

**MANAGEMENT LETTER**

*FOR*

*Development Fund for Iraq*

**FOR THE PERIOD FROM  
JULY 1, 2005 TO DECEMBER 31, 2005**



**Private and confidential**

July 10, 2006

TO THE GOVERNMENT OF IRAQ  
TO THE INTERNATIONAL ADVISORY AND MONITORING BOARD OF  
THE DEVELOPMENT FUND FOR IRAQ  
BAGHDAD - IRAQ

Dear Sirs,

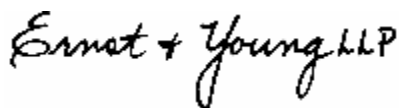
In accordance with our firm's normal practice, we enclose a memorandum of matters arising from our audit visits in connection with our audit of the financial statement of the Development Fund for Iraq for the period from July 1, 2005 to December 31, 2005.

We stress that our normal audit procedures are designed primarily with a view to expressing our opinion on the financial statement and that our comments do not attempt to indicate all possible improvements in internal controls, which a special review might develop.

We will be pleased to provide further information or hold additional discussions on the matters set out in the report, should you so wish.

We take this opportunity to thank the management and the staff for their co-operation during the course of the audit.

Yours faithfully  
Ernst & Young



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## 1. OVERALL INTERNAL CONTROL SYSTEMS

### Observation

We noted during our audit that the Development Fund for Iraq (DFI) overall control systems is ineffective, due to the following main factors:

- The DFI does not have a written code of conduct, or any policies and procedures manuals.
- Lack of adequate corporate governance and proper organizational structure. The DFI is managed by separate departments at the Central Bank of Iraq under the supervision of the Ministry of Finance. However, there is no designated executive and financial controller to direct the DFI's overall activities at the entity level in addition to the transaction level.
- The DFI does not have a formal risk management process to assess the risks of its operations and to continuously monitor the risk exposures and reduce the risk to an acceptable level.
- Most of the DFI's internal controls in place are very basic, and designed for managing the daily transactions, without proper attention to the overall control environment.
- The DFI personnel need significant training to be able to manage the nature and complexity of the DFI's transactions up to international standards levels.
- There are no adequate human resource policies and practices relate to training, evaluating, counselling, promoting, and compensating personnel.
- There is no internal audit function for the DFI; the CBI's internal audit department carries out limited audit functions that cover some of the DFI's operations. Moreover, the internal auditor department does not operate in accordance with the Institute of Internal Audit standards.

Many of the above are explained in more details in this management letter.

### Recommendation

We recommend to develop the DFI's internal control system and corporate governance considering the above notes. In addition, we recommend to appoint a fund manager to direct the overall activities of the DFI at all locations, including the MOF, CBI, SOMO, spending ministries, Kurdistan Region and U.S. Agencies. Further, we recommend to consider appointing an executive committee to oversee the DFI daily operation and to report to the IAMB.

Also, we recommend to provide the DFI personnel proper training programs for the awareness of the concepts of the internal controls required by the international internal control frameworks.

## 2. AUTHORIZATION OF DISBURSEMENTS

### Observation

The payments of the DFI funds are authorized by the Prime Minister or his representative together with the Minister of Finance or his representative.

However, the execution of the payments are initiated by the MOF's Director General of the Accounting Department alone with no limit, as he signs the request for transfer sent to the CBI to process the cash transfer from the FRBNY.

This is considered a high risk, as no individual should has the authority to sign on the bank payment transactions without a reasonable and approved authority limit

Considering the DFI's ineffective overall internal control systems, there is no adequate controls to prevent the risk of unauthorized payments and to detect any unauthorized payments on timely basis.

### Recommendation

We recommend to develop an authorization matrix to govern all DFI transactions to ensure that adequate controls have been put in place, as explained in more details in the next page.

### 3. DELEGATION & AUTHORITY MATRIX

#### Observation

The CBI's authorized signatories list, does not include formal authority matrix that specifies each the role of the CBI's authorized persons and there limits to authorize and execute the banking transactions of DFI. Moreover, the approved (Swift) transfer letters of the transactions from the DFI account are approved by three individuals in the CBI middle management and do not involve any one from the top management or board of directors.

