



DEFENSE RECONSTRUCTION SUPPORT OFFICE

Follow-up Analysis on Non-competitively Awarded Contracts Funded
From the Development Fund for Iraq

November 10, 2006

(Revised)



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INTRODUCTION

Background

KPMG LLP (KPMG) was engaged by the Defense Reconstruction Support Office (DRSO) to perform a follow-up analysis on the non-competitively awarded contracts funded by the Development Fund for Iraq (DFI) for which KPMG previously reported on in September 2005. The reports previously issued by KPMG for which this follow-up analysis is based were 1) applying agreed-upon procedures to documentation justifying non-competitively awarded contracting actions for the period June 29, 2003 through June 28, 2004, and 2) applying agreed-upon procedures to documentation related to non-competitively awarded contracting actions for the period June 29, 2003 through April 30, 2005. In the prior reports, twenty-three contracting actions, from a total of fifteen contracts, were identified and certain agreed-upon procedures were performed. This engagement is primarily focused on an analysis of the contract settlement process, including identification of resolution actions related to previously reported exceptions. The attributes related to the contract settlement process to be utilized in this analysis are further detailed below.

The DFI was established during May 2003 by the United States of America and recognized by United Nations Security Council Resolution (UNSCR) 1483, dated May 22, 2003. The DFI was administered by the Coalition Provisional Authority (CPA). On June 28, 2004, the CPA ceased to exist and, in accordance with UNSCR 1546, management and control of the DFI was transferred to the Interim Government of Iraq.

In accordance with a memorandum issued by the Iraq Ministry of Finance on June 15, 2004, a DFI sub-account was established at the Federal Reserve Bank of New York (FRBNY). This account was to be managed by U.S. agencies until December 31, 2005 and monitored by the Iraq Ministry of Finance to facilitate disbursements for contracts signed by the former CPA and requiring payment subsequent to June 28, 2004. U.S. agencies' management of the DFI sub-account has been extended until December 31, 2006.

Objectives

The objectives of this analysis are to i) assess the adequacy of the contract settlement process of the fifteen non-competitively awarded DFI funded contracts (totaling twenty-three contracting actions) that were previously identified in KPMG's September 2005 reports; ii) compare the settlement process of U.S. appropriated contracts to the corresponding settlement process associated with the non-competitively awarded DFI funded contracts; iii) confirm physical existence of goods received for seven specific contracting actions; and iv) identify U.S. government corrective actions associated with previously reported exceptions. These objectives are further summarized below.

DFI Contract Settlement Process

DFI funded contracts were awarded and managed by the CPA and various U.S. agencies. During 2005, a newly formed U.S. agency (Joint Contracting Command-Iraq (JCC-I)), undertook management of certain DFI contracts, including the DFI sub-account. Subsequent to June 28, 2004 when the CPA



ceased to exist, DFI-funded contract payments were subject to authorization by the Iraq Ministry of Finance.

The JCC-I and Defense Contract Management Agency (DCMA) agreed that DCMA would perform certain contracting activities on behalf of JCC-I, including closeout procedures for DFI funded contracts. In conjunction with the contract settlement process, DCMA issued three internal memoranda during 2005 outlining the required procedures applicable to contract settlements by the U.S. government. We reviewed the subject memoranda and compared the corresponding procedures with those included in the guidance noted in the DCMA Contract Closeout Guidebook and Federal Acquisition Regulation. This comparison was made to develop a baseline for definition of the attributes to be included in our analysis for purposes of assessing the adequacy of the overall settlement process.

The attributes associated with the settlement process included in our analysis are detailed in the Scope section of this report.

In conjunction with the development of the attributes referred to above, KPMG considered documentation of a formal acceptance of goods or services by the Iraqi government as an element within the overall settlement process. However, this process was established in 2006 and related to U.S. funded contracts, primarily large construction projects. A corresponding process was not in effect for the DFI funded contracts included in our analysis.

Comparison of Settlement Processes – U.S. Appropriated vs. DFI

DCMA is responsible for the settlement of DFI and U.S. funded contracts in Iraq. The contract management function for large construction projects was performed by different U.S. agencies; however, no contracting actions within the twenty-three noted above were large construction projects.

