

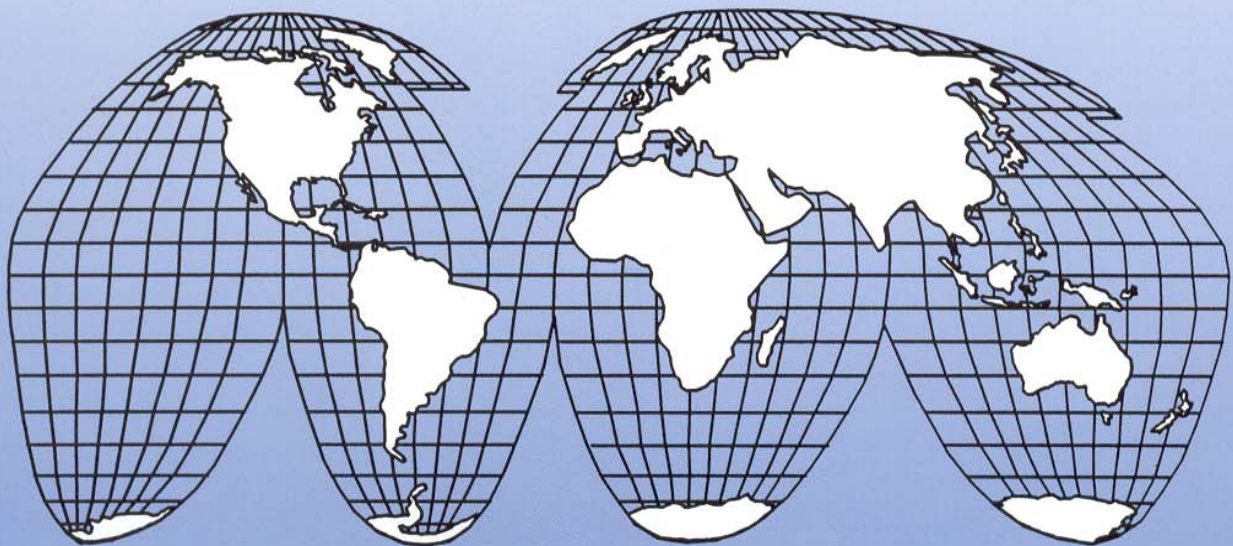
USAID

OFFICE OF INSPECTOR GENERAL

Audit of USAID/Iraq's Health System Strengthening Contract Activities

Audit Report Number E-267-05-002-P

February 28, 2005



Baghdad, Iraq



February 28, 2005

MEMORANDUM

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

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

SUBJECT: Audit of USAID/Iraq's Health System Strengthening Contract Activities
(Audit Report No. E-267-05-002-P)

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

The report contains one recommendation for corrective action. In your written comments, you concurred with the recommendation and provided evidence of actions taken to address the auditors' concerns. Based upon the actions taken to address these concerns, we consider that a management decision has been reached and final action has been taken on this recommendation.

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

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Summary of Results

The Regional Inspector General in Baghdad, Iraq conducted this audit to determine whether activities under USAID/Iraq's Health System Strengthening Contract (the contract) had achieved their intended outputs. (See page 6.)

The audit found that activities under the contract did not achieve their intended outputs. Based on our review of documentation on file at the Mission and furnished by the contractor, 60 percent of the activities (28 of 47) did not achieve their intended outputs. This occurred, in part, because the contractor did not effectively manage its program to ensure that activities were completed as scheduled and produced deliverables which strengthened the Iraqi Ministry of Health (MOH). In addition, a reduction in the contract's cost ceiling in January 2004 prompted the contractor to cancel or curtail a number of its activities, including some that were scheduled to be carried out prior to the reduction, which the Mission expected to be completed. (See page 8.)

Although the contract has since expired, preventing the Mission from taking action to address the unachieved outputs, the audit found that the Mission needs to improve its process for reviewing and approving requests for modifications to future contracts. Specifically, the Mission needs to develop written procedures to ensure the timely disposition of such requests. We made one recommendation to address this issue. (See page 16.)

The Mission concurred with the audit recommendation and provided evidence that it had instituted new procedures, which went into effect in January 2005, to address the auditors' concerns. Based on the Mission's response, we consider final action to have been taken on this recommendation.

