OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/IRAQ’S AGRIBUSINESS PROGRAM

AUDIT REPORT NO. E-267-11-002-P
MAY 16, 2011

BAGHDAD, IRAQ
MEMORANDUM

TO:        USAID/Iraq Mission Director, Alex Dickie
FROM:      Office of Inspector General/Iraq, Director, Lloyd J. Miller /s/
SUBJECT:  Audit of USAID/Iraq’s Agribusiness Program
          (Report No. E-267-11-002-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 17 recommendations to assist the mission in managing the Agribusiness Program. In its response, the mission agreed with 11 recommendations, disagreed with 2 recommendations and partially agreed with 1 recommendation. The mission is determining the allowability of questioned costs for the remaining three recommendations.

On the basis of your written comments in response to the draft report, we consider that final action has been taken on Recommendations 1, 2, and 13; management decisions have been reached on Recommendations 3, 4, 7, 9, 14, 15, 16, and 17; and no management decisions have been reached on Recommendations 5, 6, 8, 10, 11, and 12.

Please provide evidence of final action on Recommendations 3, 4, 7, 9, 14, 15, 16, and 17 to the Audit Performance and Compliance Division upon completion. Please also provide us within 30 days the additional information related to the actions planned or taken to implement Recommendations, 5, 6, 8, 10, 11, and 12.

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

Summary of Results ....................................................................................................... 1

Audit Findings .................................................................................................................. 5

Performance Results Were Not Measured, Reported, or Supported .......................................................... 5

Field Monitoring Was Not Used Effectively ................................................................. 7

Subcontracts Lacked Supporting Documentation and Were Susceptible to Fraud ........................................ 9

Grants With Special Conditions Were Not Monitored and Were Susceptible to Fraud .................................. 11

Grants to Microfinance Institutions Were Not Monitored .................................................... 14

Program Evaluation Was Not Shared With Contractor ....................................................... 16

Contract Budgeting Did Not Align With Program Areas ...................................................... 17

Performance Management Plan Was Not Current, Not Realistic, Not Aligned With Implemented Projects, and Not Used ...................................................... 18

USAID/Iraq Did Not Conduct Data Quality Assessments for Key Data Reported to USAID Headquarters ...................................................... 20

Contractor’s Property Accounting System Was Not Approved, and Required Reports Were Not Submitted ...................................................... 21

Evaluation of Management Comments ............................................................................. 23

Appendix I—Scope and Methodology ..................................................................................... 29

Appendix II—Management Comments .................................................................................. 31

Appendix III—Subcontracts With Questioned Costs ....................................................................... 38

Appendix IV—Grants With Questioned Costs ............................................................................. 42

Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADS</td>
<td>Automated Directives System</td>
</tr>
<tr>
<td>AIDAR</td>
<td>USAID Acquisition Regulation</td>
</tr>
<tr>
<td>CFR</td>
<td>Code of Federal Regulations</td>
</tr>
<tr>
<td>COTR</td>
<td>contracting officer’s technical representative</td>
</tr>
<tr>
<td>FAR</td>
<td>Federal Acquisition Regulation</td>
</tr>
<tr>
<td>FSN</td>
<td>Foreign Service National</td>
</tr>
<tr>
<td>PMP</td>
<td>performance management plan</td>
</tr>
<tr>
<td>PRT</td>
<td>provincial reconstruction team</td>
</tr>
</tbody>
</table>
SUMMARY OF RESULTS

USAID/Iraq’s agribusiness program began in May 2007. To implement the program, USAID/Iraq awarded a $343 million contract1 to Louis Berger Group Inc. (the contractor) with a 3-year base period, ending April 2010, and 2 option years. In July 2010, USAID/Iraq modified the contract to lengthen the base period and simultaneously exercise the first option period, extending the contract to August 2011. This modification also reduced the total estimated costs to $216 million. According to USAID/Iraq, as of September 30, 2010, $145 million had been obligated, and $109 million had been disbursed. The purpose of this contract was to expand the competitiveness of the private sector in the agriculture and agribusiness sectors. To achieve this goal, the contractor was expected to undertake activities in five program areas:

1. Increased crop diversity and livestock productivity.
2. Delivery of agriculture-related information systems to farmers and food processors.
3. Delivery of sustainable technical programs for soil reclamation and water resources management.
4. Increased competitiveness of agribusiness enterprises.
5. Increased domestic and foreign partnerships to improve the commercial successes of new and existing Iraqi agribusiness.

The objective of this audit was to determine whether the agribusiness program had achieved its main goal: to expand the competitiveness of the private sector in the agriculture and agribusiness sectors. The audit determined that the program had not achieved this goal. Table 1 shows what Louis Berger Group Inc. was contractually required to achieve during the first 3 years and the results it reported.

<table>
<thead>
<tr>
<th>Expected Result</th>
<th>Actual Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Increase agricultural sector productivity according to specific target percentages and targeted crops</td>
<td>The contractor did not measure or report results.</td>
</tr>
<tr>
<td>2. Increase total sales of USAID-assisted enterprises by at least $300 million</td>
<td>The contractor reported $172 million in gross sales, $128 million—or 43 percent—short of its target. None of these reported sales had adequate documentation.</td>
</tr>
<tr>
<td>3. Increase and monitor the value of financial resources raised by assisted enterprises (for example, agribusiness loans), disaggregating data by type of enterprise, type of ownership, and gender</td>
<td>The contractor did not measure or report results.</td>
</tr>
<tr>
<td>4. Generate at least 40,000 new agricultural and agribusiness jobs—20,000 full-time and 20,000 part-time</td>
<td>The contractor reported generating 30,000 new jobs (not disaggregated by full-time and part-time), 10,000 jobs (25 percent) short of its target. None of the reported new jobs had adequate documentation.</td>
</tr>
</tbody>
</table>

The lack of supportable agribusiness program results can be attributed to several factors,

1 This was a cost-plus-fixed-fee, level-of-effort contract.
foremost among them mismanagement. Although USAID/Iraq did propose—through the contract and through approval of the contractor’s performance monitoring plan—a rigorous methodology for measuring results of the program, the mission and the contractor did not use it and simply did not focus on managing for results. This was evident through numerous problems with program implementation:

- Performance results were not measured, reported, or supported (page 5).
- Field monitoring was not used effectively (page 7).
- Subcontracts costing $9.8 million lacked adequate documentation and were susceptible to fraud (page 9).
- Grants costing $6.9 million with special conditions were not monitored and were susceptible to fraud (page 11).
- Grants costing $6.3 million that were awarded to microfinance institutions were not monitored (page 14).
- USAID/Iraq’s evaluation of the agribusiness program was not shared with contractor management (page 16).
- The contract budget was changed so that it did not align with program areas (page 17).
- The performance management plan was not current, not realistic, not aligned with implemented projects, and not used to manage the program (page 18).
- USAID/Iraq did not perform required data quality assessments on key data reported to USAID headquarters (page 20).
- The contractor’s property accounting system was not approved, and required annual reports on government property were not submitted (page 21).

Because of these problems, USAID/Iraq did not track whether the agribusiness program’s goals were on schedule, behind schedule, or not on schedule for achievement. Without such knowledge, the mission was unable to manage the contract effectively or measure the impact that activities had on the achievement of program goals.

According to the USAID/Iraq contracting officer’s technical representative (COTR), the mission was working to address the issues identified in the audit and was in the process of (1) finalizing work plans for fiscal years 2010–2011, (2) making arrangements to perform data quality assessments on the results reported by the contractor, and (3) revising the contractor’s performance management plan. All are positive steps.

The audit recommends that USAID/Iraq:

1. Establish mechanisms to verify the contractor’s significant reported results (page 7).
2. Increase program oversight through the remainder of Option Period 1 to verify that the contractor focuses on expected results (page 7).
3. Require its contracting officer’s technical representatives (COTRs) to provide activity managers with copies of applicable sections of contracts and agreements to improve their ability to measure progress against expected results (page 9).

4. Require the contractor to comply with its internal procedures to support claimed subcontract costs, and verify the contractor’s completed actions (page 11).

5. Suspend payments to the contractor for costs related to subcontracts until implementing actions are completed for Recommendation 4 (page 11).

6. Determine the allowability of and collect, as appropriate, $9,805,244 in questioned, unsupported costs for 19 identified subcontracts that were also susceptible to fraud (page 11).

7. Require the contractor to comply with its internal procedures and grant requirements in the contract by developing an adequate records system to support claimed grant costs, and verify the contractor's completed actions (page 14).

8. Suspend payments to the contractor for costs related to grants until implementing actions are completed for Recommendation 7 (page 14).

9. Make a complete inventory of grants awarded by the contractor since program inception, review grant files to ensure that documentation is adequate to support procurement and monitoring requirements, and question and collect amounts for those grants not adequately supported (page 14).

10. Determine the allowability of and collect, as appropriate, $6,947,938 in questioned, unsupported costs for the five identified grants with special conditions (page 14).

11. Determine the allowability of and collect, as appropriate, $6,296,758 in questioned, unsupported costs for the three identified grants to microfinance institutions (page 16).

12. Determine whether evaluations issued during fiscal years 2009 and 2010 have all been appropriately shared with implementing partners, and if not, immediately share the evaluation results (page 16).

13. Determine what kind of budget and financial reports will support the mission’s oversight role, and instruct the contractor to provide reports that meet this need (page 18).

14. Require the contractor to update the performance management plan so that it contains realistic targets and aligns with planned projects to clearly measure progress against expected results, and approve the updated performance management plan in writing (page 20).

15. Conduct a data quality assessment of contractor performance indicators for increased gross sales and jobs created (page 21).

16. Require that the contractor submit its property accounting system for approval, and determine whether that system is acceptable for managing government property according to USAID Acquisition Regulation requirements (page 22).
17. Require the contractor to submit annual property reports for government property for 2007, 2008, 2009, and 2010 according to USAID Acquisition Regulation requirements (page 22).

Detailed findings appear in the following section. Our evaluation of management comments is on page 23. Appendix I contains a description of the audit scope and methodology. Appendix II contains the full text of management comments.
AUDIT FINDINGS

Performance Results Were Not Measured, Reported, or Supported

The Government Accountability Office’s Standards for Internal Control in the Federal Government\(^2\) states that “all transactions and other significant events need to be clearly documented and the documentation should be readily available for examination.” According to USAID’s Automated Directives System (ADS) 203.3.5.1, “Data Quality Standards,” for data to be reliable, there should be consistent methods of collection and analysis over time so that if the data collection and analysis were repeated by different analysts, they would come to the same conclusion.

Aggregate Results. Contrary to the guidance, the contractor did not measure or report performance results on two of the four contract expected results and did not support results reported for the other two:

- **Increase agricultural sector productivity.** The contractor did not establish a methodology for measuring results. Therefore, although targets were established, they were not based on a documented analysis of existing conditions that included required surveys and baseline data.

- **Increase financial resources for agribusiness such as agribusiness loans.** The contractor never measured or reported results.

- **Increase agribusiness gross sales by $300 million.** The contractor reported results that were not supported, and data was not readily available for review.

- **Generate 40,000 new jobs in the agriculture/agribusiness sectors.** The contractor reported results. However, these results were not supported, and results data was not readily available for review.

Asked by auditors for support for the two reported results, the contractor required 2 months to provide a list of implemented projects to support gross sales and new jobs data.

Results for Individual Projects. As of January 2010, the contractor had reported results for 13 of 57 projects. However, the contractor did not comply with the data collection and analysis methodologies defined in the performance management plan; instead, the contractor used several methods (none documented) to derive the project results shown in Table 2.

