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 العراق" at the bottom.

**DEVELOPMENT FUND FOR IRAQ:  
U.S. ARMY CORPS OF ENGINEERS  
HAS MISSING RECEIVING REPORTS  
AND OPEN TASK ORDERS**

**SIGIR 13-003  
OCTOBER 26, 2012**

# Report Documentation Page

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# SIGIR

Special Inspector General for IRAQ Reconstruction

October 26, 2012

## DEVELOPMENT FUND FOR IRAQ: U.S. ARMY CORPS OF ENGINEERS HAS MISSING RECEIVING REPORTS AND OPEN TASK ORDERS

### Summary of Report: SIGIR 13-003

#### Why SIGIR Did This Study

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

In 2003, the CPA committed to restoring Iraq's oil and electricity infrastructures, both of which suffered from neglect under Saddam Hussein's regime and the Iraq war. The U.S. Army Corps of Engineers (USACE) was assigned responsibility for managing the restoration activities known as Restore Iraqi Oil (RIO) and Restore Iraqi Electricity (RIE). USACE received about \$2.4 billion in DFI funds for reconstruction activities and administered four major DFI-funded contracts—one oil and three electricity.

The Special Inspector General for Iraq Reconstruction (SIGIR) initiated this audit to determine whether: (1) USACE properly accounted for the \$2.4 billion in DFI funds it received for reconstruction activities in Iraq, (2) USACE properly managed the contract closeout process for the DFI-related task orders that it administered, and (3) contractors completed work as planned under the DFI-funded contracts.

#### What SIGIR Recommends

The Secretary of Defense direct the Chief of Engineers, USACE, and the Director, Defense Contract Audit Agency (DCAA), to work together to: (1) take those actions necessary to expedite the incurred cost audits and contract close-out procedures for the three RIE DFI-funded task orders, and (2) return any unused DFI funds to the Government of Iraq (GOI).

#### Management Comments

The Office of the Under Secretary of Defense (Comptroller) provided written comments on a draft of this report and concurred with the report and its recommendations. Those comments are printed in their entirety in Appendix F.

#### What SIGIR Found

USACE did not establish effective internal controls to document that goods and services paid for using DFI funds were received in Iraq. SIGIR sampled 12 DFI-funded payments, totaling about \$1.1 billion, made to USACE and found that two key financial documents—public vouchers and vendor invoices—were in the payment files. However, a third key document—the receiving report—was missing from more than 95% of the files. Receiving reports document the government's inspection and acceptance of products delivered or services performed. Missing receiving reports involved commodities vulnerable to fraud and theft, such as fuel, televisions, and vehicles. SIGIR has not concluded that fraud or theft occurred, but the absence of receiving reports raises questions.

Fuel deliveries alone accounted for \$1.3 billion of the \$2.4 billion in DFI funds (54.2 %) that USACE received for reconstruction activities in Iraq. Instead of using the required receiving reports to document fuel deliveries in Iraq, USACE officials told us that they maintained a fuel delivery log book. However, the log book is missing. In the absence of receiving reports and the fuel delivery log book, USACE has no evidence that shows whether fuel products paid for with DFI funds were received. This problem was compounded by the lack of metered trucks to document how much fuel was being delivered and the proliferation of fuel delivery points from 12 official sites to more than 100 sites. A DCAA report noted that due to these two conditions alone, the contractor had no way to confirm fuel deliveries and to establish a basis for paying the subcontractor. However, USACE officials noted that fuel was delivered by military-escorted convoys, which they believe decreased the probability of fraud or theft, and that there is no evidence that theft occurred.

USACE has not been able to determine the status of the DFI as key financial audits of contractors have not been completed. Without these audits, USACE cannot close out these contracts and task orders and assess whether the contractor owes the U.S. money, whether the U.S. owes the contractor money, and ultimately, whether the U.S. needs to return unused DFI funds to the GOI. The six RIO task orders that SIGIR reviewed have been closed, but the three RIE task orders remain open although the work was completed almost eight years ago. To date, USACE has returned \$17.7 million in unused DFI funds to the GOI and, pending closeout of the RIE task orders, there may be more money to return.

The RIO and RIE work was completed in 2004 and, for the most part, work performed under the non-fuel-related task orders that we reviewed was successfully completed. Construction work on one RIO task order was terminated before completion. However, USACE awarded two new contracts to complete the projects and paid for them with U.S.-appropriated funds rather than DFI funds.



## SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

October 26, 2012

### MEMORANDUM FOR U.S. SECRETARY OF DEFENSE

**SUBJECT:** Development Fund for Iraq: U.S. Army Corps of Engineers Has Missing Receiving Reports and Open Task Orders (SIGIR 13-003)

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

The Office of the Under Secretary of Defense (Comptroller) provided written comments on a draft of this report and concurred with the report and its recommendations. Those comments are printed in their entirety in Appendix F. The U.S. Army Corps of Engineers and the Defense Contract Audit Agency provided technical comments that were also included in the report where appropriate.

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We appreciate the courtesies extended to the SIGIR staff. For additional information on the report, please contact F. James Shafer, Assistant Inspector General for Audits (Washington D.C.) (703) 604-0894/ [fred.j.shafer.civ@mail.mil](mailto:fred.j.shafer.civ@mail.mil), or Tinh Nguyen, Principal Deputy Assistant Inspector General for Audits (Washington, D.C.), (703) 604-0545/ [tinh.t.nguyen4.civ@mail.mil](mailto:tinh.t.nguyen4.civ@mail.mil).

Stuart W. Bowen, Jr.  
Inspector General

cc: U.S. Secretary of State  
U.S. Ambassador to Iraq  
Office of the Secretary of Defense (Comptroller)  
Chief of Engineers, U.S. Army Corps of Engineers  
Director, Defense Contract Audit Agency

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## Development Fund for Iraq: U.S. Army Corps of Engineers Has Missing Receiving Reports and Open Task Orders

SIGIR 13-003

October 26, 2012

### Introduction

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

The DFI accrued revenues from ongoing Iraqi oil and gas sales, unencumbered Oil for Food deposits, and repatriated national assets. Federal Reserve Bank of New York (FRBNY) records show that the U.S. Army Corps of Engineers (USACE) received about \$2.4 billion in DFI funds that were electronically transferred from the DFI main and sub-accounts for reconstruction activities in Iraq. Most of these funds were provided in the form of reimbursements for money USACE paid to contractors for completed work. A much smaller amount was provided to USACE in advance of contractors submitting claims or invoices for work performed.<sup>1</sup> Four DFI-funded contracts accounted for about \$2.3 billion, or 96%, of the funds USACE received. SIGIR initiated this audit to determine whether: (1) USACE properly accounted for the \$2.4 billion in DFI funds it received for reconstruction activities in Iraq, (2) USACE properly managed the contract closeout process for the DFI-related task orders that it administered, and (3) contractors completed work as planned under the DFI-funded contracts.