Background

Health care services in Iraq deteriorated substantially under Saddam Hussein. Mission documents, for example, indicated that hospitals had not received the necessary repairs or maintenance for over a decade. In addition, primary health centers were unable to function properly due to a shortage of equipment and materials. By 2003, USAID reported that almost a third of the children in the south and central part of the country were malnourished. Low breastfeeding rates, high rates of anemia among women, low birth weight, diarrhea, and acute respiratory infections caused one in eight children to die before their fifth birthday. In the aftermath of the 2003 conflict, the sector continued to deteriorate due to the disruption of services and looting of equipment, medicine and supplies.

In an effort to reestablish health services during the post-conflict period, USAID awarded a \$43.8 million cost-plus-fixed-fee contract to Abt Associates (Abt), in April 2003, to strengthen the overall health system and ensure the rapid normalization of health services. To accomplish this, Abt was expected to

support and strengthen the MOH through the provision of technical, commodity and managerial support. Specific components of the contract included:

- Technical assistance to the MOH in connection with the provision of health services, education, information and technical assistance.
- Technical support to the USAID Mission.
- Rapid response grants to address specific health needs in Iraq.

The contract initially covered a one-year period ending on April 30, 2004, but was later extended (through a series of extensions) 7 months to November 30, 2004. The total estimated cost of the contract, which included a \$1.7 million fixed fee, was also reduced during the contract period from approximately \$43.8 million to \$22.6 million (later increased to \$23.0 million). As of November 30, 2004, cumulative obligations and disbursements under the contract totaled approximately \$23.0 million and \$20.7 million, respectively.

The activities to be carried out under the contract were contained in a work plan drafted by Abt in June-July 2003—based on input from the MOH, Mission and Coalition Provisional Authority¹ (CPA)—and formally approved by both the Mission and CPA. While this work plan was not considered part of the contract, it represented an important implementation tool in that it (1) outlined most, but not necessarily all, of the activities that both Abt and the Mission agreed to complete under the contract and (2) included timelines showing when the activities were expected to be completed. Given the value of this work plan, it was used as a basis for answering the audit objective.

Audit Objective

As part of its fiscal year 2004 audit plan, the Regional Inspector General in Baghdad conducted this audit to answer the following objective:

Did USAID/Iraq’s health system strengthening contract activities achieve their intended outputs?

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

¹ The Coalition Provisional Authority (CPA) is the name of the temporary governing body which was designated by the United Nations as the lawful government of Iraq until such time as Iraq was politically and socially stable enough to assume its sovereignty. The CPA began operations following the overthrow of Saddam Hussein and his Baath Regime in April of 2003 and continued until the CPA was dissolved on June 28, 2004 when Iraq became a sovereign nation.

Audit Findings

The activities implemented under USAID/Iraq's Health System Strengthening Contract did not achieve their intended outputs.

During the contract period, the contractor, Abt, issued a work plan outlining the individual activities it planned to implement under the contract. This plan contained a total of 69 activities, of which the Mission identified 47 that were still expected to be completed by the end of the contract period after taking into account the reduction in the contract's estimated cost ceiling. Of these 47 activities, we determined that only 19 (40 percent) achieved their intended outputs, 4 (9 percent) achieved them only partially, and 24 (51 percent) did not achieve them at all.

Among the notable achievements under the contract, there was one in particular that supported the MOH in its efforts to better manage Iraq's health care system.

Vision Development: In support of the MOH's efforts to create a long-term vision for developing Iraq's health care sector, Abt assisted in implementing a number of group discussions. Specifically, Abt organized and facilitated a series of working groups composed of ministry leaders, representatives from all sectors of the health care system and non-governmental organizations (NGOs) who worked together to examine approaches to reform major functional areas of the health system. The contractor was also responsible for facilitating a second round of meetings involving nine additional working groups created in the areas of:

- public health,
- health care delivery,
- education and training,
- healthcare financing,
- legislation and regulation,
- drugs and materials,
- healthcare information systems,
- human resources, and
- licensing and accreditation.

Through discussions, these groups outlined their vision for improving the health care system. This effort ultimately resulted in the drafting of a document, titled *Vision for the Iraq Health System*, which was used as one of the reference materials at the MOH's national conference, held in August 2004, as the conference reviewed future strategies for health care reform. Although this effort did not result in the development of a national health care strategy as originally planned, it supported the MOH's shift toward longer-term planning for the sector.