---

\(^2\) GAO/AIMD-00-21.3.1, November 1999.
A vegetable seed project reported gross sales of $67 million (#3 in Table 2). The project entailed distributing free seeds to about 900 farmers within 1,200 square miles. The contractor derived gross sales based on the assumption that 100 percent of the seeds planted would yield vegetables and would be sold at an estimated price. However, the contractor could not provide support for this estimated price, the yields, or the amount of land planted.

A wheat seed distribution project (#8 in Table 2) reported $21 million in gross sales and 10,800 jobs generated. For documentation, the contractor provided a spreadsheet used to track sales and a photocopy of a document entitled “QI 01Oct 2009 – 30 Dec 2009.” According to the spreadsheet, the increase in gross sales through the seed distribution was $8.3 million. The document reported $21 million in gross sales derived from the $8.3 million adjusted with a multiplier\(^3\) of 2.5. The same situation applied to jobs generated, where the spreadsheet reported 5,400 jobs created before applying a 2.0 multiplier. No evidence supporting the spreadsheet data was provided. The distribution occurred at five locations, yet the contractor reported the exact same number of sales and jobs for each location. This uniformity, combined with the lack of supporting documentation, indicated a lack of validity for reported results. According to the USAID provincial reconstruction team (PRT) representative in Babel, the project was a free seed distribution project with no subsequent monitoring.

---

\(^3\) Multipliers for sales and jobs were introduced in the contractor’s third annual work plan for May 2009–April 2010. Multipliers were not included in the performance monitoring plan or in prior-year work plans. The multipliers were based on the work of John Mellor, an agricultural economist. According to the work plan, which uses Mellor’s 1998 data from Egyptian economic resurgence, each new dollar in agriculture should generate $2.50 in additional rural incomes. The work plan used a multiplier of 2.0 for jobs, estimating that each job created would indirectly create two additional jobs. We did not assess whether the use of multipliers was appropriate or whether the multipliers of 2.5 and 2.0 were correct.
Other examples were the fish farm rehabilitation project and the fish-farming project, which reported $64,122,500 in combined gross sales and 11,872 total jobs generated (#10 and #11 in Table 2). For documentation, the contractor provided a photocopy of a single piece of paper entitled “QI 2009 01Oct 2008 – 31 Dec 2008.” According to this piece of paper, the actual increase in gross sales through the fish farm rehabilitation project was $5.1 million (before applying the 2.5 multiplier), and jobs created numbered 265 (again before applying the 2.0 multiplier). No other supporting documentation was provided. The owner stated that the business had not provided sales receipts to the agribusiness program and also acknowledged that the contractor had not requested the total number of jobs created. For the fish-farming project, the contractor applied a different methodology for collecting and analyzing data. One hundred farmers were provided fish and some equipment. Reported results were supported by a survey of 16 farmers to determine how many fish they received and how much they received for each fish sold. Reported sales totaled $20,509,000 before the contractor applied a 2.5 multiplier, but no documentation was available to support the total sales figure reported. In addition, no support was available for the 11,342 jobs created.

Although a rigorous methodology was outlined in the contractor’s performance monitoring plan, it was not realistic and not used. USAID officials did not receive results, did not enforce the requirement for reporting results, and did not monitor the results that were reported to ensure that they had adequate support. Over the 3-year period of contract implementation, this contract had five different COTRs, each lasting an average of 7 months. Contractor officials could not explain why the performance monitoring plan was ignored. The last two USAID/Iraq COTRs both stated that the performance monitoring plan was not useful—one calling it an inflexible document, and the other acknowledging that it needed to be revised. Complicating oversight was the lack of files documenting oversight essential to program implementation. Documentation that is essential to project oversight—such as proof of the COTR’s inspection and receipt or acceptance of deliverables, and copies of other performance records—was not included in the files. As a consequence, USAID/Iraq could not determine the progress or lack of progress of the contractor to achieve expected results. Given the problems with program implementation and performance, existing oversight roles are not sufficient. Therefore, we make the following recommendations.

**Recommendation 1.** We recommend that USAID/Iraq establish mechanisms to verify the contractor’s significant reported results.

**Recommendation 2.** We recommend that USAID/Iraq increase program oversight through the remainder of Option Period 1 to verify that the contractor focuses on expected results.

**Field Monitoring Was Not Used Effectively**

In May 2009, USAID/Iraq issued Mission Order 202-3-4-3, “Roles and Responsibilities of USAID Provincial Reconstruction Team (PRT) Representatives as Activity Managers.” The mission order outlined the responsibilities of USAID PRT representatives as activity managers to achieve foreign assistance results in their geographic areas of responsibility. Given the complexity and size of USAID/Iraq programs, the mission order intended to promote a decentralized oversight role. The responsibilities for the USAID PRT representatives included:
• Helping assess impact.
• Identifying important changes.
• Providing analysis and advice on program implementation.
• Tracking performance inputs.
• Monitoring performance, including adherence to work plans, and visiting project sites.

Although the contract does not require Louis Berger to provide documents to PRT representatives, the mission order directs all implementing partners to provide copies of all their quarterly progress and performance reports to the USAID PRT representatives. To fulfill their roles, USAID PRT representatives must have key information. For example, to properly understand and advise on an activity, the PRT representative should have a detailed description of the activity, including the anticipated inputs, the anticipated outputs, and how those outputs are to be achieved. Similarly, project work plans and quarterly progress and performance reports are crucial to properly monitoring ongoing project performance and results.

However, in many cases, the PRT representatives were not receiving these and other essential documents (such as the basic contracts and agreements). For example, a PRT representative reported being unable to obtain a copy of the work plan despite several requests to the contractor and the COTR. According to the PRT representative, the contracting officer stated that the decision to distribute work plans was a decision for the COTR. Additionally, having asked the contractor for information on site locations, the PRT representative did not receive that information until after the activities had started. Another PRT representative said that it took almost 1 year for the contractor to provide information such as how much money was being spent on projects in the area, the purpose of the projects, which projects related to the work plan, and which projects were completed or ongoing. The PRT representative further stated that an official working for the contractor said that it was the representative’s responsibility to find the farmers in the areas for grants—not the contractor’s responsibility.

The problems stemmed from the PRT representatives having to rely on the implementing partners to provide documents to them. As a consequence, PRT representatives stated that they were limited in their ability to fulfill their responsibilities as activity managers, including on-site monitoring.

In their written response to the draft audit report (Appendix II), mission officials stated that the current mission orders referenced would no longer be valid as of June 2011 because the PRT office will be closing. Mission officials also stated that they would agree with a modified recommendation that new mission guidance requires that activity managers should receive a copy of applicable sections of contracts and agreements, such as the scope of work, and required deliverables, as a means to improve their ability to measure progress against expected results.

The mission further stated in its response that the distribution of implementing partners’ performance reports is governed by requirements contained in contracts and agreements. During the performance of this audit, the audit team noted that PRT representatives were not able to obtain timely information from either the COTR or the implementing contractor. However, mission officials noted that the situation has greatly improved, and the COTR has now established a close working relationship with both the PRT representatives and the newly hired Foreign Service National activity managers. As a result, the COTR is now providing the information to the PRT representatives and Foreign Service National staff that they need to measure progress against expected results.
Therefore, recognizing that the situation has changed, we are making the following recommendation:

*Recommendation 3.* We recommend that USAID/Iraq require its contracting officer’s technical representatives to provide activity managers with copies of the applicable sections of contracts and agreements, such as the scope of work, and required deliverables to improve their ability to measure progress against expected results.

**Subcontracts Lacked Supporting Documentation and Were Susceptible to Fraud**

Federal Acquisition Regulation (FAR) 31.201-2(d) states:

> 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.

In addition, Louis Berger has an internal procurement manual, *Purchasing and Subcontracting Business Policy and Procedures*, which guides the contractor’s federally funded procurements. The manual requires (1) specific file formats for any purchase order or subcontract over $10,000, (2) a purchase requisition for any purchase over $1,000, and (3) at least two bids for all procurements over $3,000. According to the contractor’s manual, the files are to provide complete and accurate documentation of the history of the procurement transaction.

To comply with requirements, each subcontract file should contain the following information:

- The approved purchase requisition
- The written solicitation (where required)
- The written responses to requests for proposals or requests for quotations
- A memorandum justifying sole-source procurement (if no competition)
- A technical evaluation
- A price and cost analysis
- A memorandum of negotiations
- The basis of the award form
- A copy of purchase orders or subcontracts and all change orders
- Insurance certifications
- Copies of suppliers’ invoices
- Correspondence, internal and external, related to the purchase order and subcontract
- Other purchase order and subcontract documentation as required by the purchase orders and subcontracts’ terms and conditions
- The final contractor release forms
- A procurement documentation checklist indicating the documentation in the file

Table 3 lists the 19 subcontracts, costing $9.8 million, that were not supported.

Table 3. List of Agribusiness Projects With Questioned Subcontract Costs

<table>
<thead>
<tr>
<th>Project</th>
<th>Questioned Costs ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Feed grain project</td>
<td>76,938</td>
</tr>
<tr>
<td>2. Winter crop project</td>
<td>1,622,112</td>
</tr>
<tr>
<td>3. Vegetable seed project</td>
<td>540,900</td>
</tr>
<tr>
<td>4. Greenhouse project</td>
<td>35,985</td>
</tr>
<tr>
<td>5. Tomato demonstration project</td>
<td>30,404</td>
</tr>
<tr>
<td>6. Barley demonstration project</td>
<td>50,000</td>
</tr>
<tr>
<td>7. Wheat seed distribution project</td>
<td>706,000</td>
</tr>
<tr>
<td>8. Fish farm rehabilitation project</td>
<td>593,700</td>
</tr>
<tr>
<td>9. Fish-farming project</td>
<td>5,066,181</td>
</tr>
<tr>
<td>10. Date workshop</td>
<td>21,620</td>
</tr>
<tr>
<td>11. Butcher’s focus group survey</td>
<td>3,171</td>
</tr>
<tr>
<td>12. Poultry industry overview update</td>
<td>21,000</td>
</tr>
<tr>
<td>13. Crop land survey</td>
<td>95,370</td>
</tr>
<tr>
<td>14. Agriculture exposition</td>
<td>130,719</td>
</tr>
<tr>
<td>15. Cold-chain assessment</td>
<td>3,910</td>
</tr>
<tr>
<td>16. Refrigerated capacity survey</td>
<td>5,000</td>
</tr>
<tr>
<td>17. Bank training project</td>
<td>40,000</td>
</tr>
<tr>
<td>18. Windmill project</td>
<td>33,797</td>
</tr>
<tr>
<td>19. Orchard and vineyard project</td>
<td>728,437</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9,805,244</strong></td>
</tr>
</tbody>
</table>

According to the contractor’s procurement manual, the files are to provide a complete and accurate documentation of the history of the procurement transaction. The following three examples illustrate the information contained in the files for each subcontract. Appendix III describes the files for all 19 subcontracts.

(1) The feed grain project cost $76,938 (#1 in Table 3). The documentation in the procurement files consisted of (1) a copy of the subcontract, (2) a copy of a voucher with an accompanying purchase order for $7,750 to another company that was subcontracted to the first subcontractor, and (3) a copy of a work order from the PRT. No other documentation was available. The contractor’s payment records did not identify payments of $76,938 to the vendors.
The winter crop project cost $1,622,112 (#2 in Table 3). The documentation in the procurement files consisted of (1) a copy of one subcontract for $87,403, (2) a copy of a subcontract modification, (3) a copy of the project implementation plan, and (4) a copy of a work order from the PRT. In addition, the contractor’s payment records showed that cash was disbursed to two subcontractors in the amounts of $87,403 and $1,534,709. Although there was a copy of the subcontract for $87,403, the contractor was unable to provide a copy of the other subcontract for $1,534,709.

