OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/IRAQ'S ADMINISTRATIVE REFORM PROJECT

AUDIT REPORT NO. 6-267-14-004-P
DECEMBER 15, 2013

CAIRO, EGYPT

December 15, 2013

MEMORANDUM

TO: USAID/Iraq Director, Sarah-Ann Lynch

FROM: Acting Regional Inspector General/Cairo, Emily R. Gardiner /s/

SUBJECT: Audit of USAID/Iraq's Administrative Reform Project
                (Report No. 6-267-14-004-P)

This memorandum transmits our final report on the subject audit. In finalizing the audit report, we considered your comments on the draft and have included them (without attachments) in Appendix II.

This report contains ten recommendations to help the mission improve the efficiency and effectiveness of the Administrative Reform Project. After reviewing information that the mission provided in its response to the draft report, we acknowledge that management decisions were reached on all ten recommendations. Final action has been taken on Recommendations 1 through 5 and 7 through 10, and they are closed upon issuance of the audit report.

Please provide the Audit Performance and Compliance Division of USAID's Office of the Chief Financial Officer with evidence of final action to close Recommendation 6.

I want to thank you and your staff for the cooperation and courtesies extended to us during the course of this audit.

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Abbreviations

The following abbreviations appear in this report:

ADS	Automated Directives System
COR	contracting officer's representative
FY	fiscal year
PMP	performance management plan
MoU	memorandum of understanding
MSI	Management Systems International Inc.
SoP	standard operating procedures
IDMS	Iraq Development Management Systems
PPSC	provincial project steering committee
PPDC	Provincial Planning and Development Council

SUMMARY OF RESULTS

Years of political instability and sectarian violence have affected the Iraqi Government's ability to develop, finance, and implement programs and projects to meet local needs. Since 2003 Iraq has been gradually transferring power to its 18 provinces, shown in the map below. However, the challenge of improving Iraq's public institutions, the large size of its federal service, and the outdated tools available to government employees to meet local demand for quality services have made this a difficult transition.
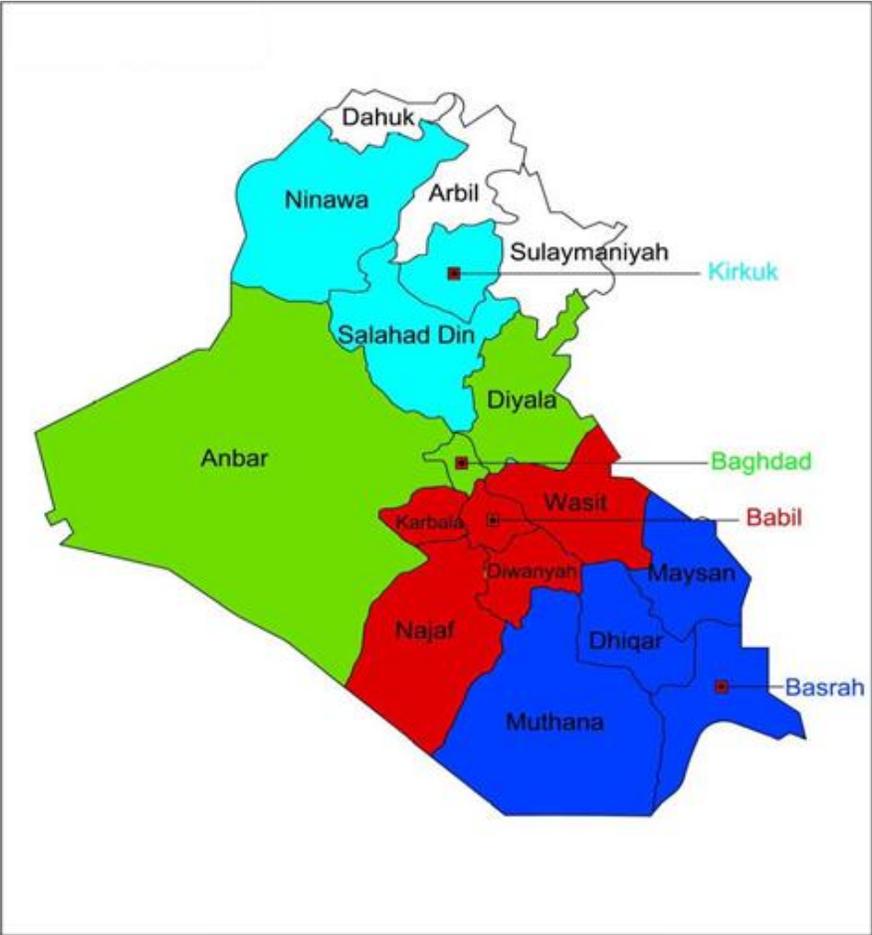
The Administrative Reform Project has hubs and offices in 4 regions of Iraq that together cover most of the country's 18 provinces. (Map courtesy of Management Systems International Inc.)

To help improve public institutions' ability to serve Iraqis, on June 5, 2011, USAID/Iraq awarded Management Systems International Inc. (MSI) a 4-year, $156.7 million contract, including $8.9 million in fixed fees, to implement the Administrative Reform Project. As of December 2012, the mission had obligated $82.3 million and disbursed $39.9 million.

According to MSI's contract, the project's purpose is to support Iraq in achieving its strategic goal of improving how the government delivers public services. USAID/Iraq adopted a "whole of

government approach," which involves working with all levels of government from the central to the provincial. The project focused on three components.

1. Civil Service Reform: MSI will help Iraq implement a merit-based civil service system by (1) introducing a modern civil service law to the Council of Representatives, (2) establishing federal and provincial civil service commissions, and (3) creating a civil service training system and institution.

2. National Policy Management: MSI will help Iraq implement reforms to strengthen structures for its national policy development by identifying and reducing the number of regulatory burdens that hinder economic growth, and by establishing systems and procedures to improve national policy development.

3. Administrative Decentralization Reform: MSI will help Iraq strengthen service delivery functions through implementing administrative regulations for decentralization and strengthening human and financial resources at the provincial level to improve public services.

The Regional Inspector General/Cairo conducted this audit as part of the Office of Inspector General's fiscal year (FY) 2013 audit plan to determine whether USAID/Iraq's Administrative Reform Project achieved its goal of improving the functions of Iraqi Government institutions to improve service delivery processes through better governance and resource management.

