The seal of the Office of the Special Inspector General for Iraq Reconstruction is a large, circular emblem in the background. It features a central eagle with wings spread, holding an olive branch and arrows. The eagle's chest is covered by a shield with vertical stripes. Above the eagle's head is a sunburst with stars. The seal is surrounded by text in both English and Arabic. The English text reads "INSPECTOR GENERAL" at the top and "RECONSTRUCTION" at the bottom. The Arabic text reads "مفتش العام" at the top and "إعادة إعمار" at the bottom.

CONTROLS OVER UNLIQUIDATED  
OBLIGATIONS IN THE IRAQ RELIEF  
AND RECONSTRUCTION FUND

**SIGIR-07-011**  
**OCTOBER 23, 2007**

# Report Documentation Page

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## SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

October 23, 2007

MEMORANDUM FOR U.S. AMBASSADOR TO IRAQ  
DIRECTOR, OFFICE OF IRAQ RECONSTRUCTION,  
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT  
ASSISTANT SECRETARY, BUREAU FOR INTERNATIONAL  
NARCOTICS AND LAW ENFORCEMENT AFFAIRS,  
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ASSISTANT SECRETARY, RESOURCE MANAGEMENT AND  
CHIEF FINANCIAL OFFICER, DEPARTMENT OF STATE  
COMMANDING GENERAL, U.S. ARMY CORPS OF  
ENGINEERS  
COMMANDING GENERAL, GULF REGION DIVISION,  
U.S. ARMY CORPS OF ENGINEERS  
CHIEF FINANCIAL OFFICER, U.S. ARMY CORPS OF  
ENGINEERS  
DIRECTOR, IRAQ TRANSITION ASSISTANCE OFFICE  
DIRECTOR, AIR FORCE CENTER FOR ENGINEERING AND  
THE ENVIRONMENT

SUBJECT: Report on Controls Over Unliquidated Obligations in the Iraq Relief and  
Reconstruction Fund (SIGIR-07-011)

This audit report is provided for your information and use. This report discusses our review of controls over unliquidated obligations in the Iraq Relief and Reconstruction Fund.

We considered written comments received on the draft of this report from the U.S. Agency for International Development and the U.S. Army Corps of Engineers when preparing the final report. The comments are addressed in the report, where applicable, and the written responses are included in the Management Comments section of this report.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Glenn Furbish ([glenn.furbish@sigir.mil](mailto:glenn.furbish@sigir.mil) / 703-428-1058). For the report distribution, see Appendix C.

Stuart W. Bowen, Jr.  
Inspector General

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# Controls Over Unliquidated Obligations in the Iraq Relief and Reconstruction Fund

SIGIR-07-011

October 23, 2007

## Executive Summary

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### Introduction

Through two appropriations referred to as IRRF 1 and IRRF 2, Congress has authorized a total of \$20.9 billion for the Iraq Relief and Reconstruction Fund (IRRF). The Department of Defense (DoD), U.S. Agency for International Development (USAID), and the Department of State (DoS) are the major recipients of IRRF funds.

Obligations are recorded when an authorized agent of the federal government enters into a legally binding agreement to purchase specific goods or services. As bills are received and payments made, the recorded obligation is reduced by the payment amounts, with the balance referred to as the unliquidated obligation. Funds no longer needed may be de-obligated.

The purpose of this audit was to determine the amount of IRRF unliquidated obligations retained by DoD, DoS, and USAID and whether those agencies have established adequate management controls over their unliquidated obligations. This audit focused on annual reviews of unliquidated obligations that agencies should have completed for fiscal year 2006.

### Results

As of March 31, 2007, the IRRF unliquidated obligation balance for DoD, DoS, and USAID totaled \$2.649 billion.<sup>1</sup> The breakdown by agency was \$2.308 billion, \$182.1 million, and \$159.6 million, respectively.

Each of the three agencies included in our review has policies and procedures to monitor obligations and to conduct at least an annual review of those that remain unliquidated. The organizations we examined varied in the extent to which they had conducted and/or documented the required annual review of unliquidated obligations for fiscal year 2006. Based on our reviews, we believe there are opportunities for them to improve their performance, better document the results, and potentially expedite the de-obligation of unneeded funds in the future. Completing and documenting such reviews can be important to facilitating ongoing monitoring, follow-up oversight, financial-report

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<sup>1</sup> This amount excludes \$600 million in IRRF 1 and IRRF 2 funds that went to other agencies.

preparation, and the retention of institutional knowledge in the face of personnel turnovers. The following examples illustrate limitations we identified in the reviews.

- The U. S. Army Corps of Engineers/Gulf Region Division (USACE/GRD), which manages DoD's IRRF-funded programs, provided documentation indicating that it had conducted its required review of fiscal year unliquidated obligations in August/September 2006. This review resulted in USACE de-obligating about \$30.6 million. Nevertheless, the Special Inspector General for Iraq Reconstruction (SIGIR) identified opportunities for additional de-obligations. For example, we selected a sample of 150 unliquidated obligations--50 from each of prior fiscal years 2004, 2005, and 2006. As of September 2007, we determined that 24 of the 150 unliquidated obligations, totaling approximately \$28.4 million, have had no disbursements since September 2006 and often no documentation of why a continual obligation was needed. Moreover, based on our assessment of 14 unliquidated obligations within our sample, we found three totaling about \$1 million that GRD's own documentation indicates should have been de-obligated before the year-end review in September 2006. Similarly, we identified another instance in which an additional unliquidated obligation of \$513,066 should have been de-obligated in September 2006. After bringing these and other examples to the attention of USACE/GRD officials, they initiated action to de-obligate these funds. USACE headquarters officials, who are currently in the process of revising their procedures for conducting the review of unliquidated obligations, told us they will require the reviewers to document in the Corps of Engineers Financial Management System (CEFMS) if a continuing need exists for each unliquidated obligation.
- The Air Force Center for Engineering and the Environment (AFCEE) awarded about \$1.1 billion of the DoD IRRF program monies. However, AFCEE did not conduct the required review of its September 2006 unliquidated obligations because, according to a senior AFCEE official, USACE/GRD did not ask for one and had not provided AFCEE with a list of unliquidated obligation that would have provided the basis for a review. Nevertheless, the DoD regulations required the AFCEE to perform the review. We determined that as of September 2006, AFCEE had 100 unliquidated obligations totaling approximately \$91 million, with 78 of those obligations made in fiscal years 2004 and 2005. We determined further that 20 obligations (10 established in each of those fiscal years) had no disbursements as of September 2006. The obligations in question totaled approximately \$12.2 million. We believe that AFCEE should have reviewed these unliquidated obligations during the annual review since that organization awarded the contracts and performs project monitoring. AFCEE should have determined whether a continuing need existed for these obligations.
- USAID did not conduct a year-end review of its IRRF unliquidated obligations before the end of fiscal year 2006. On October 2, 2006, however, as permitted by its guidelines, the USAID/Iraq Mission Director issued an advance certification stating that IRRF unliquidated obligation balances were needed in the activities for which they were obligated and that the amount of funding was consistent with agency guidelines for forward funding. As permitted by its guidelines, the

Mission then undertook an actual review of unliquidated obligations between October 2006 and February 2007 while our own review was underway. As a result of the annual review, the Mission de-obligated \$24.1 million. Later on, during the period when our review was underway, USAID de-obligated an additional \$39 million of unliquidated obligations that were not identified in their annual review documentation. Continuing to monitor the USAID financial management database for IRRF obligations, we determined that they had de-obligated an additional \$6.5 million of IRRF unliquidated obligations from May 2007 through September 2007. Consequently, USAID de-obligated \$69.6 million of IRRF funding since October 2006. For our own assessment, we reviewed USAID's unliquidated obligations as of September 2006, when no disbursements had occurred for at least six months, and found 71 obligations totaling about \$1.2 million which could have been de-obligated prior to the end of the fiscal year, principally in obligations with no disbursements for significant time periods. After bringing these obligations to USAID's attention, they subsequently de-obligated 62 of the 71 obligations totaling about \$611,000, and Mission officials continue to review the remaining nine.

