

Audit Report



Cost-to-Complete Estimates and Financial Reporting for the Management of the Iraq Relief and Reconstruction Fund

Report No. SIGIR-05-011

July 26, 2005

Office of the Special Inspector General for Iraq Reconstruction

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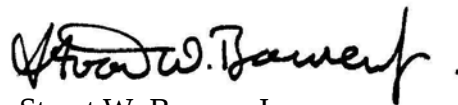
MEMORANDUM FOR DIRECTOR, IRAQ RECONSTRUCTION MANAGEMENT
OFFICE
DIRECTOR, PROJECT AND CONTRACTING OFFICE

SUBJECT: Cost-to-Complete Estimates and Financial Reporting for the Management of the
Iraq Relief and Reconstruction Fund (Report No. SIGIR-05-011)

We are providing this audit report for your information and use. We performed the audit in accordance with our statutory duties contained in Public Law 108-106, as amended, which mandates the independent and objective conduct of audits relating to the programs and operations funded with amounts appropriated or otherwise made available to the Iraq Relief and Reconstruction Fund. Public Law 108-106, as amended, requires that we provide for the independent and objective leadership and coordination of and recommendations on policies designed to promote economy, efficiency, and effectiveness in the administration of such programs and operations and to prevent and detect waste, fraud, and abuse.

We considered the comments from the Acting Director, Iraq Reconstruction Management Office, and the Director, Project and Contracting Office, when preparing the final report.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. James P. Mitchell at jim.mitchell@sigir.mil or at (703) 428-1100. For the report distribution, see Appendix C.



Stuart W. Bowen, Jr.
Inspector General

Office of the Special Inspector General For Iraq Reconstruction

Report No. SIGIR-05-011
(Project No. D2005-DCPAAI-0004.1)

July 26, 2005

Cost-to-Complete Estimates and Financial Reporting for the Management of the Iraq Relief and Reconstruction Fund

Executive Summary

Introduction. In March 2005, we initiated an audit to determine whether the information systems used by U.S. government organizations resulted in the effective management of Iraq Relief and Reconstruction Fund programs. This audit report is the first of a series of reports addressing management controls over information systems used by U.S. government organizations within Iraq to manage Iraq Relief and Reconstruction Fund programs. This report discusses the Project and Contracting Office systems used to develop cost-to-complete estimates for Iraq Relief and Reconstruction Fund projects and report financial obligation data.

In November 2003, \$18.6 billion was appropriated by the Congress under the Emergency Supplemental Appropriations Act for Defense and the Reconstruction of Iraq and Afghanistan (Public Law 108-106). The law created the Iraq Relief and Reconstruction Fund, of which \$18.4 billion of the appropriation was designated for Iraq.

Section 2207 of Public Law 108-106, November 6, 2003, required the Director of the Office of Management and Budget, in consultation with the Administrator of the Coalition Provisional Authority, to submit a report to Congress every three months that updated the proposed uses of all Iraq Relief and Reconstruction Fund funds on a project-by-project basis, including estimates of the costs required to complete each project. The Section 2207 Report on Iraq Relief and Reconstruction (Section 2207 Report) is now the responsibility of the Iraq Reconstruction Management Office due to the dissolution of the Coalition Provisional Authority on June 28, 2004.

The Iraq Reconstruction Management Office collates the Iraq Relief and Reconstruction Fund management information from all agencies apportioned Iraq Relief and Reconstruction Fund funds, primarily the Department of State, the Department of Defense, and the U.S. Agency for International Development and prepares the Section 2207 Report for transmission by the Department of State to the Congress. The Project and Contracting Office prepares the Secretary of the Army Report, which is incorporated into the Section 2207 Report, consolidating Department of Defense information for the reporting of Iraq Relief and Reconstruction Fund funds.

Objective. The specific objective of this first audit in this series was to determine whether those information systems and the data contained in those systems used by the Iraq Reconstruction Management Office and the Project and Contracting Office to monitor Iraq Relief and Reconstruction Fund projects were adequately reliable and sufficiently coordinated among those organizations to ensure the accurate, complete, and timely reporting to senior government officials and the Congress on the use of Iraq Relief and Reconstruction Fund funds.

Results. The Section 2207 Report for April 2005, compiled by the Iraq Reconstruction Management Office, did not meet the congressionally mandated requirement to include estimates, on a project-by-project basis, of the costs required to complete each project. As a result, without current and accurate cost-to-complete data, it is difficult to determine whether funds are available to complete ongoing Iraq Relief and Reconstruction Fund projects and for the initiation of new projects (finding A).

