OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/IRAQ'S LOCAL GOVERNANCE ACTIVITIES

AUDIT REPORT NO. E-267-06-003-P
July 10, 2006

BAGHDAD, IRAQ

Office of Inspector General

July 10, 2006

MEMORANDUM

TO: USAID/Iraq Acting Mission Director, Don J. Brady
USAID/Iraq Acquisition and Assistance Office
Director, Catherine M. Moore

FROM: Acting Regional Inspector General/Baghdad, Terry Youngblood /s/

SUBJECT: Audit of USAID/Iraq's Local Governance Activities
(Report No. E-267-06-003-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments on the draft report and have included them in their entirety as Appendix II.

The report contains five recommendations for corrective action. In your written comments, you have concurred with Recommendations Nos. 1 through 4 and described actions the Mission has taken or plans to take to address the auditors' concerns. Based on your comments, we consider that management decisions have been reached on Recommendations Nos. 1 and 2. Please coordinate final action with USAID's Audit, Performance and Compliance Division. Management decisions for Recommendations Nos. 3 and 4 can be recorded when USAID/Iraq has developed a firm plan of action, with target dates for implementing the recommendations. In this regard, please advise us in writing within 30 days of the actions planned to implement these recommendations.

You did not concur with Recommendation No. 5, but based on your comments and documentation provided, we consider that a management decision has been reached and that final action has been taken.

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

U.S. Agency for International Development
USAID/IRAQ/RIG
APO, AE 09316

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SUMMARY OF RESULTS

The Regional Inspector General in Baghdad, Iraq conducted this audit to determine whether USAID/Iraq's local governance activities achieved their intended outputs (page 3).

We could not determine if USAID/Iraq's local governance activities achieved their intended outputs because USAID/Iraq did not require Research Triangle Institute (RTI) International to submit all reporting and monitoring documents specified in the contract (see pages 4 - 6). Furthermore, USAID/Iraq did not properly approve all rapid response grants, prepare contractor performance evaluations, or review payment vouchers submitted by RTI (see pages 7 - 9).

This report includes five recommendations to assist USAID/Iraq in more fully monitoring the progress and accomplishments of follow-on local governance program activities (see pages 6, 7, 8, and 9). Mission management agreed with Recommendations Nos. 1 through 4, but they disagreed with Recommendation No. 5. Management decisions were reached on Recommendations Nos. 1 and 2. Management decisions have not been made for Recommendations Nos. 3 and 4. While Mission management did not concur with Recommendation No. 5, based on their comments and documentation provided, it was determined that a management decision had been reached and that final action had been taken.

Management comments are included in their entirety (without attachments) in Appendix II.

BACKGROUND

Iraq has a long history of centralized governance. After the overthrow of the Iraqi monarchy and the establishment of the Revolutionary Command Council in 1958, a centralized, dictatorial regime ruled the country. Furthermore, with the imposition of sanctions in the 1990s, Iraq's lack of contact with the outside world and insufficient exposure to new management practices, technologies, and processes further impeded services reaching the local level. Municipal services in most cities, including Baghdad, seriously deteriorated before Saddam Hussein's regime was overthrown in 2003. In addition, following the end of the conflict in March 2003, considerable damage to infrastructure occurred as a result of widespread looting and sabotage.

Local governance in postwar Iraq is in a transitional phase; it has emergent structures, processes, and capabilities to serve citizens, but understanding mechanisms for transparency and accountability and involvement of citizens in local government still has to take place. Without effective local government, it is difficult for the Iraqi people to rebuild and create prosperous communities.

USAID/Iraq's local governance program was implemented by Research Triangle Institute (RTI) International from March 2003 through May 2005. When the program began, Iraqi institutions were virtually unable to provide basic services such as water, sewer, electricity, and solid waste collection and disposal. Therefore, during the initial year, the local governance program focused on (1) restoring basic services through the use of rapid response grants, (2) developing transparent and accountable local and provincial governments by providing technical assistance, and (3) strengthening civil society organizations by providing training. The second year of the program focused on facilitating Iraq's transition to a sovereign state, with an emphasis on institutional capacity building to enable local governments to take responsibility for providing services to citizens effectively and efficiently.

