OFFICE OF INSPECTOR GENERAL

FOLLOW-UP AUDIT OF USAID/IRAQ'S EDUCATION ACTIVITIES

AUDIT REPORT NO. E-267-07-003-P
FEBRUARY 4, 2007

BAGHDAD, IRAQ

Office of Inspector General

February 4, 2007

MEMORANDUM

TO: USAID/Iraq Mission Director, Hilda Arellano

FROM: Acting RIG/Baghdad, Terry Youngblood /s/

SUBJECT: Follow-up Audit of USAID/Iraq's Education Activities
             (Report No. E-267-07-003-P)

This memorandum transmits our final report on the subject audit. This report contains one recommendation with which you concurred in your response to the draft report. Based on the comments you provided in response to the audit findings, a management decision has been reached. Please coordinate final action with USAID's Audit, Performance and Compliance Division.

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

The Regional Inspector General in Baghdad, Iraq conducted this audit to determine if USAID/Iraq's basic education activities achieved their intended outputs. As part of the audit, we reviewed actions taken to address the recommendation from a prior audit report entitled *Audit of USAID/Iraq's Basic Education Activities (Report No. E-267-06-001-P),* which recommended that the Mission develop a plan to ensure the necessary computer equipment was in place to operate the education management information system. (See pages 2 and 3.)

The current follow-up audit found that 7 out of 16 selected intended outputs were achieved, and the Mission was able to provide sufficient documentation to support the achievement of the reported outputs through its implementing partner, Creative Associates International, Inc. Two reported outputs could not be determined if achieved due to the lack of sufficient supporting documentation. The remaining seven intended outputs were not achieved. (See page 3.)

The audit found that 5 of the 16 intended outputs did not have adequate supporting documentation to verify the reported outputs (2 of which were reported as being met). We are not making a recommendation because the program is ending and the Mission has given assurance that the data would be reported as a contractor estimate. (See page 4.)

In addition, the audit found that the actions taken to address the recommendation from the previous audit were not satisfactory. The computer equipment needed to be installed, and the education management information system needed to be operational. To address the issue, we are recommending that the Mission coordinate with its implementing partner to ensure that the servers are installed and the education management information system is operational. (See page 5.)

The Mission concurred with the recommendation, and a management decision has been reached. Because all servers were not yet operational, final action had not been taken. (See page 6.)

BACKGROUND

USAID/Iraq's portfolio included a "Support to Iraqi Basic Education" program, which sought to build the capacity and increase the quality of the country's educational system. USAID/Iraq partnered with Creative Associates International, Inc. (Creative) to implement the program during the time period of July 1, 2004 to June 30, 2006, with $51.8 million of funding. Creative received three no-cost extensions to continue the program, first through July 31, 2006, then through September 30, 2006, and finally through December 31, 2006.

RIG/Baghdad audited USAID/Iraq's education activities in 2005 and issued the *Audit of USAID/Iraq's Basic Education Activities (Report No. E-267-06-001-P)* on December 20, 2005. The objective of the audit was to determine if USAID/Iraq's basic education activities had progressed toward their intended outputs. At the time of the audit, 33 intended outputs were in process, and 22 intended outputs had yet to begin. The Mission had expected all activities to be completed by June 2006.

The prior audit report contained one recommendation regarding the provision of computer equipment necessary to operate the education management information system being developed by USAID/Iraq's contractor. The Mission accepted the recommendation and took corrective actions, which included the development of an implementation plan to ensure the necessary computer equipment was obtained. Based on the actions taken by the Mission, we considered that a management decision had been reached and final action had been taken.

This audit covered selected activities implemented by Creative from July 1, 2004 through June 30, 2006. Because of the no-cost extensions received, we also reviewed activities through September 30, 2006. As of June 30, 2006, cumulative obligations and disbursements under the Creative contract were $51.8 million and $48.9 million, respectively. Funds were disbursed for program costs ($22.0 million) and direct labor, fringe benefits, and consultants ($5.5 million). In addition, there were expenditures related to contractual obligations such as overhead, general administrative costs, and profit ($10.7 million); security ($6.7 million); and other direct costs ($4.0 million).

AUDIT OBJECTIVE

This audit was added to the fiscal year 2006 annual audit plan; the Regional Inspector General in Baghdad conducted this audit to answer the following objective:

- DID USAID/Iraq's basic education activities achieve their intended outputs?