### Background

Shortly after its establishment in 2003, the CPA focused its efforts on repairing and restoring Iraq's oil and electricity infrastructures. Both sectors, considered vital to Iraqi interests, experienced significant deterioration from years of neglect under Saddam Hussein's regime and the Iraq war. Within the Department of Defense, USACE was assigned responsibility for managing the restoration activities known as Restore Iraqi Oil (RIO) and Restore Iraqi Electricity (RIE).

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<sup>1</sup> The U.S. Department of the Treasury's Financial Manual provides policies, procedures, and instructions to be followed for the receipt of funds from outside sources, such as a foreign government, for which the U.S. government is acting solely as a banker, fiscal agent, or custodian.

USACE managed four major DFI-funded contracts—one for oil restoration with Kellogg Brown and Root Services, Inc. (KBR)<sup>2</sup> and three for electricity restoration with Washington International, Inc. (Washington International), Fluor Intercontinental (Fluor), and Perini Corporation (Perini).<sup>3</sup> Table 1 summarizes the four contracts.

**Table 1—Summary of the Four USACE Administered Iraqi Oil and Electricity Contracts (\$ in millions)**

<b>Contract Number</b>	<b>Contractor</b>	<b>Purpose</b>	<b>DFI Task Orders</b>	<b>DFI Funds Expended</b>	<b>Contract Close-out</b>
DACA63-03-D-0005	KBR	RIO	6	\$1,497.9	Yes
DACA78-03-D-0004	Washington International	RIE	1	\$245.9	No
DACA78-03-D-0005	Fluor	RIE	1	\$232.8	No
DACA78-03-D-0006	Perini	RIE	1	\$312.2	No
<b>Totals</b>				<b>\$2,288.8</b>	

Source: SIGIR Analysis of USACE Data.

As shown in the table, the four contracts had nine DFI-funded task orders—six involving oil and three involving electricity. The six oil task orders were for fuel delivery or repair of the oil infrastructure. The three electricity task orders were for electricity restoration work in northern, central, and southern Iraq. Following is more detailed information for each of these contracts.

Restore Iraqi Oil, DACA63-03-D-0005, KBR

In March 2003, USACE awarded a sole source, cost-plus-award-fee contract to KBR to help restore Iraq’s oil infrastructure. KBR used 10 task orders to perform its work—Task Orders 1 through 4 and part of Task Order 5 were funded using U.S.-appropriated funds; Task Order 5 was also funded with DFI as well as vested and seized asset funds; and Task Orders 6 through 10 were exclusively DFI-funded. Work associated with the six DFI-funded task orders included construction and repair of the oil infrastructure, and the importation, delivery, and distribution of refined fuel products throughout Iraq. DFI disbursements for Task Orders 5 through 10 totaled \$1,497.9 million.

Restore Iraqi Electricity, DACA78-03-D-0004, Washington International

In September 2003, USACE awarded Task Order 2 on an existing indefinite delivery indefinite quantity contract with Washington International to provide construction and rehabilitation of the electrical infrastructure in northern Iraq. Work associated with this cost-plus-fixed-fee task order included the construction or refurbishment of power plants and electrical transmission lines as

<sup>2</sup> Initially, USACE awarded the contract to Brown & Root Services, a Division of Kellogg, Brown & Root. On December 22, 2005, the contract was amended to reflect the contractor name as Kellogg Brown & Root Services, Inc.

<sup>3</sup> After the award of the task order, Washington International, Inc. merged with URS Corporation and became known as the Washington Division of URS. However, throughout this report, we continue to refer to the contractor as Washington International.

well as providing site security, administration, and life support services. DFI disbursements for this task order totaled \$245.9 million.

Restore Iraqi Electricity, DACA78-03-D-0005, Fluor Intercontinental

In September 2003, USACE awarded Task Order 6 on an existing indefinite delivery indefinite quantity contract with Fluor to provide construction and rehabilitation of the electrical infrastructure in central Iraq. Work associated with this cost-plus-fixed-fee task order included construction or rehabilitation of power plants, substations, and electrical transmission lines as well as providing site security, administration, and life support services. DFI disbursements for this task order totaled \$232.8 million.

Restore Iraqi Electricity, DACA78-03-D-0006, Perini Corporation

In September 2003, USACE awarded Task Order 2 on an existing indefinite delivery indefinite quantity contract with Perini to provide construction and rehabilitation of the electrical infrastructure in southern Iraq. Work under this cost-plus-fixed-fee task order included construction or rehabilitation of power plants, generation sites, substations, and transmission lines as well as site security, administration, and life support services. DFI disbursements for this task order totaled \$312.2 million.

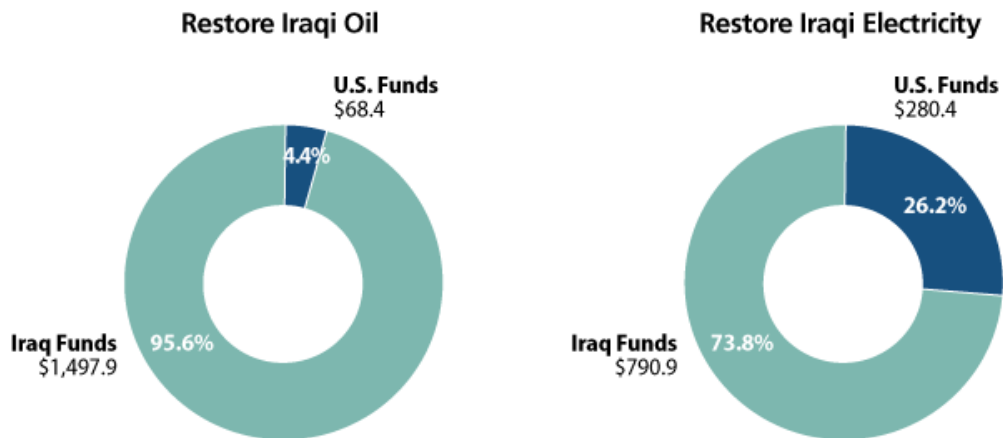
***Funding Sources for the RIO and RIE Restoration Work***

USACE used both U.S. appropriated funds and Iraqi funds to perform restoration work under the RIO and RIE contracts.<sup>4</sup> U.S. appropriated funds were used to start projects and then a combination of U.S. and Iraqi funds or only Iraqi funds were used to complete them. For example, U.S. appropriated funds, with a combined value of \$280.4 million, were used to fund the three RIE DFI-funded task orders that we reviewed. This represents about 26.2% of the total amount of funds—both U.S. and Iraqi—expended to complete these three task orders. Figure 1 provides a breakdown of the amount and percentage of U.S.-appropriated and Iraqi funds expended on the six RIO and three RIE DFI-funded task orders that we reviewed.