The local governance program had total obligations and disbursements of approximately $242 million and $240 million, respectively (as of January 31, 2006). Of the amount disbursed, approximately $57 million was spent in Iraq for program-related goods and services, including the rapid response grants. Funds were also disbursed for security and other support services ($55 million) and vehicles and other property ($17 million). In addition, there were expenditures related to contractual obligations such as overhead, general administrative costs and profit ($55 million), and subcontracts and other direct costs ($56 million).

AUDIT OBJECTIVE

As part of the fiscal year 2006 annual audit plan and because of the importance of the local governance program, the Regional Inspector General in Baghdad, Iraq conducted this audit to answer the following objective:

- Did USAID/Iraq's local governance activities achieve their intended outputs?

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

AUDIT FINDINGS

We could not determine if USAID/Iraq's local governance program activities achieved their intended outputs because the Mission did not enforce the contract requirements that Research Triangle Institute (RTI) International submit quarterly work plans and semi-annual performance monitoring reports which were to include interim and final targets.[1]

As shown in its final report to USAID/Iraq, under the local governance program RTI carried out many activities in all 18 governorates throughout Iraq. For example, it reported program accomplishments such as:

- forming or strengthening approximately 745 councils at various levels of government and within communities;
- training more than 20,000 council members;
- rehabilitating schools, health clinics, city office buildings, and community centers; and
- conducting over 20,000 civic dialogue program events (dialogues, lectures, and town hall meetings) covering various topics such as elections, human rights, and democracy that reached approximately 750,000 Iraqi citizens.

Nevertheless, without relevant work plans setting forth intended outputs and associated milestones and without periodic monitoring reports, USAID/Iraq could not be sure if contract activities were actually contributing to the intended outputs and, ultimately, program results. In addition, USAID/Iraq (a) did not always properly approve the rapid response grants, (b) did not prepare annual contractor performance evaluations as required by the Federal Acquisition Regulation, and (c) did not review payment vouchers submitted by RTI. The following sections discuss these issues.

Contract Terms Should Be Enforced for All Reporting and Monitoring Requirements

Summary: USAID/Iraq did not require RTI to submit all reporting and monitoring documents specified in the contract. The contract terms called for RTI to submit quarterly work plans and semi-annual performance monitoring reports detailing benchmarks toward achieving performance indicators and results, but RTI did not submit these plans and reports. The Mission did not enforce all contract terms due to staffing-related challenges during contract implementation. As a result, the audit team was not able to determine if intended outputs were accomplished.

[1] The performance monitoring plan required by the contract is analogous to the performance management plan cited in USAID's Automated Directives System (ADS); the former is the term used prior to 2002. RTI submitted the required plan but titled it a performance measurement plan.

Requirement for quarterly work plans - USAID/Iraq's contract with RTI required RTI to submit quarterly work plans. Instead of submitting the required quarterly work plans, RTI submitted an implementation plan, dated August 2003, which listed selected core activities to be accomplished within the contract period. For the second program year, RTI submitted a work plan, dated July 2004, which included a set of intended outputs and indicators. Although both plans were provided to USAID/Iraq, there is no documentation that either of RTI's plans was approved by the Mission's cognizant technical officer. Furthermore, the intended activities changed during the course of the program. Some changes were due to a change in program priorities, and some changes were due to a deteriorating security situation. As RTI noted in its June 2005 final report on the program, the security situation restricted team movements, and lockdowns became more frequent beginning in November 2003. RTI reported that the violence following an uprising in April 2004 had devastating effects on its staff deployment and program activities. At one point most of RTI's international employees were evacuated from Iraq.

