

## Message From the Inspector General of the Coalition Provisional Authority

I am pleased to submit herewith the first Quarterly Report to the Congress from the Office of the Inspector General, Coalition Provisional Authority. This Report complies with the requirements provided under Section 3001 of Public Law 108-106, which established the Coalition Provisional Authority's Office of Inspector General (CPA-IG). The Report also provides a data-rich foundation on the funding of Iraq reconstruction activities upon which future reports will build.

On January 20, 2004, the Secretary of Defense, with the consent of the Secretary of State, appointed me Inspector General of the CPA. No CPA-IG organizational structure then existed, and the first Report was due in 70 days. Thus, I immediately devoted substantial time and effort towards establishing the CPA-IG's mission, vision, planning, personnel, and reporting regimen. I accomplished these tasks with the important assistance of the Inspectors General of the Departments of Defense and State.

During the six weeks following my appointment, I made two trips to Baghdad to acquire data on Iraq funding issues and to interview key CPA officials with knowledge about CPA's acquisition and financial processes. I returned to the U.S. from my second trip on March 6; and since then, I and my staff, which now numbers nearly 60 persons, have been devoted to the preparation of this Report.

By virtue of the time constraints that naturally fell upon this Office, this first Report does not contain any audit, inspection, or investigative work originated by CPA-IG personnel. Future reports, however, will contain such work, and teams of CPA-IG auditors and investigators are now at work in Baghdad.

As we prepared this Report, it became apparent that the CPA-IG's reporting date needs to be changed to mesh with existing U.S. Government reporting cycles. Thus, with this Report, I am requesting that future CPA-IG report dates be shifted to July 30, October 30, and January 30 (with data cut-offs at the standard calendar quarter). This minor change in timing will greatly facilitate our data-gathering efforts.

I believe that this Report is a good start towards fulfilling the CPA-IG's Congressional mandate, which was designed to protect the taxpayer's interests in the funding of Iraq relief and reconstruction. Given the substantial scope of that mandate, I recognize that the real work of my organization has only just begun.

I look forward to maintaining open lines of communication with the Congress regarding my mission and to use those lines to enhance and refine our reporting objectives.

Submitted on March 30, 2004.



Stuart W. Bowen, Jr.  
Inspector General, Coalition Provisional Authority

## Table of Contents

Executive Summary.....	1
Coalition Provisional Authority .....	5
Coalition Provisional Authority Inspector General .....	8
Activities of the CPA Inspector General .....	10
Sources and Uses of Funds .....	25
Process and Controls.....	41
CPA-IG Accomplishments to Date and Next Steps .....	47
Glossary and Appendices	

# Executive Summary

## Overview

The Congress established the Office of the Inspector General of the Coalition Provisional Authority through Public Law 108-106.<sup>1</sup> Pursuant to that statute, the CPA-IG will promote the efficient, legal, and effective use of U.S. taxpayer, Iraqi and other funds committed to Iraq relief and reconstruction efforts, by coordinating and engaging in audits, inspections, reviews, and investigations.



Section 3001(i) of Public Law 108-106 requires the CPA-IG to submit to Congress, no later than March 30, 2004, (and each quarter thereafter), a report summarizing the activities of the Coalition Provisional Authority and the CPA-IG. This submission constitutes the CPA-IG's first mandated report, and it includes, among other things, information about the most significant activities of the CPA and the CPA-IG.

Since commencing operations on January 20, 2004, the CPA-IG has been fully engaged in a wide range of activities including:

- Growing the organization in two months from 2 to 58 employees, who operate out of Washington and Baghdad
- Deploying rapid response Tiger Teams to Baghdad to address issues of immediate concern
- Launching several new initiatives, including: interagency working groups in Washington and Baghdad to coordinate Iraq contracting and funding reviews; implementing a CPA-IG Web site; setting up fraud, waste and abuse hotlines; and developing corporate governance reviews for contractors in Iraq
- Conducting more than 50 interviews of key individuals regarding Iraq reconstruction program issues (Baghdad and Washington)
- Collecting a large volume of Iraq funding and process data from a wide range of sources

The CPA-IG's strategic approach to executing its mandate is illustrated in Figure 1 on the following page. This approach leverages information collected to date by other audit and investigative agencies and CPA-IG interviews to create appropriate priorities and deploy the right resources that will produce rapid results.

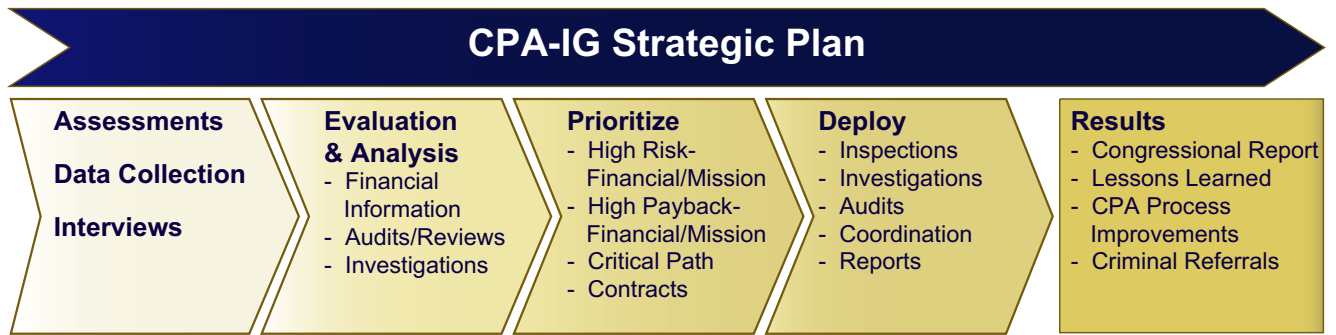


Figure 1: CPA-IG Strategic Approach

## Report Objectives

What follows is a multi-faceted report on the work that the CPA-IG has accomplished over the past two months, including:

- A narrative of the organizational activity of the CPA-IG and the CPA
- A detailed review of Iraq funding data collected by the CPA-IG (including sources, uses, and contract data)
- A description of new initiatives instituted by CPA-IG
- A summary of CPA processes and controls
- An outline of CPA-IG next steps

This report meets the requirements of Public Law 108-106, Section 3001(i). It presents a background of the CPA and the CPA-IG, along with an overview of activities. CPA-IG activities include: strategic planning, resourcing, initial meetings, coordination and audit planning, deployment, information and data collection, and interaction with other agencies that have had prior and ongoing oversight into CPA matters.

## Meeting the CPA-IG Mission

The CPA-IG has launched several new initiatives to further its mission. First, the CPA-IG formed an Iraq Inspectors General Council in Washington, D.C., to coordinate the numerous audit and investigation activities by various agencies in relation to Iraq reconstruction. Second, a CPA-IG Web site and hotlines in the U.S. and Iraq have been developed that will enable public reporting of fraud, waste, and abuse allegations. Currently, the CPA Web site contains a link facilitating public reporting of allegations to the CPA-IG.

Third, the CPA-IG is establishing an Iraq Financial Working Group in Baghdad to facilitate improved communication and cooperation among the various financial and management entities overseeing reconstruction on the ground in Iraq. The CPA-IG is also working with the CPA to train a new corps of Iraqi Inspectors General that will be an

integral part of the Iraqi Ministries following the transition of authority on June 30, 2004.

Finally, the CPA-IG is developing a corporate governance initiative. It will examine ways in which the recipients of Iraq reconstruction contracts can participate in a dialog that will lead to improved internal compliance processes, as well as enhanced accountability and transparency. This initiative can serve to strengthen the public's confidence in the oversight of reconstruction activities.

To date, the data collection activities of the CPA-IG have yielded primary source information that will serve as the basis for further action. Since the establishment of the Office of Reconstruction and Humanitarian Assistance (ORHA), which the CPA succeeded, \$39.5 billion (approximately \$23.7 billion in appropriated funds and \$15.8 billion in Iraqi funds) has been amassed for Iraq relief and reconstruction (as of February 29, 2004). Additionally, international humanitarian aid approaching \$2 billion has been provided. Finally, the international community has pledged nearly \$13.5 billion in funding for this effort.

Since the establishment of ORHA, the CPA and other agencies supporting Iraq relief and reconstruction have awarded contracts, using both U.S. appropriated and Iraqi sources of funds, valued at \$9.9 billion, of which \$7.3 billion has been obligated. These contracts are categorized as follows: full and open competition (685 contracts, 46% of total contracts, 20% of total value); limited competition (745 contracts, 50% of total contracts, 48% of total value); sole source (57 contracts, 4% of total contracts, 32% of total value). The sole source contracts were predominately awarded during the stand-up phase of the relief and reconstruction of Iraq (34 contracts, 87% of total sole source contracts, 60% of total value of sole source contracts were awarded prior to May 1, 2003). (Data are as of March 10, 2004.)

This initial data collection provides the basis for the CPA-IG's preliminary development of a comprehensive and informed audit plan that prioritizes the most important opportunities for improving the economy, efficiency and effectiveness of Iraq relief and reconstruction activities. In the coming weeks and months, our Tiger Teams will report back on these and other emerging issues, and we will refine our priorities accordingly.

CPA-IG has established 15 preliminary focus areas, including the following potential areas of risk:

- Security concerns and costs
- CPA transition to Iraqi authority
- Funding controls

- Logistics management and the safeguarding of assets
- Contracting irregularities
- Iraqi involvement
- Interagency relationships
- Use of Continental U.S. (CONUS) contracts for intended purposes
- Acquisition planning
- Use of U.S. Army support contracts (LOGCAP)

Other focus areas include these potential areas for process improvement:

- Corporate governance
- Contracting processes
- Transition planning
- Human resource management
- Program management

The CPA-IG is establishing an active and significant presence in Baghdad designed to both deter fraud, waste and abuse, and to engage our auditors, investigators and inspectors in activities that will improve efficiency and economy in Iraq reconstruction efforts. Results are also anticipated from our expanded coordination with fellow Inspectors General, audit agencies, key stakeholders, the Congress, and the public.

The CPA-IG will pursue an aggressive work plan, making every effort to complete high-priority reviews and audits in FY 2004, while maintaining the highest standards of professionalism and integrity. We look forward to presenting our first summary of findings and recommendations in our June 30, 2004 report.

# Coalition Provisional Authority

## Overview

The Coalition Provisional Authority was established to provide for the temporary governance of a free Iraq. On May 9, 2003,<sup>2</sup> the President of the United States appointed the Honorable L. Paul Bremer III to serve as the Presidential Envoy to Iraq. On May 13, 2003, the Secretary of Defense designated Ambassador Bremer as the head of the CPA, with the title of Administrator and the responsibility for the temporary governance of Iraq.

## Mission/Goals

The CPA's mission is to work with the Iraqi people to establish the conditions for a free, sovereign, and democratically elected representative government in Iraq. The goal is a unified, stable, democratic Iraq that secures an effective and representative government for the Iraqi people, protects freedoms for all Iraqis, provides for a growing market economy, and is able to defend itself without posing a threat to its neighbors or international security.

## The CPA Established

The CPA is the temporary governing body of Iraq<sup>3</sup> and its 26 million people,<sup>4</sup> until Iraq assumes sovereignty on June 30, 2004.

