

DETAILED SUMMARY OF OTHER AGENCY OVERSIGHT

This appendix provides summaries of the audits listed in Section 6. All information provided is current, as of September 30, 2011.

Defense Contract Audit Agency

The services of the Defense Contract Audit Agency (DCAA) include professional advice to acquisition officials on accounting and financial matters to assist them in the negotiation, award, administration, and settlement of contracts.

In addition to DCAA's involvement in the negotiation and award of contracts, significant resources are also dedicated to overseeing the allowability,

allocability, and reasonableness of incurred and billed costs. Procedures that govern the costs incurred in-country are also tested through reviews of contractor timekeeping, subcontract management, and cash management/disbursement.

Finally, to ensure that adequate internal controls are in place regarding the contractor's policies and procedures, DCAA performs audits associated with critical internal control systems, with an emphasis on estimating, subcontract management, and billing systems.

DCAA plans and performs work on a fiscal year basis. Table F.1 shows both the Iraq-related audits closed during FY 2010 and the audits closed and still open in FY 2011 (as of September 30, 2011).

TABLE F.1
DCAA AUDITS RELATED TO IRAQ, FOR FY 2010 AND FY 2011

DESCRIPTION OF AUDIT AREA	FY 2010	FY 2011	
	CLOSED	CLOSED	OPEN
Price Proposals (1)	105	50	9
Other Special Requested Audits (2)	38	16	41
Incurred Cost (3)	47	41	334
Labor Timekeeping (4)	29	14	41
Internal Controls (5)	32	20	84
Pre-award Accounting Survey (6)	8	12	5
Purchase Existence and Consumption (7)	5	6	25
Cost Accounting Standards (8)	48	37	101
Other (9)	26	11	73
Total	338	207	713

Note:

- Price Proposals**—Audits of price proposals submitted by contractors in connection with the award, modification, or repricing of government contracts or subcontracts
- Other Special Requested Audits**—Audit assistance provided in response to special requests from the contracting community based on identified risks
- Incurred Cost**—Audits of costs charged to government contracts to determine whether they are allowable, allocable, and reasonable
- Labor Timekeeping**—Audits to determine if the contractor consistently complies with established timekeeping system policies and procedures for recording labor costs
- Internal Controls**—Audits of contractor internal control systems relating to the accounting and billing of costs under government contracts
- Pre-award Accounting Survey**—Pre-award audits to determine whether a contractor's accounting system is acceptable for segregating and accumulating costs under government contracts
- Purchase Existence and Consumption**—The physical observation of purchased materials and services and related inquiries regarding their documentation and verification of contract charges
- Cost Accounting Standards**—Audits of Contractor Disclosure Statements and compliance with Cost Accounting Standards
- Other**—Significant types of other audit activities including compliance with Truth in Negotiations Act, audits of provisional billing rates, and audits of claims and termination settlement proposals

TABLE F.2
DCIS INVESTIGATIONS

INVESTIGATIVE STATUS	PROCUREMENT FRAUD	PUBLIC CORRUPTION	THEFT/TECH PROTECT/OTHER	TOTAL
Open	8	26	5	40
Closed	3	13	2	18
Totals	11	39	7	58

Defense Criminal Investigative Service

As of September 30, 2011, DCIS has ended its operations in Iraq. Two DCIS special agents are deployed to Kuwait and nine are deployed to Afghanistan to conduct fraud and corruption investigations. The agents in Kuwait, as well as CONUS-based agents, will address any investigative issues that arise in Iraq. DCIS personnel are deployed on a rotational basis, serving terms of between three and six months in Southwest Asia.

DCIS is an active participant in the International Contract Corruption Task Force (ICCTF), and one headquarters program manager is assigned to the ICCTF's Joint Operations Center to deconflict investigations conducted by the ICCTF's nine member agencies, which includes SIGIR. Through its field and headquarters management structure, DCIS monitors fraud, corruption, and DoD spending throughout Southwest Asia and allocates investigative resources accordingly. In addition to conducting investigations, DCIS special agents in Southwest Asia are actively engaged in outreach activities, such as providing fraud awareness briefings to DoD and contractor personnel, to promote the identification of fraud and corruption.

As background, DCIS began deploying special agents to Iraq in May 2003. As of September 30, 2011, DCIS had deployed a total of 71 personnel to Iraq.

Open Cases

DCIS currently has 40 open investigations being worked jointly with SIGIR, including three projects. DCIS closed 8 cases, including one project, this quarter.

Department of Defense Office of Inspector General

DoD continues to face many challenges in executing its Overseas Contingency Operations (OCO). The Department of Defense Office of Inspector General (DoD OIG) has identified priorities based on those challenges and high risks and has responded by expanding coverage of OCO and its presence in Southwest Asia. Matching the Department's current Southwest Asia operational tempo and focus, DoD OIG's primary oversight focus is operations in Afghanistan while maintaining the necessary oversight in Iraq and its remaining operations. As the Department continues its OCO, such as Operations New Dawn and Enduring Freedom, DoD OIG plans to stay focused on issues important to accomplish the mission and ensure that DoD makes efficient use of its resources to support the warfighter.

The DoD OIG-led Southwest Asia Joint Planning Group coordinates and deconflicts federal and DoD OCO-related oversight activities. The Group held its seventeenth meeting in May 2011. Its planned August meeting was postponed until October 2011 to provide member agencies the opportunity to further coordinate and develop their FY 2012 oversight plans.

Completed Oversight Reports

Exposure to Sodium Dichromate at Qarmat Ali Iraq in 2003: Part II—Evaluation of Army and Contractor Actions Related to Hazardous Industrial Exposure

(SPO-2011-009, ISSUED SEPTEMBER 28, 2011)

DoD military, civilian, and contractor personnel did not effectively address environmental hazards found prior to beginning work to restore to service the water treatment plant at Qarmat Ali, Iraq, in 2003. Preparation was inadequate because contract language describing the site clearance process was impractical. Moreover, the Army changed the contract scope of work after contractor elements deployed to Kuwait. As a result, servicemembers and DoD civilian employees were unintentionally exposed to toxic chemicals, and the U.S. government was made vulnerable to potential health care liabilities for individuals exposed to contamination. In addition, contractor recognition of, and response to, the health hazard represented by sodium dichromate contamination, once identified at the Qarmat Ali facility, was delayed. The delay occurred because KBR did not fully comply with occupational safety and health standards required by the contract, and Task Force Restore Iraqi Oil failed to enforce contractor compliance. As a result, a greater number of servicemembers and DoD civilian employees were exposed to sodium dichromate, and for longer periods, increasing the potential for chronic health effects and future liabilities. Also, the DoD response to identified sodium dichromate contamination at the Qarmat Ali facility in 2003 lacked urgency and was incomplete. The delayed response may have occurred as a result of mission prioritization within the command. As a result, servicemembers continued to be exposed until mid-September 2003, and many remained unaware of their exposure until 2008. While it is impossible to rule out exposure to hazardous chemicals during contingency operations, the steps taken by DoD organizations should reduce the likelihood of future exposures and minimize

their impact. Finally, DoD and the Department of Veterans Affairs have continued efforts to identify, contact, and provide current and ongoing access to medical surveillance and/or medical care for personnel who may have been exposed to sodium dichromate at Qarmat Ali.