The fish-farming project cost $5,066,181 (#9 in Table 3). The documentation in the procurement files consisted of (1) a subcontract awarded to the Euphrates Fish Farm to provide 6 million carp fingerlings at a cost of $3,000,000, (2) nine purchase orders for palletized feed to the same Euphrates Fish Farm totaling $770,250, (3) four additional purchase orders totaling $81,680. These three items do not sum to the project cost of $5,066,181. Furthermore, the contractor’s payment records did not identify payments to the subcontractor.

Because the other subcontracts had a similar lack of support, we are identifying the costs incurred under all 19 subcontracts as questioned costs for contracting officer determination. Further, the absence of supporting documentation has made Louis Berger program procurements susceptible to unintentional errors, loss, misappropriation, and fraud. For example, fraud could be occurring without detection in the procurement phases outlined in the Office of Inspector General/Office of Investigations Fraud Indicators Handbook: identification of needs for goods or services, development of statements of work and specifications, presolicitation phase, solicitation phase, evaluation of bids and proposals, award of the contract, negotiation of the contract, and the postaward phase. As a consequence, the audit team makes the following recommendations.

**Recommendation 4.** We recommend that USAID/Iraq (1) require the contractor to comply with its internal procedures by developing an adequate records system to support claimed subcontract costs and (2) verify the contractor’s completed actions.

**Recommendation 5.** We recommend that USAID/Iraq suspend payments to the contractor for costs related to subcontracts until implementing actions are completed for Recommendation 4.

**Recommendation 6.** We recommend that USAID/Iraq’s Office of Acquisition and Assistance determine the allowability of and collect, as appropriate, $9,805,244 in questioned, unsupported costs for the 19 identified subcontracts.

**Grants With Special Conditions Were Not Monitored and Were Susceptible to Fraud**

The Code of Federal Regulations (22 CFR 226.14, “Special Award Conditions”) states that if an applicant or recipient has:

---

a history of poor performance, is not financially stable, has a management system that does not meet the standards prescribed in this part, has not conformed to the terms and conditions of a previous award, or is not otherwise responsible, the USAID Agreement Officer may impose additional requirements as needed, provided that such applicant or recipient is notified in writing as to: The nature of the additional requirements, the reason why the additional requirements are being imposed, the nature of the corrective action needed, the time allowed for completing the corrective actions, and the method for requesting reconsideration of the additional requirements imposed. Any special conditions will be promptly removed once the conditions that prompted them have been corrected.

ADS 303.3.9.2, “High Risk Recipients,” notes that although 22 CFR 226 is not directly applicable to awards to non-U.S. organizations, the standards in 22 CFR 226 may be used for non-U.S. recipients. ADS also notes that an agreement officer may consider making a high-risk award with “special award conditions” only if it appears likely that the potential recipient can correct its deficiencies in a reasonable period of time. To minimize the risk of such awards, the following temporary conditions may be added: (1) special award conditions and (2) technical assistance to the recipient.

The contract laid out specific requirements for the contractor in awarding and managing grants, regardless of recipient. The requirements are as follows.

- The contractor shall comply in all material respects with ADS Chapter 303, “Grants and Cooperative Agreements to Non-Governmental Organizations,” in awarding and administering grants, as well as with 22 CFR 226 (Agency for International Development Part 226—“Administration of Assistance Awards to U.S. Non-Governmental Organizations”) to the extent that it may be relevant to such grants.

- Prior USAID approval must be obtained for grants in accordance with ADS 302.5.6.

- The COTR must approve the criteria for and selection of all grantees.

- These grants will be awarded competitively. Limited competition may be considered. However, a program description and a list of prospective applicants must be approved by the cognizant technical officer.

- Contracting officer approval is required for all grants over $100,000.

- Minimum evaluation criteria will be proposed by the contractor and approved by USAID.

- The contractor will carry out any necessary preaward actions with respect to the proposed grantees, such as financial reviews and an assessment of management capability, in accordance with criteria to be provided by USAID.

- The contractor will ensure postaward management—reporting, audits, etc.—in accordance with USAID directives and policies.

---

5 USAID approved a waiver to competition requirements. The contractor’s memorandum of negotiations for these grants does not mention this existing waiver, and USAID/Iraq had not modified the contract with Louis Berger to conform with the waiver.
The contractor awarded five grants with special conditions; the grants had questioned costs amounting to approximately $7 million as listed in Table 4.

Table 4. Questioned Costs Under Grants With Special Conditions

<table>
<thead>
<tr>
<th>Grant</th>
<th>Questioned Costs ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Retail farmers’ market project</td>
<td>327,420</td>
</tr>
<tr>
<td>2. Canning factory revitalization project</td>
<td>5,078,631</td>
</tr>
<tr>
<td>3. Mushroom farm project</td>
<td>623,287</td>
</tr>
<tr>
<td>4. Packing shed project at Rabee</td>
<td>459,300</td>
</tr>
<tr>
<td>5. Packing shed project at Taji</td>
<td>459,300</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,947,938</strong></td>
</tr>
</tbody>
</table>

The regular grant conditions common to these five grants and grantees were monthly financial reports; three grantees (the exceptions being the two packing shed grants) were required to submit monthly progress reports. Each of the grant agreements outlined detailed parameters for these reports. For example, the packing shed grant agreements required the monthly financial reports to show prior-period expenses, current month’s expenses, current-period expenses, remaining budget balance, and percentage of remaining budget balance. The mushroom farm project grant agreement required a monthly progress report to show the number of persons employed full-time and part-time, segregated by gender and product line; the cost and amount of agricultural inputs procured and produce produced; equipment utilization records; maintenance reports for all equipment procured under this grant based on the manufacturer's recommended operation and maintenance procedures; activity logs for each product line; and a summary of completed infrastructure rehabilitation activity and projected activity for the next 30 days.

In addition to these regular grant conditions, each of the five grants included special conditions. For example, the grant agreement for the retail farmers’ market project required periodic implementation meetings, site visits to view progress toward project objectives, and acceptable management and accounting/financial control systems. In addition, the agreements for the two packing shed grants required the special conditions of technical assistance to establish and maintain management, accounting, purchasing, property management, and personnel systems. The contractor was supposed to have assisted the grantees by providing technical assistance for a period not to exceed 2 months. After 2 months, a survey was to determine improvement and whether the recipient had the necessary management competence to plan and carry out the assistance program. If the grantee’s competence could not be determined, the award would be subject to cancellation.

Aside from USAID/Iraq approving all five grants as required and the contractor having a plan to conduct audits of the grants, the contractor did not adhere to the contract requirements or to the five grant requirements including special conditions. The contractor did not monitor the grants or retain support for the grants, as illustrated in the following example.

The canning factory revitalization project cost $5,078,631 (#2 in Table 4). The contractor’s project files showed no documentation that the contractor had monitored or evaluated the grantee’s performance or reports as required. Furthermore, the contractor did not monitor adherence to special conditions of the grant, including acceptable management, accounting,
and financial control systems. USAID/Iraq hired a consultant to provide technical and business advice to the canning factory, to coordinate a revitalization of the tomato line, and to work with the factory manager to develop a business plan and to create a regional marketing strategy. Despite these efforts, the consultant’s report stated that “Most of the line should not be restarted because the equipment and facilities that house them are not fit to handle human food.”

Appendix IV describes the files for all five grants. In addition, other grants may have existed, but the contractor’s accounting records obscure their existence.

FAR 31.201-2(d) 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. The contracting officer may disallow all or part of a claimed cost that is inadequately supported. Contractor staff could not explain why contract and grant requirements were not monitored.

Louis Berger did not adequately support these five grants, and the absence of supporting documentation has made the grants susceptible to unintentional errors, loss, misappropriation, and fraud. Consequently, we are identifying the grants as questioned for contracting officer determination, and we make the following recommendations.

**Recommendation 7.** We recommend that USAID/Iraq (1) require the contractor to comply with its internal procedures and grant requirements within the contract by developing an adequate records system to support claimed grant costs and (2) verify the contractor’s completed actions.

**Recommendation 8.** We recommend that USAID/Iraq suspend payments to the contractor for costs related to grants until implementing actions are completed for Recommendation 7.

**Recommendation 9.** We recommend that USAID/Iraq make a complete inventory of grants awarded by the contractor from program inception, review grant files to ensure that documentation is adequate to support required procurement and monitoring requirements, and question and collect amounts for those grants not adequately supported.

**Recommendation 10.** We recommend that USAID/Iraq’s Office of Acquisition and Assistance determine the allowability of and collect, as appropriate, $6,947,938 in questioned, unsupported costs for the five identified grants with special conditions.

**Grants to Microfinance Institutions Were Not Monitored**

The USAID/Iraq contract with Louis Berger contains the following requirements for all grants:

- The contractor shall comply in all material respects with ADS Chapter 303, “Grants and Cooperative Agreements to Non-Governmental Organizations,” in awarding and administrating grants, as well as with 22 CFR 226 (Agency for International Development Part 226—“Administration of Assistance Awards to U.S. Non-Governmental Organizations”) to the extent that it may be relevant to such grants.
• Prior USAID approval must be obtained for grants in accordance with ADS 302.5.6.

• The COTR must approve the criteria for and selection of all grantees.

• These grants will be awarded competitively. Limited competition may be considered. However, a program description and a list of prospective applicants must be approved by the cognizant technical officer.

• Contracting officer approval is required for all grants over $100,000.

• Minimum evaluation criteria will be proposed by the contractor and approved by USAID.

• The contractor will carry out any necessary preaward actions with respect to the proposed grantees, such as financial reviews and an assessment of management capability, in accordance with criteria to be provided by USAID.

• The contractor will ensure postaward management—including reporting, audits, etc.—in accordance with relevant regulations and with USAID directives and policies.

The contractor awarded three grants valued at $6.3 million to microfinance institutions (Table 5).

Table 5. Questioned Costs Under Grants to Microfinance Institutions

<table>
<thead>
<tr>
<th>Grant</th>
<th>Questioned Costs ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Micro-Finance-Iraq Company for Small and Medium Enterprise</td>
<td>1,050,000</td>
</tr>
<tr>
<td>2. Al-Thiq Micro-Finance Program</td>
<td>4,068,912</td>
</tr>
<tr>
<td>3. Izdiharona Micro-Finance Program</td>
<td>1,177,846</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,296,758</strong></td>
</tr>
</tbody>
</table>

The three grant agreements included both common and unique requirements for each grantee. The common grant requirements were the monthly submission of reports on financial status, loan status, and portfolio at risk, as well as the income statement and balance sheet. In addition, the microfinance institutions were required to submit quarterly outreach reports showing the volume of clients by type of service and by geographic location. Besides these recurring reports, each grant included unique requirements, such as one directing that all repayments for loans were to be redirected into further farm credits.

Apart from USAID/Iraq approving all three microfinance grants as required and the contractor having a plan to conduct audits of the grants, the contractor did not adhere to the contract requirements or to the three grants’ specific requirements. In addition, the contractor did not monitor the individual grant requirements.

FAR 31.201-2(d) 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. The contracting officer may disallow all or part of a claimed cost that is inadequately
supported. These three grants were not adequately supported, and we are identifying them as questioned for contracting officer determination.

**Recommendation 11.** We recommend that USAID/Iraq’s Office of Acquisition and Assistance determine the allowability of and collect, as appropriate, $6,296,758 in questioned, unsupported costs for the three identified grants to microfinance institutions.

**Program Evaluation Was Not Shared With Contractor**

ADS 203.3.6.7, “Responding to Evaluation Findings,” states that USAID mission staff should share and openly discuss evaluation findings, conclusions, and recommendations with relevant stakeholders, including partners, unless there are compelling reasons for not doing so. The Office of Inspector General/Iraq’s “Audit of USAID/Iraq’s Monitoring and Evaluation Performance Program,”

Note that USAID/Iraq had not shared an evaluation report with the implementer of the local governance program despite USAID requirements. Based on the audit’s recommendation, USAID/Iraq issued Mission Order 08-10-01, reiterating the ADS requirements.

