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OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/IRAQ'S AGRIBUSINESS PROGRAM

AUDIT REPORT NO. E-267-08-006-P
September 30, 2008

BAGHDAD, IRAQ



Office of Inspector General

September 30, 2008

MEMORANDUM

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

FROM: Director, Office of Inspector General/Iraq, Gerard M. Custer /s/

SUBJECT: Audit of USAID/Iraq's Agribusiness Program (Report No. E-267-08-006-P)

This memorandum transmits our final report on the subject audit. We have carefully considered your comments on the draft report and have included them in their entirety as appendix II of this report.

This report contains eight recommendations to improve USAID/Iraq's Agribusiness Program. Based on management's comments, a management decision has been reached on Recommendation Nos. 1, 3, 4, 5, and 8. In addition, documentation provided by management demonstrated that final action has been taken on Recommendation Nos. 2, 6, and 7. Determination of final action for Recommendation Nos. 1, 3, 4, 5, and 8 will be made by the Audit Performance and Compliance Division (M/CFO/APC) upon completion of the planned corrective actions.

Recommendation No. 3 recommended that USAID/Iraq reprogram any funds remaining from the \$5 million allocated to the master's degree program. Management concurred with this recommendation. In addition to the \$5 million in the recommendation, the mission reported taking action to reprogram an additional \$1 million associated with participant training. Therefore, a management decision has been reached to put \$6 million to better use.

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

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SUMMARY OF RESULTS

Iraq has experienced a dramatic decline in agriculture production during the last few decades. While Iraqi farmers supplied about half of the country's food supply in 1980, by 2002 more than 80 percent of many basic staples had to be imported. Given that agriculture and related businesses comprise Iraq's largest source of employment and are second only to oil in contribution to national income, revitalizing Iraqi agribusiness is an important element in creating a stable, prosperous, and democratic Iraq. To address this issue, USAID awarded a 3-year, \$209 million contract in May 2007 to a consortium led by the Louis Berger Group, Inc., to implement an agribusiness program known as *Inma*–Arabic for “growth.” This program was designed to provide agricultural and business development services to USAID beneficiaries in strategic locations in Iraq (page 3).

The Office of Inspector General/Iraq conducted this audit to determine whether USAID/Iraq's Agribusiness Program was achieving intended results and to determine its impact (page 4).

Two of 12 agribusiness activities reviewed by the audit were not achieving intended results.

- (1) USAID/Iraq's Agribusiness Program set an initial target of increasing the gross sales of dates by 150 percent over 3 years. This target likely will not be achieved because it was too ambitious for the current state of the Iraqi date industry. Also, the program did not build on the mission's previous date production initiative as called for in the *Inma* contract. Diminished results for dates will make the program's overall sales and employment goals more difficult to achieve (see pages 6–8).
- (2) Owing to delays in finding qualified candidates, the agribusiness program's master's degree activity likely will not realize its goal of providing master's degrees in agribusiness subjects to 25 Iraqis during the 3-year life of the program. Since few qualified candidates have been identified to begin studying in the fall of 2008, the \$5 million allocated to cover the travel, living, and educational costs of Iraqi participants likely will not be fully used. Therefore, we are making a monetary recommendation that USAID/Iraq reprogram any remaining master's degree activity funds so that they can be put to better use (pages 8–9).

Owing to delays in the startup of USAID/Iraq's Agribusiness Program, it was too early to determine whether the other 10 activities were achieving planned results. Further, it was too soon to determine the degree of impact of the program as a whole in Iraq. The program only recently completed its first year of activities and has not yet yielded performance data for the entire first year. Nevertheless, the program has produced interim reports indicating that some program activities are making early progress toward achieving their targets (pages 5–6).

In addition to the above findings, the audit identified a few other areas in which USAID/Iraq could improve its management of the agribusiness program; adding and/or revising performance indicators, improving the utility of financial reports, and ensuring

that a provision to prevent the possible financing of terrorism is included in all subcontracts (pages 9–13).

This report includes eight recommendations to address the identified findings. In response to a draft report, USAID/Iraq management concurred with all eight recommendations and described actions planned or taken to address the findings. Based on the documentation provided by management, final action has taken place on three of the recommendations and a management decision has been reached on the remaining five recommendations. Management comments have been included in their entirety as appendix II.

BACKGROUND

The decline of agriculture in Iraq has been another calamitous legacy of Baathist misrule. Iraqi farmers supplied about half of the country's food supply in 1980, but by 2002 more than 80 percent of many basic staples had to be imported. The 1980–1988 Iran-Iraq War and the 1991 Gulf War diverted labor and resources from agriculture and damaged irrigation infrastructure, thereby increasing soil salinity and decreasing production. Moreover, as a result of U.N. sanctions and an entitlement food distribution system, Iraq's agricultural sector faces a highly distorted system of incentives that include subsidized agricultural inputs and a command control economy mentality. Given that agriculture and related businesses comprise Iraq's largest source of employment and are second only to oil in contribution to national income, revitalizing Iraqi agribusiness is an important element in creating a stable, prosperous, and democratic Iraq.

To further this aim, in May 2007 USAID awarded a 3-year, \$209 million contract to a consortium led by the Louis Berger Group, Inc., to implement the agribusiness program known as *Inma*—Arabic for “growth.” The program was designed to provide agricultural and business development services to USAID beneficiaries in strategic locations in Iraq to promote economic diversification and job generation, with an emphasis on the growth of the agriculture and agribusiness sectors in the provincial, regional, and subregional economies. The contract includes two 1-year option periods for an additional \$134 million—a potential total contract value of \$343 million.

