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**OFFICE OF INSPECTOR GENERAL**

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# AUDIT OF USAID/IRAQ'S TELECOMMUNICATIONS ACTIVITIES

AUDIT REPORT NO. E-267-07-004-P  
May 3, 2007

BAGHDAD, IRAQ



**USAID**  
FROM THE AMERICAN PEOPLE

*Office of Inspector General*

May 3, 2007

**MEMORANDUM**

**TO:** USAID/Iraq Mission Director, Hilda Arellano

**FROM:** RIG/Baghdad, Nancy J. Lawton /s/

**SUBJECT:** Audit of USAID/Iraq's Telecommunications Activities  
(Report No. E-267-07-004-P)

This memorandum transmits our final report on the subject audit. The report contains two recommendations for your action with which the Mission disagreed in its response to the draft report.

Management decisions for the recommendations will be considered to be made when USAID/Iraq has developed firm plans of action for implementing the recommendations. In this regard, please advise us in writing within 30 days of the actions planned to implement the recommendations. Final action will be coordinated with USAID's Audit, Performance and Compliance Division after management decisions have been reached.

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

# CONTENTS

<b>Summary of Results</b> .....	1
<b>Background</b> .....	2
Audit Objective .....	3
<b>Audit Findings</b> .....	4
Intended Results Not Fully Achieved .....	5
Results Should Have Sufficient Supporting Documentation.....	7
<b>Evaluation of Management Comments</b> .....	8
<b>Appendix I – Scope and Methodology</b> .....	10
<b>Appendix II – Management Comments</b> .....	12
<b>Appendix III –Intended Outputs Summary</b> .....	17

# SUMMARY OF RESULTS

USAID/Iraq was tasked by the Iraq Reconstruction Management Office (IRMO) to participate in the project to construct and turn over to the Government of Iraq a functioning Consolidated Fiber Network (CFN). The IRMO-led project involved multiple partners. USAID/Iraq and its contractor, Bechtel National Inc. (Bechtel), were to achieve the following:

- Provide fiber optic material and construction equipment,
- Employ 1,000 Iraqis, and
- Improve the data and voice transmission network to provide future benefits to an estimated 10 million Iraqis.

The audit found that even though USAID provided equipment, employed some Iraqis, and expanded some of Iraq's telecommunications facilities, the \$46.1 million project has yet to benefit the millions of Iraqis as intended. We recognize that future benefits to Iraqis can only be achieved after all partners have completed their efforts under the CFN project. Although Bechtel completed its work on June 30, 2006, the project had yet to achieve all intended results because the United Nations Development Program and the Ministry of Electricity had not completed their portions. (See pages 2 and 5.)

We believe that Iraqis may not receive the full benefit of a consolidated fiber network because the effort lacked someone to oversee and coordinate the project. Also, the Iraq Ministry of Electricity, one of the participants and a beneficiary of the project, disagreed with it from the outset. Consequently, we recommend that USAID/Iraq:

- Work with IRMO and the Ministry of Electricity to develop a plan to allow the full impact of the project to be realized by installing necessary equipment and making it operational.
- Develop a system to ensure that preliminary planning for future construction or rehabilitation projects includes obtaining written agreement from key partners regarding responsibilities that are essential to the achievement of the project. (See pages 5 and 6.)

Additionally, the total number of Iraqis employed could not be determined because of a lack of supporting documentation. The Mission has taken corrective action to preclude this from happening in future projects. (See page 7.)

Management comments are included in their entirety in Appendix II. (See page 12.)

# BACKGROUND

In support of the Iraq Infrastructure Reconstruction Program, on January 5, 2004, USAID awarded Bechtel National, Inc. (Bechtel) a \$1.8 billion contract for the repair, rehabilitation or reconstruction of vital elements of Iraq's infrastructure. On January 15, 2005, USAID issued a job order<sup>1</sup> under this contract to implement a project for the design, installation, and testing of a nationwide fiber telecommunications network to connect power and telecommunications facilities across Iraq. The job order had a total direct-cost budget of \$47 million during audit fieldwork and an estimated completion date of June 30, 2006; in December 2006, the job order was amended to reflect direct costs of the job order of \$31.1 million. As of September 30, 2006, disbursements under the project totaled \$46.1 million; the total disbursements of the job order as reported by Bechtel and USAID/Iraq include both direct (\$31.1 million) and distributable costs<sup>2</sup> (\$15 million). Bechtel completed the work on June 30, 2006.

