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OFFICE OF INSPECTOR GENERAL

**AUDIT OF USAID/IRAQ'S
COMMUNITY STABILIZATION
PROGRAM**

AUDIT REPORT NO. E-267-08-001-P
March 18, 2008

BAGHDAD, IRAQ



Office of Inspector General

March 18, 2008

MEMORANDUM

TO: Acting USAID/Iraq Mission Director, Denise A. Herbol
FROM: Regional Inspector General/Baghdad, Jay R. Rollins /s/
SUBJECT: Audit of USAID/Iraq's Community Stabilization Program
(Report No. E-267-08-001-P)

This memorandum transmits our final report on the subject audit. The report includes fourteen recommendations, two of which address potential monetary efficiencies or recoveries. We have considered management's comments on the draft report and have incorporated them into the final report, as appropriate. They have been included in their entirety in appendix II.

Based on management's comments, we consider that a management decision has been reached on Recommendations 4, 5, 6, 8, 12, and 13. In addition, we consider that final action has been taken on Recommendations 5, 6, and 13. Please provide evidence of final action on Recommendations 4, 8, and 12 to the Audit Performance and Compliance Division upon completion.

Also based on management's comments, we consider that no management decision has been reached on Recommendations 1, 2, 3, 7, 9, 10, 11, and 14. Recommendation 1 includes a recommended reprogramming of \$8,541,076 due to the suspension of projects in one district of Baghdad. USAID/Iraq did not concur with the dollar amount in that recommendation. Recommendation 9 includes \$39,821 in questioned costs for which USAID/Iraq has not yet determined allowability. We request that you provide us with written notice within 30 days regarding any additional information related to actions planned or taken to implement the recommendations that remain without a management decision.

I want to express my sincere appreciation for the cooperation and courtesies extended to my staff during this audit.

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SUMMARY OF RESULTS

The Regional Inspector General in Baghdad conducted this audit to determine: 1) if USAID/Iraq's Community Stabilization Program is achieving its intended result with regard to activities in its community infrastructure and essential services component; and 2) how USAID/Iraq has designed and implemented the program to help ensure that Iraqis will continue to benefit from its activities after USAID involvement has ended. Started in May 2006, this \$544 million program was designed to complement military security initiatives through stabilization efforts in selected Iraqi cities. These efforts include short-term projects intended to provide employment opportunities to Iraqis who might otherwise become susceptible to insurgent appeals. By working with local Iraqi authorities to provide needed public services and jobs, the Community Stabilization Program hopes to increase the confidence of Iraqis in their government, and decrease support for the insurgency.

The audit was unable to determine if the Community Stabilization Program was achieving its intended result--to help defeat the insurgency by reducing the incentives for participating in it--because we could not rely on one of the major measurements of the program (employment generation). Even though citizens' perceptions of local government effectiveness seemed to have improved, short-term employment generated by the program was inadequately substantiated (see pages 6 and 12-15). Employment generation through public works projects has been the predominant focus of the Community Stabilization Program to date and is a key program element designed to reduce incentives for participating in the insurgency. Furthermore, the audit found evidence of potential fraud occurring in projects within a specific district of Baghdad. By one estimate, the amount of this fraud in that district alone could range from \$6.7 to \$8.4 million. Indications of similar problems were present in other districts of Baghdad, as well as in other provinces throughout Iraq. The potential fraud included the possible diversion of Community Stabilization Program funds to militia activities by means of overpriced trash collection contracts and related timesheets with irregularities, as well as possible phantom workers for the community cleanup campaigns funded by the program (see pages 6 -10).

In addition, the audit found that allegations of fraud were not promptly reported to the Office of Inspector General (see pages 11-12), citizen satisfaction survey results were incorrectly tabulated (see pages 15-17), external monitoring reports could be better utilized (see pages 17-18), performance indicators should more closely link outputs to results (see pages 18-20), and the branding policy for the Community Stabilization Program should be more consistently followed (see pages 23-25).

Major recommendations included: the immediate suspension of Community Stabilization Program projects within the specific Baghdad district, with \$8.5 million in funds put to better use; a review of projects in other areas for similar evidence of fraud; coordinating with other program participants and exploring the feasibility of vetting potential contractors through U.S. military intelligence databases (see page 10); establishing procedures to help ensure prompt reporting of potential fraud to the Office of Inspector General (see page 12); and improving the quality of employment generation data reported by the implementing partner and recovering ineligible questioned costs of \$39,821 (see page 14). Other recommendations made in the audit report included:

improving the usefulness and accuracy of local government effectiveness surveys (see page 17); tracking recommendations made in external monitoring reports (see page 18); linking outputs to results (see page 20); and consistently following the branding policy (see page 25).

In response to our draft report, USAID/Iraq accepted the need to improve documentation and acknowledged the high degree of risk associated with a program like CSP in a war zone. However, USAID/Iraq indicated that, despite these challenges, the bulk of evidence was that CSP has been very successful. In its comments, USAID/Iraq indicated that it agreed with seven of the fourteen recommendations. Based on those comments, we consider management decisions to have been reached on six recommendations. Of those six recommendations, we consider that final action has been taken on three. We requested that USAID/Iraq provide us with written notice within 30 days regarding any additional information related to actions planned or taken to implement the eight recommendations that remain without a management decision

Management comments have been included in their entirety in appendix II.

BACKGROUND

In November 2005, President George W. Bush announced a new strategy designed to achieve a stable, prosperous and democratic Iraq by focusing on increased security in conjunction with economic and political development. USAID's intended contribution to this strategy centered on stabilizing strategic cities, improving local services and local government capacity, and continuing to support Iraqi communities. With a U.S. presidential announcement in January 2007 to double the number of Provincial Reconstruction Teams (PRTs), USAID's contribution to stabilizing strategic cities received added impetus.

A major element in USAID's plan to achieve these ambitious tasks is the Community Stabilization Program (CSP), which is overseen by USAID/Iraq's Focused Stabilization Program Office. Launched in May 2006, CSP is a 3-year, \$544 million program implemented by a U.S. based nonprofit organization that receives funding through a cooperative agreement with Baghdad. The program is intended to complement military security efforts, and civilian local government development, with economic and social stabilization efforts. These efforts to rapidly stabilize strategic cities are comprised, in part, of short- and medium-term public works projects which provide employment for those groups in Iraqi society most susceptible to insurgent appeals. These projects include activities such as community cleanup campaigns and trash collection, rehabilitating roads and schools, and larger scale engineering projects to improve water and sewage services. In addition, these public works projects also provide the opportunity for local communities to participate in decision-making through identifying needed projects and collaborating with other levels of government. By providing needed public services and jobs, CSP hopes to strengthen confidence in local government, and in turn help reduce the incentives for participation in violent conflict.

CSP, however, encompasses more than just public works activities. Vocational training and apprenticeships seek to provide the skills for stable, long-term employment, while business skills development and financial assistance for small and medium-sized enterprises aim to foster opportunities for entrepreneurs. These efforts are complemented by youth activities that promote unity and religious tolerance such as poetry festivals and organized sports leagues. The various elements of CSP provide a mechanism for rapidly stabilizing key cities, and a foundation for longer-term, more sustainable development activities. Stabilization efforts like CSP are an integral part of counterinsurgency operations which, at their core, are an effort to foster development of an effective government that is accepted by the populace. Several of the most vital attributes include providing security for the population and promoting acceptable levels of economic development. Operating in a counterinsurgency environment, however, poses numerous challenges. Most significantly, USAID/Iraq faces challenges of not only implementing extensive activities in an unstable and insecure environment, but also monitoring and managing these activities for results.

This audit focused on whether CSP was achieving its intended result in helping to defeat the insurgency by reducing the incentives for participating in it. To this end, the audit team devised a methodology (detailed in appendix I) for assessing whether that result was being achieved. As part of this process, we also reviewed selected performance indicators and the methodologies used by USAID/Iraq to help monitor program performance. Since numerous variables affect progress against the insurgency, the

audit also reviewed the reported employment generated by CSP public works and infrastructure activities (referred to as the community infrastructure and essential services component), in order to provide a reasonable basis for assessing whether CSP activities were contributing towards the intended result.

Finally, the audit also describes how certain features of CSP enhance sustainability and discusses some of the specific challenges to helping ensure that the impact of CSP endures.

AUDIT OBJECTIVES

As part of its fiscal year 2007 annual audit plan, the Regional Inspector General in Baghdad conducted this audit to answer the following questions:

- Is USAID/Iraq's Community Stabilization Program achieving its intended result with regard to activities in the community infrastructure and essential services component?
- How has USAID/Iraq designed and implemented its Community Stabilization Program to help ensure that Iraqis continue to benefit from its activities after USAID involvement has ended?

As noted above, appendix I contains a description of the audit's scope and methodology.



Photo of a Baghdad market following a car bomb attack. Source: USAID/Iraq.



Photo of the same market after CSP funded a cleaning project and provided business development grants to vendors. Source: USAID/Iraq.

AUDIT FINDINGS

Is USAID/Iraq's Community Stabilization Program achieving its intended result with regard to activities in the community infrastructure and essential services component?

We were unable to determine whether USAID/Iraq's Community Stabilization Program (CSP) was achieving its intended result with regard to activities in the community infrastructure and essential services component. The program's overarching intended result was to help defeat the insurgency by reducing the incentives for participating in it. A key indicator of the program's progress in this regard--citizens' perception of local government effectiveness--seems to have exhibited an overall positive trend since the beginning of the program. However, results reported for a major measurement of the program--employment generated through CSP--were inadequately substantiated. Even though employment targets were claimed to have been exceeded, the lack of adequate substantiation diminishes the credibility of these claims. Employment generation through public works projects has been the predominant focus of CSP to date, and is a key program element designed to reduce incentives for participating in violent conflict. Consequently, we do not have a reasonable basis for asserting that CSP activities in the community infrastructure and essential services component were contributing to the overall improvements in security in Iraq that have occurred since the troop surge became fully operational in mid-2007.

Moreover, our audit found evidence of fraud occurring within certain CSP projects. According to a U.S. military official, this fraud could have adverse consequences for U.S. military personnel by providing funds for insurgent activities. Although this evidence was focused principally on specific districts in Baghdad, we note that in recent months RIG/Baghdad investigators have received a substantial number of allegations of fraud relating to CSP activities in other parts of Baghdad, as well as other cities in Iraq. Apart from this, our audit did find some evidence that CSP activities were successfully taking place as demonstrated in reports from USAID Provincial Reconstruction Team representatives and an independent monitoring contractor hired by USAID/Iraq. Moreover, readers should keep in context the strong emphasis placed on rapid job creation in the initial stages of the Community Stabilization Program. Notwithstanding these facts, in our judgment the seriousness of the deficiencies discussed below casts enough doubt over the integrity of the entire program to prohibit us from rendering a positive answer to the audit objective.

Program is Highly Vulnerable to Fraud and Exploitation

Summary: Our audit found evidence of potential fraud in CSP projects, resulting in the suspension of projects in one district of Baghdad. The lack of regular, independent site monitoring and the inadequate vetting of CSP contractors were major factors contributing to the program's vulnerability to fraud. Estimates of potential fraud in the district in which projects were suspended ranged from \$6.7 to \$8.4 million. Evidence suggests that similar problems may exist elsewhere in Iraq.

In a letter dated September 1, 2007, a USAID Provincial Reconstruction Team (PRT) representative embedded with the U.S. military informed USAID/Iraq's Focused Stabilization Program Office (FSPO) that there were "compelling indications" that funds from CSP projects in his area were "being extorted by at least one known militia leader," with adverse consequences for U.S. military personnel. This letter was sent at the direction of both the commanding officer of the responsible Brigade Combat Team and the PRT leader. Moreover, this letter referred to earlier correspondence in late July 2007 regarding similar issues. In an e-mail notifying senior mission officials of the September 1, 2007 letter, the FSPO director noted that he had discussed the July allegations with a senior military official, and reported to mission officials that, while the military had "concerns" regarding the diversion of CSP funds to militia activities, "the level of proof is not such that action can be taken." It is important to note that USAID officials do not conduct onsite monitoring of CSP activities due to a desire to avoid associating those activities or personnel with the U.S. Government, and for security reasons.¹

Given the gravity of this information, we expanded our audit procedures and traveled to the Forward Operating Base from which the allegations were made. At the base, we conducted interviews with a number of knowledgeable civilian and military officials regarding these allegations.² These officials included the Brigade Combat Team commanding officer, the PRT leader, and a USAID representative, as well as officers from military intelligence and engineering units. These officials provided detailed evidence concerning the extortion of funds from CSP projects and their possible diversion to militia activities.

Some of this evidence included intelligence reports developed through what the Brigade Combat Team commanding officer described as "reliable Shia source reports" in an unclassified letter to a superior officer requesting the cancellation of certain CSP projects in order to cut off a suspected militia funding source. We requested from CSP officials the timesheets for one of the cleaning campaign projects for which cancellation was specifically requested.³ A review of the timesheets for this project indicated an excessive number of irregularities, including signatures and attendance marks on rows for which no employees were named and timesheets that were not dated and contained no evidence of attendance.