Competition for Interrogation Arm Contracts Needs Improvement

(D-2011-105, ISSUED SEPTEMBER 19, 2011)

Army contracting and program officials inappropriately restricted competition in their award of four sole-source contracts valued at \$82.1 million to one source. These officials also inappropriately managed the Interrogation Arm as a commercial item when the Interrogation Arm was developed uniquely for military purposes. This occurred because program officials preferred to use a specific contractor, and contracting officials did not perform due diligence in their determination that the Interrogation Arm was a commercial item. As a result, the Army lost the benefits of competition and may not have received the best value in its contracts to meet the need of the warfighter and protect the interest of the DoD.

Pricing and Escalation Issues Weaken the Effectiveness of the Army Contract With Sikorsky to Support the Corpus Christi Army Depot

(D-2011-104, ISSUED SEPTEMBER 8, 2011)

The report is for official use only.

Special Operations Forces Plans for the Drawdown and Reset of Property in Iraq

(D-2011-103, ISSUED AUGUST 17, 2011)

The report is classified.

Controls over Army Deployable Disbursing System Payments Need Improvement

(D-2011-101, ISSUED AUGUST 17, 2011)

Army disbursing personnel at 16 disbursing stations did not adequately control access to commercial and miscellaneous payment data processed through the Deployable Disbursing System (DDS). Specifically, disbursing personnel used accounts that bypassed controls to process \$595.6 million in payments and assigned the system administrator privilege to 90 of the 253 individual main site user accounts in DDS. Furthermore, the disbursing offices at the seven disbursing stations visited did not properly restrict access to DDS interface files, maintain adequate separation of payment duties, and maintain adequate security and contingency plans. This occurred because the Army Financial Management Centers did not effectively review DDS user access or oversee the payment process, and the DDS Program Management Office did not provide sufficient visibility in DDS for management to review and identify access control weaknesses. As a result, the Army is at risk for losing disbursing data, improperly modifying payment transactions, improper payments, and unauthorized viewing of personally identifiable or classified information for 272,131 commercial and miscellaneous payments, totaling \$13.1 billion. DoD OIG identified potential monetary benefits for duplicate payments, totaling \$162,258, that, if collected, the government could put to better use.

In addition, the Army's financial system did not maintain accurate or complete information. Specifically, out of the 402 commercial payments that were non-statistically sampled from 211,808 payments (\$9.6 billion) in DDS, the financial system did not maintain: accurate line of accounting (LOA) information for 296 payments; accurate payment method information for 140 payments; and complete fundamental payment information, such as invoice line item information for 370 payments, contract or requisition number for 54 payments, invoice received date for 48 payments, and invoice number for 30 payments. This occurred because

Army finance offices did not properly use DDS interfaces. Further, the Assistant Secretary of the Army (Financial Management and Comptroller) and Director, DFAS (Information and Technology) did not develop systems within Army's financial system, including DDS, with sufficient functionality to make foreign currency electronic funds transfer (EFT) payments using DDS and comply with the Core Financial System Requirements in requiring fundamental payment information. Without accurate and complete data, DoD cannot maintain complete and documented audit trails, which are necessary to demonstrate the accuracy, completeness, and timeliness of transactions. Furthermore, DoD funds are at increased risk for improper payments.

The Army disbursing offices and DFAS did not maintain a complete repository that included 210 DDS database changes. This occurred because the U.S. Army Financial Management Command and DFAS officials did not have procedures on how to request, approve, document, execute, and retain DDS database changes. In addition, the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, did not publish guidance on how to properly document and control changes to DoD databases. As a result, disbursing offices initiated 294 database changes to adjust \$49.7 million in fund accountability without supporting documentation or approval. Further, disbursing offices initiated 53 database changes to end-of-day balances on the Statement of Accountability report without documented approval of the updated report. Until controls over these payments are strengthened, DoD funds will continue to be at risk for improper payments and fraud. Additionally, unauthorized personnel may be able to view personally identifiable and classified information.

Ballistic Testing for Interceptor Body Armor Inserts Needs Improvement

(D-2011-088, ISSUED JULY 27, 2011)

The Army Program Manager Soldier Equipment could provide only limited assurance that approved ballistic materials for approximately 5 million inserts on seven contracts met the contract requirements. This occurred because Program Manager Soldier Equipment did not consistently enforce the requirements for testing the body armor ballistic inserts. Specifically on two contracts, Program Manager Soldier Equipment did not conduct all the required tests because they had no performance concerns on these inserts. On all seven contracts, Program Manager Soldier Equipment did not always use the correct size ballistic insert for First Article Test, use a consistent methodology for measuring the proper velocity, or enforce the humidity and temperature requirements. In addition, Program Manager Soldier Equipment did not require weathered and altitude tests on six of the seven contracts.

Program Manager Soldier Equipment officials indicated that neither the size of the ballistic insert nor the humidity and temperature would affect the test results. The proper velocity was not always calculated because the contracts did not define the process for determining the velocity, and the weathered and altitude tests were eliminated to expedite First Article Test in support of the urgent wartime requirement for the ballistic inserts.

Defense Contract Management Agency Phoenix personnel did not use an appropriate random sampling methodology to select a statistically representative sample for the Lot Acceptance Tests. This occurred because DCMA personnel believed that their sampling process provided a representative sample. As a result, the Lot Acceptance Test results cannot be relied on to project identified deficiencies to the entire lot. Because DoD OIG did not conduct any additional testing, DoD OIG could not conclude that ballistic performance was adversely affected by inadequate testing and quality assurance.

Cost of War Data for Marine Corps Contingency Operations Were Not Reliable

(D-2011-090, ISSUED JULY 22, 2011)

Marine Corps officials did not always support or accurately report FY 2008 OCO costs. Based on the sample results, DoD OIG projects that Marine Corps officials properly supported 179 transactions, valued at approximately \$2.27 billion, and partially supported 14 other transactions valued at approximately \$204 million. However, the projections also show that they could not provide sufficient documentation to support 86 transactions, valued at approximately \$1.82 billion. DoD OIG also projects that Marine Corps officials inaccurately entered financial coding that resulted in approximately \$58 million and another \$1.36 billion not being reported under the correct operation or cost category, respectively. Furthermore, DoD OIG projects that Marine Corps officials incorrectly reported approximately \$40 million as OCO costs despite those costs not supporting OCO. Costs were not always supported and accurately reported because Marine Corps officials had not developed command-level procedures to implement existing DoD and Marine Corps policies and reporting requirements. In addition, Headquarters, Marine Corps officials did not hold fund managers accountable for the accuracy of data. As a result, DoD provided Members of Congress and other decisionmakers unreliable data. Also, portions of the FY 2008 Marine Corps operation and maintenance obligations reported on the DoD Cost of War Report did not reflect how funds were actually spent. In FY 2011, OCO-related data continued to be reported using the Cost of War Report, so the need for accurate data remains critical to decisionmakers.

