



USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

**AUDIT OF THE OFFICE OF
FOREIGN DISASTER
ASSISTANCE PROGRAM IN
IRAQ**

AUDIT REPORT NO. E-267-07-006-P
July 11, 2007

BAGHDAD, IRAQ



USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

July 11, 2007

MEMORANDUM

TO: Office of Foreign Disaster Assistance Director, Ky Luu

CC: USAID/Iraq Mission Director, Hilda Arellano

FROM: Acting Regional Inspector General, Baghdad, Terry Youngblood /s/

SUBJECT: Audit of the Office of Foreign Disaster Assistance Program in Iraq
(Report No. E-267-07-006-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments on the draft report and have included the comments in Appendix II.

The report contains two recommendations. Based on your comments, we consider that management decisions have been reached on Recommendations Nos. 1 and 2.

The Audit, Performance and Compliance Division (M/CFO/APC) will coordinate final action on both recommendations when planned actions have been completed.

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

For the four years ending September 2006, the USAID Office of Foreign Disaster Assistance (OFDA) provided \$190.7 million of humanitarian assistance to internally displaced persons¹ (IDPs) and other vulnerable populations such as returnee communities, i.e., former IDPs in Iraq. OFDA activities were divided into four categories:

- Water and sanitation,
- Health,
- Livelihood support, and
- Emergency relief commodities. (See pages 3 and 4.)

The majority of OFDA's activities achieved their intended outputs.² The audit reviewed 61 OFDA activities initiated between October 1, 2004 and September 30, 2006 in these four categories and determined that:

- 38 activities achieved their intended outputs.
- 1 activity did not fully achieve its intended output.
- 22 activities lacked sufficient supporting documentation to enable us to say whether intended outputs had been achieved. (See page 4.)

The activities which achieved their intended outputs included the provision of shelter, water and sanitation, and the distribution of non-food items, such as blankets, plastic sheeting, and stoves. The one activity which did not fully achieve its intended output was the digging of wells. It was not possible to determine if intended outputs were achieved for the remaining 22 activities due to a lack of adequate supporting documentation. These activities included distribution of non-food items and income generation projects. (See pages 4 and 5.)

During the audit, we also determined that OFDA did not properly designate cognizant technical officers (CTOs). CTOs are responsible for maintaining contact, including site visits and liaison, with the recipient as well as ensuring compliance with the terms and conditions of the agreements. CTOs for OFDA's Iraq programs are located in Washington. OFDA named CTOs in the original award agreements, but the agreements were never modified to reflect changes of the designated CTOs. (See pages 5 and 6.)

We are making recommendations that OFDA: (1) Develop and implement a system to ensure that performance data provided by its implementing partners is supported by documentation that is readily available; and (2) Issue CTO designation letters and

¹ Internally displaced persons are "persons or groups of persons who have been forced or obliged to flee or to leave their homes...in particular as a result of or in order to avoid the effects of armed conflict, situations of generalized violence, violations of human rights or natural or human-made disasters, and who have not crossed an internationally recognized state border," United Nations, Guiding Principles on Internal Displacement (United Nations OCHA, 1998).

² An output is a tangible, immediate, and intended product or consequence of an activity within USAID's control. Examples of outputs include numbers of: people fed, blankets distributed, and wells dug.

modify its cooperative agreements and grants to incorporate language allowing the CTOs to be designated separately for the cooperative agreements and grants. (See pages 5 and 6.) Based on our evaluation of OFDA's written comments, we consider that management decisions have been made on the two recommendations. (See page 7)

Management comments are included in their entirety as Appendix II to this report (See page 10).

BACKGROUND

The USAID Office of Foreign Disaster Assistance (OFDA) is the office within USAID responsible for facilitating and coordinating U.S. Government emergency assistance overseas. According to its annual reports since Fiscal Year 2003 through the end of Fiscal Year 2006, OFDA has administered \$190.7 million in USAID funds to provide humanitarian assistance to vulnerable populations in Iraq, as shown in Table 1.

Table 1: OFDA Funding by Fiscal Year (\$ in millions)

FY 2003	FY 2004	FY 2005	FY 2006	Total
\$81.4	\$31.8	\$69.6	\$7.9	\$190.7

(These amounts are unaudited.)

Sectarian violence and general insecurity continue to lead to the displacement of Iraqis. According to a United Nations High Commissioner for Refugees estimate, as of September 2006 there were more than 300,000 internally displaced persons (IDPs) in Iraq. Because IDPs and returnee communities are highly vulnerable, OFDA's programs prioritized humanitarian assistance for them. OFDA supported humanitarian needs by providing safe drinking water and adequate sanitation facilities, access to primary healthcare, income-generation activities, and emergency food and nonfood items.

