



# REVENUE WATCH

REPORT NO. 7

SEPTEMBER 2004

## Disorder, Negligence and Mismanagement: How the CPA Handled Iraq Reconstruction Funds

### Overview

Recent audits focusing on Iraqi and US funds used by the U.S. Coalition Provisional Authority (CPA) for the reconstruction of Iraq paint a picture of disorder and negligence. The audits show that the CPA mismanaged Iraqi funds by keeping poor records and monitoring contracts ineffectively.

The audits by the CPA Inspector General, the International Advisory and Monitoring Board, and Pentagon auditors indicate that contractors paid inadequate attention to controlling costs, and failed to apply standard U.S. contracting practices when Iraqi funds were being disbursed.

They also indicate that the lion's share of the value of contracts paid for with Iraqi funds went without any competition to U.S. companies, largely to Halliburton subsidiary Kellogg, Brown & Root (KBR), a company that has become well-known for its ties to Vice President Dick Cheney and its receipt of the largest reconstruction contract in Iraq in secret in the weeks following the invasion in 2003.<sup>1</sup>

Overall, the audits affirmed the findings of earlier investigations: the CPA managed funds and contracts with inadequate protection against waste of Iraqi and U.S. funds, and, in many cases, the CPA bypassed federally mandated procedures for awarding and overseeing contracts, particularly in the handling of Iraqi funds.

The timing of these reports also raises questions about how and if improvements can be made. The Coalition Provisional Authority, which served as the temporary government of Iraq, managed all Iraqi revenues during occupation and was responsible for handling many reconstruction contracts. When the CPA was dissolved on June 28, it ceded control over the Development Fund for Iraq to the interim Iraqi government.<sup>2</sup> The DFI collects all earnings from the sale of Iraq's oil and gas, which is the government's primary source of revenue. No information about the balance of the DFI has been made available since the transfer of power to the interim Iraqi government.

U.S. agencies will continue to manage contracts funded by U.S. appropriations and contracts paid for with Iraqi funds that were signed when the CPA governed Iraq. The Project and Contracting Office, which reports to the U.S. Department of the Army /U.S. Department of Defense, will now control contracting and program management.<sup>3</sup> The State Department and the Iraq Reconstruction Management Office within the new U.S. Embassy in Baghdad will control priorities and requirements related to the \$18.4 billion Congressional appropriation for Iraq.<sup>4</sup>

The office of the Coalition Provisional Authority Inspector General (CPA-IG), created by Congress in November 2003 as a requirement for appropriations for reconstruction spending in Iraq, submitted its quarterly report to Congress on July 30, summarizing the results of 11 audit reports, 69 criminal investigations, and other initiatives.<sup>5</sup> The CPA-IG's mission is to "serve as an independent, objective evaluator of the operations and activities of the CPA."<sup>6</sup> It will continue to operate until December 28, 2004, unless its term is extended by Congress.<sup>7</sup>

## The Rewards of Occupation

The CPA consistently failed to be transparent by not releasing the names of companies awarded contracts paid for with Iraqi funds. Although information was available about the recipients of U.S.-funded reconstruction contracts, until recently, there was no publicly available information about which companies were being paid with Iraqi oil revenues. This information was finally made available in an appendix released by the CPA-IG in August 2004, which provides information about the use of Iraqi funds to pay contracts valued at more than \$5 million.<sup>8</sup> That chart is reproduced in Appendix 1 of this report.

An analysis of the data suggests that the CPA awarded U.S. firms 74 percent of the value of the total \$1.5 billion in contracts paid from Iraqi funds. When British firms are added to the equation, U.S. and U.K. companies wind up receiving 85 percent of the value of all such contracts. Iraqi firms, by contrast, received just 2 percent of the value of contracts paid for from Iraqi funds.

Among the U.S. and U.K. companies, Halliburton subsidiary KBR received 60 percent of the value of all contracts paid for with Iraqi funds. These contracts were for import and distribution of fuel to consumers in Iraq. In an audit last year, Pentagon auditors found that KBR had overcharged the U.S. government by as much as \$61 million for fuel imports into Iraq,

and a criminal investigation was launched by the Department of Defense in February 2004.<sup>9</sup> As a result of this and similar findings, the U.S. Congress insisted in its 2004 appropriation for Iraq that all contracts for reconstruction must be competitively bid, unlike the KBR contract. It appears that, to comply with these requirements, the Pentagon shifted the KBR contract so that it would now be paid with Iraqi funds, resulting in KBR receiving \$921 million in no-competition contracts paid from Iraqi funds. In fact, 73 percent in dollar value of all the contracts awarded using Iraqi funds were sole-source contracts that were not competitively bid.

## Different Standards for U.S. and Iraqi Funds

The CPA-IG found that “the CPA created policies and regulations which, although well-intended, did not establish effective control and accountability over \$600 million in DFI funds held as cash available for disbursement.”<sup>10</sup>

Part of the reason for this mismanagement is that, although the CPA was required to manage the DFI in a transparent manner, it chose not to apply the same standards that apply to U.S. funds. The billions of dollars that Congress has appropriated for reconstruction activities in Iraq must comply with the Department of Defense’s Financial Management Regulations (DoD FMR) which set out rules for disbursing funds, overseeing contractors, financial reporting, and other procedures for guarding against abuse of government funds. The CPA-IG notes that the “FMR could have been easily adapted to policies and procedures to account for DFI cash.”<sup>11</sup> In explaining the apparent double standard, Colonel Don D. Davis, of the Project and Contracting Office stated that the “wide uses” of DFI along with environmental factors unique to Iraq “required flexibility not affordable under the strict interpretation of DoD FMR.”<sup>12</sup>

As a result, the CPA-IG found that with regard to Iraqi cash assets, proper cash accountability was not maintained, physical security was inadequate, fund agent records were incomplete, and fund managers’ responsibilities were not assigned properly. For example, investigators found that the physical security of Iraqi cash was lax, with keys to the field safe located in an unattended backpack.