The audit determined that the project had mixed results. It is carrying out the second component successfully (page 4). However, it has struggled with the first and third, and together they represent 72 percent of the funding.

The following problems hindered success.

- The Iraqi Government did not support activities in the first and third components (page 5). As a result, USAID's investments in supporting civil service reform have not been able to address the underlying challenges preventing Iraq from building a merit-based civil service system. In addition, the mission's efforts to help central ministries devise regulations, administrative orders, and instructions on giving authority to lower levels of government have not succeeded.

- Procurement regulations conflicted with the standard bidding documents the project helped develop (page 8). Consequently, only two provinces used the documents and none of the ministries did.

- The project did not help five ministries improve business functions as planned (page 8). None had improved their operations and completed organizational development cycles or developed action plans to improve their budget execution. Only two of the ministries re-engineered their key businesses, and only one began developing standard operating procedures (SoPs).

- USAID/Iraq paid $1,071,658 in fees for contract deliverables that did not meet contract requirements (page 9).

- USAID/Iraq's oversight of contract administration was weak (page 11). The contracting officer's representative (COR) conducted a limited number of site visits and did not document them. The COR did not properly document approval of project's key documents nor complete recommendations of contract changes.

- The performance management plan (PMP) included some performance targets that were not useful and some that did not reflect the expected results (page 13).

To help improve the efficiency and effectiveness of the project and the mission's operations, this audit recommends that USAID/Iraq:

1. Reassess the progress made in all the areas under the administrative decentralization component, determine and document those activities that the Iraqi Government has the ability and will to implement, and direct MSI in writing to focus resources on those activities (page 7).

2. Modify its contract with MSI to terminate work plan activities under the civil service reform component (page 8).

3. Stop activities aimed at implementing standard bidding documents until the Iraqi Government revises its procurement law and the Ministry of Planning enforces use of the documents (page 8).

4. Conduct and document a review to determine whether MSI can support ministries in organizational development, fiscal management, and business process improvement as envisioned, and adjust contract deliverables and budget based on the review (page 9).

5. Analyze, in collaboration with MSI, and document what the expected output is for each deliverable needed for the remainder of the contract, and what constitutes an acceptable product (page 11).

6. Reassess the adequacy of the deliverables questioned by the audit and determine whether $1,071,658 paid in fees should be recouped until MSI fully satisfies the requirements and documents its determination (page 11).

7. Independently conduct and document field visits on a sample basis and discuss with beneficiaries to assess the results of the project (page 13).

8. Implement documentation controls to record and document decisions made based on reviews of field monitors' reports, site visits, and technical direction given to MSI (page 13).

9. Have the contracting officer make a written decision on the changes the COR has made and modify the contract accordingly (page 13).

10. Adjust, in coordination with MSI, targets to measure the project's results more accurately (page 15).

Detailed findings follow. The audit scope and methodology are described in Appendix I. USAID/Iraq's written comments, excluding attachments, on the draft report are included in Appendix II. Our evaluation of these comments is on page 16.

AUDIT FINDINGS

**Improving National Policy Management
Was on Track**

The National Policy Management component was designed to help the Iraqi Government implement reforms by reducing regulatory burdens to core economic areas and to help build public policy development institutions.

The audit determined that this component was on track. With the support of the Iraqi Government, MSI started the process of identifying laws and regulations that hindered business development in Iraq. In November 2012 the project's team submitted more than 100 recommendations to the government on ways to improve processes for starting businesses, international trade, and construction licenses.

The project also strengthened public policy functions within the prime minister's office. The audit team attended a workshop held by MSI and observed government officials actively participating. We saw advisers to the prime minister applying what they learned to develop new policies. This integrated approach of combining theory with practice helped ensure that people used what they learned.

This component succeeded in large part because it received support from the highest level in the Iraqi Government: the chairman of the Prime Minister's Advisory Council confirmed his commitment, stating that it "is a national project and all efforts should be exerted to ensure its success and this success will raise Iraq's economic status in the world." Having that political and managerial support was critical because most of the component's activities involved counterparts from some of Iraq's most senior government agencies, including the offices of the president, the prime minister, and select ministries.

The government backed the activities also because of USAID/Iraq's established presence in the country and because it has used a consistent contractor. Prior to the Administrative Reform Project, MSI managed one project that spent 5 years and $340 million on building the Iraqi Government's capacity. MSI was able to use the institutional knowledge and relationships developed during the earlier project.

The audit team found that personnel decisions also played a key role in the component's success. The technical management was strong, and the project's officials made a conscious decision to employ native Arabic speakers. Having them on the team enhanced relationships and increased efficiency.

Last, MSI's strategy of making the public aware of policy reforms worked well. For example, to ensure that government entities considered the perspective of Iraqi citizens during policy development, MSI contacted a number of nongovernment organizations and educated them on their role in influencing policy. In addition, MSI advertised workshops on public policy under the auspices of the prime minister's office to lend legitimacy to the event—and hold the government accountable for actions related to policy development.

Because of these strategic decisions, the national policy management component made progress in the first year. MSI officials said the Iraqi economy stands to save more than $1 billion (unaudited) over the next 5 years if Iraq implements the recommendations the project has made to eliminate burdensome laws. Through MSI, USAID/Iraq has laid a strong foundation for the future successes of this component.

Lack of Support From Iraqi Government Affected Progress

Under the previous 5-year project mentioned above, USAID also funded technical assistance services to help Iraq implement civil service reform and strengthen the public services provided to its citizens. In fact, when designing the current project, USAID took a significant amount of data from that project's contract to analyze the state of Iraq's civil service and public administration functions. According to the current project approval document, the mission recognized that implementing the project would be ambitious. But mission officials assumed that Iraq was willing to implement the ideas outlined in the project: reforming civil service and decentralizing administrative functions to improve service delivery to Iraqi citizens. Therefore, the project design team was confident that the targets and results were within MSI's reach.

To get government support, MSI's FY 2012 work plan required it to get signed memorandums of understanding (MoUs) with 10 ministries and 15 governors' offices that listed their required contributions. This aligns with the State Department's April 9, 2009, *Guidelines for Government of Iraq (GOI) Financial Participation in U.S. Government (USG)-Funded Civilian Foreign Assistance Programs and Projects.* The guidelines require the mission to document Iraq's commitment to contribute financially to project activities, including a plan to transition responsibility for a project from USAID to Iraq before obligating the funds. USAID/Iraq's mission order states that the mission typically documents such commitment through MoUs.