Even so, USAID/Iraq had not shared or openly discussed a March 2009 evaluation of the agribusiness program with the contractor. The contractor’s chief of party for the agribusiness program stated that the results of the evaluation were never shared with him; the contracting officer did not know whether the results were shared or discussed with the contractor. The evaluation results included:

- The agribusiness program was still a program without a clear purpose despite almost two-thirds of the planned program life completed.
- The program lacked a clear program vision and a consistently articulated statement of program goals, objectives, technical activities, geographic focus, and expected impact.

Furthermore, the evaluation reported that program implementation was complicated by relentless short-termism and an emphasis on immediate action in support of political and strategic objectives. The evaluation report also stated that (1) the timing of agricultural development activities depends on the crop cycles, and a focus on short-term results corrupts the long-term process needed to address root problems and (2) as a result, program implementation tries to balance short-term compelling demands for action with the longer-term activities needed to achieve development impact.

Had it been aware of the evaluation results, the contractor could have worked with USAID/Iraq to fix the problems that were hampering the accomplishment of the program’s goals. Furthermore, USAID/Iraq paid $25,000 for this evaluation. Particularly in light of USAID’s increased emphasis on evaluation, not sharing evaluation results renders written procedures pointless, defeats the purpose of these evaluations, and squanders government funds.

**Recommendation 12.** We recommend that USAID/Iraq review its evaluations issued during fiscal years 2009 and 2010 to determine whether they have all been appropriately shared with implementing partners, and if not, immediately share the evaluation results.

---

Contract Budgeting Did Not Align With Program Areas

ADS 200.3.2, “Guiding Principles,” identifies “Managing for Results” as one of the five guiding principles for performing work and achieving development results all over the world. Managing for results means that USAID seeks to define and organize its work around the end result it seeks to accomplish. The original May 2007 contract for the agribusiness program included eight budget categories, five of which aligned with the program areas as follows.

1. Increase crop diversity/livestock productivity.
2. Deliver in-country agriculture-related information systems to farmers and food processors.
3. Deliver sustainable technical programs for soil reclamation and water resources management.
4. Increase competitiveness of agribusiness enterprises.
5. Increase domestic and foreign partnerships to improve the commercial successes of new and existing Iraqi agribusiness.
8. Fee.

In addition, the contract linked the four intermediate results to each of the five program areas. As a result, the program budget was linked to the performance management plan, the results framework, and expected results.

However, in both February and September 2008, USAID/Iraq modified the contract and realigned the budget according to eight cost categories used in the contractor's accounting system. According to a USAID/Iraq internal memorandum, the contract modification was intended to provide the contractor greater flexibility. The eight new cost categories were:

1. Labor and fringe
2. Allowances
3. Overhead
4. Travel, transportation, and per diem
5. Other direct costs
6. Subcontractors
7. Grants
8. Fixed fee

As a result of the budget modification, USAID/Iraq did not have the ability to monitor costs by program area or to track the budgetary consequences for expected results by program area.

In addition to the budget misalignment, the contractor and USAID/Iraq employed other budgeting practices that limited effective oversight. For example, a September 2008 contract
modification required the contractor to submit monthly financial reports for the contract and each subcontract showing disbursements and accruals to date, budget estimates, subcontract obligations, change orders, anticipated change orders, and estimated cost to complete. However, the contractor did not comply with the requirement to submit monthly financial statements for both the contract and subcontracts until June 2010.

In addition, two budget-related recommendations from a prior audit of USAID/Iraq’s agribusiness program7 dated September 30, 2008, were not effectively implemented. The report recommended that USAID/Iraq reprogram any funds remaining from the $5 million allocated to the master’s degree activity and put them to better use. The mission agreed with the recommendation, discontinued the master’s degree program, and stated that the $5 million would be put to better use. The mission did not, however, provide information as to how the $5 million was put to better use.

The prior report also recommended that the contractor submit financial reports on spending by commodity cluster activities, which were further breakdowns of program areas. The mission agreed with the recommendation and developed a new financial reporting format. A contract modification required the contractor to submit the commodity cluster financial report monthly starting on October 15, 2008. However, as of May 2010, the COTR was unaware of the reporting requirements of the financial reports. In July 2010, the contractor provided eight reports covering the period September 2009 to April 2010. However, the report dated September 2009 was a listing of projects without financial data, and the remaining reports did not align with the intermediate results that the program was expected to accomplish.

The mission’s budgetary practices have hindered program oversight. Contract modifications provided the contractor with flexibility at the expense of USAID/Iraq program oversight and, as a result, obscured the budget allocation of program costs and their resulting impact.

**Recommendation 13.** We recommend that USAID/Iraq determine budget and financial reporting formats that will support its oversight role and instruct the contractor to provide budget and financial reports that meet this need.

**Performance Management Plan Was Not Current, Not Realistic, Not Aligned With Implemented Projects, and Not Used**

According to ADS 200.6, “Definitions,” performance management is the systematic process of monitoring the achievements of program operations; collecting and analyzing performance information to track progress toward planned results; using performance information and evaluations to influence decision making and resource allocation; and communicating results achieved or not attained. ADS also states that a performance management plan is a tool to plan and manage the process of assessing and reporting progress. Although ADS 203.3.3 notes that there is no prescribed format for the performance management plan, it should include a set of performance indicators; provide baseline values and targeted values; disaggregate performance indicators by sex whenever possible; specify data sources; data collection methods; a schedule for data collection; and describe known data limitations, data quality assessment procedures, estimates of the cost of collecting, analyzing, and reporting performance data, and possible evaluation tasks.

---

The contract included a results framework that served as the basis for the contractor to develop a performance management plan. The contractor developed its first performance management plan in September 2007 and developed a second, revised performance management plan in October 2008. Both plans included the elements outlined in ADS. However, the contractor had not updated the performance management plan since October 2008, resulting in its being out-of-date. In addition, the contractor’s performance management plan was not realistic, not aligned with implemented projects, and not used.

The October 2008 performance management plan was outdated. It continued to include two defunct projects to increase the sales and exports of dates and pomegranates. The performance management plan for dates stated that the project was expected to lead to the exportation of 3,000 tons of dates (with an estimated value of $810,000) to Dubai and India in 2008. In 2009, date exports were expected to increase to 25,000 tons at a value of $7.5 million. However, the contractor’s work plans for that same period stated that market studies showed an oversupply of dates and date-processing capacity in the Gulf region. The work plan further noted that the date strategy would need a complete revision. A contractor official noted that the agribusiness program no longer had a date program because the dates were of low quality and there was no export market. However, the performance management plan still reflects the export of dates as a project goal.

As for pomegranates, the performance management plan stated that the project results would lead to the exportation of 100 tons of pomegranates (at a value of $180,000) to Dubai in 2008. In 2009, pomegranates exports were expected to increase to 500 tons at a value of $900,000. A contractor official noted that this project had not been successful because of transportation difficulties in Iraq and was no longer being implemented. However, the performance management plan had not been updated to reflect this change.

The October 2008 performance management plan contained performance measures that were not realistic and, in some cases, not useful. Several of the planned performance indicators did not realistically account for the difficulties of programming in Iraq. Examples follow:

- Several performance indicators required verification of sales invoices from farmers and other agribusiness owners to determine increases in agribusinesses’ gross sales. However, in Iraq, farm owners and business people are not accustomed to sharing sensitive financial information with others, including local Iraqi monitors for the agribusiness program. During audit site visits to several agribusiness projects, farm and business owners refused to produce verifiable financial records to support gross sales generated from projects because they feared government interference and possible danger, including kidnapping. In addition, it was apparent that owners of small rural farms did not keep records of sales through receipts or invoices because transactions were conducted with cash.

- Another indicator was intended to measure the increase in gross sales of fish. However, the indicator did not consider the affordability of feed, which was freely provided through a voucher program. Several farmers said that the feed voucher program was very successful because it made feed affordable for their fish farm business. However, these farmers were concerned that, after the voucher program ended, the price of feed would be too expensive. This indicator did not consider the sustainability of the fish farm project without the free feed inputs.
Another indicator was intended to measure the development of a new market agricultural information system that would provide wholesale prices of major agricultural commodities from 18 wholesale markets across Iraq daily. The contractor expended over $800,000 on this effort. However, according to the USAID/Iraq COTR, the system was not working and was not sustainable.

Other indicators were intended to measure the number and value of loans to agribusinesses by private banks receiving agribusiness program grants. However, the method outlined in the performance management plan for collecting data on the indicators states that the contractor will track grants to private sector banks for agricultural credit, not the number and value of loans to agribusiness by the banks receiving the grant.

Because the October 2008 performance management plan was not an agile management tool, the COTR did not use it. Instead, the COTR stated that he used a performance management plan annex in the work plan to track results. The contractor prepared annual work plans that were intended to align with the October 2008 performance management plan. Yet the contractor's quarterly performance reports simply summarized quarterly activities and did not report annual results against the targets in the performance management plan or the annual work plans. Although the contractor completed various agribusiness projects, they did not align with the October 2008 performance management plan or the annual work plans.

USAID/Iraq did not enforce the requirement to report results against the performance management plan at least quarterly. One of the obvious effects is that USAID/Iraq was not aware of the program's progress against expected results. Although one of the program COTRs developed an ad hoc reporting system for the contractor to show progress on two significant expected results—increase gross sales and generate new jobs—this system excluded two other expected results.

**Recommendation 14.** We recommend that USAID/Iraq (1) require the contractor to update the performance management plan so that it contains realistic targets and aligns with planned projects to clearly measure progress against expected results and (2) approve the updated performance management plan in writing.

**USAID/Iraq Did Not Conduct Data Quality Assessments for Key Data Reported to USAID Headquarters**

ADS 203.3.5.2, “Purpose of Data Quality Assessments,” states that the purpose of a data quality assessment is to ensure that the USAID mission staff are aware of the strengths and weaknesses of data, according to five data quality standards—validity, integrity, precision, reliability, and timeliness—and are aware of the extent to which the data integrity can be trusted to influence management decisions. Data reported to Washington for Government Performance and Results Act reporting purposes or for reporting externally on USAID performance must have had a data quality assessment within the 3 years before submission. USAID missions may choose to conduct data quality assessments more frequently if needed. Managers are not required to do data quality assessments on all performance indicators that they use. However, managers should be aware of the strengths and weaknesses of all indicators.

---

8 From May 2007, USAID/Iraq used six contracting officer's technical representatives, although only one at a time.
USAID/Iraq reported some results of the agribusiness program in its Fiscal Year 2009 Full Performance Plan and Report to Washington, D.C. In that report, USAID/Iraq stated that, by assisting individual entrepreneurs, major commercial producers, and producer associations, the program had increased gross revenue to more than $50,000,000 and created 3,500 new jobs. The mission did not have support for these reported results.

In October 2008, a contractor hired by USAID/Iraq to assess the performance management plan for the agribusiness program issued its final report. The report included data quality assessments of indicators measuring lower-level results, such as number and value of loans, percentage of program-assisted association members trained, and percentage of program-assisted farmers using improved technology. However, the report did not include a data quality assessment of the indicators increase total sales of program-assisted enterprises and increase employment in the agricultural/agribusiness sectors. These two indicators were described as mission-level indicators—the highest level. The report characterized the data quality of these two indicators as “unknown” and further stated: “Needs a DQA [data quality assessment] to assess the source materials for sales. If these come from audited business accounts then reliability is good; otherwise it may be questionable.” Apart from the data quality assessment performed in October 2008, USAID/Iraq had not performed a data quality assessment on any data related to sales increases or job creation.

Because of turnover among mission staff, the audit team could not determine why the October 2008 report did not include data quality assessments for sales and jobs. Nevertheless, USAID/Iraq reported results externally that cannot be supported according to the standards expected for USAID data quality.