Although RTI submitted the required monthly reports on activities undertaken during the month, the reports did not provide information on program implementation in a format that allowed the Mission to measure progress against pre-defined intended outputs. Rather, the monthly reports merely described what was accomplished during the period, without considering progress toward intended outputs. For example, as discussed in one monthly report, RTI initiated a civic dialogue program (consisting of dialogues, lectures, and town halls meetings) to engage the Iraqis in the political process. By the end of the first year, approximately 1,450 democracy dialogue events had been conducted, reaching roughly 100,000 people, of whom 10 percent were sub-national government officials. While these dialogue events were within the contract scope of work, they were not specifically included as a work objective in the implementation plan. In this instance, the audit team could only conclude that activities had taken place but not whether intended outputs were achieved.

USAID/Iraq staff did not enforce all contractual requirements due to staffing-related challenges during the implementation period. The Mission itself was in transition, and daily operational requirements were emphasized in lieu of administrative requirements. A typical staff assignment was for one year or less, and this contributed to inefficiencies and lapses in program management. Furthermore, during the two years of the local governance program, three contract officers and five cognizant technical officers worked for varying lengths of time on the contract.

Nevertheless, Automated Directives System (ADS) Chapter 202.3.6 states that a major task of cognizant technical officers is to monitor the quality and timeliness of outputs because outputs are critical to achieving results. Without updated, approved quarterly work plans that also incorporated milestones for measuring the program's progress, and without progress reports that tracked progress against these milestones, it was not possible to gauge whether program activities were conducted in a manner that enabled RTI to reach intended outputs.

Although the original local governance program has ended, there is a follow-on local governance program being implemented by RTI, and the contract for that program contains similar requirements. Accordingly, we are making the following recommendation:

> *Recommendation No. 1: We recommend that USAID/Iraq require Research Triangle Institute International to submit quarterly work plans that include intended outputs and associated milestones.*

Requirements for monitoring plan and reports - USAID/Iraq's contract with RTI also required the contractor to submit a performance monitoring plan and semiannual performance monitoring reports. Both the monitoring plan and the format for the monitoring reports were to be approved by USAID/Iraq. In brief, the monitoring plan was to include:

- the methodology on how data would be collected,
- interim and final targets, and
- a timeline for collecting data.

The semiannual reports were to detail benchmarks toward achieving results, the data collected, and the method of collection. The first report was to be submitted no later than October 30, 2003, with subsequent reports submitted semiannually.

As required by the contract, RTI developed a performance measurement [monitoring] plan dated September 2003, but it was unclear whether USAID/Iraq approved the plan. RTI did not submit the required semiannual performance monitoring reports. Such reports should include new performance information as programs develop and evolve and would be the means for updating the performance plan. For the second year of program implementation, RTI submitted a work plan dated July 2004. This plan included a set of intended outputs and indicators, but the information did not readily correspond to the outputs in the September 2003 performance plan. Even though the work plan included updated activities and outputs, RTI did not use the information to update the performance measurement plan to reflect the revised objectives.

For its part, USAID/Iraq did not require RTI to update the performance measurement plan to incorporate program changes and results. In addition, Mission staff did not require RTI to submit semi-annual performance monitoring reports showing progress toward targets set by the indicators. This occurred due to oversights caused by the temporary nature of Mission staffing, where a typical assignment at the Mission was one year or less. RTI reported on activities in monthly reports by region and objectives, and assumed that it was meeting the contract requirements.

In the absence of semiannual performance monitoring reports, the auditors reviewed RTI's monthly progress reports in an attempt to determine if progress had been made toward intended outputs. However, the differences in detail and format between the monthly reports and the performance and work plans precluded us from making this determination. As a result, USAID/Iraq had no assurance that the local governance program activities achieved the intended outputs.

The contract for the initial local governance program has ended, but because of the follow-on contract we are making the following recommendation:

Recommendation No. 2: We recommend that USAID/Iraq require Research Triangle Institute International to submit semi-annual performance monitoring reports in accordance with contract requirements and that the performance measurement plan be revised when program objectives are changed.

