

**COST, OUTCOME, AND OVERSIGHT OF  
LOCAL GOVERNANCE PROGRAM  
CONTRACTS WITH RESEARCH  
TRIANGLE INSTITUTE**

**SIGIR-09-003  
OCTOBER 21, 2008**

# Report Documentation Page

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# SIGIR

Special Inspector General for IRAQ Reconstruction

October 21, 2008

## COST, OUTCOME, AND OVERSIGHT OF LOCAL GOVERNANCE PROGRAM CONTRACTS WITH RESEARCH TRIANGLE INSTITUTE

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### Summary of Report: SIGIR-09-003

#### Why SIGIR Did This Study

SIGIR has a legislative requirement to prepare a final forensic audit on funds made available for Iraq relief and reconstruction prior to its termination. Based on this requirement, SIGIR has undertaken a series of focused contract reviews examining major Iraq reconstruction contracts. This report, the eighth in the series of such reviews, examines two contracts for Local Governance Program (LGP) activities awarded by the U.S. Agency for International Development (USAID) to the Research Triangle Institute (RTI) to assist the Iraqis in creating a more favorable environment for local governance and to build the capacity of representative councils and sub national offices of central government ministries. The contracts were awarded in 2003 and 2005 and had a total value of \$598,218,622, as of June 30, 2008.

SIGIR's objectives were to examine contract costs, outcomes, and management oversight, emphasizing issues related to vulnerabilities to fraud, waste, and abuse.

#### What SIGIR Recommends

SIGIR recommends that USAID's Mission Director-Iraq take actions to improve operational guidance to facilitate contract oversight; ensure the review of payment vouchers and invoices before payments are made; and take action to recover general and administrative and fixed fees that may have been improperly paid to the contractor as allowable expenses against \$185,000 in government funds lost by the contractor.

In commenting on a draft of this report, USAID concurred with the report's findings and recommendations, and outlined steps it is taking to address each recommendation. USAID also provided technical comments that we have included in the report where appropriate.

*For more information, contact SIGIR Public Affairs at (703) 428-1100 or [PublicAffairs@sigir.mil](mailto:PublicAffairs@sigir.mil)*

#### Costs Are Not Easily Linked to Outcomes

As of June 30, 2008, USAID has spent more than \$513 million on two contracts with RTI for local governance programs in Iraq. However, the value of the dollars spent is not easily linked to outcome because until April 2007 the costs of individual activities were not reported. Instead, costs were reported at the aggregate level. Consequently, we could not assess the outcomes associated with the cost of individual activities for the first four contract years.

#### Contract Achievements Were Initially Unclear

Our work provides indications that the current outcomes of this program are positive. However, we could not determine whether the government received appropriate value for the amount invested over the life of these contracts for two reasons. First, a process was not put in place for identifying project objectives and assessing outcome for the first four years of the contract. Second, as discussed, costs for this program were reported at an aggregate level for the first four years rather than an activity level precluding an assessment of the efficiency, effectiveness, or value of individual activities.

SIGIR also noted that RTI's activity reporting is sometimes not linked to specific program goals and objectives, in particular training activities. SIGIR acknowledges the difficulties in measuring the effect of training, but believes that improvements can be made in this area.

#### Contract Management and Oversight Has Improved Over Time

Recent changes have improved USAID's oversight of LGP activities. In December 2006 USAID shifted greater program oversight responsibility to USAID representatives assigned to Provincial Reconstruction Teams (PRTs).<sup>1</sup> These representatives, called activity managers, assist in overseeing contract activity. We also identified several other contract management and oversight problems including (1) USAID did not initially assign sufficient personnel to manage the contract; (2) USAID was late in evaluating the contractor's performance in accordance with the Federal Acquisition Regulation and its own Acquisition and Assistance Policy Directive; and (3) USAID's review and approval process for RTI invoices and vouchers is inadequate. We also identified an incident in which we believe USAID inappropriately paid General and Administrative costs and fees for lost funds.

**Lesson Learned:** The overall success of a contract is determined by the success of its individual activities or tasks. Consequently, management needs information at the activity level on expected outcomes, progress toward achieving outcomes, and costs to determine how discrete activities contribute to overall program goals and objectives. This is particularly the case for large dollar-value contracts.

October 21, 2008

MEMORANDUM FOR: U.S. AMBASSADOR TO IRAQ  
MISSION DIRECTOR-IRAQ, U.S. AGENCY FOR INTERNATIONAL  
DEVELOPMENT

SUBJECT: Review of Cost, Outcome, and Oversight of Local Governance Program Contracts  
with Research Triangle Institute (SIGIR 09-003)

We are providing this report for your information and use. 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 Inspectors General Act of 1978, as amended. This report discusses the results of our review of two USAID contracts with Research Triangle Institute, for local governance program activities. This audit was conducted as project number 7023.

We considered written comments on a draft of this report from the U.S. Agency for International Development when finalizing this report. The comments are addressed in the Management Comments section of this report and are included in their entirety in appendix E.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Glenn Furbish ([glenn.furbish@sigir.mil](mailto:glenn.furbish@sigir.mil) / 703-428-1058); or Ms. Nancee Needham at ([nancee.needham@iraq.centcom.mil](mailto:nancee.needham@iraq.centcom.mil)) / 703-343-9275).



Stuart W. Bowen, Jr.  
Inspector General

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# Cost, Outcome, and Oversight of Local Governance Program Contracts with Research Triangle Institute

SIGIR-09-003

October 21, 2008

## Executive Summary

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### Introduction

A December 2006 amendment to SIGIR's enabling legislation requires that SIGIR prepare a forensic audit report on funds made available to the Iraq Relief and Reconstruction Fund.<sup>1</sup> The 2008 Defense Authorization Act<sup>2</sup> extended this same requirement to other funds, including the Economic Support Fund.<sup>3</sup> Under this requirement, SIGIR has undertaken a series of focused contract reviews examining major Iraq reconstruction contracts. The objective of these audits is to examine contract cost, outcome, and management oversight, emphasizing issues related to vulnerabilities to fraud, waste, and abuse.

This report, the eighth in the series of focused contract reviews, examines two contracts for local governance program (LGP) activities to help the Iraqis in creating a more favorable environment for local governance and to build the capacity of representative councils and subnational offices of central government ministries to manage more effective, efficient, and responsive customer services. In 2003 and 2005, the U.S. Agency for International Development (USAID) awarded two contracts to Research Triangle Institute (RTI). The total contract value of the two contracts (LGP-1 and LGP-2) was \$598,218,622, as of June 30, 2008.

SIGIR's objectives were to determine the costs and outcomes of RTI's work under its contracts and to evaluate USAID's oversight of the contracts.

### Results in Brief

#### *Costs Are Not Easily Linked to Outcomes*

As of June 30, 2008, the total value of the LGP-1 and LGP-2 contracts is \$598,218,622 — \$239,317,322 for the LGP-1 contract and \$358,901,300 for the LGP-2 contract. Of this amount, \$513,027,336 has reportedly been disbursed — \$239,317,322 from the LGP-1 contract, and \$273,710,014 from the LGP-2 contract. Before April 2007, RTI reports did not identify costs for individual activities; costs were identified at an aggregate level. Consequently, SIGIR could not

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<sup>1</sup> Public Law 108-106, Emergency Supplemental Appropriations Act for Defense for the Reconstruction of Iraq and Afghanistan, 2004.

<sup>2</sup> Public Law 110-181, National Defense Authorization Act for Fiscal Year 2008, January 28, 2008.

<sup>3</sup> The Economic Support Fund provides funds to promote economic and political stability in regions where the United States has strategic or regional interests.

assess the outcomes associated with the cost of individual activities for the first four years of the contract. Table 1 provides details on the value of each contract and its disbursements.

**Table 1—LGP Contract Value and Disbursements as of June 30, 2008**

<b>Contract</b>	<b>Period of Performance</b>	<b>Obligations</b>	<b>Disbursements</b>
Local Governance Program (LGP 1) EDG-C-00-03-00010-00	March 26, 2003 – May 9, 2005	\$239,317,322	\$239,317,322
Local Governance Program (LGP 2) 267-C-00-05-00505-00	May 9, 2005 – December 31, 2008	\$358,901,300	\$273,710,014
<b>Total</b>		<b>\$598,218,622</b>	<b>\$513,027,336</b>

Source: SIGIR review of RTI contracts, RTI financial reports, and RTI invoices.

Note: SIGIR did not audit the data or verify RTI computer system controls.

The LGP-1 contract was funded by multiple appropriations including

- the first Iraq Relief and Reconstruction Fund (IRRF 1) (Public Law 108-11)
- the second Iraq Relief and Reconstruction Fund (IRRF 2) (Public Law 108-106)
- USAID’s Economic Support Fund (ESF)<sup>4</sup>
- the Development Fund for Iraq

IRRF 1 provided approximately \$104.7 million, IRRF 2 provided approximately \$125.7 million; ESF provided approximately \$6 million and the Development Fund for Iraq provided about \$2.9 million. The LGP-2 contract is funded by IRRF 2 and the ESF. IRRF 2 provided about \$107 million and ESF provided about \$251 million.

***Contract Outcomes Were Initially Unclear***

Since USAID approved RTI’s first performance monitoring plan in April 2007, program results have begun to be better documented. However, although SIGIR’s current work suggests that the current outcomes of this program are positive, SIGIR could not determine whether the government received appropriate value for the amount invested over the life of these contracts for two reasons. First, for the first four years of the project, no process was in place to identify project objectives and assess outcomes. Second, the program costs were reported at the aggregate level for the first four years, rather than an activity level, which precludes an assessment of the efficiency, effectiveness, or value of individual activities.

<sup>4</sup> The Economic Support Fund provides funds to promote economic and political stability in regions where the United States has strategic or regional interests.

Two reports issued by the USAID Regional Inspector General (USAID/RIG) found that for the first four years USAID did not enforce its requirement that the contractor submit plans and progress reports needed to identify outcomes including.<sup>5</sup>

- a Performance Monitoring Plan to identify benchmarks and targets<sup>6</sup>
- Quarterly Work Plans (later called Quarterly Implementation Plans) to identify activities that RTI planned to carry out
- semiannual Performance Monitoring Reports that would report progress toward the benchmarks and targets.

As a result, the USAID/RIG concluded that it could not determine if the contracts were improving the Iraqi's local governance capabilities.

SIGIR's review looked at the program since the last USAID/RIG report (July 2007), which stated that in April 2007 USAID approved RTI's Performance Monitoring Plan and RTI submitted its first Quarterly Implementation Plan. SIGIR reviewed these and subsequent plans and progress reports and found that they contain the needed information on current contractor activities along with benchmarks for assessing progress. Together, the documents show that for the last 18 months progress has been made in improving local governance. SIGIR chose two activities for assessment—the development of Provincial Development Strategies and a Geographical Information System to help the Iraqis' map government infrastructure—and found that outcomes are better documented. SIGIR also interviewed personnel knowledgeable about LGP activities including DoS officials responsible for provincial affairs and military and civilian personnel located in the provinces. All of the personnel endorsed the program.

SIGIR also noted that RTI's activity reporting—in particular, training activity reporting—is sometimes not linked to specific program goals and objectives. Although measuring the effect of training is unquestionably difficult, SIGIR believes that improvements can be made in this area.

