OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/IRAQ'S AGRICULTURE RECONSTRUCTION AND DEVELOPMENT PROGRAM

AUDIT REPORT NO. E-267-07-002-P
JANUARY 22, 2007

BAGHDAD, IRAQ

Office of Inspector General

January 22, 2007

MEMORANDUM

TO: USAID/Iraq Mission Director, Hilda Arellano

FROM: Regional Inspector General/Baghdad, Nancy J. Lawton /s/

SUBJECT: Audit of USAID/Iraq's Agriculture Reconstruction and Development Program (Report No. E-267-07-002-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 one recommendation. In your written comments, you have concurred with the recommendation and described actions the Mission plans to take to address the auditors' concerns. Based on your comments, we consider that a management decision has been reached on the recommendation. Please coordinate final action with USAID's Audit, Performance and Compliance Division.

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 agriculture reconstruction and development activities are achieving their intended outputs (page 3).

Of the 29 program activities reviewed, 16 achieved their intended outputs, 12 were on schedule of doing so, and one will likely not achieve its intended outputs. Significant activities which reached intended outputs included seed cleaning equipment procurement and demonstrations, and date palm infrastructure support (page 4).

USAID/Iraq did not properly administer its contract with Development Alternatives, Inc. with regards to proper review of payment vouchers, documentation of key events, and annual evaluations of contractor performance reporting. Operational requirements were given priority, and administrative requirements were not always accomplished. Weaknesses in USAID/Iraq's contract administration could have resulted in inefficient use of U.S. government resources (page 6).

The report includes one recommendation addressing the documentation of key events weakness. Mission management agreed with the recommendation, and a management decision was reached. Other weaknesses pertaining to proper review of payment vouchers and annual evaluations of contractor performance reporting were addressed in earlier audit reports.

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

BACKGROUND

The Iraqi agricultural sector is marked by low productivity and a lack of employment and income opportunities for the rural population. While many of the problems in the sector can be directly attributed to recent wars and sanctions, the root cause dates back to the late 1960s, when Iraqi government policies regarding the agricultural sector were first formulated. These policies suffered from two basic shortcomings: (1) general neglect of agriculture relative to other sectors of the economy and (2) a centrally planned approach that determined the major crops to be grown, subsidized the inputs, set prices, and established government-owned or controlled industries for processing.

The impact of the agricultural sector on the economy is significant. In 2004, it was estimated that this sector accounted for $1.5 billion (or approximately 19 percent) of Iraq's $8 billion non-oil Gross Domestic Product. It is estimated that agriculture could provide full or partial employment of 30 to 50 percent of the employable population.

In October 2003, USAID initiated a comprehensive national plan to revitalize the agricultural sector, and the program was scheduled to run through December 2006. The program sought to significantly increase production levels and incomes and to strengthen the private sector by focusing on six areas: (1) crop production, (2) livestock improvement, (3) high-value agriculture, (4) soil and water resources management, (5) government-to-market transition, and (6) marshlands rehabilitation. By the time the program is completed, it is expected to have expanded the Gross Domestic Product of the agricultural sector by 15 percent.

USAID awarded a contract to Development Alternatives, Inc. (DAI) to implement USAID/Iraq's agriculture program. As of June 30, 2006, the contract with DAI had total obligations and disbursements of approximately $101 million and $80 million, respectively. Of the amount disbursed, approximately $52 million was spent for goods and services related to program activities. Disbursements also included $15 million in grants and $13 million for contractual obligations such as overhead, general and administrative costs, and profit. The program began in October 2003, but the amount obligated was only approximately $11 million until November 2004 when the obligated amount was increased to approximately $72 million.

AUDIT OBJECTIVE

As part of the fiscal year 2006 annual audit plan and because of the importance of the agriculture reconstruction and development program, the Regional Inspector General in Baghdad, Iraq conducted this audit to answer the following question:

- Are USAID/Iraq's agriculture activities achieving their intended outputs?