In May 2003, ORHA became the CPA. It promulgated regulations for the management of CPA and the temporary governance of Iraq. In July 2003, the Department of Defense (DoD) designated the Secretary of the Army as Executive Agent for CPA, making the U.S. Army responsible for providing “administrative, logistics, and contracting support to ORHA/CPA.”<sup>5</sup> In July 2003, the Iraqi Governing Council was established by order of the Administrator. In October 2003, the Administrator created the Program Management Office (PMO) to manage Iraq's relief and reconstruction efforts. In January 2004, the DoD additionally assigned responsibility for acquisition and program management support for the CPA to the Secretary of the Army.<sup>6</sup>

In testimony before the Senate,<sup>7</sup> DoD officials noted that, at the time of ORHA/CPA's inception:

- 40% of the Iraqi people did not have access to safe drinking water
- 70% of Iraq's sewage treatment plants needed repair
- 80% of Iraq's 25,000 schools were in poor condition with an average of one book per six students
- Iraq's electrical power system operated at half its capacity

- Iraq's agricultural production had dropped significantly
- Iraq's oil infrastructure was neglected

CPA Iraq relief and reconstruction efforts have developed into the largest reconstruction effort by the United States since the end of World War II. To help in this effort, the U.S. Government has employed a large contingent of contractors to provide, among other things, services including large-scale construction, site security, personnel protection, meals and other provisions, and engineering.

## Scope of the CPA Mission

In addition to providing for a temporary government, the CPA also has the duty to oversee the reconstruction and rehabilitation of Iraq. Those reconstruction and rehabilitation activities fall into 10 categories enumerated in Public Law 108-106. The categories are:

- Security and Law Enforcement
- Justice, Public Safety, Infrastructure, and Civil Society
- Electricity
- Oil Infrastructure
- Water Resources and Sanitation
- Transportation and Telecommunications
- Roads, Bridges, and Construction
- Health Care
- Private Sector Development
- Education, Refugees, Human Rights, and Governance

## CPA Activities

### Overview

The CPA has categorized its priorities into five general areas:

- Essential Services
- Security
- Governance
- Economy
- Strategic Communications

Among its stated intermediate objectives are: to reconstitute the electrical power infrastructure; to reconstruct the telecommunications system; to develop a Transitional Administrative Law; to build financial market structures; and to improve information dissemination.



In a briefing prepared by the Department of Defense outlining CPA activities through March 11, 2004, the following were cited as highlights of CPA activities:

- Electric power is now available to Iraqis from 11 to 24 hours per day, depending upon the region. Oil production in Iraq is now at approximately 2.5 million barrels per day – the same as pre-war peak oil production. Crude exports are reported at 1.5 million barrels per day, and the availability of fuels, including diesel, kerosene, gasoline and benzene, has nearly reached CPA goals.
- Nearly one million telephone subscribers are reported, which is 14% above active subscribers before the war. This number includes 244,000 cellular phone subscribers.
- The Transitional Administrative Law, which provides the interim Iraqi Constitution, was signed on March 8, 2004. The law is available on the CPA Web site at <http://www.iraqcoalition.org>.
- In the areas of education and health care, the CPA has coordinated the distribution of 8.7 million textbooks and overseen the reconstruction of 2,300 schools. A total of 52 clinics are under renovation and 600 primary health care centers are being reequipped.

The complete DoD briefing has been included in Appendix M.

### Further Details on CPA Activity

The CPA is mandated, under Public Law 108-106, to provide the Congress with a quarterly report of its relief and reconstruction activities. The first was issued on January 5, 2004, and is available on the Web at <http://www.whitehouse.gov/omb/legislative/index.html>. A second report is due on April 5, 2004, which will contain updated details on the activities of the CPA. The CPA-IG will review that report upon its issuance.

### CPA Dissolution

On June 30, 2004, the CPA is scheduled to transfer civil authority to an Iraqi interim government. In accordance with the agreement of November 15, 2003, between the CPA and the Iraqi Governing Council, a new Iraqi interim government is scheduled to be recognized and assume full sovereign powers as the government of Iraq. Upon this transfer, the CPA is scheduled to dissolve.<sup>8</sup>

# Coalition Provisional Authority Inspector General

## Overview

In Public Law 108-106, Congress created the position of Coalition Provisional Authority Inspector General (CPA-IG). The CPA-IG reports to the Administrator of the CPA and serves as an independent, objective evaluator of the operations and activities of the CPA.

On January 20, 2004, Stuart W. Bowen, Jr., was appointed by the Secretary of Defense,<sup>9</sup> in consultation with the Secretary of State, as the CPA Inspector General.<sup>10</sup>

## Mission

The mission of the CPA-IG is:

- To provide for the independent and objective conduct and supervision of audits, inspections, and investigations relating to the programs and operations of the CPA
- To provide for independent and objective leadership and coordination of, and recommendations on, policies designed to promote economy, efficiency, and effectiveness in the administration of CPA programs and operations
- To prevent and detect fraud, waste and abuse in such programs and operations
- To report to the Congress on the use of appropriated and other funds in the reconstruction and rehabilitation of Iraq
- To report to the Congress on contracting processes and controls

## Statutory Duties

The statutory duties of the CPA-IG contained in Public Law 108-106 and the Inspector General Act of 1978 are as follows:

- Provide for the independent and objective leadership and coordination of, and recommendations on, policies designed to promote economy, efficiency, and effectiveness in the management of CPA/Iraq reconstruction programs and supporting operations
- Prevent and detect fraud, waste and abuse
- Conduct, supervise, and coordinate audits and investigations relating to the treatment, handling, and expenditure of appropriated funds by the CPA or its successor entities on Iraq reconstruction, and of the programs, operations, and contracts carried out in utilizing such funds
- Review existing and proposed legislation and regulations and make appropriate recommendations

- Maintain effective working relationships with other Federal, State, and local governmental agencies, and nongovernmental organizations, (NGO) regarding the mandated duties of the Inspector General
- Inform the Administrator of the CPA and its successor entities and Congress of significant problems, abuses, and deficiencies and follow the progress of corrective actions and implementation measures
- Comply with the audit standards of the Comptroller General; avoid duplication of General Accounting Office (GAO) activities
- Report violations of law to the U.S. Attorney General and report on the prosecutions and convictions that have resulted

### Term

Under Public Law 108-106, the CPA Inspector General ceases to exist “6 months after the authorities and duties of the Coalition Provisional Authority cease to exist.” Further details regarding the status of the CPA-IG will become known when the Department of Defense and the Department of State transition plans are finalized.

# Activities of the CPA-IG

## Overview

Public Law 108-106 requires a summary of the activities of the CPA Inspector General's Office. This section outlines those activities for this quarterly report, and it provides an overview of the work to come. The subsections are arranged in the following manner.

- CPA-IG Strategic Plan
- CPA-IG Organization
- CPA-IG Chronology
- CPA-IG Coordination Plan
- CPA-IG Audit Plan
- CPA-IG Deployment

The activities presented are iterative in nature. As input is gathered from key stakeholders, including other Inspectors General and audit agencies, the approach will be refined for future reports.

## CPA-IG Strategic Plan Overview

The CPA-IG drafted a Strategic Plan in January 2004 based on the mandates provided under Public Law 108-106, and it was updated in March 2004. The plan continues to evolve and will be reviewed and updated further as necessary. The Strategic Plan provides the foundation for the CPA-IG's work efforts. The following is a graphic representation of the CPA-IG's strategic approach:

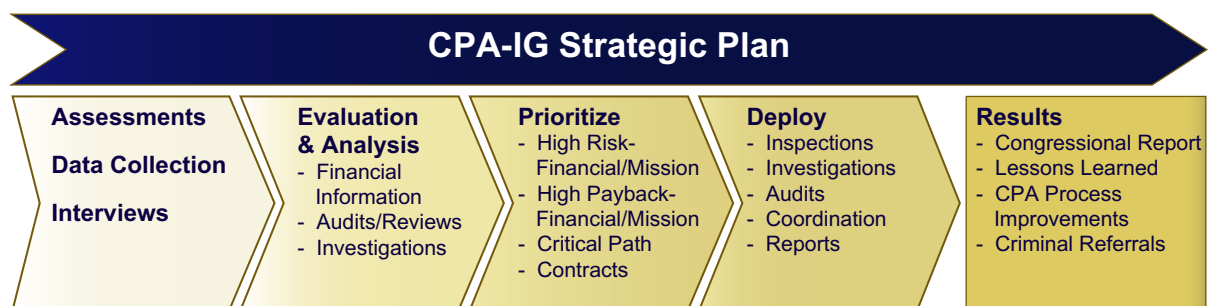


Figure 2: CPA-IG Strategic Approach

Since its inception a little more than two months ago, the CPA-IG has focused on the collection of information through data requests and interviews with key stakeholders. A preliminary evaluation and analysis was conducted of that information, followed by a prioritization of initiatives. As a result, inspectors, investigators, and auditors have been deployed to begin work on areas considered high priority. The CPA-IG's ongoing activities include initial assessments, a compilation of lessons learned, potential process improvements for the CPA, and the pursuit of investigations.

The focus of the CPA-IG's strategic approach seeks to:

- Leverage information, investigations, assessments, and audits completed and planned by other organizations
- Build the collaborative and coordinating role of the CPA-IG to improve communication, enhance understanding, and avoid duplication of effort
- Provide a single collection point for information to allow interagency, intergovernmental, multijurisdictional coordination
- Leverage human resources of other Inspectors General and investigative bodies to reduce the amount of preparation time necessary to prepare audits, investigations, and inspections
- Focus and prioritize key areas that require investigation
- Open channels of discussion and invite input through the new CPA-IG Web site, and the fraud, waste, and abuse hotlines
- Develop policies that will solicit input to help CPA-IG identify and investigate alleged wrongdoing
- Consider the inclusion of Industry/DoD/Department of State best practices and consensus standards into process and execution improvement

## Performance Criteria

The CPA-IG will prioritize goals and evaluate performance against the following criteria:

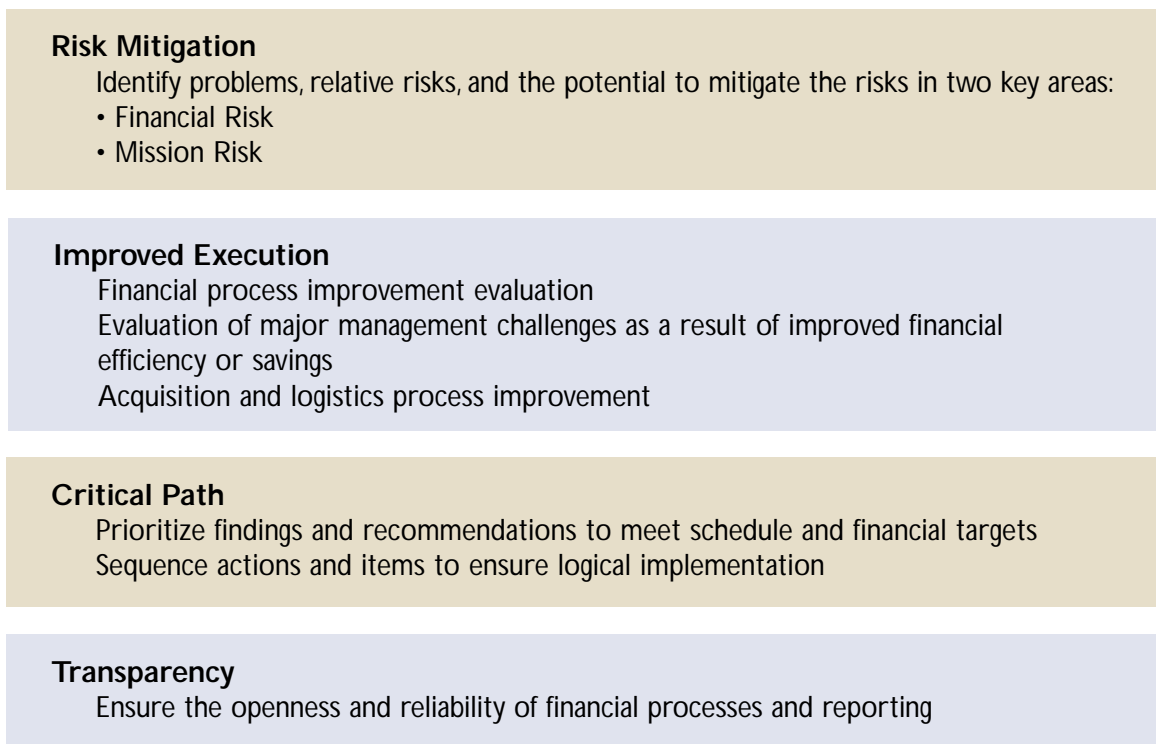


Figure 3: Performance Criteria

## Metrics

The following are the preliminary baseline metrics, developed by the CPA-IG to measure performance.