Inma's strategy is based on pursuing targeted opportunities identified through a process known as value chain analysis. This process uses pricing information to analyze the marketing chain “from field to fork” in order to identify weak links that, if strengthened, would have the greatest impact. The strategy is further refined by focusing on “commodity clusters,” which consist of a number of related activities pertaining to a specific category of products. *Inma*'s commodity clusters comprise perennial horticulture, concentrating primarily on dates but also including crops such as grapes and pomegranates; annual horticulture, dealing with vegetables; and livestock and feed, which also includes fish. These groupings are complemented by a “cross-cutting” cluster that focuses on activities such as distributing market data, funding master's degree studies in agricultural disciplines, and providing technical training to Iraqi farmers.

The interplay of commodity clusters and value chain analysis has resulted in a geographic focus to *Inma* activities. This focus allows *Inma* to concentrate resources for greater effect by addressing multiple points in the value chain. For example, a demonstration project in northern Baghdad introducing farmers to improved seed varieties has been coupled with a nearby packing sheds initiative to enhance output, storage, and processing.



Photograph showing the distribution of *Inma*-funded plastic covers for greenhouses and seeds in Taji, Iraq. Source: USAID/Iraq

Refurbishment of a major marketplace in central Baghdad completed the value chain by providing a secure shopping area, cold storage capabilities, and other enhancements. In Salah ad Din governorate, renovation of a tomato-processing facility has been accompanied by demonstration plantings of tomato varieties bred specifically for processing. A summary of major Inma initiatives is provided in appendix III.

Given the complexities of operating in Iraq, effective coordination with a number of other parties is imperative for Inma's success. Provincial reconstruction teams and the U.S. military assist the mission's economic growth and agriculture office not only logistically, but also through relationships they have developed with local Iraqi leaders. In addition, these entities have helped identify potential projects for Inma involvement through a job order system. Inma also works with Iraqi organizations to interface with Iraqi farmers when necessary.

Inma was originally designed to pursue selected proposals primarily through grants. However, another legacy of centralized planning during the Baathist era was the dearth of private financial intermediaries to provide agricultural credit. To rectify this deficiency, USAID has initiated a grant-to-loan component to Inma's funding mechanisms. Under this initiative, approximately half of the funds originally budgeted for direct grants are to be distributed to private banks instead, thereby creating the basis for a sustainable agricultural lending capacity. The initiative is still in its initial stages.

While there is still state involvement in Iraqi agriculture, Inma is strictly geared toward private sector development. Consequently, government organizations, except for academic institutions, are not eligible for Inma grants. The level of resources devoted to this program, however, means that not all promising proposals can be pursued. Inma's strategy and success hinge on the ability to identify and nurture key entrepreneurs who can drive the development of associated enterprises within their respective commodity clusters, thereby increasing Iraqi agricultural income and employment.

AUDIT OBJECTIVE

The Office of Inspector General/Iraq conducted this audit as part of its fiscal year 2008 annual audit plan to answer the following question:

- Is USAID/Iraq's Agribusiness Program achieving intended results and what has been the impact?

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

AUDIT FINDINGS

Two of 12 agribusiness activities reviewed by the audit were not achieving intended results. Owing to delays in the startup of USAID/Iraq's Agribusiness Program it was too early to determine whether the other 10 activities were achieving planned results. It was also too soon to determine the impact of the program as a whole in Iraq. Nevertheless, the audit team identified several areas in which USAID/Iraq could improve its management of this important program.

USAID/Iraq's Agribusiness Program, known as Inma, only recently completed its first year of implementation and has not yet yielded performance data relating to that entire year. Only 5 of 12 activities reviewed during the audit were actually underway. These five projects showed some early progress, but a review of Inma's central objective, to aid all elements in Iraq's agronomic value chain, was inconclusive, as many agricultural initiatives depend on future seasons, germination, or breeding to yield reportable results. Therefore, a reasonable judgment regarding the demonstrable impact of Inma activities on Iraqi society could not be made at the time of this audit.

During its first year of implementation, USAID/Iraq's Agribusiness Program evolved from a primarily reactionary program directed to fund agricultural initiatives provided by provincial reconstruction teams (PRTs) and the U.S. military, to a sustainable agribusiness development program. Despite this transformation and other challenges that delayed the early implementation of Inma, recent developments indicate that Inma is moving toward a more effective means of achieving program results. For instance, when Inma mobilized—6 months after the previous USAID/Iraq agriculture program¹ had ended—PRTs and U.S. military personnel were eagerly waiting



Photograph showing Inma's senior engineer reviewing plans for a Baghdad market with fellow members of a provincial reconstruction team. Source: USAID/Iraq

to request financing for agribusiness ideas. Originally used to identify and track large numbers of project proposals, Inma's job order system created a false sense that each request would be supported. When Inma officials realized that the job order system was working to their disadvantage, they began to use the data collected by the system to

¹ USAID/Iraq's previous agriculture program, the Agriculture Reconstruction and Development Program for Iraq (ARDI), ended in December 2006.

develop regional value chains—an agronomic model that has allowed Inma to effectively link related agricultural activities within the various economic regions of Iraq. PRTs came to understand that they were to support Inma’s broad goals, rather than vice versa.

An example of USAID/Iraq’s Agribusiness Program expanding initial PRT requests into other value chain activities is in the Babil governorate. Inma was increasing the ability of fish farmers to produce for a competitive market by helping to strengthen the links of the fish value chain, beginning with the market. A \$3.6 million “forward contract agreement” with the Euphrates Fish Farm to purchase fingerlings (juvenile fish 3 to 4 inches long) at a fixed price provided the hatchery with vital up-front funding. Information provided by Inma indicated that the Euphrates Fish Farm doubled its expectations by producing an estimated 12 million fingerlings. PRT officials who visited the site reported on its positive results



Photograph of Euphrates Fish Farm workers netting fingerlings for distribution to other fish farms in Iraq. Source: USAID/Iraq

to the auditors. This surplus—attributable to improved feed and increased water flow that provided better pond oxygenation—will enable the fish farm to supply fingerlings to farms as far south as Basra. This progress has further increased Inma’s involvement in feed mills and distributors to provide quality and consistent feed in the Babil area.