### ***Contract Management and Oversight Has Improved Over Time***

Although USAID did not establish a process for identifying project objectives and assessing outcome for these contracts during their first four years of activity, recent changes have improved oversight. For example, in December 2006 USAID shifted greater program oversight responsibility to USAID representatives assigned to Provincial Reconstruction Teams (PRTs).<sup>7</sup>

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<sup>5</sup> *Audit of USAID/Iraq's Local Governance Activities*; USAID Office of the Inspector General Report E-267-06-003-P, July 10, 2006; *Audit of USAID Iraq's Local Governance Activities*, USAID Office of the Inspector General Report E-267-07-007-P, July 31, 2007;.

<sup>6</sup> The RIG reported that RTI did not submit a Performance Monitoring Plan that met USAID's requirement until April 2007.

<sup>7</sup> The Provincial Reconstruction Team (PRT) program for Iraq is a U.S.-led, civil military effort to assist Iraq's provincial and local governments to govern effectively and deliver essential services. PRT staffing depends on the needs and circumstances of each province and its districts, but a PRT generally comprises personnel from the Departments of State (DoS), Defense (DoD), Justice, Agriculture, and Commerce; USAID and its LGP contractor, RTI; the Multi-National Force-Iraq (MNF-I) and its subordinate command, the Multi-National Corp-Iraq (MNC-I); and the Gulf Region Division of the U.S. Army Corps of Engineers; as well as Iraqi-born expatriates (often U.S. citizens.)



These representatives, called activity managers, assist in overseeing contract activity. USAID was developing an operations manual that formalizes the role of the PRT representative but this effort still needs to be finalized.

SIGIR identified a number of other contract management and oversight problems, including:

- Initially, USAID did not assign sufficient personnel to manage the contract. During most of the contracts' period of performance one Cognizant Technical Officer (CTO) was assigned.<sup>8</sup> The number of CTOs assigned is an agency decision; nevertheless, SIGIR believes that one CTO could not manage these contracts effectively because of the size and scope of the LGP contracts (\$598 million with activities in 18 provinces) and the associated responsibilities conferred on the CTO. The appointment of USAID representatives at the PRTs to assist in oversight should improve this situation.
- USAID is required to evaluate the contractor's performance annually, but for the last three years these evaluations have been completed late. USAID's evaluation of RTI for the year ending in May 2006 was not finalized until May 23, 2007; the evaluation for the year ending in May 2007 was not finalized until August 29, 2007. Nonetheless, USAID exercised two option periods for LGP-2 — in July and December 2006 — without essential performance information on which to base the decision. USAID/RIG reported this in its July 2007 report. SIGIR found that the evaluation report for the period ending May 2008 has also not been finalized. However, on September 23, 2008, USAID provided SIGIR with documents showing that the 2008 evaluation is in process.
- USAID's review and approval process for RTI invoices and vouchers is inadequate. Section G.1 of the LGP-2 contract states that the CTO is the authorized representative of the government to approve vouchers under this contract. The CTO's signed designation letter also requires the CTO to provide administrative approval of contractor vouchers or invoices. However, because the contract states that payment is to be made by means of a letter of credit, RTI draws funds in advance. Consequently, the CTO is not approving the vouchers. The CTO is in the best position to determine whether RTI expenditures listed on monthly invoices are appropriate. SIGIR found no evidence of written CTO approval of RTI invoices.
- During the course of its work on the LGP contract, RTI physically lost \$185,000. With the concurrence of the contracting officer, RTI claimed the loss as an allowable expense. RTI submitted an invoice for the lost money that included its General and Administrative fee and fixed fee. USAID approved the invoice and RTI was paid \$56,906 for both the fees. SIGIR questions the decision to pay fees on the lost money.

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<sup>8</sup> The CTO assists the contracting officer in ensuring compliance with the terms of the contract. The CTO monitors how well the contractor is progressing towards achieving the contract's purpose, and is responsible for providing technical liaison between the contractor and the contracting officer.

## **Recommendations**

SIGIR recommends that USAID's Mission Director-Iraq take these actions:

- Direct USAID officials to establish a timeframe for completing the operations manual that provides guidance to activity managers for overseeing contractor performance.
- Direct the CTO to review and approve RTI vouchers and invoices as required by the contract. Also, require the CTO to maintain documentation of the approvals in the contract file.
- Direct that action be taken to recover the General and Administrative fee and the fixed fee paid to RTI on the \$185,000 in lost funds.

## **Lesson Learned**

The overall success of a contract is determined by the success of its individual activities or tasks. Consequently, management needs information at the activity level on expected outcomes, progress toward achieving outcomes, and costs to determine how discrete activities contribute to overall program goals and objectives. This is particularly true for large dollar-value contracts.

## **Management Comments**

USAID concurred with the report findings and recommendations and identified steps it is taking to address each recommendation. According to USAID, it has already issued guidelines for its PRT representatives that clarify their role, and has improved its voucher and invoice review processes. It also agreed that the amounts paid to RTI for the lost funds were inappropriate and stated that it would include this matter as part of the closeout process.

# Introduction

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A December 2006 amendment to the Special Inspector General for Iraq Reconstruction's (SIGIR) enabling legislation requires that, prior to its termination, SIGIR prepare a final forensic audit report on funds made available to the Iraq Relief and Reconstruction Fund.<sup>9</sup> The 2008 Defense Authorization Act<sup>10</sup> extended this same requirement to other funds, including the Economic Support Fund.<sup>11</sup> Pursuant to this requirement, SIGIR has undertaken a series of focused contract reviews examining major Iraq reconstruction contracts. The objective of these audits is to examine contract outcome, cost, and management oversight, emphasizing issues related to vulnerabilities to fraud, waste, and abuse.

This report, the eighth in the series of focused contract reviews, examines the local governance program managed by the U.S. Agency for International Development (USAID) and performed by Research Triangle Institute (RTI) of Research Triangle Park, North Carolina.

## Background

USAID is the principal agency to extend assistance to countries recovering from disaster, trying to escape poverty, and engaging in government reform. The USAID Mission–Iraq was established on July 27, 2003, to carry out relief and reconstruction programs in infrastructure reconstruction, education, health care, airport and seaport management, economic growth, and local governance.

Iraq's government was centralized at the national level during the Saddam Hussein era. According to USAID, essential public services such as water, sanitation, health services, and basic educational services, which were not robust during Hussein's rule, were nominal after his removal from power. The Iraqi citizenry needed to develop a governance structure and framework to govern and provide needed public services if they were to live in a functioning society. In addition, the Iraqi people needed to establish the role of local governance and civic institutions in a free society.

To assist Iraq in building a framework for a democratic and civil society, USAID awarded two cost-plus-fixed-fee contracts to RTI. The first of the two contracts, known as the Local Governance Program-1 contract (LGP-1) (EDG-C-00-03-00010-00), was awarded with an effective date of March 26, 2003, to procure and provide technical and other assistance to strengthen local administrations, civic institutions, and processes in Iraq. According to the USAID Regional Inspector General (USAID/RIG) during its first year of the contract "the local governance program focused on (1) restoring basic services through the use of rapid response grants, (2) developing transparent and accountable local and provincial governments by providing technical assistance, and (3) strengthening civil society organizations by providing training. The second year of the program focused on facilitating Iraq's transition to a sovereign state, with an emphasis on institutional

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<sup>9</sup> Public Law 108-106, Emergency Supplemental Appropriations Act for Defense for the Reconstruction of Iraq and Afghanistan, 2004, Nov. 2004.

<sup>10</sup> Public Law 110-181, National Defense Authorization Act for Fiscal Year 2008, January 28, 2008

<sup>11</sup> The Economic Support Fund provides funds to promote economic and political stability in regions where the United States has strategic or regional interests.

capacity building to enable local governments to take responsibility for providing services to citizens effectively and efficiently.”<sup>12</sup> This contract ended in May 2005.

The LGP-1 contract statement-of-work identified four functional areas with corresponding activities to be performed by RTI. The contract also required RTI to submit quarterly work plans seven days before the beginning of each quarter. In addition, the contract required RTI to submit a performance monitoring plan within 30 days of the signing of the award. The performance monitoring plan was to include baseline data for the measurement of progress throughout the program. Furthermore, RTI was to submit semiannual performance monitoring reports that detailed progress toward achievement of performance indicators.

The second of the two contracts, known as Local Governance Program-2 (LGP-2) (267-C-00-05-00505-00), was intended to build the capacity of representative councils and sub-national offices of the central government ministries to manage more effective, efficient, and responsive customer services. The contract was awarded with an effective date of May 9, 2005 for a base period of two years with three option years. The contract was subsequently modified to provide for one base year with three option years. The contract statement-of-work identifies five activities, each with supporting tasks to be accomplished. The five activities are:

- Promote policy reform in support of local governance
- Support clarification of the roles and responsibilities of different levels of government
- Promote increased efficiency of local service delivery
- Assist in the development of regularized mechanisms of citizen participation in governmental decision-making processes
- Capture learning through systematic study and reflection

As with LGP-1, the LGP-2 required the contractor to develop (1) a performance monitoring plan that would provide baseline data for measuring program progress, (2) semi-annual performance monitoring reports that would detail progress toward the achievement of performance indicators, and (3) quarterly work plans (now called quarterly implementation plans) that would identify the activities to be conducted each quarter.

## Objectives

Our objectives were to examine the cost and outcome of RTI’s work under its contract to help build the Iraq provinces’ local governance capabilities, and USAID’s management oversight of the contracts.

For a discussion of the audit scope and methodology, see Appendix A. For information on the solicitation and award of the LGP-1 and LGP-2 contracts, see Appendix B. For a listing of RTI’s program monitoring indicators, see Appendix C. For a listing of subcontractors who worked on these contracts, see Appendix D. For a listing of the acronyms, see Appendix E. For a listing of the audit team members, see Appendix F.

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<sup>12</sup> *Audit of USAID/Iraq’s Local Governance Activities*; USAID Office of the Inspector General, Audit Report E-267-06-003-P, Jul. 10, 2006.

# Costs Are Not Easily Linked to Outcomes

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As of June 30, 2008, the total value of the LGP-1 and LGP-2 contracts was \$598,218,622 comprising \$239,317,322 from the LGP-1 contract and \$358,901,300 from the LGP-2 contract. Of this amount, \$513,027,336 has reportedly been disbursed; \$239,317,322 from the LGP-1 contract, and \$273,710,014 from the LGP-2 contract. For the first four years of these contracts, costs for individual activities were not identified in RTI reports. Instead, costs were identified at an aggregate level. Consequently, for the first four years we could not assess the outcomes associated with cost of individual activities.

**Table 1—LGP Contract Value and Disbursements as of June 30, 2008**

<b>Contract</b>	<b>Period of Performance</b>	<b>Value</b>	<b>Disbursements</b>
Local Governance Program (LGP 1)	March 26, 2003 – May 9, 2005	\$239,317,322	\$239,317,322
Local Governance Program (LGP 2)	May 9, 2005 – December 31, 2008	\$358,901,300	\$273,710,014
<b>Total</b>		<b>\$598,218,622</b>	<b>\$513,027,336</b>

Source: SIGIR review of RTI Contracts, RTI Financial Reports, and RTI Invoices.

Note: We did not audit the data or verify RTI computer system controls.

