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INFO MEMO

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FOR: SECRETARY OF DEFENSE
DEPUTY SECRETARY OF DEFENSE

FROM: Tina W. Jonas *TWJ*

SUBJECT: Audits Related to the Coalition Provisional Authority (CPA) Operations

The CPA, Inspector General (CPA-IG), the Government Accountability Office (GAO), and KPMG have conducted the following audits related to the CPA's operations. The audits related to the Development Fund for Iraq (DFI) are in bold.

- CPA-IG Audit 04-007, "Oil for Food Cash Controls," July 26, 2004, focused on the CPA's monitoring and controlling of the transfer of \$1.5B in Oil for Food funds to the Kurdish Regional Government (KRG). The CPA-IG found the CPA satisfied government accounting standards, including cash transfers without a high risk of loss. However, a local courier's procedures, for transfer of funds, were not reviewed and approved. CPA did not concur with the finding as the courier was used previously by the KRG and the United Nations.
- CPA-IG Audit 04-008, "CPA's Control Over Seized and Vested Assets," July 28, 2004, focused on the inventory, safeguarding and use of personal and real property. The CPA-IG found CPA had inadequate controls over seized and vested non-cash assets. CPA-IG recommended the CPA review hand receipts, accounting and payment records, and turn over non-cash assets to the Ministry of Culture. CPA management concurred and implemented the recommendations.
- CPA-IG Audit 04-009, "CPA Comptroller's Cash Management Controls," July 28, 2004, focused on policies and procedures in accounting for, monitoring and controlling DFI cash assets available for disbursement (\$600 million of the approximately \$20 billion). The CPA-IG found ineffective controls, weaknesses in cash accountability, physical security, and fund managers' responsibilities, and discrepancies in fund agent records that potentially left the DFI cash assets susceptible to fraud, waste and abuse. CPA Management concurred with and implemented all five recommendations.



OSD 13039-04

- **GAO Report GAO-04-902R, “Resource, Security, Governance, Essential Services, and Oversight Issues,” June 28, 2004,** focused on issues associated with Iraqi, U.S. and international funding efforts. The GAO found DFI funds disbursed supported the Iraqi budget and Ministries, and were approved by the Program Review Board. The GAO did not provide any recommendations.
- **KPMG Audit of the Development Fund for Iraq (May 2003 – December 2003), June 29, 2004.** KPMG, at the direction of the International Advisory and Monitoring Board (IAMB), and in accordance with United Nations Security Council Resolution (UNSCR) 1483, focused on oil export sales, accounting for the proceeds from oil export sales, and DFI financial statements and disbursement procedures. KPMG found weaknesses in controls over oil exports, but recognized the post-combat environment. KPMG also found weaknesses with CPA accounting and contracting procedures. In addition, KPMG found weaknesses with Iraqi Ministries’ accounting, reconciliation and contract bidding procedures. KPMG provided a positive opinion of the DFI Financial Statement, and confirmed all oil sales were correctly recorded in the Oil Proceeds Receipt account. The opinion contained one qualification that an unknown quantity of oil was illegally smuggled out of Iraq.
- **Army Audit Agency (AAA) “Audit of Vested and Seized Assets,” May 18, 2004,** focused on the adequacy of controls to secure and account for vested and seized assets. The AAA found problems with accountability and security of non-cash seized assets. The preliminary report recommended CPA establish a baseline inventory, appoint accountable officers, and use a property accountability record system. The AAA is coordinating its interim results with the CPA-IG.
- **CPA-IG Audit 04-006, “Corporate Governance Programs for Contractors for Iraq Relief and Reconstruction Efforts,” July 21, 2004,** focused on the adequacy and effectiveness of corporate self-governance programs of contractors funded by the Supplemental Appropriations Act. The CPA-IG found contractors had viable programs and a commitment to ethical and corporate excellence. The CPA-IG also acknowledged challenges remain and addressing risks is fundamental to efficient corporate governance. The CPA-IG made no recommendations.
- **CPA-IG Audit, “CPA Controls Over Funds Provided to Interim Iraqi Ministries Through the National Budget Process,” July 12, 2004 (Draft Report),** focused on whether the CPA established and implemented adequate managerial, financial, and contractual controls over the funds to ensure they were used in a transparent manner. The CPA-IG, in its draft report, found the CPA: 1) did not have adequate managerial controls; 2) did not exercise adequate fiduciary responsibility; and 3) did not adequately control contracting actions over DFI funds provided to the Iraqi Ministries. The CPA-IG is awaiting receipt of management comments, and the completion of interviews with Ambassador Bremer and staff before issuing a final audit report.



- Audits In-Process.
 - **KPMG Audit of the Development Fund for Iraq (January 2004 – June 2004).** KPMG will update the International Monetary and Advisory Board at its September meeting. KPMG will release the draft audit in October.
 - **CPA-IG audit, “Cash Controls Over Disbursing Officers in Southern Iraq,” Project No. D2004-DCPAAF-0034, announced August 26, 2004. Entrance conference to be scheduled.**
 - To determine whether disbursing officers complied with guidance and properly controlled and accounted for DFI cash assets and expenditures.
 - **CPA-IG audit, “Administration of Development Fund for Iraq Funded Contracts,” Project No. D2004-DCPAAF-0033, announced August 26, 2004. Entrance conference to be scheduled.**
 - To determine whether the Project and Contracting Office (PCO) complied with the Ministry of Finance (MoF) memorandum that designated responsibility to the PCO to monitor and confirm contract performance, certify and/or make payments, and administer contracts or grants funded by the DFI and entered into on or before June 28, 2004.

- Audits Scheduled to be Announced in September 2004 (Objectives and Scope Are Being Developed).
 - **CPA-IG audit of Contract Administration of Iraq Relief and Reconstruction Fund Contracts**
 - **CPA-IG audit of Project Management of Selected Sector Contracts**

- Future Planned Audits Through the Remainder of Calendar Year 2004 and 2005.
 - CPA-IG Audit of Estimates to Complete Iraq Reconstruction Projects
 - CPA-IG Audit of Definitization of Reconstruction Task Orders
 - CPA-IG Audit of Project and Contracting Office Logistics Supply Chain Management
 - CPA-IG Audit of Freight Forwarding to Support Iraq Reconstruction
 - CPA-IG audit of the Iraq Project and Contracting Office Management Support
 - CPA-IG audit of the Post-Transition Program Risks Impacting Iraq Reconstruction
 - CPA-IG audit of the Project and Contracting Office Use of Award Fees
 - CPA-IG audit of the Project Life Cycle Logistical Requirements Planning and Execution for Major Facilities

- Proposed Audits:
 - CPA-IG audit of the CPA Administration of the Oil for Food Program (on-hold pending how much work GAO does on this topic).



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