OFFICE OF INSPECTOR GENERAL

# AUDIT OF USAID/JORDAN'S FISCAL REFORM PROJECT

AUDIT REPORT NO. 6-278-09-003-P
November 30, 2008

CAIRO, EGYPT

*Office of Inspector General*

November 30, 2008

**MEMORANDUM**

**TO:** USAID/Jordan Director, Jay Knott

**FROM:** Regional Inspector General/Cairo, Lloyd J. Miller /s/

**SUBJECT:** Audit of USAID/Jordan's Fiscal Reform Project
(Report No. 6-278-09-003-P)

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

The report contains three recommendations intended to improve the implementation of USAID/Jordan's fiscal reform project. Based on your comments and the documentation provided, we consider a management decision has been made and final action has been taken for recommendation no. 1. Management decisions for recommendations nos. 2 and 3 will be considered to have been made when the USAID/Jordan's Contracting Officer determines the allowability of questioned costs.

Thank you for the cooperation and courtesy extended to the audit team during this audit.

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# SUMMARY OF RESULTS

Despite a notable growth of Jordan's gross domestic product by 7.5 percent in 2004, the amount of tax revenues from personal incomes, sales, and corporations as a percentage of overall revenues has not increased. To improve the efficiency and effectiveness of Jordan's fiscal system, on May 25, 2006, USAID/Jordan awarded BearingPoint, Inc., a $14 million contract to provide technical assistance to the Government of Jordan in the area of fiscal policy. The 3-year project included activities in four areas—tax policy, tax administration, budget management, and a public awareness campaign. (See page 4)

The Regional Inspector General/Cairo performed this audit to determine whether USAID/Jordan's Fiscal Reform Project achieved planned results and what the impact has been (see page 3). At the halfway point of the project, as of November 2007, USAID/Jordan's Fiscal Reform Project had achieved planned results in its tax policy and budget management activities and had not achieved planned results in its tax administration and public awareness activities. Overall, the project had achieved the planned results for 31 of 50 performance indicators. (See page 4)

Overall, the impact of the Fiscal Reform Project fell short of expectations for some of its goals at the halfway point of the project. On a positive note, the tax policy activities generated a series of analyses for decision-makers within the Government of Jordan, including a synthesis of all tax legislation and tax laws that were in use. However, the Government of Jordan has not yet implemented a new comprehensive tax code as recommended by the project. Budget management activities produced a results-oriented budgeting capacity for the Government of Jordan for the first time, and all budget activities are now tied to budget classifications. The audit identified the following three issues requiring USAID/Jordan's management attention. (See page 4)

First, the contractor's performance monitoring and evaluation plan needs updating. The Jordan's Fiscal Reform Project contract required the contractor to update the performance monitoring and evaluation plan each year. After the contractor prepared its initial performance monitoring and evaluation plan in November 2006, the contractor had not subsequently updated this plan, despite changing conditions including key assumptions not being fulfilled, indicators not being completed, and missing baselines and targets. In July 2008, the contractor submitted an updated performance monitoring and evaluation plan to USAID/Jordan, which the mission had not approved at the conclusion of the audit work. (See page 5)

Second, the contractor's invoices included questioned costs. According to the contractor, the invoice process allowed instances of duplicate uploads of charges into its accounting system. Consequently, in some instances, the contractor billed USAID/Jordan for duplicate charges. As a result, the audit identified total questioned costs of $41,639. (See page 7)

Third, management controls should be strengthened to improve the accountability and effectiveness of USAID/Jordan's programs. In one instance, the Ministry of Finance rejected project deliverables because the contractor did not coordinate its work with the Ministry staff to determine specific needs or notify mission staff about communication difficulties. (See page 9)

In its response to the draft report, USAID/Jordan has taken corrective action and completed final actions for recommendation no. 1 and is currently assessing and reviewing information in regard to recommendations nos. 2 and 3. (See page 11) Management comments in their entirety are included in appendix II. (See pages 14-15)

# BACKGROUND

Over the past several years, the objective of the Government of Jordan's National Agenda has been to raise living standards over the medium term through accelerated, private sector-led growth and implementation of sound economic and fiscal policies. In addition, the Jordan National Agenda emphasized broadening the tax base to increase revenue collection and establish a central results-oriented budget. Despite a notable growth of the country's gross domestic product by 7.5 percent in 2004, the amount of tax revenues from personal incomes, sales, and corporations as a percentage of overall revenues had not increased.

The Government of Jordan has been active recently in implementing a fiscal reform strategy, mostly focused on improving the efficiency of the tax system. To improve the efficiency and effectiveness of Jordan's fiscal system, USAID/Jordan awarded BearingPoint task order number GEG-I-04-00004-00, a $14 million contract, on May 25, 2006, to provide technical assistance to the Government of Jordan in the area of fiscal policy. The 3-year project included activities in four areas—tax policy, tax administration, budget management, and a public awareness campaign. As of November 30, 2007, USAID/Jordan had obligated $9.3 million and had disbursed $7.0 million for the Fiscal Reform Project.