The accuracy of the \$7.9 billion of Department of Defense obligations reported on the Secretary of the Army Report issued March 27, 2005, could not be verified. Further, information that was incorporated into the Section 2207 Report, including the Secretary of the Army Report, was not required to be verified for accuracy by the U.S. government organizations providing that information. As a result, our audit was unable to verify the accuracy of the data submitted through the Secretary of the Army Report to Iraq Reconstruction Management Office. Further, without a requirement to verify the submitted data, U.S. government organizations could submit unverified data to Iraq Reconstruction Management Office for inclusion in the Section 2207 Report. Finally, because no verification was required or performed by the Project and Contracting Office, including information submitted by other organizations through the Project and Contracting Office, there is no assurance that Congress was provided valid information through the Section 2207 Report that is needed to exercise oversight of the reconstruction efforts in Iraq (finding B).

Management Actions. During our audit, the Iraq Reconstruction Management Office initiated procedures for preparing and reporting cost-to-complete estimates and will begin reporting that information in the Section 2207 Report for September 2005. On June 10, 2005, the Project and Contracting Office began reporting cost-to-complete estimates to the Iraq Reconstruction Management Office.

Recommendations. We recommended that the Director, Iraq Reconstruction Management Office require that current and best estimate for cost-to-complete information be provided for inclusion in the Section 2207 Report on Iraq Relief and Reconstruction (Recommendation A.2.). We also recommended that the Director, Iraq Reconstruction Management Office require that the data provided by U.S. government organizations responsible for managing the Iraq Relief and Reconstruction Fund for the purposes of inclusion in the Section 2207 Report be verified for accuracy before submission (Recommendation B.2.).

Further, we recommended that the Director, Project and Contracting Office:

- Complete the integration of the U.S. Army Corps of Engineers Financial Management System database with the Project and Contracting Office Oracle Project Accounting interface (Recommendation A.1.a.)
- Finalize and update, on a project-by-project basis, the accurate and complete costs required to complete each project (Recommendation A.1.b.)
- Ensure that management controls over the Secretary of the Army Report, such as reconciliation procedures, result in verifying the accuracy of the submitted data (Recommendation B.1)

Management Comments and Audit Response. The Acting Director, Iraq Reconstruction Management Office, concurred with Recommendation A.2. We agreed. The Acting Director, Iraq Reconstruction Management Office, also concurred with Recommendation B.2. but qualified his concurrence with an alternative approach to the recommended action. We agreed and changed our report accordingly.

The Director, Project and Contracting Office, concurred with Recommendations A.1.a. and A.1.b. We agreed. The Director, Project and Contracting Office, did not concur with Recommendation B.1. and provided reasons for the nonconcurrence. We agreed and changed our report accordingly.

We plan to perform follow-up audits of the estimates of cost-to-complete prepared by the Project and Contracting Office. We also plan to perform follow-up audits on the accuracy of the data reported in the Secretary of the Army Report and the Section 2207 Report and on management controls over the data reported.

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Introduction

Background

In March 2005, we initiated an audit to determine whether the information systems used by U.S. government organizations resulted in the effective management of Iraq Relief and Reconstruction Fund (IRRF) programs. This audit report is the first of a series of reports addressing management controls over information systems used by U.S. government organizations within Iraq to manage IRRF programs. This report discusses the Project and Contracting Office (PCO) systems used to develop cost-to-complete estimates for IRRF projects and report financial obligation data.

Appropriation for the Iraq Relief and Reconstruction Fund. In November 2003, \$18.6 billion was appropriated by the Congress under the Emergency Supplemental Appropriations Act for Defense and the Reconstruction of Iraq and Afghanistan (Public Law 108-106). The law created the IRRF, of which \$18.4 billion of the appropriation was designated for Iraq.

Project and Contracting Office. National Security Presidential Directive 36, “United States Government Operations in Iraq,” May 11, 2004, established the PCO. National Security Presidential Directive 36 directed the PCO to provide acquisition and project management support with respect to activities in Iraq. On June 22, 2004, the Deputy Secretary of Defense established the PCO within the Department of the Army and directed the PCO to provide support related to the close-out of the Coalition Provisional Authority. The PCO was made responsible for all activities associated with asset, financial, program, and project management and for managing both construction and non-construction activities

Corps of Engineers Financial Management System. The PCO uses the U.S. Army Corps of Engineers Financial Management System (CEFMS) for IRRF financial accounting. The CEFMS was designed as a single entry system so that transactions update the general ledger and subsidiary ledgers in real time. In CEFMS, as in other financial accounting systems, general ledger amounts should be in agreement with and supported by subsidiary ledgers and transactions detail amounts.