- Percentage of dollars audited
- Identified cost irregularities
- Dollars saved through cost avoidance
- Number of risks identified and reported
- Number of communications/recommendations/directives issued and percentage resulting in decisions implemented
- Number of investigations initiated
- Amount of recovered funds identified as fraud, waste, or abuse
- Number of best practices and lessons learned identified and percentage implemented
- Responsiveness to public and stakeholders
- Timeliness of products
- Performance and peer reviews

## CPA-IG Organization

The stand-up of the CPA-IG office began on January 21, 2004, with a staff of two. As of March 20, 2004, CPA-IG reached a staffing level of 58 persons with 40 assigned in Washington, D.C., and 18 deployed to Baghdad. The CPA-IG has acquired the contractual services of an auditing and accounting firm to supplement staff efforts.

Below is a chart illustrating the organization of the CPA-IG's Office.

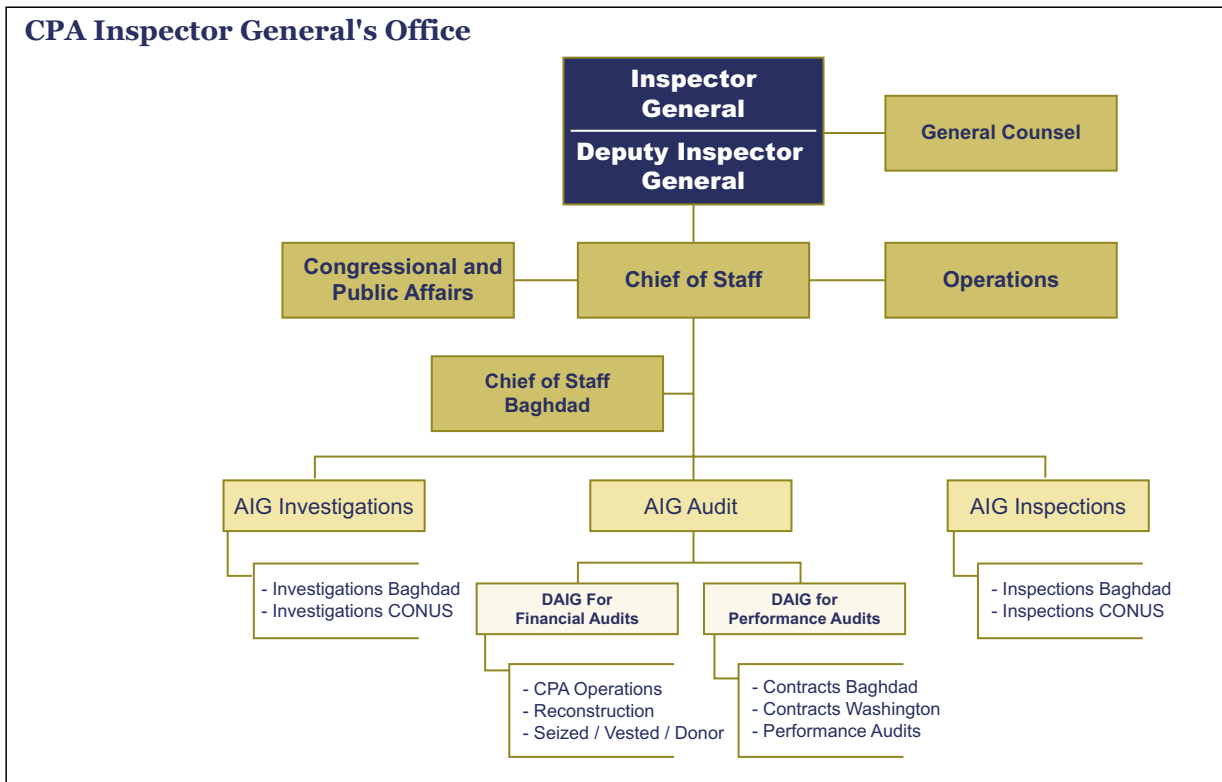


Figure 4: CPA-IG Organization Chart

## CPA-IG Chronology

The CPA-IG's first ten days of operation involved assessing the congressional mandate and developing organizational and strategic plans. The CPA-IG received briefings from key CPA personnel in Washington and met with the Comptroller General of the General Accounting Office, the Inspector General of the United States Agency for International Development (USAID), and the Deputy Commander of the U.S. Army Corps of Engineers (USACE). He also had several meetings with the Inspector General of the DoD and his staff.

### Initial Baghdad Meetings

The CPA-IG made two trips to Baghdad during the organization's stand-up phase. The first trip occurred from February 8 to February 17, 2004; and the second trip occurred from February 28 to March 6, 2004.

The CPA-IG believed it important to obtain information for the report directly at the CPA headquarters in Baghdad and to develop working relationships with key CPA officials. The purposes of the initial trip were to:

- Understand the structure and operations of the CPA
- Assess the financial management processes in place at the CPA
- Visit with key CPA leadership in Baghdad
- Develop logistical support for CPA-IG in Baghdad

During the CPA-IG's first trip to Baghdad, he met with 39 people from across the spectrum of CPA operations. These meetings allowed the CPA-IG to understand how CPA is managing its funds, how the Program Management Office (PMO) is preparing to manage the tasking of construction contracts, and where the new CPA-IG Office should focus its efforts. The CPA-IG had an initial meeting with the Administrator of the CPA, during which the CPA-IG's statutory mandates, vision, and key objectives were discussed.

An overview of the CPA-IG's meetings with CPA officials and related organizations during this first trip to Baghdad is included on the next page:



Organization	Discussion Topics
CPA Administrator	<ul style="list-style-type: none"> <li>• Statutory mandates</li> <li>• Vision</li> <li>• Key objectives</li> </ul>
CPA Chief Operating Officer	<ul style="list-style-type: none"> <li>• Historical management controls</li> <li>• Transition issues</li> </ul>
CPA Contracting Office	<ul style="list-style-type: none"> <li>• Contracting procedures</li> <li>• Report on all contracts issued</li> </ul>
CPA Comptroller	<ul style="list-style-type: none"> <li>• Review management controls over seized and vested assets</li> <li>• Obtain reports on expenditures</li> </ul>
CPA General Counsel	<ul style="list-style-type: none"> <li>• Coordinate written legal opinions</li> <li>• Transition issues</li> </ul>
CPA Chief of Operations	<ul style="list-style-type: none"> <li>• Overview of logistical issues</li> </ul>
CPA Office of Management and Budget	<ul style="list-style-type: none"> <li>• Funding allocation issues</li> </ul>
United Kingdom Representative to CPA	<ul style="list-style-type: none"> <li>• Scope of British support to CPA</li> </ul>
Program Management Office	<ul style="list-style-type: none"> <li>• PMO management plans</li> <li>• Working agreements for information management between PMO and CPA-IG</li> </ul>
Defense Contract Audit Agency (DCAA) Auditors	<ul style="list-style-type: none"> <li>• Review scope of DCAA Audit Plan</li> <li>• Establish working relationship</li> <li>• Coordinate audit efforts</li> </ul>
Defense Contract Management Agency Senior Leaders	<ul style="list-style-type: none"> <li>• Scope of Logistic Civil Augmentation Program (LOGCAP) contract</li> <li>• Management controls</li> </ul>
Iraqi Ministry Senior Advisors	<ul style="list-style-type: none"> <li>• Discuss CPA role with Iraqi Ministries</li> </ul>
Council on International Cooperation (CIC) Senior Staff	<ul style="list-style-type: none"> <li>• Scope of anticipated contributions by donor nations</li> </ul>
USAID Chief Auditors in Iraq	<ul style="list-style-type: none"> <li>• Discuss audit planning</li> </ul>

Table 1: Initial Baghdad Meetings Overview

### Washington Meetings

Between the first and second visits to Iraq, the CPA-IG conducted meetings in Washington with senior leadership of the Department of Defense, the Office of Management and Budget (OMB), the Inspector General for USAID, the U.S. Army, the Defense Contract Audit Agency, and the Inspector General for the Department of State. These meetings helped resolve jurisdictional issues and develop strategies based on information that the CPA-IG had gathered in Iraq.

## Second Iraq Visit

On February 28, 2004, the CPA-IG returned to Baghdad for a second visit, lasting six days. The CPA-IG focused this visit on the PMO and financial control areas, following up on questions raised during the initial meetings. The CPA-IG also had visits with the following:

Organization	Discussion Topics
CPA Chief Policy Officer	• Briefing on policy and planning issues
CPA Chief Operating Officer	• Transition issues
CPA Strategic Planning	• Briefing on latest CPA Strategic Plan
CPA Office of Management and Budget	• Review budgeting process and planning for Section 2207 report

Table 2: Second Round Baghdad Meetings Overviews

## Current Status

The CPA-IG returned to Washington, D.C., on March 6, 2004, to build the framework for the work to come. Key milestones include the inaugural meeting of a senior-level group in Washington, D.C. to coordinate communication among key entities overseeing the Iraq audit and investigation activities – known as the Iraq Inspectors General Council (IIG); and the development of a second high-level group to coordinate Iraq reconstruction funding issues – known as the Iraq Financial Working Group (IFWG). The CPA-IG also focused on the development of CPA-IG communication tools that will inform the public and enhance process transparency. He began the formulation of a corporate governance initiative for companies doing business in Iraq.

## CPA-IG Coordination Plan Overview

The CPA-IG has launched several initiatives aimed at increasing the efficiency of existing resources to achieve mandated requirements. These initiatives expand coordination and communications and utilize tools to build a collective knowledge base, establish processes for the exchange of vital information among key parties, avoid duplication, and better coordinate resources, recommendations, and results.

## Key Coordination Initiatives

There have been four CPA-IG initiatives begun since its inception:

- Iraq Inspectors General Council (IIG) (U.S.)
- Iraq Financial Working Group (IFWG) (Baghdad)
- Corporate Governance Initiative
- Security Cost and Insurance Initiative

## Iraq Inspectors General Council

The CPA-IG's area of statutory responsibility includes oversight of certain resources and funds for Iraq relief and reconstruction that are currently within the purview of several other Inspectors General. As a result, exercising the coordinating component of the CPA-IG is critical.<sup>11</sup> To fulfill that component, the CPA-IG is forming a new organization named the Iraq Inspectors General Council (IIG).

The purpose of the organization is to improve communication in Washington, D.C., among the key entities overseeing Iraq audit and investigation activities. The IIG is composed from the principals of the following organizations:

#### Members

- Inspector General, Coalition Provisional Authority (Chairperson)
- Inspector General, Department of Defense (Co-Vice Chairperson)
- Inspector General, Department of State (Co-Vice Chairperson)
- Inspector General, U.S. Department of the Army
- Inspector General, U.S. Agency for International Development (USAID)
- Inspector General, Department of the Treasury
- Inspector General, Department of Commerce
- Inspector General, Department of Health and Human Services
- Defense Contract Audit Agency (DCAA)
- United States Army Audit Agency (USAAA)

#### Observers

- International Advisory and Monitoring Board (IAMB)
- General Accounting Office (GAO)

Under the authority of the Inspector General Act of 1978, the CPA-IG has included international representation on the IIG in the form of the International Advisory and Monitoring Board (IAMB) — an organization chartered by the World Bank, the International Monetary Fund (IMF), the Arab Fund, and the United Nations. The IAMB provides audit review of the Development Fund for Iraq (DFI).