At USAID/Jordan, the Office of Economic Growth is responsible for the management the Fiscal Reform Project. The office used an indefinite quantity contract, which is an acquisition instrument that was pre-competed and awarded by USAID/Washington. An indefinite quantity contract is a centrally funded mechanism for worldwide use. Using an indefinite quantity contract, USAID/Jordan awarded a task order under the indefinite quantity contract that included technical requirements for its fiscal reform activities.

## AUDIT OBJECTIVE

The audit was conducted as part of the Office of Inspector General's audit plan for fiscal year 2008 to answer the following question:

- Has USAID/Jordan's Fiscal Reform Project achieved planned results and what has been the impact?

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

# AUDIT FINDINGS

At the halfway point of the project as of November 2007, USAID/Jordan's Fiscal Reform Project had achieved planned results in its tax policy and budget management activities and had not achieved planned results in its tax administration and public awareness activities that represent 50 indicators in total. In particular, the mission had not achieved 9 of its 14 tax administration indicators. (See appendix III for the status of individual performance indicators).

Within the tax policy area, the project achieved planned results for 11 of 12 performance indicators. For example, the project established a tax policy unit, and this unit provided recommendations for a new Jordanian tax code to the Director General of the Income and Sales Tax Division and the Minister of Finance within the Government of Jordan. The project also provided training sessions to government staff on various aspects of tax policy analyses.

In the budget management area, the project achieved planned results for 14 of 17 performance indicators. For example, budget management activities produced a results oriented budgeting capacity within the Government of Jordan, consisting of an integrated database of funded investment projects. The project also delivered training programs to about 450 Government of Jordan staff, covering areas such as budget preparation and budget classification. This complimented work to complete chart of accounts structures that were consistent with international best practices. In addition, the project was on track to implement a government financial management information system.

However, the project did not achieve planned results for 9 of 14 tax administration performance indicators. For example, six of the nine indicators were intended to automate portions of the tax collection process, build internal audit capability, and improve customer service. Although the activities include a nationwide customer satisfaction survey to be conducted for three of nine indicators, the contractor and mission officials agreed not to conduct the survey.

Lastly, the project did not achieve planned results for 6 of 7 public awareness performance indicators. The project's performance indicators were designed to primarily measure public contact with the Government's Income and Sales Tax Division, including the number of businesses and other institutions requesting assistance and training; the number of telephone calls received by the Division, and the number of press releases issued to promote public awareness on tax-related issues. For example, the tax administration area of the project included some public awareness activities such as promotions for the 2007 tax filing season and advertising materials that encouraged the payment of income taxes. Although the project developed a strategy for a comprehensive public awareness campaign, the planned implementation of these activities was delayed because the Jordanian Parliament has not passed new tax legislation.

Overall, the impact of the Fiscal Reform Project fell short of expectations at the half-way point of the project; 31 of the planned results or 62 percent have been achieved. On a positive note, the tax policy activities generated a series of analyses for decision-makers within the Government of Jordan, including a synthesis of all tax legislation and tax laws that were in use. Although the project achieved some success, the Government of Jordan has not yet implemented a new comprehensive tax code as recommended by the project. Budget management activities produced a results oriented budgeting capacity for the Government of Jordan for the first time. In addition, all budget activities are now tied to budget classifications. As discussed in the following report sections, the audit identified the following issues requiring USAID/Jordan management attention.

- Performance monitoring and evaluation plan needs updating.
- Questioned costs should be reviewed.
- Management controls should be strengthened.

## Performance Monitoring and Evaluation Plan Needs Updating

Summary: The Jordan Fiscal Reform Project contract required that the performance monitoring and evaluation plan be updated each year. Similarly, Agency guidance requires a mission to monitor implementer output quality and timeliness. Although the contractor prepared its initial performance monitoring and evaluation plan in November 2006, the contractor has not subsequently updated this plan despite changing conditions including key assumptions not being fulfilled, indicators not being completed, and missing baselines and targets. According to the contractor, the delay was due to the late arrival of the contractor's performance monitoring and evaluation consultant in Jordan. Consequently, the contractor and USAID/Jordan did not adjust the project's performance measures to address several challenges to fiscal reform in Jordan.

USAID Automated Directives System (ADS) 202.3.6, states that a mission's cognizant technical officers and the strategic objective team are responsible for the major task of monitoring the quality and timeliness of outputs produced by implementing partners. The guidance also explains that delays in completing outputs, or problems in output quality, provide an early warning that results may not be achieved as planned and that early action in response to such problems is essential in managing for results. Moreover, ADS 202.3.6.3 states that operating units must make adjustments when conditions warrant. In addition to these requirements, the contract required BearingPoint to develop a comprehensive monitoring and evaluation plan to measure program progress and impact.