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

AUDIT FINDINGS

The audit found that USAID/Iraq's education activities achieved 7 out of 16 selected intended outputs. The Mission was able to provide sufficient documentation through its implementing partner, Creative Associates International, Inc. (Creative), to support reported outputs for seven of the selected outputs.   For example, intended outputs relating to the development of software modules, the training of teachers in information and computer technology, and the rehabilitation of schools in rural areas were achieved. Documentation was provided to support that seven software modules were developed, over 13,500 teachers were trained in information and computer technology, and 32 rural primary schools were replaced.

It could not be determined if two of the selected outputs were achieved due to a lack of sufficient documentation. For example, over 17,000 teachers were reported as trained in a one-week pedagogy program, but sufficient documentation was not provided. The lack of sufficient documentation is discussed in the "Reported Data Needs to Be Reviewed for Supporting Documentation" section of the report.

The remaining seven selected intended outputs were not achieved. For example, only 4,000 activity booklets for each of two themes were printed and distributed instead of the intended 10,000 booklets.   The intended output regarding the provision of science laboratories and computer laboratories to model schools was also not achieved. The laboratories had been procured but not installed at the time of the audit fieldwork. In addition, for three of the reported outputs not achieved, sufficient documentation could not be provided to support the reported output. See Appendix III for a complete listing of the selected intended outputs.

As part of the audit we reviewed the actions taken to address the recommendation issued to the Mission in the previous audit regarding the education management information system (EMIS).   The recommendation stated that USAID/Iraq needed to develop a plan to ensure the required computer equipment was in place to operate the EMIS or discontinue USAID funding of the project. In response to the recommendation, Mission management, in coordination with stakeholders, developed and implemented a plan to ensure site preparation and installation of necessary computer equipment. However, during this audit fieldwork, the auditors noted that the servers were not yet installed, and therefore the EMIS was not yet operational. In addition, the subcontractor developing the system stated that even when the system is installed and operational, it will not be at the optimal setting due to a lack of high-speed internet connectivity throughout the country.   Information will have to be inputted into the system at the regional offices and then sent to the main server for uploading instead of being able to input information directly into the main server.

The following sections discuss the supporting documentation issue noted and the non-operational EMIS.

Reported Data Needs to Be Reviewed for Supporting Documentation

USAID's Automated Directives System 578.3.1 requires originating offices to review information products for compliance with information quality guidelines, which stress the importance of high quality and accurate results reporting information. In addition, the Government Accountability Office's *Standards for Internal Controls in the Federal Government* states that all transactions and significant events need to be clearly documented and that the documentation should be readily available for examination.

USAID/Iraq did not review Creative's supporting documentation of reported outputs. Of the 16 selected intended outputs, inadequate documentation was provided for 5 intended outputs, 2 of which Creative had reported achieving. For example, the following intended outputs did not have adequate supporting documentation to verify the reported output:

- 10,000 booklets distributed for each of two themes (no documentation was provided to support the production or distribution of 4,000 booklets for each theme)
- Train 17,000 teachers in pedagogy (2 out of 4 judgmentally selected training sessions did not have adequate support to verify the number of participants)

The lack of adequate supporting documentation was also encountered in a 2003 audit performed by RIG/Baghdad.[1]   The audit found that seven of the eight reported accomplishments were inaccurate, and a recommendation was made for USAID/Iraq to develop procedures to verify data included in reports prior to the issuance of the reports to ensure the data reported is accurate. The Mission took corrective action by requiring a monitoring and evaluation contractor to verify reported results. However, the contract ended in May 2005, and a new contractor started the monitoring and evaluation responsibilities. According to USAID/Iraq management, the education activities under the Creative contract are to be evaluated by the new contractor, but no target date had been scheduled.

As a result of not having adequate supporting documentation, the Mission cannot rely on the accuracy of the reported information. Inaccurate information may be used in decision making. Because the education program is ending, we are not making a recommendation. The Mission did provide assurance that the education data would be reported as a contractor estimate.

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[1] *Audit of USAID's Results Data for Its Education Activities in Iraq (Report No. E-266-04-001-P)*, March 19, 2004.

Computer Equipment Needs to Be Installed, and the EMIS Needs to Be Operational

The purchase and installation of the servers was 1 of the 16 outputs selected for review. Even though the Mission had developed a plan to ensure that the required equipment was in place by February 28, 2006, as of October 2006 the computer equipment was not installed, and the EMIS was not operational because the servers were still in the customs clearance process. If the computer equipment is not installed and the EMIS is not operational, the $1.6 million funding of the project would be wasted. In order to address the issue, we are making the following recommendation:

Recommendation No. 1: We recommend that USAID/Iraq coordinate with its implementing partner to ensure that the servers are installed and the education management information system is operational.