During the period covered by this audit, October 1, 2004 through September 30, 2006, the OFDA program in Iraq obligated and expended \$77.5 million and \$61.8 million, respectively.

AUDIT OBJECTIVE

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

- Did USAID's Office of Foreign Disaster Assistance Internally Displaced Persons and Vulnerable Population activities achieve their intended results?

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

AUDIT FINDINGS

The majority of Office of Foreign Disaster Assistance (OFDA) activities initiated between October 1, 2004 and September 30, 2006 to benefit internally displaced persons and vulnerable populations in Iraq achieved their intended results. This determination is based on a correlation with the outputs specified in the agreements because the OFDA agreements do not specify measurable results.³

Of the 61 activities reviewed, we verified that OFDA achieved intended outputs for 38 of those activities. Although OFDA reported the remaining 23 activities as achieving their intended outputs, we found that one activity did not fully achieve its intended output and the other 22 did not have sufficient documentation to determine whether or not they achieved their intended outputs.

OFDA funded activities in Iraq to IDPs and other vulnerable populations such as returnee communities in the following areas:

- Water and sanitation,
- Health,
- Livelihood support, and
- Emergency relief commodities.

The results of the testing are summarized in Table 2.

Table 2: Comparison of Activities Reported As Achieving Outputs vs. Activities Verified As Achieving Outputs

Activity Type	Reported Achieving Outputs	Verified Achieving Outputs	Did Not Achieve Outputs	Unverified Due to Insufficient Documentation
Water and Sanitation	11	10	1	0
Health	6	5	0	1
Livelihood Support	4	1	0	3
Emergency Relief Commodities	40	22	0	18
TOTAL	61	38	1	22

Activities achieving their intended outputs included the provision of shelter, water and sanitation, and distribution of food and non-food items. For example, water supply systems were rehabilitated, training in the health area was provided, and emergency food and non-food items were distributed. Based on the materiality threshold for the audit (described in the Methodology section in Appendix I), one activity did not fully

³ 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 (see footnote 2) and require support from other donors and partners not within USAID's control.

achieve its intended output as only two of three planned wells were completed.

In addition to a lack of sufficient supporting documentation to verify whether intended outputs had been achieved, it was determined that the cognizant technical officers (CTOs) were not properly designated.

Reported Results Should Be Documented

Reported information from implementing partners was not always adequately supported. The achievement of 22 of 61 activities reported as achieving their intended outputs could not be verified because of insufficient documentation. For example, some activities were for the distribution of food and non-food items (including plastic sheets, blankets, and cooking stoves) at Ministry of Displacement and Migration locations, but the implementing partner could not provide detailed records on the distributions. Therefore, achievement of the intended outputs could not be verified. In another instance, the implementing partner did not have any handover documents, i.e., documents signed by the recipients which accepted the contribution, to support the completion of a water construction activity.

The Government Accountability Office's *Standards for Internal Control in the Federal Government* states that all transactions and other significant events need to be clearly documented and that the documentation should be readily available for examination.

Adequate supporting documentation was not always available because OFDA did not ensure that implementing partners maintained or provided such documentation. Supporting documentation is of paramount importance in Iraq because security restrictions often prevent monitoring officials from performing site visits to verify the performance of implementing partners responsible for conducting planned activities. As a result of not having adequate supporting documentation, OFDA cannot rely on the accuracy of reported information, and inaccurate information may be used in decision-making. Therefore, we make the following recommendation:

Recommendation No. 1: We recommend that the USAID Office of Foreign Disaster Assistance develop and implement a system to ensure that performance data provided by its implementing partners is supported by documentation that is readily available.

CTOs Were Not Properly Designated for OFDA Awards in Iraq

ADS 303.3.17 states that the Agreement Officer should designate the CTO for each grant or cooperative agreement using the standard CTO designation letter. The CTO designation letter defines the scope of authority of the CTO to carry out administrative duties for grants or cooperative agreements. In addition, ADS section 303.3.17 (i) states, "The grant or cooperative agreement will not specify the CTO by name, but will state 'CTO designated separately' in the appropriate section or provision of the grant or

cooperative agreement.” If the CTO is named in the agreement, then the Agreement Officer must modify it every time the CTO changes.

The CTOs were not properly designated for the fiscal years 2005 and 2006 agreements reviewed. OFDA CTOs did not have CTO designation letters; instead, CTOs were named in 9 of the 10 OFDA agreements reviewed. However, since the time the agreements were awarded, the CTOs had changed, but the new CTOs had not been formally designated. The remaining agreement stated that the CTO was designated separately, but OFDA management in Washington could not provide any documentation to support the separate designation.