The overall objective of the project was to construct and turn over to the Iraqi government a functioning consolidated fiber network that would provide control capabilities and communication for the state-owned electricity grid and expand the available voice and data capacity of the national telecommunications network. The telecommunications project was part of a broader effort to repair and upgrade Iraq's telecommunications fiber optic backbone,<sup>3</sup> and USAID/Iraq was only responsible for completing its part of the project. Other parties participating in the overall plan included the following:

- Iraq Reconstruction Management Office (IRMO)<sup>4</sup>
- United Nations Development Program
- Project and Contracting Office<sup>5</sup>
- Ministry of Electricity
- Iraq Telecommunications and Post Company (ITPC).

The IRMO Office of Communications was to act as an integrator and oversee the entire consolidated fiber network project. The United Nations Development Program and the Project and Contracting Office were involved in the remote terminal units Supervisory

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<sup>1</sup> A job order is not an obligating document and therefore does not add funding to the contract; it merely allocates funding for a particular infrastructure project.

<sup>2</sup> Distributable costs are defined as job order and contract direct costs not identifiable to one job order. For example, costs at the job order level consist of items such as the salary of the acquisition team and subcontract management, camps, security, and office equipment. Costs at the contract level consist of such items such as the prime contractor's mobilization expenses, salary of the chief of party, and the contractor's fixed fee for mobilization.

<sup>3</sup> The backbone is a larger transmission line that carries data gathered from smaller lines that interconnect with it.

<sup>4</sup> IRMO was established by a Presidential Directive to coordinate the U.S. reconstruction program in Iraq in cooperation with the U.S. government agencies and the Iraqi government.

<sup>5</sup> The Project and Contracting Office was established in June 2004, within the Department of the Army, to provide support for all activities associated with financial, program, and project management for Iraq reconstruction activities.

Control and Data Acquisition (SCADA)<sup>6</sup> parts of the project, and the Ministry of Electricity provided system operations and communications engineering groups. The ITPC provided engineering and operating groups. In addition, the U.S. Army Corps of Engineers provided technical assistance, quality control and assurance monitoring, information management, and reporting on Bechtel activities under a Participating Agency Service Agreement with USAID/Iraq.

## AUDIT OBJECTIVE

As part of its fiscal year 2006 annual audit plan, the Regional Inspector General in Baghdad conducted this audit to answer the following question:

- Did USAID/Iraq's activities to construct a consolidated fiber network in Iraq achieve their intended results?

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



**Photo of consolidated fiber network equipment at a power plant. The tower on the left is the operator. The tower on the right is the data receiver. (Central Iraq - September 2006)**



**Photo of a signal rack at a power plant. (Central Iraq - September 2006)**

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<sup>6</sup>The term SCADA refers to a central system that monitors and controls electric power distribution and generation. A remote terminal units package data, send it to the master computers, and implement centrally-determined commands. The master computer analyzes the data and initiates control commands for the equipment settings. The commands are then electronically sent back to the remote terminal units at the various sites, where the remote terminal units implement the centrally-determined commands.

# AUDIT FINDINGS

Of the three intended results identified below, USAID/Iraq achieved its intended result<sup>7</sup> of providing equipment, but did not have sufficient documentation to support achievement of employing 1,000 Iraqis, and only partially achieved the third intended result of expanding the Iraq Telecommunications and Post Company's (ITPC) facilities.<sup>8</sup> However, even with the partial achievement, millions of Iraqi people were not benefiting as intended from the consolidated fiber network.

The table below and ensuing discussion provide a description of the intended results as stated in the job order and the accomplishments of the Mission.

**Table of Intended Result Status**

	<b>Intended Result</b>	<b>Result Status</b>
1	Provide fiber optic equipment and construction equipment to the Iraq Telecommunications and Post Company (ITPC). This equipment will give the ITPC the ability to expand and maintain their future network.	Achieved
2	Employ an estimated 1,000 Iraqis through use of local subcontractors and involvement of contractor's Iraqi staff. <sup>9</sup>	Could not determine due to insufficient documentation
3	Expand the existing ITPC facilities; in addition this project will provide future benefits to an estimated 10 million people throughout Iraq by improving a modern, high-speed data and voice transmission network.	Partially achieved

For the first intended result, USAID/Iraq through its contractor, Bechtel National, Inc. (Bechtel), provided fiber optic equipment and construction equipment to the ITPC as planned. Therefore, the first intended result was achieved.

