting, and auditing of the DFI. The Regulation was intended to ensure that the DFI was managed in a transparent manner for

and on behalf of the Iraqi people, consistent with Resolution 1483, and that all DFI disbursements would be for purposes benefiting the people of Iraq.

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

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

The appendixes to the Memorandum provided supplemental instructions on preparing and executing contracts and grants pursuant to the Memorandum. Specifically, Appendixes A, B, and C of the Memorandum identified the contract file requirements, standard terms and conditions for solicitations and contracts in excess of \$5,000, and contract and grant procedures applicable to vested and seized Iraqi property and DFI.

Guidance on the Use of the Development Fund for Iraq In Support of the Commanders' Emergency Response Program. *Guidance on the Use of the Development Fund for Iraq In Support of the Commanders' Emergency Response Program* (Guidance) applied to all parties involved in receiving, disbursing, accounting for, securing, and reporting for the DFI. The CPA Comptroller was designated as the DFI Account Manager, with the responsibilities of overall financial and program accountability for the use of DFI monies in the Commanders' Emergency Response Program (CERP). The CPA Comptroller's responsibilities included accounting and reconciling DFI monies that were used in the CERP and appointing Division Level Agents. Once the CPA Comptroller, as part of the CPA, ceased to exist on June 28, 2004, the JASG-C Comptroller assumed the role of the DFI Account Manager.

The Division Level Agents were responsible for receiving DFI cash to support the CERP and the Rapid Regional Response Program (RRRP). The RRRP incorporates and expands on authorities of previously funded programs, specifically, the Directors' Emergency Response Program, and the Construction Initiative. For the types of funding and the relationship between these two programs discussed in this report, see Appendix C.

The DFI Account Manager's office was required to maintain an accounting ledger of cash accountability that included evidence of cash issued and receipts returned. The DFI Account Manager's office was to advance cash to the appointed Division Level Agents using the DD Form 1081, "Statement of Agent Officer's Account."

The Division Level Agents were required to maintain cash accountability using the Statement of Agent Officer's Account, to maintain an accounting ledger of all cash received and payments processed, to reconcile and clear with the DFI Account Manager's office at least monthly, and to advance DFI cash to Field Paying Agents. The Field Paying Agents were responsible for issuing cash payments to designated entities (individuals and/or businesses) and for clearing their accounts with Division Level Agents.

Objective

The overall audit objective was to determine whether disbursing officers in selected locations in southern Iraq complied with applicable guidance and properly controlled and accounted for DFI cash assets and expenditures.

Specifically, we determined whether fund agents:

- adequately controlled cash assets
- fully accounted for cash assets and expenditures
- properly returned cash assets

We also determined whether expenditures complied with guidance specifying dollar thresholds and allowed uses.

During the course of the audit, we identified deficiencies in the control of cash provided to the South-Central Region of such magnitude as to require prompt attention and separate reporting. Those deficiencies were so significant that we were precluded from accomplishing our stated objectives. A separate audit report will address the original audit objectives.

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

Control of Development Fund for Iraq Cash Disbursements

The DFI Account Manager's office did not maintain full control and accountability for approximately \$119.9 million of DFI cash issued to South-Central Region paying agents in support of RRRP projects. The processes employed by the DFI Account Manager's office for completing, controlling, and maintaining accurate records for the issuance of that cash to paying agents in the South-Central Region and for clearing those agents' cash account balances were flawed. Specifically, the DFI Account Manager did not:

- adhere to the clearing process for receipts of cash disbursements to ensure that cash accountability records were complete, accurate, and reconciled
- have required cash accountability documentation to identify the total amount of money provided to paying agents
- properly document transfers of cash between paying agents
- review required documentation and clear the cash accounts of all Division Level Agents every 30 days and instruct those agents to review required documentation and clear the cash accounts of Field Paying Agents every 30 days
- review required documentation in a timely manner
- issue appointment letters to all individuals to whom cash was entrusted

These conditions occurred because the DFI Account Manager did not consistently follow guidance or implement sufficient internal controls for:

- scrutinizing, verifying, and investigating Statements of Agent Officer's Account maintained to identify statement errors, omissions, inaccuracies, and incompleteness
- requiring Statement of Agent Officer's Account documentation for recording all transfers of cash between agents and the total amount of money provided to South-Central Region Division Level Agents
- initiating actions to resolve instances of noncompliance
- directing Field Paying Agents to present required documentation to the Division Level Agents every 30 days and clear their cash accounts and directing Division Level Agents to present required documentation to the DFI Account Manager every 30 days and clear their cash accounts
- issuing and maintaining required appointment letters for all paying agents

As a result, the DFI Account Manager and paying agents in the South-Central Region did not fully comply with applicable guidance and did not properly control, account for, and turn-in DFI cash assets. We further concluded that the South-Central Region paying agents and the DFI Account Manager cannot properly account for or support \$96.6 million in cash and receipts.

Controlling and Accounting for DFI Cash

The processes for completing and maintaining accurate records for the issuance of cash to paying agents and clearing those agents' cash account balances were flawed. The DFI

Account Manager's office neither adequately controlled nor maintained accurate and complete cash accountability records for Division Level Agents in the South-Central Region. CERP guidance stated that the transfer of cash from the DFI Account Manager's office to the Division Level Agents or from Division Level Agents to Field Paying Agents must be done through the use of a Statement of Agent Officer's Account that documents a summary of cash transactions, including cash issuance, increases, decreases, and turn-ins of cash from holders to agents.

Control of Statements. The DFI Account Manager's office did not adequately control cash accountability records for Division Level Agents in the South-Central Region. Specifically, Statement of Agent Officer's Account documents were unaccounted for or were missing.

The DFI Account Manager's office stated that about \$93.4 million in cash had been allocated for the South-Central Region as of September 15, 2004. South-Central Region documentation showed that \$119.9 million in cash was issued to Division Level Agents. However, our review of Statement of Agent Officer's Account forms showed that supporting documentation existed for only about \$90.4 million.

In addition, according to the Statements of Agent Officer's Account on hand at the DFI Account Manager's office, the South-Central Region did not receive any cash before February 2004. However, the South-Central Region disbursed more than \$18 million in cash before February 2004. Disbursement documents from the South-Central Region showed that cash payments were made as early as June 2003.

We also identified about \$29.5 million in cash received from June 2003 to April 2004 for the Directors' Emergency Response Program. The DFI Account Manager's office stated that, while they agreed with our determination that this cash was used for disbursements made before the cash was received in February 2004, they could not locate documents to support the cash issued. We concluded that Statement of Agent Officer's Account forms were not available to support \$29.5 million in cash issued to South-Central Region Division Level Agents.

Our review of the DFI Account Manager records also identified three other Statement of Agent Officer's Account forms that were missing for South-Central Region Division Level Agents. The 3 missing Statement of Agent Officer's Account forms totaled \$2,440,500 and should have been maintained in the DFI Account Manager and Division Level Agent offices. Two of the three missing Statement of Agent Officer's Account forms, totaling \$1,830,500, were available in the Division Level Agent records to document receipt of funds from the DFI Account Manager, but the documents could not be found in the DFI Account Manager's office. The third Statement of Agent Officer's Account for \$610,000 was issued to a Division Level Agent, but no documentation for it was present at either the Division Level Agent or the DFI Account Manager's office. In this case, the DFI Account Manager's office could not identify the source of the \$610,000 provided to the Division Level Agent.