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<sup>4</sup> Most U.S funds were provided through the Iraq Relief and Reconstruction Fund or the Operations and Maintenance, Army appropriation account.

**Figure 1—Amount and Percentage of U.S. and Iraqi Funds Expended on the RIO and RIE DFI-funded Task Orders (\$ in millions)**



Source: SIGIR Analysis of USACE Data.

### ***RIO and RIE Contract Closeouts***

In addition to administering the RIO and RIE contracts, USACE was responsible for administratively closing them out. The Federal Acquisition Regulation (FAR) provides financial and administrative requirements and timelines for closing out contracts. For example, the FAR states that contracts requiring settlement of indirect cost rates on cost reimbursement contracts should be closed out no more than 36 months after physically completing the contract work. However, the FAR states that these are guidelines rather than requirements. All of the RIO and RIE contracts that we reviewed were cost reimbursement contracts.

USACE relies on the Defense Contract Audit Agency (DCAA) for certain information during the execution of the contract, such as provisional approval of public vouchers and final audit of incurred costs. For the closeout process, DCAA performs final incurred cost audits to determine if costs charged to auditable government contracts are allowable, allocable, and reasonable in accordance with the contract terms and applicable government acquisition regulations. Normally, any contractor claimed costs that were paid and later determined not to be allowable, allocable, and reasonable would be returned to the government.

### ***USACE Roles and Responsibilities with the DFI***

USACE, headquartered in Washington, D.C. and headed by the Chief of Engineers, has more than 35,000 employees and operates throughout the United States and in more than 90 countries. The Directorate of Military Programs was responsible for coordinating USACE’s efforts in Iraq. The Transatlantic Programs Center in Virginia was responsible for providing administrative support for the electricity restoration activities in Iraq. USACE’s Southwestern Division in Texas was responsible for providing administrative support for the oil restoration activities in Iraq. Lastly, USACE’s Finance Center in Tennessee was responsible for recording disbursements and maintaining supporting documentation through an automated information system known as the Corps of Engineers Financial Management System.

## Objectives

SIGIR's objectives for this report were to determine whether: (1) USACE properly accounted for the \$2.4 billion in DFI funds it received for reconstruction activities in Iraq, (2) USACE properly managed the contract closeout process for the DFI-related task orders that it administered, and (3) contractors completed work as planned under the DFI-funded contracts.

To help accomplish these objectives, SIGIR judgmentally selected 12 DFI-funded payments for review, including the 5 largest dollar-value payments, to determine whether USACE had adequate supporting documentation for them. The 12 payments had a combined value of about \$1.1 billion, or 45.8% of the \$2.4 billion in DFI funds made available to USACE.<sup>5</sup> Eight of the payments involved reimbursements to USACE for previously paid vouchers, and the remaining four involved advance payments for anticipated projects. The sample also included a mix of RIO and RIE payments. For all 12 sampled payments, SIGIR looked for three key financial supporting documents in the payment files: the public voucher, the receiving report, and the vendor invoice. These are the same three financial supporting documents that SIGIR focused on in two prior DFI audits.<sup>6</sup>

For a discussion of the audit scope and methodology, see Appendix A. For the results of SIGIR's documentation review of selected payments made to USACE, see Appendix B. For a list of the advance payments to USACE, see Appendix C. For a list of acronyms used, see Appendix D. For the audit team members, see Appendix E. For the Department of Defense's management comments, see Appendix F. For the SIGIR mission and contact information, see Appendix G.

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<sup>5</sup> Some of the sampled payments consisted of multiple public vouchers and invoices which when combined, equaled the dollar value of the payment made to USACE.

<sup>6</sup> *Development Fund for Iraq: The Coalition Provisional Authority's Financial Controls for Electronic Fund Transfer Payments Diminished over Time*, SIGIR 12-013, 4/30/2012, and *Development Fund for Iraq: The Department of Defense Cannot Fully Account for the Funds It Used after the Coalition Provisional Authority Dissolved*, SIGIR 12-008, 1/27/2012.

# Documentation Supporting Products and Services Paid for Using DFI Funds Is Incomplete

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SIGIR found that two of the three key financial documents that we looked for in our sample—a public voucher and a vendor invoice—were in almost all of the payment files. However, the third key financial document—a receiving report—was missing from more than 95% of the payment files. Missing receiving reports involved products such as fuel, televisions, and vehicles that are considered high-risk commodities vulnerable to fraud and theft.

SIGIR also found that USACE did not establish the required deposit fund accounts within the Department of the Treasury to document its receipt and use of \$233.2 million in advance funds. However, USACE did establish internal procedures within its financial management system to monitor and control the use of these funds.

## Most Receiving Reports Were Missing from DFI Payment Files

SIGIR could not find more than 95% of the receiving reports needed to verify the delivery of goods and services. The FAR 2.101 states that a receiving report is written evidence indicating government inspection and acceptance of products delivered or services performed. The FAR also states that the material inspection and receiving report (DD-250) is the primary means for documenting receipt and acceptance of goods and services.

The results of our review are shown in Table 2. Data for each individual payment are presented in Appendix B.

**Table 2—Review of Required Financial Documents for 12 Selected DFI Payments Made to USACE**

<b>Document</b>	<b>Documents required</b>	<b>Documents missing</b>	<b>Percent missing</b>
Public Voucher	109	4	3.7%
Receiving Report	112	107	95.5%
Vendor Invoice	114	9	7.9%
<b>Totals</b>	<b>335</b>	<b>120</b>	<b>35.8%</b>

*Source: SIGIR Analysis of USACE data.*

As shown in Table 2, 120 of the 335 required documents (35.8%) were missing from the 12 sampled payments. Table 2 also shows that the greatest percentage of missing documents (95.5%) was receiving reports. Many of the products missing receiving reports are highly vulnerable to fraud and theft. For example, 4 of the 12 sampled payments with a combined value of \$642.9 million, or 57% of the combined value of the 12 sampled payments, involved fuel deliveries. As noted in a 2011 Department of Defense Inspector General report, “...fuel is a

high-risk commodity, analogous to cash, requiring stringent control procedures.”<sup>7</sup> SIGIR also found that receiving reports were missing for other high-risk commodities such as computers, furniture, books, televisions, and vehicles.

During a visit to USACE’s Southwestern Division, a USACE official stated that he did not look for receiving reports when approving payment vouchers for fuel deliveries on the RIO contract. Instead, this official said he focused on the vendor invoice and DCAA’s provisional approval of the public voucher before approving a payment. SIGIR inquired about DCAA’s provisional approval of public vouchers and whether DCAA checked for receiving reports. DCAA officials told us they employ a six-step process in reviewing invoices for provisional approval, such as checking for mathematical accuracy and verifying that the cumulative invoice amounts are within funding levels. The officials stated, however, that neither their interim nor final audits include determining whether receiving reports are part of the supporting documentation.

