



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/IRAQ'S ECONOMIC GOVERNANCE II PROGRAM

AUDIT REPORT NO. E-267-09-004-P
June 3, 2009

BAGHDAD, IRAQ



Office of Inspector General

June 3, 2009

MEMORANDUM

TO: USAID/Iraq Acting Mission Director, Thomas R. Delaney

FROM: Acting Director, Office of Inspector General/Iraq, Mark S. Norman /s/

SUBJECT: Audit of USAID/Iraq's Economic Governance II Program
(Audit Report No. E-267-09-004-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments on the draft report and modified the report language as appropriate. Your comments are included in their entirety as appendix II.

The report contains 12 recommendations for corrective action. On the basis of your written comments, in which you described actions planned and already taken to address our concerns, we consider that final action has been taken on recommendations 1, 2, 3, 5, 6, 7, 9, 10, 11, and 12, and a management decision has been reached on recommendations 4 and 8.

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

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SUMMARY OF RESULTS

USAID/Iraq's Economic Governance II (EGII) Program, begun in September 2004, was designed to provide technical assistance to the Government of Iraq to develop and enable economic reforms through policy, regulations, laws, and institutional structures that would foster a competitive private sector. To implement the program, USAID/Iraq awarded a \$223 million¹ contract to BearingPoint, Inc. (the contractor), to develop and implement international best-practice techniques that would improve Iraq's economic governance and promote an environment for growth led by the private sector (page 3).

However, after 4 years the program has not been successful in providing the foundation for an open, modern, mixed-market economy, and it has not made a significant impact upon the economic environment in Iraq. Further, although the program provided a great deal of technical assistance, we could not find any direct or indirect linkages between the contractor's deliverables and improvements in the seven functional areas upon which the program was expected to make an impact (page 4).

The EGII Program aimed to improve seven key economic areas through the accomplishment of 398 individual tasks. However, USAID officials did not establish a systematic mechanism to monitor the myriad tasks and thus could not track whether the tasks had been performed, were on schedule, or were behind schedule. Without such knowledge, the mission was unable to manage the contract effectively or measure improvements in the seven functional areas in which the EGII Program was meant to have the greatest effect. Consequently, in September 2008, after 4 years and \$192 million in incurred costs, fewer than half of the originally planned 398 tasks had been performed. In addition, implementation of a major information system (the Iraq Financial Management Information System) was behind schedule, and the system was not yet fully operational (page 4).

Several factors contributed to the mission's lack of oversight of the economic governance contract, including a high turnover of contracting officer's technical representatives (COTR), who had been assigned to monitor the contract, and problems with the contract itself. For example, the contract did not include a monitoring and evaluation clause to measure the program's results or any requirement to report progress periodically. Such performance measures would have allowed the COTR to better monitor the program's progress and completion of the contract deliverables (page 4).

In addition to identifying the program's oversight problems, the audit found other areas for improvement. The program needs to conduct mandatory, program-funded information technology reviews; reduce BearingPoint's subcontract approval level; implement controls over nonexpendable property; ensure that COTRs maintain better work files; and include an antiterrorism provision in two of BearingPoint's subawards. The report contains 12 recommendations to address the identified findings (pages 5–17).

¹ A contract modification, signed September 30, 2008, between USAID/Iraq and BearingPoint, reduced the contract ceiling by \$1,707,314 to \$223,292,653.

In response to our draft report, USAID/Iraq concurred with each of the 12 recommendations and provided documentation to support the final actions taken to address 10 of the recommendations. In addition, the mission described actions to be taken to address the remaining two recommendations. On the basis of the mission's comments and the supporting documentation provided, we consider that final action has occurred on recommendations 1, 2, 3, 5, 6, 7, 9, 10, 11, and 12, and a management decision has been made to address recommendations 4 and 8 (page 18).

Management comments are included in their entirety in appendix II.

BACKGROUND

The Economic Governance II (EGII) Program is the successor to the Economic Reform Program. The purpose of the program was to provide technical assistance to help Iraq overcome problems in its legal, fiscal, institutional, and regulatory frameworks and functions that impede private investment and trade.

To implement the program, USAID/Iraq awarded a \$223 million contract to BearingPoint, Inc. (the contractor), on September 3, 2004. The 5-year contract included two \$20 million, 1-year option periods, which were simultaneously exercised on June 21, 2007. They extended the contract for 2 additional years to September 2, 2009.

Under the contract, BearingPoint was expected to develop and implement international best-practice techniques that would improve economic governance and encourage growth in the private sector. The contractor would work with USAID, other U.S. and Coalition entities, and Iraqi institutions to build a foundation for an open, modern, mixed-market economy. The program comprised seven target areas:

- Tax, fiscal, and customs reform
- Central Bank of Iraq capacity building
- Banking sector development
- Commercial law and institutional reform
- Utilities and regulatory reform
- Social services and pension reform
- General policy implementation

To achieve these ambitious goals, the program's implementing contract was broad, multifaceted, and complex. BearingPoint was expected to accomplish 398 tasks within the contract. As of December 16, 2008, USAID/Iraq had disbursed \$195 million of the \$223 million obligated.

AUDIT OBJECTIVE

As part of the fiscal year 2008 annual audit plan, the Office of Inspector General/Baghdad conducted this audit to answer the following question:

- Is USAID/Iraq's Economic Governance II Program achieving intended results, and what impact has the program made?

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

AUDIT FINDINGS

USAID/Iraq's Economic Governance II (EGII) Program has not been successful in achieving its intended results—to help provide the foundation for an open, modern, mixed-market economy—and it has not made a significant impact upon the economic environment in Iraq. Although the program provided a great deal of technical assistance, we could not find any direct or indirect linkages between the contractor's deliverables and improvements in the seven areas that the EGII Program was expected to affect.

When the program started in September 2004, it focused on improving seven key economic areas through the accomplishment of 398 individual tasks. However, USAID officials did not establish a systematic mechanism to monitor the myriad tasks and did not track the tasks to determine whether they had been performed, were on schedule, or were behind schedule. Without such knowledge, the mission was unable to manage the contract effectively or measure the program's expected improvements in the seven areas. Consequently, in September 2008, after 4 years and \$192 million in incurred costs, fewer than half of the originally planned 398 tasks had been performed. In addition, implementation of a major information system (the Iraq Financial Management Information System) was behind schedule, and the system was not yet fully operational.²

Mission and contractor officials said that progress was made on some of the contract's original 398 tasks. These included:

- Developing tax reform recommendations for the Iraqi Ministry of Finance.
- Reviewing and upgrading procedural and operations manuals for loans for the Central Bank of Iraq.
- Preparing monetary policy reports for senior officials at the Central Bank of Iraq.
- Developing strategies for assessing nonperforming loan portfolios for Iraqi state-owned banks.
- Performing commercial law and institutional reform assessments to benchmark the status of the commercial law regime for the Iraqi Government.
- Creating a Web site containing laws and legal reform agendas, as well as a monthly newsletter.

However, our review of a sample of 27 completed tasks found that only one task had sufficient documentation to demonstrate that the task had been completed. We could not conclude that the other tasks had been completed, because plans for each task were not always clearly written and because the mission could not always provide supporting documentation.

Several factors contributed to the mission's lack of oversight of the economic governance contract, including a high turnover of contracting officer's technical representatives (COTRs), who were assigned to monitor the contract, and problems with the contract itself. For example, the contract did not include a monitoring and evaluation clause to measure the program's performance results or a requirement for periodic reporting that would have allowed the COTR to better monitor the program's progress

² See appendix III for the status of ongoing contract tasks.

and the contractor's work. Despite these weaknesses, USAID/Iraq simultaneously exercised two 1-year option periods with its implementing contractor for \$40 million in June 2007.

