

**DEVELOPMENT FUND FOR IRAQ:
DEPARTMENT OF DEFENSE CANNOT
FULLY ACCOUNT FOR THE FUNDS IT
USED AFTER THE COALITION
PROVISIONAL AUTHORITY DISSOLVED**

**SIGIR 12-008
JANUARY 27, 2012**



SIGIR

Special Inspector General for IRAQ Reconstruction

Summary of Report: SIGIR 12-008

Why SIGIR Did This Study

The Coalition Provisional Authority (CPA) was established in May 2003 to provide for the temporary governance of Iraq. United Nations Security Council Resolution 1483 created the Development Fund for Iraq (DFI) and assigned the CPA full responsibility for managing it. The DFI comprised revenues from Iraqi oil and gas sales, certain remaining Oil for Food deposits, and repatriated national assets. It was used, in part, for Iraq relief and reconstruction efforts.

During its almost 14-month governance, the CPA had access to \$20.7 billion in DFI funds and directed expenditures of about \$14.1 billion. The CPA had \$6.6 billion under its control when its mission ended on June 28, 2004. The Government of Iraq (GOI) gave the U.S. Department of Defense (DoD) access to about \$3 billion of these funds to pay bills for contracts the CPA awarded prior to its dissolution. Most of these funds were deposited into the DFI sub-account at the Federal Reserve Bank of New York (FRBNY).

The Special Inspector General for Iraq Reconstruction (SIGIR) initiated this audit to determine whether DoD properly accounted for its use of the: (1) \$2.8 billion deposited into the DFI sub-account at the FRBNY after the CPA dissolved, and (2) \$217.7 million in cash that remained in the presidential palace vault when the CPA dissolved.

What SIGIR Recommends

This report does not contain recommendations.

Management Comments

The Office of the Under Secretary of Defense (Comptroller) provided written comments on a draft of this report and, in general, agreed with the report. The comments are printed in their entirety in Appendix E.

January 27, 2012

DEVELOPMENT FUND FOR IRAQ: THE DEPARTMENT OF DEFENSE CANNOT FULLY ACCOUNT FOR THE FUNDS IT USED AFTER THE COALITION PROVISIONAL AUTHORITY DISSOLVED

What SIGIR Found

DoD cannot account for about two-thirds of the approximately \$3 billion in DFI funds made available to it by the GOI for making payments on contracts the CPA awarded prior to its dissolution. Most of these funds were held in the DFI sub-account at the FRBNY (\$2.8 billion); the remainder was held in the presidential palace vault in Baghdad (\$217.7 million). FRBNY records show that DoD made about \$2.7 billion in payments from the DFI sub-account. However, the FRBNY does not have specifics about the payments or financial documents, such as vendor invoices, to support them. It required only written approval from the GOI to issue payment.

Although it was DoD's responsibility to maintain documentation supporting the full \$2.7 billion in expenditures made from the FRBNY sub-account, it could provide us documentation supporting only about \$1 billion. Although DoD established internal processes and controls to report sub-account payments to the GOI, the bulk of the records are missing. As a result, SIGIR's review was limited to the \$1 billion in available records. SIGIR examined 15 payments from this group and found most of the key supporting financial documents. DoD continues to search for documents supporting the remaining \$1.7 billion in payments. DoD's problems with DFI records management are not new, and both SIGIR and DoD have previously reported on them.

DoD is also missing other key documents including copies of monthly reports documenting expenditures from the DFI sub-account and from the palace vault. When the Minister of Finance gave DoD authority to spend the money, he directed DoD to submit monthly reports and a final report documenting its payments from the DFI sub-account. From July 2004 through December 2007, DoD should have provided 42 monthly reports. However, it can locate only the first four reports. SIGIR found evidence indicating that other monthly reports were sent. For example, we found transmittal letters dated July 2006 and October 2007, but the attachments providing the transaction details were missing. We also contacted the DoD official who signed the October 2007 letter, who confirmed that the monthly report was sent. However, neither SIGIR nor DoD could locate any of the other reports.

Finally, DoD cannot locate documentation supporting \$119.4 million of the \$193.3 million it spent from the \$217.7 million in cash remaining in the presidential palace vault when the CPA dissolved. DoD did not establish the required U.S. Treasury account to maintain accountability for the funds. Instead, DoD established its own internal processes and controls to account for and report cash payments to the Minister of Finance. DoD has Excel spreadsheets supporting about \$73.9 million of the \$193.3 million spent from the palace vault cash. SIGIR reviewed 15 payments from the \$73.9 million to assess DoD's financial controls and found most of the required documents to support them. DoD continues to search for documentation supporting the remaining \$119.4 million in cash payments.



