



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

October 26, 2012

LETTER FOR U.S. SECRETARY OF STATE
U.S. AMBASSADOR TO IRAQ

SUBJECT: Final Review of State Department's Management of Quick Response Funds in 2007 and 2008 (SIGIR 13-002)

This letter addresses the Special Inspector General for Iraq Reconstruction's (SIGIR) review of the Department of State's (DoS) management of the Quick Response Fund (QRF) in 2007 and 2008.

The objective of the audit was to review DoS's documentation of QRF-funded micropurchases¹ made in 2007 and 2008 that allowed the Department to identify the use and outcome of these funds.

This audit follows upon several other SIGIR reviews examining the adequacy of DoS's management-controls over the QRF.² In April 2011, we reported that DoS's recordkeeping on fund-use and project-results/outcomes for micropurchases made in 2007 and 2008 was poor, and that documentation in seven project files suggested possible fraud. We recommended that DoS improve its recordkeeping and review all micropurchases initiated in 2007-2008 to determine if other examples of possible fraud, waste, and abuse exist.

In a follow-up audit issued in April 2012, we reported that DoS officials stated that they located almost all documentation that SIGIR found missing from the official files, and that their review of payment vouchers did not indicate that any fraudulent transactions had occurred. However, the officials did not directly address the seven instances of possible fraudulent activities that SIGIR had found.

Because there was no evidence that DoS had reviewed and assessed the identified cases of possible fraud, SIGIR initiated this review. We examined documentation on 185 judgmentally selected micropurchases valued at about \$3.5 million. From the available records, we could generally determine how funds were intended to be used, but we could not assess whether all of the goods and services were actually purchased, received, or transferred to beneficiaries. This is because 90 of the 185 micropurchases lacked written project results that should have confirmed the purchase and receipt of the goods and services. We found project results for the balance of 95 micropurchases. Seven of the reviewed assessments re-confirmed our concerns that fraud may have occurred.

¹ Under the DoS's managed QRF program, micro-purchases are those costing less than \$25,000.

² *Opportunities To Improve Management of the Quick Response Fund*, SIGIR 09-011, 1/29/2009; *Quick Response Fund: Management Controls Have Improved, but Earlier Projects Need Attention*, SIGIR 11-011, 4/27/2011; and *Interim Review of State Department's Progress in Implementing SIGIR Recommendations Addressing Quick Response Fund Management Controls*, SIGIR 12-016, 4/27/2012.

Background

The QRF program was implemented between 2007 and 2011, at a total cost of about \$258.2 million. DoS first requested QRF funding in its Fiscal Year 2007 supplemental budget request for Economic Support Funds.

DoS initiated the QRF program to provide Provincial Reconstruction Teams (PRT) in Iraq with a flexible means to pay for local projects that supported community-based leaders and local Iraqi organizations and institutions to improve access to public services, employment, and education. The PRT program was a U.S.-led, civil-military effort to assist Iraq's provincial and local governments to govern effectively and deliver essential services. The PRTs proposed all QRF projects.

The Bureau of Near Eastern Affairs/Iraq (NEA/I) was responsible for the QRF program, including the allocation of funds. NEA/I divided the program into two components—a DoS component and a U.S. Agency for International Development component. DoS managed about \$125.1 million while USAID managed about \$133.1 million.

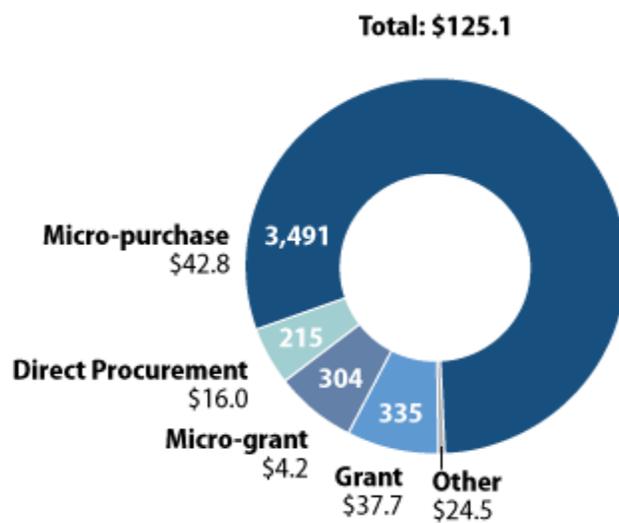
DoS's Use of Its QRF Appropriated Funds

DoS spent QRF funds through grants, microgrants, direct procurements, and micropurchases. Micropurchases and microgrants were used for projects costing up to \$25,000; grants and direct procurements were used for projects costing between \$25,000 and \$500,000.