U.S. military officials at the Forward Operating Base noted other indications of potential fraud in CSP projects. For example, the brigade's engineering battalion identified one cleaning project that had an original contract for three months costing \$470,000. According to a battalion staff member, that same contract was later extended for a two-week period at an additional cost of \$240,000, or 51 percent of the cost of the original three-month contract. The staff member also provided documents that compared the

¹ Although USAID has hired an independent contractor to provide monitoring and evaluation services for USAID/Iraq's entire portfolio, including CSP, for security reasons the contractor cannot make surprise visits to CSP work sites.

² In addition to these interviews, OIG requested that the Defense Contract Audit Agency (DCAA) conduct an audit of costs incurred and billed by the CSP implementing partner to USAID. The DCAA audit was not completed at the time this report was issued.

³ The term "CSP official", as used throughout this report, refers only to employees or agents of the CSP implementing partner.

cost of a CSP cleaning contract to a similar contract in the same area funded by the brigade under the U.S. military Commander's Emergency Response Program (CERP). The latter contract was for only \$156,000 whereas the CSP contract was valued at \$846,795--more than five times higher.

Towards the end of audit fieldwork, we received a copy of a letter addressed to the USAID/Iraq mission director dated November 27, 2007 from the same USAID PRT representative who authored the September 1, 2007 letter. The second letter provided new "sensitive and disturbing information from a well-placed source concerning the integrity of the [CSP] trash campaigns" in a certain Baghdad district. According to this source, "millions of dollars" from these projects were fraudulently going to insurgents, as well as to corrupt community leaders and CSP representatives. This source also indicated that as much as 40 to 50 percent of the value of the trash campaigns had been going toward such payoffs.

Mission records indicate that, as of November 17, 2007, over \$16.7 million in CSP funds had been disbursed for 59 projects in this district, the majority of which consisted of cleaning campaigns. According to mission records, \$8.5 million in CSP funds remained under contracts that were completed, ongoing, or unstarted. If the source's estimates are correct - that 40 to 50 percent of payments for such projects were used for improper pay-offs - USAID may have already been defrauded of \$6.7 to \$8.4 million, with another \$3.4 to \$4.3 million at risk absent any corrective action.⁴

This particular district may not be the only one with such issues. In a neighboring Baghdad district with similar allegations, as of November 17, 2007, \$6.1 million in CSP funds had been disbursed for 49 projects, the majority of which consisted of cleaning campaigns. An estimated \$6.3 million remains to be disbursed under projects that are either underway or tendered in that district. Using the same estimate (40 to 50 percent) of improper payments in this district, USAID may already have been defrauded of \$2.4 to \$3.0 million, with another \$2.5 to \$3.1 million at risk. In addition, we note that in recent months RIG/Baghdad investigators have received a substantial number of allegations of fraud relating to CSP activities in other parts of Baghdad, as well as other cities in Iraq.

Coordination Between USAID and PRT/ Brigade Combat Team - Another theme that emerged during interviews with PRT and Brigade Combat Team officials was the lack of coordination between USAID and the PRT/Brigade Combat Team. For example, according to one Brigade Combat Team officer, when he attempted to obtain the scope of work for a specific CSP project in order to investigate the cost disparity between it and a Commander's Emergency Response Program (CERP) project, he was told by a USAID official that he had "no need to know." In a later meeting with the USAID PRT representative, this same official stated that the Brigade Combat Team had to go through either the U.S. embassy in Baghdad or Multinational Division--Baghdad headquarters to obtain specific information on CSP grants and projects.

An effect of inadequate coordination between USAID and the PRT/Brigade Combat Team involved the arrest of CSP workers by the U.S. military. This problem occurred on more than one occasion because the U.S. military noticed significant numbers of

⁴ Even though the source only mentioned cleaning campaigns, the mission ultimately decided to suspend all CSP projects in this district, except for student stipends. These stipends are not included in the above figures.

congregated Iraqis and was unaware that they were employed on a USAID project. A senior CSP official confirmed that there had been arrests of CSP workers in certain Baghdad districts. This official noted, however, that no major incidents have occurred in the past six months due to “significant progress in security.”

In another matter, USAID provided conflicting guidance regarding the scope of the USAID PRT representative’s duties regarding CSP. According to the USAID PRT representative,⁵ a USAID official informed him that the Focused Stabilization Program Office was “in charge” of CSP, and that he was not to contact the implementing partner directly or otherwise act as activity manager. A USAID official confirmed this arrangement, which he indicated was to keep PRT representatives from overwhelming the implementing partner with information requests, as well as endangering CSP staff by creating an association with the U.S. Government or military. In addition, this official noted that designating PRT representatives as “activity managers”--a term which has a precise, technical meaning in Agency usage--had been a “debate” since the commencement of CSP.

Nonetheless, after the USAID PRT representative communicated concerns to FSPO regarding “phantom workers” and “overpriced contracts,” that office responded via e-mail that it was the responsibility of the PRT representative, “as the USAID activity manager,” to address these types of issues. We asked an FSPO official to explain these conflicting instructions. According to this official, the rationale was for the USAID PRT representative to investigate the allegations, make a recommendation, and then USAID could approach the implementing partner.

Finally, the September 1, 2007, letter requested that FSPO provide the Brigade Combat Team with “specific information” on “who is being funded and how much” on CSP projects within its area of operation. An FSPO official stated that weekly data had been provided detailing the locations, dollar amount of contracts, project types, number of workers, start and end dates, and notes on project status. The USAID PRT representative indicated that such information had in fact been received, but that it did not meet all their needs. During one of our interviews, U.S. military officials noted that if they knew the identity of potential CSP contractors, then these individuals could easily be vetted through a U.S. military intelligence system. However, in a May 2007 e-mail to the USAID PRT representative addressing his concerns regarding the proposed hire of a contractor who was affiliated with a militia, an FSPO official stated that “CSP had checked their database and could not find any reference to the name given.” He further stated that CSP “...is not responsible for determining whether a contractor is hiring undesirable workers,” with such responsibility resting with the local Iraqi governing authorities that identified and approved the contractors.

In our opinion, the evidence obtained (and provided to the OIG Office of Investigations for further review) indicates that CSP projects are highly vulnerable to fraud and exploitation which may have in fact occurred, with potential adverse consequences to Coalition personnel. Significant causes include the lack of any unannounced onsite monitoring by officials unaffiliated with either the CSP implementing partner or the local Iraqi government, and the inadequate means of vetting potential CSP contractors.⁶

⁵ Another USAID PRT representative gave a similar account.

⁶ A recent OIG audit report on the adequacy of USAID’s antiterrorism vetting procedures (Audit Report No. 9-000-08-001-P, issued November 6, 2007) also dealt with this issue.

It is important to note, however, that allegations as detailed as these only arose from one area in Baghdad, while CSP operates throughout most of Baghdad and in selected other areas. Furthermore, the CSP implementing partner has indicated that they have either adopted, or plan to adopt, a number of procedures to strengthen internal controls. These include the formation of an internal quality control unit dedicated to reviewing employment documentation and confirming that the correct number of workers is in the field, as well as an “anti-corruption” unit. Notwithstanding these actions, we have made the following recommendations:

Recommendation 1: We recommend that USAID/Iraq immediately suspend ongoing Community Stabilization Program projects in the particular district discussed in this report in order to eliminate any additional exposure to fraud and reprogram the unpaid balance. As of November 17, 2007, the unpaid balance for these projects totaled \$8,541,076.

After receipt of the November 27th letter, this recommendation was initially made to the USAID/Iraq mission director on November 29, 2007. The mission director concurred and responded that a decision had already been made to suspend CSP activities for the district in question. According to FSPO officials, verbal instructions were also issued to the CSP implementing partner to hold all payments on projects in this district until further notice. On December 2, 2007, the mission instructed the CSP implementing partner to suspend not only cleaning campaigns, but also all other CSP activities in this particular district except for student stipends.

Recommendation 2: We recommend that USAID/Iraq review Community Stabilization Program projects in other Baghdad districts and communities in which the program operates to determine whether they should be suspended for the reasons cited in Recommendation No. 1.

Recommendation 3: We recommend that USAID/Iraq meet with appropriate officials from the Community Stabilization Program, Provincial Reconstruction Teams, and the United States military to improve coordination and discuss the feasibility of vetting potential Community Stabilization Program contractors through military intelligence databases.

Recommendation 4: We recommend that USAID/Iraq take steps to increase its monitoring of Community Stabilization Program projects, with special emphasis on preventing and detecting fraud by obtaining reasonable assurance that the number of workers paid corresponds to the number that actually worked.

Allegations of Fraud Were Not Promptly Reported to Office of Inspector General

Summary: USAID policy requires employees to promptly report allegations of fraud and other violations of law to the Office of Inspector General. However, significant fraud allegations were not reported in a timely manner because they were either not discussed by the Focused Stabilization Program Office, not believed to be useful, or were left to the discretion of the office director. The Office of Inspector General is impeded in its ability to prevent and detect fraud and abuse if USAID employees do not report such information in a timely manner to the appropriate personnel.

According to USAID Handbook 24, Chapter 2 “Employee Responsibilities, Conduct and Political Activity,”

Employees must promptly report any information, allegation or complaint relating to waste, fraud, abuse, corruption or any violation of law, regulation or rule involving Agency programs, operations, employees or monies to the Office of Inspector General, Office of Investigations (IG/I).

To facilitate compliance, employees may contact IG/I personnel directly without first notifying their immediate supervisor. This Agency policy internalizes for USAID personnel a number of other applicable legal authorities requiring employees to report fraud and abuse, such as the Code of Federal Regulations’s (CFR’s) *Standards of Ethical Conduct for Employees of the Executive Branch* and the Foreign Affairs Manual.⁷

Despite these requirements to promptly report any fraud allegations, prior to the start of this audit USAID/Iraq was aware of instances of suspected fraud and corruption which it did not relay to OIG personnel. We only became aware of these issues as a result of routine audit inquiries. When asked why these instances were not forwarded to OIG personnel in a timely manner, one official stated that they had never talked about doing so. He then added his opinion that the “vast majority of allegations were ambiguous to the point of not being useful.” This same official further stated that he did not forward such information to OIG because the office chief would take precedence in deciding whether such information should be forwarded.

As noted previously, a September 1, 2007 letter from a USAID PRT representative informed FSPO of significant allegations that funds from certain CSP projects were being extorted by at least one militia leader. The letter referred to previous correspondence expressing similar concerns. On September 6, 2007, USAID’s FSPO director then informed senior mission officials, via e-mail, of the most recent correspondence. Despite the serious nature of these recent allegations, no mention of this matter was raised at the entrance conference for this audit that OIG personnel held with FSPO and other mission officials only one week later on September 13, 2007. We did not become aware of this issue until October 17, 2007, the date that we asked FSPO

⁶ 5 CFR §2635.101(b)(11) and 2 FAM 031.1-5, respectively.

personnel to forward any and all correspondence alleging fraud or corruption in CSP activities.

Fraud Allegations Reported Directly to OIG By Implementing Partner - After an OIG presentation to a gathering of USAID/Iraq implementing partners on financial audits, the chief of party and another official of the CSP implementing partner approached the Regional Inspector General in Baghdad and asked how potential fraud should be reported to OIG. A meeting with OIG investigators was immediately held to discuss matters in further detail. Nevertheless, this indicates a lack of awareness on the part of some USAID personnel and implementing partners regarding their responsibilities for reporting potential fraud to OIG. In this case, for example, the chief of party indicated that the Regional Inspector General's presentation triggered the realization that suspected fraud should be reported to OIG. In the absence of the presentation, it is not known whether these matters would have been ultimately brought to USAID's attention. Consequently, we are making the following recommendations:

Recommendation 5: We recommend that USAID/Iraq's Focused Stabilization Program Office establish policies and procedures reminding Focused Stabilization Program Office employees of their responsibility to promptly report any allegations of fraud and abuse to the Office of Inspector General.

Recommendation 6: We recommend that USAID/Iraq's Focused Stabilization Program Office have Office of Inspector General investigators provide a fraud awareness briefing to Community Stabilization Program implementing partner officials.

Documentation of Employment Generated by CSP Projects is Inadequate

Summary: Agency legal authorities require that quality data be collected on key program outputs in order to effectively measure performance. However, reported employment information generated by CSP projects that we reviewed was inadequately substantiated. We noted numerous instances where timesheets were either unsigned or not present. CSP officials gave several reasons why timesheets were not present, including that timesheets were initially not required and that USAID and the military were pushing for job creation without definitive procedures for documenting such employment. In addition, the cooperative agreement did not require that timesheets be submitted to USAID. Without adequately substantiated employment data, confidence in reported outputs is reduced, effective program management is hindered, and project funds may be fraudulently diverted for other purposes.

As noted previously, a primary mechanism in the Community Stabilization Program's effort to reduce the incentives for participation in violent conflict has been to provide jobs to young Iraqi males who might otherwise be unemployed. The amount of employment generated, therefore, is a key CSP output. To ensure that program performance can be

effectively measured and informed managerial decisions can be made, Agency legal authorities require that quality data be collected on such outputs.

The CSP implementing partner reported that, as of September 30, 2007, CSP generated a cumulative total of 259,429 “person-months” of short-term employment throughout Iraq. The target as of this date was 178,014 person-months. In Baghdad, where CSP projects have been focused, reported person-months through September 30 were 192,744, compared to a target of 144,750. While the CSP implementing partner has reported other indicators of employment generation, such as long-term jobs created, we focused on the person-months of short-term employment generated since this was oriented towards activities in the community infrastructure and essential services component of the program.