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

January 27, 2012

MEMORANDUM FOR U.S. SECRETARY OF DEFENSE

SUBJECT: Development Fund for Iraq: The Department of Defense Cannot Fully Account for the Funds It Used after the Coalition Provisional Authority Dissolved (SIGIR 12-008)

We are providing this audit report for your information and use. The report discusses issues related to the U.S. Department of Defense's accountability for Development Fund for Iraq funds it used after the Coalition Provisional Authority dissolved. We performed this audit in accordance with our statutory responsibilities contained in Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. This law provides for independent and objective audits of programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Iraq, and for recommendations on related policies designed to promote economy, efficiency, and effectiveness and to prevent and detect fraud, waste, and abuse. The Special Inspector General for Iraq Reconstruction (SIGIR) conducted this audit as Project 1112b.

We appreciate the courtesies extended to the SIGIR staff. For additional information on the report, please contact Glenn D. Furbish, Assistant Inspector General for Audits (Washington, D.C.) (703) 604-1388/ glenn.d.furbish.civ@mail.mil or Jim Shafer, Principal Deputy Assistant Inspector General for Audits (Washington, D.C.), (703) 604-0894/ fred.j.shafer.civ@mail.mil.

Stuart W. Bowen, Jr
Inspector General

cc: U.S. Secretary of State
U.S. Ambassador to Iraq
Office of the Secretary of Defense (Comptroller)

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Development Fund for Iraq: The Department of Defense Cannot Fully Account for the DFI Funds It Used after the Coalition Provisional Authority Dissolved

SIGIR 12-008

January 27, 2012

Introduction

The Coalition Provisional Authority (CPA) was established in May 2003 to provide for the temporary governance of Iraq following the conclusion of major combat operations in that country. United Nations Security Council Resolution 1483 established the Development Fund for Iraq (DFI) in May 2003 and assigned the CPA full responsibility for managing it. Resolution 1483 specified the DFI should be used in a transparent manner and for: (1) the humanitarian needs of the Iraqi people, (2) the economic reconstruction and repair of infrastructure, (3) the continued disarmament of Iraq, (4) the costs of civilian administration, and (5) other purposes benefiting the Iraqi people.

The DFI comprised revenues from ongoing Iraqi oil sales, unencumbered Oil for Food deposits, and repatriated national assets. During its almost 14-month governance, the CPA had access to \$20.7 billion in DFI funds and directed expenditures of about \$14.1 billion. The CPA had \$6.6 billion under its control when its mission ended on June 28, 2004. In October 2011, the Special Inspector General for Iraq Reconstruction (SIGIR) reported that the CPA Administrator transferred full and legal control over almost all of the \$6.6 billion remaining in DFI funds to the Central Bank of Iraq (CBI).¹

After the CPA dissolved, the Government of Iraq (GOI) provided the U.S. Department of Defense (DoD) access to about \$3 billion of the remaining DFI funds to pay outstanding bills for contracts awarded by the CPA prior to its dissolution. Most of these funds were held in the DFI sub-account at the Federal Reserve Bank of New York (FRBNY); the remainder was held in the presidential palace vault in Baghdad.² SIGIR initiated this audit to determine whether DoD properly accounted for its use of the: (1) \$2.8 billion deposited into the DFI sub-account after the CPA dissolved, and (2) \$217.7 million in cash remaining in the presidential palace vault when the CPA dissolved. Because DoD encountered difficulties in locating documentation, SIGIR's review was limited to about \$1 billion in available DFI sub-account payment records and \$73.9 million in available presidential palace vault payment records.

Background

The CPA managed the DFI from May 2003 through June 2004. During that time period, DFI funds were held in the DFI main account at the FRBNY until the CPA Administrator directed

¹ *Development Fund for Iraq: The Coalition Provisional Authority Transferred Control over Most of the Remaining DFI Funds to the Central Bank of Iraq*, SIGIR 12-001, 10/26/2011.

² Saddam Hussein's former presidential palace in Baghdad became the CPA's headquarters and was used to store cash needed by the CPA.

bulk shipments of U.S. currency to Baghdad or electronic funds transfer payments to reimburse vendors for expenses incurred on completed reconstruction projects and other purposes benefitting the Iraqi people. On June 1, 2004, the CPA Administrator approved a tentative plan for transitioning spending authority for the DFI to the Interim Iraqi Government. The plan recommended a separate sub-account be established within the FRBNY that would ensure continuing payments on contracts awarded by the CPA prior to its dissolution.

On June 15, 2004, the CPA Administrator informed the FRBNY that his authority over the DFI would terminate on June 30, 2004, and that control of remaining funds would transfer to the Governor, CBI. The actual transfer of sovereignty occurred on June 28, 2004, at which time the CPA Administrator transferred full and legal control of \$4.7 billion and \$1.7 billion in remaining DFI funds held at the FRBNY and at the CBI, respectively, to the Governor, CBI. DoD assumed control of the remaining \$217.7 million in the presidential palace vault.