Despite USAID's past investment and support for civil service reform and administrative decentralization, the Iraqi Government did not support them as the mission had assumed.

Civil Service Reform Component. USAID/Iraq reimbursed MSI for about $4.8 million to support civil service reform activities in all levels of the government. In addition, the mission has paid MSI about $860,000 in fees for deliverables including:

- A federal civil service commission implementation plan

- A draft civil service law

- An action plan for a national human resource management information system and the terms of reference to procure the system specifications

- A federal civil service institute organization chart, along with descriptions of the each section's purpose and responsibilities

- A needs assessment of human resource functions and organizational structure in six ministries

- Technical advisory services spent toward completing 70 workshops for 1,021 participants covering human resource functions, human resource management, recruitment and staffing, human resource information management systems, and training and development

- Technical advisory services facilitating and participating in 555 meetings with 1,799 participants to discuss civil service reform

USAID has been funding MSI's efforts to help enact a civil service law. MSI helped draft this law in 2009, but Iraq has yet to enact it. Only when the government decides to implement this law can civil service reform really happen.

In line with MSI's established organizational structure, MSI reported establishing human resource divisions in two ministries and that the divisions started to implement human resource functions. At one ministry, the staff had developed job descriptions following the business process that MSI outlined in its trainings. However, when the audit team asked when these job descriptions would be effective, the staff said the Ministry of Finance has final approval and there was no timeline for when they could put these job descriptions into place. Recruiting and hiring were not based on needs nor were jobs filled competitively; positions were filled based on connections within the government, irrespective of needs and qualifications. Further, despite their efforts to align their organizational structure like the approved structure proposed by MSI, both ministries struggled to operate within it.

According to the COR and office director, although the project had overwhelming support at the national and provincial levels, it lacked a champion to make the decision to implement the ideas, tools, and prescribed systems.

USAID/Iraq has invested millions of dollars building the capacity of civil service employees. Now under this contract it anticipates spending almost $31 million to continue supporting civil service reform. According to the mission's office director, the mission started to take a closer look at its involvement in civil service reform in late 2012, and by the end of March 2013, it suspended MSI's work on civil service reform pending further review.

In May 2013, Iraq's Ministry of Foreign Affairs informed the U.S. Embassy that it decided to end USAID's work on civil service reform because of USAID's "delay in implementing the project appropriately." USAID decided to conclude its assistance on civil service reform. Yet as of May 2013, the mission had yet to modify the contract to stop all work under this component. Until the mission modifies the contract, MSI could still have staff hired to support it.

Administrative Decentralization Component. MSI's contract includes a $52 million budget to help Iraq decentralize administrative functions to lower levels of government. As of December 2012, MSI had held 1,324 meetings for 4,834 participants and conducted 367 workshops attended by 5,871 participants from 69 organizations. During these sessions, MSI provided technical assistance to help participants acquire modern administrative tools and structures they need to take over duties from the central government.

However, only one ministry attempted to decentralize. The ministry issued a ministerial order to authorize its directorates (lower levels of government) to assume responsibility for eight authorities, which included decisions such as:

- Accepting resignation of directorate employees at lower grades

- Granting normal leaves up to 30 days as well as granting maternity leave to directorate employees in accordance with regulating laws

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- Granting up to 150,000 Iraqi dinars (about $129) in prizes in accordance with the Ministry of Finance's annual federal budget guidelines

- Disbursing and acting within the limits of adopted allocations in the operating budget of no more than 500 million dinars (about $430,000)

As of April 2013, only seven provinces had endorsed 25 of the 146 authorities that MSI recommended be delegated or transferred to lower levels of government. None has been delegated because the Council of Representatives, the central ministries, or ministers themselves have not approved the changes. This is outside of MSI's control and has not occurred although the project entered its third year in June 2013.

The reason that the project's efforts to make regulatory and administrative reforms have been slow probably lies in the historical roots of centralism in Iraq. According to the mission, administrative decentralization has lost its charm since the project's design stage, and the changing environment in Iraq is another issue that hindered administrative decentralization efforts.

In addition, during the project's first year, which ended in June 2012, MSI implemented administrative decentralization component activities in 28 ministries and 15 provincial governments, but did not get MoUs from them all to guarantee their commitment. By September 2012—the extended reporting date for the first year—two ministries had signed MoUs. In the second year, six more signed MoUs, but none of the 15 provinces had.

Mission officials said USAID decided to sign only a few MoUs because the funding situation was not clear toward the end of 2012. They added that although they did not get MoUs from all the Iraqi counterparts, the project reported about $9 million in in-kind contributions from the Iraqi Government as of December 31, 2012, and allocated about $8 million to support project activities within ministries and governors' offices. The officials said although only $3.8 million of that was rolled over for expenditures in 2013 because the allocation was made late in 2012, Iraq intends to replace the rest of funds that were not rolled over in addition to new 2013 funds (which the mission estimated would be about $8 million).

The audit team found that some ministries lacked the required capacity to sustain the activities MSI was promoting. For example, MSI promoted a one-stop-shop concept to help ministries streamline processes. To bring multiple services together, two ministries planned to build new buildings to house all the services in one location. In December 2012 MSI reported that these ministries had secured land. However, the audit team visited one ministry and learned that it had received only a promise for a parcel of land and that MSI could not provide proof of land for the second.

These are all warning signs that decentralization may not happen within the contract's time frame. They also indicate that the mission's assumptions that the government supported administrative decentralizing and that the targets and results were within MSI's reach were not supported. Therefore, we make the following recommendations.

> **Recommendation 1.** *We recommend that USAID/Iraq reassess the progress made in all the areas under the administrative decentralization component, determine and document those activities that the Iraqi Government has the ability and will to implement, and direct Management Systems International Inc. in writing to focus resources on those activities.*

Recommendation 2. We recommend USAID/Iraq modify its contract with Management Systems International Inc. to terminate work plan activities under its civil service reform component.

Procurement Regulations and Standard Bidding Documents Conflicted

Automated Directives System (ADS) 201.3.3 states, "As outlined in the USAID Policy Framework for 2011-2015 and the PPD-6, USAID must be selective about where it invests its resources to maximize the Agency's long-term impact. USAID must focus its' invested resources to ensure they are large enough to have a meaningful, measurable, and lasting impact."