In order to assess the validity and quality of reported employment generated, we randomly sampled 66 of 265 CSP community infrastructure and essential services projects in Baghdad. Our objective was two-fold. First, we sought to determine whether the recorded employment output in the CSP database for a selected project was adequately substantiated. Employment was considered to be adequately substantiated if the voucher evidencing payment from the implementing partner contained completed timesheets signed by the applicable employees. Second, we then determined if the employment output in the CSP database that could be substantiated was consistent with the quarterly data reported to USAID per the implementing partner’s monitoring and evaluation plan. Results of this analysis are summarized in appendix IV.

In general, we found that a significant number of payment vouchers had missing, incomplete, or inadequate documentation of employment. The level of unsubstantiated employment we found in our sample diminishes the validity, credibility, and usefulness of the quarterly employment figures, while strengthening the claims cited previously regarding phantom workers and CSP’s vulnerability to fraud. For example, where payment vouchers were maintained in Amman, Jordan, we reviewed 105 payment vouchers, 40 of which had no timesheets at all, while 45 had timesheets which were not signed by the employees. Moreover, many of the unsigned timesheets were of dubious authenticity. For example, a number of timesheets were computer generated and appeared to have been mass produced, with uniform check marks purporting to show work attendance. Furthermore, these timesheets often showed no absences over several months for hundreds of employees. In Baghdad, we found other examples of suspect timesheets, including those which lacked signatures and those that had what appeared to be the same signature for multiple employees.

We also found other examples of irregularities that call into question not only reported employment outputs, but also the validity of payments made to project contractors. For example, one cleaning contract specified that 180 workers were to be used. While timesheets – unsigned by employees and mass produced – were submitted for only 144 workers, the payment to the contractor was based on the full complement of 180 workers. This resulted in a potential overbilling of \$34,681 on 3 payment vouchers that were reviewed. A miscalculation of laborers was made in another project, resulting in the contractor being paid for 270 nonexistent employees. This error caused an overpayment of \$1,890. In another case, one set of timesheets for 400 workers (also unsigned) indicated that 156 were absent on one work day; however, the payment to the contractor was also based on the full contract amount, representing an overpayment of \$3,250. Moreover, we also observed additional timesheets that contained a fewer

number of absences; however, payments were based on the full contract amount and showed no evidence of being adjusted for missed work days.⁸

We asked several CSP officials why timesheets were either missing or contained irregularities. One official indicated that during the CSP start-up period, “no one knew how to approach this [controls over timesheets] issue.” This same official also said that during this time USAID and the U.S. military were “pushing” for job creation. Another official stated that, initially, timesheets were not required, and were only instituted later upon the recommendation of a former CSP finance official.

CSP officials described a number of steps they had instituted to improve internal controls over reported data. These included a monitoring and evaluation unit, which performs random spot checks and reports directly to the chief of party. In addition, there is also an internal quality control unit which reviews the timesheets and vets the number of workers in the field. This unit is assisted by a number of “secret supervisors” stationed in various areas who make counts of workers. According to a CSP official, this unit was established in July 2007 in order for him to “feel more comfortable and confident” in the timesheet data.⁹ Indeed, the timesheets that we reviewed after this date were generally of higher quality than those prior to that time. However, this relative improvement must also be viewed in the context of the evidence cited in previous sections regarding potential fraud within CSP activities. Notwithstanding these proactive and positive steps taken by CSP officials, there is no still consistent, independent review of employment data reporting. According to a USAID official, under the terms of the cooperative agreement USAID does not ask for, nor does CSP submit, the timesheets when the CSP implementing partner seeks remuneration from USAID.

Finally, we asked CSP officials to provide a reconciliation of the employment data reported in the database with that reported to USAID pursuant to the monitoring and evaluation plan, which they did not do. In addition, a recently arrived senior CSP official remarked that he had also been trying to obtain a similar reconciliation, to no avail. Furthermore, we also noted that a data quality assessment performed in October 2006 stated that one vulnerability was that the tracking of data by location to the implementing partner was not clear.

In our opinion, the reported employment figures cannot be relied upon to determine whether CSP met the associated performance targets under the monitoring and evaluation plan. Consequently, efforts to gauge CSP’s contribution to the improving conditions in Iraq, among the entire spectrum of military and non-military elements, are hindered. Furthermore, without accurate data, USAID can neither make adequately informed managerial decisions nor take timely corrective action.

Recommendation 7: We recommend that USAID/Iraq conduct a data quality assessment that specifically focuses on the job creation data being reported by the Community Stabilization Program implementing partner and take appropriate action based on the results of that assessment.

⁸ These findings have been communicated to the Defense Contract Audit Agency for use in their audit of costs incurred and billed by the CSP implementing partner to USAID.

⁹ An official with the mission’s independent monitoring and evaluation contractor indicated that the CSP implementing partner had not been actively monitoring its programs until approximately 3 months prior to our interview in early October 2007.

Recommendation 8: We recommend that USAID/Iraq's Focused Stabilization Program Office work with the Community Stabilization Program implementing partner to reconcile the employment data reported in its monitoring and evaluation database with the employment data reported in its quarterly progress report.

Recommendation 9: We recommend that USAID/Iraq determine the allowability and collect as appropriate the \$39,821 in questioned ineligible costs billed by the Community Stabilization Program's implementing partner under Cooperative Agreement No. 267-A-00-06-00503-00, for the specific projects included in the finding.

Usefulness and Accuracy of Local Government Effectiveness Surveys Should Be Improved

Summary: According to USAID policy, data used by USAID should be of sufficient quality in order to be credible for reporting purposes. However, some of the data used in a key indicator for measuring Iraqi perception of local government effectiveness lacked both validity and reliability. We found that a survey instrument used to measure Iraqis' perceptions of the effectiveness of local governments overstated respondents' level of satisfaction with various public services. This occurred because USAID did not challenge the survey methodology during its review of the implementing partner's monitoring and evaluation plan. The result is that the value of respondents' level of satisfaction was overstated by an average of 34 percent, potentially weakening the credibility of USAID's reporting.

According to the Automated Directives System (ADS) 203.3.5.1, performance data used to measure program results should be of sufficient quality in order to be credible for reporting purposes. Two key attributes of high quality data discussed in the ADS are validity and reliability. Valid data clearly and adequately represents the intended result, while reliable data is collected and analyzed using stable and consistent methods. However, the reported data for one performance indicator is neither valid nor reliable.

USAID used survey results as a performance indicator to measure Iraqis' perception of local government effectiveness. Respondents rated their satisfaction on an array of government services on a scale of 1-5, with 1 being unsatisfied and 5 being satisfied. Respondents also rated whether the quality of those services had improved or deteriorated within the past 12 months. These responses were then used to compute an overall value, which was an average of a "satisfaction level" score in providing services and a score based on trends in service quality. Baseline surveys were conducted upon commencement of CSP activities in a given area, with follow-up surveys taken at 6-month intervals.

In computing the satisfaction level, scores of 3, 4 and 5 are considered to be indicative of satisfaction. According to the implementing partner’s monitoring and evaluation plan, the target for the followup surveys taken at the 1-year point was that 60 percent of the respondents indicate a satisfied or higher level with the municipal services being provided by their respective local governments and a sense that these services had improved during the past year.

However, the overall value was not valid because a score of 3, according to both an implementing partner official and an independent data quality assessment, should have been considered neutral. It indicates that the respondent was neither satisfied nor dissatisfied.

Moreover, the figure was weak in reliability because only the numbers 1 and 5 on the scale were labeled, while categories 2-4 were not labeled. Under the terms of the cooperative agreement, USAID is responsible for approving the implementing partner’s monitoring and evaluation plan. According to an implementing partner official, USAID did not challenge the methodology by which a score of 3 was considered to be “satisfied,” even though it had an opportunity to do so.

USAID pointed out in a review of the monitoring and evaluation plan that failure to label categories 2-4 could lead to others concluding that a score of 3 should not be considered “satisfied.” An implementing partner official stated that USAID did in fact recommend labeling those categories, but that this recommendation took place after the baseline surveys had been conducted. Due to concerns about the consistency of survey results if labels were added to some surveys but not to others, labels were not added to categories 2-4.

The effect of the foregoing was that the satisfaction level of survey respondents was overstated, which correspondingly overstated the overall value of the performance indicator. In order to gauge the extent of this overstatement, we recomputed the satisfaction levels for the follow-up surveys, using only scores of 4 or 5 to designate satisfaction. Using these recomputed satisfaction levels, we then recomputed the overall value for the performance indicator and found that it was overstated by an average of 34 percent, as shown in the following table.

Satisfaction Level of Respondents on Followup Surveys
(Original and Recomputed Values)

CSP Area (by Governorate)	Overall Value, Original (3 or above=satisfied)	Overall Value, Recomputed (4 or above=satisfied)	Percentage Decline From Original to Recomputed
Baghdad	46.03%	33.44%	27.35%
Ninewa	49.24%	32.48%	34.04%
Al Anbar	35.51%	24.25%	31.71%
Al Tamim	29.89%	17.10%	42.81%
Average	40.17%	26.82%	33.98%

USAID's performance data is used to report progress towards intended results to a variety of internal and external stakeholders, including Congress and the public. Accordingly, we are making the following recommendations:

Recommendation 10: We recommend that USAID/Iraq's Focused Stabilization Program Office work with the Community Stabilization Program implementing partner to recalculate all prior baseline and follow-up surveys to accurately reflect the changes in survey methodology noted above.

Recommendation 11: We recommend that USAID/Iraq's Focused Stabilization Program Office work with the Community Stabilization Program implementing partner to amend the monitoring and evaluation plan to incorporate the changes in survey methodology noted above.

External Monitoring Reports Could Be Better Utilized

Summary: Pursuant to USAID policy, adequate documentation of internal control activities, such as monitoring, is a key component of overall effective management controls. However, the use of recommendations contained in monitoring reports prepared by the mission's monitoring and evaluation contractor was not adequately documented by FSPO. Office officials stated that they either found the recommendations too general to be of significant value or they relied instead on informal communications with the implementing partner for follow through. Given the rapid turnover of personnel in Iraq, failure to act on or adequately document and track responses to such recommendations hinders program management and ineffectively uses funds spent on the mission's monitoring and evaluation contract.

As mentioned previously, due to the desire to avoid associating specific projects with the U.S. Government, FSPO does not perform onsite monitoring of CSP activities. To help mitigate this, the office receives reports on CSP activities from a number of sources, such as Brigade Combat Teams and USAID representatives to PRTs. In addition, the office also utilizes the services of USAID/Iraq's external monitoring and evaluation contractor.

Reports from the monitoring and evaluation contractor have provided, and continue to provide, an in depth look at the existence, quality, and usage of various CSP projects. Perhaps more importantly, these reports have also included a "lessons learned" section along with associated recommendations. Given the inherent limitations of monitoring via Brigade Combat Teams and PRTs, the monitoring and evaluation contractor assumes an even greater importance as the Agency's "eyes and ears" for what is happening on the ground.

ADS 596.3.1 stipulates that USAID managers and staff must develop and implement cost-effective management controls for results-oriented management to reasonably ensure that assets are safeguarded against loss and unauthorized use. Furthermore, the ADS states that management control activities must be both effective and efficient in accomplishing the Agency's control objectives. A key control activity is adequate documentation of internal control, of which monitoring is a central component.

Notwithstanding the above criteria, the utilization of recommendations contained in two monitoring and evaluation contractor reports was not adequately documented by USAID/Iraq. One USAID official stated that he discussed the reports and associated recommendations with the implementing partner. However, when we asked this official for documentation of any communications with the implementing partner, none was provided. Another USAID official admitted that the recommendations were sometimes vague, or of limited value, and would therefore be difficult to act on or track.

Monitoring provides additional value added to the management process when it is used as feedback for refining and improving program activities. Adequately documenting and tracking the recommendations contained in external monitoring reports can help USAID/Iraq achieve this goal. A recent monitoring report on employment generation and youth projects in a northern Iraqi city provides an example in which monitoring and evaluation contractor recommendations were followed. This report includes a response by the implementing partner, an action plan, and a tentative timetable. However, the monitoring and evaluation contractor noted that such a response by an implementing partner was rare, and commended FSPO for its leadership in this area.

USAID/Iraq operates in what is arguably the Agency's most complex and fluid environment. The difficulties of operating in such an environment are exacerbated by relatively short tours and the rapid turnover of personnel, resulting in a lack of institutional memory. Given these factors, documenting the status of program recommendations – even if a technical decision is made not to pursue the recommendation – becomes a critical part of program management. Inadequate documentation of actions or decisions taken as a result of these recommendations, therefore, detracts from effective program management, and is an inefficient use of the funds spent on the mission's external monitoring and evaluation program.

Recommendation 12: We recommend that USAID/Iraq's Focused Stabilization Program Office establish policies and procedures to formally document and track the status of recommendations made by the monitoring and evaluation contractor.