### ***DD-250s Were Not Used for Documenting Fuel Deliveries Associated with the KBR Contract***

The KBR RIO contract included six DFI-funded task orders, of which five task orders involved the transportation and delivery of fuel to Iraq, primarily from Kuwait, Jordan, and Turkey. These five fuel-related task orders had a combined value of about \$1.3 billion. According to USACE officials, they did not use material inspection and receiving reports (DD-250) to record fuel delivered under these task orders. Instead, the officials told us they maintained a fuel delivery log book to record fuel shipments upon arrival at the designated delivery point in Iraq. USACE officials told us that at the conclusion of the task orders, the log book was shipped back to the United States, but they are unable to locate the book. In the absence of DD-250s and the fuel delivery log book, USACE has no evidence to indicate that fuel products paid for with DFI funds were actually received. In discussing a draft of this report, USACE officials noted that fuel was delivered by military-escorted convoys, which they believe decreased the probability of fraud or theft, and that there is no evidence that theft occurred.

Compounding USACE’s fuel accountability problem, USACE officials also told us that the fuel delivery trucks were not metered to document how much fuel was being off-loaded. In addition, a DCAA audit report noted that there were 12 official fuel delivery points in Iraq but, in reality, fuel ended up being delivered to more than 100 different sites.<sup>8</sup> The report also noted that, as a result, the contractor had no way of confirming fuel deliveries and establishing a basis for paying the subcontractor.

Although the use of DD-250s and truck meters does not prevent theft, they can help detect anomalies when they occur. For example, in 2006, KBR personnel in Afghanistan were found to be forging signatures on DD-250s and “short delivering” fuel to a designated delivery point. One of the individuals admitted to diverting 45 to 50 fuel shipments that were then sold on the “open market.” This same individual also admitted to falsifying meter readings to indicate the trucks had delivered more fuel than actually had been delivered. However, it was the absence of

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<sup>7</sup> *Competition Issues and Inherently Governmental Functions Performed by Contractor Employees on Contracts to Supply Fuel to U.S. Troops in Iraq*, Report No. D-2011-049, 3/15/2011.

<sup>8</sup> *Supplemental Report on Audit of Revised Proposal for Restore Iraqi Oil Delivery Order No. 5*, DCAA Report No. 3311-2005K21000024-S1, 4/16/2005.

DD-250s documenting the receipt of fuel at one of the delivery points which helped the investigators uncover the theft.

### ***FAR Allows for More than DD-250s To Document the Receipt of Goods and Services***

USACE Finance Center officials stated that they needed three documents to make a payment: a public voucher, a receiving report, and a vendor invoice. Although the DD-250 is the primary means for documenting the receipt of goods and services, the FAR also allows other forms of evidence to be used. For example, USACE officials told us they use an internal document—Engineering Form 93—to document the percentage of completion when making progress payments on construction contracts. However, even though one of the RIO task orders and the three RIE task orders that SIGIR reviewed involved construction activities, we found only a few of the required Engineering Form 93s in the payment files.

SIGIR’s discussions with Finance Center and USACE contracting officials as well as our review of supporting documentation showed that the receipt of goods and services was most often approved via an electronic signature by a U.S.-based program analyst on the Order for Supplies and Services Form (DD-1155). SIGIR discussed the use of the DD-1155 with the program analysts and questioned how someone in the U.S. could sign for the inspection and receipt of something delivered in Iraq. Based on these discussions, it appears that the DD-1155 serves as the receiving document that the Finance Center needs, along with the public voucher and vendor invoice, to make a payment rather than serving as a document that is signed by an individual inspecting and physically receiving the product or service at the delivery location. The program analysts told us that in signing a DD-1155, they relied on the vendor invoice and DCAA’s provisional approval of the public voucher. However, as noted above, DCAA does not consider receiving reports in its voucher review process.

## **USACE Did Not Establish Required Financial Controls for Advance DFI Funds, but It Did Track Expenditures Internally**

USACE did not establish deposit fund accounts, as required by Department of the Treasury guidance, for DFI funds provided in advance of work being performed. FRBNY records show that USACE received 13 advance payments with a combined value of about \$233.2 million from May 2004 through April 2005. USACE officials told us they considered the funds as advance payments for reconstruction work they were planning and, therefore, did not have to establish a deposit fund account within the U.S. Treasury. For a listing of the 13 advance payments made to USACE, see Appendix C.

Treasury Financial Manual Volume 1, Part 2, Chapter 1500, Section 1535—Deposit Funds Accounts—states that the Financial Management Service’s Budget Reports Division is to establish deposit fund accounts for agencies to record monies that do not belong to the Federal government. Treasury’s guidance states that to maintain accountability agencies must establish separate deposit fund accounts to hold non-U.S. government funds, such as from a foreign government, for individual statutory authorizations or programs, for which the U.S. government is acting solely as a banker, fiscal agent, or custodian. These accounts, a key financial management control, enable agencies to maintain accountability for non-U.S. government funds by tracking obligations and expenditures on a monthly basis, just as they would with U.S.-

appropriated funds. According to a Treasury official, DFI funds were subject to this requirement, and each U.S. government agency receiving DFI funds was responsible, in consultation with the Office of Management and Budget, for requesting that the deposit fund account be established.

Even though USACE did not establish the required deposit fund accounts, USACE Finance Center officials told us they established a separate internal account for each advance payment. The officials noted that each advance account was tied to a separate funding authorization which, in turn, was tied to a separate funded work item (tracking code). The officials said this allowed them to track all expenditures associated with each advance payment and to periodically report to the Iraqi Ministry of Electricity on how the funds were being spent and the amount of funds that remained in the advance account.

Finance Center officials told us their tracking of expenditures within each advance account allowed them to identify unused funds which they would eventually transfer to a DFI suspense account. The unused funds were held in the suspense account for future return to the Government of Iraq (GOI). For example, the Finance Center provided us documentation showing that USACE spent about \$2.9 million of a \$4.7 million advance payment and transferred \$1.8 million in unused funds to the DFI suspense account. As discussed later in this report, these funds were returned to the GOI in March 2009.

## **Outstanding Financial Audits Delay Reconciliation of the DFI and Task Order Closeout**

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USACE has not been able to determine the status of the DFI because key DCAA financial audits of contractors have not been completed. Without these audits, USACE cannot close out these contracts and task orders and assess whether the contractor owes the U.S. money, whether the U.S. owes the contractor money, and ultimately, whether the U.S. needs to return unused DFI funds to the GOI. The six RIO task orders that SIGIR reviewed have been closed, but the three RIE task orders remain open although the work was completed almost 8 years ago. To date, USACE has returned \$17.7 million in unused DFI funds to the GOI and, pending closeout of the RIE task orders, there may be more money to return.