- DoS policy requires an annual, fiscal year-end review of unliquidated obligations along with monthly reviews to determine if there is a continuing need for funds as currently obligated. DoS officials provided us with the fiscal year 2006 certifications from the bureaus and embassies responsible for IRRF, stating that they had certified their year-end unliquidated obligation balances of \$316.5 million. The agency did not, however, provide supporting documentation for its annual review of unliquidated obligations, and its determination of a continuing need for individual obligations. As a result, we could not determine the thoroughness and completeness of DoS's year-end review of unliquidated obligations. Our review of DoS's unliquidated obligations found instances in which a continuing need for an obligation could be questioned—principally in regard to agreements with another government agency where there had been no activity for significant time periods or where obligations occurred in prior years. As of March 2007, the DoS accounting records identified \$70 million of unliquidated obligations pertaining to 24 interagency agreements with the Department of Justice (DoJ). The DoJ reported to the DoS that, as of March 2007, \$39.5 million of the \$70 million remained unobligated.

## **Recommendations**

Overall, we found various instances in each of the agencies we reviewed that provide opportunities to improve documentation of the review of unliquidated obligations, including the justifications for retaining individual obligations. We therefore recommend that:

- USACE/GRD provide a list of unliquidated obligations to AFCEE, as required by the DoD regulation, and follow-up with them on the reviews.

- USAID and DoS develop written procedures requiring finance offices to document their reviews of unliquidated obligations and the reasons for retaining an obligation including identifying a continuing need.
- DoS document, as appropriate, its year-end review of each individual unliquidated obligation and document its determination of a continuing need.

## **Management Comments and Audit Response**

SIGIR received written comments on a draft of this report from USACE and USAID. USACE concurred with our recommendation and provided technical comments, which we included in the report where appropriate. In its written response to our draft report, USAID said it had completed its annual review of unliquidated obligations during fiscal year 2006. However, during our audit we requested but did not receive supporting documentation of USAID's fiscal year 2006 certification of unliquidated obligations until February 2007. Therefore, we had no evidence that would support the USAID's position that their review was completed before the end of the 2006 fiscal year. USAID did not respond to our recommendation that it document its reasons for retaining an obligation. Rather, USAID said that it already has procedures for documenting reviews and recording reasons for retaining an obligation. We reviewed all of the data USAID provided, and again found no documentation detailing why it retains obligations. Consequently, we are keeping this recommendation. USAID also provided some technical comments, which we included in the report where appropriate.

# Introduction

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## Background

The *Emergency Wartime Supplemental Appropriations Act*, Public Law 108-11, created the Iraq Relief and Reconstruction Fund (referred to as IRRF-1) and appropriated about \$2.5 billion to be used in Iraq for a broad range of humanitarian and reconstruction activities by the Department of Defense (DoD), U.S. Agency for International Development (USAID), Department of State (DoS), the Department of the Treasury, and the Department of Health and Human Services. IRRF-1 funds were available for obligation until September 2004. The *Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan*, Public Law 108-106, appropriated an additional \$18.4 billion, (referred to as IRRF-2), for the rebuilding of Iraq. IRRF-2 funds were to remain available until September 2006, at which time the authority to obligate these funds expired. The *Fiscal Year 2006 Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery*, Public Law 109-234 (Sec. 1302), makes IRRF-2 funds available for obligation for one additional year (until September 30, 2007). The *U.S. Troop Readiness, Veterans Care, Katrina Recovery, and Iraq Accountability Appropriations Act*, Public Law 110-28, makes IRRF-2 funds available for obligation until September 30, 2008. The DoD, USAID, and DoS are the major recipients of both IRRF appropriations.

Obligations are recorded when an authorized agent of the federal government enters into a legally binding agreement to purchase specific goods or services. As bills are received and payments made, the recorded obligation is reduced by the amount of the payments received, with the balance—that is, the money still owed—referred to as the *unliquidated obligation balance*. When all services or goods have been received and paid for, the obligation is considered “liquidated,” and any remaining unliquidated obligation balance not needed for payments should be de-obligated and reduced to zero. If at any time the unliquidated obligation balance is no longer needed, the unliquidated obligation should be de-obligated and the funds made available for other uses.<sup>2</sup>

Appropriated funds must be obligated in the fiscal year(s) for which they are made available. These obligated funds may be paid out as bills for services are received. If the goods and services are received and paid for during the contract period and the procurement is complete, any remaining unliquidated obligation balance can be de-obligated and used for other needs consistent with the source appropriation. Funds expire if they are not obligated in the fiscal year(s) for which they are appropriated. Expired funds can be used in the subsequent five years to liquidate obligations properly chargeable to the account prior to its expiration. The expired account balance also remains available to make legitimate obligation adjustments, that is, to record previously unrecorded obligations and to make upward adjustments in previously under-recorded obligations.

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<sup>2</sup> Appropriations Law, Volume II, Chapter 7, GAO 06-382SP

Congress specifically established in law a framework for such activities as reviewing, adjusting, certifying to, and reporting on the status and amounts of unliquidated obligations.<sup>3</sup> Policies and procedures for federal agencies<sup>4</sup> set forth by the U.S. Government Accountability Office also call for a critical review of obligation balances at the end of each fiscal year to ensure they are still valid and can be supported by documentary evidence. Specific responsibilities are to be assigned at the operating level for the preparation of adequate working papers and records in a form suitable for audit. In accordance with the law, each of the three agencies included in our review have implemented practices requiring them to monitor obligations and provide for at least an annual review of unliquidated obligations.

We initiated this review because of longstanding issues involving the management of unliquidated obligations in government agencies and our overall responsibilities for oversight of the IRRF.

## **Objectives**

The audit objectives were to determine the amount of IRRF unliquidated obligations and whether DoD, DoS, and USAID have established adequate management controls over them.

For a discussion of the audit scope and methodology, and a summary of prior coverage, see Appendix A; for a list of the acronyms used, Appendix B; for the report distribution, Appendix C; and for a list of the audit team members, Appendix D.