For consistency purposes, assessment of this objective will be limited to the contract settlement processes associated with the U.S. funded contracts managed and administered in Iraq. Contracts administered by DCMA in the U.S. are not included in this analysis.

Physical Existence of Goods for Specific Contracting Actions

It was requested that KPMG confirm the physical existence of the deliverables under the following contracting actions identified in the above referenced September 2005 reports: 3, 4, 6, 11, 12, 21 and 22. This objective will be assessed based on a review of available and applicable documentation associated with the delivery of the subject goods.

Corrective Action to Previously Reported Exceptions

It was requested that KPMG identify what government corrective action has been performed related to various exceptions noted in our September 2005 reports. This objective will be assessed through review of documentation and discussions with U.S. government personnel as to specific actions taken on resolution of the exceptions noted in the subject reports.

Note: For illustrative purposes, due to the similarity of the above objectives, certain exceptions appear in more than one procedure detailed below.



Scope / Attributes

The scope of this analysis is summarized below and segregated across the four objectives noted above:

DFI Contract Settlement Process

- ◆ Develop an objective standard and related procedures for purposes of measuring the contract settlement process
- ◆ Assess the settlement process by performing the following procedures:
 - A) Summarize contracting actions and allocation of costs approved by the CPA (pre June 29, 2004) and the Government of Iraq (post June 28, 2004)
 - B) Document status of contract settlements and evidence of contract closure
 - C) Document evidence of reconciliation of payments to contract value
 - D) Match payments disbursed to invoices and goods received documents
- ◆ For contracts not yet settled, provide summary of work undertaken by JCC-I and DCMA and timetable for settlement

Comparison of Settlement Process – U.S. Appropriated vs. DFI

- ◆ Compare the process and procedures for contract reconciliation and settlement of non-competitively awarded contracts using DFI funds with the processes and procedures for contracts using U.S. appropriated funds
- ◆ Obtain a representative sample of contracts using U.S. appropriated funds for comparison of settlement procedures

Physical Existence of Goods for Specific Contracting Actions

- ◆ Perform the following procedure:
 - E) Confirm existence of goods or services for contracting actions 3, 4, 6, 11, 12, 21 and 22 as specifically requested by the DRSO and the International Advisory and Monitoring Board (IAMB)

Corrective Action to Previously Reported Exceptions

- ◆ Perform the following procedures:
 - F) Follow-up on findings identified in prior KPMG reports, including:
 - Documentation of the procedures undertaken by the U.S. government to establish that goods were delivered and services rendered for the ten contracting actions where receipt documents were not provided for an amount of \$96,917,662
 - For the eleven contracting actions where invoicing documents were not provided for an amount totaling \$89,022,592, obtain any corroborating documents and summarize alternative procedures conducted by JCC-I and DCMA and determine the basis on which the contracting actions were paid
 - Summarize the JCC-I and DCMA work regarding the overpayments of \$1,977,471
 - Identify results of reconciliation of the underpayment of \$2,569,923



ANALYSIS

Executive Summary

KPMG performed an analysis of the settlement processes for fifteen contracts (twenty-three contracting actions) that were identified in previously issued KPMG reports, dated September 2005. Of the fifteen contracts referred to above, three were partially funded through third party Letters of Credit (see Notes 4, 5 and 10). As settlements are performed at the contract level, not for each contracting action, the following Schedule of Contracting Actions (see page 7) is summarized by contract (fifteen in total) and referenced to the original twenty-three contracting actions from the previous September 2005 reports.

The results of our analysis are as follows. The letter designations (A-F) noted below align with scope descriptions above as well as the attribute summaries contained in the Schedule of Contracting Actions and Explanatory Notes:

<u>Description</u>	<u>Net Unresolved Amount</u>
Contract Settlement Process (C, D)	\$21, 073,721
Physical Existence	-
Comparison of Settlement Process	-
Previous Reported Exceptions (E, F)	<u>1,344,822</u>
Total Amount of Exceptions	<u>\$22,418,543</u>

DFI Contract Settlement Process

- (C) Documented evidence of reconciliation of payments to contract value
- There was one of fifteen instances where KPMG was unable to reconcile without exception, for an amount approximating \$2,500,000 (see Note 10)
- (D) Matched payments disbursed to invoices and goods received documents
- There were four out of fifteen instances where there was no evidence of goods received, for an amount totaling \$18,573,721 (see Notes 5, 6, 9, 13)

Comparison of Settlement Process – U.S. Appropriated vs. DFI

KPMG discussed the settlement process for U.S. appropriated contracts in Iraq with DCMA. DCMA stated that the settlement process for U.S. appropriated contracts is similar to that for DFI funded contracts if they are the agency to perform the closeout, which in most instances is the case. The contract management function for large construction projects was transferred to other U.S. agencies; however, no contracts within our scope are large construction projects.