Increasing gross revenue and creating jobs are the two key results that the contractor is expected to achieve. The quality of this data should reflect all five of USAID’s data quality standards—validity, integrity, precision, reliability, and timeliness. A rigorous data quality assessment can help ensure the accuracy of the data reported. Therefore, we make the following recommendation.

**Recommendation 15.** We recommend that USAID/Iraq conduct a data quality assessment of contractor performance indicators for increased gross sales and jobs created.

**Contractor’s Property Accounting System Was Not Approved, and Required Reports Were Not Submitted**

USAID Acquisition Regulation (AIDAR) 752.245-71, “Title to and Care of Property,” sets forth a contract clause, included in the contract with Louis Berger Group, Inc. under which contractors must prepare and establish a program, to be approved by the mission, for the receipt, use, maintenance, protection, custody, and care of nonexpendable property for which it has custodial responsibility, including the establishment of reasonable controls to enforce such a program.

AIDAR 752.245-70 also requires the contractor to submit an annual report on all nonexpendable property. The contractor needs to attest that physical inventories of government property are taken at least annually, accountability records for government property agree with inventories, and the total of the accountability records agrees with the property values.
ADS 629.3.3.2, “Property Accounting Systems for Contractors,” also states that USAID does not prescribe a specific system of property accounting for contractors. However, any system employed by a contractor requires written approval by the cognizant property administrator. This process ensures adequate contractor control, accuracy, and consistency in reported information. In addition, the USAID COTR is responsible for:

- Monitoring the contractor’s management of government property.
- Reporting annually on government property and any property acquired by the contractor for use in the contract.
- Verifying the return or disposition of government property.

However, USAID/Iraq officials were uncertain (1) whether the contractor’s system to manage government property had been approved by USAID and (2) whether the contractor had submitted the required annual reports. Contractor officials, too, were uncertain about the status of the required approval and required annual reports until September 2010, when they acknowledged that the system had not been approved and that the reports for 2007, 2008, 2009, and 2010 had not been submitted. The contractor stated that it was in the process of preparing a letter for approval in accordance with the requirements, as well as the required annual reports.

Because of the mission officials’ uncertainty, the mission did not ensure that the property accounting system had been submitted for approval. As a result, USAID/Iraq does not know whether the contractor’s property accounting system can be relied on to account for nonexpendable government property from acquisition to disposal. The mission did not know of the existence of significant assets (such as vehicles, furniture, photographic equipment) procured with program funds, much less whether they were being utilized as intended. Furthermore, the absence of approved reports on nonexpendable property has made program assets susceptible to unintentional errors, loss, and misappropriation and made such irregularities harder to detect. In addition, USAID/Iraq did not monitor program funds that were expended on nonexpendable property. (The contractor has provided estimates of government-funded property from $1.6 million to $2.2 million but was unable to provide support for the estimates.) Had the system been reviewed and approved by USAID and reports provided, USAID would have had assurances of adequate contractor control and accuracy in reported information.

**Recommendation 16.** We recommend that USAID/Iraq (1) require the contractor to submit its property accounting system for approval and (2) determine whether that system is acceptable for managing government property according to USAID Acquisition Regulation requirements.

**Recommendation 17.** We recommend that USAID/Iraq require the contractor to submit annual property reports for government property for 2007, 2008, 2009, and 2010 according to USAID Acquisition Regulation requirements.
EVALUATION OF MANAGEMENT COMMENTS

USAID/Iraq agreed with 11 of the 17 recommendations in its response to the draft audit report. On the basis of the information provided in the mission’s response, we determined that final action has been taken on Recommendations 1, 2, and 13, and management decisions have been reached for Recommendations 3, 4, 7, 9, 14, 15, 16, and 17. Management decisions for Recommendations 5, 8, and 12 can be reached when we agree with USAID/Iraq on firm plans of action, with timeframes for implementing the recommendations. Management decisions for Recommendations 6, 10, and 11 can be reached when USAID/Iraq determines the allowability of questioned costs identified in the draft audit report.

Recommendation 1. The draft report recommended that USAID/Iraq establish mechanisms to verify the contractor’s significant reported results.

USAID/Iraq has taken steps to establish mechanisms to verify the contractor’s results. In doing so, USAID/Iraq now works with the PRT representatives and the locally hired Foreign Service National (FSN) staff to verify the results reported by the contractor. Furthermore, because of the COTR’s improved working relationship with the FSN staff, the COTR is now able to notify the contractor’s chief of party as soon as problems are brought to the COTR’s attention by the FSN staff so that concerns and potential problems concerning verification of results can be addressed immediately.

Final action has been taken on this recommendation.

Recommendation 2. The draft report recommended that USAID/Iraq increase program oversight through the remainder of Option Period 1 to verify that the contractor focuses on expected results.

USAID/Iraq has taken steps to increase the program’s oversight and to verify that the contractor focuses on expected results. To resolve the issues identified pertaining to the lack of focus by the contractor on expected results, USAID/Iraq approved the hiring of a new monitoring and evaluation specialist with 13 years of work experience in agricultural development that included recent work experience in postconflict areas. Additionally, the COTR is making frequent field site visits (most recently to the fish farms in Babel) to discuss with fish farm owners the importance of keeping proper records to account for sales. These actions, together with ongoing discussions between the COTR and the monitoring and evaluation specialist, have substantially increased USAID/Iraq’s oversight abilities to verify that the contractor is focusing on expected results.

Final action has been taken on this recommendation.

Recommendation 3. The draft report recommended that USAID/Iraq revise Mission Order 202-3-4-3 to change the responsibility for distribution of performance reports from the implementing partner to the contracting officer’s technical representative and to require that provincial reconstruction team representatives also receive basic contracts and agreements with which they can assess progress against contractual or agreement requirements.
The mission agreed to a modified recommendation since Mission Order 202-3-4-3 will no longer be valid at the end of June 2011. The mission agreed to incorporate in future guidance on the roles of activity managers a statement that they should receive copies of the applicable sections of a contract or an agreement to assess progress against contractual or agreement requirements.

We recognize that Mission Order 202-3-4-3, “Roles and Responsibilities of the USAID Provincial Reconstruction Team Representatives as Activity Managers,” will no longer be valid at the end of June 2011. We also recognize the importance of activity managers receiving a copy of the applicable sections of a contract or agreement so they can assess progress against contractual or agreement requirements. We acknowledge that the COTR is now providing the information to the PRT representatives and FSN staff that they need to measure progress against expected results.

According to mission officials, they are hiring new staff to take over activity manager responsibilities from the PRT representatives. Once the hiring process is completed and the roles and responsibilities are defined, the mission plans to update the mission order for activity managers. The mission provided a target date of completion for the updated mission order of December 31, 2011. Therefore, we have modified our recommendation to state that USAID/Iraq should require COTRs to provide activity managers with copies of applicable sections of contracts and agreements, such as the scope of work, and required deliverables as a means to improve their ability to measure progress against expected results.

A management decision has been reached on this recommendation.

**Recommendation 4.** The draft report recommended that USAID/Iraq (1) require the contractor to comply with its internal procedures by developing an adequate records system to support claimed subcontract costs and (2) verify the contractor’s completed actions.

The mission agreed with the recommendation to require the contractor to comply with its internal procedures that would provide adequate records to support claimed subcontract costs. According to mission officials, they have emphasized to the contractor the need to properly document all subcontractor costs and completed actions. Mission officials have gone to the contractor’s office to review project documents and have scheduled additional trips to the contractor’s office in June 2011. In response to the draft report, the mission stated that the contractor is making substantial progress in compiling its records to document and support subcontract costs. The mission expects to complete its review of supporting documentation for claimed subcontract costs by December 31, 2011.

A management decision has been reached on this recommendation.

**Recommendation 5.** The draft report recommended that USAID/Iraq suspend payments to the contractor for costs related to subcontracts until the implementing actions were completed under Recommendation 4.

The mission disagreed with the recommendation to suspend payments because of the short project life span remaining in relation to the number of subcontracts outstanding. In its written response, the mission referenced an administrative agreement between USAID and the contractor dated November 5, 2010. Under the agreement, the contractor outlined reforms and remedial actions that included improving the transparency and accuracy of its accounting system and financial controls related to government contracts, improving internal controls and...
its related compliance, making significant personnel changes, and reviewing policies and procedures.

We acknowledge that this contract expires in August 2011. However, as previously stated, the contractor is currently compiling its records to document support costs that were incurred between July 2007 and January 2009 (approximately two and half years after the fact). Furthermore, our audit conclusion is still applicable—that the absence of supporting documentation has made the subcontracts susceptible to unintentional errors, loss, misappropriation, and fraud.

Therefore, due to the absence of auditable supporting records as of May 2011, we continue to recommend the suspension of costs until actions implemented under Recommendation 4 are completed.

No management decision has been reached on this recommendation.

**Recommendation 6.** The draft report recommended that USAID/Iraq's Office of Acquisition and Assistance determine the allowability of and collect, as appropriate, $9,805,244 in questioned, unsupported costs for the 19 identified subcontracts.

The contracting officer has requested information in support of the subcontract costs from the contractor. The contracting officer and other mission officials have also visited the contractor's office three times over the last 30 days to review the contractor's files, and officials plan more trips in June 2011. The contractor is currently compiling its records, and the contracting officer is expected to make a determination regarding questioned costs by December 31, 2011.

No management decision has been reached on this recommendation.

**Recommendation 7.** The draft report recommended that USAID/Iraq (1) require the contractor to comply with its internal procedures and grant requirements within the contract by developing an adequate records system to support claimed grant costs and (2) verify the contractor's completed actions.

The mission agreed with the recommendation to require the contractor to comply with its internal procedures. According to mission officials, they are currently reviewing supporting records to verify the contractor's compliance with its procedures to maintain adequate supporting records. The mission anticipates the completion of the review by December 31, 2011.

We also acknowledge that an approved waiver to competition requirements existed during the period under audit when the grants in question were issued. Although we disclosed our findings to mission officials on November 28, 2010, the waiver was not brought to our attention until April 18, 2011. Additionally, during our review of the contractor's memorandum of negotiations for these grants, no mention was made of this existing waiver for the contractor's basis of the grant awards, and this contract requirement under Section C.5 had not been modified to comply with the waiver when this waiver was still effective. We modified our report to reflect the existence of the waiver but did not alter our audit result because other examples illustrated that the contractor did not monitor or retain support for the grants awarded under this contract.

A management decision has been reached on this recommendation.
**Recommendation 8.** The draft report recommended that USAID/Iraq suspend payments to the contractor for costs related to grants until implementing actions are completed for Recommendation 7.

The mission disagreed with the recommendation to suspend payments because of the short project life span remaining in relation to the number of subcontracts outstanding. In its response, the mission referenced an administrative agreement between USAID and the contractor dated November 5, 2010. Under the agreement, the contractor outlined reforms and remedial actions that included improving the transparency and accuracy of its accounting system and financial controls related to government contracts, improving internal controls and its related compliance, making significant personnel changes, and reviewing policies and procedures.

We acknowledge that this contract expires in August 2011. However, as previously stated by the mission, the contractor is currently compiling records to document support costs that were incurred between July 2007 and January 2009 (approximately two and half years after the fact). Furthermore, our audit conclusion is still applicable—that the absence of supporting documentation has made the grants susceptible to unintentional errors, loss, misappropriation, and fraud.

Therefore, due to the absence of auditable supporting records as of May 2011, we continue to recommend the suspension of costs until actions implemented under Recommendation 7 are completed.

No management decision has been reached on this recommendation.

**Recommendation 9.** The draft report recommended that USAID/Iraq make a complete inventory of grants awarded by the contractor from program inception, review grant files to ensure that documentation is adequate to support required procurement and monitoring requirements, and question and collect amounts for those grants not adequately supported.