A majority of the activities under the contract, however, either did not achieve their intended outputs or only partially achieved them. As a result, these USAID-funded activities did not provide the level of support envisioned under the contract and often offered little, if any, benefit to the MOH. A description of several of these activities is discussed below.

Intended Outputs Were Not Achieved

Summary: Under its contract with USAID, Abt developed a work plan which outlined the activities to be carried out during the contract period. The audit, however, determined that activities contained in this work plan often did not achieve their intended outputs, in part, because the contractor did not effectively manage its program to ensure that agreed-upon activities were completed as planned. In addition, the reduction in the contract's cost ceiling prompted the cancellation or curtailment of a number of activities, including some the Mission felt should have been completed. As a result, the program did not provide the MOH with the level of support originally planned and, therefore, did not effectively contribute toward the strengthening of the Iraqi healthcare system.

The activities to be carried out under the contract were outlined in a work plan that Abt prepared in June-July 2003 with input from the Mission, CPA and MOH. This work plan was formally approved by the Mission on July 23, 2003. In addition to describing the specific activities that both Abt and the Mission agreed to carry out under the contract, the work plan included timelines showing when these activities were expected to be completed. Since this information was needed to identify intended outputs, the audit reviewed the activities in the work plan in answering the audit objective. Abt's work plan contained a total of 69 activities, of which the audit identified 47 (based on input from the Mission) that were expected to be completed after taking into account the reduction in the contract's total estimated cost ceiling.

Our review of these 47 activities disclosed that the intended outputs for the activities were often not achieved. Of the 47 activities reviewed, only 19 (40 percent) of the activities achieved their intended output, 4 (9 percent) only partially achieved them, and 24 (51 percent) did not achieve them at all. Examples of the latter two types of activities include the following:

- **Focused Household Surveys:** This activity involved conducting surveys in order to gain a better understanding of the nature of Iraqi household demand for health care and to identify appropriate strategies for providing primary health care, taking into account the people's cultural attitudes, customs, etc. Although Abt designed such a survey, it acknowledged it never actually conducted the survey, citing the reduction in the contract's cost ceiling as its reason despite the fact that this activity was originally scheduled to be completed by October 2003—2 months prior to Abt's notification of the reduction.

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- **Quality Improvement Program:** To improve the quality of primary care provided within the country, Abt was expected to design a quality improvement program in coordination with the MOH and other key stakeholders. Abt claimed that a quality improvement program could not be prepared at this time since such an initiative would have to be consistent with the country's master health plan which had not yet been drafted. Officials from both the Mission and CPA disagreed with this assertion, contending that the lack of a master plan did not preclude the contractor from instituting some form of a program—even if it was limited in scope and scale—to improve the quality of primary care services.
 - **Facilities Database:** Under this activity, Abt was to work with the MOH in developing a medical facilities database and train staff to maintain it. The database was intended to provide the MOH with an accurate and updated record of the country's existing inventory of health care facilities to be used for monitoring purposes. Abt assisted the MOH in conducting the initial survey, collecting data on most of the facilities in the country. This data was then input into a database developed by Abt. During the data entry process, MOH staff received training on data entry. Once this activity was completed, however, Abt failed to ensure that the MOH had the means to maintain the system. According to MOH staff, the computer containing the database which Abt left with the MOH had a virus that blocked access. Although Abt furnished backup copies on CD disks, these were in a "read only" format, preventing the MOH from inputting data into the system and keeping it current. As a result, the MOH has been unable to maintain the database, causing the original data—gathered over a year ago—to become outdated. MOH staff expressed disappointment over the results and indicated the database is currently of little use to them.
 - **Primary Healthcare Equipment Kits:** One of the key deliverables under the contract involved the procurement and delivery of equipment for primary healthcare facilities in Iraq. This equipment, procured under a \$3.3 million subcontract, consisted of such items as an examination table, stethoscopes, autoclaves and instrument cabinets. While Abt was responsible for ensuring that the equipment was delivered, the actual work was carried out by a USAID-supported logistics support subcontractor (Logenix, International) which received the equipment and brought it to a warehouse located outside of Amman, Jordan where it was packed into wooden crates (kits) and later transported to Iraq for delivery to the designated clinics. Equipment for a total of 600 kits was to be packed and delivered. According to Abt's work plan, this work was to be completed by March 2004. The delivery effort, however, was only partially completed at the time the contract reached its extended expiration date on November 30, 2004. As of that date, only 454 of the 600 kits had been delivered, with Logenix continuing to deliver the remaining kits.

