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# IRAQ FINANCIAL MANAGEMENT INFORMATION SYSTEM SITUATION ASSESSMENT

## Executive Summary

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# **EXECUTIVE SUMMARY**

## **IFMIS SITUATION ASSESSMENT**



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## **PREFACE**

The Memorandum of Understanding (MOU) signed by the Ministry of Finance (MOF) and the United States Agency for International Development (USAID) on January 14, 2008, requires an independent assessment of the Iraq Financial Management Information System (IFMIS), prior to the handover of both the system and all operational responsibilities to the MOF. International Business & Technical Consultants Inc. (IBTCI), was contracted to provide an assessment of the current situation, the likelihood of achieving the stated objectives within the MOU, gauge the MOF's ability to assume full responsibility for operating the IFMIS and finally, to provide recommendations on moving forward with the system. The following independent assessment was conducted during the period of October 17 to November 18, 2008.

The purpose of this assessment is to provide a snapshot of the status of the IFMIS implementation as of October 31, 2008 by Bearing Point prior to the planned hand over of the IFMIS to the MOF at a date yet to be determined.

The assessment is intended to review the viability and utility of the IFMIS at this stage in Iraq's financial development as well as the MOF's management and system requirements, and capabilities to successfully implement the system upon handover from USAID. This assessment focuses specifically on the General Ledger component of IFMIS.

It is important to note that the assessment of the IFMIS is not an evaluation of the performance of BE in implementing the system, it is not an audit and does not evaluate the appropriateness of the FreeBalance software. Rather, this is as an independent due-diligence-technical review, which may be used to inform decisions between USAID and the MOF regarding the future implementation of the system.

Several studies/audits have been conducted on the implementation of the IFMIS and were used by USAID's Economic Growth and Agriculture office to inform the SOW for this task.

In carrying out this situation assessment, the IFMIS assessment team received and reviewed over 100 documents as evidence of IFMIS implementation progress to date (Annex B).

## ACRONYMS

BE	Bearing Point
COA	Chart of Accounts
CPA	Coalition Provisional Authority
COP	Chief of Party
COSIT	Central Organization for Statistics and Information Technology
CTO	Cognizant Technical Officer
DCOP	Deputy Chief of Party
DFID	Department for International Development (UK)
DG	Director General
DRP	Disaster Recovery Plan
DRS	Disaster Recovery System
ERP	Enterprise Resources Planning
FML	Financial Management Law
FB	FreeBalance
FMIS	Financial Management Information System
GOI	Government of Iraq
GFS	Government Finance Statistics
GFSM 2001	Government Finance Statistics Manual of 2001
IBTCI	International Business & Technical Consultants, Inc.
IFMIS	Iraq Financial Management Information System
IZ	International Zone
M&E	Monitoring and Evaluation
MEFP	Memorandum of Economic and Financial Policies
MOF	Ministry of Finance
MOPDC	Ministry of Planning and Development Cooperation
MOU	Memorandum of Understanding
PFM	Public Financial Management
PRT	Provincial Reconstruction Team
PSD	Personal Security Detail
SIGIR	Special Inspector General for Iraq Reconstruction
SOW	Scope of Work
SU	Spending Units
TOT	Training of Trainers
USACE	US Army Corps of Engineers
USAID	United States Agency for International Development
USG	United States Government

## **EXECUTIVE SUMMARY**

### **Background**

In 2003 The United States Government (USG), under the authority of the Coalition Provisional Authority (CPA), instructed USAID to begin implementation of the Iraq Financial Management Information System (IFMIS) through the Economic Governance (EG) contract implemented by BearingPoint (BE). This task was undertaken in an effort to modernize Iraq's public financial management systems within a cash accounting framework. Bringing the IFMIS to full operation and implementation was then, and is considered now, a key component of the Government of Iraq's (GOI) International Monetary Fund Stand-by Arrangement (IMF-SBA), which outlines requirements that the GOI must fulfill to be eligible for IMF emergency assistance and debt cancellation from the Paris Club.

