

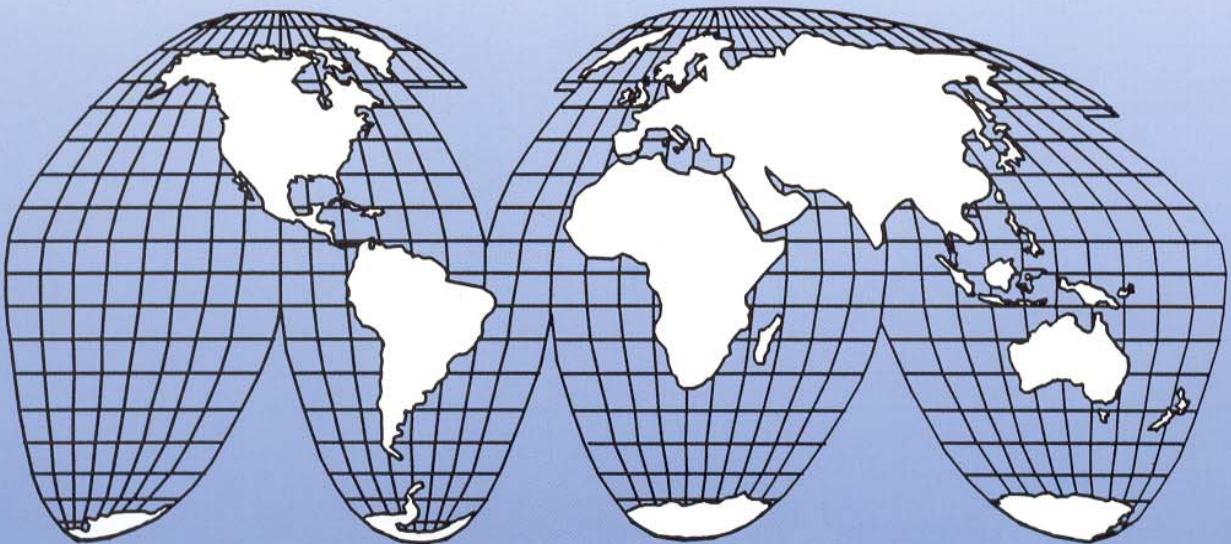
USAID

OFFICE OF INSPECTOR GENERAL

Audit of USAID/Iraq's Community Action Program

Audit Report Number E-267-05-001-P

January 31, 2005



Baghdad, Iraq

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USAID
FROM THE AMERICAN PEOPLE

January 31, 2005

MEMORANDUM

FOR: USAID/Iraq Mission Director, James E. Stephenson

FROM: Regional Inspector General, Baghdad, Christine M. Byrne /s/

SUBJECT: Audit of USAID/Iraq's Community Action Program
(Report No. E-267-05-001-P)

This memorandum is our report on the subject audit. In finalizing this report, we considered management comments on the draft and have included those comments in their entirety as Appendix II.

This report has one recommendation. In response to the draft report, USAID/Iraq concurred with the recommendation. It also included a corrective action plan and target date for the final action to address the recommendation. Therefore, we consider that a management decision has been reached on the recommendation. Please provide the Bureau for Management, Office of Management Planning and Innovation with evidence of final actions.

I appreciate the cooperation and courtesy extended to my staff during the audit.

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Summary of Results

The Regional Inspector General in Baghdad, Iraq conducted this audit of USAID/Iraq's Community Action Program to determine if the program achieved intended outputs. (See page 6.)

The audit found that the Mission's Community Action Program (CAP) did achieve intended outputs. Based on tests performed on 89 statistically selected sample projects, the CAP achieved 98 percent of its intended outputs, including citizen participation, inter-community cooperation, local government cooperation, local employment generation, and consideration of environmental concerns. (See pages 6-7.)

Although the Mission and its implementing partners ensured that the CAP achieved its intended outputs, the audit identified an internal control that needs to be strengthened to improve CAP monitoring and reporting processes. This internal control concerns the data contained in the Project List used by the Mission for monitoring and reporting purposes, which did not always agree with supporting documentation. (See pages 8-10.)

