



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/IRAQ'S LOCAL GOVERNANCE PROGRAM II ACTIVITIES

AUDIT REPORT NO. E-267-09-003-P
May 31, 2009

BAGHDAD, IRAQ



Office of Inspector General

May 31, 2009

MEMORANDUM

TO: Acting USAID/Iraq Mission Director, Thomas R. Delaney

FROM: Director, Office of Inspector General/Iraq, Gerard M. Custer /s/

SUBJECT: Audit of USAID/Iraq's Local Governance Program II Activities
(Audit Report No. E-267-09-003-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments on the draft report and modified the report language as appropriate. Your comments are included in their entirety as appendix II.

The report contains five recommendations for corrective action. On the basis of your written comments, in which you described actions planned or already taken to address our concerns, we consider that final action has been taken on recommendations 1 and 3 and that management decisions have been reached on recommendations 2, 4, and 5. A determination of final action will be made by the Audit Performance and Compliance Division upon completion of the planned corrective actions for recommendations 2, 4, and 5.

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

CONTENTS

Summary of Results	1
Background	3
Audit Objective	4
Audit Findings	5
Training Courses Need Increased Oversight by USAID/Iraq	7
USAID/Iraq Needs to Implement Controls to Minimize Repetitive Training	9
USAID/Iraq Needs to Develop Criteria for Selecting Trainees	11
Contractor Performance Review Process Needs Better Methodology.....	13
Contractor Performance Reviews Need Timely Preparation	13
Contractor Performance Reviews Should Accurately Reflect Contractor Performance.....	14
Evaluation of Management Comments	16
Appendix I—Scope and Methodology	18
Appendix II—Management Comments	20
Appendix III—Reported Performance Results	24

SUMMARY OF RESULTS

Iraq does not have a history of local self-governance like that of the United States or other Western democracies. Under the authoritarian, centralized rule of the Ba'ath Party, local communities were unable to develop an administrative capacity to deliver services to their citizens, prepare or execute budgets, or effectively manage the challenges confronting them (page 3).

To address the lack of experience in local and decentralized self-governance, USAID/Iraq developed the Local Governance Program—Phase II, commonly referred to as LGPII. Started in May 2005, this \$370 million program was designed to consolidate gains made during the first Local Governance Program, which ran from 2003 to 2005, and to continue working with Iraqis to establish and strengthen the conditions, institutions, capacity, and legal and policy framework for a democratic local governance system. It was partially successful in doing so (pages 3 and 5).

In particular, LGPII achieved some success with the technical assistance and training that it had provided to Iraq's provincial councils. For example, 16 of 18 provincial councils had met criteria for functioning. In addition, each provincial council had finalized provincial development strategies for use as their provinces' public investment plans, and 16 of 18 councils had invested in projects listed in their respective provincial development strategies. Further, in the first 9 months of the year 2008, the provincial governments had contracted 60 percent of \$3.34 billion in capital budget funds that had been assigned to them by the national Iraqi Government (page 5).

LGPII also aimed to strengthen local governance by building the capacity of local council members and Iraqi governmental officials. However, USAID/Iraq did not establish criteria for selecting recipients of training and, moreover, approved a demand-driven and decentralized approach that essentially allowed Iraqi officials to enroll in whatever training courses they felt would benefit them. Consequently, approximately 27,000 Iraqis received training, but the success or short-term impact of that significant amount of training on improving local governance was not measured. In addition, controls to prevent officials from taking courses more than once had not been established. As a result, officials misused the training program by taking some courses multiple times (pages 5, 9, and 10).

Besides providing training and technical assistance to provincial and local Iraqi officials, LGPII also aimed to use Geographic Information System software to produce city maps with utility overlays to help plan for the delivery of essential services. However, progress in training Iraqi officials to use the software and develop the maps was slow. As of September 30, 2008, only two provinces had completed city property boundary maps, but neither of those maps included overlays showing utilities such as electricity, sewage, and water networks (page 6).

LGPII's project activities largely ended on December 31, 2008. This report contains five recommendations that should be addressed during LGPII's follow-on project, the Local Governance Program—Phase III (LGPIII). OIG recommends that USAID/Iraq:

- Increase its oversight of training courses by approving curriculums of courses

- offered to Iraqi Government officials.
- Implement controls to ensure that repetitive trainings are minimized.
 - Develop criteria for identifying and selecting participant trainees.
 - Prepare contractor performance reviews promptly.
 - Establish policies and procedures to ensure that the reviews portray the actual performance of its contractors (pages 9–15).

In response to our draft report, USAID/Iraq concurred with each of the five recommendations. On the basis of the mission's response, final actions have been taken on recommendations 1 and 3, and management decisions have been reached on recommendations 2, 4, and 5 (see page 16). The mission's written comments on the draft report are included in their entirety as appendix II to this report (see page 20).

BACKGROUND

Iraq does not have a history of local self-governance like that of the United States or other Western democracies. Under the authoritarian, centralized rule of the Ba'ath Party, local communities were unable to develop an administrative capacity to deliver services to their citizens, prepare or execute budgets, or effectively manage the challenges confronting them. As a result, local government officials and civil servants never learned how to assess local needs effectively, develop priorities among competing needs, or translate these priorities into realistic budgets and service delivery plans. Moreover, other than the appointed officials, citizens never participated in or interfaced with local government, and they did not understand the principles and processes of democratic governance.

To address this lack of experience in local and decentralized self-governance, USAID/Iraq developed the Local Governance Program—Phase II, commonly referred to as LGPII, and awarded a 2-year, \$90 million base contract to the Research Triangle Institute (the contractor) in May 2005. The contract had 3 option years, 2 of which have been exercised, extending the contract through 2009. Including the option years, the award had increased to \$370 million, and as of November 19, 2008, \$290 million had been disbursed.

