



COALITION PROVISIONAL AUTHORITY  
BAGHDAD

JUN 22 2004


The Honorable Christopher Shays  
Chairman  
U.S. House of Representatives Subcommittee  
on National Security, Emerging Threats, and  
International Relations  
Room B-372, Rayburn Building  
Washington, DC 20515-6143

Dear Representative Shays:

This responds to your May 21, 2004 letter concerning the hearing on "The Oil-for-Food Program: Starving for Accountability," held in April by the Subcommittee on National Security, Emerging Threats, and International Relations. The Coalition Provisional Authority (CPA) shares the Subcommittee's interest in this serious matter, and appreciates the opportunity to again contribute to the hearing record.

As explained in my earlier correspondence, the Iraqi Board of Supreme Audit (BSA) is best prepared to conduct such an investigation, in view of its legal status as a separate and independent public agency; its expansive investigative authorities under Iraqi law; its experienced and trained staff of career public servants; and the fact that it will continue to function as Iraq's highest public audit organization following the transfer of governance authority to the Iraqi Interim Government. As you know, the Iraqi Governing Council no longer exists.

We have enclosed responses to the Subcommittee's questions, as well as documents related to the relevant contract. We trust that these materials will be of assistance to the Subcommittee.

Sincerely,  


L. Paul Bremer III  
Administrator

Enclosures

**Coalition Provisional Authority Responses to  
Additional Questions Posed by Subcommittee on National Security,  
Emerging Threats, and International Relations  
Concerning the Oil-for-Food Program**

**Introduction.**

The Board of Supreme Audit (BSA) lawfully awarded to Ernst and Young a contract to investigate allegations of misconduct concerning the Oil For Food Program, upon determining that the offer made by Ernst and Young was the best value considering the terms, conditions, and price. The award process fully complied with CPA Memorandum Number 4, which prescribes the relevant contracting procedures.

**The following are responses to questions raised in your letter of May 21, 2004:**

*1. Why were there CPA representatives at the IGC meeting for the hiring of KPMG?*

At the request of the Chairman of the IGC Finance and Planning Committee, CPA officials attended a meeting of the Committee on March 24, 2004, for the purpose of discussing the manner in which the interim Iraqi administration should investigate allegations of misconduct concerning the Oil for Food Program. Without the prior knowledge of these CPA officials, representatives of the accounting firm of KPMG also attended the meeting and presented KPMG's proposal for investigating the allegations. No decision to hire KPMG was made at this meeting, and no CPA officials have ever been authorized to execute or approve a contract between IGC and KPMG.

*2. Why would CPA not release funds from the Iraq Development Fund to meet the costs of the investigation unless the work was put out to tender?*

The CPA has never authorized disbursement of any DFI resources for the purpose of funding a contract between IGC and KPMG concerning this matter. Consistent with its financial management responsibilities under UN Security Council Resolution 1483 to conserve DFI resources, the CPA has authorized funding for only one Iraqi investigation into OFF Program misconduct: the investigation that BSA is overseeing.

*3. Why was the arbitrary upper limit set at \$5 million for the investigation?*

CPA made an initial, preliminary estimate of the cost of the investigation at \$5 million. Following release of the Request for Proposals and an evaluation of the bids received, the budget was revised to provide \$20 million for a complete and thorough investigation. The Board of Supreme Audit, which is overseeing the investigation, approved the contract with Ernst and Young and agreed that \$20 million should be made available from the DFI for that purpose.

*4. What was the timeline (dates) of the Finance Committee meetings that discussed an investigation of OFF and what CPA person(s) were present?*

CPA General Counsel Scott Castle and OFF Counselor James Warlick met with Dr. Chalabi and members of the Finance Committee on March 18 at the Governing Council. Mr. Castle briefed the committee on Ambassador Bremer's March 14 memorandum to interim Iraqi ministers, senior ministry advisors, and regional governance coordinators on allegations of impropriety regarding the Oil for Food program. That memorandum directed that ministries would safeguard all information related to the OFF program. It further directed that documents should be inventoried and recorded and that officials with knowledge of misconduct arising from the administration of the OFF program be identified. Mr. Castle and Mr. Warlick attended a meeting of the Governing Council on March 24 when the accounting firm of KPMG presented its proposal for investigating allegations of misconduct in the Oil for Food program.

*5. Why was KPMG awarded the investigation on OFF?*

KPMG was awarded a contract to audit CPA's management of the OFF program from November 21, 2003, to June 30, 2004. Ernst and Young was awarded the contract for investigating allegations of misconduct arising from management of the OFF program prior to November 21, 2003. We are not aware of why the IGC purported to award a contract to KPMG for the same investigation.