<sup>7</sup> A result is defined as a significant, intended, and measurable change in the condition of a customer, or a change in the host country, institutions, or other entities that will affect the customer directly or indirectly. Results are typically broader than USAID-funded outputs and require support from other donors and partners not within USAID's control. In answering the audit objective, the audit also reviewed intended outputs (a tangible, immediate, and intended product or consequence of an activity within USAID's control) and determined that the outputs were achieved. See Appendix III for a description and complete list of the intended outputs.

<sup>8</sup> As of February 27, 2007, the fiber backbone was providing communications between the Basrah area and the Baghdad area for telephone subscribers. In addition, 6 of the 40 Ministry of Electricity sites with installed equipment were operational due to the interventions of USAID/Iraq and partners.

<sup>9</sup> On December 19, 2006, after the end of fieldwork and after the discussion of the audit results with the Mission, the job order was amended to reduce the intended result to 300 Iraqis employed. For purposes of the audit, we will use the initial intended result of employing 1,000 Iraqis.

Bechtel reported weekly on the second intended result, but it could not provide sufficient documentation to determine if it employed 1,000 Iraqis. This issue is discussed in greater detail in the “Results Should Have Sufficient Supporting Documentation” section.

The third intended result was partially achieved as the existing ITPC facilities were expanded through the fiber optic equipment installed and provided to the ITPC. However, at the time of audit fieldwork, 10 million people had yet to benefit from the consolidated fiber network because the network was not being utilized as intended.<sup>10</sup> This intended result was, however, beyond the control of USAID/Iraq. As stated below, even though USAID/Iraq through Bechtel met all of its intended outputs, the intended result was not fully achieved due to circumstances beyond the control of the Mission.

## **Intended Results Not Fully Achieved**

Summary: Millions of Iraqi people have not benefited from the project as intended due to the Ministry of Electricity not fully utilizing the consolidated fiber network and the equipment installed by USAID/Iraq. In addition, the Ministry of Electricity had not completed part of the project. This occurred because of the lack of a project integrator and the lack of agreement from the Ministry of Electricity at the beginning of the project. As a result, U.S. Government funds of \$46.1 million were spent on a project that may only be partially utilized.

Millions of Iraqi people were not yet benefiting from the consolidated fiber network, contrary to the project’s intended result. Achieving the intended result depended on the designation of an integrator to monitor and ensure effective coordination and implementation of USAID/Iraq’s part of the project with the other parts of the project. It was also dependant upon agreement from all parties involved, including the Ministry of Electricity. However, there was not a functioning integrator, and the Ministry of Electricity did not agree to the project. The UNDP and the Ministry of Electricity had not completed their parts of the project. Therefore, even though USAID/Iraq through Bechtel achieved its intended outputs, USAID/Iraq did not fully achieve its intended results.

A November 2004 memorandum to the U.S. Ambassador to Iraq from the Iraq Reconstruction Management Office (IRMO) stated that upon inception of the project, the IRMO Office of Communications was to chair ongoing meetings to monitor and ensure effective coordination and implementation of the consolidated fiber network and its connectivity to the SCADA and other systems. In other words, the IRMO Office of Communications was to act as the integrator. However, during interviews with the IRMO Office of Communications, current management officials stated that they were not the project integrators. They stated that they have not monitored the status of the project as a whole. In fact, no organization acted as an integrator.

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<sup>10</sup> The Ministry of Electricity and the ITPC had yet to activate and utilize the parts of the consolidated fiber network installed by Bechtel, and the United Nations Development Program (UNDP) and the Ministry of Electricity had yet to install equipment at 20 sites.



In addition, the project did not have agreement from one of the intended beneficiaries. The telecommunications project was part of a broader effort to repair and upgrade Iraq's telecommunications fiber optic backbone. Other parties in the overall plan included the UNDP, ITPC, the Ministry of Electricity, the Project and Contracting Office, and IRMO. The project was proposed by IRMO and a portion assigned to USAID/Iraq, but the Ministry of Electricity disagreed with the project and never signed an agreement to perform specific activities such as installing equipment at 20 sites.<sup>11</sup> The Ministry of Electricity wanted a dedicated—not shared—fiber network. Last, the network configuration would require that the Ministry of Electricity pay ITPC for bandwidth. According to officials at USAID/Iraq, Bechtel, the IRMO Office of Communications, and the IRMO Office of Electricity, the Ministry of Electricity did not support the project from the outset, but the U.S. Government, including USAID/Iraq, proceeded with the project anyway.

