

The seal of the Office of the Special Inspector General for Iraq Reconstruction is a large, circular emblem in the background. It features a central eagle with wings spread, holding an olive branch and arrows. The eagle's chest is covered by a shield with vertical stripes. Above the eagle's head is a sunburst with stars. The seal is surrounded by text in both English and Arabic. The English text reads "SPECIAL INSPECTOR GENERAL" at the top and "OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION" at the bottom. The Arabic text reads "مفتش العام" at the top and "مكتب المفتش العام لإعادة إعمار العراق" at the bottom.

**THE IRAQ COMMUNITY ACTION  
PROGRAM: USAID'S AGREEMENT  
WITH CHF MET GOALS, BUT  
GREATER OVERSIGHT IS NEEDED**

**SIGIR 11-014  
APRIL 28, 2011**



# SIGIR

Special Inspector General for IRAQ Reconstruction

April 28, 2011

## THE IRAQ COMMUNITY ACTION PROGRAM: USAID'S AGREEMENT WITH CHF MET GOALS, BUT GREATER OVERSIGHT IS NEEDED

### Summary of Report: SIGIR 11-014

#### Why SIGIR Did This Study

Since 2003, the U.S. Agency for International Development (USAID) has obligated about \$276 million to Cooperative Housing Foundation International (CHF) to implement the Community Action Program (CAP) in Iraq. Currently in its third phase, the CAP is a key USAID Iraq Mission (USAID/Iraq) program that works in rural and urban communities to promote grass-roots democracy and local governance. Along with other implementing partners, CHF funds hundreds of projects throughout the six provinces where it works. Because of the size of CHF's funding and the importance of the CAP in USAID's overall strategy to help build a stable and democratic Iraq, SIGIR conducted this audit of the oversight of CHF's implementation of the CAP (phase III).

Our reporting objectives were to: (1) examine the extent to which CHF achieved the goals of the CAP III, (2) examine the extent to which USAID/Iraq monitors CHF's implementation of the CAP III and ensures that completed projects are sustainable, and to (3) determine whether some of the costs claimed appear reasonable, allocable, and allowable in accordance with federal guidelines.

#### What SIGIR Recommends

SIGIR recommends that the USAID/Iraq Mission Director direct the Agreement Officer to:

1. Include a requirement in the cooperative agreement for CHF to develop a stand-alone sustainability plan for each future CAP III project.
2. Provide guidance to CHF on the requirement to use accrual accounting in its annual financial reporting.

SIGIR also makes other recommendations in the body of the report.

#### Management Comments and Audit Response

USAID's Special Assistant to the Administrator for the Middle East provided written comments to a draft of this report, and the comments are reprinted in Appendix F. In his response, he concurred with six recommendations and did not concur with one recommendation.

#### What SIGIR Found

For the first two years of the CAP III, CHF reported that it had exceeded the target level for 17 of the 23 performance and output indicators that USAID/Iraq established and CHF agreed to for measuring overall program success. However, USAID/Iraq currently does not require CHF to track the number of communities that are seeking funds from sources other than CHF to help pay for projects—a key indicator of program success. Further, when USAID extended the CAP III in September 2010 and expanded its scope to include assisting internally displaced persons, it did not establish an indicator to track the progress made against the new requirement. Not having these indicators limits USAID/Iraq's ability to determine whether its assistance funds are being used effectively to meet the CAP III's goals.

The lack of personnel and security risks prevent USAID officials from making needed site visits to monitor program implementation and project sustainability. Because of these obstacles, USAID/Iraq relies on CHF, contractors, and external auditors for information. Moreover, USAID/Iraq's reliance on Provincial Reconstruction Teams in the future to provide program implementation information is problematic because these teams will soon be disbanded. Hiring more personnel to oversee the program is underway, but the process is not yet completed. Consequently, it may be even more difficult for USAID/Iraq to determine overall program success as the CAP III continues into future years. USAID/Iraq also requires that CHF implement projects that are sustainable; however, CHF files of completed projects do not contain clear and concrete plans for long-term sustainability. The result could be that projects may not be sustained, and the positive impacts on the lives of Iraqis may be short-lived.

USAID/Iraq's oversight of CHF's financial management did not detect questionable charges, allocations of costs, or accounting practices. Based on our examination of select fiscal year (FY) 2010 costs claimed, we question the reasonableness, allocability, and allowability of about \$1.08 million. These questioned costs are a result of CHF's inappropriate use of cash-basis accounting practice and overcharging of overhead costs. A principal reason for USAID/Iraq's failure to identify these questionable charges was that the Agreement Officer and his representative conducted limited reviews of financial data. They did use findings from other audit agencies to help identify deficiencies. However, we believe that these audits generally capture only high-level financial information and would not have identified specific questioned costs that the Agreement Officer and his representatives would have noticed based on their familiarity with the cooperative agreement and CHF's processes. We also believe that reliance on the findings of other audit agencies, especially financial auditors, could place USAID/Iraq at risk of failing to identify questionable costs.

Although SIGIR did not identify major deficiencies as a result of CHF's implementation of the CAP III, this may not always be the case with USAID/Iraq's other implementing partners. If USAID/Iraq plans to extend the CAP III beyond the current 2012 end date, it is critical that it provide more direct oversight of CHF and its other implementing partners to ensure that U.S. taxpayers' funds are put to good use.



## SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

April 28, 2011

MEMORANDUM FOR ADMINISTRATOR, U.S. AGENCY FOR INTERNATIONAL  
DEVELOPMENT  
MISSION DIRECTOR, U.S. AGENCY FOR INTERNATIONAL  
DEVELOPMENT

SUBJECT: The Iraq Community Action Program: USAID's Agreement with CHF Met  
Goals, but Greater Oversight Is Needed (SIGIR 11-014)

We are providing this report for your information and use. The report discusses USAID/Iraq's oversight of the Cooperative Housing Foundation's implementation of the Community Action Program in Iraq. We performed this audit in accordance with our statutory responsibilities under Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. Public Law 108-106 provides for independent and objective audits of programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Iraq, and for recommendations on related policies designed to promote economy, efficiency, and effectiveness and to prevent and detect fraud, waste, and abuse. This audit was conducted as SIGIR Project 1013.

USAID's Special Assistant to the Administrator for the Middle East provided written comments to a draft of this report. We have included his comments in Appendix F. We also obtained technical comments and addressed them in the report, as appropriate.

We appreciate the courtesies extended to the SIGIR staff. For additional information on the report, please contact Glenn Furbish, Assistant Inspector General for Audits (Washington, D.C.), (703) 604-1388/ [glenn.furbish@sigir.mil](mailto:glenn.furbish@sigir.mil) or Jason Venner, Principal Deputy Assistant Inspector General for Audits (Washington, D.C.), (703) 607-1346/ [jason.venner@sigir.mil](mailto:jason.venner@sigir.mil).

Stuart W. Bowen, Jr.  
Inspector General

cc: U.S. Secretary of State  
U.S. Ambassador to Iraq

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**SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION**

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# The Iraq Community Action Program: USAID's Agreement with CHF Met Goals, but Greater Oversight Is Needed

SIGIR 11-014

April 28, 2011

## Introduction

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Since 2003, the U.S. Agency for International Development (USAID) has obligated about \$675 million to non-government organizations to implement the Community Action Program (CAP) in Iraq. A key USAID Mission Iraq (USAID/Iraq)<sup>1</sup> program, the CAP works in rural and urban communities to promote grass-roots democracy and local governance. It accomplishes these goals by facilitating the creation and training of community action groups (CAGs) that are responsible for identifying and prioritizing community needs, mobilizing community resources to translate those needs into projects, and monitoring project implementation. The CAP aims to foster direct citizen involvement in the rehabilitation of Iraq, enabling Iraqis to address local needs.

The Iraq CAP was implemented in phases by several partners selected by USAID, including the Cooperative Housing Foundation International (CHF). USAID entered into cooperative agreements with these partners and provided them funds to implement the CAP in different regions of the country. Of the \$675 million obligated for the entire Iraq CAP to date, CHF received approximately \$276 million, a portion of which CHF passed on to other implementing partners during phase two of the program. Because of the size of CHF's funding and the importance of the CAP in USAID's overall strategy to help build a stable, democratic, and prosperous Iraq, SIGIR conducted this audit of USAID/Iraq's oversight and CHF's implementation of the CAP.

## Background

USAID established the Iraq CAP to encourage Iraqis to become involved in addressing issues that affect their communities. CAP projects include repair, rehabilitation, and renovation of sewerage systems, roads, schools, and health clinics, among other projects. Implementing partners are asked to encourage women, youth, and minority groups to participate in the program. USAID/Iraq hopes that community involvement at every stage of the CAP process—from identifying to implementing projects—will show community members the meaning of democracy and citizen participation in practice.

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<sup>1</sup> In general, we use the term "USAID" to represent the whole agency. However, USAID officials in Washington, D.C., told us that the USAID Mission in Iraq is responsible for implementing and managing the CAP III. Therefore, in references made to USAID's implementation, management, and oversight of the CAP, or its personnel performing these duties, we use the term "USAID/Iraq" to represent USAID Mission Iraq and its personnel serving in that country.

### ***The CAP: Overview of Past and Current Phases***

In 2003, USAID obligated an initial funding of more than \$271 million to accomplish the goals of the program. USAID divided the funding among CHF and four other implementing partners to implement projects in various regions of the country.<sup>2</sup> CHF received more than \$55 million to work in Iraq's south central provinces of Babil (also known as Babylon), Kerbala, and Najaf. The initial goal of this first phase of the CAP (CAP I) was to develop projects with an immediate impact that actively engaged community residents. CAP I lasted from May 2003 to March 2007. Implementing partners were asked to work with communities and improve the following:

- citizen participation in the development of projects
- social and economic infrastructure, incomes, and jobs
- environmental conditions and practices

In summarizing the program's results, the USAID Regional Inspector General in Baghdad wrote in January 2005 that the "CAP achieved 98 percent of its intended outputs."<sup>3</sup>

USAID obligated \$150 million to the second phase of the CAP (CAP II) and designated CHF as the "prime" implementer. The CAP II lasted from September 2006 to December 2008. Under this implementing strategy, USAID/Iraq wanted one organization to be responsible for all CAP projects in order to simplify the reporting and management structures for the overall program. As a result, CHF acted on behalf of the other four implementing partners receiving funding, serving as the point of contact for USAID/Iraq in all matters related to program implementation, including finance, programming, reporting, monitoring and evaluation, and other related matters.

The four other implementing partners continued to operate autonomously in their provinces—just as they had done during the CAP I. Each developed its own work plans and budgets and submitted them to CHF. Each quarter, CHF reported collective finance and programming activities to USAID/Iraq. Of the \$150 million USAID obligated for the CAP II, CHF was awarded almost \$39.0 million to implement projects in five provinces (see Table 1). It was also awarded \$6.94 million for management costs associated with overseeing the program. The remaining funds were obligated to other implementing partners for use in their respective provinces.