This report contains one recommendation to help USAID/Iraq improve its monitoring and reporting processes regarding the CAP. (See page 10)

In response to the draft report, the Mission concurred with the recommendation and submitted a corrective action plan with a target completion date. Therefore, we consider that a management decision has been reached on the recommendation. Appendix II contains USAID/Iraq's comments in their entirety. (See page 15.)

Background

During the past 25 years, the Iraqi people have experienced the hardships of three wars and economic sanctions. As a result, unemployment rose, income eroded, and productivity decreased. This economic decline, coupled with lack of investment, has affected the quality and capacity of the provision of social services.¹

To aid in resolving this problem, USAID's Community Action Program (CAP) encourages citizens to become involved in addressing the issues that affect their communities. Through the program, Iraqi community associations identify and prioritize their needs, mobilize community and other resources, and monitor project implementation. This process provides a vehicle for empowering communities, building community cohesion, and providing evidence that the U.S. is committed to improving the lives of Iraqis. CAP projects include repair to local sewerage systems

¹ Barton, Frederick D. & Bathsheba N. Crocker (January 2003) *A Wiser Peace: An Action Strategy for a Post-Conflict Iraq*

and roads, rehabilitation of schools, and renovations of health clinics. Women, youth, and minority groups participate in the program. Because of their engagement at every stage of the process, community members learn what democracy and citizenry means in practice.

To carry out the CAP effort in Iraq, USAID drew on five of its traditional allies in development and relief: Mercy Corps, International Relief and Development, Agricultural Cooperative Development International and Volunteers in Overseas Cooperative Assistance, Cooperative Housing Foundation, and Save the Children. USAID awarded cooperative agreements to each of the five. As of August 7, 2004, USAID had obligated approximately \$120 million to the CAP and disbursed approximately \$38 million.

The CAP is managed by USAID/Iraq's Democracy and Governance Office. The program is being implemented under USAID's Strategic Objective 4.2, "Increase Citizen Participation in Local Government Decision-Making." The CAP audit covered the period from May 16, 2003 to August 7, 2004.

Audit Objective

As part of its fiscal year 2004 audit plan, the Regional Inspector General/Baghdad performed this audit to answer the following question:

- Did USAID/Iraq's Community Action Program achieve intended outputs?

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

Audit Finding

USAID/Iraq's Community Action Program (CAP) did, in fact, achieve intended outputs. Based on the tests performed on 89 statistically selected projects, the program achieved 98 percent of its intended outputs.²

The Mission and its five CAP implementing partners managed the projects in compliance with the requirements of the cooperative agreements. Specifically, they ensured that the implementation of the projects involved the following functional areas:

- Citizen Participation – The projects created a sense of community and involved the residents of the communities in their own governance.

² See Appendix I for a detailed explanation of the methodology used to measure the achievement rate.

-
- Inter-community Cooperation – The projects provided opportunities for the communities to review social and economic development plans from a regional perspective and to work together on shared economic and social priorities.
 - Social and Economic Infrastructure – The projects involved the cooperation of the local government to ensure that the projects substituted or complemented government efforts.
 - Incomes and Jobs – The projects generated local employment, increased income by hiring community residents to implement the projects, and improved the local economy by using local businesses.
 - Environmental Condition and Practices – The projects’ design and implementation ensured that environmental impacts and health and safety issues were considered.

Examples of projects implemented under the program included rehabilitation of sewerage systems, road repairs, school construction and renovation, construction of retaining walls, neighborhood solid waste clean-up projects, health center renovation, and water supply improvements.