KPMG received five contract settlement reports from DCMA for U.S. appropriated contracts and noted that the settlement process appeared similar to the process utilized to settle DFI funded contracts. We reviewed the subject files for the U.S. appropriated contracts and noted that similar documentation was also contained in the corresponding files for the DFI funded contracts.

Physical Existence of Goods for Specific Contracting Actions

(E) Confirmed existence of deliverables for contracting actions 3, 4, 6, 11, 12, 21 and 22

- In two of seven instances, exceptions were noted for evidence of goods received for specifically identified prior contracting actions, for an amount totaling \$11,519,198 (see Notes 6, 13)

(subject amount is included in \$18,573,721 noted above under DFI Contract Settlement Process)

Corrective Action to Previously Reported Exceptions

(F) Follow-up on findings identified in prior KPMG reports:

- \$14,706,083 in missing goods receipts out of the \$96,917,662 of missing goods receipts identified in the prior reports remain unresolved (see Notes 5, 9, 13)

(subject amount is included in \$18,573,721 noted above under DFI Contract Settlement Process)

- \$5,043,351 worth of missing invoices out of the \$89,022,592 of missing invoices identified in the prior reports remain unresolved (see Notes 2, 7, 9)

(\$4,092,000 of subject amount included in \$18,573,721 noted above under DFI Contract Settlement Process)

- \$393,471 of total overpayments of \$1,977,471 identified in the prior reports remain unresolved (see Note 7)

- The underpayment of \$2,569,923 identified in the prior reports is deemed resolved (see Note 3)

Details on each exception are summarized in the following Schedule of Findings and detailed in the accompanying Explanatory Notes.