Cost-to-Complete Estimates. Developing a cost-to-complete estimate is an integral component of cost management. Cost-to-complete estimates should be made on an iterative basis, taking into account the reasons for variances from initial estimates. Cost-to-complete estimates should be developed as follows:

- Determine the progress toward contract completion to date
- Determine the cost of the contract work completed to date
- Determine the reasons for variances from initial estimates
- Estimate the amount of work remaining to be completed
- Estimate the cost of the work remaining to be completed

Management Information Systems. Public Law 108-106 provided \$50 million to develop and deploy management information systems capable of satisfying congressional expectations. According to the PCO chief technology officer, approximately \$16 million of the \$50 million was used to develop what is called the “PCO-solution.” The PCO-solution was designed and developed based upon analysis conducted by the Naval

Facilities Engineering Command and the U.S. Army Corps of Engineers. The analysis reviewed various configurations of construction program management software applications to determine which application would be best suited for use in the management of construction projects located in the operating environment in Iraq. The Office of the Special Inspector General for Iraq Reconstruction is currently reviewing the development and operational functionality of the PCO-solution and will determine how the remaining \$34 million was used to fulfill the reporting and monitoring requirements of Public Law 108-106.

Objectives

The overall objective of this audit was to determine whether information systems used by U.S. government organizations result in the effective management of IRRF programs. An additional objective was to determine whether those information systems used by U.S. government organizations were adequately reliable and sufficiently coordinated among those organizations to ensure accurate, complete, and timely reporting to senior government officials and the Congress on the use of IRRF funds.

The specific objective of this first audit in this series was to determine whether those information systems and the data contained in those systems used by the Iraq Reconstruction Management Office (IRMO) and the PCO to monitor IRRF projects were adequately reliable and sufficiently coordinated among those organizations to ensure the accurate, complete, and timely reporting to senior government officials and the Congress on the use of IRRF funds.

We will address the overall objective in subsequent audits. Specifically, we plan to perform follow-up audits of the estimates of cost-to-complete prepared by the PCO. We also plan to perform follow-up audits on the accuracy of the data reported in the Secretary of the Army Report and the Section 2207 Report and on management controls over the data reported.

For a discussion of the audit scope, methodology, and a summary of prior coverage, see Appendix A. For definitions of the acronyms used in this report, see Appendix B. For a list of the audit team members, see Appendix D.

A. Undeveloped Cost-to-Complete Estimates for Iraq Reconstruction Projects

The Section 2207 Report on Iraq Relief and Reconstruction (Section 2207 Report) for April 2005, compiled by the IRMO, did not meet the congressionally mandated requirement to include estimates, on a project-by-project basis, of the costs required to complete each project. The IRMO did not report the cost-to-complete data because PCO project management personnel did not complete the integration of program and financial data systems and did not develop the required cost-to-complete estimates for the Section 2207 Report. As a result, without current and accurate cost-to-complete data, it is difficult to determine whether funds are available to complete ongoing IRRF projects and for the initiation of new projects.

Section 2207 Report on Iraq Relief and Reconstruction

Section 2207 of Public Law 108-106, November 6, 2003, required the Director of the Office of Management and Budget, in consultation with the Administrator of the Coalition Provisional Authority, to submit a report to Congress every three months that updated the proposed uses of all IRRF funds on a project-by-project basis, including estimates of the costs required to complete each project. The Section 2207 Report is now the responsibility of the IRMO due to the dissolution of the Coalition Provisional Authority on June 28, 2004. The IRMO collates the information from the various organizations managing the IRRF and prepares the report for transmission by the Department of State to the Congress.

At the time our audit work was completed, the most recent Section 2207 Report prepared by IRMO was released on April 6, 2005. The Section 2207 Report brings together IRRF management information from all agencies apportioned IRRF funds, primarily the Department of State, the Department of Defense, and the U.S. Agency for International Development. The PCO prepares the Secretary of the Army Report, which is incorporated into the Section 2207 Report, by consolidating Department of Defense information for the reporting of IRRF funds.