Grants Should Be Properly Approved by Mission Personnel

According to the contract with RTI, as well as ADS 302.5.6, USAID/Iraq was to be significantly involved in establishing selection criteria and had to approve the actual selection of grant recipients. During the two years of program implementation, the local governance program approved 224 rapid response grants, totaling approximately $17.3 million. The grants, which ranged in value from approximately $300 to $250,000, were used to restore essential services and supported activities in areas such as local government, education, health, electricity, water, and civil society. However, USAID/Iraq did not always approve the grants as required by the contract and the ADS.

In order to verify if authorized Mission staff approved the grants as required, we statistically selected 61 grants (valued at $9.0 million). Tests revealed that 33 grants (valued at $4.9 million) were not approved as required. For example, 30 grants were approved by Mission employees who did not have formal delegated approval authority while 3 grants did not have evidence of any USAID approval. Based on this sample, the audit team projected that $9.4 million in grants were not approved by Mission personnel as required. The audit team also confirmed that the 61 grants had the required RTI approvals and met the selection criteria.

Because of the quick turnaround requirements for the rapid response grants and the constraints due to staffing and security challenges, the grants were not always approved in accordance with the contract and USAID requirements. Since the selection and approval of grants are significant events that can impact overall contract success and program results, it is important that authorized Mission staff be involved in the process. The exclusion of such staff poses a risk to the success of the individual grants and of the overall contract. Consequently, we are making the following recommendation:

Recommendation No. 3: We recommend that USAID/Iraq establish procedures to ensure that grants under contracts are approved by authorized Mission personnel.

Evaluations of Contractor's Performance Need to Be Completed

According to ADS 302.5.9, it is USAID policy that contracts in excess of $100,000 must be evaluated at least annually for contracts exceeding one year in duration and upon completion of activities, as required by section 42.1502 of the Federal Acquisition Regulation. USAID/Iraq did not evaluate RTI's performance because the contracting office had not developed specific procedures or assigned responsibility to staff to ensure

that evaluations were completed. The contracting officer stated that several cognizant technical officers were assigned to the contract during the two-year period of performance and therefore were not fully aware of activities conducted by the contractor at the time an interim and a final evaluation should have been completed. For example, one cognizant technical officer was assigned to the contract in July 2004—more than three months into the second evaluation period. Consequently, this officer did not feel comfortable about completing an evaluation for the entire two-year period.

Because past performance evaluations may be used to support future contract award decisions, not completing contractor performance evaluations can potentially result in awarding future contracts to poor past performers. To ensure that RTI's performance is documented for the follow-on local governance program in accordance with USAID policy, we are making the following recommendation:

> *Recommendation No. 4: We recommend that USAID/Iraq/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.*

Payment Vouchers Should Be Reviewed

USAID's *Guide for Managers and Cognizant Technical Officers* emphasizes that the cognizant technical officer should review, analyze, and evaluate the contractor's progress, performance, and compliance with technical, price, and schedule provisions of the contract. RTI's expenses were paid through a letter of credit arrangement and therefore did not require administrative approval for payment. Nevertheless, the cognizant technical officer was still responsible for reviewing and comparing the monthly progress reports to the corresponding payment vouchers to determine the reasonableness of the incurred costs with respect to the activities undertaken. The audit team found no evidence, however, that the various cognizant technical officers assigned to the RTI contract performed such reviews.

Due to staffing challenges during the contract implementation period and the workload, daily operational requirements took precedence, and payment vouchers were not reviewed when payments were made under letters of credit. While there was no requirement for an administrative approval for payment, monitoring of programmatic and financial aspects of the contract is essential for program success. Specifically, all payment vouchers, including those where payment is made under a letter of credit, should be reviewed to ensure that they accurately reflect the work completed during the period in accordance with the requirements of the contract. Without such reviews, there was no assurance as to the reasonableness of the approximately $240 million disbursement made to RTI.