Schedule of Contracting Actions

Contract	Contracting Actions Referenced to Original Report	Nature of Contract	Total Contract Value	(A)			(B)		(C)	(D)	(E)	(F)	Note
				Payments Pre June 28, 2004	Payments Post June 28, 2004	Total Payments Made	Contract Closed	Documentation Evidencing Closure (DD1594)	Evidence of Reconciliation of Payments to Contract Value	Verification of Goods Received to Payments Disbursed	Evidence of Goods Received for Prior Contracting Actions 3, 4, 6, 11, 12, 21, and 22	Exceptions from Prior Report	
1	1, 2	Oil pipeline security	\$ 94,647,688	\$ 55,217,891	\$ 18,099,677	\$ 73,317,568	Yes - see Note 1	Yes	Yes - KPMG Verified	Yes	Actions Not In Scope	N/A	1
2	3	Security for the 2003 Iraqi currency exchange	\$ 31,814,337	\$ 31,601,828	\$ -	\$ 31,601,828	Yes	Yes	Yes - KPMG Verified	Yes	Yes	Exception Not Cleared - see Note 2	2
3	4	Overhaul of generators	\$ 9,763,184	\$ 9,415,428	\$ -	\$ 9,415,428	Yes	Yes	Yes - KPMG Verified	Yes	Yes	N/A	-
4	5, 6, 7	Iraqi police training	\$ 74,654,333	\$ 2,723,770	\$ 71,930,487	\$ 74,654,257	Yes - see Note 3	Yes	Yes - KPMG Verified	Yes	Yes	Exception Cleared - see Note 3	3
5	8	Security of electricity lines	\$ 7,064,100	\$ 7,064,100	\$ -	\$ 7,064,100	Yes	Yes	No - see Note 4	Yes	Action Not In Scope	Exceptions Cleared - see Note 4	4
6	9, 10	Purchase of wheat flour	\$ 49,350,000	\$ 49,347,249	\$ -	\$ 49,347,249	Yes	Yes	No - see Note 5	Exception Noted - see Note 5	Actions Not In Scope	Exceptions Partially Cleared - see Note 5	5
7	11	Purchase of radios	\$ 15,611,197	\$ 4,953,277	\$ 5,895,121	\$ 10,848,398	Yes	Yes	No - see Note 6	Exception Noted - see Note 6	Exception Noted - see Note 6	N/A	6
8	12	Purchase of weapons	\$ 14,782,392	\$ 9,580,749	\$ 5,151,582	\$ 14,732,331	Yes	Yes	Yes - with errors - see Note 7	Yes	Yes	Exceptions Partially Cleared - see Note 7	7
9	13, 14	Purchase of electricity from Turkey	\$ 150,831,000	\$ 42,332,559	\$ -	\$ 42,332,559	Yes	Yes	Yes - with errors - see Note 8	Yes	Actions Not In Scope	N/A	8
10	15, 16, 17	Printing of new Iraqi currency	\$ 124,776,500	\$ 124,766,500	\$ -	\$ 124,766,500	Yes	Yes	No - see Note 9	Exception Noted - see Note 9	Actions Not In Scope	Exceptions Partially Cleared - see Note 9	9
11	18	Military training camp	\$ 73,310,273	\$ -	\$ 53,275,054	\$ 53,275,054	Yes	Yes	Yes - with errors - see Note 10	Yes	Action Not In Scope	N/A	10
12	19, 20	Military training camp	\$ 20,243,751	\$ 4,464,227	\$ 15,779,505	\$ 20,243,732	Yes	Yes	Yes - with errors - see Note 11	Yes	Actions Not In Scope	Exception Cleared - see Note 11	11
13	21	Purchase of vehicles	\$ 9,706,972	\$ -	\$ 11,856,942	\$ 11,856,942	Yes	Yes	No - see Note 12	Yes	Yes - see Note 12	N/A	12
14	22	Purchase of ambulances and other vehicles	\$ 10,400,355	\$ -	\$ 10,400,355	\$ 10,400,355	Yes	Yes	No - see Note 13	Exception Noted - see Note 13	Exception Noted - see Note 13	Exception Not Cleared - see Note 13	13
15	23	Police training academy	\$ 26,000,000	\$ -	\$ 25,999,996	\$ 25,999,996	Yes - see Note 14	Yes	Yes - KPMG Verified	Yes	Action Not In Scope	N/A	14



Explanatory Notes

1. Contract 1 (Contracting actions 1, 2)

Contract Settlement Process

(B) This contract was transferred from the U.S. government to the Iraq Ministry of Oil in August 2004. However, subsequent to the transfer, payments of \$1,935,021 for air surveillance were processed by U.S. agencies (of which \$387,044 remained unpaid as of August 2006) and authorized for payment by the Iraq Ministry of Finance. There was no documentation to support why air surveillance was still being monitored by the U.S. government and not transferred to the Iraq Ministry of Oil with the rest of the contract. KPMG was informed that the air surveillance services were managed by U.S. agencies due to security issues.

2. Contract 2 (Contracting action 3)

Exceptions from Prior Reports

(F) KPMG's prior reports dated September 2005 noted that the invoice related to payment order number IR58 in the amount of \$231,823 could not be located. During this analysis, we followed up on this matter and the invoice remains unable to be located. KPMG was informed by JCC-I that under standard procedures, U.S. agencies were not to process payments without invoices attached to a payment order; however, we were not able to locate the subject invoice.

KPMG was advised by JCC-I and the DFI Comptroller that the standard process for payment included having all invoices, receiving reports, etc. available to support the payment requested. As this payment has been processed and authorized, JCC-I assumes that documentation must have existed at the time of payment and has since been lost or destroyed. Potential outcomes of this situation may include overpayment due to submission of duplicate invoices, overpayment due to processing of invoices associated with fictitious vendors and/or overpayment due to incorrect or erroneously submitted invoices subsequently corrected.

3. Contract 4 (Contracting actions 5, 6, 7)

Contract Settlement Process

(B) This contract has been closed out; however, the final payment of \$215,609 for payment order number 2391 has been with the Central Bank of Iraq since December 2005, and is still unpaid as of October 2006.

