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OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/IRAQ'S LOCAL GOVERNANCE ACTIVITIES

AUDIT REPORT NO. E-267-07-007-P
July 31, 2007

BAGHDAD, IRAQ



USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

July 31, 2007

MEMORANDUM

TO: USAID/Iraq Mission Director, Hilda Arellano

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

SUBJECT: Audit of USAID/Iraq's Local Governance Activities
(Report No. E-267-07-007-P)

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

The report contains three recommendations with which you concurred in your response to the draft report. Based on the actions you have taken in response to the audit findings, we consider that final action has been taken on Recommendation No. 2 and management decisions have been reached on Recommendations Nos. 1 and 3. Please provide the Audit, Performance and Compliance Division (M/CFO/APC) with evidence of final action upon completion of actions taken on Recommendations Nos. 1 and 3.

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

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SUMMARY OF RESULTS

USAID/Iraq designed the second local governance activities program to reinforce gains made in its first program and awarded Research Triangle Institute (RTI) a two-year contract in April 2005 with an estimated cost of \$90 million to implement the program. By December 2006, the end of the audit period, total program funding had increased to \$175.4 million as a result of USAID/Iraq exercising two option periods. (See page 2.)

According to the contract, RTI was to carry out the following activities:

- Promote policy reform in support of local governance,
- Support clarification of roles and responsibilities of different levels of government,
- Promote increased efficiency of local service delivery, and
- Assist in the development of regularized mechanisms of citizen participation in the government decision-making process.

The audit found that the local governance activities did not have intended outputs or baselines to measure progress against because USAID/Iraq failed to enforce contract requirements that the contractor submit, for approval, quarterly implementation plans detailing planned activities (intended outputs) and a performance management plan which would have set forth baselines and targets. The audit also found that USAID/Iraq failed to perform the required contractor performance evaluations. (See pages 2 and 4.)

As part of the current audit, the team also reviewed actions taken by USAID/Iraq to address recommendations in a prior audit of the first local governance activities program. The current audit found that the Mission's actions taken in response to the prior audit to enforce the contract requirements and to complete the contractor performance evaluation were ineffective. (See page 5.)

Therefore, we are making three recommendations for USAID/Iraq to:

- Require the contractor to submit the current quarterly implementation plan within 30 days from the issuance of this report, and if this plan is not submitted, that the Contracting Officer determine whether this contract should be terminated for default;
- Establish a procedure to ensure that all future quarterly implementation plans are submitted as required; and
- Conduct an evaluation of the contractor's performance within 30 days from the issuance of this report. (See pages 7 and 8.)

Mission management concurred with the recommendations. Based on the actions taken by the Mission in response to the audit findings, we consider that final action has been taken on Recommendation No. 2 and management decisions have been reached on Recommendations Nos. 1 and 3. (See pages 9 and 10.)

Management comments are included in their entirety in Appendix II. (See page 12.)

BACKGROUND

The USAID/Iraq Transition Strategy statement on governance begins with the comment that in order for Iraq to be successful in its effort to construct a nation built on democratic principles it must address the sources of instability that threaten to undermine its entire nation-building enterprise. Furthermore, the lack of a capable, accountable, and legitimate government remains a highly destabilizing factor in the Iraqi landscape.

The sector analysis section of the Transition Strategy continues with remarks that at local levels, government institutions are weak and accountable only to the central government; local government officials and civil servants did not respond to local needs and priorities. As a result, local communities have not developed an administrative capacity to deliver services to the population, prepare or execute budgets, or respond to local concerns. The majority of newly elected local council members, including 75 percent in southern governorates, do not have related prior experience and have assumed their posts without any training. To meet the basic service delivery needs of their constituents, resources and authority must be transferred to the local level. At present, however, local officials do not have the capacity to deliver basic services effectively.