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<sup>2</sup> The other implementers of the first phase of the CAP include Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance, Mercy Corps, International Relief & Development, and Save the Children. Save the Children implemented the CAP in Iraq's southern region before it closed its program in 2006.

<sup>3</sup> USAID Office of Inspector General, Audit of USAID/Iraq's Community Action Program, Audit Report No. E-267-05-001-P, Regional Inspector General, Baghdad, Iraq, 1/31/2005, p. 5.

**Table 1—CHF’s Funding, Areas of Responsibilities, and Dates of Performance for the Iraq CAP, as of March 1, 2011**

<b>Phase</b>	<b>Dates</b>	<b>Funding</b>	<b>Areas of Responsibilities</b>
CAP I	5/16/2003–3/31/2007	\$55,306,225	Babil, Najaf, Kerbala
CAP II	9/30/2006–12/31/2008	150,011,168*	Babil, Najaf, Kerbala, Al Muthana, Dhi Qar
CAP III	10/01/2008–09/30/2012	70,907,000	Babil, Najaf, Kerbala, Qadissiya, Wassit, Anbar
<b>Total</b>		<b>\$276,224,393</b>	

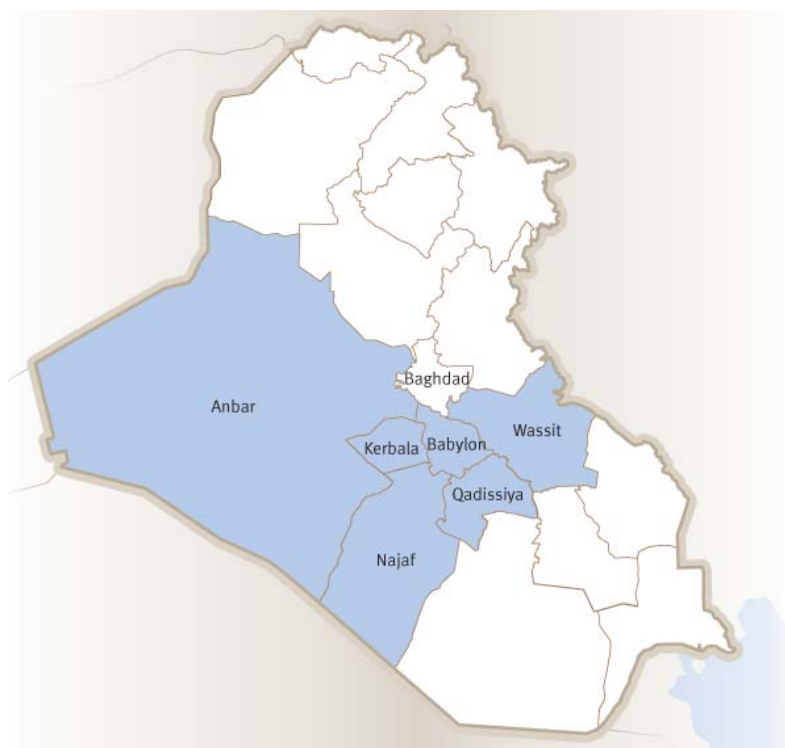
**Notes:**

\* Of this amount, USAID awarded CHF \$38.99 million to work in its respective provinces. It also awarded CHF almost \$6.94 million to manage the CAP II. The remaining amount was obligated to the other implementing partners.

Source: USAID.

As of April 2011, USAID has obligated almost \$255 million for the CAP III, which began in October 2008 and is expected to end in September 2012. USAID provided CHF almost \$70.91 million for projects in six provinces. It has committed an additional \$12.71 million to CHF for fiscal year (FY) 2012; according to a USAID official, this amount will likely be obligated in fall of 2011. In the third phase, USAID decided to decentralize the CAP programmatically and organizationally. Thus, it reverted back to the reporting/management structure of CAP I. Figure 1 shows the provinces where CHF currently implements CAP III projects.

**Figure 1 – Provinces Where CHF Currently Implements the CAP III**



Source: SIGIR.



The stated goal of CAP III is to “empower local councils and citizens to jointly participate in a more effective, responsive, and transparent community development process that meets articulated needs and begins to mobilize Iraqi resources to fulfill local government responsibilities.” To accomplish this, USAID/Iraq established three objectives and multiple performance and output indicators that were agreed to by CHF to help measure program results (see Table 2). USAID/Iraq required CHF to submit annual implementation plans, and to develop a monitoring and evaluation plan to ensure that the program meets its intended objectives. USAID/Iraq asked CHF to track and report performance and output indicators on a “performance indicator table” each quarter.

**Table 2—CAP III’s Objectives, and Performance and Output Indicators**

Objectives	Examples of Performance and Output Indicators
<ol style="list-style-type: none"> <li>1. Communities better articulate their needs and mobilize resources within and outside the community to solve common problems</li> <li>2. Local executive and representative Government in CAP communities better meet the articulated needs of the community</li> <li>3. Civilian Victims of Conflict Assisted (through the Marla Ruzicka Victims of War Fund)*</li> </ol>	<ul style="list-style-type: none"> <li>• the amount of community and Government of Iraq (GOI) cost share</li> <li>• the number of new community action groups formed and trained</li> <li>• the number of CAGs and local government council members that report using their new skills to meet community needs</li> <li>• the number of projects completed by CAGs</li> <li>• the number of CAGs reactivated</li> <li>• the number of short and long-term jobs created</li> <li>• the number of Marla Fund recipients and direct beneficiaries</li> </ul>

**Note:**

\*The Marla Ruzicka Victims of War Fund (Marla Fund) is implemented under the CAP to assist victims of the armed conflict in Iraq. In 2005, the U.S. Congress approved legislation offered by Senator Patrick Leahy to fund a program aimed solely at providing assistance to Iraqi war victims. The bill was named in honor of Marla Ruzicka, a humanitarian aid worker killed by a car bomb in Baghdad on April 15, 2005.

*Source: USAID.*

USAID/Iraq continues to emphasize capacity building in the CAP III, but it also emphasizes sustainment of the CAP community involvement model and the CAP-funded projects. The goal is that newly empowered local councils and citizens can use the CHF training and hands-on experience to continue advocating for their needs after the CAP ends. USAID/Iraq also wants communities to sustain CAP projects, and requested that CHF work with the CAGs (community action groups) “to select projects that are feasible, sustainable, and of significant impact to the community.”

Part of USAID CAP funding assists civilian victims of the armed conflict. The Marla Ruzicka Victims of War Fund (Marla Fund) affords aid to Iraqis wounded or killed as a result of coalition actions. Rather than providing cash compensation or reparations, Marla Fund assistance provides victims with needed medical care and also helps them rebuild their livelihoods and homes destroyed by war. Implementation of the Marla Fund differs from that of the CAP projects: rather than working through CAGs to identify community needs, CAP implementing partners identify potential recipients in conjunction with local Iraqi leaders, police stations, and hospitals.

CHF begins its CAP efforts by approaching community leaders and describing the CAP program to them. If leaders are interested in participating in the program, CHF hosts a town hall meeting to discuss the program with the community. The community then forms a CAG by electing 8 to 12 members. CHF provides the members capacity-building training that includes project identification, planning, advocacy, local government engagement, and other activities. Through this process, CHF trains the CAGs to design, prioritize, and implement projects with community and/or local government cost-share, as well as to monitor and sustain the projects after completion. For other community priorities that were not chosen to be funded under the CAP, CHF helps the CAGs make formal funding requests to be included in the budgets of the government ministries and provincial councils.

### ***The Use of Cooperative Agreements Rather than Grants or Contracts***

USAID used cooperative agreements as vehicles to provide funding to CHF and other CAP implementing partners. Like grants, cooperative agreements are used when the principal purpose of a transaction is to accomplish a public purpose of support or stimulation authorized by federal statute. Unlike grants, however, cooperative agreements are more restrictive: they require substantial USAID involvement in carrying out the agreed-to activities. The cooperative agreement with CHF, for example, states that USAID will be substantially involved in the operations of the CAP III—such as approving CHF’s implementation plans, key personnel, methodology and selection of new communities, and projects costing more than \$100,000, among others things.

Grants and cooperative agreements differ from contracts. Contracts are used when the principal purpose is to acquire property or services for the direct benefit or use of the federal government. Regulations from the Office of Management and Budget (OMB)—specifically OMB Circular A-110, Subpart C, *Post Award Requirements*<sup>4</sup>—place the day-to-day financial oversight responsibility on the grant or cooperative agreement recipient, limiting the extent of financial reporting that an agency can require to at least annually, but not more than four times a year. Grant and cooperative agreement recipients usually are required to simply submit a quarterly claim to the government for reimbursement of their costs and may also obtain advance payments.

Furthermore, contracts have an array of audit requirements under the Federal Acquisition Regulation (such as pre-award financial system audits, internal control audits, and post-award cost audits) that are usually conducted by the Defense Contract Audit Agency. On the other hand, grantees and cooperative agreement recipients are required by OMB Circular A-133<sup>5</sup> to obtain a single annual audit of the organization, usually conducted by a private external audit firm. The results of this annual audit inform the awarding agency about the adequacy of the recipient’s financial management system before making the award and when the grantee is expending funds.

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<sup>4</sup> OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, revised 11/19/1993, as further amended 9/30/1999, 2 C.F.R. Part 215.

<sup>5</sup> OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, revised to show changes published in the Federal Register June 27, 2003, and June 26, 2007.

### ***Federal Guidance on Cost Principles***

OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, establishes the principles for determining reasonable, allocable, and allowable costs that a non-profit organization such as CHF can claim against the agreement. The circular defines reasonable, allowable, and allocable costs as follows. For a more detailed discussion of these definitions, see Appendix B.

- **Reasonable Costs:** a cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. The question of the reasonableness of specific costs must be scrutinized with particular care in connection with organizations or separate divisions thereof which receive the preponderance of their support from awards made by federal agencies.
- **Allocable Costs:** a cost is allocable to a particular cost objective—such as a cooperative agreement, grant, contract, project, service, or other activity—in accordance with the relative benefits received. A cost is allocable to a federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it: is incurred specifically for the award, benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, and is necessary to the overall operation of the organization.
- **Allowable Costs:** a cost is allowable if it is not specifically stated as unallowable in Circular A-122, Attachment B, and in certain provisions of Circular A-110; for example alcoholic beverages, bad debts, entertainment, and items that require preapproval of the agency.

Furthermore, the Inspector General Act of 1978 also provides guidance on questioning costs, stating that, the term "questioned cost" means a cost that is questioned by the Office [i.e., SIGIR] because of—

(A) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds;

(B) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or

(C) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.<sup>6</sup>

We used these criteria in performing our work.

