

# *Audit Report*



**Coalition Provisional Authority  
Coordination of Donated Funds**

**Report Number 04-001**

**June 25, 2004**

**Office of the Inspector General  
Coalition Provisional Authority**

# Acronyms

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CIC	Council for International Coordination
CPA	Coalition Provisional Authority
IRFF	International Reconstruction Fund Facility
The Ministry	Ministry of Planning and Development Coordination
PMO	CPA Program Management Office
UN	United Nations



**COALITION PROVISIONAL AUTHORITY**  
**OFFICE OF THE INSPECTOR GENERAL**

June 25, 2004

MEMORANDUM FOR ADMINISTRATOR, COALITION PROVISIONAL AUTHORITY

SUBJECT: Report on Controls Over Donated Funds (Report No.04-001)

We are providing this report for review and comment. We performed the audit in accordance with our statutory duties contained in Public Law 108-106 which mandates the conduct of audits relating to the treatment, handling, and expenditure of funds by the CPA or its successor entities on Iraq reconstruction, and of the programs, operations, and contracts, carried out in utilizing such funds. We considered management comments on a draft of this report in preparing the final report.

Management comments on the draft of this report were either non-responsive or did not fully concur with our recommendations. In order to obtain resolution on any outstanding issues related to our reports, we request management provide additional comments to address recommendations in this report. Management may also provide alternative suggestions to resolve recommendations in this report for our review and evaluation. Comments should be received by July 16, 2004.

We appreciate the assistance extended to the staff. Questions should be directed to Mr. Brian Flynn, (703) 343-8953 or Mr. William Whitehead, (703) 343-8954. Management may request a formal briefing on the results of this audit.

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

**Office of the Inspector General  
Coalition Provisional Authority**

**Report Number 04-001**

**June 25, 2004**

(Project No. D2004-DCPAAF-0006)

**Coalition Provisional Authority Coordination of Donated Funds**

**Executive Summary**

**Introduction:** The Ministry of Planning and Development Cooperation (The Ministry) is responsible for promoting international assistance to Iraq and serves as the primary liaison to existing and potential international donors. According to the World Bank, over \$9 billion has been pledged by countries other than the United States to reconstruct Iraq. To ensure confidence by foreign entities and the Iraqi people, the Ministry must have a transparent process for allocating and monitoring international assistance to reconstruction projects throughout the country. With input from the Ministry of Finance, the Ministry makes recommendations to the Iraqi Strategic Review Board that reflect a single comprehensive integrated plan for matching all available revenues, including donations, against all known requirements. The Ministry monitors the provision of international assistance to ensure that donated funds are applied to important priorities.

**Objective:** The original objective of the audit was to determine whether the Coalition Provisional Authority (CPA) had adequate controls in place to ensure that donated funds are properly accounted for, handled, monitored, and controlled. During the audit, we found that donated funds are maintained by donating countries and international entities such as the World Bank and the United Nations. The primary role of the CPA was to develop the processes by which reconstruction priorities are established and approved. We modified the audit objectives to determine whether these processes provide adequate transparency and coordination in the allocation of donated funds to the reconstruction of Iraq.

**Conclusion:** The Ministry of Planning and Development Cooperation, working closely with the CPA Senior Advisor, assembled a comprehensive list of projects to be funded with international donations. Although, the process by which these projects were assembled and approved for consideration was transparent, no process was developed for tracking or coordinating internationally funded projects with other CPA reconstruction efforts. In addition, there was little guidance provided to the Iraq Ministries on maintaining adequate supporting documentation that describe the reconstruction efforts to be funded from donated funds. As a result, the international community and the Iraqi people may have less confidence in the appropriate assignment of donated funds to high priority reconstruction projects. The lack of visibility into the use of donated funds could reduce the confidence of foreign entities to donate further. In addition, important information on internationally funded projects may be lost or unavailable because of inadequate supporting documentation.

**Recommendations:** We are making two recommendations to improve the transparency and coordination of reconstruction efforts in Iraq funded by international donations. We recommend the CPA's Senior Advisor coordinate with the Ministry of Planning and

Development Cooperation to document procedures to identify and track projects to be funded from donated funds, account for donated equipment and material, and submit quarterly updates on the progress of projects financed with donated funds. We also recommend the CPA Senior Advisor coordinate with the CPA Program Management Office to develop and document a Memorandum of Understanding that describes how the offices will share information on reconstruction projects.