Development of Cost-to-Complete Estimates by PCO

The Section 2207 Report on for April 2005, compiled by the IRMO, did not meet the congressionally mandated requirement to include estimates, on a project-by-project basis, of the costs required to complete each project. The IRMO did not report the cost-to-complete data because PCO project management personnel did not complete the integration of program and financial data systems and did not develop the required cost-to-complete estimates for the Section 2207 Report. PCO officials cited a number of constraints that hindered the development of cost-to-complete estimates including: difficulty integrating data among financial and project management information systems, incomplete program management data, and rapidly rising security costs.

Systems Integration Issues at the Project and Contracting Office. PCO management has experienced difficulties integrating financial and program management data across its management information systems infrastructure. For example, the PCO Oracle Project Accounting interface with the CEFMS database has not been completed because there is

not a compatible common project code identifier that the two systems share. The inability to share data has negatively impacted the PCO ability to link the financial information in CEFMS to program information. Consequently, it is difficult for project managers to prepare cost-to-complete estimates.

Program Management Data at the Project and Contracting Office. PCO program management officials cited incomplete program management data as an impediment to developing cost-to-complete estimates. As of March 31, 2005, the largest 151 construction projects totaled approximately \$4.4 billion. PCO officials noted that 84 of those projects totaling approximately \$2 billion were planned but realistic targeted costs and baseline schedules were not established. Realistic targeted costs and baseline schedules for use in managing and forecasting costs for the remaining 67 projects totaling approximately \$2.4 billion had been established.

Security Costs at the Project and Contracting Office. Another impediment cited by PCO program management officials was the rapid growth in the cost to provide project security from insurgent activity. PCO management advised that, as of March 31, 2005, the estimated cost for project security had risen from the original program baseline of \$1.2 billion to more than \$2 billion.

Management Actions

During our audit, IRMO officials initiated procedures for preparing and reporting cost-to-complete estimates. On June 7, 2005, IRMO officials advised us that IRMO will begin reporting cost-to-complete estimates in the Section 2207 Report for September 2005. On June 10, 2005, PCO officials began reporting cost-to-complete estimates to IRMO. We were advised by the PCO Chief Information Officer and Director of Information Technology that the U.S. Army Corps of Engineers is developing a software solution that will link the PCO Oracle Project Accounting interface with the CEFMS database. This is to provide integration of financial and project data that will improve PCO abilities to generate cost-to-complete estimates. The estimated completion date for the interface is August 31, 2005.

In response to our draft audit report, the PCO officials stated that in coordination with IRMO and effective June 2005, it had fully implemented the procedures that support the monthly reporting requirement to develop and submit updated cost-to-complete estimates for Sector Project Codes and related construction projects. PCO officials stated they have provided the cost-to-complete estimates for each project (defined as a major task order) to IRMO.

Conclusion

Estimating cost-to-complete for each project is a challenging but congressionally-mandated requirement in Iraq. Progress on reconstruction projects is sometimes difficult to determine. The lack of adequate automation support also adds to the difficulty. However, decision-makers need an accurate picture of funds required to complete projects currently underway. Without current and accurate cost-to-complete data, it is difficult to determine whether funds are available to complete ongoing IRRF projects and for the initiation of new projects.

Recommendations, Management Comments, and Audit Response

A.1. We recommend that the Director, Project and Contracting Office:

a. Complete the integration of the U.S. Army Corps of Engineers Financial Management System database with the Project and Contracting Office Oracle Project Accounting interface.

Management Comments. The Director, PCO, concurred with our recommendation. The Director, PCO, stated that he anticipates completion of the development work of the PCO component of this interface by August 31, 2005.

Audit Response. We agreed.

b. Finalize and update, on a project-by-project basis, the current and best estimate of costs required to complete each project.

Management Comments. The Director, PCO, concurred with our recommendation. The Director, PCO, stated that the PCO will continue its efforts to generate cost-to-complete estimates and that the PCO has already provided the first of the information to the interested parties.

Audit Response. We agreed.

A.2. We recommend that the Director, Iraq Reconstruction Management Office require that current and best estimate for cost-to-complete information be provided for inclusion in the Section 2207 Report on Iraq Relief and Reconstruction.

Management Comments. The Acting Director, IRMO, concurred with the recommendation through informal written comments. The Acting Director, IRMO, stated that the IRMO concurred as long as it could include the cost-to-complete information as a separate report with its Section 2207 Report submittal due to the sensitivity of the detailed information on projects.

Audit Response. We agreed.

B. Accuracy of the Secretary of the Army Report

The accuracy of the \$7.9 billion of Department of Defense obligations reported on the Secretary of the Army Report issued March 27, 2005, could not be verified. Further, information that was incorporated into the Section 2207 Report, including the Secretary of the Army Report, was not required to be verified for accuracy by the U.S. government organizations providing that information.