Although the Ministry of Electricity, a major participant and end user, did not concur with the project because it wanted a stand-alone network, USAID/Iraq was directed by IRMO to proceed with the project for two reasons. First, a decision had been made by the U.S. Government not to provide a stand-alone fiber optic network to the Ministry of Electricity. Second, there were to be multiple users of the network, not just the Ministry of Electricity. The network was also intended to improve the operational effectiveness of the communications sector and was a condition precedent to enable the development of an electronic funds transfer system for the banking sector.

At the time of audit fieldwork, USAID/Iraq was working with the ITPC and the Ministry of Electricity to resolve outstanding issues between the ITPC and the ministry so that the installed parts of the fiber network would be activated and used and so that the ministry would install the equipment USAID/Iraq provided valued at \$4.3 million. IRMO staff also was working to ensure that the project was completed, and the IRMO Office of Electricity stated that the SCADA system would be installed by the summer of 2007.

Nonetheless, at this time, the project is not meeting its full potential, and U.S. Government investment of \$46.1 million spent as of September 2006 could potentially be wasted. U.S. Government funds have been spent on equipment that may never be utilized. As of November 2006, the Ministry of Electricity had not included funding in its 2007 budget to install the equipment provided by USAID/Iraq in 20 sites. As a result, this equipment may not be installed for at least a year. To address this issue, we are making the following recommendations:

*Recommendation No. 1: We recommend that USAID/Iraq work with the Iraq Reconstruction Management Office and the Ministry of Electricity to develop a plan to allow the full impact of the project to be realized by installing necessary equipment and making it operational.*

*Recommendation No. 2: We recommend that USAID/Iraq develop a system to ensure that preliminary planning for future construction or rehabilitation projects includes obtaining written agreement from key partners regarding responsibilities that are essential to the achievement of the project.*

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<sup>11</sup> In November 2004, an IRMO Office of Electricity senior advisor to the Ministry of Electricity signed a statement of objectives for the CFN project, but no one from the Ministry signed the statement.

## **Results Should Have Sufficient Supporting Documentation**

USAID/Iraq and Bechtel could not provide sufficient documentation to determine the total number of Iraqis employed. Bechtel tracked weekly the number of people employed through its subcontractors, but it did not track by name, the specific individuals employed. For example, during the week of October 14, 2005, Bechtel reported that 414 people were employed. Although it is possible that during the life of the project the intended result of 1,000 Iraqis employed was achieved, the total number of people employed could not be determined because individual names were not tracked, and an individual could have been employed over a period of several weeks and counted multiple times.

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 in reporting information. In addition, the Government Accountability Office's *Standard for Internal Controls in the Federal Government* states that all documentation should be readily available for examination.

The lack of sufficient documentation was due to USAID/Iraq's and Bechtel's management oversight. As a result, the Mission could have misreported the number of employed Iraqis. On November 13, 2006, the USAID/Iraq program office issued instructions to strategic objective offices and cognizant technical officers (CTOs) requiring that data used in USAID reports include source documents for reported results. In addition, USAID/Iraq hired a firm in May 2005 to provide monitoring services to USAID/Iraq, including long- and short-term technical and advisory services, data analysis, and reports for monitoring and evaluating USAID/Iraq's program. The contractor was to provide monitoring services to ensure that activity information reported is valid and was to conduct a data quality assessment of all data reported to USAID/Washington. However, at the time of audit fieldwork, the contractor had not reviewed Bechtel files. Because the Mission had taken corrective action, we are not making a recommendation.

# EVALUATION OF MANAGEMENT COMMENTS

In commenting on our draft audit report, USAID/Iraq generally disagreed with the findings and recommendations. For example, USAID/Iraq indicated that the draft report reflected a general misunderstanding of USAID/Iraq's role with regard to the Consolidated Fiber Network (CFN) project. In its comments, USAID/Iraq indicated that the report should more clearly state that USAID was just one of several partners contributing to this IRMO-led project, and that the achievement of intended results (specifically Intended Result No. 3) was "beyond its authorized contribution." More specifically, USAID/Iraq stated that, contrary to the findings in the draft report, it believed that it had fully achieved its contribution to the project and should not be held responsible for the overall results of it. Consequently, USAID/Iraq requested that we delete Intended Result 3 or revise it to reflect that the achievement of this result was "not squarely within USAID's manageable interest."