**Management Comments and Audit Response.** The Senior Advisor's Office did not concur or was non-responsive to the recommendations. The Iraq Program Management Office concurred and was responsive to the recommendation. See page 8 of the report for a discussion of management comments and page 13 of the report for the complete text of the comments.

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# Background

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**Ministry of Planning and Development Cooperation.** The Ministry of Planning and Development Cooperation (The Ministry) is responsible for promoting international assistance to Iraq and is the primary liaison with existing and potential international donors. To ensure confidence by foreign entities and the Iraqi people in the use of these funds, the Ministry must have a transparent process for allocating international assistance. With input from the Ministry of Finance, the Ministry makes recommendations to the Iraqi Strategic Review Board that reflect a single comprehensive integrated plan for matching all available revenues against all known requirements. The Ministry also monitors the use of international assistance to ensure that the donated funds are applied to the most appropriate priorities. The Ministry consists of two components:

- The Senior Advisor's Office staffed by Coalition Provisional Authority (CPA) personnel. This office is responsible for CPA interface with the Ministry, and
- The Iraqi Ministry of Planning and Development Cooperation staffed by Iraqi nationals. On May 13, 2004, the CPA Administrator turned over control of the Ministry to the Iraqi Minister.

In January 2004 the Council for International Coordination (CIC) was assigned to assist the Ministry.

**Iraqi Strategic Review Board.** CPA Regulation 7 "International Donor Assistance," December 5, 2003, established the Iraqi Strategic Review Board to work on behalf of the Iraqi people to forge a strong partnership between Iraq and foreign governments, international organizations, and other entities that provide support to Iraq's recovery and development. The Iraqi Strategic Review Board sets priorities for the financial and economic development of Iraq in a transparent manner that does not unfairly discriminate among Iraq's geographic regions, cultures, and religious groups. The Iraqi Ministries submit programs and plans for the expenditure of donated funds to officials in the Ministry, who forward the requirements to the Iraqi Strategic Review Board for approval.

**Council for International Coordination.** CPA Regulation 5 "Council for International Coordination," June 17, 2003, established the CIC to work on the behalf of the CPA, to support, encourage, and facilitate participation of the international community in humanitarian relief, recovery, and development efforts with respect to Iraq. According to CPA Regulation 5, the CIC does not involve itself in issues relating to the establishment of an Iraqi police capability, Army, or other security matters. The CIC consists of two components, the CIC Assembly and the CIC Secretariat.

- **Council for International Coordination Assembly.** The CIC Assembly consists of donor countries that meet to discuss general reconstruction and rehabilitation issues. According to CIC personnel, the Chairman of the CIC is an Iraqi government representative. The CIC Assembly receives briefings from Iraqi Ministries and CPA staff including sector updates and other topics in order to assist the Assembly in funding decisions.
- **Council for International Coordination Secretariat.** The CIC Secretariat coordinates information between the Iraqi ministries and the CIC Assembly. According to the CIC Director, in January 2004, the CIC Secretariat was charged

with acting as the support team for the Ministry. The CIC Secretariat consists of dedicated officials from a number of different countries and agencies.

**Future of the Council for International Coordination.** Senior personnel from the CIC Secretariat stated that after the June 30, 2004, transition to the interim government for Iraq, the CIC Secretariat would be integrated into the Iraqi Ministry of Planning and Development Cooperation. The CIC Secretariat works with the World Bank, United Nations (UN), and other donors to guarantee the efficient and effective allocation of donated funds to selected reconstruction projects. The CIC Secretariat was tasked with building the Ministry's capacity to lead donor coordination efforts, build the capital budget, and operate the Donor Assistance Database. The CIC Secretariat will integrate Iraqi personnel into the staff and eventually be staffed with Iraqi citizens, and the CIC Assembly will continue to operate outside the Ministry.

**Program Management Office.** The CPA Program Management Office (PMO) manages the \$18.4 billion appropriated by the United States Congress to support the relief and reconstruction of Iraq. The PMO is responsible for all activities associated with program, project, asset, construction and financial management of that portion of the reconstruction effort undertaken by the United States. The PMO is tasked to work with the government of Iraq and disenfranchised groups in a fashion that fosters mutual collaboration. The PMO is developing a web-based asset management information system that will facilitate the transparent procurement and life-cycle management of assets in Iraq, which eventually will be given to the Ministry of Planning and Development Coordination once the mission of the PMO is complete.