### **FAR Guidelines for Closing Cost Reimbursement Contracts Have Been Exceeded for All of the DFI-Related Task Orders Reviewed**

SIGIR found that none of the RIO or RIE task orders that we reviewed were closed within the FAR's 36-month guideline established for cost reimbursement contracts. The FAR 4.804 states as a guideline, not a requirement, that cost reimbursement contracts should be closed within 36 months of physically completing the work. All six of the RIO task orders have been closed but they exceeded the 36-month guideline by about 2 years.<sup>9</sup> As of October 2012, none of the 3 RIE task orders have been closed, even though, as stated above, the reconstruction projects were completed almost 8 years ago. For two of these task orders, USACE is waiting for DCAA to complete the final incurred cost audit. For the third task order, DCAA completed its incurred cost audit in November 2005, but the contract remains open due to unaudited subcontractor costs.

DCAA officials told us they perform final incurred cost audits in support of the closeout process to determine if costs charged to cost reimbursement government contracts are allowable, allocable, and reasonable in accordance with contract terms and applicable government acquisition regulations. Table 3 provides a status of DCAA's incurred cost audits for each of the four USACE administered RIO and RIE contracts that we reviewed.

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<sup>9</sup> Although USACE reached a negotiated financial settlement with the contractor in December 2005, the contract files were not formally closed until November 2009.

**Table 3—Status of DCAA’s Incurred Cost Audits of Restore Iraqi Oil and Electricity Contracts**

<b>Contract Number</b>	<b>Contractor</b>	<b>DFI Task Order Number</b>	<b>Period of Performance</b>	<b>Incurred Costs</b>	<b>DCAA Report Status</b>
DACA63-03-D-0005	KBR	5, 6, 7, 8, 9, and 10	5/4/03-3/31/04	FY 2003 FY 2004	Report Issued on 6/13/2008 Status in Question Pending Resolution of Contractor Issues
DACA78-03-D-0004	Washington International	2	10/1/03-10/31/06	FY 2004 FY 2005 FY 2006 FY 2007	Report Issued on 9/29/2006 Report Issued on 9/27/2012 Planned Completion FY 2013 Inadequate Submission of Data
DACA78-03-D-0005	Fluor	6	9/19/03-12/31/06	FY 2003 FY 2004 FY 2005 FY 2006 FY 2007	Report Issued on 2/8/2007 Report Issued on 4/27/2012 Report Issued on 9/29/2012 Planned Completion FY 2013 Planned Completion FY 2013
DACA78-03-D-0006	Perini	2	4/1/03-10/8/04	FY 2004	Report Issued 11/15/2005

*Source: DCAA.*

Table 3 shows that DCAA has not completed all of the final incurred cost audits for the DFI-related task orders under each of the four contracts. These audits are normally needed to help complete the closeout process; however, the RIO task orders were closed prior to completing the final incurred cost audits. USACE officials told us they took action on the KBR contract because the Iraqi Minister of Finance initially directed that all DFI-funded work be closed out by December 31, 2005, and that unused DFI funds be returned to the GOI by that date.<sup>10</sup> Based on DCAA audit work at the time, USACE, DCAA, and KBR representatives negotiated a final global settlement for all six RIO DFI-related task orders. USACE officials noted that the agreement was reached on December 22, 2005, and resulted in the exclusion of \$107 million from the award fee pool which led to KBR earning about \$37.3 million less than the maximum amount which it could have earned had these funds been included in the award fee pool.

USACE officials provided us with letters showing that in August 2006, they requested that DCAA assist the contracting officer in the use of the FAR’s quick close-out procedures for the three RIE DFI-related task orders. A USACE official told us that quick close-out takes between 6 and 18 months to complete, but that DCAA never responded to the letter. In discussions with DCAA officials, they told us it is unlikely that quick close-out could be used on these contracts because they do not meet the quick close-out conditions outlined in the FAR. For example, the officials said that quick close-out procedures are generally used for contracts with relatively insignificant amounts of unsettled costs and that the multi-million dollar RIE contracts would not meet this requirement. As a result, USACE is awaiting DCAA’s final incurred cost audits for Washington International and Fluor which are planned for completion in fiscal year 2013.

<sup>10</sup> The Minister of Finance extended the date twice for closing out DFI-funded work and returning any unused DFI funds to GOI. The final date for these actions was December 31, 2007.

Table 3 also shows that DCAA completed its final incurred cost audit for Perini in November 2005. However, subcontractor costs still remain to be audited and, as a result, the DFI-related task order has not been closed out. According to USACE and DCAA officials, Perini may have about \$200,000 in unearned revenue that, pending contract closeout, could be available for return to the GOI.

## **USACE Has Returned Some DFI Funds to the GOI, but More Funds May Be Available for Return Pending Contract Closeouts**

To date, USACE has returned \$17.7 million in DFI funds to the GOI, but there may be more funds available for return in the future. Since none of the RIE contracts that we reviewed have been closed out, it is not known whether the contractors owe USACE money or vice versa. Two of the three RIE contractors are awaiting DCAA final incurred costs audits which will determine whether money is owed that can be returned to the GOI. USACE and DCAA officials told us that at least one of the RIE contractors may have unused DFI funds that could be returned. Although unlikely, these officials also stated that USACE could owe the contractor money. If this situation occurred, USACE would have to determine where to get the money because it no longer has access to DFI funds.

### ***DFI Funds Returned to the GOI***

USACE's return of \$17.7 million to the GOI was completed in three parts. First, in March 2009, USACE returned \$13.1 million being held in a Finance Center suspense account: (1) \$7.2 million which mostly came from unspent funds associated with USACE's advance payments, and (2) \$5.9 million which two RIE contractors returned when USACE directed them to do so. Together, Fluor and Perini received \$5.9 million when USACE directed them to submit vouchers for all remaining funds on their respective RIE contracts. However, DCAA determined that there was no documentation of incurred costs supporting the amounts billed and, therefore, the companies could not support the amounts claimed. As a result, in January 2009, USACE issued demand letters directing Fluor and Perini to return the funds, which they did in full.<sup>11</sup> FRBNY records show that \$13.1 million was deposited into the DFI main account on March 5, 2009.

Second, in August 2011, USACE returned \$3.2 million that still remained in the Finance Center suspense account. Most of these funds, about \$3 million, represented funds Washington International returned, similar to the funds returned by Fluor and Perini. However, Washington International did not return all of the \$5.2 million that USACE provided when it submitted an invoice for all remaining funds on its contract. Instead, Washington International returned \$3 million and kept \$2.2 million for costs it claimed had been incurred but not yet paid. FRBNY records show that \$3.2 million was deposited into the DFI main account on August 12, 2011.