One of the activities that USAID funded is not having a meaningful, lasting impact. As of December 2012, MSI provided technical assistance to 37 different government entities to help strengthen their procurement systems, procedures, and practices. MSI's assistance included support in posting bids on the dgMarket Web site, an international portal for tenders and procurement opportunities from governments and international organizations. MSI conducted workshops that 1,099 people attended, and discussed how to create annual procurement plans, develop bid evaluation criteria, and use standard bidding documents. MSI helped write the documents and post them on the Ministry of Planning's Web site. However, only two of the entities used them.

Ministries were not using the standard bidding documents for a couple of reasons. First, despite the Ministry of Planning's gesture in making the documents easily accessible, it did not make them mandatory. Second, the documents conflict with Iraq's procurement regulations, which are not compatible with internationally recognized practices. Although MSI made more than 80 comments on the draft regulation to help the ministry make Iraq's system compatible, as of April 2013, the draft was still waiting for approval from the Council of Ministers.

Developing procurement procedures in line with the international standards and training civil servants on how to use them are necessary to improve service delivery. However, unless the Council of Ministers revises procurement regulations to resolve the conflict with the standard bidding documents and the Ministry of Planning enforces the use of these procedures, MSI's activities will continue to have a limited impact on service delivery. Therefore, we make the following recommendation.

Recommendation 3. We recommend that USAID/Iraq stop and document activities aimed at implementing standard bidding documents until the Iraqi Government revises its procurement regulations and the Ministry of Planning enforces the use of the documents.

Project Did Not Help Planned Number of Ministries Improve Business Functions

According to the contract modification, MSI was supposed to help five ministries improve their business functions so they could provide better services. MSI's contract and FY 2012 work plan required it to focus on the following areas:

1. Fiscal Management: Help ministries develop action plans to improve budget execution.

2. Organizational Development: Help ministries' organizational development units strengthen capacity by completing organization development cycles including identifying problems, conducting situational assessments, and designing and implementing corrective action plans.

3. Process Development: Help ministries re-engineer their key business processes.

During Year 1, MSI provided assistance in these areas. However, the audit determined it had not helped the ministries improve as expected.

None of the ministries developed action plans to improve budget execution as planned. During site visits, we confirmed that employees had not received fiscal management training that MSI was supposed to provide. MSI could not retain an adviser who was responsible for fiscal management training on a continuous basis because of the security situation in Iraq.

Concerning organizational development, in March 2012 MSI reported that one ministry established an organizational development unit. MSI also reported that it continued to support this unit in FY 2013. However, when we visited the ministry in March 2013, we found that the ministry assigned only one employee to the unit and gave him a temporary desk. According to the ministry, staff and office space will be provided to the unit once the ministry moves to a new and larger building.

In addition, 15 months into the project, partner ministries had completed only two phases of the organization development cycle. This happened because MSI could not get the government counterparts to sign agreements to facilitate an organizational methodology cycle as required by the work plan.

In terms of process development, only two ministries developed SoPs to re-engineer their key businesses, and one ministry started developing one. MSI focused on the number of processes re-engineered within ministries rather than the number of ministries with re-engineered processes because of lack of clarity about deliverables.

These delays highlight the chance that MSI might not meet remaining deliverables. Therefore, we make the following recommendation.

> **Recommendation 4.** *We recommend that USAID/Iraq conduct and document a review to determine whether Management Systems International Inc. will be able to support ministries in organizational development, fiscal management, and business process improvement as envisioned, and adjust contract deliverables and budget based on the review.*

USAID/Iraq Accepted and Paid Fees for Deliverables That Did Not Meet Contract Requirements

MSI's contract states, "Payment of fixed fee for this completion cost-plus-fixed-fee contract shall be in proportion to the successful completion of the deliverables, or milestones, for each year of performance. The amount of fee owed to the contractor will correspond to the number of completed deliverables or milestones for each year during the contract period of performance." The deliverable could be in the form of a document, product, or service. The contract required MSI to work on 55 deliverables (later reduced to 29) for the three contract components, and it included a 4-year

delivery schedule. For FY 2012 deliverables, the COR had accepted 27 and approved $2,403,435 in fees.

The audit evaluated 26 of the 27 and found that 18 did not meet requirements, or the information that MSI provided was not adequate. The COR approved a payment of $1,071,658 in fees for the 18 deliverables, as shown in Table 1.

Table 1. Fees Paid for Deliverables (Audited)

Contract Component	Number of Deliverables Approved	Number of Milestones Not Acceptable	Fee Paid ($)
Civil Service Reform	10*	7	472,948
National Policy Management	4	3	125,761
Administrative Decentralization	13	8	472,949
Total	**27**	**18**	**1,071,658**

* The audit examined nine of the ten deliverables.

Civil Service Reform. One of the deliverables required MSI to provide business processes, manuals, and SoPs to five ministries and three provincial governorates to help them establish human resource departments. MSI submitted six documents about business processes that the COR accepted and approved $64,493 in fees. There is no correspondence or follow-up with MSI to support that it provided everything as required to the number of ministries and provinces and that they accepted these items.

For another deliverable, MSI was to conduct a needs assessment and hold workshops to train human resource staff to perform their duties based on the identified needs. MSI submitted five completed forms demonstrating that a workshop took place. However, the forms did not specify which ministries attended, how the workshop subject addressed the ministry's needs, and explain how the workshop prepared staff to do their jobs appropriately. The COR accepted the forms as a proof that the task was completed and approved $64,493 in fees.

National Policy Management. MSI was to complete a Web site for the Office for Policy Development. While MSI completed it, the address was not searchable. Therefore, the Web site was not useful to the public. However, the COR accepted MSI's work and approved $36,546 in fees.

For two separate deliverables, MSI was required to develop SoPs for policy development: one set was for ministries and the second for the Office of Policy and Development. MSI delivered nearly the same procedures to meet the requirements for both deliverables. The COR approved $53,744 in fees for each deliverable, totaling $107,488, which meant that MSI was paid twice.

Administrative Decentralization. MSI was to identify gaps between capital investment projects for five ministries and what was called for in Iraq's National Development Plan. MSI submitted a summary in English of the Arabic reports. The summary stated that the reports identified the gaps. However, the reports stated that identification of the gaps would be done later. The COR accepted MSI's deliverable and approved $64,493 in fees.

