Briefing to the International Advisory and Monitoring Board for Iraq: Management Controls Over the Development Fund for Iraq

SIGIR-06-013
April 28, 2006
MEMORANDUM FOR THE INTERNATIONAL ADVISORY AND MONITORING BOARD FOR IRAQ

SUBJECT: Briefing to the International Advisory and Monitoring Board for Iraq:
Management Controls Over the Development Fund for Iraq
(SIGIR 06-013)

The Inspector General Act of 1978, as amended, requires the Special Inspector General for Iraq Reconstruction (SIGIR) to determine by follow-up and report semiannually on actions planned or taken to implement the recommendations made in SIGIR audit reports. This briefing, presented on April 5, 2006, provided the status of corrective actions taken in response to a series of audits conducted by SIGIR addressing the use of the Development Fund for Iraq (DFI) for Iraq relief and reconstruction activities. These recommendations were made to the U.S. Ambassador to Iraq, the Joint Area Support Group – Central (JASG-C), and the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A). Overall, these audit reports found a lack of control and accountability for contracts, grants, and cash transactions using the DFI and made recommendations for improvement. The slides from this briefing are presented in Appendix A.

Background. From May 2004 to September 2005, SIGIR conducted eight audits of contracts, grants, and small purchases using the Development Fund for Iraq (DFI). These were the overall findings:

- The Coalition Provisional Authority had developed adequate policies and procedures to provide adequate controls over DFI.
- Compliance was the issue.
- Oversight of adherence to policy and procedures was not performed.

Of those audits:
- 6 identified significant material control weaknesses in controlling and accounting for Iraqi cash assets
- 40 recommendations were made for improving oversight and management of DFI funds

Results. SIGIR found that all recommendations were being implemented satisfactorily or are in the process of being implemented. Specifically, of the 40 recommendations, 23 were closed, and 17 had corrective actions underway or planned. For the details of our follow-up
review on the status of each of the 40 recommendations, see SIGIR Audit Report, “Follow-up on Recommendations Made in SIGIR Audit Reports Related to Management and Control of the Development Fund for Iraq,” SIGIR-06-005, April 2006, which can be accessed on the SIGIR Web site: http://www.sigir.mil/.

Recommendations. SIGIR made no recommendations in this follow-up report. SIGIR plans to review final implementation efforts in May 2006.

We are distributing this report to other interested parties as listed in Appendix B. Questions should be directed to Mr. Joseph T. McDermott, Assistant Inspector General for Audit, at 703-343-7926, or by email at joseph.mcdermott@iraq.centcom.mil.

Stuart W. Bowen, Jr.
Inspector General

cc: Distribution
Appendix A. April 5, 2006 Briefing

Presentation to:
INTERNATIONAL ADVISORY AND MONITORING BOARD FOR IRAQ (IAMB)

By:
THE SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION
APRIL 5, 2006

MISSION

Regarding U.S. reconstruction plans, programs, and operations in Iraq, SIGIR provides independent and objective:

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

www.SIGIR.mil
Principal U.S. auditor for Iraq Relief and Reconstruction

Temporary organization created by U.S. Congress with oversight responsibility over the $18.4 Billion Iraq Relief and Reconstruction Fund (IRRF) and the activities of the Coalition Provisional Authority (CPA)

Will terminate 10 months after 80% of IRRF is expended
  - Current termination approximately Fall 2007

IRRF Status as of March 30, 2006
  - 88% Obligated
  - 62% Expended

Only Inspector General that has authority to cross organizational boundaries
Lesson Learned Initiative
- Human Resources Report issued February 2006
- Program Management Forum – April 12, 2006

Iraq Inspector General Council (IIGC)
Iraq Accountability Working Group (IAWG)
Iraqi Anti-Corruption Initiative
DFI - DEVELOPMENT FUND FOR IRAQ

- United Nations Security Council Resolution 1483
  May 22, 2003
- Primary repository for Iraqi oil revenues and formerly seized Iraqi assets from abroad

DFI ESTABLISHED TO MEET

- the humanitarian needs of the Iraqi people
- the economic reconstruction and repair of Iraq’s infrastructure
- the continued disarmament of Iraq
- the costs of Iraqi civilian administration
- other purposes benefiting the people of Iraq
DFI AUDITS