The delivery was not completed as scheduled primarily due to serious delays that had occurred earlier during the procurement phase, delays stemming from Abt's inability to complete the procurement as originally planned. Although Abt's work plan specified that the procurement was to be completed by October 2003, Logenix did not receive the final shipment of equipment for packing until mid-June 2004. This delay, in turn, caused delays in the delivery process. For example, the delayed receipt of equipment forced Logenix to deliver the bulk of the kits after the June 28th handover of authority to the Iraqi Interim Government, at which time the security threat level skyrocketed. This made it difficult for Logenix to deliver the kits to the clinics and forced the firm to operate in a much more hostile security environment. These delivery delays, in turn, affected other activities as well. The late deliveries, for example, prevented the equipment from being available for use during the training of the primary care providers, provided earlier under the contract.



Photograph showing the contents of one of the health care kits. Due to delays, kits like this one were still waiting to be shipped to primary health care facilities at the end of the contract. (Warehouse in South Shunej, Jordan; April 2004)

Activities like the ones cited earlier did not achieve their intended outputs, in part, because Abt did not always effectively manage its program, as evidenced by the slow progress and delays in initiating activities at the start of the contract. Given the tight timeframe in which the activities had to be completed, it was imperative that they be initiated without delay. Under the leadership of Abt's initial chief-of-party (COP), however, little progress was achieved during the first 2 months of

the contract (May 2003 to June 2003). During this period, and in the following months, there were delays in mobilizing key staff assigned to certain activity areas, with the COP not arriving until June 1, 2003. Problems also stemmed from the COP's management style. Following her arrival, the COP reportedly indicated that she did not recognize the CPA as a legitimate authority within the MOH and maintained limited contact with both CPA and MOH staff, despite efforts by the former to include the COP in its meetings. This approach was not conducive to an effective working relationship with two of the contractor's key implementation partners.

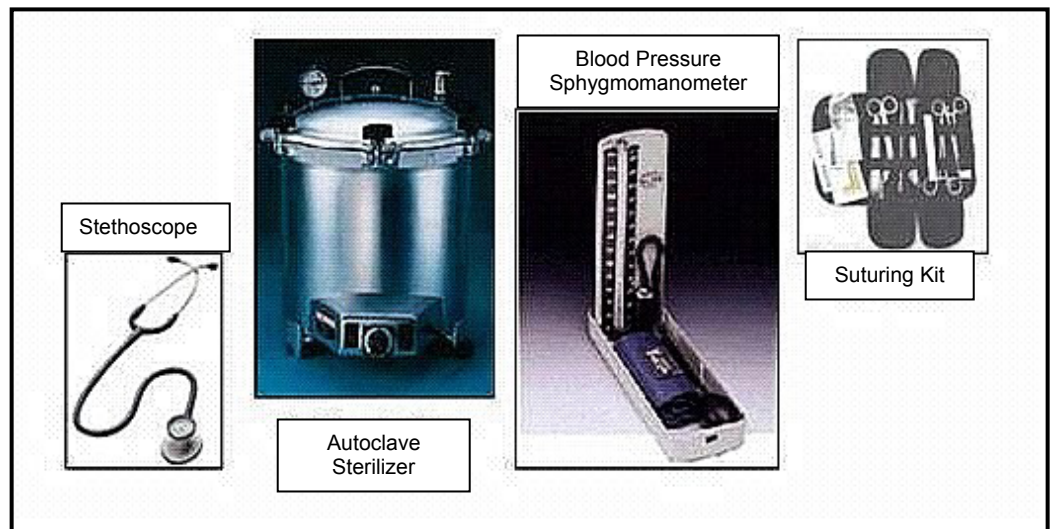
At first, the Mission did not take immediate action to address this slow start-up due, in part, to the late arrival of the COP. Action was also delayed because the Mission's activity manager, according to one former Mission official, did not fully recognize the contract's high visibility and the urgent need to show results over a short period of time. In June 2003, USAID/Washington expressed concerns regarding the lack of progress under the contract, prompting the Mission to intervene and assist Abt in developing its required work plan. This work plan was completed and approved in July 2003—3 months into the 12 month contract.