On June 18, 2004, the Iraqi Minister of Finance created a sub-account within the FRBNY entitled “Central Bank of Iraq/Development Fund for Iraq/Transition” to facilitate payments on contracts the CPA awarded prior to June 28, 2004. All payments from the DFI sub-account required prior approval by designated Interim Iraqi government officials. The Governor, CBI, designated eight CBI banking officials who were authorized to transfer or expend DFI funds. The Governor informed FRBNY officials that withdrawals of funds from the DFI sub-account required the signatures of three individuals from the designated list of CBI banking officials.

The Iraqi Minister of Finance granted DoD limited authority to monitor, confirm performance, certify, and/or make payments from the DFI sub-account on ongoing contracts awarded by the CPA or the Multi-National Force–Iraq. From July 2004 through December 2004, the Minister of Finance transferred a total of \$2.8 billion from funds remaining in the DFI main account at the FRBNY into the newly established DFI sub-account. DoD also had access to the \$217.7 million remaining in the presidential palace vault in Baghdad.

The Joint Area Support Group–Central (JASG-C), a DoD agency, was responsible for accounting for DFI funds following the CPA’s dissolution. The first JASG-C Comptroller, who held the position from mid-July 2004 through mid-November 2004, established internal processes and controls to account for DFI payments and report them to the Iraqi Minister of Finance. The Comptroller maintained an Excel spreadsheet to account for DFI funds expended from the DFI sub-account as well as from the presidential palace vault. The spreadsheet contained 13 columns of information including voucher number, payment order number, payee, payment amount, payment date, and Iraqi ministry responsible for the sector in which the work was done.

The Minister of Finance directed DoD to submit monthly reports, as well as a final report, outlining all expenditures, payments, and outflows of DFI funds made from the DFI sub-account on behalf of the Interim Iraqi Government. The Minister withdrew DoD’s authority for administering DFI funds effective December 31, 2007.

Objectives

SIGIR's objectives for this report were to determine whether DoD properly accounted for its use of the: (1) \$2.8 billion deposited into the DFI sub-account at the FRBNY after the CPA dissolved, and (2) \$217.7 million in cash that remained in the presidential palace vault when the CPA dissolved.

For a discussion of the audit scope and methodology, see Appendix A. For a list of acronyms used, see Appendix B. For the results of SIGIR's documentation review of DoD's electronic funds transfer and cash payments, see Appendix C. For the audit team members, see Appendix D. For DoD management comments, see Appendix E. For the SIGIR mission and contact information, see Appendix F.

Documentation Supporting Most Payments Made from the DFI Sub-account Is Missing

DoD could not locate documentation supporting most of the \$2.7 billion it spent from the \$2.8 billion the GOI deposited into the DFI sub-account for making payments on contracts the CPA awarded prior to its dissolution. Even though DoD established internal processes and controls to account for and report sub-account expenditures to the GOI, it can locate documentation supporting only about \$1 billion. As a result, SIGIR's review of payments was limited to this \$1 billion. SIGIR reviewed 15 payments to assess DoD's financial controls and found most of the key financial documents to support them. DoD continues to search for documentation supporting the remaining \$1.7 billion in payments made from the DFI sub-account. We selected 20 additional payments from the FRBNY's records and compared them with JASG-C's records, and vice versa, and found complete agreement between them.

We also looked for monthly reports documenting expenditures from the DFI sub-account. When the Minister of Finance gave DoD authority to spend the money, he directed DoD to submit monthly reports and a final report documenting its payments from the DFI sub-account. From July 2004 through December 2007, DoD should have provided 42 monthly reports, but it can locate only the first four reports. However, there is evidence indicating the reports were sent.

GOI Deposited \$2.8 Billion into the DFI Sub-account

In 2004, the GOI made four deposits totaling \$2.8 billion into the DFI sub-account at the FRBNY. The first deposit of \$800 million was made in July 2004, followed by a \$400 million deposit in September 2004. Two additional deposits of \$800 million each were made in November and December 2004. The GOI deposited funds into the sub-account for DoD's use in making payments on contracts awarded by the CPA prior to its dissolution.

FRBNY records show that about \$2.7 billion was paid out of the DFI sub-account from July 2004 through December 2007.³ These records provide a line-by-line listing of DFI sub-account payments made, but specifics regarding the transactions are limited. For example, the FRBNY did not receive financial documents to support transactions such as material inspection and receiving reports or vendor invoices. To make a payment, the FRBNY needed only the written approval of CBI banking officials designated by the Governor, CBI.

