UNCLASSIFIED

STATEMENT BY MS. JOYCE E. MORROW
AUDITOR GENERAL OF THE ARMY

BEFORE THE
HOUSE GOVERNMENT REFORM COMMITTEE
SUBCOMMITTEE ON NATIONAL SECURITY,
EMERGING THREATS, AND INTERNATIONAL RELATIONS

FIRST SESSION, 109TH CONGRESS

Tuesday, October 18, 2005
Washington, DC
Mr. Chairman, Ranking Member Kucinich, and distinguished Members of the Subcommittee: Thank you for the opportunity to appear before you today to describe our work in support of the U.S. Army’s role in the reconstruction of Iraq.

Background of the U.S. Army Audit Agency

As the Army’s Auditor General, I am responsible for the worldwide operations of U.S. Army Audit Agency. I report directly to the Secretary of the Army and I am responsive to the Army’s Chief of Staff. Army Audit was established on November 12, 1946 as the Army’s internal audit organization. We support the Army’s total force of quality Soldiers and civilians by providing objective and independent auditing services that help Army leaders make informed decisions, resolve issues, use resources effectively and efficiently, and satisfy statutory and fiduciary responsibilities.

Army Audit is a member of the Iraq Inspector General Council, which includes representatives from the Special Inspector General for Iraq Reconstruction (SIGIR), DOD Inspector General, State Department, U.S. Agency for International Development, and Government Accountability Office. We coordinate with these activities to make sure we do not duplicate efforts, and we provide information on the status of our audits related to operations in Iraq for SIGIR’s quarterly report to Congress. We currently have 13 auditors in Iraq and 5 in Kuwait. In recent years our auditors have deployed alongside our Soldiers in support of operations in Bosnia, Kosovo, Macedonia, Uzbekistan, and Turkey, and we will continue to provide the same level of support to our troops in the future.

Our work supporting the Army’s mission in Iraq has focused on the concerns of Army leadership and includes these four areas, which I will outline:
• Program Management and Fund Accountability in Support of Iraq Reconstruction.
• Commanders’ Emergency Response Program (CERP) and Quick Response Fund (QRF) for the Multi-National Security Transition Command - Iraq.
• Accountability Over Vested and Seized Assets.
• Logistics Civil Augmentation Program.

Program Management and Fund Accountability in Support of Iraq Reconstruction
Our work has been focused primarily on the functions associated with the Project and Contracting Office (PCO) as the Army provides acquisition, program management, and financial management support for most of the $18.4 billion Iraq Relief and Reconstruction Fund (IRRF) that Congress appropriated during FY 04.

Several audit organizations reported high-risk areas related to program management and contracting for Iraq. Consequently, we looked at how well the Army was carrying out its responsibilities in support of Iraq reconstruction. Our overall objective was to determine whether the Army and PCO had controls and sound business processes in place to mitigate previously identified high-risk areas.

We found that they did. For example, the PCO and U.S. Army Corps of Engineers were awarding task orders within the scope and performance period of existing contracts. The PCO also established controls for monitoring and measuring obligations, and for definitizing contracts in a timely manner.
However, the PCO still needed to strengthen controls and increase assurance that the Army was executing the FY 04 IRRF in the best possible manner. We recommended that the PCO:

- Account for all DOD activities and measure the progress of the program.
- Develop metrics to identify projects encountering cost and schedule variances.
- Monitor slippages in definitization schedules and coordinate with program managers to identify available remedies.
- Reduce the risk associated with contractors performing inherently governmental functions, resolve real or perceived conflicts of interests with contractors overseeing contractors, and administer award fee plans.

Factors contributing to these conditions included difficulty in filling required positions in Baghdad, the limited experience of personnel, and high turnover caused by the frequent rotations. The PCO agreed and said it had taken or would take corrective actions based on our recommendations.

Our ongoing work on fund accountability is focused on making sure the Army and PCO have effective controls and sound business processes in place to properly account for that portion of the $18.4 billion in FY 04 IRRF that DOD activities execute. We are specifically looking at whether the PCO is making sure:

- Commitments, obligations, and disbursements are accurately recorded.
- Operating and program costs are properly allocated and recorded.

Commanders’ Emergency Response Program (CERP) and Quick Response Fund (QRF)
Our audit work covers FY 04 and FY 05 transactions related to Multi-National Security Transition Command - Iraq. For the 2-year period ended 30 September 2005, Department of Army distributed to Security Transition Command about
$45 million for CERP and about $235 million for QRF. Our objectives are to answer these questions:

- Were funds for the two programs received, accounted for, and reported according to applicable laws and regulations?
- Were disbursements consistent with the intent of the charter or implementing guidance?