*6. What was the timeline (dates) for IGC meetings that discussed an investigation of OFF and what CPA person(s) were present?*

The IGC meetings at which CPA officials discussed the investigation of the OFF Program are described above, in response to question number 4.

Following the meeting on March 24, 2004, Deputy CPA Administrator Richard Jones spoke with Dr. Chalabi to clarify that any investigation of OFF abuses would be conducted under the auspices of the Board of Supreme Audit. He also made clear that the selection of a firm to undertake the investigation would need to be made through an open and fair process.

Amb. Bremer directed interim ministers on March 14 to safeguard all documents. On March 24, the Board of Supreme Audit assigned personnel to all Ministries to ensure that documents were identified and safeguarded. Ambassador Bremer briefed interim Iraqi ministers on March 30 of the decision to place the Board of Supreme Audit in charge of overseeing the investigation. He also emphasized the importance of safeguarding all OFF records and urged full cooperation with the BSA.

On May 2, the BSA informed CPA that all known documents available from ministries were centralized and safeguarded.

7. *What was the timeline (dates) for when the IGC issued a request for proposal in regards to the awarding of the contract to the investigation of OFF?*

CPA never authorized the IGC to issue a request for proposal regarding the investigation of allegations of misconduct concerning the OFF Program. On May 3, 2004, CPA was notified by the Chairman of the Finance Committee of the IGC that the Committee had decided on April 18, 2004, to appoint KPMG LLP and the international law firm Freshfields Bruckhaus Deringer to provide forensic investigation services to Iraq in relation to the investigation of the OFF Program, and that the IGC had approved this decision.

8. *What was the timeline (dates) for when the IGC awarded the contract?*

The IGC began solicitation of bids in early April. We were formally advised on May 3, 2004, that IGC had selected KPMG to undertake the investigation.

9. *What was the timeline (dates) for when the BSA issued a request for a proposal in regards to the awarding of the contract for the investigation of OFF?*

9 April --Issued Solicitation for Oil for Food Comprehensive Investigation/Audit  
20 April – Offers Closed  
13 May – Contract Issued

10. *What were the key dates relating to the revitalizing of the BSA?*

As noted in the earlier response, Iraq has had a central government audit board since 1927. The BSA broadly took its current form in the early 1970s. CPA Order 77, Board of Supreme Audit was promulgated on 18 April 2004; this Order revitalized and strengthened the Board.

11. *Was CPA at the meeting when the IGC decided to retain KPMG; and if so, who at CPA was present?*

CPA did not attend the IGC meeting and only became aware of the decision after the fact. CPA made clear to Dr. Chalabi on repeated occasions before and after the IGC decision that any investigation would be overseen by the Board of Supreme Audit.

12. *What is the logic of gaining IGC approval for funding decisions but excluding the IGC from the final decision on how the funds are spent?*

The IGC approved the use of DFI funds for the purpose of conducting an Iraqi-led investigation into the OFF Program. The Board of Supreme Audit determined the most appropriate means of carrying out this investigation, and the Program Review Board, comprising Iraqi and CPA officials, specifically approved the disbursement of funds to finance the contract awarded by BSA to Ernst and Young.

*13. Will the contract with KPMG still be binding under the new government?*

The IGC was never granted the funding or approval of CPA to enter into this contract. After June 30, 2004, the new government will decide whether it is bound by the contract or not.

*14. Does the IGC have authority to contract?*

The IGC had the authority to enter into contracts for goods and services consistent with the purposes for which it had been granted funds through the budgeting process, including approval by the Program Review Board. In addition, any such contracts must be executed in accordance with the contracting process set forth in CPA Memorandum Number 4. Neither of these conditions was satisfied in this case.

*15. Will BSA conduct audits of DFI? Why or why not; how will this affect the work of KPMG regarding DFI?*

BSA may well conduct audits of the use of Development Funds for Iraq. Since the BSA is an independent auditing board, BSA will make that decision.

*16. Does CPA have a copy of the requests for proposal and contracts with Ernst and Young to audit OFF?*



BSA terms &  
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*17. Does CPA have a copy of the requests for proposal and contracts with KPMG to audit DFI?*

Please see the documents provided in response to the preceding question.

*18. Give details that are in place to allow Ernst and Young and KPMG to share work?*

There are no “details” in place for E & Y to share work with KPMG; nor are we aware of any ongoing KPMG investigation into the allegations that are the subject of Ernst and Young’s investigation.

