Congress of the United States
House of Representatives
Washington, DC 20515

January 31, 2005

The Honorable Tom Davis
Chairman
Committee on Government Reform
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

We are writing to request that the Committee or an appropriate subcommittee hold investigative hearings on the Bush Administration's mismanagement of the Development Fund for Iraq (DFI). In particular, we request that the Committee review in detail a report issued yesterday by the Special Inspector General for Iraq Reconstruction finding that the Administration failed to properly account for over $8.8 billion in DFI funds disbursed to Iraqi government ministries.[1] This monumental sum represents two-thirds of the total amount of Iraqi funds expended by the Bush Administration during its tenure as sovereign of Iraq.[2]

General IG Findings

In this highly critical and comprehensive audit report, Special Inspector General Stuart Bowen describes how U.S. Ambassador Paul Bremer and the Coalition Provisional Authority (CPA) distributed more than $8.8 billion in cash to Iraqi ministries without following up to determine whether this money was used for its intended purposes. The Inspector General cites "severe inefficiencies" and "poor management" in this process, and he concludes that the CPA "did not implement adequate managerial controls," "did not implement adequate financial controls," and "did not adequately control DFI contracting actions."

The Inspector General's report details multiple warnings by other agencies that the Administration's approach was open to "fraud, kickbacks, and misappropriation of funds." In particular, the Inspector General expresses concern with the Administration's disbursement of

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[1] Special Inspector General for Iraq Reconstruction, *Oversight of Funds Provided to Iraqi Ministries through the National Budget Process* (Jan. 30, 2005) (Report No. 05-004).

[2] Coalition Provisional Authority, *Development Fund for Iraq: Financial Reporting Matrix* (June 26, 2004) (describing approximately $13.1 billion in "total cash outflow"). Although the matrix also lists approximately $4.6 billion in outstanding commitments, it is unclear how much of this amount was subsequently paid to Iraqi ministries.

billions of dollars to inexperienced Iraqi ministers before equipping them to properly manage these funds. As the Inspector General states:

> The CPA should have established controls and provided oversight over the financial management of the DFI funds precisely because there was no functioning Iraqi government, no experience within the Ministry of Finance in managing the national budget, no budget or personnel records, and the payroll systems were corrupted by cronyism and ad hoc fixes. On an individual basis, any of these conditions should have sent strong signals to financial managers that weaknesses were widespread, posed unacceptable risks, and called for forceful action. Those weaknesses should have represented goals for corrective actions, not reasons for inaction.

As a result, the Inspector General concludes that there were major problems inside Iraqi ministries. The report states that three ministries "did not have personnel assigned to financial and/or budget positions." At one ministry, "over 250 contracts valued at approximately $430 million were executed without CPA ministry advisors visibility." The report also finds that the Ministry of Finance "had not developed financial reports for DFI funds spent in 2003, and told CPA officials that financial data for November and December was lost." In another case, the Inspector General reports that "$1.5 billion in cash allocations were made to Iraqi banks . . . yet spending plans supported only approximately $498 million in operating expenses."

Improper and Insufficient CPA Actions

Rather than properly monitoring DFI funds disbursed to Iraqi ministers, Ambassador Bremer falsely claimed to have done so, according to the Inspector General. On March 27, 2004, Ambassador Bremer held a press conference to mark the first transfer of sovereignty to an Iraqi ministry, the Ministry of Health. At that press conference, Ambassador Bremer claimed that the CPA "gave full authority to the Iraqi ministries only after fundamental financial and budgetary controls were in place."[3] However, the Inspector General finds just the opposite: "the CPA did not review internal controls or the accounting and use of funds in the Ministry of Health prior to the transfer." According to the Inspector General, "CPA officials stated they were unaware of the basis for the CPA Administrator's statement."

The Inspector General also concludes that Ambassador Bremer failed to follow through on oversight measures he personally directed. For example, despite issuing a regulation specifically requiring an independent accounting firm "to ensure the fund was administered and used in a transparent manner," CPA officials instead hired NorthStar Consultants, who "were not

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[3] Special Inspector General for Iraq Reconstruction, *supra* note 1 (citing CPA Administrator L. Paul Bremer, *Transfer of Sovereignty to the Ministry of Health* (Mar. 27, 2004)).

certified public accountants," according to the Inspector General. Even under the CPA's $1.4 million contract with this unqualified company, the Inspector General reports that the contractor "did not perform a review of internal controls as required by the contract." The Inspector General blames CPA officials for not assigning U.S. government officials to monitor NorthStar's performance.