According to a former JASG-C Comptroller, his office was responsible for obtaining the necessary financial documents to support a requested payment. Once the Comptroller's office had the required documentation, it wrote to the Governor, CBI, requesting authorization to make a payment from the DFI sub-account. Along with the request letter, the Comptroller included all of the financial supporting documentation justifying the payment. If the Governor concurred,

³ FRBNY records show that about \$667 million out of the \$2.7 billion in payments involved U.S. Army Corps of Engineers-administered contracts. In 2012, SIGIR plans to conduct a detailed audit of the Corps' accounting for DFI funds it had access to during and after the CPA's existence. The U.S. Army Corps of Engineers previously reported to SIGIR that it had access to \$2.4 billion in DFI funds (SIGIR 10-006, 10/29/2009).

authorized CBI banking officials would send a letter to the FRBNY instructing it to make the payment.

FRBNY officials told us they have the CBI's written authorizations for all of the \$2.7 billion expended from the DFI sub-account. The FRBNY provided SIGIR with signed copies of the written authorizations that show the CBI instructed the FRBNY to pay a certain amount of money from the DFI sub-account to a specified beneficiary.

Documentation Supporting the Expenditure of Most Funds from the DFI Sub-account Cannot Be Located

DoD could not locate documentation supporting the payments for most of the \$2.7 billion it used from the DFI sub-account. DoD officials have Excel spreadsheets supporting about \$1 billion of the \$2.7 billion, or 37%, it used from the sub-account. These spreadsheets cover the first four months of payments from the sub-account following the CPA's dissolution. DoD is looking for documentation supporting the remaining \$1.7 billion in payments.

DoD officials told us that during an initial data search they found an Excel spreadsheet accounting for about \$860.5 million in DFI sub-account payments made in the first three months following the CPA's dissolution. The officials also told us the first JASG-C Comptroller prepared this spreadsheet and after contacting him learned that he had kept detailed back-up records documenting sub-account payments made throughout his four-month assignment in Iraq. The Comptroller had spreadsheets and financial documents supporting about \$1 billion in payments made from the DFI sub-account from June 29, 2004 through November 13, 2004.

The Office of the Under Secretary of Defense (Comptroller) is trying to locate the Excel spreadsheets supporting the remaining \$1.7 billion in payments made from the DFI sub-account. Comptroller officials told us they reviewed more than 100 boxes of hard copy files and conducted multiple electronic database searches of DFI documents in their attempt to locate the missing spreadsheets. They also contacted former JASG-C Comptrollers, Deputy Comptrollers and DFI Disbursing officers to determine whether they had back-up DFI sub-account payment records similar to those kept by the first JASG-C Comptroller. The officials told us that none of these former JASG-C officials kept back-up records.

DoD's inability to locate historical records from Iraq is not a new issue. For example, an internal DoD study identified significant problems with all phases of its records management in Iraq. In July 2010, SIGIR reported that DoD had records management policies and procedures but had not fully implemented those procedures for preserving its Iraq reconstruction records. In some cases, DoD organizations were missing records or did not know the status of records that had been shipped to storage. SIGIR noted that these situations could result in the U.S. government not having the necessary information to perform audits of reconstruction activities.⁴

⁴ *Plans To Preserve Iraq Reconstruction Program and Contract Records Need To Be Improved*, SIGIR 10-021, 7/30/2010.

SIGIR's Review of 15 Payments Found Good Documentation

SIGIR's review was limited to the \$1 billion in payments documented by the first JASG-C Comptroller. From these payments, we selected 15 for detailed review. We looked for three documents: (1) the material inspection and receiving report, (2) vendor invoice, and (3) public voucher. The 15 payments had a combined value of \$135 million or about 13.5% of the total funds expended during that time period. The payments ranged in value from \$68,710 to \$60.9 million.

SIGIR found that DoD had 44 of the 45 required documents (97.8%) to support the 15 payments. The material inspection and receiving report was missing for a \$13.9 million payment, but it did have the associated vendor invoice and public voucher. The results of our review are presented in Appendix C.

SIGIR's Comparison of DoD Payment Records with FRBNY Payment Records Found Complete Agreement Between the Two

SIGIR selected 20 DFI sub-account payments from the first JASG-C Comptroller's spreadsheets and looked for those payments on the FRBNY's records and found them all. Similarly, we selected 20 additional DFI sub-account payments from the FRBNY's records, looked for those payments on the first JASG-C Comptroller's spreadsheets, and found all of them. According to the first JASG-C Comptroller, the results of our comparison of records was not surprising because he reconciled his payment records with the FRBNY on a daily basis.