Exceptions from Prior Reports

(F) KPMG's prior reports of September 2005 noted that the contractor was underpaid by \$2,569,923. The contractor has since been paid the remaining amount. **This matter is deemed resolved.**



KPMG's prior reports of September 2005 noted missing documentation for goods received for payment order number 1330 in the amount of \$3,714,534. In conjunction with performance of this analysis, a Form DD250, Material Inspection and Receiving Report, was obtained evidencing goods received for this payment order. **This matter is deemed resolved.**

KPMG's prior reports of September 2005 noted the following missing invoices – invoice number 112611 related to payment order number 2079 in the amount of \$436,765; invoice numbers 94680, 95286 and 96314 related to payment order number 1486 in the aggregate amount of \$3,151,972; and invoice number 99014 related to payment order number 1685 in the amount of \$1,107,648. As of October 2006, these invoices could not be located. However, the final invoice submitted by the contractor under payment order number 2374 summarizes cumulative billings to date. These cumulative billings equal total payments made; therefore, the prior matter related to the missing invoices referred to is not an exception. **This matter is deemed resolved.**

Additionally, U.S. agencies require an invoice be attached to the payment order. KPMG was informed by JCC-I, as this payment was processed and authorized, that the standard process was that the invoice existed at time the payment was requested. As the payments were made subsequent to June 28, 2004, the Iraq Ministry of Finance would have approved each of these payment orders and, as considered necessary, contacted the relevant Iraqi Ministry.

4. Contract 5 (Contracting action 8)

Contract Settlement Process

(C) No reconciliation of payments to contract value was performed for this contract. However, KPMG performed a reconciliation with no exceptions noted.

Exceptions from Prior Reports

(F) KPMG's prior reports of September 2005 noted that two invoices and corresponding goods receipts were missing for draw-downs on a Letter of Credit. In conjunction with performance of this analysis, the subject invoices and Forms DD250 were located in the contract file. **This matter is deemed resolved.**

5. Contract 6 (Contracting action 9, 10)

Contract Settlement Process

(C) No reconciliation of payments to contract value was performed for this contract. However, KPMG performed a reconciliation with no exceptions noted.

(D) Evidence related to goods received for \$2,962,523 could not be located. Also, evidence related to goods received for \$33,500,000 worth of draw-downs on a Letter of Credit could not be located. Both of these matters were identified during our prior review and are addressed and discussed further below in (F).



Exceptions from Prior Reports

(F) KPMG's prior reports of September 2005 noted there was no evidence of goods received under payment order number 421 in the amount of \$2,962,523. In conjunction with performance of this analysis, evidence of goods received was still not located. It is noted that the corresponding invoice was specifically approved for payment by a CPA advisor to the Iraq Ministry of Trade; however, there was still no specific evidence of goods received available for review. Additionally, the amount referenced above of \$2,962,523 does not relate to the portion of the contract funded through the third party Letter of Credit discussed below. The total contract value was \$49,350,000, with \$33,500,000 funded with the Letter of Credit referred to below.

KPMG was advised by JCC-I and the DFI Comptroller that the standard process for payment included having all invoices, receiving reports, etc. available to support the payment requested. As this payment has been processed and authorized, JCC-I assumes that documentation must have existed at the time of payment and has since been lost or destroyed. Additionally, potential outcomes of this situation may include payment for goods not received by intended user, delivery of goods to the incorrect user and/or payment for goods not delivered to any user.

Payment order number 650 was missing an invoice in the amount of \$3,534,606. In conjunction with performance of this analysis, the subject invoice was obtained and **this matter is deemed resolved.**

Draw-downs on a third party Letter of Credit for \$33,500,000 were not supported with invoices or DD250s. As of October 2006, invoices and DD250s were still not located; however, the Comptroller provided documentation supporting the Letter of Credit draw-downs for \$33,498,811 from JP Morgan, the coordinator for Letters of Credit issued from the DFI. The documentation provided included authorization letters from JP Morgan and would have required submission of an invoice to process the subject authorization. As the authorization documentation was obtained from an external party, it is considered reliable to support the draw-downs in the amount noted above. **Therefore, this matter is deemed resolved.**

6. Contract 7 (Contracting action 11)

Contract Settlement Process

(C) No reconciliation of payments to contract value was performed for this contract. However, KPMG performed a reconciliation with no exceptions noted. The closeout report stated that the contract was paid in full.