Photograph of one of a series of retaining walls constructed under USAID/Iraq’s Community Action Program in the town of Chwarta, Iraq. Photograph includes local government officials and an ACDI/VOCA³ project engineer. Faces smudged for security reasons. (December 2004)

³ Agricultural Cooperative Development International and Volunteers in Overseas Cooperative Assistance



Photograph of one of the classrooms at the Surean School constructed under USAID/Iraq's Community Action Program in the town of Said Sadiq, Iraq. (December 2004)

Although the Mission and its implementing partners ensured that the CAP achieved its intended outputs, the audit identified an internal control that needs to be strengthened in order to improve the CAP monitoring and reporting processes: the data contained in the Project List, which the Mission uses for monitoring and reporting purposes, did not always agree with supporting documentation.

Project List Data Should Be Sufficiently Precise

Summary: Contrary to USAID guidelines, some of the data contained in the Project List did not reconcile to the supporting documents. This was caused by untimely updating of the data by the implementing partners and insufficient review of the data by the implementing partners and Mission staff. As a result, some of the data were either under- or over-reported, thus making the Project List a less effective monitoring and reporting tool.

USAID's Automated Directives System (ADS) 202.3.7.1, Financial Planning, Monitoring, and Budgeting, states that the "Strategic Objective teams must prudently plan, monitor, and manage the financial aspects of their program throughout the life of the strategic objective." In addition, ADS 203.3.5.1c, Data Quality Standards, Precision, states that "Data should be sufficiently precise to present a fair picture of performance and enable management decision-making at the appropriate levels."

The Project List is a monitoring tool that the Mission uses to track (1) the status of all the CAP projects—from identification of the project, approval, tendering, awarding of the contract, up to completion of the project—and (2) the outputs achieved, such as the number of people employed and the amount contributed by the impacted local community to help support the project. The implementing partners compile the data, such as project cost and number of people aided by the project, which are recorded in the Project List. Aside from being a monitoring tool, USAID also uses the Project List as a data source for reports to Congress.

A test of accuracy was performed on the 89 sample projects’ data, and the results identified the following discrepancies between what was included in the Project List and what was supported by the underlying documentation.

Table 1 – List of discrepancies noted in the Project List out of the 89 sample projects reviewed.		
Data Element	No. of Sample Projects with Discrepancies	Percent of Discrepancies
Cost of Project	23	26
Amount of Community Contribution	18	20
Number of Direct Beneficiaries ⁴	24	27
Number of Indirect Beneficiaries ⁴	13	15
Employment Days	38	43
Number of People Employed	32	36
Project Status	2	2

According to Save the Children’s Chief of Party, one possible cause for the discrepancies between the reported data and the supporting documents could be that the Save the Children staff did not update the data in a timely manner once the projects were completed. Regarding the disaggregated data, he said that the lack of clear guidance during Phase I of the CAP may have caused the discrepancies. Mercy Corps’ Chief of Party explained that his organizational set-up of operating three autonomous offices in southern Iraq resulted in problems with compiling and consolidating the data. In addition, three evacuations, a hijacking incident, and the ransacking of the Amarah and Diwaniyah offices resulted in lost documentation and misfiled or uncollected files due to their frequent transfer for safekeeping. Overall, the auditors believed the cause of the discrepancies was attributed to untimely updating of the data and the lack of sufficient review of the data primarily by the implementing partners and also by the Mission staff. Additionally, the precarious security environment prevented the Mission staff from performing their responsibilities regarding site visits and data verification.

⁴ Disaggregated data.

As a result, the discrepancies have made the Project List a less effective monitoring tool and a less accurate data source.

For a monitoring tool like the Project List to be effective and reliable, it should contain sufficiently precise data. Data integrity is an essential element in evaluating the implementing partners' performance and reporting program progress. According to the CAP Program Manager, the accuracy of the data in the Project List has been a problem for some of the implementing partners from the beginning of the program. She had addressed it numerous times in the past in her review of their reports. In July 2004, she requested them to scrub their respective data for accuracy in reporting. Notwithstanding this request, the data in the August 2004 Project List contained inaccuracies, so further steps need to be taken.

Recommendation No. 1: We recommend that USAID/Iraq develop and implement a plan of action to improve the integrity of the data in the Community Action Program's Project List in order for it to be a more effective monitoring tool and a more accurate and reliable data source for reporting purposes.