### **First Meeting of the IIG**

The CPA-IG established the IIG to take advantage of the opportunity to improve partnering across all the IG/audit organizations involved in accountability/oversight of Iraq rebuilding efforts. The first Iraq Inspectors General Council met on March 17, 2004. The meeting was attended by key leadership/representatives of the CPA-IG, DoD OIG, Department of State OIG, USAID OIG, U.S. Army OIG, Health and Human

Services OIG, Department of Commerce OIG, U.S. AAA, DCAA and the GAO. The IIG participants each provided insight on areas of concern and an overview of ongoing efforts. The IIG will continue to work on developing a comprehensive and ongoing review of areas of concern, which will lead to improved planning and accountability/oversight capability and results.

### **Iraq Financial Working Group**

Following interviews by the CPA-IG with key officials in Baghdad, Iraqi Ministry officials, responsible agencies in the United States, and outside experts, the CPA-IG identified that more coordination was needed among the various entities managing funds for Iraq reconstruction in Baghdad. The CPA-IG is recommending the formation of an Iraq Financial Working Group (IFWG) in Baghdad.

The IFWG would be composed of the following members:

- Inspector General, Coalition Provisional Authority
- Director, Coalition Provisional Authority Office of Management and Budget
- Comptroller, Coalition Provisional Authority
- Coalition Provisional Authority Program Management Office
- Coalition Provisional Authority, Head of Contracting Activity
- Manager of Funds, U.S. Army Corps of Engineers
- Representative of the Director, CPA Transition Team
- Representative of U.S. Army Executive Agency / Financial Management
- Representative of the Department of State
- Representative of U.S. Agency for International Development (USAID)
- Representative of the Department of Treasury
- Representative of the Defense Contract Audit Agency (DCAA)
- Representative of the Defense Contract Management Agency (DCMA)
- Representative of the Office of the Secretary of Defense Comptroller

The objectives of the IFWG would be to provide for a coordinated effort among responsible authorities to promote economy, efficiency, and effectiveness in the administration of the CPA's programs and operations. The CPA-IG will evaluate the need for adjustments in the initial composition of this body and make further recommendations, as appropriate.

## Corporate Governance Initiative

The CPA-IG has asked CPA, USAID, USACE, Department of State, and the Department of the Army to request contractors with Iraq reconstruction contracts greater than \$5 million to voluntarily provide their internal compliance systems, code of ethics, and code of conduct to the CPA-IG on or before April 15, 2004.

The purpose of this request is to assess the following issues:

- How many of these contractors have current compliance programs
- What actions contractors are taking to ensure compliance with Federal laws
- Whether the contractors have set adequate standards for compliance
- Whether the contractors are actively seeking to identify and remedy compliance deficiencies

Companies with effective compliance systems naturally facilitate compliance with applicable law and know the benefits of early and timely disclosure of violations. The CPA-IG intends to obtain data on these systems and then decide whether to recommend to Congress additional legislation to improve contractor compliance performance.

As the CPA-IG obtains this information, he will work with the IIG to examine and refine corporate governance as an element of the CPA-IG's efforts to enhance the efficiency of financial management in Iraq.

## Security Cost and Insurance

The CPA-IG considers rising security concerns in Iraq to be a significant cost driver. These costs are currently estimated to be at least 10 – 15% of total costs and may potentially be higher, for both CPA activities and contractor projects. Given the wide range of contractors providing personal and site security services, personal insurance coverage is managed in a variety of ways. Similarly, insurance for companies performing contract work for Iraq relief and reconstruction activities varies from provider to provider and contractor to contractor. The CPA-IG will work closely with other Federal agencies to examine the potential benefits of government-provided insurance or other initiatives for cost savings on security related issues in Iraq (without compromising safety).

## Reporting to the CPA

Public Law 108-106 requires the CPA-IG to report directly to and serve under the supervision of the CPA Administrator. The CPA-IG provides an independent and objective means by which the CPA Administrator is informed of CPA's problems and deficiencies, and of the need for corrective action. Pursuant to Public Law 108-106, the CPA-IG is submitting a copy of the report to the CPA Administrator for his review and comment.

The CPA-IG met with the CPA Administrator and his key staff during two trips to Baghdad. These visits opened up effective lines of communication and they can be used to ensure that critical information can be exchanged, on a timely basis, between the CPA Administrator and the CPA-IG.

## Communications Vehicles

The CPA-IG has initiated multiple activities to ensure that it has a well-publicized vehicle for the submission of allegations of fraud, waste, abuse, and mismanagement. A fraud, waste, and abuse hotline has been established that will facilitate the receipt of information, while protecting the privacy of those reporting. The CPA-IG has also launched a Web site to provide information on CPA-IG activities to key stakeholders and the public.

## CPA-IG Audit Plan Overview

The CPA-IG Audit Plan provides the strategic foundation for audit and review work. It establishes the initial scope of audits that CPA-IG will accomplish. The plan will be subject to periodic updates and revisions in the coming months as the CPA-IG responds to requests from Congress and the CPA Administrator. The CPA-IG is planning to perform short-notice reviews to address time-sensitive issues related to reconstruction activities in Iraq.

20

The CPA-IG has initially established five areas of interest with regard to CPA activities. These areas are, in order of current priority:

1. The extent and use of competition to pursue CPA objectives
2. The identification and elimination of deficient practices
3. The implementation of efficient and effective contract management measures
4. The requirement that contractors establish corporate ethics policies and procedures
5. The facilitation of CPA readiness for transition to Iraqi self-government

The table below provides an overview of additional areas of interest identified by the CPA-IG from prior reviews, assessments, and evaluations prepared by other agencies, including: DCAA, USAID, senior CPA officials, and other CPA stakeholders.

<b>Areas of Interest</b>		
<b>Potential Risk Areas</b>	<b>Issues of Concern</b>	<b>Process Improvement</b>
Security – personal security, cost, and availability of insurance	Contracting – irregularities identified on specific contracts	Corporate governance – standards of ethics and transparency
CPA transition – inventory management, fiscal control, and management oversight	Iraqi involvement – need for increased emphasis on Iraqi business utilization, capacity building, and cooperation	Contracting processes – coordination, and documentation, use of additional innovative contracting approaches provided in the Federal Acquisition Regulations (FAR)
Funding controls – safeguarding of funds and the oversight of seized/vested assets	Interagency relationships – coordination, cooperation, and communication	Transition planning – pre-planning, and supply management
Logistics – materiel management, and safeguarding of assets	Use of CONUS contracts for intended purposes	Human resources – skill sets, leadership, and personnel support
	Acquisition planning – improper procedures, limited competition, and reliance on sole source procurements	Program management – Program Management Office and Program Review Board issues
	Use of U.S. Army support contracts (LOGCAP)	

**Table 3: CPA-IG Audit Plan Areas of Interest**

The CPA-IG has developed an initial Audit Plan Abstract (Appendix M), taking into account the efforts of other Inspectors General, areas of interest, and the potential for process improvements. Selected audit and review topics for the Audit Plan include:

#### Contract oversight

- Use of competition to achieve Iraq relief and reconstruction program strategic objectives
- Contractor and subcontractor management systems
- Price reasonableness
- Effectiveness of contract use in CPA regardless of the sources of funds
- Effectiveness of contract use in transition to Iraqi self-government
- Compliance with Federal regulations in awarding Iraq infrastructure reconstruction contracts
- Administration and performance management of Iraq reconstruction contracts

#### Finance and accounting

- Controls over Coalition Provisional Authority funds – appropriated funds
- Controls over Coalition Provisional Authority funds – donated funds
- Controls over Coalition Provisional Authority funds – seized and vested funds
- Cash management and control
- Support documentation for reported obligations and disbursements
- Adherence to the Federal Information Security Management Act (FISMA)

#### Logistics

- Adequate process for identifying, offering, and transferring CPA excess articles
- Accountability and control of material assets of the CPA
- Management of Baath Party property and other assets
- Asset visibility and control
- Spare parts availability and control
- Effectiveness of logistics systems



## Management and planning

- Lessons learned in establishment of the CPA and transition to Iraqi self-government
- Engaging and improving the Inspectors General in Iraqi Ministries to improve capabilities and increase transparency
- CPA effectiveness in promoting transparency
- CPA effectiveness in improving ability of Iraqis to participate in rebuilding of Iraq
- Management control structure
- Security control procedures
- Controls over exports to Iraq defense and police agencies
- Management of human capital
- Cooperative agreements between the CPA and other U.S. Government organizations
- Pre-deployment training of CPA personnel
- CPA Strategic Plan
- CPA Needs Assessment Study
- Oil Infrastructure Program
- Oil Import Program

The CPA-IG will undertake the highest priority audits in FY 2004, and the remaining projects will be carried over into FY 2005.

## CPA-IG Deployment

Combining these early findings with independent analysis and evaluation, the CPA-IG has begun to address the top audit issues through the deployment of Tiger Teams. As of March 30, 2004, 18 CPA-IG staff were organized into Tiger Teams and have been deployed to Iraq.

### Tiger Teams

The Tiger Teams are led by veteran, professional staff, detailed to the CPA-IG Office from other Inspectors General's offices and government agencies. The initial deployed teams are organized with team leaders (senior auditors), staff auditors, and inspectors.

There are two phases in this initial effort. Phase I focused on gathering information to support the March 30, 2004, CPA-IG report to Congress. Phase II is concentrating on conducting audits in accordance with the CPA-IG Audit Plan.

Other CPA-IG staff are focused on the review of contracting activities in CONUS as well as in Iraq. These teams will focus on contract scope and contracting processes, perform reviews of contract files, and review contract award amounts and other contract data, all of which will allow for more detail on these issues to be included in subsequent reports.

### **Records Management**

Public Law 108-106 requires the CPA-IG to maintain records for multiple purposes including the use of funds for the reconstruction of Iraq, to facilitate future audits and investigations of the use of funds. CPA-IG is creating a document management system to safeguard the identity of confidential sources and records, and protect privileged, confidential, national security, or classified information in compliance with applicable laws, regulations, and professional standards.

### **Reporting to Congress**

Public Law 108-106 requires the CPA-IG to submit a report on March 30, 2004, and every quarter thereafter to the appropriate committees of Congress summarizing the activities of the CPA-IG and the CPA during the 120-day period ending on the date of the report. In addition, Public Law 108-106 requires the CPA-IG to submit to appropriate committees of Congress no later than June 30, 2004, and semiannually thereafter, a report meeting the requirements of the Inspector General Act of 1978. These reports will be published in English (immediately) and in Arabic within 60 days on the Web site of the CPA-IG.

### **Government Performance and Results Act (GPRA)**

The CPA-IG Strategic Plan integrates the requirements of the Government Performance and Results Act (GPRA) of 1993 (Public Law 103-62). In addition, it takes into account the President's Management Agenda (PMA) recommendations to shift the strategic focus from conducting compliance reviews to evaluating management control systems and to conducting reviews with line management.

## Sources and Uses of Funds

### Sources of Funding for Iraq Relief and Reconstruction

An October 2003 joint study by the United Nations and the World Bank placed the estimate for medium-term reconstruction needs in Iraq at \$56 billion. Another estimate by the U.S. Congressional Budget Office placed reconstruction requirements at \$50–\$100 billion. Since the establishment of the Office of Reconstruction and Humanitarian Assistance, \$39.5 billion (approximately \$23.7 billion appropriated and \$15.8 billion Iraqi) of Iraq relief and reconstruction funding has been amassed as of February 29, 2004. Of this initial total, approximately \$30 billion remains, however a substantial percentage of these funds are already committed or obligated. Finally, more than \$13.5 billion in international funding has been pledged.

To meet the statutory requirements of this report, CPA-IG collected financial information from the CPA, the DoD, and other agencies to whom funds supporting Iraq relief and reconstruction efforts have been apportioned or distributed. The following chart provides a general outline of the major sources of these funds.

