



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/IRAQ'S IMPLEMENTATION OF THE IRAQ FINANACIAL MANANAGMENT INFORMATION SYSTEM

**AUDIT REPORT NO. E-267-10-002-P
JULY 19, 2010**

BAGHDAD, IRAQ



Office of Inspector General

July 19, 2010

MEMORANDUM

TO: USAID/Iraq Mission Director, Christopher D. Crowley

FROM: Director, Office of Inspector General/Iraq, Lloyd J. Miller /s/

SUBJECT: Audit of USAID/Iraq's Implementation of the Iraq Financial Management Information System (Report Number E-267-10-002-P)

This memorandum transmits our final report on the subject audit. We have carefully considered your comments on the draft report in finalizing the audit report and have included your response in appendix II of the report.

The report contains one recommendation for your action. On the basis of your written comments, we consider that both a management decision and final action have been taken on recommendation number 1.

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

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SUMMARY OF RESULTS

The Iraq Financial Management Information System was developed under two contracts between USAID and BearingPoint, Inc., that ran from July 2003 through July 2009. As of November 1, 2009, USAID had spent about \$32.6 million to develop the system. In addition, the U.S. Department of State had spent \$4.8 million on modules that were later incorporated into the system, for a total cost of \$37.4 million. The system was designed to help the Government of Iraq formulate, execute, and monitor central government budgets (see page 3.)

In June 2007, USAID/Iraq notified the Ambassador's office that they had suspended implementation of the Iraq Financial Management Information System due to a lack of commitment from the Iraq Ministry of Finance and the abduction of five USAID British contractors. In January 2008, a memorandum of understanding was signed by USAID and the Ministry of Finance. The memorandum of understanding laid down responsibilities and the terms for the handover of the system to the Ministry of Finance. USAID's commitments were subsequently incorporated into a September 2008 contract modification to establish nine deliverables for the completion of the Iraq Financial Management Information System (see page 3).

Although BearingPoint completed a substantial amount of systems development, equipment procurement, and training, the Iraq Financial Management Information System has not been fully implemented and has not achieved its goals of helping the Government of Iraq formulate, execute, and monitor central government budgets. The system was not being used as the Government of Iraq's system of record, and among other issues, the system could not produce complete trial balances, produce useful reports for individual ministries and offices, produce information needed to perform bank reconciliations, support voucher numbers that would uniquely identify individual ministries and offices, or support multiple budgets for individual ministries and offices (see pages 5 to 6).

These issues occurred for two main reasons. First, the contractor did not provide key contract deliverables, including purchasing and budget modules, an offline data-entry tool, enhanced reporting tools, and participants were not satisfied with the training that the contractor had provided. (See pages 7 to 11.) Second, in the urgent pressure to develop the system in postwar Iraq, the contractor did not follow certain best practices for systems development, including obtaining functional user requirements, selecting a system on the basis of system and user requirements, developing a concept design, obtaining customer buy-in and support, and conducting system testing. Had the contractor followed these best practices, it could have avoided many of the problems identified in this report. (See pages 12 to 17.) In addition, USAID/Iraq stated that a lack of support and commitment by some officials within the Ministry of Finance of the Government of Iraq hindered the implementation of the Iraq Financial Management Information System (see page 6).

To address these issues, the report recommends that USAID/Iraq develop a strategy for correcting system deficiencies (see page 17). USAID/Iraq concurred with the recommendation. According to the mission, all funding has concluded, and USAID/Iraq is not planning any further funding of the Iraq Financial Management Information System

because of difficulties resulting from the lack of sufficient support at appropriate levels within the Ministry of Finance. USAID/Iraq also stated that if the Ministry of Finance were to demonstrate an unequivocal commitment to support the Iraq Financial Management Information System, and to request USAID's assistance, the mission could consider additional support. If such support were provided in the future, it would be developed using an action plan that includes the elements in the OIG recommendation. In light of these comments, we consider that recommendation number 1 has both a management decision and final action (see pages 38 to 65).

Although USAID/Iraq agreed with the report recommendation, it thought that the report was too critical of USAID/Iraq and its contractor and not sufficiently critical of the Government of Iraq, which as the intended user of the system, shared responsibility for implementing it. The mission provided a large number of detailed comments expressing disagreement with the report's specific findings and conclusions. We addressed issues specific to our audit findings, and have made changes to this final audit report to incorporate additional information provided by the mission. However, we disagreed with most of the mission's comments. In some cases, the comments were based on inaccurate, unsupported, or irrelevant information. In other cases, the mission's comments appeared to reflect the opinions of the contractor who drafted the mission's comments. (See pages 18 to 35.)

BACKGROUND

The Coalition Provisional Authority, under the authority of the U.S. Government, instructed USAID to begin implementation of a financial management information system for the Government of Iraq through the Economic Governance contract implemented by BearingPoint, Inc. (BearingPoint). This initiative was motivated by the need for a modern budgetary accounting system to track and manage the expenditures made by the Coalition Provisional Authority on behalf of the occupied Government of Iraq and ultimately by the Government of Iraq itself, as its financial system of record. From January to May 2003, USAID, BearingPoint, the Coalition Provisional Authority, and other US Government agencies developed the program requirements for the Economic Governance Program, which included a task for developing a financial management information system for the Government of Iraq. The system was designed to help the Government of Iraq formulate, execute, and monitor central government budgets.

USAID's first level-of-effort contract with BearingPoint, known as Economic Governance I, included numerous tasks related to economic and financial reforms for Iraq, one of which was development of a financial management information system. The contract, as amended, covered the period from July 18, 2003, to September 30, 2004. The total amount disbursed under this contract was \$79.6 million. In September 2004, USAID awarded a follow-on level of effort contract to BearingPoint known as Economic Governance II. The contract included 398 tasks to continue economic and financial reforms, including the Iraq Financial Management Information System, and covered the period from September 3, 2004, to September 2, 2009; however, the contract was terminated in July 2009 when the contract ran out of funds. The total amount disbursed under this contract was \$222 million. The Iraq Financial Management Information System was developed under these two contracts between USAID and BearingPoint that ran from July 2003 through July 2009. As of November 1, 2009, USAID had spent about \$32.6 million to develop the system. In addition, the U.S. Department of State had spent \$4.8 million on modules that were later incorporated into the system's development, for a total cost of \$37.4 million.

In June 2007, USAID/Iraq notified the Ambassador's office that they had suspended implementation of the Iraq Financial Management Information System due to a lack of commitment from the Iraq Ministry of Finance and the abduction of five USAID British contractors. In January 2008, a memorandum of understanding was signed by USAID and the Ministry of Finance. The memorandum of understanding laid down the responsibilities of both parties for the restart of work on the Iraq Financial Management Information System project and the terms for the handover of the system to the Ministry of Finance. USAID's commitments in the memorandum of understanding were subsequently also incorporated into a September 2008 modification of the Economic Governance II contract to establish nine deliverables including 59 related tasks for the completion of the Iraq Financial Management Information System.

On February 18, 2009, BearingPoint filed for Chapter 11 bankruptcy. On March 23, 2009, BearingPoint reached an agreement to sell substantially all of its businesses, including its Federal Government business, to Deloitte Consulting, LLP. The sale was finalized on May 8, 2009, and BearingPoint ceased operations in Iraq as of June 30,

2009. Deloitte continued work under the contract for one more month but ceased work on July 30, 2009.

AUDIT OBJECTIVE

The Office of Inspector General/Iraq conducted this audit to answer the following question:

- Has the Iraq Financial Management Information System been implemented, and has it achieved its main goals of helping the Government of Iraq formulate, execute, and monitor central government budgets?

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

AUDIT FINDINGS

After 6 years of effort, the Iraq Financial Management Information System has not been fully implemented and has not achieved its main goals of helping the Government of Iraq formulate, execute, and monitor central government budgets. The information system has not been accepted by the Ministry of Finance, and it is not being used as the system of record for the Government of Iraq.

Among its achievements during the 6 years of work, BearingPoint installed the information system in the Ministry of Finance and in 120 of the 270 ministries and offices throughout Iraq; provided 210 computers, 77 printers, and 17 satellite connections; provided a recovery system that would restore the information system in case of disaster; and introduced the information system through training to 245 ministries and offices across Iraq. In addition, the information system proved capable of producing financial information that matched information in the Government of Iraq's legacy system in fiscal years 2005, 2006, and part of 2007.¹

Although BearingPoint completed a substantial amount of systems development, equipment procurement, and training, key contract deliverables were not completed, and the system has not produced the capability that meets the Government of Iraq's needs. The Ministry of Finance has not accepted the information system or placed it into use as the system of record.

Tasks not completed included:

- Effecting handover of the information system to the Ministry of Finance.
- Implementing the budget and purchasing modules.
- Implementing a work-around for offline data entry.
- Implementing reporting capabilities that meets the needs of the Government of Iraq and the International Monetary Fund (IMF).
- Establishing a relationship between the software/hardware vendors and the Ministry of Finance.
- Providing adequate training.
- Conducting adequate testing of the system.

In addition, the information system was not configured on the basis of the users' needs, and, as a result, the system cannot perform the day-to-day financial management operations of the Government of Iraq's ministries and offices.

Users reported numerous problems with the system that prevented them from performing necessary tasks. They relied instead on the Government of Iraq's legacy

¹ The Iraq Financial Management Information System was temporarily shut down in May 2007.

system² to conduct their work. Some examples of the problems follow. The system could not:

- Enter invoices with unique invoice numbers.
- Provide information needed to perform bank reconciliations.
- Provide for more than one bank account.
- Provide automatic opening balances that were based on closing balances from the previous accounting period.
- Produce useful reports for individual ministries and offices.
- Produce accurate and complete trial balances.
- Add a supplemental budget for midyear increases to the budget.
- Add new accounts to the chart of accounts.
- Automatically save entered transaction data.
- Inform user when budget ceilings are exceeded.
- Transmit information quickly through the system.

These issues occurred in part because the project was funded under a cost reimbursable contract that did not hold the contractor accountable for noncompletion of contract deliverables. Also, in the urgent pressure to develop the system in postwar Iraq, the contractor did not follow certain best practices for systems development. These practices included obtaining functional user requirements, selecting a system on the basis of technical and user requirements, developing a concept design, obtaining customer buy-in and support, and conducting system testing. Had the contractor followed these best practices, it could have avoided many of the problems identified in this report. Finally, in its comments, USAID/Iraq stated that a lack of support and commitment by some officials within the Ministry of Finance hindered the implementation of the Iraq Financial Management Information System. These issues are discussed further in the following sections.

² An information technology (IT) or other automated system that is technologically obsolete. It may be too expensive to update or replace, but it is still needed for the company's operations and thus is kept operational although a newer system is in use.

Some Contract Deliverables Were Not Completed

Summary. Some key contract deliverables were not completed, and Government of Iraq employees were not fully satisfied with the training provided. As a result, users cannot perform their work using the new system, and the Ministry of Finance has not accepted the Iraq Financial Management Information System as their system of record. To implement the system, USAID/Iraq used a cost-reimbursable contract that does not specifically require the contractor to complete contract tasks aimed at achieving the intended program results. In addition, in its comments, USAID/Iraq stated that a lack of support and commitment by some officials within the Ministry of Finance of the Government of Iraq hindered the implementation of the Iraq Financial Management Information System.

Modification no. 21 to the Economic Governance II contract, signed September 13, 2008, incorporated USAID's responsibilities in the January 2008 memorandum of understanding for implementing the Iraq Financial Management Information System, plus additional tasks related to successful implementation of the system. Modification No. 21 contained 9 contract deliverables with 59 associated tasks.

The contractor reported at the end of June 2009 that several contract deliverables from modification no. 21 had not been achieved. However, USAID stated that the Economic Governance II contract was for level of effort,³ and therefore the contractor could not be held accountable for deliverables not completed. Because these critical tasks were not accomplished, a functional Iraq Financial Management Information System could not be implemented.

Handover of the Iraq Financial Management Information System. The January 2008 memorandum of understanding required that the Iraq Financial Management Information System be removed from the Ministry of Finance and located on the BearingPoint compound, which was located in the International Zone, Baghdad, Iraq. Modification no. 21 stated that the handover of the information system to the Government of Iraq will be considered completed when the USAID advisers have addressed the technical issues that have been formally identified and the system's server equipment has been returned to the Ministry of Finance. Although the server equipment has been returned to the ministry, BearingPoint reported that the handover of the system has not been achieved, stating:

The Ministry of Finance has signed for receipt of the equipment, and the server set-up is in process. Despite many attempts to get the Ministry of Finance to fully accept the system, the Director General of Budget has continued to prefer use of the old legacy system despite its significant disadvantages.

Budget and Purchasing Modules. In September 2006, the U.S Department of State entered into two contracts with BearingPoint to implement the budget and purchasing modules to interface with the Iraq Financial Management Information System. The

³ According to Federal Acquisition Regulation (FAR) 16.306 (d) (2), level-of-effort awards obligate the contractor to devote a specified level of effort for a stated period.

budget module would resolve many of the difficulties encountered in executing the Government of Iraq's budget. The purchasing module was intended to assist Iraqi ministries in planning and executing their purchasing process more effectively. Although the project was temporarily shut down in May 2007, the contracts continued to accumulate costs through September 2007. The contracting officer's technical representative noted on the last invoice for the budget module that, because of the 2007 shutdown, further review of the payments was warranted. A total of \$4.8 million was paid for the budget and purchasing modules.

In January 2008, USAID assumed responsibility for the budget and purchasing modules and resumed work on their implementation through modification no. 21. The budget module would resolve many of the difficulties encountered in executing the Government of Iraq's budget. The purchasing module was intended to assist Iraqi ministries in planning and executing their purchasing process more effectively. Modification no. 21 required implementation of the budget and purchasing modules. These modules have been interfaced with the information system, but they have not been configured to serve Iraqi users' needs, and no training was provided. Although the budget module is not in use, the Ministry of Finance received a bill for 40 user licenses.

BearingPoint configured the budget and purchasing modules unilaterally, without appropriate input from the system users at the Ministry of Finance. According to BearingPoint, they developed configuration documents for the budget module on the basis of their understanding of the budget process and delivered the documents to the Iraq Financial Management Information System software vendor, FreeBalance. Similarly, BearingPoint chose to configure the purchasing module unilaterally, without the appropriate input from the system users at the Ministry of Finance. For the purchasing module, BearingPoint stated that, in the absence of direct inputs from the ministry, the module had been configured to automate standard purchasing functions and practices as they are outlined and described under Iraqi law.

BearingPoint subsequently determined that the purchasing module configuration did not meet the Ministry of Planning's user requirements and recommended conducting a gap analysis⁴ and reconfiguring the module to meet the Iraqi requirements. However, the contract ended without completion of these tasks. USAID stated that, if funding continued for the information system project, no further work on the purchasing module would be included.

Offline Data-Entry Tool. The system is Internet based, but not all of Iraq's spending units have access to Internet connections, particularly in the more remote locations, and Internet service around the country is unreliable. Currently, 80 spending units in Iraq do not have Internet service. Therefore, the development and implementation of an offline data-entry tool was included as a deliverable in modification no. 21. BearingPoint designed the tool to allow end users at spending units to input accounting transaction data offline for uploading either through a manual process or when Internet service is available. Because the new information system is a Web-based system, Internet access is critical to its success as a governmentwide accounting system.

⁴ "Gap analysis" is an assessment tool to help identify differences between information systems or applications. A gap is sometimes called "the space between where we are and where we want to be."

BearingPoint developed the tool and delivered it to the Ministry of Finance in August 2009 (after the contract ended) via an email, including a user guide. The Ministry of Finance systems administrator downloaded the tool and found that it did not meet the users' needs of the Iraqi Financial Management Information System.