BearingPoint prepared its initial performance monitoring and evaluation plan in November 2006. However, the contractor has not subsequently updated this plan despite changing conditions, including key assumptions not being fulfilled, indicators not being completed, and missing baselines and targets. In its performance monitoring and evaluation plan, the contractor identified a number of economic, political, and environmental handicaps to performance as critical assumptions to meeting targets. For example, the postponement of implementation of the new unified tax code and its passage into a law by the Jordanian Government prevented full achievement of a planned result for a public awareness campaign. Consequently, the Ministry of Finance has not been able to implement a public awareness campaign in this regard. Moreover, since the mission did not update its performance monitoring and evaluation plan, the indicators by which USAID/Jordan used to measure its performance management would erroneously indicate that it failed to achieve targets previously established in November 2006.

Automated Directives System 203.3.4.5 states that indicators "should include performance baselines and set performance targets that can optimistically but realistically be achieved within the stated timeframe and with the available resources." For example, of the seven performance indicators for public awareness, the contractor and USAID/Jordan had not established baselines for 4 and had not determined targets for 3 performance indicators. Specifically, the performance indicator—"Number of businesses, associations, and institutions which requested assistance and training by the Income and Sales Tax Division"—did not have either a baseline or a target to measure results. Another indicator—"Number of collateral produced to promote public awareness on tax-related issues,"—also did not have either a baseline or a target. After baselines are determined, targets are used to represent the expected level of achievement beyond the baselines within a given period of time. In tandem, baselines and targets should monitor the progress of the project. Although USAID/Jordan had approved the contractor's initial performance monitoring and evaluation plan in November 2006, this plan had never been updated or approved to establish key performance measures that were initially missing.

BearingPoint stated in its June 2007 annual report that the delay in updating the performance monitoring and evaluation plan was attributable to USAID/Jordan's development of a new set of indicators for the mission's operational plan. The August 2007 annual work plan for the second year of operation did not contain an updated performance monitoring and evaluation plan although it was required by the contract. That annual work plan indicated that the update of the performance monitoring plan was deferred until the arrival of a performance monitoring and evaluation specialist, which was scheduled for November 2007. As of January 2008, the contractor had still not updated the performance monitoring and evaluation plan. In February 2008, the contractor proposed a planning session during the spring of 2008 for the update. In July 2008, the contractor submitted a performance monitoring and evaluation plan to USAID/Jordan, which the mission had not yet approved at the conclusion of the audit work.

The updated performance monitoring and evaluation plan for the second year of the project was due in June 2007. However, the contractor had not updated the plan by November 30, 2007. Subsequently, over than a year from the due date, and specifically in July 2008, the contractor issued an updated plan, which the Mission had not approved at the conclusion of the audit work. As a consequence of the delay in updating the performance monitoring plan, the contractor will need to revise indicators and establish missing baselines and targets for the final year of the project. Because the late measuring of progress puts the results of the Jordan Fiscal Reform Project at risk of not being completed as planned and can cause the inefficient use of contract resources, this audit makes the following recommendation to USAID/Jordan.

*Recommendation No. 1: We recommend that USAID/Jordan direct the contractor to update the performance monitoring and evaluation plan on time for the final year of the project in accordance with the terms of the contract.*

## Questioned Costs Should Be Reviewed

Summary: Federal Acquisition Regulation 31.201-2 sets the standards for the allowability of costs for contracts with commercial organizations. The contractor's invoices contained erroneous, unsupported, incomplete, and missing financial data. The audit identified questioned costs of $41,639; of that amount, the contractor has agreed to refund $25,132 to USAID/Jordan. According to the contractor, the BearingPoint invoice process allowed instances of duplicate uploads of charges into their accounting system. Subsequently, during USAID/Jordan's review of the contractor's invoices, the mission staff found a few instances where the contractor revised some of its invoices, but the mission did not identify some duplicate charges. As a result, questioned costs unnecessarily have decreased available resources for other program activities.

Federal Acquisition Regulation 31.201-2 sets the standards for the allowability of costs for contracts with commercial organizations. According to the standards, a cost is allowable only when it complies with all requirements, including reasonableness, allocability, and the terms of the contract. Furthermore, section 31.201-2(d) of the Federal Acquisition Regulation states that "a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported."

Although the contractor's invoices for the period from May 25, 2006, to November 30, 2007, contained erroneous, unsupported, incomplete, and missing financial data, USAID/Jordan paid the contractor for the amounts billed. According to the cognizant technical officer, as of November 2007, the contractor had billed USAID/Jordan using 18 invoices for approximately $7 million for project expenses. The cognizant technical officer reviewed the invoices to determine the propriety of the costs billed to USAID/Jordan. To document the questioned costs, the cognizant technical officer contacted the contractor, either telephonically or in writing, to request clarification or additional supporting documentation about the charges present for mission payment. In most instances, mission staff found the contractor charges to be valid. However, in a few instances, the contractor agreed to revise some of its invoices because of erroneous charges identified by the cognizant technical officer.