#### General Overview Sources of Funds (in millions) as of February 29, 2004

U.S. Appropriated	Iraq	Donor
<b>Public Law 108-11</b> (April 2003) <ul style="list-style-type: none"> <li>- IRRF (\$2,475)</li> <li>- NRRRF (\$802)</li> <li>- CPA OPS (\$596)*</li> <li>- USAID Programs (\$335)*</li> <li>- NIA (\$51.2)</li> </ul>	<b>Vested Funds</b> <ul style="list-style-type: none"> <li>- Blocked/Frozen Funds (\$1,724)</li> </ul>	<b>Donor</b> <ul style="list-style-type: none"> <li>- Pledged loans &amp; grants from International Donors to World Bank Trust Fund (U.N.) (\$13,593)</li> <li>- Humanitarian Aid (\$851)</li> </ul>
<b>Public Law 108-106</b> (Nov 2003) <ul style="list-style-type: none"> <li>- IRRF (\$18,439)</li> <li>- CPA OPS** (\$983)</li> </ul>	<b>Seized Funds</b> <ul style="list-style-type: none"> <li>- Confiscated Cash &amp; Property (\$926)</li> </ul>	
	<b>DFI (\$13,248)</b> (Development Fund for Iraq) <ul style="list-style-type: none"> <li>- Oil Proceeds</li> <li>- Oil For Food (OFF)</li> <li>- Repatriated Funds</li> </ul>	

See Glossary for acronyms  
 \* USAID funding from IFF in addition to \$1,830 million received from FY 2003 IRRF  
 \*\* CPA OPS includes \$75 million for CPA-IG and \$50 million for reporting requirements

Table 4: General Overview Sources of Funds (in millions) as of February 29, 2004

## U.S. Appropriated Funds

U.S. appropriated funds constitute the largest source of capital currently available for the Iraq relief and reconstruction mission; and they also provide operating funds to support the CPA. Only those funds used for the reconstruction of Iraq or the direct support of the CPA are within the CPA-IG's purview.

Public Law 108-11, the Emergency Wartime Supplemental Appropriations Act, was passed on April 16, 2003. As part of the bill, Congress provided \$15.6 billion for the Iraq Freedom Fund (IFF), an account established for ongoing military operations in Iraq, those operations authorized by Public Law 107-40, and other operations and related activities in support of the global war on terrorism. Other sections of the bill also established a Natural Resources Risk Remediation Fund (NRRRF) with special transfer authority to finance expenses necessary to address emergency fire fighting, to repair damage to oil facilities and related infrastructure, and to preserve an oil distribution capability in and around Iraq. To date, \$802 million has been provided for these purposes via the NRRRF.

Public Law 108-11 provided \$2.475 billion for an Iraq Relief and Reconstruction Fund to cover necessary expenses for humanitarian assistance in Iraq and to carry out the purposes of the Foreign Assistance Act of 1961. Additionally, \$51 million was transferred from IFF to the U.S. Army Operation and Maintenance account to support the New Iraqi Army training program. The IFF was also the source of funding in FY 2003 and early FY 2004 for CPA operating expenses via transfers to the U.S. Army Operation and Maintenance accounts. These funds will remain available to the CPA for obligation until September 30, 2004.

Public Law 108-106, the Emergency Supplemental Appropriations Act for the Defense and Reconstruction of Iraq and Afghanistan, was signed on November 6, 2003. It authorized \$18.6 billion for security, relief, rehabilitation, and reconstruction in Iraq. These funds are available until September 30, 2006. Of this amount, \$210 million was appropriated only for the relief needs of Jordan, Liberia, and Sudan, leaving \$18.4 billion for Iraq relief and reconstruction.

In FY 2004, the CPA received its own funding authority under Public Law 108-106. A total of \$983 million was appropriated, including \$75 million for CPA-IG operations and \$50 million to execute reporting and monitoring requirements and for the preparation and maintenance of required public records. This law further provided that up to one percent (\$184.39 million) of the amount appropriated for FY 2004 IRRF may be transferred to the CPA for operating expenses.

## Iraqi Funds

There are three categories of Iraq funds that have been available to support relief and reconstruction efforts in Iraq. They are seized Iraq assets, vested Iraq assets, and funds within the Development Fund for Iraq (DFI).

Seized Iraq assets are identified as funds confiscated by coalition military forces during the course of Operation Iraqi Freedom. As of February 29, 2004, the total amount of seized funds was \$926 million. These funds were made available for Iraq relief and reconstruction efforts and for the benefit of the Iraqi people.

Vested Iraq assets are funds frozen in the United States by Presidential Executive Order 12817 of October 23, 1992, and vested to the United States Treasury by Presidential Executive Order 13290, signed on March 20, 2003. Approximately \$1.7 billion in Iraqi assets have been frozen and vested pursuant to these Executive Orders. From April 10 to October 19, 2003, there were nine shipments to Baghdad of vested assets (in U.S. currency) from a U.S. Treasury Special Account for Iraq at the Federal Reserve Bank of New York. These vested funds are now virtually exhausted and have been spent in Iraq for relief and reconstruction efforts. Further details on both seized and vested assets are in Appendices C and D.

United Nations Security Council Resolution (UNSCR) 1483, dated May 21, 2003, noted the establishment of the DFI. UNSCR 1483 provided that disbursements from the DFI shall be made at the direction of the CPA's Administrator, in consultation with the Iraqi interim governing authority. According to the CPA Web site's Budget and Finance section, "at the request of the CPA Administrator, in May 2003, the U.S. Federal Reserve Bank of New York established the 'Central Bank of Iraq – Development Fund for Iraq' account." UNSCR 1483 further provided that the DFI shall be used in a transparent manner to meet the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq's infrastructure, for the continued disarmament of Iraq, for the costs of Iraqi civilian administration, and for other purposes benefiting the people of Iraq.

Major sources of DFI funds include: proceeds from export sales of petroleum, petroleum products, and natural gas from Iraq; deposits of uncommitted Oil For Food (OFF) Program funds; and repatriated Iraq funds from other nations. As of March 1, 2004, a total of \$13.2 billion had been deposited into the DFI account and \$4.8 billion of that amount was expended. Of the remaining \$8.3 billion, \$4.7 billion has been committed for Iraq relief and reconstruction, leaving an uncommitted balance of \$3.6 billion. A comprehensive listing of sources and uses of DFI funds is in Appendix F.

### **Donor Funds**

As of March 13, 2004, \$851 million in humanitarian assistance for Iraq has been donated by other countries, according to the United Nations. This total does not include the U.N. Oil For Food Program or U.S. contributions.

The U.S. government, coalition partners, and international organizations solicited other nations for help in the reconstruction of Iraq. A total of \$13.5 billion in non-U.S. contributions has been pledged toward the rebuilding of Iraq, as identified during the Madrid Donors' conference, held on October 23-24, 2003. The World Bank and the International Monetary Fund (IMF) reaffirmed their pledge, initially made in the Madrid conference, to loan or grant a minimum total of \$5.5 billion. Appendix E has a country listing of both humanitarian aid provided and reconstruction funds pledged.

### **Uses of Funding for Iraq Relief and Reconstruction**

As of February 29, 2004, approximately \$12.7 billion had been obligated and \$9.3 billion had been expended from U.S. and Iraqi sources for the rehabilitation of Iraq. This total does not include the \$851 million of humanitarian assistance donated by individual countries, or the \$1.1 billion in U.N. Oil for Food program assistance provided in 2003 prior to its transfer in November 2003 to CPA management. While U.S. appropriated funds will soon predominate relief and reconstruction expenditures in Iraq, the current bulk (78%) of total expenditures has been from the Iraqi funds. Funds for Iraq relief and reconstruction have been expended primarily in three main areas:

- Iraqi Ministry support including salary payments to Iraqi civil servants and pensioners (47%)
- Infrastructure rehabilitation (19%)
- Humanitarian relief (11%)

## U.S. Appropriated Funds

### FY 2003 Appropriations

Reconstruction funds appropriated under Public Law 108-11 were used in support of operations to provide immediate support to the people of Iraq.

The following table is an overview of the funds provided by the FY 2003 Supplemental Appropriation for the IRRF and NRRRF. The information in the table was obtained from the CPA, the U.S. Army Budget Office, and other agencies.

### Supplemental Appropriation (Public Law 108-11)

IRRF/NRRRF Supplemental (in millions) as of February 29, 2004					
	Appropriation	Requested	Approved	Obligated	Disbursed
Restore Iraqi Oil (RIO*)	\$968.0	\$968.0	\$968.2	\$968.2	\$704.3
Restore Iraqi Electricity (RIE)	\$300.0	\$300.0	\$300.0	\$300.0	\$296.9
USAID**	\$1,830.3	\$1,788.1	\$1,788.1	\$1,773.3	\$470.7
State***	\$125.4	\$125.4	\$125.4	\$91.0	\$30.0
Treasury	\$6.0	\$6.0	\$6.0	\$3.6	\$2.3
Pending Allocation/Unallocated	\$47.3				
<b>Total IRRF/NRRRF</b>	<b>\$3,277.0</b>	<b>\$3,187.4</b>	<b>\$3,187.6</b>	<b>\$3,136.1</b>	<b>\$1,504.2</b>
CPA Operating Expenses IFF		\$949.1	\$615.2	\$596.8	\$312.8
New Iraqi Army (IFF)		\$51.2	\$51.2	\$51.2	\$23.3
* Includes \$802 million from NRRRF and \$166 million from IRRF. ** Includes \$5.4 million in 632 (a) interagency transfers. *** As of March 16, 2004. Data have not been formally audited or reviewed by the CPA-IG. Source: Monthly financial reporting from Army					

Table 5: IRRF/NRRRF Supplemental (in millions) as of February 29, 2004

Most of the funds were allocated for infrastructure repair and improvement. In FY 2003, the bulk of U.S. appropriated funds was centered on IRRF funds totaling \$2.475 billion and NRRRF funds totaling \$802 million. The U.S. Army Corps of Engineers (USACE) created Project Restore Iraqi Oil (RIO) to rebuild Iraq's oil infrastructure and to preserve its oil distribution capability. A total of \$802 million of NRRRF funds and \$166 million of FY 2003 IRRF funds supported the RIO project. The CPA created Project Restore Iraqi Electricity (RIE) using \$300 million of IRRF funds to rebuild the electrical system. The RIE project is managed by the USACE. Substantially all of RIE appropriated funds have been expended, and more than 70% of RIO appropriated funds have been expended.

## U. S. Agency for International Development (USAID)

USAID was a major recipient of FY 2003 IRRF funds. Its Iraq reconstruction efforts were designed to fulfill five strategic objectives. Those objectives<sup>12</sup> are:

- Restore Economically Critical Infrastructure
- Support Essential Education, Health, and Social Services
- Expand Economic Efficiency
- Improve Efficiency and Accountability of Government
- Program Support and Development of the Gulf Region

More than 60% of USAID's funding was for infrastructure improvement with a concentration in the electrical sector, in coordination with RIE efforts. Other major strategic areas funded were: emergency food distribution (13%), improvement of government accountability and efficiency (9.6%), and education and health services (6.5%). A detailed breakdown of USAID's IRRF strategic objectives with their respective funding is included in Appendix G.

As of February 29, 2004, \$1.7 billion of USAID FY 2003 IRRF funding has been obligated and \$470.7 million has been disbursed. An additional \$313.5 million of Public Law 108-11 FY 2003 funds have been obligated by USAID, of which \$189.7 million has been disbursed.

## U.S. Department of State (DoS)

The Office of Management and Budget (OMB) apportioned \$125 million from the FY 2003 IRRF to the DoS for relief and reconstruction efforts. More than half of the funds were allocated to police training and prison support. The other major areas were demining and humanitarian relief. Part of the State Department's apportionment was a reimbursement (\$24.6 million) for police training already obligated from other DoS accounts prior to the passage of Public Law 108-11. A more detailed listing has been included in Appendix G. Of the \$100.8 million in OMB sector allocations (which does not include \$24.6 million in reimbursements), \$86.7 million has been obligated and \$30 million expended.