## **Organizations Responsible for Reviewing Unliquidated Obligations**

### *Department of Defense*

In 2003, following the downfall of the Sadaam Hussein government, the Deputy Secretary of Defense designated the Secretary of the Army as the executive agent for acquisition and program-management support of the Coalition Provisional Authority (CPA). Until June 2004, when it was dissolved, the CPA, through its Program Management Office, was responsible for managing the building and contracting work involved in the reconstruction of Iraq. Project construction and execution responsibilities were then assumed by the newly designated Project and Contracting Office (PCO), which merged with the U.S. Army Corp of Engineers (USACE) Gulf Region Division (GRD) in December 2005 and the GRD officially succeeded the PCO in May 2007.

Since June 2004, the Secretary of the Army has delegated to the USACE the primary responsibility for maintaining accounting records. The GRD is the Corps organization currently responsible for IRRF financial management for DoD. The USACE Finance Center provides accounting services, utilizing the U.S. Corps of Engineers Financial

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<sup>3</sup> 31 U.S.C. Section 1501

<sup>4</sup> *Policy and Procedures Manual for Guidance of Federal Agencies, Title 7*, U.S. Government Accountability Office, May 18, 1993.

Management System (CEFMS). All IRRF obligations and disbursements are recorded in CEFMS, either directly by the Finance Center or through transactions involving payment approved by other DoD entities.

### ***U.S. Agency for International Development***

USAID is the principal federal agency empowered to extend assistance to countries recovering from disaster, trying to escape poverty, and engaging in democratic reforms. The USAID Mission in Iraq implements programs that address three strategic objectives: creating an expanded role in support of focused stabilization; establishing the foundation for economic growth; and building national capacity. The USAID Mission-Iraq has supported programs across a broad range of sectors, including education, health care, food supply, infrastructure reconstruction, airport and seaport management, economic growth, community development, local governance, and transition initiatives.

USAID implemented a unified and integrated financial management system in June 2006. Known as Phoenix, the system serves as the accounting system of record for USAID, including its 51 overseas Missions. All appropriated-fund accounting transactions are recorded in Phoenix.

### ***Department of State***

DoS is the lead institution for the conduct of American diplomacy; the Secretary of State is the President's principal foreign policy advisor. The United States is represented in Iraq by its ambassador, also known as the Chief of Mission. DoS seeks to achieve its objectives through regional bureaus and numerous functional and management bureaus. For example, the Bureau of Near Eastern Affairs provides leadership and coordination, while the Bureau of International Narcotics and Law Enforcement conducts projects related to the police, the corrections system, and the rule of law. DoS uses separate financial management systems for its contracts, interagency agreements, grants, and other types of fiscal instruments.

# Unliquidated IRRF Obligation Balances

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As of March 31, 2007, the IRRF obligations of DoD, USAID, and DoS totaled \$19.903 billion, with over \$2.649 billion (13%) remaining as unliquidated obligations. Table 1 shows the status of IRRF funds as of March 31, 2007.

**Table 1: IRRF Obligations, Disbursements, and Unliquidated Obligation Balances as of March 31, 2007 (dollars in millions)**

	DoD	USAID	DoS	Total
Obligations	\$13,585.8	\$4,668.5	\$1,649.2	\$19,903.5
Disbursements	\$11,278.3	\$4,508.9	\$1,467.1	\$17,254.3
Percent of obligations disbursed	83%	97%	89%	87%
Unliquidated Obligations	\$2,307.5	\$159.6	\$182.1	\$2,649.2
Percent of obligations unliquidated	17%	3%	11%	13%

Source: DoD, USAID, and DoS financial reports.  
Numbers may not add due to rounding.

## Management Reviews of Unliquidated Obligations

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Each of the three agencies has policies and procedures requiring it to monitor obligations and to conduct at least an annual review of unliquidated obligations. The agencies, we found, varied in the extent to which they had conducted and documented the required reviews of unliquidated obligations for fiscal year 2006. Our reviews of available data at all three suggested ways in which they can better conduct, document, or otherwise improve their reviews and facilitate de-obligations of additional funds in a timely manner.

### Department of Defense

USACE/GRD manages DoD's IRRF-funded activities. DoD policy requires tri-annual reviews of unliquidated obligations to determine if there is a continuing need for funds as currently obligated. Although available information indicates that such reviews take place, our audit of unliquidated obligations identified several areas where improvements could be made.

## ***DoD Policy***

DoD's *Financial Management Regulation, Volume 3, Chapter 8* requires tri-annual reviews of commitments and obligations. Fund holders,<sup>5</sup> with assistance from supporting accounting offices, are obligated to review commitment and obligation transactions for timeliness, accuracy, and completeness during the four-month periods ending on January 31, May 31, and September 30 of each fiscal year. The September review requires the examination of 100% of records of commitments, undelivered orders, payables, and customer orders identifying unliquidated obligations that need to be de-obligated. The earlier two reviews are generally of more limited scope. The requirement for reviews of commitments and obligations applies to the appropriations and funds involving all DoD components.

As a general practice, accounting offices provide fund holders with listings of unliquidated obligations recorded for the accounts managed by each holder. According to the regulation, holders are responsible for conducting reviews of unliquidated obligations, regardless of whether the holder or the accounting office actually records the obligations in the official accounting records. This is designated a fund-holder responsibility because the holder initiates the actions that result in obligations and is therefore in the best position to determine the accuracy and status of such transactions. All required de-obligations, adjustments, or corrections identified during the review must be processed within 10 working days.

On three occasions during the fiscal year, the fund holder must provide a formal, signed confirmation statement attesting to fulfillment of the review requirement and to the accuracy and completeness of the recorded amounts. The Phase III tri-annual review confirmation statement attests that:

- all obligations have been validated;
- adequate follow-up has been conducted on all dormant obligations over 120 days old to determine if the obligation is still valid; and
- all obligations that could not be substantiated or validated after a thorough review have been de-obligated.

The regulation requires that, for a period of 24 months following completion of the review, fund holders maintain documentation sufficient to permit independent organizations to verify that it was accomplished as required.

## ***USACE Reviews***

In October 2006, the GRD Financial Manager certified that the September 2006 review of all IRRF unliquidated obligations was completed in accordance with the DoD regulation. GRD provided us with a copy of the review as well as the certification that 3,521 records were reviewed and about \$30.6 million identified for de-obligation. The GRD review included an examination of IRRF unliquidated obligations, commitments,

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<sup>5</sup> DoD's *Financial Management Regulation* refers to fund holders as ones who initiates the actions that result in obligations.

payables, and customer orders. The review involved GRD and PCO officials looking at each unliquidated obligations and indicating in CEFMS that the unliquidated obligation had been verified by placing a checkmark in a designated CEFMS field.

To assess GRD's annual review, we assessed available data from several vantage points. First, we examined a listing of GRD's IRRF unliquidated obligations as of September 2006, to verify that all unliquidated obligations had been included in the year-end review. We also examined financial and procurement documents to determine why GRD was retaining the obligation, and we discussed some of these unliquidated obligations with GRD personnel. We then made a more complete assessment in each area.