Performance Indicators Should More Closely Link Outputs to Results

Summary: According to USAID policy, a good performance indicator should closely track the result it is intended to measure. However, a number of performance indicators used to assess Community Stabilization Program results merely report program outputs. This occurred because USAID focused on other issues in the monitoring and evaluation plan, and ultimately needed to approve the plan to start program implementation. Without more direct performance indicators that link outputs to program results, USAID managers have a more difficult task gauging the impact of the Agency's activities and making any necessary programming adjustments to assure achievement of USAID goals.

One of the primary tools the Agency uses to manage for results is the Performance Management Plan, which contains a Results Framework as one of its critical components. This framework illustrates the steps in reaching USAID goals by showing how lower-level results contribute or link to the achievement of higher-level objectives. USAID uses performance indicators to observe progress and to measure actual results as compared to expected ones. Consequently, good performance indicators are a vital part of effective performance management.

According to ADS 203.3.4.2, a good performance indicator is direct – that is, it should closely track the results it is intended to measure. Furthermore, the ADS also states that a good performance indicator should be useful for decision-making. However, selected performance indicators pertaining to CSP do not track or link to higher level results but instead merely state program outputs, and thus have limited utility in assessing progress toward planned outcomes.

For example, one intermediate result in the Results Framework for CSP is the mitigation of conflict through increased community activities. One of the performance indicators for this planned result is the number of youth participating in informal education programs. Although an important barometer of activity within a certain component of CSP, this indicator does not show an explicit linkage between youth activities and conflict mitigation. In order to ascertain the impact of those activities in diminishing conflict, the performance indicator could, for instance, measure to what degree attitudes towards the legitimacy of violence and religious and sectarian tolerance had changed among the youth attending those programs.

Another example is the lower-level result of creating and expanding businesses in order to help decrease unemployment. Two associated performance indicators for this outcome are the total value of financial support granted to businesses, and the number of businesses receiving assistance. While these indicators show the extent of CSP activity, they do not demonstrate the effects of those activities on decreasing unemployment. We believe it is possible for even robust CSP business assistance to be ineffective in terms of generating employment for a number of reasons, such as fraud, a lack of adequate business skills, or worsening security reducing customer traffic. Indicators that measure levels of employment, such as revenue generated or taxes remitted by assisted businesses, may provide more insight into the effectiveness of that assistance.

The cooperative agreement specifies that USAID and the implementing partner collaborate in approval of the implementing partner's monitoring and evaluation plan. An FSPO official stated that USAID had a number of questions on the monitoring and evaluation plan, which did result in some plan revisions. We corroborated this official's assertions through a review of certain documentary evidence. Nonetheless, due to the collaborative nature of this process, this official indicated that there was a "futility past a certain number of revisions." According to this official, USAID approved the monitoring and evaluation plan in order to start the program and to put measurements in place that were feasible. A significant factor in prematurely approving the monitoring and evaluation plan was the emphasis placed at the beginning of the troop surge on rapid job creation by CSP projects.

Direct and useful performance indicators are at the heart of a mission's Performance Monitoring Plan and thus are an integral part of effective program management. Indicators that illuminate the explicit linkages between the steps necessary to reach CSP's goals help explain USAID/Iraq's specific contributions in a complex operating environment. Consequently, we are making the following recommendation.

Recommendation 13: We recommend that USAID/Iraq's Focused Stabilization Program Office reassess the performance indicators in its monitoring and evaluation plan to more closely link outputs to results, and to document the reasons for its determination.

How has USAID/Iraq designed and implemented its Community Stabilization Program to help ensure that Iraqis continue to benefit from its activities after USAID involvement has ended?

The following provides information that describes how USAID/Iraq designed and implemented the Community Stabilization Program to help ensure that Iraqis benefit from activities after USAID involvement ends. It then lists some major possible impediments to sustainability. Sustainable development, as defined in USAID's Nine Principles of Development, is designing aid programs so that their impact endures. CSP, however, was not designed as a traditional, sustainable development program. CSP was designed to include quick impact and medium-term activities as a link between U.S. military stabilization efforts under the Commander Emergency Response Program and longer-term initiatives under the U.S. Government's Provincial Reconstruction Teams, elected Iraqi Provincial Councils, and the Government of Iraq. While the major focus of CSP is on rapidly stabilizing strategic cities, a number of program elements contain features so that Iraqis continue to benefit from its activities after USAID involvement has ended. These features include elements such as providing long-term employment, community infrastructure, and opportunities for business development.

CSP works with Neighborhood Advisory Councils and District Advisory Councils--consultative civil bodies comprised of influential local citizens--to generate project ideas. Some projects identified by these councils are then forwarded to the Iraqi equivalent of city hall for approval. Provincial and ministry-level officials may be involved as well. The CSP implementing partner noted that government officials in Baghdad had become used to project-oriented development rather than comprehensive, integrated economic and social stabilization that required their direct involvement and leadership. This involvement, and the use of features such as a transparent bidding process, is conducive to increased effectiveness and accountability, and ultimately legitimacy.

CSP has designed linkages between its various sectors to promote program effectiveness as well as sustainability. For example, CSP uses clauses in the contracts of some of its subcontractors to require that a specified percentage of workers on CSP-funded public works projects are graduates of CSP vocational training programs. Similarly, CSP has used its vocational and technical training graduates as workers on projects in its youth activities sector, such as refurbishing sports facilities and constructing billboards to encourage youth to participate in the Iraqi Ministry of Labor and Social Affairs' training activities. In turn, vocational training graduates provide a readily available pool of skilled labor to new businesses established with the aid of CSP-

funded grants; conversely, these grants are also available to entrepreneurially-inclined graduates who desire to start their own business. Small business development provides a crucial link between short-term and long-term development activities.

Lastly, the types of community infrastructure projects implemented by CSP are positioned to contribute to sustainable development. For example, independent monitoring and evaluation experts contracted by USAID/Iraq have visited such activities as school refurbishment, road rehabilitation, and the provision of medical equipment to local hospitals. Other types of long-lasting infrastructure projects include the construction of orphanages, homes for the elderly, and facilities to bring clean water to communities.

Nevertheless, there are certain challenges to sustainability of which the mission is aware. In addition to ongoing concerns about security, the following are some of these major challenges:

Corruption - In addition to the concerns raised by military and PRT officials discussed previously, several CSP program office directors referred to corruption of local Iraqi officials as a major obstacle in ensuring that CSP activities have a long-lasting, positive impact. For example, one director described a scheme in which a local government leader demanded a “contracting fee” for all projects in a specific area. The director stated that the USAID PRT representative was alerted and all ties with the suspect parties were cut. Another director described a dynamic in which various Iraqi council members each had “preferred contractors” for CSP projects. This dynamic reduced transparency, increased potential corruption, and possibly limited overall program impact. This same official stated that “a concerted effort by the USG focusing on promoting and developing a more transparent local infrastructure would be welcomed.” These allegations were provided to the OIG Office of Investigations for further review.

Monitoring - The inability of USAID to adequately monitor CSP activities due to security concerns seriously inhibits effective program management. The U.S. military cannot easily monitor these activities either due to the inherent separation of CSP and Coalition Forces. These restrictions not only affect current operations, but also impact future sustainability.

Transition from cleaning campaigns - According to the Baghdad project director, there has been significant community resistance to CSP’s intent to transition from short-term cleanup campaigns to other forms of development. This is because the relatively high wages paid to laborers on CSP cleanup campaigns creates pressure on local Iraqi governing officials from their constituents to demand that this continue.¹⁰ Furthermore, a military intelligence official stated that these projects created a false expectation of high wage levels among laborers that could not ultimately be maintained by the Iraqis, kept young men employed as unskilled laborers rather than learning skilled trades, and impeded the development of local government capacity to provide such services.

Linkages between CSP components – CSP attempts to utilize linkages between its training, business development, and public works components in order to create

¹⁰ According to a CSP program office director, workers on CSP clean-up campaigns are paid 10,000 Iraqi dinars per day. This is equivalent to the official government rate for a skilled laborer. The corresponding rate for unskilled labor is 7,000 Iraqi dinars per day.

employment opportunities and sustainable development. One USAID official observed, however, that while some apprentices who were graduates of CSP vocational training were being hired for current projects, they were not always employed in the jobs for which they were trained. For example, according to this official, a newly trained electrician might be hired as the supervisor for a trash collection crew. This was due to a lack of demand for the skills in which participants were being trained. On the other hand, vocational training graduates had shown little interest in the business grant program.

Budget Execution - The quality of Iraq's budget system deteriorated significantly under the Baathist dictatorship, causing, among other things, substantial delays in budget execution. The U.S. Government Accountability Office noted in its assessment of benchmarks for progress in Iraq that the Ministry of Finance had only released ten percent of the 2007 capital project and reconstruction budget funds to the provinces in the first five months of 2007.¹¹ Furthermore, provincial governments vary greatly in their capacity to effectively utilize their central government budget allocations due to differing security conditions and political dynamics. Taken together, these issues pose challenges in a number of areas, such as ongoing maintenance of community infrastructure or building vocational training capability.

Concerned Local Citizens (CLCs) - "Concerned Local Citizen" is a term used to designate Iraqi civilians who have been temporarily authorized by Coalition Forces or the Government of Iraq to augment local force protection, law enforcement, or infrastructure security schemes in order to improve local security conditions and fight extremism. These citizens use their personal weapons and are not provided weapons by either the Coalition or Iraqi Security Forces. Since such concerned local citizens groups are temporary, a key issue concerns the means of their ultimate reintegration into civilian society. CSP has been discussed as one avenue for facilitating this reintegration. Given the large numbers involved--perhaps as high as 100,000--targeting former concern local citizens may have significant effects. For example, overall employment may be reduced, certain components of CSP such as youth activities may be de-emphasized, expansion to 9 new cities may have to be revised, and the transition of essential services to the Government of Iraq may be delayed.

⁹ GAO-07-1195, *Securing, Stabilizing, and Rebuilding Iraq: Iraqi Government Has Not Met Most Legislative, Security, and Economic Benchmarks.*

OTHER MATTERS

Branding Policy Should Be Consistently Followed

Summary: According to the cooperative agreement between USAID and the Community Stabilization Program implementing partner, a waiver from standard Agency policy stipulates that program activities are generally not to be marked with the USAID or implementing partner logo. However, we noted several instances where such branding did take place. Some branding took place to prevent militias from obtaining credit for program activities. We also noted confusion among the implementing partner's staff regarding branding policy. Inconsistent branding impedes efforts to foster positive perceptions of government by the citizenry.

Standard USAID policy is that Agency programs are marked, or "branded", with the USAID logo to ensure that the American people receive credit for the foreign assistance that they finance. Waivers from this standard policy are authorized if branding poses safety or security concerns. Due to the security situation in Iraq at the time that the cooperative agreement was signed, such a waiver was requested and granted for the Community Stabilization Program.

Modification One to the cooperative agreement between the CSP implementing partner and USAID states that in some circumstances use of traditional logos might be permissible. However, "as a general rule, any public communication, procured item/commodity, program material, signage, etc. that will be used outside the International Zone or that will pose a safety or security threat will not bare [sic] the USAID or [implementing partner] logo." The policy also contains guidance for specific activities or items such as procured goods and project sites which, according to the branding policy, will not be marked for safety or security reasons.

We learned of several instances that conflicted with this policy guidance. For example, OIG auditors were shown photographs of billboards advertising a CSP vocational training program that displayed the implementing partner's logo. When this issue was raised with the recently arrived chief of party, he indicated that his general impression was that implementing partner branding was not done.¹² In another case, a USAID official stated that a soccer tournament was advertised with the partner's logo. According to this official, USAID asked if this branding was in accordance with the implementing partner's policy, and the partner's Washington, DC headquarters replied that it was not. Finally, we noted in interviews with USAID and PRT officials that another CSP activity had been branded with the partner logo.

¹² According to USAID, over the past 6 to 8 months, the implementing partner has had several chiefs of party, the deputy chief of party position has mostly been vacant, and turnover among senior CSP staff has been high.



Photo of a Baghdad billboard advertising a CSP-sponsored vocational education program. The implementing partner's logo appeared in lower portion of the billboard (obscured for security reasons). Translation of advertisement – “Join the Ministry of Labor and Social Affairs training as a guarantee for you and your family” and “You build Iraq by your hands.” Source: USAID/Iraq.

These situations occurred for two reasons. First, there was confusion among partner staff as to who had responsibility for branding decisions. We asked the chief of party and several implementing partner program office directors throughout Iraq to indicate where responsibility for branding decisions resided. The chief of party indicated that each regional office was independently making its own branding decisions. Conversely, three of the five directors we contacted noted that such decisions were not made locally, but were made in either Baghdad or Washington, DC.¹³ In the case of the billboards, a CSP implementing partner official from Washington, DC stated that their branding was a mistake, and that the officials responsible were so advised.

Furthermore, some branding occurred because CSP and local government officials were concerned that militia leaders opposed to Coalition forces could take credit for CSP activities. In one instance, equipment was branded with the partner logo, even though the local USAID PRT representative claimed that these items could have easily been branded with an Iraqi government logo instead. Regarding such branding initiatives, we noted contradictory “lessons learned” in the partner’s quarterly report. For example, one lesson declared that “of primary importance is the perception of the local population that CSP activities are implemented through the cooperation and coordination of local government officials [who] are encouraged to mark or brand CSP activities as coming from the local government,” while another stated that “when possible, and security permitting, [the partner] should consider marking activities with the [partner’s] logo.”