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

AUDIT FINDINGS

Of the 29 agriculture activities selected for review, 16 achieved their intended outputs, 12 were on schedule of doing so and one (the tractor repair program) will likely not achieve its intended outputs, due to events subsequent to the audit field work. The 29 program activities reviewed included at least one activity from each of the six program areas and covered 92 percent of the program activities in terms of dollar magnitude, $47,987,951 as of April 29, 2006. The table below summarizes Development Alternatives, Inc.'s (DAI) progress in achieving the intended outputs for major program activities.

Program Activities	Intended Output	Output as of August 2, 2006	Activity Value (In Millions) [1]
Tractors Repaired (units)[2]	5,670[3]	3,609	$25.0
Mechanization Program I (units)	[2,789]	[2,244]	[15.2]
Mechanization Program II (units)	[1,896]	[1,298]	[8.0]
Mechanization Program III (units)	[257]	[67]	[1.3]
Mechanization Monitoring	na	na	[0.5]
Develop Strategy for Water and Land Resources	1	0	4.5
Establishment of Date Palm - Nurseries (offshoots) - Mother Orchards (offshoots)	 170,000 40,000	 170,000 40,000	2.3
Date Palm Infrastructure Support (expansions)	33	33	2.2
Wheat Seed Procurement (2004) (tons)	4,000	4,000	2.1
Seed Cleaning Demonstration and Equipment (units)[4]	169	169	2.0
Total			$38.1

A complete list of activities selected for review is included as Appendix III.

The major program activities listed in the above table are discussed below.

- The most significant activity of the program with respect to dollar magnitude and impact is the tractor repair activity. Under this activity DAI planned to repair 5,670 tractors using three partners in various repair facilities located throughout Iraq. In an attempt to optimize the number of repairs, DAI limited the repairs to certain models that were most abundant and considered the interchangeability of parts among various models of tractors. As of August 2, 2006, DAI reported that

[1] Budgeted amounts for "on schedule" activities and incurred costs for completed activities.
[2] Full name of Mechanization Programs was not disclosed for security reasons.
[3] An estimated $4 million contract option for an additional 728 repairs had not been exercised as of the end of the audit field work (August 10, 2006). Subsequently, DAI determined that it did not have sufficient funds in the program to exercise this option.
[4] DAI procured 173 seed cleaners but distributed 169 for use. The remaining four cleaners were used for spare parts and training.

3,609 tractors had been repaired, and it was on schedule to reach the intended output of 5,670 repairs by the end of the contract (December 31, 2006). During our visit to a tractor repair facility, we noted that the repairs were taking place as reported, and we conducted limited tests of management controls. Meeting the planned results required DAI to exercise an option with a subcontractor for 728 tractor repairs at an estimated cost of $4 million. DAI had planned to exercise this option, but in August 2006, DAI determined that there were no funds available to do so. Therefore, the tractor repair program would not be able to meet its intended outputs. Nevertheless, DAI was on schedule to repair 4,942 tractors as contracted with its subcontractors.

Photographs of technicians preparing parts and inspecting repaired tractors at a tractor repair facility (Regional Inspector General/Baghdad auditor took the photographs in June 2006).

- The objective of the strategy for water and land resources activity was to work with different Iraqi ministries to create a comprehensive plan to guide water resources development in Iraq over the next two decades. The activities included providing training to officials at the Ministry of Water Resources. This activity was on schedule.

- The date palm activity supported the Iraqi Ministry of Agriculture national program aiming to propagate and improve the date palms in Iraq. With the program's support, the Ministry of Agriculture purchased 170,000 and 40,000 offshoots for date palm nurseries and mother orchards, respectively.

- Date palm infrastructure support activities were designed to increase the availability of date palm offshoots to Iraqi farmers through the establishment of date palm mother orchards and new date palm nurseries. Working in 13 governorates, DAI targeted and established infrastructure for 17 mother orchards and 16 nurseries. Infrastructure support included construction of water reservoir basins, pump houses, and associated irrigation equipment.