Using the GRD listing of unliquidated obligations, we sorted them according to fiscal year in which the initial obligations occurred. We selected a judgment sample of 150 unliquidated obligations: 50 from each of the three prior fiscal years—2004, 2005, and 2006. We queried the CEFMS data base for all three, and verified that each of the 150 transactions had been included in the 2006 year-end review. These 150 unliquidated obligations totaled about \$1 billion—26%—of the September 2006, IRRF unliquidated obligation balance of \$3.8 billion. We found that the reviewers provided remarks for only 9 of the 150 unliquidated obligations and the majority of the comments identified the obligations as not being identified in the integrated records management system. We could not locate comments regarding the status of the other 141 unliquidated obligations. However, we continued to monitor on an ongoing basis the USACE financial management database for each of the 150 obligations. As of September 2007, we determined that 24 of them, totaling approximately \$28.4 million, have had no disbursements since September 2006. Of the 24 obligations, USACE/GRD had recorded 4 in calendar year 2004, 5 in 2005, and 15 in 2006. We could find no documentation in CEFMS explaining why these unliquidated obligations continue to be retained.

For the second review, we selected a judgment sample of 14 fiscal year 2004 unliquidated obligations, and reviewed financial and procurement documentation to determine why GRD was retaining the obligation. We found documentation in the financial and procurement contract files for eight of the obligations that supported GRD's maintaining them, and the agency has subsequently made some payments to the contractors. For the other six obligations, we did not find any supporting documentation for GRD to maintain these obligations. Specifically,

- For two unliquidated obligations, we found documentation that a determination was made by the program office to de-obligate the excess funds under these obligations (\$349,331 and \$273,674), and the funds were de-obligated by the contracting officer in August 2006. However, a month later, the program office requested that the contracting office re-obligate the two that had been de-obligated, and these obligations were re-obligated in September 2006. The present contracting officer stated that he had only been on this job for three months and that the file contained no memorandum that explained the re-obligation. In April 2007, the contracting officer de-obligated \$117,944 from the first obligation based on the program office's estimate of over-funding. As of

September 2007, no invoices had been paid against these two obligations (\$231,387 and \$273,674) and these funds remain obligated.

- We found that one unliquidated obligation was established in February 2005, for \$156,463, for “contractor mobilization” and at the time of the annual review—some 18 months later—no payments had been made to the contractor. Our subsequent follow-up on this obligation determined that in July 2007, GRD de-obligated the entire \$156,463.
- For the other three unliquidated obligations, with a total balance of about \$1 million, we found documentation in the procurement files indicating that GRD should have de-obligated the funds before the year-end review. We discussed these obligations with GRD officials, and they agreed to a de-obligation.
  - In April 2005, \$291,779 was obligated under a delivery order for “phone leases.” According to the procurement records, the lease agreement was terminated in May 2005, and the government was cleared of any additional liability. However, no modification was made to de-obligate the funds, and subsequent reviews did not identify the funds as unneeded. We discussed this obligation with a GRD contracting officer who agreed that the obligation was not valid. The USACE Finance and Accounting Officer de-obligated the \$291,779 in April 2007.
  - In August and September 2004, \$414,800 was obligated for “phone cards and subscriber identity module cards.” Two orders were awarded on the same purchase request. One of the obligations, for \$214,800, was paid in September 2004. The other one remained in CEFMS, and we found no documentation verifying a continuing need for it. USACE followed up on this unliquidated obligation and determined that the remaining \$200,000 could be de-obligated. The contracting officer de-obligated the \$200,000 in July 2007.
  - In March 2004, the CPA awarded a contract to “operate and maintain three base support camps.” In July of that year, \$547,538 was obligated for the one of the three base support camps. In June 2006, the Administrative Contracting Officer initiated an action to determine the status of this unliquidated obligation. The contractor provided information to the Contracting Officer that this delivery order was terminated in June 2004. During our review, the USACE followed up on this unliquidated obligation and they determined that the contractor has submitted a claim against the government and these funds were being held to settle the claim. In March 2007, GRD de-obligated the remaining funds of \$547,538.
- Finally, during our review of the September GRD list of IRRF unliquidated obligations, we scanned the data base to identify any obligations titled contingent liability—meaning that they had been retained to meet potential future claims and reconciliation needs. We identified an additional unliquidated obligation of \$513,066, which GRD subsequently de-obligated based on our review. In September 2006, the PCO Finance Closeout Team requested and received

authority from GRD to free up the remaining funds. However, the contract was not modified nor the funds de-obligated. Finding no documentation justifying the continuing need for the remaining \$513,066, we asked USACE/GRD to follow up on the obligation. USACE/GRD determined that the remaining funds could be de-obligated, and in May 2007, the USACE Finance Officer de-obligated them.

We discussed our overall findings with the responsible GRD finance and accounting official who identified several issues that affected the quality of the September 2006 tri-annual review. The September 2006 review was conducted by contractors rather than the employee responsible for the obligation. While some contractors did a good job, the GRD official said that others did not sufficiently verify each obligation. She also said she believed the merger of GRD and the PCO in December 2005 affected the review. Prior to October 2005, GRD had no responsibility over IRRF—the PCO was responsible. She stated that GRD tried to work with the PCO in October and November, but the PCO would not share information and some of the PCO contract data was not entered into CEFMS. USACE officials agree that documenting the results of each unliquidated obligation review would improve their decision making, and they are taking steps to revise CEFMS. The reviewers will be required to include in CEFMS the disposition of the unliquidated obligation, and they will not be able to exit CEFMS without doing that.

### ***AFCEE Reviews***

Although AFCEE had a requirement under the DoD Financial Management Regulations to conduct a 2006 annual review of its unliquidated obligations, agency officials told us that they did not perform the review because USACE, which serves as the accounting officer for AFCEE obligations, did not request a review and had not provided them with the list of unliquidated obligations that would have served as the basis for one. Nevertheless, the DoD regulation required the AFCEE to perform the review.

To identify the AFCEE unliquidated obligations and determine the age of the unliquidated obligations we examined a listing of GRD's IRRF obligations as of September 2006. Using the GRD list, we sorted according to the fiscal year in which the initial obligations occurred.

We determined that, as of September 30, 2006, AFCEE had 100 unliquidated obligations totaling approximately \$91 million; 78 of them were awarded in fiscal years 2004 and 2005. We found that no invoices or disbursements had been made against 20 of the 78 obligations—10 each in FYs 2004 and 2005, totaling approximately \$12.2 million. We believe that AFCEE should have reviewed those obligations during the annual review and should have determined whether there was a continuing need for these obligations—particularly since no disbursements had been made for at least one year.

## **U.S. Agency for International Development**

USAID requires a continuous review of obligated funds and an annual, fiscal year-end review of unliquidated obligations to determine if there is a continuing need for funds as currently obligated. A USAID directive also requires financial managers to monitor their

unliquidated balances throughout the year. Despite these policies, available data suggested that USAID's reviews were too limited.