Crystal Reports. The new information system can provide only a limited number of reports, and it cannot generate 17 of the reports recommended by the International Monetary Fund. The inability to produce useful reports is one of the system's critical shortcomings. In USAID's response to a prior audit finding⁵ on this problem, USAID stated that advanced reporting features were available with the addition of Crystal Reports in 2005 and that reporting was no longer a problem.

Modification no. 21 called for BearingPoint to complete and install Crystal Reports software and provide technical assistance to better prepare the Government of Iraq to use the reporting tools of the new information system. Crystal Reports is an off-the-shelf reporting software application that allows users to access data repositories and create various reports using that data. The new information system can provide only a limited number of reports—it could not generate 17 of the reports recommended by the IMF. Crystal Reports would enhance the system users' ability to generate reports.

Despite USAID's assertion that Crystal Reports had resolved the reporting problem, Crystal Reports training was not provided to the Ministry of Finance staff. Furthermore, although Crystal Reports was installed on the new information system, the Ministry of Finance's systems administrator was not authorized to access it. In addition, although the software is not in use, the Ministry of Finance has received a bill for 10 user licenses.

Relationship With the Vendor. Modification no. 21 included two deliverables relating to relationships between the Ministry of Finance and the software and hardware vendors, as follows:

- Facilitate relationships between Ministry of Finance IT staff and hardware and software vendors to allow Ministry of Finance to assume an ownership role over system software.
- Facilitate communications between FreeBalance, other software support vendor/developers, and the Ministry of Finance.

The Ministry of Finance information technology (IT) staff stated that BearingPoint had not provided contact information for the software and hardware vendors (such as FirePass and Hewlett Packard Company) other than FreeBalance. When the IT staff tried to make contact with the vendors, they were denied access because they were not listed as the licensed owner. BearingPoint staff was no longer in Iraq, and we did not contact them for an explanation. Additionally, when the auditors discussed this issue with USAID/Iraq program officials during the audit field work, they stated that they were aware of the problem and were working to address it.

Training. BearingPoint reported that it had trained 959 individuals from 245 spending units, totaling 4,393 individual workdays of training. Training was mentioned in 46

⁵ Office of the Special Inspector General for Iraq, Report No. SIGIR-08-07, "Efforts to Implement a Financial Management Information System in Iraq," January 25, 2008.

percent (27 of the 59) of deliverables tasks in modification no. 21. Although the training represented a large effort, Iraqi system users were not satisfied with the training provided.

According to Ministry of Finance IT staff, the training consisted of presentations with handouts rather than hands-on training on actual computers. Therefore, we were told, that the IT staff came away from the training without the skills they needed to assume their responsibilities on the system. Iraqi system users also noted that the training had been very basic and had not included training on producing reports.

Testing. No system-response testing was performed to determine whether the system could support users from the 250 spending units connected to the system. The Ministry of Finance IT staff stated that no one from their department had been included in BearingPoint's testing.

Impact of Government of Iraq Support. In its comments, USAID/Iraq stated that a lack of support and commitment by some officials within the Ministry of Finance of the Government of Iraq hindered the implementation of the Iraq Financial Management Information System.

Impact of Contract Type. USAID used cost-plus-fixed-fee, level-of-effort term contracts for both the Economic Governance I and Economic Governance II programs. In a January 2008 audit report,⁶ the Special Inspector General for Iraq Reconstruction questioned the use of this type of contract for these awards, stating that, according to the Federal Acquisition Regulation, the cost-plus-fixed-fee contract gives the contractor only a minimum incentive to control costs and is more suitable for the performance of research or preliminary exploration or study, and when the level of effort required is unknown (FAR subpart 16.306). USAID/Iraq disagreed and stated that it had made the right choice in choosing cost-plus-fixed-fee, level-of-effort term contracts for Economic Governance I and II because these contracts provided the maximum flexibility that the Iraq environment needed.

In addition, this type of contract does not require that the contractor complete and deliver the specified end product, but merely a specified level of effort for a stated period. Accordingly, USAID officials stated that the contractor could not be held accountable for noncompletion of deliverables under level-of-effort contracts.

Given the minimal incentive to control costs, Federal Acquisition Regulation 16.301.3(a) state that a cost reimbursement contract may be used only when two conditions are met:

- First, the contractor's accounting system is adequate for determining costs applicable to the contract.
- Second, appropriate government surveillance during performance will provide reasonable assurance that efficient methods and effective cost controls are used.

However, USAID/Iraq did not adhere to either condition.

⁶ Office of the Special Inspector General for Iraq, Report No. SIGIR-08-07, "Efforts to Implement a Financial Management Information System in Iraq," January 25, 2008.

In regard to the adequate accounting system, on August 27, 2004, the Defense Contract Audit Agency issued an audit report noting that Bearing Point had implemented a new accounting system which had yet to be evaluated. On September 3, 2004, USAID/Iraq awarded the Economic Governance II contract. Subsequently, on May 16, 2006, the Defense Contract Audit Agency issued an audit report noting that Bearing Point's new accounting system was inadequate. Specifically, the report stated that the contractor's control environment and overall accounting controls were inadequate. In 2007, 2008, and 2009, the Defense Contract Audit Agency repeated the same exact warning each year. Nevertheless, USAID/Iraq did not adjust its oversight to account for this vulnerability.

In regard to government surveillance, cost reimbursement contracts require extensive monitoring and evaluation to ensure that the contractor is progressing. However, our prior audit of the Economic Governance II program⁷ disclosed that USAID had not developed a systematic process for performance management and monitoring. Specifically, USAID officials did not establish a systematic mechanism to monitor the myriad tasks and thus could not track whether the tasks had been performed, were on schedule, or were behind schedule. Without such knowledge, the mission was unable to manage the contract effectively or measure improvements in the seven functional areas in which the Economic Governance II program was meant to have the greatest effect.

USAID's *Guidebook on Acquisition and Assistance* states that at the closeout of a contract, the contracting officer's technical representative confirms physical completion of the work under the contract and administratively approves the final voucher for payment. The contracting officer's technical representative should recommend to the contracting officer acceptance or rejection of all contract deliverables. If the work is judged unsatisfactory, the contracting officer's technical representative and the contracting officer must determine what further actions are required, seeking the advice of legal counsel if necessary. As of the end of this audit's fieldwork, USAID had not yet determined whether the contract deliverables were satisfactorily achieved. Of the approximate \$223 million obligated for this contract, approximately \$222 million had been disbursed as of March 1, 2010.

The noncompletion of contract deliverables directly affected the contractor's ability to implement the Iraq Financial Management Information System. However, because the contractor has demobilized and has also filed for Chapter 11 bankruptcy, we are not making a recommendation.

⁷ "Audit of USAID/Iraq's Economic II Governance Program," Audit Report No. E-267-09-004-P, June 3, 2009.

The Iraq Financial Management Information System Is Not Meeting System Users' Needs

Summary. The Iraqi system users cannot use the Iraq Financial Management Information System to perform their work. Although IT best practices provide a framework for achieving success in implementing IT projects, USAID did not ensure that its contractor had followed best practices in implementing the Iraq Financial Management Information System. In addition, in its comments, USAID/Iraq stated that a lack of support and commitment by some officials within the Ministry of Finance of the Government of Iraq hindered the implementation of the Iraq Financial Management Information System. As a result, after 6 years of work, the system is not functioning as the system of record for the Government of Iraq.

Although the Iraq Financial Management Information System achieved some success, the Government of Iraq has not accepted the system, in part because it does not successfully perform accounting tasks. According to USAID/Iraq, a lack of support and commitment by some officials within the Iraqi Ministry of Finance of the Government of Iraq hindered the implementation of the Iraq Financial Management Information System. In fiscal years 2005, 2006, and the beginning of 2007⁸, Iraqi system users entered data into both the Iraq Financial Management Information System and the Government of Iraq's legacy system, in order to test the accuracy of the data. For these fiscal years the data entered into the new system successfully matched data entered in parallel in the Government of Iraq's legacy system. However, problems arose in the 2008 data entry, and the new system's data did not match data from the legacy system. One cause of the discrepancy was the lack of cooperation of the spending units in fully entering the data. While the system is capable of producing overall financial statements, it is not a functional tool at the spending unit level for performing the day-to-day accounting work of these entities. System users reported that the new system functioned only as a data entry tool and that they used the legacy system as the system of record for conducting their routine activities. Thus, for 4 fiscal years the spending units performed labor intensive parallel data entry⁹ to test a system that had not provided the capability to do their jobs.

The issues listed in the table below illustrate why the Government of Iraq's legacy system, rather than the Iraq Financial Management Information System is used as the system of record.

⁸ Data was entered in 2007 until the system was shut down.

⁹ Parallel entry requires both the old and new systems to run simultaneously for a period of time. This method is expensive and should only be used in rare special cases when the users need to retain detailed legacy data to support specific legal requirements or critical transactions that can only be captured in the legacy system.

Table 1. Iraq Financial Management Information System Functional Issues Identified by Iraqi System Users

Functionality	Issues
Unique invoice numbers	The system does not allow users to input invoice numbers. Instead, the system independently assigns a number to each invoice entered into the system. The voucher numbers are given in sequence as in the order they are entered by any spending unit in the country. For example, invoices entered by the following ministries in sequence might result in: Ministry of Water—invoice 1; the Ministry of Education—invoice 2; the Ministry of Justice—invoice 3; and so on.
Bank reconciliations	The system cannot provide information needed to perform bank reconciliations. Specifically, the system does not provide a beginning balance, outstanding checks, and incoming checks. Printed reports do not list information entered regarding the transactions.
Bank accounts	One spending unit reported that it had several bank accounts, but the system only supports one bank account.
Beginning balances	The system assigns opening account balances of zero rather than carrying over closing balances from the previous accounting period. Therefore, correct opening balances must be entered manually.
Reports	System users could not print many of the reports they needed, and the reports that could be printed were not useful. For instance, a printed report of invoices showed strings of transactions from across the country that did not identify where the invoice had originated or a description of the invoice. The Iraq Financial Management Information System does not provide transaction reports for specific spending units, departments, or accounts at the country level. In addition, data from the system cannot be downloaded into Excel spreadsheets.
Trial balance	The system does not provide an accurate and complete trial balance and yields only a partial trial balance.
Budget	<p>(1) The Ministry of Finance budget staff cannot add a supplemental budget if the budget is increased during the fiscal year. The Ministry of Finance budget staff was not trained to enter the budget. Instead, this task was always done by the contractor. The contractor stated that the problems reported by the budget staff could be resolved by the use of the budget module. The budget module has been installed, but it is not configured to Iraqi needs, and no training has been provided.</p> <p>(2) The system will not accept more than one budget. For one example, one spending unit stated that it has two budgets—an operational and a capital budget.</p>
Chart of accounts	In the new system, the systems administrator cannot add accounting classifications to the chart of accounts; the accounting classifications must be added by the software vendor, creating delays.
Auto save function	If Internet service is interrupted while a user is entering a transaction, the parts of the transaction that were entered before service was interrupted are not saved. This can make long transactions time consuming and frustrating to enter.
Flags for exceeding budget	If a transaction is entered that exceeds the allocated budget ceiling for the account, the system does not inform the user that it will not accept the transaction until the transaction has ended. If a string of transactions are entered, the system does not identify which transaction exceeded its budget, and identification of the problem is time consuming and difficult.
System response time	Ministry of Finance staff reported that they received numerous complaints from spending units regarding a long response time using the Iraq Financial Management Information System.

IT Best Practices Were Not Utilized. Practical problems in the Iraq Financial Management Information System arose because BearingPoint did not use IT best practices. BearingPoint stated that they had followed a “best practices” framework closely aligned with the Control Objectives for Information and Related Technology (COBIT),¹⁰ although not from the start of the program. However, BearingPoint did not employ critical IT best practices in the implementation of the Iraq Financial Management Information System.

Studies of the implementation of IT systems have identified best practices that assist in the success of IT implementation. COBIT provides managers, auditors, and IT users with a set of generally accepted measures, indicators, processes, and best practices that help derive the most benefit from using IT systems and developing appropriate IT governance and controls. These best practices have been described in various sources, including USAID guidance.¹¹ IT best practices include system selection based on finding a best-fit system, developing a concept design, obtaining user requirements, obtaining customer buy-in, and performing system testing.

- *Best-Fit System.* Obtaining a best-fit system involves surveying the marketplace, evaluating different options, and identifying the solution that best suits system and user requirements.

In its 2003 technical proposal to USAID, BearingPoint recommended the implementation of FreeBalance Financials as the core software application to support the Iraq Financial Management Information System. BearingPoint selected FreeBalance as the Iraq Financial Management Information System software without conducting any analysis to determine what system would best fit the Iraqi accounting system. BearingPoint stated that they had chosen the FreeBalance system because it had worked in other environments and it could be quickly implemented.

- *Concept Design.* A concept design includes such elements as understanding the available infrastructure and business culture, understanding user requirements and reporting needs, obtaining host country cooperation, and developing a proposed cost and timeframe for implementing the system.

In 2005, the International Monetary Fund (IMF) noted that no concept design had been developed for the Iraq Financial Management Information System and recommended that USAID develop a concept design. As a result, FreeBalance provided a concept design. However, the IMF judged the concept design to be inadequate and stated that it did not provide sufficient information about specific Iraqi business processes. USAID responded that the concept design was not required by the contract. The IMF continued to recommend the development of an appropriate concept design and asserted that not establishing a concept design up front could result in costly and lasting consequences that could be avoided. The subsequent problems and inability to implement the Iraq Financial Management Information System support this conclusion.

¹⁰ COBIT is a set of best practices (framework) for IT management created by the Information Systems Audit and Control Association and the IT Governance Institute in 1996.

¹¹ USAID, “Integrated Financial Management Information Systems—A Practical Guide,” January 2008.

- *User Requirements.* The design of an IT system should be preceded by detailed analysis to identify current functional processes, procedures, user profiles, and requirements that the new system will need to support.

BearingPoint representatives stated that, at the initiation of the Iraq Financial Management Information System project, they had not used an IT framework that incorporated best practices. The software vendor, FreeBalance, explained that best practices for obtaining user requirements were not followed because of the need to accelerate the process of implementing a financial system for Iraq. USAID guidance¹² supports this reasoning and states that exceptions occur in conducting a detailed functional analysis—particularly in fragile or postconflict environments—when the need to track and control expenditures is too urgent to wait for this functional work to be completed. As noted in the January 2008 report (see footnote 5 on page 9) by the Special Inspector General for Iraq Reconstruction, IMF and World Bank studies have shown that financial-management information system projects in developing countries often achieve only limited success because they are not designed to meet users' needs or functional requirements. The functional-requirements documents should serve as the blueprint for the system development; if the blueprint is wrong, problems are difficult to rectify later. Because the Iraqi system user requirements were not followed, the Iraq Financial Management Information System, after 6 years, is not configured to meet the Iraqi system users' needs and has not been implemented.

- *Customer Buy-in.* The system must have the customer's support and ownership from the beginning.

After 6 years of effort, the Iraq Financial Management Information System has not been fully implemented and has not achieved its main goals of helping the Government of Iraq formulate, execute, and monitor central government budgets. The system has not been accepted by the Ministry of Finance, and it is not being used as the system of record for the Government of Iraq. In addition, as shown in table 1, Iraqi system users identified numerous functionality issues with the system. In its comments, USAID/Iraq stated that a lack of support and commitment by some officials within the Ministry of Finance of the Government of Iraq hindered the implementation of the Iraq Financial Management Information System.

- *Testing.* The purpose of the testing phase is to verify that the application software works, as designed and developed. Testing also verifies that the software aligns with the Agency's future business processes. Tests include, among others, load testing, which tests the system's ability to perform when multiple users are logged on, and user acceptance testing, which identifies the compliance of the financial system with requirements and business processes.