(D, E) This contract was closed with a 40% advance payment for an aggregate amount of \$3,867,638, and not supported with DD250s for evidence of goods received. The JCC-I maintains that the supplier was contacted during August 2006 and the supplier replied that the contract was executed successfully with all items delivered and paid. The JCC-I is coordinating with the contractor to obtain documentation of delivery for this amount and will continue to search for



additional documentation, including a new database of DFI documents that was provided to the JCC-I during July 2006. As of October 2006, there is no evidence that goods were delivered for the \$3,867,638 advance payment.

Potential outcomes of this situation may include payment for goods not received by intended user, delivery of goods to the incorrect user and/or payment for goods not delivered to any user.

Additionally, KPMG noted a DD250 for \$1,065,631 in the contract file. The JCC-I stated that this was a cash payment; however, an invoice could not be located. KPMG could not trace this payment to the Joint Area Support Group (JASG) Comptroller's payments database.

7. Contract 8 (Contracting action 12)

Contract Settlement Process

(C) A reconciliation was performed by DCMA with errors noted by KPMG, and the contract was closed out despite the contract being overpaid. KPMG performed a reconciliation using payment information for the JASG Comptroller's office with no additional exceptions noted other than the outstanding overpayment issue discussed at (F) below.

Exceptions from Prior Reports

(F) KPMG's prior reports of September 2005 noted there was no invoice under payment order number 1166 in the amount of \$719,528. In conjunction with performance of this analysis, the subject invoice remains missing. Under normal procedures, U.S. agencies were not to process payments without invoices attached to a payment order; however, we were not able to locate the invoice.

KPMG was advised by JCC-I and the DFI Comptroller that the standard process for payment included having all invoices, receiving reports, etc. available to support the payment requested. As this payment has been processed and authorized, JCC-I assumes that documentation must have existed at the time of payment and has since been lost or destroyed. Potential outcomes of this situation may include overpayment due to submission of duplicate invoices, overpayment due to processing of invoices associated with fictitious vendors and/or overpayment due to incorrect or erroneously submitted invoices subsequently corrected.

An overpayment amount of \$1,868,112 was noted; of that amount, \$1,474,641 was requested from the contractor and received on July 7, 2005, which is \$393,471 less than the full amount of the overpayment. As of October 2006, DCMA is coordinating with the contractor to settle the remaining balance. **This matter is deemed partially resolved.**



8. Contract 9 (Contracting actions 13, 14)

Contract Settlement Process

(C) A reconciliation was performed by DCMA with errors noted by KPMG. KPMG reconciled to JASG Comptroller payment records with no exceptions noted.

9. Contract 10 (Contracting actions 15, 16, 17)

Contract Settlement Process

(C) No reconciliation of payments to contract value was performed for this contract. However, KPMG performed a reconciliation with no exceptions noted.

(D) Evidence for goods received in the amount of \$4,092,000 could not be located. This matter was identified in our prior reports and is addressed and discussed further at (F) below.

Exceptions from Prior Reports

(F) KPMG's prior reports of September 2005 noted that payment order number 3 in the amount of \$39,710,250 was not located. In conjunction with performance of this analysis, the subject payment order was located by the JASG Comptroller's office with all supporting documents included. **This matter is deemed resolved.**

Additionally, there was no invoice or evidence of goods received under payment order number 477 in the amount of \$4,092,000. Neither the invoice nor evidence of receipt of goods was located during performance of this analysis. Under standard procedures, U.S. agencies were not to process payments without invoices attached to a payment order; however, we were not able to locate the invoice or receipt of goods report.

KPMG was advised by JCC-I and DCMA that they had no documentation on this contract. KPMG had to supply the contract document to both JCC-I and DCMA and advise on the background of this contract. This contract was dated in 2003 and no one from JCC-I or DCMA were present at that time or familiar enough with this contract to provide any further detail.

Potential outcomes of this situation may include overpayment due to submission of duplicate invoices, overpayment due to processing of invoices associated with fictitious vendors and/or overpayment due to incorrect or erroneously submitted invoices subsequently corrected. Additionally, outcomes of this situation may include payment for goods not received by intended user, delivery of goods to the incorrect user and/or payment for goods not delivered to any user.