The LGP-1 contract was funded by multiple appropriations including (1) the first Iraq Relief and Reconstruction Fund (IRRF-1) (Public Law 108-11); the second Iraq Relief and Reconstruction Fund (IRRF-2) (Public Law 108-106), USAID’s Economic Support Fund (ESF),<sup>13</sup> and the Development Fund for Iraq. IRRF-1 provided approximately \$104.7 million, IRRF-2 provided approximately \$125.7 million; the ESF provided approximately \$6 million and the Development Fund for Iraq provided about \$2.9 million. The LGP-2 contract is funded by IRRF-2 and the ESF. IRRF-2 provided about \$107 million and the ESF provided about \$251 million.

Both the LGP-1 and LGP-2 contracts are cost-plus-fixed fee contracts that require the contractor to provide a specified level of effort, over a stated period of time, on work that can be stated in general terms only. The Federal Acquisition Regulation Part 16.306(a) states in part that “This contract type permits contracting for efforts that might otherwise present too great a risk to contractors, but it provides the contractor only a minimum incentive to control costs.

## Activity Costs Are Unknown

Although our current work provides indications that the present outcomes of this program are positive, for the first four years we could not determine whether the government received appropriate value for the amount invested because RTI reports did not identify the cost of individual

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<sup>13</sup> The Economic Support Fund provides funds to promote economic and political stability in regions where the United States has strategic or regional interests.

activities. Instead, RTI only collected costs at the aggregate level. This prevents us from assessing the efficiency, cost effectiveness, or value of the activities. Currently, program costs are being reported in five broadly defined activities, not at the task level supporting each of the activities. This approach may provide sufficient information for programs with relatively low funding levels such as grant or cooperative agreement activities; however, in a program with costs over \$500 million, more specific reporting on services performed and outcomes in relation to costs are necessary to effectively manage the contract.

## **Security Costs for LGP Activities Are Higher Than Security Costs for Construction Projects**

RTI's costs for subcontracted security services totaled approximately \$116.3 million, or about 22.7% of the \$513 million disbursed as of June 2008. Approximately \$44 million was spent on security under LGP-1 (about 18.4%), and approximately \$72.3 million was spent on security on LGP-2 (about 26.4%).

SIGIR previously assessed security costs for nine construction contractors and found that the costs, as identified at that time, ranged from a low of 7.6% to a high of 16.7%. The average for all construction contractors when identifying percentage of security costs to total costs was 12.5%.<sup>14</sup> While SIGIR recognizes that these data are limited, they would seem to indicate non-construction activities (e.g., democracy building activities, local governance activities) incur higher security costs. SIGIR plans to continue gathering data on non-construction security costs in future audits. Private security contractor officials told us during a separate review of private security contractors that security costs for these types of activities are likely to increase with reductions in U.S. troop levels.<sup>15</sup>

## **Subcontractors Were Used Extensively**

Approximately \$174.3 million, or about 34% of disbursements as of June 30, 2008, were for subcontractors. Nine subcontractors were selected by RTI to support LGP 2. Seven of the nine subcontractors also supported LGP-1. All subcontractors were approved by USAID as part of the award process. Subcontractors who provide technical assistance are integrated directly with RTI employees on implementation teams and are supervised daily by RTI staff. RTI then submits a performance evaluation to the employing subcontractor. RTI engages with subcontractors by to ensure the services provided are meeting project requirements.

Some RTI payments to subcontractors have been questioned. As reported by the auditing firm PricewaterhouseCoopers in its audit of RTI financial statements for fiscal year 2006,<sup>16</sup> RTI determined that certain expenditures under subcontracts for services for the LGP-1 contract were improper due to a lack of proper documentation of appropriate approvals, evidence of vendor delivery, and inappropriate disbursements. RTI stated that it engaged a third party to perform a

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<sup>14</sup> *Fact Sheet on Major U.S. Contractors' Security Costs Related to Iraq Relief and Reconstruction Fund Contracting Activities*; SIGIR-06-044, Jan. 30, 2007.

<sup>15</sup> *Agencies Need Improved Financial Data Reporting for Private Security Contractors*; SIGIR 09-005, Oct. 2008.

<sup>16</sup> PricewaterhouseCoopers LLP, *Research Triangle Institute, Financial Statements, Schedules and Other Information Related to Federal Awards for the Year Ended September 30, 2006 and Reports Under OMB Circular 133-A Thereof*

review of expenditures relating to the LGP. Based on the review, RTI identified certain payments that should not have been charged to the LGP. RTI stated that it reimbursed the U.S. government for the amounts.

# Contract Outcomes Were Initially Unclear

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With USAID's approval of RTI's first performance monitoring plan in April 2007, program results have begun to be better documented. However, although our current work provides indications that the current outcomes of this program are positive, we could not determine whether the government received appropriate value for the amount invested over the life of these contracts for two reasons. First, a process was not put in place for identifying project objectives and assessing outcome for the first four years of the contract. Second, costs for this program were reported at an aggregate level rather than an activity level precluding an assessment of the efficiency, cost effectiveness, or value of individual activities.

SIGIR also noted that RTI's activity reporting is sometimes not linked to specific program goals and objectives—in particular, training activity reporting. SIGIR acknowledges the difficulties in measuring the effect of training, but believes that improvements can be made in this area.

## USAID Inspector General Reviews of the Local Governance Program

Local Governance Program activities have been the subject of two separate reviews conducted by the USAID/RIG. Both of these reviews found that USAID did not require the contractor to submit or fully complete all contractually required documents detailing program benchmarks and targets (a Performance Monitoring Plan), activities planned that would address each benchmark and target (Quarterly Work Plans - later called Quarterly Implementation Plans), and reports that would identify RTI's progress in achieving the baselines and targets (semi-annual Performance Monitoring Reports).<sup>17</sup> As a result, the RIG concluded that it could not determine if the contracts were improving the Iraqi's local governance capabilities.

**First RIG Review** - The first RIG review, published in July 2006, focused on the LGP-1 program, which ran from March 2003 to May 2005. The objective of this review was to determine if local governance activities being conducted in Iraq by USAID achieved their intended outputs. The audit reviewed pertinent laws and regulations, program requirements defined in the contract, and associated implementation and work plans. Overall, the RIG concluded that it could not determine if USAID/Iraq's local governance program activities achieved their intended outputs because USAID did not require RTI to submit all reporting and monitoring documents specified in the contract. It also found that USAID did not properly approve all grants, prepare contractor evaluations, or review payment vouchers submitted by RTI.

According to the report, the contract required RTI to submit quarterly work plans. However, instead of submitting the required plans, RTI submitted an implementation plan, dated August 2003, which listed selected core activities to be accomplished within the contract period. For the second program year, RTI submitted a work plan, dated July 2004, which included a set of intended activities and indicators. According to the USAID/RIG report, however, the RTI work plans did not provide

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<sup>17</sup> Audit of USAID/Iraq's Local Governance Activities, USAID Inspector General Report E-267-06-003-P, July 10, 2006; Audit of USAID's Local Governance Activities, USAID Inspector General Report E-267-07-007-P, July 31, 2007.



information on program implementation in a format that allowed the USAID Mission-Iraq to measure the progress made against pre-defined goals. Rather the reports merely described what was accomplished during the period, without considering progress toward goals and objectives. As a result, the audit team could conclude only that activities had taken place but not whether progress was made.

According to the USAID/RIG report, the reason for this problem was that the USAID-Mission-Iraq was in transition and daily operational requirements were emphasized in lieu of administrative requirements. The Mission also suffered from high staff turnover and this contributed to inefficiencies and lapses in program management. Additionally, during the first two years of the contract, three contracting officers and five cognizant technical officers (CTOs) worked on the contract.

The first USAID/RIG report also critiqued the monitoring plan and RTI's lack of monitoring reports. USAID's contract with RTI required the contractor to submit both a performance monitoring plan and a semiannual performance monitoring report. The monitoring report was to include the methodology on how data would be collected, interim and final targets, and a timeline for collecting data. The semiannual performance reports were to detail progress toward the targets identified in the monitoring plan. According to the report, in 2003 RTI developed a monitoring plan but did not submit the required semiannual reports. In 2004, RTI submitted a monitoring plan, but changed the targets from those identified in its 2003 plan. Again in 2004, the semiannual performance reports were not submitted.

In the absence of monitoring reports, the RIG reviewed RTI's monthly progress reports to determine if progress had been made. However, differences in detail and format between the monthly reports and the performance and work plans precluded the RIG from making a determination regarding progress made. As a result, USAID had no assurance that the local governance program activities achieved their intended goals.

**Second RIG Review** - The RIG's second review of local governance activities was issued in July 2007. The objective of this review was again to determine if local governance program activities were achieving their goals and objectives. The report focused on the LGP-2 contract, but also followed up on recommendations made in its first report. In this report, the RIG focused on the Mission's controls related to monitoring local governance activities, including weekly progress reports from the Provincial Reconstruction Teams (PRTs); CTO visits to the PRT's and RTI offices; RTI's activity reports, and emails between the CTO and RTI.

The RIG found that actions taken by the USAID Mission-Iraq to address recommendations in the first report were ineffective and that problems identified in the first report (a year earlier) were continuing. Specifically, USAID/Iraq still had not required RTI to submit Quarterly Implementation Plans and had not required RTI to submit a Performance Monitoring Plan that met the USAID Mission-Iraq's requirements and would have set forth baselines and targets until April 2007. As a result, the RIG still could not determine whether USAID/Iraq's local governance program activities were effective or making progress.

As an example of the problems in RTI's reports, the RIG cited activities identified in RTI's annual and quarterly activity reports in which RTI reported conducting 2,214 activities during the audit

period. These activities consisted of training and technical assistance in five regions throughout Iraq. Table 2 shows the activities reported by the RIG.

**Table 2—Number of Activities Conducted by Region**

<b>Activities:</b>	<b>North Region</b>	<b>North Central Region</b>	<b>Central Region</b>	<b>South Central Region</b>	<b>South Region</b>	<b>Total</b>
Core Training	58	146	87	459	47	797
Supplemental Training Modules	78	34	37	265	33	447
Conferences and Workshops	5	0	23	2	4	34
Technical Assistance Events	121	49	193	509	64	936
<b>Total Activities</b>						<b>2,214</b>

Source: RIG Audit Report E-267-07-007-P, July 2007.

A brief description of each activity follows:

- **Core Training** – Competency-based training modules on transparency, accountability and responsiveness for local government officials emphasizing gradual skill and competency building. Examples of training topics include *Introduction to Service on Council* and *Council Procedures*.
- **Supplemental Training** – Training modules on responsibility and corruption to address the varying needs of local government officials to extend their skills and competence beyond core areas. Examples include *Budgeting for Local Government* and *Negotiation and Problem Solving*.
- **Conferences and Workshops** – Forums for sharing and updating information and knowledge or looking at problems within a specified subject area with the objective of arriving at solutions by the end of the conference. One example is the *South Regional Agribusiness Conference*.
- **Technical Assistance** – Technical consultations provided that build on existing training modules and assist in developing systems and processes in targeted organizations.

