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## **OFFICE OF INSPECTOR GENERAL**

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# **AUDIT OF USAID/IRAQ'S ACTIVITY PLANNING AND ITS REPORTING PROCESS UNDER SECTION 2207 OF PUBLIC LAW 108-106**

AUDIT REPORT NO. E-267-07-005-P  
JUNE 6, 2007

BAGHDAD, IRAQ



**USAID**  
FROM THE AMERICAN PEOPLE

*Office of Inspector General*

June 6, 2007

**MEMORANDUM**

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

**FROM:** Regional Inspector General, Baghdad, Nancy J. Lawton /s/

**SUBJECT:** Audit of USAID/Iraq's Activity Planning and Its Reporting Process under Section 2207 of Public Law 108-106 (Report No. E-267-07-005-P)

This memorandum transmits our final report on the subject audit and contains no recommendations for your action. We received your comments on the draft report and included those comments as Appendix II.

I want to express my sincere appreciation for the cooperation and courtesy 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 USAID/Iraq planned and reported on selected activities in accordance with applicable guidance (page 2).

USAID/Iraq followed the applicable guidance when planning and reporting on selected activities. USAID/Iraq followed its Automated Directives System's 12 pre-obligation requirements when planning its activities and completed the 5 required steps for activity planning. For example, USAID/Iraq ensured that (1) there was an illustrative budget for the activity, providing a reasonably firm estimate of the cost to the U.S. Government; and (2) there was a plan for monitoring the performance of the activity. USAID/Iraq also ensured that it had a procurement plan, an Activity Approval Document, and that the activity was formally approved (page 3).

USAID/Iraq reported on its activities that are funded under the Iraq Relief and Reconstruction Fund II on a quarterly basis to the Iraq Reconstruction Management Office (IRMO)<sup>1</sup>. Quarterly reporting of project expenditures is a requirement of Section 2207 of Public Law 108-106, the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004, but Section 2207 does not define what a project is. USAID defines a project, for the purpose of Section 2207, as all sub-sectors covered by an obligating instrument; IRMO defines a project as any activity covering one sub-sector. Although IRMO was aware that USAID/Iraq used a different definition of a project than IRMO's when preparing its quarterly report, IRMO accepted USAID's Section 2207 quarterly reports. Therefore, we are not making a recommendation (page 3).

Mission Management agreed with the findings in the report (page 5). Management comments are included in their entirety as Appendix II.

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<sup>1</sup> By Executive Order on May 9, 2007, the President created the Iraq Transition Assistance Office (ITAO) as the successor organization to the Iraq Reconstruction Management (IRMO).

# BACKGROUND

In late 2002 USAID began contingency planning for possible humanitarian and reconstruction efforts in post-conflict Iraq. As part of the strategic planning, USAID was well prepared to mobilize significant development resources and technical expertise to support humanitarian relief and reconstruction requirements.

After the cessation of major combat operations, USAID deployed a number of technical staff to prepare for immediate reconstruction requirements. On July 27, 2003, USAID officially announced the formation of its Mission to Iraq. Currently, USAID/Iraq coordinates its programs in close cooperation with the Iraq Reconstruction Management Office (IRMO). By Executive Order on May 9, 2007, the President created the Iraq Transition Assistance Office (ITAO) as the successor organization to IRMO. As of November 29, 2006, USAID had 175 Mission personnel deployed to the region.

On November 6, 2003, Congress approved Public Law 108–106, the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004, which provided funding for the Iraq Relief and Reconstruction Fund II (IRRF II). Section 2207 of this law requires the Director of the Office of Management and Budget to submit to the House and Senate Committees on Appropriations a report on the proposed uses of all funds under IRRF II. During fiscal years 2004, 2005, and 2006, USAID/Iraq obligated and disbursed approximately \$3 billion in IRRF II funds. The Section 2207 report is prepared quarterly and covers the use of all appropriated funds under IRRF II on a project-by-project basis. The report also covers the proposed use of anticipated obligations for the quarter following the report. The law further requires that this report be updated and submitted quarterly to the House and Senate Committees on Appropriations.

## AUDIT OBJECTIVE

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

- Did USAID/Iraq plan and report on selected activities in accordance with applicable guidance?

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

# AUDIT FINDINGS

USAID/Iraq planned and reported on selected activities<sup>2</sup> in accordance with applicable guidance. USAID/Iraq planned its activities in accordance with the requirements of the Automated Directives System (ADS). USAID/Iraq also followed the directions of the Iraq Reconstruction Management Office (IRMO) for reporting on its activities. IRMO's directions were based on the requirements of Section 2207 of Public Law 108-106.