To address identified weaknesses and to improve USAID/Iraq's oversight of the EGII Program, the mission should perform the following:

- Strengthen program monitoring and management.
- Ensure that mandatory program-funded information technology reviews are conducted.
- Reduce the subcontract approval level.
- Implement controls over nonexpendable property.
- Require periodic reports on progress.
- Ensure that COTRs maintain work files documenting contract oversight.
- Ensure that antiterrorism provisions are included in two subawards.

These issues are discussed further in the following sections.

Program Monitoring and Management Should Be Strengthened

Summary: To monitor and assess a program's performance, USAID's Automated Directives System requires a systematic process to report on progress toward the achievement of results and targets. However, the Economic Governance II Program did not have a systematic mechanism to collect, record, track, or analyze contract deliverables and tasks until a performance management plan was developed in 2007. USAID/Iraq did not track and record the receipt of contract deliverables because the mission officials were aware of the status of each task. However, mere knowledge of the status of deliverables does not provide an indication of progress (or lack thereof) toward achieving the intended outcomes. Consequently, during the last year of the contract, the program's objectives were significantly curtailed to fewer tasks and even earlier termination of programs.

One of USAID's five core values, "Managing for Results," focuses on improving USAID's overall performance. To instill this value in each USAID program, USAID's Automated Directives System (ADS) includes three chapters that discuss how to manage for results. Specifically, ADS 201—"Planning," ADS 202—"Achieving," and ADS 203—"Assessing and Learning" seek to define and organize work around the end result that USAID programs seek to accomplish.

Despite the importance placed on managing USAID's activities to attain effective results, USAID/Iraq (1) maintained no systematic process for monitoring EGII Program deliverables and tasks, (2) lacked an effective performance management plan (PMP) to track the program's achieved results, (3) did not develop relevant performance indicators to measure the program's activity, and (4) neglected available assistance to better manage the program's performance and PMP. These issues are described below.

No systematic process to monitor contract tasks. ADS 200.6 defines “performance management” as:

- The systematic process of monitoring the results of activities.
- Collecting and analyzing performance information to track progress toward planned results.
- Using performance information to influence program decisionmaking and resource allocation.
- Communicating results achieved, or not attained, to advance organizational learning and tell the Agency’s story.

The program’s original statement of work contained 398 tasks to assist and improve the economic governance environment in Iraq. Some of the tasks required the contractor to produce reports, assessments, or other deliverables; implement programs, systems, and Web sites; develop curriculum and conduct training sessions; and create baselines and surveys to be used for statistical analysis. Because the contract contained so many tasks, a systematic performance management and monitoring process should have been developed for collecting, analyzing, recording, and reporting performance information to track the intended contract tasks. This process could have included a document as simple as, but not limited to, a spreadsheet to track the status of tasks and the receipt of deliverables or other corroborating support to document the tasks’ status. However, the program’s contracting officer’s technical representatives (COTRs) did not implement such a continuous internal mechanism to monitor the contract’s tasks and deliverables.

Before the adoption of the program’s PMP in 2007, little documentation existed to illustrate how the mission was monitoring the program. According to the program’s former COTR, records were not kept, except for some e-mails, because he knew the details of each task. Additionally, the COTR stated that the monitoring process included communications with contractor personnel to discuss the activities. Moreover, the official said that contract tasks were verified through weekly and monthly reports rather than formal performance measurement documentation. However, because of rapid staff turnover and because no one sufficiently documented the performance of all 398 tasks in the contract, the mission could not determine whether tasks under the \$223 million contract had been completed, were behind schedule, or were on track.

No effective performance management plan in place. To manage the process of assessing and reporting progress toward achieving a strategic objective, it is mandatory that USAID’s operating units prepare a complete PMP. Specifically, ADS 203.3.4.2 states that all awards have defined result indicators that are updated with new performance information as programs develop and evolve. The directive also states that performance indicators should be directly related to the activity and closely track the results they are intended to measure and that performance indicators selected for inclusion in the PMP should measure changes that are clearly and reasonably attributable to USAID efforts. To be effective for management decisionmaking, the ADS suggests that one way to assess attribution is to ask, “If there had been no USAID activity, would the measured change have been different?”

Although a PMP should have been developed, the program and implementing contractor operated without one until September 2007—3 years after the contract was awarded.

This occurred primarily because the requirement to have a PMP was not included in the EGII Program contract. In June 2008—9 months after a PMP was adopted—USAID/Iraq officially modified the contract to require a monitoring and evaluation plan with performance indicators for tracking quarterly and annual progress. Although a PMP was finally completed, it was not the relevant and reliable management tool that it was intended to be.

Most performance indicators not relevant or attributable to program activities.

The third-quarter 2008 performance indicator data table reported on 41 performance indicators. However, the contractor reported “not applicable” for 23 of the quarterly indicator results—more than half of the program’s indicators. Of these 23 indicators, 19 were a repeated “n/a” from the previous quarter. Program officials and the performance indicator data table indicated that 17 indicators were either inactive or suspended—representing 41 percent of the indicators—with 10 inactive for more than a year. An inquiry into these inactive performance indicators revealed that six of eight intermediate result areas contained indicators that did not appear to be or were no longer reasonably attributable to the program’s activities.

Other performance indicators also did not measure activities attributable to the EGII Program or were not well defined. For example, the indicator “CBI Policy Interest Rate as a Monetary Policy Tool” was not reasonably attributable to the program’s activities. Similarly, the performance indicator “Number of Businesses Registered” did not measure only those businesses attributable to the program’s activities. Furthermore, confusion arose from definitions of performance indicators that were different in the contract from those reported on, so that indicators and results had to be clarified or redefined with footnotes. According to ADS 203.3.4.2, indicators should report data that are clearly attributable to program activities.

Performance monitoring assistance not used efficiently and effectively.

USAID/Iraq’s Program Office staff includes a performance management specialist to assist technical offices with developing, monitoring, reviewing, and evaluating a program’s performance. The Program Office started the monitoring and evaluation performance program in 2003 to address the unique constraints and challenges that COTRs encounter when they monitor program activities in Iraq’s fluid environment. However, the EGII Program did not use this resource to the benefit of the program or as a tool for facilitating field monitoring. For example, since the Program Office initiated the need for the program to develop a PMP in 2007, the timeliness and quality of the program’s indicators have suffered from a lack of attention—as demonstrated by the many irrelevant performance indicators mentioned above—and the PMP’s usefulness as a management tool has decreased.

Although COTRs are responsible for monitoring program performance, little documentation exists that the COTR monitored the program’s PMP, verified data reported on the performance data table, or requested available assistance. Rather than applying these prescribed monitoring practices, the COTR relied on informal communication—in meetings or by telephone or e-mail—with contractor personnel to discuss the activities. The COTR stated that reporting on the many tasks was difficult because the program was so large, expansive, and technical. The COTR monitored the contract tasks through weekly and monthly reports rather than formal performance documentation. Another program official stressed that managing the program and

reporting on administrative tasks were complicated by the lack of resources and personnel.

The lack of program monitoring and performance management is an implied cause for the September 2008 modification that significantly reduced the contract's original statement of work. With a properly functioning PMP and appropriate performance indicators, problems would have been identified earlier and the contract modified sooner to better ensure the completion of the remaining tasks.