### ***USAID Policy***

The USAID policy and procedures for the review of unliquidated obligations are contained in Chapter 621 of its Automated Directive System, Section 621.3.12, entitled *Review of Unexpended Obligated Balances*. The directive requires the chief financial officer to certify annually that obligation balances reflect proper existing obligations, that those disbursements were supported by a proper obligation of funds, and that the disbursements meet the U.S. Code criteria.<sup>6</sup> USAID policy also requires the following:

- Unexpended obligated balances must be monitored to ensure that the level of funding is consistent with agency forward-funding guidelines and that balances are de-obligated when no longer needed for their original purposes.
- Obligation managers must continuously review the status of obligated funds and request de-obligations when a determination is made that the funds are no longer needed to accomplish stated objectives. Mission controllers and other officials have the responsibility of recording de-obligations in the accounting systems.
- Mission controllers, program officials, and others must coordinate an annual fiscal year-end review of unexpended obligated balances to verify that excess and unneeded balances are de-obligated. However, the procedures also permit Mission controllers to issue an advance certification stating that unliquidated-obligation balances are needed with regard to the activities for which they were appropriated, and then to review those obligations later.

In addition to the directive, the USAID Chief Financial Officer, issued a De-obligations Guidebook. The guidebook—a mandatory reference for Chapter 621—outlines the processes necessary for agency personnel to de-obligate various types of funds.

### ***USAID Reviews***

USAID did not conduct a year-end review of its IRRF unliquidated obligations before the end of fiscal year 2006. On October 2, 2006, however, as permitted by its directive, the USAID/Iraq Mission Director issued an advance certification stating that IRRF unliquidated obligation balances were needed in the activities for which they were obligated and that the amount of funding was consistent with agency guidelines for forward funding. As permitted by its guidelines, the Iraq Mission then undertook an actual review of unliquidated obligations between October 2006 and February 2007, while our own review was underway.

The Mission identified and de-obligated \$24.1 million of IRRF funds for which there was no longer a continuing need. Our review affirmed that all of the Iraq Mission program and operating expense line items recommended for de-obligation during the February review had in fact been de-obligated. But USAID did not provide annotations on its

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<sup>6</sup>31 U. S. C. 1501 (A)

annual validation of obligations to document the basis for continued retention of selected unliquidated obligations, particularly those having been obligated for a considerable period of time. As noted below, our review identified an additional limitation in the Mission's assessment of unliquidated obligations.

Later on, during the period when our review was underway, USAID de-obligated an additional \$39 million of unliquidated obligations that were not identified in their annual review documentation. Continuing to monitor the USAID financial management database for IRRF unliquidated obligation, we determined that they had de-obligated an additional \$6.5 million of IRRF unliquidated obligations from May 2007 through September 2007. Consequently, USAID de-obligated \$69.6 million of IRRF funding since October 2006.

To further assess USAID's unliquidated obligations and the potential to de-obligate even more funds, we reviewed USAID's unliquidated obligations as of September 2006, which totaled about \$450.3 million. We identified obligations with no disbursements since December 2005, and it appeared that these obligations should have been reviewed and a determination made as to continuing need. We selected a judgment sample of 71 unliquidated obligations that included 23 contracts, 17 purchase orders, 25 travel authorizations, 3 foreign allowances, and 3 other obligations and funds. The last disbursement date was before December 2005. For example:

- In April 2003, USAID awarded a contract to a contractor for "technical assistance" to schools. According to the financial reports, in June 2005, the last invoice was submitted and paid. However, a modification was not issued to de-obligate the remaining fund balance of \$220,608. In May 2007, USAID de-obligated the funds.
- In September 2004, USAID awarded a contract for "security services." According to the financial reports, in May 2005, the last invoice was submitted and paid. However, a modification was not issued to de-obligate the remaining fund balance of \$160,625. In June 2007, USAID de-obligated the funds.

After these items were brought to USAID's attention, it subsequently de-obligated 62 of the 71 obligations, totaling about \$611,000. The agency continues to review the remaining nine.

Although USAID completed an annual assessment of its unliquidated obligations, our review indicated that closer scrutiny would have identified additional funds for de-obligation. In addition, to facilitate ongoing monitoring and subsequent actions to de-obligate funds, USAID could strengthen its annual review requirements by requiring the reviewers to document the continuing need for the unliquidated obligation.

In its written response to our draft report, USAID said they had completed its annual review of unliquidated obligations during fiscal year 2006. However, during our audit we requested but did not receive supporting documentation of its fiscal year 2006 certification of unliquidated obligations until February 2007. Therefore, we had no evidence that would support the USAID's position that their review was completed

before the end of the fiscal year. Finally, in February 2007, USAID provided us with a written description of its annual validation of obligations program (known as the 1311 Review Program), along with a copy of its fiscal year 2006 supporting documentation.

In written comments on our draft report, USADID stated that it has written procedures that require it to document the reason it elects to retain an obligation. However, our review of these documents found that while they identified USAID's fiscal year 2006 unliquidated obligations, they contained no information on why USAID was retaining the obligation. Based on our review of the documentation and the individual unliquidated obligations that we identified during our review we believe that USAID needs to strengthen its annual review by requiring its reviewers to document the continuing need for the obligation.

## **Department of State**

DoS has a policy that requires an annual, fiscal year-end review of unliquidated obligations along with monthly reviews to determine if there is a continuing need for funds as currently obligated. While DoS provided us with summary data on unliquidated obligations for the end of fiscal year 2006, it did not provide documentation indicating the extent of any detailed review.

### ***DoS Policy***

DoS' accounting policies and procedures are set forth in its Foreign Affairs Manual, Volume 4, *Financial Management*. Portions relevant to unliquidated obligations include Sections 040, 050, and 087.

- Section 040, *Management Controls*, sets forth financial management system control procedures and requirements for administrative reviews, safeguarding of resources, and the use of internal audit findings and recommendations. It also requires a review of documents supporting unliquidated obligations with financial management and accounting systems on a monthly basis (including the end of each fiscal year).
- Section 050, *Obligation Validation Criteria*, provides the fiscal policy for evaluating the validity of obligations incurred.
- Section 087, *Criteria for Establishing and Recording Obligations and for Disbursements* presents an overview of requirements for the processing and recording of obligations and disbursements, as well as the types of legal violations that result from over obligating and over expending funds.

### ***DoS Reviews***

The DoS' *Performance and Accountability Report for Fiscal Year 2006* provided financial information to help Congress, the President, and the public assess DoS's performance with regard to its stewardship of financial resources. The Independent Auditor's Report, which is part of the Performance and Accountability Report, noted an inadequate internal control process for managing unliquidated obligations. The report

cites the lack of a structured process for reconciling and de-obligating funds in a timely manner, which may result in the loss of those funds. While the report recognizes that DoS has cleared up a significant number of obligations outstanding from past years, it adds that, according to its tests, over \$400 million in unliquidated obligations (involving all DoS funds, not only IRRF) should have been de-obligated as of September 30, 2006.

The DoS financial report, as of September 30, 2006, disclosed that DoS had IRRF obligations of \$1,657.4 million and unliquidated obligations of \$316.5 million. DoS officials provided us with their fiscal year 2006 year end unliquidated obligation balance certifications from the bureaus and the embassy personnel responsible for IRRF activities. Although those certifications suggested that DoS had conducted its required end-of-year review, the department could not provide supporting documentation of its review of the individual unliquidated obligations and its determinations of appropriate continuing need. This limited our ability to fully assess the thoroughness and completeness of DoS' year-end review of unliquidated obligations.