Proper review of payment vouchers is a significant event that can impact overall contract performance. Therefore, we are making the following recommendation:

Recommendation No. 5: We recommend that USAID/Iraq establish procedures to ensure that vouchers submitted by contractors and grantees are reviewed for accuracy and reasonableness in comparison to the work performed.

EVALUATION OF MANAGEMENT COMMENTS

In commenting on our draft report, USAID/Iraq agreed with Recommendations Nos. 1 through 4, but did not concur with Recommendation No. 5. USAID/Iraq's response to each of the five recommendations is evaluated below.

In response to Recommendation No. 1, Mission management modified the contract to require (1) quarterly implementation plans that include an activity-based budget for each of the significant activities designated in the contract and (2) the contractor to submit quarterly activity reports that include a report of expenditures, by activity, as compared to the activity-based budget. Based on the response, we consider the recommendation to have received a management decision. However, the contractor has failed to provide the required quarterly implementation plans and the quarterly activity reports.

Regarding Recommendation No. 2, Mission management modified the contract to require the contractor to submit semi-annual performance monitoring reports on December 10 and June 10 of each year and added language which would allow revisions to the performance measurement plan as necessary. Furthermore, the Mission provided a copy of the draft performance monitoring plan (PMP) for the base year dated November 2005 which is expected to be finalized after the Mission's overall PMP for its new strategic framework (2006 - 2008) is approved. We consider the recommendation to have received a management decision. However, the contractor has failed to submit semi-annual performance monitoring reports as required by the contract.

Therefore, determination of final action for Recommendations Nos. 1 and 2 will be made by the Audit, Performance and Compliance Division (M/CFO/APC).

Concerning Recommendation No. 3, Mission management modified the contract to the effect that all grants exceeding $250,000 and any amendments to existing grants shall be approved by the Administrative Contracting Officer (ACO). Further, the contractor's grants manual will be approved by the ACO and incorporated by reference into the contract. Mission management also stated no funds will be transferred from the contractor account to host government or state-owned enterprises under LGP II program. However, the Mission's response did not address the approval of grants under contracts when the grants are less than $250,000. According to ADS 302.5.6, the actual selection of grant recipients under contracts must be approved by USAID; this requirement is not limited to grant exceeding $250,000. Therefore, we do not consider the recommendation to have received a management decision.

For Recommendation No. 4, Mission management stated that USAID/Iraq/Office of Acquisition and Assistance (OAA) has requested and Executive Office has agreed to revise the end-of-assignment checkout list to add a section on contractor performance evaluations, which has to be signed off by the OAA as a means to ensuring compliance in this area. In addition, to correct the deficiency, the Mission has prepared the contractor performance report for the period May 2005 to May 2006. We do not consider the recommendation to have received a management decision. An internal

OAA procedure to ensure the completion of the contractor performance evaluations would be more effective. The end-of-assignment checkout list may be sufficient in identifying deficiencies with respect to contractor performance evaluations. However, it would not ensure that the evaluations are completed in a timely and proper manner.

In response to Recommendation No. 5, Mission management disagreed with our recommendation and stated that: (1) it would not be necessary to establish Mission-specific procedures given that cost principles of FAR Part 31.2 already applies to the contract; (2) the contract had been modified to require a SF-1034, detailing items billed as direct costs during the report period (prior to this modification, the contractor use the SF-269 to obtain funds through a letter of credit arrangement rather than on a reimbursement purposes); and (3) the contractor has been providing financial statements since the modification. The Mission provided documentation demonstrating that submitted vouchers were being reviewed. Based on the actions taken and our review of the documentation provided, we consider that final action is complete on Recommendation No. 5.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General in Baghdad conducted this audit in accordance with generally accepted government auditing standards to determine if USAID/Iraq's local governance activities under the Research Triangle Institute (RTI) International contract, EDG-C-00-03-00010-00, achieved their intended outputs. Overall, the audit evaluated the Mission's management controls to ensure that all aspects of monitoring were aligned toward making certain that the intended outputs were achieved. In assessing controls, we emphasized financial controls as well as controls over monitoring and reporting of program results.