¹³ We did not ask the branding question of one director in a newly established area, and the other director did not respond to our inquiry.

According to a former USAID FSPO official, the equipment branding in the particular example cited in this paragraph was done at the request of local government officials.

As noted previously, counterinsurgency operations attempt to support the development of an effective government that is seen as legitimate by the population. Inconsistent branding can impede these efforts and provide the opportunity for insurgents to claim credit for the provision of essential services. To its credit, USAID has asked the partner to specify how it will ensure that CSP activities are attributed to the appropriate government entity, with special attention to those cases where local governments are heavily influenced by militias. We agree and are making the following recommendation:

Recommendation 14: We recommend that USAID/Iraq's Focused Stabilization Program Office request the Community Stabilization Program implementing partner to instruct its program office directors to more consistently follow the established branding policy.

EVALUATION OF MANAGEMENT COMMENTS

The following summarizes management comments, our evaluation of those comments, and the status of the audit recommendations made under each finding in this report. The complete text of management comments is included in appendix II.

Finding: Program is Highly Vulnerable to Fraud and Exploitation

Summary of Management Comments for Recommendation 1: Management described the evidence of potential fraud in this finding as “a series of unsubstantiated anecdotes.” Management also indicated that the finding contained several factual errors, faulty logic, and unsubstantiated conclusions. Management indicated that the correct figure for the value of suspended projects was \$2,700,969 rather than the \$8,541,076 included in Recommendation 1, but then requested that the recommendation be deleted because it gave the appearance that USAID/Iraq suspended the CSP projects because of our recommendation whereas management stated that it took action prior to the issuance of the draft report and did so based on “the receipt of credible information.” Finally, management took issue with the audit’s reference to “adverse consequences for U.S. military personnel” stating that it was inflammatory, offensive, and without factual basis.

Auditors’ Response: We acknowledge that proving allegations of fraud is difficult to do under most circumstances. Nevertheless, the evidence that was presented to us was sufficiently convincing to result in this audit finding and related recommendations. According to the USAID PRT representative whose September 1st letter initiated this finding, sufficient evidence of extortion had appeared in a State Department cable, in brigade intelligence, and in anecdotal discussions to justify the concerns that led to the PRT leader, who was a former U.S. ambassador, and the brigade commander directing him to write the letter. The USAID PRT representative made USAID officials aware of this on September 6, 2007, as evidenced in the PRT representative’s write-up of a meeting held on that date at USAID/Iraq. Also, nothing precluded USAID officials from taking the initiative to travel, as we did, to the Forward Operating Base that had responsibility for the area of Baghdad in which the allegations occurred to assess this intelligence for themselves. During our visit to this Forward Operating Base, we reviewed the evidence supporting the fraud allegations and interviewed U.S. military, PRT, and USAID personnel who also corroborated the evidence. Unfortunately, much of the evidence that we reviewed was classified, which prevented us from including it in this unclassified audit report. However, on numerous occasions we offered to show the classified material to USAID officials at a secure Embassy site.

Management claimed that our comparison of costs showing that a CSP project was more costly than a similar CERP project was faulty because it did not take into account the different scope of each activity in terms of costs per worker. However, a more relevant measure--cost per day--reveals that the cost of the CSP project was \$9,409 a day compared to only \$2,557 a day for the CERP project--over three times as much. Management used just such a cost-per-day measurement to demonstrate the cost of an extension for another CSP project later in its management comments. Further, given the

inadequate substantiation of CSP employment figures, the U.S. military's repeated concerns about "phantom workers," and the complicity of certain CSP officials in corrupt activities as mentioned in the November 27th letter (and in other allegations received by RIG/Baghdad investigators), we believe that any analysis based on reported number of workers would be highly questionable.

We reviewed management's claim that we made errors in calculating the balance of undisbursed funds of suspended projects and have concluded that \$8,541,076 is a reasonably accurate summation of the funds that were put to better use. Although the allegations focused on street cleaning campaigns, USAID/Iraq understandably decided to suspend other projects as well, probably because all CSP projects in that district of Baghdad were subject to the same selection and contracting processes. The estimated value of cleaning projects that had not been started, as well as remaining balances of undisbursed funds for completed projects, should both obviously be included in the total of reprogrammed funds.

More important than agreeing on the amount of funds that were reprogrammed as a result of suspending CSP projects, however, is determining whether the audit played a role in that suspension in the first place. Management contends that it took action independent of the audit and prior to issuance of the draft audit report. We believe that USAID/Iraq would not have taken this action if the audit had not been focused on the very allegations that ultimately led to the suspension. Further, the "credible evidence" upon which management indicated that it based its decision to suspend projects would, in our opinion, never have been prepared had we not assured the person who prepared it that we took his previous allegations seriously and that we would protect him from potential retaliation as a "whistleblower."

Also, the November 27th letter that management says served as a catalyst for suspending the projects was simply a continuation of allegations that had been raised months earlier. The letter states that many of the details provided by a new source "confirm other information we have obtained over the past months, and have so informed USAID." It was precisely because RIG officials visited the Forward Operating Base, interviewed a number of PRT and military officials, and reviewed classified military intelligence products that we were able to place both the September 1st and November 27th letters in their proper context and conclude that the overall evidence was sufficiently convincing to result in this audit finding and related recommendations.

Regarding management's comments with respect to our references to adverse consequences to U.S. military personnel, we reiterate that the commanding officer of the responsible brigade combat team strongly endorsed this depiction during a face-to-face interview. Further, this language is a restatement of even stronger language used by the USAID PRT representative in his September 1st letter that was approved by the PRT leader and the commanding officer. The actual language of that letter was: "The dire consequence is that American soldiers are killed attempting to secure areas being destabilized in part by misdirected American dollars."

Disposition of Recommendation 1: Based on management's comments that indicate nonconcurrency with the dollar amount cited in this finding, as well as a lack of attribution to the audit, a management decision has not been reached on this recommendation.

Summary of Management Comments for Recommendation 2: Management did not agree with Recommendation 2 and suggested deleting it from the audit report. This was based on management's contention that there was no factual basis that fraud had occurred in other Baghdad districts, and that CSP had a rigorous monitoring and evaluation component, USAID/Iraq employed a monitoring and evaluation contractor, and FSPO had built strong relationships and open lines of communication with PRTs and the U.S. military.

Auditors' Response: Management comments reflect a change from actions taken immediately after making the decision to suspend CSP projects in one district of Baghdad. In an e-mail to RIG/Baghdad shortly after deciding to suspend those projects, the USAID/Iraq mission director stated that "we will be looking at our entire effort in Baghdad, including [the neighboring district]." Furthermore, a deputy commanding general of the division then deployed to Baghdad indicated to USAID/Iraq officials a desire to review cleaning projects across the city for indications of infiltration or intimidation, and offered to help in this effort. A USAID/Iraq official agreed with this request. This same USAID official informed PRT officials that he couldn't "rule out the possibility of broader exposure" to similar problems, and indicated a desire to coordinate efforts to determine if the problem extended to other PRT locations. Given these responses at that time, we believe that inclusion of this recommendation is appropriate.

In addition, we note that in recent months RIG/Baghdad investigators have received a substantial number of allegations of fraud relating to CSP activities. These allegations encompass not only parts of Baghdad outside the district in which CSP operations were suspended, but also other cities within Iraq. Consequently, we have added a paragraph to our report that includes this new information and broadened Recommendation 2 to include all communities, inside and outside of Baghdad, in which CSP operates.

To be responsive to this recommendation, USAID/Iraq would simply have to communicate with CSP stakeholders, including the U.S. military, and request that all allegations of fraud relating to CSP projects be forwarded to the mission. In conjunction with that request, a classified email address should be made available to receive any allegations of a classified nature.

Disposition of Recommendation 2: Based on management's nonconurrence with the finding, a management decision has not been reached on this recommendation.

Summary of Management Comments for Recommendation 3: Management indicated agreement with the portion of Recommendation 3 to improve coordination among stakeholders and stated that it had finalized a written "communications protocol" to help guide interactions and relationships between the CSP implementing partner, the PRTs, and FSPO. With regard to discussing the feasibility of vetting CSP contractors through military databases, management concluded that it would not be feasible on a consistent basis. Management commented that while it encourages its PRT representatives to have brigades vet CSP contractors whenever possible, it cannot be a mandated policy because USAID does not have authority to enforce such a recommendation upon military brigades.

Auditors' Response: We applaud management's actions to improve the coordination among CSP stakeholders. However, to thoroughly assess the feasibility of vetting CSP contractors through U.S. military databases, we believe that it is essential to involve

appropriate representatives from the implementing partner, PRTs, and the U.S. military in such discussions. Also, we are not recommending that vetting through the U.S. military become a mandated policy, but that stakeholders be involved in a discussion of the feasibility of such vetting with the goal of collaborating on an effort to reduce the risk of fraud.

The commanding officer of the brigade combat team that we visited stated that the CSP implementing partner did not have a sufficient vetting process and noted that intelligence officers in his brigade had access to an up-to-date computerized database that was used to vet contractors. In response to our query as to whether the vetting of potential CSP contractors through the U.S. military would be worthwhile, another military officer stated:

It would absolutely be worthwhile to vet potential contractors in advance of awarding a contract vice playing catch up after the contract has been awarded. In an insurgency, [the CSP implementing partner] must know who the bad actors are...if not, they would potentially be supporting the insurgency if contracting them and providing them profit.

Given the reports of potential wrongdoing by both CSP and local Iraqi officials that have been brought to our attention, we feel that a recommendation to have stakeholders discuss the feasibility of an independent vetting mechanism is appropriate.

Disposition of Recommendation 3: Based on management's comments, there is no indication that USAID/Iraq intends to discuss the feasibility of vetting CSP contractors through U.S. military databases as specified in the recommendation. Accordingly, a management decision has not been reached on this recommendation.

Summary of Management Comments for Recommendation 4: Management agreed with Recommendation 4 and indicated that, by May 31, 2008, it would document the implementing partner's measures to tighten internal controls and increase monitoring of CSP projects.

Auditors' Response: A copy of the documentation should be sent to USAID's Audit, Performance, and Compliance Division to provide evidence of final action and close the recommendation.

Disposition of Recommendation 4: Based on management's comments, a management decision has been reached on this recommendation.

Finding: Allegations of Fraud Were Not Promptly Reported to Office of Inspector General

Summary of Management Comments for Recommendations 5 and 6: Management stated that the matters discussed in these initial sections of the audit report did not merit notification to the OIG. Nevertheless, management agreed with recommendations 5 and 6, and indicated that corrective action had already been taken.

Auditors' Response: We disagree with management's conclusion that the fraud allegations did not merit notifying OIG personnel. We believe it is management's responsibility to report any indications of potential fraud, waste, or abuse to OIG. We were not notified in a timely manner of the September 1st letter regarding potential fraud

or the existence of corroborating evidence made known to mission officials on September 6th, even though our audit notification letter was sent to USAID/Iraq officials on September 4th and an entrance conference held on September 13th. Moreover, during an interview with the FSPO director on September 11th we specifically asked if he knew of any areas of inquiry that would result in a more effective audit. The issues contained in the September 1st letter and the September 6th meeting were not brought to our attention at that time.

Disposition of Recommendation 5: Based on management's comments, and our receipt of a copy of policies and procedures developed by FSPO and disseminated to its employees, a management decision has been reached on this recommendation and final action has been taken. Consequently, this recommendation is closed upon report issuance.

Disposition of Recommendation 6: Based on management's comments, and our participation in a fraud awareness briefing to CSP implementing partner employees, a management decision has been reached on this recommendation and final action has been taken. Consequently, this recommendation is closed upon report issuance.

Finding: Documentation of Employment Generated by CSP Projects is Inadequate

Summary of Management Comments for Recommendations 7, 8, and 9: Management concurred with our finding while also stating its belief that the inadequate substantiation of employment was not sufficient to infer "that CSP as a whole was not contributing to USG objectives in Iraq." In addition, management suggested that we re-word our concluding paragraph for this finding to specify that the conclusions drawn were for Baghdad only, not the entire program. Regarding Recommendation 7, management did not agree with the wording of the recommendation and suggested that it be changed to recommend that USAID/Iraq review the CSP implementing partner's internal control procedures. Regarding Recommendation 8, management agreed with the recommendation and stated its intention to include the reconciliation of employment data as part of a revised monitoring and evaluation plan. Regarding Recommendation 9, management agreed to review the \$39,821 in questioned costs to determine its allowability.

Auditors' Response: As indicated in our report we did not state that CSP was not achieving its intended result. Rather, we indicated that the inadequate substantiation of employment was one of the factors which led us to conclude that we could not determine whether CSP was achieving its intended result.

Due to the security situation, our sample was only drawn from Baghdad. However, since the preponderance of reported CSP employment was generated in Baghdad, we believe that our testing was sufficient to base an overall assessment on those extrapolated results. Even if one assumes that non-Baghdad locations had 100 percent of employment adequately substantiated, Iraq-wide substantiation would have still been only 55.4 percent.