This occurred because PCO finance personnel could not provide transaction level details of obligations that were reconcilable to obligations contained in the Secretary of the Army Report and the Section 2207 Report, and because the IRMO had not established a requirement that submitted data for the Section 2207 Report be verified before submission.

As a result, our audit was unable to verify the accuracy of the data submitted through the Secretary of the Army Report to the IRMO. Further, without a requirement to verify the submitted data, U.S. government organizations could submit unverified data to the IRMO for inclusion in the Section 2207 Report. Finally, because no verification was required or performed by the PCO, including information submitted by other organizations through the PCO, there is no assurance that the Congress was provided valid information through the Section 2207 Report that is needed to exercise oversight of the reconstruction efforts in Iraq.

Obligation Transaction Data

We requested obligation transaction data to support amounts reported on the March 27, 2005, Secretary of the Army Report. The PCO provided an obligation transaction listing to us, retrieved from the CEFMS, which at the time it was provided was to be representative and reconcilable to the Secretary of the Army Report. During our audit, it was determined that the data provided, although not significantly different, could not be reconciled to the reported obligation amounts in the Secretary of the Army Report.

Obligation Transaction Listing

The accuracy of the \$7.9 billion of Department of Defense obligations reported on the Secretary of the Army Report issued March 27, 2005, could not be verified. This occurred because PCO finance personnel could not provide transaction level details of obligations that were reconcilable to obligations contained in the Secretary of the Army Report and the Section 2207 Report

Obligations Shown in the Secretary of the Army Report and the Obligation Transaction Listing. Our review showed that there were differences between the obligations shown in the Secretary of the Army Report and the obligation transaction listing. The table shows the differences in the amounts reported in the Secretary of the Army Report and the amounts determined from the obligation transaction listing.

Differences Between the Obligations Shown in the Secretary of the Army Report and the Obligation Transaction Listing				
	Construction	Non-Construction	Overhead	Totals
Secretary of the Army Report (a)	\$5,056,061,174	\$2,609,260,401	\$254,834,868	\$7,920,156,443
Obligation Transaction Listing (b)	\$4,938,810,175	\$2,355,972,039	\$495,012,835	\$7,789,795,049
Dollar Amount of Differences (a-b = c)	\$117,250,999	\$253,288,362	(\$240,177,967)	\$130,361,394
Percent Amount of Differences (c/a)	2.32%	9.71%	(94.25)%	1.65%

The Project and Contracting Office Position. We requested transactional data from the PCO to support amounts reported on the March 27, 2005, Secretary of the Army Report. The transactional data that was provided by the PCO for our review was not reconcilable to the Secretary of the Army Report and consequently did not meet our audit objectives. We were advised by PCO finance personnel that the CEFMS did not have a standard management report to support such a request but that CEFMS programmers had been asked to develop a program to provide the requested information.

When we inquired about these differences, PCO finance personnel advised that:

A nominal difference exists between the SecArmy Report and the detailed transaction listing supplied to the AFAA [sic] auditors in Baghdad. The Sec Army Report reflects valid, supportable, and certifiable figures that are obtained from the Corps of Engineers Financial Management System (CEFMS). The detail transaction listing is an internal analysis tool generated from CEFMS intended to be used by resource managers to identify material increases/decreases in sector/program accounts. The detail transaction report was never created to be used as a certifiable report. It is a reconciliation tool.

CEFMS does not presently have available a comprehensive report that lists every individual transaction rolling up to AMSCOs [Army Management Structure Code], allotment serial numbers and appropriations, as such a report has never been required to reconcile CEFMS internally, though HQUSACE [Headquarters, U.S. Army Corps of Engineers] could certainly program such a report. CEFMS was designed as a 'one entry updates all applicable general ledgers and subsidiary ledgers', and almost all transactions are updated in real time. Reconciliation routines are run each night to insure the general ledger and subsidiary ledgers are reconciled.

The detail transaction report we provided the auditors was never represented as a transaction file that reconciles exactly Sec Army data. The auditors needed a tool to select obligation transactions to test, we provided this, however not every transaction will be in the provided

data. For example labor, cost transfers, and interest payments would not be in the data set provided – our data set would only capture transactions linked to an undelivered order obligation document (emphasis added in bold). CEFMS cost transfers are accomplished at the Work Item Code (WIC) level, and are not attached to obligations. Interest payments work the same way, and labor transactions do not become obligations until t&a [time and attendance] data is signed, going from certified commitment to accrued expenditure, not tied to an undelivered order. All these transactions are captured on the SecArmy Report but not on the detailed obligation transaction report.