**International Assistance.** According to personnel from the Senior Advisor's Office and the CIC, the CPA does not administer or oversee any donated funds from international donors. All the donated funds are administered by either international organizations such as, the International Reconstruction Fund Facility for Iraq (IRFF), or bilaterally between the country donating the funds and the Iraqi Ministry receiving the service or equipment.

The World Bank has reported that over \$8 billion has been pledged by countries other than the United States to reconstruct Iraq; this figure may include the estimated value of equipment, training, and services provided. The \$8 billion in pledges also includes over \$1 billion that has been pledged to the IRFF for Iraq. The IRFF for Iraq is made up of two trust funds, which are administered by the World Bank and the UN. Of funds pledged, \$566 million has been deposited in either the World Bank or the UN Trust Fund for Iraq. According to CIC personnel, funds have not been expended from the IRFF for Iraq. See Appendix B for details concerning funds donated to the IRFF for Iraq.

The United States has appropriated \$18.4 billion to assist in the reconstruction of Iraq. According to the PMO, as of May 14, 2004, of the \$18.4 billion appropriated, approximately \$12.4 billion will go to reconstruction projects, \$5.5 billion to equipment and services, and \$45 million will go to democracy building activities in Iraq.



## **Objective**

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The original objective of the audit was to determine whether the CPA had adequate controls in place to ensure that donated funds are properly accounted for, handled, monitored, and controlled. During the audit, we found that donated funds are maintained in two trust funds administered by the IRFF for Iraq. The CPA's primary responsibility was to develop the processes by which reconstruction priorities are established and approved. We modified the audit objectives to determine whether these processes provide adequate coordination and transparency in the allocation of donated funds to the reconstruction of Iraq.

# Finding: Coordination and Transparency of Donated Funds

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The Ministry of Planning and Development Cooperation (The Ministry), working closely with the CPA Senior Advisor, assembled a comprehensive list of projects to be funded with international donations. Although the process by which these projects were assembled and approved for consideration was transparent, no process had been developed for tracking or coordinating internationally funded projects with other CPA reconstruction efforts. In addition, there was little guidance provided to the Iraqi Ministries on maintaining adequate supporting documentation that describe the reconstruction efforts to be funded from donated funds. As a result, the international community and the Iraqi people may have less confidence in the appropriate assignment of donated funds to high priority reconstruction projects. In addition, important information on internationally funded projects may be lost or unavailable because of inadequate supporting documentation.

## Transparent Process

**CPA Regulation 7.** According to CPA Regulation 7 “International Donor Assistance,” December 5, 2003, (CPA Regulation 7) the Ministry should perform the following duties:

- Develop transparent procedures for allocating international assistance to geographic and functional sectors in Iraq.
- Monitor the use of donated funds to ensure that Iraq’s prioritized needs are addressed and that the funds are equitably distributed among Iraq’s geographic regions and cultural and religious groups.
- Work closely with PMO to ensure pre-existing bilateral commitments and the United States government’s apportionment and obligation funds for Iraq reconstruction have been taken into account.

**Identifying Programs for International Assistance.** To support the Ministry, the CIC assembled projects that could be funded through international assistance and donations. In February 2004, the CIC documented 727 projects in Iraq valued at approximately \$4.2 billion that were not funded. The list included a general description and estimated cost of each project. The Iraqi Ministries originally identified unfunded projects as high priority projects that were not being funded. The Iraqi Ministries submitted projects to the Ministry for consideration and ultimate approval by the Iraqi Strategic Review Board. However, the supporting documentation for the approved projects lack specific information such as a detailed statement of need, a description of the project, a detailed cost breakdown, time frames, or life-cycle costs. The Senior Advisor’s Office organized three international assemblies.<sup>1</sup> At two of the international assemblies the 727 projects were presented. During the audit, the Senior Advisor’s Office developed a list of selected country’s donations that resulted from these international assemblies.

**Visibility of International Programs.** Most reconstruction projects funded by donated funds will not be visible by the PMO because the donating country or international

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<sup>1</sup> The three international assemblies were Madrid on October 23-24, 2003, Abu Dhabi on February 28-29, 2004, and Doha on May 25-26, 2004.

organizations such as the World Bank and The UN Trust Funds retains control over the project. As a result, the Ministry has little visibility into the totality of reconstruction projects that will be accomplished with donated funds. Additionally, the Ministry has not implemented a mechanism that makes internationally funded projects easily accessible to the international community of donor nations and the Iraqi people. The Senior Advisor's Office, or the successor organization, should develop and document, in both, English and Arabic, procedures for Iraqi Ministries to submit detailed international assistance project information, to include significant equipment, and provide quarterly updates on project information.

