

The background of the page features a large, faint, circular seal. The seal contains an eagle with a shield, olive branch, and arrows. The text "INSPECTOR GENERAL" is at the top, "RECONSTRUCTION" is at the bottom, and Arabic text is in the middle. The title "REVIEW OF IRAQ RELIEF AND RECONSTRUCTION FUND UNMATCHED DISBURSEMENTS" is centered over the seal.

REVIEW OF IRAQ RELIEF AND
RECONSTRUCTION FUND
UNMATCHED DISBURSEMENTS

SIGIR-06-043
JANUARY 30, 2007

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SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

January 30, 2007

MEMORANDUM FOR U.S. AMBASSADOR TO IRAQ
ASSISTANT SECRETARY FOR RESOURCE MANAGEMENT
AND CHIEF FINANCIAL OFFICER, BUREAU OF
RESOURCE MANAGEMENT, DEPARTMENT OF STATE
DIRECTOR, OFFICE OF IRAQ RECONSTRUCTION,
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
CHIEF FINANCIAL OFFICER, U.S. ARMY CORPS OF
ENGINEERS
DIRECTOR, IRAQ RECONSTRUCTION MANAGEMENT
OFFICE

SUBJECT: Review of Iraq Relief and Reconstruction Fund Unmatched Disbursements
(SIGIR-06-043)

The Special Inspector General for Iraq Reconstruction (SIGIR) performed this audit in accordance with our statutory duties contained in Public Law 108-106, as amended, which requires that we provide for the independent and objective conduct of audits, as well as leadership and coordination of, and recommendations on, policies designed to promote economy, efficiency, and effectiveness in the administration of programs and operations and to prevent and detect waste, fraud, and abuse. This report discusses our review of internal controls related to disbursements of Iraq Relief and Reconstruction Funds (IRRF) apportioned to the Department of State (DoS), Department of Defense (DoD), and the U.S. Agency for International Development (USAID).

Objectives

This review was announced on July 21, 2006, with the overall objective to determine the amount of IRRF unmatched disbursements, and whether U.S. government agencies have established adequate management controls over IRRF 1 and IRRF 2 unmatched disbursements. To accomplish this objective, we addressed these questions:

- How much of the IRRF monies have been identified as unmatched disbursements?
- How often are unmatched disbursements reviewed by government officials, and who makes the determination that the disbursement was an IRRF expenditure?

- Have IRRF unmatched disbursements subsequently been identified to other IRRF projects?
- What management controls are in place to eliminate and resolve unmatched disbursements?

Our results were limited to an assessment of DoD and USAID because DoS officials did not provide access to the detailed IRRF obligations and disbursements data needed for our review. As such, we plan to perform a separate audit of unmatched DoS disbursements at a later date.

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 approximately \$2.5 billion to be used for a broad range of humanitarian and reconstruction activities by the USAID and DoS, DoD, the Treasury, and Health and Human Services in Iraq. 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. As of September 30, 2006, approximately 97% of the total \$20.9 billion for IRRF 1 and 2 was apportioned to DoD (\$14 billion), USAID (\$4.7 billion), and DoS (\$1.6 billion).

Internal controls represent an organization's plans, methods, and procedures used to meet its missions, goals, and objectives and serve as the first line of defense in safeguarding assets and preventing and detecting errors, fraud, waste, abuse, and mismanagement. Internal controls over disbursements include the policies, procedures, and management controls to ensure contractor invoices are not paid unless the invoices can be matched to obligations in the organization's accounting system.¹ Disbursements must be matched with corresponding obligations in official accounting records to ensure that funds are spent in accordance with the purposes and limitations set by Congress and to avoid fraudulent disbursements or erroneous payments. DoD in its Department of Defense Financial Management Regulation (DoD 7000.14-R), Volume 3, Chapter 11, defines an unmatched disbursement as a disbursement transaction that has been received and accepted by an accounting office, but has not been matched to the correct detail obligation (paragraph 110219).² For purposes of our analysis and this report, we used the DoD definition, because DoS and USAID do not have their own definitions of unmatched disbursements.