Although USAID/Iraq’s Agribusiness Program has demonstrated some successful results, at least two of its major activities—revitalizing Iraq’s date industry and obtaining U.S. master’s degrees for 25 Iraqi agriculturalists—will not likely achieve planned results within the 3-year life of the program. Moreover, opportunities exist for USAID/Iraq to improve its management of the program by adding and/or revising performance indicators, improving the utility of financial reports, and ensuring that a provision to prevent the possible financing of terrorism is included in all subcontracts. These matters are discussed more fully in the following sections.

Intended Results in Date Industry Are Not Likely to Be Realized

Summary: USAID/Iraq’s Agribusiness Program set an initial target of increasing the gross sales of dates by 150 percent over 3 years. This target likely will not be achieved within the 3-year life of the program because it is too ambitious for the current state of the Iraqi date industry. Also, a previous USAID/Iraq agricultural program was not used by the current program as called for in the Inma contract. Diminished results for dates will make the program’s overall sales and employment goals more difficult to achieve.

An integral component of Inma's plan to increase agribusiness sales and employment was the revitalization of the Iraqi date sector. Inma set an initial target of increasing the gross sales of dates by 150 percent over the 3-year term of the contract. Inma's strategies for reaching this target included increasing export sales through enhanced grading, sorting, and packaging capabilities. In addition, the development of new date-based products was intended to increase domestic and foreign consumption.

Despite these strategies, it is highly unlikely that the initial target for increased date sales will be realized, owing to serious declines in the quality of Iraqi dates combined with unfavorable market conditions. According to Inma officials, the deterioration of the Iraqi date sector was due in large part to disruptions caused by the Iran-Iraq war, the draining of the southern marshes, and U.N. sanctions. These events provided opportunities for other countries to expand their presence in the global market, which they exploited at Iraq's expense. Moreover, the long-standing effects of socialist policies discouraged entrepreneurial efforts and diminished incentives for investment in the date sector. The net result, according to an Inma survey report, was that "in Iraq today private investors have no incentive to improve quality in the [date] value chain." Consequently, the initial target for date sales was and remains overly ambitious.

In addition, according to USAID's contract with the Louis Berger Group, Inc., the intent of Inma's date activities was to build upon the mission's previous agriculture initiative, the Agriculture Reconstruction and Development Program for Iraq. Under that program, the initiative intended to restore the Iraqi date palm production by establishing 21 date palm mother orchards and providing support to a number of date palm nurseries. However, security concerns kept the previous contractor from disclosing the locations of those orchards and nurseries. Without fundamental information such as the locations of the prior USAID-funded date projects, Inma was unable to capitalize as intended on the results of the previous program.

Nevertheless, Inma officials stated that the key to success with Iraqi dates would be to identify niches where favorable investment conditions exist. Inma officials were attempting to do this through coordination with other initiatives. For example, the Balad Canning Factory, a major Inma project, developed a production line capable of producing date syrup, a widely used staple item in Iraq, which Inma officials believe has untapped market potential. Ideas for the production of date-based snacks at the same facility are also being explored at the same facility. In addition, Inma is planning to conduct training for Iraqi date traders on providing value-added marketing services to increase revenue, and plans to share the results of an international date assessment.

Regardless of these initiatives, Inma officials have indicated that the current state of the Iraqi date sector dictates the need to adjust the initial target for increasing date sales. Since dates are the major crop in Inma's perennial horticulture cluster, diminished results for dates will make the overall sales and employment goals established at the beginning of the program more difficult to achieve. For USAID/Iraq to achieve those overall goals, other clusters would have to compensate for this shortfall. Consequently, this audit makes the following recommendation:

Recommendation No. 1: We recommend that USAID/Iraq review and revise the performance target for the date sector in light of current market information and adjust targets for other agricultural commodities, as appropriate, to help ensure that the overall sales and employment targets for USAID/Iraq's Agribusiness Program are achievable.

Intended Results for Master's Degree Activity Are Not Likely to Be Realized

Summary: USAID/Iraq's Agribusiness Program established an activity to provide opportunities for 25 Iraqis to receive master's degrees in agriculture-related studies from U.S. universities. However, after the first year of the 3-year program, no master's degree fellowships have been awarded as few qualified applicants have been identified. As the activity is not likely to achieve its goal of obtaining 25 master's degrees for Iraqis within the remaining 2 years of the program, excess funds not used to fund the master's degree activity should be put to better use.

USAID/Iraq's Agribusiness Program sponsors a 2-year activity for Iraqi university graduates to receive a master's degree in an agriculture-related field at a U.S. university. Specifically, the activity plans to send 25 Iraqi students to the United States at an estimated cost of \$5 million, provided the students meet the minimum required test scores.² The activity anticipates that the students' postgraduate work would be completed by the end of Inma's 3-year contract.

USAID/Iraq documents indicate that the master's degree activity will not likely achieve its intended results during the remaining 2 years of the activity. A mission quarterly portfolio review, dated April 28, 2008, documented the difficulty in identifying qualified candidates prepared for graduate work in the United States. Of the 20 applications received as of that date, 18 applicants did not have acceptable English language scores, only 3 applicants had a background in an agriculture-related field, and none had achieved the minimum required GRE test scores. Furthermore, a recent decision memorandum for the USAID/Iraq mission director from the agribusiness program cognizant technical officer warned that the master's degree activity could succeed only if USAID/Iraq exercised both of the contract's option years. The memo asserted that the program had not yet awarded a single fellowship and that it may be able to sponsor only three to five candidates—who were in the final stage of placement—to commence their studies in the fall of 2008.

The difficulty of recruiting qualified Iraqi applicants from the private sector who are proficient in English or have a background in agriculture has hindered the master's degree activity's ability to achieve its intended results. As a result, the master's degree activity will not likely achieve its intended results or expend all of the \$5 million allocated to it. Consequently, this audit makes the following recommendations:

² Minimum scores were established for the Graduate Record Examination (GRE) and the Test of English as a Foreign Language (TOEFL).