The QRF Tracking Database shows that of the \$125.1 million allocated to the DoS, about \$37.7 million was used for grants, \$4.2 million for microgrants, \$16.0 million for direct procurements, and \$43 million for micropurchases. The remaining \$24.5 million was used to pay overhead costs for a third party to implement large QRF projects, costs of managing the QRF database, and costs for monitoring and evaluating the QRF program.

Figure 1 shows the distribution of mechanisms used by DoS and funds attributable to those mechanisms from 2007 to 2011.

Figure 1—Mechanisms Used to Expend DoS QRF Funds from 2007 to 2011



Note: Numbers are affected by rounding.

Source: DoS.

DoS expended much of its QRF funds in the early years of the program. For example, for micropurchases implemented in 2007 and 2008, DoS used almost \$23.6 million (of \$42.8 million) to fund 2,122 micropurchases (of 3,491 micropurchases).

DoS Added Controls To Better Document Project Results

NEA/I officials stated they took actions to improve the internal controls over the QRF program as a result of SIGIR and other internal and external assessments. For example, officials issued guidance in March 2009 requiring PRTs to document project results on all micropurchases. Failure to do so could have resulted in the PRTs not receiving additional QRF funds. DoS also expanded the micropurchases approval process by requiring that the Embassy’s Office of Provincial Affairs³ approve proposed micropurchases in addition to the PRT Team Leader. The Office of Provincial Affairs reviewed proposals to ensure that the project objectives complemented the U.S. government’s priorities, that projects had a positive impact on the community, and that they were feasible to implement.

NEA/I officials stated that the Office of Provincial Affairs increased its monitoring of PRT cash advances, as well as its training and support visits to the PRTs. Further, DoS conducted several assessments to help officials better manage the program. As a result of these efforts,

³ The Office of Provincial Affairs in Baghdad was responsible for providing overall program guidance and oversight of QRF-S projects and developed the QRF Tracking Database to help manage and oversee projects.

documentation on the use of funds and outcomes for projects initiated after 2009 improved, which SIGIR verified in its April 2011 review of the QRF program.⁴

Available Documentation Shows How Funds Were To Be Used but Did Not Always Show that Purchases Were Actually Made

SIGIR sampled documentation supporting 185 2007-2008 micropurchases that generally shows how QRF funds were intended to be used; but 90 of the files did not contain project results confirming the purchase or receipt of the goods and services. The remaining 95 files did contain project results, but of those, 7 had indications of possible fraud. These files were brought to DoS's attention in our April 2011 audit.

Files Contained Information Showing the Intended Use of QRF Funds

157 of the 185 files documenting the micropurchases contained project proposals that described items to be purchased, cost estimates, invoices, and various forms used to document the receipt and use of cash. A few of the files contained additional information, such as handwritten receipts in Arabic, and photos of completed projects (e.g., attendees at a training seminar). Most of the files also contained forms signed by multiple PRT officials describing and attesting to the receipt and use of QRF cash.

Half of the Sampled Micropurchases Lacked Project Results

Despite the existence of forms documenting the receipt and planned use of funds and other project details, the absence of information on the results of the sampled projects makes it difficult to determine if the QRF funds were actually used as intended. Project results (also referred to as award results in DoS's QRF Tracking Database) are important in that they confirm whether or not items or services intended to be purchased were indeed purchased, received, and transferred to beneficiaries.

In our review, we found that 90 of the 185 micropurchases (or about 49%) lacked such information. As a consequence, for 90 cases, which totaled \$1.63 million, we cannot be certain that individuals used the cash they received to purchase goods and services and that the intended beneficiaries of these goods and services actually received them.