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<sup>6</sup> The Inspector General Act of 1978, §5. (f).

## **Objectives**

Our reporting objectives were to: (1) examine the extent to which CHF achieved the goals of the CAP III, (2) examine the extent to which USAID/Iraq monitors CHF's implementation of the CAP III and ensures that completed projects are sustainable, and to (3) determine whether some of the costs claimed appear reasonable, allocable, and allowable in accordance with federal guidelines.

Because all activities under the CAP I and CAP II have ended and were reviewed by the USAID Office of Inspector General, we excluded them from our audit scope. We also chose to exclude Marla Fund activities because its goals differ from CAP goals. The USAID Office of Inspector General also reported on its audit of that program in April 2008. Because of the previous coverage, we focused our attention on the implementation of the active CAP III.

For a discussion of the audit scope and methodology and a summary of prior coverage, see Appendix A. For details on federal guidance for determining cost reasonability, allocability, and allowability, see Appendix B. For results of CHF's progress against select CAP III performance and output indicators, see Appendix C. For a list of acronyms used, see Appendix D. For the audit team members, see Appendix E. For management comments, see Appendix F. For the SIGIR mission and contact information, see Appendix G.

## **CHF Exceeded Most Performance and Output Targets, but USAID/Iraq Did Not Revise Them To Reflect New Program Focus**

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For the first two years of the CAP III, CHF reported that it had exceeded the target level for 17 of the 23 performance and output indicators that USAID/Iraq established and CHF agreed to for measuring overall program success. However, USAID/Iraq currently does not require CHF to track the number of communities seeking funds from sources other than CHF to help pay for community projects—a key indicator of program success. Further, when USAID extended the CAP III in September 2010 and expanded its scope to include assisting internally displaced persons, it did not establish an indicator to track the progress made against the new requirement.

### **CHF Exceeded Most Performance and Output Targets**

As of September 2010, CHF reported that it exceeded 17 of the 23 USAID performance and output indicators.<sup>7</sup> For example, CHF obtained more than \$9.4 million in cost-share from the GOI, more than twice the required amount. CHF also reported that it trained 2,778 CAG members who stated that they used their new skills to meet community needs. CHF was required to train only 700 members during the first two years of the CAP III. CHF also surpassed targets set for the number of CAG-completed projects, the number of short- and long-term jobs created, the number of CAGs formed, and the number of CAG members who are women and youth, among others. Table 3 provides examples where CHF exceeded key performance and output indicator targets. For a more complete list of results against these CAP performance and output indicators, see Appendix C.

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<sup>7</sup> This number excludes performance and output indicators for the Marla Fund program. It also excludes two other indicators because USAID did not set a target (although it required reporting). Last, as used here, the targets are established for the life of the program—cumulative since 2008 when the CAP III began.

**Table 3—Key CAP III Performance and Output Indicators in which CHF Exceeded Set Targets, as of September 2010**

<b>Performance Indicators</b>	<b>Project Target</b>	<b>Project Actual</b>
Percent and value of cost share from GOI for community project implementation	\$4,600,000 24.0% <sup>a</sup>	\$9,414,832 35.7%
Number and percent of CAP III–trained CAG members that report using their new skills to meet community needs and can give an example	700 25.0% <sup>b</sup>	2,778 76.1%
Number and percent of CAP III–trained local government council members that report using their new skills to meet community needs and can give an example	280 50.0% <sup>c</sup>	2,423 97.4%
Number and percent of CAP III–assisted local government councils that have implemented a formal community-driven needs assessment, project design, and implementation process into their work	38 75.0% <sup>d</sup>	85 100.0%
Number and percent of total number of local government councils that have received CAP III local government training	50 50.0% <sup>e</sup>	86 100.0%
<b>Output Indicators</b>	<b>Project Target</b>	<b>Project Actual</b>
Number of projects completed by CAGs	265	268
Number of short-term jobs created by CAG community activities	12,500	41,953
Number of long-term jobs created by CAG community activities	200	704
Number of CAGs formed	290	336
Number of CAG members who are women and youth	200	1,016

**Notes:**

<sup>a</sup>USAID required CHF to obtain at least 24% of total funds budgeted for CAP projects from the GOI.

<sup>b</sup>USAID required CHF to demonstrate that at least 25% of all CAG members trained were able to provide quarterly survey responses on how they specifically used the skills acquired in training to meet community needs.

<sup>c</sup>USAID required CHF to have at least 50% of all local government members trained to be able to provide quarterly survey responses on how they specifically used the skills acquired in local government training to meet community needs.

<sup>d</sup>USAID required that CHF have at least 75% of local councils establish advisory or project monitoring committees that could develop strategic plans for completing CAP projects.

<sup>e</sup>USAID required CHF to train at least 50% of the local government councils in its areas of responsibility.

Source: CHF.

These are examples of the six performance and output indicators that CHF did not meet:

- amount of community cost share
- number of trained local government councils that provide regular opportunities for public input into community needs assessment
- number of direct beneficiaries of local CAG activities
- number of CAGs with members from marginalized groups
- number of active CAGs
- number of CAGs reactivated

For example, CHF obtained about \$0.80 million in cost-share from the communities to implement projects—a little more than half of the required \$1.50 million. CHF officials stated

that certain disadvantaged communities are unable to contribute materials and services useful to technical infrastructure projects. CHF also reported that 867,070 Iraqis directly benefited from local CAG activities, much less than the 3.2 million that USAID/Iraq had expected. CHF officials stated that the number of beneficiaries depends on several factors that include the type of projects selected and the size of the communities that the projects serve. Because CHF has little control over these factors, its ability to influence the number of beneficiaries of CAP projects is limited.

Even though CHF did not meet all set targets, local Iraqi leaders and community members praised CHF’s efforts. The Governor of Babil told SIGIR that CHF “was able to work successfully in areas that have not had democracy for very long” and that it has performed “a great job in critical times” in Babil. He further praised CHF for considering the input of the Iraqi people when formulating projects and for “focusing on capacity building, not just the project itself.” The Mayor of Ramadi added that CHF’s projects have helped stop young men from joining various terrorist groups by putting them to work. Community leaders and members of the Al-Zuhoor village in Qadissiya province—where CHF will install a transformer to provide electricity—told SIGIR that the CHF training on project identification, prioritization, and implementation was good and useful. Moreover, they said the people would benefit from more training on how to solicit other donor assistance. Figure 2 shows SIGIR auditors meeting with local leaders.

**Figure 2—SIGIR Auditors Interview Community Leaders in Babil and Qadissiya**



Interview with Governor of Babil, October 20, 2010.



Interview with community leaders and villagers in Al-Zuhoor Village, November 18, 2010.

*Source: SIGIR’s visits to Babil and Qadissiya provinces with assistance from members of the Provincial Reconstruction Teams.*

### ***CHF Exceeded Cost-Share Target for GOI but Did Not Meet the Target for Community Contributions***

The cooperative agreement signed in September 2008 required that CHF obtain a total of \$6.1 million in cost-share contributions, preferably \$4.60 million from the GOI and \$1.50 million from local community members.<sup>8</sup> CHF reported that, as of September 2010, it obtained more than \$10.22 million in contributions from both groups—approximately \$9.41 million from the GOI, but only about \$0.80 million from local community members.

According to USAID guidance, cost-share contributions may be in-kind, rather than cash, and can include donated materials and supplies, equipment and services, land and property, and volunteer time and labor. Further, OMB Circular A-110 allows in-kind contributions to be accepted as cost share, but emphasizes that they must be verifiable. CHF’s project files provide documentation on its cost-share calculations. Table 4 shows the cost-share targets and actual results, as of September 2010.

**Table 4—Cost-Share Targets and Actual Results, as of September 2010**

<b>Performance Indicators</b>	<b>Project Target</b>	<b>Project Actual</b>
Percent and value of cost share from community for community project implementation	\$1,500,000 8.0%	\$804,460 3.0% <sup>a</sup>
Percent and value of cost share from GOI for community project implementation	\$4,600,000 24.0%	\$9,414,832 35.7% <sup>b</sup>
Number of projects with community cost share as a percent of total number of projects implemented	N/A	97.4%
Number of projects with GOI cost share as a percent of total number of projects implemented	N/A	70.5%

**Notes:**

<sup>a</sup> USAID required CHF to obtain at least 8% (\$1.50 million) of total funds budgeted for CAP projects from community members.

<sup>b</sup> USAID required CHF to obtain at least 24% (\$4.60 million) of total funds budgeted for CAP projects from the GOI.

Source: CHF.

By December 2010, CHF reported that 98% of the 309 planned, ongoing, or completed projects included community contributions, and 87% included GOI contributions—slightly higher than their September 2010 results. SIGIR closely examined 11 of these projects (10 completed and 1 uncompleted)<sup>9</sup> to determine the cost to CHF and the cost-share contributions from the community and the GOI. SIGIR found that CHF valued the in-kind contributions from the community at \$383,835 and from the GOI at \$934,744, as of December 2010.<sup>10</sup> So far, CHF has spent about \$1.01 million on these 11 projects.

<sup>8</sup> This amount is an aggregate total for the entire CAP III and includes contributions collected from all projects that have been completed or currently implemented under the program.

<sup>9</sup> SIGIR judgmentally selected 11 of the 309 CAP III projects to obtain information for use in the report. The selection includes a project in each of the six provinces.

<sup>10</sup> The cost-share contributions for the one project have not been determined because it has not yet been completed.



**Table 5—Costs of 11 Select CAP III Projects, as of December 2010<sup>a</sup>**

<b>Projects Reviewed</b>	<b>Community Contributions</b>	<b>GOI Contributions</b>	<b>CHF Contributions</b>
1 – Construct a football (soccer) stadium for youth	\$149	\$150,000	\$85,477
2 – Construct a new school	210,676	103	84,609
3 – Add an annex of six classrooms with an administrative wing and sanitation collection	67	41,000	110,408
4 – Construct and furnish a kindergarten	644	53,554	123,042
5 – Build an annex and renovate a school	2,117	0	94,699
6 – Construct a bridge for cars	5,157	6,880	93,195
7 – Construct a bridge for cars	21,305	0	94,026
8 – Provide equipment to upgrade the electricity network	117	5,497	88,000
9 – Construct a park	460	674,160	96,845
10 – Provide transformer, electrical materials	N/A	N/A <sup>b</sup>	75,000
11 – Provide a water pump and transformer	143,145	3,550	68,740
<b>Total</b>	<b>\$383,835</b>	<b>\$934,744</b>	<b>\$1,014,041</b>

**Notes:**

<sup>a</sup>Numbers are affected by rounding.

<sup>b</sup>This project is in the planning stages and not yet completed.