The objectives of the LGPII activities were to consolidate gains made during the first Local Governance Program, from 2003 to 2005, and continue to work with Iraqis to establish and strengthen the conditions, institutions, capacity, and legal and policy framework for a democratic local governance system. The program focused on creating the capacity to govern at the provincial and lower levels through the following activities:

- Promote policy reform in support of local governance.
- Support clarification of the roles and responsibilities of different levels of government.
- Promote increased efficiency of local service delivery.
- Assist in the development of regularized mechanisms of citizen participation in governmental decisionmaking processes.
- Capture learning through systematic study and reflection.

In carrying out these activities, LGPII focused primarily on training members of provincial and local councils along with other local government officials.

The mission had also signed an agreement with the contractor to implement the third phase of the program, LGPIII, effective January 1, 2009, through December 31, 2010, for approximately \$145.5 million.

Figure 1. Map of the 18 Provinces in Iraq



Source: USAID/Iraq

AUDIT OBJECTIVE

As part of its fiscal year 2008 annual audit plan, the Office of Inspector General in Iraq conducted this audit to answer the following question:

- Are USAID/Iraq's local governance activities achieving intended results and what has been the impact?

Appendix I contains a discussion of the audit's scope and methodology.

AUDIT FINDINGS

USAID/Iraq's Local Governance Program—Phase II (LGPII) was partially successful in strengthening Iraq's emerging and fragile local governance system. In particular, the program achieved some success with the technical assistance and training that it provided to Iraq's 18 provincial councils.

LGPII's technical assistance to the provincial councils primarily included a set of basic and intermediate training courses that were offered to council members. Courses titles included, among others, Introduction to Council Services, Public Budgeting and Auditing, Strategic Planning, and Government–Media Relationship. Despite the harsh environment caused by the Iraqi insurgency, the provincial councils benefited from the courses, and 16 of 18 councils met criteria for functioning.¹

In addition, each of Iraq's 18 provincial councils had finalized provincial development strategies for use as their provinces' public investment plans, and 16 of the 18 councils had invested in projects listed in their respective provincial development strategies. Further, in the first 9 months of the year 2008, the provincial governments had contracted 60 percent of the \$3.34 billion² in capital budget funds that had been assigned to them by the national Iraqi Government.

Despite such progress, only three provincial councils could show that more than 50 percent of their members demonstrated the performance of key competencies, such as the use of parliamentary systems and processes and the management and oversight of accelerated reconstruction and development program funds. Mission officials explained that the program may have been overly ambitious in expecting Iraq's provincial councils to use parliamentary systems similar to state legislatures in the United States, because the councils had very limited legal powers and functioned more analogously to those of town councils. However, mission officials felt that the oversight of reconstruction and development funds was within the manageable interest of the councils.

In addition to building the capacity of the provincial councils, LGPII also aimed to strengthen local governance by building the capacity of local council members and Iraqi governmental officials. However, while training these individuals, USAID/Iraq did not establish any basic training criteria or parameters to determine which Government officials should be trained or which type of training they needed. Instead, the mission approved a demand-driven and decentralized approach that essentially allowed Iraqi officials to enroll in whatever training courses they felt would benefit them. As a result, the implementing partner's training program eventually grew to include over 100 varied training courses. Mission officials were not familiar with all the courses being offered, and the relationship between the courses and LGPII's goals was sometimes unclear.

¹ The implementing partner defined a "functioning" provincial council as satisfying the following: (1) written minutes or video documentation of meetings; (2) quorum present for at least 70 percent of meetings; (3) progress on developing provincial development strategy, annual work plan, and budget and/or capital investment project approval and execution; (4) appointment of a provincial governor by provincial council; and (5) filling any provincial council seats that became vacant.

² Unaudited. Source: Iraq's Ministry of Planning and U.S. Embassy Iraq's Office of Provincial Affairs.

In addition to allowing Iraqi officials to enroll in whatever training courses they felt would benefit them, the implementing partner did not establish controls to prevent officials from taking courses more than once. Consequently, Iraqi governmental officials, including elected provincial and local council members, misused the training courses by taking some courses multiple times.

Further, although the raw number of local officials trained was significant and measurable (26,600³), the success or short-term impact of that significant amount of training on improving local governance was not measured. However, from a longer-term perspective, mission officials said the training courses would build valuable relationships between USAID and the local governments.

Besides providing training and technical assistance to provincial and local Iraqi officials, LGPII also aimed to use Geographic Information System (GIS) software to produce city maps with utility overlays to help plan for the delivery of essential services. However, progress in developing the maps has been slow. As of September 30, 2008, only two provinces had completed city property boundary maps, but neither of those maps included overlays showing utilities such as electricity, sewage, or water networks. Mission officials said that the program's investment in a high-tech system like GIS may have been premature, but they felt that significant progress had been made in Baghdad City, which had invested \$2 million of its own resources to supplement training and equipment provided by LGPII.

LGPII also aimed to help Iraqis promote policy reforms by providing support and technical assistance to the Local Government Association, which is composed of provincial council members from each of Iraq's 18 provinces. However, the association had not yet achieved two planned milestones related to local government interaction with the national Iraqi Government. The milestones included (1) a Provincial Fiscal Decentralization Law, to be drafted by the provincial councils, and (2) a legislative agenda, to be developed by the Local Government Association. Mission officials said that although the association was influential in drafting the law that established Baghdad as the capital of Iraq, the association remained a nascent, donor-driven organization and that original expectations of its influence on policy decisions pertaining to decentralization and its ability to develop a legislative agenda were not realistic.

LGPII's project activities largely ended on December 31, 2008, and consequently, we are not making specific audit recommendations to address the performance issues concerning GIS software or the Local Government Association. We are also not making a recommendation for the mission to redesign and refocus the training program offered under LGPII's follow-on project, LGPIII, because the mission has already taken action to do so.