Accuracy of Statements. The DFI Account Manager's office did not maintain accurate cash accountability records for Division Level Agents in the South-Central Region. Specifically, cash amounts issued were not correctly recorded.

On April 26, 2004, a Division Level Agent brought \$2,994,347 in receipts to the DFI Account Manager's office for clearing. A subsequent email from the DFI Account Manager's office advised the Division Level Agent that duplicate receipts in the amount

of \$168,592 were identified; therefore, the Division Level Agent was told that his accountability balance would be reduced from \$29,074,107 to \$26,248,352; an amount of \$2,825,755. However, the Division Level Agent accountability balance was never reduced by the DFI Account Manager's office and his Statement of Agent Officer's Account balance remained \$29,074,107 when he attempted to clear the remainder of his receipts on June 20, 2004. Therefore, the balance was overstated by \$2,825,755 and the error went undetected.

Our reconciliation of Division Level Agent accounts showed that one Division Level Agent had three errors, as discussed below.

Multiple Disbursements. In the first of three errors identified, a South-Central Region Division Level Agent received \$58.8 million in one disbursement of cash from the DFI Account Manager, on January 30, 2004. Statement of Agent Officer's Account forms for the Division Level Agent indicated that he received \$57.8 million issued in three transactions from February 2 through March 27, 2004. The DFI Account Manager assigned at the time of our review could not explain why a previous DFI Account Manager had incorrectly prepared the Statement of Agent Officer's Account form to reflect three disbursements instead of one disbursement or why the Statement of Agent Officer's Account was issued for \$1 million less than the cash actually received.

Multiple Amounts. In the second of three errors, a Statement of Agent Officer's Account, dated June 20, 2004, indicated that the same Division Level Agent made a cash transfer of \$311,100 to a Field Paying Agent. The Statement of Agent Officer's Account contained three amounts (\$1,210,000, \$1,134,000, and \$311,100), with two of the amounts crossed off and circled. On the bottom of the Statement of Agent Officer's Account, numbers were added together, which appeared to be an attempt by the Division Level Agent to determine how much money was transferred to the Field Paying Agent. When the Statement of Agent Officer's Account was compared to the DFI Account Manager's spreadsheet of transfers, it appeared that the \$1,210,000 was the correct amount to be listed on the Statement of Agent Officer's Account as the amount transferred from the Division Level Agent to the Field Paying Agent. However, as indicated above, the Division Level Agent's Statement of Agent Officer's Account indicated that only \$311,100 was transferred to the Field Paying Agent. A corresponding Statement of Agent Officer's Account for the Field Paying Agent indicated that the Field Paying Agent signed for \$1,210,000. As a result, there was a difference of \$898,900.

Posting to Statement. In the third of three errors, the same Division Level Agent recovered \$125,035 from the office of a paying agent who was killed in the field. The Division Level Agent returned this money to the DFI Account Manager, but his Statement of Agent Officer's Account, dated June 23, 2004, shows an addition of cash to the Increase Column instead of the Decrease Column. The Division Level Agent's account should have been decreased by \$125,035. As a result, the Division Level Agent's Statement of Agent Officer's Account balance was overstated by \$250,070.

According to Statements of Agent Officer's Account for another South-Central Region Division Level Agent, on July 29, 2004, the Division Level Agent turned in \$12,432,501 in paid vouchers and \$3,123,599 in cash to the DFI Account Manager and reduced his account balance to zero. However, the next Statement of Agent Officer's Account for this Division Level Agent showed that he transferred \$4.5 million in cash to a Field Paying Agent. Because the Division Level Agent had reduced his account balance to zero, no funds were available to make the \$4.5 million transfer.

Completeness of Statements. The DFI Account Manager's office did not maintain complete cash accountability records for Division Level Agents in the South-Central Region.

According to the Department of Defense Financial Management Regulation, Volume 5, Chapter 19, both parties must sign and date the Statement of Agent Officer's Account form to authenticate the issuance and return of cash and paid receipts. We reviewed 50 Statement of Agent Officer's Account forms provided by the DFI Account Manager's office and determined that:

- 11 were signed by only one party
- 6 were not signed by either party
- 6 were dated by only one party
- 17 were not dated by either party

Without signed and dated Statement of Agent Officer's Account forms, we were unable to determine if cash was transferred from one party to another or when the transfers took place. The DFI Account Manager accepted the unsigned and undated Statement of Agent Officer's Account forms from the Division Level Agents apparently without question or review.

Receipt Clearing Process

The clearing process for receipts of cash disbursements performed by the DFI Account Manager's office was not thorough enough to ensure that cash accountability records were complete and accurate. A receipt clearing process is a management control device designed to provide a series of accounting safeguards that authorize an agent to receive government cash and provide a clear record of expenditures that is supported by documents and detailed invoices. This process allows paying agents and comptroller personnel to reconcile cash payouts to supporting documents, permits the return of unused cash, and accurate closure of current cash balance accounts.

Requirements for the Receipt Clearing Process. The requirements for clearing between Field Paying Agents and Division Level Agents are the same as between Division Level Agents and the DFI Account Manager. The following documentation is needed:

- the signed contract
- detailed invoices
- disbursement documents
- Material Inspection and Receiving Report/Certificate of Completion document

Field Paying Agents must provide all four documents to the Division Level Agent to clear any outstanding cash balance with the Division Level Agent. Division Level Agents must provide the documents to the DFI Account Manager to clear any of their outstanding balances with the DFI Account Manager.

Documentation for the Receipt Clearing Process. The DFI Account Manager lacked the adequate required documentation to properly clear cash accounts. We reviewed all the receipts presented by the South-Central Region Division Level Agents to the DFI Account Manager used to clear cash accounts. Of the \$97,487,259 in receipts, only \$8,119,644 had all the necessary documentation required to be cleared by the DFI

Account Manager. The remaining \$89,367,615 lacked 1 or more of the required clearing documents. Specifically, we identified these anomalies:

- 287 disbursements, valued at approximately \$18.1 million, cleared without signed contracts
- 879 disbursements, valued at approximately \$60.2 million, cleared without invoices
- 789 disbursements, valued at approximately \$58 million, cleared without receiving reports/certificates of completion

Division Level Agents and Field Paying Agents Documentation. Division Level Agents and Field Paying Agents told us that a reason for the lack of required documentation was, in part, a result of the emphasis on disbursing money to the South-Central Region before the transfer of sovereignty to the IIG on June 28, 2004. One Division Level Agent was provided approximately \$6.75 million on June 21, 2004, with the expectation of disbursing the entire amount before the transfer of sovereignty. Several Division Level Agents were under the impression that it was more important to quickly distribute the money to the region than to obtain all necessary documentation. While rapidly disbursing money for projects in the region was a top priority of the CPA, securing the required documentation should not have been overlooked by those officials specifically charged with safeguarding Iraqi funds - the DFI Account Manager, Division Level Agents, and Field Paying Agents.