**Monitoring U.S. and internationally-funded projects.** The Ministry and the CPA Senior Advisor have not developed a process for monitoring internationally-funded projects. The Senior Advisor's Office did not effectively coordinate with the PMO to ensure that reconstruction projects approved for funding with donated funds were not duplicative or overlapping with reconstruction projects to be funded with United States appropriated funds. Senior PMO personnel stated that if PMO identifies a duplicated project, PMO will cease activity and let the international entity continue the reconstruction effort. However, this action may occur after the PMO has already expended resources in planning and possibly contracting for commencement of the project. In order for the Ministry of Planning and Development Cooperation and the PMO to exchange critical information on reconstruction projects, the Senior Advisor's Office and the PMO should document an understanding on how project information will be exchanged.

**Security Concerns.** According to senior personnel at the Senior Advisor's Office, security concerns have limited movement within Iraq. Specifically, senior personnel from the Senior Advisor's Office stated travel to the Iraqi Ministry of Planning and Development Cooperation in the Baghdad has been difficult. Additionally, the same senior personnel stated the Senior Advisor's Office has been trying to develop an online database and security has delayed installation of the equipment because a suitable location was not available.

According to the current Senior Advisor for the Ministry, the prior senior advisor was not actively involved in the organization of the Ministry, and personnel at the CIC did not start assisting the Ministry until January 2004. The current Senior Advisor was not assigned until March 2004. The current Senior Advisor stated his office has set priorities; however, because of the short time frame that he has been in office, the office has not accomplished all the goals.

## **Confidence in Reconstruction**

As a result of the lack of transparency of reconstruction projects and equipment to be provided by donated funds, the CPA risks diminishing the confidence of foreign entities and the Iraqi people. Additionally, vital information on reconstruction projects could be lost because Iraq Ministries were not aware of what information they should be collecting on bilateral donations and reconstruction projects.

**Confidence in the Appropriate Use of Donated Funds.** The lack of visibility into the use of donated funds could reduce the confidence of foreign entities to donate further. Without detailed information regarding planned reconstruction projects in Iraq, international entities may be less likely to donate or release promised funds because of uncertainty about whether the donated funds will be used in an effective manner. Additionally, without visibility of planned reconstruction projects, the CPA cannot

demonstrate to the international community that donated funds are being used for the benefit of Iraq's geographic regions, and cultural and religious groups. The result could be distrust in the reconstruction process within Iraq.

**Lost Information.** Lastly, information on reconstruction projects and donated equipment could be lost because ministries were not aware that they should be developing and keeping detailed information about reconstruction projects supported by donated funds. Officials in four out of the five Iraqi ministries visited were not aware of the importance of having detailed information on current projects and donations. Thus, important information about expected donations and planned reconstruction projects and donations is not being captured and reported to the international community and the Iraqi people.

## **Actions Are Ongoing to Develop Processes to Oversee Donated Funds**

Processes are being developed by the Ministry of Planning and Development Cooperation for the Iraqi Ministries to follow in identifying, documenting, monitoring, and coordinating reconstruction projects supported by donated funds. Through the introduction of a web database to provide needed visibility and a formal coordination process with PMO, the CPA hopes to achieve transparency in the application of donated funds to reconstruction efforts in Iraq and ensure the most efficient use of those funds by avoiding duplication with other reconstruction efforts being overseen by PMO.

**Donor Assistance Database.** CPA began work on developing the Donor Assistance Database in October 2003. The total estimated cost of the database is approximately \$300,000; of which \$195,000 has been expended. Officials in the CPA Information Management Unit believe the database would be operational in May 2004. Senior officials from the CIC stated:

“The Donor Assistance Database is based on a successful model used for Afghanistan. The database would include all unfunded projects that have been approved by the Iraqi government, as well as track projects that are currently being implemented, including projects administered in the PMO. The database will be accessible by the public and will be a transparent mechanism for governments, organizations, and private citizens throughout the world to track the reconstruction efforts in Iraq. Once completed, the database will be the primary resource for tracking donor funding and an essential tool for donor coordination efforts. The Iraqi Ministry of Planning and Development Cooperation will own and maintain the database. Training for Iraqi personnel is being arranged to guarantee the effective operation of the database, as well as its long-term sustainability.”