In summary, USAID/Iraq needs to improve its monitoring of the EGII Program activities. The mission should develop a systematic monitoring process, and it should review the program's PMP indicators in response to changes in the program's activities and in the current operating environment. Such performance indicators should comply with ADS 203—including being reasonably attributable to USAID activities—in order to manage for results and provide credible reporting. Without clearly defined indicators, the mission will not be able to measure program progress and achievements accurately. Consequently, we are making the following recommendations:

Recommendation No. 1: *We recommend that USAID/Iraq develop a systematic monitoring process for the Economic Governance II Program to collect, record, organize, and track the status of each task required by the contract, or its modification, within 30 days from the issuance of this report.*

Recommendation No. 2: *We recommend that USAID/Iraq review and revise the Economic Governance II Program performance indicators listed in its performance management plan to ensure that they are reasonably attributable to USAID activities, in accordance with USAID's Automated Directives System 203.3.4.2.*

Mandatory Program-Funded Information Technology Reviews Should Be Conducted

Summary: USAID's Automated Directives System 548 specifies that any program-funded activity with an information technology component of \$100,000 or more needs to be submitted for review and approval. Despite this requirement, USAID/Iraq's Economic Governance II Program did not consistently submit information technology components above the review threshold for approval. Program and mission officials believed that Iraq's relatively short assignment tours, rapid employee turnover, and ignorance of the directive were contributing factors. Consequently, we estimated that \$12 million to \$40 million of program-funded information technology projects were not reviewed or approved and are at high risk.

USAID's Automated Directives System (ADS) 548.3 mandates that before program-funded activities with an information technology (IT) component of \$100,000 or more over the full IT project life cycle³ are implemented, project proposals must be submitted to USAID for an independent verification and validation (IV&V) review and approval. Furthermore, an ADS 548 template provided by USAID's Office of Chief Information Officer/Business, Consulting, and Customer Service Division (CIO/BCCS) states that all IT-related procurements, application system scopes of work, training programs, contractor proposals, IT needs assessments, hardware/software specifications, software development, and IT-related services (e.g., installation, maintenance, and technical assistance) must be submitted to CIO/BCCS for review and approval.

Although the ADS requirement is meant to ensure that USAID projects adhere to the Clinger-Cohen Act,⁴ the Agency's IV&V process is a reliable technique to increase the efficiency and effectiveness of a project's IT components and deliver a faster, cheaper, and more sustainable development project. The Agency's requirements also aim to lessen the burdens faced by USAID program managers, such as the time and budget pressures associated with highly technical projects and the limited resources available to assist them with these challenges, ensuring the best return for the investment.

To conduct a full IT review before finalizing IT system specifications and expending funds, BCCS requires program managers to submit the following information, as applicable:

- Description of the project IT component
- Goals and objectives of the IT component
- Summary of IT needs assessment
- Description of the host country institution IT infrastructure
- Discussion of primary applications, system design concept, and system implementation plan
- List of IT system specifications, including hardware and software architecture

³ Full IT life-cycle costs include all direct and indirect costs for planning, procuring, operating and maintaining, and disposing of the IT components.

⁴ Public Law 104-106, Division E ("Clinger-Cohen Act").

- Results of any studies recommending specific IT tools or platforms
- Maintenance and support plans for the system
- Relevant system cost information, including breakdowns for major components
- Measurable success factors or outcomes to assess IT transfer objective

ADS 548.3.2.1 also suggests that program managers contact ADS-548Review@usaid.gov to conduct an early review of a project's planning process for IT procurements to ensure that the necessary aspects of an IT project are included in the plan. This step, conducted before the IV&V review, seeks to provide valuable insight and information from enterprise, technical, and project levels that could save project time and money in the long term.

Despite the requirements stated above, USAID/Iraq did not follow Agency guidance consistently for submitting program-funded IT projects of \$100,000 or more to USAID's BCCS. The ADS 548 project review log, maintained by BCCS, reports USAID program-funded IT projects that have undergone an IV&V review and have been approved. A review of the project log identified nine program-funded IT projects, worth \$6.3 million, that were approved by BCCS. However, as discussed below, millions of dollars more were spent on EGII Program-funded IT projects that were not reviewed or approved.

USAID/Iraq's implementing contractor accumulated costs on a functional-area basis aligned with its contract and did not have a method to capture IT project costs by each activity. Consequently, the contractor could not quantify the actual amount of the program's IT purchases. However, the contractor estimated its IT project-related costs to be \$18.1 million—leaving \$11.8 million not appropriately reviewed or approved as required by ADS 548.

USAID/Iraq's accounting system also does not capture and accumulate each contractor expense by activity. Therefore, only relevant obligation data could be used to estimate the potential IT procurement costs that were not submitted for IV&V review. In an effort to estimate the amount of IT purchases, we used program obligation data to identify \$46.3 million that had been obligated to three comprehensive IT development projects.⁵ We compared this amount with the \$6.3 million that was submitted to BCCS. Using this methodology to calculate the amount of IT purchases not reviewed or approved by USAID's BCCS, we estimated the value of the IT purchases to be \$40 million.

⁵ According to contract modification no. 22, signed September 30, 2008, the three projects are the Iraq Financial Management Information System, Central Bank of Iraq, and Social Safety Net/Pension Reform. The obligation amount excludes project management, security, and fixed-fee award apportioned costs.

Estimated Incurred Costs and Amounts Obligated for Economic Governance II Program-Funded IT Projects and the Amount That Received Mandatory IV&V Review and Approval

Development project	Contractor's estimated incurred costs for program-funded IT procurements of \$100,000 or more	Amount obligated by USAID/Iraq for three program-funded IT procurements
Total amount	\$18.1 million	\$46.3 million
Accumulated value of the nine EGII Program activities reviewed and approved by USAID's BCCS (Source: ADS 548 Project Review Log)	\$6.3 million	\$6.3 million
Potential program costs not reviewed or approved by USAID's BCCS before being implemented	\$11.8 million	\$40.0 million

Moreover, records from BCCS showed that the program had no IT project approvals from January through December 2008, even though four of the five remaining projects under the EGII Program are IT development projects. The records also showed no approval for \$19 million obligated by the mission for the Iraq Financial Management Information System.

Although we could not quantify the exact amount of IT purchases that were not reviewed or approved as required by the BCCS, we determined that the amount is significant (\$12 million to \$40 million).

The contractor's own procurement policy for IT systems states that IT procurements of \$100,000 or more must be presented to USAID for approval, but we could not corroborate why the contractor did not consistently adhere to this policy. However, program and mission officials believed that Iraq's relatively short assignment tours, rapid employee turnover, and ignorance of the directive were contributing factors.

If USAID/Iraq had complied with ADS 548, it might have avoided paying approximately \$149,000 for a supplemental technical review of the information system. The mission ordered the review in response to an audit recommendation by the Special Inspector General for Iraq.⁶ The audit recommended that the mission conduct an independent, third-party assessment of the system to assess the Government of Iraq's management and system requirements and its capabilities to implement the system successfully. Many of the same assessment procedures would have taken place during the USAID/BCCS IV&V review process.