During the design of that project, which began on January 1, 2009, mission officials recognized and acknowledged that the broad training mandate that they had approved for LGPII needed to be modified. Consequently, they designed LGPIII to focus on assisting provincial governments in carrying out their duties as prescribed by the 2008 Provincial Powers Law. LGPIII will still include training, but only as one tool among many to help provincial governments measurably improve performance.

³ Unaudited. Source: Research Triangle Institute.

Although USAID/Iraq has redesigned its Local Governance Program, we identified some additional areas that could be improved. For example, during LGPIII USAID/Iraq should (1) increase its oversight of training courses by approving curriculums of courses offered to Iraqi governmental officials, (2) implement controls to minimize repetitive training, (3) develop criteria for identifying and selecting participant trainees, and (4) prepare timely and accurate annual contractor performance reports. Each of these issues is discussed below.

Training Courses Need Increased Oversight by USAID/Iraq

Summary: As of October 2008, LGPII was offering 105 training courses, some with multiple modules per course, for Iraqi provincial and local council members and local governmental staff. According to USAID's Automated Directives System 253.2(b), missions and their implementing partners are responsible for ensuring that participant training contributes to the achievement of the mission's intermediate results or strategic objective. However, the relationship of some LGPII courses to the mission's goals was not clear because the mission largely relied on its implementing partner to determine which training courses to offer and did not exercise its management oversight responsibility to ensure that only the most needed, relevant, and project-focused training was provided. Consequently, the partner spent project resources to develop and teach courses that may not produce the most benefits for the mission or for Iraqi governmental officials in the long term.

A primary goal of LGPII involved the development of the Iraqi Government's capacity to deliver essential local services. To help achieve this goal, USAID/Iraq's implementing partner had developed 17 core courses, including 12 basic and 5 intermediate courses, that aimed to provide members of provincial councils and local councils with the training they needed to perform their duties as council members. Course titles included Introduction to Council Services, Citizen Participation, Project Oversight, Public Budgeting and Auditing, Intergovernmental Relationships, and Strategic Planning.

In addition to the 17 core courses, 88 supplemental training courses were offered, because some of the core and supplemental courses had multiple modules per course. These courses were designed as optional, on-demand training to address the varying needs of council members and local government officials to extend their skills and competence. The courses covered subjects such as general and financial management, transparency and accountability, agricultural development, computer skills, and gender mainstreaming. As of October 2008, 105 core and supplemental courses were available to Iraqi governmental officials.

According to an official from the implementing partner, USAID/Iraq and the contractor had collaborated at the start of LGPII to determine which basic courses should be developed for provincial and local council members. Since that time, however, the number of training courses has increased substantially, but the mission's involvement in

the training curriculum has been minimal and it has neither specifically approved nor disapproved any of the supplemental training courses.

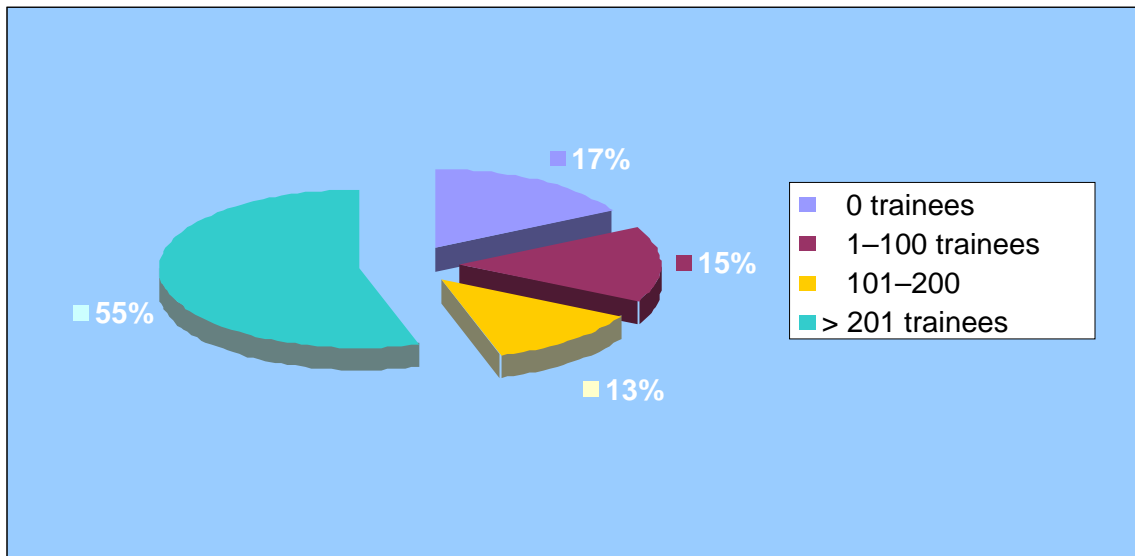
The contractor official further explained that provincial and local council members had asked for more advanced and specialized training. To meet these training requests, the contractor had developed the core intermediate courses and supplemental courses.

Although all training courses provide some benefit, several of the 88 supplemental courses did not have a clear relationship to LGPII's goal to increase the government's capacity to deliver essential services. Examples of such courses were:

- Agricultural development courses including Drip Irrigation, Sprinkler Irrigation, Design of Open Channels, Pesticides, Soil Sampling, and Fertilizers.
- Computer skills courses including Yahoo Messenger, Yahoo Email, MSN Messenger, and Hotmail.
- Project implementation courses such as Bill of Quantities for Civil Construction and Quality Control of Concrete.

In addition, some courses benefited only a few people. As illustrated in Figure 2, 45 percent of the course modules were attended by fewer than 200 trainees nationwide between May 2005 and September 2008.