Third, in May 2012, USACE returned \$1.4 million to the GOI, which represented DFI funds still in dispute from the \$2.2 million retained by Washington International. Following a DCAA audit and analysis of additional information submitted by the contractor, the USACE contracting officer determined that Washington International was entitled to retain \$799,401. As a result, USACE sent a demand letter requesting repayment of the remaining \$1.4 million. However,

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<sup>11</sup> Perini, in addition to returning \$2,462,183 million to USACE, returned \$300,290 in interest directly to the GOI.

Washington International filed an appeal with the Armed Services Board of Contract Appeals on March 1, 2012, which allowed 90 days to resolve the claim. Prior to the Board's final ruling, the Comptroller's office decided to return the \$1.4 million, using Iraqi vested and seized assets still held by the U.S. government.<sup>12</sup> FRBNY records show that \$1.4 million was deposited into the DFI main account on May 10, 2012.

***Final Accounting Needed To Determine If the Contractors Owe USACE Money or Vice Versa***

USACE and DCAA officials told us that once the final incurred cost audit and final rate negotiation between the parties is completed they will know whether the contractors owe USACE money or vice versa. A USACE official stated that the contractors' final approved rates and their proposed rates (which are used to make preliminary payments) are rarely the same. USACE and DCAA officials noted that in almost all cases, the contractor ends up owing the contracting agency money. As noted earlier, USACE officials told us they have been informed that Perini may have about \$200,000 to return.

USACE and DCAA officials told us that the reverse (i.e., the contracting agency owing the contractor money), almost never happens. However, if it did happen with the RIE contractors—Washington International, Fluor, and Perini—USACE would have to determine where it would get the funds because it no longer has access to the DFI.<sup>13</sup> In fact, in a January 2009 letter responding to USACE's demand letter directing the return of \$3.5 million, Fluor stated that it would return the money less \$735,027. Fluor stated that its audited forward pricing rates for the years covered by the period of performance resulted in a cumulative adjustment of \$735,027 owed to Fluor. Fluor further stated that the adjustment was the difference between the rates previously invoiced to USACE and the current audited rates for the same years. Fluor ultimately returned all of the \$3.5 million. However, as noted in Table 3, DCAA does not plan to complete Fluor's incurred cost audits until FY 2013 and, until then, it will not be known whether USACE owes Fluor any of the questioned money.

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<sup>12</sup> The Board's final ruling has been deferred based on the parties' request that it continue to stay the proceedings, which the Board did through December 31, 2012.

<sup>13</sup> In discussing a draft of this report, USACE officials stated that they would work with the Office of the Secretary of Defense (Comptroller) to determine the best source of funds to use, such as vested and seized assets, should this situation arise.

## **Most of the Work Under the Non-fuel RIO and RIE Task Orders Was Successfully Completed**

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The RIO and RIE contract work was completed in 2004 and, for the most part, work performed under the non-fuel-related task orders that we reviewed was successfully completed. Even though construction work on one RIO task order was terminated before completion, USACE awarded two new contracts to complete the projects and paid for them exclusively with U.S.-appropriated funds.

### ***RIO Contract with KBR***

The RIO contract had six DFI-funded task orders, five covering fuel deliveries in Iraq. As noted above, due to the absence of material inspection and receiving reports, SIGIR cannot be assured that fuel paid for with DFI funds was actually received. The remaining task order, Task Order 6, covered oil infrastructure work including: (1) restoring 15 pipelines crossing the Tigris River near Al-Fatah Bridge in Baiji, (2) repairing or replacing 50 kilometers of pipeline from Kirkuk to the Tigris River, and (3) installing emergency back-up generators at various power plants and other facilities.<sup>14</sup> DFI funds were allocated for Task Order 6 and while the projects were ultimately completed, they were completed under new contracts and paid for using only U.S. funds.

KBR was successful in placing only six of the required 15 pipelines under the river near Al-Fatah Bridge. KBR's method of drilling holes under the river proved impractical for the larger diameter pipes and, as a result, USACE instructed it to stop construction on all of the pipeline crossings. However, the project was successfully completed by another contractor, through the issuance of two contracts—one for the remaining nine pipelines across the Tigris River and the other for three canal crossings involving the pipeline from Kirkuk to the Tigris River. The cost for these contracts was about \$80 million and \$1.6 million, respectively, and paid for using only U.S.-appropriated funds. Lastly, KBR successfully provided emergency back-up generators for power plants and other facilities as called for in the original task order.

### ***RIE Contracts with Washington International, Fluor, and Perini***

The RIE contracts with Washington International, Fluor, and Perini involved one DFI-funded task order each. However, work associated with each of these task orders was completed using a combination of U.S. (\$280.4 million) and Iraqi (\$790.9 million) funds. Contract objectives included construction of electricity distribution networks and construction or rehabilitation of electricity substations in northern, central, and southern Iraq. USACE officials noted that security-related issues resulted in increased project costs and the time needed to complete the projects. SIGIR inquired about final project assessment reports to help determine what was accomplished under these contracts, but USACE officials told us that none were prepared for the RIE contracts.

USACE officials provided us with a RIE status report, dated September 26, 2004, which listed 45 projects paid for using both U.S. and Iraqi funds: 17 U.S.-funded and 28 DFI-funded

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<sup>14</sup> Baiji is a city of about 200,000 people and is located 125 miles north of Baghdad.

projects. The status report showed that 12 of the 17 U.S.-funded projects (70.6%) were at least 95% complete, while 25 of the 28 DFI-funded projects (89.3%) were at least 95% complete. The report also noted that combined, the three contractors installed or rehabilitated 8,600 kilometers of transmission lines and designed, constructed, and commissioned 18 new substations. These projects added more than 1,800 megawatts to the Iraqi power distribution grid, or enough power to provide about 5.4 million Iraqi homes with electricity.

# Conclusions and Recommendations

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## Conclusions

USACE did not establish effective internal controls to document that goods and services paid for using DFI funds were received in Iraq. Almost all of the receiving reports were missing in our sample of 12 DFI-funded payments made to USACE. Further, material inspection and receiving reports were missing for \$1.3 billion that USACE paid for fuel deliveries. Without the reports, USACE has no evidence to indicate whether fuel or other products were received and the DFI payments warranted. This problem was compounded by the lack of meters on the fuel delivery trucks and the proliferation of fuel delivery points in Iraq. USACE also paid for vehicles, computers, televisions, and other products—all of which are susceptible to theft—without material inspection and receiving reports. SIGIR has not concluded that theft occurred with fuel or other products in Iraq, but the absence of these key receiving reports raises questions as to whether it occurred. Fuel thefts occurred in Afghanistan, and missing material inspection and receiving reports helped uncover it.