## U.S. Department of Treasury

The Treasury Department has obligated \$3.6 million of the \$6.0 million apportionment it received from OMB. Of this amount, the U.S. Department of Treasury spent approximately 60% on technical assistance toward Iraq economic improvement.

## CPA Operating Funds

From its inception in May 2003 until the signing of the FY 2004 Iraq supplemental in November 2003, the CPA's operating support was funded with \$597.4 million transferred from the IFF to the U.S. Army operation and maintenance account. Additionally,



\$51.2 million was provided to support New Iraqi Army training. The primary uses of the CPA funds included security, logistics, information technology, and personnel requirements. A detailed breakdown of the CPAs operating funds, with FY 2003 details, is included in the FY 2004 section.

The following table is an allocation report by sector and project for FY 2003 IRRF funding, which provides greater detail into the use of IRRF funds. The oil sector total does not include \$802 million spent with NRRRF money. In addition, \$238 million in funds was used to reimburse agencies for spending prior to passage of the supplemental and was not assigned a sector designation by OMB.

<b>FY 2003 IRRF Allocation by Sector (in millions) as of February 29, 2004</b>		
<b>Sector</b>		<b>Allocations</b>
Capital Construction		\$1,541.4
Electricity	882.5	
Water/Sanitation	231.6	
Oil	166.0	
Buildings	65.4	
Umm Qasr Seaport	57.2	
Telecoms	50.0	
Transportation	34.0	
Airports	33.3	
Other	20.4	
Reimbursements		238.9
Local Governance		174.7
Education		82.8
Transition Initiatives		66.9
Justice/Law Enforcement		61.6
Relief		57.0
Economic Governance		57.3
Health		36.7
Management/Oversight		28.0
Airport Administration		24.7
Demining		12.3
Port Administration		11.6
Agriculture		11.0
Logistical Support		8.0
Unallocated		62.1
<b>TOTAL – FY 2003 IRRF Allocation by Sector</b>		<b>\$2,475.0</b>
*Data have not been formally reviewed or audited by the CPA-IG.		

Table 6: FY 2003 IRRF Allocation by Sector (in millions) as of February 29, 2004

The table below provides an overview of the major contracting initiatives, by agency for FY 2003 IRRF funds. In addition, Appendix I reflects the list of all contracts issued in CONUS.

<b>FY 2003 IRRF Major Programs by Agency (in millions) as of March 20, 2004</b>	
USAID Infrastructure – 1	\$650.4
USAID Infrastructure – 2	350.0
USAID (Other Infrastructure)	496.0
USAID (Development Assistance – reimbursement)	100.0
USAID (OTI) [including \$12m reimbursement]	78.9
USAID (OFDA)	30.0
USAID (Multilateral Trust Fund donation)	10.0
USAID (ESF – Reimbursement)	100.0
State Dept (Humanitarian De-mining)	12.3
State Dept (Justice – Law Enforcement Programs)	74.6
State Dept (Justice – Prisons Development) (includes \$24.6m in reimbursement)	11.5
State Dept (Refugee Asst)	27.0
U.S. Treasury Dept (Technical Assistance) (includes \$2.3m in reimbursement)	6.0
DoD / DSCA (DIILS Training Program)	0.1
U.S. Army (Oil)	166.0
U.S. Army (Electricity)	300.0
<b>Total</b>	<b>\$2,412.7</b>
*Data have not been formally reviewed or audited by the CPA-IG. Source: OMB IRRF (FY2003 Supplemental) Status of Funds Report (Received 5 March, 2004)	

Table 7: FY 2003 IRRF Major Programs by Agency (in millions) as of March 20, 2004

## FY 2004 Appropriations

Under Public Law 108-106 (FY 2004 IRRF), signed into law in November 2003, Congress appropriated \$18.6 billion for relief and reconstruction activities in Iraq. Of this amount, \$210 million was appropriated only for the relief needs of Jordan, Liberia, and Sudan.

Based on priorities set by the Secretary of Defense and the CPA Administrator, \$18.4 billion has been allocated out of FY 2004 IRRF funds (see following table). The first column labeled as “2207 Report Spending Plan” is a listing of the 11 sector categories, mandated in the statute for Iraq relief and reconstruction. The amounts shown are within congressional limits. The \$18.4 billion expenditure plan has approximately two-thirds of the funds devoted to construction (\$12.6 billion) with a third allotted to non-construction and democracy building programs (\$5.8 billion). As of February 29, 2004, \$3.27 billion had been committed and \$900 million obligated.

The CPA has allocated \$7.9 billion of the \$18.4 billion. Additionally, the CPA has established a \$4 billion reserve. Table 8 below contains more detail on program status.

<b>Program Status* (in millions) as of February 29, 2004</b>				
<b>Sector</b>	<b>2207 Report** Spending Plan</b>	<b>Apportioned</b>	<b>Committed</b>	<b>Obligated</b>
Security & Law Enforcement	\$3,243.0	\$2,332.7	\$850.4	\$292.0
Electricity	5,560.0	1,683.1	1,301.4	428.2
Oil Infrastructure	1,701.0	1600.0	772.2	4.0
Justice, Public Safety, & Civil Society	1,018.0	560.9	130.3	25.0
Democracy	458.0	458.0	106.0	106.0
Education, Refugees, Human Rights, Governance	280.0	138.5	32.6	27.1
Roads, Bridges, & Construction	370.0	119.3	0.0	0.0
Health Care	793.0	330.0	0.0	0.0
Transportation & Tele-communications	500.0	164.0	61.9	0.0
Water Resources & Sanitation	4,332.0	496.2	18.0	18.0
Private Sector Development	184.0	64.5	2.0	0.0
<b>Total by Sector</b>	<b>\$18,439.0</b>	<b>\$7,947.2</b>	<b>\$3,273.0</b>	<b>\$900.3</b>
Construction	\$12,611.0	\$3,950.0	\$1,783.2	595.8
Non-construction	5,370.0	3,539.2	1,383.8	198.5
Democracy	458.0	458.0	106.0	106.0
<b>Total by Program</b>	<b>\$18,439.0</b>	<b>\$7,947.2</b>	<b>\$3,273.0</b>	<b>\$900.3</b>
*Have not been formally reviewed or audited by the CPA-IG. ** Public Law 108-106 Section 2207 is the CPA quarterly progress report. As of the date of this report, CPA was revising the IRRF allocations.				

**Table 8: Program Status (in millions) as of February 29, 2004**

As seen in Figure 5 below, as of February 29, 2004, the agency apportionments from the FY 2004 IRRF were: DoD – \$5.3 billion (67%); USAID – \$1.7 billion (21%); Department of State – \$933 million (12%); and U.S. Treasury Department – \$5 million (.1%).

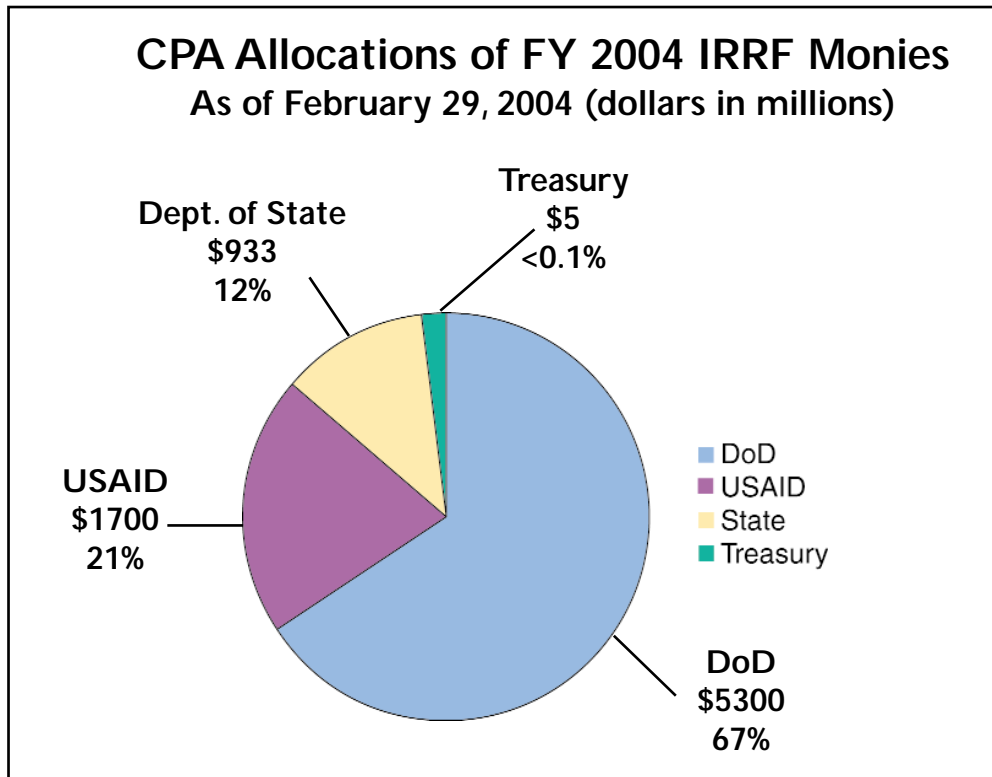


Figure 5: Agency apportionments from CPA PMO

## CPA Administrative and Overhead Support

The table below reflects the funded, obligated, and actual disbursements for the CPA expenses for both FY 2003 and FY 2004. Primary uses of the funds (similar to FY 2003 uses) have included security, logistics, information technology, and personnel requirements.

FY 2003 and FY 2004 CPA Support Costs (in millions) as of February 29, 2004					
Requirements	Requested	Approved	Funded	Obligated	Disbursed
FY03 IFF (2020)	\$674.5	\$506.7	\$490.8	\$490.8	\$298.5
FY04 IFF (2020)	274.5	108.5	106.5	105.9	14.2
<b>Total FY03 / FY04 CPA Ops from IFF</b>	<b>\$949.1</b>	<b>\$615.2</b>	<b>\$597.4</b>	<b>\$596.8</b>	<b>\$312.8</b>
Transportation (June - June)	\$10.8	\$10.8	\$10.8	\$10.8	\$5.1
Supplies & Equipment	25.8	24.5	23.7	23.6	8.5
Communications/IT	293.7	74.4	71.7	71.4	8.2
LOGCAP	298.9	217.4	217.4	217.4	182.7
Personnel	121.4	90.6	85.6	85.5	54.9
Studies	9.2	9.0	9.0	9.0	3.3
Security	95.0	94.3	94.9	94.9	16.9
Media Network Program	94.0	94.0	84.0	84.0	32.9
<b>Total CPA Admin Support from IFF</b>	<b>\$949.1</b>	<b>\$615.2</b>	<b>\$597.4</b>	<b>\$596.8</b>	<b>\$312.8</b>
Personnel	\$47.8	\$47.8	\$39.3	\$26.7	\$2.3
Security	140.6	140.6	75.9	75.8	0.0
External Direct Support	2.4	2.4	1.1	1.1	0.0
Logistics	464.9	317.9	197.9	195.9	0.0
Baghdad Facilities and Furnishings	2.0	2.0	0.1	0.1	0.0
Communications/IT	122.3	120.6	56.6	56.3	0.0
Iraq Media Network	96.0	96.0	48.0	48.0	0.0
Reporting	0.0	0.0	0.0	0.0	0.0
Other Activities	6.6	6.6	6.6	6.4	0.0
<b>Total FY04 Supplemental</b>	<b>\$882.9</b>	<b>\$734.2</b>	<b>\$425.9</b>	<b>\$410.6</b>	<b>\$2.3</b>
CPA-IG Funding	\$15.0	\$15.0	\$15.0	\$6.1	\$0.0
*Data have not been formally reviewed or audited by the CPA-IG. (Totals may not add due to rounding.)					