- DAI procured and delivered 4,000 tons of wheat seeds to the Ministry of Agriculture seed storage facility in Ninewa (Mosul), the most important wheat growing governorate in Iraq.

- Under seed cleaning activities, DAI distributed 169 seed cleaning machines to organizations throughout the country. Seeds that are cleaned and treated are estimated to be 25 percent more valuable in monetary terms than uncleaned seeds.

Despite the accomplishments and progress achieved in the planned activities, we observed weaknesses in USAID/Iraq's management of the contract. These weaknesses should be addressed to facilitate the accomplishment of the remaining outputs, and improvements could contribute to more effective management of planned follow-on agriculture activities. These observations are discussed in more detail below.

Contract Oversight Needs Improvement

Summary: USAID/Iraq did not properly administer its contract with DAI with regards to review of payment vouchers, documentation of key events, and annual evaluations of contractor performance. USAID/Iraq was required to follow the applicable Federal Acquisition Regulation and USAID's Automated Directives System in administering the contract. However, these administrative requirements were not always met because operational requirements were given priority. Weaknesses in USAID/Iraq's contract administration could have resulted in inefficient use of U.S. government resources.

Review of Payment Vouchers – ADS 630.3.2.1 provides administrative approval guidance and USAID's *Guide for Managers and Cognizant Technical Officers* emphasizes that the cognizant technical officer (CTO) should review, analyze, and evaluate the contractor's progress, performance, and compliance with the technical, price, and schedule provisions of the contract. The various CTOs assigned to the DAI contract properly signed and completed the payment vouchers' administrative approval forms and checklists. However, of the 32 payment vouchers examined during the audit, totaling approximately $64 million, very little evidence was found that documented CTO reviews, including review of vouchers to ensure that the included charges accurately reflected the work accomplished during the period.

Due to staffing challenges during the contract implementation period and the workload at USAID/Iraq, daily operational requirements took precedence, and payment vouchers were not adequately reviewed by CTOs. Proper review and administrative approval for payment and monitoring of programmatic and financial aspects of the contract are essential for program success. Specifically, all payment vouchers 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 $80 million in disbursements made to DAI.

Review of payment vouchers is a significant event that can impact overall contract performance. We found the same weakness during a recent audit and made a recommendation in that audit to address the issue.[5] As the recommendation was addressed to USAID/Iraq without specifying a program, RIG/Baghdad expects that the

[5] Audit of USAID/Iraq's Local Governance Activities, Report No. E-267-06-003-P dated July 10, 2006.

corrective action will be applied to all USAID/Iraq's programs, including the agriculture program. Therefore, we are not making a recommendation at this time.

Documentation of Key Events – Effective documentation and recordkeeping is emphasized in the Government Accountability Office's *Standards for Internal Control in the Federal Government*. All transactions and significant events need to be clearly documented, and the documentation should be readily available for examination. In addition, pursuant to Automated Directives System (ADS) 502.5 1b, official records must be preserved because of the information value of the data they contain or as evidence of the organization, functions, policies, decisions, procedures, operations, or other activities of the Agency. Further, USAID's *Guide for Managers and Cognizant Technical Officers* states that one of the CTO's administrative responsibilities is the establishment and maintenance of adequate files to document all significant actions.

We found little documentation demonstrating CTO involvement in the approval of quarterly work plans and review of monthly progress reports. Further, we found little documentation evidencing monitoring site visits. CTOs appeared to be relying on an informal recordkeeping system consisting mostly of electronic copies of e-mail correspondence and attachments to document significant events.

While we recognize that the Mission has been operating in a difficult working environment, the nature of this environment underscores the need to maintain a formal work file to document, at a minimum, the significant decisions affecting the status of activities. Such a file would not only help ensure that pertinent management information is readily available, but it would also facilitate the continuity of activities when there are staff changes. Formal documentation is needed, not only for recordkeeping purposes, but also for future reference in the event of a dispute or a turnover of staff. The absence of such documentation could result in a misunderstanding of direction and negatively impact the Mission's ability to effectively monitor the contract and reported results.