Conducting a final accounting of the DFI has been delayed pending completion of financial audits and contract closeouts. SIGIR recognizes that both USACE and DCAA face workload challenges and may have other priorities to contend with. However, until this work is completed USACE will not be in a position to know whether additional funds need to be returned to the GOI. Such uncertainty puts the U.S. in a politically sensitive position and calls for the concerted efforts of all involved to resolve.

## Recommendations

SIGIR recommends that the Secretary of Defense direct the Chief of Engineers, USACE, and the Director, DCAA, to work together to:

1. Take those actions necessary to expedite the incurred cost audits and contract close-out procedures for the three RIE DFI-funded task orders.
2. Return any unused DFI funds to the GOI.

## **Management Comments and Audit Response**

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The Office of the Under Secretary of Defense (Comptroller) provided written comments on a draft of this report and concurred with the report and its recommendations. Those comments are printed in their entirety in Appendix F. We also received technical comments from the U.S. Army Corps of Engineers and the Defense Contract Audit Agency and addressed them in the report as appropriate.

# Appendix A—Scope and Methodology

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## Scope and Methodology

In May 2012, the Special Inspector General for Iraq Reconstruction (SIGIR) initiated Project 1112d to review the U.S. Army Corps of Engineers' (USACE) use of Development Fund for Iraq (DFI) funds made available for reconstruction activities in Iraq. SIGIR's objectives for this report were to determine whether: (1) USACE properly accounted for the \$2.4 billion in DFI funds it received for reconstruction activities in Iraq, (2) USACE properly managed the contract closeout process for the DFI-related task orders that it administered, and (3) contractors completed work as planned under the DFI-funded contracts. This audit was performed under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978, as amended. SIGIR conducted its review from May through October 2012, in Washington, D.C.; Arlington and Winchester, Virginia; Dallas and Fort Worth, Texas; and Millington, Tennessee.

To evaluate whether USACE properly accounted for payments made using DFI funds, we reviewed Federal Reserve Bank of New York (FRBNY) and USACE payment records from July 2003 through November 2006. These records consisted of Excel spreadsheets containing payment information, as well as hard copy and electronic data files containing financial information associated with reimbursement and advance payments made to USACE using DFI funds. We judgmentally selected 12 payments for review from the FRBNY's disbursement records including: (1) the five largest dollar-value payments, (2) a mix of reimbursement and advance payments, and (3) a mix of payments for Restore Iraqi Oil (RIO) and Restore Iraqi Electricity (RIE). In most cases, the sampled payments involved multiple vouchers, each requiring separate financial supporting documentation. For each of the vouchers, we looked for three key financial supporting documents—a public voucher, a receiving report, and a vendor invoice. If we could not find one of these documents in USACE's payment files, we recorded the document as missing. We also reviewed contract and financial records and held discussions with USACE officials at headquarters in Washington, D.C.; Transatlantic Division and Middle East District, in Winchester, Virginia; Southwestern Division in Dallas and Fort Worth, Texas; and the Finance Center in Millington, Tennessee.

To evaluate whether USACE properly managed the contract closeout process, we reviewed the Federal Acquisition Regulations to determine the time frames and procedures to be followed. We met with USACE contracting office officials to ascertain actions taken or planned with regard to contract close-out proceedings for the RIO and RIE DFI-related task orders. We also held discussions with Defense Contract Audit Agency (DCAA) officials to determine their role in the contract closeout process and to determine the status of final incurred cost audits for the RIO and RIE DFI task orders.

To evaluate whether contractors completed work as planned for under each of the DFI-related task orders, we initially reviewed the statement of work as defined in each of the task orders. During fieldwork, we reviewed periodic reports that USACE and the contractors produced which described work accomplished. We requested final project assessment reports from USACE but were informed that these reports did not exist. However, USACE did provide us with an RIE

after-action report, dated September 26, 2004. Lastly, we reviewed a detailed report directed by the Department of Defense and the International Advisory and Monitoring Board covering the work performed under the RIO DFI-related task orders.

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

## **Use of Computer-processed Data**

In performing this audit, SIGIR obtained FRBNY computer-generated data but did not assess the system's general controls because this was a basic FRBNY accounting system that is reviewed as part of the agency's annual financial statements audit. Moreover, our substantive testing of the 12 DFI-funded payments revealed no material errors. Therefore, we concluded that the computer-processed information was sufficiently reliable and the best available for purposes of our audit.

## **Internal Controls**

In performing this audit, we reviewed USACE's internal controls to account for DFI payments. As a key part of this work, we reviewed USACE's contract and payment files, financial information generated by USACE's Finance Center, and FRBNY accounting records. We also held discussions with USACE and DCAA officials to gain an understanding of the internal controls governing DFI payments. We presented the results of our review of internal controls in this report, as appropriate.

## **Prior Coverage**

We reviewed the following reports by SIGIR, the U.S. Government Accountability Office, and the U.S. Department of Defense's Office of the Inspector General.

### ***Special Inspector General for Iraq Reconstruction***

*Development Fund for Iraq: The Coalition Provisional Authority's Financial Controls for Electronic Fund Transfer Payments Diminished over Time, SIGIR 12-013, 4/30/2012.*

*Development Funds for Iraq Returned to the Central Bank of Iraq, SIGIR 12-012, 1/13/2012.*

*Development Fund for Iraq: Department of Defense Cannot Fully Account for the Funds It Used after the Coalition Provisional Authority Dissolved, SIGIR 12-008, 1/27/2012.*

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

*Development Fund for Iraq: Policy Guidance Needed To Enhance Accountability of USACE-Managed Funds, SIGIR 10-006, 10/29/2009.*

*Cost, Outcome, and Oversight of Iraq Oil Reconstruction Contract with Kellogg Brown & Root Services, Inc.*, SIGIR 09-008, 1/13/2009.

*Agency Management of the Closeout Process for Iraq Relief and Reconstruction Fund Contracts*, SIGIR 07-010, 10/24/2007.

*Attestation Engagement Concerning the Award of Non-Competitive Contract DACA63-03-D-0005 to Kellogg, Brown and Root Services, Inc.*, SIGIR 05-019, 9/30/2005.

***U.S. Government Accountability Office***

*Contingency Contracting—Improved Planning and Management Oversight Needed to Address Challenges with Closing Contracts*, GAO-11-891, 9/27/2011.

***U.S. Department of Defense, Office of the Inspector General***

*Competition Issues and Inherently Governmental Functions Performed by Contractor Employees on Contracts to Supply Fuel to U.S. Troops in Iraq*, Report No. D-2011-049, March 15, 2011.

***Other***

*Updated Report of Agreed-Upon Procedures Regarding the Settlement between U.S. Army Corps of Engineers and Kellogg, Brown & Root, Crowe Chizek and Company LLC*, 11/16/2006.