In August 2003, in response to growing concern over the slow progress under the contract, the Mission held several meetings with Abt to review the work done to date and discuss specific actions that needed to be taken to get the contract on track and activities initiated. But in September 2003, the Mission noted that little progress had been achieved since the August meeting. This prompted the Mission to take corrective measures and, on October 28, 2003, it issued a Cure Notice² formally notifying Abt that it was not complying with specific provisions of the contract, based on non-performance issues. Abt was given 10 days to notify the Mission of actions taken to address the deficiencies cited or face possible termination of the contract. Based on Abt's response, the Mission determined that sufficient action had been taken to allow the contractor to continue. However, by the time this had been resolved, in mid-December 2003, 8 months had elapsed.

The problems experienced during this period were further compounded by the high turnover among the contractor's management staff. From the contract's inception, in May 2003, through December 2003, Abt went through a series of four COPs which, at a minimum, affected the continuity of operations. It should be noted that the Mission also experienced a high turnover of staff, with at least six activity managers and Cognizant Technical Officers (CTOs) assigned to the contract at various times. Such a large turnover had to impact, at least to some degree, the continuity and consistency of direction provided to the contractor.

² FAR 49.607 requires the issuance of a Cure Notice to the contractor if the contract is to be terminated for default. The notice would cite the condition endangering performance and indicate the consequences (termination of contract) if the condition is not cured within the time specified.

Abt's problems in managing its program were also reflected in the implementation of its activities. One of the main deliverables under the contract, as stated earlier, involved the provision of equipment for designated primary healthcare clinics located around the country. During the contract period, it was agreed that Abt would procure equipment for 600 clinics. The Mission approved a list of the equipment to be procured for each clinic which consisted of 59 items. According to Abt's work plan, the procurement was scheduled to be completed by October 2003. However, the Mission's logistics support subcontractor (Logenix), did not receive the final shipment of equipment at its warehouse for packing until mid-June 2004—8 months later. Based on a review of the correspondence and other records on file at the Mission, we determined that this delay was partly due to the amount of time Abt took to arrange this procurement. Although we identified instances where the Mission could have responded to Abt's requests for approval in a timelier manner, Mission records indicated Abt received authorization from the Mission's Contracting Office to proceed with the procurement as early as September 2003. This authorization was reiterated to Abt on October 24, 2003, yet Abt continued to solicit approval from the Mission for other aspects of the procurement, thereby prolonging the process.



Examples of some of the equipment included in the kits delivered to Iraq's primary health care facilities. (Pictures furnished by Logenix, International)

Even after the necessary approvals were obtained, the procurement process continued to experience problems. For example, Abt's procurement subcontractor did not take appropriate steps to ensure that the vendors it procured equipment from properly packed the equipment and enclosed the proper shipping documents. This resulted in major difficulties on the receiving end as the Mission's logistics subcontractor (Logenix) started receiving the shipments in Amman, Jordan. According to one Logenix official, almost every shipment received had some type of problem with the paperwork (e.g., no commercial invoice, no packing list, improper consignment, discrepancies between the

quantity of units received and that specified on the packing list). This resulted in delays in the receipt and repacking of the equipment (into kits) while problems with the shipping documents were being sorted out with the vendors—often resulting in equipment being held at a border or at a Customs warehouse where storage, demurrage and penalties were incurred.

Delays also occurred as a result of shipments arriving with items missing or damaged, requiring the items to be reordered or repaired. In one case, Logenix received damaged instrument cabinets and gynecological exam tables. The vendor, located in Turkey, sent a team to repair the equipment, a task that ended up taking almost 2 months to complete, further delaying the packing process.

