Iraqi Armed Forces
Seized Assets Fund

Review of Contracts and
Financial Documents

SIGIR-06-015
April 28, 2006
MEMORANDUM FOR COMMANDING GENERAL, JOINT CONTRACTING COMMAND-IRAQ/AFGHANISTAN


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 comments from the Joint Contracting Command-Iraq/Afghanistan on the draft of this report when preparing the final.

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 D.

Stuart W. Bowen, Jr.
Inspector General

cc: Distribution
Iraqi Armed Forces Seized Assets Fund:  
Review of Contracts and Financial Documents

Executive Summary

Introduction. In response to a U.S. Army Audit Agency recommendation, the Multi-National Security Transition Command-Iraq (MNSTC-I) requested the Special Inspector General for Iraq Reconstruction (SIGIR) conduct a further review of MNSTC-I’s reconciliation of the Iraqi Armed Forces (IAF) Seized Assets Fund and associated financial disbursing documents to determine whether there were issues warranting further investigation. SIGIR subsequently obtained custody of MNSTC-I’s internal review workpapers and IAF Seized Assets Fund financial disbursing documents. The Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) also maintains a centralized contract database and SIGIR used information in this database to verify MNSTC-I’s records.

Objective. The objective of this review was to determine whether the JCC-I/A centralized contract database contained complete records of Seized Assets Fund transactions.

Results. JCC-I/A does not have complete records of Seized Assets Fund transactions. We identified numerous documents in MNSTC-I’s records that were not in JCC-I/A’s database, and vice versa. Discrepancies included missing contracts and contract numbers, and supporting invoices. Our analysis of the combined records found payments exceeding documentation limits, potential overpayments, and potential de-obligations. We also reported separately on our review of the status of documentation maintained by MNSTC-I for the reconciliation of IAF seized assets.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.

Recommendations. We recommend the Commanding General, JCC-I/A, in cooperation with the Commanding General, MNSTC-I:

- Establish a plan and process and execute the handover of original and copied contract documents and files to, in so far as possible, meet the requirements for complete and accurate records for both organizations.

• Review related contracting and payment actions in light of newly turned over documents and files to determine the extent previously completed payment, contract close outs, and other related actions should be reconsidered.
• Take action to recover any overpayments or payments to wrong contractors.
• Take action to de-obligate any funds that remain available for better use.

Management Comments and Audit Response. JCC-I/A and MNSTC-I officials concurred with the finding and recommendations. Actions are underway to implement the recommendations. The comments received are fully responsive.
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Commanding General, Joint Contracting Command-Iraq/Afghanistan 15
Introduction

Background


MNSTC-I complied with the Army Audit Agency’s recommendation to perform a reconciliation of the IAF Seized Assets Fund. MNSTC-I concluded the available records were too incomplete and unreliable to be audited and a valid reconciliation could not be achieved. Based on these findings, MNSTC-I reported the results to SIGIR for further review. On December 10, 2005, SIGIR auditors obtained custody of MNSTC-I’s internal review workpapers and other secured financial documents for further, in-depth review, which we began in January 2006.

Objective

The objective of this review was to determine whether the JCC-I/A centralized contract database contained complete records of Seized Assets Fund transactions.

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 C. For a list of the audit team members, see Appendix E.
Iraqi Armed Forces Seized Assets Fund - Contracts and Financial Documents

Our review and analysis revealed numerous examples of inconsistencies between IAF Seized Assets Fund records and those maintained by JCC-I/A. These include examples in which JCC-I/A had contract information, but was missing corresponding payment information, and where MNSTC-I had contract payment information but did not have copies of the applicable contracts. This condition, in part, may have existed because the IAF Seized Assets Fund records were secured in May 2005 and only released to the SIGIR auditors in December 2005. JCC-I/A may not have known the records existed. This lack of knowledge may have effectively blocked access to certain contracts and the pertinent contract information contained in those records. However, our review also determined that improved communications between MNSTC-I and JCC-I/A during the execution of the contracts could have eliminated many of the errors we found.