Source: CHF.

The lowest total community cost-share contribution for a project was valued at \$66.70 to help build a school annex. Values of individual community cost-share contributions ranged from \$17.20 for the use of a conference room plus refreshments, to \$203,000 for donated land to build a school. The GOI also donated land for four of these projects totaling \$854,676; the donated land was used to build a football (soccer) stadium for youth, a park, a school annex, and a kindergarten. For the park project, CHF valued the government-donated land at \$610,176—the highest-valued cost-share contribution of the 11 projects SIGIR examined.

**Figure 3—Football (Soccer) Stadium in Anbar Completed under the CAP III**



Source: SIGIR, photo taken on February 3, 2011.

***Indicator To Measure CAG’s Ability To Obtain Future Funding From Sources Other than the U.S. Government Is Currently Not Required***

CHF’s implementation plan for year three of the CAP III (2011) stated that one of its goals is to train CAGs to advocate for future project funding from sources other than CHF. Yet, USAID/Iraq does not require CHF to include data on its progress towards meeting this goal in the performance indicator table CHF submits each quarter. SIGIR believes that the community’s ability to access other sources of funding is an important indicator of CAP III success because it indicates the potential that average Iraqis would be able to advocate for themselves and to obtain funding from other sources, such as their government, for projects that improve their lives. Moreover, CHF already has this information. To illustrate, its October to December 2010 quarterly progress report states that during the first two years of CAP III, 117 CAGs submitted lists of prioritized projects to the GOI for funding.

Until December 2009, USAID/Iraq had asked CHF to track data that appear to address this issue. Specifically, it had asked CHF to report the number and percent of projects CHF identified and designed jointly with the communities that have been submitted for funding from the (1) *provincial capital development budget* and from (2) *ministerial capital investment budgets*, and the value of requested funding. USAID/Iraq later asked its contractor (hired to monitor and evaluate USAID-funded programs)<sup>11</sup> to review the quality of data used to support these two indicators. The contractor wrote in its report that because “there [was] no legal mechanism granting local governments the authority to request and secure funding from provincial and ministerial budgets,” these indicators are difficult to measure and do not provide helpful results. Therefore, it recommended that USAID/Iraq change the indicator to read: “the number and

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<sup>11</sup> USAID contracted with International Business & Technical Consultants, Inc. to conduct the assessment, which was completed in December 12, 2009. USAID currently contracts with the QED Group, LLC to perform monitoring and evaluation activities for the CAP III.

percent of identified and designed projects submitted for funding by *government source*.” However, CHF stopped reporting on this indicator completely.

## **USAID/Iraq Did Not Update Indicators To Reflect New Program Focus**

USAID/Iraq added a goal for CHF to help internally displaced persons but did not develop a new indicator for CHF to formally keep track of progress made. USAID/Iraq modified the cooperative agreement to extend the CAP III to 2012 and obligated \$13.55<sup>12</sup> million for program implementation. Within the agreement, it budgeted \$1.78 million to help internally displaced persons in Iraq. USAID/Iraq had earlier requested that CHF refocus its program activities to include this group when submitting its proposal for the CAP III extension. It had also expressed concerns that CHF did not have personnel with first-hand knowledge and experience working with this group.<sup>13</sup>

When the extension was made, CHF and other implementers asked USAID/Iraq to clarify the requirements to report progress on assisting internally displaced persons. After some initial confusion, a senior official responded in an email that even though CAP III partners are required to “identify communities with significant internally displaced persons populations and seek ways to increase collaboration with these communities,” USAID/Iraq did not intend to develop “hard” indicators against which to report. Part of the rationale for its decision was that USAID/Iraq did not want CHF and other implementers to further isolate these people from the host communities where they resided. Additionally, USAID/Iraq officials stated that CAP III cooperative agreements allow the implementers to develop their own monitoring plans and performance indicators. The officials added that although they work with the implementers and provide guidance on performance indicators, they did not direct the implementers to report against specific indicators.

Consequently, CHF did not reference internally displaced persons in its 2011 CAP implementation plan.<sup>14</sup> However, its quarterly progress report for October through December 2010, stated that CHF “expanded its outreach to internally displaced persons, to enable them to participate in CAG decision making and to enable CAGs in all internally displaced persons communities to advocate for themselves.” CHF did not provide further details regarding the internally displaced persons. As a result, USAID does not have concrete data to demonstrate what it achieved with the \$1.78 million budgeted to help internally displaced persons and cannot be assured that CHF or other CAP implementers used funds to help this group.

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<sup>12</sup> This amount is for CHF to carry out projects in 2011. A USAID official stated that the additional estimated \$12.71 million will be provided for activities taking place in 2012.

<sup>13</sup> CHF assured USAID that it would leverage from its Shelter Program (a program funded by the USAID Office of U.S. Foreign Disaster Assistance that provides emergency shelter support to vulnerable returnees and Internally Displaced Persons) to obtain the needed technical experts.

<sup>14</sup> CHF explained in detail how it will incorporate Internally Displaced Persons into its programming in its written proposal for the CAP III extension. The proposal was submitted on September 20, 2010.

## **Program Monitoring and Project Sustainment Needs Greater Emphasis To Ensure CAP's Success**

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The lack of personnel and high security risks prevent USAID officials from making needed site visits to monitor CHF's program implementation of the CAP III and determining whether communities are sustaining completed projects. Because of these obstacles, USAID/Iraq relies on CHF, other contractors, Provincial Reconstruction Teams (PRTs), and external auditors for information on program implementation and results. However, any USAID reliance on PRTs in the future to provide program implementation information may be problematic because these teams will soon be disbanded. To address this problem, USAID/Iraq is hiring more personnel to oversee the program, but the process is not yet completed. Until it is completed, it may be difficult for USAID/Iraq to determine overall program success as the CAP III continues into future years.

USAID/Iraq requires CHF to implement projects that are feasible, sustainable, and of significant impact to the community. However, CHF files of completed projects do not contain clear and concrete plans for long-term project sustainability, thus increasing the likelihood that some projects may not be maintained after CHF and USAID leave.

### **Lack of Personnel, Resources, and Security Concerns Limit USAID/Iraq's Oversight of Program Implementation and Project Sustainment**

USAID/Iraq does not have the personnel or resources to effectively monitor its projects. In addition, security concerns also limit officials from making site visits. As a result, USAID/Iraq relies on other mechanisms to provide needed information. At the time of SIGIR's audit, USAID/Iraq had one Agreement Officer Technical Representative (AOTR) providing technical and administrative oversight of CHF and three other CAP III implementers. One of the AOTR's duties is to monitor the progress of CHF and other implementers in achieving the objectives of the CAP III and verify that their activities conform to the terms and conditions of the cooperative agreement. Including CHF's six provinces, the AOTR is required to provide day-to-day program oversight of the CAP III in 16 provinces. CHF alone has implemented 309 projects under the CAP III. Since the AOTR was appointed on October 12, 2010, the AOTR made four site visits to CHF's CAP III projects: twice to the Al-Zuhoor village (in Qadisiya province) to discuss a future project, once to see a completed soccer field, and once to see a completed school (both in Anbar province). The AOTR also visited CHF's headquarters offices in Hillah (Babil province) and in Silver Spring, Maryland. The AOTR also held several meetings with CHF senior officials in USAID's Baghdad office.

The Agreement Officer has legal responsibility for the award and is the only person who can take action on behalf of USAID to (1) enter into, change, or terminate an award, and (2) make related determinations and findings on behalf of USAID. The AOTR helps the Agreement Officer in carrying out his duties. The current Agreement Officer responsible for the CAP III is one of three Agreement Officers overseeing all of USAID's awards in Iraq. In addition to the CAP III,

this Agreement Officer also supports other USAID's programs in Iraq.<sup>15</sup> In his opinion, there is a massive shortage of contracting officers in Iraq, which leads to increased work load and "bottle-necking" of tasks. Coupled with security concerns, the Agreement Officer has not been able to visit any CAP projects since he arrived in Iraq in June 2010.

Also citing security concerns and limited resources available to support visits, USAID Representatives serving on the PRTs make few site visits to monitor CAP projects. For example, site visits must be coordinated with the U.S. military that provide transportation and protection. Without the military's support, travel in and around Iraq is severely restrictive. As part of their responsibilities, USAID PRT Representatives coordinate all USAID activities in the field, including CAP III and other USAID programs. USAID Representatives in various PRTs reported making the following number of visits to CAP projects:

- The USAID Representatives at the Anbar PRT visited 15 to 17 projects in 2010. Anbar currently has 85 CAP III projects either underway or completed.
- Since August 2010, the USAID Representative at the Babil PRT visited 8 projects. Babil has 72 CAP projects currently underway or completed.
- The former USAID Representative at the Diwaniyah PRT visited 12 to 15 of the 35 CAP projects that are currently underway or completed in Qadissiya province. His replacement, who arrived in February 2011, visited one project.

#### ***USAID/Iraq Relies on Contractors, External Auditors, and CHF to Monitor Projects***

Because of security concerns and limited personnel to conduct site visits, USAID/Iraq officials rely on reports from CHF, its contractor for monitoring and evaluation, and external auditors, to monitor program implementation and project sustainment. To monitor CHF's efforts in the field, USAID/Iraq officials review CHF's quarterly financial and programmatic progress reports (which include results of progress made against established performance and output indicators), and annual implementation/program management plans. However, a USAID official stated that "the security situation in Iraq prohibits site visits by USAID staff, making it difficult to verify reported data." As a result, he depends on the integrity of CHF to report accurate information and manage its program.

This same official also stated that he "gets a comfort level that CHF is effectively managing [its] programs through audits and evaluations conducted by [various] organizations." For example, USAID/Iraq contracts with organizations such as the QED Group, LLC and International Business & Technical Consultants, Inc, to monitor program activities that would normally be monitored by its employees. The contractors have completed several reviews of the CAP. One review focused on data quality assessment of selected CAP III performance indicators; it was completed in December 2009. Another review, completed in May 2010, focused on the overall performance of the implementers in achieving CAP III goals and objectives. Additionally, one earlier review, completed in 2007, focused on project sustainability under the CAP II. That

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<sup>15</sup> These include programs in local governance, elections, legislative strengthening, and national capacity development. He is also responsible for four contracts that support USAID/Iraq (such as the USAID cafeteria, maintenance on the USAID compound, and housing).

review looked at 211 projects in 14 provinces and determined that more than 90% of the projects were still operational, and 10% were often not operational. A USAID/Iraq official also stated that they rely on performance audits from the USAID Office of Inspector General and financial management audits from the Defense Contract Audit Agency and other organizations that conduct the annual OMB-mandated A-133 audits. A USAID official stated that these audits would list any deficiencies which he would then address.