The RIG’s criticism of RTI’s activity reporting was that it was output oriented rather than outcome oriented. Activity reporting that is not linked to an overall program goal or objective cannot be assessed for effectiveness. According to the RIG “In summary, without approved quarterly implementation plans that identify planned activities, and without a (Performance Monitoring Plan) that defines baselines and targets, USAID/Iraq could not assess whether the (funds) obligated for the local governance program activities program-and implemented by RTI-improved local government’s ability to provide services. Moreover, by reporting only on achievements, it is difficult to determine what essential aspects of the local governance program are not being addressed by RTI’s activities.”

## Required Plans and Reports Are Now Being Submitted

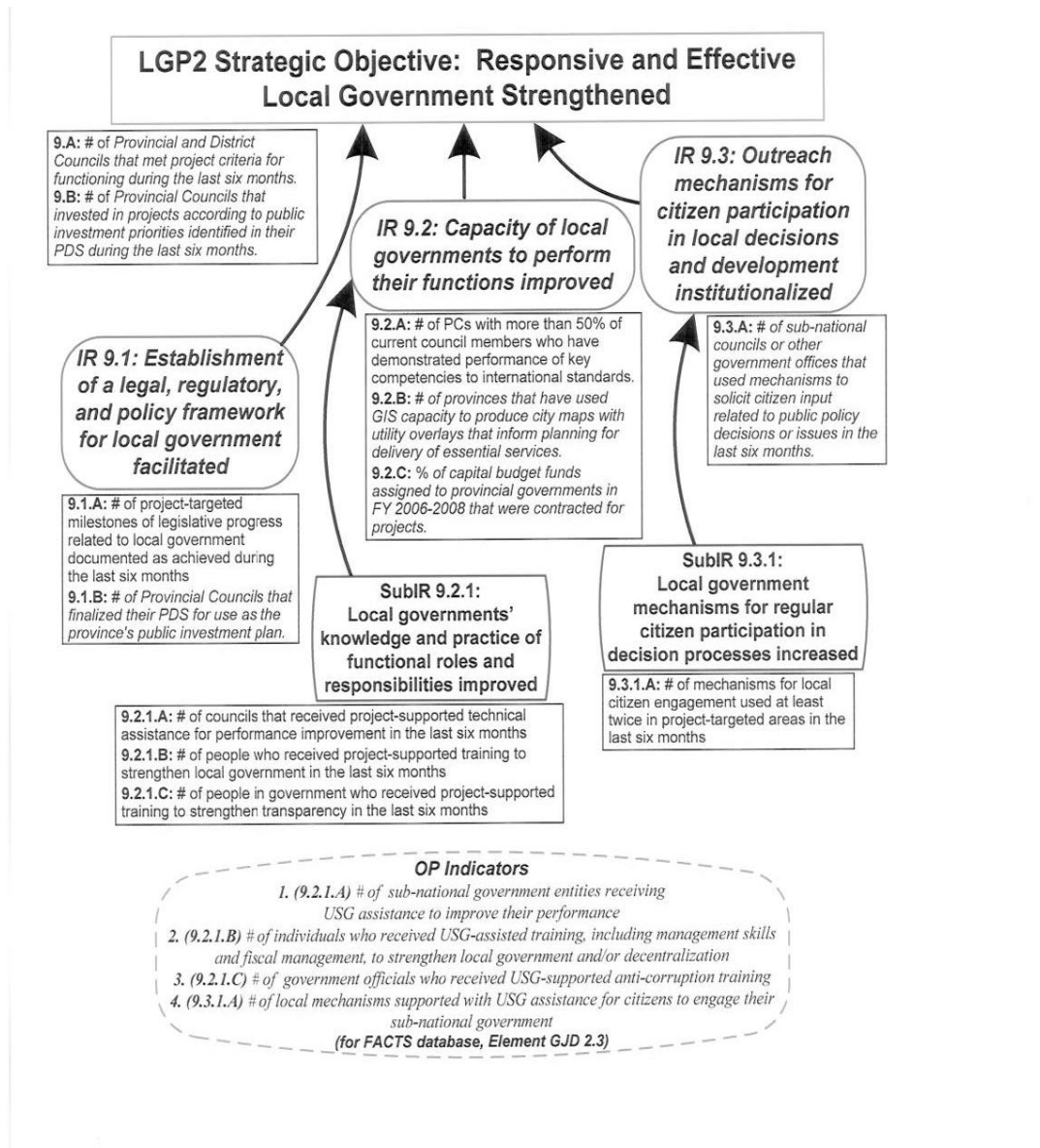
SIGIR's review looked at the program since the last USAID/RIG report (July 2007.) In that report the RIG found that in April 2007, more than 4 years after the initial contract award, USAID approved RTI's Performance Monitoring Plan and RTI submitted its first Quarterly Implementation Plan. However, by this time \$329 million had already been spent on the program. SIGIR reviewed these and subsequent plans and progress reports and found that they contain needed information on current contractor activities along with benchmarks for assessing progress. Together these documents show that for the last 18 months progress has been made in improving local governance.

**Performance Monitoring Plan** – As stated earlier, a Performance Monitoring Plan is intended to identify the overarching strategic objectives of the local governance program, and to provide indicators and targets that RTI can use as a basis for its reporting. To illustrate, one of the LGP strategic objectives is “Responsive and Effective Local Government Strengthened.” To measure progress in this area, the plan identifies three strategic objective indicators along with several intermediate result indicators. Each strategic objective indicator and intermediate result indicator is then backed up by targets. For example, one indicator is “Number of Provincial and District Councils that met project criteria for functioning during the last six months.” LGP objective measurements (e.g., targets) for defining a functioning Provincial Councils are:

1. Provincial Council has records of meeting minutes held during the reporting period.
2. A quorum of Provincial Council members was [sic] “present for at least 70 percent of meetings.”
3. Progress on developing a Provincial Development Strategy, an annual work plan and /or budget development, and/or capital investment project approval and execution during the reporting period are documented in meeting records.
4. The provincial Governor was appointed by the Provincial Council and has separate offices and staff.
5. Any Provincial Council seats that became vacant during the period were filled.

Figure 1 shows the structure of the results framework in the approved Performance Monitoring Plan. Additional program indicators with results, as of June 10, 2008, are in appendix C.

**Figure 1—Results Framework with Indicators**



Source: Performance Monitoring Plan, November 2, 2007

**Performance Reports** - On June 10, 2008, RTI issued its most recent semiannual performance report, which provides tables listing targets and results for eight monitoring and evaluation indicators. As of June 10, three targets for 2008 had already been met.

- Seventeen Provincial Councils met project criteria for “functioning” during the last six months;
- Contracts for more than \$2.5 billion in capital budget projects were awarded by the provincial governments in the last 12 months.

- All Provincial Councils used mechanisms to solicit citizen input related to public policy decisions or issues in the last 6 months.

A fourth target was achieved following the issuance of the report; all eighteen provincial councils had completed and obtained approval for their Provincial Development Strategy. Four other monitoring and evaluation indicators showed progress towards the 2008 target. For more information on the indicators with targets and results reported for the performance period ending June 10, 2008, see Appendix C.

## Outcome of LGP Activities Better Documented Now

SIGIR's review of semi-annual performance reports and other documents submitted by the contractor, along with interviews of relevant program officials, identified a number of program accomplishments over the past 18 months. For example, a senior USAID official said that the LGP program played an important role in the development of the Iraqi Provincial Councils. According to the CTO, LGP activities engaged the local populations and helped Provincial Councils become responsive to the citizens' needs. The USAID official also said that LGP activities played a role in communicating the elements of the Provincial Powers Law to the Iraqi public.

Of the many other activities, SIGIR chose two for additional assessment. These are the development of Provincial Development Strategies (PDS) and the implementation of a Geographical Information System (GIS). Our review also noted continuing challenges in assessing the outcome of many activities.

**Provincial Development Strategies** – According to the Government of Iraq's Provincial Development Strategy Executive Summary:

“During the period of Baath Party rule, ending with the end of Saddam Hussein's rule in 2003, development planning in Iraq was heavily centralized. As part of the reconstruction effort, the LGP promoted the development of a participatory planning approach throughout the 18 provinces to formulate prioritized objectives and strategies to address the social, economic, and environmental priorities of the challenges faced by each province. This effort was designed to help strengthen democracy, reduce corruption, limit differences among various political and ethnic groups, and empower citizens by promoting greater interaction among stakeholders within communities. The planning process put in place was intended to produce an individual provincial development strategy (PDS) for each province. During the PDS process, the provincial stakeholders, including the community, nongovernmental organizations, the private sector, the service departments, the governor, and the provincial and local councils, collectively determine the vision and goals for the province. A target identified in the Performance Monitoring Plan is for each province to develop a provincial development strategy.”<sup>18</sup>

According to RTI officials, governing officials had no historical exposure to the types of approaches needed in the creation of a PDS. To this end, between January 2006 and November 2007, RTI initiated a number of different PDS conferences, modules for training of trainers and mentoring

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<sup>18</sup> Republic of Iraq Provincial Development Strategies: Executive Summaries Version 1, March 2008.

workshops, and roundtable and consultative forums throughout the 18 provinces in Iraq. These activities guided participants through the process of PDS formulation. During the same period, RTI held other conferences and training activities in support of PDS formulation and implementation, including the Al Anbar PDS conference in Amman that had more than 120 participants.

The PDS document produced by each province is the first of the three-phase planning process:

- Phase I – Defining an Overarching Strategy
- Phase II – Implementation, in which a five-year action plan of projects is determined, and
- Phase III – Resource Allocation, in which funds are allocated to implement the first year of the plan.

An indicator of success in this three phase process is identified in the Performance Monitoring Plan as “Number of Provincial Councils that finalized their PDS for use as the province’s public investment plan.” According to a senior RTI official, as of July 2008, each of the 18 Provincial Councils had approved and issued a PDS, completing the first phase of the planning process. Each PDS presents the overall strategic direction of the province, but our review found that most did not show the Phase III resource allocation. However, a few, such as the Al Anbar, Salah Al-Din, and Baghdad PDS, identify specific construction projects and expected costs. The PDS is intended to be a living document that is regularly reviewed and modified by governorate administration to reflect changing circumstances.

Our review found that the detail and quality varies from one PDS to another. Generally, the PDS includes an introduction describing the unique characteristics of the province. Some PDS identify a vision or mission statement. Most PDS break down the report by self-determined sectors, such as commerce, education and health, and agriculture. Then the PDS provides objectives within the sector and lists obstacles or weaknesses that must be overcome. We noted that the English translations of many of the PDS contained some misspellings and awkward word usage, but the intent is usually clear. For example, the Sulaymaniyah PDS identifies multiple objectives under the agriculture sector. One objective is “tending to natural pastures proving [sic] fodder for animals.” The PDS identifies four problems within the objective:

- “reduction in pasture spaces due to changing it to agricultural lands;
- harmful usage of the pasture by the shepherds;
- mined fields in the pastures;
- shortage in seed and natural pastures”

The PDS then identifies strategies for solving each problem:

- “enforcing laws to prevent changing pastures to agricultural lands;
- importing good quality seeds;
- demining;
- instructing shepherds for good usage of pastures”

According to a senior RTI official, the PDS documents vary in quality from province to province, but he stated some were quite good for a first effort. Baghdad and Anbar senior PRT officials stated

that the PDS effort was a success because of the process more than the outcome. The process of developing the PDS involved convening individuals, often adversaries who were sometimes divided by sectarianism, and compelling them to work together for a common purpose. A senior USAID official further stated that all 18 PDS were voted on and approved by a majority of the council members. However, two senior PRT officials in Kirkuk expressed dissatisfaction and stated that the PRT did not have sufficient input in the development of the Kirkuk province PDS.