In addition to the cognizant technical officer's review of the contractor's invoices, the audit identified additional errors on the invoices that provided inadequate explanations of costs claimed and missing dates for lodging and per diem. Of approximately $618,304 in charges, the audit team identified questioned costs of $41,639, representing approximately 7 percent of a subset of the total of invoices reviewed. As a result of this audit, the contractor has agreed to refund to USAID/Jordan the amount of $25,132 of the $41,639 in identified questioned costs. (See appendix IV for details of the questioned costs.) The $41,639 in questioned costs consisted of the following.

- Duplicate and/or overcharges of travel and transportation costs of $19,110.
- Duplicate and/or overcharges of allowances of $10,675.
- Ineligible labor charges for consultants of $11,855.

According to the contractor, BearingPoint's invoice process allowed instances of duplicate uploads of charges into the accounting system. In some instances, the contractor submitted invoices that contained duplicate project charges to USAID/Jordan. The cognizant technical officer received and reviewed the contractor's invoices monthly as a part of the mission's management review process. After this review, the cognizant technical officer forwarded the approved invoices to the mission's financial management office for a secondary management review and validation before executing payments.

During the audit, the USAID/Jordan cognizant technical officer expressed concerns that the contractor invoices were ambiguous and difficult to understand, but the mission's contracting office staff affirmed that the contractor prepared the invoices in accordance with the reporting requirements of the indefinite quantity contract that was centrally awarded by USAID/Washington. According to the mission's contracting office, USAID/Jordan can not change the clauses that were place in the indefinite quantity contract over the billing process; therefore, the mission was not allowed to require the contractor to modify its billing system. Consequently, the contractor's billing system would be consistent at each USAID mission where it conducts work. Nevertheless, as a result of this audit, a BearingPoint representative stated that the contractor instituted enhanced processes and quality control improvements to avoid duplicate uploads as of January 2008. The contractor reports that these corrective measures include (1) more timely uploads of charges to avoid duplicate entries caused by initiating a corrective (and duplicate) upload when the original billing is not prepared in a timely manner, (2) validation of costs against submitted transactions, and (3) training for project staff to ensure that all uploads and corrections are reviewed and validated. As a result of these corrective measures, the mission cognizant technical officer has noticed significant improvement in the invoices reviewed.

Management control activities associated with USAID programs and operations must be effective and efficient to achieve objectives. These control activities include reviews by management of activities such as approvals, authorizations, verifications, and reconciliations. Each USAID office has a critical role to ensure, among other things, that transactions are allowable, reasonable, and properly supported. Since questioned costs unnecessarily decreased available resources for other program activities, this audit makes the following recommendations to USAID/Jordan:

> *Recommendation No. 2: We recommend that the Contracting Officer, USAID/Jordan, determine the allowability of the ineligible questioned costs of $28,650 of duplicate and/or overcharges for travel, allowances, and labor claimed by the contractor for the period from May 25, 2006, to November 30, 2007, and recover any amounts determined to be unallowable.*
>
> *Recommendation No. 3: We recommend that the Contracting Officer, USAID/Jordan, determine the allowability of the unsupported questioned costs of $12,989 of duplicate and/or overcharges for travel and allowances claimed by the contractor for the period from May 25, 2006, to November 30, 2007, and recover any amounts determined to be unallowable.*

## Management Controls Should Be Strengthened

Summary: Automated Directives System 596, “Management’s Responsibility for Internal Control,” provides policy directives and required procedures to improve accountability and effectiveness of USAID programs. At USAID/Jordan, in one specific instance, fiscal reform activities included specific project deliverables that were rejected by Jordan’s Ministry of Finance. The Ministry rejected the project deliverables because the contractor did not coordinate its work with the Ministry staff to determine specific needs or notify mission staff about communication difficulties. As USAID’s technical representative, the cognizant technical officer shares responsibility in effective project communication. Because of the lack of open and constant communication among stakeholders, USAID/Jordan did not maximize its use of project funds to ensure that its fiscal reform activities were effective and efficient to achieve desired results.

Automated Directives System 596.3.1c requires USAID managers to, among other things, develop internal controls activities that would reasonably ensure that activities are effective and efficient. Such activities include establishment, and reviews of performance measures and indicators, and the proper execution of events.

In July 2004, a joint World Bank/International Monetary Fund mission identified the functions of commitment control and cash management as being major deficiencies which needed to be addressed on a priority basis. In addition, the World Bank emphasized that management and control of expenditure commitments was essential for efficient and effective resource management; for monitoring of budgetary performance of ministries and departments; and for aggregate cash management by the Ministry of Finance.

USAID/Jordan incorporated the commitment control and cash management functions into the BearingPoint contract’s statement of work in May 2006. In part, the contractor was to (1) perform assessments of and make recommendations to Jordan’s Ministry of Finance’s regarding its commitment control and cash management functions, and (2) develop a public awareness campaign that would help to inform the public about impending changes in the tax system to increase compliance rates.

