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September 30, 2005

Mr. Adam Lovinger
General Counsel
Office of the Secretary of Defense
Defense Reconstruction Support Office

Dear Mr. Lovinger:

Attached please find KPMG LLP (KPMG) deliverables submitted under delivery order number W74V8H-05-F-0392. The subject deliverables under above referenced contract include i) two agreed upon procedures reports related to the former Coalition Provisional Authority's (CPA) award of non-competitive contracting actions in excess of \$5 million and funded by the Development Fund for Iraq (DFI); and, ii) a summary of previously performed government audits.

Non-competitive contracting actions referred to above and subject to application of agreed upon procedures between the Defense Reconstruction Support Office (DRSO) and KPMG were compiled by KPMG based on an assessment of a listing of contracting actions provided to KPMG by the Joint Contracting Command – Iraq. This listing was reviewed by KPMG to ascertain contracting actions meeting the criteria noted above, i.e., awarded on a non-competitive basis, in excess of \$5 million and funded by the DFI, for purposes of applying agreed upon procedures and was approved by the DRSO.

Agreed upon procedures performed relative to the former CPA's documentation justifying the award of non-competitive contracting actions was based on CPA Memorandum 4 criteria, relevant portions attached.

Agreed upon procedures performed relative to the former CPA's documentation of non-competitive contracting actions included relevant procedures to identify if corresponding funds expended under these contracting actions were consistent with their intended purpose.

KPMG's engagement related to performance of the subject agreed upon procedures was conducted in accordance with attestation standards established by the American Society of Certified Public Accountants and standards established by the International Standards on Related Services, 4400: Engagement to Perform Agreed-Upon Procedures Regarding Financial Information. International Organization of Supreme Audit Institutions Standards on Government Auditing, which are generally applicable to the issue of an audit opinion, are not applicable to performance of agreed upon procedures.

Due to existing independent external audit relationships between KPMG and Halliburton, KPMG deems an appearance of potential conflict of interest situation to exist with respect to KPMG's performance of the subject agreed upon procedures related to contracts awarded to Kellogg, Brown



& Root by the United States Government or the former CPA. KPMG's engagement scope excluded all applicable contracts awarded to Kellogg, Brown & Root.

We have been informed by the Joint Contracting Command –Iraq/Afghanistan (JCC-I/A) that they and the Defense Contract Management Agency (DCMA) are in the process of reconciling the underpayment identified (in Section 5 of Attachment 2 noted below) during the performance of our procedures as part of their ongoing reconciliation process of DFI funded contracts. In regards to the overpayments noted (in Section 8 of Attachment 2 noted below) during the performance of our procedures, we were informed by the JCC-I/A that they and DCMA have: 1) reconciled the contracts that are the subject of these overpayments; 2) as of September 22, 2005 successfully obtained the return of all overpayments relating to Contracting Action 12, Modification 9 to the base award identified herein; 3) ceased payments to contractors who have not returned overpayments until this matter is resolved; and, 4) committed to an ongoing effort to seek the return of overpaid DFI funds.

Very truly yours,

KPMG LLP

A handwritten signature in black ink, appearing to read 'John Van Meter', written in a cursive style.

John Van Meter

Managing Director

- Attachments:
1. Agreed Upon Procedures Report – *Independent Accountants' Report on Applying Agreed-Upon Procedures to Documentation Justifying Non-Competitively Awarded Contracting Actions*
 2. Agreed Upon Procedures Report – *Independent Accountants' Report on Applying Agreed-Upon Procedures to Documentation Related to Non-Competitively Awarded Contracting Actions*
 3. Summary of Government Audit Report Review
 4. CPA Memorandum 4, Appendix A