**Figure 2. Analysis of Course Attendance Rates
May 2005–September 2008**



Through the end of September 2008, LGPII had provided training to over 28,000 individuals. A course's attendance rate of 200 would constitute only 0.7 percent of those who received training. Using LGPII resources to develop and teach these poorly attended courses was not an efficient use of the project's resources.

The LGPII contract provides general guidance on the type of training to be given and states that capacity building and service delivery assistance should include some variation of the following areas:

- Project analysis
- Institutional and intergovernmental coordination
- Strengthening of local government associations
- Improved citizen participation in government decisionmaking
- Public services management indicators
- Institutional alternatives for providing municipal public services
- Improved administrative processes and attention to the public
- Public hearings (including budget hearings)
- Financial management and budgeting
- Resource management and physical planning
- Information systems for management
- Enhanced role of the private sector in the provision of local public services
- Development of a citizen services center

The mission should have been more proactive in the development of LGPII's training courses and should have provided more specific training guidance in the implementing partner's contract. Instead, the mission relied on its implementing partner to determine which training courses to offer and did not exercise its management oversight responsibility to ensure that only the most needed, relevant, and project-focused training was provided. Consequently, the partner spent project resources to develop and teach courses that may not produce the most benefits for the mission or for Iraqi governmental officials in the long term.

Because capacity building and training are included in the LGPII's follow-on project, LGPIII, which began January 1, 2009, and LGPIII was awarded to the same implementing partner, we are making the following recommendation:

Recommendation No. 1: *We recommend that, under the Local Governance Program—Phase III, USAID/Iraq specifically review and approve any training course proposed by its implementing partner to be offered to Iraqi governmental officials.*

USAID/Iraq Needs to Develop Controls to Minimize Repetitive Training

Summary: Internal control serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud and helps managers achieve desired results through effective stewardship of public resources. Although controls should be in place to ensure that resources are being used efficiently, LGPII did not always have such controls over its training programs. Consequently, Iraqi governmental officials, including elected provincial and local council members, misused the training courses by taking some courses multiple times.

According to the General Accountability Office's *Standards for Internal Control in the Federal Government*, internal control is a major part of managing an organization. It comprises the plans, methods, and procedures used to meet missions, goals, and objectives and, in doing so, supports performance-based management. It also states that internal control serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. In short, internal control helps managers achieve desired results through effective stewardship of public resources and provide reasonable assurance that project objectives are being achieved.

Although controls should be in place to ensure that resources are used efficiently, LGPII did not always have sufficient controls over its training programs. Consequently, 413 of 2,542 sampled trainees (16 percent), including elected provincial and local council members, misused the training program by repeating courses three or more times. To illustrate:

- A member of the Wasit Provincial Council took the Media Training Introductory course four times in 2006 and 2008, twice in each year.
- A member of the Najaf Provincial Council took the Building Council Ground Rules course four times in 2007.
- A member of the Babil Provincial Council took the Human Rights and Prisoner's Rights course four times in 2007.
- Within Baghdad, a member of the Istiklal Qada Regional District Council took the MS Excel course 4 times and MS Word 12 times during calendar years 2007 and 2008.

Contractor officials offered several general reasons for why an individual might take a course more than once. These reasons included:

- Some trainees came from very simple educational and professional backgrounds. They were nominated to attend the course twice to make sure that they were exposed to various levels of practical sessions and workgroups.
- In some provinces, the security situation prevented many trainees from completing their courses. In such cases, trainees were nominated to repeat the course.
- Some training workshops were used as a vehicle to teach problem solving—to create implementation plans, discuss the plans, and monitor and modify them. Certain members were nominated to participate more than once to follow up on the problem-solving and planning processes.

We agree that allowing an individual to retake a course is not unreasonable in some circumstances and can be beneficial if it gives the individual a better opportunity to master a course's material. However, allowing officials to repeat training courses multiple times without sufficient management control wastes the project's resources. It can also lead to misuses in the training program, such as when some participants were paid \$15 to reimburse them for their transportation expenses to the training courses. This monetary incentive, albeit small, could have motivated individuals to repeat certain courses.

A limited analysis showed that repeat trainings occurred in each of Iraq's 18 provinces but were concentrated in 9 of them. Table 1 lists the nine provinces and shows that the

mission will continue providing capacity building and training programs in seven of these nine provinces under LGPIII.

Table 1. Comparison of Provinces Where Extensive Repetitive Training Occurred Under LGPII and Provinces Where the Mission Plans to Give Training Under LGPIII

Province	Repetitive Training Given Extensively During LGPII	Training to Be Provided During LGPIII
1. Babil	Yes	Yes
2. Baghdad	Yes	Yes
3. Diyala	Yes	Yes
4. Erbil	Yes	No
5. Karbala	Yes	Yes
6. Najaf	Yes	Yes
7. Diwaniyah	Yes	No
8. Salah ad Din	Yes	Yes
9. Wasit	Yes	Yes

Because repeat training was provided in excess in seven of the eight provinces where the mission will provide additional training under LGPIII, it is critical for the mission to implement controls to ensure that LGPIII training is not misused and that repeat training is not given to individuals unless justified.

***Recommendation No. 2:** We recommend that USAID/Iraq develop and implement controls under Local Governance Program—Phase III to ensure that training participants do not take training courses more than once unless justified.*

USAID/Iraq Needs to Develop Criteria for Selecting Trainees

Summary: USAID’s Automated Directives System, chapter 253, provides guidance on training and capacity development programs and requires that selection criteria be developed to ensure that individuals selected for training have the greatest potential to contribute to USAID’s development objectives. USAID/Iraq officials had not developed any such criteria, however. Instead, they used a decentralized approach that allowed council chairmen and training managers in the field to identify and select trainees. Consequently, individuals such as teachers, students, and hospital workers received training courses but without evidence that their training contributed to USAID/Iraq’s development objectives.