According to a PRT team leader, in the next phase of the program, each Provincial Council will develop a Provincial Development Plan, which identifies specific projects to be accomplished under the PDS.

Another indicator of success identified in the Performance Monitoring Report is “Number of Provincial Councils that invested in projects according to public investment priorities identified in the PDS during the last six months.” According to RTI’s June 2008 report, 16 Provincial Councils had invested in projects related to public investment priorities identified in their PDS during the last six months. The Dahuk Provincial Council could not be evaluated because it did not have a PDS at the time of the report, and the Erbil Provincial Council could not be evaluated because its PDS did not meet project criteria.

**Geographical Information System** – The Geographical Information System (GIS) emerged from a base mapping project designed to scan deteriorating maps electronically. This would allow the Iraqi’s to use the digital images to develop maps of property boundaries. The project has since evolved into a GIS project to provide the provinces with a tool that can be used to integrate, analyze, and provide information visually to assist in prioritizing reconstruction projects and essential service delivery in local communities. RTI is assisting the provinces in repairing and digitally archiving paper maps. Steps have been taken to preserve the maps by flattening, repairing, and encapsulating them. The maps are then scanned to achieve a digital visual equivalent of the paper map, and the digital image files can then be archived. This will provide the provinces with maps that, among other uses, can detail their water, sewer, traffic, land use, communication and electricity networks, government and commercial building locations, and agricultural lands.

RTI reported that it had established urban planning/GIS centers in 17 of Iraq’s 18 provinces. Diyala was identified as the only province without its own center, and a center will open there as soon a security conditions permit. A 2008 target is for 15 provinces to use GIS capacity to produce the city maps with utility overlays. In its June 2008 report, RTI reported that only Basrah province has used GIS capacity, but other provinces are making progress toward the target. However, a senior USAID official stated that the GIS program is still developing and long-term success remains uncertain.

Figure 2 shows the delivery of GIS equipment in November 2007 in preparation for distribution to GIS centers nationwide.



Source: RTI

## **Measuring Outcome for Many Activities Remains a Challenge**

RTI's reporting of activities without linking the activities to specific program goals and objectives was cited as a problem in the USAID/RIG's July 2007 report, and to some degree this practice



continues. SIGIR acknowledges the difficulties in measuring the effect of training, but believes that improvements can be made in this area.

To illustrate, training is a major activity conducted by RTI under the LGP-2 contract to support local governance in Iraq. The Performance Monitoring Plan has four Operational Plan indicators relating to training. For example, one indicator is “Number of people who received project-supported training to strengthen local government in the last six months.” However, while the Operational Plan indicators quantify outputs (e.g., the number of people trained) the Performance Monitoring Plan does not identify targets or milestones for the training, which makes it difficult to fully evaluate the result of the activity. An RTI training official stated that RTI takes several actions to assess its training including (1) recording requests and comments from training beneficiaries to identify their expectations and sources of satisfaction; (2) monitoring participation rates to identify the “most wanted” or “lowest interest” training courses, and (3) obtaining feedback from the PRTs to determine whether beneficiaries are putting into practice what is learned. However, there is no discussion in the performance monitoring report that provides the results of these assessments.

Despite the absence of discussion on training outcomes, PRT officials interviewed generally believe the training is effective. RTI stated that it conducts much of the training at its five regional hub facilities around Iraq, in Baghdad, Basrah, Hillah, Erbil, and Tikrit. The training is conducted by Iraqi hires that speak Arabic, although training manuals are in Arabic and English. Senior Baghdad PRT personnel praised RTI personnel and the training conducted at the Karrada training facility in Baghdad. A Baghdad PRT official stated that Iraqi officials like training at the facility and consider it safe. The Baghdad PRT team leader stated that relationships are key to the success of the program, and the Baghdad PRT USAID representative stated that he had a good relationship with RTI personnel at the Karrada facility. However, the CTO stated that the training needs to progress to more complex subjects.

Table 3 shows the total number of provincial government officials strengthened through training and technical assistance by province from October 1, 2006 through December 31, 2007, as reported by RTI.

**Table 3—Provincial Government Officials Strengthened Through Training and Technical Assistance by Province and Gender**

<b>Region</b>	<b>Province</b>	<b>Male</b>	<b>Female</b>	<b>Total</b>
North	Dahuk	1,262	673	1,935
	Erbil	1,721	547	2,268
	Ninewa	752	50	802
	Sulaymaniyah	1,027	565	1,592
	Kirkuk (Tamim)	1,360	522	1,882
North Central	Anbar	41	2	43
	Diyala	20	8	28
	Salah ad Din	614	18	632
Central	Baghdad	1,202	226	1,428
South Central	Babil	1,458	219	1,677
	Karbala	992	327	1,319
	Najaf	1,147	336	1,483
	Qadissiyah	326	97	423
	Wasit	1,095	199	1,294
South	Basrah	1,536	228	1,764
	Maysan	447	42	489
	Muthanna	299	30	329
	Dhi Qar	436	47	483
<b>Iraq Nationwide</b>		<b>15,735</b>	<b>4,136</b>	<b>19,871</b>

Source: RTI's LGP 2007 Annual Report, October 1, 2006 through December 31, 2007.

Note: We did not audit the data or verify RTI computer system controls.

# Contract Management and Oversight Has Improved Over Time

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As discussed in the contract outcome section, USAID did not put a process in place for identifying project objectives and assessing outcome during the first four years of activity under these contracts. Recent changes, however, have improved USAID's oversight.

Additionally, we identified the following contract management and oversight problems:

- USAID did not initially assign sufficient personnel to manage the contract
- USAID did not evaluate the contractor's performance annually in accordance with the Federal Acquisition Regulation and its own Acquisition and Assistance Policy Directive
- USAID's review and approval process for RTI invoices and vouchers is inadequate

We also identified an incident in which we believe the contractor was inappropriately paid General and Administrative costs and fees for lost funds.

## Moving Oversight of LGP Activities to PRTs Has Improved Accountability

On December 5, 2006, the USAID/Iraq Mission Director issued a memorandum to USAID's implementing partners, including RTI, identifying changes to USAID's role at the PRTs. This change has improved oversight of LGP activities. A planned manual that would formalize the role of each PRT representative, however, still needs to be finalized.

According to the USAID Mission Director's memorandum, it was designed to ensure that USAID activities are responsive to the needs of the PRT, and that the PRT's resources contribute to the success of the implementing partners. To achieve this goal, it shifted greater program management responsibility to the USAID representatives within each PRT. These representatives, called activity managers, assist in overseeing contract activity. The memorandum stated that "Direct interaction between the USAID PRT representatives and the implementing partners in the field is the only way to ensure critical coordination with, and oversight of USAID programs in their provinces." PRT representative are assigned to assist the implementing partners in carrying out the programs, such as LGP. This has resulted in greater oversight of RTI activities.

An area still needing attention is the development of an operations manual that formalizes the role of each USAID PRT representative. According to the USAID Mission Director's memorandum, "An operations manual that formalizes the role of each USAID PRT Representative is currently in its final stages. The manual is designed to ensure that USAID activities are responsive to the needs of the PRT, and that PRT's resources contribute to the success of all your activities." However, we found no evidence that the operations manual or other written guidance was issued to the USAID PRT representatives. Written guidance is particularly important given the high rates of turnover

among U.S. government personnel in Iraq. Without effective oversight of RTI, there is increased risk that LGP objectives will not be met and that funds could have been put to better use.

## **USAID Contract Oversight**

USAID is responsible for LGP contract and program management; however, initially it did not assign sufficient personnel to effectively carry out this responsibility.

The USAID contracting officer appointed the LGP program manager as the CTO, with responsibility for oversight of the contractor. The LGP contracts confer broad responsibility on the CTO including

- approving key RTI personnel and changes in personnel;
- approving RTI vouchers;
- ensuring that RTI meets the technical requirements of the contract in accordance with the contract terms, conditions, and specifications;
- performing necessary inspections and ensuring RTI corrects deficiencies;
- performing acceptance for the government; and
- monitoring RTI's production or performance progress, notifying RTI in writing of deficiencies observed during surveillance, and directing appropriate action to effect correction.

At present, one CTO is assigned to this contract and our review has found no evidence that more than one CTO was ever assigned at one time. SIGIR found no criteria that identify the number of CTOs that should be assigned, and it appears to be an agency decision as to the number required. However, although the current CTO is trained, experienced, and was properly designated by appointment letter, SIGIR believes that the size and scope of the LGP contracts (approximately \$239 million and \$359 million with activities in all 18 provinces) and the associated responsibilities conferred on the CTO are too great for one individual to manage effectively.

USAID's recent augmentation of LGP management by the PRT representatives has largely resolved this problem. USAID representatives at the PRTs, called activity managers, now provide assistance to the CTO in overseeing RTI. These representatives do not stand in for the CTO, but provide feedback to the CTO in the form of e-mails and face-to-face meetings. For example, the current CTO stated that he receives about 100 e-mails a day from 28 USAID representatives in all 18 provinces. The CTO also stated that he receives informal feedback on RTI performance from other sources, such as the U.S. military.

## **Contractor Performance**

USAID was late in evaluating the contractor's performance during three of the contract years. Annual contractor reviews are required by Federal Acquisition Regulation and USAID's own Acquisition and Assistance Policy Directive. According to the RIG, the 2006 evaluation was done a year late, and the 2007 evaluation was two months late. SIGIR also found that the 2008 evaluation,

due in May 2008, has not been completed. However, on September 23, 2008, USAID provided us with documents showing that the 2008 evaluation is in process.

Federal Acquisition Regulation 42.15 and USAID Acquisition and Assistance Policy Directive 06-05 require CTOs to evaluate contractor performance at least annually. One reason is to provide information for future source selection and other acquisition decisions. In its July 2007 report, the RIG found that USAID did not complete the annual contractor performance evaluation for the year ending May 2006 until May 23, 2007, and the evaluation for the year ending in May 2007 was not finalized until August 29, 2007. Consequently, when USAID exercised two option periods for LGP-2 in July and December 2006, which increased the estimated cost of the contract by \$90 million, USAID officials did not have essential performance information available on which to base the decision. The RIG stated that it believed that this occurred because USAID/Iraq did not make contractor performance evaluation a priority.

SIGIR's current review additionally found that the required contractor evaluation for the year ending May 2008 has similarly not been completed. The CTO stated that he had completed the evaluation, but technical problems had prevented the evaluation from being posted for comment by RTI. A senior USAID/Iraq official stated that action was being taken to push the process to completion. Without the required evaluation, the U.S. government will not have complete information to evaluate RTI properly on future acquisition actions. Additionally, the USAID policy directive states, "GAO (Government Accountability Office) has ruled that failure to properly document contractor performance information and make it available for use in source selections for the same or similar items was sufficient basis to sustain a protest of a contract award in a subsequent source selection." On September 23, USAID provided us with documents showing that the May 2008 evaluation report was in process.