The auditors were also unable to reconcile various financial statements for the DFI. The difficulty lay in part with the CPA’s decision to use cash basis accounting, which is more difficult to manage than accrual accounting. The DFI’s managers explained that when the DFI was first created, “guidance was not well defined nor were any clear policies and procedures provided.”<sup>13</sup>

The investigators also found poor oversight of fund agents, the officials responsible for transferring payments from the DFI. The auditors examined 15 disbursing locations and found that officials routinely failed to properly document or maintain accountability for advances to paying agents and receipts. For example, disbursing officials at 14 of the locations did not maintain a register of cleared receipts. Of 26 paid receipts that the investigators examined, 25 had no supporting invoices, and all were missing one or more of the required signatures. The auditors report that of the \$400 million available for disbursement, as much as \$50 million was

cleared without proper receipts to validate payments. “During the review, we found that there were no supporting receipts for some invoices; receipts were cleared with limited explanations of services or materiel received; and funds were disbursed for services that were contradictory to the allowable expenses.”<sup>14</sup> Overall, the investigators concluded that “While the CPA-IG did not identify any actual losses of cash, these were susceptible to fraud, waste, and abuse.”<sup>15</sup>

## Half-Hearted Oversight

Not only did the CPA fail to apply Department of Defense financial reporting rules, it failed to follow its own rules. CPA regulation Number 2 required the CPA to retain an independent certified public accounting firm to ensure that the DFI was being used transparently and for the benefit of the Iraqi people.<sup>16</sup> Instead, the CPA awarded a \$1.4 million contract to North Star Consultants, a financial services firm, to review the CPA’s internal controls for the DFI. Neither North Star nor any other firm hired by the CPA ever performed this work. Instead, the Comptroller “verbally modified the contract and employed the contractor to primarily perform accounting tasks in the Comptroller’s office.”<sup>17</sup>

In response to the Inspector General’s report, CPA management declared that North Star did not perform a review of internal controls per its initial contract because the contract was signed shortly before the CPA dissolved. CPA management acknowledged that North Star’s initial contract “should have been modified to reflect the change,” but did not explain why the CPA would award a contract to review its DFI controls when it was about to dissolve.

The Department of Defense spokesperson did not respond to IRW’s requests for comment on this modification, and refused to clarify the nature of the work that North Star did in fact perform.

A March 2004 audit by the Department of Defense Office of the Inspector General found that the CPA and its predecessor, the Office for Reconstruction and Humanitarian Assistance (ORHA), circumvented federal contracting procedures from the early days of occupation.<sup>18</sup> The report found that federal procurement rules were not followed in 22 of 24 contracts awarded by the Defense Contracting Command. The Inspector General determined that defense department personnel working on Iraq reconstruction contracts did not establish firm contract requirements; conducted “inadequate surveillance” on more than half of the contracts awarded; did not “perform or support price reasonableness determinations;” and allowed activity that was “out-of-scope” of the original contracts.<sup>19</sup> The audit concluded that the DoD cannot be assured that it either “provided the best contracting solution or paid fair and reasonable prices for the goods and services purchased” during the reconstruction process.<sup>20</sup>

## Weak Accounting for Iraq's Oil Revenues

In Resolution 1483, the UN Security Council established the International Advisory and Monitoring Board (IAMB) to oversee CPA expenditures of Iraq's revenues (held by the DFI) during occupation. The IAMB has hired the consulting and auditing firm KPMG to help prepare a series of retrospective audits on the CPA's management of the DFI and contracting practices. The first report of the series was issued in July 2004.<sup>21</sup>

The audit covered oil export sales and the DFI operations from June 2003-December 2003.<sup>22</sup> An interim report revealed the challenges KPMG faced in gaining cooperation for its audit.<sup>23</sup> The auditors reported that, "KPMG has encountered resistance from CPA staff regarding the submission of information to complete our procedures."<sup>24</sup> KPMG also reported difficulty in getting meetings with Iraqi ministry staff, and the CPA's refusal to share information about the audits it had conducted of sole source contracts paid for with Iraqi funds. CPA staffers indicated to KPMG that their workload was "already excessive," and KPMG's undertakings had a "low priority" within the agency.<sup>25</sup>

In its report released in July 2004, the IAMB found numerous problems in the CPA's control and use of Iraqi oil assets during the first half of occupation.<sup>26</sup> These include the absence of oil metering to control theft, poor record-keeping on oil sales, failure to record proceeds from oil barter transactions, an absence of oversight of spending by the Iraqi ministries, the use of noncompetitive bidding procedures for some contracts, and the CPA's refusal to transmit the results of an internal review of controls within the State Oil Marketing Organization (SOMO).<sup>27</sup>

While acknowledging the difficult post-conflict environment, the KPMG report notes weaknesses in controls over oil extraction that allowed smuggling to take place in the months following the March-April 2003 conflict. The CPA believes that unknown quantities of petroleum and petroleum products were smuggled from Iraq during the occupation, bypassing the legal mechanisms for marketing these exports.<sup>28</sup>

The KPMG audit also identified management and control weaknesses at the CPA, which included a lack of clearly defined roles and responsibilities, high turnover of CPA personnel, inadequate accounting systems, the inconsistent application of agreed-upon contracting procedures, and, in certain instances, non-adherence to the Program Review Board's controls over spending allocations.<sup>29</sup>

Overall, KPMG concluded that deficiencies in the CPA's management and record-keeping of the DFI "greatly diminish(ed) the transparency of the expenditures made," and left the fund "open to fraudulent acts."