Reports indicate that by June 2007, the IFMIS had been rolled out in 132 spending units (SU) nationwide. According to BE and the MOF, these 132 SUs collectively captured over 80<sup>1</sup> percent of GOI expenditures. However, work on the IFMIS was terminated by USAID following the abduction of five BE consultants in May 2007 at the MOF, as well as due to difficulties in aligning the system to the needs of the Iraqi government.

On January 14, 2008, USAID and the Ministry of Finance (MOF) signed a Memorandum of Understanding (MOU). The signing of the MOU gave impetus for USAID to restart the program by outlining an agreement to cooperatively identify and resolve technical issues and transfer full ownership of the IFMIS to the MOF. While USAID may continue to offer limited technical assistance to the MOF to operate, maintain and update the system, the MOF will assume full ownership of the computer hardware and software. (Annex D)

### **Accomplishments since January 2008**

Following the restart of the program, in July 2008, USAID assistance to the MOF has resulted in a number of accomplishments.

- As of October 31, 2008, the IFMIS Core Module is fully functional and the system is ready for full operation by the MOF upon rollout to all SUs.
- The IFMIS servers are fully functioning and ready for handover to the MOF upon notification by the MOF to BE that a secure location can be provided.
- The IFMIS hardware server components, which were over four years old, have been upgraded.
- Re-subscription of software licenses for all FMIS components has been acquired. Upon their expiration in January 2009, the GOI will be responsible for their renewal.

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<sup>1</sup> Since all original data was destroyed in a fire at the Central Bank, it was impossible to verify this figure. However, both BE and MOF have independently quoted this percentage.

- MOF and SU staff has been retrained to implement IFMIS.
- The IFMIS system was reactivated and pilot processing of 11 SUs are underway.
- The Director General for Information Technology (DG IT) obtained a budget allocation of 3.9 billion Dinars for providing SUs with new or upgraded IT facilities.
- BE and the MOF are now undertaking site surveys of all SUs to assess the readiness of each SU. This includes their capacity to connect and use IFMIS.
- Ministerial approval has been obtained to procure and equip a first batch of 70 new SUs.
- The MOF has nominated a number of staff to be trained by BE as IFMIS trainers as part of a Train the Trainers program.
- The MOF drafted and issued a Ministerial Order on November 11, 2008 to all SUs to commence parallel processing backdated to August 1, 2008, and requested that reconciliations be carried out between the IFMIS and the legacy systems.
- BE has completed all preparatory work and documented the budget business process.
- BE has undertaken the necessary preparatory work, configured the IFMIS purchasing module, and is ready to install, pilot test, train staff and hand over to MOF the IFMIS once there is agreement of a timeline for implementation of the FMIS purchasing module between the MOF and Ministry of Planning and Development (MOPD).
- At the request of the MOF, BE and FreeBalance (FB) have designed a static report available to all SUs which allows them to produce their Trial Balance in a similar format to what was offered by their legacy system.
- BE has completed three volumes of accounting policy manuals, as well as Treasury regulations, in Arabic for use by the MOF and SUs.

### **Activities in the Pipeline for Implementation**

- By the end of November 2008, the MOF targeted to have 42 SUs (i.e., 29 SUs in Greater Baghdad and 13 MOF supported SUs) connected to and using the FMIS.
- By the end of December 2008, the MOF expected to have 126 SUs connected to and using the FMIS. This expectation was based on being able to rapidly bring up to speed most of the previous 132 SUs that were operational before the shutdown of the FMIS in June 2007.
- Over the period of late November and December 2008 and January 2009, MOF IT staff are scheduled to attend advanced hands-on IT technical training at the BE compound in the IZ.

Based on the targeted rollout date for implementation of the IFMIS to the SUs, BE formulated the number of SUs that will need to be assessed monthly as well as numbers of staff needing training to achieve the MOF's goals noted above. BE anticipated that by October 31, 2008, 83 SUs would have been assessed, trained and using IFMIS. In reality only 41 assessments were completed, 11 SUs received training and 28 SUs are in a position to use IFMIS. It is clear that unless significant progress was made in December, the target dates will slip.