*OIG Response: We have modified the final report to more clearly recognize that USAID's telecommunication activities were part of a larger effort and that USAID/Iraq was responsible for only certain aspects. Further, we changed the report to clarify that a portion of Intended Result No. 3 was beyond the direct control of USAID/Iraq.*

With regard to Intended Result No. 2, USAID/Iraq stated that a December 2006 amendment to the Bechtel job order reduced the intended result of employing Iraqis to 300. Consequently, USAID/Iraq requested that we modify the draft report to reflect the lower target and make a new determination as to whether there was sufficient documentation to support the achievement of that target.

*OIG Response: As Bechtel had completed its work under the job order by June 2006, we see no utility in changing this result target six months afterwards.*

USAID/Iraq disagreed with Recommendation No. 1 in the draft report because Mission officials did not believe that USAID/Iraq was authorized to serve as the US government lead for the CFN project. Further, USAID/Iraq indicated that it did not have the funds or current capacity to oversee the completion of the Project, and that the responsibility remains with IRMO.

*OIG Response: We understand that IRMO has the lead on this project. However, we believe that USAID/Iraq, as a major contributor, has a continuing responsibility to help ensure that the tens of millions of dollars in US government resources are used to the maximum effect. Our recommendation is not for USAID/Iraq to assume leadership of this CFN project. Rather, we are recommending that USAID/Iraq work with IRMO and the other key CFN participants to formally and collectively identify implementation constraints and develop a plan to mitigate those constraints so that the full impact may be achieved. We have modified Recommendation No. 1 to limit USAID/Iraq's participation to helping develop a plan and not necessarily the implementation of it, which we recognize rests with IRMO to decide.*

USAID/Iraq disagreed with Recommendation No. 2 by stating that USAID already has policies and procedures that address due diligence issues and that there is no need to invent a new system. Further, USAID/Iraq indicated that the CFN project was started during a transitional phase in the Iraqi Government when US assistance was usually delivered outside of government-to-government agreements.

*OIG Response: Our recommendation is not that USAID/Iraq develop new policies and procedures, but that it develop a system to better ensure that those existing policies and procedures are followed. This is particularly important given the frequent turnover of Mission employees who normally fill one-year assignments in Iraq. While we understand that many assistance projects began during periods in which the Iraqi Government was undergoing transition, USAID/Iraq officials, IRMO officials, and Bechtel employees all stated that the Ministry of Electricity-a key participant and beneficiary of the CFN project-disagreed with it.*

USAID/Iraq comments included additional suggestions and requests regarding some of the facts and wording in the draft report. Based on those comments, we made modifications which we considered to be appropriate in finalizing this report.

Management comments are included in their entirety in Appendix II.

# SCOPE AND METHODOLOGY

## Scope

The Regional Inspector General in Baghdad audited USAID/Iraq's telecommunications activities in accordance with generally accepted government auditing standards. The purpose of the audit was to determine whether USAID/Iraq's activities to construct a consolidated fiber network in Iraq achieved their intended results.

The Consolidated Fiber Network (CFN) project was implemented through Bechtel National, Inc. (Bechtel) under one job order. The job order was issued on January 15, 2005 under contract number SPU-C-00-04-00001-00 and was effective through June 30, 2006. As of September 30, 2006 disbursements totaled approximately \$46.1 million; this number includes both direct and distributable costs. The audit covered \$39.2 million in testing through review of documents.

The audit focused on determining if USAID/Iraq's telecommunications activities implemented by Bechtel achieved their intended results as of September 30, 2006. The audit also included an examination of management controls relating to the monitoring of activities performed under the job order. Specifically the controls included the following:

- Performance of field visits by USAID/Iraq to the project sites to observe work achieved.
- Review and approval of Bechtel's financial vouchers.
- Review and approval of Bechtel's periodic performance reports.
- Completion of the Mission's Federal Managers' Financial Integrity Act reports.

Monitoring activities also were performed by the United States Army Corp of Engineers (USACE) under a Participating Agency Service Agreement between USACE and USAID/Iraq. The purpose of the agreement was to obtain construction oversight of the reconstruction contractor (Bechtel under the contract mentioned above) including technical assistance, quality control and assurance monitoring, information management, and reporting.

The audit fieldwork was performed from August 22 to December 7, 2006 and consisted of interviews with key technical staff from the Mission, Iraq Reconstruction Management Office personnel, USACE personnel, and Bechtel employees; review of relevant performance and financial documents; and site visits to selected Ministry of Electricity sites where project equipment was installed.