A majority of the DoS unliquidated obligations—\$166 million of the \$316.5 million—related to interagency agreements and were obligated in prior fiscal years. We found that these funds were not being spent, even after DoS had granted time extensions to the agency responsible for performing the activities. Approximately \$131 million of the \$166 million (79%) in unliquidated obligations involved DoJ. DoS obligated the funds when the interagency agreements were signed. DoJ invoices the DoS for funds spent while executing them.

Our analysis of unliquidated obligations under these 24 agreements found that 16 of the 24 were awarded prior to October 2004, and that although there has been activity under them, DoJ has not completed the services or activities required by the interagency agreement. Some agreements contained the provision that any balance remaining in fiscal years 2005 or 2006 were to be returned if requested by DoS. In addition, the agreements provided for an annual reconciliation of funds as a condition of their continued availability. DoS issued time extensions to these interagency agreements. As of March 2007, the DoS accounting records identified \$70 million as unliquidated obligations pertaining to DoJ interagency agreements, a reduction from the \$131 million as of September 30, 2006. However, DoJ reported to the DoS that \$39.5 million of the \$70 million had not been obligated as of March 2007. The following account provides details of our meeting in June 2007 with DoS and DoJ officials on the status of spending under selected agreements.

- In July 2004 and February 2005, DoS entered into two interagency agreements, totaling \$35 million, with DoJ involving the U.S. Marshall's Service for construction of and security enhancements for Iraq judicial facilities and activities that support the Witness Protection Program—one for \$25 million and one for \$10 million. As of May 2007, DoJ had obligated the original \$35 million, disbursed \$19.4 million, with the remaining \$15.6 million remaining as an unliquidated obligation. According to U.S. Marshals Service officials, construction work takes two to three years under normal circumstances. These officials said DoD estimates that the construction will be completed by mid-2008.

Given the fluid situation in Iraq, original plans and project amounts may change, and DoJ and DoS Bureau of International Narcotics and Law Enforcement Affairs (INL) officials said that they are reviewing major projects to reconfirm required resources. Where resources are no longer needed, action will be taken to de-obligate excess funds. For example, DoJ has determined that about \$1.6 million is no longer needed as originally intended, and INL plans to shift those funds to other work to be performed under the agreement.

- In July 2004, DoS entered into a one year interagency agreement, totaling \$7.1 million, with the Federal Bureau of Investigation to provide specialized training and development assistance to the Iraq Police Service. Subsequently, the DoS has twice amended the agreement, with the current performance period running through June 9, 2007. As of March 2007, the Federal Bureau of Investigation had spent \$1 million. According to senior INL officials, one reason for the slow expenditure rate was a lack of space in Iraqi police academies to conduct the prescribed training. The other \$6.1 million remained as an unliquidated obligation. As of June 2007, senior INL and DoJ managers had been in lengthy discussions about the latter's ideas for spending the unliquidated obligations, with DoJ unable to produce a plan acceptable to INL. Senior INL officials told us that INL first extended the agreement to June 2007, and has now extended it through September 2008. The Federal Bureau of Investigation has provided INL with a proposed budget (containing planned activities through September 2009) that leaves a balance of almost \$481,000. As of June 2007, INL was reviewing the Federal Bureau of Investigation's budget and considering what to do with the remaining funds.
- In February 2006, DoS and DoJ entered into a one year, interagency agreement totaling \$15 million for resident legal advisors, headquarters support, and courthouse security and administration. Within the \$15 million, \$6.7 million was designated for resident legal advisors and headquarters support, and \$6.9 million for courthouse security and administration. The agreement was to be in effect until January 2007 and was subsequently extended to September 2007. DoJ was to provide an additional 11 resident legal advisors to further assist the Central Criminal Court of Iraq as it expands in the provinces. The advisors were to serve as the rule of law team within the Provincial Reconstruction Teams. As of June 2007, DoJ had obligated \$3.4 million and \$11.6 million remained unobligated. According to DoJ officials, funds for the resident legal advisors cannot be obligated until advisors are hired and deployed; spending thus depends on establishing Provincial Reconstruction Teams and hiring and deploying resident legal advisors to support them. Regarding courthouse security and administration, DoJ provided DoS with a plan on May 9, 2007. DoS returned comments three weeks later, and as of July 3, 2007, DoJ was revising the plan based on those comments.

DoS officials believe they are making progress in assuring that DoJ is likely to spend the remaining funds. However, we believe that DoS's ongoing monitoring could be improved by documenting its annual review of unliquidated obligations as required by its

regulations. Such a step will assist personnel in conducting future reviews of these funds and facilitating timely action de-obligating funds as warranted.

## **Conclusion and Recommendations**

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### **Conclusion**

DoD, USAID, and DoS have in place policies and procedures that require at least an annual review of unliquidated obligations to determine if there is a continuing need for funds as currently obligated. But each of the organizations has varied in the extent to which they completed and documented the reviews. Even where reviews were completed, we found limited documentation of justification for continuing obligations of funds.

### **Recommendations**

SIGIR recommends that:

- USACE provide a list of unliquidated obligations to AFCEE, as required by DoD regulation, and follow-up with them on the reviews.
- USAID and DoS develop written procedures requiring finance offices to document their reviews of unliquidated obligations and the reasons for retaining an obligation including identifying a continuing need.
- DoS document, as appropriate, its year-end review of each individual unliquidated obligation as well as its determination of a continuing need.

### **Management Comments and Audit Response**

SIGIR received written comments on a draft of this report from USACE and USAID. DoS did not provide comments. USACE concurred with our recommendation, and provided technical comments, which we included in the report where appropriate. In its written response to our draft report, USAID said it had completed its annual review of unliquidated obligations during fiscal year 2006. However, during our audit we requested, but did not receive, supporting documentation of USAID's fiscal year 2006 certification of unliquidated obligations until February 2007. Therefore, we had no evidence that would support USAID's position that its review was completed before the end of the fiscal year. USAID did not respond to our recommendation that it document its reasons for retaining an obligation. Rather, USAID said that it already has procedures for documenting reviews and recording reasons for retaining an obligation. In response, we again reviewed all of the data USAID provided, and again found no documentation indicating why it retains obligations. Consequently, we are keeping this recommendation. USAID also provided some technical comments, which we included in the report where appropriate.

## **Appendix A—Scope and Methodology**

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The purpose of this audit was to determine the amount of IRRF unliquidated obligations retained by DoD, DoS and USAID and whether those agencies have established adequate management controls over their unliquidated obligations. The audit focused on annual reviews of unliquidated obligations that agencies should have completed for fiscal year 2006.

SIGIR's work was performed in accordance with generally accepted government auditing standards, with the primary auditing conducted between August 2006 and May 2007. The work was done at DoD, USAID, and DoS offices in the Washington, DC, area; at the USACE offices in Winchester, Va.; and Millington, Tenn.; at AFCEE office in San Antonio; and at the U.S. Embassy, Baghdad, Iraq.

