



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

October 13, 2005

MEMORANDUM FOR DEPUTY SECRETARY OF DEFENSE

SUBJECT: Management of Commanders' Emergency Response Program for Fiscal Year 2004
(Report No. SIGIR 05-014)

In response to a request from your office, we are providing this audit memorandum for your information and use. Your office asked, through the Inspector General, Department of Defense, that the Office of the Special Inspector General for Iraq Reconstruction review the Commanders' Emergency Response Program (CERP) to determine whether funds were properly administered.

This report discusses controls over the CERP, which was funded by seized assets, funds provided by the Development Fund for Iraq (DFI), and appropriated funds for fiscal year 2004. After coordinating our work with evaluations by other agencies, we decided not to review CERP projects funded by seized assets. Further, at the time of our review, the timeframe for obligating DFI funds had expired. As a result, we restricted our review to samples of CERP projects funded by appropriated funds.

We concluded that, while CERP appropriated funds were properly used for intended purposes, overall controls over CERP processes required improvement. Federal Acquisition Regulation and Department of Defense controls over the distribution of appropriated funds were not consistently followed and the required documents were not consistently used to maintain accountability of projects.

Objectives, Scope, and Methodology. The overall objective of this audit was to evaluate the adequacy of controls over CERP funds. Specifically, we sought to determine whether: (1) fund allocation procedures were adequate; (2) funds were used for intended purposes; and (3) financial records were accurately maintained and supported. During the course of our audit, we found that we could not fully address the overall objective because of other more pressing priorities concerning the management of the Iraq Relief and Reconstruction Fund. We narrowed our audit's objective and are reporting the results of audit work performed regarding the extent to which CERP managers:

- obtained and documented required contracting officer's approval
- expended funds in accordance with authorized project limits
- effectively controlled the distribution of appropriated funds

Overall, funds available for the CERP amounted to more than \$727.1 million, of which approximately \$140 million represented appropriated funds available for CERP in Iraq. We reviewed CERP transactions made by the U.S. Central Command's Multi-National Force – Iraq (MNF-I). Our review excluded CERP transactions made by the U.S. Central Command's Multi-National Security Transition Command – Iraq because those transactions were being audited by the U.S. Army Audit Agency. We will report on fiscal year 2005 CERP transactions in a future

report, and we will continue to coordinate with the U.S. Army Audit Agency on its reviews of CERP projects managed by the Multi-National Security Transition Command – Iraq to avoid duplication of efforts.

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

Background. The CERP was an instrumental part of the U.S. government’s efforts to secure and stabilize Iraq. In June 2003, the Coalition Provisional Authority authorized the operation of the CERP. The CERP was used to respond to urgent humanitarian relief and reconstruction requirements by allowing military commanders to carry out programs and projects that would immediately assist the Iraqi people and support the reconstruction of Iraq. Projects funded through the program were for immediate requirements of relatively small dollar-value procurements. The Coalition Provisional Authority initially funded the CERP through seized assets and funds provided by the DFI.

Congress subsequently passed an appropriation for the CERP in November 2003 as part of the “Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004,” Public Law 108-106, section 1110. The overall CERP funds were divided into three categories, and each of those categories had different requirements for use and reporting. The CERP-fund categories and dollar amounts applicable to our review were:

- funds seized or captured from ongoing combat operations (\$176,688,000)
- funds provided by the United Nations (\$370,431,406)
- funds provided by the U.S. Congress (not to exceed \$180 million)

Commanders’ Emergency Response Program Guidance. The MNF-I provided guidance to subordinate commands on the appropriate use of CERP funds. Project types eligible for funding under the CERP at the time of our review included:

- Civic cleanup
- Education
- Electricity
- Food production and distribution
- Healthcare
- Irrigation
- Rule of law and governance
- Telecommunications
- Water and sanitation

However, guidance prohibited appropriated funds to be used on types of projects that were for the following purposes:

- Activities with a direct or indirect benefit to U.S. or Coalition Forces
- Buyback of weapons
- Entertainment for local population
- Purchases of firearms and ammunition
- Removal of unexploded ordnance

- Rewards
- Services that would duplicate those provided by municipal governments

Controls Over the Commanders' Emergency Response Program. We obtained project folders and analyzed payment records of 76 projects funded by the CERP and managed by the MNF-I through the 126th Finance Battalion, 336th Finance Command, Baghdad, Iraq. The MNF-I disbursed more than \$3.6 million for these 76 projects from August 1 through October 13, 2004. We focused our review on the records for commitments, obligations, and expenditures funded by appropriated funds for this period.