As part of our initial work, we examined related audits performed by other U.S. Government agencies, including the Defense Contract Audit Agency.

## **Methodology**

To determine if USAID/Iraq met the intended results as well as the intended outputs, we reviewed available project documents furnished by the Mission, Bechtel, and USACE's Iraq Reconstruction Tracking System Database. The documentation included copies of job orders and amendments, photographs, final inspection records, correspondence, Bechtel weekly and monthly performance reports, and USACE site visit and quality assurance reports. In addition, a limited financial review of the project was performed, including the contractor's financial report and a pipeline analysis.

In conducting our fieldwork, we interviewed technical staff from the USAID/Iraq Mission, its contractor (Bechtel), and USACE. The interviews were conducted either in person, via telephone conferences, or via e-mail correspondence. We also attended one of the CFN coordination meetings held between the Ministry of Electricity and the Iraq Telecommunications and Post Company in order to assess the status of the CFN integration process.

Because the security situation precluded visits to many areas, site visits were made to only 3 of the 40 Ministry of Electricity sites where CFN equipment was installed. However, we relied on independent verification done by USACE to answer the audit objective.

To determine if Bechtel had met its intended outputs, we used a 90 percent materiality threshold. For example, if Bechtel met 90 percent or more of the intended outputs, we deemed Bechtel had achieved its intended outputs. If Bechtel accomplished 89 percent or less, we deemed Bechtel had not having achieved its intended outputs. A materiality threshold was not applicable in determining if intended results were achieved.

# MANAGEMENT COMMENTS



## MEMORANDUM

**TO:** Nancy Lawton, Regional Inspector General/Baghdad

**FROM:** Hilda Arellano, Mission Director, USAID/Iraq /s/

**DATE:** April 4, 2007

**SUBJECT:** USAID Comments on Draft Report E-267-07-00X-P, Audit of USAID/Iraq's Telecommunications Activities

USAID/Iraq is pleased to present this response to the draft audit report. General comments are presented first, followed by specific comments, including comments on the recommendations.

### I. General Comment:

It is important that the audit more clearly state, at the outset, that the United States Government (USG) funded Consolidated Fiber Network (CFN) for Electricity, Rail and Communications Program ("the Telecommunication Program" or "the Program") is an Iraq Reconstruction and Management Office (IRMO) led program,<sup>12</sup> involving multiple partners, not a USAID program per se.

The report should make clear that USAID's contribution to the Program consisted solely of the specific activities undertaken under its Infrastructure Program, as implemented by Bechtel National Incorporated (BNI) under the Phase II contract through Job Order (JO) No. 05-521, as amended.

The report should also more clearly state that USAID is not responsible or accountable for the complete implementation of the Program or the achievement of intended results under the Program as this is beyond its authorized contribution to the Program, which contribution was prescribed under the mandatory IRMO-led interagency coordination process for the USG's Iraq reconstruction program. Specifically, the draft report's Intended Result No. 3 ("The additional ME links will expand the existing ITPC facilities and in addition this project will provide future benefits to an estimated 10 million people

<sup>12</sup> See the November 2004 IRMO document entitled "Statement of Objectives (SOO), Consolidated Fiber Network (CFN) for Electricity, Rail and Communications." This document is signed by IRMO officials in its Electricity, Transportation and Communications Divisions and is widely regarded as the IRMO approval document for the Program. USAID is not mentioned in and did not approve the document, although it was later tasked with completing the above-noted components of the Program.

throughout Iraq by improving modern, high-speed data and voice transmission network.”) is not a result that can be achieved by USAID alone through its contribution to the Program and the inclusion of this statement in the above-referenced JO was not intended to be read as such.

Contrary to the findings in the draft report, USAID believes that it has fully achieved its contribution to the Program, as discussed in Section II, below.

Finally, the report’s indirect assertion that USAID bears responsibility for the overall Program results reflects misunderstanding of the Program.

