



DEFENSE
SUPPORT
OFFICE - IRAQ

OFFICE OF THE SECRETARY OF DEFENSE
1000 DEFENSE PENTAGON
WASHINGTON DC 20310-1000

INFO MEMO

APR - 4 2005

FOR: SECRETARY OF DEFENSE

FROM: Director, Defense Support Office - Iraq 

Subject: Our Answer to Senator Harkin

- You asked (Tab A) about our letter to Senator Harkin, et al (Tab B), concerning the Special Inspector General for Iraq Reconstruction (SIGIR) audit of the \$8.8 billion provided to Iraqi Ministries, and what we plan to do about it.
- We sent the letter to Senator Harkin (Tab B) on October 18, 2004. The SIGIR released his audit report on January 30, 2005.
- The SIGIR concluded in his report that the "CPA provided less than adequate controls" over the funds. Ambassador Bremer provided a written response strongly disagreeing with the SIGIR's conclusion. The Defense Support Office -Iraq provided an OSD response to support Ambassador Bremer's comments. Both responses were published in the SIGIR report of the audit. (Executive Summary of the Audit at Tab C).
- In our letter to Senator Harkin, we said we would take appropriate actions on the SIGIR's recommendations. The SIGIR did not recommend any specific action. A follow-up letter to Senator Harkin is not necessary.
- However, the SIGIR did recommend and is now conducting a lessons learned study "addressing not only the planning for specific managerial, financial, and contractual controls in future situations of this nature but also the national planning aspects necessary to overall management of these type of endeavors should they occur in the future." We will support the study.

COORDINATION: Dan Stanley, Acting Assistant Secretary of Defense for Legislative Affairs

Prepared By: Traci Scott, DSO-Iraq (703)697-6060

022505-27



FOUO

February 28, 2005

TO: Dan Stanley
FROM: Donald Rumsfeld *DR*
SUBJECT: Our Answer to Senator Harkin

Please get a copy of the letter I answered from Senator Harkin – by Powell Moore
– and let me know what we plan to do about it.

Thanks.

DHR:ss
022505-27

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Please respond by 3/3/05



FOUO



LEGISLATIVE
AFFAIRS

THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, DC 20301-1300

13 OCT 2004

The Honorable Thomas Harkin
United States Senate
Washington, D.C. 20510-1502

Dear Senator Harkin:

Thank you for your continued attention to reconstruction efforts in Iraq. This is in reply to your letter to Secretary Rumsfeld regarding \$8.8 billion from the Development Fund for Iraq (DFI) provided to Iraqi ministries through the Iraqi budget process.

The news reports that prompted your letter appear to be based on an ongoing audit by the Coalition Provisional Authority Inspector General (CPA-IG). This audit has not been finalized, pending the collection and assessment of additional information through interviews with Ambassador Bremer and senior CPA officials directly responsible for the decisions about the DFI.

Although it is premature to comment on the uncompleted audit, I am advised that possible misperceptions concerning the nature of the DFI and the funds provided to Iraqi ministries need to be clarified. DFI funds were entirely Iraqi funds, the property of the Iraqi people not U.S. taxpayer funds. The DFI included principally revenues from the sale of Iraqi petroleum and transfers from certain United Nations (UN) escrow accounts. It was established as a means of transparently meeting Iraq's humanitarian, relief and reconstruction needs. The CPA published on its website a regularly updated DFI financial statement, and a summary of DFI expenditures by or on behalf of each Iraqi ministry.

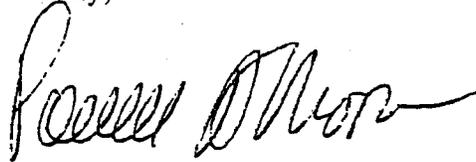
In keeping with the UN Security Council Resolution 1483 that states, "the funds in the Development funds for Iraq shall be disbursed at the direction of the Authority (the CPA), in consultation with the Iraqi interim administration...." Ambassador Bremer authorized disbursing funds to the Iraq ministries. Additionally, DFI funds were disbursed to Iraqi ministries in accordance with annual budgets that were also published on the CPA website. Iraqi ministries used DFI funds for purposes that directly benefited the people of Iraq. DFI funds paid the salaries of hundreds of thousands of government employees such as teachers, health workers, administrators and government pensioners; supported the Iraqi defense and police forces that are today taking on more and more of the fight against insurgents; sustained operations of Iraq's public services; and helped repair Iraq's dilapidated infrastructure.