### ***USAID/Iraq Is Hiring Additional Personnel To Monitor Projects When Provincial Reconstruction Teams Leave***

In addition to existing mechanisms such as requiring USAID Representatives on the PRTs to visit projects in the field, USAID/Iraq has initiated plans to obtain additional monitoring systems once the PRTs disband at the end of 2011. However, these plans are not yet completed. According to USAID officials in Baghdad, USAID/Iraq is planning to:

- Hire a USAID Representative and one or two Iraqi staff to be based at the consulates in Erbil and Basrah. These personnel will monitor USAID field projects.
- Hire up to 25 additional Iraqi staff for the 3 technical offices<sup>16</sup> to meet the monitoring needs of the AOTR and technical teams. They will live and work in outlying provinces and communicate daily with AOTR/teams via e-mail, cell, and Skype. Regular face-to-face meetings will be held at the USAID offices in Baghdad or at the consulates.
- Expand the current monitoring and evaluation contract to include additional monitoring tasks of all USAID projects.

USAID/Iraq officials stated that they have selected one USAID Representative to serve in the Erbil consulate; that person is currently undergoing the security clearance process. They have also identified the USAID Representative to serve in the Basrah consulate; that person is currently in the interview process. The positions for Iraqi staff were advertised and are closed; their applications are currently being reviewed. Officials noted that the hiring process is lengthy, therefore, they will use the monitoring and evaluation contract to provide the necessary program oversight in the interim. While USAID/Iraq works to bring on the additional personnel, the PRTs in Diwaniyah (in Qadisiya province) and Babil are scheduled to close in July; the Anbar PRT is scheduled to close in September 2011. According to one USAID PRT Representative, it is critical to hire these new employees as soon as possible to provide them adequate training.

In a written response to the draft report, USAID reaffirmed the importance of monitoring projects by making site visits. It again noted that security concerns are the predominant reasons more site visits are not made. USAID acknowledges SIGIR's observation that USAID/Iraq has instituted alternative monitoring measures that include the hiring of contractors and Iraqi employees, where possible, to monitor projects.

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<sup>16</sup> USAID/Iraq's technical offices include Capacity Building, Democracy and Governance, and Economic Growth and Agriculture.

## **CHF Project Files Lack Clear Plan for Sustainability**

Although the cooperative agreement does not prescribe precise actions for CHF to take to ensure long-term project sustainability, it does state that CHF should implement projects that are sustainable. SIGIR's reviews of CHF's 11 project files show that they did not contain concrete plans for upkeep and maintenance after project completion. Although some project files contain statements from local government officials and community members regarding maintenance, they do not contain stand-alone sustainability plans that clearly lay out the responsibility for maintenance. CHF maintains a file on each project that contains documentation on 36 different categories ranging from contract bids to community meeting notes, but none refer to a plan that lays out the roles and responsibilities, future costs, and tasks required for the long-term sustainment of the project. CHF references project sustainability in the notes from its own Monitoring and Evaluation Unit upon return from visiting a site<sup>17</sup>, but of the 11 project files SIGIR reviewed, only 7 contained site monitoring forms. On all seven forms, the Monitoring and Evaluation Unit commented that the project had a sustainability plan and gave a one to two sentence description of those plans (see Table 6). No other relevant documentation was attached to the form or was found in the project file.

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<sup>17</sup> CHF established an internal Monitoring and Evaluation Unit that conducts periodic site visits and program evaluations.

**Table 6—Existence of Sustainability Plans for Select CHF’s CAP III Projects**

<b>Project Description/ Location</b>	<b>Province</b>	<b>Stand-alone Sustainability Plan?</b>	<b>Notes from CHF’s Monitoring and Evaluation Unit</b>
1 – Construct a football (soccer) stadium for youth	Anbar	No	Both the Local Council and the Community will work on sustainability of the project, watering the stadium, providing electricity, planting trees, and maintaining the stadium.
2 – Construct a new school	Anbar	No	The Education Directorate will employ the teachers and the administrative staff, provide materials to sustain project, and be responsible for any maintenance required.
3 – Add annex of six classrooms with an administrative wing and sanitation collection	Anbar	No	Not available in file
4 – Construct and furnish kindergarten	Anbar	No	Not available in file
5 – Build an annex and renovate a school	Babil	No	Responsibility of Ministry of Education
6 – Construct a bridge for cars	Babil	No	The beneficiary directorate will be responsible for any maintenance required for the project.
7 – Construct a bridge for cars	Kerbala	No	Since the CAG had good participation, they will take care of the project. The local government will also take care of it.
8 – Provide equipment to upgrade the electricity network	Najaf	No	Not available in file
9 – Construct a park	Qadissiya	No	The municipality is responsible to do any maintenance required for the project.
10 – Provide transformers, electrical materials	Qadissiya	No	Not available in file*
11 – Provide a water pump and transformer	Wassit	No	Beneficiaries are responsible for sustaining the project.

**Note:**

\*This project has not yet been completed.

Source: SIGIR’s analysis of CHF’s files.

In response to SIGIR’s concerns, CHF officials stated that they recently improved the site monitoring form, and it now specifies how the project will be maintained and the positions and offices best suited to maintain the projects. They also stated that the new forms will help ensure that communities, local councils, and government officials contribute towards project completion.

Notwithstanding the missing documentation on sustainability plans, CHF officials stated that its CAP process includes mechanisms that help ensure project sustainability, including these examples:



- **Training** – CHF provides 3-day training to all newly formed CAGs to help them identify and prioritize their needs. The result of the training is that “CAGs select a community project that is feasible, sustainable, and will have significant impact on the community.”
- **Contractor payment** – CHF officials state that they make final payments to contractors six months after a project is completed (and in concurrence with the CAG). According to CHF officials this process ensures that the contractor’s work is free of defects.
- **Cost-share Contributions** – CHF states that the high amount of cost-share contributions from the GOI highlights the value of CAP III projects because upkeep of public services must be handled by government funds. By donating to the projects themselves, the Government becomes invested in maintaining the project without U.S. government funds.
- **Monitoring and Evaluations** – CHF’s Monitoring and Evaluation Unit conducts periodic site visits to monitor the progress of on-going CAP projects. It also conducts periodic evaluations after projects are completed to assess CAP III effectiveness.
- **Government approvals/acceptance of delivery** – Government approvals for implementation and acceptance of project delivery show that the GOI (represented by local representatives)<sup>18</sup> is invested in the project, according to a CHF official. When the Ministry of Education accepts a school, for example, it also accepts the responsibility to maintain the project.

However, these mechanisms may not ensure the long-term sustainability of CAP-funded projects. First, CAG members receive training on “long-term planning” for one of the three training days. The CAG members are asked to plan for project sustainment, but there is no documentation to show such a plan exists in the project files. Second, final payments made to contractors six months after project completion—although a positive step—ensure only that the structure still stands after six months; it does not ensure that the *community* will maintain the project in the long term. CHF officials said that government officials, in a signed statement, agree to maintain the project after the contractor completes it. Third, much of the donation from the GOI comes in the form of land donation. Although highly valued, the land donations in and of themselves do not provide assurance that the projects will be maintained after CHF leaves. Fourth, CHF’s Guidelines for CAP III Monitoring and Evaluation states that each project should receive at least two visits during its implementation phase. However, CHF officials told SIGIR that due to the number of projects and limited resources, the unit may not be able to visit all projects.

Finally, the documentation of government approvals and acceptance of project delivery contained in each of the 11 files reviewed do not provide an *explicit* understanding of the tasks required for long-term sustainment. Although some of the documentation contains statements of cost-share contributions, most contains simply signatures from government officials, community members, CHF personnel, and the contractor stating that approval has been granted and that the project is complete. These approval and acceptance forms are not sustainability plans that

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<sup>18</sup> Examples of local representatives of the Government of Iraq include the Ministry of Electricity of Najaf, the Anbar General Directorate of Education, the Diwaniyah Municipal Administrator, and the Wassit Provincial Council.

identify the people or organizations who will be responsible for long-term maintenance, salaries, and other costs.

As a result, some of the projects may not be adequately maintained after CHF and USAID leave. For example, in February 2011 SIGIR visited a school in Anbar province (project #2 in Table 6), which was completed in August 2009. We found that although the school is being used as intended, it did not have working electricity or running water. According to notes from CHF’s Monitoring and Evaluation Unit, the Education Directorate was responsible for the school’s maintenance, but we found no agreement in the file. The project files show a “project site delivery form” was signed by CHF personnel, community members, the contractor, the school principal, and an Education Directorate representative agreeing that the project had been completed. None of the documentation shows evidence of an *explicit* understanding or agreement of who would be responsible for long-term sustainment.

**Figure 4—Pictures of a School in Anbar Paid with CAP III Funds, as of February 2011**



**Notes:**

A toilet with no running water and a restroom used as storage.

*Source: SIGIR.*

# **USAID/Iraq Oversight of CHF's Financial Management Did Not Detect Questionable Charges, Allocations, and Accounting Practices**

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USAID/Iraq's oversight of CHF's financial management did not detect questionable charges, allocations of costs against the agreement, or accounting practices. Based on our examination of select FY 2010 costs claimed by CHF, we question the reasonableness, allocability, and allowability of about \$1.08 million. These questioned costs are a result of CHF's inappropriate use of cash-basis accounting practice and overcharging of overhead costs. A principal reason for USAID/Iraq's failure to identify these questionable charges was that the Agreement Officer and his representatives conducted limited reviews of CHF's financial records. They used findings from other audit agencies to help identify deficiencies. However, we believe that these audits are often broad-based and would not have identified specific questioned costs that the Agreement Officer or his representatives would have noticed based on their familiarity with the cooperative agreement and CHF's processes.

CHF officials stated that they were operating in good faith, did not intend to claim inappropriate costs, and sought to ensure the appropriateness of their approach by maintaining regular communications with USAID.

## **SIGIR Questions About \$1.08 Million in Costs Claimed by CHF**

SIGIR reviewed internal controls supporting \$27.75 million of costs CHF claimed in FY 2010 under the cooperative agreement and questioned the reasonableness, allocability, and allowability of about \$1.08 million of those costs.<sup>19</sup> Our analysis showed that these questioned costs result from CHF's inappropriate use of cash-basis accounting practices and overcharging of overhead cost. Table 7 provides the categories of costs examined, the amount that CHF claimed, and the amount questioned.

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<sup>19</sup> For a discussion of our scope and methodology, see Appendix A.