#### Recommendation

Develop an authorization matrix to govern all DFI transactions to ensure that adequate controls have been put in place.

The authorization matrix shall specify the authorized positions, authorized activities, authorization limit for each type of DFI activities and transactions including cash transfers and payments.

#### The types of authorities are as follows:

- Initiate
- Review
- Approve

The authorization matrix of the DFI shall be prepared by independent party, reviewed by the IAMB and approved by the Council of Ministries.

Based on the internal control best practices, no individual should has the authority to sign on the bank payment transactions without a reasonable and approved authority limit. All transactions above certain limit shall be signed by two or three signatories based on approved authorization matrix.

Also, the authorized signatories on swift transfers shall include key CBI personnel.

## 4. INCOMPLETE ACCOUNTING RECORDS

### Observation

The Cash Management Department in the MOF was established to work alongside the accounting department of the MOF and maintain the accounting records for the DFI transactions.

The DFI accounting records are based on information obtained from the CBI, and monthly statements sent by the CBI to the MOF. This information limited to the transaction of the DFI's main account at the FRBNY.

As a result, the DFI does not maintain complete set of accounting records to support the financial statement figures and the related notes disclosures for the period from July 1, 2005 to December 31, 2005. The statement of cash receipts and payments had been compiled from the monthly statement of cash receipts and payments of the DFI's main bank account managed by the Central Bank of Iraq (CBI), the DFI's sub-account maintained by the U.S. Agencies, the FRBNY bank statements and other financial information maintained by the Ministry of Finance and confirmations received from other parties.

### Recommendation

The CBI or the MOF should keep complete set of accounting records to account for all DFI accounting transactions, according to its approved transactions together with bank statements obtained from the CBI and the FRBNY.

In addition, we recommend to separate the DFI accounting records from the MOF records, which are maintained in accordance with the governmental accounting system, as the DFI's accounting records should be maintained in accordance with International Public Sector Accounting Standards/Cash Basis.

Furthermore, periodic reconciliations should be done between the MOF and CBI and any differences should be investigated.

## 5. FINANCIAL STATEMENT CLOSING PROCESS AND REPORTING PACKAGE

### Observation

There is no financial statement closing process for the DFI, that specify the procedures to be performed at the end of each month, the data that should be gathered, and the reports to be issued.

In addition, the DFI's statement of cash receipts and payments are not prepared on monthly basis in accordance with the International Public Sector Accounting Standards / Cash basis.

There are no policies and procedures for the DFI financial reporting system.

The MOF does not maintain records for the financial information that should be disclosed in the DFI's statement of cash receipts and payments.

For the purpose of the audit, the DFI's semi-annual statement of cash receipts and disbursements are compiled from the:

- Monthly statements of the DFI's main bank account prepared by the CBI,
- DFI's sub-account maintained by the US Agencies and the CBI
- FRBNY statements and confirmation
- Other financial information and third party confirmations.

### Recommendation

We believe that the CBI and the MOF should document and implement a Financial Statement closing process at the end of each month and issue a full set of financial statements and disclosures.

Issuing the financial statements on timely basis give a clear view of the DFI performance and ensure that the users of the financial statements have a transparent and reliable numbers during a suitable period in which they can benefit from.



## 6. DFI DISBURSEMENT COMPLETENESS AND ACCURACY

### Observation

Certain disbursements from the DFI account at the FRBNY are transferred to the MOF current account at the CBI to be paid later to the ministries. In the DFI's statement of cash receipts and disbursements this transfer is reported immediately as cash disbursements, before being paid to the intended ministries.

The MOF current bank account at the CBI is used to deposit the transfers from DFI and transfers from MOF own transactions that are not related to the DFI, and the disbursements from this accounts that are related to DFI are not separated from other transactions. As a result, it is not possible to identify the total disbursements related to the DFI and the beginning and ending cash balance related to the DFI.