The overall quality of some the equipment was also called into question by some of the Logenix staff, and not just as a result of arriving in a damaged condition. One official, for example, pointed out that the autoclaves were ordered from a vendor in India that had never manufactured them before. In reviewing correspondence furnished by Logenix, the auditors noted that Abt often did not respond to Logenix's requests for information, which it needed to move forward, in a timely manner, nor did it provide adequate direction in coordinating the receipt of the equipment and resolving problems on the receiving end resulting from suppliers not following shipping instructions. Logenix estimated it incurred over \$250,000 in additional costs relating to extra warehousing, labor and supplies stemming from the delayed procurement and problems experienced with Abt's management. One Logenix official remarked that in his almost 20 years of experience with USAID procurement, he had "never witnessed such a debacle."



(Left): Photo of cushions for examination tables arriving at the warehouse torn due to poor packing; (right): Photo of Goose Lamp with broken stem (Warehouse in Jordan; April 2004).

The delayed implementation of work plan activities resulted in some being cancelled by Abt when it was notified by the Mission in January 2004 that the contract would not be fully funded. According to a former CTO, this reduction in the contract's funding cap was in response to a reduction in the Mission's funding level by the CPA, at which time the Mission determined that it could not justify fully funding the contract in light of Abt's lack of progress and large pipeline of

unspent funds. This effectively reduced Abt's cost ceiling from approximately \$43.8 million to \$22.6 million (later increased to approximately \$23.0 million). In response to this action, Abt elected not to carryout a number of the activities specified in its work plan, including some scheduled to be performed earlier in the contract but which had not yet been initiated at the time of notification due to a late start-up. The contractor also curtailed the extent of work performed under a number of other activities, citing funding constraints as the primary reason.

These activity changes were reflected in a proposed revised work plan that Abt submitted to the Mission on February 12, 2004, in response to an earlier request. At this time, Abt requested a contract modification to amend the contract's scope of work (SOW) given that the contract was not going to be fully funded. Specifically, Abt requested that the contract's original SOW be replaced in its entirety with the revised work plan. After reviewing the work plan, however, the Mission was concerned that Abt's plan primarily reflected actual work done to date, rather than what Abt was expected to do under its original work plan. As such, the revised work plan would not hold the contractor accountable for activities it should have performed earlier in the contract period but did not. Mission officials were also concerned that replacing the original SOW with the revised work plan would effectively "negate" the Cure Notice issued earlier since this notice was directly linked to the contract and cited specific sections from the SOW that would be deleted as a result of the proposed contract modification.

In light of these concerns, the Mission tried to come up with an appropriate alternative that would ensure that Abt remained accountable for those activities it was expected to carry out prior to its notification, in January 2004, that the contract would not be fully funded. This process, however, continued for several months—despite repeated requests from Abt for a formal response on this issue—since both sides reached an impasse as to the manner in which the SOW should be amended. Specifically, Abt insisted that the original SOW be replaced in its entirety with Abt's revised work plan covering the entire contract period. On the other hand, the Mission felt it more appropriate that the original SOW be retained and make reference to the revised work plan for the period from January 2004 forward, the period following notification. These negotiations ultimately led to a contract modification that retained the original SOW and provided a broad description, to encompass the tasks included in the revised work plan, of the specific areas Abt was expected to focus on during the period after notification. But this modification was not signed until July 30, 2004—over 5 months after Abt had submitted its revised work plan and requested the modification.

While this delay was primarily due to the impasse between the Mission and Abt over the SOW issue, the Mission could have possibly avoided this situation by formally communicating its position on this issue to Abt early on. In this instance, the Mission's Contracting Office, which relied on input from the CTO, did not communicate with Abt's home office on the SOW issue until early April

2004—2 months after Abt’s initial request for a contract modification and only after repeated attempts by Abt to obtain a written response on this matter. Although extensive discussions between the COP and CTO took place prior to this communication, there were indications that some of the issues agreed to during these discussions were not always conveyed to Abt’s home office. This, in turn, led to delays when modification documents, drafted based on agreements with the COP, were forwarded to Abt’s home office only to be rejected. Though there was no evidence indicating that the difficulties in resolving this issue had a negative impact on the implementation of activities, steps need to be taken to ensure that requests for modifications are resolved in a timelier manner.