Although the contractor performance reports were not submitted in a timely manner, the report for the period May 9, 2006, to May 8, 2007 generally shows that USAID was pleased with RTI's performance. On a scale of 0 to 5, where 0 is "unsatisfactory" and 5 is "outstanding," USAID rated RTI a 3, or "good," in all four categories evaluated, including quality of product or service, cost control, timeliness of performance, and business relations. Informal appraisals of RTI's performance by senior USAID and U.S. State Department leaders were generally positive. Senior State Department officials from the Office of Provincial Affairs expressed high satisfaction with the LGP program and RTI performance. Baghdad PRT leaders praised RTI and stated that RTI was a valuable asset.

## **Voucher Review**

USAID's review and approval process for contractor invoices is inadequate. There are several criteria requiring that an individual with knowledge of the contractor's activity review vouchers. However, according to USAID, the CTO is in the best position to know enough about the program to determine whether RTI expenditures listed on monthly invoices are appropriate. Yet, SIGIR's review found no evidence that this review is being conducted.

SIGIR identified three criteria requiring a CTO review of vouchers. First, Section G.1 of the LGP-2 contract states that the CTO is the authorized representative of the government to approve vouchers under this contract. Second, Section E of the CTO designation order states that the CTO must

administer financial management responsibilities by, among other things, “reviewing the contractor’s request for payments (usually the contractor’s vouchers or invoices) and providing or denying your administrative approval in accordance with the stipulations of the contract administration plan and the procedures in Automated Directives System Chapter 630, Payables Management. This chapter states that your administrative approval constitutes the written evidence that the goods and/or services specified on the invoice were received and conform to the requirements or performance milestones in the contract—effectively the acceptance of these goods and/or services.” The letter also requires the CTO to recommend the disallowance of costs to the Contracting Officer, in accordance with the Automate Directives System Chapter 630. Third, USAID’s *Guide for Managers and Cognizant Technical Officers*, emphasizes that the CTO should review, analyze, and evaluate the contractor’s progress, performance and compliance with technical, price, and schedule provisions of the contract.

During our review, we found no documentary evidence of CTO review of vouchers and invoices and the CTO is not approving the vouchers. When we requested copies of vouchers and RTI invoices from USAID, the agency directed us to obtain them from RTI. USAID officials told us that the CTO is not required to document his review and approval of vouchers since the contract states that payment will be by means of a letter of credit. RTI draws these funds in advance. However, according to USAID officials, the CTO reviews the monthly invoice and, based on the quarterly implementation plan and his knowledge of the program, determines if any expenditure appears to be outside the scope of the program. If there are any such items, then the CTO e-mails an RTI accountant in North Carolina to determine if, in fact, the expenditure is appropriate. However, without a signed document there is no evidence that this review actually takes place.

## **Possible Overpayment**

During the course of its work on the LGP contract, RTI physically lost \$185,481 in cash. With the concurrence of the contracting officer, RTI claimed the loss as an expense and the government subsequently paid RTI both its General and Administrative expense on the lost money along with its fixed fee. The amount paid totaled \$56,906. SIGIR questions this decision.

On August 19, 2004, RTI physically lost \$185,481 in LGP cash. It reported the loss to USAID, and on October 3, 2004, the USAID/Iraq Contracting Officer issued a letter to RTI stating that she had considered the facts and circumstances described in RTI’s notice of cash loss and had reviewed RTI’s Cash Management Policies and Procedures. The letter stated, “Based on the facts surrounding the incident giving rise to the loss and RTI’s statement of compliance with the policies and procedures identified in Attachment B, I determine that the loss of cash and cash equivalents totally [sic] \$185,481 was unforeseen [sic] and without the fault or negligence of RTI. Consequently, the loss is considered an allowable expense under the subject contract.”

On October 25, 2004, RTI prepared, signed, and submitted a Standard Form 1034 for \$242,386.57. RTI also submitted an accompanying invoice with a miscellaneous business expense of \$185,481, General and Administrative expense (based on 21 percent of the cost) of \$38,951.01 and fixed fee of \$17,954.56. The invoice total was the same as the voucher, \$242,386.57.

While the Contracting Officer made the determination to reimburse RTI for the lost cash, we believe that the loss was incorrectly identified as an allowable expense. While the loss of cash may be

classified as an expense (extraordinary loss) on the income statement, the later replenishment of the cash, by whatever means, reverses the expense. Had RTI's insurance carrier reimbursed them for the loss, the recorded expense would have been credited upon receipt of the cash reimbursement. In this instance, USAID replaced the cash. Therefore, RTI incurred no expense and should not have been entitled to charge the U.S. government for its General and Administrative expense on the loss. Furthermore, it is unclear how the fixed fee charged on the invoice was calculated. The LGP 1 contract did not specify a base or rate for calculating how the fee would be paid on the level-of-effort contract. Based on the negotiation memorandum for the contract, it appears that the fee is based on a percentage of total costs, including subcontracts and consultants. The fee charged on the invoice is approximately 8 percent of the lost cash plus General and Administrative expense. Because the cash was reimbursed, it is no longer an expense, therefore RTI should not have been allowed any associated fee. Therefore, the General and Administrative expense of \$38,951.01 and the fixed fee of \$17,954.56, or a total of \$56,905.57, would not have been allowed if the Contracting Officer had not identified the loss as an allowable expense.

# Conclusions and Recommendations

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As of June 30, 2008, obligations under these contracts are approximately \$598,218,622, and disbursements are \$513,027,336. SIGIR's primary cost concern is that data on the costs of individual activities was not available for the first four years of the contracts because RTI reports did not identify costs at an activity level. Instead, RTI only collected costs at an aggregate level. Currently, program costs are being reported in five broadly defined activities, not at the task level supporting each of the activities. This approach may provide sufficient information for programs with relatively low funding levels. However, in a program with over \$500 million in costs, more specific reporting on services performed, outcome, and costs is necessary for effective oversight.

USAID has spent or obligated over \$500 million on the two RTI contracts over five years to promote and strengthen local governance in Iraq. However, for the first four years of these contracts the outcome is unclear because basic contract requirements were not met, particularly the contract requirements for development of a performance plan and baseline data against which contractor performance and progress could be assessed. In April 2007, the necessary plans and reports were put in place, but not before \$329 million had already been spent. SIGIR reviewed the plans and reports submitted along with subsequent plans and found that they contain the needed information on contractor activities along with benchmarks for measuring progress. Together, these documents show that for the last 18 months progress has been made in improving local governance. SIGIR interviews with personnel with direct knowledge of program activities indicate that the current outcomes of this program are positive. SIGIR also reviewed two activities conducted under this contract, the development of Provincial Development Strategies and the implementation of the Geographical Information System, and in both cases found indications of progress toward goals.

Recent changes have begun to address this problem and improved USAID's contract management ability. These changes include assigning USAID representatives at the PRTs responsibility for monitoring and reporting on program activities. Other problems SIGIR identified include delays in conducting contractor performance assessments, and an absence of invoice reviews.

## Recommendations

We recommend that USAID's Mission Director-Iraq take the following actions:

- Direct USAID officials to establish a timeframe for completing the operations manual that provides guidance to activity managers overseeing contractor performance.
- Direct the CTO to review and approve RTI vouchers and invoices as required by the contract. Also, require the CTO to maintain documentation of the approvals in the contract file.
- Direct that action be taken to recover the General and Administrative fee and the fixed fee paid to RTI on the \$185 thousand in lost funds.



## **Lesson Learned**

The overall success of a contract is determined by the success of its individual activities or tasks. Consequently, management needs information at the activity level on expected outcomes, progress toward achieving outcomes, and costs to determine how discrete activities contribute to overall program goals and objectives. This is particularly the case for large dollar-value contracts.

## **Management Comments**

USAID concurred with the report findings and recommendations and identified steps it is taking to address each recommendation. According to USAID, it has already taken the following steps:

- USAID has issued guidelines for its PRT representatives that clarify their role. It has also implemented a comprehensive orientation program for new PRT representatives, and stated that it would hold PRT coordination meetings with all representatives several times a year. USAID also recognized that it would be useful to establish Mission-wide guidelines to clarify the roles and responsibilities of program management staff and would do so at its next gathering of PRT representatives.
- USAID stated that the CTO, Controller, and Contracting Officer have discussed the contract requirement for administrative review of expenditures, and established procedures to improve its voucher and invoice review processes.
- USAID agreed that the amounts billed for General and Administrative and fixed fee associated with the allowed cash loss should not have been paid and stated that it would include this matter as part of its contract closeout process.

## Appendix A – Scope and Methodology

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This audit addresses the U.S. government's two contracts with Research Triangle Institute to execute the local governance program. This audit specifically examined contract cost, outcome, and management oversight, including any vulnerability to fraud, waste, and abuse.

To determine the outcome and management oversight of these contracts during the first four years, SIGIR relied primarily on audit work performed by USAID's Regional Inspector General, in Baghdad, Iraq. The RIG issued two audit reports on local governance program activities, in July 2006 and again in 2007. These reports identified numerous problems with the program in its first four years of activity and the information presented in this report on local governance program activities is taken directly from those reports. SIGIR used these reports to avoid duplication of effort between SIGIR and the RIG, and to minimize the impact of the audit on USAID's Iraq operations.

To determine the costs, outcome, and management oversight of local governance activities from April 2007 to the present, we did the following:

- reviewed the basic contracts and all associated modifications
- reviewed financial reports
- reviewed quarterly, semiannual, and annual activity reports, LGP reports and PRT weekly summary reports
- reviewed Provincial Development Strategy documents;
- interviewed knowledgeable officials at USAID, the Office of Provincial Affairs, several PRTs, military officials at one PRT, senior officials at RTI; and the USAID/RIG;
- obtained an understanding of USAID's process for validating RTI's quantitative data relating to LGP program outcomes.

To determine the adequacy of internal controls used for contract and program management we did the following:

- reviewed the request for proposals, negotiation memorandums, and other documents relating to the solicitation and award of the contracts;
- reviewed supporting documentation for all nine LGP 2 subcontractors and Subcontractor Selection and Price Justification Memorandums to identify the reasons for selection and areas of expertise;
- reviewed copies of the contractor performance reports;
- reviewed copies of invoices, pay vouchers, and financial reports;
- reviewed a USAID/Iraq Mission Director memorandums identifying the roles of USAID PRT representatives;

- developed an understanding of USAID’s process for reviewing RTI expenses under the contract through interviews and analysis of the financial documents;
- developed an understanding of the Letter of Credit Advanced Payment authorization;
- reviewed relevant Defense Contract Audit Agency and USAID/Iraq Inspector General reports;
- reviewed a copy of the most recent annual report of government property in contractor’s custody;
- reviewed the hard copy contract files at USAID; and
- interviewed knowledgeable officials at USAID, the PRTs, RTI, and the USAID/Iraq Regional Inspector General.

This audit was performed by the Special Inspector General for Iraq Reconstruction 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. It was completed during the period of July 2007 through August 2008.

We conducted this performance audit from July 2007 to August 2008 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 reviewed financial data relating to contract costs compiled and maintained in RTI accounting systems, Costpoint and AccPac. We relied on these systems as the official source because it is the most complete source for such data. Because the financial data was not critical to our findings, we determined that performing substantive testing of the reliability of the accounting system or the financial data was not necessary.