Contract Management of Joint Logistics Integrator Services in Support of Mine Resistant Ambush Protected Vehicles Needs Improvement

(D-2011-081, ISSUED JULY 11, 2011)

Army Contracting Command-Warren and Joint Program Office MRAP officials (the officials) inadequately planned for the follow-on contract award and did not effectively administer the contract.

The officials inappropriately allowed the contractor to perform inherently governmental functions, such as disciplining DoD employees, and to have organizational conflicts of interest, such as helping prepare requirements for the follow-on contract that the contractor bid on and won. This occurred because the officials only cursorily addressed statutory and regulatory requirements for preventing performance of inherently governmental functions and organizational conflict of interests, and only one government employee was assigned overseas to the task of overseeing a multimillion dollar contract in three different foreign countries. This greatly increased the risk for potential waste or abuse on the contract.

In addition, the contracting officer did not adequately support the need to use a time-and-material type of contract for the follow-on Joint Logistics Integrator effort, valued at \$285.5 million. Army Contracting Command Warren officials did not use data from the initial contract to help structure appropriate portions of the contract as fixed price. This occurred because Army Contracting Command-Warren officials stated that they could not estimate the extent or duration of the work needed due to constant changes in mission need and work performed. Consequently, the contracting officer awarded a contract type which provides no incentive to the contractor for cost control or labor efficiency and significantly increased risk to DoD.

Ongoing Oversight Activities

DoD Management of the Redistribution Property Assistance Team Operations in Kuwait

(PROJECT NO. D2011-D000JA-0281.000, INITIATED JULY 11, 2011)

DoD OIG is determining whether DoD is effectively managing Redistribution Property Assistance Team (RPAT) operations in Kuwait to ensure DoD is prepared to handle the anticipated amount of materiel related to the drawdown from Iraq.

Theater-Provided Equipment Refurbishment Program for Tactical Wheeled Vehicles

(PROJECT NO. D2011-D000JA-0212.000, INITIATED APRIL 25, 2011)

DoD OIG is determining whether DoD is effectively executing the Theater-Provided Equipment Refurbishment Program for tactical wheeled vehicles in Kuwait. Specifically, DoD OIG will determine whether DoD is providing appropriate contract oversight to ensure that tactical wheeled vehicles receive the necessary repairs and maintenance, and repair parts are utilized efficiently.

Assessment of the DoD Establishment of the Office of Security Cooperation-Iraq

(PROJECT NO. D2011-D00SPO-0203.000, INITIATED MARCH 25, 2011)

DoD OIG is assessing the progress made by DoD toward establishing the Office of Security Cooperation-Iraq. Specifically, DoD OIG will assess the execution of the plan to transition authority, personnel, and equipment for the OSC-I from DoD to the Chief of Mission. In addition, DoD OIG will assess the sufficiency of the OSC-I to carry out its mission to support the development of the Iraqi Security Force capability.

DoD Countermine and Improvised Explosive Device Defeat Systems Contracts - Vehicle Optics Sensor System

(PROJECT NO. D2011-D000AB-0156.000, INITIATED MARCH 11, 2011).

DoD OIG is determining whether the Joint Improvised Explosive Device Defeat Organization and Army procurement efforts for the Vehicle Optics Sensor System, used on RG-31 and Joint Explosive Ordnance Disposal Rapid Response Vehicles in Iraq and Afghanistan, were developed, contracted, and managed in accordance with Federal and Defense acquisition regulations. This audit is one in a series of audits DoD OIG is performing to determine whether DoD procurement efforts for countermine and improvised explosive device defeat systems used in Iraq and Afghanistan were developed, awarded, and managed in accordance with federal and Defense acquisition regulations.

Contracting for Force Protection for U.S. Installations in Iraq

(PROJECT NO. D2011-D000JB-0098.000, INITIATED DECEMBER 8, 2010)

DoD OIG is determining whether DoD is adequately administering and overseeing private security contracts in Iraq in response to the draw-down of U.S. forces. Specifically, DoD OIG plans to evaluate support requirements in contracts and related security control measures and procedures for access to U.S. military installations in Iraq.

Follow-up of Health Care Provided by Military Treatment Facilities to Contractors in Southwest Asia

(PROJECT NO. D2011-D000LF-0041.000, INITIATED NOVEMBER 2, 2010)

DoD OIG is performing this follow-up audit at the request of the former Commander, U.S. Central Command. DoD OIG is determining whether DoD is taking adequate action in billing contractors for health care provided at military treatment

facilities in Southwest Asia as identified in Department of Defense Office of Inspector General Report No. D-2009-078, "Health Care Provided by Military Treatment Facilities to Contractors in Southwest Asia."

Contractor Logistics Support Contract for Stryker Vehicles with General Dynamics Land Systems

(PROJECT NO. D2011-D000CH-0032.000, INITIATED OCTOBER 19, 2010)

DoD OIG is reannouncing the Audit of Material Purchases Made Through Partnership Agreements at Anniston Army Depot (D2010-D000CE-0190.000) to focus the audit on the contractor logistics support contract for Stryker vehicles. The revised audit objective is to evaluate the effectiveness of the contractor logistics support sustainment strategy for Stryker vehicles. Specifically, DoD OIG plans to review contract funding procedures, contract type, performance metrics, contractor billings, and controls over government property that is being managed by the contractor.

Controls and Processes Pertaining to the Defense Logistics Agency's Procurement Automated Contract Evaluation System

(D2010-D000LD-0264.000, INITIATED AUGUST 30, 2010)

DoD OIG is determining whether the Defense Logistics Agency (DLA) supply centers awarded contracts through the Procurement Automated Contract Evaluation System (PACE) to suppliers who offered the best value, determine whether DLA has a process to validate that prices were fair and reasonable, and determine whether the supply centers uniformly applied the controls and rules governing PACE awards.

Assessment of DoD Wounded Warrior Matters

(PROJECT NO. D2010-D00SPO-0209.000, INITIATED APRIL 16, 2010)

DoD OIG is performing this assessment in response to a congressional request (Rep. Jones-NC) to conduct, a systematic review of DoD Wounded Warrior programs. DoD OIG will conduct this review, with a focus on traumatic brain injury (TBI) and Post Traumatic Stress Disorder (PTSD). Additional assessments may be generated as issues arise. Report SPO-2011-004, issued March 17, 2011, addresses wounded warrior matters at Fort Sam Houston.