The mission agreed with the recommendation and will require the contractor to submit a complete inventory of grants awarded to be spot-checked by USAID/Iraq. Additionally, the mission will require that a sample of grants be reviewed in the incurred cost audits to ensure that documentation is adequate to support procurement and monitoring requirements and to question and collect for those grants not adequately supported. The mission expects this action to be completed by December 31, 2011.

A management decision has been reached on this recommendation.

**Recommendation 10.** The draft report recommended that USAID/Iraq’ Office of Acquisition and Assistance determine the allowability of and collect, as appropriate, $6,947,938 in questioned, unsupported costs for the five identified grants.

The contracting officer has requested information in support of the grant costs from the contractor. The contracting officer and other mission officials have also visited the contractor’s office three times over the last 30 days to review the contractor’s files, and officials plan more trips in June 2011. The contractor is currently compiling its records, and the contracting officer is expected to make a determination regarding questioned costs by December 31, 2011.

No management decision has been reached on this recommendation.
**Recommendation 11.** The draft report recommended that USAID/Iraq’s Office of Acquisition and Assistance determine the allowability of and collect, as appropriate, $6,296,758 in questioned, unsupported costs for the three identified grants to microfinance institutions.

The contracting officer has requested information in support of the grant costs from the contractor. The contracting officer and other mission officials have also visited the contractor’s office three times over the last 30 days to review the contractor’s files, and officials plan more trips in June 2011. The contractor is currently compiling its records, and the contracting officer is expected to make a determination regarding questioned costs by December 31, 2011.

No management decision has been reached on this recommendation.

**Recommendation 12.** The draft report recommended that USAID/Iraq review its evaluations issued during fiscal years 2009 and 2010 to determine whether they have all been appropriately shared with implementing partners, and if not, immediately share the evaluation results.

The mission partially agreed with the recommendation. We recognize that it has been 2 years since the March 2009 evaluation of the agribusiness program was completed, and we also acknowledge that the mission has shared the 2010 evaluation results of the agribusiness program with the contractor. However, the recommendation applies to other existing USAID/Iraq programs that had evaluations completed in fiscal years 2009 and 2010 but had not been shared with the implementers. We discussed the clarification of the recommendation with mission officials, and they disagreed that Recommendation 12 should be applied to all USAID/Iraq programs that had evaluations performed during fiscal years 2009 and 2010. Nevertheless, the mission position is contrary to USAID guidance (ADS 203.3.6.7, “Responding to Evaluation Findings,”) and its own Mission Order 08-10-01.

No management decision has been reached on this recommendation.

**Recommendation 13.** The report recommended that USAID/Iraq determine budget and financial reporting formats that will support its oversight role, and instruct the contractor to provide reports that meet this need.

The mission agreed with the recommendation, and the contractor is now regularly submitting the commodity cluster financial report that was required since September 2008. We also recognize that the COTR is monitoring costs under subcontracts and grants awarded to implement program projects by using additional monthly tracking summaries provided by the contractor.

Final action has been taken on this recommendation.

**Recommendation 14.** The draft audit report recommended that USAID/Iraq (1) require the contractor to update the performance management plan so that it contains realistic targets and aligns with planned projects to clearly measure progress against expected results and (2) approve the updated performance management plan in writing.

The mission agreed with the recommendation and updated its performance management plan (PMP) as of March 14, 2011. We acknowledge that the PMP indicators are now clearly reflected and linked to the current annual work plan for fiscal years 2010-2011. We also acknowledge that the two strategic objectives reflected in the program’s results framework as
described in the PMP are now also reflected in the contract under Modification 13. Furthermore, we understand the ongoing challenges faced by the program to obtain verifiable results to measure progress against expected results due to lack of formal records kept by project grantees and subcontractors to record sales accurately. The COTR is working on solutions to the record-keeping issue and expects to finalize the PMP by July 31, 2011.

A management decision has been reached on this recommendation.

**Recommendation 15.** The draft report recommended that USAID/Iraq conduct a data quality assessment of the contractor performance indicators for increased gross sales and jobs created.

The mission agreed with the recommendation. We acknowledge that a data quality assessment for all program indicators was performed, including performance indicators for gross sales and jobs created. We also acknowledge that the results of the data quality assessment were submitted to USAID/Iraq in January 2011 and are pending approval by the COTR by July 31, 2011.

A management decision has been reached on this recommendation.

**Recommendation 16.** The draft report recommended that USAID/Iraq (1) require that the contractor submit its property accounting system for approval and (2) determine whether that system is acceptable for managing government property according to USAID Acquisition Regulation requirements.

The mission agreed with the recommendation. Mission officials also agreed that the contractor did not have an approved property accounting system and stated that it was one of the systems currently being updated by the contractor in order to meet the terms of the administrative settlement in November 2010 between USAID and the contractor. We acknowledge that, under an administrative settlement between USAID and the contractor reached in November 2010, the contractor’s accounting policies and procedures are being revised to ensure that cost accounting by the contractor is true, accurate, and complete and follows the applicable federal statutes and regulations. The mission expects to complete final action on this recommendation by March 31, 2012.

A management decision has been reached on this recommendation.

**Recommendation 17.** The draft report recommended that USAID/Iraq require the contractor to submit annual property reports for government property for 2007, 2008, 2009, and 2010 according to USAID Acquisition Regulation requirements.

The mission agreed with the recommendation, and has tasked the contractor to provide the required summaries for years 2007 through 2010 to comply with USAID Acquisition Regulation requirements. The mission expects to complete final action on this recommendation by December 31, 2011.

A management decision has been reached on this recommendation.
SCOPE AND METHODOLOGY

Scope

The Office of Inspector General 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 in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis. The objective of this audit was to determine whether the agribusiness program had been achieving its main goal: to expand the competitiveness of the private sector in the agriculture and agribusiness sectors.

The audit covered the first 3 years of implementation of the agribusiness program from inception in May 2007 through May 2010. We collected and reviewed evidence at three levels—USAID/Iraq; the implementing contractor (Louis Berger Group); and individual recipients in Balad, Babel, and Taji. At USAID/Iraq, we reviewed the contract and all modifications, two program evaluations done in March 2009 and July 2010, contractor performance reports prepared by USAID/Iraq, available COTR files, financial data, data quality assessments, the 2009 annual performance report, vouchers submitted by the contractor, two mission orders for monitoring and evaluation, and site reports submitted by USAID PRT members. We also interviewed two contracting officers, two COTRs, ten USAID/Iraq PRT members, two program managers, the head of the financial management office, the head of the program office, and the head and deputy of the provincial reconstruction office. At the office of the contractor, we reviewed the performance management plan, annual work plans, weekly activity reports, quarterly activity reports, procurement files, project files for subcontracts and grants, payment records, and copies of subcontracts and grants. We also interviewed the chief of party, deputy chief of party, the monitoring and evaluation manager, the procurements manager and staff, the finance manager, the director of operations, three area managers, and the property manager. At various locations, we interviewed direct recipients of subcontracts and grants. We also interviewed U.S. Government officials with the U.S. Department of Agriculture and one deputy team leader of the PRT.

We identified and reviewed the internal controls at both USAID/Iraq and the contractor that were significant to answer the audit objective. At USAID/Iraq, we reviewed controls for results reporting as required by the contract, portfolio reviews by USAID/Iraq management, consent to subcontract by the contractor, voucher reviews and approvals, designation letters outlining the responsibilities of COTRs, monitoring requirements from two mission orders, incremental funding increases corresponding to contract modifications, preparing contractor performance reports, the appropriation source of funding that corresponded to program area, property system approvals, and submission of annual property reports. At the contractor, we reviewed controls for data collection including required subrecipient reporting, results reporting including the performance management plan, procurement procedures for subcontracts and grants, procedures to account for property, monitoring and evaluation procedures, and arranging for audits of subrecipients.

We also reviewed findings and recommendations from prior audits by the Office of Inspector General/Iraq, including the July 2008 “Audit of USAID/Iraq’s Monitoring and Evaluation
Appendix I

Performance Program\(^9\) and the September 2008 “Audit of USAID/Iraq’s Agribusiness Program.”\(^{10}\) We also reviewed four prior audits by the Defense Contract Audit Agency.

We conducted our audit at USAID/Iraq in Baghdad, the contractor’s office in the red zone of the Mansoor District of Baghdad, and the following geographic locations—Balad, Babel, and Taji. At these locations, we visited and examined 21 USAID-funded projects.

- At Balad, we visited the canning factory project.

- At Babel, we visited the Middle East Fish Farm Training Center, the Middle East Fish Farm Ponds, the Middle East Fish Farm Hatcheries, the Middle East Fish Farm trainees, the surrounding areas of the fish ponds, the sheep feedlot office, the sheep feedlots, the forage lots, the citrus orchard, the Euphrates Fish Farm training center and business offices, and the Euphrates Fish Farm fish-farming facilities and ponds.

- At Taji, we examined the sheep feedlot, the windmill, the fruit and vegetable packing shed in Taji, the fruit and vegetable packing shed in Rabee, two forklift trucks, the date palm orchard, two strawberry fields, a grape vineyard, and a citrus and plum orchard.

We conducted our audit from November 23, 2009, to November 28, 2010. However, the commencement of fieldwork was delayed until February 14, 2010, because the contractor was unable to provide requested documentation to support reported results. The audit covered all program elements of the agribusiness program with total estimated lifetime costs of $216 million. According to USAID/Iraq, as of September 30, 2010, $145 million had been obligated and $109 million had been disbursed. According to contractor records, $16 million was expended for security costs and $40 million for 57 projects. We did not review security costs except to determine whether the amounts were reasonable.

**Methodology**

To answer the audit objective, we reviewed the expected results from the contract. Elements of the expected results were also transferred to the contractor’s performance management plan, but the contractor did not report directly against the plan. The contract established four expected results. For two of the four, “increase agriculture sector productivity” and “increase financial resources for agribusiness such as agribusiness loans,” the contractor did not report results. According to the contacting officer’s technical representative, monitoring focused on the other two results measuring increased sales and new jobs in the agriculture/agribusiness sectors.” As a result, we also focused our audit fieldwork on these areas with contractor-reported results. For both gross sales and new jobs, the contractor required 2 months to provide a list of implemented projects to support program goals. The list consisted of 57 projects, as of January 2010. Of these 57 projects, 19 were completed, of which 13 projects reported results. For these 13 projects, we reviewed original documentation for all reported results. In addition, we visited 6 of the 13 projects covering 90 percent of the reported sales and 68 percent of the reported jobs generated. At the mission, we reviewed activities that would support monitoring and the review of reported results. Specifically, we reviewed ADS-required portfolio reviews, evaluations, data quality assessments, program reporting to USAID headquarters, and mission monitoring.

---

MEMORANDUM
UNCLASSIFIED

TO: Pam Hamilton, Acting Director Office of Inspector General/Iraq

THROUGH: Alex Deprez, Deputy Mission Director

FROM: Alex Dickie, Mission Director /s/

SUBJECT: Management Response to Draft Audit Report E-267-11-00-X-P


Thank you for the opportunity to comment on the referenced draft audit report of USAID’s Agribusiness Program. This program began in May 2007 and continued to operate during a period of intensive armed conflict in Iraq. While ambitious targets may not have been met, significant progress was and continues to be made. The audit has highlighted problems that the Mission and the contractor are aggressively rectifying. The performance monitoring plan has already been updated as recommended in the audit and is being tracked by the Contracting Officer’s Technical Representative (COTR). Staff from the USAID/Iraq Office of Acquisition and Assistance (OAA) and Financial Management Office (FMO) visited the contractor's office three times in the past 30 days to meet with management and to review the files. Preliminary indications are that the contractor has proper documentation to support claimed costs and compliance with contracting and grant requirements; however, the documentation is spread among various files and it is a matter of gathering the documents into files that can be reviewed and audited. Both the Mission and the contractor take this matter seriously, have taken corrective actions and will continue to closely monitor this process.