Evaluation of Management Comments

USAID/Iraq concurred with the recommendation. It also included in its response to our draft report a corrective action plan with a target completion date.

Based on our evaluation of the Mission's corrective action plan, we consider that a management decision has been reached upon the issuance of the final report. However, in regard to action numbers 7 and 9 of its action plan, we suggest that the Mission document the random file reviews of selected projects and the ongoing review of data in the Project List. Discrepancies identified and their resolution should also be documented.

**Scope and
Methodology****Scope**

The Regional Inspector General in Baghdad, Iraq conducted this audit in accordance with generally accepted government auditing standards. The objective of the audit was to determine if USAID/Iraq's Community Action Program (CAP) achieved intended outputs. The audit covered the review of the CAP projects and the implementing partners' project files during the period May 16, 2003 to August 7, 2004. As of August 7, 2004, funds obligated and disbursed under the CAP totaled about \$120 million and \$38 million, respectively.

To conduct the audit, we defined our audit population to include projects that were under implementation and projects that had been completed during the defined audit period. We used the Mission's Project List, which contained 1,717 projects amounting to \$61.7 million in various stages of development, to identify our audit population of 1,411 projects amounting to \$48.2 million. With the assistance of the Office of Inspector General/Washington statistician, we statistically selected a sample of 89 projects. We examined and assessed the Mission's significant internal controls over the CAP by testing the 89 sample projects for compliance with the terms of the agreement and for accuracy of the data reported in the Project List. These internal controls included reviewing the implementing partners' quarterly work plans and interim and semiannual reports, the CAP Program Manager's field visits' reports, and the Mission's Project List and Federal Manager's Financial Integrity Act reports for fiscal years 2003 and 2004.

We conducted the audit at USAID/Iraq in Baghdad, Iraq from September 1 to December 9, 2004. Field visits were conducted in Basrah, Chwarta, and Said Sadiq, Iraq. We intended to visit other CAP project sites; however, we had to curtail our site visits because of the precarious security situation.

Methodology

To answer the audit objective, we designed a sampling methodology that would provide a 90 percent confidence level, assuming a five percent error rate, and a precision of plus or minus four percent. We used stratified sampling to ensure that the five implementing partners' projects were fairly represented in the sampling selection.

We tested the 89 sample projects for compliance with the agreement terms relating to five functional areas: citizen participation, inter-community cooperation, social and economic infrastructure, incomes and jobs, and environmental condition and practices.

We then:

- formulated 12 questions that covered the requirements of the five functional areas;
- designed a matrix that included the 12 questions and the 89 sample projects;
- tested the 89 sample projects for compliance by reviewing the project files for documentation that supported the answers to the 12 questions; and
- hired translators to assist us in reviewing the Arabic documents contained in the project files.

Some of the functional areas may not apply to a particular project. For example, a community action group (CAG) is different from a cluster of communities, also known as community development group (CDG). If a CAG identified the project, the questions under the functional area “Citizen Participation” would apply to the project, and the functional area “Inter-community Cooperation” would not be applicable to the CAG’s project. On the other hand, if a cluster group identified the project, the questions under the functional area “Inter-community Cooperation” would apply, and “Citizen Participation” would not be applicable. A “not applicable” answer would not denote noncompliance with the requirements.

The test-of-compliance matrix contained 1,068 elements (89 sample projects multiplied by 12 questions), of which 330 elements were not applicable to the 89 sample projects. The resulting net total number of elements of 738 contained 16 negative responses (noncompliance). Therefore, the test showed that the CAP achieved 98 percent (722 positive responses divided by 738 elements) of intended outputs and an error rate of two percent (16 negative responses divided by 738 elements). Given that the error rate in our statistical sample was less than five percent, we concluded with a 90 percent confidence level that the error rate in the population of 1,717 projects was also less than five percent.