¹ Invoices are bills submitted for payment. Disbursements are the payments.

² A disbursement transaction can be either a request for payment that is pending and needs to be matched to the correct detail obligation before payment can be made, or less frequently, a cash payment that has already been made and must retroactively be matched to the correct detail obligation. We examined both types of transactions in this audit.

Results

DoD and USAID have effective internal controls to prevent unmatched disbursements. We tested DoD controls over \$9.2 billion in disbursements and found, in all instances that DOD disbursements could be matched with obligations in accounting records. Similarly, we tested USAID's controls over \$4.3 billion in disbursements and found no unmatched disbursements.

DoD Internal Controls

In 2003, the Deputy Secretary of Defense designated the Secretary of Army the executive agent for acquisition and program management support of the Coalition Provisional Authority. When the Coalition Provisional Authority was dissolved the U.S. Army continued to maintain the responsibility for DoD. The Secretary of the Army in turn delegated to the U.S. Army Corps of Engineers (USACE) the primary responsibility for maintaining accounting records. The USACE Finance Center provides accounting services utilizing the U.S. Corps of Engineers Financial Management System (CEFMS). All IRRF obligations and disbursements are recorded in CEFMS, either directly by the Finance Center or through transactions where payment is approved by other DoD entities. For example, if a U.S. military unit in Iraq makes a cash payment to an Iraqi vendor, the unit verifies that the vendor is entitled to the payment and funds are available by reviewing the invoice and supporting documentation, the contractual authorization for the payment, and the funding authorization. The record of that payment is then processed electronically through the Defense Finance and Accounting Service (DFAS) and provided to the USACE Finance Center for posting into CEFMS.

Management control procedures for obligations are covered in Volume 3, Chapter 8, of DoD 7000.14-R, *Department of Defense Financial Management Regulation*. This regulation requires the offices responsible for recording obligations in their respective accounting systems to do so at the time they are incurred, but no later than ten calendar days after they are incurred.³ It also requires that disbursements be matched to their corresponding obligations. The regulation states the vast majority of obligations and disbursements are matched automatically via DoD's various financial system interfaces; however, some obligations and disbursements require manual matching because of non-automated processes or transactions rejected by automated systems.

According to USACE Finance Center officials, the automated controls in CEFMS prevent disbursements from being recorded in CEFMS if they cannot be matched to the appropriate obligations. The Deputy Director of the Finance Center also reported to us that spot checks are conducted as part of the Center's internal controls process to ensure that disbursements are properly recorded. Because other DoD entities are authorized to disburse IRRF funds maintained by USACE, the Finance Center must ensure those disbursements and related obligations are appropriately recorded in CEFMS.

³ This regulation applies to all DoD accounting systems, including CEFMS.

We tested DoD's internal controls over \$9.2 billion in disbursements as of September 19, 2006, and found no unmatched disbursements. Our tests of the accounting data found in all instances that funds were obligated before funds were disbursed and disbursements could be matched with obligations in accounting records. The U.S. Army Audit Agency also reviewed fund control and accountability over Fiscal Year 2004 IRRF funds and found that financial management system and processes were generally effective for ensuring the accurate recording of commitments, obligations, and disbursements.⁴

USAID Internal Controls

USAID's budgetary and financial management policy directives and required procedures are covered in Series 600 of its Automated Directives System. Chapter 621, "Obligations," which requires that obligations be recorded when the federal government places an order for an item or service, awards a contract, or enters into similar transactions that will require payments in the same or a future period. The chapter also requires assistant administrators, office directors, and mission comptrollers to annually certify to the USAID Chief Financial Officer that obligations incurred during the fiscal year (1) are consistent with legal and policy requirements, (2) have been recorded in the agency's accounting or procurement system, and (3) are supported by adequate records maintained in accordance with agency guidelines for records retention. In the event that an obligation does not meet these requirements, the certification must disclose the exception. Chapter 630, "Payables Management," requires that voucher examiners, who are responsible for the proper review and processing of vouchers submitted by contractors, determine that a valid obligation exists before a voucher can be paid. As Chapter 630 states:

"When USAID processes a voucher for payment, the Certifying Officer must have complete and current knowledge of all payments involved with the related obligation.***Therefore, only the designated paying office that maintains the complete obligation/payment record can disburse any funds. However, USAID can disburse funds if approval is first obtained from the responsible payment office (office retaining the records)."

According to USAID accounting personnel, USAID procedures do not allow for unmatched disbursements. They told us that they must return to contractors all invoices found to be lacking their corresponding obligation documents, such as contracts or purchase orders, and that they are not authorized to pay any invoice if insufficient obligations exist on the respective contract.

On July 24, 2006, the Chief Financial Officer notified all pertinent managers and officers of their annual responsibility to certify the validity of obligations and requested them to review all obligations incurred during the fiscal year for validity. The Chief Financial Officer defined a valid obligation as one that is (1) supported by written evidence, (2) for a purpose authorized by law, (3) executed by an individual who is authorized to incur an obligation, (4) required to fill a bona-fide need in the period of availability of the appropriation or fund used, and (5) executed during the period of availability of the funds.

⁴ *Fund Accountability for Fiscal Year 2004 Iraq Relief and Reconstruction Funds* (U.S. Army Audit Agency-A-2006-0046-ALA, January 31, 2006).

On October 2, 2006, the USAID Mission-Iraq Controller certified, without exception, that obligations incurred during the fiscal year were (1) valid, (2) have been recorded in the agency's accounting or procurement system, and (3) are supported by adequate records maintained in accordance with agency guidelines for records retention.

We tested USAID's controls over \$4.3 billion in disbursements as of November 26, 2006, and found no unmatched disbursements. Our tests of the accounting data found in all instances that funds were obligated before funds were disbursed and that disbursements could be matched with obligations in accounting records. However, because USAID could not provide us with 4 of the 32 invoices we requested, which represented \$42.4 million of the \$445 million in invoices we tested, we could not make a complete determination before our audit concluded. On January 22 and 24, 2007, subsequent to the release of our draft audit report, USAID officials provided the remaining four invoices, and we completed our analysis of sampled invoices. From our review of all 32 USAID invoices, it appears that USAID has adequate controls.

Unable to Assess DoS' Internal Controls

DoS officials did not provide access to detailed IRRF obligations and disbursements data needed for our review. On July 25, 2006, the DoS Inspector General requested that we defer our entrance conference because the DoS Bureau of Resource Management was understaffed and fully engaged with the Department's first [OMB Circular] A-123 review of internal controls and the audit of DoS financial statements; particularly trying to deal with the material weaknesses which were reported in the previous audit report. On August 11, 2006, we contacted the Deputy Chief Financial Officer of the Bureau of Resource Management, to request a meeting to begin our review. After several follow-up requests, the first meeting was held on October 31, 2006, at which time we requested financial information related to our audit. After much delay, on December 13, 2006, DoS provided us with its listing of all IRRF disbursements and its own analysis of them. The DoS analysis showed \$60,113 in unmatched disbursements from total disbursements of \$1.3 billion, as September 30, 2006. However, because DoS did not provide us with a detailed listing of its obligations to compare with its disbursements, we could not independently validate the reasonableness of the unmatched disbursements data or the effectiveness of DoS's policies, procedures, and practices regarding controls over disbursements. Therefore, we plan to perform a separate audit of DoS's unmatched disbursements at a later date.

Recommendations

Because the DoD and USAID management controls over disbursements appear to be adequate to identify and resolve unmatched disbursements, we make no recommendations.