Recommendation No. 2: We recommend that USAID/Iraq reassess the feasibility of sending 25 students to the United States for its master's degree activity under the Inma Agribusiness Program and adjust its planned results accordingly.

Recommendation No. 3: We recommend that USAID/Iraq, after making adjustments per Recommendation No. 2, reprogram any funds remaining from the \$5 million allocated to the master's degree activity and put them to better use.

Performance Indicators Need to Be Added and/or Revised

Summary: USAID policy states that operating units are responsible for establishing systems to measure progress toward meeting intended objectives with performance indicators that closely track the performance and results they are intended to measure. It further states that the activity being measured should be reasonably attributable to USAID efforts. Two significant agribusiness program activities did not have performance indicators established to measure their progress, and 8 of 44 indicators reviewed were not directly attributable to Inma activities. This occurred due to an oversight on the part of USAID and Inma staff despite the fact that performance indicators were periodically assessed. Without up-to-date and attributable performance indicators, USAID/Iraq may not be able to accurately measure agribusiness program achievements.

USAID's Automated Directives System (ADS) 203.3.2 states that operating units are responsible for establishing systems to measure progress toward meeting intended objectives. Specifically, ADS 203.3.4.2 states that quality performance indicators should be direct and closely track the results they are intended to measure and that performance indicators selected for inclusion in the performance monitoring plan (PMP) should measure changes that are clearly and reasonably attributable to USAID efforts. ADS suggests that one way to assess attribution is to ask, "If there had been no USAID activity, would the measured change have been different?"

Despite this guidance, two significant agribusiness program activities did not have performance indicators established to measure their progress, and 8 of 44 indicators reviewed were not directly attributable to Inma intervention.

Activities without performance indicators – As previously stated, the master's degree activity did not have a performance indicator to measure its performance. Inma's PMP did not include a performance indicator to monitor the master's degree activity's progress and results owing to an oversight on the part of Inma and USAID staff. Consequently, the master's degree activity continues to operate without a formal performance indicator with which to measure its progress.

Inma's expanded grant program also lacked updated performance indicators. A letter from USAID/Iraq's cognizant technical officer to Inma's chief of party, dated March 12, 2008, requested action to modify key implementation documents as a result of an amendment to the Inma implementation plan to broaden the grant program. According to the letter, key documents, including the implementation plan, the 2008 workplan, and

the PMP, were to be modified and submitted to USAID/Iraq for approval within a month. Despite this request, the Inma contractor did not provide the requested documents until June 2008. According to the cognizant technical officer, the modified documents contained new performance indicators for the expanded grant program, but those indicators were still pending approval by USAID/Iraq as of the end of the audit. According to USAID/Iraq's cognizant technical officer, this occurred because Inma's key monitoring and evaluation staff member was out of the country during the period the instructions were given to update the key implementation documents. Consequently, the significantly expanded grant program has gone several months without approved performance indicators.

Indicators not reasonably attributable to Inma activities – The audit team reviewed 44 performance indicators listed in Inma's PMP to determine whether they measured results that were reasonably attributable to Inma activities. Eight of those indicators did not appear to be reasonably attributable to Inma activities. For example, one Inma performance indicator was that “[g]ross sales of dates [be] increased.” As worded, the indicator measures all Iraqi date sales and not just those attributable to Inma activities. Inma should include only indicators that are direct and report data that are clearly attributable to Inma activities.

Another performance indicator identified in the PMP was “[g]ross sales of targeted fruits and vegetables doubles.” Again, this indicator measures all Iraqi sales of selected, or *targeted*, fruits and vegetables. Further, the term *targeted* is not defined in the PMP. As a result, this performance indicator lacks the attributes to clearly link results with the program activity.

One Inma official stated that the program's needs are reassessed every quarter through the preparation of quarterly reports. Through these reviews it became apparent that the performance indicators required revision. The official reasoned that the indicators remained acceptable at the time; however, targets required review and, where necessary, revision as the program developed.

Prompt establishment or updating of performance indicators to reflect changes in Inma's programs or conditions is necessary for adequate program monitoring. Such performance indicators need to incorporate all the data quality standards outlined in ADS—including being reasonably attributable to USAID activities—in order to manage for results and provide credible reporting. Without clearly defined indicators, the mission will not be able to accurately measure program progress and achievements. Consequently, this audit makes the following recommendations:

Recommendation No. 4: We recommend that USAID/Iraq establish appropriate performance indicators to monitor Inma's expanded grant and master's degree activities, as well as any other major program components without performance indicators in accordance with USAID's Automated Directives System 203.3.

Recommendation No. 5: We recommend that USAID/Iraq review Inma program performance indicators listed in its performance monitoring plan to ensure that they are reasonably attributable to USAID activities, in accordance with USAID's Automated Directives System 203.3.

Financial Reports Should Reflect Discrete Activities and Commodity Clusters

Summary: For oversight purposes, contractor financial reports should convey clear and meaningful information. Inma's financial reports lack clarity and utility since the program components used to report costs did not correspond to the commodity clusters that formed the basis of the program. The reports were presented in this manner to comply with the program components indicated in the original contract. As a result, costs were not accumulated for specific Inma activities and were, therefore, not available for management's review and use for decision-making.

USAID's *Guidebook for Managers and Cognizant Technical Officers on Acquisition and Assistance* indicates that one function of a cognizant technical officer is to analyze contractor technical and financial reports to help ensure that the U.S. Government does not pay excess costs due to a contractor's inefficiency. This is accomplished, in part, by comparing actual progress and costs with planned progress and costs. The *Guidebook* therefore implies that technical reports should complement financial reports and vice versa, and that the financial reports should convey useful information for contract oversight.