Development Fund for Iraq Account Manager Documentation. The DFI Account Manager did not have Statement of Agent Officer's Account documentation to identify the total amount of money provided to South-Central Region Division Level Agents. Therefore, the South-Central Region Division Level Agents could not properly clear their balances. The DFI Account Manager acknowledged not having any supporting documentation for disbursements of \$25 million to one South-Central Region Division Level Agent. The DFI Account Manager believed that this individual was given only \$1 million in seized assets.

The Division Level Agent provided receipts in the amount of approximately \$23.5 million. Of this amount, over \$6 million represented transfers to other Field Paying Agents, but adequate documentation was not provided to clear most of the remaining receipts. When the Division Level Agent attempted to clear his account in June 2004 and provided receipts of approximately \$23.5 million, the DFI Account Manager thought that he had submitted too many receipts.

However, the Division Level Agent was short approximately \$1.5 million in receipts or cash needed to clear his balance. The DFI Account Manager, unaware that this Division Level Agent was given at least \$25 million, allowed the Division Level Agent to clear his account and leave the country. Even though this Division Level Agent cleared his account balance to zero, the DFI Account Manager still had not reconciled his account to determine the exact amount of receipts presented and the amount of cash for which the Division Level Agent remains responsible.

Transfers between a Division Level Agent and Field Paying Agents. One South-Central Region Division Level Agent did not use required Statement of Agent Officer's Account forms to transfer cash to his Field Paying Agents. Rather, that particular Division Level Agent used a SF 44, "Purchase Order/Invoice/Voucher," form to transfer cash to the Field Paying Agents to pay contractors for work on specific projects. This particular Division Level Agent used the Purchase Order/Invoice/Voucher to make 645 transfers, valued at more than \$23 million, to Field Paying Agents. These transfers

should have been documented on the Statements of Agent Officer's Account for the particular Division Level Agent and Field Paying Agents as transfers and receipts of cash.

Although these transfers were cleared without Statements of Agent Officer's Account, the DFI Account Manager lost oversight of the cash disbursements by the Field Paying Agents, because the Field Paying Agents were not then required to account for the cash. Instead of clearing the Field Paying Agents of cash advanced, the Division Level Agent turned the Purchase Order/Invoice/Voucher into the DFI Account Manager who then subtracted that amount of cash shown on the Purchase Order/Invoice/Voucher from the Division Level Agent Statement of Agent Officer's Account. The DFI Account Manager subsequently did not confirm that the Field Paying Agents had actually paid the contractors.

As a result, the DFI Account Manager lost oversight of the cash transferred to the Field Paying Agents from this particular Division Level Agent. Of the more than \$23 million provided to Field Paying Agents for contractor payments, project file documentation indicated that only \$6,306,836 was paid to the contractors. An adequate review of the cash receipt files from this particular Division Level Agent by the DFI Account Manager's office would have identified that these transfers were made using the incorrect forms. This practice circumvented internal control procedures.

Timeliness for the Receipt Clearing Process. Guidance stated that the Division Level Agent must reconcile with the DFI Account Manager's Office at least monthly. In the event of unforeseen catastrophic actions in the field, the monthly clearing of receipts minimizes the loss of vital historical information. The cleared receipts are then maintained at the DFI Account Manager's office in the International Zone in Baghdad.

Of the eight South-Central Region Division Level Agents' files we reviewed, only one cleared on a monthly basis. The Division Level Agent who received the largest amount of cash from the DFI Account Manager, over \$82 million, cleared only 4 times during the 9-month period from October 2003 through June 2004. Instead, the DFI Account Manager allowed Division Level Agents and Field Paying Agents to present a large number of receipt files for clearing at a single time. This clearing procedure sometimes took place a few hours before the Division Level Agents or Field Paying Agents left the country. As a result, Division Level Agent and Field Paying Agent accounts that lacked sufficient supporting documentation were cleared.

Reconciling with Division Level Agents every month would have enabled the DFI Account Manager to review fewer receipt files at a time; consequently each receipt file could have been more thoroughly scrutinized to quickly identify problems. Because the Division Level Agents did not reconcile monthly, the DFI Account Manager was forced to review large numbers of receipts at one time and may have led to detected problems in the clearing process, such as undetected errors, break-downs in procedure, and the erosion of internal controls. At the time our audit concluded, the DFI Account Manager still had not reviewed all receipts for accuracy and completeness.

Sufficiency of Documentation for the Receipt Clearing Process. The DFI Account Manager's office did not adequately or promptly review the documentation provided by the Division Level Agents to clear their accounts. The DFI Account Manager's office did not review each receipt file to determine if the required documentation was included. For examples of the lack of adequate documentation for the receipt clearing process, see Appendix D.

Revocation of Paying Agents' Authorization as Part of the Receipt Clearing Process.

On May 30, 2004, the DFI Account Manager revoked the appointment order of a South-Central's Region Division Level Agent who was responsible for the entire South-Central Region cash. However, the DFI Account Manager did not enforce the provisions of the revocation letter. For a discussion of the ramification of the failure to enforce the revocation letter, see Appendix E.

Entrusting Funds to Officials Other than Paying Agents. The DFI Account Manager's training guidance to Division Level Agents and Field Paying Agents specifically stated that Division Level Agents and Field Paying Agents were not to entrust funds to others. The DFI Account Manager shipped cash to officials not formally appointed as South-Central Region paying agents. In October 2004, it appears that the DFI Account Manager proposed sending cash to a Regional Program Coordinator. The Regional Program Coordinator was not appointed as either a Division Level Agent or Field Paying Agent and no Field Paying Agent was available to receive or disburse cash; therefore, the Regional Program Coordinator specifically told the DFI Account Manager that he did not want the cash.

The DFI Account Manager did not advise the Regional Program Coordinator that cash was to be delivered. The Regional Program Coordinator only found out when the cash was delivered one evening. Further, the accompanying Statement of Agent Officer's Account signed by the DFI Account Manager stated that the total amount of cash delivered was \$3.5 million. The memorandum from the DFI Account Manager's Disbursing Officer stated that the total amount of cash delivered was \$3.25 million.

The Regional Program Coordinator again stated that he did not request the cash and did not want to sign the Statement of Agent Officer's Account form, because he did not know the total amount of cash delivered. The Regional Program Coordinator requested that we validate the total amount of cash delivered that night. We counted the cash and determined that the correct amount was \$3.25 million. The Disbursing Officer's memorandum was correct; the DFI Account Manager's signed Statement of Agent Officer's Account form was incorrect. Communication and coordination failures along with accounting discrepancies described above could have led to the loss of \$250,000 in cash.

Departing the Country as Part of the Receipt Clearing Process. The loss of control over cash provided to Division Level Agents and Field Paying Agents in the South-Central Region was evidenced by the actions of two Field Paying Agents, with cash account balances of \$777,050 and \$715,000, totaling \$1,492,050, who departed Iraq without clearing their balances with the DFI Account Manager. At the time our audit was concluded, neither the DFI Account Manager's office nor South-Central Region personnel could identify the location of the cash.