- 8 audits of contracts, grants, and small purchases between May 2004 and September 2005
  - 8 audits identified significant material control weaknesses in controlling and accounting for Iraqi cash assets
  - 40 recommendations for improving oversight and management of DFI funds

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<th>Report Number</th>
<th>Audit Report Title</th>
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<td>05-004</td>
<td>Oversight of Funds Provided to Iraqi Ministries through the National Budget Process</td>
<td>Jan. 30, 2005</td>
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<td>Control of Cash Provided to South-Central Iraq</td>
<td>Apr. 30, 2005</td>
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<td>05-008</td>
<td>Administration of Contracts Funded by the Development Fund for Iraq</td>
<td>Apr. 30, 2005</td>
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<td>Reconciliation of Reporting Differences of the Source of Funds Used on Contracts After June 28, 2004</td>
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<td>Management of Rapid Regional Response Program Grants in South-Central Iraq</td>
<td>Oct. 25, 2005</td>
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<td>Management of the Contracts and Grants Used to Construct and Operate the Babylon Police Academy</td>
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<td>Management of the Contracts, Grant, and Micro-Purchases Used to Rehabilitate the Karbala Library</td>
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<td>05-023</td>
<td>Management of Rapid Regional Response Program Contracts in South-Central Iraq</td>
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OBJECTIVE

- The Inspector General Act requires SIGIR to determine by follow-up and report semiannually on actions planned or taken to implement the recommendations made in our reports.

SCOPE AND METHODOLOGY

- To determine management actions taken we:
  - Reviewed legal authorities, policies, practices, and documentation
  - Interviewed agency officials
- We conducted our review January – March 2006
RESULTS

- All recommendations are being implemented satisfactorily or are in process of being implemented.

SIGNIFICANT RECOMMENDATIONS FOR IMPROVING DFI CASH CONTROLS

- Improve oversight and cash management practices
- Review all agent officer’s accounts for accuracy and completeness
- Reconcile cash accounts monthly
SIGNIFICANT RECOMMENDATIONS FOR IMPROVING DFI MANAGEMENT

- Improve management processes and practices for grants, contracting and purchasing approval and oversight
- Improve the documentation for the receipt and disposal of purchased property

SIGIR IMPACT ON DFI MANAGEMENT

- Significant improvement in cash management, contract administration, and program oversight
- Seek potential recovery of $945,823
- Challenged another $5.6 million of expenditures
- Review other regional offices to determine if similar conditions exist
- Significant investigative results
## TOTAL RECOMMENDATIONS

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* Joint Contracting Command Iraq/Afghanistan  
** Joint Area Support Group - Central

## JCC-I/A RECOMMENDATIONS

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JCC-I/A: 19 RECOMMENDATIONS

- 13 Recommendations Closed
  - Policies and procedures developed and appropriate management controls developed to ensure required documentation is maintained

- 6 Recommendations Remain Open
  - Pending the development of a procurement management review process
  - Scheduled to begin in April or May 2006

JASG-C RECOMMENDATIONS

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JASG-C: 15 RECOMMENDATIONS

- 8 Recommendations Closed
  - JASG-C controller implemented corrective actions

- 7 Recommendations Remain Open
  - Pending actions to be completed by a “Special Action Team” expected completion date is April 30, 2006.

AMBASSADOR TO IRAQ: 6 RECOMMENDATIONS

- 2 Recommendations Closed

- 4 Recommendations Open - Actions underway

- Ambassador does not have the legal standing to recover funds but can solicit participation from, provide support to, and coordinate remedial actions with others as appropriate

- Commanding General, Multi-National Force-Iraq directed JASG-C and JCC-I/A to seek to recover overpayments
FOLLOWING TO COMPLETION

- SIGIR plans to review final implementation efforts in May 2006

OVERALL FINDINGS

- The Coalition Provisional Authority had developed adequate policies and procedures to provide adequate controls over DFI

- Compliance was the issue

- Oversight of adherence to policy and procedures was not performed
FOR ADDITIONAL INFORMATION ON THIS BRIEFING CONTACT:

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Desk: 703.343.9440 Baghdad
DC general contact: 703-428-1100
Appendix B. 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

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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

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  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