In addition, the MOF current account at the CBI has not been reconciled with the MOF accounting records as of December 31, 2005.

### Recommendation

Clear documentation and regulation should be implemented to define all sources of revenues and types of payments related to the DFI.

The MOF should open a separate DFI sub-bank account at the CBI to deposit transfers from DFI bank account in the FRBNY, that are designated to finance the Iraqi ministries. That will enhance tracking all payments made to the respective ministries as well as managing the available cash balance and enhance the reconciliation process with the beneficiary ministries.

Also, we recommend to reconcile the MOF current account at the CBI with the MOF accounting records at least on monthly basis, and to resolve all outstanding balances on time.

## **7. DFI RECORDS AT THE CENTRAL BANK**

### **Observation**

The CBI maintains the cash payments and receipts records of the DFI, which was established during May 2003 and recognized by the United Nations Security Council Resolution (UNSCR) 1483 (2003). The DFI's bank accounts are managed by the CBI on behalf of the MOF and included as part of the CBI's accounting records.

As of December 31, 2005, there is an un-reconciled difference of USD 104 million between the DFI assets balances and the related liability balances in the CBI records. This difference does not affect the DFI's statement of cash receipts and payments, as this statement is prepared directly from the FRBNY statement without reconciliation with the CBI accounting records.

Moreover, the DFI records in the CBI consist of sheets made on Microsoft Excel with incomplete description for each transaction since the LC numbers are not recorded on the sheets and there is no reference for the serial number of the MOF payment request letters.

The DFI monthly statement is prepared based on the FRBNY daily statements.

### **Recommendation**

Separate records should be maintained independently with extensive documentation and description for each transaction. These records should be reconciled with the CBI's financial department recorded transactions, the FRBNY bank statement, and the MOF on timely basis and any differences should be investigated.

The DFI financial statements should be prepared directly from the accounting records.

Also, we recommend to reconcile the difference of USD 104 million between the DFI assets balances and the related liability balances in the CBI records.

## **8. FOLLOW UP OF PREVIOUS AUDITOR'S RECOMMENDATIONS**

### **Observation**

During our audit and understanding of the current DFI accounting and internal control systems, we noted that the Board of Supreme Audit followed up and requested the concerned parties to improve the weaknesses reported in the predecessor auditors' management letters.

However, there is no action plan by the CBI and the MOF for timely follow up and implementation of the recommendations of prior period audits.

### **Recommendation**

As all audit recommendations are made to enhance the internal control structure and to ensure proper accounting and reporting issues are taken into consideration by the DFI.

We believe that the timely follow up and complete implementation of the prior period and the current period management letter is essential to maintain adequate accounting and internal control system for the DFI.

We recommend to form a committee to be responsible for the timely and proper implementation of all the recommendations of the prior year and current period management letters.

## 9. TIMELINESS OF THE FINANCIAL STATEMENT

### Observation

International Public Sector Accounting Standards states that Financial Statements are to be issued within six months after year end in order to have timely information for financial statement users. The usefulness of the financial statements is impaired if they are not made available to users within a reasonable period after the reporting date. Ongoing factors such as the complexity of entity's operations are not sufficient reason for failing to report on a timely basis.

We noted that the DFI financial statements have been prepared after the six months period, as the DFI does not have a financial statement closing process to ensure timely reporting and closing for the accounting records.

### Recommendation

We recommend the MOF to consider implementing financial statements closing process that enhance issuing the DFI statement of cash receipts and payments to be available for the financial statement users within one month after period end. Then the audited financial statements shall be issued within short period after being prepared by management.

## 10. ACCOUNTING SYSTEMS

### Observation

The present accounting system and procedures were established several years ago. However, the Iraqi Government size and activities have expanded significantly over the years, as well as new technologies were invented.

The present system relating to accounting procedures including management information system as well as internal control procedures are no longer suitable for the present size and structure of the DFI, and considered to be out of date in line with the new technologies and best practices.

We understand that the Iraqi Government is currently undertaking an overall change in the computerized accounting system of the Finance Department. However, the DFI's operation should have particular attention.