On the issue of governance, in a nutshell, the Transition Strategy emphasizes improvement of local government's ability to provide services. To reinforce gains made in its first local governance program, USAID/Iraq designed a follow-on program. In this program, the contractor's efforts at the national level are intended to assist Iraqis to create an enabling environment for local governance. And at the sub-national level, the contractor should build the capacity of governorates, representative councils, and sub-national offices of central government ministries to manage more effective, efficient, and responsive customer-oriented services.

In April 2005, USAID/Iraq awarded Research Triangle Institute (RTI) a two-year contract with an estimated cost of \$90 million to implement the follow-on local governance activities program. This base contract also included three one-year options and, during the period of the audit, USAID/Iraq exercised two option periods. Consequently, as of December 31, 2006, USAID/Iraq had obligated and disbursed \$175.4 million and \$61 million, respectively, for local governance activities.¹

According to the contract, RTI was to carry out the following activities:

- Promote policy reform in support of local governance,
- Support clarification of roles and responsibilities of different levels of government,
- Promote increased efficiency of local service delivery and,
- Assist in the development of regularized mechanisms of citizen participation in the government decision-making process.

¹ Subsequent to the period of audit, in January 2007 the Mission exercised the third option year and obligated an additional \$43.3 million. In February 2007, the Mission obligated an additional \$43.6 million, bringing the total obligated amount to \$262.4 million (difference due to rounding). After exercising the third option year, the revised contract completion date is December 31, 2008.

AUDIT OBJECTIVE

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

- 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

Although USAID/Iraq had obligated \$175.4 million for local governance activities as of December 31, 2006, we could not determine if those activities achieved their intended outputs because the Mission did not establish any intended outputs to measure progress against. This occurred because USAID/Iraq did not enforce contract requirements that the contractor, Research Triangle International (RTI), submit for approval quarterly implementation plans that identified planned activities (intended outputs). USAID/Iraq also did not enforce the requirement that RTI submit a performance management plan establishing baselines and targets for the planned activities. USAID/Iraq's current cognizant technical officer (CTO) for the local governance activities became aware of these problems upon his arrival and has been working with RTI officials to obtain the required plans.

In addition to not enforcing all contract requirements, USAID/Iraq did not complete the annual evaluation of RTI's performance, due in May 2006, as required by the Federal Acquisition Regulation and Agency policy. Even so, USAID/Iraq increased funding for the contract by \$85 million by exercising two one-year options. The Mission is currently working on completing the contractor's annual performance evaluation.

During the audit period, RTI reported achieving a total of 2,214 activities that consisted of training and technical assistance in five regions throughout Iraq.² The following table includes a breakdown of activities conducted by region as summarized in the RTI annual and quarterly activity reports:

Activities Conducted by Region

Activities	North Region	North Central Region	Central Region	South Central Region	South Region	Totals
Core Training	58	146	87	459	47	797
Supplemental Training Modules	78	34	37	265	33	447
Conferences and Workshops	5	0	23	2	4	34
Technical Assistance Events	121	49	193	509	64	936
	Total Activities					2,214

A brief description of each activity follows:

- **Core Training.** Competency-based training modules on transparency, accountability and responsiveness for local governmental officials emphasizing gradual skill and competency building. Examples of training topics include: *Introduction to Service on Council and Council Procedures.*
- **Supplemental Training.** Training modules on responsibility and corruption to address varying needs of local government officials to extend their skills and

² The five regions include the following 18 provinces: North– Ninawa, Erbil, Sulaymaniyah, Dahuk, Kirkuk; North Central–Anbar, Salah Ad Din, Diyala; Central–Baghdad; South Central–Babil, Qadisiyah, Najaf, Karbala, Wasit; South–Basrah, Maysan, Dhi Qar, Muthanna.

competence beyond core areas. Examples of training topics include: *Budgeting for Local Government* and *Negotiation and Problem Solving*.

- **Conferences and Workshops.** Forums for sharing and updating information and knowledge or looking at problems within a specified subject area with the objective of arriving at solutions by the end of the conference. One example is the *South Regional Agribusiness Conference*.
- **Technical Assistance.** Technical consultations provided that build on existing training modules and assist in developing systems and processes in targeted organizations.