For FY 04 transactions, Security Transition Command administered funds according to applicable guidance, and disbursements were consistent with the charter and implementing guidance. Command properly:

- Showed receipt of funding from Multi-National Corps – Iraq and used the funding for projects authorized by appropriation type.
- Maintained an audit trail that showed accountability over funding and transferred funding to other commands for authorized projects.
- Reported how it used funds to Multi-National Corps - Iraq.
- Documented the receipt of goods and services according to contract specifications.
- Disbursed funds to contractors for authorized projects in the correct amount and forwarded supporting documents, such as the contract, invoice, and receiving report, to the finance office.

However, Security Transition Command needed to better document coordination with local Iraqi government, civil affairs, and reconstruction teams; cost estimates; statements of work; and requirement requests. Command also needed to make sure designated officials signed purchase requests for CERP projects before executing commitments.

For FY 05 transactions processed from 1 October 2004 through 30 April 2005, Security Transition Command received, accounted for, and reported funds
according to applicable laws, regulations, and guidance. We believe that CERP and QRF projects met the intent of program guidance. Command implemented the recommendations in our prior report, and the corrective actions fixed the conditions we identified. But command needed to:

- Track QRF projects to assess their reasonableness and better track the status of military interdepartmental purchase requests.
- Gain oversight over funded programs. Without this oversight, projects that were no longer valid remained listed as active, tying up resources that could be directed to other projects.
- Reconcile a cash overage in the Development Fund for Iraq – Commanders' Emergency Response Program. When the disbursing official for the Development Fund turned in cash and payment vouchers, supporting documents showed a cash overage of $553,202. Because command did not reconcile the records, there was a risk that funds could be mishandled. (In response to our recommendation, command personnel performed a detailed reconciliation and identified a cash shortage of $97,518. Command turned over the results of its reconciliation to SIGIR, and it is pursuing the issue.)

Security Transition Command agreed with our recommendations and said it had taken or would take corrective actions.

We are now answering the same questions for FY 05 transactions processed from 1 May through 30 September 2005. We will also follow up on the recommendations in our last report to determine whether command implemented them and our recommended actions fixed the problems.
Accountability Over Vested and Seized Assets

We focused our effort on determining whether established procedures, controls, and audit trails were in place and operating to effectively secure and account for vested and seized assets in support of Operation Iraqi Freedom.

The Army properly secured and accounted for seized cash and metal bars. Army and Coalition Forces seized about $927 million in cash and 3,350 metal bars belonging to the former Iraqi regime and properly accounted for and safeguarded the assets.

However, the Coalition Provisional Authority (CPA) and Coalition Forces did not adequately control the majority of noncash, seized assets. Some noncash assets were unaccounted for and unprotected. Also, adequate audit trails did not exist to support the onhand balance in the vested and seized asset accounts. Extenuating circumstances may have limited the CPA’s and Army’s ability to implement the DOD guidance on vested and seized assets. These circumstances included significant hostilities, personnel turnover, and the absence of procedures for administering, accounting for, and using vested and seized Iraqi property until after hostilities began and Forces started seizing assets. The Army took immediate action on our recommendations to improve controls over vested and seized assets.

Logistics Civil Augmentation Program (LOGCAP)

Our work, which began in Iraq and Kuwait in May 2005, is focusing on contractor logistics support services to Coalition Forces in support of Operation Iraqi Freedom. Since 2003 Army-estimated costs under this contract are about $22.7 billion. We are answering these questions:

- Are services acquired under the LOGCAP contract reasonable and cost-effective solutions for satisfying force requirements?
• Are adequate management structures in place to plan, acquire, and manage services obtained under the LOGCAP contract?
• Is contract administration over LOGCAP work in Iraq adequate?
• Are adequate management controls in place over LOGCAP operations in Iraq, especially those areas highly susceptible to fraud, waste, and abuse?
• Do higher levels of management have enough information to provide sufficient oversight over LOGCAP operations in Iraq?

We are working with the affected commands, DOD agencies, and the prime contractor to improve program management, contract administration, and management of functional areas (such as food service operations, supply distribution, and vehicles used by the contractor). We will issue a series of reports on this program.

**Conclusion**
In conclusion, my Agency continues its tradition of serving the American Soldier and responding to the concerns of Army leadership by providing professional auditing services that offer workable solutions to the Army’s challenges. I appreciate the opportunity to testify before you today and will be glad to respond to your questions.