Material Purchases Made Through the Partnership Agreement with Sikorsky Aircraft Corporation at Corpus Christi Army Depot

(PROJECT NO. D2010-D000CH-0077.001, INITIATED NOVEMBER 18, 2009)

DoD OIG is evaluating material purchases made at Corpus Christi Army Depot through partnership agreements with private-sector firms. Specifically, DoD OIG plans to determine whether the partnership agreements in place with original equipment manufacturers are effective in minimizing the cost of direct materials to the depot. A series of reports is planned. The first report, D-2011-104, addresses pricing and escalation issues that weaken the effectiveness of the Army contract with Sikorsky to support the Corpus Christi Army Depot.

Controls Over the Accountability and Disposition of Government Furnished Property in Iraq

(PROJECT NO. D2009-D000JB-0307.000, INITIATED SEPTEMBER 16, 2009)

DoD OIG is conducting this audit in response to a U.S. Central Command request to focus oversight on asset accountability to ensure that U.S. funded assets are properly accounted for and that there is

a process for the proper transfer, reset, or disposal of assets. The objective is to determine whether DoD has adequate controls over Government-furnished property as it prepares to drawdown forces from Iraq. Specifically, DoD OIG is determining whether DoD properly accounted for government-furnished property, whether policies and procedures exist for the proper transfer, reset, or disposal of government-furnished property, and whether those policies and procedures are being executed adequately. A series of reports is planned. Report D-2010-088 addresses controls over the accountability and disposition of government furnished property in Iraq. The second report will address property accountability within CENTCOM Contracting Command contracts.

U.S. Government Efforts to Transition the Security Assistance Mission Supporting the Government of Iraq from Department of Defense Authority to Department of State Authority

(PROJECT NO. D2009-D00SPO-0287.000, INITIATED AUGUST 11, 2009)

DoD OIG plans to determine whether (1) U.S. government goals, objectives, plans, and guidance are issued and operative for the transition of the Iraqi Security Assistance Mission from Department of Defense authority to an office of security cooperation under Department of State authority and (2) ongoing U.S. efforts to provide security assistance to the Government of Iraq are adversely impacted by the drawdown plans of U.S. Forces-Iraq and the implementation of those plans.

Contracts Supporting Base Operations in Kuwait

(PROJECT NO. D2009-D000AS-0266.000, INITIATED JULY 31, 2009)

DoD OIG is determining whether DoD properly managed and administered contracts supporting base operations in Kuwait. Specifically, DoD OIG

is determining whether the contract management and administration complied with Federal and DoD policies. A series of reports is planned for this project. DoD OIG issued Report No. D-2010-085 on September 22, 2010, regarding contractors working in key positions without security clearances or common access cards.

Deployment of the Standard Procurement System in the Joint Contracting Command Iraq/Afghanistan

(PROJECT NO. D2009-D000FB-0112.000, INITIATED JANUARY 5, 2009)

DoD OIG is determining whether the deployment of the Standard Procurement System (to include the Standard Procurement System-Contingency configuration) in the Joint Contracting Command Iraq/Afghanistan, was properly planned and executed. A series of reports is planned. DoD OIG issued Report No. D-2010-050, a classified report, on May 21, 2010, regarding the Standard Procurement System Synchronization Utility.

Department of State Office of Inspector General

Completed Oversight Reports

The Department of State Office of Inspector General (DoS OIG) completed one oversight report related to Iraq for the quarter ending September 30, 2011.

Audit of Overtime Pay for Locally Employed Staff Assigned to Embassy Baghdad

(AUD/CG-11-47, ISSUED SEPTEMBER 2011)

DoS OIG identified a lack of internal controls over the authorization and approval of overtime pay for locally employed, non-U.S. citizens at Embassy Baghdad. Specifically, in 2008 and 2009, DoS OIG determined that 444 locally employed staff

assigned to the Embassy claimed 248,135 overtime hours for about \$3.9 million in payment but that the American supervisors were not consistently authorizing that overtime in advance of work performed. In addition, the embassy timekeepers were not adequately trained and could not validate reported overtime hours with Embassy Baghdad supervisors. DoS OIG recommended that the Embassy improve its internal controls and comply the Department of State regulations, policies, and procedures concerning the granting and approval of locally-employed, non-U.S. citizens.

Ongoing Oversight Activities

Evaluation of Emergency Action Plan for Embassy Baghdad

(PROJECT NO. MERO 3014, INITIATED MAY 17, 2011)

DoS OIG is focusing on Embassy Baghdad's formulation of a comprehensive Emergency Action Plan, the completeness of associated documentation, and the general knowledge and preparedness of all chief of mission personnel.

Antiterrorism Assistance Program in Iraq

(PROJECT NO. MERO 3010, INITIATED JANUARY 10, 2011)

DoS OIG is determining the degree to which the Antiterrorism Assistance Program in Iraq, which provides training and equipment to police, has achieved its intended outcomes, and to assess whether the program provides effective oversight of contracts and U.S. government-furnished equipment.

Evaluation of PAE Operations and Maintenance Support of Embassy Baghdad

(PROJECT NO. MERO 3012, INITIATED NOVEMBER 23, 2010)

DoS OIG is evaluating the maintenance of administrative records and contract files, monitoring of

contractor performance, controlling contractor costs, and accounting for U.S. government-furnished equipment.

Government Accountability Office

GAO continues to respond to Congressional interest and mandates to provide oversight of U.S. efforts in Iraq, including DoD drawdown planning and related issues, contracting, and campaign planning.

Completed Oversight Reports

Contingency Contracting: Improved Planning and Management Oversight Needed to Address Challenges with Closing Contracts

(GAO-11-891, ISSUED SEPTEMBER 27, 2011)

DoD does not have visibility into the number of its Iraq contracts eligible for closeout, but available data indicate that DoD must still review and potentially close at least 58,000 contracts awarded between fiscal years 2003 and 2010. GAO's analysis indicates that relatively few of its contracts will be closed within required time frames. The U.S. Central Command's Contracting Command (C3) and its predecessors, which awarded many of DoD's Iraq contracts, did not have sufficient internal controls to ensure that contracting data were accurate and complete. C3's management visibility was further affected by limitations of its information systems, staff turnover, and poor contract administration. DoD's ability to close its contracts has been hindered by the lack of advance planning, workforce shortfalls, and contractor accounting challenges. DoD took steps in 2008 to address its backlog of contracts needing to be closed but such actions came too late to make significant difference in closing contracts within required time frames. DoD is now transitioning responsibility for closing out C3's contracts to the Army Contracting Command. Staffing challenges, however, during

this transition have hindered efforts to close these contracts. DoD identified at least \$135 million in unspent funds that could potentially not be available to meet other DoD needs. Additionally, instances of improper payments and potential fraud were sometimes found years after final contract deliveries were made, making it harder for DoD to recover funds owed to it and increasing the risk that it may need to pay contractors interest fees on late payments. DoD has identified and addressed some of the problems related to the closeout of Iraq contracts, but the growing backlog of over 42,000 Afghanistan contracts that need to be closed suggests the underlying causes have not been resolved. GAO is making three recommendations to ensure DoD has sufficient resources to close its Iraq and Afghanistan contracts and to better plan for and improve visibility of closeout efforts in future contingencies. DoD concurred with each of the recommendations.