USAID’s Automated Directives System, chapter 253, “Training for Development,” contains procedures governing the design and implementation of training and capacity development programs. It states that USAID strategic objective teams and implementers, working with the host country and private sector counterparts or stakeholders, should agree on selection criteria that conform to USAID-wide guidelines and meet the requirements of the country, the development activity, and the strategic objective. It also states that the selection criteria should ensure the selection of

individuals who have the greatest potential to bring about change and contribute substantially to the development objectives of USAID and the host country.

Contrary to the above requirement, no criteria were developed for selecting individuals for training. Instead, USAID/Iraq officials used a decentralized approach that allowed training managers and council chairmen in the field to approve individuals for training using their own criteria for selecting training candidates. Consequently, various individuals, such as teachers, students, and hospital workers, attended LGPII training courses, but it was not clear whether they were the intended beneficiaries of the courses. For example:

- Professors, managers, and consultants at Kirkuk University took courses such as AutoCAD training and Provincial Development Strategy (PDS) Strategic Planning/Preparation.
- Teachers and experts at Salah ad Din University in Erbil took courses such as PDS Strategic Planning and Basic Management.
- Employees at Ana Hospital in Anbar took National Governates Law training.
- Personnel at Azady Hospital in Dahuk took courses such as Time Management for Public Officials and Provincial Budget Development.
- Students at the High Planning Institute in Dahuk and students at Sulaymaniyah University took courses in PDS Strategic Planning, Economic Development, and Microsoft Excel.
- Teachers at the Al Karama Secondary School for Girls in Dhi Qar took courses such as Women's Political Participation and Effective Leadership.
- Teachers at the Ailool School in Dahuk took courses such as Basic Management and Introductory Media Training.
- Staff in the X-ray section of the Hivi Hospital and General Hospital in Dahuk took courses such as Basic Management, Media Training Introductory, and Microsoft Word and Excel.

Although the training courses noted above may have benefited the recipients in their respective professions, it was not evident how their training contributed to USAID/Iraq's development objectives.

Because USAID/Iraq and the implementing contractor exercised little or no control over the training program, training managers in the field largely decided what training to offer. With no criteria for selecting training participants, council chairmen could select whomever they wanted for training. Consequently, project resources were used inefficiently and individuals were trained who were not intended beneficiaries of the Local Governance Program.

Recommendation No. 3: *We recommend that USAID/Iraq require its Local Governance Program—Phase III implementing contractor to develop criteria for selecting training participants and to implement controls to ensure compliance with the selection criteria.*

Contractor Performance Review Process Needs Better Methodology

Summary: According to the Office of Management and Budget's best practices for collecting and using current and past performance information, a final assessment must be prepared for contract actions upon completion of the contract or order. If the performance period exceeds 18 months, the contracting officer should conduct interim assessments at least every 12 months. However, for the third year in a row, USAID/Iraq has not produced a timely, relevant contractor performance review for the implementing partner of its Local Governance Program. In addition to being late, the performance reviews have also demonstrated inconsistent evaluations of the contractor's performance. Without timely, relevant reviews, USAID/Iraq may be unable to evaluate its options effectively during the selection process for new contracts or take corrective action to safeguard taxpayer money.

Contractor Performance Reviews Need Timely Preparation. Federal Acquisition Regulation, subpart 42.15, "Contractor Performance Information," provides policies and establishes responsibilities for recording and maintaining contractor performance information. USAID's Acquisition and Assistance Policy Directive 06-05, "Evaluation and Use of Contractor Performance Information," provides consolidated guidance on the evaluation and use of that information. The directive requires contracting officer's technical representatives to evaluate contractor performance at least annually and upon contract completion, in part to provide information for future source selection and other acquisition decisions.

The Office of Management and Budget's best practices for collecting and using current and past performance information state that a final assessment must be prepared for contract actions upon completion of the contract or order. If the performance period exceeds 18 months, the contracting officer should conduct interim assessments at least every 12 months. Despite the contractor's annual performance period ending in May 2008, USAID/Iraq did not complete a contractor performance review until November 2008. This is the third consecutive instance in as many years that OIG has identified this as an issue.

In July 2006, OIG found that no contractor performance review had been performed on LGPII's contractor and recommended that USAID/Iraq's Office of Acquisition and Assistance adopt procedures to ensure that contractor performance evaluations are prepared as required by the Federal Acquisition Regulation and USAID's Automated Directives System.⁴

In July 2007, the OIG again found that USAID/Iraq had not conducted a contractor performance review for the LGP contractor's annual performance period ending in May 2007.⁵ OIG recommended that USAID/Iraq conduct an evaluation of the contractor's performance within 30 days from the issuance of the report; the mission complied by issuing a finalized evaluation on August 29, 2007. Although technically this action addressed our prior audit recommendations, USAID has ultimately been unable to fulfill

⁴ Audit Report No. E-267-06-003-P, July 10, 2006.

⁵ Audit Report No. E-267-07-007-P, July 31, 2007.

the intent of our audit recommendations to provide timely evaluations of contractor performance. In 2008, the mission was again delinquent in its contractor performance evaluation, completing it more than 5 months after the end of the performance period.

The delinquency occurred in 2008 because contracting officers redelegated their responsibility for entering performance reports into the Contractor Performance System to locally employed staff within the mission. These staff members then entered the contractor's performance information into the system as "contracting officers," which allowed access to the performance files only to them. When the local staff departed Iraq, the files could not be accessed and finalized. The issue could have been avoided if the contracting officers had not delegated their responsibilities to the local staff.