Half of the Sampled Micropurchases Contained Project Results, but Some Show Indications of Possible Fraud

For the other 95 micropurchases (or 51%), we found project results in the form of emails, memoranda, photographs, and other written information. These results, both positive and negative, were often brief and succinct, but they nevertheless provided evidence that the project was implemented and the micropurchases were made and received. Examples of statements in the emails and other written information include:

⁴ See *Quick Response Fund: Management Controls Have Improved, but Earlier Projects Need Attention*, SIGIR 11-011, 4/27/2011.

- “all equipment delivered in good condition and is actively used” (to describe \$23,000 in computers, laptops, copier, heaters, desks, and tables purchased for a school)
- “the generator is now fully operational and powers the station” (to describe \$24,900 in supplies and labor to repair a generator at a pumping station)
- “A recent PRT audit of micropurchases verified that the law books are located at the law school and in use” (to describe \$22,440 in books purchased for a law library)
- “court security staff who received uniforms are now recognizable as members of an official group... before this award [they] might have been mistaken for badly dressed gang member” (to describe \$24,381 in uniforms purchased for security staff at a court house)
- “the results were mixed as the number of participants were below expectations” (to describe a \$9,095 effort to inform and educate rural voters about provincial elections)
- “this project was probably way ahead of its time and probably should not have been originally funded. Not in use, never used.” (to describe \$22,150 in tanks, tools, and supplies purchased for fish hatchery)

Among these 95 micropurchases, we also evaluated in detail the 7 cases of possible fraud discussed in SIGIR’s previous report and found that written project results questioned whether some purchases were made and ultimately received by Iraqi beneficiaries. This is despite having documentation showing the receipt, disbursement, and use of QRF cash. According to DoS officials, the QRF Purchase Order-Modified form, or SF-44B, the invoice and voucher for payment to the grantee or contractor, documents the receipt and disbursement of QRF cash from the PRT.

The SF-44B identified the PRT Team Leader (who approved the purchase), the person who received the goods, the project purchasing officer, the cashier (if the payment was made in cash), the witness to the payment by the cashier, and the person who got the cash and supplied the goods (usually the grantee, supplier, or contractor). In all, the SF-44B required six signatures—five PRT personnel and one grantee/supplier/contractor.

In one example, we found an SF-44B for computers, furniture, books, and air conditioning units totaling \$75,000 for three farm associations in Ninewa province that had the six required signatures verifying that the cash was provided to the recipient to purchase specific items. However, a written project assessment conducted about one year after the Iraqi supplier was paid in cash for the purchases stated that he still had \$75,000 in his bank account and had not purchased any items for the farm associations.

In another example, the Ninewa PRT also provided \$24,995 to the province’s Education Directorate to establish an annual school science competition. The PRT approved this micropurchase in August 2008 for the Education Directorate to buy laboratory equipment so that students could have the tools needed to conduct research for the competition. Again, the SF-44B had the required six signatures, but e-mail exchanges between PRT and DoS Embassy officials written after the Education Directorate was paid cash for the equipment showed that the laboratory equipment was not purchased and that the cash was still with the Education

Directorate. The project assessment summed up the experience this way: *“This project was a complete failure – funds were given to the grantee in advance and no project activities have occurred to date. All attempts to contact the grantee and secure the return of the funds have failed.”*

We also found that the Ninewa PRT provided cash to two medical clinics to buy medication to treat patients affected by scabies. For one clinic, the PRT provided \$15,040 to the clinic director in August 2008. But the director denied ever doing business with the PRT and claimed to have no knowledge of the project when the PRT conducted a follow-up assessment in May 2009. For the second clinic, \$11,780 was provided to the clinic director to buy 67 different types of medicines and supplies, but the project assessment stated that *“there is no documentation indicating the medicines were paid for...”* For both of these micropurchases, the SF-44Bs contained all six required signatures.

Lastly, we found an SF-44B with all required signatures regarding a \$24,830 project to refurbish a soccer field in Ninewa that was not completed. The assessment showed that the project was initiated in September 2008, but in a follow-up conversation with the project director six months later, the PRT found out that *“the contractor never completed the soccer field. Dirt was added to the field but turf was never laid.”* The project file did not have any other documentation that showed actions taken, if any, to address the problems found.

In response to our request that NEA/I officials examine these seven micropurchases for possible fraudulent actions, the officials stated that without further documentation, they were unable to determine whether fraud actually took place. Furthermore, because the QRF program has ended and the PRTs are closed, they cannot find the personnel involved with those questioned micropurchases to make inquiries. Lastly, they stressed that the lack of documentation does not mean that fraud occurred.