Personnel from the CPA Information Management Unit<sup>2</sup> are managing the Donor Assistance Database server which is located in CPA Headquarters in Baghdad. The room that houses the Donor Assistance Database server does not have climate control or raised floors. Additionally, during the inspection of the server room,<sup>3</sup> the server protective case was removed to improve the cooling and the door to the room was left

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<sup>2</sup> The CPA Information Management Unit assists the Administrator's office with the collection, organization, analysis, and dissemination of information relevant to CPA's for mission goals.

<sup>3</sup> The server room also contains servers for Groove and CPA Infonet applications.

open and unattended. The server room should be climate controlled to ensure that servers operate within the proper temperature range and the room should have raised floors to avoid any possible water damage due to spills or flooding. The server room should be locked to ensure the server is not tampered with or improperly removed. The door is currently left open during the day because the room does not have adequate circulation and the servers in the room would most likely overheat.

According to the State Department Senior Facilities Manager adding more new loads to most areas of the Palace's electrical distribution system is inviting a possible catastrophic failure. After reviewing the electrical distribution system that provides power to the server room, the State Department Senior Facilities Manager recommended not to supply an additional heating/cooling system. However, as a temporary fix, on April 23, 2004, Kellogg, Brown, and Root was tasked to install a grate or louver door and an outflow fan to secure the room and reduce the temperature within. The State Department Senior Facilities Manager also stated that prior to any future equipment installation; a site survey should be completed to determine if adequate electrical power, climate controls, and space are available.

Officials from the Senior Advisor's Office, the Iraqi Minister of Planning and Development Cooperation have determined that the Donor Assistance Database should be housed outside of the CPA. Consequently, housing the Donor Assistance Database in the CPA Palace is not a permanent solution. As a result of the audit, management is in the process of developing a transition plan to move the Donor Assistance Database to the Ministry. However, according to the Senior Advisor, the transition plan has stalled because the Ministry does not have appropriate infrastructure such as, internet access to support the Donor Assistance Database.

**Formal Coordination Procedures.** Senior personnel from the Office of the Senior Advisor to the Ministry stated they plan to establish a formal process for the Iraq Ministries to report and track internationally funded projects that are not captured in a PMO database. Officials in the Office of the Senior Advisor in coordination with the Ministry of Finance are developing a Capital Request Form that the Iraqi Ministries will be required to complete to request funding for reconstruction projects. The Capital Request Form will capture a detailed description of the proposed project, project status, location, construction schedule, construction costs, administrative costs, training costs, and life-cycle cost for projects that require donor or budgetary funding. The Capital Request Form will be the basis for capturing bilateral donation information for reconstruction projects within Iraqi Ministries. However, there are no plans to develop procedures to capture the value of donated equipment

The Ministry envisions that the Iraqi Ministries would update the status of the projects reported on the Capital Request Form annually. However, we believe that annual reporting will not provide sufficient actionable information, especially if projects encounter cost increases and delays in completion.

**Coordination with Program Management Office.** Senior personnel from the Senior Advisor's Office stated that they will develop a Memorandum of Understanding with the PMO that describes how the Donor Assistance Database and the PMO database will share information on reconstruction projects in Iraq.

Personnel at the Naval Air Systems Command are in the process of creating a crosswalk that will automatically transfer reconstruction information between the PMO database

and the Donor Assistance Database<sup>4</sup>. However, according to the PMO Information Manager, work on the crosswalk has been delayed because the PMO database requires immediate attention in other areas. The PMO information manager expects the crosswalk to be completed by July 2004.

Once the Donor Assistance Database is operational, the crosswalk is completed, and the Iraqi Ministries provide internationally-funded project information to the Ministry of Planning and Development Cooperation, this should create a visible process for tracking United States and internationally-funded projects in Iraq.

## **Recommendations, Management Comments, and Audit Response**

1. The Senior Advisor for the Ministry should coordinate with the Iraqi Ministry of Planning and Development Cooperation to:
  - a. Develop and document, in both, English and Arabic, procedures for Iraqi Ministries to:
    - Submit international assistance projects information;
    - Submit donations of significant equipment to be included in the Donor Assistance Database; and
    - Submit quarterly updates in order to revise the Donor Assistance Database.
  - b. Develop a plan to move the Donor Assistance Database server to a location acceptable to the Iraqi Minister of Planning and Development Cooperation where the likelihood of tampering, overheating, or water damage is greatly reduced.