The IAMB is completing the second stage of its audit, examining the export sales of Iraqi petroleum and DFI operations for the period January 1 through June 28, 2004, with results expected to be made public in October 2004. A second audit of sole source contracts funded by the DFI has not gotten off the ground, perhaps because of continued failure by the United States

to share information on these contracts. On September 8, the IAMB announced, “The special audit requested by the IAMB to determine the extent of sole-sourced contracts funded by the DFI has yet to be commissioned. Also, the IAMB has not received reports on audits undertaken by various U.S. agencies on sole-sourced contracts, despite repeated requests. The IAMB expressed its strong concern with these delays that hamper fulfillment of its mandate.”<sup>30</sup>

## Lax Handling of Seized Iraqi Assets

The CPA Inspector General faulted the CPA for its management of cash and other property seized from the former regime during and after combat operations. The assets included jewelry, gems, artwork, vehicles, furniture, carpets, and other valuables. According to the investigators, “Facilities Management Office (FMO) personnel did not adequately manage, secure, and safeguard non-cash assets in compliance with CPA established policies and procedures for the management of non-cash assets. Further, an inventory was not performed to determine the non-cash assets in the custody of the CPA. This occurred because FMO did not follow the guidance set forth by the CPA Administrator. As a result, a potential loss or theft of non-cash assets existed and, therefore, CPA would not be able to ensure that non-cash assets would be available for the use and benefit of the Iraqi people.”<sup>31</sup>

CPA orders Number 4 and 9 required that the FMO compile and maintain a register of Baath Party assets, and that the use of the assets be recorded, to reduce the risk of theft and abuse of seized assets. Yet no such inventory was created. Although a sign-out sheet was available for CPA personnel wishing to use non-cash assets, many of these forms were incompletely filled out. Auditors were unable to locate the items due to these inadequate sign out procedures. Further, no officer was assigned to control the non-cash assets. “Without a signed chain of custody form, no visibility existed as to the person responsible for controlling the assets.”<sup>32</sup>

Not only was there poor record keeping of these valuables, but also a lack of physical security. The FMO allowed groups of people to tour the facilities where the valuables were stored, and even encouraged them to take photographs. There are reports of Iraqi assets being stolen by Coalition forces in the days immediately following the March 2003 invasion. For example, in April 2003 four U.S. soldiers were held on allegations of stealing several hundred thousand dollars from cash found in the residences of former high-ranking Baath party officials.<sup>33</sup> CPA-IG spokesperson James Mitchell told Iraq Revenue Watch, however, that the agency had not received any complaints about theft of property by Coalition forces since it began work in January 2004.<sup>34</sup>

Similarly, the auditors found poor record keeping of seized Iraqi cash—assets frozen abroad. The Program Review Board (PRB), a Coalition-dominated body, was responsible under the CPA for making recommendations to Ambassador Bremer on spending from the DFI, as well as seized and vested cash assets. The auditors examined 20 PRB requests for spending of

seized and vested assets worth \$120.1 million. Of this amount, no documentation existed in the files for \$99.1 million of the spending, and inadequate documentation existed for a further \$17.2 million. In all, “the validity and the purpose of disbursements for \$116.3 million could not be determined.”<sup>35</sup> Although by the conclusion of the audit the CPA comptroller’s personnel produced missing documentation, these shortcomings reflect a pattern throughout the CPA-IG’s audits, in which steps to correct financial negligence were taken only after auditors revealed it.

## Poor Oversight of Contracts Paid for with Iraqi Funds

The Iraq Project and Contracting Office of the CPA awarded 1,988 contracts and other delivery orders valued at \$1.04 billion as of April 4, 2004. Ninety-seven percent of those contracts, valued at \$847 million, were paid for out of the Development Fund for Iraq.<sup>36</sup> Although the CPA chose not to apply Department of Defense contracting regulations to contracts paid for with DFI funds, it was still expected to use those funds transparently for the benefit of the Iraqi people, as called for in United Nations Security Council Resolution 1483. Further, CPA Memorandum Number 4 required the CPA to adopt procedures for the execution of contracts using Iraqi funds for the benefit of Iraqis.

The auditors summarized the CPA’s management of DFI contracts as follows:

The CPA Contracting Activity had not issued standard operating procedures or developed an effective contract review, tracking, and monitoring system. In addition, contract files were missing and incomplete. Further, contracting officers did not always ensure that contract prices were fair and reasonable; [that] contractors were capable of meeting delivery schedules; and [that] payments were made in accordance with contract requirements. As a result, the CPA Contracting Activity was not accurately reporting the number of contracts actually awarded by the CPA Contracting Activity. This hindered the CPA Contracting Activity’s ability to demonstrate the transparency required of the CPA when it awarded contracts using DFI funds.<sup>37</sup>

Spreadsheets by the CPA to track contract files were poorly maintained, and the auditors were unable to locate 13 of 62 contract files listed in the spreadsheets. The auditors found other breaches of Memorandum Number 4. Sixty-seven percent of purchase contracts the auditors examined had incomplete or missing documentation. They concluded that they were “unable to determine if the goods specified in the contract were ever received, the total amount of payments made to the contractor, or if the contractor fully complied with the requirements of the contract.”<sup>38</sup>

Noting these problems, the inspectors concluded, “We do not believe that transparency can be achieved when pertinent data is unavailable or inaccurate.”<sup>39</sup>

The investigators also found instances in which contract costs could not be justified. Specifically, a contract for “national currency exchange” was approved for \$31.7 million. A review

by the Defense Contract Audit Agency (DCAA) found that the reported costs of labor far exceeded similar work previously done by this contractor, and that the contractor could not provide an independently verifiable explanation for the increase. Although the DCAA recommended cost reductions of over \$5 million, the contract was nevertheless awarded at the contractor's proposed price and no documentation existed of efforts to negotiate the price down. The auditors provided another example in which a contractor was paid in advance of delivery of vehicles even though the contract stated that payment would only be made upon receipt of the goods.

In another example, Custer Battles, a nine-month-old company founded by two former Army Rangers, won a sub-contract from Washington Group International that was awarded by the Department of Defense. Tasked with providing 700 security guards, Custer Battles charged the Pentagon \$20 million for six months of work. Yet its guards, hired by a Kurdish sub-contractor, received less than \$200 per month, which adds up to \$840,000 over six months.<sup>40</sup> This means that, adjusting for other overhead costs, the company pocketed roughly \$19 million—95 percent of the contract value—in profit for itself.