Further, the two Field Paying Agents who departed Iraq did not sign appointment letters that included pecuniary liability language explaining their personal liability for the entire amount entrusted to them, nor did they sign Statement of Agent Officer's Account forms indicating receipt of the transferred funds. The DFI Account Manager accepted Statement of Agent Officer's Account forms unsigned by the two Field Paying Agents while in the process of clearing the Division Level Agent. The DFI Account Manager then became responsible for reconciling the Field Paying Agent balances because he accepted the establishment of the two Field Paying Agents' cash accounts.

The DFI Account Manager was aware that the two Field Paying Agents had outstanding balances but did not take action to resolve the issue. Instead, the DFI Account Manager

prepared a worksheet in an attempt to reconcile the accounts with outstanding balances. The worksheet created an adjustment to clear one of the Field Paying Agents for \$777,050. The worksheet assumes that the Field Paying Agent had transferred the cash or receipts to a Division Level Agent, who the DFI Account Manager believed had presented too many receipts and had a credit balance. This adjustment does not appear to be justified because there was no signed documentation supporting a transfer from the paying agent to the Division Level Agent. This appears to be an attempt to remove outstanding balances by simply washing accounts.

Management Actions

There were three different individuals filling the position of JASG-C Comptroller from the initiation of the audit in September 2004 to its completion in April 2005. During the course of the audit, the audit team informed the JASG-C Comptrollers of deficiencies being detected. As a result, the JASG-C Comptrollers initiated corrective actions on deficiencies prior to the completion of audit work. A discussion of the action they initiated follows in the Recommendations, Management Comments, and Audit Response section.

Conclusion

We concluded that the DFI Account Manager and paying agents in the South-Central Region did not fully comply with applicable guidance and did not properly control, account for, and turn-in all DFI cash assets entrusted to them. The South-Central Region was issued approximately \$119.9 million in cash from the DFI Account Manager's office to support RRRP projects in that region. To clear this amount, the South-Central Region paying agents returned about \$15.2 million in cash and \$97.5 million in receipt files to the DFI Account Manager. Accepting the cash amounts reported to be turned in as accurate, we reviewed all the South-Central Region's receipt files and determined that only about \$8.1 million was adequately supported with all of the required documentation. The Exhibit shows a summary of the cash unaccounted for and the disbursements not properly supported by required documentation.

Exhibit		
Cash Unaccounted For and Disbursements Not Properly Supported by Required Documentation		
	Amount (In Millions)	Balance (In Millions)
Total Cash Issued	\$119.9	
Less Cash Returned	(\$15.2)	
Less Reported Disbursements	(\$97.5)	
Total Cash Unaccounted For		\$7.2
Reported Disbursements	\$97.5	
Less Disbursements Adequately Supported by Required Documentation	(\$8.1)	
Total Disbursements Not Properly Supported by Required Documentation		\$89.4
Total Cash Unaccounted For and Disbursements Not Properly Supported by Required Documentation		\$96.6

We further concluded that the South-Central Region paying agents and the DFI Account Manager cannot properly account for or support over \$96.6 million in cash and allowable disbursements.

Material Management Control Weaknesses. The audit identified material management control weaknesses in that the DFI Account Manager and paying agents in the South-Central Region did not fully comply with applicable guidance and did not properly control, account for, and turn-in DFI cash assets. Consequently, there was no assurance that fraud, waste, and abuse did not occur in the management and administration of cash assets.

Indications of Potential Fraud. During this audit, we found indications of potential fraud and referred these matters to the Assistant Inspector General for Investigations, Office of the Special Inspector General for Iraq Reconstruction, for such actions deemed appropriate.

Recommendations, Management Comments, and Audit Response

We recommend that the Commander, Joint Area Support Group - Central, require these actions of the Development Fund for Iraq Account Manager:

1. Scrutinize, verify, and investigate Statements of Agent Officer's Account maintained to identify statement errors, omissions, inaccuracies, and incompleteness.

Management Comments. The JASG-C Comptroller concurred and is taking corrective actions. The DFI Account Manager has assessed all Statement of Agent Officer's Account forms that were also reviewed by the previous Deputy Disbursing Officer and JASG-C Comptroller. As such, the DFI Account Manager is currently accounting for all cash disbursements to Division Level Agents for all regions and is verifying the accuracy of cash amounts recorded. The JASG-C Comptroller has also initiated actions in accordance with the Department of Defense Financial Management Regulation provisions to ensure proper disposition of Division Level Agents files that included irreconcilable balances. Additional review required will be performed by special action teams. The JASG-C Comptroller estimated the completion date to be September 30, 2005.

2. Ensure that the Statement of Agent Officer's Account documentation is used for recording all transfers of cash between agents and the total amount of money provided to Division Level Agents.

Management Comments. The JASG-C Comptroller concurred and took corrective actions. The JASG-C Comptroller is currently maintaining and completing accurate Statement of Agent Officer's Account forms for all Division Level Agents. All Division Level Agents are currently maintaining Statements of Agent Officer's Account when advancing funds to Field Paying Agents, as well as requiring Field Paying Agents to reconcile their accounts every 30 days. The JASG-C Comptroller does not entrust funds to any persons unless they have been properly appointed as a Division Level Agent by the JASG-C Comptroller. Division Level Agents are provided with both instruction and training regarding their responsibilities to ensure that they are aware of their authority to issue and control funds. All Division Level Agents are required to provide proper documentation of any cash advances/returns of Field Paying Agents upon reconciliation with the JASG-C Deputy Disbursing Officer. The JASG-C Comptroller stated that the corrective actions were completed as of April 1, 2005.

3. Initiate actions to resolve instances of noncompliance.

Management Comments. The JASG-C Comptroller concurred and is taking corrective actions. The JASG-C Comptroller is establishing a receipt clearing process to include the use of a newly implemented checklist for the Division Level Agents/Field Paying Agents and verification by the DFI Disbursing Officer so that Division Level Agents can properly reconcile and clear their accountability. The disbursements checklist is required to be presented by the Division Level Agent, for every voucher submitted, to properly document and account for each disbursement of funds. All submitted forms are verified to ensure they include dates and valid signatures from authorized individuals. The JASG-C Comptroller estimated the completion date to be September 30, 2005.

4. Direct Field Paying Agents to present required documentation to the Division Level Agents every 30 days and clear their cash accounts and direct Division Level Agents to present required documentation to the Development Fund for Iraq Account Manager every 30 days and clear their cash accounts only after all required documentation has been reviewed and verified.

Management Comments. The JASG-C Comptroller concurred and took corrective actions. The JASG-C Comptroller has directed Division Level Agents and Field Paying Agents and is enforcing requirements to ensure strict adherence to cash accountability requirements to include any Division Level Agent relieved of their duties and served with a revocation letter; that includes instructions pertaining to clearing their account with the appropriate Disbursing Officer, returning all cash and disbursement documentation to the appropriate Disbursing Officer, and ceasing all disbursements within 72 hours of receiving the revocation letter. The JASG-C Comptroller requires all Division Level Agents to properly reconcile their account with the JASG-C Deputy Disbursing Officer prior to departing the country. Although there were prior instances where Division Level Agents left the country without notifying the Deputy Disbursing Officer or their respective Program Manager, the JASG-C Comptroller and Deputy Disbursing Officer have reviewed these accounts and taken disposition action in accordance with the Department of Defense Financial Management Regulation. The JASG-C Comptroller stated that the corrective actions were completed as of April 1, 2005.