19. *What are the qualifications of the BSA president, deputy president, and directors general to include their names, level of background and security checks they have undergone?*

President - Ihsan Kareem Ghanim al-Ghazi, senior chartered accountant (Baghdad University)

Deputy President – Mahmood Rasheed Ibraheem al-Fahad, chartered accountant (Baghdad University)

Deputy President – Muhsin Ibraheem Ahmed, Bachelor's and Master's degrees in economics (Sulaimaniyah University)

The above senior officers were appointed by the CPA Administrator in accordance with the requirements stated in CPA Order No. 77, following a selection process involving a CPA panel's interview of candidates.

Following is a list of BSA directors general (appointed in accordance with applicable Iraqi law):

Azhar Abdul Gani Azoz Noor Al-Yasri  
Hammed Moutlib Edrees Azez Al-Gurabi  
Abdul Mahdi Hammodi Hadi Ali Al-Anbari  
Abdul Hadi Hammed Farhan Kashesh  
Azez Razkou Nissan Oudo  
Khalid Hussain Ali Hussain Al-Areedhi  
Khaild Gassim Hasson Gar Alla Al-Amri  
Waad Rasheed Hassan Ali Al-Sayali  
Laith Esmaeel Ahmad Abawi Al-Abawi  
Mohammad Mouhsin Kareem Shahad Al-Abadi

The BSA has advised that all those listed above have diplomas in auditing. They have all undergone background and security checks. It should also be noted that the BSA was subject to the same de-Ba'athification process as was followed in all Iraqi government ministries.

20. *Why are officials from the Saddam-era more trustworthy stewards of an investigation of OFF than the IGC or its successor?*

The decision that the BSA should supervise the OFF investigation implies no adverse judgment as to the trustworthiness of the IGC or its successor. The BSA is a professional audit body of career civil servants who have been subjected to a de-Ba'athification process carried out in implementation of CPA Order No. 1. It is the institution designated by law to conduct or supervise an investigation of this type.

*21. Under what authority was the BSA operating prior to April 25, 2004 when order 77 was signed and to whom was BSA answerable to prior to April 25, 2004?*

The BSA, which has a similar role to supreme audit institutions in many other countries, was established in broadly its current form in the early 1970s (although there had been a national audit board in Iraq since 1927). Before Order 77 was made, the extant legislation governing the operations of the BSA was the Board of Supreme Audit Law No. (6) of 1990. Although the BSA was in practice subject to Presidential control, that law states that it “has the moral personality, financial and administrative independence to perform all the legal acts required to fulfill its tasks”.

*22. Do we have a copy of the request submitted by BSA “to conduct a full audit, investigation and accounting of the conduct and management of the OFF program from 1995 to present through the end of the audit and the disposition of Iraqi assets associated with the program through November 21, 2003’?*

This apparently refers to the request for proposal issued by BSA; please see the materials provided in response to question number 18, above.

*23. Do we have an inventory of 1995 to 2003 documents pertaining to OFF in the possession of CPA and/or BSA?*

There is no inventory of documents at this time. Tens of thousands of files have been centralized and safeguarded. They will need to be fully reviewed.

*24. What is the status of a complete audit of DFI? Who and what entity is performing the audit(s)?*

UNSCR 1483 directed that the Development Fund for Iraq be audited by independent public accountants approved by the International Advisory and Monitoring Board (IAMB). The IAMB approved the selection of KPMG as the independent audit company to audit the DFI. Initial audit efforts began in late April. The first status report is due to be briefed to the IAMB on 15 July 2004. This report will summarize findings from the period of 22 May 2003 to 31 December 2003. The final audit report is due to be released in September 2004.

*26. Does regulation number 2 require CPA to hire an independent certified public accounting firm? If so, did we hire an independent firm?*

Yes. Section 5(4) of CPA Regulation No. 2 states that CPA shall obtain the services of an independent, certified public accounting firm to assist in ensuring that the DFI is administered and used in a transparent manner for the benefit of the Iraqi people. The CPA retained the services of North Star Consultants, Inc., for this purpose.

*27. Under the contract with the consulting firm North Star Consultants, Inc., will there be a final deliverable product of their work and what is the current status of their work?*

In November 2003, North Star Consultants, Inc was contracted by the CPA to provide accounting and consulting services required to support the Administrator in ensuring transparency and accountability in the administration of the Fund. Specifically, North Star provides advice and assistance needed to support the objective of determining whether the Fund is being administered and used in a transparent manner for the benefit of the Iraqi people, and is being operated consistent with Resolution 1483. These services will end in July 2004. They are not required to deliver a final report.

*28 Do we have a copy of the proposal that North Star responded to and the contract with North Star?*



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*29. What is the level of access that the Iraqi officials have to the audits, reports, and documents pertaining to DFI?*

Iraqi officials have unlimited access to audits and reports directly related to the DFI.