BearingPoint did not perform load or user acceptance tests. As a result, the stated practical issues were not identified and resolved.

¹² USAID, "Integrated Financial Management Information Systems—A Practical Guide," January 2008.

In its October 2007 interim report,¹³ the Special Inspector General for Iraq Reconstruction recommended that, before further expenditures were made on the Iraq Financial Management Information System, USAID obtain a complete assessment on the system to determine whether requirements had been adequately defined, specific milestones for achieving those requirements had been set, and system development was headed in the right direction. It was further recommended that the assessment be conducted by an independent third party with expertise in developing international financial management information systems. USAID/Iraq agreed with the recommendation and stated that they would proceed to contract for an independent technical assessment of the system.

However, USAID/Iraq did not implement the recommendations as intended. USAID/Iraq restarted work on the Iraq Financial Management Information System in January 2008 without first obtaining an independent assessment of the system. USAID/Iraq issued a statement of work for the assessment in August 2008 and contracted through USAID's existing monitoring and evaluation contract with International Business & Technical Consultants to do the work. International Business & Technical Consultants issued a report on January 20, 2009;¹⁴ 1 year after work had already resumed and after an additional \$6.5 million had been spent on the system. We did not assess the scope of work performed or make a determination of the qualifications of International Business & Technical Consultants to conduct this required technical review. However, the January 2009 report states that it did not make site visits to 10 spending units as planned, and it did not identify any system issues beyond those related to reporting capabilities.

At the audit entrance conference on August 19, 2009, USAID/Iraq stated that they planned to engage in 6 more months of work (estimated at \$1.5 million) on the Iraq Financial Management Information System. During the audit fieldwork we contacted officials from the system's software vendor, FreeBalance, to learn their perspective on the system's issues. We also provided contact information for USAID/Iraq, the Ministry of Finance, and the World Bank to the FreeBalance officials. These officials stated that they are motivated to assist the Government of Iraq in resolving the system's problems. FreeBalance further stated that they are the experts on their system and that they are better qualified to resolve the problems than the intermediary contractor (BearingPoint). USAID's funding of the FreeBalance services, through the BearingPoint contract, ended in June 2009. The Iraqi Government has not assumed this responsibility, although FreeBalance has not terminated their services. Ministry of Finance representatives stated that they would like to work with FreeBalance to determine whether the system can meet their needs. As documented in this report, many problems will need to be resolved before that can happen.

Subsequent to this audit's fieldwork, FreeBalance arranged to come to Iraq in December 2009 to meet with the Ministry of Finance and discuss the system's problems. USAID stated that they hoped this would facilitate completing the work on the system. Unfortunately, the Ministry of Finance was bombed on December 8, 2009 (the second bombing this year), and the visit by FreeBalance was deferred until later in 2010. On the

¹³ Special Inspector General for the Reconstruction of Iraq, Report No. SIGIR-08-001, "Interim Report on the Efforts and Further Actions Needed to Implement a Financial Management Information System in Iraq," October 24, 2007.

¹⁴ International Business & Technical Consultants, Inc., "Situation Assessment—Iraq Financial Management Information System," January 20, 2009.

basis of this information and the findings in the report, we make the following recommendation:

Recommendation 1. We recommend that USAID/Iraq refrain from further funding of the Iraq Financial Management Information System until the mission develops a documented action plan that specifically addresses ongoing impediments to the successful implementation and sustainability of the system. This action plan should include the following elements: (1) identification of outstanding technical problems in full collaboration with the Ministry of Finance of the Government of Iraq, (2) determination of whether these outstanding technical problems can be resolved and by whom, (3) resolution of outstanding technical problems before training is provided in an area with functional issues, (4) training designed to meet the needs identified by Iraq system users from the Ministry of Finance, and (5) identification of and adherence to information technology best practices, such as Control Objectives for Information and Related Technology.

EVALUATION OF MANAGEMENT COMMENTS

USAID/Iraq concurred with our recommendation. According to the mission, all funding has concluded, and USAID/Iraq is not planning any further funding of the Iraq Financial Management Information System because of difficulties resulting from the lack of sufficient support at appropriate levels within the Ministry of Finance. USAID/Iraq also stated that if the Ministry of Finance were to demonstrate an unequivocal commitment to support the Iraq Financial Management Information System, and requests USAID's assistance, the mission could consider additional support. If such support were provided in the future, it would be developed using an action plan that includes the elements in the OIG recommendation. In light of these comments, we consider that recommendation 1 has both a management decision and final action.

Although USAID/Iraq agreed with the report recommendation, it thought that the report was too critical of USAID/Iraq and its contractor. As a result, the mission provided a large number of detailed comments expressing disagreement with the report's specific findings and conclusions. We addressed the issues specific to our audit findings, and have made changes to this final audit report to incorporate additional information provided by the mission. However, these changes have not changed the results of our audit, and we disagreed with most of the mission's comments. In some cases, the comments were based on inaccurate, unsupported, or irrelevant information. In other cases, the mission's comments appeared to reflect the opinions of the contractor who drafted the mission's comments, which were different from the opinions we reached based on our audit.

Furthermore, we discussed with mission officials our concerns about contractor personnel drafting the response to our draft audit report. Our concerns are based upon FAR Subpart 7.5, which essentially states that responding to audit reports from the Inspector General is considered an inherently government function.¹⁵ However, USAID/Iraq disagreed with our concerns because the mission is now in the process of hiring this contractor as a Foreign Service Limited employee for Iraq.¹⁶

The following are USAID/Iraq's criticisms of our draft audit report dated March 4, 2010:

- (1) According to USAID/Iraq, the draft report was lacking in critical information concerning Government of Iraq support for the Iraq Financial Management Information System. In numerous places the draft audit report stated that the Government of Iraq had not accepted or supported the Iraq Financial Management Information System, and suggested that USAID was careless in designing and implementing a project without Government of Iraq support.

¹⁵ According to FAR Subpart 7.5-Inherently Governmental Functions, section 7.503 Policy, contractors shall not be used for the performance of inherently governmental functions, such as the drafting of Congressional testimony, responses to Congressional responses, or agency responses to audit reports from the Inspector General, the Government Accountability Office, or other Federal audit entity.

¹⁶ Foreign Service Limited program hires non career officers for specific term appointments.

We disagree. The draft audit report did not state that USAID/Iraq was careless in designing and implementing a project without Government of Iraq support. The draft report stated that BearingPoint followed a “best practices” framework closely aligned with the Control Objectives for Information and Related Technology, although not from the start of the program. USAID/Iraq acknowledged this in its response, noting that it was unfortunate that the conceptual framework document for the Iraq Financial Management Information System was neither supported nor endorsed in the mid-2003 when the project commenced. In addition, the draft audit report stated that in October 2007, the Special Inspector General for Iraq recommended that before further expenditures were made on the Iraq Financial Management Information System, USAID should obtain a complete assessment of the system to determine whether requirements had been adequately defined, specific milestones for achieving those requirements had been set and system development was headed in the right direction. Although it agreed with the recommendation, USAID/Iraq did not implement the recommendation as intended.

- (2) According to USAID/Iraq, the draft report was lacking information concerning the Government of Iraq’s own responsibilities.

We disagree. For example, the draft report stated that early data entered into the new system successfully matched data entered in parallel in the Government of Iraq’s legacy system. However, problems arose in the 2008 when the new system’s data did not match data from the legacy system. One cause for the discrepancy was the lack of cooperation of the spending units in fully entering the data. The draft report went on to explain the circumstances that led to this lack of cooperation.

- (3) According to USAID/Iraq, the draft audit report also seemed to assume that USAID and its implementing partners controlled the Ministry of Finance, and had the power and authority to compel the Ministry of Finance to take actions that were necessary for the effective implementation of Iraq Financial Management Information System.

We disagree. Throughout our report, and in particular under Table 1, we specifically identified functionality issues due to the lack of analysis to determine best fit, concept design, and users’ requirements which culminated in the dissatisfaction of the users of IFMIS.

- (4) According to USAID/Iraq, the draft report was lacking in information concerning a variety of circumstances and factors, unique to Iraq, that were well beyond the control of USAID or its implementing partners which had a significant impact on effective implementation of Iraq Financial Management Information System.

We agree. The audit report now includes information concerning the kidnapping of contractor employees in May 2007 and its immediate aftermath.

- (5) According to USAID/Iraq, the draft report was lacking in information concerning the resistance to IFMIS on the part of lower level Ministry of Finance officials.

We disagree. During the audit field work, users of IFMIS only pointed out the functionality problems which made it difficult to use IFMIS. On the contrary, the Ministry of Finance officials expressed to the auditors how anxious they were for the vendor

FreeBalance to come to Iraq to resolve these functionality issues. Furthermore, Ministry of Finance officials also stated that they wanted the Iraq Financial Management Information System, but only if it is functioning and meets their user needs.

(6) According to USAID/Iraq, the draft report did not reflect adequately USAID's perspective on the difficulties faced in the Iraq Financial Management Information System project. The auditors' interviews of USAID/Iraq staff members were limited and were mainly focused on requesting copies of documents. In addition, the audit findings were made and the audit report was issued in draft prior to hearing or considering USAID's views on what went wrong with the Iraq Financial Management Information System.

We disagree. During the course of the current audit and our previous audit of USAID/Iraq's Economic Growth II program (which included the implementation of the Iraq Financial Management Information System), the auditors had numerous discussions and communications with the following parties:

- USAID/Iraq mission staff.
- Contractor staff from BearingPoint.
- International Monetary Fund officials in Washington D.C.
- World Bank officials in Baghdad Iraq.
- Software vendor officials from FreeBalance in Ottawa, Canada.
- United Kingdom government official from Department for International Development in Baghdad, Iraq.
- Officials from the U.S. Department of Treasury in Baghdad, Iraq.
- Officials from the Special Inspector General for Iraq Reconstruction (SIGIR).
- Officials from the Government Accountability Office (visiting Baghdad from Washington D.C).
- Government of Iraq officials from the Ministry of Finance, Ministry of Planning and Development Coordination, and the Iraq Board of Supreme Audit.

The following are summaries of discussions the auditors had with various organizations listed above:

Discussions with USAID/Iraq's mission staff included:

- Whether or not an assessment of the current system in Iraq was made. This assessment should have included defining users needs, parallel testing between the current system and the implemented system; and access to electricity by all spending units. The mission official stated that, because the Coalition Provisional Authority had started and directed this program, it was implemented without the

consent or assessment from the Iraqis and did not have Government of Iraq buy in. The mission official further stated that there were continuous problems with electricity and connections for the internet, which led to delays and interruptions.

- Problems concerning the accounting and tracking of the Economic Growth II program costs including costs specific to Iraqi Financial Management Information System.
- Request for project implementation plans.
- The implementation of SIGIR's recommendation based on their audit report of the Iraq Financial Management Information System, dated October 24, 2007.
- The implementation status of the Iraq Financial Management Information System as of August 2009, prior to the start of the audit.
- Periodic audit briefings with mission officials included discussions of core system functionality problems, Government of Iraq's lack of acceptance of the Iraq Financial Management Information System as the official system of record, system issues caused by software and accounts still being registered under the contractor's name, budget and purchasing modules functionality, and system equipment and internet connectivity problems.
- Auditors' communications with the software vendor FreeBalance.

Discussions with contractor staff from BearingPoint included:

- The accounting core, budget, and purchasing modules of the Iraq Financial Information System.
- Relationship with the Ministry of Finance and Ministry of Planning.
- The rollout of equipment at various spending units.
- Crystal reports.
- The trial balance.
- The lack of alignment with COBIT at the beginning of the project.
- Ongoing work with the budget and procurement modules.
- The status of the budget and procurement modules.
- Location of IFMIS server equipment.

Discussions with officials from the International Monetary Fund included:

- Lack of a concept design before the implementation of the Iraq Financial Management Information System by BearingPoint.

- Deficiencies with the Iraq Financial Management Information System.
- Lack of system concept design.
- Existing problems with the chart of accounts and the existing accounting framework for the Government of Iraq.
- The participation of software vendor FreeBalance in system development.

Discussions with World Bank official included:

- The inability for the Iraq Financial Management Information System to generate reports for budget preparation, budget execution and procurement.
- Lack of system functionality and capability (according to the World Bank official).
- Constraints in project implementation caused by the poor working relationships between USAID and its contractor, BearingPoint, with the Government of Iraq's Ministry of Finance.
- Sustainability of the Iraq Financial Management Information System, which according to the World Bank official, the Iraqis need and want.

Discussions with official from the software vendor FreeBalance included:

- Functionality problems the auditors identified during the audit.
- FreeBalance's commitment to resolve functionality issues.
- Requests for supporting documentation for the purchase of the accounting core, budget, and procurement modules for the Iraq Financial Management Information System.
- The flexibility of the system to make configuration changes to meet Iraqi users needs.
- The budgeting and purchasing modules, which according to FreeBalance, they were not contracted to map to the system, to configure to users needs, or to implement in the system.

Discussions with official from the United Kingdom's Department for International Development included:

- User needs analysis before purchasing the system, which according to the official, the contractor did not perform before purchasing the system.
- Lack of user acceptance testing by the contractor.

- DFID staff statements that no control checks existed for data entered, Crystal reports were not user friendly nor could they be produced from the system.
- Chart of account issues, which according to the official had been poorly managed and should be sorted out immediately before work can progress on the system.

Discussions with officials from the U.S. Department of the Treasury included:

- Treasury's role with the implementation of the Iraq Financial Management Information System and BearingPoint's lack of cooperation by never allowing Treasury staff to see a demonstration of the system.
- The budget and procurement module contracts.

Discussions with the Special Inspector General for Iraq Reconstruction included:

- USAID's lack of sufficient oversight of their implementing contractor BearingPoint.
- BearingPoint's management of the project, which according to SIGIR officials, did not include obtaining users' requirements prior to the system's design, the first and most critical step in program design.
- Issues with the Government of Iraq's support for the system.
- Lack of system ability to produce useful ad hoc reports.
- Training not provided for maintenance of the system.
- USAID/Iraq's lack of appropriate action in addressing SIGIR's audit recommendation that the system be assessed prior to restarting the project and before further funds were spent.

A meeting was held between USAID/Iraq officials and officials from the Government Accountability Office which the audit team attended. Discussion topics included:

- Ongoing efforts to obtain a memorandum of understanding between USAID/Iraq and the Ministry of Finance.
- The quality of training provided by BearingPoint to the Iraqis.
- Explanations as to why the fiscal year 2009 Government of Iraq budget had not yet been uploaded into the system.
- The Government of Iraq's questioning the selection of the software vendor FreeBalance by the contractor BearingPoint.

Discussions with the Ministry of Finance staff included topics such as:

- The ministry's desire to have the Iraq Financial Management Information System as long as the system meets their needs and functions properly.

- The Government of Iraq's need to have direct communications with the software vendor FreeBalance.
- The location of all system component modules including the accounting core, the budget module, the purchasing module, and the disaster recovery system.
- The continued use of the legacy system as the official system of record for the Government of Iraq and not the Iraq Financial Management Information System.
- Functionality issues with the accounting core module including the lack of a functioning offline data entry tool and lack of system capability to download data from the accounting core system into Microsoft Excel spreadsheets.
- Lack of configuration of the budget and purchase module based on Iraq's needs even though they received bills for user license fees.
- Dissatisfaction with training provided by BearingPoint.

Discussions with the Ministry of Planning and Development Coordination included:

- Ministry identified functionality issues with the Iraq Financial Management Information System including the inability to (1) provide a beginning balance, (2) conduct a trial balance, (3) perform bank reconciliations, (4) enter invoice numbers to link to specific transactions, (5) view the information entered into the system, and (6) provide useful reports.
- The purchasing module system which, according to officials, they were shown in May 2009, but they never received user training.
- The inability of the system to print reports from the Iraq Financial Management Information System.