Conclusion

This review again demonstrates the vulnerability of cash transactions to theft and misuse and the need to be vigilant in ensuring that the intended purpose of the cash payments was actually achieved. While DoS took some measures to enhance its oversight and documentation of activities toward the end of the program, earlier activities appear to have suffered from a lack of sufficient internal controls. Specifically, DoS may never know what it got out of those micropurchases made in the early years because of the lack of documentation showing that the goods or services were delivered. Consequently, it is highly possible that some portions of QRF funds were not used as intended.

Lesson Learned

Requisite internal controls must be included in the design of any cash transaction assistance program as attempts to institute them after activities have begun may be too late to ensure that the transactions are not vulnerable to fraud, waste, and abuse.

Management Comments and Audit Response

The Department of State provided written comments on a draft of this report. Specifically, officials from the Office of Iraq Affairs, Bureau of Near Eastern Affairs stated that they improved their processes for documenting QRF projects and agreed with SIGIR that cash transactions in conflict and post-conflict environments can be susceptible to fraud and abuse. However, they did not comment further on the possible fraud we found in seven projects we first identified in April 2011, and which served as the basis for this current review. Their comments are printed in their entirety in Appendix D.

We appreciate the courtesies extended to the SIGIR staff. For additional information on the report, please contact F. James Shafer, Assistant Inspector General for Audits (Washington D.C.) (703) 604-0894/ fred.j.shafer.civ@mail.mil, or Tinh Nguyen, Principal Deputy Assistant Inspector General for Audits (Washington, DC), (703) 604-0545/ tinh.t.nguyen4.civ@mail.mil.



Stuart W. Bowen, Jr.
Inspector General

Appendix A—Scope and Methodology

Scope and Methodology

This report continues SIGIR’s review of the Department of State’s (DoS) management of QRF funds. The objective of the audit was to review DoS’s documentation of QRF-funded micropurchases made in 2007 and 2008 that allowed the Department to identify the use and outcome of these funds. This audit was performed under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978, as amended. SIGIR conducted its review as Project 1203b from January 2012 to October 2012 in Arlington, Virginia.

To achieve our objective, we accessed DoS’s QRF Tracking Database and reviewed a sample of 185 individual QRF-funded micropurchases from 2007-2008. To select our sample of 185 micropurchases, we judgmentally chose micropurchases in each of Iraq’s provinces. Table 1 provides more details of the micropurchases we reviewed. For each of these micropurchases, we reviewed documentation such as project proposals, purchase orders, invoices, receipts, and written award results/outcomes to determine how funds were used, whether the results of the projects were documented, and whether DoS officials took actions to address instances of possible fraud if any were found from the file review. Finally, we held discussions with DoS Bureau of Near Eastern Affairs/Iraq officials in Washington, D.C., to discuss their management of the QRF program.

Table 1—Total Projects Selected by Province

Province	Number of Micropurchases	Value of Micropurchases
Anbar	18	\$374,120
Babylon	16	199,017
Baghdad	13	259,451
Basrah	4	65,100
Dahuk	6	121,475
Diyala	12	243,060
Erbil	3	10,592
Kerbala	10	226,459
Missan	3	53,370
Muthanna	20	417,765
Najaf	10	186,552
Ninewa	14	273,619
Qadisiya	9	206,606
Salah Al-Din	10	165,635
Sulaymaniyah	1	24,880
Tameem	12	182,311
Thi Qar	15	241,612
Wassit	9	205,750
Total	185	\$3,457,374

Source: DoS

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Use of Computer-processed Data

We did not rely on computer-processed data in conducting this review. Rather, we based our statements on reviews of project files in DoS's QRF database.

Internal Controls

In conducting the review, we considered conclusions and comments in independent audit reports concerning the adequacy of DoS's internal controls over the DoS-managed portion of the QRF program. The reports we reviewed are listed below.

Prior Audit Coverage

We reviewed the following applicable audit and other reports issued by SIGIR, DoS, USAID, and Management Systems International.

Special Inspector General for Iraq Reconstruction

Interim Review of State Department's Progress in Implementing SIGIR Recommendations Addressing Quick Response Fund Management Controls, SIGIR 12-016, 4/27/2012.