As a result of the delays and other problems experienced by Abt in implementing its activities, the MOH was left with a number of activities that were either never carried out or that produced deliverables that were of little or no use to the Ministry. Consequently, the MOH did not receive the level of support envisioned under the contract to strengthen and improve its management of the Iraqi health care system during the post-conflict period. In addition, the delays in the delivery of the primary health care kits, which is still on-going, forced the Mission to extend the contract by 7 months to November 30, 2004, and increase the cost ceiling by an additional \$2.0 million—using funding allocated for the follow-on health sector contract. This amount is on top of the additional logistical costs (e.g., extra warehousing, labor, supplies) estimated to be over \$250,000, which the logistics support subcontractor estimated it incurred as a result of the delays in the procurement process and other problems stemming from Abt’s management.

Since the contract with Abt has expired, there is little that can be done with regards to the activities and unachieved outputs reviewed in this audit. We believe, however, that USAID/Iraq can benefit from this experience by improving its process for responding to requests for modifications to contracts. Specifically, the Mission’s Contracting Officer and CTO need to work together to ensure that (1) the Mission promptly responds to such requests by formally notifying the contractor’s headquarters of the Mission’s position or intent and, if difficulties arise, keeping the headquarters apprised throughout the negotiations process and (2) the analysis and negotiations connected with the modification request are completed in a timely manner.

Although USAID policy provides some guidance on the CTO’s responsibilities for notifying the Contracting Officer concerning modifications to the contract, we believe the Mission needs to develop internal procedures that further delineate the responsibilities between the Contracting Officer and CTO in responding to these requests, particularly when the CTO does not agree with a contractor-proposed change. These procedures should also specify time parameters for specific tasks to ensure requests to modify the contract are processed in a timely manner.

Such internal procedures will reduce the risk of misunderstandings and disputes and ensure that there is a clear understanding on the contractor's SOW. Therefore, we are recommending the following:

Recommendation No. 1: We recommend that USAID/Iraq develop written procedures covering the review and approval of contractor and Cognizant Technical Officer requests for modifications to future health sector contracts to ensure timely and efficacious disposition of these requests.

**Evaluation of
Management
Comments**

In response to our draft report, USAID/Iraq concurred with the audit recommendation and provided evidence indicating that it had already taken action to address the auditors' concerns. Specifically, in response to Recommendation No. 1, Mission management stated that it had issued an Acquisition and Assistance Notice, which went into effect on January 11, 2005, establishing written procedures covering the Mission's process for responding to contract modification requests. The Mission furnished a copy of this notice which specified the procedures to be followed by the CTO and Contracting Officer in responding to such requests, including the time frames that specific tasks are to be completed within to ensure that requests are addressed in a timely manner.

Based on the above action by the Mission to address the auditors' concerns, we consider the recommendation to have received a management decision and final action taken upon issuance of this report.

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

The Regional Inspector General in Baghdad audited USAID/Iraq's Health System Strengthening Contract (the contract) in accordance with generally accepted government auditing standards. The purpose of the audit was to determine whether activities under the contract achieved their intended outputs.

These activities were carried out under a \$43.8 million cost-plus-fixed-fee USAID contract awarded to Abt Associates (Abt) in April 2003 to strengthen the overall Iraqi health system and ensure the rapid normalization of specific health services. The contract covered a one-year period ending on April 30, 2004, but was later extended, through a series of extensions, an additional 7 months to November 30, 2004. In addition, the total estimated cost of the contract was reduced during the contract period from approximately \$43.8 million to \$23.0 million. As of November 30, 2004, cumulative obligations and disbursements under the contract totaled approximately \$23.0 million and \$20.7 million, respectively.

The audit focused on determining whether the planned activities under the Abt contract achieved their intended outputs during the contract period, which was from April 30, 2003 through November 30, 2004. In conducting this audit, we initially examined the activities listed in Abt's approved Coordinated Work Plan (July 2003) and identified, based on input from the Mission's activity manager, those activities that could reasonably be expected to be completed despite the reduction in the contract's cost ceiling. Based on this analysis, we identified 47 activities out of a total of 69 listed that we determined should have been completed. These 47 activities represented our audit universe. The scope of this audit covered all 47 activities and involved an assessment as to whether each of these activities achieved its intended output. These assessments were based, in part, on information reported by Abt as well as on input provided by the Mission's activity manager and officials at the Iraqi Ministry of Health (MOH). To verify the reliability of the Mission's input, we performed a detailed analysis on a judgmental sample of 14 of the 47 activities to check whether the Mission's assessments were consistent with those derived from our audit testing.

