



MINORITY STAFF
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Fact Sheet

International Auditors Find Serious Problems with Bush Administration's Management of Iraqi Funds

On October 14, 2004, the International Advisory and Monitoring Board released a new audit of the Bush Administration's management of Iraqi oil proceeds and other funds in the Development Fund for Iraq. The Board was created under U.N. Security Council Resolution 1483 to monitor the Bush Administration's stewardship of Iraqi funds while acting as the occupying power in Iraq. This audit, which was conducted by the international accounting firm KMPG, covers the time period from January 2004 to June 2004, when the Coalition Provisional Authority dissolved.

The audit report, entitled *Development Fund for Iraq: Report of Factual Findings in Connection with Disbursements*, finds serious problems with the Administration's management of Iraqi funds. These problems involved hundreds of millions of dollars, numerous sole source contracts, missing and nonexistent contract files, and continuing investigations into major irregularities. They involve programs administered by the Coalition Provisional Authority, Iraqi ministries, the Kurdish Regional Government, and Iraqi provincial governments.

CPA-Administered Projects

Under Security Council Resolution 1483, the Coalition Provisional Authority was authorized to spend Iraqi oil proceeds and other funds in the Development Fund for Iraq "in a transparent manner" and "on behalf of the Iraqi people." The Coalition Provisional Authority created a Program Review Board (PRB) to assist in approving and monitoring disbursements from the Fund. The audit finds numerous problems with the programs administered by the Coalition Provisional Authority. Selected quotes from the audit are set forth below:

- "We found one case where a contract was entered into despite the specific objections of the Iraqi representative to the PRB. No evidence of a bidding process was available, the contract was inappropriately signed by the CPA Senior Advisor (rather than a Contracting Officer) and an advance payment (\$2,915,000) paid without justification. The contract was later cancelled and the CPA Senior Advisor subsequently left the CPA." (p. 18-19)
- "We found one case where a payment (\$2,600,000) was authorized by the CPA Senior Advisor to the Ministry of Oil. We were unable to obtain an underlying contract,

evidence of tendering procedures or evidence of services being rendered. We have been informed by the PCO that this matter is under investigation.” (p. 19)

- “We found 37 cases where contracting files could not be located (\$185,039,313).” (p. 18)
- “We found one case where we were unable to obtain evidence of a tendering process (contract value of \$95,560,000).” (p. 18)
- “We found two cases where documentation of the contract award decision was not available in the contracting file (\$97,574,185).” (p. 18)
- “We found two cases (\$5,070,000) where payments were made in full and contract files closed prior to the completion of the contract. In one of these cases, the file was closed before the commencement of the contract.” (p. 19)
- “We found 52 cases where goods received notes or other supporting documentation were not on file (\$97,979,888).” (p. 19)
- “We found three cases where we were unable to obtain evidence of contract monitoring (\$22,136,560).” (p. 19)
- “We found one case where a Contracting Officer Representative signed receiving reports for work carried out without verification of the services (security services throughout Iraq) actually provided (\$5,894,568).” (p. 20)

Commander’s Emergency Response Program (CERP)

One specific program funded by the Coalition Provisional Authority was the Commander’s Emergency Response Program, which was designed to provide military commanders with authority to fund small reconstruction projects to benefit the quality of life of the Iraqi people and contribute to stabilization efforts in Iraq. The audit finds numerous problems with the CERP expenditures. Selected quotes from the audit are set forth below:

- “We found 42 cases where there were no contracts on file for projects in excess of \$100,000...(\$13,283,352).” (p. 21)
- “We found 128 cases where we were unable to obtain evidence that three bids were obtained or sole-source justifications for projects in excess of \$10,000... (\$31,682,067).” (p. 21)
- “We found 54 cases where we were unable to obtain either a purchase invoice or a payment voucher for a disbursement. Additionally, we found one case for which we were unable to obtain any supporting documentation for the disbursement (\$7,190,944).” (p. 21)