Discussions with the Iraq Board of Supreme Audit included:

- Problematic issues with the Iraq Financial Management Information System that were previously identified by the Board of Supreme Audit.
- Current functionality issues with the system.
- BearingPoint's decision to select the internet-based Iraq Financial Management Information System without taking into consideration the lack of internet connectivity, inconsistent electrical service, and lack of computer equipment in remote locations throughout Iraq.

In regard to the mission comment that the audit report was issued in draft prior to hearing or considering USAID's views on what went wrong with the Iraq Financial Management Information System, during the exit conference with mission officials on December 10, 2009, the audit team disclosed in writing the audit findings in their entirety including the issues of contract deliverables and functionality. We issued the draft report

to the mission for official management comments on March 4, 2010,—approximately three months later.

- (7) According to USAID/Iraq, in February of 2007 the former Minister of Finance had signed an Order making the Iraq Financial Management Information System the official account of record effective July 1, 2007. Subsequently, the Minister of Finance issued a formal Ministerial Order on January 13, 2009, to all ministries and independent agencies which required that Iraq Financial Management Information System become the official system of record for the Government of Iraq as of June 1, 2009.

We disagree with both statements. First, the February 2007 document stated that the Ministry of Finance will request the Council of Ministers to issue an order to make the Iraq Financial Management Information System the official system of the Government of Iraq's budgetary, financial, and accounting records for financial year 2009, only after reconciling functionality with the legacy system. Second, the January 13, 2009, ministerial order (issued five months prior to the anticipated handover) did not state that the Iraq Financial Management Information System was to become the official system of record for the Government of Iraq as of June 1, 2009. The document instructed users to use the Iraq Financial Management Information System and to continue to use the legacy system to produce the monthly trial balance. Furthermore, the Directorate General of Information Technology for Iraq's Ministry of Finance confirmed that the Iraq Financial Management Information System is not the official system of record as of May 27, 2010, and has never been. This official also expressed the hope that the system could still work if functionality issues can be resolved.

- (8) According to USAID/Iraq, the Iraq Financial Management Information System was a fully functional system that was ready to receive data and process it.

We disagree. This statement is at odds with our report's conclusions and the mission's other comments. According to the contractor who drafted the mission's audit report response, the statement was only referring only to the accounting core module of the Iraq Financial Management Information System and not to the budget or procurement modules since those had not been either configured or implemented. The accounting core module referred to in the statement above was the unmodified commercial-off-the shelf package version provided by the vendor.

According to the memorandum of understanding between USAID/Iraq and the Ministry of Finance in January 2008, the Ministry was suppose to reaffirm its commitment to work with the U.S. Government to immediately activate the budget and procurement modules, and the Ministry of Finance was supposed to fully execute the Ministry budget allocated to complete the implementation of the Iraq Financial Management Information System. As a consequence, whether the accounting core module was ready to receive 2009 budgetary data is not relevant because the budget and procurement modules had not been implemented by the end of the contract. As such, the implementation of the Iraq Financial Management Information System was not complete. Furthermore, (and in conjunction with USAID's own statements) the accounting core module was not designed to accommodate budget requirements because this functionality is contained in the budget module. Because the budget module was not implemented, it constrained the loading of the new budgets into the Iraq Financial Management Information System.

The documentation provided by the mission did not support the claim that the accounting core module was fully functional and ready to receive data.

In addition, USAID/Iraq provided two slides from a World Bank November 2003 presentation that stated that a financial management information system project on average took 7 years to complete. If it was USAID's opinion that such a timeframe was more reasonable, then pursuing a more compressed timeframe by abandoning IT best practices was unwise.

- (9) According to USAID/Iraq, the contractor did not unilaterally configure the budget module, but rather only turned on pre-loaded features without customized programming or configuration.

We disagree. The documents provided by the mission did not support this assertion that only preloaded features were turned on. For instance, the documentation contained a copy of the FreeBalance Performance Budgeting Configuration Blueprint, dated October 26, 2008. The blueprint stated that the purpose of the document was to record the initial configuration of the FreeBalance Performance Budgeting module implemented at the Government of Iraq, Ministry of Finance Budget Office. The document further stated that the module will be integrated with the Core Iraq Financial Management Information System and the settings described in the document reflect the business processes and reporting requirements at the time of implementation.

- (10) According to USAID/Iraq, the draft report incorrectly implied that the contractor configured the budget and purchasing modules "unilaterally" without any prior consultation with the U.S. Government; and suggested, again incorrectly, that BearingPoint configured the modules without any consideration to, and the appropriate input from, the system users. Furthermore, in order to assist with and to resolve many difficulties encountered with the Iraqi Ministries in the budgeting and purchasing processes, the Government of Iraq and the U.S. Treasury agreed on implementing the modules "bilaterally," after identifying the Government of Iraq users' needs.

We disagree. The word unilateral meant that the budget and procurement modules were installed without the Government of Iraq users' input. Relying on other U.S. government agencies to determine user needs is not an acceptable substitute for determining the best fit for users' needs in a country that does not have widespread internet connectivity.

- (11) According to USAID/Iraq, the Iraq Financial Management Information System was fully capable of generating useful and needed reports by utilizing the Crystal Reports software, which was added and installed into the system.

We disagree. USAID/Iraq documentation showed that an interim approach was recommended to the Government of Iraq to generate reports. The recommended procedure (estimated at \$102,250) required the use of data extracts from IFMIS into MS Excel format while awaiting the full automation of Crystal Report Writer. Although Crystal Reports software was added to the system, it was not capable of generating the 18 recommended reports specified by the International Monetary Fund.

- (12) According to USAID/Iraq, significant training was undertaken and completed by the implementer.

We agree that significant training was provided by the implementer. However, our report statement is that, according to Ministry of Finance IT staff, the training consisted of presentations with handouts rather than hands-on training on actual computers. The IT staff came away from the training without the skills they needed to assume their responsibilities on the system. The contractor did provide classroom training but essentially provided it in a presentation format, not on a computer. Furthermore, during a meeting between mission officials and the Government Accountability Office in September 2009, a USAID mission official stated that the training provided by BearingPoint was of poor quality and covered only basic procedures.

- (13) According to USAID/Iraq, they and their implementing partner had made significant efforts to ensure that the Iraq Financial Management Information System meets the needs of users.

We disagree. For example, the mission provided an April 2008 memorandum with a series of questions identifying functionality issues from the Ministry of Finance with responses from the contractor. However, no further documentation was provided to verify whether the issues had been resolved.

- (14) According to USAID/Iraq, the statements in the draft report reflected a misunderstanding of how a level of effort, cost-reimbursement contract operates.

We disagree. There was no misunderstanding. The contract used by the mission does not hold the contractor accountable for noncompletion of deliverables. The contract itself referred to contract “deliverables”. We have enumerated the deliverables not completed that contributed to the system not being implemented.

- (15) USAID/Iraq stated that the completion-type contracts were much more difficult to use in development contexts like Iraq—with the Iraq Financial Management Information System project being a perfect example. The mission further stated that holding the contractor accountable for such “noncompletion of contract deliverables” would be inappropriate, and using a contract type that would require this result would be ill-advised.

We disagree. The implementation suffered primarily because training was inadequate and user needs were not incorporated as illustrated by a gap analysis that was needed in order to reconfigure the purchasing module to meet Iraqi user requirements. USAID/Iraq's decision to use a cost reimbursement contract for this project had put additional risk on the United States Government and as such required substantially more oversight of the contract to ensure that sufficient progress was being achieved and costs were reasonable. However, there was little to no monitoring by government officials on contract performance as oversight was provided by another USAID contractor. Furthermore, there was little or no monitoring by government officials to provide assurances that key contract deliverables were being met. Therefore, the contract ended without the completion of some key contract deliverables. The decision to award a cost reimbursable type contract without sufficient oversight in place was risky at best, and in this case has yet to provide the financial and management information system envisioned.

- (16) USAID/Iraq stated that Internet connectivity was a Ministry of Finance responsibility.

We agree with the mission's comment. However, the primary issue is not who was responsible for Internet connectivity, but why USAID/Iraq tried to implement a Web-based information system in a country with poor internet connectivity. According to USAID, this decision was made by the Coalition Provisional Authority. Nevertheless, the Coalition Provisional Authority ended in 2004 allowing USAID/Iraq sufficient time to re-evaluate the project's approach and implementation strategy.

- (17) USAID/Iraq stated that the offline data entry tool was delivered at the beginning of August of 2009, after it was re-configured to accommodate the Ministry of Finance's new business requirement.

We disagree. According to information provided by mission officials, in April 2009, the contractor notified Iraq's Ministry of Finance that the offline data entry tool was available. However, in June 2009, the contractor reported to the mission that the offline data entry tool needed to be reconfigured because it was completed based on the 2008 chart of accounts and needed to be reconfigured to the new 2009 chart of accounts. In August 2009, the contractor notified the mission that they had tested the reconfigured offline data entry tool using dummy data since they did not have actual data and that it was ready to send to the Ministry of Finance. During a meeting with nine Ministry of Finance officials to discuss the Iraq Financial Management Information System, the auditors were informed that the offline data entry tool was sent to them by email along with nominal instructions, but it did not meet their needs nor function properly. Mission officials stated that they did not know if the offline data entry tool functioned or not because of obstacles placed by Iraq Ministry of Finance officials.

- (18) USAID/Iraq requested the names of the specific vendors that were not named in the draft audit report regarding software licensing issues.

Officials from the Iraq's Ministry of Finance stated that they were unable to contact vendors such as FirePass because the software was still registered to BearingPoint. On September 28, 2009, we discussed this issue with USAID/Iraq program officials, and they acknowledged that they were aware of the situation and were working to address the problem. As of March 2010, there remained issues with ownership of the Ministry of Finance's internet domain name because it was owned by a BearingPoint employee who had let the registration lapse. Upon discovery of this fact, the contractor and USAID/Iraq worked to solve the issues.

- (19) According to USAID/Iraq, the USAID Mission had provided the audit team full access to all documents and correspondence pertaining to the Iraq Financial Management Information System implementation.

We disagree. Although USAID/Iraq provided the audit team access to project documents, these documents were not from any of the five contracting officer's technical representatives (COTRs) assigned to manage the contractor's implementation of Iraq Financial Management Information system over the life of the project. The five COTRs were responsible for providing technical direction to the contractor, including the monitoring of contract deliverables. The COTRs are required to document all significant

actions including any technical directions given to the contractor in the work file or a separate action file. The file should contain copies of the contract, all modifications, the COTR designation letter from the contracting officer, and all correspondence between the COTR and the contractor or the contracting officer. The file must be maintained intact and updated by each successor COTR until the contract ends. However, over the six year period of contract implementation, none of the five COTRs left files documenting their oversight essential to the implementation of the Iraqi Financial Management Information System. As such, the only project implementation documentation available were those records provided by the activity manager. However, none of the documentation essential to project oversight such as the COTR's inspection and receiving/acceptance of deliverables records and copies of other performance records as specified by the contract were contained in the activity manager's files.

(20) According to USAID/Iraq, the implementer prepared a comprehensive, well-communicated plan to transfer and test the IFMIS equipment.

We disagree. The documentation provided by the mission supported our conclusion that no system-response testing was performed to determine whether the system could support users from the 250 spending units connected to the system. The Ministry of Finance also disagrees with the claim that this testing was conducted.

(21) According to USAID/Iraq, the programs implemented on behalf of USAID had been audited by DCAA, OIG, and other oversight agencies for many years, all over the world. No deficiencies or problems in business practices or accounting systems were reported by oversight agencies.

We disagree. Soon after the first contract with BearingPoint was signed, USAID/Iraq was alerted about deficiencies in the contractor's business practices and accounting systems.

- On September 2, 2004, the Office of Inspector General/Iraq transmitted a Defense Contract Audit Agency (DCAA) audit report to USAID for action. Our transmittal memorandum included \$6 million in questioned costs out of \$35 million audited. The accompanying DCAA audit report noted that (1) although the accounting system was considered adequate as of May 19, 2003, the contractor's new accounting system had not yet been evaluated, (2) the contractor's billing system and related internal control policies and procedures were inadequate, (3) the contractor's timekeeping system had deficiencies, (4) corrective action was needed to improve the reliability of the labor accounting system, (5) the contractor's budget and planning system was considered inadequate; (6) the contractor's cost accounting system disclosure statement was inadequate, and (7) the contractor was unable to provide adequate records.
- On June 14, 2005, we transmitted a DCAA audit report for action. Our transmittal included \$13 million in questioned costs out of \$38 million. The accompanying DCAA report noted that (1) the contractor's billing system and related internal control policies and procedures were inadequate, (2) the contractor's budget and planning system was inadequate; (3) the contractor's estimating system were inadequate in part (4) the contractor's cost accounting system disclosure statement was inadequate, and (5) the contractor was in non-compliance with several cost

accounting standards. As a result, DCAA was not able to express an opinion on the contractor's financial capability.

- On July 6, 2006, we transmitted a DCAA audit report for action. Our transmittal included \$2 million in questioned costs out of \$37 million. The accompanying DCAA report noted that (1) the contractor's control environment and overall accounting controls were inadequate in part, (2) the contractor's budget and planning system was inadequate, and (3) the contractor was in non-compliance with several cost accounting standards. As a result, DCAA disclaimed its opinion on the contractor's financial capability.
- On April 3, 2007, we transmitted a DCAA audit report for action. Our transmittal included \$50,000 in questioned costs out of \$57 million. The accompanying DCAA report noted that (1) the contractor's control environment and overall accounting controls were inadequate in part, (2) the contractor's budget and planning system was inadequate, and (3) the contractor was in non-compliance with one cost accounting standard.
- On April 15, 2008, we transmitted a DCAA audit report for action. Our transmittal included \$36,000 in questioned costs out of \$42 million. The accompanying DCAA report noted that (1) the contractor's control environment and overall accounting controls were inadequate in part, (2) the contractor's billing system was inadequate in part due to (a) lack of policies and procedures on assessing the adequacy for processing timely offsets, (b) lack of policies and procedures for the exclusion of non-billable items from billings, (c) failure to routinely perform recorded cost to billed cost reconciliations, (d) failure to promptly adjust billings to reflect appropriate final indirect rates, (e) failure to prepare cumulative allowable cost schedules for final voucher preparation, and (f) failure to promptly submit final vouchers for contract closeout.
- On July 20, 2009, we transmitted a DCAA audit report for action. Our transmittal included \$70 million in questioned costs out of \$70 million. In addition, we also included another \$4 million by questioning the payment of the fixed fee for the period under audit. The accompanying DCAA report noted that (1) the contractor did not have procedures to ensure that adequate accounting reconciliation existed between the general ledger, subsidiary ledgers, accounting schedules, and supporting documents, (2) the contractor's accounting system did not ensure that current, complete, and accurate accounting records, and supporting documentation, were maintained to support the allowability, allocability, and reasonableness of costs charged to Government contracts, (3) the contractor's purchasing system were considered inadequate, (4) the contractor does not have adequate policies and procedures for all processes of the purchasing system, (4) the subcontracts are acquired by operating personnel within engagement teams, and not by procurement professionals, (5) the contractor is unable to support that it purchased services from reliable sources, at fair and reasonable prices, (6) the contractor does not monitor the efficiency of its procurement department, (7) the contractor does not adequately document cost or price analysis, the determination that an exception to cost or pricing data exists, or the negotiation process, (8) the contractor does not have a system of seeking and taking purchase discounts, (9) the contractor does not provide adequate oversight of subcontractor award and administration, (10) the contractor

does not verify the adequacy of the subcontractor's accounting system, (11) the contractor does not ensure that subcontract incurred costs are audited or monitor the financial performance of subcontractors, (12) the contractor does not have a subcontract acquisition system that ensures that flow-down clauses are included as applicable.