Management Comments and Audit Response

This report contains no recommendations; therefore no written response was required. A draft of this report was provided to USACE for DoD, USAID, and DoS. USACE officials responded with no comments to add. USAID officials provided no response. DoS officials provided technical comments, which were addressed in the final report.

Scope and Methodology

This review was announced on July 21, 2006 (Project No. 6027), with the overall objective of determining whether DoS, DoD, and USAID—the agencies receiving the majority of IRRF monies—had established effective internal controls to identify, review, resolve, and eliminate IRRF unmatched disbursements.

Limitation in Scope of This Review

Because DoS officials did not provide us access to the requested IRRF 1 and 2 obligations and disbursements data, we were not able to assess DoS's controls of unmatched disbursements. We plan to perform this assessment at a later date.

Review Methodology

DoD

To determine the effectiveness of DoD's controls to identify, review, resolve, and eliminate unmatched disbursements, we obtained and reviewed DoD's policies and procedures for obligations, disbursements, and unmatched disbursements. To test DoD's controls, we took the following actions:

1. We obtained a complete list of obligations that contained 8,089 entries totaling \$12.5 billion and disbursements totaling \$9.2 billion (for the period of September 24, 2003 to August 23, 2006) from the USACE Finance Center as of September 19, 2006. In reviewing the list, we found in almost all instances that information related to each disbursement included the obligation number, vendor name, and the purpose of the obligation. We previously reported that there were 96 entries valued at \$362.5 million where no vendor name was specified.⁵ Within the 8,089 obligations, we further examined 43 obligations, valued at \$3.4 million, listed as DFAS—"transactions by others," where the obligations could not be matched to a specific vendor name. We obtained supporting documentation for 5 of the transactions and found specific vendors were identified on the documents. We were informed by Finance Center officials that through a more detailed review of records they were able to identify specific vendors for all 43 transactions.
2. We analyzed obligations and disbursements data for five design-build contracts⁶ included in our previous audit of administrative task orders⁷ to determine whether disbursements could be matched to obligations.⁸ We identified accounting entries for 2,685 invoices in the CEFMS, involving total obligations of \$1.89 billion and total

⁵ *Interim Audit Report on Improper Obligations Using the Iraq Relief and Reconstruction Fund (IRRF 2)* (SIGIR-06-037, September 22, 2006).

⁶ A design-build construction contract places the design and building phases of a project under the same contract.

⁷ *Review of Administrative Task Orders for Iraq Reconstruction Contracts* (SIGIR-06-028, October 23, 2006).

⁸ We selected these transactions as they allowed us to build on our prior work.

disbursements of \$1.18 billion. The entries identified each contract and related task orders. We further selected and reviewed a judgmental sample of 119 contractor invoices, with a total value of \$55.6 million, that included disbursements made in each of the Fiscal Years reviewed, to determine if they identified the obligating document and task order number. All 119 contractor invoices contained the name of the vendor to be paid and the contract and task order and, therefore, could be matched to obligations in accounting records.