Most Monthly Reports and the Final Report to the GOI Documenting DFI Sub-account Payments Are Missing

DoD could not locate most of the monthly reports and the final report that it was required to provide to the GOI documenting expenditures from the DFI sub-account. In total, DoD should have provided 42 monthly reports covering the period July 2004 through December 2007. DoD has the first four monthly reports covering the period July through October 2004, which corresponds to the tenure of the first JASG-C Comptroller. These monthly reports provide a line-by-line listing of payments made from the DFI sub-account during this time period.⁵

SIGIR and DoD officials searched hard copy files as well as available electronic databases of CPA and other DFI records but did not find the remaining 38 monthly reports or the final report. However, there are no assurances that the files and databases searched represent all CPA and DFI records. Nonetheless, during these searches, two transmittal letters from the JASG-C Comptroller's office to the Minister of Finance were found—one from July 2006 and the other from October 2007—indicating that the required monthly reports were sent. The October 2007 letter listed five attachments, two of which reportedly provided detailed listings of payments made from the DFI sub-account and the presidential palace vault from July 2004 through October 2007. While this indicates that a comprehensive list of payments was provided to the Minister of Finance, neither SIGIR nor DoD could locate the attachments. Without the

⁵ Although the Iraqi Minister of Finance did not require it, DoD included payments made from the presidential palace vault in its monthly reports to the GOI for payments made from the DFI sub-account.

attachments, SIGIR cannot verify the payments and sample those payments for key financial documents.

Two former JASG-C officials told us the required reports were sent monthly to the GOI during their tenures with the Comptroller's office in Baghdad. For example, the official who signed the October 2007 letter told us that the report, with attachments, was sent to the Minister of Finance. He also confirmed that it was a cumulative report covering the period July 2004 through October 2007, and provided detailed information on expenditures from both the DFI sub-account and the presidential palace vault. However, the official did not know who might have a copy of the report or where it may be stored.

Documentation Supporting Most Payments Made from the Presidential Palace Vault after the CPA Dissolved Is Missing

DoD could not locate documentation supporting most of the \$193.3 million it spent from the \$217.7 million in cash remaining in the presidential palace vault when the CPA dissolved. DoD assumed control of the remaining cash in the vault, but it did not establish the required U.S. Treasury account to maintain accountability for the funds. Instead, DoD established its own internal processes and controls to account for and report cash payments to the Minister of Finance. DoD has Excel spreadsheets supporting about \$73.9 million of the \$193.3 million spent from the cash remaining in the presidential palace vault. SIGIR reviewed 15 payments to assess DoD's financial controls and found most of the required documents to support those payments. DoD continues to search for documentation supporting the remaining \$119.4 million in cash payments.

DoD Assumed Control of DFI Funds Remaining in the Presidential Palace Vault

During the CPA's governance, the Administrator periodically requested that funds be withdrawn from the CBI's DFI account in Baghdad to replenish cash in the presidential palace vault. CPA records show that during its almost 14-month governance, \$836 million was withdrawn from the DFI Baghdad account and deposited into the presidential palace vault. Nine withdrawals occurred during this time period, with \$409.6 million, or almost half of all the funds, taking place in the last two months of the CPA's governance. CPA records show that \$618.3 million was disbursed, and \$217.7 million in cash remained when the CPA dissolved.

Almost all of the DFI funds remaining under the CPA's control when it dissolved were returned to and placed under control of the CBI. However, DoD assumed control of the \$217.7 million in cash remaining in the presidential palace vault.⁶ A DoD official told us the funds were needed to pay for small projects and for contractors that did not have electronic funds transfer capabilities. In February 2008, SIGIR conducted a cash count at the palace vault and found that \$24.4 million remained.⁷ DoD returned these funds to the GOI in March 2008.

DoD Did Not Establish Required U.S. Treasury Financial Controls for DFI Funds Remaining in the Presidential Palace Vault

DoD did not establish a deposit fund account within the U.S. Department of the Treasury for the \$217.7 million in DFI funds remaining in the presidential palace vault for which it took full control. Treasury Financial Manual Volume 1, Part 2, Chapter 1500, Section 1535—Deposit

⁶ *Development Fund for Iraq: The Coalition Provisional Authority Transferred Control over Most of the Remaining DFI Funds to the Central Bank of Iraq*, SIGIR 12-001, 10/26/2011.

⁷ *Attestation to Development Fund for Iraq Cash in the Possession of the Joint Area Support Group—Central*, SIGIR 08-012, 3/13/2008.

Funds Accounts—states that the Financial Management Service’s Budget Reports Division is to establish deposit fund accounts for agencies to record funds that do not belong to the Federal government. Treasury’s guidance states that to maintain accountability, agencies must establish separate deposit fund accounts to hold non-U.S. government funds, such as from a foreign government, for individual statutory authorizations or programs, for which the U.S. government is acting solely as a banker, fiscal agent, or custodian. These accounts, a key financial management control, enable agencies to maintain accountability for non-U.S. government funds by tracking obligations and expenditures on a monthly basis, just as they would with U.S.-appropriated funds. According to a Treasury official, DFI funds were subject to this requirement, and each U.S. government agency possessing DFI funds was responsible, in consultation with the Office of Management and Budget, for requesting that the deposit fund account be established.