Other issues were also identified. Finally, DCAA stated that "To achieve the planned audit objectives for the audit of direct costs on USAID Contract No. 267-C-00-04-00405-00, we relied extensively on information processed through the contractor's computerized accounting and billing systems. The contractor was unable to reconcile the costs submitted on invoices to the general ledger. The contractor's system allows billed amounts from any period costs are incurred. Costs billed during the period of this review (October 2007 through May 2009) included costs incurred from prior periods. The general ledger does not allow for the identification of costs by contract.... Ultimately, costs contained in the general ledger will not reconcile back to supporting documentation due to the manual adjustments made..."

- (22) According to USAID/Iraq, the awarding of the contract involved a thorough review by the USAID Contracts Review Board and the decision on the type of contract was fully documented and justified and determined to be relevant to the type of work and the environment in which the work would be taking place.

We did not review USAID/Iraq's procurement files to verify if their decision to award BearingPoint a cost reimbursable (level of effort) term contract to implement their Economic Growth I and II programs in Iraq was justifiable. However, per Federal Acquisition Regulation (FAR) 16.306, this contract type provides the contractor only a minimum incentive to control costs. Therefore, it was imperative for USAID/Iraq to have had sufficient monitoring of contract costs and deliverables due to the type of contract awarded to BearingPoint. In our audit report of USAID/Iraq's Economic Growth II Program, issued June 3 2009, (which included the implementation of the System), we reported that USAID/Iraq had not established a systematic mechanism to monitor the myriad tasks and thus could not track whether the tasks had been performed, were on schedule, or were behind schedule. Without such knowledge, the mission was unable to manage the contract effectively or measure improvements in the areas in which the EGII Program was meant to have the greatest effect. Furthermore, as discussed under item No. 19 above, USAID/Iraq did not have files from any of the five contracting officer's technical representatives to support the required monitoring of the key contract deliveries essential to the implementation of the Iraqi Financial Management Information System. Finally, while the original contract was awarded prior to the DCAA reports (that essentially notified USAID/Iraq of the various deficiencies in the contractor's systems), follow-on awards or extensions could have been avoided if USAID/Iraq had adhered to FAR 16.301.3 (a)(1)(2). According to this section of the FAR, a cost-reimbursement contract may be used only when— (1) the contractor's accounting system is adequate for determining costs applicable to the contract; and (2) appropriate government surveillance during performance will provide reasonable assurance that efficient methods and effective cost controls are used. Therefore, awarding a cost reimbursable level of effort term contract with little evidence of monitoring by USAID/Iraq was inappropriate for Iraq.

- (23) According to USAID/Iraq, when the contract was signed, there was ample reason to believe that the contractor's accounting system was adequate for appropriately

capturing and reporting the use of federal funds, and that continued to be the case for all years of implementation.

We did not review the procurement files to determine whether or not USAID had considered the adequacies of the contractor's systems (including the contractor's accounting system) as part of their selection process. However, in July 2006, (almost one year before the program was suspended in May 2007, and three years before the end of the contract in June 2009,) DCAA had reported the inadequacies of the contractor's accounting system. (Please see our response above under item no.21.)

- (24) According to USAID/Iraq, DCAA is the appropriate government agency to assess the adequacy of such systems and (and the agency that determined the contractor's NICRA), had never determined (even in the last audit performed) that the contractor's accounting system was inadequate.

We disagree for the reasons cited above under item no. 21. In addition, USAID/Iraq is incorrect when it stated that DCAA was the appropriate agency that determined the contractor's NICRA. The only office within USAID with the authority to establish indirect cost rates for the U.S. organizations for which USAID has cognizance is the Overhead and Special Costs and Contract Closeout Branch within the Office of Acquisition and Assistance in Washington, DC.

- (25) According to USAID/Iraq, the USAID mission had continuously monitored and surveilled the appropriate use of obligated funds under the entire contract including the Iraq Financial Management Information System.

We disagree. Our last performance audit report stated that USAID officials did not establish a systematic mechanism to monitor the myriad tasks and thus could not track whether the tasks had been performed and were on schedule. Without such knowledge the mission was unable to manage the contract effectively or measure improvements. We concluded that after 4 years and \$192 million in incurred costs, fewer than half of the originally planned 398 tasks had been performed. In addition, implementation of the Iraqi Financial Management Information System was far behind schedule.

- (26) According to USAID/Iraq, the USAID mission, through the contracting officer technical representative and the contracting officer, had required and tracked the monthly programmatic and financial reports related to the program, and had ensured that the contractor delivered its best effort in meeting the contract's objectives.

We disagree. During our prior audit of the economic governance program, the auditors tried on several occasions to obtain the actual and associated costs for the Iraq Financial Management Information System and according to both the contractor and USAID/Iraq, it was not possible because the vouchers were billed according to functional areas such overall costs for direct labor, indirect rates and subcontractors' costs. As such, contract costs were neither billed nor tracked according to project activities such as the development of Iraq Financial Management Information System. Therefore, USAID could not have monitored and provided adequate surveillance of the funds for the implementation of the system. As a result, during the implementation of Iraq's Financial Management Information System, USAID was not aware of the costs associated

specifically with IFMIS, and it could not provide assurances that efficient methods and effective cost controls were used.

Based on these facts, USAID/Iraq did not adhere to either condition of FAR 16.301.3(a) which states that a cost reimbursement contract may be used only when two conditions are met: first, the contractor's accounting system is adequate for determining costs applicable to the contract, and second, appropriate government surveillance during performance will provide reasonable assurance that efficient methods and effective cost controls are used.

(27) According to USAID/Iraq, the audit report had misinterpreted the issue of the system not accepting unique invoices.

We disagree. According to Ministry of Planning and Board of Supreme Audit officials, the Iraqi Financial Management Information System would not allow them to record their invoice transactions with the associated unique paper invoice numbers. Therefore, ministry officials found it impossible to track their transactions. As such, it was impossible for the users to determine which invoice transactions belonged to their spending units at the end of the reporting period. Had a best fit system analysis been done before Iraq Financial Management Information System was implemented, it would have identified this as one of the issues of implementing a highly automated system in a country that is still paper intensive.

(28) According to USAID/Iraq, the performance budget module will allow these types of transactions (bank reconciliations, bank accounts, beginning balances, and budget)

We agree. Mission personnel acknowledged that the Iraq Financial Management Information System is not fully functional without the budget module.

(29) According to USAID/Iraq, the Iraq Financial Management Information System was fully capable of generating any expenditure report on multiple levels.

We disagree. For example, although Crystal Reports software was added to the system, it was not capable of generating 18 reports specified by the IMF. The contractor provided specifications for these reports to the software vendor who stated in June 2009 at the end of the contract that it would cost \$102,250 which the contractor advised was to be paid by the Government of Iraq. In addition, a World Bank official stated to us that the Iraq Financial Management Information System is not working because of the lack of ability to get reports. Part of the World Bank's work is related to Iraq budget preparation, execution, and procurement.

(30) According to USAID/Iraq, the reports can be downloaded in Excel spreadsheet format.

We disagree. During our field work in September 2009, accountants from the Ministry of Finance and Iraq's Board of Supreme Audit stated that they were not able to download reports into Excel spreadsheets. In May 2010, we again followed up with the Ministry of Finance and Iraq's Board of Supreme Audit and they stated that they were unable to download reports into Excel spreadsheets. Furthermore, in June 2010, we also followed

up with the software vendor-FreeBalance, and they confirmed that data/reports cannot be downloaded directly into Excel from the core Financials module.

- (31) According to USAID/Iraq, the Ministry of Finance budget directorate did not provide the 2008 budget supplemental data to the contractor until May of 2009, and therefore no spending unit was able to easily complete an entire month's data entry, produce a trial balance and reconcile to the legacy system.

We agree. As stated in our draft audit report, Iraqi system users entered data into both IFMIS and Iraq's legacy system in order to test the accuracy of the data. For these fiscal years the data entered into the system successfully matched data entered parallel in the Government of Iraq's legacy system. However problems arose in the 2008 data entry and the new system's data did not match the legacy system. One cause of this discrepancy was the lack of cooperation of the spending units in fully entering the data. While the system is capable of producing overall financial statements, it is not a functional tool at the spending unit level for performing day-to-day accounting work of these entries. System users reported that the new system functioned only as a data-entry tool and that they used the legacy system as the system of record for conducting their routine activities.

- (32) According to USAID/Iraq, the core Iraq Financial Management Information System was not designed to accommodate all the requirements of the Ministry of Finance budget directorate. This functionality is contained in the performance budgeting module.

We agree. However, our draft report also noted that the budget and purchasing modules have not been configured to meet Iraqi users' needs, and no training was provided. We also noted that the budget module would resolve many of the difficulties encountered in executing the Government of Iraq's budget, but it has not been implemented.

- (33) According to USAID/Iraq, by utilizing unused digit (zero) from the previous twelve-digit chart of accounts, and by adding two extra digits, the current fourteen-digit chart of accounts offers 999 new additional possibilities of accounting classification.

We disagree. The issue is not the number of unused digits. The issue is that the system administrator cannot add accounting classifications to the chart of accounts because accounting classifications must be added by the vendor, creating delays. One system user stated that if they wanted to introduce a new account classification to the chart of accounts it would take months before they could enter the transaction thus causing work to be delayed. According to the user, this occurred because the request first had to go to the Ministry of Finance and then to the software vendor to establish the new classification. For example, the accounting department wanted to add an allowance classification for an engineer. However, since this would be a new classification, the user had to wait several months before being able to enter the transaction.

In addition, a high ranking official from the Ministry of Finance stated that the Ministry of Finance's work is continually developing and, as such, there is a need to make changes quickly. However, according to this official, it takes three weeks for the software vendor

to effect a needed change in the system. The official further stated that, if the system cannot provide the flexibility that they need, then perhaps they do not need the system.

- (34) According to USAID/Iraq, the draft audit report stated that if internet service was interrupted while a user was entering a transaction, the parts of the transaction that were entered before service was interrupted were not saved. The system did not have an auto save function for power interruption or lost internet connectivity. However, there is a "Temp Save" feature, and they had recommended to the Ministry of Finance to adopt and instruct their staffs to use that feature to help mitigate losses. According to USAID/Iraq, the Ministry of Finance staff had received the basic user training, which has included the feature's usage.

We agree except for the user training. We have no support from USAID/Iraq that training incorporating this work-around was provided.

- (35) According to USAID/Iraq, the draft audit report noted that, if a transaction was entered that exceeded the allocated budget, the system would not inform the user that it had not accepted the transaction until the transaction process had ended. In response to this draft report language, USAID/Iraq stated that it had recommended to the Ministry of Finance that they to use the "Temp Save" functionality of the system and that BearingPoint had provided training for this functionality.

We agree except for the user training. We have no support from USAID/Iraq that training incorporating this work-around was provided.

- (36) According to USAID/Iraq, since the Iraq Financial Management information System is a web-based system, its slow response time is an issue due to insufficient bandwidth and is a major problem in Iraq's telecommunication business.

We agree. However, USAID/Iraq's commentary on their decision to use a web based system in Iraq reinforces our draft report findings which reported that practical problems in the implementation of the Iraq Financial Management information System arose because the contractor did not use IT best practices. One such IT best practice would have included the selection of a system based on finding a best fit. Obtaining a best fit system involves surveying the marketplace, evaluating different options, and identifying the solution that best fits system and user requirements. The contractor selected the software vendor as the Iraq Financial Management Information System software without conducting an analysis to determine what system would best fit the Iraq accounting system. Had the contractor utilized IT best practices from the beginning, they would have understood the issues surrounding sufficient bandwidth and the challenges of implementing a web based information system in Iraq.

- (37) According to USAID/Iraq, their plans to engage in six more months of work on the Iraq Financial Management information System should be removed as this is out-of-date.

We disagree. The mission's original plan to fund \$1.5 million of additional work was one of the reasons we performed this audit. We have adjusted this section of the audit report to bring it more up to date.

SCOPE AND METHODOLOGY

Scope

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

The Iraq Financial Management Information System was developed under two contracts between USAID and BearingPoint, Inc., that ran from July 2003 through July 2009. As of November 1, 2009, USAID had spent about \$32.6 million to develop the system. In addition, the U.S. Department of State had spent \$4.8 million on modules that were later incorporated into the system, for a total cost of \$37.4 million. The system was designed to help the Government of Iraq formulate, execute, and monitor central government budgets.

In planning and performing the audit, we gained an understanding of USAID/Iraq's existing management controls. We evaluated contractor performance in meeting the contractual obligations and adherence to USAID's acquisition regulations, USAID guidance to contracting officer's representatives, and the Federal Acquisition Regulations. In addition, we reviewed the contractor's adherence to information technology best practices, under Control Objectives for Information and Related Technology (COBIT), as they relate to implementing the Iraq Financial Management Information System under the Economic Governance I and II programs. We also reviewed documentation related to financial management information systems, including guidance from the Joint Financial Management Improvement Program, USAID, International Monetary Fund, and the Federal Systems Integration Office.

Our audit was conducted in Baghdad, Iraq, primarily in the International Zone. We also made several trips to Baghdad proper to meet with Iraq Financial Management Information System users. To cross-check information obtained, we interviewed representatives from USAID/Iraq, the Ministry of Finance, Ministry of Planning and Development Coordination, Iraq Board of Supreme Audit, the World Bank, the International Monetary Fund, the U.K. Department for International Development, the U.S. Department of Treasury attaché, and the software vendor FreeBalance.

The Economic Governance II contract ended prior to the start of the audit, and only one USAID representative in Iraq, an activity manager, had a working knowledge of the project. The contractor, BearingPoint, had left Iraq at the time of our audit. USAID reported that the files of previous contracting officer's technical representatives had not been made available to them. The files on hand included those accumulated by the activity manager and those provided to this activity manager by the contractor. In addition, the auditors were able to obtain some documentation related to the project from the prior audit's working papers.

Audit fieldwork was conducted at USAID/Iraq headquarters in Baghdad, Iraq, and at various locations within and outside of the International Zone in Baghdad, Iraq. The audit field work was conducted from August 19, 2009, through December 10, 2009.

Methodology

To answer the audit objective, we reviewed various criteria related to the subject matter and relied to varying degrees on documentation and information obtained in interviews and provided by USAID/Iraq. We conducted interviews and exchanged email correspondence with an array of sources familiar with the Iraq Financial Management Information System's activities. Documentation reviewed included (1) the Economic Governance I and II contracts and modifications, (2) various reports and correspondence from the contractor, (3) the January 2008 memorandum of understanding, (4) International Business & Technical Consultants, Inc., report, "Situation Assessment—Iraq Financial Management Information System," January 20, 2009, (5) various USAID correspondence, (6) International Monetary Fund reports related to the Iraq Financial Management Information System, and (7) prior reports issued by USAID/OIG/Iraq, the Defense Contract Audit Agency, and the Special Inspector General for Iraq Reconstruction. In regard to the use of the term "implemented," the purpose of the implementation phase is to migrate or implement the system into production. As stated in our report, the Iraq Financial Management Information System has not been accepted by the Ministry of Finance, and it is not being used as the system of record for the Government of Iraq.

To determine the relevance and reliability of evidential matter, we conducted interviews with appropriate personnel from USAID/Iraq in Baghdad, Iraq, and with representatives from the World Bank, the U.K. Department for International Development, the International Monetary Fund, the U.S. Department of Treasury attaché, and the software vendor FreeBalance. In addition, we interviewed representatives from the Iraqi Board of Supreme Audit, Iraqi Ministry of Planning and Development Coordination, and the Iraqi Ministry of Finance. We also reviewed interviews from our prior audit (Fall 2008) with the contractor BearingPoint and USAID/Iraq, related to the Iraq Financial Management Information System.