- “We found a number of cases where weapons were paid for under a weapons buy-back program (\$1,400,000). The use of DFI funds for weapons buy-back programs was specifically prohibited by CERP rules and regulations.” (p. 21)
- “We found eight cases where advance payments, including advance payment of 100% of the contract value, were made for projects (\$3,450,000). CERP rules and regulations state that units were only to make progress payments based on contract performance.” (p. 21)
- “We found 142 cases where we were unable to obtain receiving reports or other supporting documentation evidencing services received for payments made (\$39,957,782).” (p. 22)

Iraqi Ministries

In addition to funding its own programs, the Coalition Provisional Authority also provided funding to the Iraqi ministries to conduct their governmental operations. The Coalition Provisional Authority placed “special advisors” at each ministry to further assist in the stewardship of these funds. The audit finds numerous problems with expenditures to the Iraqi ministries. Selected quotes from the audit are set forth below:

- “The MOF [Ministry of Finance] maintained two sets of accounting records, manual records for transaction post-hostilities and computerized records representing the continuation of the official records. A reconciliation between these two sets of accounting records was not prepared and the difference was significant.” (p. 9)
- “We found that reconciliations between amounts transferred from the MOF and amounts received by the Iraqi Ministries visited were not prepared.” (p. 9)
- “We noted the two MOF bank accounts, denominated in US dollars and Iraqi Dinars, at the CBI, and the main accounts at Al-Rasheed and Al-Rafidian banks, were not reconciled to the accounting records and differences were significant.” (p. 10)
- “We found that checks were made payable to the CPA Senior Advisor to the MOH [Ministry of Health], rather than suppliers. Reconciliation between payments made and contracts or evidence of goods received were not provided to us.” (p. 12)
- “We found three disbursements were made on the basis of requests for payment by the Senior Advisor to the MOH, without purchase invoices, goods received notes or contracts.” (p. 13)
- “We found that the MOH’s trial balance did not balance by approximately \$1,300,000 at 28 June 2004.” (p. 9)

- “We found one case [at the Ministry of Energy] where a large contract (\$339,141,000) was not publicly tendered. We were unable to obtain evidence of how many contractors were invited to tender for this contract or bids received.” (p. 12)

Kurdish Regional Government (KRG)

The Coalition Provisional Authority was also responsible for providing funding from the Development Fund for Iraq to the Kurdish government in northern Iraq. The audit was unsuccessful in obtaining information about these funds. Selected quotes from the audit are set forth below:

- “During our procedures in the Kurdish region in Northern Iraq, we were denied access by the KRG to their accounting records. Accordingly, we were unable to perform the procedures required.” (p. 13)
- “We were provided with a deposit slip for a Kurdish Bank by the OPC for the receipt of \$1,400,000,000.... We were informed by the KRG that there were no disbursements from the \$1,400,000,000 transferred to the KRG on 22 June 2004. We were not provided with documentation to verify that these funds remained unspent at 28 June 2004.” (p. 5, 13)
- “The 22 June 2004 disbursement made by the CPA for \$1,400,000,000, was allocated to the MOF operating budget line item ‘transfer payments’, as approved by the CPA Senior Advisor to the MOF. We were unable to obtain further analysis or information regarding the intended utilization of this budget line item.” (p. 6)

Iraqi Provincial Governments

The Coalition Provisional Authority was responsible for providing funds from the Development Fund for Iraq to help local provincial governments conduct their operations. Here too, the audit finds substantial problems. Selected quotes from the audit are set forth below:

- “The BSA [Iraqi Board of Supreme Audit] reported that total disbursements for the Provincial Treasuries visited during the period amounted to approximately \$1,000,000,000.” (p. 14)
- “There was no supporting documentation available at Provincial Treasuries for disbursements made by the CPA on behalf of Provincial Treasuries.” (p. 14)
- “A number of projects were awarded at one Provincial Treasury on a sole source basis without justification. A number of goods received notes or evidence of services rendered were not available.” (p. 14)