In response to management comments, we have revised Recommendation 7 to recommend that USAID/Iraq perform a data quality assessment of the CSP implementing partner's job creation data being reported to USAID/Iraq. This

assessment should also evaluate the adequacy of the implementing partner's internal controls relating to that data.

Disposition of Recommendation 7: Management has not yet commented on the revised recommendation. Consequently, a management decision has not been reached on this recommendation.

Disposition of Recommendation 8: Based on management's comments, a management decision has been reached on this recommendation.

Disposition of Recommendation 9: Based on management's comments, a management decision will be reached once mission officials determine the allowability of these questioned costs. In the meantime, a management decision has not been reached on this recommendation.

Finding: Results of Local Government Effectiveness Surveys Could Be Improved

Summary of Management Comments for Recommendations 10 and 11: Management acknowledged that a weakness existed in its survey methodology, but downplayed the impact of that weakness by stating that "the overall survey results are only meaningful to analyze trends in citizen satisfaction over time."

Auditors' Response: The target for this satisfaction indicator in the CSP monitoring and evaluation plan was an absolute figure of 60 percent, and not one based on any trend from baseline or follow-up surveys. Moreover, management's comments indicated that a response of 3 meant "unsatisfied." As stated in the draft report, a score of 3 "indicates that the respondent is neither satisfied nor dissatisfied." Regardless, management has acknowledged a flaw in survey methodology that results in the incorrect computation of a performance indicator.

Disposition of Recommendation 10: Based on management's comments, a management decision has not been reached on this recommendation.

Disposition of Recommendation 11: Based on management's comments, a management decision has not been reached on this recommendation.

Finding: External Monitoring Reports Could Be Better Utilized

Summary of Management Comments for Recommendation 12: Management agreed with this finding and recommendation, and indicated that FSPO had already established policies and procedures to follow up on external monitoring reports. Management stated that we were not aware of follow up actions since we did not talk to appropriate personnel. Management also requested that a reference in our report pertaining to a statement by the monitoring and evaluation contractor be deleted or put into the proper context.

Auditors' Response: Questions concerning the utilization of external monitoring reports were first brought to FSPO's attention during an interview with both the former and current FSPO directors on September 19, 2007. Immediately after a meeting with both the current director and the cognizant technical officer on November 21, 2007, we

received evidence that FSPO was now documenting responses to findings and recommendations in external monitoring reports. However, we have not received copies of the policies and procedures cited by management. Evidence documenting the policies and procedures that have been adopted in practice should be sent to M/CFO/APC in order to close this recommendation. We modified the reference to the monitoring and evaluation contractor's statement to clarify that it was complimentary.

Disposition of Recommendation 12: Based on management's comments, a management decision has been reached on this recommendation.

Finding: Performance Indicators Should More Closely Link Outputs to Results

Summary of Management Comments for Recommendation 13: Management agreed that good performance indicators were a vital tool for program management, but disagreed with Recommendation 13 because it did not take into account the practical limitations of measuring higher-level indicators that were specific to CSP and the Iraqi environment.

Auditors' Response: We consider management's comments in response to Recommendation 13 to reflect a thorough and in-depth assessment of its performance indicators sufficient to meet the intent of the recommendation.

Disposition of Recommendation 13: Based on management's comments, a management decision has been reached on this recommendation and final action has been taken. Consequently, this recommendation is closed upon report issuance.

Other Matters: Branding Policy Should Be Consistently Followed

Summary of Management Comments for Recommendation 14: Management agreed with this recommendation.

Auditors' Response: While management stated that it agreed with this recommendation, it did not provide evidence that it had requested the CSP implementing partner to instruct its program office directors to more consistently follow the established branding policy.

Disposition of Recommendation 14: A management decision has not been reached on this recommendation.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General in Baghdad conducted this audit in accordance with generally accepted government auditing standards. The purpose of the audit was to determine: (1) if USAID/Iraq's Community Stabilization Program (CSP) was achieving its intended result with regard to activities in the community infrastructure and essential services component, and (2) how USAID/Iraq has designed and implemented its Community Stabilization Program to help ensure that Iraqis continue to benefit from its activities after USAID involvement has ended. Fieldwork was performed from September 13, 2007 to December 10, 2007 in the International Zone and at Camp Liberty, Baghdad, Iraq; and in Amman, Jordan.

A scope limitation existed on the selection of site visits. This was attributable to USAID's insistence that the operational security of the CSP implementing partner and staff could only be maintained if CSP avoided visible association with U.S. Government or military personnel. We mitigated the effect of this limitation by relying on the work of USAID/Iraq's monitoring and evaluation contractor (described below) and communicating via e-mail with CSP implementing partner and USAID Provincial Reconstruction Team (PRT) personnel located outside Baghdad. However, apart from our finding that the documentation of reported employment was inadequately substantiated, we were not able to assess the adequacy of the CSP implementing partner's overall internal controls over employment at CSP work sites since we could not observe those controls in practice. In addition, we restricted the scope of our testing of employment records to projects in Baghdad that were begun prior to September 30, 2007. These records were located in the International Zone and in Amman, Jordan. In our judgment, this restriction did not affect any of our conclusions, because, according to CSP records, 74 percent of the 259,429 person-months of short-term employment generated by CSP through September 30, 2007 were attributable to those Baghdad projects.

The audit relied on the work of the monitoring and evaluation contractor to obtain evidence of the existence of CSP activities in Iraq and furnish insights on challenges to CSP sustainability. This evidence consisted of selected reports that were prepared by the contractor on CSP activities prior to the commencement of audit fieldwork. In order to determine whether the audit could rely on those reports, we interviewed officials from the contractor at their International Zone office to evaluate their qualifications, experience, competence and independence. Our interview indicated that we could rely on the contractor's reports.

Methodology

To establish criteria for answering the first audit objective, the audit team devised a methodology to determine: (1) whether CSP's intended result was being achieved, and (2) if there was a reasonable basis for stating that CSP's activities were contributing towards that result.

For (1), we utilized the baseline and follow-up surveys used to measure citizens' perceptions of local government effectiveness. Follow-up surveys were conducted at approximately 6-month intervals after the initial baseline surveys. These surveys were performed by a firm under contract with the CSP implementing partner. According to the survey reports, each survey covered all sections of the target area to yield 400 successfully completed interviews, which would result in a margin of error of less than +/- 5 percent at a 95 percent confidence level. For each of 12 areas in which CSP baseline and follow-up surveys were completed, we compared the follow-up survey to the baseline. We then computed the number of positive and negative changes. If a majority of the changes were positive, we concluded that the intended result had been achieved.

For (2), we reviewed the reported employment generated by CSP public works and infrastructure activities. If these employment figures were adequately substantiated, we would conclude that there was a reasonable basis for stating that CSP was contributing towards the intended result. We considered substantiation to be adequate if 90 percent or more of reported employment was sufficiently supported.

To answer the audit objectives, the audit team conducted interviews, reviewed documents, and performed various analytical procedures. Among U.S. Government and military officials, we interviewed USAID/Iraq's Focused Stabilization Program Office officials, four USAID PRT representatives, a PRT Team Leader, a USAID/Iraq program specialist, and an assortment of U.S. Army officers, all in person. In addition, we conducted e-mail correspondence with other USAID PRT representatives as necessary. Among the CSP implementing partner's staff, we interviewed the chief of party, four program office directors, and both the outgoing monitoring and evaluation director and his temporary replacement. We also held conversations with other partner officials during our site visits to the implementing partner's International Zone and Amman, Jordan offices. As noted above, an interview was also held with the monitoring and evaluation contractor.

The audit team reviewed a number of documents, such as the cooperative agreement, CSP quarterly reports prepared by the implementing partner, the USAID/Iraq Performance Management Plan, the implementing partner's performance and evaluation plan, monitoring reports, and polling surveys. The audit team also had access to a number of classified and unclassified intelligence reports which were viewed at both Camp Liberty and the U.S. Embassy in Baghdad. We also obtained and reviewed a significant amount of e-mail and other correspondence, especially pertaining to the potential fraud discussed in our first finding. Finally, the audit team also reviewed a sample of payment vouchers from the CSP implementing partner to CSP contractors, plus the associated contracts and other supporting documentation, such as timesheets.

Regarding our review of employment documentation, we randomly selected 66 projects that, according to the CSP implementing partner's database, generated 144,626 person months of employment in Baghdad since the inception of CSP. These represented 75 percent and 56 percent of the total person-months in Baghdad and throughout Iraq, respectively. The sample size was selected to yield a 4 percent margin of error at a 95 percent confidence level. For each project, we identified the number of jobs that were adequately substantiated. The audit team considered employment to be adequately substantiated if the voucher evidencing payment from the CSP implementing partner to

the contractor contained completed timesheets signed by the applicable employees. We then calculated the total number of adequately substantiated person-months of employment generated by the projects. Next, we compared these results with those reported and projected any variations to the population of person-months of employment reported for Baghdad as of September 30, 2007. The projected results are shown in appendix IV.

We also performed analytical procedures on the baseline and follow-up surveys on citizens' perceptions of local government effectiveness. These included recalculating the tabulations performed by the CSP implementing partner to ensure mathematical accuracy, correcting several mathematical errors noted, and performing new computations to reflect a tabulating methodology that we considered to be more appropriate.

MANAGEMENT COMMENTS



USAID | IRAQ
FROM THE AMERICAN PEOPLE

March 8, 2008

MEMORANDUM
UNCLASSIFIED

To: Regional Inspector General/Baghdad – Jay R. Rollins
From: Mission Director – Christopher D. Crowley
Subject: **USAID/Iraq Management Comments on Draft Audit Report E-267-08-011-P, Community Stabilization Program**

USAID/Iraq appreciates the opportunity to provide comments on the Regional Inspector General's (RIG) draft audit report regarding the Community Stabilization Program (CSP). We have reviewed the report in detail and appreciate the useful and constructive suggestions. USAID/Iraq offers the following for your consideration in preparation of the final report.

General Comments

The RIG states that it was “unable to determine if the Community Stabilization Program is achieving its intended result with regard to the community infrastructure and essential services component.” (p. 1) The reasons cited are inadequate documentation of CSP employment generation activities in Baghdad and vulnerability of the program to potential fraud. USAID/Iraq accepts the need to improve documentation and acknowledges the high degree of risk associated with a program like CSP in a war zone. But despite these challenges, the bulk of the evidence is that CSP has been very successful.

Most notably, USAID's independent monitoring and evaluation (M&E) contractor has scrutinized CSP activities in all geographical areas and across each of the program components. Inevitably, there have been specific issues with individual projects, but their conclusions have been extremely positive overall. For example, the report on the same type of employment generation activities in Baghdad that the RIG looked at included site visits to 43 randomly sampled projects, surveys with program participants and interviews with local Iraqi officials. The conclusion reached was that “overall, and by a wide margin, projects were found to be successful. There were few contrary indications.” (emphasis in original)

The eight other reports on CSP from USAID's M&E contractor, representing thousands of hours of field work, contain similar findings: “most projects were regarded by the community as successful” (Mosul infrastructure); “five of six business owners noted they are on track...and that the grant has had a positive impact on their lives” (Kirkuk

business); and “all of the vocational training participants that were interviewed reported that the training had made a difference in their lives and that they would recommend the training to others” (Baghdad VoTech).

The feedback from USAID’s Provincial Reconstruction Team (PRT) Representatives (Rep) and U.S. military personnel is also positive. PRT reporting, regular coordination meetings, routine correspondence and other documentation indicate overwhelmingly that CSP is one of the most effective counterinsurgency (COIN) efforts the USG is undertaking in Iraq. It is not clear from the audit report whether the RIG reviewed this documentation and/or interviewed civilian and military field staff and commanders, but most would echo the words of General David Petraeus in stating that CSP is “precisely what we need to do” and is “a wonderful program and we applaud it.” (Battle Update Assessment, October 12, 2007) Ambassador Ryan Crocker has also praised CSP, noting in his Congressional testimony last September that “USAID community stabilization funds provide tens of thousands of jobs throughout the country.”

USAID/Iraq is cognizant that implementing a program like CSP in this challenging security environment is inherently difficult. Any USAID program based more on the Army’s *FM 3-24: Counterinsurgency* than the Agency’s *Nine Principles of Development* is going to have inherent risks associated with such an effort, particularly one operating on the scale of CSP and in the midst of an insurgency. The audit report mentions these distinctions in passing, but overall, USAID/Iraq finds that the RIG did not adequately account for the unique nature of CSP, the compelling foreign policy interests that led to its creation, and the context in which the program operates.

Specific Comments

Finding: Program is Vulnerable to Fraud and Exploitation

According to the RIG, “evidence of potential fraud within certain CSP projects” was found in one specific district in Baghdad. While such fraud and exploitation may or may not have occurred, the audit report cites what is a series of unsubstantiated anecdotes. The only empirical evidence is irregularities in the timesheets on 1 of the 31 cleaning campaign projects in the relevant district. USAID/Iraq recognizes, however, that the RIG cannot divulge classified information in this report. If such information substantiates the allegations of fraud and exploitation, we request an opportunity to review it in an appropriate venue.