### Recommendation

We recommend to undertake a review of the accounting processes and systems of internal controls related to the DFI at MOF, CBI, SOMO and related Ministries; with a view to improve efficiency of operations and effectiveness of controls. This should include, as a minimum:

- Policies and procedures manual.
- Control procedures in connection with the examination and other section of the Finance Department which undertaken the review of the departments transactions.
- Review of the Finance Department's documentation and filing procedures.
- Review of the operating departments' systems of internal control.
- Consideration linking this automated system with the internal audit department.
- Establishment of a mechanism for follow up of budget preparation and compliance with such budget.

Accordingly, an integrated Accounting and Reporting Package together with a Management Information System (MIS) and Financial Information System (FIS) can be made based on the above results.

## 11. POLICES AND PROCEDURES MANUAL

### Observation

We noted that DFI does not have a formal accounting policies and procedures manual to cover all areas of its operations. The MOF is periodically issue accounting instructions to set out the procedures to be followed for performing certain tasks. However, these instructions do not cover all the aspects of the DFI's functions. Furthermore, these instructions have not been formally compiled in the form of a comprehensive accounting and procedures manual, readily available for reference of the staff involved in the DFI activities.

### Recommendations

We recommend developing a comprehensive policies and procedures manual to cover all DFI operational, administrative and financial activities

The manual should be reviewed on a periodic basis to ensure that it is updated and is relevant for providing accounting and operational guidance to the DFI's staff.

In addition, detailed monitoring procedures should be followed by key management to insure proper and consistent implementation of the policies and procedures manual.

## 12. LETTERS OF CREDIT ISSUED ON BEHALF OF IRAQI MINISTRIES

### Observation

Previously, the DFI benefits from deposits made by the Iraqi Ministries and other governmental entities for payments on their behalf. Cash receipts and payments passed through bank accounts administered by the DFI were included in the statement of cash receipts and payments of the prior period on a net basis. However, these deposits ceased during April 2005 and the related bank account was closed.

Currently, the respective ministry transfer funds to the MOF current account at the CBI, and the letters of credit are opened from the DFI funds at the FRBNY. We believe that such treatment mix up the DFI funds with the ministry of finance funds.

As a result, during the period from July 1, 2005 to December 31, 2005, there are payments from the DFI funds for letters of credit of certain Iraqi Ministries that are not covered by the DFI budget in the amount of U.S. \$ 231,047 thousand. Conversely, the MOF received advance payments from these ministries to fund the payments of their letters of credit in the amount of U.S. \$ 272,958 thousand, which has not been deposited in the DFI accounts.

### Recommendation

We recommend that the ministries should open the self financing letters of credit directly at the Trade Bank of Iraq.

### **13. LETTERS OF CREDIT STATEMENTS**

#### **Observation**

During our audit on Letter of Credit cash disbursement, we noted that the CBI does not receive a notification from the Trade Bank of Iraq notifications for executed Letters of Credits and for the amounts transferred to the correspondent bank.

In addition, none of the letters of credit transactions are recorded by the DFI.

#### **Recommendation**

We recommend the MOF to follow up receiving notifications for executed Letters of Credit and for any related matter such as interest earned on Letter of Credit Cash Margins.

The DFI should maintain complete records of the cash margins transfers to the TBI's correspondent banks and all related transactions, as these cash margins considered as part of the DFI assets until being paid to the suppliers.



## 14. DFI ACCOUNTS AT FRBNY

### Observation

During our audit on DFI, we obtained a confirmation from Federal Reserve Bank of New York for DFI bank accounts. Some of the accounts were opened pursuant to letters from Administration of the Coalition Provisional Authority dated November 28, 2003. The accounts are for the Central Bank of Iraq - Development Fund for Iraq and titled and numbered as follows:

- Funds Received from Rafidain Account – Acct. # 021080782
- Funds Received from Rasheed Account – Acct. # 021080795
- Funds Received from SOMO Account – Acct. # 021080779

Neither CBI nor MOF have sufficient information about these accounts and were unable to provide us with details or the sources of these funds and its movement.