Recommendation No. 4: *We recommend that USAID/Iraq require that the contractor performance reviews be prepared promptly by contracting officers and not redelegated to other staff members.*

Contractor Performance Reviews Should Accurately Reflect Contractor Performance. According to the Acquisition and Assistance Policy Directive 06-05, Initial Assessment 1.2.4 (c):

To maintain his/her credibility and, consequently, the eventual utility of the [contractor performance review] for the procurement decision-making processes, the initial assessor must compose authoritative, well-written narratives for the above data fields that effectively support the ratings specified: stating that "deliverables were generally on time" does not effectively support a rating of "excellent" for the Timeliness of Performance criterion.

Because an updated performance review was not available when LGPIII was contracted out, we obtained the most recently completed review, dated August 2007. During our review, we noted inconsistencies in the review and questioned its accuracy. For example, in the Timeliness of Performance section of the review, the evaluation stated that the contractor did not provide all required reports and did not provide a single report on time. It also stated that "[t]he failure to provide all the deliverables and reports has hampered the ability of USAID to manage the program and to measure its effectiveness." Despite these issues, the performance review provided a "good" rating—indicating there were no delays, or only minimal ones, that impacted achievements of contract requirements. That element of the evaluation does not appear to be accurate.

Additionally, in the Quality of Product or Service section, the evaluation rated the contractor's performance as "good," which meant that there were no quality problems, or only minimal ones, and that the contractor had met the contract's requirements. However, the written justification for the "good" rating stated that there were numerous complaints; moreover, because training material was not translated into English, it was unavailable to key personnel for review. The evaluation also stated that on average the contractor could only fill two-thirds of the PRT positions it had been contracted to fill. These details do not indicate a "good" rating.

The contractor performance review for the performance period ending May 2008 was completed in November 2008, 1 month after USAID/Iraq had entered into a contract with the same implementing partner to begin LGPIII. In this evaluation, the contractor's

Timeliness of Performance was rated “excellent,” indicating that there were no delays and that the contractor had exceeded the agreed-upon time table. The review also said the contractor had provided all required reports and deliverables on time. However, during our audit fieldwork, as identified in appendix III, we noted that the contractor had met or exceeded only two of LGPII’s eight performance indicators.

We also noted that the rating for the contractor’s Cost Control section was changed from “fair” to “good,” despite “problems and concerns with the internal controls of procurements.” There was no explanation or justification as to why the adjustment had been made, although it appears to have been because of the contractor’s rebuttal.

Without accurate contractor performance reviews, USAID/Iraq risks being unable to evaluate its options effectively during the selection process for entering into contracts and taking corrective action to safeguard taxpayer money. Therefore, we are making the following recommendation:

Recommendation No. 5: *We recommend that USAID/Iraq establish a procedure to ensure that contractor performance reviews prepared by contracting officers and contracting officer’s technical representatives are accurately supported and represent the actual performance of the contractors.*

EVALUATION OF MANAGEMENT COMMENTS

USAID/Iraq agreed with each of the five audit recommendations contained in the report. On the basis of the mission's comments, final actions have been taken to address recommendations 1 and 3, and management decisions have been reached on recommendations 2, 4, and 5. The status of each recommendation is shown below.

Recommendation No. 1: USAID/Iraq concurred with the recommendation and stated that the Local Governance Program III (LGP III) task order requires the contractor to submit all of its training materials for prior review and approval by USAID/Iraq. The mission also stated that the contractor had been very diligent in submitting training courses for the mission's review in a timely manner. As evidence of its implementation of the recommendation, USAID/Iraq provided e-mails supporting its review of the contractor's eight orientation courses and its subsequent approval of the courses. On the basis of the mission's actions, final action had been taken on recommendation 1.

Recommendation No. 2: USAID/Iraq concurred with the recommendation and stated that LGP III, in contrast to LGP II, was no longer a big training program. In addition, the mission said that the number of training courses planned to be furnished over the span of the entire LGP III had been reduced from over 100 to fewer than a dozen. In response to the recommendation, the mission stated that the LGP III contractor had agreed to expand the training participant registration form to include language requiring the training applicants to indicate whether they have been enrolled in this training before. If the answer is positive, the applicant will have to provide written explanation of why he/she needs to take the same course again. In addition, the mission said that LGP III monitoring and evaluation staff will review the training database quarterly to determine whether any participants have been taking courses more than once and will report this information in the quarterly progress reports to the COTR. On the basis of the mission's comments, a management decision has been made to address recommendation 2. Final action can occur once the training registration form has been revised and the contractor submits evidence that its monitoring and evaluation staff are performing quarterly reviews of the training database to determine whether participants are repeating any courses.

Recommendation No. 3: USAID/Iraq concurred with the recommendation. In its comments, the mission stated that the annual implementation plan for LGP III under section B, Target Groups, limited the potential pool of training recipients to provincial council members and governors and their staff and requested OIG's concurrence that the mission had taken final action on the recommendation. On the basis of our review of the implementation plan, final action has been taken on recommendation 3.

Recommendation No. 4: USAID/Iraq concurred with the recommendation and stated that the mission had a system in place that identifies all contracting officer technical representatives (COTRs) and tracks when contractor performance reports (CPRs) are due. However, the late submission of CPRs will now be reported to respective office chiefs as well as to the deputy mission director. It also stated that an e-mail would be

sent to all of the mission's COTRs to notify them of the procedure. In regard to the redelegation of entering CPR data, the mission said its Office of Acquisition and Assistance director would send an e-mail to the mission's contracting officers to inform them that they cannot redelegate their responsibility for entering CPRs in the contractor performance review database. On the basis of the mission's comments, a management decision has been reached on recommendation 4. Final action can occur once the mission has notified its COTRs of its new elevation procedure for late CPRs and notified its contracting officers that they are not allowed to redelegate their responsibility for entering CPRs in the contractor performance review database.