MSI was to develop guidelines on how to decentralize one government function. However, it submitted a document describing the technical assistance it had provided, along with a list of

proposed powers that the ministry was to delegate to the provincial level; no guidelines were mentioned. The COR accepted MSI's deliverable and approved $21,498 in fees.

MSI was to develop an action plan to improve and decentralize capital investment project management, but delivered an incomplete product. Instead of an action plan, MSI provided a summary of what project management units do, along with definitions of project management, the role of a project manager, and organizational charts. The COR accepted the document and approved $64,493 in fees.

There are a number of reasons why the COR accepted and approved these deliverables. First, the contract was not well written. For example, the definitions for the deliverables were too broad, and the original contract did not specify milestones or fees associated with each deliverable. The contracting employees who awarded the contract left the mission, and the current staff cannot explain why the contract was so weak. USAID/Iraq addressed the ambiguities when it modified the contract in September 2012 when the deliverables were due.

Contract administration over MSI's activities was weak as well, which we discuss in the next finding. Last, some deliverables required Iraq to take control, and that has not happened.

The type of contract USAID/Iraq chose to implement this project required clearly defined deliverables. As a result, the mission ran a higher risk of wasting resources on activities that did not achieve any project goals. To improve the use of USAID/Iraq's resources, we make the following recommendations.

> *Recommendation 5. We recommend that USAID/Iraq and Management Systems International Inc. analyze and document what the expected output is for each deliverable needed for the remainder of the contract, and what constitutes an acceptable product.*

> *Recommendation 6. We recommend that USAID/Iraq reassess the adequacy of the deliverables questioned by the audit and determine whether it should recoup the $1,071,658 in fees paid until Management Systems International Inc. fully satisfies the requirements and documents its determination.*

USAID/Iraq Contract Administration Was Weak

According to the COR's designation letter, the COR is supposed to monitor MSI's performance and verify that it conformed to the technical requirements and quality standards agreed to in the contract. The COR was responsible for interpreting the technical requirements of the contract and giving technical directions to the contractor in writing when questions or discrepancies arose. In addition, the COR was responsible for establishing and maintaining adequate files to document actions taken.

The audit team found that the COR's contract administration was weak in several instances.

Limited site visits and lack of proper documentation. The COR said her visits were limited to some project events in the International Zone[1] and certain ministries because of security restrictions. She did not document her visits.

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[1] The International Zone is center of the international presence in Baghdad.

She also said she made limited site visits because she relied on field monitors to report on performance. The monitors were Iraqis hired by the mission to observe project's activities and report any problems. We reviewed a sample of their reports that described various implementation problems. For example, several field monitors reported trainees' complaints about their middle management not supporting the training, as described in the excerpt below:

> Some of the trainees were not much interested to start the practical side, and they were hopeless that they could apply the role of [Organizational Development] OD team, because . . . they have to face the high managers who are not having the required knowledge about the importance of the OD team role.

In addition, a field monitor said one of the MSI advisers removed him from the event and did not allow him to talk with the participants.

The COR's files did not have any documentation indicating that she followed up on these complaints or any others. When asked why she did not, she said the problems mainly pertained to trainees wanting more training.

Unresolved problems in scheduling project activities. The COR said she was not aware of any contract performance issues. Yet trainees we interviewed complained about MSI's poor communication and coordination regarding the training schedule.

MSI did not always notify officials about a training event in time for them to attend; some said that MSI informed them on the same day of the event. Training also conflicted with other priorities; for example, Ministry of Education officials could not attend training sessions because the schedule conflicted with exams.

Some officials said MSI did not notify them about schedule changes. A USAID field monitor reported a similar complaint when he showed up to monitor a training session only to find out it was provided earlier than scheduled; he was not notified.

Officials from the General Company for Ports in Basrah complained that the time between training modules was too long and did not allow them to capitalize on what they learned. They said they were very interested in completing the training because it was necessary to obtain the International Standard Organization 9000 certification that the project promoted. However, the MSI team in the Basrah office said they could not expedite training because the office in Baghdad set the schedules.

Another example of poor scheduling occurred when MSI trained government staff who could not apply the learned skills. MSI taught officials how to use the Iraq Development Management System (IDMS); however, two of the ministries we visited were not applying the training because one did not have access to IDMS, and the other was not authorized by the Ministry of Planning to use it.

Improper approval of documents. The COR did not have support to show that she approved key documents. She provided e-mail documentation showing that she discussed the FY 2013 work plan with MSI and provided approval for it with the exception of one activity. However, MSI never deleted that activity from the final work plan. Moreover, the COR approved a performance management plan that included erroneous targets.

Incomplete recommendations of contract changes. The COR recommended changes to the

contract after MSI had already made them. She also directed MSI to make changes but did not ask the contracting officer to modify the contract. For example, MSI was to establish provincial project steering committees (PPSCs). Toward the end of 2012, the Iraqi Government issued an order to establish provincial planning and development councils (PPDCs). The councils are to perform functions similar to those provided by PPSCs. USAID has helped Iraq establish PPDCs under another project.

However, as of March 2013, MSI continued its work by assisting existing PPSCs, establishing a new one and initiating the establishment of others. It was not until April 2013 that the COR instructed MSI to stop working with these committees and in May 2013 sent an e-mail to document her instruction. However, as of May 2013, the COR had not proposed to the contracting officer to modify MSI's contract because the mission was discussing a larger scope reduction for the entire project. She said she delayed instructing MSI to cancel certain activities because the changes in the scope would incorporate those cancellations.

Overall, these issues with contract administration occurred in part because the COR placed a lot of trust in MSI's abilities and was extremely pleased with its work. However, the mission had a contractual arrangement with MSI, which required the mission to manage the contract. Weak contract administration results in performance problems escaping notice and can undermine the project and thereby waste public funds.

To help USAID strengthen its contract administration and capitalize on the efforts of its field monitors, we make the following recommendations.