On November 5, 2010 an administrative agreement\textsuperscript{11} was signed between USAID and Louis Berger Group, Inc. (LBG). The agreement outlines LBG’s reforms and remedial actions that include improving the transparency and accuracy of its government contracts related accounting system and financial controls, internal controls and its related compliance, significant personnel changes and, review of policies and procedures.

\textsuperscript{11} Administrative Agreement between United States Agency for International Development and The Louis Berger Group, Inc. signed on November 5, 2011
Recommendation No. 1:

*We recommend that USAID/Iraq establish mechanisms to verify the contractor's significant reported results.*

**Management Comments:** The Mission agrees with the recommendation. The performance management plan (PMP) has been updated and is tracked closely by the COTR. Local Iraqi staff are being employed to verify reported results through field inspections. The COTR now provides regularly updated lists of activities to each USAID Provincial Reconstruction Team (PRT) representative, along with geographic grid coordinates, to facilitate access by each representative to activity sites. The COTR also sends lists of questions that the representatives should use in assessing program performance during site visits, receives feedback from the representatives, then asks the contractor chief of party to respond and, if appropriate, implement a solution. Feedback is then provided to the PRT representative.

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

Recommendation No. 2:

*We recommend that USAID/Iraq increase program oversight through the remainder of Option Period 1 to verify that the contractor focuses on expected results.*

**Management Comments:** The Mission agrees with the recommendation. The contractor has employed a monitoring and evaluation specialist with enhanced skills in this area, and a resume for this person is available for inspection. The PMP has been updated and the COTR is meeting frequently with the contractor’s monitoring and evaluation specialist to review progress toward expected results.

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

Recommendation No. 3:

*We recommend that USAID/Iraq revise Mission Order 202-3-4-3 to change the responsibility for distribution of performance reports from the implementing partner to the contracting officer’s technical representative and to require that provincial reconstruction team representatives also receive basic contracts and agreements so that they can assess progress against contractual or agreement requirements.*

**Management Comments:** The Mission disagrees with the recommendation as currently written. The majority of the PRT representatives will depart post by the end of May 2011 and the PRTs begin closing in June 2011. Therefore, the Mission Order 202-3-4-3 ‘Roles and Responsibilities of the USAID Provincial Reconstruction Team Representatives as Activity Managers’ will no
longer be valid. It will not be cost effective to use the time and energy of a government employee and expend taxpayers’ dollars to modify a Mission Order that dies in two months. We recognize the importance of activity managers receiving a copy of the applicable sections of a contract or agreement so they can assess progress against contractual or agreement requirements.

Based on the above, USAID would agree to a modified recommendation to incorporate into any future guidance on roles and responsibilities of activity managers a statement that they should receive a copy of applicable sections of contract and agreements, such as the scope of work and required deliverables as a means to improve their ability to measure progress against expected results. The distribution of performance reports from the implementing partners are governed by requirements contained in contracts and agreements.

**Target date to incorporate this into new guidance**: December 31, 2011.

**Recommendation No. 4:**

*We recommend that USAID/Iraq (1) require the contractor to comply with its internal procedures by developing an adequate records system to support claimed subcontract costs, and (2) verify contractor completed actions.*

**Management Comments**: The Mission agrees with the recommendation. Mission personnel are reviewing the documentation and work of the project on a regular basis to ensure compliance. USAID has emphasized to the contractor the need to properly document all subcontractor costs and completed actions. Staff from the Office of Acquisition and Assistance (OAA) and the Financial Management Office (FMO) has visited the contractor three times in the past 30 days to review its files. Additional visits by OAA and FMO are planned for the end of April and the end of June 201. The contractor is making substantial progress in this area.

**Target date for completion**: December 31, 2011.

**Recommendation No. 5:**

*We recommend that USAID/Iraq suspend payments to the contractor for costs related to subcontracts until implementing actions are completed for Recommendation 4.*

**Management Comments**: The Mission does not agree with the recommendation due to the project lifespan remaining in relation to the number of subcontracts outstanding. However, the Mission will continue to provide close oversight of subcontract implementation and costs. As noted *supra*, the contractor is making substantial progress compiling its’ records that document and support the subcontract costs.

**Recommendation No. 6:**

*We recommend that USAID/Iraq’s Office of Acquisition and Assistance determine the allowability of and collect, as appropriate, $9,805,244 in questioned, unsupported costs for 19 identified subcontracts.*
Management Comments: The Contracting Officer has requested information from the implementing partner and has visited the site three times in the last 30 days with additional staff from OAA and FMO. As noted supra, the contractor is making substantial progress compiling its’ records that document the questioned costs. Additional visits by OAA and FMO are planned for the end of April and the end of June 2011.

Target date for completion: December 31, 2011.

Recommendation No. 7:

We recommend that USAID/Iraq (1) require the contractor to comply with its internal procedures and grant requirements within the contract by developing an adequate records system to support claimed grant costs, and (2) verify contractor completed actions.

Management Comments: The Mission agrees with the recommendation. USAID/Iraq is reviewing the documentation and work of the project on a regular basis to ensure compliance. Staff from OAA and FMO has visited the contractor three times in the past 30 days to review its files. The contractor is making substantial progress in this area. Additional visits by OAA and FMO are planned for the end of April and the end of June 2011.

It should also be noted that on January 16, 2003 pursuant to ADS 303.3.6.5.i, the then Acting Administrator approved an indefinite exception waiver, to the competition requirements for making assistance awards. This waiver was reviewed and approved annually and has been in effect through March 10, 2010. This is because making such awards without the delay of the standard competitive process was determined to be critical to the objectives of the U.S. Foreign Assistance Program in Iraq. On February 10, 2008, the Contracting Officer authorized the COTR to consent to the issuance of grants under the INMA Program.

Target date for completion: December 31, 2011.

Recommendation No. 8:

We recommend that USAID/Iraq suspend payments to the contractor for costs related to grants until implementing actions are completed for Recommendation 7.

Management Comments: The Mission does not agree to the recommendation due to the project lifespan remaining in relation to the number of sub-grants outstanding. However, the Mission will continue to provide close oversight of grant implementation and costs. It is important to note that the contractor is making substantial progress in this area and that the program is changing its focus to more technical assistance than issuance of grants under the contract.

Recommendation No. 9:

We recommend that USAID/Iraq make a complete inventory of grants awarded by the contractor since program inception, review grant files to ensure that documentation is adequate to support procurement and monitoring requirements, and question and collect amounts for those grants not adequately supported.
Management Comments: The Mission agrees to the recommendation. USAID/Iraq will require the contractor to submit a complete inventory of grants awarded. In addition to the spot checks to be conducted by the OAA office, a sampling of the grant files will be done during the cost-incurred audits to ensure that documentation is adequate to support procurement and monitoring requirements and to question and collect for those grants not adequately supported. In addition, staff from OAA and FMO has visited the contractor three times in the past 30 days to review its files and further visits have been planned for the end April and the end of June 2011. The contractor is making substantial progress in this area.

Target date for completion: December 31, 2011.

Recommendation No. 10:

We recommend that USAID/Iraq’s Office of Acquisition and Assistance determine the allowability of and collect, as appropriate, $6,947,938 in questioned, unsupported costs for the five identified grants.

Recommendation No. 11:

We recommend that USAID/Iraq’s Office of Acquisition and Assistance determine the allowability of and collect, as appropriate, $6,296,758 in questioned, unsupported costs for the three identified grants to microfinance institutions.

Management Decision to Recommendations No. 10 and 11: The Contracting Officer has requested information from the implementing partner and has visited the site three times in the last 30 days with additional staff from OAA and FMO. Further visits by the staff of OAA and FMO have been planned for the end April and the end of June 2011. As noted supra, the contractor is making substantial progress compiling its’ records that document the questioned costs.

Target date for completion: December 31, 2011.

Recommendation No. 12:

We recommend that USAID/Iraq review its evaluations issued during fiscal years 2009 and 2010 to determine whether they have all been appropriately shared with implementing partners, and if not, immediately share the evaluation results.

Management Comments: The Mission partially agrees with this recommendation. The Mid-Term Evaluation of the USAID/Iraq Inma Agribusiness Program (INMA) dated March 26, 2009 is considered irrelevant due to the time elapsed. The 2010 evaluations of the agribusiness program has not been officially approved and issued. However, USAID shared the draft report with our implementing partner’s Chief of Party on August 29, 2010. Therefore, we kindly request OIG to acknowledge that final action has been taken and to close this recommendation upon issuance of this report.
**Recommendation No. 13:**

We recommend that USAID/Iraq determine budget and financial reporting formats that will support its oversight role, and instruct the contractor to provide reports that meet this need.

**Management Comments:** The Mission agrees with the recommendation. Two types of reports sufficient to support USAID’s oversight role are now routinely submitted to the COTR by the contractor. One is in the format of a standard invoice summarized by contract CLIN. The other is a detailed report by commodity cluster. The commodity cluster financial report is particularly useful to the COTR in exercising oversight over progress within each commodity cluster. We kindly request OIG to acknowledge that final action has been taken and to close this recommendation upon issuance of this report.

**Recommendation No. 14:**

We recommend that USAID/Iraq (1) require the contractor to update the performance management plan so that it contains realistic targets, aligns with planned projects to clearly measure progress against expected results, and (2) approve the updated performance management plan in writing.

**Management Comments:** The Mission agrees with the recommendation. An updated performance management plan (PMP) and preliminary approval was given by the COTR on March 14, 2011. Further review is ongoing by the COTR. It now contains realistic targets and aligns with planned projects to clearly measure progress against expected results.

**Target date for completion:** July 31, 2011.

**Recommendation No. 15:**

We recommend that USAID/Iraq conduct a data quality assessment of contractor performance indicators for increased gross sales and jobs created.

**Management Comments:** The Mission agrees with the recommendation. A 2010 update to the data quality assessment (DQA) for all indicators was performed and submitted in January 2011, and is pending review and approval by the COTR.

**Target date for completion:** July 31, 2011.

**Recommendation No. 16:**

We recommend that USAID/Iraq (1) require that the contractor submit its property accounting system for approval, and (2) determine whether that system is acceptable for managing government property according to USAID Acquisition Regulation requirements.

**Management Comments:** The Mission agrees with the recommendation. The contractor did not have an approved Property Accounting System; it was one of the systems that were being
updated by the contractor in order to meet the terms of the administrative settlement in November 2010 between USAID and LBG. This recommendation is currently under review until the contractor has approval for the system from the agency.

**Target date for completion:** March 31, 2012.

**Recommendation No. 17:**

We recommend that USAID/Iraq require the contractor to submit annual property reports for government property for 2007, 2008, 2009, and 2010 according to USAID Acquisition Regulation requirements.

**Management Comments:** The Mission agrees to the recommendation. Property inventories were recently received by the COTR. However, the summary form, which totals the value of property by type, is not yet on file. The contractor has been tasked to provide the required summary forms for years 2007 through 2010 and has indicated that the reports will be transmitted to USAID.