Quick Response Fund: Management Controls Have Improved, but Earlier Projects Need Attention, SIGIR 11-011, 4/27/2011.

Opportunities To Improve Management of the Quick Response Fund, SIGIR 09-011, 1/29/2009.

Department of State

Review of the QRF Program, Department of State, Office of the Procurement Executive and Near Eastern Affairs/Iraq/Economic Assistance, 3/2008.

Management Systems International

Review of the U.S. Department of State's Quick Response Fund (QRF) Program, Management Systems International, 4/2009.

Appendix B—Acronyms

Acronym	Description
DoS	Department of State
NEA/I	Bureau of Near Eastern Affairs/Iraq
PRT	Provincial Reconstruction Teams
QRF	Quick Response Fund
SIGIR	Special Inspector General for Iraq Reconstruction

Appendix C—Audit Team Members

This report was prepared and the audit conducted under the direction of James Shafer, Assistant Inspector General for Audits, Office of the Special Inspector General for Iraq Reconstruction.

The staff members who conducted the audit and contributed to the report include:

Adam Hatton

Tinh Nguyen

Nadia Shamari

Appendix D—Management Comments



United States Department of State

Washington, D.C. 20520

October 18, 2012

James Shafer
Assistant Inspector General for Audits
Special Inspector General for Iraq Reconstruction
400 Army Navy Drive
Arlington, VA 22202

Dear Mr. Shafer:

The Office of Iraq Affairs (NEA/I) submits the following response to the letter on the Final Review of State Department's Management of Quick Response Funds in 2007 and 2008 (SIGIR 13-002).

We share SIGIR's concern that all program documentation be as complete as possible; however, we base our standard of completeness on the requirements that were in place at the time of project implementation. As the situation in Iraq became safer, our ability to require additional documentation increased as noted by SIGIR's April 2011 audit.

As you note in this report, once internal control weaknesses were identified, in 2009 the Department implemented stricter controls, requiring as many as six signatures before cash disbursement was authorized. Moreover, as the report also notes, Embassy Baghdad took other actions such as issuing guidance on documenting project results to the Provincial Reconstruction Teams and requiring Office of Provincial Affairs approval of new QRF projects. The report points out that these actions resulted in improved documentation of the uses of the cash disbursed and of the outcomes from 2009 onwards.

We appreciate the research, analysis and recommendations that SIGIR has provided us in this, and previous audits of the QRF program. We acknowledge and agree with their finding that cash transactions in conflict and post-conflict environments can be susceptible to fraud and abuse. This important lesson learned should be factored into any future State Department programs in such environments.

I hope this information is useful. Please do not hesitate to contact me if you have additional questions.

Sincerely,

A handwritten signature in cursive script, appearing to read "AS", written in black ink.

Andrew Snow
Director, Office of Iraq Affairs, Acting
Bureau of Near Eastern Affairs

Appendix E—SIGIR Mission and Contact Information

SIGIR’s Mission

Regarding the U.S. reconstruction plans, programs, and operations in Iraq, the Special Inspector General for Iraq Reconstruction provides independent and objective:

- oversight and review through comprehensive audits, inspections, and investigations
- advice and recommendations on policies to promote economy, efficiency, and effectiveness
- deterrence of malfeasance through the prevention and detection of fraud, waste, and abuse
- information and analysis to the Secretary of State, the Secretary of Defense, the Congress, and the American people through Quarterly Reports

Obtaining Copies of SIGIR Reports and Testimonies

To obtain copies of SIGIR documents at no cost, go to SIGIR’s Web site (www.sigir.mil).

To Report Fraud, Waste, and Abuse in Iraq Relief and Reconstruction Programs

Help prevent fraud, waste, and abuse by reporting suspicious or illegal activities to the SIGIR Hotline:

- Web: www.sigir.mil/submit_fraud.html
- Phone: 703-602-4063
- Toll Free: 866-301-2003

Congressional Affairs and Public Affairs

Hillel Weinberg
Assistant Inspector General for Congressional Affairs

Mail: Office of the Special Inspector General
for Iraq Reconstruction
2530 Crystal Drive
Arlington, VA 22202-3940

Phone: 703-428-1059

Fax: 703-428-0818

Email: hillel.weinberg.civ@mail.mil