During 2006, after the Ministry requested the assessments of its cash management and commitment control activities, BearingPoint hired a team of two advisors for about three weeks to perform the required assessments. Although the contractor performed assessments and submitted recommendations to the Ministry of Finance, the Ministry rejected the work products because the resulting work did not expand on previously conducted analyses on the cash management and commitment control functions. Although the Ministry rejected the work products, USAID/Jordan paid the contractor $57,538 for these efforts because BearingPoint completed its assigned work and produced an assessment with recommendations, as required.

According to the cognizant technical officer, before the contractor began its work, the Ministry of Finance had conducted and nearly completed assessments of these two functions, but needed technical assistance from BearingPoint. Despite BearingPoint’s unsuccessful attempts to contact Ministry officials for guidance and input, the contractor did not contact the mission staff to report any difficulties with communicating with

Ministry officials.  Ultimately, the contractor performed separate assessments without consulting with the Ministry staff—which were ultimately rejected by Ministry of Finance officials.

As a result of lessons learned, USAID/Jordan began using a formal forum to increase communication and cooperation.  USAID/Jordan's cognizant technical officer acknowledged that Mission staff typically do not "micro-manage" or manage the contractor's daily activities, but often work closely with the contractor and Ministry officials.  Moreover, the BearingPoint Chief of Party also acknowledged that its team had not provided work products desired by the Ministry due to the lack of collaboration the contractor and the Ministry.  In this instance, a communication breakdown occurred that negatively impacted the project.  To ensure open and on-going communication, USAID/Jordan and the Ministry established a steering committee to meet monthly to discuss project activities.  The steering committee includes officials from the Government of Jordan, BearingPoint, and USAID/Jordan.

Since USAID managers are the chief stewards of public resources, officials should reasonably ensure that project objectives are being achieved.  As a consequence, USAID/Jordan resources should be expended on project work products that are of value to the mission and its stakeholders, as well as usable.  Since USAID/Jordan has taken corrective action to establish a steering committee to ensure project management oversight of its ongoing activities, this audit is not making a recommendation at this time.

# EVALUATION OF MANAGEMENT COMMENTS

In its response to the draft report, USAID/Jordan has taken corrective action and completed final actions for recommendation no. 1 and is currently assessing and reviewing information to make management decisions to address recommendations nos. 2 and 3.

In response to recommendation no. 1, USAID/Jordan approved a monitoring and evaluation plan for its fiscal reform project activities in July 2008. Since the revised performance monitoring and evaluation plan covers the project until its completion in May 2009, the Mission's corrective action addresses the recommendation. Based on action taken by the Mission, the audit team considers that both a management decision and final action have been taken for the recommendation.

With regard to recommendations no. 2 and 3, the Automated Directives System 595.3.1.2a requires the Contract/Grant Officer to make a determination of allowability of questioned costs and to establish a target date for collection of the disallowed amounts. Accordingly, after the contracting officer has determined the allowability of the questioned costs, the mission can request our acknowledgement of management decisions.

Mission comments in their entirety are included in appendix II.

# SCOPE AND METHODOLOGY

## Scope

The Regional Inspector General's Office in Cairo, Egypt, conducted this 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 based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The purpose of the audit was to determine whether the USAID/Jordan Fiscal Reform Project achieved planned results and what has been the impact.

On May 25, 2006, USAID/Jordan awarded BearingPoint, Inc., contract number GEG-I-04-0004-00, a $14 million time and materials, level of effort contract, to provide technical assistance to the Government of Jordan to effect fiscal reform in the country's tax policy, budget management, and tax administration. The main recipient of the contractor's technical assistance was the Jordanian Ministry of Finance. The contract covered a 3-year period ending in May 2009. As of November 30, 2007, the USAID/Jordan had obligated $9.3 million and had disbursed $7.0 million for the Fiscal Reform Project.

We conducted our audit work from November 12, 2007, to June 24, 2008, at USAID/Jordan and BearingPoint offices in Amman, Jordan. We interviewed key program staff at the USAID/Jordan mission and BearingPoint as well as officials from the Jordanian Ministry of Finance in Amman. We also reviewed relevant performance and financial documents.

In conducting this audit, we examined the activities listed in the contractor's annual work plan and all 50 corresponding indicators listed in the contractor's performance monitoring and evaluation plan. We obtained information as to whether the program achieved its planned results from the contractor's headquarters in the Washington, DC, area as well as USAID/Jordan's technical office. To assess the project's impact, we interviewed Jordanian government officials, including the Minister of Finance and the Director General of Jordan's Budget Department.

In addition, we examined significant mission management controls relating to the audit objective, including the following:

- Monitoring of performance results by the contractor, including the development of work plans, the reporting of program and financial status in quarterly progress reports, and site visits.
- Performing an annual self assessment of management controls, as required under the Federal Managers' Financial Integrity Act.
- Reviewing of the contractor's monthly invoices for costs incurred.
- Monitoring of the quality of the contractor's work products and levels of effort, including advisors' arrival and departure dates and their progress reports.