JCC-I/A closed out numerous contracts based largely on anecdotal information from contractors regarding the status of the contract, whether contract requirements were met, and the extent payments had been made to the contractor. JCC-I/A did not have adequate documentation to support the receipt of goods and services or payments made to the contractors and did not know such documentation existed. We identified numerous examples where JCC-I/A closed the contracts without knowing documents existed to indicate potential overpayments or the potential to de-oblige funds.

Years 2003 and 2004 Contract Files and Supporting Documentation

While we identified some payments common to the JCC-I/A database and the contract files, overall, there were significant differences between the information contained in the JCC-I/A contract files, the JCC-I/A contracting database and the contracting and financial documents provided by MNSTC-I. Record keeping was inconsistent and coordination was lacking between the approving authorities, contracting officers, contract administrators, and disbursing officers making contracts payments.

We identified contract files that lacked pertinent documents such as SF-30, SF-44a, SF-1449, SF-1034, DD-250, and DA-3953. We also identified several contract payments made without supporting documentation. The following is a summary of our review findings of the contract files and additional support documentation. We have included excerpts from the JCC-I/A database captured during our review.

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2 Standard Form 30, Amendment of Solicitation/Modification of Contract.
3 Standard Form 44a, Purchase Order-Invoice-Voucher.
4 Standard Form 1449, Solicitation/Contract/Order for Commercial Items.
5 Standard Form 1034, Public Voucher for Purchases and Services Other Than Personal.
6 DD Form 250, Material Inspection and Receiving Report.
7 Department of the Army 3953, Purchase Request and Commitment.
Table 1. Summary Findings
Contract Files and Supporting Documentation
(Year 2003 and 2004)

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<tr>
<th>Contract Issues</th>
<th>2003 Contracts</th>
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<td>Potential Overpayments</td>
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<td>Potential De-obligation Actions</td>
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<td>No Contract/Contract Number</td>
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<td>Payments to Wrong Contractor</td>
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<tr>
<td>DD250s without SF1034</td>
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<td>$30,226,132</td>
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<tr>
<td>SF44s Over $2,500</td>
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</table>

*19 contract numbers without a corresponding contract, 2 transactions without contract numbers
**28 contract numbers without a corresponding contract, 47 transactions without contract numbers

Potential Overpayments. 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. For example:

- DABV01-03-M-0003. The JCC-I/A database indicated the contract award amount was $271,200. We identified documentation in the form of SF-1034s and DD-250s to support payments of $561,430, resulting in a potential overpayment of $290,230.
- APFCRP40420001. The JCC-I/A database indicated the contract award amount was $500,000. We identified documentation in the form of SF-1034 and SF-44 to support payments of $581,000, resulting in a potential overpayment of $81,000.
- 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.
- 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. JCC-I/A showed award of $4,214,731 and payments of $3,061,339.
**Potential De-Obligation Actions.** We examined contracts with potential de-obligation issues in the JCC-I/A Contracting database and identified 18 contracts with potential de-obligations for 2003, estimated at $96,876,208 and 19 contracts with potential de-obligations for 2004, estimated at $169,196,520. For example:

- **DABV01-03-M-0029.** The JCC-I/A database indicated the contract award amount was $2,472,031, but no payments were documented for the contract. 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.
- **W914NS-04-D-0116.** The JCC-I/A database indicated the contract award amount was $14,014,139, but no payments were documented for the contract. 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.
- **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.
- **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 $66,886,575.

**Missing Contract/Contract Number.** We identified 19 invoices/payments with contract numbers without a corresponding contract, and 2 transactions without contract numbers totaling $3,358,512 for 2003 and 28 invoices/payments with contract numbers without a corresponding contract and 47 transactions without contract numbers totaling $12,919,802 for 2004. One contractor received multiple payments, totaling $93,474, without a contract or contract number to support the payment.

- **DABV01-03-C-0102.** Cash payment on SF-1034 dated 24 January 2004 to a corporation of $810,248. This contract is not listed in JCC-I/A database.
- **Missing Contract Number:** Payment in cash was paid to a corporation on SF-1034 dated December 24, 2003, for $182,810.
- **DABV01-04-M-0007.** Contract is not identified. We located an SF-1034 with Iraqi receipts totaling 79,095,000 in Iraqi Dinars (converted @1500 to $1 = $52,730). Per JCC-I/A there is no record of services provided, invoices, receiving documents, or payment voucher receipts. This contract was either never awarded or cancelled. Attempts to contact the contractor were unsuccessful.