As of January 31, 2006, the local governance program had total obligations of $242 million and total disbursements of $240 million. We judgmentally selected reported activities for substantive testing. In addition, we reviewed 19 approved rapid response grant files maintained by the Mission to determine whether the cognizant technical officers were managing activities in accordance with the requirements of the Automated Directives System (ADS) Chapter 303, "Grants and Agreements to Non-Governmental Organizations," and cognizant technical officer designation letters. For grants' management controls and site visits, we judgmentally selected 11 grants from RTI's grant closeout report dated March 2005 but were only able to visit four grantees due to security concerns. Overall, RTI reported 224 grants with a total value of $17.3 million.

RIG/Baghdad performed the audit with fieldwork mainly taking place at USAID/Iraq. In addition, we conducted fieldwork at the RTI compound in the International Zone, at the RTI Regional Offices in Baghdad and Hillah, and at various project sites in the Baghdad and Hillah regions. The audit fieldwork was conducted from October 6, 2005, through February 16, 2006.

In planning and performing the audit, we assessed management controls pertaining to review and approval of key programmatic and financial documents and adequacy of oversight of RTI activities as evidenced by correspondence and documentation of site visits and key meetings. Specifically, we reviewed and evaluated (1) base year (March 2003 – March 2004) and final (June 2005) reports, (2) the Rapid Response Grant Management Plan, (3) the performance measurement plan, (4) implementation and work plans for the base and the option year, respectively, (5) contractor-submitted vouchers, (6) monthly progress and financial reports, and (7) incurred cost audits of the contract by the Defense Contract Audit Agency.

Methodology

To answer the audit objective, we reviewed pertinent laws and regulations such as those found in the ADS, the program requirements as defined by RTI contract EDG-C-00-03-00010-00 and associated implementation and work plans. We interviewed present and past cognizant technical officers and other key Mission staff in financial, acquisition, and program domains. In addition, we interviewed key programmatic and financial staff of the implementing partner to gain perspective on the activities as they were implemented.

Based on our assessment of Mission's management controls with respect to monitoring, we judgmentally selected 38 program activities by intermediate results and regions for substantive testing to determine the accuracy and consistency in reporting to gain assurance that the reported activities and projects were reported in a factual and realistic manner. Our review compared reported information in the final and monthly reports and ultimately compared these reported results to source documentation, which included training documentation, attendance records, consultant reports, and grant closeout reports. In addition, as permitted by the security situation, we conducted site visits to four grants and attended provincial council meetings and training sessions in Baghdad and Hillah to gain additional confidence on the reported results. Our review and observations did not reveal significant discrepancies between the reported results and the evidence produced by source documentation.

To assess overall controls over the grant program, we reviewed RTI's final closeout report and judgmentally selected 11 grants with expenditures of $100,000 and above for detailed testing. In addition, we selected a statistical sample of 61 of the 224 approved grants to determine if an authorized staff member from the Mission approved the grants as required.

In assessing data quality and verifying and validating the performance data to source documentation, we used a materiality threshold of 1 percent for transcription accuracy and 5 percent for computation accuracy.

MANAGEMENT COMMENTS

MEMORANDUM

TO:	Nancy Lawton, Regional Inspector General, Iraq
FROM:	Don Brady, Acting Mission Director
SUBJECT:	Comments on RIG/Iraq's Draft Audit of USAID/Iraq's Local Governance Program I (LGP I) - Report No. E-267-06-00X-P
DATE:	June 11, 2006

I am pleased to provide the Mission's response to the five recommendations contained in the draft report.

General Comments:

The Mission appreciates the opportunity to comment on the draft audit report which made five recommendations, which we would like to address. Prior to the Audit, the Mission recognized the need to strengthen management oversight of its overall Program. Currently the LGPII is managed by a seasoned FS officer with support from the FSN Activity Manager and two other CTOs who were hired in May 2005 to manage other DG Programs. This increase in staff has given the Mission the ability to greatly improve project management oversight.