As in earlier cited instances, the Head of Contracting Activity took corrective action only during the audit, which was conducted between April and July 2004. Belatedly, a policy and compliance officer was hired to develop and standardize contracting procedures for procurement staff in the Iraq Project and Contracting Office. The creation of standard contracting procedures after the dissolution of the CPA and after the commitment of millions of dollars of Iraqi funds reflects a poor commitment to using Iraqi funds responsibly.

## Halliburton Under Fire...Again

Halliburton subsidiary Kellogg Brown & Root ran afoul of U.S. auditors again in the summer of 2004. The company had billed the government \$4.18 billion for its work in housing and feeding soldiers in the Middle East. The Defense Contract Audit Agency recently disputed \$1.8 billion of that amount, claiming that the company failed to justify its costs. According to a summary of an August 2004 DCAA audit made available to journalists, the DCAA found KBR's cost estimating system "inadequate," and recommended that government contracting officials require the contractor to make corrections within 45 days. The August report's conclusions are not new. A May 2004 DCAA Audit reported that KBR's internal control practices are "inadequate for providing verifiable, supportable, and documented cost estimates that are acceptable for negotiating a fair and reasonable price."<sup>41</sup>

The DCAA audit of KBR's billing system found "significant deficiencies" in the design and/or operation of the contractor's internal control structure; in other words, areas where accounting regulations were either lacking completely, or not followed by KBR employees, at a significant cost.<sup>42</sup> The audit specifically cited the following deficiencies:

- ▶ Lack of written billing policies and procedures
- ▶ Failure to adjust billings promptly for changes in indirect rates
- ▶ Incorrectly prepared adjustment vouchers
- ▶ Lack of appropriate reviews and approvals of vouchers
- ▶ Failure to notify paying offices of contract over-payments
- ▶ Lack of reconciliation of recorded bills to costs (double-accounting)
- ▶ Lack of adequate contract briefs
- ▶ Billing of unallowable costs
- ▶ Inadequate controls over sub-contract billings
- ▶ Lack of KBR management oversight/strong internal audit function.<sup>43</sup>

The audit reveals considerable problems with KBR's billing system, where costs incurred during the course of field work by KBR or its sub-contractors are not double-checked before being passed on to the Department of Defense and the Development Fund for Iraq for reimbursement.<sup>44</sup> Systematic deficiencies in KBR's accounting and billing procedures come at a significant cost to the U.S taxpayer and—in the case of KBR's *Restore Iraqi Oil* contract—the Iraqi people.<sup>45</sup>

Federal contracting rules require that the government pay no more than 85 percent of a contractor's expenses until the contractor has submitted all expense documentation to the government's satisfaction. On August 18, 2004, the Pentagon decided to withhold 15 percent of payments to KBR until the contractor could adequately justify its bills.<sup>46</sup> Yet almost immediately after making this statement, the Army Materiel Command (which oversees the KBR contract) reversed course and decided not to withhold any payments from KBR for the immediate future, despite a strong recommendation by the Defense Contract Audit Agency to do so.<sup>47</sup>

In early September 2004, a memo from the Army's chief of procurement policy, Tina Ballard, revealed that the Department of Defense plans on breaking up Halliburton's billion-dollar logistics civil augmentation contract (LOGCAP) over the coming months and open it up to competitive re-bidding.<sup>48</sup> According to Halliburton spokesperson Wendy Hall, the move to rebid was expected and has occurred with other Pentagon contracts in the past.<sup>49</sup> The Army plans to break up KBR's main contract into six smaller contracts for everything from dining services to transportation, and hopes to complete the bidding process by the end of 2004.<sup>50</sup> It is quite possible that KBR will seek to compete for many of these new awards.<sup>51</sup>

Earlier this year, Pentagon auditors threatened to withhold 15 percent of a \$900 million payment to KBR upon finding that the company over-reported the number of meals it served to troops. The auditors claimed that up to a third of those costs may have been unjustified. A second dispute surrounded alleged overcharges made by KBR to import fuel into Iraq. Despite continuing investigations, the company was given waivers on these occasions as well.

## What Now? Iraq's Revenues after Occupation

Following the dissolution of the CPA, the Iraqi interim government took over the DFI. It is now the primary funding source for the interim government's operations and for the Iraqi national budget. Scant information has been made available about the DFI's assets since it was turned over to the interim government, although it appears that the Ministry of Finance is responsible for its management.<sup>52</sup>

Even though the CPA has been dissolved, the United States will continue to oversee contracts paid for with Iraqi funds. The Iraqi Minister of Finance on June 15 designated authority to the Director of the Project and Contracting Office (see website at: [http://iraq.usembassy.gov/iraq/iraq\\_pco.html](http://iraq.usembassy.gov/iraq/iraq_pco.html)) to administer contracts funded by the DFI and entered into before the CPA's dissolution on June 28. This transfer may explain why the CPA rushed to commit nearly all the savings that had accumulated in the DFI before the transfer.<sup>53</sup> As of June 24, the CPA left behind only \$2.9 billion out of \$20.6 billion collected since the DFI's inception.<sup>54</sup>

Before its departure, the CPA created three institutions to combat corruption and provide fiscal accountability: The Commission on Public Integrity, the Board of Supreme Audit, and the office of Inspector General. The commission, created in January 2004, is the criminal-investigative arm of the government, but has not yet begun investigations. The board is a 1200 person body responsible for internal audits of government operations. The Inspector General's office places inspectors within each government ministry to conduct investigations of fraud and other abuses of power. There are currently 26 inspector general offices with staffs ranging from a handful to hundreds in the larger ministries. The CPA-IG provided \$11 million to fund the Iraqi inspectors.