Contracting Officer's Approval Documentation. We determined that all 76 projects we reviewed met Department of Defense requirements that CERP funds be used only to purchase goods and services for the building, reconstitution, reestablishment, and repair of the social and material infrastructure in Iraq.

Of the 76 projects reviewed, 74 were valued at approximately \$3.6 million and thus required a contracting officer's approval based on project-dollar limits. Of these 74 projects, 46 exceeded the \$10,000 threshold for which Combined Joint Task Force-7, Fragmentary Order 89, June 19, 2003, required a minimum of three separate quotes from vendors and the Federal Acquisition Regulation required contracting officer's documentation showing that the price was determined to be fair and reasonable. Specifically, we determined that:

- 58 of the 74 projects did not have documentation showing that a contracting officer's approval was obtained;
- 5 of the 46 projects did not have the required three quotes from vendors; and
- 19 of the 46 projects did not have documentation showing that a fair and reasonable price was obtained

Adherence to Authorized Project Limits. Based on our review of the 76 projects, we concluded that Army division-level commanders expended CERP funds in accordance with authorized project limits. Commanders followed proper funding-source guidelines for CERP projects and correctly obligated CERP-appropriated funds and not seized or DFI funds. Further, there were no CERP-appropriated funds commingled with the Army's Operations and Maintenance appropriated funds, and no CERP projects included payments for prohibited purposes.

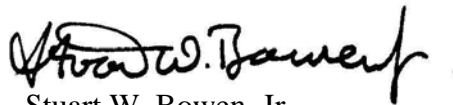
Controls Over Distributions Of Funds. We found that the Joint Area Support Group – Central Comptroller, which functioned as the MNF-I Comptroller as well as the DFI Account Manager, did not effectively control CERP funds distribution. The DFI Account Manager inappropriately authorized the Multi-National Corps - Iraq Budget Officer, who was not appointed as a disbursing officer or funds agent, to issue and receive funds. Our review of the Statement of Agent Officer's Account (DD Form 1081) forms showed that the budget officer received funds and other items in the amount of \$289,340,819.70 and assumed responsibility for that amount. However, the budget officer's appointment only delegated him the authority to certify the availability of funds allocated to the Multi-National Corps - Iraq of up to \$10 million and to obligate funds as necessary to support mission requirements, but not to receive or disburse funds. Consequently, the budget officer inappropriately signed the Statement of Agent Officer's Account form for more than \$289 million.

Results. We concluded that, while CERP appropriated funds were properly used for intended purposes, overall controls over CERP processes required improvement. Federal Acquisition Regulation and Department of Defense controls over the distribution of appropriated funds were

not consistently followed and required documents were not consistently used to maintain accountability of projects.

Actions. We are currently reviewing fiscal year 2005 CERP projects and will make recommendations as warranted if conditions reported herein persist. We briefed senior leadership at the commands involved in the management of the CERP. No specific recommendations were made; therefore, no written response to this report was required. We are providing this information so that any necessary actions may be taken as appropriate to improve the controls over the CERP.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Joseph T. McDermott at (703) 428-1100, or at joseph.mcdermott@sigir.mil, or Mr. Clifton Spruill at (703) 343-8817, or at clifton.spruill@iraq.centcom.com.

A handwritten signature in black ink, appearing to read "Stuart W. Bowen, Jr.", followed by a period.

Stuart W. Bowen, Jr.
Inspector General