DoD officials told us they never established a deposit fund account because they had full authority from the GOI to spend the remaining cash in the presidential palace vault. They also told us that disbursements from the palace vault, as well as the DFI sub-account, were made on behalf of the GOI and required approval of the Minister of Finance. While a letter from the Minister of Finance directed DoD to obtain approval before making payments from the DFI sub-account, it was silent with regard to cash payments from the presidential palace vault. A former JASG-C official told us that the GOI was notified of cash payments made from the vault, but the notification came after the payments were made. Further, in similar situations where DoD received funds from the GOI and controlled those funds, such as the Commander’s Emergency Response Program and the Iraq–Commander’s Emergency Response Program, it established the proper deposit fund accounts within the U.S. Treasury.

Most Documentation Supporting the Expenditure of Cash from the Presidential Palace Vault after the CPA Dissolved Is Missing

DoD could not locate documentation supporting the payments for most of the \$193.3 million in funds expended from the \$217.7 million contained in the presidential palace vault when the CPA dissolved. DoD has Excel spreadsheets supporting about \$73.9 million out of the \$193.3 million it spent, or 38.2%, from the remaining cash in the presidential palace vault. DoD continues its efforts to locate documentation supporting the remaining \$119.4 million in cash payments made from the presidential palace vault.

To assess DoD’s financial controls, SIGIR selected 15 payments from the spreadsheets that existed for the time period June 29, 2004 through November 13, 2004. These payments had a combined value of about \$14.4 million or 19.7% of the funds expended during this time period. The payments ranged in value from \$6,300 to \$4.76 million.

For each of the 15 payments, we looked for three key financial documents: (1) material inspection and receiving report, (2) vendor invoice, and (3) public voucher. SIGIR found that DoD had 44 of the 45 required documents (97.8%) to support the 15 payments. The material inspection and receiving report was missing for a \$6,300 payment, but it did have the associated vendor invoice and public voucher. The results of our review are presented in Appendix C.

Conclusions and Recommendations

Conclusions

SIGIR believes that DoD's difficulty in locating supporting documentation for DFI payments made after the CPA dissolved is a records management issue. Records management has been an ongoing problem for DoD in Iraq. By all accounts, DoD established good internal processes and controls to account for and report on DFI funds it had access to after the CPA dissolved. Where DoD records existed, we found they matched the FRBNY's records, and that there was good financial documentation supporting individual payments. Further, there is sufficient evidence indicating that required monthly reports documenting DFI sub-account and presidential palace vault payments were sent to the GOI. Nonetheless, DoD's inability to locate these reports and related financial documentation prevents SIGIR from performing a thorough and complete audit of DFI payments following the CPA's dissolution.

Recommendations

This report does not contain recommendations.

Management Comments

The Office of the Under Secretary of Defense (Comptroller) provided written comments on a draft of this report and, in general, agreed with the report. The comments are printed in their entirety in Appendix E.

Appendix A—Scope and Methodology

Scope and Methodology

In October 2011, the Special Inspector General for Iraq Reconstruction (SIGIR) initiated Project 1112b to review the extent to which the U.S. Department of Defense (DoD) retained records to document its use of Development Fund for Iraq (DFI) funds following the Coalition Provisional Authority's (CPA) dissolution. SIGIR's objectives for this report were to determine whether DoD properly accounted for its use of the: (1) \$2.8 billion deposited into the DFI sub-account after the CPA dissolved, and (2) \$217.7 million in cash remaining in the presidential palace vault when the CPA dissolved. This audit was performed under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978, as amended. SIGIR conducted its review from October 2011 through January 2012 in Arlington, Virginia. Because DoD encountered difficulties in locating documentation, SIGIR's review was limited to about \$1 billion in available DFI sub-account payment records and \$73.9 million in available presidential palace vault payment records.

To determine whether DoD properly accounted for funds used from the DFI sub-account, we met with Office of the Under Secretary of Defense (Comptroller) officials and a former Joint Area Support Group–Central (JASG-C) Comptroller in Washington, D.C. We reviewed policies, procedures, and other related DFI data. We also reviewed Federal Reserve Bank of New York (FRBNY) and JASG-C accounting records for payments made from July 2004 through December 2007. These records primarily consisted of Excel spreadsheets containing expenditure information from the DFI sub-account such as the payee, payment amount and date, and contract number. We selected 15 DFI sub-account payments from JASG-C's spreadsheets to determine whether they had the proper financial supporting documentation. For each payment, we looked for three key financial supporting documents—material inspection and receiving report, vendor invoice, and public voucher. Due to the limited amount of information available, all of the selected payments came from JASG-C's spreadsheets covering the period June 29, 2004 through November 13, 2004. We also selected 20 additional DFI sub-account payments from the FRBNY's spreadsheet and crosschecked them with JASG-C's spreadsheets, and vice versa, to determine if payments from the two spreadsheets matched.