The CPA-IG has a number of additional audits underway which were scheduled to be released at the end of August. Among these are audits that will:

- ▶ Determine whether contractors' methods of acquiring insurance for their activities in Iraq are cost-effective.
- ▶ Examine whether the CPA established adequate controls for DFI funds once they were transferred to Iraqi ministries.
- ▶ Report on whether the controversial cost-plus contracts, known as "Indefinite Delivery Indefinite Quantity" were awarded by the U.S. Army Corps of Engineers with full and open competition; whether they were "reasonable, economical, and efficient"; and

whether there were adequate controls over their implementation.<sup>55</sup> According to the CPA-IG spokesperson James Mitchell, this audit will include the contract awarded to KBR for up to \$1.7 billion.<sup>56</sup>

- ▶ Assess the timeline for committing the \$18.4 billion in reconstruction funds that were appropriated by the U.S. Congress. The CPA has been criticized for its rush to commit Iraqi funds while its U.S. appropriated funds remain largely untapped. As of late July, only 30.6 percent of the funds had been obligated and only 2.1 percent expended.
- ▶ Investigate the procedures for awarding a \$293 million security contract to Aegis Defense Systems. This contract drew much controversy not only because of the company's lack of experience but also because Tim Spicer, who heads the company, is being investigated by the British government for the sale of arms to Sierra Leone despite a United Nations embargo. A competitor, Dyncorp, has appealed to the Government Accountability Office to investigate the contract as well.<sup>57</sup>

## Conclusion

The body of audits now available on US management of Iraqi reconstruction reveals a disturbing pattern: contracting officials often breached well-established US government procedures that guard against fraud, waste, and abuse. Moreover, where Iraqi funds were in use, such procedures were not even applied, even though auditors found that they could have easily been followed.

In fact, recent audits bring to light that the award of lucrative contracts to well-connected companies, such as Halliburton, did not stop with US funds. The bulk of contracts paid for with Iraqi oil money went to Halliburton subsidiary Kellogg, Brown, & Root with no competition. The Iraqi interim government appears to be following the poor example set by the CPA, making public next to no information about the Development Fund for Iraq since the transfer of power.

# Appendix 1

## Contracts awarded by U.S. government agencies paid for with Iraqi funds

Source of Iraqi Funds	Contractor	Contractor Nationality	Total Value of Contract Amount	Type of Contract
Vested	Not given*	Iraq	8,999,999	Competitive
Vested	Erinys	UK	109,649,725	Competitive
DFI	Kiesler Police Supply	US	19,948,020	Competitive
Vested	Al Kasid Specialized Vehicles	UAE	5,734,000	Competitive
DFI	Custer Battles	US	21,367,194	Competitive
DFI	Global Risk Strategies	UK	29,352,888	Sole Source
Seized	Custer Battles LLC	US	16,840,000	Sole Source
DFI	SDMO	France	9,763,184	Sole Source
DFI	General Electric	US	10,218,975	Competitive
DFI	Not given	Iraq	8,307,250	Competitive
DFI	Karadeniz	Turkey	134,192,500	Sole Source
DFI	Nimrod	UK	10,625,300	Competitive
DFI	Provimi Jordan Feed Concentrate Mfg. Co.	Jordan	14,596,350	Competitive
DFI	Ernst&Young	UK	13,216,560	Competitive
Seized/Army/Iraq Relief/ Reconstruction Fund	MPE	Turkey	5,156,906	Competitive
Seized	MPE	Turkey	5,422,127	Competitive
DFI	Nour USA Limited	US	9,879,866	Competitive
DFI	Agon Group International		5,316,475	Competitive
DFI	General Motors Corp	US	20,676,138	Competitive
DFI	Faouzi Khouri & Sons	Lebanon	14,676,600	Competitive
DFI	First Defense International Group	US	8,400,000	Competitive
DFI	Iraq Business and Logistics Center	US	7,570,200	Competitive
DFI	Not Given	Iraq	5,025,000	Competitive
DFI	First Defense International Group	US	9,052,175	Competitive
DFI	Mushriqui Consulting	US	15,560,000	Competitive
DFI	Barrett Communications Pty LTD	Australia	7,103,340	Competitive
DFI	Boiler Tube Company of America	US	8,272,330	Competitive
DFI	GE Energy Parts	US	9,026,380	Competitive
DFI	RENCO, SPA, Italy	Italy	8,043,000	Competitive
DFI	Foster-Thompson LLC	US	24,457,139	Competitive
DFI	Not given	Iraq	7,000,000	Competitive
DFI	PC Mall Gov	US	12,639,963	Competitive
DFI/CPA/ O&M	ICS Technologies	US	13,438,504	Competitive
Vested	Motorola	US	15,590,577	Sole Source
DFI	Kellogg,Brown&Root	US	222,000,000	Sole Source
DFI	Kellogg,Brown&Root	US	325,000,000	Sole Source
DFI	Kellogg,Brown&Root	US	180,000,000	Sole Source
DFI	Kellogg,Brown&Root	US	164,800,000	Sole Source
DFI	Kellogg,Brown&Root	US	30,000,000	Sole Source
<b>TOTAL</b>			<b>1,546,918,667</b>	

Source: CPA Inspector General July 30, 2004 Audit Report, Appendix J

\* The CPA-IG removed the names of Iraqi contractors to protect their security.

## Appendix 2

Agencies that oversee spending on Iraqi reconstruction

### **International Advisory and Monitoring Board (IAMB)**

The International Advisory and Monitoring for Iraq (IAMB) was created under UN Resolution 1483, which was passed on May 22, 2003 to ensure transparency in the Development Fund for Iraq's (DFI) allocation and dispersal of Iraq's oil revenues. The IAMB is comprised of members representing the UN, IMF, Arab Fund for Economic and Social Development, the World Bank, and the Iraqi government. These members have worked in partnership with the Coalition Provisional Authority to hire an independent accounting firm, KPMG Audit & Risk Advisory Services, to conduct a full audit of the DFI from the Fund's inception last May. Preliminary findings by KPMG indicated serious accounting weaknesses and opportunities for corruption, as well as obstacles to the auditors' access to needed documents and people. <http://www.iraqrevenuewatch.org/reports/062404.pdf>