OFDA management in Washington stated that most of OFDA’s Iraq agreements were made before USAID developed the standard CTO designation letter. CTO designation letters had not been issued as OFDA was considering delegating additional authority to CTOs that would require revision of the standard CTO letter.

Designating the CTO in the agreements without using the CTO designation letter resulted in the CTO responsibilities not being clearly defined and in no delineation between the CTO’s and the Agreement Officer’s responsibilities. Therefore, it is possible that without a clear delineation of responsibilities, CTOs could make unauthorized decisions that would adversely affect program implementation. To help remedy the situation, we make the following recommendation:

Recommendation No. 2: We recommend that the USAID Office of Foreign Disaster Assistance issue formal letters to designate the cognizant technical officer for each active agreement in the Iraq program and modify each active agreement in the Iraq program to incorporate language designating the CTO separately from the agreement, in accordance with USAID policy.

EVALUATION OF MANAGEMENT COMMENTS

In their response to our draft report, the Office of Foreign Disaster Assistance (OFDA) stated that they found our suggestions to be useful and constructive and that they plan to implement them in the next fiscal year. We believe that OFDA's response and planned actions indicate their agreement with our recommendations. Based on our review of OFDA's comments, we determined that management decisions have been reached on Recommendations Nos. 1 and 2.

Regarding Recommendation No. 1, OFDA plans to participate in USAID/Iraq's Monitoring and Evaluation Performance Program II (MEPP II). This will allow the MEPP II prime contractor to independently verify performance of OFDA activities through its locally hired personnel. Also, OFDA noted that an implementing partner has revised its distribution receipt process. Based on OFDA's response, we consider that a management decision has been reached.

Concerning Recommendation No. 2, OFDA stated that they will maintain current CTO assignment letters and ensure CTO letters are placed in the appropriate grant file. We consider that a management decision has been made for this recommendation.

Additionally, OFDA stated in their comments that the audit did not reference the context in which most of the humanitarian assistance projects and non-food item distributions were carried out. OFDA also emphasized the difficulty of monitoring and evaluating activities implemented in a conflict zone. Nonetheless, we believe that the implementing partners should still maintain adequate supporting documentation.

OFDA's written comments on the draft report are included in their entirety as Appendix II to this report.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General in Baghdad conducted this audit in accordance with generally accepted government auditing standards. The purpose of the audit was to determine if the USAID Office of Foreign Disaster Assistance (OFDA) program in Iraq achieved its intended results in the activities for internally displaced persons and vulnerable populations.

The OFDA program in Iraq was being carried out through five implementing partners at the time of audit fieldwork. During the period covered by this audit, October 1, 2004 through September 30, 2006, the OFDA program in Iraq obligated and expended \$77.5 million and \$61.8 million, respectively.

The audit focused on determining if the OFDA activities initiated between October 1, 2004 and September 30, 2006 achieved their intended results as of September 30, 2006. The audit also included an examination of management controls relating to the program. Specifically, these controls included the following:

- Performance of limited field visits by OFDA personnel to the activity sites to observe work achieved,
- Review of partner quarterly performance reports, and
- Completion of the Mission's Federal Managers' Financial Integrity Act reports.

The audit fieldwork was performed from September 21 to December 14, 2006, and consisted of interviews with key technical staff of OFDA in Iraq and Washington, as well as with implementing partner staff in Iraq and Jordan. In addition, relevant performance and financial documents were reviewed.

Methodology

On the basis of our assessment of management controls for monitoring, we selected 81 of the 2,163 activities initiated between October 1, 2004 and September 30, 2006 to verify the achievement of intended outputs. All activities with a known⁴ dollar value higher than \$200,000 were selected, which was 26 activities. The remaining 55 activities were selected randomly, but the randomly selected activities were modified so that at least two activities from each partner were included in the sample. Twenty of the 81 activities selected were ongoing at the time of our review and are not included in the report results. For each selected activity, we reviewed appropriate supporting documentation, which was furnished by OFDA and the implementing partners. The documentation included copies of agreements, performance reports, bills of quantity,⁵

⁴ Two implementing partners' records did not include the cost of activities. In order to prevent fieldwork from being delayed while implementing partners obtained the data, we based the selection on the known dollar values. This is not a statistical sample, and we are not projecting our findings onto the entire population.

⁵ Bills of quantity set forth the work to be performed for the construction activities.

tender awards, handover documents, and signed recipient lists. In addition, a limited financial review of the activity was performed, including a review of the accruals and a pipeline analysis.