5. Issue and maintain required appointment letters for all paying agents that include pecuniary liability language.

Management Comments. The JASG-C Comptroller concurred and took corrective actions. The JASG-C Comptroller has validated that all agents have been issued appointment letters that include pecuniary liability language. Additionally, all Division Level Agents who are appointed and sign their appointment letter acknowledge they will reconcile prior to being relieved of their duties. The JASG-C Comptroller stated that the corrective actions were completed as of April 1, 2005.

6. Establish special action teams with these responsibilities:

a. Thoroughly review the receipts previously provided by each Division Level Agent and Field Paying Agent to determine the exact amount of valid receipts presented.

Management Comments. The JASG-C Comptroller concurred and is taking corrective actions. The JASG-C is establishing a special action team to conduct and complete the review, in addition to actions taken as described in the preceding. We will include receipts for Division Level Agent/Field Paying Agent accounts that did not reconcile and were referred for investigation and will determine the validity of all receipts presented. The JASG-C Comptroller estimated the completion date to be September 30, 2005.

b. Reconcile the previous Statements of Agent Officer's Account for errors and omissions to establish the amount of cash funding provided to each Division Level Agent and Field Paying Agent.

Management Comments. The JASG-C Comptroller concurred and is taking corrective actions. Based on discrepancies identified and audit, the JASG-C Comptroller reconciled Division Level Agents and Field Paying Agents Statement of Agent Officer's Account forms and identified agents whose accounts did not completely reconcile. Although the Comptroller referred accounts for investigations, we plan to also review these accounts for accuracy to determine the exact amount of funds advanced and any errors or omissions. The Comptroller has also established procedures to emphasize that it is the responsibility of the Division Level Agents to reconcile their respective Field Paying Agents before reconciling with the DFI Disbursing Officer and to determine possible errors or omissions to establish amount of cash funding provided to the Field Paying Agent. The JASG-C is establishing a special action team to conduct and complete the review of Division Level Agents' Statement of Agent Officer's Account forms. The JASG-C Comptroller estimated the completion date to be September 30, 2005.

c. Reconcile each Division Level Agent's and Field Paying Agent's previous accounts to determine if outstanding balances exist. If an outstanding balance exists, take appropriate actions to collect the cash.

Management Comments. The JASG-C Comptroller concurred and is taking corrective actions. The JASG-C is establishing a special action team that will reconcile Division Level Agents and Field Paying Agents accounts to identify outstanding balances. Accordingly, if outstanding balances do exist, the JASG-C Comptroller will take appropriate actions to collect cash owed. The JASG-C Comptroller estimated the completion date to be September 30, 2005.

Audit Response. The Commander, JASG-C comments to all recommendations are fully responsive. There were three different individuals filling the position of JASG-C Comptroller, who also serves as the DFI Account Manager, from the initiation of the audit in September 2004 to its completion in April 2005. During the course of the audit, the audit team informed each of the JASG-C Comptrollers of deficiencies being detected. As a result, those JASG-C Comptrollers initiated corrective actions as noted in the management comments. Reasonable estimated completion dates have been established for the corrective actions not yet completed.

Appendix A. Scope and Methodology

In September 2004, we initiated an audit of cash controls over disbursing officers in southern Iraq as a result of concerns brought to our attention by staff of the Coalition Provisional Authority (CPA) Comptroller.

We reviewed the following documents issued by the CPA:

- CPA Regulation Number 2, “Developmental Fund for Iraq,” June 10, 2003
- CPA Memorandum Number 4, “Contract and Grant Procedures Applicable to Vested and Seized Iraqi Property and the Developmental Fund for Iraq, Implementation of Regulation Number 3, Program Review Board,” August 19, 2003
- Combined Joint Task Force-7, Fragmentary Order 89, June 19, 2003
- Combined Joint Task Force-7, Fragmentary Order 1268, December 22, 2003
- Director, Program Review Board, Program Review Board Guidance 1-6, June 9, 2003 – September 30, 2003

We reviewed the Development Fund for Iraq (DFI) “Statement of Agent Officer’s Account,” DD Form 1081, issued for all Division Level Agents and Field Paying Agents located in the South-Central Region who received funding for the Rapid Regional Response Program (RRRP). We reviewed the Statement of Agent Officer’s Account forms to determine the adequacy of the DFI Account Manager/Comptroller (DFI Account Manager) funds accountability.

Eight individuals received cash for the RRRP, and six of them cleared¹ their account balances with the DFI Account Manager. We reviewed all receipts to determine if those six individuals cleared their account balances in accordance with established procedures. We then attempted to reconcile the cleared receipts, cash transfers, and cash returns for each of the six to their Statements of Agent Officer’s Account to determine whether all six were appropriately cleared and their account balances closed. We reviewed all available documentation for the two individuals who had not cleared their account balances with the DFI Account Manager and we attempted to determine the status of their accounts. We also reviewed the Statement of Agent Officer’s Account forms to determine if the DFI Account Manager accurately recorded cash transactions.

We performed audit work at several locations to review applicable documentation and procedures. At the JASG-C Comptroller’s Office, located in the Republican Palace Baghdad, we also reviewed documentation supporting the amount of cash funding issued to the South-Central Region and documentation used for the clearing of account balances for Division Level Agents and Field Paying Agents. At the U.S. Embassy Regional Office located in Hillah, Iraq, we reviewed all contract actions for grants and contracts issued under the RRRP. At the office of a Field Paying Agent located in Diwaniya, Iraq, we reviewed the procedures for the disbursement of cash to contractors. At the various project site locations, we reviewed the scope of work for projects contracted through the

¹ The clearing process is a management control device designed to provide a series of accounting safeguards that authorize an agent to receive government cash and that provide a clear record of expenditures supported by required documents and detailed invoices. This process allows paying agents and comptroller personnel to either return unused cash or close current cash balances and reconcile cash payouts to supporting documents.

RRRP to determine if the project met contract standards. At each entity, we interviewed personnel connected with the RRRP.

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

Scope Limitation. The JASG-C Comptroller management control program was not reviewed due to restricted audit resources and associated time constraints while auditing in a war zone.

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

Prior Coverage. The Special Inspector General for Iraq Reconstruction (formerly the Office of the Inspector General, Coalition Provisional Authority (CPA-IG)) issued two reports related to controls over cash. Reports issued by the Office of the Special Inspector General for Iraq Reconstruction can be accessed on its website <http://www.sigir.mil>. Also, the International Advisory and Monitoring Board contracted with KPMG in Bahrain for audits concerning the DFI export sales, oil proceeds, and disbursements. The reports are listed below.