Appendix III summarizes the 12 activities selected for planning examination and their relevant sectors and sub-sectors, set by IRMO.

**Planning** - USAID/Iraq planned its activities in accordance with the Agency's five mandatory steps for activity planning set forth in the ADS, Chapter 201 - Planning. Those steps are:

- Conduct analyses as required,
- Formulate initial cost estimate and develop financial plan,
- Develop acquisition and assistance plan,
- Prepare activity approval document, and
- Obtain formal approvals/approve document.

USAID/Iraq also planned its activities in accordance with the 12 pre-obligation requirements set forth in the ADS, which include:

- Developing an illustrative budget that provides a reasonable estimate of cost to the United States Government,
- Providing a performance monitoring plan,
- Providing clear implementation time frames, including completion date,
- Ensuring that funds are available for the activity, and
- Ensuring that Congress has been properly notified.

For example, the Mission required partner organizations to include illustrative budgets and monitoring plans in their proposals. In addition, USAID/Iraq ensured that funds were available for the activities, as required by the ADS, and notified Congress of the Agency's intention to start the activities.

**Reporting** - USAID/Iraq also reported on its activities as required by Section 2207 of Public Law 108-106. Section 2207 requires the submittal of quarterly reports, including the use of funds on a project-by-project basis. However, the law did not provide a clear definition of the term "project," and USAID and IRMO interpret the term differently. USAID defines a project, for the purpose of Section 2207, as all sub-sectors covered by an obligating instrument; IRMO defines a project as any activity covering one sub-sector. However, according to IRMO officials, IRMO is aware of what information USAID/Iraq includes in the Section 2207 reports, and IRMO is accepting the submitted information.

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<sup>2</sup> USAID's Automated Directives System (ADS) defines an activity as a set of actions through which inputs, such as commodities, technical assistance, training, or resource transfers, are mobilized to produce specific outputs, such as vaccinations given, schools built, microenterprise loans issued, or policies changed.

IRMO collects the information from all involved agencies and submits a report to the State Department to submit to Congress.

To begin the reporting process for Section 2207, IRMO sends a notification to USAID/Iraq at the end of the quarter. The notification includes instructions for preparing the report, writing guidance, and timeline flow. The notification also includes a project code for each award required to be reported on by USAID. USAID and IRMO communicate to clarify any questions until IRMO accepts USAID/Iraq's submission.

On July 31, 2006, the Special Inspector General for Iraq Reconstruction (SIGIR) issued a report<sup>3</sup> stating that USAID's accounting systems and processes are inadequate and failed to accurately identify and report project costs. SIGIR's finding was directed at the allocation of construction costs between various projects under a construction contract and the reporting of these costs under Section 2207. As a result, USAID/Iraq changed its methodology for allocating and reporting costs under the construction contract. USAID's accounting system tracks funds at a different level from what IRMO requests for the 2207 report; however, it conforms to U.S. Government-wide established requirements and standards.

In response to the SIGIR report, USAID asked its contractors to revise their reporting methods to meet IRMO's definition of a project, but because of the non-reimbursable costs that would be incurred to change their approved accounting systems to conform to this request, only one contractor acted upon this request. As a result, USAID/Iraq reported on its activities for this contractor using actual disbursements on a project-by-project basis as defined by IRMO. For all other agreements covering more than one sub-sector, USAID/Iraq reported using an allocation method based on the percentage of the sub-sector's budget in the agreement. For other agreements that cover only one sub-sector, there is no reporting issue.

USAID/Iraq used the allocation method because the ADS did not require the Mission's accounting system to record disbursements on a project-by-project basis as interpreted by IRMO. As a result, IRMO is including two different types of financial data in its quarterly reports to Congress: actual disbursements and allocation of actual disbursements.

IRMO officials said that USAID should be reporting actual disbursements for different projects, as interpreted by IRMO, and that IRMO is aware of the allocation methodology USAID/Iraq is using to report project disbursements. Although IRMO does not prefer the allocation methodology, it is accepting USAID/Iraq's reports. Therefore, we are not making a recommendation.

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<sup>3</sup> SIGIR issued an audit report on Review of the U.S. Agency for International Development's Management of the Basrah Children's Hospital Project, report number SIGIR-06-026, dated July 31, 2006.

# EVALUATION OF MANAGEMENT COMMENTS

In commenting on our draft report, USAID/Iraq agreed with the findings.

The Mission included three minor corrections to some of the audit report statements, and where we agreed, we revised the report accordingly.

Management comments are included in their entirety in Appendix II.