Notwithstanding this guidance, the financial reports prepared by the Inma contractor did not provide a clear or useful financial picture of the program. These reports reflected the distribution of costs across various program cost categories such as increasing crop diversity/livestock productivity. The drawback to this presentation is that these categories do not reflect the commodity clusters that form the core of USAID/Iraq's Agribusiness Program. This concern was raised by a contractor official, who stated that the "technical reporting systems no longer match the terms of the contract." When asked for clarification, the official responded that the difficulty was that activities undertaken by contractor personnel could not be accurately assigned to the cost categories listed in financial reports because most of those categories were present within each discrete activity. For example, the category for "increasing crop diversity/livestock productivity" was, at a minimum, an inherent part of all three commodity clusters, as was "increasing the competitiveness of agribusiness enterprises."

The contractor's financial reports were structured around those cost categories because that was the format specified in the original contract. However, the current implementation plan organizes activities by commodity cluster and geographic region, rather than the cost categories specified in the contract. Consequently, the contractor is required to make estimates of time spent (billable labor hours) in order to determine the costs associated with discrete activities, commodity clusters, or geographic regions.

The audit team encountered several adverse effects of this financial reporting during the audit. For example, when asked how much money had been spent on the master's degree activity the contractor's financial manager replied that the contractor did not accumulate costs based on specific activities and instead provided an analysis of the activity's costs based on "reasonable estimates" of attributable labor. In another case, the audit team asked a USAID official if the perennial horticulture budget was going to be

revised to reflect the contractor's conclusion that incentives for investment in dates were lacking. The official stated that there were no budget allocations by commodity, but rather by cost category. When informed that the implementation plan contained budget allocations by commodity clusters, the official responded that the implementation plan was an "indicative budget only" and did not represent "hard numbers."

In conclusion, the financial reporting currently in use does not permit USAID officials and other stakeholders to compare actual progress and costs with planned progress and costs by discrete activity, commodity cluster, or geographic region. At a minimum, stakeholders should be able to readily ascertain both the cost of specific activities and the amounts budgeted for specific commodity clusters, especially since Inma is being implemented primarily as a series of discrete activities within defined agricultural sectors and geographic regions. Consequently, this audit makes the following recommendation:

Recommendation No. 6: We recommend that USAID/Iraq develop clear and meaningful cost reporting by discrete activity and commodity cluster in conjunction with the Inma contractor.

Provision for Executive Order on Terrorism Financing Was Absent From One Subcontract

Summary: USAID regulations and the U.S. Code of Federal Regulations mandate that contractors include a provision based on Executive Order 13224 designed to prevent the financing of terrorism in all subcontracts. One Inma subcontract did not include this provision. The agribusiness program contractor indicated that as additional modifications were made to the draft subcontract, the provision was accidentally deleted. The lack of this provision may increase the risk that USAID funds could be used to finance terrorism.

USAID's Automated Directives System (ADS) 302.3.6.13 states, "U.S. Executive Orders (including E.O. 13224, Executive Order on Terrorism Financing) and U.S. law prohibit transactions with, and the provision of resources and support to, individuals and organizations associated with terrorism." Thus, USAID's contract with the Louis Berger Group, Inc., Section H.8—*Executive Order on Terrorism Financing*, states,

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

However, when a judgmental sample of subagreements was selected from the implementing partner to verify whether the mandatory provision was present, the audit team found that it was absent from one of four subcontracts reviewed. The implementing partner's subcontract with the Euphrates Fish Farm, signed March 12, 2008, did not include this provision. According to one Inma official, the provision was accidentally deleted from draft versions of the subcontract as additional flowdowns and clauses were added to the document.

The omission of the provision from the Executive Order on Terrorism Financing in the Inma contractor's subcontract with the Euphrates Fish Farm, a local Iraqi business, may increase the risk that USAID funds are used to finance terrorism. Consequently, this audit makes the following recommendations:

Recommendation No. 7: We recommend that USAID/Iraq verify that the Inma contractor modifies the subcontract language with the Euphrates Fish Farm to include the required provision pertaining to the Executive Order on Terrorism Financing.

Recommendation No. 8: We recommend that USAID/Iraq obtain written assurance from the Inma contractor that the required provision pertaining to the Executive Order on Terrorism Financing is included in all current Inma subawards.

EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report, USAID/Iraq management agreed with all eight audit recommendations and described actions planned or taken to address each recommendation. Based on documentation provided by the mission, we conclude that final action has been taken for three of the recommendations and management decisions have been reached on the remaining five recommendations. Management comments are included in their entirety as appendix II.

To address Recommendation No. 1, USAID/Iraq will adjust the performance targets for the date sector, as well as all other agricultural activities, in a revised performance monitoring plan before October 15, 2008. Accordingly, a management decision has been reached for this recommendation.

To address Recommendation No. 2, USAID/Iraq provided documentation of the decision memorandum signed by the mission director to discontinue the master's degree program and reprogram the funds. Based on the action taken and a review of the documentation received, final action has been taken this recommendation.

To address Recommendation No. 3, USAID/Iraq indicated that it will reprogram \$6 million for participant training (\$5 million for the master's degree program plus \$1 million for participant training) via a contract modification by October 15, 2008. Accordingly, a management decision has been reached to put \$6 million to better use.

To address Recommendation No. 4, USAID/Iraq will adjust the performance indicators to adequately capture the results under all major program components, including the grants-to-loan component, before October 15, 2008. Since USAID/Iraq has chosen not to continue the master's degree program, corresponding performance indicators will not be developed (see management comments for Recommendation No. 2). Accordingly, a management decision has been reached for this recommendation.

To address Recommendation No. 5, USAID/Iraq, in conjunction with its monitoring and evaluation contractor, IBTCI, will carry out a Results Framework Assessment of the revised performance monitoring plan to identify indicators that are reasonably and directly attributable to Inma activities before October 15, 2008. Accordingly, a management decision has been reached for this recommendation.