**Payments to Wrong Contractor.** We found 2 contracts in 2003 for $584,192 and 5 for $1,723,254 in 2004 where payments were made to the wrong contractor under the same contract number. For example:

- **DABV01-03-D-0001 and DABV01-03-M-0094.** We identified four payments paid under these different contract numbers to contractors that differed from the contractor listed on the contract documents. The total of the incorrect payments is $584,192.

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8 A 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.
- **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 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-250s without SF-1034.** We identified 51 DD-250, Material Inspection and Receiving Reports, valued at approximately $30,226,132 for 2003, and 27 totaling $13,875,150 for 2004 without supporting documentation of payments or receipts. This included DD-250s without the signatures required to validate the receipt of services or products. In many cases, the SF-1034 indicated the payments were made on the basis of incomplete DD-250s. We also found payments documented in the JCC-I/A database without a supporting SF-1034 to document the payment.

**SF-44 Purchase Order, Invoice, Voucher.** We noted numerous payments made based on SF-44s which exceeded the $2,500 limit for payment on an SF-44. For FY 2003, we identified 6 SF-44s exceeding the dollar-limit, ranging from $3,080 to $8,298. For FY 2004 we identified 57 SF-44s exceeding the dollar limit, ranging from $2,560 to $500,000. We also identified numerous SF-44, Purchase Order, Invoice, and Voucher with contract numbers but without corresponding contracts in the available files, the JCC-I/A Contracting Database, or in the JCC-I/A contract files. We were unable to determine whether a log of the SF-44 payments existed or the procedures for issuing the contract numbers for micro-purchases. Payments were made in cash to vendors with either US dollars or Iraqi Dinars.

**Conclusion**

During the execution of the contracts we reviewed, MNSTC-I and JCC-I/A did not effectively coordinate the management of the documents required to carryout and record contract management actions. JCC-I/A and IAF Seized Assets Fund contract files were incomplete. Some documents, including actual contract awards, were missing, as were some amendments/modifications, de-obligation confirmations, and closure checklists/forms. We noted different contract officers administered the contract over relatively short periods of time, indicating that personnel turnover may have contributed to the inconsistent coordination we observed in our review of the documentation. 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.

We have informed JCC-I/A management of the existence of additional contract documents, including some FY 2005 contract files, which may affect the status of numerous contracts currently in the JCC-I/A Contracting Database and may require further action by the contracting office. We also reported separately on our review of the status of documentation maintained by MNSTC-I for the reconciliation of IAF seized assets.

**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.

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

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.

Recommendations, Management Comments and Audit Response

We recommend the Commanding General, JCC-IA, in cooperation with the Commanding General, MNSTC-I:

- Establish a plan and process and execute the handover of original and copied contract documents and files to, in so far as possible, meet the requirements for complete and accurate records for both organizations.
- Review related contracting and payment actions in light of newly turned over documents and files to determine the extent previously completed payment, contract close outs, and other related actions should be reconsidered.
- Take action to recover any overpayments and payments to wrong contractors.
- Take action to de-obligate any funds that remain available for better use.

JCC-I/A and MNSTC-I officials concurred with the finding and recommendations. Actions are underway to implement the recommendations. 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 Seized Assets Fund, (Project IA-2005-01, dated November 14, 2005), and supporting workpapers. To accomplish our objectives we reviewed the MNSTC-I audit report and supporting workpapers and revalidated the reconciliation. In addition, we obtained and conducted a thorough review of financial documents obtained from the Joint Area Support Group-Central Comptroller which included files of contracts, daily business transaction records, end of month payroll records and pay agent account records from June 1, 2003 - April 20, 2005. We conducted this review from January through March 2006.

To obtain knowledge about the subject audit and recommendations to MNSTC-I for corrective action we reviewed Army Audit Agency Audit Report A-2005-0332-ALE, dated September 30, 2005, to MNSTC-I to reconcile the Iraqi Armed Forces Seized Assets Fund and report any accounting discrepancies to SIGIR.