We found the same weakness during a 2004 audit of USAID/Iraq's Economic Reform Program and made a recommendation to address the issue.[6] The recommendation was addressed and final action was taken. However, the weakness still exists, because of the high turnover of the CTOs and priority given to operational requirements. Therefore, we are making the following recommendation:

> *Recommendation No. 1: We recommend that the USAID/Iraq Office of Acquisition and Assistance verify that Cognizant Technical Officers are documenting significant events and key decisions impacting on the design and monitoring of activities.*

Contractor's Performance Reporting – Pursuant to ADS 302.5.9, it is USAID's policy that contracts in excess of $100,000 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 DAI's performance because the contracting office had not developed specific procedures to ensure that evaluations were completed. The contracting officer who arrived in June 2005 stated that she found that the evaluation for year one was not completed and that

[6] Audit of USAID/Iraq's Economic Reform Program, Report No. E-266-04-004-P dated September 20, 2004.

she was in the process of completing the evaluation for year two. She added that it had been difficult to get input from the various CTOs who were assigned to the contract during the evaluation period. To date, five different CTOs have been assigned to manage the contract.

Because past performance evaluations may be used to support future contract award decisions, not completing the evaluations could potentially result in awarding future contracts to poor performers. We found the same weakness during a recent audit and made a recommendation to address the issue.[7] As the recommendation was addressed to USAID/Iraq's Office of Acquisition and Assistance without specifying a certain program, RIG/Baghdad expects a corrective action that is applicable to all USAID/Iraq's programs, including the agriculture program. Therefore, we are not making a recommendation at this time.

Other Matters of Note – The contract with DAI requires that initial salaries of professional employees be approved in advance by the contracting officer, but we noted during the audit that a professional employee had been hired without notification to the contracting officer, although the CTO had approved the qualifications of the employee. USAID/Iraq's Office of Acquisition and Assistance took action to address this issue; therefore, we are not making a recommendation.

We also noted that prior to May 2005, 11 of 63 grants tested had been approved by Mission employees who did not have formal delegated approval authority. We are not making a recommendation regarding this because no occurrences were noted after April 2005. We further noted that 39 of the 63 grants tested were awarded to governmental entities, mainly the Ministry of Agriculture, despite the contract's requirement to award grants to non-U.S. and non-governmental entities. We are not making a recommendation regarding this matter because the USAID/Iraq Office of Acquisition and Assistance addressed this issue in August 2005.

[7] Audit of USAID/Iraq's Local Governance Activities, Report No. E-267-06-003-P dated July 10, 2006.

EVALUATION OF MANAGEMENT COMMENTS

In commenting on our draft report, USAID/Iraq agreed with the recommendation.

In its response to the recommendation, Mission management stated that the USAID/Iraq Office of Acquisition and Assistance will prepare a management plan to systemize and record its periodic verification of Cognizant Technical Officers' files; implementation of the plan is anticipated by the end of February 2007. Mission management stated that the goal of the plan is to help sustain lessons learned and best practices, over time and despite the high turnover rates of Mission personnel, due to the short (one year) Baghdad assignments. Based on the response, we consider the recommendation to have received a management decision.

The determination of final action for the recommendation will be made by the Audit, Performance and Compliance Division (M/CFO/APC).

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General in Baghdad conducted this audit in accordance with generally accepted government auditing standards. The purpose of the audit was to determine if USAID/Iraq's agriculture reconstruction and development program under the Development Alternatives, Inc. (DAI) contract RAN-C-00-04-00002-00 is achieving its 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 the monitoring and reporting of program results. In planning and performing the audit, we assessed management controls pertaining to the review and approval of key programmatic and financial documents and adequacy of oversight of DAI activities as evidenced by correspondence and documentation of site visits and key meetings. Specifically, we reviewed and evaluated (1) quarterly work plans, (2) contractor-submitted vouchers, (3) monthly progress reports, and (4) incurred cost audits of the contract by the Defense Contract Audit Agency.