Iraq Drawdown: Opportunities Exist to Improve Equipment Visibility, Contractor Demobilization, and Clarity of Post-2011 DoD Role

(GAO-11-774, ISSUED SEPTEMBER 16, 2011)

DoD has robust plans and processes for determining the sequence of actions and associated resources necessary to achieve the drawdown from Iraq, which is well underway with a significant amount of equipment removed from Iraq and bases transitioned, among other things. However, several factors contribute to making this phase more challenging than the previous drawdown phase. DoD may miss opportunities to make the drawdown more efficient. DoD has taken action to improve its management of contracts in Iraq, such as enhancing contract oversight and assigning Contracting Officer's Representative responsibilities as a primary duty, although concerns, such as lack of experience among contract oversight personnel, remain. As the drawdown progresses, DoD may face further challenges in ensuring that major

contracts transition without gaps in key services. Despite various steps to ease contractor demobilization, DoD faces challenges in demobilizing its contractors, including operational security-driven limits on exchanging information such as base closure dates and ensuring accurate contractor planning. Without taking additional steps to address these challenges, DoD may be unable to effectively implement its demobilization guidance and ensure the effective reduction of contract services to appropriate levels and ultimate demobilization of all its contractors. As the U.S. presence in Iraq transitions to a civilian-led presence, although DoD and State interagency coordination for the transition began late, both agencies have now coordinated extensively and begun to execute the transfer or loan to State of a wide range of DoD equipment, while DoD has taken steps to minimize any impact on unit readiness of such transfers. DoD also has agreed to potentially provide State with extensive contracted services, including base and life support, food and fuel, and maintenance, but State may not have the capacity to fund and oversee these services. GAO recommends that DoD take further action to:

- Acquire and maintain real-time visibility over contractor-managed government-owned equipment
- Collect data on unaccounted-for equipment found during base transitions
- Work with contractors to gather and distribute information needed to demobilize their workforces
- Officially clarify the scope of DoD's role in post-2011 Iraq, to include the privileges and immunities to be afforded all DOD government personnel

DoD concurred with all of GAO's recommendations.

Iraq and Afghanistan: DoD, State, and USAID Cannot Fully Account for Contracts, Assistance Instruments, and Associated Personnel

(GAO-11-886, ISSUED SEPTEMBER 15, 2011)

The Departments of Defense (DoD) and State and the U.S. Agency for International Development (USAID) designated SPOT as their system in 2010 for tracking statutorily required information on contracts, assistance instruments, and associated personnel in Iraq and Afghanistan. However, GAO found that regardless of the data source used, the agencies' data had significant limitations, many of which were not fully disclosed. For example, while the agencies collectively reported \$22.7 billion in fiscal year 2010 obligations, GAO found that they underreported the value of Iraq and Afghanistan contracts and assistance instruments by at least \$4 billion, the majority of which was for DoD contracts. Agency officials cited instances of using SPOT to help identify contractors that should be billed for the use of government services, including medical treatment and dining facilities. State and DoD officials also identified instances of using SPOT to help inform operational planning, such as preparing for the drawdown of U.S. forces in Iraq. However, officials from the three agencies indicated that shortcomings in data and reporting capabilities have limited their use of SPOT and, in some cases, led them to rely on other data systems to help manage and oversee contracts and assistance instruments. Also, while SPOT has the capability to record when personnel have been killed or wounded, such information has not been regularly updated. It is unclear when SPOT will serve as a reliable source of data to meet statutory requirements and be used by the agencies for management, oversight, and coordination. In 2009, GAO recommended that DoD, State, and USAID develop a plan for addressing SPOT's limitations. The agencies disagreed, citing ongoing coordination as sufficient. GAO continues to believe such a plan is needed and is not making new recommendations.

Defense Logistics: Actions Needed to Improve the Marine Corps' Equipment Reset Strategies and the Reporting of Total Reset Costs

(GAO-11-523, ISSUED AUGUST 4, 2011)

The Marine Corps has developed a strategic plan that addresses the reset of aviation equipment used in operations in Afghanistan and includes the elements of a comprehensive, results-oriented strategic planning framework. However, a reset strategy for ground equipment has not yet been developed. The Marine Corps is taking steps to develop such a strategy; however, the timeline for completing and issuing this strategy is uncertain. Until the ground equipment reset strategy is issued, establishing firm plans for reset may be difficult for the Marine Corps Logistics Command to effectively manage the rotation of equipment to units to sustain combat operations. It is also uncertain to what extent the Marine Corps plans to align its ground equipment reset strategy with its ground equipment modernization plan. The total costs of reset estimated by the Marine Corps may not be accurate or consistent because of differing definitions of reset that have been used for aviation and ground equipment. These differing definitions exist because Department of Defense (DoD) has not established a single standard definition for use in DoD's budget process. GAO recommends that the Secretary of Defense (1) establish a timeline for issuing formal reset planning guidance and a ground equipment reset strategy for equipment used in operations in Afghanistan, (2) provide linkages between the ground equipment reset strategy and the modernization plan, and (3) develop and publish a DoD definition of reset for use in the DoD overseas contingency operations budgeting process.

Iraq and Afghanistan: Actions Needed to Enhance the Ability of Army Brigades to Support the Advising Mission

(GAO-11-760, ISSUED AUGUST 2, 2011)

The Army has deployed augmented brigade combat teams (BCTs) in response to theater commanders' requests, but units have faced some challenges because commanders did not always set clear priorities between the advising mission and other missions or define specific requirements for how the BCTs should support the advising mission. The use of augmented BCTs has decreased the total number of advisor personnel required for the advising mission, but increased requirements for field grade officers, already in short supply. According to Army officials, as a result of these shortages, the Army has faced challenges meeting the requirement to provide field grade advisors at least 45 days prior to the brigades' mission rehearsal exercise. In many cases, advisors did not join the brigades until after the exercise, hindering their integration into the BCTs and complicating efforts to establish support and command structures. GAO recommends that theater commands assess and refine, as appropriate, advisor requirements and define advisor support and command structures. GAO also recommends that the Army provide certain advisor personnel to brigades earlier in pre-deployment training. DoD concurred with the recommendations.

DoD Task Force For Business and Stability Operations: Actions Needed to Establish Project Management Guidelines and Enhance Information Sharing

(GAO-11-715, ISSUED JULY 29, 2011)

As of June 2011, DoD, State, and USAID officials were discussing options for transitioning Task Force activities and preparing a response to the fiscal year 2011 NDAA requirements. Based on interviews with senior officials and a review of available data, GAO identified five factors to consider in planning for any transition of Task

Force activities to USAID, which generally relate to how these agencies conduct their respective activities. First, although both the Task Force and USAID work to promote economic development, they generally take different approaches. Second, as part of DoD, Task Force employees are not subject to the same movement restrictions as USAID employees and have greater flexibility to visit project sites and access to military assets. Third, funding and staffing plans would need to be developed. Fourth, while both agencies facilitate private sector investment, the nature and focus of their interactions with investors differ. Last, the timing of a transition and impact on U.S. objectives will need to be considered. While DoD and the Task Force have provided high-level direction for Task Force activities, the Task Force has not developed written project management guidance to be used by its personnel in managing Task Force projects. GAO recommends that the Task Force develop written project management guidance and that DoD, State, and USAID develop an approach to integrate the Task Force into information-sharing mechanisms. DoD partially concurred with the first recommendation. The three agencies generally concurred with the second.