> **Recommendation 7.** *We recommend that the contracting officer's representative conduct and document field visits independently on a sample basis and discuss with the beneficiaries to assess the results of the project.*

> **Recommendation 8.** *We recommend that the contracting officer's representative implement documentation controls to record and capture program decisions made based on reviews of field monitors' reports, site visits, and technical direction given to Management Systems International Inc.*

> **Recommendation 9.** *We recommend that USAID/Iraq's contracting officer make a written decision on the changes that the contracting officer's representative made and modify the contract accordingly.*

Some Performance Targets Were Not Useful or Did Not Reflect Expected Results

ADS 203.3.9 states that for each indicator in a PMP, the operating unit should set performance baselines and targets that can be optimistically but realistically achieved within the stated time frame and with the available resources. Performance Monitoring & Evaluation TIPS, "Baselines and Targets" states, "[T]argets that are set too low are not useful for management and reporting purposes." In addition, "Targets orient stakeholders to the tasks to be accomplished and motivate individuals involved in a program to do their best to ensure the targets are met."

MSI set targets for some indicators too low, as shown in Table 2.

Table 2. Performance Indicator Values

Indicator Description	Target	Actual (Audited)	Deviation (%)
Number of training days provided to executive branch personnel with USG assistance	49	1,145	2,237
Number of sub-national entities receiving USG assistance that improve their performance	20	216	980
Number of administrators/officials trained with USG support	200	312	56

Furthermore, as illustrated in Table 3, targets for one indicator did not agree with the numbers that MSI was required to deliver.

Table 3. Number of One-Stop-Shops Implemented

Fiscal Year	PMP Target December 2012 (Audited)	Contract Deliverable September 2012 (Audited)
2012	1	-
2013	1	-
2014	3	4
2015	3	4
Total	**8**	**8**

Lastly, as shown in Table 4, MSI's PMP targets for the Ministry of Education capacity-building initiative did not reflect the current contract requirements.

Table 4. Indicators for Ministry of Education Capacity-Building Initiative

Indicator	Fiscal Year	PMP Target December 2012 (Audited)	Contract Modification February 2012 (Audited)
Number of provincial education directorates staff trained in five core areas of public administration	2012	100	330
	2013	500	
Number of Ministry of Education graduates from training of trainer-level course	2013	100	71
Number of Ministry of Education graduates from master trainer level course	2013	52	52
Total		**752**	**453**

According to MSI, achievements were higher than expected because the project worked with more ministries than planned. The COR said that because targets were set soon after the project started, the level of engagement needed was not clear at that time. In the case of the erroneous targets, the COR said she did not notice the error when she reviewed the targets established.

MSI revised the PMP in December 2012 at the mission's request, but MSI did not update the targets because neither the mission nor MSI were aware of the errors.

Low targets do not provide useful information to USAID/Iraq, and improper information could hurt management's ability to make sound decisions. Moreover, USAID reports overall successes from these plans to Congress and the public. Therefore, we make the following recommendation.

> ***Recommendation 10***. *We recommend that USAID/Iraq, in coordination with Management Systems International Inc., adjust in writing targets to measure the project's results more accurately.*

EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report, USAID/Iraq agreed with nine recommendations and disagreed with one. Based on our evaluation of management comments on our draft report, we acknowledge management decisions for all ten recommendations. Final action has been taken on Recommendations 1 through 5 and 7 through 10, and they are closed upon issuance of the audit report. A detailed evaluation of management comments follows.

Recommendation 1. The mission conducted an in-depth management review of project activities, and as a result, it eliminated three administrative decentralization component activities: (1) organizational development, (2) quality improvement, and (3) business process re-engineering. On August 1, 2013, the contracting officer executed a contract modification with MSI documenting the changes under the administrative decentralization component. Based on the mission's comments and supporting documentation provided, we acknowledge that the mission made a management decision and final action has been taken on Recommendation 1.

Recommendation 2. The mission modified its contract with MSI and eliminated the civil service reform component. Based on the mission's comments and supporting documentation provided, we acknowledge that the mission made a management decision and final action has been taken on Recommendation 2.

Recommendation 3. The mission disagreed with this recommendation because the Iraqi Ministry of Planning completed its revision of new procurement regulations, which included the endorsement of the use of standard bidding documents; it expects to issue the regulations on January 1, 2014. Because of this, we acknowledge that a management decision has been reached on Recommendation 3 and final action taken.

Recommendation 4. The mission discontinued fiscal management activities and other activities associated with organizational development and business process improvement and formalized this change in a contract modification. Based on the mission's comments and supporting documentation provided, we acknowledge that the mission made a management decision and final action has been taken on Recommendation 4.

Recommendation 5. The mission conducted extensive technical discussions with MSI and agreed on a more tightly defined list of deliverables for the remainder of the contract. The contracting officer amended the contract to incorporate the amended deliverables. Based on the mission's comments and supporting documentation provided, we acknowledge that the mission made a management decision and final action has been taken on Recommendation 5.

Recommendation 6. The mission is reassessing the subject deliverables and expects to complete it by March 31, 2014, and take final action by May 30, 2014. Based on the mission's comments, we acknowledge that the mission made a management decision on Recommendation 6.

Recommendation 7. Mission officials wrote that as of July 2013, mission staff standardized their documentation of field visits and provided an example of the new format used. In addition, the COR conducts weekly meetings with the chief of party and the mission's Capacity Building Office, and

has monthly meetings with senior project managers to discuss contract progress. Based on the mission's comments and supporting documentation provided, we acknowledge that the mission made a management decision and final action has been taken on Recommendation 7.

Recommendation 8. According to the mission, in August 2013, the Capacity Building Office director instructed staff to maximize use of field monitors and to ensure that COR files are current. The mission provided recent examples of communications between mission staff and MSI discussing issues that field monitors found. Based on the mission's comments and supporting documentation provided, we acknowledge that the mission made a management decision and final action has been taken on Recommendation 8.

Recommendation 9. The mission modified the contract on August 1, 2013, and included all relevant changes to the contract. Based on the mission's comments and supporting documentation provided, we acknowledge that the mission made a management decision and final action has been taken on Recommendation 9.

Recommendation 10. With the modification to the contract mentioned above, MSI submitted a revised PMP incorporating revised targets. The revised PMP was developed in accordance with the mission's plans to scale back its operations in Iraq. Based on the mission's comments and supporting documentation provided, we acknowledge that the mission made a management decision and final action has been taken on Recommendation 10.

SCOPE AND METHODOLOGY

Scope

We 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 that reasonable basis.

The purpose of this audit was to determine whether USAID/Iraq's Administrative Reform Project has achieved its goal of improving the functions of the Iraqi Government's public institutions to improve service delivery processes through better governance and resource management.