The fourth paragraph on page 7 of the audit report presents a cost comparison of CSP and military CERP cleaning projects as an indication of fraud. However, the disparity cited between the \$156,000 CERP project and the \$846,795 CSP project is due to the different scopes of each activity. The CERP project employed 50 workers for 61 days, whereas CSP employed 294 workers for 90 days, so the unit cost of CSP’s activity was actually 37% less. In the other example cited, the documentation provided to the RIG appears to be incomplete. The “original” contract was actually amended twice, bringing the total value to \$720,000. The extension was for \$226,467. While this does represent an increase in the cost per day, the amount is still within the range of similar cleaning contracts.

The extrapolations made in the second paragraph on page 8 appear to be based on allegations made by one individual and his rough estimation of the extent of potential

fraud. The audit report does not explore this individual's credibility or basis of knowledge, and no evidence is presented that would corroborate his assertion that 40-50% is an accurate benchmark for estimating precise dollar amounts that may have been defrauded or that may be at risk.

There are also several factual errors in this paragraph. The audit report should make clear that the allegations in this district were limited to cleaning campaigns. Disbursements through November 17 for cleaning activities were \$13,763,982, not the figure of \$16,755,374 used as the basis for extrapolation. Of the \$8,541,076 referred to as the remaining balance, \$1,650,504 represents the savings between the contracted amount and the actual disbursements on completed projects. The remaining balance on non-cleaning projects is \$1,604,511, and \$2,585,092 is the estimated value of projects that were never started. Thus, the correct figure for the remaining balance is \$2,700,969 (not \$8,541,076). Moreover, this lesser amount was never at risk because, as noted in the report, USAID/Iraq had already suspended all operations in this district and its partner had canceled all contracts.

We would like to point out that one of the "compelling indications" of fraud in this district was the assertion that CSP funds were being extorted by at least one militia leader. Evidence for this came in part from a U.S. military intelligence official, who noticed that the militia's other fundraising activities, such as kidnapping, increased after CSP and other USG-funded projects were halted, indicating the possibility that USG funds may have been a source of funding. This is counterintuitive. Based on COIN doctrine, an informed observer would almost certainly conclude the opposite: that by ending legitimate employment generation efforts and depriving thousands of Iraqi men of the means to sustain their families, the decision to suspend USG activities inadvertently increased the incentive to raise money through kidnapping. Assigning causality in systems as complex as insurgencies is notoriously difficult.

The third paragraph on page 8 should be deleted in its entirety. The audit report presents no credible evidence for the claim that there are "similar allegations" in a neighboring district, also covered by the same USAID PRT Rep. In fact, in his November 27th letter the USAID PRT Rep stated explicitly that the allegations were not valid for the neighboring district and that CSP activities should continue. A substantial amount of e-mail correspondence on file in the last two months confirms that the USAID PRT Representative and military Brigade strongly support CSP activities in the neighboring district, including cleaning campaigns.

USAID/Iraq takes issue with the references on pages 7 and 9 to "adverse consequences for U.S. military personnel" due to possible fraud on CSP activities. We find such insinuations inflammatory and offensive, as the report does not present any factual basis to support them.

Recommendation No. 1: We recommend that USAID/Iraq immediately suspend ongoing Community Stabilization Program projects in the particular district discussed in this report in order to eliminate any additional exposure to fraud and to reprogram the unpaid balance. As of November 17, 2007, the unpaid balance for these projects (for contracts that were either ongoing or tendered) was \$8,541,076.

Within 24 hours of receiving the November 27th letter from the USAID PRT Rep, USAID/Iraq's Focused Stabilization Program Office (FSPO) had verbally instructed its

partner to hold all payments on projects in this district until further notice. On December 2, 2007, after gathering detailed information on the status of activities and consulting with Mission Management, FSPO issued written instructions to its partner to suspend all activities and payments in the district. The RIG was copied on the December 2nd letter, which is evident by footnote 3. Therefore, USAID/Iraq requests that this recommendation be deleted. It gives the misleading appearance that USAID/Iraq's actions were the result of the RIG's recommendation, when in fact they were based on receipt of credible information from the USAID PRT Rep and occurred almost two weeks prior to the issuance of the audit report.

USAID/Iraq requests this recommendation be considered resolved (i.e. management decision reached) and closed upon issuance of the report based upon actions already taken.

Recommendation No. 2: We recommend that USAID/Iraq review Community Stabilization Program projects in other Baghdad districts to determine whether they should be suspended for the reasons cited in Recommendation No. 1.

USAID/Iraq does not agree with this recommendation and suggests deleting it from the audit report. As discussed above, there is no factual basis for concluding that fraud has occurred in other Baghdad districts; the audit report itself notes that "allegations as detailed as these only arose from one area in Baghdad." (p. 9) Moreover, CSP has a rigorous monitoring and evaluation component, USAID/Iraq employs an independent contractor to monitor CSP and other programs, and FSPO has built strong relationships and open lines of communication with USAID's PRT Reps and the U.S. military. All of these parties work diligently to help ensure CSP activities are meeting objectives, and all are aware that even the appearance of impropriety should be brought to USAID's attention immediately.

Recommendation No. 3: We recommend that USAID/Iraq meet with appropriate officials from the Community Stabilization Program, Provincial Reconstruction Teams, and the United States military to improve coordination and discuss the feasibility of vetting potential Community Stabilization Program contractors through military intelligence databases.

USAID/Iraq agrees with the RIG's recommendation to improve coordination among stakeholders. FSPO and its CSP partner will continue to coordinate with the Government of Iraq (GoI), U.S. military, PRTs, community groups and other USAID implementing partners. Indeed, given the size and complexity of CSP and the number of parties involved, extraordinary efforts have been made to synchronize operations, including a detailed weekly reporting package that is sent to all USAID PRT Reps.

USAID/Iraq acknowledges that CSP coordination has been a challenge in Baghdad and that the role of USAID PRT Reps as Activity Managers has led to some confusion. For these reasons, and in accordance with the results of an audit of USAID's PRT effort (report E-267-07-008-P), USAID/Iraq has finalized a written "communications protocol" to help guide the interactions and relationships between CSP, the PRTs and FSPO. Although coordination is an ongoing effort, USAID/Iraq requests that this recommendation be considered resolved (i.e. management decision reached) upon issuance of the report because USAID/Iraq approved this protocol on February 24, 2008.

With regard to vetting CSP contractors through military databases, USAID/Iraq has discussed the vetting of CSP contractors through military databases and has concluded that it is not feasible on a consistent basis. The audit report does not provide sufficient analysis to conclude that the various military Brigades and other command elements have the capacity and desire to vet CSP contractors, particularly given the imminent drawdown of U.S. forces. Given the sheer number of contracts that CSP awards, this will slow or stop service provision, erode the ownership of projects by local GoI officials (who also vet CSP contractors), and significantly increase CSP management costs. While USAID/Iraq encourages its PRT representatives to have Brigades vet CSP contractors whenever and wherever possible, it cannot be a mandated policy; neither USAID nor its PRT representatives have the authority to enforce this recommendation upon military Brigades. As such, the guidance in the communications protocol is that CSP may contact a PRT or military unit “for information on local contractors, and may request support for background checks and other information on contractors and/or program participants.”

Recommendation No. 4: We recommend that USAID/Iraq take steps to increase its monitoring of Community Stabilization Program projects, with special emphasis on preventing and detecting fraud by obtaining reasonable assurance that the number of workers paid corresponds to the number that actually worked.

USAID/Iraq agrees with this recommendation. USAID/Iraq and its CSP partner have always made reasonable efforts to prevent and detect fraud and to monitor CSP activities, including the use of an independent monitoring contractor. In addition, USAID/Iraq’s partner has taken significant measures to tighten internal controls and increase monitoring of projects, some of which were discussed on page 13 of the audit report. USAID/Iraq will document these measures and communicate them to AID/W, M/CFO/APC (Audit Performance and Compliance) to close this recommendation.

With regard to reconciling the number of workers paid to the number that actually worked, USAID/Iraq’s focus will be to ensure that CSP’s implementing partner has adequate and effective written quality control procedures in place to ensure that the number of workers paid corresponds to the number that actually worked. Please see Recommendation No. 7 for further discussion of this issue. By May 31 2008, USAID/Iraq will provide further information to the RIG to close Recommendation No. 4.

Finding: Allegations of Fraud Were Not Promptly Reported to Office of Inspector General

USAID employees are always at liberty, without contacting a supervisor, to report allegations relating to fraud, waste, abuse, corruption or any violation of law, regulation or rule involving USG funds, projects, operations or employees directly to the Office of Inspector General (OIG). It is not FSPO or USAID/Iraq policy or practice to ever discourage an employee from reporting an allegation to the OIG directly. That does not, however, mean that every USAID employee must report every unsubstantiated allegation directly to the OIG, which is the assumption upon which this finding is premised.

To cite the same three sources as in the audit report, 2 FAM 031.1-5 states, in part: “employees should report questions of waste, abuse, or mismanagement normally to that level of bureau, office, unit, or post management best able to effect prompt

corrective action.” If, however, the employee does not believe this has achieved proper results, he/she is encouraged to report the issue directly to the OIG. Clearly, the FAM contemplates employees raising allegations through their chain of command with the option, as they believe necessary, to go directly to the OIG. The Standards of Ethical Conduct for Employees of the Executive Branch (5 CFR Section 2635.101(b)(11)) simply states: “employees shall disclose waste, fraud, abuse, and corruption to appropriate authorities.” Again, there is no indication that every accusation, regardless of source or merit, must be reported directly to the OIG. USAID Handbook 24 also indicates that employees may report suspicious activity to a supervisor.

USAID/Iraq recognizes that it has the primary responsibility for ensuring that programs are implemented efficiently, effectively, accountably, and in compliance with applicable rules and regulations. We also recognize the value of reviewing assertions of wrongdoing and gauging the seriousness and credibility of an allegation before electing to pass it on to the OIG. In the case of CSP, as stated in the audit report, “the vast majority of allegations were ambiguous to the point of not being useful.” (p. 11) Initially, this was clearly the case in the matter discussed in this and the previous section of the audit report.

FSPO received contradictory information from the PRT and the relevant military personnel, which made it difficult to judge the veracity of the allegations. Senior military engineering staff questioned the credibility of the USAID PRT Rep on this matter, and the USAID PRT Rep stated that he was not sure whether the concerns of the PRT Team Leader (Department of State) and Commanding Officer were warranted. As indicated on page 7 of the audit report, FSPO also discussed the allegations with a senior military official, who asserted that while the military had concerns, “the level of proof is not such that action can be taken,” a position he confirmed some months later to the RIG. It should be noted that FSPO had a long-standing relationship with this officer, and had been meeting with him and his staff on a weekly basis since November 2006, well before the USAID PRT Rep arrived. In addition, in meetings on July 19 and September 6, 2007, CSP and FSPO staff asked directly whether cleaning campaigns should be stopped. On both occasions, senior civilian and military PRT personnel answered no.

In light of the mixed signals from the PRT, FSPO believed that the USAID PRT Rep was the person physically and institutionally closest to the people alleging the fraud. As such, the USAID PRT Rep was best placed to gather evidence and make recommendations. FSPO also instructed the USAID PRT Rep that if he felt strongly about the fraud allegations he could notify the OIG. And as noted in the audit report, FSPO notified USAID Mission Management, who also concluded that the facts were not credible enough to merit notification to the RIG. We believe the actions of Mission Management were in accordance with Agency policy and moreover, based upon professional judgment in light of the facts presented.

Recommendation No. 5: We recommend that USAID/Iraq’s Focused Stabilization Program Office establish policies and procedures reminding Focused Stabilization Program Office employees of their responsibility to promptly report any allegations of fraud and abuse to the Office of Inspector General.

Recommendation No. 6: We recommend that USAID/Iraq’s Focused Stabilization Program Office establish policies and procedures to have Office of Inspector General investigators provide fraud awareness briefings to Community Stabilization Program

implementing partner officials.

Despite serious reservations about this section of the audit report, USAID/Iraq agrees with Recommendations No. 5 and 6 and has already taken appropriate actions. FSPO employees were informed of their responsibilities with regard to reporting possible fraud, and on January 14, 2008 the RIG gave a fraud awareness presentation to senior CSP field staff at their quarterly conference. This had been scheduled for November, but was canceled due to security concerns. FSPO and CSP leadership will invite the RIG to give similar presentations at future conferences.

On January 29, 2008, USAID/Iraq conducted further training for its PRT staff to remind them of their duties and rights related to reporting issues to the OIG and whistle blowing in general. Additional sessions for Baghdad-based staff are being scheduled.

USAID/Iraq will respond to the RIG by March 15, 2008. USAID/Iraq requests Recommendations No. 5 and 6 be considered resolved (i.e. management decision reached) and closed upon issuance of the report.

Finding: Documentation of Employment Generated by CSP Projects is Inadequate

USAID/Iraq generally concurs that documentation of some CSP activities could be improved. However, we do not believe that the deficiencies reported are sufficient to infer broadly that CSP as a whole is not contributing to USG objectives in Iraq. As stated above, USAID/Iraq's M&E contractor has concluded that CSP projects *are* successfully meeting their objectives, basing their findings on 216 actual site visits to CSP activities. Furthermore, the audit report recognizes that USAID/Iraq's partner has taken significant measures to tighten internal controls, as discussed at the bottom of page 13. Accordingly, we recommend that the entire third paragraph on page 14 be deleted or re-worded to specify that the conclusions drawn are for infrastructure and essential service projects in Baghdad, not the entire program.