In addition to the above, although not directly related to the audit objective, the audit included an examination of management controls relating to the monitoring of activities performed under the contract. Specifically, these controls included:

- Holding weekly meetings with contractor and MOH staff to keep abreast of specific activities and give direction.
- Reviewing Abt's monthly performance and financial reports.
- Examining and certifying Abt's public vouchers.

The audit also involved interviews with current (and former) staff at the USAID/Iraq Mission, located within the International Zone, and technical staff at the MOH in Baghdad, Iraq. The audit fieldwork was performed from September 1, 2004 through January 4, 2005 and was limited to interviews with key technical staff and review of relevant performance and financial documents. With the exception of the offices at the MOH, the audit team was not able to visit any of the activity sites due to the security restrictions at the time of the fieldwork.

Methodology

To answer the audit objective, we reviewed activities contained in Abt's approved work plan which described the specific tasks that both Abt and the Mission agreed to do under the contract, including timelines showing when individual activities were expected to be completed.

In conducting our fieldwork, we interviewed officials from the USAID/Iraq Mission and its contractor, Abt, as well as technical staff from the MOH, Coalition Provisional Authority and logistics support contractor. These interviews were conducted either in person or via telephone or e-mail correspondence.

In addition, we examined available program documents furnished by the Mission, contractor, MOH and the logistics support contractor. This documentation included the contract, correspondence, evaluation reports, monthly performance and financial reports, receiving reports, Abt's work plan and documented evidence of deliverables produced by the contractor. As part of our initial planning work, we also examined prior audits conducted by the U.S. Defense Contract Audit Agency on Abt. In addition, we performed a limited assessment of the procedures and management controls relating to the Mission's monitoring of the contract in order to determine the extent of testing required for this audit.

Our review involved determining whether the activities included in our audit universe achieved, partially achieved or did not achieve their intended outputs based on interviews with technical staff and documented evidence of deliverables. Specifically, this assessment was based on an analysis of the extent to which the actual output compared with the intended output, taking into account such factors as the benefit to the MOH, the level of effort accomplished compared to that intended, and input furnished by the USAID/Iraq activity manager and MOH.

Our materiality threshold for this audit was established at 10 percent. In other words, if 90 percent or more of the activities reviewed were determined to have achieved their intended output as of the end of the contract (November 30, 2004), this would result in an unqualified opinion to the audit objective.

**Management
Comments**



Date: January 26, 2005

TO: Regional Inspector General Baghdad, Christine M. Byrne

FROM: USAID/Iraq Mission Director, James Stephenson /s/

SUBJECT: Audit of USAID/Iraq's Health Systems Strengthening Contract

REF: Audit Report No. E-267-05-00x-P

This memorandum transmits the Mission's response to the Regional Inspector General's draft report on the audit of USAID/Iraq's Health Systems Strengthening Contract.

The stated objective of the audit was to determine whether USAID/Iraq's health systems strengthening contract activities achieved their intended outputs. The audit found that activities implemented under the contract did not, overall, achieve their intended outputs. Specifically, of 47 audit universe activities, only 19 (40 percent) achieved their intended outputs, 4 (9 percent) partially achieved intended outputs, and 24 (51 percent) did not achieve intended outputs at all. The Mission accepts this audit finding.

The contract has ended and the Mission is unable to undertake actions to address the problem of unachieved outputs; however, the audit identified a management control that needs to be strengthened to improve USAID/Iraq's process for responding to requests for modifications to contracts.

Recommendation No. 1:

We recommend that USAID/Iraq develop written procedures covering the review and approval of contractor and Cognizant Technical Officer requests for modifications to future health sector contracts to ensure timely and efficacious disposition of these requests.

The Mission accepts the audit recommendation. Subsequent to the completion of the audit fieldwork, the Mission has drafted and issued, effective January 11, 2005, a USAID/Iraq Acquisition and Assistance Notice which documents the requirement to formalize changes to contract statements of work prior to implementation of changes by the contractor and within a reasonable timeframe of notification of the requirement for a change. The Notice on Processing Modifications to Contract Statements of Work Number 05-001 (attached below) is hereby formally a part of the Mission's internal operating procedures.

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

cc. USAID / Iraq Controller, A. Fawcett