## **II. Specific Comments:**

### **1. Background Section:**

a. Page 2, 1<sup>st</sup> paragraph: The JO value, as amended, is \$31 million, not \$47 million as stated in the report. Please revise the report at page 2 and elsewhere to include the correct value of the JO.

b., Page 2, 2<sup>nd</sup> paragraph, 1<sup>st</sup> sentence: It is not clear whether this sentence refers to the Telecommunications Program or USAID’s contribution to the Program. See General Comment above.

c. Page 2, last paragraph, 1<sup>st</sup> word: The word “initially” implies that there was a change to remove IRMO as the USG lead for the Telecommunications Program. In fact, to our knowledge, no change occurred and IRMO remains the USG lead for the Program, notwithstanding what current, apparently not fully informed IRMO staff state to the contrary. We therefore recommend that the report be revised at page 2 and elsewhere to correctly reflect that IRMO was and is the lead USG agency or “integrator” for the Program. Without this correction, the report incorrectly implies that USAID is the lead USG agency for the Program, which, as noted in our General Comments above, is not the case.

d. Page 2, 2<sup>nd</sup> sentence of last paragraph: A more appropriate depiction of the roles of the various partners follows: “The United Nations Development Program and the DOD Project and Contracting Office were involved in separate projects which were a part of the overall Program, including the remote terminal units’ Supervisory Control and Data Acquisition (SCADA), and the Ministry of Electricity....” Please revise the audit report accordingly.

e. Page 2, footnote 5: From an engineering standpoint, control of the system is performed by a master computer located miles away in a National Dispatch Center or a regional control center, not by the remote terminal units (RTU). An RTU merely packages data, sends it to the master computers, and implements centrally-determined commands. The master computer analyzes the data and initiates control commands for the equipment settings. The commands are then electronically sent back to the RTUs at the various sites, where the RTUs implement the centrally determined commands.



## 2. Audit Findings:

a. Page 4, Table of Intended Results: Intended Result No.2 is incorrect. JO 05-521, as modified by Amendment 3 in December 2006, states at page 9 of 10: "It is expected that this project will employ an estimated 300 Iraqis through the use of local Subcontractors and involvement of the Contractor's Iraqi staff." We further request that the draft report be modified to reflect the correct Intended Result No. 2 and that a new determination be made as to whether BNI provided documentation sufficient to support this number.

b. Page 4, Table of Intended Results: The draft report mischaracterizes the JO statement which reads "[t]he additional ME links will expand the existing ITPC facilities and in addition this project will provide future benefits to an estimated 10 million people throughout Iraq by improving modern, high-speed data and voice transmission network" as an intended USAID result, when in fact it is, as noted, a statement of anticipated *future* results, which results are fully dependent on the completion of other aspects of the Telecommunications Program. In other words, this is not an intended result which can be achieved solely through USAID's contribution to the Program under the JO. We therefore recommend that Intended Result No. 3 be deleted, or, at a minimum, that it be revised to reflect that the intended result is not solely within the scope of USAID's contribution to the Program and that the achievement of this result is not squarely within USAID's manageable interest.

### c. Page 5-6, Intended Results Not Fully Achieved:

The bordered text under the subject header and language on this topic at pages 5-6 of the draft report is inaccurate in some respects and misleading in others. We therefore recommend that the text in this section be revised to distinguish the responsibility for and objectives under the Telecommunications Program from USAID's contribution to the Program, including results supported, in whole or in part, by USAID's contribution. See our General Comment, Sections II 1.c. and 2.b., above, in addition to our comments below.

It is not correct to state that the Ministry of Electricity (MoE) is not utilizing the network. Rather, a correct statement is that the MoE is not *fully* utilizing the network. The phrase "... the Ministry of Electricity is not completing..." implies that the MoE has sole responsibility for the GOI's contributions to the Program and that it is has not undertaken efforts in support of completion of the Program. This is not accurate. Given that the MoE is using the network and is currently making efforts to complete its part of the Program, that the Iraqi Telephone and Post Company (ITPC) is also using the network, and that IRMO is exploring avenues to support the implementation of the Program, it is also not accurate to state that \$46.1 million (as noted above, the final JO value is \$31 million, not \$46.1 million) in USG funds could potentially be wasted. The Program is not yet complete. This statement, at best, is premature.

Statements in this section and elsewhere in the draft report indicating that "millions of Iraqis are not yet benefiting from the consolidated fiber network contrary to the project's intended results" are highly misleading. This is an intended Program result, not a result intended solely through USAID's contribution to the Program. As we have repeatedly stated, USAID is neither responsible for the entire Program nor the Program results. And, USAID has no power to compel the completion of the Program.

At Page 6, paragraph starting with “Although:” The draft report states that there were three major strategic level objectives for the Program: communications improvement, banking sector improvement, and electricity improvement. We question the draft report’s portrayal of the entire Program as a potential waste of USG funds because one of the three major objectives has not yet been achieved and the Program is not complete. As noted above, IRMO is currently exploring options to support the completion of the Program.