3. We selected and reviewed each of the DFAS end-of-month uncleared lists for April through October 2006 for Transactions By Others/Transactions For Others (TBO/TFO). According to Finance Center officials, when other government organizations, such as DFAS, process disbursements involving IRRF funds, those transactions are recorded either as TBO/TFO, or as an intragovernmental payment and collection (IPAC). For TBO/TFO transactions, the disbursing organization charges the USACE accounting code on disbursement documents, such as payment vouchers, and must submit those documents to the Finance Center for posting and reimbursement. For IPAC transactions, the disbursing organization utilizes the IPAC system, an Internet-based system operated by the Department of the Treasury, to transfer funds from the USACE financial accounts to the disbursing organization's financial accounts. Subsequently, the disbursing organization must submit supporting documents to the Finance Center for posting and reconciliation with Treasury's IPAC data. If a disbursement cannot be matched to an obligation or insufficient funds have been obligated, DFAS includes it on a list of uncleared transactions. Other problem transactions, such as those with incomplete contractor name or contract number, are also to be included on the uncleared list. In accordance with the USACE standard operating procedures, the Finance Center must research any transaction that appears on the uncleared lists to reconcile discrepancies. As reported to us by Finance Center officials, and as we observed during our August 2006 visit to the Finance Center, located in Millington, Tennessee, contractor invoices must be returned to the responsible procurement personnel for validation and adjustment if obligations have not been recorded in accounting records. Of the total 162 problem invoices that appeared on the combined lists for those months, only one was identified by DFAS as an unmatched disbursement. That invoice appeared on the April 2006 list and was for \$50,717. The item was cleared and did not appear on the May list. The majority of transactions on the uncleared list were there because they lacked sufficient documentation for payment. Since the monthly list reflects all previously uncleared transactions, any previously unmatched disbursements had been cleared.
4. We selected and reviewed each of the IPAC lists for August 9 and 21, 2006. We randomly selected 11 of 52 transactions from the August 9th list. We selected every transaction but 1 of the 17 (a \$20 transaction) from the August 21st list, as it was the most current list as of the time of our visit in August 2006. For the 27 transactions we reviewed, totaling \$804,500, we found the invoices matched to obligations in accounting records (*Table1*).

Table 1—Invoices on IPAC Lists as of August 9, and 21, 2006

List Date	Total Number	Dollar Value (in thousands)	Number Reviewed	Dollar Value (in thousands)
August 9, 2006	52	\$4,092.1	11	\$374.9
August 21, 2006	17	429.6	16	429.6
Total	69	\$4,521.7	27	\$804.5

Source: SIGIR analysis of U.S. Corps of Engineers Finance Center-prepared IPAC lists

5. We also reviewed the U.S. Army Audit Agency (AAA) report *Fund Accountability for Fiscal Year 2004 Iraq Relief and Reconstruction Funds*, Audit Report A-2006-0046-ALA, dated January 31, 2006. At the request of the former Acting Secretary of the Army, AAA reviewed the Project and Contracting Office's fund control and accountability over FY 2004 IRRF funds. The audit found that the Project and Contracting Office's financial management system and processes were generally effective for ensuring the accurate recording of commitments, obligations, and disbursements.

USAID

To determine the effectiveness of USAID's controls to identify, review, resolve, and eliminate unmatched disbursements, we obtained and reviewed USAID's policies and procedures for obligations and disbursements. We interviewed USAID accounting personnel concerning unmatched disbursements and learned that USAID's procedures are designed to not allow for unmatched disbursements. We obtained the USAID Mission-Iraq Controller's certification that, without exception, obligations incurred during fiscal year 2006 are valid, have been recorded in the agency's accounting or procurement system, and are supported by adequate records. To test USAID's controls we took the following actions:

1. We reviewed the USAID Mission-Iraq's financial report as of November 30, 2006, which contained disbursements through November 29, 2006, for all IRRF 1 and IRRF 2 awards, obligations, and disbursements. According to this report, USAID had obligated \$4.6 billion and disbursed \$4.3 billion for contracts, purchase orders, grants, or cooperative agreements and administrative costs. We reviewed the report to determine if obligations were recorded in accounting records before funds were disbursed. We found no instance where disbursements were processed before obligations were recorded in accounting records.
2. To assess whether disbursements could be matched with obligations in the accounting records, we performed two tests. First, we selected 12 invoices totaling about \$47.7 million for one of USAID's contractors in Iraq, and found all invoices could be matched with recorded obligations. Second, we randomly selected 32 high dollar value disbursements (totaling \$445 million) for review, and requested that USAID provide us with the invoices. The 32 invoices we requested included disbursements to contractors (16), grantees (13), and IPAC (3). As of December 28, 2006, we received

from USAID documentation supporting 28 of the 32 invoices with a combined value of \$402.4 million. On January 22 and 24, 2007, we received the remaining four invoices, which represented \$42.4 million of the \$445 million. We matched all 32 invoices with appropriate obligations in accounting records as follows:

- Contractors: these 16 invoices contained the name of the vendor to be paid and the contract identification number and job order number and so could be matched to obligations in accounting records.
- Grantees: for these 13 invoices, we were told by USAID officials that there are no invoices because the grantee provides a quarterly financial report on expenditures. In lieu of invoices, USAID officials provided listings of obligations, disbursements, and payments for each of the 13 grantees. We were able to link the disbursements to the appropriate obligations.
- IPAC: for these 3 invoices, we received a summary of the IPAC transactions including the purchase order number, dollar amount, and government organization receiving the payment. We were able to link the disbursement to the appropriate obligations in the accounting records.

Use of Computer-Processed Data

To perform this audit, we used data that originated in both the CEFMS and USAID's accounting system,⁹ neither of which we audited. We did not test any of the general and application controls of the automated systems utilized. However, in determining data validity of the information we used from these systems, we compared the system data to selected source documents (contract delivery orders, shipment receiving documents, and contractor invoices). As a result of our comparison, we determined that the data was sufficiently reliable to accurately portray whether there were any unmatched disbursements control issues.

Prior Coverage

We reviewed applicable reports issued by SIGIR and the Army Audit Agency:

- *Review of Administrative Task Orders for Iraq Reconstruction Contracts* (SIGIR-06-028, October 23, 2006)
- *Interim Audit Report on Improper Obligations Using the Iraq Relief and Reconstruction Fund 2* (SIGIR-06-037, September 22, 2006)
- *Fund Accountability for Fiscal Year 2004 Iraq Relief and Reconstruction Funds* (U.S. Army Audit Agency-A-2006-0046-ALA, January 31, 2006)

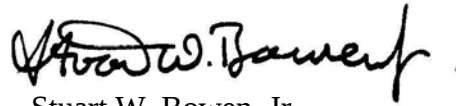
⁹ For more information on the reliability of data drawn from CEFMS, see U.S. Government Accountability Office (GAO) reports, *Significant Weaknesses in Corps of Engineers' Computer Controls*, (GAO Report 01-089, October 2000), and *Corps of Engineers Making Improvements But Weaknesses Continue*, (GAO Report 02-589, June 2002).

We performed this review from July 2006 through January 2007 in accordance with generally accepted government auditing standards.

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This report is provided for your information and use. This report does not contain any recommendations; therefore, no written response to this report is required. A draft of this report was provided to USACE, USAID, and DoS. USACE officials responded with no comments to add. DoS officials provided technical comments, which were addressed in the final report, as appropriate. USAID provided no comments.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Joseph T. McDermott, Assistant Inspector General for Audit, (703-604-0982 / joseph.mcdermott@sigir.mil), or Mr. Steven H. Sternlieb (703-428-0240 / steven.sternlieb@sigir.mil). For the report distribution, see Appendix A. For a list of the audit team members, see Appendix B.



Stuart W. Bowen, Jr.
Inspector General

cc: See Distribution

Appendix A. Report Distribution

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 Reconstruction Management Office

Mission Director-Iraq, U.S. Agency for International Development

Inspector General, Department of State

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Deputy Assistant Secretary of the Army (Policy and Procurement)

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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*

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 Subcommittee on National Security, Emerging Threats and International Relations
House Committee on International Relations
Subcommittee on Middle East and Central Asia

* Recipient of draft audit report.

Appendix B. Audit Team Members

This report was prepared and the audit work was conducted under the direction of Joseph T. McDermott, the Assistant Inspector General for Audit, Office of the Special Inspector General for Iraq Reconstruction. The staff members who contributed to the report include:

Karen D. Bell

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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
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