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

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

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

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

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

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

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

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

Appendix B. Other Matters of Interest

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

Personnel Management. A contributing factor to the Development Fund for Iraq (DFI) Account Manager's inability to detect, prevent, or correct problems noted in this report was attributable, in our opinion, to insufficient staffing and the high turnover of available staff within the DFI Account Manager's office. One result of this staffing situation was the inability to thoroughly review every receipt file. One disbursement officer in the DFI Account Manager's office was responsible for clearing all the Division Level Agents and Field Paying Agents for all four regions of the country.

It appears to be unrealistic for one disbursement officer, given the number and turnover of Division Level Agents and Field Paying Agents, their level of training and experience, the volume of transactions, and the magnitude of cash involved; to be expected to efficiently accomplish such a workload. The lack of sufficient staffing is further evidenced by the fact that the DFI Account Manager's office still has not begun to review all receipt files, even though some the Division Level Agents and Field Paying Agents departed almost a year ago.

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

Records Management. The conditions noted in this report concerning the preparation, maintenance, completeness, and accuracy of records pertaining to cash controls over monies used for reconstruction activities in Iraq are a cause for concern.

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

Appendix C. Types of Funding

Iraqi funds under the control of the Coalition Provisional Authority (CPA) for use in the Commanders' Emergency Response Program and Rapid Regional Response Program were comprised of the Development Fund for Iraq and funds that have been vested² or seized³ in accordance with applicable law. Major sources of the Development Fund for Iraq include: proceeds from the export sales of petroleum, petroleum products, and natural gas from Iraq; deposits of uncommitted Oil For Food Program funds; and repatriated Iraq funds from other nations. These funds were made available to the CPA and were required to be used in a transparent manner:

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

United Nations Security Council Resolution 1483. Although Iraqi funds were not subject to the same laws and regulations that apply to funds provided to the CPA directly from coalition governments, those funds were required to be managed in a transparent manner that fully complied with CPA obligations under international law, including United Nations Security Council Resolution 1483.

Development Fund for Iraq funds were allocated through the national budget process and were made available to the IIG ministries in accordance with the national budget. The IIG ministries received allocated funds by submitting a request to the Iraqi Ministry of Finance.

Commanders' Emergency Response Program. According to Combined Joint Task Force-7, Fragmentary Order 89, June 19, 2003, Development Fund for Iraq funds are to be used to help fund the Commanders' Emergency Response Program, which provides reconstruction assistance to the Iraqi people. Commanders' Emergency Response Program projects can include:

- agriculture
- education
- electrical power generation and distribution
- food production and distribution
- healthcare
- other local initiatives that further the restoration of the rule of law and effective governance
- projects to further economic, financial, and management improvements
- telecommunications
- transportation
- water and sanitation infrastructure

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

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

Rapid Regional Response Program. The Rapid Regional Response Program was initially conceived as a civilian equivalent of the Commanders' Emergency Response Program fund, with similar procedures. The program was designed to provide maximum flexibility to regional and governorate coordinators in implementing projects responsive to the needs in their areas of responsibility. The program incorporates and expands on authorities of previously funded programs:

- the Directors' Emergency Response Program, which provided an emergency response capacity
- the Construction Initiative, which provided greater funding authority for construction activities

The discretionary authority under which regions could execute programs without prior Program Review Board approval was increased to \$200,000. The objectives of the Rapid Regional Response Program were to create local jobs, support local industries, and stimulate the economy.

Appendix D. Documentation Problems in the Receipt Clearing Process

This appendix provides examples where the Development Fund for Iraq (DFI) Account Manager allowed inadequate documentation to be accepted as proof of cash payments without verification or investigation of obvious errors and differences. Further, the clearing process controls were undermined because paying agents were allowed to clear their cash accounts without presenting required documentation to the DFI Account Manager.

Adequate Documentation. The DFI Account Manager did not obtain and review, for one South-Central Region Division Level Agent, full and adequate supporting documentation for disbursements from the Division Level Agent, but simply required that the Division Level Agent provide a spreadsheet detailing the contract number, description, contractor name, amount awarded, and initial payment for each disbursement. The DFI Account Manager then deducted the total amount listed on the spreadsheet from the outstanding cash balance of the Division Level Agent. The net amount was then used to calculate the amount of the Statement of Agent Officer's Account transfers to Field Paying Agents or the cash the Division Level Agent needed to return. The use of a spreadsheet is inadequate to support the clearing of cash accounts if the actual required supporting documentation, such as signed contracts, purchase orders, receiving reports, detailed invoices, certificates of completion, disbursement documents, or receipts for cash are not available for review to cross-check the figures shown on the spreadsheet.

The DFI Account Manager did not review all of the receipt files to validate whether the required documentation—signed contracts, purchase orders, receiving reports, detailed invoices, certificates of completion, disbursement documents, or receipts for cash—were included. Instead, the DFI Account Manager randomly chose a few receipt files from each of the five boxes of receipts provided by the particular Division Level Agent. The DFI Account Manager did not thoroughly review the spreadsheet prepared by the Division Level Agent. As a result, the DFI Account Manager did not recognize that the initial payment shown on the spreadsheet was greater than the amount awarded, which indicated that either the spreadsheet was inaccurate or that the Division Level Agent had made overpayments to contractors of \$134,398. A thorough review by the DFI Account Manager of the receipt files of this particular Division Level Agent would have detected these problems:

- 645 individual transfers of cash, totaling more than \$23 million, were made to Field Paying Agents using the wrong form.
- One contractor was paid twice for the same contract – once with seized money and once with DFI money. The DFI Account Manager cleared both disbursements without realizing that the duplicate payment was made.
- Two disbursements, totaling \$55,563, were paid with the wrong funding type (Construction Initiative funds instead of Rapid Regional Response Program funds).
- 10 disbursement receipts for cash, totaling \$324,500, were submitted for cancelled contracts.
- 6 disbursement receipts for cash, totaling \$407,420, were submitted without contractor signatures.

- 4 electronic funds transfers, totaling \$289,486, were paid directly by the DFI Account Manager, but were submitted as the Division Level Agent receipts.

Required Documentation. In addition, a thorough review by the DFI Account Manager of other South-Central Region Division Level Agents and Field Paying Agents that presented receipt files for clearing would have determined that only one had presented payment documentation equal to the amount cleared by the DFI Account Manager, on the Statement of Agent Officer's Account. For the remaining individuals:

- One Field Paying Agent presented supporting payment documentation, but not the complete required documentation, in the amount of \$423,376. Nevertheless, he was cleared by the DFI Account Manager's office for \$244,902 in paid vouchers. This appears to be an error or unexplained difference of \$244,902.
- One Field Paying Agent presented supporting payment documentation in the amount of \$308,293. Of this amount, only \$105,306 was supported by complete required documentation. However, the DFI Account Manager's office cleared his account for \$1,402,100 in paid vouchers. Based on the required documentation, this appears to be an error or unexplained difference of \$1,296,794.
- One Division Level Agent did not present the completed required supporting payment disbursement documentation for \$12,332,501. Nevertheless, his account was cleared by the DFI Account Manager's office for \$12,432,501 in paid vouchers. This appears to be an error or unexplained difference of \$12,432,501.
- One Field Paying Agent did not present the required supporting payment documentation for \$787,560. Even though the documentation presented was not the complete required documentation and was \$100 less than what was required, his account was cleared by the DFI Account Manager's office for \$787,660 in paid vouchers. This appears to be an error or unexplained difference of \$787,660.