To determine whether DoD submitted the required monthly reports and final report documenting DFI sub-account payments to the Government of Iraq (GOI), we met with Office of the Under Secretary of Defense (Comptroller) officials and a former JASG-C Comptroller. We also had telephone discussions with other former JASG-C Comptrollers to determine whether they recalled sending the monthly reports to the GOI and whether they had kept personal copies of the monthly reports or knew where they were sent for storage. In addition, we reviewed some hard copy files of DFI records and made multiple searches of available CPA and DFI electronic databases for the required reports.

To determine whether DoD properly accounted for cash used from the presidential palace vault, we met with Office of the Under Secretary of Defense (Comptroller) officials and a former JASG-C Comptroller. We also held telephone discussions with other former JASG-C Comptrollers. We used the first JASG-C Comptroller's financial spreadsheets supporting cash

payments to assess DoD's financial controls. We selected 15 cash payments to determine whether they had the proper financial supporting documentation. For each payment, we looked for three key financial supporting documents—material inspection and receiving report, vendor invoice, and public voucher. Due to the limited amount of information available, all of the selected payments came from JASG-C's spreadsheets covering the period June 29, 2004 through November 13, 2004. Lastly, we reviewed U.S. Treasury Financial Manual policies and procedures regarding the establishment of deposit fund accounts for handling non-U.S. government funds provided to a U.S. agency.

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Use of Computer-processed Data

In performing this audit, SIGIR obtained FRBNY computer-generated data and JASG-C accounting records. We did not assess each system's general controls but crosschecked data from the two providers. Further, because these were basic accounting systems of the involved organizations, we concluded that the computer-processed information was sufficiently reliable and the best available for purposes of our audit.

Internal Controls

In performing this audit, we reviewed FRBNY and JASG-C internal management and financial controls for administering DFI payments. As a key part of this work, we reviewed FRBNY and JASG-C accounting records. We also held discussions with key officials to gain an understanding of the internal controls governing the DFI fund payments. We concluded that controls governing the payment of DFI funds and the reporting of them to the GOI were sufficiently reliable for use in this audit. We presented the results of our review of internal controls in this report, as appropriate.

Prior Coverage

We reviewed the following SIGIR reports:

Development Fund for Iraq: The Coalition Provisional Authority Transferred Control over Most of the Remaining DFI Funds to the Central Bank of Iraq, SIGIR 12-001, 10/26/2011.

Plans To Preserve Iraq Reconstruction Program and Contract Records Need To Be Improved, SIGIR 10-021, 7/30/2010.

Attestation to Development Fund for Iraq Cash in the Possession of the Joint Area Support Group—Central, SIGIR 08-012, 3/13/2008.

Appendix B—Acronyms

Acronym	Description
CBI	Central Bank of Iraq
CPA	Coalition Provisional Authority
DFI	Development Fund for Iraq
DoD	Department of Defense
FRBNY	Federal Reserve Bank of New York
GOI	Government of Iraq
JASG-C	Joint Area Support Group—Central
SIGIR	Special Inspector General for Iraq Reconstruction

Appendix C—Results of SIGIR’s Documentation Review of DoD’s Electronic Funds Transfer and Cash Payments

Table 1 shows the results of SIGIR’s documentation review of 15 electronic funds transfer payments from the DFI sub-account from June 29, 2004 through November 13, 2004.

Table 1—Documentation Check List for Electronic Funds Transfer Payments

Project Description	Payment Amount	Payment Date	DD-250 Form ^a	Vendor Invoice	Public Voucher
Utility Upgrade and Facility Renovation at Military Base	\$893,746	04/30/2004	X	X	X
Ambulance, Wrecker, and other Vehicles	\$10,400,355	07/30/2004	X	X	X
Engineering Consulting Services	\$13,952,860	08/02/2004	-	X	X
Ballistic Vests with Plates	\$4,969,020	08/03/2004	X	X	X
Fuel Import and Delivery	\$60,884,825	08/05/2004	X	X	X
Supplies and Maintenance	\$3,339,367	08/05/2004	X	X	X
Security Services	\$5,894,584	08/09/2004	X	X	X
Radio Equipment and Service	\$403,437	08/12/2004	X	X	X
Force Protection	\$1,343,080	08/16/2004	X	X	X
Imported Electricity	\$7,432,224	09/07/2004	X	X	X
Communication Supplies	\$4,837,398	09/20/2004	X	X	X
Repair/Establishment of Warehouses	\$4,976,373	10/01/2004	X	X	X
Personnel and Facility Security	\$68,710	10/12/2004	X	X	X
Armored Personnel Carrier	\$10,790,921	10/21/2004	X	X	X
Equipment, Vehicle Maintenance, Force Protection	\$4,835,224	11/05/2004	X	X	X
Documents Required	45				
Documents in File	44				
Documents Missing	1				
Percentage of Documents in File	97.8%				

Note:

^a Material Inspection and Receiving Report

Source: SIGIR analysis of DoD Comptroller data.

Table 2 shows the results of SIGIR's documentation review of 15 cash payments from the presidential palace vault from June 29, 2004 through November 13, 2004.