We also reviewed performance data produced by RTI systems relating to program outcomes. RTI uses four internally designed databases to document and report on LGP training, conferences, and technical assistance activities. The software application comprises licensed versions of Microsoft Access 2003 at RTI headquarters and in the five regional hubs. We relied on the RTI systems as the official source because it is the most complete source for such data. The performance data was not critical to our findings. Although we obtained evidence that supported some of the data, we determined that performing substantive testing of the reliability of RTI systems or the performance data was not necessary.

## **Internal Controls**

In conducting the audit, we assessed certain internal controls pertinent to the audit objectives with respect to RTI contracts. Specifically, we identified and assessed internal or management controls including

- contract award
- overseeing contract performance
- financial management
- management of government property in the custody of the contractor

## **Prior Coverage**

In conducting this audit, we reviewed applicable reports issued by SIGIR, the Defense Contract Audit Agency, USAID/Iraq – Inspector General, and PricewaterhouseCoopers LLP.

### ***SIGIR Audit Reports***

Report No. SIGIR-07-015, *Review of the Effectiveness of the Provincial Reconstruction Team Program in Iraq*, October 18, 2007

Report No. SIGIR-07-014, *Status of the Provincial Reconstruction Team Program Expansion in Iraq*, July 25, 2007

### ***Defense Contract Audit Agency Reports***

Report No. 1281-2007A17900065, *Audit of Direct Costs Incurred January 1, 2006 through December 31, 2006 on USAID Contract No. 267-C-00-05-00505-00*, September 11, 2007

### ***USAID/Iraq – Inspector General Reports***

Report No. E-267-07-008-P, *Audit of USAID/Iraq’s Participation in Provincial Reconstruction Teams in Iraq*, September 27, 2007

Report No. E-267-07-007-P, *Audit of USAID/Iraq’s Local Governance Activities*, July 31, 2007

Report No. E-267-06-003-P, *Audit of USAID/Iraq’s Local Governance Activities*, July 10, 2006

Memorandum No. 03-004, *USAID’s Compliance with Federal Regulations in Awarding the Iraq Sub-National Governance and Civic Institution Support Contract*, September 9, 2003

### ***PricewaterhouseCoopers LLP Financial Audit Reports***

Research Triangle Institute, *Financial Statements, Schedules and Other Information Related to Federal Awards for the Year Ended September 30, 2006 and Reports Under OMB Circular 133-A Thereon*

## Appendix B—Contract Solicitation and Award

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**The LGP-1 Contract** - On January 13, 2003, the USAID Acting Administrator granted a waiver for the solicitation of the LGP 1 contract that allowed the agency to use expedited acquisition and assistance procedures to support urgent needs of the Iraq program. USAID Acquisition Regulation 706.302-70 grants the authority to provide the waiver and states, “Full and open competition or otherwise have an adverse effect on programs conducted for the purposes of foreign aid, relief, and rehabilitation.” USAID selected limited competition because in January 2003, the Office of Procurement was informed that award had to be made by the end of February 2003. USAID issued the request for proposal March 4, 2003. Proposals were due on March 17, 2003.

The request for proposal was provided to three prospective offerors; it was not advertised on the federal website because the procurement was being conducted using other than full and open competition procedures. According to the Memorandum of Negotiation, the three prospective offerors were experienced and knowledgeable in the field of local governance. By the closing date of March 17, two of the offerors had declined to submit an offer, citing other commitments or concerns that they could not meet expectations. As a result, RTI became the sole offeror for the solicitation.

In Washington, D.C., a technical evaluation committee and a cost evaluation committee analyzed RTI’s offer. The technical evaluation committee found RTI to be technically acceptable and gave RTI a good rating. RTI’s revised cost proposal, covering one base year and two option years, was for \$434,335,643, excluding fees. USAID’s Contract Audit Management office assisted the Contracting Officer in evaluating RTI’s cost proposal. Also, a representative of the Contract Audit Management office made a site visit to RTI’s North Carolina office and obtained documentation supporting the RTI cost proposal. Based on the analysis conducted under limited competition, the on-site audit, and supporting documentation for final revised costs proposed, RTI’s proposed costs were deemed fair and reasonable. The final negotiated fee for a base year and two option years was \$31,734,866. USAID also evaluated RTI’s past performance.

USAID expected the contract to include one base year plus two option years but only one option year plus forty-five days was exercised. According to an RTI official, the government determined that the contract was not correctly bid, and had to be re-bid.

On September 9, 2003, the RIG issued memorandum 03-004 on USAID’s compliance with federal regulations in awarding the LGP 1 contract. The RIG determined that USAID had complied with the applicable federal regulations for authorizing other than full and open competition, assessing the contractor’s ability to perform, and conducting the pre-solicitation, selection and negotiation process. The memorandum further stated, “However in making its award to RTI, USAID did not prepare and use adequate needs-based support for determining the level of effort or technical assistance procured under the contract.” The Inspector General determined that the level of effort called for in the request for proposal and subsequent contract award was not based on an analysis of the requirements for possible local government assistance in Iraq. Therefore, the contract may have been awarded in an amount in excess of need. The review determined that the contract budget was developed to justify spending the available funding of approximately \$150 million within one year rather than being based on an assessment of estimated needs.

**The LGP-2 Contract** - USAID issued the request for proposal for the LGP 2 contract on November 24, 2004. Proposals were due on January 11, 2005. Three offerors submitted proposals and provided past performance references. The Contracting Officer determined that one of the proposals had not addressed the requirements of the solicitation. Two USAID committees analyzed the other two proposals in Amman, Jordan. A technical evaluation panel and a cost review committee reviewed the proposals.

The Technical Evaluation Panel ranked RTI's proposal as the highest technically qualified offer. The two remaining offerors were included in the competitive range, and disparity in the quality of the proposals was considered to be insubstantial. However, the Contracting Officer requested revised proposals from the two offerors to address discussion points in the technical evaluation panel's evaluation. The offerors responded on March 3, 2005, with revised proposals.

The technical evaluation team submitted final rankings on March 8, 2005. RTI's score was substantially higher than the other offeror's score. The other offeror had the lowest total price, which was almost \$50 million less than RTI's lowest total price; however, the offeror was notified that its proposal was no longer considered technically viable and was eliminated from the competitive range. Therefore, no best value decision was made. USAID performed a cost realism analysis to determine the most probable cost on the contract, and accepted RTI's proposed budget and total cost of \$218,761,081. The contract was signed on April 26, 2005, and became effective May 9, 2005.

# Appendix C—Examples of Program Monitoring Plan Indicators

## LGP M&E Indicator Values

<b>9. A: Number of Provincial and District Councils that met project criteria for functioning during the last six months</b>			
<b>Year</b>	<b>Target</b>	<b>Actual</b>	<b>Notes</b>
2005	Baseline - 0	0	Provincial council was elected in October 2004. Three of Iraq's 18 provinces are part of the Kurdish region.
2006	15 PCs		
2007	15 PCs, 10 districts	16 PCs; unable to collect data on Diyala PC. Erbil PC failed to pass project criteria. 12 districts.	The district councils to be measured are those where embedded PRTs are located.
2008	15 PCs, 16 districts	17 PCs. Erbil PC failed to pass project criteria. 27 district councils.	The district councils measured are for ePRT locations in Anbar, Baghdad, North Babil and Wasit.

<b>9. B: Number of Provincial Councils that invested in projects according to public investment priorities identified in their PDS during the last six months</b>			
<b>Year</b>	<b>Target</b>	<b>Actual</b>	<b>Notes</b>
2005	Baseline	0	Provincial development strategies were to be developed by 16 provinces in 2006-2007 and then coupled with assignment of national budget resources.
2006	0	0	
2007	16 PCs	16 PCs; unable to evaluate Erbil. Dahuk has not completed its PDS.	
2008	18 PCs		

<b>9.1. A: Milestones of legislative progress related to local government interaction through the legal framework with national government impact existing and newly proposed legislation and the legislative process</b>			
<b>Year</b>	<b>Target</b>	<b>Actual</b>	<b>Notes</b>
2005	[no milestone targeted]		
2006	<b>Milestone 1:</b> Provincial Councils conduct regional & national conferences on enabling legislation.	Completed	
	<b>Milestone 2:</b> PCs draft, adopt, and submit Provincial Powers Law to COR.	Completed	
	<b>Milestone 3:</b> PCs form local government association & set a legislative agenda for 2007.	Completed	
2007	<b>Milestone 4:</b> LGA lobbying campaign for Provincial Powers Law.	Completed	Law passed by COR in
2008	<b>Milestone 5:</b> PCs draft Provincial Fiscal Decentralization Law. <b>Milestone 6:</b> LGA attains legislative agenda for 2008.	In progress	2008 agenda to be formalized in December 2007

Note: RTI's first program monitoring plan was approved by USAID in April 2007.

<b>9.1. B: Number of Provincial Councils that finalized their PDS for use as the province's public investment plan</b>			
<b>Year</b>	<b>Target</b>	<b>Actual</b>	<b>Notes</b>
2005	Baseline	0	Conferences on PDS began in 2006 and continued in 2007. PC finalization of the provinces' PDS should happen in late 2007.
2006	0	0	
2007	16 PCs	14 PCs	
2008	18 PCs	17 PCs	Anbar, Salah Ad Din and Diyala completed the development of their PDS. Dahuk governor approved the development of a PDS in March 2008 and not started till now.

<b>9.2. A: Number of provincial councils with more than 50% of current council members who have demonstrated performance of key competencies</b>			
<b>Year</b>	<b>Target</b>	<b>Actual</b>	<b>Notes</b>
2005	0	0	A methodology for evaluating competence was attempted in 2006 and revised in 2007.
2006	0	0	
2007	5 cumulative	<b>Babil PC:</b> certified in March 2007. <b>Kirkuk PC:</b> certified in May 2007. <b>Baghdad PC:</b> certified in July 2007.	LGP expatriate assigned to address competency issues resigned in July 2007. Replacement expected to be in place in November 2007.
2008	15 cumulative	<b>Karbala PC:</b> certified in December 2007. <b>Najaf PC:</b> certified in December 2007. <b>Basrah PC:</b> certified in January 2008.	LGP expatriate assigned to address competency issues resigned in February 2008.

<b>9.2. B: Number of provinces that have used GIS capacity to produce city maps with utility overlays that inform planning for delivery of essential services</b>			
<b>Year</b>	<b>Target</b>	<b>Actual</b>	<b>Notes</b>
2005	Baseline	0	
2006	0	0	GIS implementation in Basra city as a pilot project.
2007	2	1, Basrah	Project expanded to 18 provinces in April 2007.
2008	15	1, Basrah	Detailed progress can be seen in the index table for GIS.



<b>9.2. C: Capital budget funds assigned to provincial governments in FY 2006-2008 that were contracted for projects</b>			
<b>Year</b>	<b>Target (\$ billions)</b>	<b>Actual</b>	<b>Notes</b>
<b>2005</b>	Baseline 0		No capital budget funds were assigned to provinces in 2005
<b>2006</b>	\$2.0 assigned for commitment thru 18 months	18 provinces committed 92% of 2006 provincial capital budget allocation in 12 months (as of Sept. 2007).	Project funds were committed in 2006 and 2007.
<b>2007</b>	\$2.3 assigned for commitment thru 15 months	18 provinces committed 84% of 2007 provincial capital budget allocation in 11 months (as of Feb. 2008).	
<b>2008</b>	Est. \$2.5 billion assigned for committing thru 12 months	15 provinces (excluding the KRG) were allocated \$3.34 billion assigned for committing thru 12 months.	In February, the COR passed the 2008 Budget Law.