Appendix E. Revocation of Paying Agents' Authorization as Part of the Receipt Clearing Process

On May 30, 2004, the Development Fund for Iraq (DFI) Account Manager revoked the appointment order of a South-Central Region Division Level Agent responsible for controlling cash for the entire South-Central Region.

Revocation Letter. The revocation letter included both pecuniary and Anti-Deficiency Act language for failure to properly account for funds that had been entrusted to him by then Coalition Provisional Authority Comptroller. The revocation letter contained special instructions stating that the Division Level Agent was to reconcile the Rapid Regional Response Program (RRRP) account for the South-Central Region and turn over all cash on hand, contracts, receiving reports, disbursement vouchers, invoices, and Purchase Order/Invoice/Vouchers to the RRRP Region Coordinator within 72 hours of receiving the revocation letter.

Revocation Date. The Division Level Agent did not clear his account with the RRRP Region Coordinator, opting instead to clear directly through the DFI Account Manager. Even though the revocation letter specifically stated that the Division Level Agent must clear his cash balance within 72 hours of receipt of the letter, the DFI Account Manager allowed the Division Level Agent to determine his own clearing date of June 20, 2004. By not immediately enforcing the revocation letter, the DFI Account Manager's office allowed the Division Level Agent to continue making disbursements until he cleared his cash account on June 20, 2004.

Cash Disbursements. Further, because the revocation letter directed the Division Level Agent to turn over all cash, no disbursements should have been made after May 30, 2004. However, the Division Level Agent made or authorized disbursements in the amount of \$1,496,562 after his authority to make cash disbursements was revoked. On June 15, 2004, the same Division Level Agent approved the funding of \$499,000 for project modification. Also, on June 28, 2004, the DFI Account Manager processed an electronic funds transfer of \$300,423 at the request of this Division Level Agent. The DFI Account Manager did not follow up with the Division Level Agent to make sure that no additional disbursements were made.

Clearing of Accounts. On June 20, 2004, the Division Level Agent returned cash, provided and created Statement of Agent Officer's Account forms to document transfers of cash to Field Paying Agents, and submitted paid receipts attempting to clear his account. After all transactions were documented, the Statement of Agent Officer's Account showed a remaining balance of \$1,878,870. The DFI Account Manager informed the Division Level Agent that he was short this amount of cash to clear his outstanding balance. Three days later, the Division Level Agent returned precisely that amount of cash required to reduce his balance to zero. Even though our audit disclosed instances in which the DFI Account Manager incorrectly increased the Division Level Agent balance, the DFI Account Manager was unaware of these errors, and the Division Level Agent had precisely the amount of cash required to reduce his balance to zero. This suggests that the Division Level Agent had a reserve of cash and turned in only the amount the DFI Account Manager told him was needed to complete the clearing process. If the Division Level Agent had turned-in all cash in his possession, the account balance would not have been zero, because of unadjusted errors noted in our audit work that appear on his Statement of Agent Officer's Account forms.

The three errors on the Division Level Agent's Statements of Agent Officer's Account that we identified would mean that the Division Level Agent overpaid his account balance by approximately \$3.8 million if the DFI Account Manager's accounting had been accurate. The Division Level Agent's overpayment of the account balance, by \$3.8 million, suggests that the receipt documents provided to the DFI Account Manager were unreliable.

Development Fund for Iraq Account Manager Review of Statements. If the Division Level Agent's Statements of Agent Officer's Account had been properly reviewed by the DFI Account Manager, the errors would have been found, and the account balance due for this Division Level Agent should have been accurate.

Appendix F. Acronyms

CERP	Commanders' Emergency Response Program
CPA	Coalition Provisional Authority
CPA-IG	Coalition Provisional Authority Office of the Inspector General
DFI	Development Fund for Iraq
JASG-C	Joint Area Support Group – Central (Provisional)
IIG	Iraqi Interim Government
RRRP	Rapid Regional Response Program

Appendix G. Report Distribution

Department of State

Secretary of State
Senior Advisor/Coordinator for Iraq
U.S. Ambassador to Iraq
Director, Iraq Reconstruction Management Office
Inspector General, Department of State

Department of Defense

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

Department of the Army

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

U.S. Central Command

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

Other Defense Organizations

Director, Defense Contract Audit Agency

Other Federal Government Organizations

Director, Office of Management and Budget
Comptroller General of the United States
Inspector General, Department of the Treasury
Inspector General, Department of Commerce
Inspector General, Health and Human Services
Inspector General, U.S. Agency for International Development

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

U.S. Senate

Senate Committee on Appropriations
 Subcommittee on Defense
 Subcommittee on Foreign Operations
Senate Committee on Armed Services
Senate Committee on Foreign Relations
 Subcommittee on Near Eastern and South Asian Affairs
 Subcommittee on International Operations and Terrorism
Senate Committee on Homeland Security and Governmental Affairs
 Subcommittee on Government Efficiency and Financial Management
 Subcommittee on Financial Management, the Budget, and International Security

U.S. House of Representatives

House Committee on Appropriations
 Subcommittee on Defense
 Subcommittee on Foreign Operations, Export Financing and Related Programs
House Committee on Armed Services
House Committee on International Relations
 Subcommittee on Middle East and Central Asia
House Committee on Government Reform
 Subcommittee on Government Efficiency and Financial Management
 Subcommittee on National Security, Emerging Threats and International Relations

Appendix H. Audit Team Members

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

Brian Flynn

Kevin O'Connor

Mary Davis

William Shimp

Angelina Johnston



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

JASG-C-IZ

20 April 2005

MEMORANDUM FOR SPECIAL INSPECTOR GENERAL FOR IRAQ
RECONSTRUCTION

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

REFERENCE:

- A. Report on Control of Cash Provided to South-Central Iraq, Project Number D2004-DCPAAF-0034.1, dated 7 April 2005.