There were no prior audits affecting the areas reviewed.

## Methodology

To answer the audit objective, we reviewed activities in the contractor's work plan which described the specific activities that both the contractor and the mission agreed to do under the contract, including timelines showing when individual activities were expected to be completed. We obtained updates of project results from the contractor's headquarters office. We determined whether or not the activities for each of the 50 performance indicators in the contractor's work plan achieved or did not achieve their planned results based on interviews with the Mission's technical staff and documentation provided, including quarterly progress reports.

Specifically, this determination was based on a comparison of actual results with planned results, considering the benefits to the Ministry of Finance, the accomplished compared to that planned level of effort, and input furnished by the USAID/Jordan's cognizant technical officer and the Ministry of Finance. To determine the impact of the project, we extensively interviewed officials from USAID/Jordan Mission, and the contractor, as well as the Jordanian Ministry of Finance and Budget Department.

With regard to questioned costs, we reviewed the contract, the memorandum of negotiation, and the monthly invoices from June 2006 to November 2007. We tested incurred costs of $618,304 paid by the contractor for labor, travel, and allowances for selected short-term advisors. Our selection of costs to test was based on an assessment of risk, due to limited audit review time. We questioned $41,639, approximately 7 percent of the total.

For evaluating project results, the materiality threshold was established at 10 percent. In other words, if 90 percent of more of the activities reviewed were determined to have achieved the planned results as of November 30, 2007, we would have determined that USAID/Jordan's Fiscal Reform Project achieved planned results as stated in the audit objective.

# MANAGEMENT COMMENTS

**DATE**: November 20, 2008

**TO**: Lloyd J. Miller, Regional Inspector General/Cairo

**FROM**: Jay Knott, Director USAID/Jordan /s/

**SUBJECT**: Audit of USAID/Jordan's Fiscal Reform Project
(Report No. 6-278-08-00X-P)

Thank you for providing the Mission the opportunity to review the subject draft audit report. We are providing confirmation of the actions that have been taken or are planned to be taken to address the three audit recommendations.

The auditors arrived at their results because they were testing against the outdated project performance monitoring and evaluation indicators which the project had not updated to measure what was actually achieved on the ground. For many of these indicators, baselines and targets were not established. As written, the finding gives the erroneous impression that results in some activity areas were not satisfactory. In reality, the problem was with the performance indicators, not with the activities. The Project goals and expected results set out in the project's workplans in the different areas have been successfully attained and are now properly measured in the updated PME.

**MISSION RESPONSES TO AUDIT RECOMMENDATIONS**

**Recommendation No. 1: We recommend that USAID/Jordan direct the contractor to update the performance monitoring and evaluation plan on time for the final year of the project in accordance with the terms of the contract.**

**Action Taken:**

In March 2008, a draft performance monitoring and evaluation plan (PME) was prepared by the Contractor. This draft Plan was approved by USAID and provided to RIG/Cairo in July of 2008. The updated PME is the final PME as it covers the project until its completion in May 2009.

Based on the actions taken by the Mission, we request the recommendation be closed upon issuance of the report.

**Recommendation No. 2: We recommend that the contracting officer, USAID/Jordan, determine the allowability of the ineligible questioned costs of $28,650 of duplicate and/or overcharges for travel, allowances, and labor claimed by the contractor for the period from May 25, 2006, to November 30, 2007, and recover any amounts determined to be unallowable.**

**Planned Action:**

Of the total amount of $41,639 identified by the audit as questioned costs (found in both recommendations nos. 2 and 3), the contractor has agreed with and re-imbursed a total of $23,323 as of August, 2008. For the remaining balance of $18,316, which the contractor does not agree, the Contracting Officer will determine the allowability of the questioned cost by December 15, 2008.

**Recommendation No. 3: We recommend that the Contracting Officer, USAID/Jordan, determine the allowability of the unsupported questioned costs of $12,989 of duplicate and/or overcharges for travel and allowances claimed by the contractor for the period from May 25, 2006, to November 30, 2007, and recover any amounts determined to be unallowable.**

**Planned Action:**

Of the total amount of $41,639 identified by the audit as questioned costs (found in both recommendations nos. 2 and 3), the contractor has agreed with and re-imbursed a total of $23,323 as of August, 2008. For the remaining balance of $18,316, which the contractor does not agree, the Contracting Officer will determine the allowability of the questioned cost by December 15, 2008.