### Recommendation

We recommend CBI and MOF to obtain a statement of account for DFI accounts at the FRBNY regularly and to prepare reconciliations on timely basis. In addition CBI and MOF should be aware of all DFI accounts and balances.

The above accounts and related transactions should be recoded by both the CBI and the MOF as part of the DFI accounting records.

## 15. TRACKING MINISTRIES BUDGETS

### Observation

The MOF only send the approval for the lump sum amount budgeted for the respective ministry without specifying the amount of the residual budgeted amount. Moreover, the budget tracking system in the CBI is based on unofficial and manual recorded data and not reconciled with the MOF records.

### Recommendation

The MOF together with the CBI should create a budget monitoring system to prevent or detect over budget payment requests. Furthermore, an over budget payment request by the Ministries indicate that some Ministries do not keep record of all its withdrawals from the DFI in order to be able to determine the remaining budget, prepare efficient work plans and manage the ministry future activities according to the available funds.

## **16. DATA ENCRYPTION AND CONFIDENTIALITY**

### **Observation**

During our audit we noted that several payment requests for oil exports are sent by the CBI's *Oil Export Department* to the correspondent banks of the CBI through internet mail.

This might lead loosing the confidentiality of the data as internet mail does not have the encryption and security needed in such correspondences.

### **Recommendation**

To ensure the confidentiality of data we recommend that all correspondents must be encrypted through CBI secured mailing system or by using the bank SWIFT address.

## **17. INTEREST CALCULATION FOR REPURCHASE AND TREASURY BILLS INVESTMENT**

### **Observation**

During our audit in the CBI we noted that the investment department did not recalculate the interest income from the Repurchase and Treasury bills investment related to DFI, and in rare cases when it is recalculated it is neither documented nor reviewed by a supervising employee.

### **Recommendation**

We recommend that all interest received from any source should be recalculated in accordance with the investment agreement, and signed by an authorized person.

## **18. REPORTING THE RECOVERED AND REFUNDED AMOUNTS**

### **Observation**

During our audit of the DFI's statements in the CBI's records, we noted that some recovered amounts received by the FRBNY account do not have any supporting documents. Recovered amounts mainly are from letters of credit cancellation, interest on cash margins or excess of funding over the required amount.

Moreover, these recovered amounts were included in the revenues section of the DFI statement of cash receipts and disbursement. In addition, including recovered amounts in revenues, rather than offsetting against related disbursement in the same period, overstates the cash receipts and disbursements accounts.

### **Recommendation**

We recommend that all recovered amounts should be verified to ensure the reason for recovery in order to classify these amounts as appropriate. Furthermore, these amounts should be offset against its related disbursements in the same period for the proper presentation of the financial statements.

## **19. MISSING SUPPORTING DOCUMENTS OF PAYMENT APPROVAL**

### **Observation**

During our audit we noted that on July 17, 2005, an amount of \$ 1,032,050 was transferred from the DFI account in the FRBNY to the CBI account in the same bank (Transaction No. 2005/63), based on our review of the supporting documents we could not find any approval from the MOF for such transfer which represents an advance payment to the TBI to satisfy LC for the Public Vegetable Oil Company.

### **Recommendation**

As the MOF should approve each payment from the DFI account, the above mentioned transaction should be approve by the MOF in accordance with the DFI's payment procedures.

## 20. BUDGET PREPARATION

### Observation

During our review of the procedures followed by the budget section with regard to the review of the departmental budgets, we noted that the budget section does not refer to the departments' prior year budgets and actual expenditures and commitments made and in the process of being committed to challenge the proper preparation of budgets prepared by the various Government departments.

An effective evaluation of budgets prepared by the Government departments and determination of departments' needs for the various expenditure items is considered to be a vital control procedure to ensure that department needs are consistent with their activities, previous years' expenditures and plans for the forthcoming year.

### Recommendation

The departmental budgets review process undertaken by the budget section is a significant part of the Finance Department's activities relating to the follow up and review of Government expenditures. Accordingly, it is our belief that the DFI key management should give special attention to the budget compilation and review process undertaken by the budget section to ensure that adequate control procedures exist in such process.