We also tested the data of the 89 sample projects for accuracy by reconciling them to the documentation in the project files. We reviewed the cooperative agreements awarded to the five CAP partners and interviewed the responsible Mission staff, the implementing partners’ officials and staff, and our resident investigator in Baghdad, Iraq. Our interview of the USAID cognizant technical officers, who were based in various regions of the country, was conducted via e-mail because of the security situation at the time of fieldwork.

The defined materiality thresholds for the audit were as follows:

- 90-100 percent achievement rate, an unqualified report will be issued;
- 70-89 percent achievement rate, a qualified report; and
- less than 70 percent, a negative report.

For criteria, we used USAID's Automated Directives System 202 and 203 and the cooperative agreements.

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**Management
Comments**

Date: January 12, 2005

TO: Regional Inspector General Baghdad, Christine M. Byrne

FROM: USAID/Iraq Acting Mission Director, Chris Milligan /s/

SUBJECT: Audit of USAID/Iraq's Community Action Program

REF: Audit Report No. E-267-05-XXX-P)

This memorandum transmits the Mission's response to the Regional Inspector General's draft report on the audit of USAID/Iraq's Community Action Program.

The stated objective of the audit was to ascertain whether USAID/Iraq's Community Action Program (CAP) achieved its intended outputs. The audit found that CAP achieved 98 percent of its intended outputs, including citizen participation, inter-community cooperation, local government cooperation, local employment generation, and consideration of environmental concerns. The Mission is pleased with this audit finding.

In addition, although the Mission and its implementing partners ensured that the CAP achieved its intended outputs, the audit identified a management control that needs to be strengthened to improve CAP monitoring and reporting processes.

Recommendation No. 1:

We recommend that USAID/Iraq develop and implement a plan of action to improve the integrity of the data in the Community Action Program's Project List in order for it to be a more effective monitoring tool and a more accurate and reliable data source for reporting purposes.

The Mission accepts the audit recommendation. Subsequent to the completion of the audit fieldwork, the Mission has taken several steps to improve the data in the Project List spreadsheet, including a request to our implementing partners to conduct an internal review of their data files. Our plan for corrective action with target completion date of the planned action is outlined below.

USAID/IRAQ Mission Finalized Plan to Improve the Integrity of the Data in CAP Project List

	Corrective Action	Target Completion Date
1	The Mission will request that each Implementing Partner develop a plan to conduct an internal audit of its Project List.	Completed.
2	The Mission will review the Project List, and document any apparent data entry inconsistencies. Such notations will be shared with the appropriate Implementing Partner.	Completed.
3	The Mission will share the results of the audit findings as soon as the CAP audit report is issued.	One week upon issuance of final CAP audit report
4	Implementing Partners will conduct internal audits of the data contained in their Project Lists.	March 14, 2005
5	The Mission will monitor the implementation of the internal data audit by requesting that each Implementing Partner provide an audit update in their regular reports.	April 14, 2005
6	The Mission will coordinate with CAP Implementing Partners to re-establish clear and standardized guidance for the Project List. Such guidance will include a review of the definitions for the following entries on the Project List: project cost; amount of community contribution; number of direct beneficiaries; number of indirect beneficiaries; employment days; number of people employed; and project status.	February 12, 2005
7	As the security environment permits, USAID expatriate staff will conduct site visits to the projects and offices of the Implementing Partners. During such visits, USAID will conduct random file reviews of a selected number of projects.	Highly challenging in the current insecure environment.
8	The Democracy and Governance Office (DGO) USAID/Iraq will work with the USAID Regional Offices to devise a plan for ongoing review of data in the Project Lists.	March 14, 2005
9	As the security environment permits and based on the plan developed jointly with DGO, the Regional Offices will provide ongoing review of data in the Project Lists for projects implemented in their region.	ongoing throughout project implementation
10	When an Implementing Partner reports that a given project has been completed, DGO will request confirmation that all the data in the Project List for that entry is accurate.	ongoing throughout Program implementation

The target date for the final action is April 14, 2005.

Based on the above, we request your agreement with our management decision as stated in this memorandum for the audit recommendation.

cc. USAID / Iraq Controller, A. Fawcett