In addition to problems inside the ministries, the Inspector General also finds significant problems with the CPA officials who were assigned to advise the Iraqi ministers. For example, the report concludes that "7 of 9 CPA senior advisors and staffs provided inadequate oversight of their respective Iraqi ministries' financial operations." The report criticizes one CPA senior advisor for signing "four Iraqi ministry contracts without competition, adequate contract specifications, or beneficial delivery terms and conditions." It criticizes another for executing over 20 contracts without contract authority, seven of which "were not competed" and ten of which "had missing or incomplete contract documentation."

Violation of United Nations Resolution

Ultimately, one of the Inspector General's most critical and sensitive findings is that the Administration "violated" our nation's responsibilities under U.N. Security Council Resolution 1483. Resolution 1483 required the Administration to spend Iraqi funds in a "transparent manner . . . benefiting the people of Iraq." According to the Inspector General, the CPA "had a responsibility to determine whether the Iraqi ministries had basic financial controls in place prior to transferring full authority over to the ministries." The Inspector General explains that these responsibilities were "mandated by the UN and acknowledged by USG officials and were documented in the CPA Strategic Plan and in CPA guidance."

Rather than adequately monitoring ministry expenditures, following up on major discrepancies, and ensuring that funding reached its intended recipients, the CPA sought to comply with Resolution 1483 simply by "publishing the Iraqi national budgets and the total amounts of disbursements made to the Iraqi ministries on the Internet." When the CPA ceased to exist, according to the Inspector General, "the only budget information reported on the Internet was the approximately $8.8 billion in disbursements for ministry budgets and the total amounts provided to each ministry." Not only did the CPA fail to publish detailed information on ministry expenditures, but it also failed to "publish a budget for $2.5 billion in Oil-for-Food funds received in March and April 2004 even though the funds were allocated and disbursed."

As the Inspector General notes, "transparency requires more than just posting budgets and total disbursements on the Internet." The CPA "should have provided detailed budgetary, financial, and operational results." According to the Inspector General, "By not adequately reviewing the use of and accounting for the DFI funds provided to the Iraqi ministries, the CPA did not meet the mandate of Resolution 1483."

Hearing and Document Request

As you know, five different congressional committees, including ours, are now investigating allegations of impropriety in the U.N. Oil for Food program, the predecessor to the DFI. These high-profile investigations have garnered significant press attention, and some members of Congress have called for the resignation of U.N. Secretary General Kofi Annan.[4] Given that the Inspector General's report faults the Bush Administration for failing to account for nearly $9 billion in Iraqi funds under the DFI, our Committee also has a responsibility to investigate and hold accountable U.S. government officials responsible for these actions.

For these reasons, we request that the Inspector General be called to testify about the details of his report. We also request that Ambassador Bremer, other responsible Administration officials, and representatives from NorthStar Consultants, Incorporated, be called to testify about their oversight of DFI spending.

Apart from witnesses, we ask that the Committee request from the Department of Defense the CPA documents reviewed by the Inspector General as part of the report. In addition, we ask that the Committee request the documents relating to the numerous contracts that the Inspector General concluded were entered into without competition, in violation of CPA regulations, and with inadequate oversight. We also renew our previous request, which the Defense Department has failed to address for several months, for documents relating to the CPA's contract with NorthStar.[5]

Finally, there are questions about the timing of the release of this report. Typically, final Inspector General reports are issued 30 days after agency comments are incorporated. In this case, a draft report was completed and circulated within the Administration last summer. The Inspector General received comments from various agencies in July, August, September, and finally in October 2004. Yet the report was withheld until after both the U.S. elections in November and the Iraqi elections yesterday. The Committee should determine why the Administration departed from this standard.

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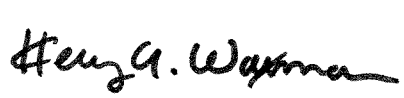
[4] *House Republicans Call for Annan to Step Down,* Washington Times (Dec. 7, 2004) (front page). *See also Audits Criticize U.N. Handling of Oil-for-Food,* New York Times (Jan. 9, 2005) (front page); *Report From Panel Shows Lapses in U.N.'s Oil-for-Food Program,* New York Times (Jan. 10, 2005) (front page).

[5] *See, e.g.,* Letter from Chairman Christopher Shays to CPA Administrator Paul Bremer (May 21, 2004); Letter from Chairman Christopher Shays to Defense Secretary Donald Rumsfeld (Dec. 13, 2004).

We look forward to discussing with you in more detail the Inspector General's report and the Committee's plans for a hearing on its findings.

Sincerely,



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