When the SecArmy and Transaction Listing reports are compared at summary level, there is less than a quarter percent difference. This is a reasonable difference that provides a high level of assurance that the funds are being properly accounted for.

We plan to perform follow-up audits of the accuracy of the data reported in the Secretary of the Army Report and on management controls over the data reported.

Verification of Submitted Data

The information that was incorporated into the Section 2207 Report, including the Secretary of the Army Report, was not required to be verified for accuracy by the U.S. government organizations providing that information. This occurred because IRMO had not established a requirement that submitted data for the Section 2207 Report be verified before submission.

Certification of Data. According to PCO officials, the PCO is not required to certify the accuracy of the submitted data that is input into the Secretary of the Army Report. Further, according to PCO officials, the Secretary of the Army Report is compiled by the PCO from various Department of Defense organizations that manage and utilize funds obtained through the Iraq Relief and Reconstruction Fund.

Iraq Reconstruction Management Office Position. IRMO officials provided informal comments to our draft report and stated that they have management controls in place to ensure accurate data is provided to them on a weekly basis. However, those officials also stated that the Secretary of Army Report is not an IRMO report and that they do not know what management controls are in place for this report. Given that the Secretary of the Army Report is the basis for the information that is provided to IRMO for the Section 2207 Report, we asked how IRMO ensured that this data were validated for accuracy. Officials at IRMO stated that they only collated and prepared the Section 2207 Report for transmission by the Department of State to Congress. When IRMO officials were asked if they required that the information they reported to Congress be validated, they said no but agreed that it should be and would request that the data being provided to them for the purposes of the Section 2207 Report be verified for accuracy.

Reconciliation of the Submitted Data

We do not believe that the PCO can assert that “The Secretary of the Army Report reflects valid, supportable, and certifiable figures that are obtained from the Corps of Engineers Financial Management System (CEFMS)” when it can neither provide support for such a statement nor reconcile the reported figures to detailed transactions.

Further, we also do not believe that the PCO can argue that “The detail transaction report was never created to be used as a certifiable report” and that “The detail transaction report we provided the auditors was never represented as a transaction file that reconciles exactly Sec Army data” and simultaneously maintain that “When the Secretary of the Army and Transaction Listing reports are compared at summary level, there is less than a quarter percent difference. This is a reasonable difference that provides a high level of assurance that the funds are being properly accounted for.” We find these statements to be contradictory.

Finally, we do not understand the PCO position that “The detail transaction report is an internal analysis tool generated from CEFMS intended to be used only by resource managers to identify material increase/decreases in sector/program accounts” and yet state “it is a reconciliation tool” when it cannot be reconciled to the data reported for the Secretary of the Army Report.

Conclusion

We were unable to verify the accuracy of the data submitted through the Secretary of the Army Report to the IRMO. Further, without a requirement to verify the submitted data, U.S. government organizations could submit unverified data to the IRMO for inclusion in the Section 2207 Report. Finally, because no verification was required or performed by the PCO, including information submitted by other organizations through the PCO, there is no assurance that the Congress was provided valid information through the Section 2207 Report that is needed to exercise oversight of the reconstruction efforts in Iraq.

Recommendations, Management Comments, and Audit Response

B.1. We recommend that the Director, Project and Contracting Office ensure that management controls over the Secretary of the Army Report, such as reconciliation procedures, result in verifying the accuracy of the submitted data.

Management Comments. The Director, PCO, did not concur with our recommendation. The Director, PCO, stated that the Secretary of the Army Report is a weekly update for Army management that was never intended to be a certified report. The Director, PCO, further stated that because the PCO compiles data which is generated from multiple Department of Defense accounting systems, certification of the report is not possible by the PCO.

Audit Response. We agreed and changed our report accordingly.

B.2. We recommend that the Director, Iraq Reconstruction Management Office require that the data provided by U.S. government organizations responsible for managing the Iraq Relief and Reconstruction Fund for the purposes of inclusion in the Section 2207 Report be verified for accuracy before submission.

Management Comments. The Acting Director, IRMO, concurred with the recommendation through informal written comments. The Acting Director, IRMO, stated that the data provided to them does not have to be certified but that the accuracy of the data should be verified by the various organizations submitting the data to IRMO.

Audit Response. We agreed and changed our report accordingly.