**Table 7—SIGIR’s Questioned Costs Claimed by CHF in FY 2010, by Category**

<b>Description</b>	<b>Costs Claimed</b>	<b>Costs Questioned</b>
Salaries	\$501,760	\$ -
Fringe Benefits	150,528	
Leave and Allowances	266,108	
Local Salaries	2,796,976	
Local Fringe	472,685	
Miscellaneous Office Expenses	1,210,340	49,900
Office, Rent, and Other Occupancy	753,926	252,450
Vehicle Operating Expenses	856,163	
Travel	142,587	
Miscellaneous Other	613,909	
Security Costs	4,315,656	
Contracts Subject to Full Overhead	11,224,517	
<b>Subtotal Direct Costs Subject to Overhead</b>	<b>\$23,305,153</b>	<b>\$302,350</b>
Overhead Applied	3,961,656	780,812
Sub-Awards Not Subject to Overhead	483,520	
<b>Grand Total</b>	<b>\$27,750,329*</b>	<b>\$1,083,161</b>

**Notes:**

\* Numbers are affected by rounding.

Source: SIGIR’s analyses of CHF data.

***Inappropriate Use of Cash-based Accounting***

SIGIR questions \$49,900 for internet connection services and \$252,450 for rent in costs claimed (a total of \$302,350) because they are not allocable to FY 2010. We question these costs because CHF inappropriately used accounting practices that are cash based, rather than accrual based. USAID policy requires reporting costs on an accrual basis—not on a cash basis.<sup>20</sup> In FY 2010, CHF changed its method of accounting for project expenditures reported to USAID in its Federal Financial Report from an accrual basis to a cash basis.<sup>21</sup> When using this method, expenses are accounted for in the fiscal year when the services are *paid*, even if they are for services to be provided in the following fiscal year. In accrual basis accounting, expenses are accounted for in the fiscal year when the services are *received*, even if they were prepaid in a prior year. In FY 2010, CHF prepaid and claimed the costs for FY 2011 internet connection and rent; therefore, the costs are not allocable to FY 2010 under the accrual accounting method.

It is SIGIR’s opinion that reporting costs on an accrual basis is important for several reasons:

<sup>20</sup> See CFR §226.21 Standards for financial management systems.

<sup>21</sup> CHF reports its financial data on Standard Form 425 to USAID on a quarterly basis.

- It properly assigns costs to the period during which the organization's resources are consumed rather than the period in which cash is disbursed.
- It provides the Agreement Officer and AOTR with a more transparent view of resource consumption versus program accomplishment over a specified time.
- It links CHF's required financial quarterly reports (currently prepared on a cash-basis method) with (1) its annual audited financial statements, and (2) its indirect cost proposal, both of which are prepared in the generally accepted accrual basis of accounting.

In response to our concerns, CHF officials stated that they will modify their year-end process for all field offices to the accrual basis effective in FY 2011.

Furthermore, our review showed that CHF did not provide notification to USAID officials of its change in accounting methods as required by the Negotiated Indirect Cost Rate Agreement.<sup>22</sup> The Negotiated Indirect Cost Rate Agreement specifically states:

The grantee is required to provide written notification to the indirect cost negotiator prior to implementing any changes which could affect the applicability of the approved rates. Any changes in accounting practice to include changes in the method of charging a particular type of costs as direct or indirect and changes in the indirect [overhead] cost allocation base or allocation methodology require the prior approval of the Office of Overhead, Special Cost and Closeout. Failure to obtain such prior written approval may result in cost disallowance.

CHF officials told SIGIR that because the change in accounting methods did not affect the applicability of its overhead rate, prior USAID approval was not required.

### ***Questionable Overhead for Security Contract Administration***

SIGIR questions \$780,812 in overhead costs that CHF claimed under the agreement. Of this amount, \$729,412 is associated with administering its security contract.<sup>23</sup> Our review showed that CHF charged more than it was allowed under the terms of the cooperative agreement. To illustrate, USAID allows CHF to recover overhead costs associated with administering any contracts it awards in the course of implementing the CAP III. To ensure that it is not overcharged for these costs, USAID limits the amount of overhead costs that can be charged annually to contracts awarded using government funds. Specifically, CHF must apply the negotiated overhead rate (17%) to only the first \$25,000 of a contract's value (including its security contract) in any given year. For the CAP III, however, CHF applied the negotiated indirect overhead rate to the entire value of its security contract (over \$4.32 million) for FY 2010. This resulted in \$733,662 that CHF claimed it should recover for administering the

<sup>22</sup> The Negotiated Indirect Cost Rate Agreement is a binding agreement between the government and the organization that establishes the amount of indirect cost (usually fringe benefits and overhead) that the government will reimburse the organization. These amounts are expressed as percentages of some applicable direct common base. For fringe benefits, direct salary is a common base for allocation. For overhead, total direct cost is a common base for allocation.

<sup>23</sup> This amount includes CHF headquarters' costs associated with administering the security contract. In the CAP III, CHF contracted with Unity Resources Group to provide security services.

security contract. SIGIR calculated the allowable amount of overhead charged for administering the security contract as \$4,250. As a result, SIGIR questions the difference of \$729,412 as unallowable costs.

CHF officials stated that it has been their understanding that contracts issued under grants or cooperative agreements are subject to full overhead. Further, they believed they had approval from USAID to charge full overhead costs. However, SIGIR maintains that this is not an allowable practice, and that CHF is limited to including only the first \$25,000 of contractor costs in accordance with OMB Circular A-122.

In addition, we are also questioning \$51,400 that CHF charged as part of its overhead costs for administering other direct costs. CHF applied 17% on \$302,350 in total direct costs questioned, and claimed this amount. Because we question the \$302,350, we also question the \$51,400.

In two previous reports, SIGIR had questioned the way in which the recipients of U.S. assistance funds calculated their overhead costs claimed for administering their security contracts.<sup>24</sup> In those audits, SIGIR noted inconsistencies in the recipients' interpretations of the guidelines for calculating their overhead costs.

## **Limited Reviews of CHF Financial Data by USAID/Iraq May Have Resulted in the Payment of Questionable Costs**

USAID/Iraq officials stated that they rely on CHF's quarterly financial reports, financial management audits (such as those conducted by the Defense Contract Audit Agency), and annual OMB required audits to help them perform financial oversight responsibilities. However, these financial reports and audits do not provide the Agreement Officer or AOTR with sufficient information to ensure that assistance funds are being used in accordance with federal regulations. USAID's Automated Directive 303.3.17 states that the Agreement Officer provides oversight of the financial management aspects of the award through reviews of reports, correspondence, site visits, or other appropriate means. The Agreement Officer would, among other things, review all relevant financial information to ensure that expenditures are reasonable, allowable, and allocable. He could delegate daily oversight to the AOTR who would be responsible for reviewing financial reports for adequacy and responsiveness. When these reports are not submitted, are inadequate, or indicate a problem, the AOTR requests the Agreement Officer to take actions.

CHF's quarterly financial reports provide a summary of expenditures against the overall agreement; therefore, they cannot be used to effectively accomplish the Agreement Officer's oversight responsibilities. For example, they do not show expenditures against budgeted line items (such as training, Marla Fund, CAP projects) agreed to in the cooperative agreement. SIGIR believes that without this information, the Agreement Officer would be unaware of expended line items versus CHF's performance against the agreed-to budget. In addition,

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<sup>24</sup> *National Democracy Institute Grant's Security Costs and Impact Generally Supported, but Department of State Oversight Limited*, SIGIR 11-001, October 13, 2010; and *Improved Oversight Needed for State Department Grant to the International Republican Institute*, SIGIR 10-022, July 29, 2010.

auditors conducting financial management audits (such as those from the Defense Contract Audit Agency) may rely on their knowledge of more general federal standards and may miss specific policies and procedures that apply only to USAID's agreements. Similarly, the scope of the required annual OMB Circular A-133 audits are generally at a broad level that often makes it difficult to identify specific questionable costs—costs that the Agreement Officer or the AOTR could have more easily determined due to their familiarity with the terms and conditions of the cooperative agreement and with CHF's processes.

USAID/Iraq officials stated that they have been aggressively scrutinizing CHF's (and other implementing partners') financial management of awards received. Officials noted that they have contracted with the Defense Contract Audit Agency to conduct financial management audits for the past several years. The Defense Contract Audit Agency has performed audits of the CAP I and II, covering CHF's activities from August 2005 through September 2007. Because of the lack of timeliness in receiving these audit reports from the Defense Contract Audit Agency, however, USAID/Iraq took actions to contract with Grant Thornton to provide auditing services. Currently, Grant Thornton is conducting a financial management audit of CHF's implementation of the CAP III from October 2008 through September 2012.

In written response to the draft report, USAID stated that incurred cost audits from the Defense Contract Audit Agency have often examined the supporting documentation in excess of 60% of costs. USAID believes that, together with Grant Thornton, these are rigorous, in-depth audits which have identified millions of dollars in questioned costs, violations of USAID regulations and internal controls deficiencies.

# Conclusion and Recommendations

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## Conclusion

Although CHF appears to be meeting the goals and objectives of the CAP III, improvements and expansion of the indicators measuring program success may be needed. Indeed, USAID/Iraq has in place sound *performance (or outcome) indicators* that measure the results of activities compared to its intended purpose and *output indicators* that record activities and efforts in a quantitative or qualitative manner against which CHF tracks its progress. The current indicators, however, do not yet capture all of the program's activities. Namely, an indicator that captures the Iraqis' ability to obtain other sources of funding for their community projects (which is currently not required) would inform the American public that U.S. assistance funds are being used effectively to teach Iraqi citizens to mobilize their national resources. In addition, USAID/Iraq has not yet added an indicator to capture information pertaining to assistance provided to internally displaced persons, even though USAID's direct funding for this effort demonstrates that USAID believes it is an important feature of the CAP III. USAID/Iraq officials stated that the cooperative agreement does not require CHF to track the results of its efforts to help internally displaced persons. Without such information, however, USAID has little data on activities funded with \$1.78 million budgeted to assist this group.

Our audit also shows that USAID/Iraq officials may be relying too heavily on CHF, contractors, and external audit agencies for information on activities in the field. SIGIR recognizes that travel restrictions and the lack of personnel make it difficult for USAID/Iraq officials to adequately monitor projects in the field. At the same time, however, it is USAID's responsibility to exercise prudent management over its assistance funds. This entails close monitoring of program implementation by visiting projects to verify that they have positive impacts on the community and that they are adequately maintained by the community and local government. Current resources are limited and are expected to become even more so as the PRTs are disbanded. USAID/Iraq's current efforts to hire new staff to monitor programs are underway but not yet completed. If this process is not substantially completed prior to the disbandment of PRTs, then USAID/Iraq will be at higher risk of problems than is currently the case.

Although CHF's implementation process contains some mechanisms to help ensure that projects are maintained and sustained—for example, making final payments six months after project completion, providing training to community members, and obtaining government approvals—these mechanisms only *imply* that the projects will be maintained. To strengthen these mechanisms, a more *explicit* plan is required. It is USAID/Iraq's responsibility to require that CHF and the community agree on a clear, concrete plan for sustainability before implementing new projects. Not doing so puts the projects at risk. Thus, although communities may enjoy the results of the newly completed infrastructure, the positive impact on their lives may be short-lived.