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

SCOPE:

1. Reference subject report. Comments are provided as requested for the findings and recommendations shown.

a. Finding, Control of Development Fund for Iraq Cash Disbursements. Concur with the finding as written. Note that the high rate of turnover in personnel was a significant contributing factor to these conditions, as previous Comptrollers and Disbursing Officers were assigned to 90-day, and subsequently 120-day, tours of duty. Other significant factors include: the limited size of the JASG-C Comptroller staff (four assigned personnel, to include the Comptroller, the Deputy, the Disbursing Officer, a Budget officer, and two loaned technicians); the necessity of rapidly providing cash funds to locations throughout Iraq to effectively and efficiently support Iraq reconstruction efforts; and, the dangers associated with the physical movement of personnel between the JASG-C Comptroller and geographically separated locations to enable funds agents to routinely perform cash reconciliations. Also note that actions have been taken and are in progress, as described in our comments to the recommendations, to improve the conditions and resolve the discrepancies noted during the period of the audit.

b. Overall Recommendations. Concur with the recommendations as written. Extensive corrective actions have been taken in the past four months based on known discrepancies and as a result of those identified during the audit. Previously assigned Comptrollers and DFI Disbursing Officers reviewed all outstanding and discrepant Statements of Agent Officers Account (DD Forms 1081) and reconciliation differences were resolved or disposed of in accordance with DoD FMR guidance. The Statement of Agent Officers Account (DD Form 1081) is currently being used to properly document and record both all transfers of cash between agents and the total amount of money provided to DLAs. MNC-I FRAGO 1319 dated December 21, 2004, provides actions required in cases of noncompliance with established cash procedures. The JASG-C Comptroller currently requires all Division Level Agents to reconcile with the DFI Disbursing Officer every 30 days as stated in their appointment letter, which is signed by the DLA and the JASG-C Comptroller. Division Level Agents appoint the required Field Paying Agents who are also required to reconcile and report all disbursements to the DLA every 30 days. The JASG-C Comptroller maintains all required appointment letters for all DLAs and letters include a pecuniary liability statement.

The JASG-C Comptroller has also established an effective clearing process for all DLAs appointed. The process includes reconciling every 30 days, verifying the proper documentation of disbursements, preparing appointment letters to DLAs that include a pecuniary liability statement, and preparing cash accountability documents to properly document and identify the total funds advanced. All discrepancies have been identified and actions have either been completed or are in progress to resolve them.

(1) Recommendation 1. Concur. The JASG-C Comptroller (DFI AM) has assessed all Statement of Agent Officers Account (DD Form 1081) that were also reviewed by the previous Deputy Disbursing Officer and JASG-C Comptroller to identify statement errors, omissions, inaccuracies, and incompleteness. As such, the JASG-C Comptroller is currently accounting for all cash disbursements to DLAs for all regions, to include the South-Central Region, and is verifying the accuracy of cash amounts recorded. The JASG-C Comptroller has also initiated actions in accordance with the DoD Financial Management Regulation provisions to ensure proper disposition of DLA files that included irreconcilable balances. Additional review required will be performed by special action teams. Estimated completion date: 30 September 2005

(2) Recommendation 2. Concur. The JASG-C Comptroller is currently maintaining and completing accurate Statements of Agent Officers Account (DD Forms 1081) for all DLAs entrusted with DFI funds to include Rapid Regional Response Program South-Central (RRRP S-C). All DLAs are currently maintaining DD Forms 1081 when advancing funds to Field Paying Agents, as well as requiring Field Paying Agents to reconcile their accounts every 30 days. The JASG-C Comptroller does not entrust funds to any persons unless they have been properly appointed as a Division Level Agent by the JASG-C Comptroller. DLAs are provided with both instruction and training regarding their responsibilities to ensure that they are aware of their authority to issue and control funds. All DLAs are required to provide proper documentation of any

cash advances/returns of Paying Agents upon reconciliation with the JASG-C Deputy Disbursing Officer. Closed: 1 April 2005.

(3) Recommendation 3. Concur. The JASG-C Comptroller has initiated actions to resolve all instances of non-compliance and has established procedures to ensure any future instances of noncompliance with cash accountability requirements are promptly resolved and disposed of in accordance with DoD FMR guidelines. Specifically, the JASG-C Comptroller is establishing a thorough receipt clearing process to include the use of a newly implemented checklist for the DLA/Paying Agents and verification by the DFI Disbursing Officer so that DLAs can properly reconcile and clear their accountability. This disbursements checklist is required to be presented by the DLA for every voucher submitted to properly document and account for each disbursement of funds. Proper documentation includes: all disbursement documents, i.e., contract, receiving report(s), invoice, and disbursement voucher, such as Standard Form 1034 (Public Voucher for Purchases of Services Other than Personal) or a completed Standard Form 44 (Purchase Order – Invoice – Voucher). All forms are verified to ensure they include dates and valid signatures from authorized individuals. Estimated completion date: 30 September 2005.

(4) Recommendation 4. Concur. The JASG-C Comptroller has directed DLAs and FPAs and is enforcing requirements to ensure strict adherence to cash accountability requirements to include any DLA relieved of their duties and served with a revocation letter. The revocation letter includes instructions pertaining to clearing their account with the appropriate Disbursing Officer, returning all cash and disbursement documentation to the appropriate Disbursing Officer, and ceasing all disbursements within 72 hours of receiving the revocation letter. The JASG-C Comptroller requires all DLAs to properly reconcile their account with the JASG-C Deputy Disbursing Officer prior to departing the country. Additionally, all DLAs who are appointed and sign their appointment letter acknowledge they will reconcile prior to being relieved of their duties. Although there were prior instances where DLAs left the country without notifying the Deputy Disbursing Officer or their respective Program Manager, the JASG-C Comptroller and Deputy Disbursing Officer have reviewed these accounts and taken disposition action in accordance with the DoD Financial Management Regulation (FMR). Closed: 1 April 2005.

(5) Recommendation 5. Concur. The JASG-C Comptroller has validated that all agents have been issued appointment letters that include pecuniary liability language. Additionally, all DLAs who are appointed and sign their appointment letter acknowledge they will reconcile prior to being relieved of their duties. In addition, a newly implemented checklist used by the DLA/Paying Agents and verified by the DFI Disbursing Officer is required for DLAs to properly reconcile and clear their accountability. This disbursements checklist is required to be presented by the DLA for every voucher presented to account for proper documentation to support disbursements of funds. Closed: 1 April 2005.


(6) Recommendation 6a. Concur. The JASG-C is requesting additional personnel from HQDA to establish a special action team to conduct and complete the

review, in addition to actions taken as described in the preceding. We will include receipts for Division Level Agent/Field Paying Agent accounts that did not reconcile that were referred for investigation and will determine the validity of all receipts presented. Estimated completion date if personnel are received: 30 September 2005.

(7) Recommendation 6b. Concur. Based on discrepancies identified and audit, the JASG-C Comptroller reconciled DLA and FPA Statement of Agent Officers Accounts (DD Form 1081) and identified agents whose accounts did not completely reconcile. Although the Comptroller referred accounts for investigations, we plan to also review these accounts for accuracy to determine the exact amount of funds advanced and any errors or omissions. The Comptroller has also established procedures to emphasize that it is the responsibility of the DLA to reconcile their respective FPA before reconciling with the DFI Disbursing Officer and to determine possible errors or omissions to establish amount of cash funding provided to the FPA. The JASG-C is requesting additional personnel to establish a special action team to conduct and complete the review of DLA Statements of Agent Officers Accounts (DD Forms 1081). Estimated completion date if personnel are received: 30 September 2005.

(8) Recommendation 6c. Concur. The JASG-C is requesting additional personnel to establish a special action team that will reconcile DLAs/FPAs accounts to identify outstanding balances. Accordingly, if outstanding balances do exist, the Comptroller will take appropriate actions to collect cash owed. Estimated completion date if additional personnel are received: 30 September 2005.

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


THOMAS S. STEFANKO
COL, IN, USA
Commanding