KPMG was also appointed by the Iraqi Governing Council to audit the United Nations Oil-for-Food program in April 2004, but its work was immediately halted when Ambassador Bremer ordered the contract to be awarded through public tender. The IAMB announced in March that it is also considering ordering a special audit of money from the Development Fund used to award contracts to Halliburton Co. without competitive bidding in 2003. As of June 2004 \$20.2 billion has been taken in by DFI mostly through the Oil-for-Food program and proceeds from oil exports. Link: [www.iamb.info](http://www.iamb.info)

### **Coalition Provisional Authority Office of the Inspector General (CPA-IG)**

The Coalition Provisional Authority Office of the Inspector General (CPA-IG) was established in Public Law 108-106 by the U.S. Congress on November 6, 2003, to serve as "as an independent, objective evaluator of the operations and activities of the CPA," according to the official website. The CPA-IG reported directly to Administrator Bremer, although it has independent authority to conduct audits and investigations without the CPA Administrator's approval. The CPA-IG delivers quarterly congressional reports, which can be found on the agency's website. Link: [www.cpa-ig.org](http://www.cpa-ig.org)

Reports: <http://www.cpa-ig.org/reports.html>

### **Government Accountability Office (GAO)**

The Government Accountability Office is a US federal agency responsible for evaluating the programs and expenditures of the US government, at the request of Congress, to foster accountability and efficiency. Recently, the GAO issued a report concerning the state of Iraqi assets after the ouster of Saddam Hussein. The report estimates that the former government took control of over \$10 billion in oil assets and diverted funds intended for humanitarian efforts. Other reports investigate alleged mismanagement in the UN Oil for Food program and the effectiveness of sanctions against Iraq during the pre-war period.

Link: [www.gao.gov](http://www.gao.gov)

Reports:

<http://www.gao.gov/docsearch/featured/oif.html> - Operation Iraqi Freedom and Its Aftermath

<http://www.gao.gov/new.items/do4579t.pdf> - Recovering Iraq's Assets

<http://www.gao.gov/new.items/do4730t.pdf> - Oil for Food Report

<http://www.gao.gov/new.items/do4562t.pdf> - Military prepositioning in Iraq

<http://www.gao.gov/new.items/do3792r.pdf> - Rebuilding Iraq (2003)

<http://www.gao.gov/new.items/do2625.pdf> - UN Sanctions on Iraq (2003)

### **Independent Inquiry Committee into the Oil for Food Program (Volcker Commission)**

The Volcker Commission was established by UN Secretary General Kofi Annan on April 21, 2004 to investigate allegations of abuse involving the UN Oil-for-Food program in Iraq. The Commission is headed by former Chairman of the US Federal Reserve Paul Volcker. He is joined by South African Constitutional Court Justice Richard Goldstone, and Mark Pieth, an international money-laundering expert with the Organization for Economic Cooperation and Development. Although the Commission does not have subpoena power, the Secretary General has publicly stated that the Commission will have the full cooperation of the UN during its investigation. The GAO report investigating alleged abuses found that reported costs for humanitarian assistance under the UN-administered Oil-for-Food program were inflated by 10%. This allowed the Iraqi government to oversell oil to meet the artificially inflated need, and pocket the profit.

Link: [www.iic-offp.org](http://www.iic-offp.org)

Reports: <http://www.iic-offp.org/documents/Report.pdf>

Also see: [http://www.economist.com/agenda/displayStory.cfm?story\\_id=2618260](http://www.economist.com/agenda/displayStory.cfm?story_id=2618260)

<http://www.un.org/apps/news/infocusRel.asp?infocusID=97&Body=Oil-for-Food&Body1=inquiry>

### **The US Agency for International Development - Office of the Inspector General (USAID-IG)**

The US Agency for International Development - Office of the Inspector General is charged with oversight duties for all USAID activities and allocations. USAID was granted \$335 million in supplemental appropriations in addition to \$1.8 billion allocated to the agency in 2003 for Iraqi reconstruction activities. USAID-IG has investigated the process of competitive bidding for these contracts. In doing so, it has conducted an internal investigation and reported the findings to Congress and to the general public. These reports also cover USAID's compliance with federal regulations during the award process. USAID-IG reports generally revolve around a specific contract, project or partner. While audits are ongoing, investigations have already been completed on some contractors such as Bechtel National, Inc. USAID-IG has concluded that although the awards process had been "less than full and open," this was justified given the priority of the reconstruction effort, and fell within federal regulations. The USAID-IG recommended a number of improvements to future contracts, including the use of a standard checklist of contracting steps that must be followed, and use of a standardized illustrative budget and cost proposal format.

Link: [www.usaid.gov/oig](http://www.usaid.gov/oig)

Reports: [http://www.usaid.gov/oig/iraq\\_reports.html](http://www.usaid.gov/oig/iraq_reports.html) - All reports

[http://www.usaid.gov/oig/iraq\\_doc/memo04\\_006.pdf](http://www.usaid.gov/oig/iraq_doc/memo04_006.pdf) - Bechtel National, Inc. contract

[http://www.usaid.gov/oig/iraq\\_doc/memorandum\\_04\\_0051.pdf](http://www.usaid.gov/oig/iraq_doc/memorandum_04_0051.pdf) - BearingPoint, Inc. contract

<http://www.usaid.gov/oig/public/fy04rpts/e-266-04-001-p.pdf> - Education audit for Iraq

[http://www.usaid.gov/oig/iraq\\_doc/memorandum\\_04\\_004.pdf](http://www.usaid.gov/oig/iraq_doc/memorandum_04_004.pdf) - SSA Marine contract

### **Department of Defense - Office of the Inspector General (IG DOD)**

The Department of Defense - Office of the Inspector General (IG DOD) operates in a similar capacity to USAID-IG with regard to DOD matters. The IG DOD is responsible for all auditing activities relating to the Department of Defense. Since the reconstruction efforts in Iraq have begun, the IG DOD has investigated contracts awarded for humanitarian assistance. Overall the DOD has been awarded the lion's share of 2004 U.S. allocations for relief and reconstruction, totaling \$5.3 billion, to be distributed in conjunction with the CPA. These contracts have been awarded to Halliburton subsidiary KBR, SAIC and Northrup-Grumman among others. To date, few investigations have been conducted into the state of DOD contract awards in Iraq. However, in the report linked below, numerous errors were reported in the contract award process, including price reasonableness determinations being ignored in nearly all of the contracts surveyed. The DOD is also probing Halliburton directly after it was discovered that the company overcharged the government \$61 million for gasoline costs in Iraq.