We reviewed relevant policies and procedures and held discussions with officials from DoD, USAID, and DoS to identify the policies and procedures in place for management controls over unliquidated obligations. We also reviewed financial reports and other relevant data to identify the amounts and status of unliquidated obligations at various points in time, but with specific attention to the period between September 2006, and March 2007.

For DoD, most of the basic financial data on obligations, disbursements, and unliquidated obligations was obtained from the USACE Finance Center in Millington, Tenn., and from the Headquarters AFCEE at Brooks City-Base in San Antonio. From USACE Finance Center officials and USACE headquarters officials, we obtained such financial reports and data runs as the lists of obligations showing no activity for 365 days. In addition, we had direct access to CEFMS data. Further, AFCEE officials provided us with an electronic version of their financial database containing all of their IRRF transactions.

From an October 2006, USACE Finance Center list of IRRF obligations, we selected a judgment sample of 150 unliquidated obligations, with 50 transactions in each of fiscal years 2004 through 2006. We checked CEFMS records to determine if these obligations had been reviewed in the prescribed 100 percent review in September 2006 and whether remarks had, as required, been entered in CEFMS for the obligations. Our analysis of the 150 selected obligations included a review of obligation-establishment dates, obligation-increase and decrease dates and amounts (if any), invoice payment dates and subsequent transaction-data history recorded in CEFMS. For each obligation, we obtained from that agency end-of-March 2007 follow-up data showing whether the obligation, disbursement, or other changes in the obligation amount had been recorded since September 2006. For 14 obligations, we obtained from responsible officials in Baghdad procurement and transaction-history data on the purpose of the obligation and its status. We interviewed selected contracting officers in Baghdad.

We obtained and analyzed the USACE headquarters-prepared list of IRRF obligations with no activity for 365 days. This included the March 2006; July 2006; December 2006; and the March 2007 lists. We traced 209 obligations from the March 2006, report to the

CEFMS database to determine the status and remaining unliquidated-obligation balance. We reviewed and analyzed IRRF awarded by AFCEE. About \$1.1 billion in IRRF obligations recorded in CEFMS were for contracts awarded by AFCEE.

For USAID, we independently examined (1) a listing of all IRRF transactions as identified on their Phoenix Report RO201 (obligation by fiscal year) and Business Objectives Enterprise Report RO203 (unliquidated unilateral and subobligation detail report); (2) de-obligations report; (3) de-obligations guidebook; (4) 1311 review procedures (annual validation of obligations); and (5) supporting documentation for the 1311 review.

To assess USAID's management controls, we undertook several analyses. We reviewed the USAID Iraq Mission's operation-expense report and identified 71 obligations totaling about \$1.2 million that showed no activity for six months or longer. We followed up on these 71 obligations. We reviewed the USAID Phoenix Report and de-obligations reports to identify the IRRF monies awarded/obligated and de-obligated as pertaining to contractors, grantees, interagency agreements, and cooperative agreements. We traced selected obligations from the operation expense report and the 1311 supporting documentation to the de-obligations reports to ensure that the IRRF monies had been de-obligated.

Since DoS did not provide us with documentation in support of its annual certification, we advised the agency's deputy chief financial officer in April 2007 that, without supporting documentation, we (1) had no assurance that unliquidated obligations had been reviewed and (2) could not judge the thoroughness and completeness of any review. Since no documentation had been provided as of June 2007, we further advised the financial officer of our conclusion that we cannot be sure that unliquidated obligations were reviewed. In an effort to make some determination of the status of DoS unliquidated obligations, we examined its financial reports as of September 2006, and March 2007. Since more than half of DoS unliquidated obligations involved interagency agreements, and most of these pertained to interagency agreements with DoJ, we examined the status of spending under those agreements. We selected individual interagency agreements for review and assessed the underlying agreements and financial reports provided DoS by the DoJ. We also discussed with DoS officials the status of spending under those agreements.

## **Use of Computer-Processed Data**

To perform this audit, we used data that originated in CEFMS, Phoenix and the DoS accounting system. We did not test the general or application controls of these systems. However, to determine data validity, we compared the system data to source documents (contract delivery orders, shipment receiving documents, and contractor invoices). This assessment indicated the data were sufficiently reliable to portray fairly the recorded obligations and disbursements. We reviewed applicable reports issued by SIGIR.

- *“Interim Audit Report on Improper Obligations Using the Iraq Relief and Reconstruction Fund (IRRF 2),” (SIGIR-06-037), September 2006.*

- *“Improper Obligations Using the Iraq Relief and Reconstruction Fund (IRRF 2),”* (SIGIR 06-040), January 2007.
- *“Review of Iraq Relief and Reconstruction Fund Unmatched Disbursements”* (SIGIR 06-043), January 2007.
- *“Review of Iraq Relief and Reconstruction Fund Unmatched Disbursements at the Department of State”* (SIGIR 07-012) April 2007.
- *“Iraq Reconstruction: Lessons in Contracting and Procurement,”* (SIGIR Report Number 2), July 2006.
- *“Review of the U.S. Agency for International Development’s Management of the Basrah Children’s Hospital Project,”* (SIGIR-06-026), July 2006.
- *“Review of the Use of Definitization Requirements for Contracts Supporting Reconstruction in Iraq,”* (SIGIR-06-019), July 2006.
- *“Management of the Primary Healthcare Centers Construction Projects,”* (SIGIR-06-011), April 2006.
- *“Iraq Reconstruction: Lessons in Human Capital Management,”* (SIGIR Report Number 1), January 2006.

## Appendix B—Acronyms

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<b>ACRONYM</b>	<b>DESCRIPTION</b>
AFCEE	Air Force Center for Engineering and the Environment
CEFMS	Corps of Engineers Financial Management System
DoD	Department of Defense
DoJ	Department of Justice
DoS	Department of State
GRD	Gulf Region Division
INL	Bureau of International Narcotics and Law Enforcement Affairs
IRRF	Iraq Relief and Reconstruction Fund
PCO	Project and Contracting Office
SIGIR	Special Inspector General for Iraq Reconstruction
USACE	U.S. Army Corps of Engineers
USAID	U.S. Agency for International Development

# Appendix C—Report Distribution

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## Department of State

Secretary of State

Senior Advisor to the Secretary and Coordinator for Iraq

Director of U.S. Foreign Assistance/Administrator, U.S. Agency for  
International Development

Director, Office of Iraq Reconstruction

Assistant Secretary for Resource Management/Chief Financial Officer,  
Bureau of Resource Management

U.S. Ambassador to Iraq

Director, Iraq Transition Assistance 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

Under Secretary of Defense (Comptroller)/Chief Financial Officer

Deputy Chief Financial Officer

Deputy Comptroller (Program/Budget)

Deputy Assistant Secretary of Defense-Middle East, Office of Policy/International  
Security Affairs

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)

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

Chief Financial Officer, U.S. Army Corps of Engineers\*

Auditor General of the Army

## U.S. Central Command

Commanding General, Multi-National Force-Iraq

Commanding General, Multi-National Corps-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

\*Recipient of the draft audit report.