On June 5, 2011, the mission awarded MSI a 4-year contract for $156.7 million, including $8.9 million in fixed fees. As of December 31, 2012, USAID/Iraq had obligated $82.3 million and disbursed about $39.9 million.

The audit covered the period from the project's inception date of June 5, 2011, to December 31, 2012. In planning and performing the audit, we assessed management controls related to recordkeeping, data management, reporting, and monitoring of project processes and activities. We assessed the project's PMP, annual work plans, quarterly and annual performance reports, quarterly and annual financial reports, and MSI's contract, including modifications.

We conducted audit fieldwork at USAID/Iraq in Baghdad, MSI's main office in Baghdad and its hub office in Basrah Province, and ministry offices in Baghdad and Basrah Province.

Methodology

To answer the audit objective, we reviewed the project's contract and its amendments, performance reports, financial reports, and PMP. We interviewed personnel from USAID/Iraq and MSI to obtain an understanding of the project. We also reviewed the mission's risk assessment, prior audits, data quality assessments, and conducted a risk assessment. We reviewed applicable laws, regulations, USAID policies, and procedures to identify those that could have a material effect on project performance.

Based on our understanding and risk assessment, we developed audit procedures that included testing of controls and substantive tests. We conducted analytical procedures of performance data over time, verifying reported data to source documents, examining project deliverables, and validating reported data through site visits and interviews with the mission personnel and Iraqi officials. We also interviewed Iraqi Government counterparts to determine whether the project was meeting their needs and to confirm reported performance. The audit involved testing activities and performance data on a sample basis.

MANAGEMENT COMMENTS

December 10, 2013

ACTION MEMORANDUM
UNCLASSIFIED

TO: Catherine Trujillo, Regional Inspector General/Cairo

THROUGH: Alonzo Wind, Deputy Mission Director

FROM: Sarah-Ann Lynch, Mission Director

SUBJECT: Management Response to Draft Audit of USAID/Iraq's
               Administrative Reform Project-*Tarabot*, Audit Report No. 6-267-14-
               00X-P

Thank you for the opportunity to comment on the draft report of the USAID
Administrative Reform Project-*Tarabot*. USAID/Iraq recognizes the value of this audit as
a management tool to further strengthen our program, and we extend our appreciation
to the Office of Inspector General for the cooperation exhibited throughout this audit.
The audit highlights a number of key findings and makes useful recommendations to
which USAID/Iraq responds below.

USAID/Iraq provides the following comments regarding the audit findings and the
recommendations in the report:

Audit's Summary Finding:

Overall, the audit determined that the project had mixed results. Specifically, it
determined that the project is carrying out the second component (national policy
development) successfully and that it has struggled with the first (civil service reform)
and third (administrative decentralization) components.

USAID/Iraq only partly agrees with the overall assessment. We acknowledge that the
project encountered early implementation delays, but the project has been effective in
achieving concrete results in many areas to date – especially in component three

(administrative decentralization). Recent Government of Iraq (GOI) developments demonstrate that USAID investment within the administrative decentralization component produced concrete results in four areas, including: (1) administrative reform, (2) decentralization, (3) service provision, and (4) national and provincial planning.

Some examples of *Tarabot's* latest administrative reform results[2] include the following:

- Enactment of Amendment 2 to the Provincial Powers Law (Law 21), with USAID support, demonstrates GOI progress in the establishment of an enabling environment that supports decentralization of services.
- Opening of Iraq's first one-stop shop for business registration within the Ministry of Trade which significantly reduces the time required to register businesses in Iraq.
- Issuance of the GOI's new National Development Plan (NDP) for 2013-2017, with USAID support, illustrates GOI commitment to focus its development on more strategic areas and on the achievement of results.
- Decision by the Ministry of Planning requiring each province to establish a provincial planning committee.
- Decision by the Ministry of Planning to designate five USAID-assisted provinces as leaders in provincial planning and defining priorities that support the NDP.
- Establishment of eleven project management offices within ministries and governors' offices that provides unified planning and implementation oversight capabilities.

Recommendation 1: *We recommend that USAID/Iraq reassess the progress made in all the areas under administrative decentralization component, determine and document those activities that the Iraqi Government has the ability and will to implement, and direct Management Systems International in writing to focus resources on those activities.*

Response: The Mission agrees with the recommendation. On May 1, 2013, USAID conducted an in-depth management review of project activities to determine the most appropriate way forward in accordance with USAID/Iraq's drawdown plan. The review recommended four actions: (1) elimination of some project activities; (2) reduction in scope of some project activities; (3) maintenance of activities that yield results in the shortest period; and (4) expansion of a few select activities to the Iraqi Kurdistan Region to achieve standardization across Iraq and increase national impact. As a result of the review, USAID eliminated three administrative decentralization component activities: (1) organizational development, (2) quality improvement, and (3) business process re-engineering. In response to the Mission's management review recommendations, on August 1, 2013, USAID/Iraq's Contracting Officer executed contract modification number eight (Attachment II) with Management Systems International Inc. (MSI) that documents the changes under the administrative decentralization component.

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[2] Attachment 1 provides more details on results-to-date.

Based on the above, USAID deems that a management decision has been reached on Recommendation No. 1 and final action has been taken. Therefore, we request the closure of this recommendation upon issuance of this report.

Recommendation 2. *We recommend USAID/Iraq modify its contract with Management Systems International Inc. to terminate work plan activities under its civil service reform component.*

Response: The Mission agrees with this recommendation. On May 1, 2013, the Mission conducted a management review of project activities and documented decisions of proposed contract modifications in revised drawdown memos dated May 8 and June 11, 2013 (Attachment III). On August 1, 2013, USAID/Iraq's Contracting Officer executed contract modification No. 8 (Attachment II) in which the civil service reform component was eliminated.

Based on the above, USAID deems that a management decision has been reached on Recommendation No. 2 and final action has been taken. Therefore, we request the closure of this recommendation upon issuance of this report.