Ongoing Oversight Activities

Biometrics, Last Tactical Mile

(PROJECT NO. 351617,
DATE INITIATED NOT REPORTED)

A project description for this assessment was not provided.

Intelligence, Surveillance, and Reconnaissance Collection and Tasking Management

(PROJECT NO. 351603, DATE INITIATED NOT REPORTED)

A project description for this assessment was not provided.

Transition to a Predominantly Civilian Presence in Iraq

(PROJECT NO. 320843,
DATE INITIATED NOT REPORTED)

A project description for this assessment was not provided.

State Contracting for Conflict Countries

(PROJECT NO. 120976,
DATE INITIATED NOT REPORTED)

GAO will conduct a comprehensive assessment of State's acquisition functions for planning, awarding, administering, and overseeing contracts with performance in conflict environments. GAO's objectives are to assess:

- The organizational alignment of State's acquisition functions with its missions and needs.
- State's acquisition workforce, both in terms of number of personnel and their expertise.
- State's use and management of contracts awarded and/or administered on its behalf by other federal departments or agencies.
- The statutory and regulatory authorities available for use in conflict environments.
- The efforts planned or underway to enhance the capacity of State's acquisition workforce and reform its acquisition practices and processes.

Army's Strategies to Reset Non-Standard Equipment Returning from Iraq

(PROJECT NO. 351550,
INITIATED OCTOBER 8, 2010)

GAO's key questions are:

- To what extent does the Army have processes and procedures for disposal, reuse, or reset of non-standard equipment returning from the theater?
- To what extent are the depots to which this equipment is returned receiving timely and accurate information on the amount and condition of equipment returning from the theater?

in order to plan and prepare for the expected workload?

Army's Equipping Strategies to Reset Equipment Returning from Iraq

(PROJECT NO. 351431, INITIATED JANUARY 7, 2010)

GAO's key questions are:

- To what extent does the Army prioritize equipment for reset?
- To what extent are the annual depot reset requirements consistent with budget requests?

U.S. Army Audit Agency

As of September 30, 2011, USAAA had 38 auditors deployed to Southwest Asia: 23 in Afghanistan, 4 in Iraq, and 11 in Kuwait.

Completed Oversight Reports

Improvised Explosive Device Defeat (IED-D) Home Station Lane Training

(A-2011-0211-FFF, ISSUED SEPTEMBER 22, 2011)

USAAA performed this audit at the request of the Deputy Chief of Staff, G-3/5/7, U.S. Army Training and Doctrine Command. USAAA reported that the home station training lanes (HSTLs) effectively assisted units to achieve proficiency in improvised explosive device defeat (IED-D) tasks. Generally, the HSTLs trained units in the common tasks specified in IED-D training guidance. However, auditors found that one of the operational HSTLs at four installations reviewed did not train units in some tasks because the Army Reserve's 21-day curriculum didn't require it. Further, Red Team training personnel did not provide after-action review reports to units and other lane personnel because they were not aware that the reports were a contractual requirement. As a result, units training at the lane had to rely on mobilization training to

achieve proficiency for some IED-D tasks and unit commanders and range training officers did not receive feedback on how well the units accomplished their IED-D home station lane training. The Office of the Deputy Chief of Staff, G-3/5/7 agreed with the overall report and subordinate command comments, and provided the official Army position.

Disposal of Army Material Into Dumpsites by Units in Iraq

(A-2011-0159-ALL, ISSUED JULY 18, 2011)

USAAA performed the audit at the request of the United States Forces-Iraq, Director, J-4. The audit addressed whether using dumpsites in Iraq for disposing of Army material supported the drawdown mission. Auditors found that the Defense Logistics Agency's Expeditionary-Disposal Remediation Teams supported the drawdown mission in Iraq by recovering prohibited items from dumpsites. However, both waste generators and processors mishandled prohibited items, thereby distracting from the drawdown mission in Iraq. Waste generators at all six bases visited improperly placed prohibited items (government property, hazardous material, and copper wiring) into waste streams. In addition, the waste processors at four bases auditors visited did not remove prohibited items from waste streams before sending waste to burn pits or off-base locations. As a result, these shortcomings diminished the ability of United States Forces-Iraq to draw down successfully. In addition, garrisons were slow to close burn pits. Closing burn pits would reduce health risks for soldiers and civilians. The Commander, United States Forces-Iraq agreed with the recommendations. The Office of the Deputy Chief of Staff, G-4 provided the official Army position and agreed to the recommendations in the report.

***Follow-up Audit of
Automatic Reset Induction***

(A-2011-0142-ALM, ISSUED JULY 6, 2011)

USAAA followed up on corrective actions DCS, G-4 took to implement the recommendation in Audit Report A-2009-0071-ALM, “Automatic Reset Induction (ARI) Criteria,” dated March 23, 2009. The prior recommendation was intended to correct the problem of incorrect items being included on the automatic reset induction (ARI) list. USAAA found DCS, G-4 distributed the new ARI criteria in time for the FY 2010 budget build, and coordinated with DCS, G-8 to conduct a strategic review of the FY 2011 ARI list to identify items that met the Army Acquisition Objective or were being phased out for obsolescence. Finally, DCS, G-4 directed removal of 5 of the 7 unsupported items identified during the original audit, which resulted in realized FY 2010 cost savings of about \$159.3 million. However, these actions did not fully fix the problem of unsupported items being included on the ARI list at the Life Cycle Management Command (LCMC) level. USAAA’s review of 16 sample items from two LCMCs determined that 9 of 16 did not meet the intent of the ARI program. The LCMCs took action to remove 8 of 9 unsupported items from the FY 2011 ARI list and reduced requirements for one item. This resulted in about \$54.7 million in funds that could be put to better use during FY 2011. The Office of the Deputy Chief of Staff, G-4, Army Materiel Command, and both LCMCs agreed with the conclusions, FY 2010 realized cost savings, and FY 2011 estimate of funds that could be put to better use.