As of June 30, 2006, the agriculture reconstruction and development program had total obligations of $101 million and total disbursements of $80 million.

To assess controls associated with results reporting, we judgmentally selected 45 reported activities from three monthly progress reports for substantive testing. In addition, to assess whether intended outputs of the activities have been achieved or were on schedule of doing so, we judgmentally selected approximately 92 percent of the activities based on dollar magnitude of expenditures within the six program areas.

During the audit field work, tractor repair activities were on schedule of reaching intended outputs, with 3,609 repairs as of August 2, 2006 (page 4). Reaching the intended output level, however, depended upon the implementing partner exercising an option with a subcontractor for the repair of 728 tractors. As a result of events subsequent to the audit field work, the implementing partner was not able to exercise this option. The tractor repair program therefore would not be able to meet its intended outputs.

Under this contract, funds were also available for the award of grants. As of April 30, 2006, DAI awarded 241 grants with a total value of approximately $14 million. To determine whether the cognizant technical officers were managing grant activities in accordance with the requirements of the Automated Directives System (ADS) Chapter 303, "Grants and Cooperative Agreements to Non-Governmental Organizations," the grant manual, and the contract, we statistically selected 63 grants for review. We were only able to visit four grantees due to security concerns. Grants, awarded separately from the program activities, were used to supplement those activities, renovate veterinary clinics, renovate and clean irrigation canals, procure seed, and accomplish other related activities.

RIG/Baghdad performed the audit with fieldwork mainly taking place at USAID/Iraq. In addition, we conducted fieldwork at DAI Headquarters in Erbil and at various project sites in Erbil province. The audit fieldwork was conducted from April 13, 2006, through August 10, 2006.

Methodology

To answer the audit objective, we reviewed pertinent USAID directives and regulations such as the ADS, the program requirements as defined by DAI contract RAN-C-00-04-00002-00 and its amendments, 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 staff of the implementing partner to gain perspective on the activities they implemented.

Based on our assessment of the Mission's management controls with respect to monitoring, we judgmentally selected 45 program activities from three monthly progress reports to determine 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 monthly reports and ultimately compared these reported results to source documentation, which included training documentation, attendance records, consultant reports, photographs, and final assessment reports. To determine if activities were achieving intended outputs, we held discussions with component managers and reviewed relevant documentation such as sub-contracts, payment vouchers, assessment reports, and photographs.

To assess overall controls over the grants program, we reviewed applicable criteria and developed a checklist which we then compared against grant approval documentation and source documentation—such as vouchers, independent assessments, and photographs—to determine if DAI was in compliance with contract requirements and if the intended grant outputs were achieved.

In addition, as permitted by the security situation, we conducted site visits to four grant locations and visited two key activities in Erbil. Our review and observations did not reveal significant discrepancies between the reported results and the evidence produced by source documentation.

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

7 January 2007

MEMORANDUM

TO: Regional Inspector General/Baghdad, Nancy J. Lawton

FROM: USAID/Iraq Mission Director, Hilda Arellano/s/

SUBJECT: Draft Audit Report No. E-267-07-00X-P
USAID/Iraq's Agriculture Reconstruction and Development Program

This memorandum provides USAID/Iraq comments on the subject draft audit report.

The report contains one recommendation:

> *Recommendation No. 1: We recommend that the USAID/Iraq Office of Acquisition and Assistance verify that Cognizant Technical Officers are documenting significant events and key decisions impacting the design and monitoring or key activities.*

USAID/Iraq agrees with the recommendation, with the understanding that the recommendation refers to technical direction and monitoring of key activities in the context of post-award administration of the contract and not to the pre-award activity design. The Office of Acquisition and Assistance (OAA) Baghdad meets regularly with CTOs and will utilize the opportunity to review and discuss with individual CTOs his/her records including, for instance, technical direction, monitoring, approvals, and other responsibilities included in the CTO designation memorandum. In addition, OAA/Baghdad has been asked to prepare a management plan to systemize and record its periodic verification of CTO files; implementation of the plan is anticipated by the end of February 2007. The goal of the plan is to help sustain lessons learned and best practices in this area, over time and despite the high turnover rates of mission personnel, due to the short (1-year) Baghdad assignments.