Recommendation 3. *We recommend that USAID/Iraq stop and document activities aimed at implementing standard bidding documents until the Iraqi Government revises its procurement regulations and the Ministry of Planning enforces the use of the documents.*

Response: The Mission disagrees with this recommendation. In 2013, the Government of Iraq's Ministry of Planning completed its revision of new procurement regulations which include the endorsement of the use of standard bidding documents (SBDs). The GOI is expected to issue the new procurement regulations on January 1, 2014. The GOI delayed the mandatory enforcement of SBDs until more ministries and provinces receive training and improve their capacity to comply with the use of SBDs, as an internationally-recognized procurement practice. As of October 27, 2013, eight ministries and ten provinces had adopted the use of SBDs. Both USAID and the World Bank are promoting the use of SBDs which empowers GOI entities to apply standardized procedures in accordance with international standards and best practices. These efforts are helping to: a) improve public procurement practices in Iraq through greater responsiveness and accountability in management of public funds; b) assist with the development of a more competitive, market-oriented, transparent business environment in Iraq; and c) assist the Iraqi economy to become more open through the issuance of public tenders.

In addition, in an October 7, 2013 cable[3], the U.S. government reported that the Iraq Ambassador to the United States, Lukman Faily, stated that the GOI wants to identify, understand, and address problem areas in its current tendering practices. In particular

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[3] See State cable 140640.

Ambassador Faily highlighted USAID's Tarabot project which serves as an example of a partnership between the two governments that will improve the tendering process.

Based on the above, USAID does not believe this recommendation is appropriate as the GOI has demonstrated concrete progress and a continuing interest and will to execute the needed reforms to its tendering practices. Therefore, we request that this recommendation be removed ahead of the final issuance of this report.

Recommendation 4. *We recommend that USAID/Iraq conduct and document a review to determine whether Management Systems International Inc. will be able to support ministries in organizational development, fiscal management, and business process improvement as envisioned, and adjust contract deliverables and budget based on the review.*

Response: The Mission agrees with the recommendation. As part of the Mission's management review of the project's performance held on May 1, 2013, USAID discontinued fiscal management activities and other activities associated with organizational development and business process improvement. On August 1, 2013, USAID/Iraq's Contracting Officer executed contract modification No. 8 (Attachment II) which documents the aforementioned changes.

Based on the above, USAID deems that a management decision has been reached on Recommendation No. 4 and final action has been taken. Therefore, we request the closure of this recommendation upon issuance of this report.

Recommendation 5. *We recommend that USAID/Iraq and Management Systems International Inc. analyze and document what the expected output is for each deliverable needed for the remainder of the contract, and what constitutes an acceptable product.*

Response: The Mission agrees with this recommendation. As a result of the USAID/Iraq management meeting and the subsequent drawdown memorandums which documented project-level revisions, USAID conducted extensive technical discussions between the COR and the contractor. Based on these discussions, a more tightly-defined list of deliverables was determined and agreed upon for the remainder of the contract. These amended deliverables are reflected under the modification executed on August 1, 2013, by the USAID/Iraq Contracting Officer. (Attachment IV – Revised list of deliverables – COR's output reference).

Based on the above, USAID deems that a management decision has been reached on Recommendation No. 5 and final action has been taken. Therefore, we request the closure of this recommendation upon issuance of this report.

Recommendation 6. *We recommend that USAID/Iraq reassess the adequacy of the deliverables questioned by the audit and determine whether it should recoup the $1,071,658 in fees paid until Management Systems International Inc. fully satisfies the requirements and documents their determination.*

Response: The Mission agrees with the recommendation. USAID/Iraq is in the process of reassessing the subject deliverables. The target date for completion of the Mission's reassessment on the adequacy of the deliverables is March 31, 2014.

Final Action Target Date is May 30, 2014.

Recommendation 7. *We recommend that the contracting officer's representative conduct and document field visits independently on a sample basis and discuss with the beneficiaries to assess the results of the project.*

Response: The Mission agrees with the recommendation. Starting in July 2013, Mission staff regularized their documentation of field visits. For example, some documented visits include: (1) launch of a one-stop shop for business registration with the Ministry of Trade (August 22); (2) launch of the National Development Plan 2013-2017 (September 16); and (3) graduation ceremony for the provincial steering committees (October 2). In addition, the COR conducts weekly meetings with the Chief of Party and the Capacity Building Office (CBO) has monthly meetings with senior project managers, during which USAID and the contractor discuss project implementation issues, exit strategy, and legacy – among other items. (Attachment V – Sample: COR field visit report; Note to the File).

Based on the above, USAID deems that a management decision has been reached on Recommendation No. 7 and final action has been taken. Therefore, we request the closure of this recommendation upon issuance of this report.

Recommendation 8. *We recommend the contracting officer's representative implement documentation controls to record and capture program decisions made based on reviews of field monitors' reports, site visits, and technical direction given to Management Systems International Inc.*

Response: The Mission agrees with the recommendation. In August 2013, the CBO Director instructed all CBO staff to maximize use of CBO field monitors and to ensure that COR files are current. CBO holds monthly field monitors' meetings during which there are discussions on project activities relevant issues such as quality of contractor performance, beneficiary feedback, and any other type of information that the COR might find useful to have in field monitor reports. The COR-field monitor information exchange, in addition to the field monitor reports, helps the COR better understand what is happening in the field and ensure appropriate follow-up. The COR will document and file program decisions, as well as key communications with the contractor.

Based on the above, USAID deems that a management decision has been reached on Recommendation No. 8 and final action has been taken. Therefore, we request the closure of this recommendation upon issuance of this report. (Attachment VI – Sample: COR's action to clarify findings from a field monitor's report and the contractor's response to it).

Recommendation 9*. We recommend that USAID/Iraq's contracting officer make a written decision on the changes that the contracting officer's representative made and modify the contract accordingly.*

Response: The Mission agrees with the recommendation. On August 1, 2013, the USAID/Iraq Contracting Officer executed contract modification No. 8 (Attachment II) which included all relevant changes to the contract. Based on the above, USAID deems that a management decision has been reached on Recommendation No. 9 and final action has been taken. Therefore, we request the closure of this recommendation upon issuance of this report.

Recommendation 10. *We recommend that USAID/Iraq, in coordination with Management Systems International Inc., adjust in writing targets to measure the project's results more accurately*.

Response: The Mission agrees with this recommendation. In response to contract modification number eight, MSI submitted revised targets within its revised Performance Management Plan (PMP) - developed in accordance with USAID/Iraq's drawdown memorandum and resultant de-scoping exercise. The revised PMP addressed necessary changes in targets (Attachment VII).

Based on the above, USAID deems that a management decision has been reached on Recommendation No. 10 and final action has been taken. Therefore, we request the closure of this recommendation upon issuance of this report.