***Recommendation No 1**: We recommend that USAID/Iraq require Research Triangle Institute International to submit quarterly work plans that include intended outputs and associated milestones.*

- **Response**: Agree. Following a mid-point audit review meeting with the RIG auditors the Cognizant Technical Officer for LGP sent a letter on February 2006 (Attachment 1) to RTI to remind them that their work plans are to be submitted quarterly and are to include outputs and associated milestones based on USAID requirements and those of the Provincial Reconstruction Teams (PRTs). Subsequent work plans are to be submitted on a quarterly basis and will include input from PRT work plan updates.
-

***Recommendation No 2**: We recommend that USAID/Iraq require Research Triangle Institute International to submit semi-annual performance monitoring reports in accordance with contract requirements and that the performance measurement plan is revised when program objectives are changed.*

Response: Agree. In modification #2 dated October 11, 2005 (Attachment 2), language was added to the contract, under section F.4, page 23 as follows: "semi-annual performance monitoring report: add: The semi-annual performance monitoring report will be due December 10 and June 10 of each year." In this regard, in December 2005, RTI prepared a draft Performance Monitoring Plan (PMP) for LGP II (Attachment 3). This document will be finalized once USAID's overall PMP for its new strategic framework (2006-2008) is

approved. Further, USAID/Iraq required RTI to participate in the Mission-sponsored weeklong PMP workshop in May 2006 to provide input in the development of the SO-9 PMP.

***Recommendation No. 3**: We recommend that USAID/Iraq establish procedures to ensure that grants under contracts are approved by authorized Mission personnel.*

- **Response:** *Agree. In the event that grants are provided under the LGPII program, modification #5 (Attachment 4), Section C. added language to the contract to the effect that all grants exceeding $250,000 and any amendments to existing grants shall be approved by the Administrative Contracting Officer (ACO). Further that the ACO shall approve RTI's grants manual prior to award of any grants hereunder, and once approved, the grants manual shall be considered to be incorporated by reference to this contract.*

- Regarding the above, Attachment 1, informed RTI that its 'Learning by Doing Grants" program under LGP II is not a grants program per se, in that no funds will be transferred from the RTI account to host government or state-owned enterprises. The USAID Office of Acquisition and Assistance (OAA) will amend the contract to reflect this language.

***Recommendation No 4**: We recommend that USAID/Iraq/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.*

- Response: Agree, with the stipulation that this be a joint responsibility of OAA and the SO-9 team. To be responsive to this recommendation, OAA has requested and EXO has agreed to revise the end-of-assignment checkout list to add a section on "contractor performance evaluation (CPE)" which has to be signed off by the OAA as a means of ensuring CPE compliance. In addition, the SO-9 Team has worked to correct this deficiency internally and has prepared the Performance Report for the period May 2005 to May 2006 (Attachment 5).

***Recommendation No. 5**: We recommend that USAID/Iraq establish procedures to ensure that vouchers submitted by contractors and grantees are reviewed for accuracy and reasonableness in comparison to the work performed.*

Response: Disagree. It is not necessary to establish Mission-specific procedures because the cost principles of FAR Part 31.2 already apply and the LGPII contract includes this under 52.21.y.

- Prior modification #2 (Attachment 2), RTI used the SF-269 to obtain funds which was paid in Washington through a letter of credit rather than on a reimbursement basis by the Mission. Modification #2, added the following language to section G.7 – Supplemental Documentation for Payment Requirements, "SF-1034 – the Contractor shall attach to each SF-1034 submitted,

> detailed documentation from the contractor's accounting system to support the items billed as direct costs during the report period……"

RTI has since provided monthly financial statements since that time that have been reviewed by the SO-9 CTO or Activity Manager. Attachment 6 includes e-mails and the monthly sign in sheets which demonstrate that the SO9 team is complying with this recommendation.

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