To address Recommendation No. 6, USAID/Iraq provided documentation of an improved cost report that clearly allocate costs by inputs, activities, and commodity clusters. Based on the action taken and a review of the documentation received, final action has been taken on this recommendation.

To address Recommendation No. 7, USAID/Iraq has provided documentation demonstrating that the Inma contractor modified its subcontract with the Euphrates Fish Farm to include the Executive Order on Terrorism Financing provision. Based on the

action taken and a review of the documentation received, final action has been taken on this recommendation.

USAID/Iraq concurred with Recommendation No. 8 and provided OIG with a letter from the Inma contractor stating, "We [Louis Berger Group, Inc.] assure USAID that the [Executive Order on Terrorism Financing] clause *will* be included, as mandated, in all existing and any future subawards made by the Louis Berger Group, Inc. under the Inma contract." (Emphasis added.) However, such language does not provide written assurance that the required provision is included in all current Inma subawards as the recommendation requests. Until written assurance is provided that the required provision is included in all current subawards, final action has not taken place, though we consider that a management decision has been reached for this recommendation.

SCOPE AND METHODOLOGY

Scope

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

The purpose of the audit was to determine whether USAID/Iraq's Agribusiness Program is achieving its intended results and what has been the impact of its program. Our ability to verify the existence of Inma activities throughout Iraq was substantially restricted because of the heightened security concerns within Iraq. Consequently, we employed alternative procedures to provide reasonable assurance of the existence of Inma activities, as explained in the methodology section of this report.

In planning and performing the audit, we gained an understanding of USAID/Iraq's existing management controls and identified and reviewed internal controls related to administrative requirements in USAID/Iraq's contract with the Louis Berger Group, Inc., signed on May 14, 2007. We tested contractor performance in meeting the contractual obligations and adherence to USAID's Automated Directives System (ADS) and Acquisition Regulations (AIDAR), as well as Title 22 of the U.S. Code of Federal Regulations, Federal Acquisition Regulation (FAR), and Executive Order 13224, as they relate to implementing the Inma program. In addition, we reviewed performance measures and indicators for the first year of program activities.

Audit fieldwork was conducted at USAID/Iraq's headquarters in Baghdad, Iraq, from April 20 through July 15, 2008. The audit covered the period from May 14, 2007, through July 15, 2008. USAID contracted with the Louis Berger Group, Inc., to implement the Inma program through April 30, 2010. The cost-plus-fixed-fee contract was a 3-year, \$209 million award, with two 1-year option periods worth \$68 and \$66 million, respectively. During the audit, we considered only the original 3-year contract scope of work; we did not take into consideration the potential effects of either of the 1-year option periods. The agribusiness program's first year activities took place during parts of fiscal years (FYs) 2007 and 2008.

Methodology

To answer the audit objective, we reviewed documentation that included (1) the Inma contract and modifications, (2) the July 2007–June 2008 Inma annual workplan, (3) quarterly reports through the second quarter FY 2008, (4) the Federal Managers' Financial Integrity Act of 1982, (5) USAID/Iraq's 2006 through 2008 performance management plan, (6) Inma's FY 2007 through FY 2010 performance monitoring plan, (7) Inma's FY 2007–2010 monitoring and evaluation plan, (8) USAID/Iraq's quarterly portfolio review for the second quarter of FY 2008, and (9) the Agriculture Redevelopment and Development Program for Iraq Final Report. To determine the relevance and reliability of evidential

matter, considering security conditions, we conducted interviews with appropriate personnel from USAID/Iraq and the implementing partner at their respective headquarters in Baghdad, Iraq, and received correspondence from an array of engaged sources in the field, including USAID provincial reconstruction teams (PRTs) and the U.S. military.

Specifically, we reviewed the terms of the Inma contract between USAID/Iraq and the Louis Berger Group, Inc. The criteria used for selecting the terms included substance and availability of information and the potential material impact that negligence or omission would have. Based on the information, we judgmentally selected standards within those terms useful for testing. We devised tests and reviewed and analyzed information to determine whether contractual obligations were met, as well as other requirements mandated by USAID's ADS or AIDAR, FAR, and Executive Order 13224. The selected terms included timely reporting (reporting requirements), control of non-expendable property, the Executive Order on Terrorism Financing, and cognizant technical officer certification and designation.

We also reviewed Inma's performance monitoring plan's planned results and indicators for FY 2007 through 2010. The Inma performance monitoring plan, dated September 2007, reported on 31 indicators. We judgmentally selected program indicators to review their characteristics and determine whether the results would yield quality data useful to management. Additionally, we correlated Inma activities with indicators, finding instances where no indicators existed.

We judgmentally selected and reviewed 12 primary agribusiness activities from Inma's cluster components to determine each activity's existence, feasibility/viability, assertions, and progress. The 12 agribusiness programs reviewed were (1) Iron Horse Taji-Abu Ghraib vegetable project, (2) Balad canning factory, (3) Euphrates Fish Farm, (4) 9 Nissan market, (5) Basrah tomato factory, (6) Veterinary Service Provider, (7) feedlots/feed mills, (8) Babil Feed Mill, (9) master's degree activity, (10) Hameedyah mushroom factory, (11) date industry revitalization, and (12) agricultural marketing information system. (See appendix III for additional details for each activity.)

To answer the audit objective and test the audit component groups mentioned, we performed various analytical procedures and relied to varying degrees on documentation and information. We conducted interviews and exchanged e-mail correspondence with an array of sources familiar with Inma's activities. We communicated with personnel from USAID/Iraq, including the contracting officer, PRT representatives, the economic growth and agriculture office's director, and the cognizant technical officer over the Inma contract. Additionally, we interviewed the contractor's chief of party, a director, and team leaders. We also contacted personnel within the U.S. Embassy's Regional Security Office as well as the U.S. military in Iraq. In cases where outstanding information could not be produced, we assumed that it did not exist, and used July 10, 2008, as a cutoff date.