Link: <http://www.dodig.osd.mil>

Reports: <http://www.dodig.osd.mil/Audit/reports/FY04/04057sum.htm> - Investigation of humanitarian assistance contracts

# Notes

1. See David Ivanovich and Tom Fowler, "Cheney at Halliburton: A Mixed Record as CEO, He Revitalized Company But Also Left the Oil-Service Giant with Some Major Headaches," *Houston Chronicle*, August 29, 2004; and Robert Harrow, "Origins of Halliburton's Secret Iraq Deals Debated," *Washington Post*, September 19, 2004.
2. See text of UNSC Resolution 1546 (June 8, 2004), available at: [http://www.un.org/Docs/sc/unsc\\_resolution04.html](http://www.un.org/Docs/sc/unsc_resolution04.html).
3. The Project and Contracting Office was previously called the Program Management Office under the CPA. See "PCO Transition of Authority," Project and Contracting Office Press Release, August 15, 2004 at [http://www.rebuilding-iraq.net/pdf/Main\\_Story\\_press\\_release\\_filter.htm](http://www.rebuilding-iraq.net/pdf/Main_Story_press_release_filter.htm).
4. Ibid.
5. [http://www.cpa-ig.org/pdf/cpaig\\_report.pdf](http://www.cpa-ig.org/pdf/cpaig_report.pdf)
6. <http://www.cpa-ig.org/index.html>
7. At present, there are two appropriations bills which extend the CPA-IG's mandate beyond 2004. The Senate version of the FY2005 Defense Department Authorization bill (currently awaiting consideration by the conference committee), includes an amendment that re-designates the CPA-IG as the "Special Inspector General for Iraq Reconstruction," and extends this Inspector General's mandate until 10 months from the date that the Secretary of State determines that 80 percent of congressionally-appropriated Iraq Relief and Reconstruction funds have been spent. See text of H.R. 4200, section 1059B and Section 3001, at <http://thomas.loc.gov/>. The House version of the FY2005 Foreign Operations Appropriations Act also re-designates the CPA-IG, and extends its mandate until September 30, 2007. See text of H.R. 4818 at <http://thomas.loc.gov/>
8. Update to Appendix J, *Report of the CPA-IG to Congress*, available at: [http://www.cpa-ig.org/pdf/table\\_j\\_1\\_verified\\_contracts\\_updated.pdf](http://www.cpa-ig.org/pdf/table_j_1_verified_contracts_updated.pdf)
9. <http://www.democrats.reform.house.gov/Documents/20040623130216-78813.pdf>
10. Office of the Inspector General-Coalition Provisional Authority, *Comptroller Cash Management Controls over the Development Fund for Iraq*, Report Number 04-009, July 28, 2004.
11. Ibid.
12. Ibid, see: "Appendix B: Management Comments from Project and Contracting Office Disbursing Officer."
13. Office of the Inspector General-Coalition Provisional Authority, *Comptroller Cash Management Controls over the Development Fund for Iraq*.
14. Ibid.
15. Ibid.
16. Coalition Provisional Authority, Regulation Number 2: Development Fund for Iraq.
17. Office of the Inspector General-Coalition Provisional Authority, *Comptroller Cash Management Controls over the Development Fund for Iraq*.
18. See "Acquisition: Contracts Awarded by the Coalition Provisional Authority by the Defense Contracting Command-Washington," Department of Defense Office of the Inspector General, March 18, 2004, at <http://www.dodig.osd.mil/audit/reports/fy04/04057sum.htm>.
19. Ibid.
20. Ibid.
21. Copy of KPMG interim Audit Report (June, 2004) obtained by Iraq Revenue Watch, Open Society Institute. An extended summary of KPMG's report can be found on IRW's website at <http://www.iraqrevenuewatch.org>.
22. "Statement by the International Advisory and Monitoring Board on Iraq—Release of the KPMG Audit Reports on the Development Fund for Iraq," International Advisory and Monitoring Board for Iraq, July 15, 2004, at <http://www.iamb.info/auditrep/pro71504.pdf>.

See also “Development Fund for Iraq—Statement of Cash Receipts and Payments for the Period from 22 May 2003 to 31 December 2003 (with Independent Auditors’ Report),” “Development Fund for Iraq—Appendix—Matters Noted Involving Internal Controls and Other Operations Issues during the Audit of the Fund for the Period to 31 December 2003,” “Development Fund for Iraq—Agreed-Upon Procedures Report for the Period from 22 May 2003 to 31 December 2003 (Export Sales),” “Development Fund for Iraq—Agreed-Upon Procedures Report for the Period from 22 May 2003 to 31 December 2003 (Oil Proceeds Receipts Account),” “Development Fund for Iraq—Agreed-Upon Procedures Report for the Period from 22 May 2003 to 31 December 2003 (Disbursements),” and “Transmittal Letter from KPMG,” all at <http://www.iamb.info/dfiaudit.htm>.