**Target date for completion:** December 31, 2011.
SUBCONTRACTS WITH QUESTIONED COSTS

Agribusiness Projects With Questioned Subcontract Costs

<table>
<thead>
<tr>
<th>Project</th>
<th>Questioned Costs ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Feed grain project</td>
<td>76,938</td>
</tr>
<tr>
<td>2. Winter crop project</td>
<td>1,622,112</td>
</tr>
<tr>
<td>3. Vegetable seed project</td>
<td>540,900</td>
</tr>
<tr>
<td>4. Greenhouse project</td>
<td>35,985</td>
</tr>
<tr>
<td>5. Tomato demonstration project</td>
<td>30,404</td>
</tr>
<tr>
<td>6. Barley demonstration project</td>
<td>50,000</td>
</tr>
<tr>
<td>7. Wheat seed distribution project</td>
<td>706,000</td>
</tr>
<tr>
<td>8. Fish farm rehabilitation project</td>
<td>593,700</td>
</tr>
<tr>
<td>9. Fish farming project</td>
<td>5,066,181</td>
</tr>
<tr>
<td>10. Date workshop</td>
<td>21,620</td>
</tr>
<tr>
<td>11. Butcher's focus group survey</td>
<td>3,171</td>
</tr>
<tr>
<td>12. Poultry industry overview update</td>
<td>21,000</td>
</tr>
<tr>
<td>13. Crop land survey</td>
<td>95,370</td>
</tr>
<tr>
<td>14. Agriculture exposition</td>
<td>130,719</td>
</tr>
<tr>
<td>15. Cold-chain assessment</td>
<td>3,910</td>
</tr>
<tr>
<td>16. Refrigerated capacity survey</td>
<td>5,000</td>
</tr>
<tr>
<td>17. Bank training project</td>
<td>40,000</td>
</tr>
<tr>
<td>18. Windmill project</td>
<td>33,797</td>
</tr>
<tr>
<td>19. Orchard and vineyard project</td>
<td>728,437</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9,805,244</strong></td>
</tr>
</tbody>
</table>

(1) The feed grain project cost $76,938. The documentation in the procurement files consisted of (1) a copy of the subcontract (2) a copy of a voucher with an accompanying purchase order for $7,750 to another subcontractor that was subcontracted to the first subcontractor and (3) a copy of a work order from the PRT. No other documentation was available. The contractor’s payment records did not identify payments of $76,938 to the vendors.

(2) The winter crop project cost $1,622,112. The documentation in the procurement files consisted of (1) a copy of one subcontract for $87,403 (2) a copy of a subcontract modification, (3) a copy of the project implementation plan, and (4) a copy of a work order from the PRT. In addition, the contractor’s payment records showed that cash was disbursed to two separate subcontractors in the amounts of $87,403 and $1,534,709. Although there was a copy of the subcontract for $87,403, the contractor was unable to provide a copy of the other subcontract for $1,534,709.
Appendix III

(3) The vegetable seed project cost $540,900. The documentation in the procurement files consisted of a copy of one subcontract for $540,900 and a copy of a work order from the PRT. The contractor’s payment records showed that funds were disbursed to this subcontractor for $540,900.

(4) The greenhouse project cost $35,985. The documentation in the procurement files consisted of a purchase order for $33,000 (not $35,985). Furthermore, the contractor’s payment records did not identify any payment for $35,985 or $33,000 to the vendor.

(5) The tomato demonstration project cost $30,404. The documentation in the procurement files consisted of three purchase orders totaling $30,404 to three separate vendors. Furthermore, the contractor’s payment records did not identify payments for $30,404 to the particular vendors.

(6) The barley demonstration project cost $50,000. The contractor had no procurement file or documentation for this project. Furthermore, the contractor’s payment records did not identify the $50,000 payments to the particular vendor.

(7) The wheat seed distribution project cost $706,000. The documentation in the procurement files consisted of (1) a purchase order in the amount of $34,560 and (2) a training proposal requesting $40,000. Furthermore, the contractor’s payment records noted no payments to the subcontractor for $34,560 or other payments that could be identified with the project.

(8) The fish farm rehabilitation project cost $593,700. The documentation in the procurement files consisted of (1) a subcontract (2) a payment for water pumped, and (3) a payment to remove sludge from the canal. The contractor’s payment records showed seven payments. However, one payment for $1,700 was made for an activity that was not part of the statement of work, and thus the payments for this activity exceeded the subcontract amount by $1,700.

(9) The fish-farming project cost $5,066,181. The documentation in the procurement files consisted of (1) a subcontract awarded to the Euphrates Fish Farm to provide 6 million carp fingerlings at a cost of $3,000,000, (2) nine purchase orders for palletized feed to the same Euphrates Fish Farm totaling $770,250, (3) four additional purchase orders totaling $816,800. These three items do not total to the project cost of $5,066,181. Furthermore, the contractor’s payment records did not identify payments to the subcontractor.

(10) The date workshop cost $21,620. The documentation in the procurement files consisted of (1) a memorandum discussing the Iraq date industry timetable and an outline for the Iraqi date-processing plant feasibility and (2) expense reports. The contractor’s payment records did not identify related payments.

(11) The butcher’s focus group survey cost $3,171. The documentation in the procurement files consisted of (1) a work order request from the USAID PRT representative for the proposed costs of $3,171 for a report on a focus group and (2) copies of two invoices totaling the cost of $3,171. However, the file did not contain proposals for quotations or bid submissions from suppliers. The contractor’s payment records did not identify related payments.
(12) The poultry industry overview update cost $21,000. The documentation in the procurement files consisted of (1) a purchase requisition with a form for an estimated $1,000, not the $21,000 cost of the project, (2) a purchase requisition for translation services, and (3) a summary report of a poultry farm survey. The contractor’s payment records did not identify related payments.

(13) The crop land survey cost $95,370. The documentation in the procurement files consisted of (1) a photocopy of the subcontract for the feed grain project in the amount of $76,938 related to a different project and (2) a copy of a report on feed grains. The contractor’s payment records did not identify related payments.

(14) The agricultural exposition cost $130,719. The documentation in the procurement files consisted of a $75,000 invoice for a promoter’s fee. However, the files contained the following anomalies:
- The proposal to participate in this activity was dated October 14, 2008, whereas the purchase order was dated September 24, 2008, which is earlier than the proposal date.
- The justification for sole source was November 17, 2008, which was after the event took place.
- The invoice was dated March 26, 2008, for $75,000 which was approximately 8 months before the event took place.
- An additional two invoices existed—dated September 8 and December 14, 2008—each for $37,500, totaling $75,000.
- No further documentation existed to clarify these costs or to account for the additional costs of $55,719.

The contractor’s payment records did not identify related payments.

(15) The cold-chain assessment cost $3,910. The documentation in the procurement files consisted of (1) a purchase order with payment receipts and (2) a copy of a report based on a contractor survey. No other procurement records were available. The contractor’s payment records did not identify related payments.

(16) The refrigerated capacity survey cost $5,000. The procurement files did not contain any support. The contractor’s payment records did not identify related payments.

(17) The bank training project cost $40,000. The documentation in the procurement files consisted of a copy of the subcontract to train officials from five banks. The subcontract’s statement of work stated that the subcontractor should submit for approval the classroom agenda, topics covered, dates of training, names of trainers by bank location, and names and positions of people trained. The procurement and performance file did not contain any of this documentation. Although the contractor’s payment records showed $40,000 was paid, no gross sales or new jobs created were reported for this project activity even though the project had been closed since December 2009.
(18) The windmill project cost $33,797. The documentation in the procurement files consisted of (1) a purchase order to purchase three windmills from a company in Pakistan and (2) the bids from three vendors. The contractor’s payment records do not show $33,797 in payments to this vendor. During the site visit to a feedlot in Taji, the audit team also inspected one windmill; it was not working.

(19) The orchard vineyard project cost $728,437. The documentation in the procurement files consisted of (1) a request for consent for four, firm-fixed-priced purchase orders totaling $697,567, (2) a copy of a memorandum of negotiation to purchase trees and vines for an estimated cost of $730,117 of which $32,550 was to be paid for an unexpected 15 percent cost, and (3) a copy of an internal checklist used by the contractor for project review and approval. The contractor’s payment records did not reflect $728,437 in payments to these vendors.
GRANTS WITH QUESTIONED COSTS

Special Conditions Grants With Questioned Costs

<table>
<thead>
<tr>
<th>Grant</th>
<th>Questioned Costs ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Retail farmers’ market project</td>
<td>327,420</td>
</tr>
<tr>
<td>2. Canning factory revitalization project</td>
<td>5,078,631</td>
</tr>
<tr>
<td>3. Mushroom farm project</td>
<td>623,287</td>
</tr>
<tr>
<td>4. Packing shed project at Rabee</td>
<td>459,300</td>
</tr>
<tr>
<td>5. Packing shed project at Taji</td>
<td>459,300</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,947,938</strong></td>
</tr>
</tbody>
</table>

(1) The retail farmers’ market project cost $327,420. The contractor’s project files showed no documentation that the contractor had monitored or evaluated the grantee’s performance or reports as required. Furthermore, the contractor had not monitored adherence to special conditions of the grant, including acceptable management, accounting, and financial control systems. According to a contractor work plan, prior to this award, USAID/Iraq had in 2004 awarded $1,000,000 to another contractor to construct this same retail farmers’ market. The market was never occupied and had fallen into disrepair.

(2) The canning factory revitalization project cost $5,078,631. The contractor’s project files showed no documentation that the contractor had monitored or evaluated the grantee’s performance or reports as required. Furthermore, the contractor had not monitored adherence to special conditions of the grant, including acceptable management, accounting, and financial control systems. USAID/Iraq hired a consultant to provide technical and business advice to the canning factory, to restart the tomato line, and to work with the factory manager to develop a business plan and create a regional marketing strategy. Despite these efforts, the consultant’s report stated: “Most of the line should not be restarted because the equipment and facilities that house them are not fit to handle human food.”

(3) The mushroom farm project cost $623,287. The contractor’s project files showed no documentation that the contractor had monitored or evaluated the grantee’s performance or reports as required. Furthermore, the contractor had not monitored adherence to special conditions of the grant, including acceptable management, accounting, and financial control systems.

(4) The packing shed project at Rabee cost $459,300. The contractor’s project files showed no documentation that the contractor had monitored or evaluated the grantee’s performance or reports as required. Furthermore, the contractor had not monitored adherence to special conditions of the grant, including acceptable management, accounting, and financial control systems. During a site visit to this packing shed, the grantee noted strawberry fields and other orchard and vineyard projects that had been awarded to the grantee in addition to the packing shed grant. During the site visit, we noted that the grantee’s accounting records showed that the grantee had not segregated income, expenses, and sales associated with
USAID’s grant activities from the grantee’s other business activities, such as dates and the importation of certain fruits and vegetables from Syria that the grantee repackaged and distributed to wholesalers in Iraq.

(5) The packing shed project at Taji also cost $459,300. The contractor’s project files showed no documentation that the contractor had monitored or evaluated the grantee’s performance or reports as required. Furthermore, the contractor had not monitored adherence to special conditions of the grant, including acceptable management, accounting, and financial control systems. The audit team visited the packing shed and observed that its operations had been staged for the visit; for example, employees’ uniforms still had the creases from the packages. The packing shed was dirty and unhygienic. The eggplants being packaged the day of the visit felt cold (almost frozen) and were therefore not supplied from the surrounding farmers as the grant had intended. The owner had not developed supplier relationships with the 2,400 local farmers whom the grant had also intended to benefit. The owner also acknowledged that he had not been asked by the contractor to provide accounting or financial data (part of the grant terms). Part of these problems can be attributed to a change in grant terms of which USAID/Iraq was unaware. The original grant terms required an independent and satisfactory evaluation and approval of the packing shed construction work by a certified engineering company. The contractor modified these terms to allow the independent and satisfactory evaluation and approval of packing shed construction to be completed by the contractor’s own engineering and technical committee. According to an e-mail in the project files, this modification was necessary to allow flexibility to complete the contract quickly. During the site visit, the audit team noted the poor-quality construction of the packing shed. One of the agriculture advisors to the local PRT also observed several construction problems during site visits. Furthermore, the owner had several other businesses, but the owner had not segregated income, expenses, and sales.