Report of the Comptroller and Auditor General

Theft and Misuse of Satellite Phones in Iraq

Introduction

1. Note 29 to the 2004-05 Resource Accounts for the Foreign and Commonwealth Office (the Department) provided early notification to Parliament of losses estimated at £590,000 caused by apparently unauthorised charges for the use of a number of satellite telephones in Iraq. When the accounts were published, the Department's investigation into the causes of the losses was continuing. The Committee of Public Accounts took evidence from the Department on the 2004-05 Resource Accounts on 15 February 2006. Although the Committee's enquiries focused mainly upon the Report I had appended to the Accounts on the fraud at the British Embassy, Tel Aviv, the Committee also enquired about the losses incurred in Iraq. My staff undertook to report to Parliament on the outcome of the Department's investigation with the 2005-06 Resource Accounts.

2. The investigation was led by the Department's Financial Compliance Unit (FCU), and was completed in May 2006. The FCU reported that the Department's Iraq Policy Unit , based in London, had ordered ten satellite phones in September 2003 for use in Iraq. The phones had been made ready for use before being dispatched. Weaknesses in the controls over the physical location, storage, billing and payment for the phones had led to the loss of two of the phones (together with another that had been rented previously) remaining undetected until June 2005. At that stage, the phone service provider raised concerns about the high charges being incurred on one of the phones and the Department then took action to prevent further charges being incurred. Despite extensive enquiries the FCU have not established who was responsible for the theft and subsequent misuse of the phones, but they have calculated the full extent of the loss at £594,370.

Events leading to the discovery of the losses

3. In more detail, the FCU's investigation showed that:

   a. Ten Thuraya satellite phones were purchased by the Department, and sent to Iraq in September 2003 by diplomatic bag.

   b. When the phones were ordered, the Department's Iraq Policy Unit provided FCO Services (the support services arm of the Department) with instructions on how the phone charges were to be accounted for. No bills were received from the telephone service provider until July 2004; subsequently, FCO Services received monthly itemised invoices for each of the phones. These bills were authorised by FCO Services without reference to the Iraq Policy Unit (which held the budget for usage of the phones), or to staff in Baghdad or Basra.

   c. The Iraq Policy Unit took an inventory of satellite phones during the summer of 2004, and found that a rented phone that had been used officially in September and October 2003 could not be traced: along with other phones that had been rented by the Department, it was barred from service in August 2004.

   d. In September 2004, a junior member of staff in FCO Services Telephony Section raised concerns about the high cost and usage of satellite phones in Iraq. From the documentary evidence available, neither his superior, nor Iraq Policy Unit staff appear to have acted upon these concerns and FCO Services continued to authorise and pay the monthly bills for the phones.

   e. One of the remaining phones appears to have stopped working in March 2005.

f. On 29 June 2005 the phone service provider contacted FCO Services, and reported that they had concerns over the level of activity logged against one of the satellite phones sent to Iraq. The user had attempted to activate a conference call feature on the handset, in lieu of the normal satellite path. As a precaution, the service provider told FCO Services they had barred the phone on 24 June, and sought reassurance from the Department that the handset had not been lost or stolen.

g. On 15 July 2005, following discussions between FCO Services, the Iraq Policy Unit and the FCU, all the Department's active satellite telephones in Iraq were switched off, and the associated line rental agreements terminated.

Results of the FCU Investigation

4. The FCU investigation quickly confirmed that of the ten phones sent to Iraq in September 2003, five were positively accounted for. The call patterns of a further three phones indicated that they also remained within the Department's control. The investigation therefore focused on the remaining two phones that had been purchased, and one of the rented phones that had been barred from service in 2004.

5. Table 1 below details the charges associated with the three phones that were central to the investigation.

Table 1: Costs associated with the three misappropriated phones

Detail, or monthly charge	Notes	Phone 1 (rented) £	Phone 2 £	Phone 3 £
Rental, and other charges	*1*	212.68	910.46	910.46
September 2003 to July 2004	*2*	-	25,254.81	54,877.79
August 2004	*3*	10,152.59	17,615.54	4,834.27
September 2004		-	14,937.18	9,121.45
October 2004		-	3,165.45	8,291.05
November 2004		-	10,580.38	9,211.10
December 2004		-	7,980.07	9,531.35
January 2005		-	4,672.87	7,653.81
February 2005		-	6,880.07	5,368.38
March 2005		-	33,220.38	6,163.35
April 2005		-	52,833.10	-
May 2005		-	77,803.82	-
June 2005		-	212,188.09	-
Total		**10,365.27**	**468,042.22**	**115,963.01**
Grand Total			**594,370.50**	

Notes

1. *Includes, as appropriate, rental costs, handset, battery and carry case costs, connection fee and insurance*

2. *No bills were received for Phones 2 and 3 until July 2004. The July bills covered the period from September 2003 to July 2004.*

3. *Phone 1 – for period between 31 July and 9 August 2004 only.*

Source: FCU Investigation Report, May 2006.