## Findings

- FMIS implementation by BE has been done in a very professional manner. BE utilized standard Project Management practices and processes.
- Eleven pilot SUs have been using IFMIS for less than five months and entered an average of less than 10% of total monthly transactions during the period of July to November 2008.
- The MOF DG of IT is supportive of the IFMIS and has worked closely with BE in the re-start of the system despite certain logistical constraints which hindered the implementation process.
- SUs may be engaging in poor financial management procedures by only entering Journal Voucher summaries of transactions instead of each transaction into the IFMIS. This impacts the specificity of the data entered into the IFMIS and may preclude the generation of detailed reports due to the absence of transactional information.
- Reporting will remain a problem until the GOI addresses fundamental issues with their financial management practices and affords IFMIS with the required support identifying it as the system of record for accounting and discourages SUs from populating IFMIS with inadequate information.
- The acquisition of Crystal Reports (CR) will not resolve reporting problems. Nonetheless, if the MOF continues to use CR, it will require additional training, which is currently not considered as part of the handover process.
- While the MOF is satisfied with the IT technical training they are receiving in the classroom refresher courses, the MOF believes the amount of "hands on" training could be increased adding value to put to practical use the curricula taught in the classroom.
- IFMIS hardware has benefited from minor repairs and upgrades to power-supplies. It remains relatively identical to the previous system and BE is of the opinion that the existing system has more than enough processing power to support all 266 SUs once they are up and running.
- Internet connectivity remains a serious challenge for many SUs equipped with shared connections; to date the MOF has not been able to implement a viable solution. USAID has been approached to engage senior MOF officials in an attempt to resolve the issue.

- The 132 originally connected SUs account for over 80% of all financial transactions. While it is imperative that the additional 134 SUs be connected as soon as possible, delays should not pose a significant issue in terms of the GOI ability to produce meaningful reports as the most important SUs from which critical reporting is required are currently functional.
- The Ministerial Order did not provide a cut-off date for use of the legacy system or penalties for non-compliance. Additional instructions from senior MOF officials are required.
- MOF DG Accounting and Budget departments have not demonstrated the required commitment to the IFMIS. Additionally, the MOF will need to observe SU uptake to determine compliance and act accordingly.

## Recommendations

To ensure the successful implementation of IFMIS and to enable the GOI to reap the benefits of the total anticipated \$29,923,395<sup>2</sup> million USAID has already invested to complete the IFMIS implementation the following steps are recommended:

### Ministry of Finance

- Identify a suitable location for the transfer of the IFMIS servers, including production, test and backup, from the BE compound to ensure MOF operation and control as soon as possible.
- Identify a suitable location for the housing of the Disaster Recovery System.
- The Disaster Recovery Plan should be tested regularly to ensure existing and new employees are able to implement the plan as required.
- The Disaster Recovery System should be physically separated to ensure, in the advent of a serious citywide catastrophe, the backup has a significant chance of surviving intact.
- Additional Ministerial Orders must address the following:
  - The cut-off date for the switch from the manual legacy system to the IFMIS.
  - The shut down date of the legacy system to make the IFMIS the primary and only, accounting record of GOI, which will be subject to audit.
- Ensure that all SUs undertake parallel processing from January 1, 2009 so as to have a full year's financial data on IFMIS. Failing this, efforts should be made to operationalize all SUs as soon as technically possible.

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<sup>2</sup> This number includes an additional \$7,839,009 obligated by USAID upon the signing of the MOU to complete the implementation of the IFMIS roll out. There is an anticipated estimated gap of \$1.6 million to fully implement the IFMIS as outlined in the MOU. It is this team's belief that the additional obligated funds were sufficient to complete the requirements outlined in the MOU had there not been a delay of seven months from the signing of the MOU to the restart of IFMIS. During this delay, resources were being expended by BE in retaining staff in preparation for the restart. These expended resources are now a large part of the estimated gap of \$1.6 million needed to complete the rollout process outlined in the MOU.