**Senior Advisor for the Ministry Comments.** The Senior Advisor's Office stated the Ministry was encouraged to take a decision-making role, which they willingly did. The Senior Advisor's Office can advise, but not dictate. The final decision lies with the Iraqi Ministry. The Iraqi Ministry should decide the frequency and nature of reporting on donor assistance.

The Senior Advisor's Office stated Iraqi Ministries have been provided with a format to report projects that require international funding and were asked to prioritize their top five projects. The Minister of Planning and Development Cooperation presented them to donors in Doha on May 23 and 26, 2004. The process was transparent and well understood by donors and Ministries.

The Senior Advisor's Office stated the audit recommendation assumes the Donor Assistance Database is operating and is supported by the Iraqi Ministry of Planning and Development Cooperation. However, there is no agreement yet in the Ministry to adopt the Donor Assistance Database. Establishing a database is rightly identified in the report as a key priority. The Ministry and our office are disappointed there has not been

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<sup>4</sup> The Donor Assistance Database is an independent system. The crosswalk is only for the transfer of information between databases.

sufficient support to establish a database. The Ministry has approached the UN for support in this matter. The Senior Advisor's Office recommended that the CPA's Program Management Office or the United States Agency for International Development offer support to the Ministry to develop a database that meets its needs.

**Audit Response.** We do not feel that the response of the Senior Advisor's Office fully addressed the recommendation. Consequently, we continue to recommend that the Senior Advisor's Office should coordinate with the Iraqi Ministry of Planning and Development Cooperation to implement the recommendations. We agree that the Senior Advisor's Office can only advise, and the final decision lies with the Iraqi Ministry. Additionally, we agree the procedure used to develop unfunded projects was transparent. We also agree that establishing a database to track reconstruction projects that are funded and unfunded should be a priority.

However, no procedures had been developed for tracking internationally funded projects. According to personnel in the Information Management Unit, the Donor Assistance Database would be operational by May 2004. Additionally, the Donor Assistance Database is fully funded and available to transition to the Iraqi Ministry of Planning and Development Cooperation. The only funding that is required is for the infrastructure to support the Donor Assistance Database at the Iraqi Ministry of Planning and Development Cooperation. If the Iraqi Ministry of Planning and Development Cooperation chooses not to accept the Donor Assistance Database, United States appropriated funds should not be used to develop an additional database.

2. The Senior Advisor for the Ministry and the Director of the Iraqi Program Management Office should coordinate in order to develop and document a Memorandum of Understanding that describes how the offices will share information on reconstruction project information.

**Senior Advisor for the Ministry Comments.** The Senior Advisor's Office stated it would be more appropriate for the Ministry (rather than the Senior Advisor) to describe its needs to the Program Management Office and the United States Agency for International Development and for them to agree on what information should be collected and how the information should be shared. It should be noted that the United States Embassy will not have a mandate to take possession of any other countries' assistance in kind or in cash.

**Audit Response.** The Senior Advisor's Office did not concur with the recommendation. However, the Senior Advisor is the primary liaison with the Iraqi Ministry of Planning and Development Cooperation. As a result, we continue to recommend that the Senior Advisor for the Ministry and the Director of the Iraqi PMO should coordinate in order to develop and document a Memorandum of Understanding that describes how the offices will share information on reconstruction project information.

**CPA Program Management Office Comments.** The PMO stated that they agreed with the recommendation that the process used to share information should be documented. The successor office to the PMO will work with the Senior Advisor's Office and other appropriate Ministry Staff to cooperatively develop a Memorandum of Understanding describing the process the offices will use to share reconstruction project information.

**Audit Response.** The PMO concurred and was responsive with the recommendation.

## **Appendix A: Scope and Methodology**

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We reviewed the CPA Regulation 7 “International Donor Assistance,” December 5, 2003, and CPA Regulation 5 “Council for International Coordination,” June 17, 2003. We performed this audit from March 2004 through May 2004 in accordance with generally accepted government auditing standards. Our scope was limited to reviewing procedures and processes related to the transparency of processes and procedures related to proposed reconstruction projects to be funded by donated funds. We did not meet with personnel from the IRFF for Iraq or confirm the amounts in the trust funds. We did not confirm any figure related to the Madrid Conference held on October 24, 2003. We did not perform a detailed review of the task order or the associated contract for the Donor Assistance Database.