Recommendation No. 5: USAID/Iraq concurred with the recommendation and described its procedures to ensure that contractor performance reviews were accurately supported and represented the actual performance of the contractors. In addition, the mission said that it would issue a reminder of the mission's procedures to USAID/Iraq's COTRs and office chiefs. On the basis of the mission's comments, a management decision has been made to address recommendation 5. Final action can occur once the mission has notified its COTRs and office chiefs of the contractor performance review procedures.

USAID/Iraq's written comments on the draft report are included in their entirety as appendix II to this report.

SCOPE AND METHODOLOGY

Scope

The Office of Inspector General/Iraq conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions consistent with our audit objective. We believe that the evidence obtained provides this reasonable basis.

The purpose of the audit was to determine whether USAID/Iraq's Local Governance Program is achieving its intended results and to assess what impact the program has made. The audit reviewed projects and activities performed from the inception of the Local Governance Program—Phase II (LGPII) contract in May 2005 through its most recent performance reporting period ending September 2008.

In planning and performing the audit, we gained an understanding of USAID/Iraq's existing management controls and identified and reviewed internal controls related to administrative requirements of the LGPII contract effective May 9, 2005. We tested contractor performance in meeting the obligations established in the performance management plan and adherence to USAID's Automated Directives System and Acquisition Regulations, as well the Federal Acquisition Regulation and the Acquisition and Assistance Policy Directives, as they relate to implementing LGPII.

Fieldwork was performed from September 4, 2008, to February 8, 2009, at the USAID compound and the contractor's compound—both within the International Zone in Baghdad, Iraq. As of February 24, 2009, the LGPII contract had reported an obligation of approximately \$370 million and a disbursement of approximately \$312 million.

Methodology

To answer the audit objective, we identified the strategic indicators and corresponding targets that the contractor was expected to accomplish through the program's performance management plan. We examined pertinent documentation such as the contract and contract modifications, minutes from USAID/Iraq portfolio reviews, performance management plan, the contractor's work plans and performance reports, plus various other reporting deliverables and products identified in the contract. We also interviewed the prior and current cognizant technical officers (now known as contracting officer's technical representatives) responsible for the Local Governance Program along with numerous representatives from the program's contractor.

During our fieldwork, we verified results reported as of September 2008 in the contractor's semiannual performance monitoring report, released in December 2008. This verification included obtaining provincial development strategies, copies of provincial newspapers and Web sites to determine citizen outreach efforts, and evaluations of provisional council competence.

We also reviewed the contractor's training database and performed analytical procedures to identify (1) individuals who took training courses more than once, (2) duplicative training entries, (3) attendance traffic of the offered courses, and (4) the relevance of the courses to LGPII's strategic objectives. In addition, a sample of attendance records was selected randomly to determine the reliability of the contractor's database.

MANAGEMENT COMMENTS



May 6, 2009

To: Director, Office of Inspector General/Iraq, Gerard Custer

From: USAID/Iraq, Mission Director, Christopher D. Crowley /s/

Subject: Management Comments, Audit of USAID/Iraq's Local Governance Program II

References: Draft Audit Report No. E-267-09-00x-P

Thank you for affording the USAID/Iraq Mission an opportunity to respond to the draft of the audit of USAID/Iraq's Local Governance Program II Activities. Below is the Mission's response to the five (5) recommendations outlined in the draft audit for your consideration.

We would also like to thank your team who spent a good deal of time evaluating this issue. We look forward to resolving the five recommendations in a timely fashion.

Background

The objectives of the LGPII activities were to consolidate gains made during the first Local Governance Program, from 2003 to 2005, and continue to work with Iraqis to establish and strengthen the conditions, institutions, capacity, and legal and policy framework for a democratic local governance system.

In carrying out these activities, LGPII focused primarily on training members of provincial and local councils along with other local government officials.

As part of its fiscal year 2008 annual audit plan, the Office of Inspector General in Iraq conducted this audit to answer the question whether USAID/Iraq's local governance activities achieved the intended results and what the impact had been. The OIG draft audit report of the Local Governance Program II was provided to the Mission on March 22, 2009.

The Mission recognizes the value as a management tool of this OIG audit, and has

examined each finding to determine 1) whether the Mission is in agreement, and 2) what actions would be undertaken in response to the audit.

Below please find Management Comments laying out what actions have been undertaken to address the findings and recommendations identified in the subject audit report.

Recommendation No. 1: *We recommend that, under the Local Governance Program - Phase III, USAID/Iraq specifically review and approve any training course proposed by its implementing partner to be offered to Iraqi governmental officials.*

Action taken:

USAID/Iraq concurs with the recommendation and has taken the following action. The Task Order for LGP III contains explicit language under section F.2 - Deliverables, which requires RTI to submit all of its training materials for prior review and approval by USAID/Iraq. The Contracting Officer's Technical Representative (COTR) for LGP III confirmed that as of April 30, 2009, RTI is very diligent in meeting the requirements of the contract and has been submitting training courses for USAID review in a timely manner. The Mission requests OIG's concurrence that final action has been taken on this recommendation.

Recommendation No. 2: *We recommend that USAID/Iraq develop and implement controls under Local Governance Program - Phase III to ensure that training participants do not take training courses more than once unless justified.*

Action taken:

USAID/Iraq concurs with the recommendation and has taken the following action. The third phase of USAID's Local Governance Program, LGP III, is not a continuation of LGP II. It is a new project within a new context. That context includes a new law - the Law of Governorates not Incorporated into a Region, or Provincial Powers Act (PPA) and a new political environment. The main distinction of LGP III is that in contrast to its predecessor, LGP II, the current project is no longer a big training project. Other than the initial "orientation" training package, which is due to be delivered within the first two quarters of 2009, the rest of LGP III technical assistance efforts are intended to be focused on on-job mentoring/coaching and providing real time consultancy to its beneficiary provinces. Therefore, the number of training courses planned to be furnished over the span of the entire LGP III has been reduced from over 100 to less than a dozen.