Following our review and analysis of the MNSTC-I internal audit report and workpapers, we met with the MNSTC-I internal auditors and obtained the financial records stored in the JASG-C Comptroller’s vault. The secured files were for the period of years 2003 and 2004. Our in-depth review and analysis included contract files, contracts, contractors, vendors, contracting officers, daily business transaction records, pay agent files, payroll files, certifying and approving officials, contract awards and disbursements based on available Standard Forms-1034 and Standard Forms-44 for check and cash payments. We then compared data to Joint Contracting Command-Iraq/Afghanistan Contracting Database and the JCC-I/A contract files to validate data.

To determine if the contracts were potentially overpaid, had potential for needing de-obligations, or if payments were made erroneously, we:

- reviewed the files and annotated relevant information in Excel spreadsheets, including the contract number, contracting officer, amount of the contract award and any amendments found, disbursements documented against the contract and officials signing off on the disbursements
- summed the contract and amendment amounts and compared the disbursements made against the contract to determine any differences
- examined the contracts in the JCC-I/A Contracting Database to verify contract awards and payments and obtained copies of the contract and all related documents from the JCC-I/A contract files for verification
- verified some contract award and payment amounts, but concluded the JCC-I/A database was incomplete and did not contain much of the documentation we had in our possession
- analyzed Daily Business Transaction records to match SF-1034 payments with applicable contract numbers

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, JCC-I/A contract files, 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.

### Exhibit 1. Potential Over Payments

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<th>Contract Number</th>
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### Exhibit 3. Payments to Wrong Contractor

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### Appendix C. Acronyms

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<th>Acronym</th>
<th>Description</th>
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<tr>
<td>IAF</td>
<td>Iraqi Armed Forces</td>
</tr>
<tr>
<td>JASG-C</td>
<td>Joint Area Support Group-Central</td>
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<td>JCC-I/A</td>
<td>Joint Contracting Command-Iraq/Afghanistan</td>
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<tr>
<td>MNSTC-I</td>
<td>Multi-National Security Transition Command-Iraq</td>
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<tr>
<td>SIGIR</td>
<td>Special Inspector General for Iraq Reconstruction</td>
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Appendix D. 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 E. 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, Joint Contracting Command-Iraq/Afghanistan

MEMORANDUM FOR Special Inspector General for Iraq Reconstruction


1. Please refer to the subject draft report dated 21 March 2006. The management comments to the recommendations for JCC-IA are as follows:

   Recommendation: Establish a plan and process and execute the handover of original and copied contract documents and files to, in so far as possible, meet the requirements for complete and accurate records for both organizations.

   JCC-IA Response: We concur. On 27 March 2006 representatives from JCC-IA, MNSTC-I and SIGIR met to identify which records should be turned over to JCC-IA for their use to establish complete records for the contract files. It was agreed that SIGIR would return all records previously provided by MNSTC-I to their control after SIGIR contacts its Special Investigator on the case and he concurs with the records release. JCC-I and MNSTC-I are presently coordinating transfer of all applicable records to JCC-IA as soon as SIGIR has given the release.

   Recommendation: Review related contracting and payment actions in light of newly turned over documents and files to determine the extent previously completed payment, contract close outs, and other related actions should be reconsidered.

   JCC-IA Response: After the records are transferred, JCC-IA will update the contract files and database. As part of this update, all previous actions will be reviewed to ensure that all necessary actions have been taken and the file is complete.

   Recommendation: Take action to recover any overpayments or payments to wrong contractors.
MNFI-JCC

JCC-IA Response: After a full review and incorporation of the new documents into the existing files, JCC-IA will take any necessary action to attempt to recover improper payments.

Recommendation: Take action to de-obligate any funds that remain available for better use.

JCC-IA Response: We concur. Any additional funds will be de-obligated and returned to the excess DFI funds that have already been de-obligated and made available for the use of the Government of Iraq.

2. My point of contact on this matter is Mr. Doug Packard at 703-544-6586.

DARRYL A. SCOTT
Major General, US Air Force
Commanding