MANAGEMENT COMMENTS



September 8, 2008

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

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

Subject: Management Decision, Audit of USAID/Iraq's Agribusiness Program

References: Audit Report No. E-267-08-00X-P, dated August 7th 2008

Background

The OIG audit report of the Inma (agribusiness) program was provided to the Mission on August 7th 2008. The audit sought to determine 1) whether USAID/Iraq's agribusiness program was achieving its intended results, and 2) what impact is being produced by the program. The audit made eight recommendations and provided findings on activities in: the Iraqi date industry, the masters program, the performance management plan, financial cost reporting, and mandatory provisions on terrorism financing.

Each of the findings has been examined to determine 1) whether the Mission is in agreement, and 2) what actions would be undertaken in response to the audit. Through this report the Mission will state whether it agrees with the recommendations and will also discuss the actions taken or planned to be taken. Where management actions in response to the audit are not yet resolved, the Mission will provide target dates for their completion. The Mission recognizes the value as a management tool of this OIG audit, and is in agreement with all eight of the audit's recommendations.

Recommendation No. 1:

We recommend that USAID/Iraq review and revise the performance target for the date sector in light of current market information and adjust targets for other agricultural commodities, as appropriate, to help ensure that the overall sales and employment targets for USAID/Iraq's Agribusiness program are achievable.

Action taken:

USAID/Iraq concurs with the recommendation and is taking the following actions:

The performance target of a 150% increase in date sales over three years is now recognized by the Mission as being overly ambitious. Inma and the Mission's monitoring and evaluation contractor, IBCTI, are in the process of revising this target to a more

realistic level. Adjusted targets will be included in a Performance Monitoring Plan (PMP) which will be approved by USAID before October 15th, 2008.

The new performance targets will be based on two years of activity in the date sector, not three years as had previously been assumed. The base period for the Inma contract ends in May 2010 and there are only two date growing and marketing cycles remaining. The new Inma performance target is to help increase the value of Iraqi date exports from \$0.8 million in 2008 to \$8.4 million including pomegranates in 2009. To offset the reduced results in the date sector, Inma plans to focus more on pomegranate exports, which are now projected to rise from \$180,000 in 2008 to \$900,000 in 2009. The net effect in the perennial cluster is that the original target of a 150% increase in sales of crops will have to be lowered to reflect reduced opportunities in the date sector. However, results are expected in the livestock and feed (including fish farming) cluster, and possibly also in annual horticulture. Adjusted targets for all agricultural activities will be included in the revised PMP which USAID will approve by October 15th.

Based on the above actions, the Mission requests a management decision on this recommendation.

Recommendation No 2:

We recommend that USAID/Iraq reassess the feasibility of sending 25 students to the United States for its master's degree activity under the Inma Agribusiness Program and adjust its planned results accordingly.

Action taken:

USAID/Iraq concurs with the recommendation and has taken the following actions:

The Mission engaged in intensive external and internal consultations in July and August 2008. A decision memo was provided to the Mission Director on August 25th and on August 26th the Mission Director provided a management decision not to proceed with the Masters Program. The program was deemed not to be feasible essentially because of the compressed time line of the program from 2 years to 1 year was not in the original proposal, and because none of the selected candidates had achieved passing grades on the TOEFEL English readiness test, as required by the work-plan. This could have resulted in the Mission being placed in the position of having to extend to the base period of Inma's contract, not based on performance, but to allow students in the US to complete their studies. At a meeting on August 30th this decision to not proceed with the program was communicated by the USAID Acting Mission Director to the Iraqi Deputy Minister of Agriculture and the Minister's advisor.

Based on the above actions, the Mission requests a final action on this recommendation.

Recommendation No 3:

We recommend that USAID/Iraq, after making adjustments per Recommendation No. 2, reprogram any funds remaining from the \$5 million allocated to the master's degree activity and put them to better use.

Action taken:

USAID/Iraq concurs with the recommendation and is taking the following actions:

None of the participant training funds under the Inma sub-contract with Texas A&M University were used to support any activities related to soliciting potential candidates for the masters program, interviewing them, and making selections. Much of this work was conducted by the Iraqi Ministry of Agriculture and the US Department of Agriculture. As a result, USAID was able to reprogram the full amount of \$5 million dollars. Inma contract modification No. 8 is being finalized by the Mission and will be completed by October 15th 2008. As per this contract modification, \$6 million in participant training (\$5 million for the masters program plus \$1 million for extension institutes) has been removed as a separate line item. These funds have been reprogrammed and will be used by Inma for grants to support the development of agribusinesses in Iraq.

Based on the above actions, the Mission requests a management decision on this recommendation.

Recommendation No 4:

We recommend that USAID/Iraq establish appropriate performance indicators to monitor Inma's expanded grant and master's degree activities, as well as any other major program components without performance indicators in accordance with USAID's Automated Directives System 203.3.

Action taken:

USAID/Iraq concurs with the recommendation and is taking the following actions:

In July 2008, Inma's Performance Monitoring Plan (PMP) underwent an extensive review by USAID/Iraq and the Mission's monitoring and evaluation contractor, IBTCI. The review suggested that Inma completely rewrite portions of the PMP to adequately capture performance indicator results under all major program components including the Grants to Loan component. No performance indicators will be developed for the master's degree activity as USAID is not proceeding with this under Inma. The final version of the revised PMP will be approved by USAID by October 15th, 2008.

Based on the above actions, the Mission requests a management decision on this recommendation.

Recommendation No 5:

We recommend that USAID/Iraq review Inma program performance indicators listed in its Performance Monitoring Plan to ensure that they are reasonably attributable to USAID activities, in accordance with USAID's Automated Directives System 203.3.

Action taken:

USAID/Iraq concurs with the recommendation and is taking the following actions:

In addition to the actions taken in response to recommendation No. 4, IBTCI will also carry out a Results Framework Assessment of the revised PMP. This will specifically address the necessity of having PMP performance indicators that are reasonably and directly attributable to Inma activities. The PMP is expected to be completed by October 15th, 2008.