In addition, the recommendation was raised and discussed with RTI's project management, which agreed to expand the training participant registration form to include language requiring the training applicants to indicate whether they have been enrolled in this training before. If the answer is positive, the applicant will have to provide written explanation on why he/she needs to take the same course again. LGP III M&E staff will also review the training data-base on a quarterly basis to determine whether any participants have been taking courses more than once and will report this info in the quarterly progress reports to the COTR. The Mission requests OIG's concurrence that a management decision has been made on this recommendation.

Recommendation No. 3: *We recommend that USAID/Iraq require its Local Governance Program—Phase III implementing contractor to develop criteria for selecting training participants and to implement controls to ensure compliance with the selection criteria.*

Action taken:

USAID/Iraq concurs with the recommendation and has taken the following action. The Scope of Work as well as the annual implementation plan for LGP III under section B. - Target Groups state the following: “LGP III will target its assistance to the provincial councils and the governor. The project may extend its work to the qadaa level following local elections. Until sub-provincial elections occur, training of nahya and hay level councils is the responsibility of USAID’s Community Action Program or CAP partners.” Therefore, the potential pool of recipients of LGP III training/technical assistance is clearly identified and limited only to Provincial Council Members, Governors and their staff. The Mission requests OIG’s concurrence that final action has been taken on this recommendation.

Recommendations: No. 4: *We recommend that USAID/Iraq require that the contractor performance reviews (CPRs) be prepared promptly by contracting officers and not re-delegated to other staff members*

Action taken:

USAID/Iraq concurs with the recommendation and has taken the following action. USAID/Iraq’s Office of Acquisition and Assistance has an established system in place, which identifies all COTRs and keeps track of all CPRs and when they are due. However, late submission of CPRs will now be reported to respective office chiefs as well as to the Deputy Mission Director. An e-mail will be sent to all of the Mission’s COTRs reminding them of the evaluation procedure. In regard to re-delegating CPRs, the Director of the Mission’s Office of Acquisition and Assistance will send an e-mail to the Mission’s contracting officers informing them that they cannot re-delegate their responsibility for entering CPRs in the contractor performance review database. The Mission requests OIG’s concurrence that a management decision has been made on this recommendation.

No. 5: *We recommend that USAID/Iraq establish a procedure to ensure that contractor performance reviews prepared by contracting officers and contracting officer’s technical representatives are accurately supported and represent the actual performance of the contractors.*

Action taken:

USAID/Iraq concurs with the recommendation and has developed the following procedures. Once a CPR is completed by the COTR the respective technical office chief will conduct an initial quality check to ensure that the CPR is accurate and its statements are supported by appropriate documentation and records. The next and final quality control check would take place when the CPR is submitted to the Office of Acquisition and Assistance (OAA). Once the OAA reviews it and confirms that the CPR is accurate

and its statements are well justified and supported by necessary documentation, the CPR would be entered into the official contractor performance review data-base. A reminder of this Mission's procedure will be sent to USAID/Iraq's COTRs and office chiefs. The Mission requests OIG's concurrence that a management decision has been made on this recommendation.

APPENDIX III

Table 2. Performance Results Reported in the Semiannual Report as of September 30, 2008, vs. Actual Results Tested by OIG

Performance Indicator		LGPII's 2008 Target	LGPII's Reported Results	Results per OIG Audit	Met Target?	Notes
9.A	Provincial councils (PCs) and district councils (DCs) that met project criteria for functioning during the last 6 months	15 PCs; 16 DCs	16 PCs; 28 DCs	16 PCs; 28 DCs	Yes	This indicator was accurately reported.
9.B	Provincial councils that invested in projects according to public investment priorities in the PDS during the last 6 months	18 PCs	16 PCs	16 PCs	No	This indicator was accurately reported.
9.1.A	Milestones of legislative progress related to local government interaction through the legal framework, with national government's impact on existing and newly proposed legislations and the legislative process	Milestones 5 and 6	In progress	Not met	No	This indicator was accurately reported.
9.1.B	Provincial councils that finalized their PDS for use as the province's public investment plan	18 PCs	18 PCs	18 PCs	Yes	This indicator was accurately reported.
9.2.A	Provincial councils in which more than 50% of current members have demonstrated performance of key competencies	15 cumulative	6 cumulative	3 cumulative	No	The contractor was only able to provide evidence that 3 PCs satisfied this indicator. Insufficient evidence existed for the rest.
9.2.B	Provinces that have used GIS capacity to produce city maps with utility overlays that inform planning for delivery of essential services	15	16	0	No	2 cities have completed property boundaries in GIS and 14 more are in progress, but none have the utility overlays as required by the performance indicator.
9.2.C	Capital budget funds assigned to provincial governments in FY 2006–08 that were contracted for projects	\$2.5 billion assigned for committing	60% of \$3.34 billion assigned for committing	~\$2 billion (60%) assigned to contracts ⁶	No	Indicator not yet met, though another 3 months remain before the end of Iraq's fiscal year
9.3.A	Subnational councils or other government offices that used mechanisms to solicit citizen input related to public policy decisions or issues in the last 6 months	15 PCs	17 PCs	17 PCs	Yes	This indicator was accurately reported, but we note that six provinces rely solely on Web sites. Multiple statistics report that an extremely low percentage of Iraqis have Internet access, so the reported figure may be misleading.

⁶ Unaudited. Source: Iraq's Ministry of Planning and U.S. Embassy Iraq's Office of Provincial Affairs.

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