While the contract stated that training and technical assistance should be provided by the contractor in promoting policy reform in support of local governance, the activities summarized in the table on page 4 were not linked to an overall program. In our view, RTI reported on only successful achievements rather than progress achieved against specified targets.

The current local governance activities program is a follow-on program to one that was implemented by RTI from March 2003 through May 2005. The Regional Inspector General in Baghdad audited that program and made five recommendations to USAID/Iraq for corrective action that addressed: (1) enforcing reporting requirement, (2) enforcing monitoring requirements, (3) proper approval of grants, (4) evaluating contractor's performance, and (5) review of payment vouchers.³ As part of the current audit, the team also reviewed actions taken by USAID/Iraq to address recommendations in a prior audit of the first local governance activities program. The current audit found that the Mission's actions taken in response to the prior audit to enforce the contract requirements and to complete the contractor performance evaluation were ineffective. The same two findings are repeated in this audit of the follow-on local governance activities program.

To increase the chances of program success, USAID/Iraq must enforce contract requirements and must evaluate contractor performance. These issues are discussed in detail below.

USAID/Iraq Must Enforce Contract Requirements

Summary: USAID/Iraq had not enforced contract requirements that RTI submit quarterly implementation plans and a performance management plan (PMP). These two planning documents define outputs to be achieved in the following quarter and the baselines and targets to measure achievements against. RTI officials did not respond to requests from the CTO for the required documents, but the frequent turnover of cognizant technical officers managing the contract, and being distracted by other priorities within the Mission, may have diluted the significance of the plans as a contract requirement. However, without those plans, USAID/Iraq could not manage, monitor, and assess RTI's performance or determine whether activities carried out by RTI covered all essential aspects of the local governance activities program.

³ Audit of USAID/Iraq's Local Governance Activities, Audit Report No. E-267-06-003-P dated July 10, 2006.

Quarterly Implementation Plans – RTI had not submitted any quarterly implementation plans to USAID/Iraq.

The contract requires that RTI deliver a quarterly implementation plan, for USAID/Iraq's approval, two weeks prior to the beginning of each quarter, but RTI had yet to submit such a plan. In November 2005, RTI submitted a two-year work plan to USAID/Iraq that the CTO approved in February 2006. But while the work plan provided an outline of the work to be performed, it did not specify the number of activities or outputs, such as the number of planned training seminars or the target number of people to be trained. During the audit fieldwork, the contractor claimed that no implementation plans existed because the former CTO had waived the requirement; however, CTOs do not have the authority to waive contractual requirements. Additionally, in June 2006, the former CTO wrote the contractor and asked for the submission of the quarterly implementation plan and the quarterly progress report. RTI responded that completion of these documents would take precedence over other activities. But as of April 2007, the Mission had not received any quarterly implementation plans from RTI. However, the current CTO has provided copies of emails that show his ongoing efforts to get the contractor to submit the required quarterly implementation plans.

The purpose of the quarterly implementation plan is to identify activities that the contractor plans to carry out (intended outputs) during the following quarter. According to RTI officials, activities are determined based on consultations with the Provincial Councils and local government officials. Once the activities have been completed, they are included in a progress report to USAID/Iraq. In our view, RTI should obtain USAID/Iraq's input and concurrence prior to starting activities and not simply report what activities were carried out. An approved quarterly implementation plan is the mechanism for doing this. Without such approved plans, the effectiveness of the overall program is questionable. In effect, by failing to enforce the requirement that RTI submit quarterly implementation plans, USAID/Iraq waived a valuable program management tool.

Since the June 2006 request for quarterly implementation plans, there was no follow-up with RTI on the issue until the current CTO arrived in November 2006. This occurred because of the frequent turnover of CTOs assigned to the local governance activities, coupled with competing Mission priorities.