- Establish a high-level IFMIS Steering Committee chaired by the Minister of Finance with the participation of key GOI ministries.
- Establish a working-level Steering Committee chaired by either the DG of IT or Senior Enterprise Resources Planning (ERP) Manager with the participation of key GOI ministries.
- Hire experienced ERP project managers who can provide an organizational perspective and vision.
- Introduce a strong Internet usage policy, improve security measures by installing and maintaining anti-virus and firewall software on all computers (not just FMIS terminals), monitor employee use of the Internet, and where possible disable access to websites and applications which interfere with, or adversely affect, the SUs ability to use critical business functions.
- Appoint an experienced senior level IFMIS project/program manager to ensure ongoing growth and development of the IFMIS.
- Develop a capacity building strategy, especially in the areas of analytical functions.
- The GOI should consider the development of a data warehouse as part of the future growth and development of the IFMIS.
- Acquire strategic knowledge in key area, VSAT technology and FMIS application support, to ensure the MOF is able to understand and manage vendor relationships.
- Introduce a Human Resource sustainability strategy to address possible IFMIS employee attrition.

#### **USAID and Bearing Point**

- Facilitate the identification of a suitable location for a production system and Disaster Recovery System together with senior GOI and MOF.
- Discuss the implementation of the Procurement and Performance Budgeting Modules with senior MOF to improve IFMIS and GOI financial management procedures.
- Facilitate MOF access to IFMIS hardware in an effort to address MOF concerns with hands-on experience.
- Engage a training expert familiar with Iraqi or Middle Eastern culture and learning habits to assess the IFMIS training materials.
- Reach an agreement with the MOF as to who will be responsible for funding the financial gaps identified in rolling out a fully functional IFMIS as outlined in the MOU.

## **IFMIS Benchmarks**

There are some IFMIS implementation benchmarks or milestones that were set by BE in consultation with the MOF to ensure a rapid re-launching of IFMIS prior to the handover to the GOI. These were<sup>3</sup>:

1. By November 30, 2008, 70 SUs will connect and enter data.
2. By December 31, 2008, 132 SUs, or approximately 50%, will connect and enter data.
3. By the end of the first quarter of 2009, 267, or 100%, will connect and enter data.
4. The FB licenses for 2009 should be paid by the MOF before December 31, 2008. The renewal fee is estimated at US\$165,000.

## **Required MOF Action Items**

The effective use of the IFMIS by the MOF in the benchmarked targets noted above and the successful and sustainable handover of the IFMIS from USAID to the MOF will only be possible if/when the following key actions are taken by the MOF:

1. The IFMIS is under the sovereign control of the MOF, meaning the MOF has identified and secured a suitable site for the IFMIS hardware and is in full control of the system's management.
2. Full parallel processing is ongoing when all 267 SUs enter a full month's data from January 1, 2009.
3. A GOI financial audit is conducted and based on the IFMIS.
4. The MOF issues a follow-up ministry order (MO) providing: additional clarity and guidance on the use of FMIS including; shutdown date for the legacy system and identify the FMIS as the only accounting system of record for the GOI; FMIS used as the primary source data and reporting; and ordering SUs to adopt appropriate financial management procedures to ensure the quality and completeness of financial data.
5. Identification of a suitable location for the Disaster Recovery System.
6. The MOF ensures IT skill capacity to maintain and upgrade the FMIS on a continuing basis.
7. A FMIS Steering Committee is set up and a FMIS "Champion" is identified.

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<sup>3</sup> It should be noted that these benchmarks are recommendations only, based on KIIs and review of documentation to date by the FMIS assessment team. The team notes these are aggressive in nature and will take full cooperation of all stakeholders if they are to be met within the timeline set forth above. These benchmarks are considered to be 'best case scenario'. The FMIS assessment team cannot determine at this point whether or not they can or will be met within the timeframe outlined.

8. The Budget module to support the 2010 budget cycle is implemented.
9. The MOF initiates procurement of FMIS equipment as soon as possible in light of a possible 2-3 month time lag to obtain procurement approval.