23. Interim Update—External Audit Services to the Development Fund for Iraq. KPMG Ref: DABV01-04-R-0015
24. Ibid.
25. Ibid.
26. Ibid.
27. Ibid. Also see: “Development Fund for Iraq—Appendix—Matters Noted Involving Internal Controls and Other Operations Issues during the Audit of the Fund for the Period to 31 December 2003.”
28. Ibid. “Statement by the International Advisory and Monitoring Board on Iraq—Release of the KPMG Audit Reports on the Development Fund for Iraq.” Also see: “Development Fund for Iraq—Agreed-Upon Procedures Report for the Period from 22 May 2003 to 31 December 2003 (Export Sales),” and “Development Fund for Iraq—Agreed-Upon Procedures Report for the Period from 22 May 2003 to 31 December 2003 (Oil Proceeds Receipts Account).”
29. Ibid.
30. Statement by the International Advisory and Monitoring Board on Iraq, September 8, 2004.
31. Office of the Inspector General-Coalition Provisional Authority, *Coalition Provisional Authority Control Over Seized and Vested Assets*, Report Number 04-008, July 30, 2004.
32. Ibid.
33. See Terry Frieden, “TV Employee charged with Smuggling Iraqi Art,” *CNN*, April 23, 2003.
34. IRW email correspondence with CPA-IG Public Affairs spokesperson James P. Mitchell, September 2004.
35. Ibid.
36. Office of the Inspector General-Coalition Provisional Authority, *Coalition Provisional Authority’s Contracting Processes Leading up to and Including Contract Award*, Report Number 04-013, July 27, 2004.
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39. Ibid.
40. Neil King Jr. and Yochi J. Dreazen, “Amid the Chaos in Iraq, Tiny Security Firm Carved Out Opportunity,” *Iraq Reconstruction Report*, August 19, 2004.
41. See *Defense Contract Audit Agency (DCAA) Audit Report No. 3311-2002K11010001*, Department of Defense, May 13, 2004, and Neil King Jr., “Pentagon Questions Halliburton on \$1.8 Billion of Work in Iraq,” *Wall Street Journal*, August 11, 2004.
42. *DCAA Audit Report No. 3311-2002K11010001*.
43. Ibid.
44. Ibid.
45. Ibid. See also Sue Fleming, “Halliburton Pricing Probe Deepens,” *Reuters*, January 16, 2004 and Stephen J. Glain, “Waxman Hits Halliburton Fuel Contract,” *Boston Globe*, January 16, 2004.
46. “Pentagon Withholds 15 percent of Halliburton Payments,” *Agence-France Presse*, August 18, 2004.
47. Sue Fleming, “Auditors Urged Army to Act against Halliburton,” *Reuters*, August 26, 2004.

48. Neil King Jr., "Army to Rebid Halliburton Contract," *Wall Street Journal*, September 7, 2004.
49. Ibid.
50. Ibid.
51. Ibid.
52. E-mail communication with World Bank official, September 16, 2004.
53. See "Iraqi Fire Sale: CPA Giving Away Oil Revenue Billions Before Transition," *Iraq Revenue Watch Briefing Number 7*, June 2004. <http://www.iraqrevenuewatch.org/reports/o61504.pdf>
54. Development Fund for Iraq—Financial Reporting Matrix, June 26, 2004.
55. Office of the Inspector General-Coalition Provisional Authority, *Report to Congress*, July 30, 2004. [http://www.cpa-ig.org/pdf/cpaig\\_report.pdf](http://www.cpa-ig.org/pdf/cpaig_report.pdf)
56. On March 8, 2003 the USACE issued an Indefinite Delivery/Indefinite Quantity (ID/IQ) contract contract to KBR to use "for an interim period as a bridge to a competitive contract." This contract is specified to be for a maximum of \$7 billion, and for a maximum period of two years with three one-year renewal options. It is a cost plus award fee contract with a 2 percent fixed fee and a potential extra 5 percent for work achieved above and beyond what is typically achieved. This contract is being paid for out of (1) the Natural Resource Risk Remediation Fund, (2) the Iraq Seized Assets Fund, (3) the Development Fund for Iraq, and (4) the Operation and Maintenance U.S. Army Appropriation. Only the Natural Resource Risk Remediation Fund and U.S. Army Operation and Maintenance funds are U.S. taxpayer sources. See USACE website, "Frequently Asked Questions: USACE Missions—Oil Fire Suppression and Restoration of Production," at <http://www.hq.usace.army.mil/cepa/iraq/faq.htm>. KBR received a follow-on indefinite quantity/indefinite delivery cost-plus contract in January 2004 for \$1.2 billion. See USACE Press Release, "U. S. Army Corps of Engineers Awards Contracts for Repair of Iraq's Oil Infrastructure," January 16, 2004 at <http://www.hq.usace.army.mil/cepa/releases/pao403.htm>. According to email correspondence with James Mitchell, a spokesperson for the CPA-IG, the audit will "deal with all of the IDIQ [indefinite delivery/indefinite quantity] contracts awarded by the ACE [Army Corps of Engineers]."
- 57 Jimmy Burns and Thomas Catan. "Dyncorp seeks to overturn Iraq Security Contract: Dispute over Award to Company Headed by Controversial Former British Army Officer," *Financial Times*, July 22, 2004.

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**Iraq Revenue Watch** monitors Iraq's oil industry to ensure that it is managed with the highest standards of transparency and that the benefits of national oil wealth flow to the people of Iraq. Iraq Revenue Watch complements existing Open Society Institute initiatives that monitor revenues produced by the extractive industries.

In many parts of the world, the lack of proper stewardship over oil resources has resulted in corruption, the continued impoverishment of populations, and abuses of political power. By prompting governments to tackle these problems early, the Open Society Institute hopes to help Iraq avoid this plight.

The Open Society Institute currently supports a recently launched initiative, Caspian Revenue Watch, which monitors the development of oil production in the Caspian basin. The goal is to promote transparency, accountability, and public oversight in the management of oil and natural gas revenues.

Iraq faces even greater challenges than the Caspian region. If Iraq is to become an open, democratic society it will need to develop transparent accountable institutions for ensuring honest management of oil revenues.

There is an urgent need for Iraq Revenue Watch given the current occupied status of the country. The Coalition Provisional Authority and the Iraqi Governing Council should establish rules that ensure complete transparency regarding Iraqi oil revenues. So doing will foster a stable, democratic Iraq, and will protect the Coalition Provisional Authority from charges of misappropriation during this period of trusteeship over Iraq's reconstruction.

The **Open Society Institute**, a private operating and grantmaking foundation based in New York City, implements a range of initiatives throughout the world to promote open society by shaping government policy and supporting education, media, public health, and human and women's rights, as well as social, legal, and economic reform.

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