Performance Management Plans (PMP) – RTI had not submitted a PMP that met USAID/Iraq's requirements until April 2007.

The original contract required that RTI deliver a Performance Monitoring Plan⁴ for USAID/Iraq's approval 60 days after the signing of the contract; in this case, by June 26, 2005. The PMP is a tool used to plan, manage, and document the collection of performance data. It contributes to the effectiveness of the performance monitoring system by assuring that comparable data will be collected on a regular and timely basis and, among other benefits, serves to determine baselines and targets. USAID/Iraq, however, did not follow up with RTI to obtain the required PMP and RTI did not submit a draft PMP until October 2006—more than 15 months later. However, this draft PMP was not approved by USAID/Iraq, because it was determined to be incomplete by not containing the required output or indicator information. Likewise, a revised PMP submitted in January 2007 was still missing some USAID/Iraq-required information.

⁴ A performance monitoring plan is the former name for the performance management plan.

Another revised PMP was subsequently submitted to the CTO, and it was approved on April 20, 2007.

The failure to enforce the requirement for a PMP occurred because of the frequent turnover of CTOs. During the audit period, four different CTOs were designated to monitor the local governance activities.

In summary, without approved quarterly implementation plans that identify planned activities, and without a PMP that defines baselines and targets, USAID/Iraq could not assess whether the \$175.4 million obligated for the local governance activities program—and implemented by RTI—improved local governments' ability to provide services. Moreover, by reporting only on achievements, it is difficult to determine what essential aspects of the local governance program are not being addressed by RTI's activities.

As noted previously, problems similar to those just discussed were pointed out to USAID/Iraq by the Regional Inspector General, Baghdad in the audit of the first local governance program that was also implemented by RTI. The Mission agreed with the audit recommendations and took corrective action by modifying the contract to revise the PMP due date and by holding a one-week PMP workshop that RTI staff were required to attend. However, USAID/Iraq's attempts to improve oversight of some aspects of the RTI contract were unsuccessful mainly because of the frequent turnover of CTOs, a possible result of one-year assignments in Baghdad. Due to the fact that the Mission has recently received and approved a PMP from RTI, we are not issuing a formal recommendation regarding the PMP. To address the lack of the implementation plans, we are making the following recommendations:

Recommendation No. 1: We recommend that, within 30 days from the issuance of this report, USAID/Iraq enforce the contract requirement that the contractor submit the current quarterly implementation plan and in the event that this plan is not submitted, that the Contracting Officer make a determination whether this contract should be terminated for default.

Recommendation No. 2: We recommend that USAID/Iraq establish a procedure to ensure that all future quarterly implementation plans are submitted as required by the contract.

USAID/Iraq Must Evaluate Contractor Performance

Summary: Federal regulation and Agency policy guidance require USAID/Iraq to evaluate contractor performance at least annually and upon contract completion. RTI's initial performance evaluation under the current contract was due in May 2006, but USAID/Iraq did not complete the required evaluation. Nevertheless, the Mission exercised two option periods that provided additional funding of \$85 million to the contract, thereby increasing the total contract funding to \$175.4 million. Failure to complete the performance evaluation occurred because, among other reasons, USAID/Iraq did not make contractor performance evaluations a priority. Because USAID/Iraq did not give priority to a requirement designed to provide information to make better acquisition decisions, contract costs were increased substantially without Mission management knowing whether this was the best use of limited resources.

Federal Acquisition Regulation, Subpart 42.15 entitled 'Contractor Performance Information,' provides policies and establishes responsibilities for recording and maintaining contractor performance information. USAID's Acquisition and Assistance Policy Directive 06-05 (revised March 9, 2007), entitled 'Evaluation and Use of Contractor Performance Information,' provides consolidated guidance on the evaluation and use of that information. The directive requires cognizant technical officers (CTOs) to evaluate contractor performance at least annually and upon contract completion to, in part, provide information for future source selection and other acquisition decisions.