***Army’s Human Capital Plans—Contracting
(Reachback Capabilities)***

(A-2011-0120-ALC, ISSUED JULY 6, 2011)

USAAA determined the Army used reachback contracting support to lessen the workload on Southwest Asia contracting offices. The Army established U.S. Army Contracting Command Rock Island (ACCRI) Reachback Division to process

contracting requirements. ACCRI successfully processed about 24 percent of Central Command Joint Theater Support Contracting Command’s (C-JTSCC) total workload. The Army also established the C-JTSCC Contract Closeout Task Force Office to close out a backlog of about 24,000 open contracting actions. This reduced the workload for deployed contracting personnel. However, the task force received an increase in workload of about 330 percent. In addition, guidance for using reachback support was not Army-wide and did not identify clear and detailed criteria, metrics, and roles and responsibilities. Additionally, the Army did not provide sufficient oversight of reachback support. As a result, the Army did not maximize the use of reachback contracting support. The report’s recommendations, if implemented, could save the Army about \$15 million over the 6 fiscal years in the Program Objective Memorandum cycle. The Assistant Secretary of the Army (Acquisition, Logistics and Technology) agreed with the recommendations.

Ongoing Oversight Activities

***Commander’s Emergency Response Fund
and I-CERP Closeout-Iraq***

*(PROJECT NO. A-2011-ALL-0525.000,
INITIATED 4Q/FY 2011)*

This audit is being performed in Iraq. It will verify that the U.S. Forces-Iraq have sufficient processes in place to (1) properly account for and close out Commander’s Emergency Response Program (CERP) and I-CERP funding and that they were operating as intended and (2) properly close out CERP and I-CERP projects.

***Army Prepositioned Stock (APS V)
Requirements Determination
Processes-Kuwait***

*(PROJECT NO. A-2011-0094.000,
INITIATED 4Q/FY 2011)*

This audit is being performed in Kuwait. It will verify that (1) Army’s Prepositioned Stock

requirements, including those for Class IX items, are supported by strategic plans and consistent with established mission sets and operational projects, (2) Army Prepositioned Stock items, including Class I, Class VII, and Class VIII items, are properly positioned, maintained, redistributed, and accounted for so that readiness goals were achieved, and (3) storage facilities are fully utilized and sufficient to store and protect Army Prepositioned Stocks.

Followup Audit of Management and Visibility of Government Property Provided on the Base Operations Support Contract in Kuwait

(PROJECT NO. A-2012-ALL-0018.000, INITIATED 4Q/FY 2011)

This audit is being performed in Kuwait. It will verify that (1) command implemented the recommendations and that the corrective actions fixed the problem and (2) monetary benefits were realized. For the follow-on KBOSSS contract, it will verify that command established sufficient policies, processes, and procedures to enhance the Army's accountability and visibility of government property.

Contractor Payments in Afghanistan

(PROJECT NO. A-2011-ALL-0539.000, INITIATED 4Q/FY 2011)

This audit is being performed in Afghanistan. It will verify that the Army has sufficient policies and procedures in place to minimize the use of U.S. currency for contractor payments in Afghanistan.

Financial Transparency in the Afghanistan Transportation Network Contract, Regional Command-South

(PROJECT NO. A-2011-ALL-0534.000, INITIATED 4Q/ FY 2011)

This audit is being performed in Afghanistan. It will verify that the Afghanistan Trucking Network

contract (1) provided the financial information needed to meet strategic goals of having financial transparency and (2) contained sufficient metrics and controls to meet contract objectives and goals.

Contract Management–Atmospherics Program-Afghanistan

(PROJECT NO. A-2011-ALL-0490.000, INITIATED 4Q/FY 2011)

This audit is being performed in Afghanistan. It will verify that (1) contract requirements were detailed, specific, measureable, and updated annually and (2) contract administrative practices were effective to ensure the U.S. government receives the goods and services it pays for.

Bulk Fuel Accountability in Afghanistan-Phase II

(PROJECT NO. A-2011-ALL-0330.000, INITIATED 4Q/FY 2011)

This audit is being performed in Afghanistan. It will verify that the controls over storage and distribution operations for Class III bulk fuel points in Afghanistan will ensure the accurate accountability of fuel products and prevent the unauthorized diversion of fuel.

Property Accountability of Organizational and Theater-Provided Equipment in Iraq

(PROJECT NO. A-2011-ALL-0414.000, INITIATED 3Q/FY 2011)

This audit is being performed in Iraq. It will determine whether the Army (1) had sufficient policies and controls in place to ensure units properly accounted for organizational and theater-provided equipment on property books and (2) sufficiently accounted for organizational and theater-provided equipment in accordance with established policies and procedures.

***Property Accountability-Over Unit
Equipment Shipped to Afghanistan-CONUS***
(PROJECT NO. A-2011-ALL-0346.000,
INITIATED 2Q/FY 2011)

This audit is being performed in CONUS. It will determine whether the Army has sufficient policies, processes, and procedures to account for unit property including sensitive items and equipment shipments from CONUS to Afghanistan.

***Property Accountability-Over Unit
Equipment Shipped to Afghanistan-
Afghanistan***
(PROJECT NO. A-2011-ALL-0344.000,
INITIATED 2Q/FY 2011)

This audit is being performed in Afghanistan. It will determine whether command has sufficient policies, processes, and procedures to (1) account for sensitive item shipments from Afghanistan to CONUS, (2) ensure visibility and transfer of property during Relieve in Place and Transfer of Authority (RIP/TOA), and (3) ensure units used Financial Liability Investigation of Property Loss (FLIPL) appropriately.

***Commander's Emergency Response
Program-Afghanistan***
(PROJECT NO. A-2011-ALL-0342.000,
INITIATED 2Q/FY 2011)

This audit is being performed in Afghanistan. It will determine whether (1) the established project review and approval processes for the Commander's Emergency Response Program (CERP) in Afghanistan promote selection of projects in compliance with CERP stated goals of providing immediate benefit to the Afghan people and (2) the process for generating CERP funding requirements was fully supported by the approved project list.

***Foreign Excess Personal Property (FEPP)
Program-Phase II***
(PROJECT NO. A-2011-ALL-0092.000,
INITIATED 2Q/FY 2011)

This audit is being performed in Iraq. It will determine if U.S. Forces-Iraq has sufficient processes in place to execute the Foreign Excess Personal Property (FEPP) Program IAW the established transfer authority, including properly documenting equipment transfers to the GOI.

***Micro-Purchases of Field Ordering
Officers-Afghanistan***
(PROJECT NO. A-2011-ALL-0135.000,
INITIATED 1Q/FY 2011)

This audit is being performed in Afghanistan. It will determine whether procedures for micro purchases by field ordering officers had sufficient controls in place to justify requirements and accountability of purchases.

***The U.S. Equipment Transfer to Iraq (USETTI)
Program-Phase II***
(PROJECT NO. A-2011-ALL-0107.000,
INITIATED 1Q/FY 2011)

This audit is being performed in Iraq. It will determine whether the proper organizational structures, policies, and processes are in place to ensure commands can sufficiently execute the U.S. Equipment Transfer to Iraq in accordance with established transfer authorities.

Bulk Fuel Operations in Afghanistan
(PROJECT NO. A-2011-ALL-0098.000,
INITIATED 1Q/FY 2011)

This audit is being performed in Afghanistan. It will determine if Class III bulk fuel depot and terminal sites in Afghanistan have sufficient internal controls over storage and distribution operations to ensure the accurate accountability of bulk fuel

products and prevent the unauthorized diversion of fuel.