10. Contract 11 (Contracting action 18)

Contract Settlement Process

- (C) A reconciliation was performed by DCMA, which noted an outstanding item of approximately \$20,600,000. The contract was closed out by DCMA. KPMG attempted to reconcile total payments to the contract value and to the payments noted in the contractor's payment schedule using payment documents from the JASG Comptroller's office, documentation on contract file and electronic documents in the DCMA database. Total reconciled payments were approximately \$2,600,000 lower than the total contract value, and approximately \$2,500,000 lower than amounts noted in the contractor's payments schedule.

Two sources of funding were used for the contract: DFI and Seized/Vested funds. Of the total reconciled payments, approximately \$5,500,000 was paid using Seized/Vested funds, approximately \$53,000,000 was paid using DFI funds, and approximately \$13,900,000 was petty cash payments for which funding could not be determined and payments could not be traced to the JASG Comptroller DFI payments database. Potentially, these payments could have been paid out of lump-sum petty cash advances from the DFI to the U.S. Agency which handled this contract. The petty cash payments of approximately \$13,900,000 were supported with a Public Voucher form SF1034 only (no invoice or DD250).

Of the total contract value of \$73,310,273, \$42,896,778 was funded through a third party Letter of Credit. The exception amount of \$2,500,000 referred to above relates solely to reconciliation of payments made to contract value and not to missing evidence of goods received or matching of payments made to invoiced amounts.

KPMG was informed that an in-depth analysis and reconciliation is being performed by a U.S. agency on this contract, as well as other contracts involving this contractor. Due to the involvement of the additional U.S. agency noted above, access to further information concerning this contract was restricted during KPMG's performance of this analysis.

11. Contract 12 (Contracting actions 19, 20)

Contract Settlement Process

- (C) A reconciliation was performed by DCMA with errors noted by KPMG. KPMG reconciled payment information obtained from the Comptroller's Office. This reconciliation resulted in total payments of \$20,630,796, which does not agree to the closeout report prepared by DCMA. However, total payments equal the contract value in our reconciliation. This is not considered an exception.

Exceptions from Prior Reports

- (F) KPMG's prior reports of September 2005 noted an overpayment of \$552,890. This overpayment has been adjusted through subsequent reductions in payments to the contractor. **This matter is deemed resolved.**



12. Contract 13 (Contracting action 21)

Contract Settlement Process

(C) No reconciliation of payments to contract value was performed for this contract. However, KPMG performed a reconciliation with no exceptions noted.

13. Contract 14 (Contracting action 22)

Contract Settlement Process

(C) No reconciliation of payments to contract value was performed for this contract. However, KPMG performed a reconciliation with no exceptions noted.

(D, E) No evidence of goods received for \$7,651,560 was identified in KPMG's prior reports and is discussed further at (F) below.

Exceptions from Prior Reports

(F) KPMG's prior reports of September 2005 noted that a DD250 was incorrectly signed for the full contract amount of \$10,400,355 prior to the delivery of all goods to the Iraqi Ministries of Defense and Interior. The contract was also paid in full prior to the delivery of all goods. Subsequent DD250s have been identified that support \$2,748,795 of these shipments, with \$7,651,560 lacking evidence of actual receipt. **This matter is deemed partially resolved.**

KPMG advised JCC-I that the form DD250 had been incorrectly executed due to the form being signed prior to delivery of goods. The JCC-I stated that the contractor had been contacted with a request for additional documentation supporting goods delivered for all amounts. As of October 2006, no additional documentation has been received.

Potential outcomes of this situation may include payment for goods not received by intended user, delivery of goods to the incorrect user and / or payment for goods not delivered to any user.

14. Contract 15 (Contracting action 23)

Contract Settlement Process

(B) This contract was terminated for cause in May 2005 as the contractor incurred costs over the not-to-exceed value. The cost overruns were not authorized by the contracting officer and the payments were rejected. The contractor was granted 90 days to file a claim with the Armed Services Board of Contract Appeals. There was no evidence to indicate that contractor filed a claim as of July 2006, and the contract is considered to be closed by DCMA.