To determine whether effective coordination and transparent procedures are in place for allocating international assistance, we visited the CIC Secretariat for International Cooperation, the Office of the Senior Advisor for the Ministry, the CPA Program Management Office, the CPA Information Management Unit, and the State Department Senior Facilities Manager. We judgmentally selected five Senior Advisor’s offices for Iraqi Ministries to visit (Education, Electricity, Higher Education, Labor and Social Affairs, and Youth and Sports). At each entity, we interviewed personnel connected with the coordination of donated funds or the Senior Advisor. Additionally, we corresponded with personnel from Naval Air Systems Command regarding database establishment and maintenance.

We reviewed 727 projects that were originally identified by the Iraq Ministries as high priority projects that were not being funded. We also reviewed a draft copy of the Capital Request Form and the work request for the Donor Assistance Database server room.



## Appendix B: International Reconstruction Fund Facility for Iraq

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The table below provides financial information on the two trust funds, the World Bank and UN, which comprise the IRFF for Iraq. As of May 25, 2004, over \$1,041 million has been pledged to the IRFF for Iraq. Of funds pledged, a total of \$566<sup>5</sup> million has actually been deposited. The World Bank Trust Fund has \$205 million balance and the UN Trust Fund has a balance of \$360 million. According to CIC personnel, funds have not yet been expended from the IRFF for Iraq.

<b><u>International Reconstruction Fund Facility for Iraq</u></b>				
May 25, 2004				
Amounts in Millions of U.S. Dollars				
<b><u>Country</u></b>	<b><u>Pledged Donations</u></b>	<b><u>Deposited Donations</u></b>	<b><u>World Bank Trust Fund</u></b>	<b><u>United Nations Trust Fund</u></b>
Australia	\$15.20	\$14.60	\$10.20	\$4.40
Canada	74.69	44.73	22.26	22.47
European Community	209.63	9.19	3.57	5.62
Finland	6.20			
Greece	7.20			
Iceland	1.00	1.00	1.00	
India	10.00	5.00	2.50	2.50
Ireland	1.22			
Italy	12.20			
Japan	490.00	351.80	90.00	261.80
Korea	10.00			
Kuwait	10.00			
Netherlands	6.00			
Norway	10.32			
Qatar	10.00	2.50		2.50
Spain	20.00			
Sweden	10.00			
United Kingdom	127.35	127.35	71.38	55.97
United States	10.00	10.00	5.00	5.00
<b>Total</b>	<b>\$1,041.01</b>	<b>\$566.17</b>	<b>\$205.91</b>	<b>\$360.26</b>

<sup>5</sup> Some countries have donated funds in currency other than U.S. Dollars. Some amounts may fluctuate due to currency exchange rates.

## **Appendix C: Report Distribution**

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### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)/Chief Financial Officer  
Director, Defense Procurement and Acquisition

### **Department of the Army**

Assistant Secretary of the Army, Acquisition, Logistics & Technology  
Auditor General, Department of the Army

### **Other Defense Organizations**

Administrator, Coalition Provisional Authority  
Director, Coalition Provisional Authority Program Management Office  
Department of Defense Inspector General  
Director, Defense Contract Audit Agency

### **Non-Defense Federal Organization**

Office of Management and Budget  
General Accounting Office  
Department of State  
U.S. Agency for International Development  
Department of Health and Human Services Inspector General  
Department of Commerce Inspector General

### **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
Senate Committee on Foreign Relations  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform  
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform  
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform  
House International Relations Committee

## **Appendix D: Audit Team Members**

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This report was prepared by the Financial Management Division, Office of the Assistant Inspector General for Auditing, Coalition Provisional Authority.

John Betar  
Brian Flynn  
David Griffin  
William Whitehead  
Troy Zigler

# Management Comments

## Management Comments from the Senior Advisor for the Ministry of Planning and Development Cooperation



COALITION PROVISIONAL AUTHORITY  
BAGHDAD

MEMO

DATE 15 June 2004

FOR: John Betar, Assistant Inspector General for Auditing, CPA

FROM: Neil Hawkins, Director, Development Cooperation & Senior Advisor of Planning and Development Assistance.

SUBJECT: Draft Report – Audit of Controls Over CPA Donated Funds.

**General Comments:**

1. The report correctly draws attention to an ongoing problem in the lack of support the Ministry has received to establish a data base to track projects funded by donors.
2. The report exhibits some confusion regarding:
  - a. The ability of the CPA to be responsible for other donor countries' assistance
  - b. The composition and operation of the Ministry, the role of the Senior Advisor's Office and the relationship between the Ministry and the CPA.
  - c. Current donor coordination mechanisms (formal and informal) that help avoid duplication, and how donor countries allocate and monitor funds.
  - d. It is not clear to what standard the effectiveness of donor coordination and project tracking mechanisms are being compared to.