We also obtained and reviewed the State Department contracts and invoices related to the budget and purchasing modules.

In addition, we tested the contract's planned activities as stated particularly in modification no. 21 to the Economic Growth II contract, which included 9 deliverables and 59 tasks related to the completion and the handover of the Iraq Financial Management Information System to the Government of Iraq. We reviewed the contractor's status on the completion of modification no. 21 and obtained feedback from Iraqi counterparts regarding completion and satisfaction with the contract deliverables.

MANAGEMENT COMMENTS



USAID | **IRAQ**
FROM THE AMERICAN PEOPLE

Date: April 4, 2010

To: Lloyd Miller
Director, OIG/I

From: Christopher D. Crowley /s/
Mission Director

Subject: Management Comments, Audit of USAID/Iraq's
Implementation of the Iraq Financial Management Information
System

Reference: Audit Report No. E-267-10-00x-P

Thank you for affording the USAID/Iraq Mission an opportunity to respond to the draft audit report on USAID/Iraq's implementation of the Iraq Financial Management Information System (IFMIS) project. Below for your consideration are the Mission's comments will be on the draft audit report and response to the recommendation included in the final draft audit report.

I. Background

The Office of Inspector General (OIG) draft audit report on the IFMIS project was provided to the Mission on March 4, 2010. The audit sought to determine whether the Iraq Financial Management Information System has been implemented, and achieved its main goals of helping the Government of Iraq formulate, execute, and monitor central government budgets. The Mission appreciates the OIG team's work and concurs with the audit recommendation.

USAID/Iraq is providing management comments and additional information below for a better understanding of IFMIS accomplishments, to supplement the audit findings, and to present a fair and balanced audit report. Additional facts will also help identify appropriate lessons learned for developing future activities and strategies.

II. Management Comments

Comments on specific programmatic and technical findings in the draft audit report are included below. The Mission would also like to make several general observations about the draft audit report.

A. General Observations

First, the draft audit report is lacking critical information concerning Government of Iraq (GOI) support for IFMIS. In numerous places the draft audit report states that the GOI did not accept or support IFMIS, and suggests that USAID was careless in designing and implementing a project without GOI support. High level support for IFMIS from the Ministry of Finance (MOF) was obtained. Changes in MOF personnel sometimes resulted in weakened support, and some levels of staff in the MOF were less supportive than other (higher) levels, but USAID of course realized the importance of obtaining MOF “buy-in” for IFMIS and obtained such support to the degree that was possible.

Second, the draft audit report is lacking information concerning the GOI’s own responsibilities for implementing IFMIS and making IFMIS an effective system. IFMIS of course is a GOI system (hence the importance of GOI “buy-in”), and as such, numerous problems in effective implementation of IFMIS are directly attributable to MOF decisions or actions. The draft audit report ignores GOI responsibility for IFMIS, attributing all problems to poor design or implementation on the part of USAID and its implementing partners. The draft audit report also seems to assume that USAID and its implementing partners “control” MOF, and have the power and authority to compel the MOF to take actions that are necessary for effective implementation of IFMIS. USAID and its implementing partners cannot “implement” IFMIS for the GOI.

Third, the draft audit report is lacking information concerning a variety of circumstances and factors, some unique to Iraq, that were well beyond the

control of USAID or its implementing partners and had a significant impact on effective implementation of IFMIS. The Mission was seriously considering suspension of the activities, after numerous meetings with MOF seeking to resolve the lack of support and commitment to IFMIS during 2007. In addition, the deteriorating security situation during implementation of the project, which resulted in the kidnapping of Bearing Point staff in 2007 (with all but one of those kidnapped being killed, and the last person released only a few months ago), clearly disrupted project implementation, yet this is barely mentioned in the audit report, and nowhere mentioned as a significant factor that might account for project difficulties. Although the kidnapping was the event that resulted in the suspension of activities but was not the major reason for the suspension; the major reason was the lack of support from MOF.

Similarly, the draft audit report is lacking information concerning resistance to IFMIS on the part of some lower level MOF officials that significantly impeded implementation of IFMIS. This was a major factor accounting for difficulties with IFMIS, and yet this is essentially ignored in the draft audit report. If a full and accurate understanding is sought regarding why IFMIS experienced difficulties, as we believe it should be through this audit, clearly these other factors need to be acknowledged, and not just in passing. The audit report as drafted focuses almost exclusively on the failings of USAID and its implementing partners, when an accurate account of this project should recognize the role that these other factors played. Without such a balanced account, an accurate understanding of the lessons to be learned from IFMIS, and the reasons for IFMIS' failures, will be impossible, and the audit will not have served its purpose in our opinion.

Fourth, the draft audit report does not reflect adequately USAID's perspective on the difficulties faced in the IFMIS project. In one respect this is not surprising, given that the interviews of USAID/Iraq staff by the auditors were very limited and were mainly focused on requesting copies of documents. Clearly, the audit findings need not represent USAID's perspective, and the auditors can disagree with USAID's view of what went wrong with IFMIS and why. But for the audit findings to be made and the audit report issued, even in draft, prior to hearing or considering USAID's views on what went wrong with IFMIS and why, inevitably results in findings that are incomplete and not fully informed, as is the case with the draft audit report. An accurate understanding of the IFMIS project and its

history is not possible without some consideration of the experiences that USAID staff had in implementing this project.

B. Specific Programmatic Comments

Below are comments on several specific findings in the draft audit report that are of a broader, more programmatic nature. The findings themselves are quoted in italics. Comments on more technical findings are included in section C below.

Page 4, Audit Findings: The information system has not been accepted by the Ministry of Finance, and it is not being used as the system of record for the Government of Iraq. (also pp. 5, 10 and 13, and Summary of Results)

Management Comments: In February of 2007 the former Minister of Finance had signed an Order making IFMIS the official account of record effective July 1, 2007, but after the kidnapping of BearingPoint staff in May 2007 the GOI withdrew support for IFMIS. Therefore, USAID suspended the program at that time.

In November 2007, USAID met with the MOF to formally discuss the prerequisites for restarting the program including the requirement for an official Memorandum of Understanding (MOU). In January 2008, the Minister of Finance and USAID signed the MOU in which the MOF formally expressed its interest in receiving IFMIS assistance. In the MOU the MOF also expressly agreed to provide on-going support to the IFMIS effort and committed itself to sustaining projects funded by USAID. The MOF agreed to request that the Council of Ministers issue an order to make IFMIS the official system of the GOI, after reconciling functionality with the legacy system, in support of an Order previously issued by the Minister of Finance. The MOF reaffirmed its commitment to work with the USG to immediately activate the Performance Budgeting and Procurement Modules of IFMIS. The MOF also agreed to fully execute the MOF budget allocated to complete the implementation of IFMIS.

Subsequently, the current Minister of Finance issued a formal Ministerial Order on January 13, 2009 to all Ministries and Independent Agencies requiring that IFMIS become the official system of record for the GOI as of

June 1, 2009. The Order stated that the GOI was implementing IFMIS for use by all budget spending agencies and noted that a number of agencies had used the system up through 2007 and were familiar with its operation. The Order stated that IFMIS improves the management of the budget and accounting processes and provides faster and more effective financial reports for GOI decision-makers, compared to the existing trial balance system. The Order also contained a note to the Secretariat for the Cabinet requesting that he direct all Ministries and Independent Agencies to intensify their cooperation so as to achieve successful implementation of the system.

This Order represents the clearest possible support for the system on behalf of the GOI. To make the point unambiguous, the Order explicitly tied each agency's monthly cash allocation to compliance with the Order, stating that "any agency not supplying the IFMIS report will have their cash allocation for the following month delayed until they comply with this Order."

The MOF's Advisor to the Minister has insisted in recent meetings with the International Monetary Fund that despite issues concerning implementation of IFMIS he was adamant that "we should not give up on it."

Page 6, Handover of the Iraq Financial Management Information System: *Although the server equipment has been returned to the ministry, BearingPoint reported that the handover of the system has not been achieved.*

Management Comments: IFMIS is a fully functional system that is ready to receive data and process it. It is the GOI's responsibility to input that data, and run the system. This has not been done by the GOI.

Although there has been significant GOI support for IFMIS, GOI support at some levels and at some times has impeded implementation, as in the refusal to include the necessary budget data to allow the system to process real-time budget transactions, generate required reports, and so on. The Minister of Finance, the Deputy Minister, the MOF's Advisor to the Minister, and most of the Director Generals (DGs) support reform and change as represented by IFMIS. The system was also fully supported by the former Deputy Minister, and the Accounting DG, who was taking the lead on IFMIS implementation. However, the Ministry went through leadership changes with a new government. Also, the Accounting DG was assassinated, and

then his successor was kidnapped. Two of the current DGs are much less supportive of IFMIS.

Additionally, the MOF's Advisor to the Minister, who was assigned by the current Minister to advocate for the system's implementation within the MOF and to work with USAID, does not have any official authority or responsibility in the Ministry, which is a programmatic flaw that gave DGs who oppose the system the opportunity to disassociate themselves from the implementation. As the advisor did not have the authority to mandate compliance, the implementation of the IFMIS was impacted negatively and allowed the opposition to block progress.

Considerable opposition to IFMIS continues in the conservative middle and lower levels of the public service, particularly within MOF. Additionally, there are widespread deficiencies in technical knowledge, awareness and understanding of international developments in government institutional reform, computerization and adoption of universal standards. We believe the draft audit report, in evaluating user needs and critiques for system handover, overestimates the state of technical capacity, particularly in Information Technology, available within the MOF and underestimates the need for fundamental change, as well as the impact these changes will have, on the organization of the MOF. The draft audit report also ignores the key point that senior GOI leaders, who have supported IFMIS, have a responsibility to ensure that lower levels cooperate to make IFMIS a success. This relates to the overarching point that it is the GOI's responsibility, not USAID's, to "implement" IFMIS. Neglecting these points in the draft audit report makes the report much less useful as a study of the factors contributing to IFMIS successes and failures.

A major constraint on the project was and continues to be the lack of technical capacity and support within the MOF, specifically within one key Directorate. The DG of this key Directorate did not provide BearingPoint complete and accurate data for either the 2008 supplemental or the 2009 budget, and continues to be unresponsive, despite the numerous communications and requests for necessary data throughout the fiscal year. This DG, although in a position critical for the functioning of IFMIS, is essentially "computer illiterate," and has frequently and openly expressed concerns and mistrust in regards to the level of transparency that the system might offer.

As further explanation for why some MOF resistance to IFMIS persists, certain staff of the MOF have expressed concern at times about the security of GOI budget data if it is entered into a system that is accessed through the internet. They are also concerned about utilizing a foreign vendor (FreeBalance) for technical support since the foreign vendor will have access to the systems and data of the GOI. Several high level officials also believe that the system could be utilized as an intelligence collecting anti-corruption tool by foreign authorities.

The kidnapping of the BearingPoint IT consultant and four other British contractors, seized from the MOF in 2007, raised suspicions that some people may have been attempting to destroy evidence of corruption. According to open-source reports, some investigators believe the kidnapping was not initially an act of terrorism in the usual sense of the word but, rather, organized crime. The motive was to stop the consultant from installing a computer system which would introduce more accountability and transparency into the MOF's accounting systems.

The MOF's lack of commitment to the system and the abduction of the BearingPoint staff at the time compelled a decision on the status of the program. After the kidnapping, the GOI withdrew support for further implementation by shutting down the IFMIS data center. In July 2007, the Ambassador also suspended the IFMIS program because of the kidnapping, and because of poor cooperation from the GOI.

The program was not reinstated until 2008, after the MOF agreed to undertake all the necessary "system management" steps to resume the implementation. This included: 1) Re-license all software under the name of the MOF by making any outstanding payments and by budgeting for ongoing payments. 2) Restart the servers and reestablish the VSAT connectivity to all the spending units. 3) Issue instructions to all the spending units to resume inputting data on the appropriate date. 4) Relocate the data center to Adnan Palace in the Green Zone. 5) Execute of orders signed by the Minister to make IFMIS the official system of the GOI's budgetary, financial and accounting records. And 6) Reaffirm commitment to work with the USG to activate the Performance Budgeting Module for 2009 budget preparation.

USAID has gone to great lengths to provide the MOF with a fully functioning IFMIS under extremely difficult operational circumstances,

including starting from ground zero in the chaos following the liberation of Iraq. Considerable progress has been achieved on the functional and technical aspects of IFMIS.

Finally, according to a World Bank study completed in 2003, the average time taken to fully implement a Financial Management Information System is seven years. Expecting IFMIS to be fully implemented in Iraq, of all places, in less time than the worldwide average is simply unrealistic. This is particularly the case when, despite support from senior GOI leaders and the best efforts of the U.S. Government to highlight the advantages of IFMIS, not all GOI stakeholders see IFMIS as a priority.

Page 7, Budget and Purchasing Modules: BearingPoint chose to configure the budget module unilaterally, without the appropriate input from the system users at the Ministry of Finance.

Management Comments: This is one of several findings in the draft audit report critical of IFMIS for inadequately responding to MOF user needs. Further context is necessary to understand the problem. The Core IFMIS system is not designed to accommodate all the requirements of the MOF Budget Directorate. This functionality is contained in the Performance Budgeting Module. Unfortunately, the DG for the relevant Directorate expressed no interest in this module and insists on attempting to implement budget tasks in the Core IFMIS system. This decision constrains the loading of new budgets into IFMIS. If the MOF were to utilize the Performance Budgeting Module to create the budget for the GOI, budget data would be uploaded efficiently and automatically into the Core IFMIS system.

The Budgeting Module is a comprehensive program for budget preparation, budget execution, review and approval, forecasting and reporting. Although the module was discussed during a meeting on April of 2009 that was devoted primarily to the IFMIS core system, the relevant DG never agreed to receive a demonstration of the module.

The Budgeting Module was added and integrated into the IFMIS by BearingPoint “unilaterally” only in the sense that BearingPoint turned on pre-loaded features. BearingPoint did not do customized programming or configurations. Off-the-shelf Modules are typically pre-loaded with features to accommodate all the major accounting and budgeting business needs and

practices that are supported by international standards. The default setting is usually scaled down for fast initial implementation and then gradually scaled up through progressive activation of features to accommodate a country-specific business process, and to ensure government participation and eventual self-reliance. This required cooperation from MOF personnel which was not forthcoming, primarily because MOF staff were not interested in the Budgeting Module.

Page 7, Budget and Purchasing Modules: Similarly, BearingPoint chose to configure the purchasing module unilaterally, relying on their best guess as to the users' needs at the Ministry of Planning.

Management Comments: Again, further context is necessary to understand what we believe the word “unilaterally” means (mentioned in the previous finding as well). To say that BearingPoint chose to configure the Module “unilaterally” implies, incorrectly, that BearingPoint installed both Budget and Purchasing Modules without any prior consultation with the USG; and suggests, again incorrectly, that BearingPoint configured the modules without any consideration to, and the appropriate input from, the system users. In order to assist with and to resolve many difficulties encountered with the Iraqi Ministries in the budgeting and purchasing processes, the GOI and the US Treasury agreed on implementing the modules “bilaterally,” after identifying the GOI users’ needs. The Department of State concurred the decision to add of the Purchasing Module in order to assist the GOI in streamlining purchase order processing while strengthening procurement policy compliance throughout GOI Ministries; as well as, the budgeting module for the MOF. The decision was made after realizing that any system, whether Budget or Purchasing, with similar functionalities would require real-time financial information, supplied in real time, across the Iraqi organizations—i.e. online inquiries to general ledger information, which was one of the main features that the existing USAID’s implemented IFMIS core system already offer. Therefore, the Department of State requested the addition of the Budget and Purchasing Modules to the core system, and USAID agreed on the implementation.