Appendix A. Scope and Methodology

We interviewed management personnel within the Iraq Reconstruction Management Office (IRMO) and the Project and Contracting Office (PCO) and reviewed organizational charts and relevant program memoranda to gain an understanding of the entities' operations to include their organization, management style, and the internal and external factors influencing their operating environments.

We reviewed the Section 2207 Report on Iraq Relief and Reconstruction issued to the Congress on April 6, 2005, for completeness. We attempted to reconcile the reported amounts to supporting worksheets provided by the PCO. The PCO provided the Department of Defense Iraq Relief and Reconstruction Fund (IRRF) program financial data as reported in the Secretary of the Army Report issued March 27, 2005.

We performed our audit in Baghdad, Iraq, at the Presidential Palace, where we interviewed PCO finance and senior management personnel and IRMO budget and operations personnel and reviewed IRRF program and financial data, and at the PCO Annex, where we met with PCO project management and information technology personnel and reviewed project management data.

We conducted this performance audit from March through July 2005, in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We performed tests to verify automated financial data maintained by the PCO through a comparison of reported balances to detail transactions records and by comparing detail transactions to source documents. We also utilized computer assisted audit techniques to identify potential duplicate obligations. The audit results indicated that the detailed transaction records provided to us by the PCO were not representative of data input to the summary PCO records and, therefore, not valid or reliable for verification by audit.

Prior Coverage. There were no audits performed in the past 5 years with the same or similar objectives as this audit.

Appendix B. Acronyms

CEFMS	U.S. Army Corps of Engineers Financial Management System
IRMO	Iraq Reconstruction Management Office
IRRF	Iraq Relief and Reconstruction Fund
PCO	Project and Contracting Office

Appendix C. Report Distribution

Department of State

Secretary of State
Senior Advisor/Coordinator for Iraq
U.S. Ambassador to Iraq
Director, Iraq Reconstruction Management Office
Inspector General, Department of State

Department of Defense

Deputy Secretary of Defense
Director, Defense Reconstruction Support Office-Iraq
Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Inspector General, Department of Defense

Department of the Army

Assistant Secretary of the Army for Acquisition, Logistics, and Technology
Principal Deputy to the Assistant Secretary of the Army for Acquisition, Logistics,
and Technology
Deputy Assistant Secretary of the Army (Policy and Procurement)
Director, Project and Contracting Office
Assistant Secretary of the Army for Financial Management and Comptroller
Auditor General of the Army

Other Defense Organizations

Director, Defense Contract Audit Agency

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

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

U.S. Senate

Senate Committee on Appropriations

Subcommittee on Defense

Subcommittee on Foreign Operations

Senate Committee on Armed Services

Senate Committee on Foreign Relations

Subcommittee on Near Eastern and South Asian Affairs

Subcommittee on International Operations and Terrorism

Senate Committee on Homeland Security and Governmental Affairs

Subcommittee on Government Efficiency and Financial Management

Subcommittee on Financial Management, the Budget, and International Security

U.S. House of Representatives

House Committee on Appropriations

Subcommittee on Defense

Subcommittee on Foreign Operations, Export Financing and Related Programs

House Committee on Armed Services

House Committee on International Relations

Subcommittee on Middle East and Central Asia

House Committee on Government Reform

Subcommittee on Government Efficiency and Financial Management

Subcommittee on National Security, Emerging Threats and International Relations

Appendix D. Audit Team Members

The Office of the Assistant Inspector General for Auditing, Office of the Special Inspector General for Iraq Reconstruction, prepared this audit report. The staff members who contributed to the report include:

Timothy Baum

James Carrera

Dan Haigler

James Kojak

Management Comments, Director, Project and Contracting Office - Iraq



DEPARTMENT OF THE ARMY
PROJECT AND CONTRACTING OFFICE – IRAQ
APO AE 09316

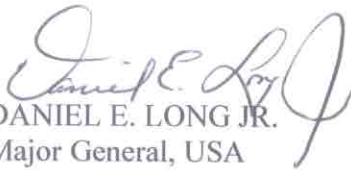


21 July 2005

MEMORANDUM FOR Office of the Special Inspector General for Iraq Reconstruction

SUBJECT: Draft Report on Cost-to-Complete Estimates and Financial Reporting for the Management of the Iraq Relief and Reconstruction Fund