Without the benefit of USAID's BCCS review and approval of program-funded IT procurements, the usefulness and sustainability of the IT projects being implemented

⁶ Office of the Special Inspector General for Iraq Reconstruction, "Interim Report on Efforts and Further Actions Needed to Implement a Financial Management Information System in Iraq" (Audit Report No. SIGIR-08-001, October 24, 2007).

under the EGII Program and the related achievement of USAID/Iraq's economic governance goals are at significant risk. To address this concern, we are making the following recommendations:

Recommendation No. 3: *We recommend that USAID/Iraq request that the contractor prepare a schedule of all program-funded information technology projects in accordance with USAID's Automated Directives System 548.3.*

Recommendation No. 4: *We recommend that USAID/Iraq review all technology projects and submit those with a minimum cost of \$100,000 to USAID's Office of Chief Information Officer/Business, Consulting, and Customer Service Division for approval.*

Recommendation No. 5: *We recommend that USAID/Iraq modify the Economic Governance II Program contract to require that all program-funded activities with an information technology component valued at \$100,000 or more over the full information technology project life cycle be submitted to USAID for independent verification and validation review and approval, in accordance with Automated Directives System 548.3.*

Subcontract Approval Level Should Be Reduced

According to Federal Acquisition Regulation (FAR) 44.201-1(b), a consent to subcontract is required for noncommercial fixed-price subcontracts that exceed either the simplified acquisition threshold of \$100,000 or 5 percent of the total estimated cost of the contract. Although 5 percent of USAID/Iraq's EGII Program base contract value was \$9,231,862,⁷ mission contracting office officials confirmed that since the simplified acquisition threshold of \$100,000 was exceeded, any noncommercial fixed-price subcontract of \$100,000 or more would require the consent of USAID/Iraq's contracting officer.

Although the regulation prompts the contractor to seek consent for fixed-price subcontracts that exceed either threshold, a previous mission contracting officer issued a letter on September 3, 2004, stating that the consent threshold was \$9,231,862 (5 percent of the original contract value). As a result, the contracting officer gave the contractor the authority to award subcontracts \$9,131,862 above USAID's allowable simplified acquisition threshold without seeking USAID/Iraq's consent.

Notwithstanding the FAR, the contracting officer's fiduciary duty is to represent the U.S. Government through his/her delegated authority and to ensure that a material procurement is in the best interest of the award, the program, and the U.S. Government. However, the contracting officer's decision to give the contractor authority to enter into subcontracts of approximately \$9 million without the approval of the contracting officer was unreasonable, and this action impaired the mission's ability to monitor the subcontracts. Such monitoring would have included reviewing the scope of the subcontracts, the justification for the procurement, and the qualifications and technical skills of the subcontractors. In addition to reducing the mission's oversight of significant

⁷ The total award amount for the base period of USAID/Iraq's EGII Program was \$184,637,237.

procurements, this condition could compromise the overall success of the EGII Program. To address this weakness, we are making the following recommendation:

Recommendation No. 6: *We recommend that USAID/Iraq's Office of Acquisition and Assistance rescind the prior guidance issued for the subcontract consent threshold and reduce the subcontract consent threshold to the appropriate level.*

Controls Over Nonexpendable Property Should Be Implemented

USAID Acquisition Regulation (AIDAR) 752.245-71(b) states that contractors shall prepare and establish a program, to be approved by the mission, for the receipt, use, maintenance, protection, custody, and care of nonexpendable property⁸ for which they have custodial responsibility, including the establishment of reasonable controls to enforce such a program. COTRs are responsible for monitoring the contractor's management of and annual reporting on this property, as designated by the COTR designation letter.

Further, in accordance with AIDAR 752.245-71(c), contractors must submit an annual report on all nonexpendable property in the contractor's custody. It also requires the contractor to attest, by signature, to the following:

- Physical inventories of Government property are conducted not less frequently than annually.
- The accountability records maintained for Government property in the contractor's possession are in agreement with such inventories.
- The total of the detailed accountability records maintained agrees with the property value shown, and the estimated average age of each category of property is as cited.

In addition to these requirements, an internal memorandum sent from the contractor to its USAID project management teams on April 20, 2005, expressed the importance of the management and accountability of equipment or property procured with USAID funds. However, the program contractor never submitted a nonexpendable property plan to USAID for approval. The contractor stated that annual inventory reports had not been submitted to USAID/Iraq as required, but that in October 2008—4 years after the start of the contract—it began the process of rationalizing their inventory and bringing it into alignment with FAR Part 45 and AIDAR 752.245-70.

Without an inventory report on nonexpendable property, we could not test the existence of significant assets procured with program funds to determine whether they were being utilized as intended. Moreover, as the program's contract priorities have changed to

⁸ "Nonexpendable personal property" is defined as property such as furniture, office machines, IT equipment, and communications equipment that has a unit price of \$500 or more and that (1) is complete in itself; (2) does not lose its identity or become a component part of another item when used; and (3) is of a durable nature with an anticipated useful life of more than 2 years.

focus more on IT projects, the importance of the accountability of these assets is amplified. Further, the absence of an approved nonexpendable property plan to protect and account for such property has made program assets susceptible to unintentional errors, loss, and misappropriation. Moreover, such mistakes are less likely to be detected.

To comply with applicable regulations related to inventory management, we are making the following recommendations:

Recommendation No. 7: *We recommend that USAID/Iraq require its Economic Governance II Program contractor to prepare and submit a comprehensive nonexpendable property report of program-funded assets, as required by USAID Acquisition Regulation 752.245-70.*

Recommendation No. 8: *We recommend that USAID/Iraq require its Economic Governance II Program contractor to complete a nonexpendable property plan, as required by USAID Acquisition Regulation 752.245-71(b).*

Recommendation No. 9: *We recommend that USAID/Iraq's Economic Growth and Agriculture Office follow established policies and procedures to ensure that annual reports on all nonexpendable property are prepared by its contractors in accordance with USAID Acquisition Regulation 752.245-71(b).*

Periodic Progress Reporting Should Be Required

The Government Performance and Results Act of 1993⁹ directs agencies to recognize the need to improve their ability to achieve intended results. As a result, USAID developed AIDAR clause 752.242-70(a), "Periodic Progress Reports," which requires contractors to prepare and submit progress reports as specified in the schedule of the contract. To implement this regulation, USAID's *Guidebook for Acquisition and Assistance* directs the COTR to develop, with assistance from the contracting office, a plan for monitoring and reporting the contractor's technical efforts and for the COTR's procedures for determining the contractor's progress. The COTRs would determine the reporting requirements that are needed to monitor the contractor's performance, including the reporting requirements that should be included in the reporting schedule of the contract.

USAID/Iraq's EGII Program contract properly included AIDAR 752.242-70(a), but it did not specify the minimum reporting requirements that were necessary to monitor the contractor's performance adequately. The contract did not include specifications for the periodic reports, such as their frequency or format, to measure the contractor's progress. None of the 22 modifications made to the contract since September 3, 2004, included guidance that required the contractor to submit periodic progress reports. Mission personnel did not cite a specific reason for this oversight other than to say it was left out by mistake.

⁹ Public Law 103-62.

In June 2006, a successor COTR began receiving succinct monthly reports from the contractor, but the reports provided only anecdotal information through narrative descriptions about the program's activities from one month to the next. These progress reports—developed and used by the contractor for its own internal reporting—also did not discuss the specific benchmarks and performance indicators of the activities for which the PMP was developed. Thus, unless the reports were accumulated and analyzed collectively, the progress of the program's activities over time would not be apparent. Therefore, these reports were not as useful as the regulations had intended.

Performance monitoring adds value and control to the management process when it is used to provide a snapshot of the program's past and its future direction. One way to monitor program performance effectively is to use the periodic progress reports in conjunction with the program's PMP. Although a program official stated that the progress reports were read and filed, and some follow-up action was taken, we were unable to determine the extent to which the reports were used by mission officials as a tool to monitor the contractor's performance.