EVALUATION OF MANAGEMENT COMMENTS

In response to our draft report, USAID/Iraq agreed with the audit recommendation and described actions it was taking to address the recommendation. USAID/Iraq reported that the servers had been delivered to the Ministry of Education, and installation had begun. However, the servers for Kurdistan had not yet been installed. As such, we consider the recommendation to have received a management decision, but final action has not been taken.

The draft audit report had two recommendations. The first recommendation was deleted, and the second recommendation was renumbered. The Mission questioned the utility of the recommendation given the current status of the program and lack of any follow-ons. In addition to the comments included in this report, the Mission provided written assurance that the education data would not be presented in any Mission documents without the caveat that the data was a contractor estimate.

Management's comments are included in their entirety in Appendix II.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General in Baghdad audited USAID/Iraq's education activities in accordance with generally accepted government auditing standards. The purpose of the audit was to determine whether USAID/Iraq's education activities achieved their intended outputs.

USAID/Iraq's education sector projects were being carried out primarily through Creative Associates International, Inc. (Creative). Creative had received two contracts through USAID/Iraq; this audit focused on the second contract, with a contract ceiling of $56.5 million, which became effective on July 1, 2004 and was to expire on December 31, 2006 after three no-cost extensions. The primary focus of this contract was to improve the quality of education delivery in the country and increase the access to education. As of June 30, 2006, cumulative obligations and disbursements under the contract totaled approximately $51.8 million and $48.9 million, respectively. Mission management stated that the obligations did not increase to the full value of the contract due to other priorities.

This audit was a limited-scope audit; the audit team judgmentally selected high risk and high dollar activities to determine if they achieved their intended outputs as of September 30, 2006. As part of the review of intended outputs, the audit team determined if the implementation plan adopted by USAID/Iraq in response to the recommendation in the 2005 audit was fully implemented.

The audit also included an examination of management controls relating to the monitoring of activities performed under the contract. Specifically, these controls included:

- Reviewing and approving Creative's financial vouchers.
- Reviewing and approving Creative's periodic performance reports.
- Completing the Mission's Federal Managers' Financial Integrity Act reports.

The audit fieldwork was performed from July 25 to November 2, 2006, and consisted of interviews with key technical staff from the Mission and Creative employees. In addition, the audit included a review of relevant performance and financial documents.

As part of our initial planning work, we examined related audits performed by other U.S. Government agencies, including the Government Accountability Office.

Methodology

To determine if the education activities achieved their intended outputs, RIG/Baghdad made a judgmental selection of high risk and high dollar activities. In total, 16 out of 57[2]

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[2] In the previous audit, the Mission had 55 intended outputs. The revised implementation plan as of February 2006 included two additional outputs. As such, we made our selection from all 57 intended outputs.

intended outputs were selected for testing. For the selected intended outputs, the audit team requested relevant documentation including subcontractor agreements and reports, copies of invoices and receiving reports, and lists of training and participant sign-in sheets.

In conducting our fieldwork, we interviewed technical staff from the USAID/Iraq Mission and its contractor (Creative). These interviews were conducted either in person or via e-mail correspondence.

Our materiality threshold for this audit was established at 10 percent. For example, if 90 percent of an intended output was achieved as of September 30, 2006, we concluded that the intended output was achieved. We did not use a materiality threshold when answering the overall audit objective.

MANAGEMENT COMMENTS

MEMORANDUM

TO: Nancy Lawton, Regional Inspector General, Baghdad

FROM: Hilda Arellano, Mission Director

DATE: January 7, 2007

SUBJECT: Management Comments on Draft Report of Follow-up Audit of
              USAID/Iraq's Education Activities (Report No. E-267-07-00X-P)

USAID/Iraq appreciates the opportunity to comment on RIG/Baghdad's draft Report of Follow-up Audit of USAID/Iraq's Education Activities. The objective, determining whether USAID/Iraq's education activities achieved their intended outputs, is an extremely worthwhile one.

As the draft audit report notes, the subject contract, with Creative Associates International, Inc. (CAII), was granted no additional cost extensions, until September 30, 2006, and activities conducted during that time were examined. Afterwards, the contract was granted an extension until December 31, 2006, again, with no increase to the total estimated cost. Moreover, the contract is currently in a final extension period that continues until February 28, 2007. During each of these extensions, work continued on contract deliverables, and has begun to address the concerns highlighted in the audit report.

At this time, disbursements, projected and accrued expenditures equal the total obligation amount of $51,809,000. There are no additional funds available for education activities. The final extension was granted only after the contractor agreed to offset expenditures with a reduction in fee to maintain the total cost plus fixed fee of the contract at the obligated amount.