The first evaluation of the RTI contract should have been done in May 2006. A previous CTO began the evaluation process, but departed the Mission in June 2006 and the required evaluation was not approved and finalized. As cited earlier, an audit report issued by the Regional Inspector General, Baghdad in July 2006 addressed USAID/Iraq's shortcomings in evaluating RTI's performance under the first local governance program. That report included a recommendation that USAID/Iraq adopt procedures to ensure that contractor performance evaluations are prepared as required. The Mission agreed with the recommendation and reported taking steps to correct the deficiency by developing a contractor performance review log and by adding a section to the USAID/Iraq employee checkout list to ensure that CTOs complete this reporting requirement before leaving post. However, as noted above, the performance evaluation report prepared in response to our recommendation was not approved and finalized. Consequently, when USAID/Iraq exercised two option periods in July and December of 2006—obligating an additional \$85 million to the RTI contract—Mission officials did not have essential performance information available on which to base this acquisition decision that increased the estimated cost of the contract by \$85 million.

We believe that this repeat situation occurred because USAID/Iraq did not make the contractor performance evaluation process a priority. There were several other reasons that included the frequent change in CTOs, leave schedules, changing work priorities for CTOs to meet Mission demands, and short-term assignments.

As of April 2007, USAID/Iraq was working on the evaluation of RTI's performance, but because this is a repeat finding, we are making the following recommendation.

Recommendation No. 3: We recommend that USAID/Iraq conduct an evaluation of the contractor's performance within 30 days from the issuance of this report.

EVALUATION OF MANAGEMENT COMMENTS

In its comments to the draft report, the Mission agreed with each of the audit recommendations and described actions it was taking to address the recommendations.

In response to Recommendation No. 1, the Mission stated that the contractor has begun submitting quarterly implementation plans on a regular basis. The quarterly implementation plan due on March 18, 2007 was delivered on April 9, 2007; the plan due on June 17, 2007 was delivered on the due date.

OIG Response: We reviewed the two quarterly implementation plans submitted and found that they did not include the activity-based budget for each of the five activities as required by contract modification number two. The quarterly implementation plan should meet the contract requirements. As such, we consider the recommendation to have received a management decision, but final action has not been taken. We encourage the Cognizant Technical Officer to follow up with the contractor to ensure that the quarterly implementation plans meet the contract requirements prior to submitting evidence of final action to the Audit Performance and Compliance Division (M/CFO/APC).

Regarding Recommendation No. 2, the Cognizant Technical Officer for the Mission's Local Governance Program has developed a calendar of deliverables. The calendar of deliverables is shared by the Mission and the Contractor and provides a tool for tracking the contract deliverables and their corresponding due dates.

OIG Response: We reviewed the calendar that includes due dates for future implementation plans and found it to be sufficient to address the recommendation. Therefore, we consider that final action has been taken on this recommendation.

Concerning Recommendation No. 3, the Mission stated that it completed the evaluation of the contractor's performance for the period May 2006 through April 2007.

OIG Response: This recommendation addressed a repeat finding from a prior audit of the local governance activities. In addition to the contractor performance evaluation mentioned in the Mission's comments (actual period was May 9, 2006 to May 8, 2007), there was also a prior evaluation in progress for the contractor for the reporting period ending May 8, 2006. We reviewed the copies of the evaluations provided by the Mission and checked the status of those evaluations on the internet-based Contractor Performance System (CPS) hosted by the National Institute of Health.

According to the CPS website, the contractor's performance evaluation for the reporting period ending May 8, 2006 was finalized on May 23, 2007.

The evaluation for the reporting period ended May 8, 2007 is shown as being in progress. This means that the Cognizant Technical Officer has evaluated the contractor's performance but the contractor has not yet submitted comments. The contractor's comments are due on August 7, 2007. Based on the steps already taken

and those in progress, we consider that a management decision has been reached on this recommendation. Once the contractor's performance evaluation for the reporting period ending May 8, 2007 is finalized, please provide evidence of final action to the Audit Performance and Compliance Division (M/CFO/APC).