U.S. Agency for International Development
Office of Acquisition and Assistance - Baghdad
Iraq Mission, APO AE 09316
Phone +1(202)216-6276
Fax +1(202)216-6196

With respect to audit findings, the following comment is offered.

On page 6, under *Review of Payment Vouchers*, the first paragraph refers to "very little evidence" found to document CTO review of payment vouchers. We understand from the preliminary brief that the auditors did find that the CTOs do follow USAID policy and procedure in documenting administrative voucher approvals, including signature of the SF1034 and completion of "Administrative Approval Form and Checklist." Accordingly, we request that this be noted in the report.

Thank you for the opportunity to comment on the draft audit report.

Agriculture Program Activities Selected For Review

	Activity Title[8]	Amount [9]	Status as of July 30, 2006
1	Develop Strategy for Water and Land Resources in Iraq	$ 4,500,000	On schedule
2	Irrigation Efficiencies	500,000	On schedule
3	Agro-Meteorological Stations	325,200	On schedule
4	Drainage & Salinity Pilot Areas	277,830	On schedule
5	Raising Canal Banks	250,000	Complete
6	Wheat Seed Procurement (2004)	2,128,000	Complete
7	2004 - 2005 Winter Crop Technology Demonstrations	498,900	Complete
8	On-Farm Hybrid Maize Trials	278,850	Complete
9	Wheat Seed Procurement (2005)	209,300	Complete
10	Summer Crop Technology Demonstrations – Rice	158,687	Complete
11	2003-2004 MOA Winter Crop Demonstrations	151,934	Complete
12	Seed Cleaning Demonstration (Including equipment procurement)	2,000,000	Complete
13	National Cadastral Mapping and Land Administration Project	272,000	On Schedule
14	National Program for the Preparation of Agro-ecological Zones (AEZ) Maps	264,000	On Schedule
15	Wholesale Prices Monitoring	170,000	On Schedule
16	Mechanization Program I	15,187,923	On Schedule
17	Mechanization Program II	8,000,000	On Schedule
18	Mechanization Program III	1,300,000	On Schedule[10]
19	Mechanization Monitoring	450,000	On Schedule
20	Establishment of date palm nurseries Phase I	1,861,500	Complete
21	Establishment of High-Oil Olive Orchards	1,677,578	Complete
22	National Program for the Improvement and Propagation of Date Palms - Mother Orchard Infrastructure Support	1,250,000	Complete
23	National Program for the Improvement and Propagation of Date Palms - Nursery Infrastructure Support	975,000	Complete
24	Establishment of date palms mother orchards Phase II	438,000	Complete
25	Brucellosis Vaccination Campaign in southern Iraq	700,000	Complete
26	Improving Buffalo Calving Rate through Improved Nutritional Regime Demonstration	75,000	Complete
27	Improving Buffalo Calving Rate through Hormone Treatment Demonstration	45,000	Complete
28	M&E Surveys	100,000	On Schedule
29	Marshes Monitoring	127,000	On Schedule

[8] Full name of Mechanization Programs was not disclosed for security reasons.
[9] Budgeted amounts for "on schedule" activities and actual costs for completed activities.
[10] An estimated $4 million contract option for an additional 728 repairs had not been exercised by DAI as of the end of the audit field work (August 10, 2006). Subsequently, DAI determined that it did not have sufficient funds in the program to exercise this option.

U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Ave, NW
Washington, DC 20523
Tel: (202) 712-1150
Fax: (202) 216-3047
www.usaid.gov/oig