To ensure that future contractor progress reports are more useful, we are recommending the following:

Recommendation No. 10: *We recommend that USAID/Iraq's Office of Acquisition and Assistance, in conjunction with input from the Economic Governance II Program contracting officer's technical representative, modify the Economic Governance II Program contract to include the minimum performance reporting requirements that are necessary to monitor the contractor's performance. The schedule should include the content of the required reports, their frequency, and their due dates.*

Contracting Officer's Technical Representatives Should Maintain Better Work Files

USAID's *Guidebook on Acquisition and Assistance* and COTR designation letters discuss the importance of establishing and maintaining adequate COTR files. According to the guidebook, COTRs should review, analyze, and evaluate the contractor's progress, performance, and compliance for conformance with technical, price, and schedule provisions of the contract, and they must document actions taken. The guidebook states that the contract work file must document all relevant and significant actions, all correspondence between the COTR and the contractor or the contracting officer, property reports, performance reports, COTR inspections and site visits, and documentation of financial analysis.

Notwithstanding this guidance, the program's COTRs did not maintain an adequate work file to archive important contract and performance actions. The COTRs did not maintain records, documentation, or analysis for significant actions regarding the contract, the program's performance results, or site visit and property reports. The program work files did not include property reports, a nonexpendable property plan, or a comprehensive inventory of assets procured with USAID/Iraq funds to inspect during site visits. Also, the files did not contain records documenting program officials' meetings.

According to USAID/Iraq's COTRs and other officials working on the program, numerous site visits were conducted to monitor the program's performance, but they were not always recorded. Instead, the officials relied on informal communications, such as e-mails and site visits with contractor personnel, to discuss the activities and the details of each task. These communications generally were not filed or centrally organized.

A prior audit report¹⁰ of the Economic Reform Program also identified issues with COTR monitoring and recommended that USAID/Iraq's Office of Economic Growth and Agriculture establish and implement management procedures requiring work files to include documents of significant actions and electronic communication printouts associated with each contract. Although USAID/Iraq originally took final action to address the recommendation, the mission no longer complies with it.

USAID/Iraq operates in what is arguably the Agency's most complex and fluid environment. The difficulties of operating in such an atmosphere are exacerbated by the short assignment tours and rapid turnover of personnel, resulting in a lack of institutional memory. In fact, the EGII Program has been managed by four COTRs in as many years. In addition, employees are entitled to 63 days per year for leave and travel as part of their assignment in Iraq, and their absences further strain the program's continuity.

The COTR turnover, combined with the lack of complete and up-to-date COTR contract files, significantly hindered the mission's monitoring of the program, particularly during COTR changes. Archived e-mails that document imperative decisions and other information about the program's past are useful only if they are memorialized in contract files that are available to future program officials. Therefore, documenting the status of the program's tasks and performance is an important and integral part of program management. Without a well-documented and continuous work file that spans the life of the award, successor COTRs will have difficulty understanding the program and its current status. In addition, inadequate documentation of actions or decisions—whether positive or negative—leads to poor succession planning and detracts from effective program management. Therefore, we are making the following recommendation:

Recommendation No. 11: *We recommend that USAID/Iraq update an Office of Economic Growth and Agriculture procedure, dated August 20, 2004, to include a regular review of contracting officer's technical representative work files by the contracting officer's technical representative's supervisor, to ensure that they are being prepared.*

Antiterrorism Provision Should Be Included in Two Subawards

ADS 302.3.6.13 states that "U.S. Executive Orders (including E.O. 13224, Executive Order on Terrorism Financing) and U.S. law prohibit transactions with, and the provision of resources and support to, individuals and organizations associated with

¹⁰ "Audit of USAID/Iraq's Economic Reform Program" (Audit Report No. E-266-04-004-P, September 20, 2004).

terrorism.” In accordance with this directive, the USAID/Iraq EGII Program contract, section H.12—“Executive Order on Terrorism Financing,” included the following clause:

The Contractor is reminded that U.S. Executive Orders and U.S. law prohibit transactions with, and the provision of resources and support to, individuals and organizations associated with terrorism. It is the legal responsibility of the contractor to ensure compliance with these Executive Orders and laws. This provision must be included in all subcontracts/subawards issued under this contract.

However, the terrorism financing clause was absent from two of six judgmentally selected subcontracts, sampled to verify whether the mandatory provision was present. The two subcontracts related to two independent consultants’ contracts. According to the contractor’s Chief of Party, BearingPoint inadvertently had used an old version of the independent contractor agreement instead of a newer version, which contained the provision prohibiting terrorism financing. This omission of the mandatory provision from the EGII Program contractor’s subawards increases the risk that USAID funds may be used to finance terrorism. Consequently, we are making the following recommendation:

Recommendation No. 12: *We recommend that USAID/Iraq direct the Economic Governance II Program contractor to modify the subcontract language in the two independent consultant agreements to include the required provision pertaining to the Executive Order on Terrorism Financing and that USAID/Iraq obtain a copy of the modified contract as confirmation.*

EVALUATION OF MANAGEMENT COMMENTS

USAID/Iraq agreed with each of the 12 audit recommendations contained in the report. On the basis of the mission's comments, we consider that final action has been taken to address recommendations 1, 2, 3, 5, 6, 7, 9, 10, 11, and 12, and a management decision has been reached on recommendations 4 and 8. The status of each recommendation is shown below.

Recommendation No. 1: USAID/Iraq concurred with recommendation 1 and developed a systematic monitoring and evaluation process for the EGII Program that will collect, record, organize and track the status of each task required by the contract, or its modification. As evidence of the system, USAID/Iraq's Economic Growth and Agriculture (EGA) Office prepared a "Close-Out Timeline Status Tracker" to document the planned and actual status of contract deliverables. On the basis of our review of these documents, we consider that the mission has taken final action to address recommendation 1.

Recommendation No. 2: USAID/Iraq concurred with recommendation 2 and adjusted EGII's performance targets and indicators to capture the results under all major program components to ensure that they were reasonably attributable to USAID activities. To support the action taken, the mission provided a copy of the revised EGII performance monitoring plan, which was approved by USAID/Iraq on May 3, 2009. On the basis of our review of the revised performance monitoring plan, we consider that the mission has taken final action to address recommendation 2.

Recommendation No. 3: USAID/Iraq concurred with recommendation 3 and had its EGII contractor prepare a schedule of all program-funded information technology (IT) projects in accordance with USAID's Automated Directives System 548.3. To support the action taken, the mission provided a copy of the contractor's schedule of IT projects costing over \$100,000, which was prepared by the contractor on February 11, 2009. The schedule included 10 projects, all of which require approval by USAID/Information Resource Management. On the basis of our review of the schedule, we consider that the mission has taken final action to address recommendation 3.

Recommendation No. 4: USAID/Iraq concurred with recommendation 4 and reviewed a listing of all IT projects under the EGII Program and submitted those with a cost of \$100,000 or more to USAID's Office of the Chief Information Officer/Business, Consulting, and Customer Service Division for approval. To support the action taken, the mission provided copies of the e-mails, which its contractor had submitted for 5 of 11 IT projects. On the basis of our review of these e-mails, we consider that the mission has made a management decision to address recommendation 4. Final action on the recommendation will occur once all 11 IT projects have been submitted to the Office of the Chief Information Officer for review.

Recommendation No. 5: USAID/Iraq concurred with recommendation 5 and modified the EGII contract to reiterate the requirement that all program-funded activities with an IT

component of \$100,000 or more over the full IT project life cycle be submitted to USAID for independent verification and validation review and approval in accordance with ADS 548.3. On the basis of our review of modification no. 23 to the EGII contract, we consider that the mission has taken final action to address recommendation 5.