As you know Ambassador Bremer as Administrator of the CPA had an obligation to ensure that the administration of Iraq was progressively undertaken by the Iraqi interim government, and to return governing responsibilities and authorities to the people of Iraq as soon as possible. Providing Iraqi funds from the DFI to Iraqi ministries, in accordance with a national budget approved by that administration, was an important part of this process.

The Department of Defense fully supports the important work of the CPA-IG. Please be assured that when the CPA-IG audit is complete, the Department of Defense will take appropriate actions on its recommendations. An identical letter has been sent to Senators Wyden and Dorgan.

Sincerely,



Powell A. Moore
Assistant Secretary of Defense
(Legislative Affairs)



United States Senate

WASHINGTON, DC 20510

August 19, 2004

The Honorable Donald Rumsfeld
Department of Defense
The Pentagon
Washington, DC 20301

Dear Secretary Rumsfeld:

We are writing about recent press reports that indicate \$8.8 billion in Development Fund for Iraq (DFI) money cannot be accounted for. The reports indicate that the Coalition Provisional Authority (CPA), which was in charge of the money throughout the period in question, allocated the money to Iraqi ministries earlier this year, prior to the termination of the CPA. The CPA apparently transferred this staggering sum of money with no written rules or guidelines for ensuring adequate managerial, financial or contractual controls over the funds.

Among the disturbing findings are that the payrolls of the ministries, under CPA control, were reportedly padded with thousands of ghost employees. In one example, the report indicates that the CPA paid for 74,000 guards even though the actual number of guards couldn't be validated. In another example, 8,206 guards were listed on a payroll, but only 603 real individuals could be counted. Such enormous discrepancies raise very serious questions about potential fraud, waste, and abuse.

The reports raise anew very serious questions about the quality of the CPA's oversight and accountability in the reconstruction of Iraq. Iraq is now a sovereign nation, but it is clear that the United States will continue to play a major role in the country's reconstruction. It is therefore imperative that the U.S. government exercise careful control and oversight over expenditures of taxpayer dollars. Continued failures to account for funds, such as the \$8.8 billion of concern here, or Halliburton's repeated failure to fully account for \$4.2 billion for logistical support in Iraq and Kuwait, and the refusal, so far, of the Pentagon to take corrective action are a disservice to the American taxpayer, the Iraqi people and to our men and women in uniform.

We are requesting a full, written account of the \$8.8 billion transferred earlier this year from the CPA to the Iraqi ministries, including the amount each ministry received and the way in which the ministry spent the money, as well as a date certain for when the Pentagon will finally install adequate managerial, financial and contractual controls over taxpayer dollars and DFI expenditures in Iraq. We look forward to hearing from your office in the next two weeks.

Sincerely,


Ron Wyden


Tom Harkin


Byron Dorgan



CSO 124-58-04

Office of the Special Inspector General for Iraq Reconstruction

Report Number 05-004

January 30, 2005

(Project No. D2004-DCPAAC-0007)

Oversight of Funds Provided to Iraqi Ministries through the National Budget Process

Executive Summary

Introduction. This audit report discusses the oversight of Development Fund for Iraq (DFI) funds provided to Interim Iraq Government (IIG) ministries through the national budget process. The Coalition Provisional Authority (CPA) was the authority responsible for the temporary governance of Iraq through June 28, 2004. Thereafter, the IIG was the authority responsible for the governance of Iraq. Therefore, this report does not address the CPA management or use of U.S. appropriated funds.

Objective. The original objective of the audit was to determine whether the CPA had implemented adequate procedures for recording, reviewing, and reporting disbursements. During the audit, we limited the scope to review procedures and controls to only DFI funds provided to the interim Iraqi government through the national budget process. Specifically, we determined whether the CPA established and implemented adequate managerial, financial, and contractual controls over DFI disbursements provided to interim Iraqi ministries through the national budget process.