Table 2—Documentation Check List for Cash Payments

Project Description	Payment Amount	Payment Date	DD-250 Form^a	Vendor Invoice	Public Voucher
Grant Payment for Death Program	\$500,000	07/16/2004	X	X	X
Ministerial Convention Pool Rehabilitation	\$92,330	07/18/2004	X	X	X
Armored Vehicle Purchase	\$140,000	07/30/2004	X	X	X
Ministerial Convention Pool Rehabilitation	\$175,290	08/03/2004	X	X	X
Ministerial Convention Pool Rehabilitation	\$40,650	08/03/2004	X	X	X
Support Services for Military Training Base	\$4,614,735	08/09/2004	X	X	X
Boots for Military Training Base	\$171,440	08/12/2004	X	X	X
Office Supplies	\$201,767	08/14/2004	X	X	X
Life Support Services for Baghdad Public Service Academy Training Site	\$4,762,097	08/16/2004	X	X	X
Security Services	\$533,875	08/17/2004	X	X	X
Letter of Credit Fee	\$6,300	08/17/2004	-	X	X
Construction Materials for Baghdad University	\$100,000	08/20/2004	X	X	X
Military Body Armor-Vests	\$1,727,320	10/13/2004	X	X	X
Compact Water Units	\$695,984	11/06/2004	X	X	X
Supply Uniforms	\$598,400	11/06/2004	X	X	X
Documents Required	45				
Documents in File	44				
Documents Missing	1				
Percentage of Documents in File	97.8%				

Note:

^a Material Inspection and Receiving Report

Source: SIGIR analysis of DoD Comptroller data.

Appendix D—Audit Team Members

This report was prepared and the audit conducted under the direction of Glenn D. Furbish, Assistant Inspector General for Audits, Office of the Special Inspector General for Iraq Reconstruction.

The staff members who conducted the audit and contributed to the report include:

Ziad M. Buhaissi

Benjamin H. Comfort

M. Glenn Knoepfle

Richard C. Newbold

L. Michael Welsh

Appendix E—Department of Defense Comments



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

JAN 24 2012

Mr. Glenn D. Furbish
Assistant Inspector General for Audits
Office of the Special Inspector General
for Iraq Reconstruction
2530 Crystal Drive
Arlington, VA 22202

Dear Mr. Furbish:

Thank you for the opportunity to review and provide comments on the Special Inspector General for Iraq Reconstruction (SIGIR) draft report, "Development Fund for Iraq: The Department of Defense Cannot Fully Account for the Funds It Used After the Coalition Provisional Authority Dissolved (SIGIR 12-008)," dated January 12, 2012. I appreciate the collaborative effort and professional courtesy extended by you and your team over the course of this audit and the series of audits on Department of Defense (DoD) accountability for the Development Fund for Iraq (DFI) program funds.

The SIGIR 12-008 report shows that we were able to provide sufficient evidence to demonstrate that DoD established good internal controls and processes to account for and report on DFI funds. The Department also acknowledges that while we were able to provide the documentation requested for this particular audit, the difficulty in locating DFI documents for the entire period (2004-2007) is due to a records management issue.

The SIGIR 12-008 report also attributes the first Joint Area Support Group-Central (JASG-C) Comptroller with establishing the electronic spreadsheet to account for all DFI funds expended. For clarification, Coalition Provisional Authority personnel established the spreadsheet and provided it to JASG-C. The spreadsheet was then maintained by the first JASG-C Comptroller and in turn, his successors.

Thank you again for the opportunity to review and provide comments on the draft report. My point of contact in this matter is Ms. Charlotte Beacham. She can be reached at 703-602-0371 or charlotte.beacham@osd.mil.

Sincerely,

A handwritten signature in dark ink, appearing to read "Mark E. Easton", is written over a horizontal line.

Mark E. Easton

Appendix F—SIGIR Mission and Contact Information

SIGIR’s Mission	Regarding the U.S. reconstruction plans, programs, and operations in Iraq, the Special Inspector General for Iraq Reconstruction 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 malfeasance 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
Obtaining Copies of SIGIR Reports and Testimonies	To obtain copies of SIGIR documents at no cost, go to SIGIR’s Web site (www.sigir.mil).
To Report Fraud, Waste, and Abuse in Iraq Relief and Reconstruction Programs	Help prevent fraud, waste, and abuse by reporting suspicious or illegal activities to the SIGIR Hotline: • Web: www.sigir.mil/submit_fraud.html • Phone: 703-602-4063 • Toll Free: 866-301-2003
Congressional Affairs	Hillel Weinberg Assistant Inspector General for Congressional Affairs Mail: Office of the Special Inspector General for Iraq Reconstruction 2530 Crystal Drive Arlington, VA 22202-3940 Phone: 703-428-1059 Email: hillel.weinberg.civ@mail.mil
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