## Appendix B—Results of SIGIR’s Documentation Review of Selected Payments Made to USACE

Table 4 lists the 12 DFI payments made to USACE that SIGIR selected for review, most of which were made up of multiple vouchers. For each voucher, SIGIR’s evaluation focused on checking the payment files for three key financial supporting documents: the public voucher, the receiving report, and the vendor invoice.<sup>15</sup> Table 4 shows the results of SIGIR’s documentation review for the 12 selected DFI payments made to USACE from February 2004 through March 2006.

**Table 4—Documentation Check List for DFI Payments Made to USACE**

Payment Description	Amount Paid	Date of Payment	Number of Documents Required	Number of Documents Found			Number of Documents Missing
				Public Vouchers	Receiving Reports	Vendor Invoices	
<b>Reimbursement Payments</b>							
Fuel Delivery	\$190,000,000	3/16/2004	9	3	0	3	3
Fuel Delivery	186,147,882	2/17/2004	9	3	0	3	3
Fuel Delivery	173,534,487	12/13/2004	41	11	0	15	15
Fuel Delivery	93,242,492	3/11/2004	9	3	0	3	3
Fuel Pipeline Construction	19,703,868	2/23/2005	5	1	0	2	2
Electricity Restoration	244,097,668	6/25/2004	48	13	0	13	22
Electricity Restoration	99,692,333	5/24/2004	21	7	0	7	7
Electricity Restoration	38,674,500	10/12/2004	21	7	0	7	7
<b>Sub Totals</b>	<b>\$1,045,093,230</b>						
<b>Advance Payments</b>							
Electricity Restoration	\$56,000,000	6/07/2004	75	25	0	20	30
Baghdad Governorate Revitalization	11,000,000	6/22/2004	77	25	5	25	22
Electricity Restoration	10,000,000	3/22/2006	18	6	0	6	6
USACE Labor	4,689,420	8/23/2004	2	1	N/A	1	0
<b>Sub Totals</b>	<b>\$81,689,420</b>						
<b>Totals</b>	<b>\$1,126,782,650</b>		<b>335</b>	<b>105</b>	<b>5</b>	<b>105</b>	<b>120</b>

Documents Required 335  
 Documents in Files 215  
 Documents Missing 120  
 Percentage of Documents Missing 35.8%

Source: SIGIR analysis of USACE data.

<sup>15</sup> The two types of receiving reports that we looked for were the material inspection and receiving report (DD-250) and the Engineering Form 93.

## **Appendix C—List of Advance Payments to USACE**

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Table 5 provides a listing of the amount and date for each of the 13 transfers of advance DFI funds by the Federal Reserve Bank of New York (FRBNY) to the U.S. Army Corps of Engineers (USACE). These transfers took place from May 2004 through April 2005.

**Table 5—Date and Amount of Advance DFI Funds Transferred by the FRBNY to USACE**

<b>Amount Transferred</b>	<b>Date Transferred</b>
\$5,558,698.00	05/11/2004
132,942.00	06/02/2004
1,500,000.00	06/02/2004
56,000,000.00	06/07/2004
7,200,000.00	06/08/2004
8,317,815.00	06/10/2004
11,000,000.00	06/22/2004
944,000.00	08/03/2004
4,689,420.00	08/23/2004
5,926,153.00	08/05/2004
31,773,423.84	12/23/2004
90,240,410.63	12/23/2004
10,000,000.00	04/19/2005
<b>\$233,282,862.47</b>	

*Source: FRBNY and USACE.*

## Appendix D—Acronyms

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<b>Acronym</b>	<b>Description</b>
CEFMS	Corps of Engineers Financial Management System
CPA	Coalition Provisional Authority
DCAA	Defense Contract Audit Agency
DFI	Development Fund for Iraq
FAR	Federal Acquisition Regulation
FRBNY	Federal Reserve Bank of New York
GOI	Government of Iraq
KBR	Kellogg Brown and Root Services, Inc.
RIE	Restore Iraqi Electricity
RIO	Restore Iraqi Oil
SIGIR	Special Inspector General for Iraq Reconstruction
USACE	U.S. Army Corps of Engineers

## **Appendix E—Audit Team Members**

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

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

Benjamin H. Comfort

M. Glenn Knoepfle

L. Michael Welsh

# Appendix F—Department of Defense Comments

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COMPTROLLER

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

OCT 18 2012

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITS, OFFICE OF  
THE SPECIAL INSPECTOR GENERAL FOR IRAQ  
RECONSTRUCTION

SUBJECT: Comments on the Special Inspector General for Iraq Reconstruction Draft Audit Report, "Development Fund for Iraq: U.S. Army Corps of Engineers Has Missing Receiving Reports and Open Task Orders" (SIGIR 13-003)

We received the subject October 4, 2012, draft audit report and reviewed your recommendation to the Secretary of Defense. A response that addresses your recommendation is attached.

We appreciate the opportunity to review and comment on the draft audit report. My staff point of contact is Ms. Charlotte Beacham. She can be reached at [charlotte.beacham@osd.mil](mailto:charlotte.beacham@osd.mil) or 703-602-0371.

A handwritten signature in black ink, appearing to read "Mark E. Easton".

Mark E. Easton  
Deputy Chief Financial Officer

Attachment:  
As stated

SIGIR DRAFT REPORT – DATED OCTOBER 4, 2012  
SIGIR 13-003

“DEVELOPMENT FUND FOR IRAQ: U.S. ARMY CORPS OF ENGINEERS HAS MISSING  
RECEIVING REPORTS AND OPEN TASK ORDERS”

OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
(OUSD(C)) RESPONSE TO THE SIGIR RECOMMENDATION

RECOMMENDATION: SIGIR recommends that the Secretary of Defense direct the Chief of Engineers, USACE, and the Director, DCAA, to work together to:

1. Take those actions necessary to expedite the incurred cost audits and contract close-out procedures for the three RIE DFI-funded task orders.
2. Return any unused DFI funds to the GOI.

OUSD(C) RESPONSE: Concur. The United States Army Corps of Engineers (USACE) was assigned the responsibility for managing the Restore Iraqi Electricity (RIE) Development Fund for Iraq (DFI) contracts that have not been closed out. The Defense Contract Audit Agency (DCAA) financial audits must be completed before USACE can proceed. We agree that expeditious closeouts of the RIE DFI-funded contracts are in the best interest of the Department and the United States Government. USACE and DCAA are currently working together to expeditiously close these contracts, permitting the return of any excess funds. It should be noted that DCAA has not yet received an adequate submission for one of the contracts, URS (formerly Washington International) to begin the necessary audit.

Attachment

## **Appendix G—SIGIR Mission and Contact Information**

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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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### **Obtaining Copies of SIGIR Reports and Testimonies**

To obtain copies of SIGIR documents at no cost, go to SIGIR’s Web site ([www.sigir.mil](http://www.sigir.mil)).

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### **Congressional and Public Affairs**

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