A contemporary budget preparation and review environment would include, but it is not limited to:

- Review by the budget section of the procedures undertaken by the various departments to prepare their annual budgets. The budget section then ensure that adequate controls have been put in place by the various departments to facilitate an accurate budget preparation and, hence, reduce the time spent by the budget section in their review process of such budgets;
- The budget section should establish a process to identify transfers between the different expenditure categories. This information would enable the budget section to identify expenditure items that have been over budgeted for by any particular department in prior years and which are being used to finance the expenditure of other unapproved spending, if any;
- The budget section should establish a database of all departmental expenditures and budgets in relation to departmental activities and sizes for the purpose of establishing a standard of each expenditure item in relation to the size of the related department. Such data base would enable the budget section to review on periodical basis (eg. monthly) the performance of expenditure items and investigate any deviations from the standards. Such data base should also enable the budget section to identify areas of risk and opportunities for cost saving.
- Review by the budget section of departmental budgets should include comparison of departments prior years' budgeted as well as actual expenditures. Such review would highlight significant changes and other matters that require immediate attention;

## **21. WORK STATEMENT BY THE MOF FOR CONTRACTS ADMINSTRATED BY US AGENCIES**

### **Observation**

During our audit we didn't receive any statement of work to monitor the US Agencies sub account. Payment orders are issued from the US Agencies for contracts payment but there is no responsible party to check the accuracy of the payment, agree the amount to the contract terms and ensure no duplicate payment was made.

### **Recommendation**

We recommend the MOF to perform the following:

- Check each and every payment,
- Ensure that there is a receipt of goods or services from the respective ministry,
- Ensure that the payments are properly recorded by the related ministry,
- Reconcile the amount to the CBI and FRBNY records,
- Ensure compliance with the contract terms and conditions,
- Ensure that the contractors' invoice was stamp paid to avoid duplicate payments.



## 22. INTEREST PAID ON CASH MARGINS AGAINST LC'S

### Observation

During our audit on cash receipts, we noted that interest payments received from JP Morgan on funds deposited as cash margins against opened Letters of Credit paid are booked while the source of the payment is not documented in the DFI monthly statements prepared by the CBI. In addition, the interest has not been recomputed to ensure its accuracy and reasonableness.

### Recommendation

We recommend the CBI/MOF to follow up with TBI, correspondence banks and beneficiary ministries to ensure Letter of Credit timely execution and to account for interest earned on related cash margins. In addition, bank statements and confirmations should be obtained and reconciled regularly and on a timely basis to support such kind of transactions.

## **Contracts Administrated by US Agencies**

## 23. OUTSTANDING CONTRACTUAL COMMITMENTS

### Observation

We noted that the US Agencies did not maintain a complete and accurate database of outstanding contractual commitments for contracts signed by the former CPA.

During our audit for the period ended December 31, 2005, we received excel sheets extracted from the data base showing the details of contracts information (i.e. contract number, contractor name, description of the Items, awarded date, date of completion, closeout date, contract value, amount paid, outstanding balance, contract status, related Ministry and others). Upon our review process of some contracts, we noted the following cases where:

- Contracts values were incorrectly entered into the database (i.e. Contract No. DFI 1ID41521315).
- Contracts with closed status still show ending unpaid balance (i.e. DABV01-04-C-0009 and DFI4ID4-07-1-0010).
- Contracts closing dates has passed but they are shown as opened contracts (i.e. DACA78-03-D-0004).

As a result the U.S. Agencies could not ensure the completeness or the appropriateness of the contract database balances and the commitments outstanding balance.

### Recommendation

The US Agencies that are responsible for administering and closing DFI funded contracts should ensure that the database contains all DFI funded contracts signed by the former CPA. Additionally, all contract values entered in the database should be agreed to contract files as well as contracts payments should be agreed to suppliers' invoices.

The USACE should confirm all commitments still outstanding against DFI funded contracts and task orders.