The audit report would be strengthened by reference to the context in which project documentation and reporting are carried out. CSP was intentionally designed to operate in some of the most dangerous areas of Iraq, helping to stabilize communities soon after major military operations have ended. Security restrictions on movement and high-profile protective details make it extremely difficult for USAID/Iraq or its partner to make regular visits to projects sites. Such visits would also endanger the lives of participants by association with the USG.

Recommendation No. 7: We recommend that USAID/Iraq amend the cooperative agreement with the Community Stabilization Program implementing partner to require that adequate and authentic timesheets documenting employment be available for review upon request by mission personnel.

USAID/Iraq does not agree with the wording of this recommendation. As noted under Recommendation No. 4, USAID/Iraq believes that the most appropriate way to address the RIG's concerns would be to set forth a recommendation that USAID/Iraq audit the CSP's partner's written quality control procedures to ensure that they meet the OMB standards. In addition, we are aware that the Defense Contract Audit Agency is conducting an audit of CSP that includes a review of the accounting system of the CSP partner in both the United States and Iraq. The results of these reviews will inform

USAID/Iraq on the appropriate course of action. USAID/Iraq will provide the RIG with a copy of the implementing partner's written quality control procedures by June 30, 2008. USAID/Iraq requests Recommendation No. 7 be considered resolved (i.e. management decision reached) upon issuance of the report.

Recommendation No. 8: We recommend that USAID/Iraq's Focused Stabilization Program Office work with the Community Stabilization Program implementing partner to reconcile the employment data reported in its monitoring and evaluation database with the employment data reported in its quarterly progress report.

USAID/Iraq agrees with this recommendation. USAID and its partner will be revising the CSP Monitoring and Evaluation Plan and will include the reconciliation of employment data as part of that process. This will help ensure that future CSP quarterly progress reports contain accurate information. USAID/Iraq will provide the RIG with a copy of the revised CSP Monitoring and Evaluation Plan by June 30, 2008. USAID/Iraq requests that Recommendation No. 8 be considered resolved (i.e. management decision reached) upon issuance of the report.

Recommendation No. 9: We recommend that USAID/Iraq determine the allowability and collect as appropriate the \$39,821 in questioned ineligible costs billed by CSP's implementing partner under Cooperative Agreement No. 267-A-00-06-00503-00, for the specific projects included in the finding.

USAID/Iraq agrees with this recommendation. USAID/Iraq will make a decision on the allowability of the questioned costs after receipt of back-up documentation from the RIG and appropriate follow-up with the CSP partner. The target date for making the determination on the allowability of these questioned costs is June 30, 2008.

Finding: Results of Local Government Effectiveness Surveys Could Be Improved

Recommendation No. 10: We recommend that USAID/Iraq's Focused Stabilization Program Office work with the Community Stabilization Program implementing partner to recalculate all prior baseline and follow-up surveys to accurately reflect the changes in survey methodology noted above.

Recommendation No. 11: We recommend that USAID/Iraq's Focused Stabilization Program Office work with the Community Stabilization Program implementing partner to amend the monitoring and evaluation plan to incorporate the changes in survey methodology noted above.

USAID/Iraq acknowledges a minor weakness in CSP survey methodology, but does not agree with these two recommendations. As correctly stated in the audit report, the data collected is used "to report *progress* towards intended results." (emphasis added) The label assigned to a value of 3 on a 1 to 5 scale, and the overall survey results, are only meaningful to analyze trends in citizen satisfaction over time, which is why CSP conducts baseline and follow-up surveys at six month intervals.

The audit report should state explicitly that the 1 to 5 scale is used in only one of four interrelated questions on the survey and that the other three are clearly labeled. Collectively, these are designed to provide a relatively high degree of validity on what is an inherently subjective matter.

It is unclear from the audit report how the RIG concluded the survey methodology is unreliable. The assertion is made, but followed by a discussion of the differences between USAID/Iraq and its partner on this matter, which does not constitute evidence of unreliability. Furthermore, as stated on page 16, it was precisely “due to concerns about the consistency of survey results if labels were added...” (i.e., reliability) that led to the decision not to change the survey. This is one reason the recommendations are impractical. It is not simply a matter of deciding after the fact that a response of 3 means “unsatisfied” and then recalculating the results. USAID/Iraq’s partner would have to conduct new surveys, which is cost prohibitive and impossible for baseline information.

Finding: External Monitoring Reports Could Be Better Utilized

Recommendation No. 12: We recommend that USAID/Iraq’s Focused Stabilization Program Office establish policies and procedures to formally document and track the status of recommendations made by the monitoring and evaluation contractor.

USAID/Iraq agrees with this recommendation. In October 2007, FSPO established policies and procedures to follow up on external monitoring reports. The RIG was unaware of this because it did not interview the relevant USAID/Iraq staff – the new FSPO Director and CSP Cognizant Technical Officer (at post since September 2007). The system includes soliciting comments from the CSP partner and from the relevant USAID PRT Rep(s). It also requires an action plan and timetable for follow-up, which is vetted by FSPO and formally incorporated into the monitoring report as an annex. In light of these measures, USAID/Iraq requests that Recommendation No. 12 be considered resolved (i.e. management decision reached) and closed upon issuance of the report.

Finding: Performance Indicators Should More Closely Link Outputs to Results

CSP’s performance management plan was the subject of an extraordinary level of flexibility, creativity and negotiation in what is a time-constrained, results-oriented and explosively violent environment. The assertion on page 19 that it was approved “prematurely” is speculative and does not reflect the very collaborative relationship that FSPO has established with its CSP implementing partner. As USAID’s role has transitioned from program implementer to program manager, such relationships have become one of the keys to the success of its programs and to the achievement of U.S. foreign policy objectives.

The discussion in the third paragraph of page 19 on CSP business development activities mentions two lower-level performance indicators: the value of financial support to businesses and the number of businesses receiving assistance. The audit report correctly states that “while these indicators show the extent of CSP activity, they do not demonstrate the effects of those activities on decreasing unemployment.” However, the main indicator that USAID and its partner use to gauge CSP’s effect on unemployment is the total number of jobs created through CSP business development activities. USAID/Iraq believes that the use of this indicator – the number of jobs created – is in fact an effective means for measuring the program’s impact on reducing unemployment.

Recommendation No. 13: We recommend that USAID/Iraq’s Focused Stabilization Program Office reassess the performance indicators in its monitoring and evaluation

plan to more closely link outputs to results, and to document the reasons for its determination.

USAID/Iraq agrees that good performance indicators are a vital tool for program management and gauging the impact of USAID's efforts under most circumstances. However, the audit report fails to take into account the emphasis placed on CSP outputs by the USG inter-agency leadership and the practical limitations of measuring higher-level indicators that are specific to CSP and the Iraqi environment.

The audit report mentions the "emphasis placed at the beginning of the troop surge on rapid job creation by CSP projects." (p. 19) However, a fuller explanation is warranted given the effect this has had on CSP. In early 2007, the U.S. National Security Council tasked USAID/Iraq with creating 40,000 "person days of employment" by June 30, 2007, primarily through CSP. After extensive discussions on how that objective would be defined and reported, USAID/Iraq and its implementing partners made extraordinary efforts to achieve this output target, which it exceeded by 20%. Such taskings are an inherent aspect of operating in Iraq, and it is not in USAID's purview to ignore or de-emphasize them. The focus for CSP has been and remains appropriately focused on outputs which the inter-agency leadership deems to be appropriate in the context of CSP's support to the overall counterinsurgency effort in Iraq.

With regard to practical limitations, the audit report references ADS guidance that good performance indicators are "direct" and "useful for decision-making." But ADS 203.3.4.2 also states that good indicators are "practical," meaning "obtained at reasonable cost and in a timely fashion." In Iraq, this is a considerable challenge. For example, FSPO would like to ascertain the impact of youth programs on mitigating conflict and, ideally, would do so through empirical means such as surveys. Unfortunately, the tenuous security environment, cultural constraints and the high cost of conducting survey work in Iraq make this suggestion impractical. Moreover, the anecdotal evidence that CSP youth programs are mitigating conflict is strong enough that FSPO does not believe that undertaking such surveys would be an effective use of limited funds.

The ADS also describes good indicators as "attributable to USAID efforts" and states that "if more than one agency or government is involved in achieving a result, Operating Units should describe exactly what role each played in achieving the result." This raises a unique challenge for CSP, as it is simply not possible to determine whether the stabilization of a community was caused by CSP's efforts, military operations, political engagement and/or other factors. The ability to do so would require a degree of civil-military integration that is often stymied by the different terminologies, time frames, objectives, management styles and information management systems of the various USG agencies involved. This has been one of the important lessons learned in executing full-spectrum, "3D" operations in Iraq and Afghanistan, but it is well beyond the scope of CSP to solve the problem.

FSPO has begun discussions with its CSP partner and USAID/Iraq's M&E contractor on ways to measure and analyze the higher-level results of the program. This might, for example, include small focus groups with youth to gauge attitudes and perceptions, or a one-time survey of business development grant recipients well after CSP's involvement has ended. However, these would be discrete activities designed to complement CSP's performance management plan, not the reassessment called for in the audit report.

USAID/Iraq requests that Recommendation No. 13 be considered resolved (i.e. management decision reached) and closed upon issuance of the report.

Audit Question: How has USAID/Iraq designed and implemented its Community Stabilization Program to help ensure that Iraqis continue to benefit from its activities after USAID involvement has ended?

USAID/Iraq thanks the RIG for the comments made in this section of the audit report.

Other Matters: Branding Policy Should Be Consistently Followed

Recommendation No. 14: We recommend that USAID/Iraq's Focused Stabilization Program Office request the Community Stabilization Program implementing partner to instruct its program office directors to more consistently follow the established branding policy.

USAID/Iraq agrees with this recommendation. In September, FSPO and its CSP partner agreed that reasonable efforts should be made to ensure that activities are attributed to the appropriate Government of Iraq entity.

USAID/Iraq requests that Recommendation No. 14 be considered resolved (i.e. management decision reached) upon issuance of the report.

SURVEY RESULTS

Perceptions of Iraqi Citizens on the Effectiveness of Local Governments in Providing Services¹⁴

CSP Area (Governorate)	Baseline Surveys	Follow-up Surveys	Calculated Improvement / (Decline)
Baghdad:			
District # 1	12.27%	39.77%	27.50%
District # 2	29.56%	1.69%	(27.87%)
District # 3	37.45%	47.13%	9.68%
District # 4	37.55%	17.29%	(20.26%)
District # 5	2.89%	25.17%	22.28%
District # 6	40.88%	51.10%	10.22%
District # 7	36.08%	43.10%	7.02%
District # 8	14.29%	42.27%	27.98%
Al Tamim	27.55%	17.10%	(10.45%)
Ninewa:			
City #1	11.71%	30.80%	19.09%
City #2	19.30%	34.15%	14.85%
Al Anbar	31.78%	24.25%	(7.53%)

Source: Unaudited CSP implementing partner data

¹⁴ The percentages in this table reflect an average of 1) respondents who indicated that they were satisfied or better with the provision of local municipal services (i.e., "satisfaction level"), and 2) respondents who indicated that these services had improved over the past twelve months and will likely do so in the coming year. We recomputed the satisfaction level to only include respondents who rated their satisfaction as 4 or better, in accordance with our discussion on pages 15-16.

EMPLOYMENT RESULTS

Number of person-months generated for short-term employment (as of September 30, 2007):

	CSP Reported Results	Substantiated Results	Percent Substantiated
Baghdad	192,744	77,140	40.0%
Other Locations ¹⁵	66,685	N/A	N/A
Total	259,429	N/A	N/A

Testing Statistics:

	Number of Projects Tested	Percent of Projects Tested	Number of Pay Periods¹⁶ Tested	Percent of Pay Periods Tested	Projects with Perfect or Near-Perfect Attendance¹⁷
Adequately Substantiated	33	50.0%	242	65.3%	18
Inadequately Substantiated	17	25.7%	59	15.9%	13
No Substantiation Provided	10	15.1%	69	18.6%	
Not Applicable ¹⁸	6	9.1%	-	0.0%	
Total	66	100.0%	370	100.0%	31

¹⁵ Due to security restrictions, the audit team was unable to perform testing for locations other than Baghdad. Other locations are shown as substantiated for illustrative purposes and cannot be interpreted as meaning they are, in fact, substantiated. Substantiated results for Baghdad are the projected results based on our sample. Our sample consisted of 144,626 person-months, of which 629 were attributable to six projects outside of our scope, as explained in the footnote below. Of the remaining 143,997 person-months, we determined 57,631 person-months to be adequately substantiated.

¹⁶ The voucher support for each pay period contained the timesheets the audit team used to determine the adequacy of the CSP employment figures.

¹⁷ The audit team noted during testing that 31 of the projects recorded perfect or near perfect attendance from those employed under the projects. It would seem unreasonable for such high attendance to regularly occur in such a volatile environment (example: 800 employees showing up with not a single absence for 3 months straight) – especially considering the dubious integrity of the timesheets as established earlier in the report.

¹⁸ Six projects were found to be nonapplicable during testing either because they had not begun by September 30, 2007 or were contracts for supplies where no employment was generated.

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