USAID/Iraq's reliance on the findings of other audit agencies, especially financial auditors, could place it at risk of failing to identify questionable costs. These reviews generally capture high-level financial information, but these audits often miss questionable costs and practices that SIGIR identified. Because of their more in-depth knowledge of the agreement and the



implementer, the Agreement Officer and the AOTR are in the best position to detect questionable costs and practices. In fact, these types of reviews are recommended under USAID Automated Directive System 303.3.17. Their close review of financial data could have prevented some potentially erroneous decisions on the part of CHF. Further, SIGIR has identified areas where USAID/Iraq needs to place additional emphasis. USAID/Iraq has yet to review all FY 2010 prepayments and overhead costs, or to provide additional guidance on accrual accounting.

Although SIGIR did not identify major deficiencies as a result of CHF's implementation of the CAP III, this may not always be the case with USAID/Iraq's other implementing partners. Other partners may not implement programs like CHF, and additional problems may go undetected as a result. If USAID/Iraq plans to extend the CAP III beyond the current 2012 end date, it is critical that it provide more direct oversight of CHF and its other implementing partners to ensure that U.S. taxpayers' funds are put to good use.

## **Recommendations**

SIGIR recommends that USAID/Iraq Mission Director direct the Agreement Officer to:

1. Review current performance and output indicators and add an indicator to track the number of communities that have submitted requests for funding from other sources. Additionally, if the requirement to assist internally displaced persons remains in the cooperative agreement, add an indicator to track progress made against that effort.
2. Include a requirement in the cooperative agreement for CHF to develop a stand-alone sustainability plan for each future CAP III project. The plan should identify the individual(s) and/or government offices responsible for long-term upkeep and maintenance, the tasks required for such an effort, and potential associated costs.
3. Direct the independent CAP III auditor to comprehensively review costs claimed in FY 2010 for other prepayments that our limited sampling may not have identified.
4. Provide guidance to CHF on the requirement to use accrual accounting in its annual financial reporting.
5. Review CHF's close-out financial reports to ensure that costs claimed are associated with the period of the agreement and not prepaid expenses beyond the period of the agreement.

SIGIR recommends that the Administrator, USAID provide guidance to appropriate offices to take the following actions:

6. Notify the Indirect Cost Negotiator to review possible questionable overhead costs associated with the change in accounting practices.
7. Instruct CHF to incorporate in its next OMB-mandated A-133 audit a comprehensive audit of overhead costs and a compliance audit for at least one major USAID grant or agreement.

## **Management Comments and Audit Response**

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In written comments on a draft of this report, USAID concurred with six of seven recommendations SIGIR made to improve the oversight and management of CHF's implementation of the CAP III in Iraq. USAID did not concur with SIGIR's recommendation to require CHF to track and report on the number of communities that have submitted requests for funding from other sources. USAID stated that tracking these requests will not be useful. It stated that the measure of success with CAP is not the number of project requests submitted for funding, but rather the number and value of the cost share of the projects approved by the Government of Iraq.

While SIGIR agrees with USAID that the amount of cost share for projects from the Government of Iraq is an important indicator of CAP III success, our intent was to seek ways in which USAID can measure the impact of the 'advocacy' component of the CAP III. That is, USAID states that the CAP works with communities to empower them to organize and advocate for their rights. Because CAP funds are limited and CHF usually funds the first priority projects, other community prioritized projects are not funded. To bridge this gap, CHF conducts training to provide communities with advocacy skills. Therefore, SIGIR believes that the recommendation to establish an indicator to measure whether communities' requests for funding from other sources has merit and remains valid.

USAID's comments are reprinted in their entirety in Appendix F. SIGIR also incorporated technical comments, as appropriate. SIGIR believes that the actions identified by USAID on those recommendations in which it concurred are sufficiently responsive.

# Appendix A—Scope and Methodology

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## Scope and Methodology

In May 2010, the SIGIR initiated Project 1013 to examine the oversight of CHF's implementation of the USAID's CAP in Iraq. SIGIR's objectives for this report were to: (1) examine the extent to which CHF achieved the goals of the CAP III, (2) examine the extent to which USAID/Iraq monitors CHF's implementation of the CAP III and ensures that completed projects are sustainable, and to (3) determine whether some of the costs claimed appear reasonable, allocable, and allowable in accordance with federal guidelines. We excluded two components of the CAP—assistance provided to Iraqis under the Marla Ruzicka Victims of War Fund and training provided to CAP participants—because these funds did not go directly to pay for projects that were implemented. We performed this audit under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. SIGIR conducted its work from August 2010 through April 2011 in Arlington, Virginia, and Baghdad, Iraq.

To determine the extent to which CHF achieved the goals and objectives of the CAP III in Iraq, we reviewed CHF's quarterly reports (including progress made against numerous indicators) and program management/implementation plans. We traced CHF's progress from each quarter, and analyzed data to understand how they were collected. We also interviewed CHF and USAID officials to obtain their perspective on the value of the indicators. We sought input from the Governor of Babil, Mayor of Ramadi, and community members on the CAP's impact.

To examine the extent to which USAID/Iraq monitors CHF's implementation of the CAP III and ensures that completed projects are sustainable, we interviewed the Agreement Officer, his Technical Representative, and representatives serving at three PRTs (Diwaniyah, Babil, and Ramadi). These USAID Representatives and CHF officials organized site visits to three CAP III projects where we took pictures included in the report. We also spoke with CHF officials to ascertain how they ensured that implemented projects are sustained. To further study this issue, we judgmentally selected and reviewed 11 project files that CHF provided.

To determine whether some of the costs claimed by CHF appeared reasonable, allocable, and allowable in accordance with federal guidelines, we reviewed the requirements as stated in OMB Circulars A-110, A-122, and USAID guidance. We judgmentally selected several categories of costs, totaling \$27.8 million, that CHF claimed for FY 2010 and reviewed internal controls that support those costs. Of the \$27.8 million, we more thoroughly reviewed supporting documentation of \$3.7 million in costs claimed. For costs associated with salaries, fringe benefits, and leave and allowance, we selected a representative sample of payroll costs and verified employee salary levels to CHF personnel records. We verified the allocability of these costs by tracing transactions through CHF's general ledger and Automatic Data Processing, Inc. cost reports to support its Time and Attendance records. For costs associated with office expense, rent, travel, security, vehicle, and overhead, we judgmentally sampled transactions and reviewed supporting documentation. In some instances, we performed independent calculations to verify the accuracy of allocated costs. Last, we discussed our findings with CHF senior officials and incorporated their comments into the report, as appropriate.

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **Use of Computer-processed Data**

We used computer-processed data in this report. CHF provided cost data in reports from its accounting system, Solomon. CHF field offices used QuickBooks to record their financial activity. We reviewed source documents and gathered other evidence from CHF to confirm that the data in these systems was accurate. We did not review these systems, but we consider the data sufficiently reliable for the purposes of the audit objectives. In addition, CHF contracted with Automatic Data Processing for payroll processing support services. We reviewed Automatic Data Processing's Statement on Auditing Standards reports on internal controls issued by KPMG on December 8, 2010, to determine the extent that we could rely on Automatic Data Processing's controls over payroll processing. We found no internal control weaknesses that would affect our audit work.

## **Internal Controls**

In conducting the audit, we assessed certain internal controls pertinent to the audit objectives with respect to CHF's management of costs incurred under the cooperative agreement. The results of the review are presented in the report.

## **Prior Coverage**

We reviewed the following reports by SIGIR and the USAID Office of Inspector General.

### ***Special Inspector General for Iraq Reconstruction***

*National Democratic Institute Grant's Security Costs and Impact Generally Supported, but Department of State Oversight Limited*, SIGIR 11-001, October 13, 2010.

*Improved Oversight Needed for State Department Grants to the International Republican Institute*, SIGIR 10-022, July 29, 2010

### ***U.S. Agency for International Development, Office of Inspector General***

*Audit of USAID/Iraq's Community Action Program*, Audit Report No. E-267-05-001-P, January 31, 2005.

*Audit of USAID/Iraq's Management of the Marla Ruzicka Iraqi War Victims Fund*, Audit Report No. E-267-08-002-P, April 3, 2008.

*Audit of USAID/Iraq's Community Action Program II*, Audit Report No. E-267-08-005-P, August 5, 2008.

## Appendix B—Federal Guidance for Determining Cost Reasonability, Allocability, and Allowability

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The OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, establishes principles for determining reasonable, allocable, and allowable costs that a non-profit organization such as CHF can claim against the agreement. The circular defines reasonable, allowable, and allocable costs as follows:

**Reasonable Costs:** a cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. The question of the reasonableness of specific costs must be scrutinized with particular care in connection with organizations or separate divisions thereof which receive the preponderance of their support from awards made by federal agencies. In determining the reasonableness of a given cost, consideration shall be given to:

- whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award
- the restraints or requirements imposed by such factors as generally accepted sound business practices, arms-length bargaining, federal and state laws and regulations, and terms and conditions of the award
- whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large, and the federal government
- significant deviations from the established practices of the organization which may unjustifiably increase the award costs

**Allocable Costs:** a cost is allocable to a particular cost objective, such as a cooperative agreement, grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:

- is incurred specifically for the award
- benefits both the award and other work and can be distributed in reasonable proportion to the benefits received
- is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown

**Allowable Costs:** a cost is allowable if it is not specifically stated as unallowable in Circular A 122, Attachment B, and in certain provisions of Circular A-110—for example, alcoholic beverages, bad debts, entertainment, and items that require preapproval of the agency.

## Appendix C—Results of CHF’s CAP III Performance and Output Indicators, as of September 2010

Performance Indicators	Project Target	Project Actual
% and value of cost share from community for community project implementation	\$1,500,000	\$804,460
	8.0%	3.0%
% and value of cost share from GOI for community project implementation	\$4,600,000	\$9,414,833
	24.0%	35.7%
# of projects with community cost share as a percent of total number of projects implemented	N/A	97.4%
# of projects with GOI cost share as a percent of total number of projects implemented	N/A	70.5%
# and % of CAP III–trained CAG members that report using their new skills to meet community needs and can give an example	700	2778
	25.0%	76.1%
# and % of CAP III–trained local government council members who report using their new skills to meet community needs and can give an example	280	2,423
	50.0%	97.4%
# and % of CAP III–assisted local government councils that have implemented a formal community-driven needs assessment, project design and implementation process into their work	38	85
	75.0%	100.0%
# and % of CAP III–trained local government councils that provide regular opportunities for public input into community needs assessment	280	85
	50.0%	100.0%
# and % of total number of local government councils that have received CAP III local government training	50	86
	50.0%	100.0%
Output Indicators	Project Target	Project Actual
Number of local mechanisms supported with U.S. government assistance for citizens to engage their sub-national government. <sup>25</sup>	100	231
Number of U.S. government–assisted Civil Society Organizations that engage in advocacy and watchdog functions. <sup>26</sup>	100	284
Number of participants in U.S. government–funded programs supporting participation and inclusion of traditionally marginalized ethnic minority and/or religious minority groups. <sup>27</sup>	40	15
Number of projects completed by CAGs	265	268
Number of direct beneficiaries of local CAG activities	3,200,000	867,070
Number of short-term jobs created by CAG community activities	12,500	41,953
Number of long-term jobs created by CAG community activities	200	704
Number of active CAGs	490	385
Number of CAGs formed	290	336
Number of CAGs reactivated	75	49
Number of CAG members who are women and youth	200	1,016

Source: SIGIR’s analysis of CHF data.