The context in which this contract exists has had a significant impact on its implementation. When it was written in 2004, there was the prospect of continued funding in education at quite substantial levels. Prospects have changed dramatically. The USAID strategy has evolved to focus more on national capacity development than substantial reconstruction or service delivery activities. Funds for the type of work embodied by this contract are no longer available. No follow-on activities are planned. An adverse security situation since the contract was awarded has resulted in unanticipated delays or changes in activities. Therefore, Mission priorities have focused

on delivering as much as possible of the scope of work, subject to the constraint of the level of funds obligated in the contract and current security realities.

Management comments addressing the two audit recommendations follow.

Recommendation One: We recommend that USAID/Iraq conduct a review of reported outputs for its education program to verify supporting documentation.

Mission management agrees with this recommendation as it relates to reported outputs for its other continuing programs. For continuing programs, an institutional contractor has been engaged to conduct monitoring and evaluation activities, including assessments of data quality and verification of supporting documentation. Given the current status of the Mission's education activities and lack of any follow-ons, the Mission questions the utility of this type of review at this late stage and requests consultation with RIG staff regarding this recommendation.

Recommendation Two: We recommend that USAID/Iraq coordinate with its implementing partner to ensure that servers are installed and the education management information system is operational.

Mission management agrees with this recommendation, and believes that the education management information system (EMIS) is on the way toward functionality. After the audit field work, the EMIS servers were delivered to the Ministry of Education, which was to be responsible for their installation. CAII reports indicate that users have begun to install the servers, as questions are being fielded by the EMIS sub-contractor regarding minor server boot up issues, which were resolved.

CAII has indicated that the servers destined for Kurdistan have not yet been installed, as their transport from Baghdad to Kurdistan was the responsibility of the Kurdish Regional Government (KRG). The Mission has been in contact with Erbil PRT staff to ensure they and the KRG are aware that the servers are in Baghdad and available for pickup. The Mission believes the KRG will pick up the servers, as their staff are keen to use the system.

Finally, Mission staff have coordinated with the Iraq Reconstruction Management Office (IRMO) Senior Consultant for Education. He indicated that he is planning to use his short term capacity building funding to build upon the EMIS initiated by the USAID education contractor.

Based on the above, Mission management believes that the result embodied in the recommendation—an operational EMIS—will be achieved through a combination of USAID implementing partner actions and actions still to be taken by IRMO-managed contractors. Therefore, Mission believes this recommendation should be closed.

Table of Intended Output Status

	Intended Output	Reported Output - September 2006	Intended Output Achieved As of September 30, 2006?
1	Study tours to Egypt for Directors General	The study tour was cancelled as the Ministry of Education rejected the proposal to go to Egypt. The Ministry proposed a study tour to Malaysia, which the project personnel did not feel met the criteria for the tour.	No
2	Develop seven software modules	The software modules were completed on September 17, 2006.	Yes
3	Train eight Iraqi staff on the information system	Eight Iraqi staff were trained in Amman; they returned home in May 2006.	Yes
4	Quality assurance - have a consultant on the technical teams of the information system	A consultant was hired for the quality assurance aspect.	Yes
5	Train national and regional users of the information system	Two training sessions were held in May.	Yes
6	Purchase and install servers	The servers had been purchased. See note 1.	No
7	Renovate 84 model schools	In June 2006, 76 model schools were completed.	Could not determine – See note 2.
8	Develop 13 preschool television shows	13 five-minute television programs were developed.	Yes
9	Distribute 10,000 activity booklets for each of two themes	4,000 booklets of each topic produced and developed.	No – See note 3.
10	Train 10,000 English secondary school teachers	7,480 teachers were trained.	No – See note 3.
11	12,000 teachers receive information and computer technology training	13,516 teachers were trained.	Yes
12	17,000 teachers receive one-week training program in pedagogy	17,377 teachers were trained.	Could not determine – See note 2.
13	Develop instrument to assess impact of training in each component. Administer pre- and post-tests.	Each training course had an evaluation. Some, but not all, trainings had a pre- and post-test administered.	No – See note 3.
14	Provide 84 science laboratories to model schools	The science laboratories were procured but not installed.	No
15	Provide 84 computer laboratories to model schools	The computer laboratories were procured but not installed.	No
16	Award grants to rehabilitate schools in rural areas	32 primary schools were replaced, and 5 primary schools in Baghdad were rehabilitated.	Yes

Note 1: As of October 11, 2006, the servers had been sent to Baghdad but were delayed in customs.
Note 2: Even though USAID/Iraq reported achieving the intended output, there was not adequate documentation to support the reported output.
Note 3: In addition to being reported as not achieving the intended output, the reported output had inadequate supporting documentation to verify the accuracy of the information.