Table 9: FY 2003 and FY 2004 CPA Support Costs (in millions) as of February 29, 2004

The CPA-IG will review and comment on these funds in future reports.

## Iraqi Funds

### Seized

Of the \$926 million in seized Iraqi assets, \$748 million (81%) have been obligated and \$711 million (77%) have been expended. Expenditures can be grouped into four main categories:

- Non-Ministry repairs and humanitarian assistance
- Ministry operations
- The Regional Rapid Response Program (RRRP) and Commanders Emergency Response Program (CERP)
- Fuel for the Iraqi people

A detailed account of seized funds can be found in Appendix C.

### Vested

Of the \$1.7 billion in vested funds, 97% has been obligated (all except \$47.4 million), and 96% (all except \$64.6 million) has been expended. A majority of vested funds (80%) supported Ministry operations or was used for salaries for Iraqi civil servants. Another \$179.4 million was used for direct emergency payments to the civilians or payments to pensioners. See Appendix D for detailed information on vested funds.

36

### Development Fund for Iraq

The Development Fund for Iraq (DFI) is the primary vehicle to channel Iraq's oil revenues to the Iraqi government to support its national budget.<sup>13</sup> Of the \$4.8 billion of DFI funds that have been expended as of March 1, 2004, more than half (54%) has been used for Iraqi Ministry programs. Other major uses include:

- Humanitarian food programs (13.6%)
- Repair of the oil infrastructure (8.4%)
- The CERP and RRRP programs (7.2%)

More detailed information can be found in Appendix E.

## Donor Funds

In order to coordinate the more than \$13.5 billion that has been pledged by donor nations, the World Bank and the United Nations Development Group (UNDG) established the International Reconstruction Fund Facility for Iraq (IRFFI). The Facility aims to help donors channel their resources and coordinate support for rebuilding activities in Iraq, in line with priorities established by the World Bank and United Nations, Iraqi Needs Assessment of October 2003, and then validated by Iraqi representatives. The Facility complements other forms of donor support, including bilateral assistance. The structure, governance, and operation of the Facility were designed in close consultation with donors and Iraqi national authorities from August through December 2003.

The Facility encompasses two trust funds: the World Bank Iraq Trust Fund (ITF), to be administered by the World Bank, and the U.N. Development Group Iraq Trust Fund (UNDGITF), to be administered by the United Nations Development Program (UNDP) on behalf of itself and participating U.N. Organizations.

## Iraq National Budget

The funding of operating and capital requirements of the Iraqi ministries is an integral part of the relief and reconstruction effort. The ministries are almost totally funded through oil revenues (94% in 2004). Current financial strategy calls for a balanced budget by 2005. Daily operations of the temporary government are being funded through the DFI (currently administered by the CPA).

DFI, seized, and vested funds were all used to finance the Iraqi Ministries from the beginning of coalition military operations to the present. In 2004, the Iraqi national budget included 20.1 trillion new Iraqi dinars (or US \$13.4 billion) for operating and capital requirements, according to the Iraq national budget, as of February 29, 2004.

While taxes, customs duties, and user fees will grow as the Iraq economy improves, the strength of Iraqi oil production and the world price of oil will drive the Iraq national budget. The CPA is currently working on a midyear review and adjustment of the Iraq national budget, in consultation with the Iraqi Minister of Finance and Governing Council.

## Contracts

### Contract Data

Public Law 108-106 requires the CPA-IG to discuss how the CPA identified and solicited offers from potential contractors, together with a list of potential contractors that were issued solicitations for the offers. The same law requires a discussion of the justification and approval documents on any contract for which other than full and open competition was used, and the CPA's estimate of the cost to complete.

CPA-IG Tiger Teams are in the process of collecting the justification and approval documents from the various agencies possessing the contract files. Additionally, CPA-IG Tiger Teams are collecting information on the CPA processes for identifying and soliciting offers from contractors. The CPA-IG is also working with the CPA and other agencies to gather updated information on the estimated cost to complete CPA projects and programs. This information will be reviewed, analyzed, and included in the CPA-IG's second quarterly report due to Congress on June 30, 2004.

### Contracts Overview

According to the Deputy Assistant Secretary of the Army for Policy and Procurement, more than 1,500 contracts have been issued for Iraq relief and reconstruction, at a value of more than \$9.7 billion.<sup>14</sup> This total includes contracts awarded by the offices located in the CONUS and offices located in Iraq. The charts on page 39 summarize the contracts awarded in FY 2003 (Table 10) and in FY 2004 (Table 11).

The summary includes the number of contracts, total value and obligated amounts as well as a breakout by competitive and sole source categories. The data indicates that since the establishment of ORHA, CPA and other agencies have awarded 68% of the FY 2003 awards on a competitive basis (20% full and open, 48% using limited competition) and 32% on a sole source basis. The FY 2003 competitive contracting summary includes contracts funded with both U.S. appropriated and Iraqi funds. For FY 2004, data gathered for this report indicates that most of the awards were made using competitive procedures. Additionally, an overview of LOGCAP Task Order 44, and the FY 2003 IRRF monies apportioned by program and agency is provided. CPA-IG will continue efforts to review supporting information and will include results of its review in the second quarterly report to Congress.



**FY 2003 Contracts Awarded, by Competitive Type as of March 17, 2004**

(USD in millions)	Competitive										Sole Source				
	Full and Open					Limited					No. Contracts	Value	% of Total by \$	% of Total Contracts	
	No. Contracts	Value	% of Total by \$	% of Total Contracts	No. Contracts	Value	% of Total by \$	% of Total Contracts	No. Contracts	Value					% of Total by \$
Agency	No. Contracts	Total Value	Obligated Amount	No. Contracts	Value	% of Total by \$	% of Total Contracts	No. Contracts	Value	% of Total by \$	% of Total Contracts	No. Contracts	Value	% of Total by \$	% of Total Contracts
DCC-W	23	\$ 135	\$ 111	8	\$ 6	5%	35%	0	\$ 0	0%	0%	15	\$ 128	95%	65%
USACE	33	4,288	4,288	24	424	10%	73%	6	1,171	27%	18%	3	2,693	63%	9%
ACA	2	69	35	1	48	69%	50%	0	0	0%	0%	1	21	31%	50%
USAID	14	3,486	1,791	1	48	1%	7%	13	3,438	99%	93%	0	0	0%	0%
WHS	36	1	1	13	0.2	13%	36%	0	0	0%	0%	23	1	87%	64%
DISA	13	64	41	12	63	98%	92%	0	0	0%	0%	1	1	2%	8%
AMC	4	587	211	4	587	100%	100%	0	0	0%	0%	0	0	0%	0%
DCMA	4	28	28	0	0	0%	0%	0	0	0%	0%	4	28	100%	100%
<b>Subtotal</b>															
<b>CONUS</b>	<b>129</b>	<b>\$8,661</b>	<b>\$6,508</b>	<b>63</b>	<b>\$1,178</b>	<b>14%</b>	<b>49%</b>	<b>19</b>	<b>\$4,609</b>	<b>53%</b>	<b>15%</b>	<b>47</b>	<b>\$2,873</b>	<b>33%</b>	<b>36%</b>
CPA															
Iraq	1,358	\$1,294	\$ 747	622	\$ 822	64%	46%	726	\$ 142	11%	53%	10	\$ 329	25%	1%
<b>Total</b>	<b>1,487</b>	<b>\$9,955</b>	<b>\$7,256</b>	<b>685</b>	<b>\$2,000</b>	<b>20%</b>	<b>46%</b>	<b>745</b>	<b>\$4,752</b>	<b>48%</b>	<b>50%</b>	<b>57</b>	<b>\$3,202</b>	<b>32%</b>	<b>4%</b>

\*Data have not been formally reviewed or audited by the CPA-IG.

**Table 10: FY 2003 Contracts Awarded, by Competitive Type as of March 17, 2004**

**Summary Timeline of FY 2003 Sole Source Contracts**

USD (in millions)	No. of Contracts	% of Total Contracts	Value	% of Total \$
Before 5/1/03	34	60%	\$2,789	87%
5/1/03 – 10/1/03	17	30%	\$101	3%
After 10/1/03	6	11%	\$313	10%
<b>Total</b>	<b>57</b>	<b>100%</b>	<b>\$3,203</b>	<b>100%</b>

\*Data have not been formally reviewed or audited by the CPA-IG. Figures may not add due to rounding.

**Table 11: Summary Timeline of Sole Source Contracts**

## LOGCAP – Background

LOGCAP was established to provide vital contingency support to U.S. forces both in peace and wartime. Its intent is to increase the efficiency and war-fighting capability of forces on the ground and to improve quality of life in difficult circumstances.

LOGCAP provides a range of services, including laundry and bath, facilities and billeting, clothing exchange and repair, waste and sanitation, food, mortuary affairs, supply support, maintenance, transportation and distribution, and power generation and distribution. At its core, the program is intended to allow fewer soldiers to accomplish a larger mission by allowing them to focus on war-fighting capability and force projection, while the LOGCAP contractor delivers life support infrastructure.

In 1992, the first LOGCAP was awarded by the U.S. Army Corps of Engineers (USACE) to Brown and Root Services for a one-year term, with four one-year options. Operations in Somalia and Haiti were supported by this contract. In 1996, the program was transferred to the U.S. Army Materiel Command (AMC) and a 1997 LOGCAP award was won competitively by DynCorp. A 2001 LOGCAP competition was secured by the first contract provider, Brown and Root Services, later known as Kellogg, Brown & Root (KBR).

The U.S. Army Materiel Command's LOGCAP has played a large role in the Iraq mission on several levels. In addition to the continuing support that the program provides to U.S. armed forces, the LOGCAP has been utilized to address high-level objectives from planning for the Restoration of Iraqi Oil infrastructure (RIO), to provision of life-support for the CPA in its area of responsibility.

There is an ongoing audit by DCAA and AMC relating to Halliburton invoicing for meals ordered and meals served to soldiers and supporting civilian personnel in Iraq and Kuwait. This dispute is a matter of interest to the CPA-IG and will be discussed in upcoming reports to Congress.

## Process and Controls

The CPA has instituted a series of formal processes and controls such as CPA Regulation Number 3 (Program Review Board) and CPA Memorandum Number 4 (Contract and Grant Procedures Applicable to Vested and Seized Iraqi Property and the Development Fund for Iraq). These processes and controls were designed to help ensure the CPA is responsible in its use of allotted funds, protects these funds from malfeasance, and ensures their use for the benefit of the Iraqi people. Data on CPA processes and controls continues to be gathered and the CPA's processes and controls have yet to be reviewed or audited by the CPA-IG. See Appendices J and K for information regarding CPA orders issued to deter corrupt practices and the establishment of Inspectors General within Iraqi government ministries.

To date, oversight of Iraq reconstruction activities has consisted principally of contract audits performed by the Defense Contract Audit Agency, the USAID Inspector General, and the U.S. Army Audit Agency. Investigations are being conducted by the Defense Criminal Investigative Service based on DCAA audit reports.

The CPA-IG will conduct its own investigations, in coordination with DCIS, and will coordinate audits with the IIG. The CPA-IG reserves the right to reexamine issues that merit further review, under the purview of other Inspectors General and audit agencies.

### Program Management Office (PMO)

The PMO is the responsible authority for the management of the Iraq Relief and Reconstruction Program. The PMO utilizes contracting capabilities of the U.S. Army, and the authority of multiple agencies, while retaining overall program management authority. The PMO is responsible for tasking, coordinating, commissioning and sustaining relief and reconstruction efforts; managing, tracking, and reporting both funding and program execution at the task and contract level; and oversight of overall program status.