A revision on the data base should be done to ensure the completeness and accuracy of the information found.

## 24. US AGENCY INVESTIGATION

### Observation

We found that US Agencies did not maintain a list of all investigations on DFI funded contracts.

### Recommendation

A complete list of all investigations and results of these investigations, should be maintained by US Agencies. This list should be provided to the Government of Iraq and the IAMB.

## 25. CONTRACTS FILES

### Observation

We noted that some contract files did not include copy of the contract and other forms that supposed to show the progress of the work and the materials delivered.  
(I.e. CERP DFI 82 A 40200031)

### Recommendation

The US Agency should ensure that all contracts file are updated and includes all necessary supporting documents and ensure proper monitoring of contracts and performance of the services and goods received from suppliers.

## 26. CONTRACTS STATUS

### Observation

We noted that some contracts status (80 opened contracts – 308 closed contracts – 11 cancelled contracts – 1 terminated contract) remain unclear where some contracts appeared to be closed or terminated but still have an outstanding balance. (i.e. DABV01-04-C-0009 and DFI4ID4-07-1-0010).

### Recommendation

The responsible US Agency should review the contract database and update the status of each contract values, payments processed to each contract and other important information. The US Agency should have sufficient information about each contract status type in order to ensure that all data processing is done in an appropriate manner.

## **27. NEW CONTRACTS ADDED DURING THE PERIOD**

### **Observation**

We noted that during 2005 the US Agencies added to its data base contracts representing contracts found in Kirkuk (almost 5,000 contracts) together with related disbursements documents. Most of these contracts have closed status.

Moreover, we understood that the U. S. Agencies still searching for more contracts and lately they found some contracts at the Camp Victory near the airport. Accordingly, their data base is always being updated.

### **Recommendation**

The US Agencies should review the contract database and update each contract value, payments and other relevant information. Moreover, the US Agencies should have documented policy and procedures for contracts data entry and approvals process to ensure that all data processing is done in an appropriate manner.

## 28. UNSECURED SIMPLE CONTRACT DATABASE

### Observation

We noted that the contracts database being used by the contracting department is very simple and does not have any access privileges where any of the contracting officers can access to add or change data with no direct supervision.

### Recommendation

The US Agency should develop access privileges to the contract database to ensure better safeguarding and to improve the internal controls on the contract database.



## 29. RECONCILIATIONS OF SUPPLIERS STATEMENTS

### Observation

We did not receive sufficient evidence that the US Agency contracting office carry out reconciliations on a regular basis between suppliers' statements and the underlying accounting records.

This could result in accounting errors relating to transactions with a specific supplier not being identified on a timely basis.

Errors may include miss postings either by the supplier or the accounts department, duplication of postings, invoicing by the supplier for goods not received, goods being received in one period but not accounted for until the next, etc.

### Recommendation

We recommend that the US Agencies should carry out reconciliations for the suppliers' statements and the US Agency records on a regular basis to reduce the errors that would occur and to maintain better control level procedures and safeguards of Government of Iraq assets.

### **30. CUT-OFF PROCEDURES**

#### **Observation**

We requested all invoices that are paid after the period end to ensure that all necessary payables are identified as December 31, 2005. However, we have been informed that some invoices might be not accounted for in the proper.

As a result, the outstanding commitments balance as of December 31, 2005 may be understated.

In addition, there is no audit trail between the outstanding contractual commitments balance as of June 30, 2005 and at December 31, 2005.

#### **Recommendation**

We recommend that the US Agencies should maintain cut-off procedures at the end of each reporting period to assist in identifying the information required for the purpose of the disclosure in the DFI financial statements.

### **31. SOME DISBURSEMENTS HAVE NO SUPPLIERS INVOICE**

#### **Observation**

We noted that no invoices received by the US Agencies from the supplier of Purchase Order Number 2375 dated October 20, 2005, and amounted to USD 8,162,361. Per discussion with the disbursing officer, we understood that they only receive invoices sent by the Army Corps of Engineers instead of the supplier invoices. We received a clarification from the U.S. Agencies that for Purchase Order Number 2375, USACE provided documentation from its electronic system, which the DFI Disbursement Officer accepts in lieu of invoices and receiving reports.