Additionally, BearingPoint did not rely on its “best guess” as to the users’ needs; it relied on the Iraqi law and the users’ needs that were provided by the US Treasury. In addition, it relied on the best international accounting and budgeting practices. The FreeBalance purchasing module (performance

procurement) is a highly configurable end-to-end front-and-back office purchasing, proposal management, procurement, contract management and goods and services receipt software.

USAID defers policy making decisions to the US and Iraqi government institutions responsible for selecting the FreeBalance Budget and Purchasing Modules—FreeBalance is the software company.

Page 8, Crystal Reports: The inability to produce useful reports is one of the system's critical shortcomings... Crystal Reports training was not provided to the Ministry of Finance staff. Furthermore, although Crystal Reports was installed on the new information system, the Ministry of Finance's systems administrator was not authorized to access it.

Management Comments: The system is fully capable of generating useful and needed reports, by utilizing the Crystal Reports software, which was added and installed into the system. However, the MOF never designated a team, or a person, to receive training on the software.

In order to design and generate useful and comprehensive reports, in addition to the Information Technology expertise the MOF staff is required to have the technical expertise and hands-on experience in the functional Directorates' (Accounting and Budget) business processes. This capacity requirement has not been developed by the Ministry, and continues to be a problem due to institutional issues within the MOF including the lack of communication within the MOF (intra-directorate coordination and cooperation). Addressing this constraint remains a low priority within the MOF Directorates. USAID prepared a recommendation identifying roles and responsibilities for each Directorate, and encouraged the Directorates to come together to reach a common understanding of their changing roles and responsibilities, but this has yet to occur and will continue to hamper the IFMIS implementation until they resolve their differences.

With regard to the statement in the draft audit report that the MOF systems administrator was not authorized to access Crystal Reports installed on the new information system, this is an example of an action, authorizing an MOF official to take a particular action, that is well beyond the control of USAID or its implementing partner, and reflects an unwillingness of staff

within the MOF to do what is necessary, on their part, to make IFMIS effective.

Page 8, Training: According to Ministry of Finance IT staff, the training consisted of presentations with handouts rather than hands-on training on actual computers. The IT staff came away from the training without the skills they needed to assume their responsibilities on the system.

Management Comments: Again, the draft audit report fails to provide the necessary context. Significant training was undertaken and completed by the implementer, especially training of the MOF IT staff. In spite of bureaucratic hurdles and security challenges, formal classroom training began on November of 2008 and concluded on March 2009. Subsequently, three-week training was provided to nine MOF trainees in addition to providing hands-on exercises with the IFMIS production servers.

We believe that the MOF DG of IT was dissatisfied with the training mainly because the DG was under the impression that by the end of the training junior staff could be trained to re-program and modify the system's code independently. This was an unrealistic expectation. Governments worldwide acquire Financial Management Information System software applications "off-the-shelf." A few governments have successfully developed their own integrated systems with their in-house resources, but the development and capital cost usually cannot be justified. In addition this requires local availability and recruitment of certified, highly skilled IT professionals, who have years of experience in designing, developing and maintaining databases. Such resources are not available in Iraq.

Page 10, The Iraq Financial Management Information System is Not Meeting System Users' Needs (also Summary of Results and pp. 4, 5)

Management Comments: As discussed in detail in section C below, USAID and our implementing partners have made significant efforts to ensure that IFMIS meets the needs of users, and in many instances the problems lie with a misunderstanding of IFMIS requirements, procedures and capabilities on the part of MOF users.

Page 13, Concept Design: In 2005, the International Monetary Fund (IMF) noted that no concept design had been developed for the Iraq Financial Management Information System and recommended that USAID develop a concept design. As a result, FreeBalance provided a concept design. However, the IMF judged the concept design to be inadequate and stated that it did not provide sufficient information about specific Iraqi business processes. USAID responded that the concept design was not required by the contract. The IMF continued to recommend the development of an appropriate concept design and asserted that not establishing a concept design up front could result in costly and lasting consequences that [sic]. (also Summary of Results)

Management Comments: IFMIS was conceived in 2003 by the Coalition Provisional Authority (CPA) as a needed solution to manage and oversee the budget for the Government of Iraq, which was then under CPA control. As noted in the previous SIGIR audit of IFMIS (referenced in the draft audit report on page 9), CPA assessments found that the GOI financial structure provided limited ability to monitor Iraqi ministerial budgets and expenditures, leaving the ministries vulnerable to fraud, waste, and misappropriation of funds. According to a senior advisor with the CPA, “the Iraqi Ministry of Finance had been completely looted and burned.... There were no computers.... Everything was paper intensive.”

As USAID possessed suitable capacities to contract for the work to strengthen GOI financial systems, USAID was directed by the CPA to undertake this effort.

It is unfortunate that the conceptual framework document for IFMIS was neither supported nor endorsed in mid-2003 when this project commenced. The decision to select the FreeBalance application was one taken in a difficult and exigent environment. The unique circumstances in post-war Iraq meant that the normal project management steps of conceptual design, functional analysis, tendering process and implementation, were telescoped into a brief selection process followed by a detailed implementation program. Iraq’s antiquated manual accounting system and the IFMIS system were intended to run in parallel until full adoption of the new system was completed.

USAID was directed to automate the financial system in an environment when a wide array of U.S. and international donors were simultaneously

conducting reform efforts. This produced an ever shifting set of system requirements which are inherently inimical to an automation process.

Page 5, Audit Findings and Contract Deliverables Were Not Completed:... *the project was funded under a cost-reimbursable contract that does not hold the contractor accountable for noncompletion of contract deliverables... Key contract deliverables for improving system capabilities and ability of the Iraqis to use and care for the system were not achieved...To implement the system, USAID/Iraq used a cost-reimbursable contract that does not specifically require the contractor to complete contract tasks aimed at achieving the intended program results. (also Summary of Results and pp. 4, 6 and 9)*

Management Comments: These statements in the draft audit report reflect a misunderstanding of how a level-of-effort, cost-reimbursable contract operates. Under such contracts the contractor is held accountable for providing the services required under the contract, and making reasonable efforts to deliver the results called for under the contract. Such contracts hold the contractor accountable, but it is a different kind of accountability than that under a completion-type, cost-reimbursement contract, where payment depends on delivering the end products. To say that “contract deliverables were not completed” implies, incorrectly, that “completion” is an appropriate concept for the level-of-effort contract here and suggests, again incorrectly, that completion of those “deliverables” was required under the contract. “Deliverables” is in that sense a misnomer, at least when its meaning is not properly understood in the level-of-effort context.

There is good reason that completion-type contracts are much more difficult to use in development contexts like Iraq—with the IFMIS project being a perfect example—given how achievement of developmentally meaningful results can depend on a myriad of factors beyond the control of the contractor. When a contractor’s employees are kidnapped and the host government shuts down the project, and as a consequence the contractor is unable to “complete the deliverables,” is USAID going to refuse to pay the contractor? No. What if the contractor is unable to “complete the deliverables” because of lack of cooperation from the Ministry in which the contractor is installing a system? Holding the contractor accountable for such “noncompletion of contract deliverables” would be inappropriate, and

using a contract type that would require this result would be ill-advised. The draft audit report seems to suggest otherwise, we believe ill-advisedly.

C. Specific Technical Comments

The following are comments on several specific technical or other findings in the draft audit report. The findings themselves are quoted in italics.

Page 7, Budget and Purchasing Modules: BearingPoint subsequently determined that the purchasing module configuration did not meet the Ministry of Planning's user requirements and recommended conducting a gap analysis and reconfiguring the module to meet the Iraqi requirements. The contract ended without completion of these tasks. USAID stated that, if funding continued for the information system project, no further work on the purchasing module would be included.

Management Comments: On March 23, 2009, a meeting with the Ministry of Planning and Development Coordination (MoPDC) Directorate of Accounting, BearingPoint and USAID occurred in the EG II camp. BearingPoint demonstrated the Purchasing Module to the MoPDC DG and her staff, who responded positively to the module and the functionality it provides to their users. However, their response came two month before the close out of the EG II program, which did not leave the BearingPoint staff the required ample time to complete the needed tasks.

The implementation of the Purchasing Module has suffered due to institutional impediments and lack of communication between the MOF and other Ministries, particularly between the key Budget planning agencies of the MOF and the MoPDC. In August of 2008, the MOF sent a letter to the MoPDC requesting their assistance in implementing the Purchasing Module. Official communication between the two Ministries concerning this matter did not occur until the end of March of 2009. At that time BearingPoint specialists demonstrated the Purchasing Module. The MoPDC staff expressed their support and indicated that they would return to their Ministry and prepare a recommendation to the Minister to adopt the module. Subsequently, a further demonstration of the Purchasing Module was held on May of 2009. The BearingPoint team was not able to provide any

additional support for the Purchasing Module due to security difficulties and EG II project closing.

Page 7, Offline Data-Entry tool: Currently, 80 spending units in Iraq do not have Internet service.

Management Comments: Internet connectivity is an MOF responsibility. In the January 2008 MOU the MOF agreed to reestablish internet connectivity to all spending units. (The actual number of spending units in Iraq that do not currently have Internet service is higher than 130 units.) In September of 2008, the MOF started the procurement process to provide eighty units with computers and VSAT connections. Throughout the process, BearingPoint provided all the specifications for the equipment and technical recommendations needed for the procurement.

Page 7, Offline Data-Entry tool: The Ministry of Finance systems administrator downloaded the tool and found that it did not meet the Iraq system needs.

Management Comments: Again, further context is necessary to understand the problem here. The offline Data-Entry tool was designed to address constraints in the Iraq operating environment, including additional MOF demands, and is not an ideal solution. The current tool was delivered in the beginning of August of 2009, after it was re-configured to accommodate the MOF's new business requirement (new fourteen-digit Chart of Accounts) to mimic the Budget Directorate's manual budget process. The delivery was behind schedule mainly due to MOF access restriction (virtually and physically) to the IFMIS servers after the handover of the system.

The tool was initially completed and delivered to the MOF DG of IT based on a twelve-digit Chart of Accounts (CoA). In April of 2009, The MOF DG of Budget decided to expand the CoA to fourteen digits to mimic the Directorate's manual budget process (an unusual change to make in the middle of a fiscal year). Unlike the manual process, this required a time-consuming reconstruction of the entire system's database shell (re-programming of the software's code). BearingPoint coordinated with FreeBalance's team to work online directly with the MOF IT staff to

expedite the modification, after the system was handed over to the Ministry. However, the lack of cooperation from the MOF IT staff in providing proper access to the system prevented the technicians from completing the modification of the data shell and offline Data-Entry tool to accommodate the new CoA structure on schedule. Despite Project recommendations, the MOF IT staff turn on the IFMIS servers when the Ministry's working day starts, then turn the servers off after the Ministry concludes its working day. The IFMIS servers' limited operational time impeded the technicians from completing tasks on schedule. The system should be a web-based application that provides a countrywide-financial management system with 24 hours a day-7 days a week operation.

Because an e-Government solution in Iraq is constrained by various infrastructure deficiencies, IFMIS is made operational by employing available technology, including VSAT satellite communications. However, not all of Iraq's spending units have satellite connections or even computers. Therefore, as a simple solution, the offline Data-Entry tool was created to overcome the spending units' connectivity impediment. Although this is a useful tool for remote sites, it has inherent limitations in a system intended to provide data in real-time over the internet.

Page 8, Relationship with the Vendor: When the IT staff tried to make contact with the vendors, they were denied access because they were not listed as the licensed owner.

Management Comments: The specific vendors are not named; the draft audit report needs to provide the necessary context.

As general background on MOF communication with foreign vendors, USAID notes that the MOF DG of IT demands a written authorization signed by the MOF Minister, Deputy Minister, Inspector General and all the Director Generals collectively, before she initiates dialogue with any foreign vendor. For example, as we understand it, perhaps to avoid sole responsibility or any unforeseen future consequences for actions, the MOF DG of IT continues to refuse to hold any direct dialogue, including e-mails and phone communications, with FreeBalance, the software company, to establish a business relationship. All activities with FreeBalance have been coordinated through the EG II program, which has ended. The MOF needs to negotiate and sign a Product Support & Maintenance Agreement (PSM)

with FreeBalance; without a PSM, the MOF will have no software support in the future.

Many Iraqi government employees avoid engaging in any procurement-related communication because of the fear of scrutiny by the Iraqi Commission on Integrity, especially when dealing with foreign vendors. The Iraqi Commission on Integrity is an independent commission within the GOI tasked with preventing and investigating corruption at all levels of the government nationwide. Despite its role in promoting open, honest and, accountable government, the Commission's efforts unfortunately may be perceived by some middle and lower level public servants as a deterrent against communication with vendors on necessary technical matters.

***Page 8, Training:** Although the training represented a large effort, Iraqi system users were not satisfied with the training provided.*

Management Comments: Negligible IT skills and widespread computer-illiteracy within the Iraqi government service was a major constraint affecting training. The high employee turnover, due to extensive emigration of individuals with technical skills or knowledge (brain drain) as a result of continuing conflict and political instability, also affected the effectiveness of training. High employee turnover, coupled with a GOI-wide hiring freeze, have also contributed to having inconsistent technical skill levels within the Iraqi government workforce, including the MOF staff. This also frequently forced the implementer to use a back-to-basics training approach, which hampered satisfactory progress toward achieving the final intended result. A continued reliance on legacy systems by MOF staff also resulted in a continuation of existing shortcomings, and dissatisfaction with training related to IFMIS.

The USAID Mission has provided the audit team full access to all documents and correspondence pertaining to the IFMIS implementation. This includes contact information for the former BearingPoint staff (currently Deloitte); as well as a list of over twenty former local Iraqi trainers who still reside in country. Most of the local trainers have institutional knowledge of IFMIS implementation, and they could provide valuable input regarding their daily interaction with the MOF staff and the spending units. The collective set of facts and experiences held by the Iraqi

trainers could clarify some misunderstanding or misinformation concerning the IFMIS training that was provided, and implementation generally.

***Page 8, Testing:** No system-response testing was performed to determine whether the system could support users from the 250 spending units connected to the system. The Ministry of Finance IT staff stated that no one from their department had been included in BearingPoint's testing.*

Management Comments: The implementer prepared a comprehensive, well-communicated plan to transfer and test the IFMIS equipment. The MOF DG of IT and her staff were included in the planning process, which highlighted the roles and responsibilities of each party. Unfortunately, the MOF staff did not complete their infrastructure site preparations as planned, and the equipment's hand-over was delayed. At the last minute, the MOF changed the IFMIS Disaster Recovery Site to the MOF Main Headquarters building (which we consider to have been a poor decision and defeats the purpose of having an off-site recovery system that could restore the information system in case of disaster--as demonstrated by subsequent events, when the MOF Main Headquarters building was bombed twice within a four month span in 2009). Additionally, the MOF Deputy Minister and the DG of IT approved/signed the acceptance of the project's assets, after extensive negotiations, only two days before the BearingPoint's contractor staff repatriation and program close-out. This forced USAID to extend the project by one month with limited resources and limited access to the Ministry.

Nevertheless, three-weeks of hands-on training was conducted by BearingPoint, and MOF IT staff assisted the BearingPoint technicians in running all the necessary acceptance tests on the servers. The tests included: stress testing to determine the stability of the system by putting a greater emphasis on robustness, availability, and error handling; and recovery testing to test how well the application is able to recover from crashes, hardware failures and other similar problems. The system was designed, and has been tested, to handle more than 250 units work load; however, the system's performance could not be critiqued conclusively outside the testing environment until the MOF provides all the spending units with Internet connectivity and adequate bandwidth to access the system.