In conducting our fieldwork, we interviewed technical staff from OFDA in Iraq as well as from Washington, the implementing partners, and the USAID/Iraq Mission. The interviews were conducted in person, via telephone conference, or via e-mail correspondence. We performed site visits to implementing-partner offices in Amman, Jordan, to review implementing-partner documentation. The security situation precluded site visits to any sites in Iraq.

As part of our initial work, we examined related audits performed by other Regional Inspector General offices as well as by other U.S. Government agencies, including the Government Accountability Office. Also as part of the audit, we reviewed pertinent laws and regulations, such as public laws regarding Iraq reconstruction funding, USAID's Automated Directives System, and the field operations guide issued by OFDA.

To determine if OFDA had met its intended outputs, we used a materiality threshold of 90 percent. For example, if an OFDA activity achieved 90 percent or more of the intended output, we deemed the activity as having achieved its intended output.

MANAGEMENT COMMENTS



June, 12, 2007

TO: Nancy J. Lawton,
RIG/Baghdad

FROM: Deputy Director DCHA/OFDA, Greg Gottlieb

SUBJECT: DCHA/OFDA Management Response to Audit of the Office of U.S.
Foreign Disaster Assistance Program in Iraq (Report No. E-267-07-
00X-P)

OFDA wishes to thank the OIG and its staff for its recently completed performance audit of our office activities. We find the suggestions that you have offered to be useful and constructive and will implement them during the course of this upcoming fiscal year. Below please find the Management Response Comments to be included in the Audit Report.

Sincerely,

Greg Gottlieb /S/
Deputy Director
Office of U.S. Foreign Disaster
Assistance

U.S. Agency for International Development
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Washington, DC 20523
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Management Responses

Monitoring and Evaluation

The audit does not reference the context in which most of the humanitarian assistance projects and NFI distributions were carried out. The audit does not indicate that the majority of the NFI distributions that were classified as indeterminable were carried out in the most dangerous conflict zones, especially al-Anbar province.

Security restrictions in Iraq prevent the CTO or any person under Chief of Mission authority to travel to sites beyond 45 minutes from a Regional Security Office in the most permissive areas. Site visits to cover NFI distributions in al-Anbar and other combat zones by Chief of Mission personnel were not allowed, and not feasible. Chief of Mission personnel site visits require large Protective Security Details, of at least four armored vehicles and nineteen armed guards. Such a presence would prevent the local population from coming to the NFI distribution sites.

Therefore, it was impossible for the Washington D.C. based CTO or Baghdad based Program Officer to travel to the sites. Site visits to remote locations were not, and still are not possible given the security situation in Iraq. In fact, the auditors request to make site visits to the OFDA projects for the purpose of conducting this very audit was denied by the Regional Security Office. Consequently, the audit is based solely on a review of documentation presented by the implementing partners, and not on visits to the actual projects.

OFDA assigned a Foreign Service National as program management assistant to make site visits to the larger durable solution projects (water, sanitation, health center rehabilitation, public works projects etc.). These reports were submitted to the auditors, along with progress tracking spreadsheets and extensive implementing partner narrative reports, which included detailed descriptions of the projects. This monitoring data is not referenced in the audit report.

In the case of the distribution of non food items (NFI) the audit sampling was based on one implementing partner's activity numbers, which were not actually different projects, therefore multiplying the same flaw in the NFI commodity receipt sheet used by the one partner who worked largely in al-Anbar province. It should be noted that for all NFI distributions recipients signed for the goods. The implementing partner has revised the distribution receipt process, so that more detail is reported.

In a high conflict zone, it was beyond the implementing partner's ability to deny the local Ministry of Displacement and Migration representative's demand that the receipt list be handed over, thus resulting in a lack of documentation. The implementing partner will be requested to prepare the distribution sheets in duplicate, insuring proper retention of the records.

Through the USAID Iraq Mission OFDA plans to participate in the MEPP II monitoring and evaluation program. This will allow for independent verification of OFDA activities by the MEPP II prime contractor through its locally hired personnel. However, the question remains as to the extent to which any contractor will be able to directly, physically monitor NFI distributions in the most dangerous areas.

Designation of CTOs.

OFDA CTOs are based in Washington D.C. OFDA will maintain current CTO assignment letters and ensure placement of CTO letters in the appropriate grant file.

Change of Projects Failure to Meet Objectives

The audit points out that one water project did not meet its objectives. The OFDA Program Officer was aware that the situation on the ground changed for this particular project and that the planned project was not carried out. However, the projects are carried out under grant agreements, and the grantee is allowed to change projects based on the local situation. The project was replaced with another, in a different, safer location.

Other Comments:

OFDA would appreciate details on which projects and what documentation was found by the audit to be insufficient to make a determination. This will assist OFDA management in remedying any continuing problems.

OFDA would appreciate details on which project failed to meet its objectives.