### Completed and Future Audit Work

There are several key agencies with specific responsibilities for performing audits, investigations, and inspections in Iraq. These agencies and a short summary of their ongoing activities are as follows:

## Defense Contract Audit Agency (DCAA)

The CPA-IG has established a very effective working relationship with the DCAA. As of March 2, 2004, the DCAA issued a total of 187 audit reports related to Iraq relief and reconstruction. These audits resulted in dollars examined of \$6.8 billion, questioned costs of \$132.6 million, unsupported costs of \$307 million, and suspended costs of \$176.5 million.



DCAA activity related to Iraq relief and reconstruction has been performed in the following areas:

- Price Proposals (28 Reports) – Audits of price proposals submitted by contractors in connection with the award, modification, or repricing of Government contracts or subcontracts
- Price Proposal Agreed Upon Procedures (71 Reports) – Evaluations of specific areas, including actual labor and overhead rates and/or cost realism analysis, requested by customers in connection with the award of Government contracts or subcontracts
- Other Requested Special Audits (29 Reports) – Audit assistance provided in response to special requests from the contracting community based on identified risks
- Internal Controls (13 Reports) – Audits of contractor internal control systems relating to the accounting and billing of costs under Government contracts
- Labor Timekeeping (18 Reports) – Audits to determine if the contractor consistently complies with established timekeeping system policies and procedures for recording labor charges
- Purchases Existence and Consumption (11 Reports) – The physical observation of purchased materials and services and related inquiries regarding their documentation and verification of contract charges
- Preaward Accounting Surveys (9 Reports) – Preaward activities to determine whether a contractor's accounting system is acceptable for segregating and accumulating costs under Government contracts
- Other (8 Reports) – Significant types of other audit activities including financial capability audits and Cost Accounting Standards compliance audits

DCAA is also providing:

- Audits of costs charged to Government contracts to determine whether they are allowable, allocable, and reasonable
- Financial advisory support services to DCAA customers throughout the Iraq theater
- Advisory services in support of source selection evaluation boards

## U.S. Agency for International Development Inspector General (USAID IG)

In addition to the contract audits requested from DCAA, the USAID-IG also conducted a total of eight audits focused on USAID compliance with federal regulations in awarding contracts for work in Iraq. In general, the USAID IG found that USAID had complied with the applicable federal regulations for authorizing other than full and open competition, as well as in its assessment and review of the contractor's ability to perform under the contract, and conducting the presolicitation, selection, and negotiation process.



In several instances, the USAID IG found that the agency was not fully in compliance with contract regulations. Findings included the following: selecting a contractor without determining it had an official facilities clearance; failure to adequately document the decisions made for market research in identifying prospective contractors; and failure to make proper notifications to unsuccessful bidders.

## Department of Defense Inspector General (DoD IG)

The DoD IG has issued one audit report, "Contracts Awarded for the Coalition Provisional Authority by the Defense Contracting Command – Washington (D-2004-057)," March 18, 2004. This audit was performed as a result of a June 10, 2003 memorandum to the DoD Inspector General from the Director of DCAA. The DoD IG reviewed 24 contracts valued at \$122.5 million that were awarded between February and August 2003. The audit involved review of procedures and documentation that supported requirements determinations, types of contracts used, use of other than full-and-open competition, and determinations of price reasonableness. Findings related to establishment of firm requirements, misuse of the Federal Supply Schedule, inappropriately awarding personal services contracts, out-of-scope performance, lack of support for price reasonableness determinations, and lack of Government surveillance on awarded contracts.



A primary recommendation is that the Deputy Secretary of Defense should designate an office to study existing DoD post-war strategy, and establish responsibilities, policies, and procedures for acquisition of goods and services in support of future post-war occupation and relief operations.

## United States Army Audit Agency (USAAA)

The USAAA has two audits in process related to Iraq reconstruction. The first audit is Definitization of the Logistics Civil Augmentation Program (LOGCAP). The report is being finalized and is expected to be included in the next CPA-IG report to Congress. The second audit is the Audit of Accountability of Vested and Seized Assets for Operation Iraqi Freedom.



## Defense Criminal Investigative Service (DCIS)

### DCIS Middle East Task Force

This DCIS project was initiated to assist the financial cell established by Dr. Dov Zakheim, DoD Comptroller, with DoD related financial and acquisition programs in the relief and reconstruction of Iraq. This project, managed by the DCIS Mid-Atlantic Field Office, supports the DoD and the CPA by providing criminal investigative support in the areas of major fraud crimes, public corruption, contract fraud, theft of funds, counterfeiting, and terrorism-related cases, such as illegal weapons and smugglers. DCIS routinely coordinates with U.S. Military Police and combat units as well as the Iraqi National Police. Additionally, DCIS has developed and referred intelligence-related information to proper intelligence organizations. A brief summary of cases follows:

### DCIS Case Summary

INVESTIGATIVE STATUS	CONFLICT OF INTEREST	COUNTERFEIT	WEAPONS RECOVERY	FALSE CLAIMS OR STATEMENTS	THEFT	BRIBERY/ CORRUPTION
Open	1	2	1	1	1	2
Closed	0	2	2	1	3	2
<b>Totals</b>	<b>1</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>4</b>	<b>4</b>

Table 12: DCIS Case Summary

## Cases:

### Counterfeiting Investigations

- An Iraqi citizen operated an Iraqi dinar counterfeiting operation in Baghdad. A raid of the subject's printing company seized a vehicle, six printing presses, and more than 20 billion Iraqi dinar. Subject was arrested and turned over to the Iraqi National Police.
- An Iraqi citizen attempted to bribe banking officials in Iraq for their help in laundering counterfeit Iraqi dinar at their financial institution. DCIS agents assisted the 18th MP Brigade and the Iraqi National Police in arresting the subject and two accomplices. Seized subsequent to arrest were a vehicle, approximately \$9,000, and approximately 440 million in counterfeit Iraqi dinar.
- Two Iraqis were arrested upon receipt of information regarding the presence of a large quantity of counterfeit Iraqi passports. Seized while effecting the arrest were 546 counterfeit Iraqi passports. Both subjects were remanded to the Iraqi National Police.

### Weapons Recovery Investigations

45

- Four Iraqis were arrested after allegations were confirmed that they possessed a large quantity of heavy weapons. One was turned over to the Iraqi National Police for further processing through the Iraq authorities. The other three were eventually determined to have no involvement and were released.
- An Iraqi citizen was arrested for illegally dealing in weapons. Seized from his residence were rocket propelled grenade launchers, electronic detonators used in making improvised explosive devices, an AK-47 rifle, a submachine gun, and large quantities of ammunition. He was remanded to the custody of the Iraqi National Police.

### Theft Investigations

- An investigation examined the theft of 2.5 million new Iraqi dinar from a CPA storage facility at the Baghdad International Airport. No suspects were identified.
- A U.S. citizen assigned to the CPA smuggled an ancient Babylonian artifact (a brick) out of Iraq. The artifact was returned to DCIS, and the individual was terminated from his position with the CPA. The artifact will be returned to the Iraqi officials.

- An investigation was conducted regarding allegations that a foreign national was stealing government property from the newly established Iraqi Media Network (IMN). Two IMN employees were terminated from their positions and arrested by the Iraqi National Police. The absent foreign national resigned.

#### Corruption Investigations

- An Iraqi director of a convention center solicited bribes from contractors seeking work at the convention center, including a subcontractor responsible for information technology work for the CPA. The subject was arrested and remanded into the custody of the Iraqi National Police.
- An Iraqi citizen allegedly attempted to bribe officials within the CPA to receive contracts for his company. He was arrested and turned over to the Iraqi National Police.

The DCIS has a number of cases that are ongoing, which cannot be the subject of review in this report.



## CPA-IG Accomplishments to Date and Next Steps

### Accomplishments to Date

Since beginning work on January 21, 2004, the CPA-IG has accomplished a number of important tasks. These include the following:

- Developed a Strategic Plan and preliminary Audit Plan for CPA-IG
- Established offices in Washington, D.C. and Baghdad with 40 and 18 employees in place, respectively
- Deployed Tiger Teams to Baghdad and Washington, D.C., to begin review, inspection, and audit of high-priority issues
- Chartered and held initial meeting of Iraq Inspectors General Council to coordinate audits and reviews of financial matters related to Iraq funding
- Recommended formation of Iraq Financial Working Group to meet regularly in Baghdad to review Iraq funding issues in theater
- Developed CPA-IG Web site, fraud, waste and abuse hotlines, and corporate governance initiatives
- Completed two survey visits to Baghdad by CPA-IG, during which more than 40 meetings with key officials in CPA, and comprehensive data collection process
- Strengthened the investigation component of the fraud, waste, and abuse mission in Iraq

47

### Next Steps

The CPA-IG has identified a number of concerns and has deployed its Tiger Teams to Iraq to make assessments and preliminary inspections. The work of these Tiger Teams together with the implementation of the CPA-IG's Audit Plan will allow CPA-IG to continue to develop an information base that will better enable the CPA and other agencies currently overseeing Iraq relief and reconstruction to manage risks more effectively. The CPA-IG will address these issues in more detail in its second quarterly report to Congress due on June 30, 2004.

Notwithstanding the volume of information in this initial report, the CPA-IG recognizes that its data collection and preliminary reviews on expenditures for the reconstruction of Iraq will require substantially more detailed analysis. For example, CPA's operational costs, both retrospective and prospective, require further analysis and verification, as do the costs to the Department of State, USAID, and various other Federal agencies that have been involved in reconstruction and humanitarian relief. Additionally, the oversight of spending and control of cash is a concern that has been corroborated by other Inspectors General and audit related agencies. In particular,

CPA-IG will focus on the impact of rapidly escalating security costs on the overall program, and the cost of insurance. Potential solutions to the insurance problem will be pursued.

With security cost estimates ranging from 10% to 15%<sup>15</sup> of the current reconstruction budget, and with continued and significant threats to human life being experienced in the “Green Zone” and throughout Iraq, the inability to accurately predict the costs of security (including insurance) raises questions about the need for more funding – Iraqi, donor, or U.S. – to accomplish the reconstruction mission.

CPA-IG will also further examine the issue of transition costs that have not been budgeted, as well as review the post-transition status of existing inventories and property.

The CPA has improved the staffing of contracting offices supporting the PMO. This will be a continuing area of interest that the CPA-IG will pursue and monitor. There have been 28 contracting officers in Iraq assigned to manage nearly \$20 billion in funds.<sup>16</sup> CPA-IG will work with the PMO to ensure that this important area receives sufficient support. CPA-IG also will examine more closely the contracting process for major contracts.

In summary, the CPA-IG acknowledges the hard work of all of the agencies, organizations, and teams that have put much effort and thought into managing the contracting process in Iraq. CPA-IG will continue to work with them to assess the situation and formulate solutions. Further, the CPA-IG will continue to consider all of this input carefully in building an independent analysis to support future findings and recommendations. The CPA-IG expects to have its first such audit-based findings and recommendations ready for the second quarterly report to Congress due on June 30, 2004. The preliminary statements included in this report are based on data available through February 29, 2004, and received by March 19, 2004.

During its first two months of operation, the CPA-IG has comprehended the scope and importance of the task Congress has set before it, and has made a strong first step towards meeting that task. The CPA-IG will continue to expand its dialogue with fellow Inspectors General, audit agencies, key stakeholders, the Iraqi people, the American public, the Congress, key international representatives, and others who can provide valuable insight and aid as it addresses the issues of high priority to this office and to the Congress.

## Appendices

### Glossary

- A. Cross Reference of Public Law 108-106 Section 3001 with specific pages of the Report
- B. Section 3001 of Public Law 108-106
- C. Seized Funds
- D. Vested Funds
- E. Donor Funds
- F. Development Fund for Iraq (DFI)
- G. Department of State and USAID Appropriated Funds
- H. Contracts Awarded CONUS
- I. Contracts Awarded in Iraq
- J. CPA Order 55
- K. CPA Order 57
- L. CPA-IG Audit Planning (Audit Plan Abstract) and Areas of Interest
- M. March 15, 2004 Department of Defense Iraq Status Report
- N. End Notes