6. The FCU concluded that:

   a. Phone 1, which was rented, and had been barred in August 2004 had probably been stolen in late July 2004. Between 31 July and 9 August, this phone had incurred call charges of £10,153.

   b. Phones 2 and 3 appeared never to have been issued officially, and it was likely that they had been stolen early in 2004 from the stock of phones held in Baghdad or Basra. This assumption was supported by the fact that, as the two phones were used unofficially for more than a year, it was likely that the handsets and chargers had been stolen at the same time.

   c. Analysis of the call patterns for Phones 2 and 3 suggested that the phones were used by more than one person. The itemised bills for May and June 2005, when the usage was extraordinarily high, revealed that the phones had been used to call premium rate numbers in the Wallis and Futuna Islands (a French Overseas Territory in the South Pacific) at a cost of £5.94 per minute.

7. The FCU's report also highlighted numerous failures in the Department's internal control system, which had allowed the theft of the phones and their subsequent misuse to continue undetected for a period of some 18 months. These included:

   a. The Department's staff in Baghdad and Basra were not always told that items were being sent to them, so had no way of knowing or confirming that all items that had been sent had arrived safely.

   b. There was no Management Officer in post in Baghdad or Basra when the phones were dispatched, and there were no records of what equipment had been received or issued to staff. This lack of documentation meant that FCU were unable to determine the location(s) from which the phones had been taken, or precisely when.

   c. There was a lack of secure storage available in the Iraq posts to store valuable and attractive equipment. This, coupled with rapid turnover of staff and the fact that staff from several countries shared facilities and equipment made for difficulties in the control of assets. It also meant that it proved impossible for the FCU to determine who had had access to the stores and therefore who might have been responsible for the theft of the phones.

   d. The phones had been activated in the UK, prior to being sent to Iraq in 2003. This meant they could be used by anyone who gained possession of them. Had the phones been sent unactivated, and their SIM cards stored separately, the extent of the losses might have been limited to the cost of the handsets.

   e. The monthly invoices for call usage had been authorised and paid by FCO Services without reference to the Iraq Policy Unit, or staff in Baghdad or Basra. No credit limits had been established for the phones, and no formal thresholds set on the maximum monthly amounts that might be paid.

   f. No budget for satellite phone usage in Iraq had been entered on the Department's new accounting system (known as PRISM) for 2004-05. The system was introduced in April 2004, and the Department experienced difficulties in obtaining reliable expenditure reports from the system for much of 2004-05 and the early months of 2005-06. Although a manual comparison of the budget with actual expenditure could have been undertaken, there was, in effect, no budgetary control exercised over the costs of the phones throughout the period from September 2003 to June 2005.

   g. The standard procedure for purchasing goods and services using the PRISM system had not been followed. This meant that the key controls within the system which required the receipt of a service to be confirmed ('receipted'), and for the monetary amount detailed in the purchase order, receipt and invoice to be matched before payment, had been circumvented. Had they been in operation, these controls should have given early warning of the escalating call charges.

8. The FCU report also considered whether there was scope for recovery of the losses that had been incurred. As it had proved impossible to identify those who had stolen and subsequently used the phones, there was clearly no scope for pursuing restitution from those directly responsible. They considered whether there might be a case for seeking repayment from the phone service provider of some of the amounts lost. But the Department received legal advice that suggested that they had no redress in law, and that a claim would be unlikely to be successful: the Department had continued to pay the bills when they were received, they had not known the phones had been misappropriated and therefore had not reported their loss, and it had been the service provider that had cut off the phone in June 2005, and raised the alarm. In addition, as the service provider's share of the £5.94 charged per minute for calling premium rate lines was less than £1, the extent to which the service provider had benefited was a relatively small proportion of the total amount lost.

Lessons to be learned, and remedial action

9. The FCU investigation concluded, and the National Audit Office agree, that a number of weaknesses acting together allowed this loss to occur and to remain undetected for so long. The key lessons and, where appropriate, remedial action taken by the Department, were:

   a. When dispatching valuable assets to overseas posts, the sender should alert the intended recipients that such assets have been sent, particularly when the recipients have not asked for such assets to be sent.

   b. Satellite/mobile phones should be sent unactivated to overseas posts, and only activated once receipt has been confirmed by the end user. This recommendation has been acted upon for satellite phones: it is not usually applicable for conventional mobile phones, which are purchased locally by overseas posts.

   c. The Resource Management Unit within each directorate of the Department should be charged with checking that invoices are correct before they are paid. Action was taken quickly on this recommendation, and an appropriate procedure is now in place to ensure that all invoices are automatically referred to the appropriate Resource Management Unit for consideration prior to payment.

   d. Resource Management Units should monitor the expenditure recorded against their budgets using the PRISM system, and investigate unusual or excessive expenditure items.

   e. FCO Services Telephony Section should use a threshold limit above which phones are automatically barred while confirmation is sought that the phone remains in authorised hands. The Department have now negotiated a £1,000 credit limit for all satellite phones.

   f. At overseas posts, a designated officer should maintain a record of the location of assets. This is standard practice, but the process fell into abeyance in Iraq due to the absence of a Management Officer, and the stress under which other staff were working.

   g. On the use of PRISM, consideration should be given to adapting the system control framework so that users cannot opt out of using some of the control features within the system. Standard Purchase Orders should be raised at the time services are to be procured rather than when the invoice has been received. Then Purchase Order amounts could be matched both to the notification of the receipt of goods or services, and to the invoice. The Department are aiming to make such 'three-way matching' their standard practice from October 2006.

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