<sup>25</sup> This indicator captures the number of CAG-focused training sessions that include the participation of local council/government officials.

<sup>26</sup> This indicator captures the number of CAGs that conduct project monitoring visits and provide documentation of these visits to CHF.

<sup>27</sup> This indicator examines the number of CAGs that have members who are minorities—a diverse set of CAG participants (Sunni, Shia, Christian).

## Appendix D—Acronyms

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<b>Acronym</b>	<b>Description</b>
AOTR	Agreement Officer Technical Representative
CAG	Community Action Group
CAP	Community Action Program
CHF	Cooperative Housing Foundation International
FY	Fiscal Year
GOI	Government of Iraq
Marla Fund	Marla Ruzicka Victims of War Fund
OMB	Office of Management and Budget
PRT	Provincial Reconstruction Team
SIGIR	Special Inspector General for Iraq Reconstruction
USAID	U.S. Agency for International Development
USAID/Iraq	USAID Mission Iraq

## **Appendix E—Audit Team Members**

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This report was prepared and the audit conducted under the direction of Glenn D. Furbish, Assistant Inspector General for Audit, Office of the Special Inspector General for Iraq Reconstruction.

The staff members who conducted the audit and contributed to the report include:

Scott Harmon

Tinh Nguyen

James Shafer

Robert Whiteley



# Appendix F—Management Comments

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April 26, 2011

Mr. Stuart Bowen  
Special Inspector General for Iraq Reconstruction  
400 Army Navy Drive  
Arlington, VA 22202

Dear Mr. Bowen:

I am pleased to provide the U.S. Agency for International Development's (USAID) formal response on the draft SIGIR audit report "The Iraq Community Action Program: USAID's Agreement with CHF Met Goals, but Greater Oversight Is Needed." (SIGIR 11-014).

Since 2003, USAID/Iraq's Community Action Program (CAP) has been working with Iraqi communities to empower them to organize and advocate for their rights. The program helps mitigate violence, providing citizens with an opportunity to participate in decision-making and local development initiatives that affect their everyday lives by bringing together clusters of communities that are at-risk for conflict and into networks to solve larger issues that touch multiple constituencies. In turn, elected officials learn how to work with their constituencies, building a stronger sense of a representative democracy. This third phase of CAP builds on the foundation established over the past eight years to ensure that the knowledge and skills Iraqis obtain through the program will stay with them long after it ends.

USAID/Iraq appreciates SIGIR's efforts to strengthen accountability of US government activities in Iraq and we continue to strive to improve the implementation of our programs in accordance with SIGIR's recommendations.

USAID/Iraq firmly believes in the importance of monitoring projects, preferably through site visits by USAID Assistance Officer Technical Representatives (AOTRs) or Provincial Reconstruction Team (PRT)

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Washington, DC 20523  
[www.usaid.gov](http://www.usaid.gov)

Representatives, and to the extent possible, site visits are made as is noted in the report. Security concerns are the predominant reason more site visits are not made.

Because site visits are not as extensive as desired, USAID/Iraq instituted alternative monitoring measures as provided for in the USAID Guidance on Monitoring in High Threat Environments issued in October 2008. Measures instituted by the Mission include the hiring of contractors to monitor the projects as noted in the SIGIR report and hiring additional Iraqi employees, where possible, to conduct site visits.

USAID/Iraq is cognizant that the OMB Circular A-133 audits are high level audits that do not meet the needs of the program in Iraq. Therefore, USAID/Iraq has had an extensive program of incurred costs audits since 2003. Through FY 2009, almost all of these audits were procured through the Defense Contract Audit Agency which performs incurred cost audits, often examining the supporting documentation for in excess of 60 percent of costs. Audit firms hired by USAID/Iraq in FY 2010 have extensive experience auditing USAID grants and contracts. These are rigorous, in-depth audits which have identified millions of dollars in questioned costs, violations of USAID regulations and internal control deficiencies.

Recommendation No 1:

*Review current performance and output indicators and add an indicator to track the number of communities that have submitted requests for funding from other sources.*

*Additionally, if the requirement to assist Internally Displaced Persons remains in the cooperative agreement, add an indicator to track progress made against that effort.*

USAID does not concur with the first part of this recommendation since USAID cannot monitor funding from other sources. Tracking requests made from communities to other funding sources will not be useful. USAID partners'

performance indicators are limited to numbers that can be monitored and verified. The measure of success with CAP is not the number of project requests submitted for funding. The number and value of the cost share of the projects approved by the Government of Iraq is more important than the number of projects submitted.

USAID concurs with the second part of this recommendation. USAID/Iraq has a cooperative agreement with CHF International (CHF) to implement CAP. Under a cooperative agreement, a program is implemented for its own independent purposes that happen to also serve USAID's objectives. While USAID has substantial involvement under a cooperative agreement (22 CFR 226.11(a)), it does not rise to the level of control found in a contract (acquisition). The purpose of substantial involvement is to help the implementing partner achieve the supported objectives of the agreement, and this is limited to the minimum consistent with the program. (OMB Guidance at 43 Fed. Reg. 36860, August 18, 1978).

Nevertheless, it is already a requirement that CAP implementing partners identify communities with significant populations of internally displaced persons (IDPs) and seek out ways to increase collaboration with these communities and to help incorporate IDPs into the communities. USAID envisions that CHF and other implementing partners will engage IDPs in such a manner that the IDPs are not further isolated from the host communities where they reside.

The implementing partners had serious concerns that a formal indicator focused would have the unintended consequence of prioritizing IDPs at the expense of other equally important priorities of the program. After extensive negotiations with the implementing partners, USAID/Iraq issued guidance in December 2010 requiring them to collect data and report on IDPs assisted under the program, and the first set of data will be submitted to USAID/Iraq at the end of this month. Since the implementing partners will be reporting the number of IDPs reached, USAID is already requiring data that fulfills the oversight requirements, and we believe that this complies with the recommendation. In the future, if specific funding is provided for IDPs, there will continue to be a reporting requirement for these funds.

Recommendation No 2:

*Include a requirement in the cooperative agreement for CHF to develop a stand-alone sustainability plan for each future CAP III project. The plan should identify the individual(s) and/or government offices responsible for long-term upkeep and maintenance, the tasks required for such an effort, and potential associated costs.*

USAID concurs with this recommendation. The statistics in the report show that there is a high degree of sustainability, and this is buttressed by the fact that CHF exceeded the cost sharing target by 67 percent. The program description for this cooperative agreement already states that the community action groups and local councils will establish sustainability plans at the project level for each project, and USAID will work with CHF to ensure that this is done.

Recommendation No 3:

*Direct the independent CAP III auditor to comprehensively review costs claimed in FY 2010 for other prepayments that our limited sampling may not have identified.*

USAID concurs with this recommendation. Included in the scope of work for all accounting firms hired by USAID/Iraq to perform audits of locally incurred costs is a requirement to express an opinion on whether local costs are presented fairly “in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis).”

Recommendation No 4:

*Provide guidance to CHF on the requirement to use accrual accounting in its annual financial reporting.*

USAID concurs with this recommendation, and the Agreement Officer has sent a reminder to CHF that financial reporting is required on an accrual basis.

Recommendation No 5:

*Review CHF's close-out financial reports to ensure that costs claimed are associated with the period of the agreement and not prepaid expenses beyond the period of the agreement.*

USAID concurs with this recommendation. Included in the scope of work for all accounting firms hired by USAID/Iraq is the requirement to determine if the costs are presented fairly in conformity with the award and generally accepted accounting principles or other comprehensive basis of accounting. The auditors will therefore review CHF's close-out financial reports for prepayments.

Recommendation No 6:

*Notify the Indirect Cost Negotiator to review possible questionable overhead costs associated with the change in accounting practices.*

USAID concurs with this recommendation. The contract specialist negotiating CHF's indirect cost rate agreement was notified of the possible questioned overhead costs associated with the change in accounting practices on April, 12, 2011 and provided a copy of draft SIGIR report 11-014. This issue will be addressed during the negotiation of CHF's fiscal year 2010 indirect cost rates.

Recommendation No 7:

*Instruct CHF to incorporate in its next OMB-mandated A-133 audit a comprehensive audit of overhead costs and a compliance audit for at least one major USAID grant or agreement.*

USAID concurs with this recommendation. USAID is the cognizant agency of CHF International which means that USAID has awarded the majority of Federal awards to CHF. The OMB A-133 regulations direct the auditor to select major programs for an organization's compliance audits. Therefore, the next OMB-mandated A-133 audit will include one or more USAID award.

Thank you for the opportunity to respond to the SIGIR final report and for the courtesies extended by your staff in the conduct of this audit review.

If you have any questions concerning this report, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "George Laudato". The signature is written in a cursive style with a large initial "G" and a long, sweeping underline.

George Laudato  
Special Assistant to the Administrator for the  
Middle East

## **Appendix G—SIGIR Mission and Contact Information**

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### **SIGIR’s Mission**

Regarding the U.S. reconstruction plans, programs, and operations in Iraq, the Special Inspector General for Iraq Reconstruction provides independent and objective:

- oversight and review through comprehensive audits, inspections, and investigations
- advice and recommendations on policies to promote economy, efficiency, and effectiveness
- deterrence of malfeasance through the prevention and detection of fraud, waste, and abuse
- information and analysis to the Secretary of State, the Secretary of Defense, the Congress, and the American people through Quarterly Reports

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### **Obtaining Copies of SIGIR Reports and Testimonies**

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### **To Report Fraud, Waste, and Abuse in Iraq Relief and Reconstruction Programs**

Help prevent fraud, waste, and abuse by reporting suspicious or illegal activities to the SIGIR Hotline:

- Web: [www.sigir.mil/submit\\_fraud.html](http://www.sigir.mil/submit_fraud.html)
- Phone: 703-602-4063
- Toll Free: 866-301-2003

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### **Congressional Affairs**

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