Page 9, Impact of Contract Type: Given the minimal incentive to control costs, the Federal Acquisition Regulations 16.301.3(a) state that a cost reimbursement contract may be used only when two conditions are met: First, the contractor's accounting system is adequate for determining costs applicable to the contract. Second, appropriate government surveillance during performance will provide reasonable assurance that efficient methods and effective cost controls are used. However, USAID/Iraq did not adhere to either condition.

Management Comments: The contractor for this program, BearingPoint, has been a contractor for the U.S. Government for many years. The programs they implement on behalf of USAID and other government agencies have been audited by DCAA, OIG and other oversight agencies for many years, all over the world. No deficiencies or problems in business practices or accounting systems were reported by oversight agencies. The awarding of the contract involved a thorough review by the USAID Contracts Review Board and the decision on the type of contract was fully documented and justified and determined to be relevant to the type of work and the environment in which the work would be taking place. When the contract for the Economic Governance II (EG II) program was signed there was ample reason to believe that the contractor's accounting system was adequate for appropriately capturing and reporting the use of federal funds and this continued to be the case for all the years of implementation. DCAA, as the appropriate government agency to assess the adequacy of such systems (and the agency that determined BearingPoint's NICRA), has never determined (even in the last audit performed) that the contractor's accounting system was inadequate. Yet, USAID, with the assistance of OIG, has historically taken measures to collect inappropriately charged costs from the contractor and has done so both in response to annual audit recommendations and based on its own oversight of the contractor's costs. Most recently, USAID filed a claim with the bankruptcy court for all debt owed by BearingPoint under expired (not novated) contracts and has recently settled on an amount to be collected.

Furthermore, in strict accordance with FAR 16.301.3(a), USAID has continuously monitored and surveilled the appropriate use of obligated funds under the entire EGII contract, including IFMIS. Such surveillance has been conducted both by the COTRs who reviewed and approved vouchers submitted by the contractor, and by the Contracting Officer(s) who have on numerous occasions de-scoped activities, re-aligned budgets and re-

negotiated the costs associated with implementation (such as security costs) in order to better capture the realities of implementation and programmatic priorities. This is evident through numerous contract modifications, most recently Modification 22, dated September 30, 2008, which reduced the costs associated with security and life support and made more resources available for technical assistance. USAID, through the COTR and the CO, has required and tracked the monthly programmatic and financial reports related to the program, and has ensured that the contractor delivered its best effort in meeting the contract's objectives. DCAA and OIG recommendations have assisted tremendously in helping USAID strengthen its financial and performance oversight and have often informed decisions on funds re-allocations and collection of inappropriately charged costs. Given these measures and the operating environment in Iraq at the time of this program's implementation, the cost-reimbursement contractual mechanism provided the government the most cost effective method for reaching its development objectives for the EG II program writ large.

Page 11&12, IFMIS issues identified by Iraqi system users (Table 1)

We add the following information concerning the issues identified by Iraqi system users to facilitate a more complete understanding of the issues, and to correct misunderstandings. It is incorrect to leave the impression that the IFMIS project has not made good faith efforts to address these issues and respond to user needs.

Row 1, Unique invoice numbers: *The system does not accept unique invoice numbers.*

Management Comments: In relational database design, a unique key can uniquely identify each row in a table. A table may have arbitrarily many unique keys but at most one primary key that is automatically generated by the database program. Examples of unique keys are a Social Security number associated with a specific person—or in our case, an invoice associated with a Ministry. A primary key is a special case of unique keys. The major difference is that for primary keys it is automatically enforced. In IFMIS, if the user enters any transaction in the system it will generate a primary key that could be associated with an invoice and Ministry.

However, this is not an issue of unique invoice numbers enforced, or arbitrarily created, by the system. The issue in the report has been either misinterpreted, or lost in the translation. The MOF Budget Directorate is requesting a custom report that reflects data in a format they are familiar with; they want the IFMIS program screen to mirror their legacy paper format. FreeBalance did design such a report as requested by BearingPoint and the report was presented to the DG of Budget in hard copy in April of 2009. The DG of Budget made several changes to the report but has yet to provide final approval to the report.

Rows 2, 3, 4, and 7, Bank reconciliations, Bank accounts, Beginning balances, and Budget

Management Comments: In order for the system to be fully productive, the MOF must use the entire system (core and modules). The MOF Budget Directorate presently uses the core system (consists of general ledger, accounts payable and receivable) to process budget transfers and wants to use the core system to also process supplemental budgets, carry forwards, and other additions and deletions from the approved budgets. This requires the ability to add to or reduce an approved budget figures without a corresponding entry. The core system will not process a transaction that does not have both a debit and a credit. This requirement is mandatory for the core system and cannot be overridden. However, the Performance Budget Module will allow these types of transactions. A demonstration for the Performance Budget Module to the MOF should demonstrate of the Performance Budget Module. We believe this will satisfy the MOF requirements.

Row 5, Reports: *System users could not print many of the reports they needed, and the reports that could be printed were not useful.*

Management Comments: Data quality has many dimensions including accuracy, consistency and completeness. With any data resource, it is essential to meet requirements for current and future demands for information. Data completeness assures that the above principles are fulfilled and is an indication of whether or not all the data necessary to meet the business information and reporting demand are available in the database.

The system is fully capable of generating any expenditure report on multiple levels: Ministry, Department or spending unit. The problem noted is not a reporting issue; it is a data quality issue (or lack of data), and lack of training enforcement issue. If the user does not populate all the required fields as he/she enters the transaction in the system, it will result in missing information in the expenditure reports; such reports have limited utilization and value. Additionally, this is an issue of not having a full comprehension of the convoluted structure of the spending units throughout Iraq. The users need to understand the Iraqi budget system, which is a hybrid system of centralized and decentralized Treasuries, to be able to design expenditure reports that are capable of capturing all information pertains to their Ministry or Department.

Row 5, Reports: In addition, data from the system cannot be downloaded into Excel spreadsheets.

Management Comments: The reports can be downloaded in Excel spreadsheet format.

Row 6, Trial balance: The system does not provide an accurate and complete trial balance and yields only a partial trial balance.

Management Comments: As part of the restart of IFMIS in 2008, USAID and the MOF agreed to undertake a pilot restart utilizing eleven previously active and trained spending units. The pilot project was only partially successful. Eventually, all eleven spending units did begin to use IFMIS with the last site, the Ministry of Higher Education, beginning on February of 2009, which was seven months after the pilot began on July of 2008. Because the MOF Budget Directorate did not provide the 2008 budget supplemental data to BearingPoint until May of 2009, no spending unit (pilot or otherwise) was able to easily complete an entire month's data entry, produce a trial balance and reconcile to the legacy system. Without all approved budget data in IFMIS, the spending units were not able to enter all their data for a particular month.

To overcome these issues, BearingPoint local trainers worked with the MOF Budget Directorate for five weeks in the first quarter of 2009 to manually enter the transfer orders for these spending units. With this done and after

the 2008 Budget Supplemental data was entered in early June, 2009, these spending units should have been able to complete a reconciliation process. The MOF undertook this reconciliation exercise without BearingPoint participation even though we requested to include them as part of this process. In June of 2009, the MOF claimed that nothing reconciled. BearingPoint requested urgently that the MOF allow access to the local trainers to review their work. After extensive dialogue, the MOF agreed to provide access to BearingPoint's local trainers; however, the trainers were denied access at the MOF Main Headquarters' gate by the guards and were asked not go back again. Access to the MOF Main Headquarters, which houses the Budget and Accounting Directorates, was not provided by the MOF again. Subsequently, only BearingPoint IT specialists were allowed limited access to the IT Directorate, which resides in a different location outside the MOF Main Headquarters.

USAID/Iraq notes that, prior to the kidnapping incident, the system was used for years by the MOF with the spending units reconciling monthly between the legacy and IFMIS system. It is possible that the assertion that the system now does not work could be self-serving by certain parties within the MOF whose objective is to derail the implementation of the system, for reasons alluded to previously.

Row 7, Budget: *(1) The Ministry of Finance budget staff cannot add a supplemental budget if the budget is increased during the fiscal year. (2) The system will not accept more than one budget.*

Management Comments: The Budget Module is a comprehensive program for budget preparation, budget execution, review and approval, forecasting and reporting. In addition, it ensures effective budget preparation, by providing the ability to process unplanned budgets such as supplemental budgets, carry-over budgets, and other additions and reductions from the approved budgets during the fiscal year. Although the module was discussed during a meeting on April of 2009 that was devoted primarily to the IFMIS core system, the relevant DG never agreed to receive a demonstration of the module.

The Core IFMIS system is not designed to accommodate all the requirements of the MOF Budget Directorate. This functionality is contained in the Performance Budgeting Module. Unfortunately, the Budget

Directorate has expressed no interest in the module and insists on attempting to implement budget tasks in the Core IFMIS system. This decision constrains the loading of new budgets into IFMIS. In the Core system, this upload must be done either manually (which is not practical and defeats the purpose of an automated system) or electronically through a data conversion process performed by FreeBalance. If the MOF were to utilize the Performance Budgeting Module to create the budget for the GOI, budget data would be uploaded efficiently and automatically into the Core IFMIS system.

Row 7, Chart of accounts: *In the new system, the systems administrator cannot add accounting classifications to the chart of accounts*

Management Comments: By utilizing unused digit (zero) from the previous twelve-digit Chart of Accounts (CoA), and by adding two extra digits, the current fourteen-digit CoA offers 999 new additional possibilities of accounting classification. In the future, if the MOF needs to add additional accounting classification, it would require a new database shell to be created by FreeBalance. However, it would be highly unlikely for the MOF Directorate of Budget to consume the current possibilities that the system offers any time soon.

Row 8, Auto save function: *If Internet service is interrupted while a user is entering a transaction, the parts of the transaction that were entered before service was interrupted are not saved.*

Management Comments: The architecture of IFMIS does not allow for an auto save function for power interruption or lost internet connectivity. However, there is a “Temp Save” feature and we recommended that the MOF adopt the use of this feature and instruct their staffs to click on the button frequently to help mitigate losses. The MOF staff has received the basic user training, which has included the feature’s usage.

Row 9, Flags for exceeding budget: *If a transaction is entered that exceeds the allocated budget ceiling for the account, the system does not inform the user that it will not accept the transaction until the transaction has ended.*

Management Comments: In order to check funds availability for the amount being entered, we recommended that the end user use the “Temp Save” functionality of the system which will allow the user to temporarily save the transaction after each line is entered thereby checking the funds for each line, and the user will be informed if the transaction exceeds the allocated budget ceiling for the account. An added benefit to saving the information entered up to that point is that in the event that power or internet connectivity is lost, the work is not lost as well. The MOF staff has received the basic user training, which has included the feature’s usage.

Row 10, System response time: *Ministry of Finance staff reported that they received numerous complaints from spending units regarding a long response time using the Iraq Financial Management Information System.*

Management Comments: FreeBalance database software, compared with other major corporate level packages, including SAP and Oracle, provides core functionality with the option to add further functional modules post implementation, which means it requires less overhead. Other systems may be more powerful, but they are uniformly more cumbersome, complex – and certainly require extensive overhead. In Information Technology, overhead is generally considered any combination of excess or indirect computation time, memory and bandwidth that are required to attain a particular task.

Since IFMIS is a web-based system, its slow response time is an issue of insufficient bandwidth, and availability. Initially, this issue was raised by the MOF Budget Directorate. We recommended increasing the internet bandwidth and the MOF has agreed to purchase a separate VSAT connection especially for the Budget Directorate. Unfortunately, the DG of IT has not provided the internet connection due to the MOF internal budget-expenditure and procurement approval problems.

It needs to be noted that management of bandwidth availability is a major problem in Iraq’s telecommunication business. In general, the Iraqi government’s agencies utilize the satellite communication for internet service, through private local Internet Service Providers (ISP) or vendors. To satisfy the business’s critical requirements for bandwidth, usually the agencies purchase a pre-agreed level of dedicated (or un-contended) bandwidth allocated to their service. Dedicated bandwidth is provided with Quality of Service (QoS) guarantees and ensures that the internet service is

never impacted by peaks in other network activity. However, due to lack of rules and regulations enforcement in the Iraqi telecommunication industry, the vendors are selling more bandwidth than their networks have the capacity to handle. They advertise the highest speed (dedicated bandwidth) services that a user can attain, however, their network can not actually handle all users using that speed for any length of time. It is similar to a restaurant selling an all-you-can-eat buffet to a hundred customers, but only buying enough food for fifty. This issue has forced the MOF DG of IT to switch ISPs a couple of times in the past year; however, the insufficient bandwidth continues to be problematic. Ultimately, a higher-level government intervention is needed to enforce better telecommunication regulations in Iraq.

Page 14: USAID/Iraq stated that they planned to engage in 6 more months of work on the Iraq Financial Management Information System with the intent of having the Ministry of Finance institutionalize the system. To this end, USAID/Iraq has been working with the Ministry of Finance to obtain a commitment in the form of a memorandum of understanding that will outline mutual responsibilities if USAID continues work on the system. The amount of the additional work has been estimated at \$1.5 million. USAID's draft memorandum of understanding included facilitating regular communications with the software vendor, FreeBalance, and providing training to users of the system.

Management Comments: The paragraph referring to USAID/Iraq's plans to engage in six more months of work on IFMIS should be removed as this is out-of-date.

D. Conclusion

It must be clearly understood that the automated Iraqi Financial Management Information System is merely a tool through which budget execution can be controlled and that other separate reform initiatives within MOF must be conducted in parallel if the goal of implementing improved financial control is to be realized. Changes in MOF procedures remain superficial and short-lived. Unless there are fundamental changes in values, ways of thinking, and approaches to problem solving, the problem will continue to exist.

The reality is that governments worldwide have acquired various Financial Management Information System software applications “off-the shelf,” whether they are FreeBalance, SAP or Oracle. Very few governments have successfully developed their own integrated systems in-house. The implementer of any similar software must seek the involvement of counterparts in the early decision- making phase of a project, and may experience the same lack of capacity, motivation and expertise among the staff within the relevant Ministry. It is likely that similar difficulties in completing or following standard project management steps will be encountered and budget and time constraints will force expediency, as was the case with this project. Obtaining full agreement of all parties on the required functionality and appropriate applications may still be problematic and time-consuming even under the best of circumstances. “The best of circumstances” Iraq is not.

III. Recommendation

“We recommend that USAID/Iraq refrain from further funding of the Iraq Financial Management Information System until the mission develops a documented action plan that specifically addresses ongoing impediments to the successful implementation and sustainability of the system. This action plan should include the following elements: (1) identification of outstanding technical problems in full collaboration with the Ministry of Finance of the Government of Iraq, (2) determination of whether these outstanding technical problems can be resolved and by whom, (3) resolution of outstanding technical problems before training is provided in an area with functional issues, (4) training designed to meet the needs identified by Iraq system users from the Ministry of Finance, and (5) identification of and adherence to IT best practices, such as COBIT.”

Action Taken: The Mission concurs with the Recommendation. All funding for this project stopped at the conclusion of the Economic Growth Program (EG II) on August 30, 2009. At present USAID/Iraq is not planning any further funding of IFMIS. As discussed at length in our Management Comments, the IFMIS project experienced difficulties resulting from the lack of sufficient support for IFMIS at appropriate levels within the Ministry of Finance. If in the future the Ministry of Finance were

unequivocally to demonstrate a commitment to support the IFMIS system, and requests USAID assistance, the Mission could consider additional support. If such support were provided in the future, it would be developed using an Action Plan which includes the elements in the Recommendation above.

Based on the above, Mission requests OIG/I acknowledgement of a management decision and the action taken to close the recommendation.

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