Recommendation No. 6: USAID/Iraq concurred with the intent of recommendation 6. On February 11, 2009, USAID/Iraq's Office of Acquisition and Assistance issued a letter to the EGII contractor rescinding the September 3, 2004, letter that authorized a higher threshold for subcontract consent than authorized by the Federal Acquisition Regulation. USAID/Iraq's letter also required the contractor to abide immediately by the subcontracting consent threshold stipulated in the Federal Acquisition Regulation. On the basis of our review of USAID/Iraq's letter dated February 11, 2009, we consider that the mission has taken final action to address recommendation 6.

Recommendation No. 7: USAID/Iraq concurred with recommendation 7 and required its EGII contractor to prepare and submit a comprehensive nonexpendable property report of program-funded assets as required by USAID Acquisition Regulation 752.245-70. On the basis of our review of the nonexpendable property report, we consider that the mission has taken final action to address recommendation 7.

Recommendation No. 8: USAID/Iraq concurred with recommendation 8 and required its EGII Program contractor to complete a nonexpendable property plan as required by USAID Acquisition Regulation 752.245-71(b). In response to the recommendation, the EGII Program contractor prepared a nonexpendable property report and a plan/timeline to guide the transfer of EGII property upon completion of the EGII Program in June 2009. On the basis of the mission's actions, we consider that a management decision has been made to address recommendation 8. Final action will occur when there is evidence that the nonexpendable property plan has been implemented.

Recommendation No. 9: USAID/Iraq concurred with recommendation 9. In response to the recommendation, the director of the mission's EGA Office issued a memo, "Contracting Officer Technical Representative (COTR) Checklist," to office staff on April 30, 2009. The memo outlines the monthly, quarterly, and annual reports that COTRS are required to obtain from their contractors, including annual nonexpendable property reports. On the basis of our review of the COTR checklist, we consider that the mission has taken final action to address recommendation 9.

Recommendation No. 10: USAID/Iraq concurred with recommendation 10 and modified the EGII Program contract to include the minimum performance reporting requirements that are necessary to monitor the contractor's performance. The modification also specifies the content of the required reports, their frequency, and the due dates. On the basis of our review of contract modification no. 23, dated March 5, 2009, we consider that the mission has taken final action to address recommendation 10.

Recommendation No. 11: USAID/Iraq concurred with recommendation 11 to update the EGA Office's procedure, dated August 20, 2004, to include a regular review of the COTR work files by the COTR's supervisor. USAID/Iraq's EGA Office updated its procedure on April 30, 2009. The new procedures require activity managers and COTRs to maintain a work file that documents all significant actions associated with each contract. They also require COTRs to print out all electronic communications and

include them in the work file. In addition, they require the COTR's supervisor to review COTR work files regularly to ensure that they are being prepared. On the basis of our review of the new procedures, we consider that the mission has taken final action to address recommendation 11.

Recommendation No. 12: USAID/Iraq concurred with recommendation 12, but the EGII Program contractor could not modify the subcontract language in the two independent consultant agreements because both agreements had ended. However, the EGII Program contractor did modify the language in its standard independent consultant agreements and subcontracting agreements to include the required provision pertaining to the Executive Order on Terrorism Financing. On the basis of our review of the contractor's standard subcontract agreement, we consider that the mission has taken final action to address recommendation 12.

SCOPE AND METHODOLOGY

Scope

The Office of Inspector General/Iraq conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objective. We believe that the evidence obtained provides such a basis. The purpose of the audit was to determine whether USAID/Iraq's Economic Governance II (EGII) Program is achieving its intended results and what impact the program has made.

Our ability to verify the existence of the EGII Program activities was substantially restricted because of heightened security concerns after the contractor's employees were kidnapped in June 2007. Consequently, we employed alternative procedures to provide reasonable assurance of the existence of economic governance activities, as explained in the methodology section of this report.

In planning and performing the audit, we gained an understanding of USAID/Iraq's existing management controls and identified and reviewed internal controls related to administrative requirements contained in USAID/Iraq's contract with BearingPoint, Inc. We tested contractor performance in meeting the contractual obligations and adherence to USAID's Automated Directives System (ADS) and Acquisition Regulation (AIDAR), as well as the Federal Acquisition Regulation (FAR) and Executive Order 13224, as they relate to implementing the EGII Program. In addition, we reviewed contract tasks and performance measures and indicators for the first 4 years of the program activities.

The audit covered the contract performance period of September 3, 2004, through September 12, 2008—ending the day before the contract's scope was reduced significantly. The 5-year, \$223 million contract, scheduled to end on September 2, 2009, included two \$20 million, 1-year option periods that were simultaneously exercised on June 21, 2007. As of December 16, 2008, USAID/Iraq had disbursed \$195 million of the \$223 million obligated.

During the audit, we considered the performance of the original statement of work and any changes made by contract modifications through September 12, 2008—4 of 5 years of the performance period. We did not take into consideration the potential effects or test the reduced statement of work that were the result of contract modification no. 21, dated September 13, 2008. The program's activities we reviewed took place during fiscal years 2003 through 2008. Audit fieldwork was conducted at USAID/Iraq and BearingPoint headquarters in Baghdad, Iraq, from September 25, 2008, through February 3, 2009.

Methodology

To answer the audit objective, we reviewed documentation that included (1) the EGII Program contract and modifications, (2) annual workplans, (3) monthly performance and financial reports, (4) the Federal Managers' Financial Integrity Act of 1982,¹¹ (5) EGII Program's performance management plan for fiscal years 2007 and 2008, (6) USAID/Iraq's quarter portfolio review for the second quarter of FY 2008, (7) USAID's Business, Consulting, and Customer Services ADS 548 review log, (8) EGII Program base contract report (2008), and (9) USAID/Iraq's Financial Management Information System technical review scope of work (dated August 11, 2008).

To determine the relevance and reliability of evidential matter, considering security conditions, we conducted interviews with appropriate personnel from USAID/Iraq and the implementing partner at their respective headquarters in Baghdad, Iraq, and received correspondence from an array of engaged sources in the field.

Specifically, we reviewed the terms of the EGII Program contract between USAID/Iraq and BearingPoint. The criteria for selecting the terms included substance and availability of information and the potential material impact of negligence or omission. Using available information, we judgmentally selected standards within those terms useful for testing. We devised tests and reviewed and analyzed information to determine whether contractual obligations had been met, as well as other requirements mandated by USAID's ADS or AIDAR, FAR, and Executive Order 13224. The selected terms included USAID's independent verification and validation of program-funded information technology reviews; subcontracts; control of nonexpendable property; the Executive Order on Terrorism Financing; and contracting officer's technical representative's certification and designation.

We also reviewed the planned results of the EGII Program's performance management plan and data quality table, dated October 9, 2008, that reported on 41 indicators. We judgmentally selected program indicators to review their characteristics and determine whether the results would yield quality data useful to management. After corroborating with USAID and program officials that few performance indicators could be used to adequately measure the program's current performance, we determined the plan irrelevant and did not test the data's validity.

Instead, to answer the audit objective, we tested the contract's planned activities as stated in the contract's original statement of work and any change from modification no. 5. We performed analyses and relied to varying degrees on documentation and information to substantiate the contract task's status. For example, we asked the implementing contractor to tell us (1) the status of the 398 contract tasks, using three selected answers (completed, deleted, or ongoing) and (2) whether source documentation was available to review. Upon the contractor's original response, we judgmentally selected and reviewed 27 of 118 contract tasks (23 percent) that were considered completed with source documentation to verify the information's integrity and validity.