Results. The CPA provided less than adequate controls for approximately \$8.8 billion in DFI funds provided to Iraqi ministries through the national budget process. Specifically, the CPA did not establish or implement sufficient managerial, financial, and contractual controls to ensure DFI funds were used in a transparent manner. Consequently, there was no assurance the funds were used for the purposes mandated by Resolution 1483.

- **Managerial Controls.** The CPA did not implement adequate managerial controls over DFI funds provided to Iraqi ministries through the national budget process. Specifically, authorities and responsibilities over DFI funds were not clearly assigned, and CPA regulations, orders, and memoranda did not contain clear guidance regarding the procedures and controls for disbursing funds for the national budget.
- **Financial Controls.** The CPA did not implement adequate financial controls to ensure DFI funds were properly used. Specifically, the CPA did not exercise adequate responsibility over DFI funds provided to Iraqi ministries through the national budget process. Additionally, although the CPA published approved national budgets and total disbursements to Iraqi ministries on the Internet, it was not transparent what the funds were actually used for. Lastly, the CPA did not maintain adequate documentation to support budget spending plans, budget disbursements, or cash allocations made by coalition forces.
- **Contract Controls.** The CPA did not adequately control DFI contracting actions. Specifically, the CPA contracting office did not review contracting procedures at



the Iraqi ministries. In addition, CPA senior advisors and staffs did not provide oversight of Iraqi ministry procurements or contracting operations and executed contracts through the national budget process that were not in compliance with CPA Memorandum Number 4 guidance.

Conclusion. While acknowledging the extraordinarily challenging threat environment that confronted the CPA throughout its existence and the number of actions taken by CPA to improve the IIG budgeting and financial management, we believe the CPA management of Iraq's national budget process and oversight of Iraqi funds was burdened by severe inefficiencies and poor management. Although we did not include all aspects of the threat environment or all CPA actions to improve the IIG budgeting and financial management in our audit scope and, therefore, cannot verify the validity of statements made. The management comments to this report provide the detailed opinions of the CPA Administrator and the Defense Support Office – Iraq on those issues.

Finally, although formal recommendations were not made in this report, we believe that the results of this audit dictate that lessons learned studies should be performed addressing not only the planning for specific managerial, financial, and contractual controls in future situations of this nature but also the national planning aspects necessary to overall management of these type of endeavors should they occur in the future. We are aware that other organizations have similar concerns. For example, the Office of the Secretary of Defense has initiated lessons learned studies concerning financial and logistics issues. However, we believe that those specific studies need to be brought together so that efforts can be better coordinated and be used to assist in formulating national planning initiatives. As such, rather than recommend others to perform this work, the SIGIR will take on the task of consolidating lessons learned studies that are specific in nature and also continue a broader scope lessons learned initiative previously started by this organization.

Management Comments and Audit Response. The initial comments on a draft of this report were received on July 18, 2004, from the Director, Iraq Reconstruction Management Office. The Director and the Senior Advisor to the Ministry of Finance/Office of Management and Budget concurred with the report. Subsequently, the Defense Support Office - Iraq disagreed with the report by providing informal comments on July 20, 2004, and revised informal comments on August 12, 2004. The CPA Administrator provided comments on September 8, 2004, and the Director of the Defense Support Office – Iraq provided comments on October 7, 2004. Those comments are included in the Management Comments section of the report.

The CPA Administrator and the Director, Defense Support Office – Iraq disagreed with the audit finding and stated the report did not acknowledge the difficult operational context in which the CPA was operating and did not recognize the actions taken to improve weaknesses in the Iraqi budgeting and financial management. We revised our report to address the comments from the CPA Administrator regarding the situation the CPA found in Iraq when it assumed control. However, their comments did not cause us to change our conclusion that the CPA did not establish or implement sufficient managerial, financial, and contractual controls to ensure DFI funds were used in a transparent manner or that there was no assurance the funds were used for the purposes mandated by Resolution 1483. See the Finding section of the report for a discussion of the management comments and the Management Comments section of the report for the complete text of the comments.