## Achieved and Planned Results of USAID/Jordan's Fiscal Reform Project as of November 2007

| | Performance Indicator | Achieved[1] | Not Achieved |
|---|---|---|---|
| | **Tax Policy** | | |
| 1 | Maximum spread in statutory rates applicable to Corporate Income Tax taxpayers as defined by economic sector | | X |
| 2 | Shares of direct vs. indirect tax revenues in total tax revenue | X | |
| 3 | Ratio of PIT[2] revenues to Gross Domestic Product (GDP)[3] after normalization for any changes in rates | X | |
| 4 | Ratio of CIT[4] to GDP after normalization for any changes in rates | X | |
| 5 | Ratio of Sales Tax to GDP after normalization for any changes in rates | X | |
| 6 | Unified law containing all provisions affecting tax liability presented – yes or no | X | |
| 7 | Recommendations presented on the harmonization of the tax administration procedures code – yes or no | X | |
| 8 | Recommendations presented on unified tax administration procedures code – yes or no | X | |
| 9 | Milestone indicator for establishing Tax Policy Unit | X | |
| 10 | Score from training application and value matrix | X | |
| 11 | Number of reports developed by the Tax Policy Unit and submitted to either the Minister or the public | X | |
| 12 | Number of macro and micro simulation models, statistical, and forecasting tools utilized by Tax Policy Unit | X | |
| | **Tax Administration:** | | |
| 13 | Number of steps necessary to process taxpayer payment | X | |
| 14 | Number of days necessary to process taxpayer payment | X | |

[1] The audit team concluded that an activity achieved the planned results if results exceeded expectations; met expectations, or were on track to achieve the planned results.
[2] Private Income Tax
[3] Gross Domestic Products
[4] Corporate Income Tax

| | Performance Indicator | Achieved[1] | Not Achieved |
|---|---|---|---|
| 15 | Number of steps necessary to process enforced collection case to resolution | | X |
| 16 | Number of days necessary to process enforced collection case to resolution | | X |
| 17 | Number of manual steps necessary to assign a case to audit and schedule an audit appointment | X | |
| 18 | Scorecard on automation of post-audit reporting process | X | |
| 19 | Scorecard on effectiveness of Internal Audit function | X | |
| 20 | Level of public perception of integrity of Income and Sales Tax Department (ISTD) | | X |
| 21 | Number of program audits performed | | X |
| 22 | Number of program/process adjustments/findings proposed | | X |
| 23 | Level of management awareness on internal audit function | | X |
| 24 | Level of customer satisfaction with interactions with ISTD | | X |
| 25 | Number of procedures for a customer to interact with Taxpayer Service Department | | X |
| 26 | Level of taxpayers' satisfaction | | X |
| | **Budget Management** | | |
| 27 | Degree of compliance of the new budget classification structure and chart of accounts with GFS2001[5] standards | X | |
| 28 | Number of extra-budgetary funds | | X |
| 29 | Reduced Number of Late Payments to Contractors Due to Cash Shortages | | X |
| 30 | Percentage of a ministry expenditure expressed in programmatic terms (as opposed to line-item terms) in the pilot ministries | X | |
| 31 | Percentage of treasury/budget-funded investment projects included in the database | X | |
| 32 | Percentage of the new projects in the database subjected to cost-benefit analysis | X | |
| 33 | Number of people trained who pass post-training evaluation | | X |
| 34 | Level of satisfaction of the end users with user-friendliness of the database | X | |

[5] Government Financial Statistical Manual 2001

| | Performance Indicator | Achieved[1] | Not Achieved |
|---|---|---|---|
| 35 | Percentage of new projects presented for budget decision-making that include cost-benefit analysis or other project evaluation techniques | X | |
| 36 | Degree to which National Agenda priorities are reflected in the budget (percentage of projects presented for budget decision- making that includes specific reference for the National Agenda) | X | |
| 37 | Budget is based on Government Financial Management Information System (GFMIS)-generated budget data – yes or no | X | |
| 38 | Capital budget database provides updated and accurate information – yes or no | X | |
| 39 | Budget decisions are presented in programmatic terms – yes or no | X | |
| 40 | Milestone scale for GFMIS implementation | X | |
| 41 | Milestone scale for amendment of budget law | X | |
| 42 | Scorecard assessing the new law against the requirements | X | |
| 43 | Compatibility and/or linkages with the other three laws that govern the financial management of the government will be assessed | X | |
| | **Public Awareness** | | |
| 44 | Number of briefings between the Minister of Finance and the members of the Parliament | | X |
| 45 | Scores on Press Releases issued by the counterparts which reflect the process/information flow, weighted by Clipping Quality Reporting scheme | X | |
| 46 | Number of businesses, associations, and institutions that requested assistance and training by ISTD | | X |
| 47 | Number of calls received by ISTD Call Centers and visits to Customer Care Centers | | X |
| 48 | Number of collateral pieces produced to promote public awareness on of tax-related issues | | X |
| 49 | Number of channels used to promote public awareness of tax compliance | | X |
| 50 | Level of public awareness of benefits of tax compliance | | X |
| | **Total** | **31** | **19** |