A determination of final action for Recommendations Nos. 1 and 3 will be made by the Audit Performance and Compliance Division (M/CFO/APC).

USAID/Iraq's comments to the draft report are included in their entirety in Appendix II.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General, Baghdad (RIG/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) achieved their intended outputs. USAID/Iraq awarded RTI a two-year contract with an estimated cost of \$90 million to implement the follow-on local governance activities program. Awarded in April 2005, this base contract included three one-year options and, during the period of the audit, USAID/Iraq exercised two option periods. Consequently, USAID/Iraq had obligated and disbursed \$175.4 million and \$61 million, respectively, on local governance activities as of December 31, 2006.

The audit was conducted at the offices of USAID/Iraq and the Provincial Reconstruction Teams (PRTs) in Erbil and Mosul, and at RTI's offices in Baghdad, Erbil, and Mosul. We performed fieldwork from February 26 through April 10, 2007. The audit covered the 15-month period from October 1, 2005 to December 31, 2006.

In planning and performing the audit, we obtained an understanding of and assessed the Mission's controls related to the monitoring of the local governance activities. The management controls included completion of the annual Federal Managers' Financial Integrity Act reports; weekly progress reports from the PRTs; cognizant technical officer visits to the PRTs and RTI's offices; review of the RTI's activity reports, and emails between the cognizant technical officer and RTI. We reviewed RTI's annual, quarterly and monthly reports, but did not audit the information because there were no planned activities to compare with RTI's reported achievements.

We also reviewed and assessed the actions taken by the Mission to address audit recommendations from RIG/Baghdad's audit of the first local governance activities program (Audit Report No. E-267-06-003-P) implemented by RTI from March 2003 through May 2005.

Methodology

To answer the audit objective, we reviewed relevant sections from the Federal Acquisition Regulation and from the Agency's Automated Directives System related to performance measures. We also reviewed the requirements set forth in the contract and its modifications.

We interviewed officials from USAID/Iraq and its implementing partner, RTI. We reviewed financial and performance documentation provided by the Mission. We reviewed the information reported in RTI's annual, quarterly and monthly reports, but we did not audit the information because RTI only reported on achievements.

Because the intended outputs were not defined, we could not identify a population for testing, and as a result, we did not establish a materiality threshold.

MANAGEMENT COMMENTS



ACTION MEMORANDUM

TO: Regional Inspector General/Iraq Nancy Lawton

FROM: USAID/Iraq Mission Director Hilda Arellano

SUBJECT : USAID/Iraq Written Comments on Audit (Report No. E-267-07-0XX-P)

USAID/Iraq has reviewed the subject report in detail and would like to thank you for the professional work by your office on the subject audit. We appreciate your efforts to review Iraq's Local Government Program and your recommendations to improve its implementation. In a fluid and insecure environment, USAID is helping the Iraqis to implement more decentralized government. USAID recognizes the importance of establishing intended outputs or baselines to measure progress in that effort.

USAID/Iraq agrees with recommendations and has taken action to follow them.

Recommendation No. 1: Require the contractor to submit the current quarterly implementation plan within 30 days of the issuance of this report, and if this plan is not submitted, that the Contracting Officer determine whether this contract should be terminated for default.

Action Taken: Quarterly implementation plans have begun to be delivered regularly. The quarterly implementation plan due 18 March, 2007 was delivered on 9 April, 2007 and the quarterly implementation plan due June 17, 2007 was delivered on 17 June, 2007.

Recommendation No. 2: Establish a procedure that ensures that all future quarterly implementation plans are submitted as required.

Action Taken: To address the issue of clarity with respect to what deliverables are due under the contract and when they are due, the CTO developed a calendar of deliverables. The calendar constitutes a mutually agreed reference for the deliverables under the contract and their due date that is shared by both parties and is easy to track.

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