The Office of the Senior Advisor has already made detailed comments in a document passed to the IG Office on 15 May which highlighted some of the issues raised above.

**Recommendation 1:**

*The Senior Advisor for the Ministry of Planning and Development Cooperation should coordinate with the Iraqi Ministry of Planning and Development Cooperation to:*

- a. *Develop and document in both English and Arabic procedures for Iraqi Ministries to:*
  - *Submit international assistance projects information,*
  - *Submit donations of significant equipment to be included in the Donor Assistance Database, and*
  - *Submit quarterly updates in order to revise the Donor Assistance Database.*
- b. *Develop a plan to move the Donor Assistance Database server to a location acceptable to the Iraqi Minister of Planning and Development Cooperation.*

**Response:**

The MoPDC was transitioned on 13 May. Even before then, the Ministry was encouraged to take a decision making role which it willingly did. The Advisor can advise but not dictate. The final decision lies with the Ministry.

Point a: Ministries have already been provided with a format and were asked to prioritise their top five projects. The Senior Advisors office then put these on CD and the Minister presented them to donors in Doha on 25-26 May. The process was transparent and well

understood by donors and Ministries. The projects were mentioned in the G8 Summit statement. The recommendation assumes the DAD is operating and is supported by the Ministry. This is not our understanding. The frequency and nature of reporting on donor assistance to Iraq lies with the Ministry.

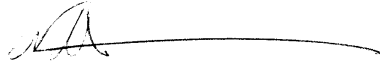
Point b: As mentioned above, there is no agreement yet in the Ministry to adopt the DAD. Establishing a data base is rightly identified in the report as a key priority. The Ministry and our office are disappointed there has not been sufficient support to establish a data base. The Ministry has approached the UN for support in this. I would recommend that the PMO and USAID offer support to the Ministry to develop a data base that meets its needs.

**Recommendation 2:**

*The Senior Advisor for the Ministry of Planning and Development Cooperation and the Director, Iraqi Program Management Office should coordinate to develop and document a memorandum of understanding that describes how the offices will share information on reconstruction project information.*

**Response:**

It would be more appropriate for the Ministry (rather than the Senior Advisor) to describe its needs to the PMO and USAID and for them to agree on what information should be collected and how the information should be shared. It should be noted that the US Embassy will not have a mandate to take possession of any other countries' assistance in kind or in cash.



Neil Hawkins

# Management Comments

## Management Comments from the CPA Program Management Office



COALITION PROVISIONAL AUTHORITY  
PROGRAM MANAGEMENT OFFICE  
BAGHDAD, IRAQ

June 15, 2004

**MEMORANDUM FOR COALITION PROVISIONAL AUTHORITY, OFFICE OF  
INSPECTOR GENERAL**

**ATTENTION:** John E. Betar, Assistant Inspector General for Auditing

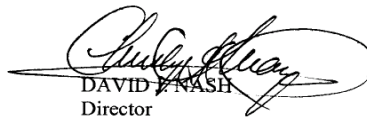
**SUBJECT:** Draft Report – Audit of Controls Over Coalition Provisional Authority Donated  
Funds (Project No. D2004-DCPAAF-0006)

As requested by your June 10, 2004 letter, same subject, the following information is  
provided in response to your recommendation no. 2 on page 8. The recommendation is:

***The Senior Advisor for the Ministry of Planning and Development Cooperation  
and the Director, Iraqi Program Management Office should coordinate to  
develop and document a memorandum of understanding that describes how the  
offices will share information on reconstruction project information.***

As the successor to the Program Management Office (PMO), the Project and Contracting  
Office (PCO) will support the Iraqi Management Office (IRMO) in its coordination with the  
Ministry of Planning and Cooperation. We agree with your recommendation that the processes  
used to share information should be formally documented. We will continue to support the  
Minister as we always have. We will also maintain our practice of open communication to  
ensure that the Ministry continues to receive the information it requires to accomplish its tasks.  
The Ministry will communicate through IRMO to receive the information. PCO will work with  
the Senior Advisor and other appropriate Ministry staff to cooperatively develop a memorandum  
of understanding describing the process the offices will use to share reconstruction project  
information.

Any questions regarding this matter should be directed to Mr. John Doherty, Audit  
Liaison, or the undersigned.

  
DAVID F. NASH  
Director