| Summary of Contractor Questioned Costs<br>For the Period From May 25, 2006, to November 30, 2007 | | | | | | |
|---|---|---|---|---|---|---|
| # | Cost Type | Invoice Date | Amount | | Description | Total |
| | | | Ineligible | Unsupported | | |
| | **Travel and Transportation** | | | | | |
| 1 | | Jul-06 | $7.35 | | Unsupported Lodging Charges | |
| 2 | | Nov-06 | | $1,218.00 | Unsupported Per Diem and Meals | |
| 3 | | Jan-07 | $1,727.46 | | Ineligible Airline Fare | |
| 4 | | Jan-07 | $5,378.84 | | Ineligible Airline Fare | |
| 5 | | Mar-07 | | $194.47 | Unsupported Lodging Charge | |
| 6 | | Jun-07 | $1,941.90 | | Ineligible Lodging Charges | |
| 7 | | Jun-07 | $2,038.41 | | Ineligible Airline Fare | |
| 8 | | Sep-07 | $2,016.00 | | Ineligible Airline Fare | |
| 9 | | Sep-07 | $2,195.39 | | Ineligible Airline Fare | |
| 10 | | Nov-07 | | $2,391.72 | Unsupported Lodging Charges | |
| | **Subtotal** | | **$15,305.35** | **$3,804.19** | | **$19,109.54** |
| | **Allowances** | | | | | |
| 11 | | Sep-06 | $637.20 | | Danger Pay Overcharge | |
| 12 | | Oct-06 | $175.38 | | Danger Pay Overcharge | |
| 13 | | Oct-06 | $576.92 | | Danger Pay Overcharge | |
| 14 | | Oct-06 | $437.00 | | Danger Pay Overcharge | |
| 15 | | Oct-06 | $230.77 | | Danger Pay Overcharge | |

## Summary of Contractor Questioned Costs
## For the Period From May 25, 2006, to November 30, 2007

| # | Cost Type | Invoice Date | Amount | | Description | Total |
|---|---|---|---|---|---|---|
| | | | Ineligible | Unsupported | | |
| 16 | | Oct-06 | $618.75 | | Danger Pay Overcharge | |
| 17 | | Nov-06 | $754.61 | | Duplicate Danger Pay | |
| 18 | | Nov-06 | $251.54 | | Duplicate Post Differential | |
| 19 | | Nov-06 | $140.83 | | Duplicate Post Allowance | |
| 20 | | Dec-06 | $140.83 | | Duplicate Post Allowance | |
| 21 | | Jan-07 | $157.92 | | Duplicate Post Allowance | |
| 22 | | Jan-06 | $140.83 | | Duplicate Post Allowance | |
| 23 | | Jan-07 | $140.83 | | Duplicate Post Allowance | |
| 24 | | Jan-07 | $140.83 | | Duplicate Post Allowance | |
| 25 | | Jan-07 | $441.00 | | Danger Pay Overcharge | |
| 26 | | Jan-07 | $888.41 | | Duplicate Danger Pay | |
| 27 | | Jan-07 | $157.92 | | Duplicate Post Differential | |
| 28 | | Jan-07 | $888.41 | | Duplicate Danger Pay | |
| 29 | | Jan-07 | $157.92 | | Duplicate Post Differential | |
| 30 | | Jan-07 | $157.92 | | Duplicate Post Allowance | |
| 31 | | Jan-07 | $157.92 | | Duplicate Post Allowance | |
| 32 | | Jan-07 | $157.92 | | Duplicate Post Allowance | |
| 33 | | Jan-07 | $151.25 | | Duplicate Post Allowance | |

| Summary of Contractor Questioned Costs<br>For the Period From May 25, 2006, to November 30, 2007 | | | | | | |
|---|---|---|---|---|---|---|
| # | Cost Type | Invoice Date | Amount | | Description | Total |
| | | | Ineligible | Unsupported | | |
| 34 | | Jan-07 | $151.25 | | Duplicate Post Allowance | |
| 35 | | Mar-07 | $140.83 | | Duplicate Post Allowance | |
| 36 | | Mar-07 | $796.14 | | Duplicate Danger Pay | |
| 37 | | Mar-07 | $265.38 | | Duplicate Post Differential | |
| 38 | | Apr-07 | $1,147.45 | | Duplicate Lodging Charge | |
| 39 | | Apr-07 | $89.90 | | Ineligible Shipping Charges | |
| 40 | | Jul-07 | $100.92 | | Duplicate Post Allowance | |
| 41 | | Aug-07 | $50.46 | | Post Allowance Overcharge | |
| 42 | | Sep-07 | $85.57 | | Danger Pay Overcharge | |
| 43 | | Sep-07 | $86.19 | | Duplicate Post Allowance | |
| 44 | | Nov-07 | $57.67 | | Duplicate Post Allowance | |
| | **Subtotal** | | **$10,674.67** | | | **$10,674.67** |
| | **Labor** | | | | | |
| 45 | | Jun-07 | | $9,184.80 | Ineligible Labor Charge | |
| 46 | | Jun-07 | $2,670.00 | | Ineligible Labor Charge | |
| | **Subtotal** | | **$2,670.00** | **$9,184.80** | | **$11,854.80** |
| | **Total Questioned Amount** | | **$28,650.02** | **$12,988.99** | | **$41,639.01** |

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