### **3. Draft Recommendations**

*Recommendation No. 1: We recommend that USAID/Iraq, in coordination with the Iraq Reconstruction Management Office and the Ministry of Electricity, develop and implement a plan to allow the full intended benefit of the telecommunications project to be realized by installing and making operational all the necessary equipment.*

For the reasons outlined above, USAID disagrees with this recommendation. As noted, IRMO has the lead for the USG on the Telecommunications Program. USAID was only responsible for a specific component of the Program, as directed by IRMO, which aspect USAID has fulfilled. Not only is USAID not authorized to serve as the USG lead for the Program, USAID does not have the funds or current capacity to oversee the completion of the Program as its Infrastructure Program formally concluded on March 31, 2007 and is now in close-out status. Responsibility within the USG for the implementation of the Program remains with IRMO as the USG lead for the Program.

Finally, we wish to note that although Mission staff may have taken informal actions to support the completion of the Program, these efforts cannot be confused with the formal or informal commitment by USAID to undertake responsibility for the implementation of the Program, as recommended by the draft report.

*Recommendation No. 2: We recommend that USAID/Iraq develop a system to ensure that preliminary planning for future construction or rehabilitation projects will include (1) carrying out due diligence on potential partners and (2) obtaining written agreement from key partner officials regarding their responsibilities and outputs that are essential to the achievement of the project.*

USAID disagrees with this recommendation. The Agency has in place policies and procedures for the planning, development, design and implementation of programs, projects and activities, including procedures that address due diligence issues. These policies and procedures apply to infrastructure programs, projects and activities as they do to others. Thus, there is no need to invent a new system.

The USG Iraq reconstruction program, including the Telecommunications Program, was started during a transitional phase in the Iraqi Government when, with a few exceptions, USG economic assistance to Iraq was delivered outside of government-to-government agreements. Further, USAID’s economic assistance to Iraq was approved and directed by the CPA and then IRMO. Now that a permanent Iraqi Government is in place and the capacity of the government is being developed through USG and other donor-funded assistance, in the future, we envision that USG will endeavor to enter into agreements or

arrangements with the Iraqi Government that outline the contributions, roles and responsibilities of each party.

Here, we wish to again emphasize that the Mission's Infrastructure Program has concluded and is in close-out status. USAID/Iraq's current strategy and planning does not include another infrastructure program or capital infrastructure projects or activities.

#### **4. Results Should Have Sufficient Supporting Documentation**

Please see our comment at Section II.2.a., above.

## INTENDED OUTPUTS SUMMARY

The statement of work in the job order provided the intended outputs to be achieved by Bechtel National, Inc. (Bechtel). As shown in the table below, the intended outputs were broken down into four areas: fiber optic backbone, Ministry of Electricity, Iraq Telecommunications and Post Company (ITPC), and spare parts. All of the intended outputs relate to providing and installing fiber optic cable, providing equipment, providing training, or providing spare parts to the beneficiaries.

**TABLE OF INTENDED OUTPUTS**

No.	Intended Output	Intended output achieved?
1	<b>Fiber Optic Backbone</b> <ul style="list-style-type: none"> <li>• Provision and installation of fiber optic cable in the ITPC backbone.</li> </ul>	Yes
2	<b>Ministry of Electricity</b> <ul style="list-style-type: none"> <li>• Provision and installation of the fiber optic cable needed for connectivity of the 42* sites from the ITPC facilities to the Ministry of Electricity sites.</li> <li>• Provision of private automatic branch exchange equipment to the Ministry of Electricity locations.</li> <li>• Provision of fiber optic transmission equipment having standard compliant interfaces.</li> </ul>	Yes  Yes  Yes
3	<b>ITPC</b> <ul style="list-style-type: none"> <li>• Assistance to the ITPC to identify fiber optic breaks in their existing fiber optic backbone. Provision of fiber optic cable test and repair equipment with training.</li> <li>• Provision of fiber optic transmission equipment and the optical distribution frame to the ITPC facilities.</li> <li>• Provision of fiber optic construction and test equipment with spare parts for one year, training, and technical services to the ITPC.</li> </ul>	Yes  Yes  Yes
4	<b>Spare Parts</b> <ul style="list-style-type: none"> <li>• Provision of spare parts for equipment furnished for all 60 sites for one year of operations.</li> </ul>	Yes

\* Bechtel installed the fiber optic cables and fiber optic equipment systems at 40 of the 42 sites (equal to 95 percent). Given the materiality threshold of 90 percent, the intended output was achieved.

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