1. Reference the Special Inspector General for Iraq Reconstruction (SIGIR) Draft Report Cost-to-Complete Estimates and Financial Reporting for the Management of the Iraq Relief and Reconstruction Fund, Project No. D2005-DCPAAI-0004.1.
2. The draft report describes the findings of the audit and reflects on-going efforts in developing Cost-to-Complete Estimates; however, PCO still has concerns with the recommendations made in Section B. As such, PCO cannot concur with the entire draft audit report.
3. It would be beneficial to the execution of the program and the quality of the audit support if the various in-process audits were coordinated between audit agencies. The high OPTEMPO environment makes it difficult to balance core responsibilities in managing reconstruction projects and processes and simultaneously support the audit requests. At the same time as responding to this audit report, PCO staff also responded to the draft SIGIR Quarterly Report, a draft AAA audit report, and a GAO report.
4. General comments to the draft report are provided at the Enclosure A. PCO management comments to each audit recommendation are provided in Enclosure B.
5. PCO will continue to work with SIGIR to resolve all outstanding issues.


DANIEL E. LONG JR.
Major General, USA
Director, Project and Contracting Office

ENCLOSURES

Enclosure A: General Comments

Enclosure B: Specific Audit Responses

ENCLOSURE A

GENERAL COMMENTS, CLARIFICATIONS AND PCO MANAGEMENT COMMENTS TO AUDIT FINDINGS

General Comments and Clarifications

1. SIGIR and PCO have mutually resolved some issues identified during the audit. PCO still has reservations regarding the audit findings and conclusions, particularly regarding Section B.
2. After receiving PCO's response to the first draft report, SIGIR requested a second meeting on 13 July 2005 to discuss PCO's concerns. On that date it was discovered that the obligation transaction data provided to the SIGIR auditor during the course of the audit did not meet the auditor's criteria. As a result, the audit report should reflect that the previous reconciliation was inconclusive or questioned by the PCO staff. Due to the rotation of the key parties out of theater for both SIGIR and PCO, we suggest that another reconciliation meeting should be scheduled in the future to resolve differences.
3. The Secretary of Army report is a weekly update for senior leadership. The report is a compilation of other agencies' data and not intended to be certified. SIGIR has not identified any significant or material variations in the reported data. PCO and Army leadership are satisfied that the SecArmy report provides an appropriate level of fidelity for management purposes.
4. Cost-to-Complete (CTC) Estimates are provided to satisfy the findings in this CTC report from SIGIR. Inaccurate CTC estimates expressed in Finding A describe only one of many reasons why projects could be delayed or not built. No specific examples were identified or provided by SIGIR.

Specific Section Comment

- Page 2. The context of this section's first two sentences implies that PCO received all \$50M for reporting; this is not true. PCO did receive part of the funding but the rest went to the State Department.

ENCLOSURE B

RECOMMENDATIONS AND PCO MANAGEMENT COMMENTS

Recommendation A.1.a: We recommend that the Director, Project and Contracting Office, complete the integration of the U.S. Army Corps of Engineers Financial Management System database with the Project and Contracting Office Oracle Project Accounting interface.

Response: PCO concurs and anticipates completion of the development work of the PCO component of this interface by 31 August 2005. Activation of this functionality can be realized within thirty (30) calendar days only after USACE HQ fulfills its commitment in activating the required functionality in CEFMS that stores the PCO Project Unique Requirement Identify as a 'unique database key' in CEFMS.

Recommendation A.1.b: We recommend that the Director, Project and Contracting Office, continue to develop, on a project by project basis, the accurate and complete costs required to complete each project.

Response: PCO concurs and continues its efforts to generate cost-to-complete estimates. In fact, PCO has already provided the first of the information to the interested parties.

Effective June 2005, PCO, in coordination with IRMO, has fully implemented the procedures that support the monthly reporting requirement to develop and submit updated cost-to-complete estimates for Sector Project Codes and related construction projects. PCO has provided the cost-to-complete estimates for each project (defined as a major task order) to IRMO. As of 20 July 2005, PCO believes the issue is resolved.

Recommendation B.1: We recommend that the Director, Project and Contracting Office ensure that internal management controls over the Secretary of the Army Report, such as reconciliation procedures, result in a certifiable data.

Response: PCO does not concur. The SecArmy report is a weekly update for Army management that was never intended to be a certified report. The report is rolled up from different agencies' reports and the data is compiled to create one presentation.

Recommendation B.2: We recommend that the Director, Iraq Reconstruction Management Office (IRMO) require that the data provided to IRMO for the purposes of the Section 2207 Report be certified for accuracy.

Response: PCO does not concur. As noted above, PCO compiles data which is generated from multiple DoD accounting systems. Because of this, certification of the report is not possible by PCO.