We established that if relevant documentation existed for at least 80 percent of the source documentation, the test demonstrated that the support was reliable. Overall, we

¹¹ Public Law 97-255.

also established that if the number of completed contract tasks was at or above a statistical threshold of 80 percent (318 contract tasks) of the total planned tasks in the contract, the program had met its intended results.

To test the source documentation, we verified program deliverables, conducted interviews, and communicated by e-mail with numerous sources familiar with EGII Program activities. In examining documents, we performed limited tests of the procedures and controls relating to the mission's monitoring and reporting of the contract's results. When outstanding information could not be produced, as of December 17, 2008, we assumed that it did not exist.

Lastly, as part of our planning work, we also examined prior audits of USAID/Iraq's EGII Program and of its predecessor program, the Economic Reform Program, conducted by USAID/OIG, the Defense Contract Audit Agency, and the Special Inspector General for Iraq Reconstruction.

MANAGEMENT COMMENTS



USAID | **IRAQ**
FROM THE AMERICAN PEOPLE

Date: May 5, 2009

To: Director, Office of Inspector General/Iraq, Gerard Custer

From: USAID/Iraq Mission Director, Christopher D. Crowley /s/

Subject: Management Comments, Audit of USAID/Iraq's Economic Governance II Program (EG II)

References: Audit Report No. E-267-09-00X-P, dated April 06, 2009

Thank you for affording the USAID/Iraq mission an opportunity to respond to the draft audit report for USAID/Iraq's EG II Program. Below is the Mission's response to the twelve (12) recommendations outlined in the draft audit report for your consideration.

We would also like to thank your team who spent a good deal of time evaluating this issue in good collaboration with the Mission's technical offices. This mutual effort will certainly result not only in the better performance of this program for the time we have left, but it will benefit the overall management of all USAID/Iraq programs.

Background

The Office of Inspector General (OIG) draft audit report on the EG II program was provided to the Mission on April 6, 2009. The audit sought to determine whether USAID/Iraq's EG II program is achieving intended results, and the impact that the program has made so far.

Accordingly, this audit focused on the review of the program and its scope of work and on the list of intended results and performance indicators to date. Each of the findings has been examined to determine 1) whether the Mission is in agreement, and 2) what actions would be undertaken in response to the recommendation. Through this report the Mission will state whether it agrees with the recommendations and will also discuss the actions taken or planned to be taken. Where management actions in response to the audit are not yet resolved, the Mission will provide target dates for their completion. The Mission recognizes the value as a management tool of this OIG audit, and is in agreement with all of the audit's recommendations.

Recommendation No. 1

We recommend USAID/Iraq develop a systematic monitoring process for the EG II Program to collect, record, organize and track the status of each task required by the contract, or its modification, within 30 days from the issuance of this report.

Action Taken

USAID/Iraq concurs with the recommendation that a systematic monitoring process for the EG II Program be developed. USAID/Iraq has developed such a systematic monitoring and evaluation process for the EG II Program that will collect, record, organize and track the status of each task required by the contract, or its modification. Please see Attachment A, the USAID/Iraq Economic Growth and Agriculture (EGA) Office's Monitoring and Evaluation Plan, which was approved on May 04, 2009. The Mission requests OIG's concurrence that final action has been taken on this recommendation.

Recommendation No. 2

We recommend USAID/Iraq review and revise the EG II Program performance indicators listed in its performance management plan to ensure that they are reasonably attributable to USAID activities, in accordance with USAID's Automated Directives System 203.3.

Action Taken

USAID/Iraq concurs with the recommendation that the EG II Program's performance indicators and performance management plan be revised and reviewed. USAID/Iraq has adjusted the performance targets and indicators to capture the results under all major program components and to ensure they are reasonably attributable to USAID activities. This was done in the revised Performance Monitoring Plan (PMP) approved by USAID/Iraq on May 03, 2009. Please see Attachment B, the EG II Performance Monitoring Plan. The Mission requests OIG's concurrence that final action has been taken on this recommendation.

Recommendation No. 3

We recommend that USAID/Iraq request the contractor to prepare a schedule of all program-funded Information Technology (IT) projects in accordance with USAID's Automated Directives System 548.3.

Action Taken

USAID/Iraq concurs with the recommendation that the EG II contractor prepare a schedule of all program-funded information technology projects in accordance with USAID's Automated Directives System 548.3. The EG II contractor has responded to USAID/Iraq's request to prepare a schedule of all program-funded IT projects in accordance with USAID's Automated Directives System 548.3. Please see Attachment C, EG II's schedule of IT projects costing over \$100,000, which was prepared by the contractor on February 11, 2009. The Mission requests OIG's concurrence that final action has been taken on this recommendation.

Recommendation No. 4

We recommend that USAID/Iraq review all technology projects and submit those with a cost of at least \$100,000 to USAID's Office of Chief Information Officer/Business,

Consulting, and Customer Service Division for approval.

Action Taken

USAID/Iraq concurs with the recommendation regarding USAID/Iraq's review of all IT projects from the EG II Program costing at least \$100,000 and submittal of those IT projects to USAID's Office of Chief Information Officer/Business, Consulting, and Customer Service Division for approval. USAID/Iraq reviewed all IT projects from the EG II Program and submitted those with a cost of at least \$100,000 to USAID's Office of Chief Information Officer/Business, Consulting, and Customer Service Division for approval which will be completed and submitted by May 15, 2009. Please see Attachment D, the submission schedule of IT projects costing \$100,000 or more. The Mission requests OIG's concurrence that final action will be taken on this recommendation on May 15, 2009.

Recommendation No. 5

Recommendation No. 5: We recommend that USAID/Iraq modify the EG II Program contract to require that all program-funded activities with an information technology component of at least \$100,000 over the full information technology project life cycle be submitted to USAID for independent verification and validation review and approval, in accordance with Automated Directives System 548.3.

Action Taken

USAID/Iraq concurs with the recommendation regarding modifying the EG II Program contract to re-iterate the requirement that all program-funded activities with an information technology component of at least \$100,000 over the full information technology project life cycle be submitted to USAID for independent verification and validation review and approval in accordance with ADS 548.3. USAID/Iraq modified the EG II Program contract to re-iterate the requirement on March 05, 2009. Please see Attachment E, Modification No. 23. The Mission requests OIG's concurrence that final action has been taken on this recommendation.

Recommendation No. 6

We recommend that USAID/Iraq's Office of Acquisition and Assistance modify the EG II Program contract to reduce the subcontract consent threshold to the appropriate level.

Action Taken

USAID/Iraq concurs with the intent of this recommendation. The subcontract threshold was never included in the EG II contract. Rather, the contract incorporates by reference FAR 52.244-2 titled "Subcontracts," which implements the requirements of FAR Part 44 on subcontracting thresholds and defines when consent is required. Due to a letter of authorization signed by the awarding Contracting Officer, the contractor utilized a higher threshold for subcontract consent than authorized by the FAR. USAID/Iraq's Office of Acquisition and Assistance rescinded that letter of authorization on February 11, 2009 and required the contractor to abide by the subcontracting consent threshold stipulated in the FAR (\$100,000 for all non-commercial items/services subcontracts). Please see Attachment F, the Contracting Officer's rescission letter. The Mission requests OIG's concurrence that final action has been taken on this recommendation.

Recommendation No. 7

We recommend that USAID/Iraq require its EG II Program contractor prepare and submit a comprehensive nonexpendable property report of program-funded assets as required by USAID Acquisition Regulation 752.245-70.