Management Controls Over Payments for Overseas Contingency Operations Transportation—ARCENT

(PROJECT NO. A-2011-ALL-0087.001, INITIATED 1Q/FY 2011)

This audit is being performed in Kuwait. It will determine if the Army has sufficient management controls to ensure ARCENT Overseas Contingency Operations funds are appropriately used for transportation requirements.

Management Controls over Department of Defense Activity Address Codes (DODAAC), U.S. Army Central Command

(PROJECT NO. A-2011-ALL-0087.000, INITIATED 1Q/FY 2011)

This audit is being performed in Kuwait. It will determine if U.S. Army Central Command has sufficient management controls over the assignment and use of DODAAC to ensure appropriate use of Overseas Contingency Operations funds for supplies and equipment, and storage and transportation.

Bulk Fuel Operations in Iraq

(PROJECT NO. A-2010-ALL-0541.000, INITIATED 4Q/FY 2010)

This audit is being performed in Iraq. It will determine if there are sufficient processes and procedures for efficient throughput of bulk fuels from theater delivery to retail point of issue in Iraq.

LOGCAP IV Contract Requirements Determination—Afghanistan

(PROJECT NO. A-2010-ALL-0421.000, INITIATED 2Q/FY 2010)

This audit is being performed in Afghanistan. It will determine if the requirements determination

and validation processes for the LOGCAP IV contract are in place and operating as intended.

Controls over Vendor Payments—Southwest Asia (Phase II)

(PROJECT NO. A-2009-ALL-0118.000, INITIATED 2Q/FY 2009)

This audit is being performed at various locations in Southwest Asia. It will determine if the Army has effective controls to ensure the accuracy of vendor payments for contingency operations in Southwest Asia.

U.S. Agency for International Development Office of Inspector General

Completed Oversight Reports

This quarter, the USAID Office of Inspector General (USAID OIG) issued one performance audit related to Iraq reconstruction. USAID OIG issued one financial audit report this quarter: the audit of AECOM International Development for its Legislative Strengthening Program for fiscal years 2009 and 2010. The audit covered \$2.4 million and had no questioned costs. As of September 30, 2011, eleven DCAA financial audits and eight other financial audits by independent firms are underway.

Audit of USAID/Iraq’s Microfinance Activities Under its Provincial Economic Growth Program

(E-267-11-003-P, ISSUED AUGUST 4, 2011)

The audit objective was to determine whether USAID/Iraq’s microfinance activities were achieving their main goal of increasing access to inclusive and sustainable financial services in Iraq.

USAID/Iraq’s current microfinance activity began in January 2008, when USAID/Iraq awarded a contract to Louis Berger Group, Inc.

for the \$121 million Provincial Economic Growth Program, consisting of a 2-year base period and 2 option years. Subsequent contract modifications increased the total estimated costs to \$174 million and extended the end date to January 2013. The purpose of the contract was to provide business development and financial services to beneficiaries in strategic locations throughout Iraq. The program encompassed seven areas: (1) business development services, (2) youth initiative, (3) international trade, (4) business enabling environment, (5) investment promotion, (6) small- and medium-enterprise lending, and (7) microfinance—the focus of the audit.

The audited activity supports microfinance institutions providing loans to owners of small enterprises throughout Iraq. The contractor funded nine microfinance institutions through grants (primarily for loan capital) at a cost of \$29 million, according to contractor records. In addition, the contractor provided technical assistance and training to the microfinance institutions. As of December 31, 2010, the USAID-supported microfinance institutions had provided 257,209 loans valued at \$593 million, according to contractor records. From program inception to December 2010, the average loan size was about \$2,300; the average size of outstanding loans as of December 2010 had decreased to \$1,590, according to contractor reporting.

The objective of this audit was to determine whether USAID/Iraq's microfinance activity was achieving its main goal of increasing access to inclusive and sustainable financial services in Iraq. Except for any possible effects of not being able to confirm loans with borrowers (security restrictions prevented auditors from confirming loans), the audit determined that USAID/Iraq's microfinance activity had increased access to sustainable financial services, but the activity did not incorporate metrics for inclusive financial services or a focus on the poor despite statutory and regulatory guidance.

Regarding sustainable microfinance, during 2008 and 2009, the contractor's microfinance

activity met its annual performance targets for the number of loans and the total value of loans disbursed by microfinance institutions. As of December 2010, all nine microfinance institutions that received grant funds had reached operational sustainability, and six of nine had reached financial sustainability.

Although the microfinance activity was achieving its sustainability goal, the audit disclosed that USAID/Iraq's microfinance activity lacked a clear and continuing focus on the poor, as USAID policy prescribes. USAID/Iraq's contract with Louis Berger did not specifically require a focus for loans to the poor, and the activity did not have indicators to measure such lending. Judging by the trends in loan sizes and according to contractor management, a number of microfinance loans were going to the poor. However, this lending was not reflected in performance targets and metrics. In addition, Louis Berger did not calculate consistently one performance indicator. To address the issues outlined above, the audit made three recommendations to the mission. USAID/Iraq agreed with all three recommendations.

Ongoing Oversight Activities

Audit of Audit of the Sustainability of Selected USAID/Iraq-Funded Information Technology Systems

(INITIATED 3Q/FY 2011)

The objective is to evaluate if past USAID/Iraq-funded information technology activities are currently used as intended.

Audit of USAID/Iraq's Elections Support Program

(INITIATED 2Q/FY 2011)

The objective is to evaluate if USAID/Iraq's Elections Support Program is achieving its main goal of providing technical training and capacity building to the Independent High Electoral Commission for Iraq (IHEC) to conduct elections in Iraq.

Information Survey of USAID/Iraq's Active Awards and Subawards During Fiscal Year 2010

(INITIATED 4Q/FY 2010)

The objectives are (1) to compile and report data on USAID/Iraq awards during fiscal year 2010, (2) to compile and report data on USAID/Iraq-funded subawards during fiscal year 2010, and (3) to determine whether recipients of USAID awards have complied with applicable audit requirements for their subawardees.

Audit of USAID/Iraq's Community Action Program III Activities Implemented by International Relief and Development

(INITIATED 2Q/FY 2010)

The objective is to evaluate if USAID/Iraq's Community Action Program III has achieved its goal of communities better articulating their needs and mobilizing resources to solve common problems.

U.S. Department of the Treasury

During this period, the Department of Treasury did not conduct any work related to, in support of, or in Iraq. Additionally, as of September 30, 2009, the Department of Treasury reported it had no plans to conduct further work, and SIGIR no longer reports on it.

Department of Commerce

During this period, the Department of Commerce did not conduct any work related to, in support of, or in Iraq. Additionally, as of September 30, 2009, the Department of Commerce reported it had no plans to conduct further work, and SIGIR no longer reports on it. ♦