## **Appendix D—Audit Team Members**

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This report was prepared, and the review conducted, under the direction of Glenn D. Furbish, Acting Assistant Inspector General for Audit, Office of the Special Inspector General for Iraq Reconstruction. The staff members who contributed to the report include:

Karen Bell

David Childress

Shawn Kline

Quentin Lynch

Richard McVay

Steven Sternlieb

Chuck Thompson

Bill Shimp

Ben Comfort

Roger M. Williams

# Management Comments

## U. S. Agency for International Development

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September 25, 2007

Mr. Stuart Bowen  
Inspector General  
Special Inspector General for Iraq Reconstruction (SIGIR)  
400 Army Navy Drive  
Arlington, VA 22202-4704

Dear Mr. Bowen:

Thank you for the opportunity to comment on the draft audit report "Controls Over Unliquidated Obligations in the Iraq Relief and Reconstruction Fund", Report 07-011. The report contains a number of inaccuracies about USAID procedures which we ask be corrected.

Once these inaccuracies are corrected the recommendation on page 14 for USAID is no longer relevant. On page 9, the report states: "USAID did not conduct a year-end review of its IRRF unliquidated obligations before the end of the fiscal year 2006." A review was completed on September 14, 2006, as documented in the files of USAID/Iraq. The SIGIR auditors never asked for or reviewed the workpaper files. As a result of the review conducted by the staff in the Office of Financial Management at USAID/Iraq, the Mission Director signed the annual certification.

Another statement which we believe is inaccurate is on page 9, is "...the Iraq Mission then undertook an actual review of unliquidated obligations between October 2006 and February 2007 while our review was underway." Regretfully, this statement is misleading. Each quarter, USAID/Iraq conducts accruals and portfolio reviews in which the unliquidated balances are questioned. Unliquidated balances cannot be unilaterally deobligated by the Office of Financial Management. Before a deobligation can occur, the final invoice must be received, the Defense Contract Audit Agency must perform an audit, and the Office of Acquisitions and Assistance must perform a contract closeout. These are ongoing procedures reviewed on a quarterly basis.

Based on the forgoing, we strongly urge that the recommendation listed on page 14 be removed as it applies to USAID. USAID does have written procedures to document reviews of unliquidated obligations and the reasons for retaining an obligation.

Sincerely,

  
Christopher Crowley  
Mission Director

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U.S. Agency for International Development  
Iraq Mission, APO AE 09316  
Fax +1(202)216-6276

# Management Comments

## U. S. Army Corps of Engineers

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DEPARTMENT OF THE ARMY  
U.S. ARMY CORPS OF ENGINEERS  
441 G ST. NW  
WASHINGTON, D.C. 20314-1000

CEIR

5 October 2007

MEMORANDUM FOR Special Inspector General for Iraq Reconstruction, US Embassy Annex,  
M-202, Old Presidential Palace, APO AE 09316


SUBJECT: Draft SIGIR Audit Report – Controls Over Unliquidated Obligations in the Iraq  
Relief and Reconstruction Fund (SIGIR-07-011)

1. This memorandum provides the U.S. Army Corps of Engineers (USACE) response to the subject draft audit report.
2. USACE concurs with the recommendation contained in the draft report. Thank you for the opportunity to review the draft report and provide our written comments. We have also provided additional information for your consideration to incorporate in the final report. See the enclosure for details.
3. If you have any questions, please contact Mr. Milton Naumann at (540) 665-5021 [[Milton.L.Naumann@tac01.usace.army.mil](mailto:Milton.L.Naumann@tac01.usace.army.mil)], or Ms. Donna F. Johnson (202) 761-8518 [[donna.f.johnson@usace.army.mil](mailto:donna.f.johnson@usace.army.mil)].

FOR THE COMMANDER:

Encl  
As

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*for:*   
DONALD J. RIPP  
Chief Audit Executive  
HQ USACE Internal Review Office

## COMMAND REPLY

### **SIGIR Draft Audit Report – Controls Over Unliquidated Obligations in the Iraq Relief and Reconstruction Fund (SIGIR-07-011)**

#### **Recommendation and Command Comments**

Recommendation. SIGIR recommends that USACE provide a list of unliquidated obligations to AFCEE, as required by the DoD regulations, and follow-up with them on the reviews.

GRD Response. Concur. Resource Management performs reviews of unliquidated obligations in accordance with DoD FMR, Volume 3, Chapter 8 and coordinates with the Program Managers to perform continuous reviews of the contract execution so command can make timely decisions on de-obligating funds. Furthermore, Resource Management ascribes to the USACE philosophy, described in ER 5-1-11, U.S. Army Corps of Engineers Business Process, to “build effective communications into all activities and processes.” Consequently, the Resource Management team will continue to provide a list of un-liquidated obligations to Multi-National Transition Command - Iraq (MNSTC-I)—GRD’s customer—and to the Air Force Center for Environmental Excellence (AFCEE) to ensure both are aware of the status of obligations.

Additional Facts. The financial merger of the Project and Contracting Office into the Gulf Region Division Resource Management Directorate (GRD-RM) was effective 1 October 2006. This action brought the responsibility and management of the Iraq Relief and Reconstruction Fund (IRRF) under the leadership, guidance and direction of one Director. SIGIR’s cutoff date for the draft report on unliquidated obligations was 30 September 2006. Beginning on 1 October 2006 to the present, GRD has made changes that have improved and enhanced the credibility of the Unliquidated Obligation (ULO) review. A summary of the changes follows:

- The most significant enhancement has been a change within the Corps of Engineers Financial Management System (CEFMS) which forces the ULO reviewer to provide remarks before closing the record. The remarks are also reviewed by a third party for content and clarity to ensure that an outside observer could reach the same conclusion about action or actions to be taken on the ULO.
- Resource Management (RM) has a team member whose primary responsibility is archiving historical documents to a shared drive. This has resulted in a great improvement in availability of historical documentation. Other team members involved in the front-end work on current obligations promptly archive the contract, invoice and receiving documents so that research can easily be conducted. Archived data allows the team to quickly respond to audit requests for documentation and to make timely decisions impacting validation of ULOs.

Enclosure

**U. S. Army Corps of Engineers Command Reply - SIGIR Draft Audit Report –  
Controls Over Unliquidated Obligations in the Iraq Relief and Reconstruction Fund  
(SIGIR-07-011)**

- The RM Director created a program cell of six team members from existing assets whose mission is to monitor and manage the Iraq Relief and Reconstruction Fund (IRRF), the Economic Support Fund (ESF) and the Iraq Security Forces Fund (ISFF). Their duties are the day-to-day oversight and coordination with the Program Managers and customer on the funds for which they are assigned.
- Beginning 6 August 2007, GRD-RM personnel reviewed over 14,800 lines of ULO. Furthermore, GRD entered a remark in CEFMS for every one of the 14,800-plus lines of accounting. Throughout the year, our financial management team partnered with MNSTC-I—GRD’s customer—and AFCEE on the status of obligations. This ensured that MNSTC-I could use all its expiring funds for other critical mission requirements. This partnership will continue and AFCEE will be included in all reviews.
- It is the responsibility of MNSTC-I and AFCEE to actually conduct the ULO review using the financial data provided by USACE.

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