Action Taken

USAID/Iraq concurs with the recommendation to require its EG II Program contractor to prepare and submit a comprehensive nonexpendable property report of program-funded assets as required by USAID Acquisition Regulation 752.245-70. USAID/Iraq EG II contractor responded to USAID/Iraq's request to prepare a comprehensive nonexpendable property report of program-funded assets and submitted it to the Mission on April 28, 2009. However, due to the size of this report (several 100 pages), it was not practical to attach it. USAID/Iraq does have the electronic version of the report and is able to share it if needed. The Mission requests OIG's concurrence that final action has been taken on this recommendation.

Recommendation No. 8

We recommend that USAID/Iraq require its EG II Program contractor complete a nonexpendable property plan as required by USAID Acquisition Regulation 752.245-71(b).

Action Taken

USAID/Iraq concurs with the recommendation to require its EG II Program contractor to complete a nonexpendable property plan as required by USAID Acquisition Regulation 752.245-71(b). Please see Attachment G, EG II's non-expendable property plan with timetable dated April 02, 2009. USAID/Iraq EG II contractor will execute and complete its nonexpendable property plan by the week of June 13th, 2009 (if not sooner), and will submit it to USAID/Iraq.

Recommendation No. 9

We recommend that USAID/Iraq's EGA Office develop policies and procedures to ensure annual reports on all nonexpendable property are conducted by its contractors in accordance with USAID Acquisition Regulation 752.245-71(b).

Action Taken

USAID/Iraq concurs with the recommendation regarding the development of policies and procedures to ensure reports on all nonexpendable property are conducted by its contractors in accordance with USAID Acquisition Regulation 752.245-71(b). USAID/Iraq's EGA Office developed policies and procedures to ensure annual reports on all nonexpendable property are conducted by its contractors. Please see Attachment H, EGA's Contracting Officer Technical Representative (COTR) checklist including policy on non-expendable property reporting, which was issued on April 30, 2009. The Mission requests OIG's concurrence that final action has been taken on this recommendation.

Recommendation No. 10

We recommend USAID/Iraq's Office of Acquisition and Assistance, in conjunction with input from the EG II Program cognizant technical officer, modify the EG II Program contract to include the minimum performance reporting requirements that are necessary to

monitor the contractor's performance. The schedule should include the content of the required reports, their frequency, and due dates.

Action Taken

USAID/Iraq concurs with the recommendation to modify the EG II Program contract to include the minimum performance reporting requirements that are necessary to monitor the contractor's performance. USAID/Iraq modified the EG II Program contract to include the minimum performance reporting requirements that are necessary to monitor the contractor's performance. The schedule includes the content of the required reports, their frequency, and the due dates. Please see Attachment E, modification #23 dated March 05, 2009, which incorporates the performance reporting requirements schedule. The Mission requests OIG's concurrence that final action has been taken on this recommendation.

Recommendation No. 11

We recommend that USAID/Iraq update an EGA Office procedure, dated August 20, 2004, to include a regular review of cognizant technical officer work files by the cognizant technical officer's supervisor, to ensure they are being prepared.

Action Taken

USAID/Iraq concurs with the recommendation to update the EGA Office procedure, dated August 20, 2004, to include a regular review of the COTR work files by the COTR's supervisor. USAID/Iraq's EGA Office updated its procedure on April 30, 2009 to include a regular review of COTR work files by the COTR's supervisor, to ensure they are being prepared. Please see Attachment I, the memo and policy outlining the above. The Mission requests OIG's concurrence that final action has been taken on this recommendation.

Recommendation No. 12

We recommend that USAID/Iraq direct the EG II Program contractor modify the subcontract language in the two independent consultant agreements to include the required provision pertaining to the Executive Order on Terrorism Financing and, obtain a copy of the modified contract as confirmation.

Action Taken

USAID/Iraq concurs with the recommendation to direct the EG II Program contractor modify the subcontract language in the two independent consultant agreements to include the required provision pertaining to the Executive Order on Terrorism Financing. The two independent consultant agreements (sub-contracts) have concluded on June 30, 2006 and October 01, 2008 respectively. The EG II Program contractor modified the language in its standard independent consultant agreements and sub-contracting agreements in section H.12 to include the required provision pertaining to the Executive Order on Terrorism Financing. The Mission received the contractor's standard consultant and sub-contractor agreement on April 03, 2009. Please see Attachment J, the contractor's standard agreement to include this clause. The Mission requests OIG's concurrence that final action has been taken on this recommendation.

Economic Governance II Program - List of Ongoing Contract Tasks (as of December 6, 2008)				Office of Inspector General Review
Number	Contract Task	Original Target Completion Date (per the contract, September 3, 2004)	Target Completion Date (per contract modification no. 5, March 28, 2005)	Length of Time Outstanding
1	Oversee the completion of the roll out (Phase III) of the Financial Management Information System (FMIS) within the Ministry of Finance (MOF), the 18 Governorates and 28 related Ministries. (task A.3.1)	September 2005	July 2005	41 months (3 years 5 months)
2	Assist the MOF to improve their capacity to prepare an annual budget that integrates all levels of governments and that uses an International Monetary Fund (IMF) framework based on functional classifications, organizational structures, economic classifications, and source of financing for line agencies, provinces and local governments. (task A.3.2)	None	December 2005	36 months (3 years)
3	Provide related services and implement reforms as appropriate and needed. (task A.3.10)	None	Ongoing	Perpetual
4	Assess and design the long-term Information Technology infrastructure requirements for the Central Bank of Iraq (CBI). (task B.1.10)	None	September 2007	15 months (1 year 3 months)
5	Install, implement and train the CBI staff on the Management Information Systems for the CBI. Provide general central bank training to the CBI staff to develop their skills and capabilities, including regional training programs in the neighboring countries. (task B.1.11)	None	September 2007	15 months (1 year 3 months)
6	Bank supervisors conduct on site examinations, assign CAMEL (Capital, Assets, Management, Earnings, and Liquidity) ratings in conformity with Basle principles, identify weaknesses, agree with management on prompt corrective actions, and enforce sanctions in case of non-compliance. By the end of the second year. (task B.3.17)	None	September 2007	15 months (1 year 3 months)
7	Create legal reform action plan for years two and three, including creation of working groups to address gaps and needed reforms, recruitment of legal reform experts, and schedule for progress. (task D.8.3)	September 2007	September 2007	15 months (1 year 3 months)

Economic Governance II Program - List of Ongoing Contract Tasks (as of December 6, 2008)

**Office of
Inspector
General
Review**

Number	Contract Task	Original Target Completion Date (per the contract, September 3, 2004)	Target Completion Date (per contract modification no. 5, March 28, 2005)	Length of Time Outstanding
8	Provide institutional capacity building services, through training, study tours, and provision of experts for commercial law issues (including Constitutional, federalism, and separation of powers issues). (task D.8.4)	September 2007	September 2007	15 months (1 year 3 months)
9	Inspection powers of the Ministry of Labor and Social Affairs for the oversight and enforcement of the social security sector are created and enforced. (task F.12)	None	August 2005	40 months (3 years 4 months)
10	Provide assistance related to social safety nets. (task G.3.20)	None	None	None
11	Provide assistance related to commercial law. (task G.3.32)	September 2005	None	49 months (3 years 3 months)
12	Provide assistance related to judicial reform and administration as they relate to commercial law. (task G.3.33)	September 2005	None	49 months (3 years 3 months)
13	Provide assistance related to pension funds. (task G.3.35)	September 2005	None	49 months (3 years 3 months)

Note: Applied target completion date from contract modification no. 5, or that of the original contract (if date was not available in the modification) to the date we received a response about the contract task's status.

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