The actions noted above must be driven by the MOF. Without these being fully executed, the conditions set forth for completion of the IFMIS within the MOU dated January 14, 2008<sup>4</sup>, will not be met prior to fully expending current USAID funding. It is anticipated that the main areas of work that will **not** be completed under the current funding arrangements are:

**Phase 4:** Providing technical assistance at an estimated Level of Effort (LOE) of 90 days to the MOF Accounting Directorate to build capacity and introduce international best practices to business processes and accounting regulations.

**Phase 6:** Providing technical assistance at an estimated LOE of 171 days for the implementation of the FMIS Performance Budgeting module.

**Phase 7:** Providing technical assistance at an estimated LOE of 60 days for the implementation of the FMIS Purchasing Functionality.

The slippage of these components is primarily due to the absence of MOF and MOPD counterpart support. BE consultants are currently engaged but are not fully utilized awaiting counterpart support. While this situation continues, BE and USAID are expending valuable funding for little return at this stage on the Budget Performance and Purchasing IFMIS modules. Due to the slippage in rollout, primarily being the responsibility of the MOF, the assessment team does not believe that USAID or its implementing partner BE should be responsible for the components not delivered as outlined in the MOU, and highly recommends this be discussed between USAID and the MOF soonest possible.

## **IFMIS Implementation Costs**

The total cost of the FMIS until the June 2007 shutdown was \$22,093,386. The amount obligated for reactivating IFMIS under the MOU was \$7,830,009 for a total cost of \$29,923,395. The FMIS assessment team estimates that to fully implement the current MOU prior to the handover to the MOF an additional 321 days of LOE will be needed at a cost of \$5,000 per day. This represents \$1,605,000 of unfunded activity beyond April 30, 2009 to ensure the successful completion of this project. That said, it is the judgment of the assessment team that without robust MOF counterpart support no amount of money or time will ensure complete implementation of the IFMIS by USAID and believes these costs should be incurred by the MOF.

## **USAID Strategic Options**

The MOU outlines an agreement to cooperatively identify and resolve technical issues and transfer full ownership of the IFMIS system to the MOF. These obligations are the joint responsibility of both USAID and the MOF. Due to the numerous outstanding

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<sup>4</sup> It is not anticipated these actions will have been taken prior to the expiration of the current MOU.

issues yet to be addressed and/or resolved by the GOI and MOF, USAID cannot meet the expectations of the MOF outlined in the MOU upon handover.

The strategic options for USAID include the following:

- USAID does not provide any more funds than currently allocated to the IFMIS, on the premise that no amount of money or time will successfully complete the implementation of the IFMIS.
- USAID allocates the additional estimated \$1.6 million for the remaining outstanding tasks to be completed, including the implementation of the Performance Budget and Procurement modules, with conditions placed on the MOF to complete their responsibilities within a clearly set timeframe.
- USAID requires that the MOF finance the additional costs incurred as a result of MOF delays in taking appropriate and timely actions in IFMIS implementation to date.

## **Conclusion**

USAID and its implementing partner BE have gone to great lengths to provide the MOF with a fully functioning FMIS under extremely difficult operational circumstances. From a purely technical point of view, BE has brought the IFMIS to as fully a functional system as can be provided until such time as the MOF and GOI complete the tasks required of them to ensure a fully functioning FMIS. The assessment team reviewed all systems related to the IFMIS currently in place finding they are adequate to meet the current and likely future needs of the GOI.

According to a World Bank study completed in 2003, the average time taken to fully implement a FMIS is seven years. An argument could be made based on the Bank study that the IFMIS has not yet hit the seven-year threshold for implementation and therefore the expectations set forth in the MOU are unrealistic, particularly given the Iraq context. That said, it is the opinion of the assessment team that while there appears to be increased political will within the GOI to implement this system, until such time as all GOI stakeholders see IFMIS as a priority and are willing to take ownership of it, it will likely never be fully implemented, the MOU between USAID and the MOF notwithstanding.