Based on the above actions, the Mission requests a management decision on this recommendation.

Recommendation No 6:

We recommend that USAID/Iraq develop clear and meaningful cost reporting by discrete activity and commodity cluster in conjunction with the Inma contractor.

Action taken:

USAID/Iraq concurs with the recommendation and is taking the following actions:

The Mission's EGA and OAA offices discussed this recommendation with Inma, and the Louis Berger Group (LBG) headquarters. USAID requested that LBG develop a new set of financial cost reporting charts that will allow USAID management to gain improved clarity into the distribution of Inma program expenditures by functional expenditure categories. Contract Modification # 8 (267-C-00-07-00500-00) includes an amendment which requires Inma to "report on resources spent in Iraq by commodity clusters and activities under each cluster, and by input category." These are to be included in Inma's monthly financial reports. The Mission expects that this new reporting format will be finalized before the end of September. The first report containing the new financial reporting format, by discrete activity and commodity cluster, will be received on October 15th 2008.

Based on the above actions, the Mission requests a management decision on this recommendation.

Recommendation No. 7

We recommend that USAID/Iraq verify that the Inma contractor modifies the subcontract language with the Euphrates Fish Farm to include the required provision pertaining to the Executive Order on Terrorism Financing.

Action taken:

USAID/Iraq concurs with the recommendation and has taken the following actions:

On August 24 the OAA office sent a letter to LBG referencing the audit findings and recommendation. The letter indicated that the clause contained under Section H.8 of the contract "Executive Order on Terrorism Financing" was not included in Inma's subcontract with Euphrates Fish Farm (EFF). The clause stipulates this provision be included in all subcontracts. OAA informed LBG that it is required to: 1) modify the EFF subcontract to correct the omission; 2) provide USAID with evidence that the modification has been completed; and 3) provide written assurances that the clause will be included, as mandated, in all existing and future sub-awards made by LBG.

On August 25th LBG replied by email stating that it "will make the necessary modifications to the EFF contract immediately incorporating the clause 'Executive Order on Terrorism Financing.'" LBG also stated that "all of our existing subcontracts will be modified to include the appropriate clause and it will also be included in all new subcontracts." On September 3rd Inma forwarded to the Mission, the modified subcontract with EFF.

Based on the above actions, the Mission requests a final action on this recommendation.

Recommendation No. 8

We recommend that USAID/Iraq obtain written assurance from the Inma contractor that the required provision pertaining to the Executive Order on Terrorism Financing is included in all current Inma subawards.

Action taken:

USAID/Iraq concurs with the recommendation and has taken the following actions:

On August 24 the OAA office sent a letter to LBG referencing the audit findings and recommendation. On September 2nd LBG replied by letter stating that “all of our existing subcontracts will be modified to include the appropriate clause and it will also be included in all new subcontracts.”

Based on the above actions, the Mission requests a final action on this recommendation.

Major Inma Activities Reviewed During the Audit

Project Name	Project Description
Iron Horse Taji-Abu Ghraib Vegetable Project	The project provides each of 900 farmers, in amounts proportional to their available land, the same collection of modern hybrid onion, tomato, cucumber, pepper, eggplant, and squash seeds. They will also receive plastic sheeting to protect the vegetables from winter frost kill. Inma will also make technical training programs available for the farmers' associations, which will include commercial demonstrations of new varieties and improved systems for planting, harvesting, sorting, and packing.
Date Industry Revitalization	This component is intended to increase agribusiness sales and employment by revitalizing the Iraqi date sector. To help achieve these goals, Inma set an initial target of increasing the gross sales of dates by 150 percent over the 3-year term of the contract. Inma's strategies for reaching this target included increasing export sales through enhanced grading, sorting, and packaging capabilities.
Balad Canning Factory	The tomato paste canning factory is intended to develop agricultural markets and to create a significant number of jobs.
Euphrates Fish Farm	The goal is to increase the ability of fish farmers to produce for a competitive market by helping to strengthen the fish value chain links, beginning with the market. A fully functioning, efficient production and marketing chain will increase availability of superior-quality fish in the market and also will provide increased employment opportunities for the fish production industry and associated industries.
Basrah Tomato Enterprise	The implementation plan envisions, by the end of the contract, a fully integrated fresh and processed private tomato enterprise which would include state-of-the-art packaging and processing facilities.
9 Nissan Market	The project seeks to refurbish a wholesale/retail market in the New Baghdad area of Baghdad. Inma activities are to include completing display stands, installing roller shutters on the stalls, and managing construction repairs and upgrades, including electrical and plumbing installation, flooring, roofing, doors, and shutters for market booths.
Master's Degree Activity	The activity is to provide support for 25 selected students to receive a master's degree in an agriculture-related field. This fellowship for Iraqi university graduates provides assistance in coordinating their application efforts at a college of their choice as a means of building human capital and capacity throughout the Iraqi agriculture sector.
Feedlots and Feed Mills	The project seeks to establish fully operational beef and sheep feedlots to show the feasibility of feedlots throughout Iraq.
Babil Feed Mill	This project will revitalize the current production and marketing capacities of the Babil Feed Mill, which provides feed to local fish and poultry farms.

Major Inma Activities Reviewed During the Audit

Agricultural Marketing Information System	This project seeks to continue, from Inma's predecessor program, providing a database full of market prices of agricultural products throughout Iraq.
Veterinary Service Providers	Veterinary Service Providers are units formed by local veterinarians who are trained in vaccinations, diagnosis of diseases, modern large animal health practices, and artificial insemination. The units will provide training, equipment, and technical assistance, and will be linked to commercial operations of feed productions, feedlots, and livestock producers. This coupling of service providers (veterinarians) with buyers of services should result in long-term sustainable enterprises.
Hameedyah Mushroom Farm	This project aims to revitalize the Hameedyah mushroom enterprise through capital investment and technical assistance.

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