# SCOPE AND METHODOLOGY

## Scope

The Regional Inspector General in Baghdad (RIG/Baghdad) conducted this audit in accordance with generally accepted government auditing standards. The purpose of the audit was to determine if USAID/Iraq planned and reported on selected activities in accordance with applicable guidance. RIG/Baghdad performed the audit fieldwork at USAID/Iraq from September 4 through December 18, 2006.

In planning and performing the audit, we assessed management controls pertaining to proper authorizations and approvals, and contractual and financial documentation. Specifically, we reviewed and evaluated (1) requests for proposal, (2) Modified Acquisition and Assistance Request Documents, (3) technical analyses, (4) technical proposals, (5) congressional notifications, (6) environmental examination documentation, (7) obligating instruments, (8) reports generated by USAID's accounting system, and (9) USAID/Iraq's financial database reports. Our audit covered activities carried out under contracts and grants that were awarded by USAID/Iraq during fiscal years 2004 through 2006. The audit looked at all USAID/Iraq activities funded by the Iraq Relief and Reconstruction Fund II (IRRF II) and reporting for the purpose of Section 2207 of Public Law 108-106.

## Methodology

To answer the audit objective, we reviewed pertinent guidance, such as ADS chapter 201 - Planning, and Section 2207 of Public Law 108-106. We interviewed key members of the strategic objectives teams; Mission staff in financial, legal, acquisition and assistance, and program offices; and Iraq Reconstruction Management Office personnel.

To determine whether USAID/Iraq planned selected activities in accordance with the Agency's 12 pre-obligation requirements and the 5 mandatory steps for activity planning disclosed in the relevant ADS chapter, we reviewed the files for all activities awarded by USAID/Iraq under IRRF II during fiscal years 2004 to 2006. Accordingly, our audit covered 12 activities funded by USAID/Iraq.

To determine whether USAID/Iraq reported on selected activities in accordance with Section 2207 of Public Law 108-106, we reviewed the reports submitted by USAID to the Iraq Reconstruction Management Office for the two quarters ending June 30 and September 30, 2006. We judgmentally selected two contracts for our review, each covering one of the two reporting methodologies that USAID/Iraq uses in its Section 2207 reporting from the quarter ending on September 30, 2006.

# MANAGEMENT COMMENTS



May 22, 2007

## MEMORANDUM

TO: Regional Inspector General, Baghdad - Nancy J. Lawton

FROM: Acting Director – Michael Harvey /s/

SUBJECT: Audit of USAID/Iraq's Activity Planning and Its Reporting Process under Section 2207 of Public Law 108-106 (Report No. E-267-07-00X-P)

USAID/Iraq welcomes the opportunity to respond to the subject draft report. USAID/Iraq has reviewed the report in its entirety and agrees with the findings, but provides the clarifications listed below:

1. Page 4, para 1, line 3: The notification includes...writing guidance, and timeline flow, should read "The notification includes...written guidance, timeline flow, and a section for each Project Code (PC) for each award required to be reported on by USAID."
2. Page 4, para 2, line 3: failed to accurately...project costs. should read "failed to accurately identify and report cost to complete information for each project."
3. Page 4, para 2, line 6: its methodology...construction contract, should read "its methodology...and reporting cost to complete information under the construction contract".

Thank you.

**Table of Selected Activities Planned by USAID/Iraq Funded by IRRF II**

<b>Activity</b>	<b>Sector</b>	<b>Sub-sector</b>
1- Provide support for community stabilization program.	Security and Law Enforcement	Focused Stabilization
2- Provide technical assistance to help Iraqis overcome problems of legal, fiscal, institutional, and regulatory frameworks and functions that complicate private investment and trade flows.	Justice, Public Safety Infrastructure, and Civil Society	Rule of Law
3- Support development of civil society and the media.		Democracy-Building Activities
4- Program for supporting the Iraqi Governing Council and Interim Legislative Body.		
5- Transitional governance and constitutional development.	Roads, Bridges, and Construction	Public Buildings Construction and Repair
6- Assist Ministry of Health in training staff for 150 model primary health care centers.	Health Care	Equipment Procurement and Modernization
7- Emergency immunization campaign for measles elimination and mumps and rubella control.		
8- Rehabilitate, open, and operate vocational training and employment services at designated locations.	Private-Sector Development	Expanded Net of Employment Centers
9- Rehabilitate, open, and operate vocational training and employment services at designated locations.		Vocational Training
10- Provide technical assistance to help Iraqis overcome problems of legal, fiscal, institutional, and regulatory frameworks and functions that complicate private investment and trade flows.		Institutional Reforms
11- Assist the Government of Iraq to strengthen management capability of the executive branch institutions and key training centers.	Education, Refugees, Human Rights, Democracy, and Governance	Ministerial Capacity Building
12- Support development of civil society and the media.		Human Rights

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