#### **Recommendation**

We recommend that the US Agencies should maintain all original suppliers' invoices or at least approved copies in the contract file before any disbursement take place with no exceptions.

### **32. RECEIVING REPORTS NOT SIGNED BY REPRESENTATIVE OF GOVERNMENT OF IRAQ**

#### **Observation**

The US Agency uses the DD250 form as a control to ensure the receiving and inspection of materials or services. However, we noted that the form is not signed by the representative of the Government of Iraq or the beneficiary ministry.

#### **Recommendation**

We recommend that the US Agency should inform the Government of Iraq representatives about the progress of the contracts to ensure all contracts and services administered by the US Agency are appropriately approved by the Government of Iraq.

Also, this will help the Government of Iraq to have more information about projects made for the benefit of the ministries.

### **33. NO CASH ON HAND AND DISBURSEMENTS LIMIT**

#### **Observation**

We noted that the US Agency has no ceiling amount for cash on hand and cash disbursements to be kept in the US Agency vault.

We noted some very high amounts of cash payments transactions made during the period, for example, payment an amount of US\$ 32 million dated September 24, 2005.

#### **Recommendation**

The US Agencies should review there need of cash and make considerable effort to minimize the cash disbursements made to the contractors and suppliers.

### **34. DISBURSEMENT DOCUMENTS ARE NOT STAMPED AS PAID**

#### **Observation**

We noted that the US Agency does not Stamp the disbursements supporting documents attached to the payment vouchers as “PAID” or otherwise defaced after the payment has been made. Therefore there is a risk of duplicate payments being made for the same invoice.

#### **Recommendation**

The US Agencies should ensure that all disbursements supporting documents are stamped as PAID to reduce the risk of duplication of payments for the same documents and for better control procedures over payment process.

### **35. TOTAL CONTRACT PAYMENTS EXCEEDS CONTRACT VALUE**

#### **Observation**

We noted that in accordance with the database, the total payments for the contract opened under serial number DABV01-03-C-0027 exceed the total contract amount by US\$ 268,980. Based on the U.S. Agencies clarification, Modification P00004, dated 26 April 2004, increased the award amount to cover the cost for all goods and services received under this contract. The final contract value was \$13,508,870; total payments equalled \$12,772,184.05.

#### **Recommendation**

A revision on the contract database and contracts files should be done to ensure the completeness and accuracy of the information entered and to facilitate preparing management analysis and reports.

### 36. CLOSED CONTRACTS WITH OUTSTANDING BALANCES

#### Observation

We obtained a list from the US Agency includes contracts with **Closed Status**; we noted that there are 232 contracts still have outstanding balances due to various suppliers and contractors amounted to US\$ 94,087,311.

Also, we noted that another 35 contracts have negative outstanding balances where total payments made for those contracts exceeds the total contract value US\$ 3,614,209.

The total net amount for these outstanding balances is US\$ 90,473,102.

We obtained a list from the US Agency for contracts with **Terminated Status**; we noted that those contracts include a contract with serial number FI11D4-15-2-1315 still has outstanding balance amounting to US\$ 50,000 due to supplier.

We obtained a list from the US Agency for contracts with **Cancel Status** where the contract value is zero balance; however, we noted that 11 contracts with of Zero original contracts value have outstanding balance amounting to US\$ 1,014,778 **due from** various suppliers and contractors where some payments have already made to the suppliers.

#### Recommendation

A revision on the contract database and contracts files should be done to ensure the completeness and accuracy of the information entered and to facilitate to have more management analysis and reports.



### **37. NO INTEGRATION BETWEEN CONTRACT AND DISBURSEMENTS RECORDS**

#### **Observation**

We noted that the contracts data base is not integrated with the disbursements data base.

#### **Recommendation**

We recommend to use a complete and fully integrated set of accounting records to ensure the completeness and accuracy of the information and to have adequate management controls and monitoring of the contracts progress and related payments.