<b>9.3. A: Number of subnational councils or other government offices that used mechanisms to solicit citizen input related to public policy decisions or issues in the last six months.</b>			
<b>Year</b>	<b>Target</b>	<b>Actual</b>	<b>Notes</b>
<b>2006</b>	Baseline	6	Targets may be adjusted.
<b>2007</b>	12 PCs	10 PCs	
<b>2008</b>	15 PCs (cumulative)	18 PCs	

### **Operational Plan Indicator Values**

<b>9.2.1.A Number of councils that received project-supported technical assistance for performance improvement in the last six months</b>				
<b>Region</b>	<b>Province</b>	<b>PC</b>	<b>LC</b>	<b>Total</b>
Central	Baghdad	1	18	<b>19</b>
North	Erbil	1	0	<b>1</b>
	Ninawa	1	29	<b>30</b>
	Sulaymanyah	1	0	<b>1</b>
	Tamim	1	12	<b>13</b>
South	Basrah	1	15	<b>16</b>
	Maysan	1	0	<b>1</b>
	Muthanna	1	0	<b>1</b>
	Thi Qar	1	6	<b>7</b>
South Central	Babil	1	10	<b>11</b>
	Karbala	1	8	<b>9</b>
	Najaf	1	4	<b>5</b>
	Diwaniya (Qadisiyah)	1	9	<b>10</b>
North Central	Wasit	1	16	<b>17</b>
North Central	Anbar	1	11	<b>12</b>
Central	Salah ad Din	1	11	<b>12</b>
<b>Total</b>		<b>16</b>	<b>149</b>	<b>165</b>

9.2.1.B Number of people who received project-supported training to strengthen local government in the last six months.								
Region	Province	PC		LC		Total		Total
		Male	Female	Male	Female	Male	Female	
Central	Baghdad	91	29	459	80	550	109	659
North	Duhuk	2	0	310	155	312	155	467
	Erbil	5	9	739	326	744	335	1079
	Ninawa	16	5	239	9	255	14	269
	Sulaymanyah	4	0	244	120	248	120	368
	Tamim	1	6	279	233	280	239	519
South	Basrah	54	20	368	56	422	76	498
	Maysan	20	5	93	14	113	19	132
	Muthanna	33	5	79	25	112	30	142
	Thi Qar	55	8	148	29	203	37	240
South Central	Babil	19	10	381	64	400	74	474
	Karbala	153	23	299	83	452	106	558
	Najaf	65	27	405	111	470	138	608
	Diwaniya (Qadisiyah)	29	16	50	16	79	32	111
	Wasit	16	17	353	63	369	80	449
North Central	Anbar	30	3	323	2	353	5	358
	Salah ad Din	22	4	367	8	389	12	401
<b>Total</b>		<b>615</b>	<b>187</b>	<b>5136</b>	<b>1394</b>	<b>5751</b>	<b>1581</b>	<b>7332</b>

9.2.1.C Number of people in government who received project-supported training to strengthen transparency in the last six months								
Region	Province	PC		LC		Total		Total
		Male	Female	Male	Female	Male	Female	
Central	Baghdad	1	0	101	12	102	12	114
North	Duhuk	0	0	47	34	47	34	81
	Erbil	0	0	91	22	91	22	113
	Ninawa	0	0	1	0	1	0	1
	Sulaymanyah	1	0	40	25	41	25	66
	Tamim	1	0	76	21	77	21	98
South	Basrah	0	0	32	0	32	0	32
	Thi Qar	18	5	11	0	29	5	34
South Central	Babil	2	1	90	2	92	3	95
	Karbala	1	2	9	0	10	2	12
	Najaf	13	6	44	1	57	7	64
	Diwaniya (Qadisiyah)	14	15	0	0	14	15	29
North Central	Anbar	1	0	167	2	168	2	170
	Salah ad Din	12	3	154	0	166	3	169
<b>Total</b>		<b>64</b>	<b>32</b>	<b>863</b>	<b>119</b>	<b>927</b>	<b>151</b>	<b>1078</b>

<b>9.3.1. A: Number of mechanisms for local citizen engagement used at least twice in project-targeted areas in the last six months</b>		
<b>Province</b>	<b># of mechanisms</b>	<b>Description of Mechanisms</b>
Anbar	2	<ul style="list-style-type: none"> <li>• Provincial website</li> <li>• Weekly PC newspaper called Sot Al-Anbar.</li> </ul>
Babil	4	<ul style="list-style-type: none"> <li>• Weekly PC meeting with citizens</li> <li>• PC website</li> <li>• 2 PC phonelines for citizen input.</li> <li>• Monthly Babil environment newspaper called (BIATONA)</li> </ul>
Baghdad	5	<ul style="list-style-type: none"> <li>• Weekly PC meeting with citizens</li> <li>• PC website.</li> <li>• Weekly PC Newspaper</li> <li>• Al-Mansour Municipality Council Bio-monthly newspaper</li> <li>• Karrada district council website</li> </ul>
Basrah	3	<ul style="list-style-type: none"> <li>• PC website.</li> <li>• Weekly PC Newspaper called Albasrah</li> <li>• Almaydan periodical newspaper issued from the PC Development &amp; Reconstruction Committee.</li> </ul>
Dhi Qar	1	<ul style="list-style-type: none"> <li>• PC website</li> </ul>
Dohuk	1	<ul style="list-style-type: none"> <li>• Quarterly PC newspaper</li> </ul>
Diyala	1	<ul style="list-style-type: none"> <li>• PC website</li> </ul>
Diwaniya (Qadisiyah)	2	<ul style="list-style-type: none"> <li>• Weekly PC Newspaper called “Sada Al-Diwaniya”</li> <li>• Periodical TV/Radio interviews with PC members where citizens participate in discussions</li> </ul>
Erbil	1	<ul style="list-style-type: none"> <li>• Provincial website</li> </ul>
Karbala	5	<ul style="list-style-type: none"> <li>• PC website</li> <li>• Weekly PC newspaper</li> <li>• Monthly newsletter from Education Directorate Quarterly magazine issued from the Agriculture DG called Karbala Agriculture</li> <li>• Quarterly magazine issued from the Environment DG called the environment &amp; society</li> </ul>
Kirkuk	1	<ul style="list-style-type: none"> <li>• PC Website.</li> </ul>
Maysan	2	<ul style="list-style-type: none"> <li>• Provincial website</li> <li>• Bio-monthly PC newspaper called “Sada Maysan”</li> </ul>
Muthanna	1	<ul style="list-style-type: none"> <li>• PC website</li> </ul>
Najaf	2	<ul style="list-style-type: none"> <li>• Monthly PC newspaper</li> <li>• Provincial website.</li> </ul>
Ninawa	1	<ul style="list-style-type: none"> <li>• TV interviews with the Governor.</li> </ul>
Salah Ad Din	2	<ul style="list-style-type: none"> <li>• Weekly PC newspaper called “Al-Muntasaf”</li> <li>• Periodical TV/Radio interviews with PC members where citizens participate in discussions</li> </ul>
Sulaymaniyah	2	<ul style="list-style-type: none"> <li>• PC website</li> <li>• Governorate website</li> </ul>
Wasit	3	<ul style="list-style-type: none"> <li>• Monthly PC newspaper called “Wasit Provincial Council Newspaper”</li> <li>• PC website</li> <li>• 1 PC phone lines for citizen input</li> </ul>
<b>18 Provinces</b>	<b>39</b>	<b>Total</b>

Source: RTI Semi-Annual Performance Monitoring Report, June 10, 2008. We did not audit the data or verify RTI computer system controls.

## Appendix D—Subcontractors

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Nine subcontractors were selected by RTI to support LGP 2. Seven of the nine subcontractors also supported LGP 1. All subcontractors were approved by USAID as part of the award process.

### LGP-1 Subcontractors

<b>Subcontractor</b>	<b>Type</b>	<b>Subcontract Amount</b>	<b>Period of Performance</b>
American Manufacturers Export Group	CPFF	\$ 1,479,004	06/02/03 - 05/09/05
BearingPoint	CPFF	3,142,509	04/11/03 - 05/09/05
BSH	FP	10,451,626	06/01/03 - 05/09/05
Chemonics Int'l, Inc.	CPFF	16,973,329	04/11/03 - 03/25/05
Creative Associates Int'l, Inc.	CPFF	4,307,106	04/02/03 - 02/28/05
Custer Battles	FM	7,978,477	10/01/03 - 03/25/04
Environmental Quality Int'l	CPFF	87,541	10/15/03 - 09/30/04
Int'l City/County Mgmt Assoc	CPFF	2,579,227	05/01/03 - 05/09/05
Int'l Foundation for Election Systems	CPFF	861,936	04/11/03 - 09/30/04
MPRI, Inc.	CPFF	1,257,629	06/09/03 - 03/25/05
MPRI, Inc.	TM	1,885,000	09/03/03 - 03/25/05
Near East Foundation	CPFF	398,586	04/11/03 - 06/30/04
RTI Polska	TM	1,410,894	07/28/03 - 01/31/05
Solace Enterprises	TM	1,290,840	07/.23/03 - 01/31/05
Unity Resources Group	TM	38,822,599	03/26/04 - 05/09/05
VNG Int'l	TM	\$ 1,456,149	08/01/03 - 05/09/05

## Local Governance Program-2 Subcontractors

<b>Subcontractor</b>	<b>Type</b>	<b>Subcontract Amount</b>	<b>Period of Performance</b>
BearingPoint	CPFF	\$ 9,653,591	05/09/05 - 08/08/07
BSH	FP	912,795	05/10/05 - 05/10/06
Creative Associates Int'l, Inc.	CPFF	624,394	05/09/05 - 12/31/08
Greenfire Int'l	FP	99,500	03/01/06 - 05/31/06
Int'l City/County Mgmt Assoc	CPFF	1,521,178	05/09/05 - 12/31/08
NYBI	FP	N/A	07/26/06 - 05/08/09
RTI Polska	T&M	128,016	11/01/05 - 03/01/06
Unity Resources Group	T&M	92,900,000	05/09/05 - 12/31/08
VNG Int'l	T&M	2,527,439	05/09/05 - 12/31/08

# Appendix E—Management Comments USAID



**USAID | IRAQ**  
FROM THE AMERICAN PEOPLE

October 16, 2008  
08-93

## MEMORANDUM

**TO:** Assistant Inspector General for Audit – SIGIR - David R. Warren

**FROM:** Mission Director – Christopher D. Crowley *Christopher D. Crowley*

**SUBJECT:** **Mission Response to Draft Audit Report SIGIR-09-003, dated October 1, 2008 - Local Governance Program Contracts with Research Triangle Institute**

Mission management concurs with the general audit findings that significant improvements have been made in ensuring that resources are better focused on agreed upon objectives and that the results achieved are properly documented. Nonetheless, we agree that there remains room for improvement on the part of the Local Governance Program II (LGP II) in its remaining three months, and the successor program, LGP III, which begins in January of 2009.

### Recommendations

SIGIR recommends that USAID/Iraq's Mission Director take the following actions:

1. Direct USAID officials to establish a timeframe for completing the operations manual that provides guidance to activity managers overseeing contractor performance.
2. Direct CTO to review and approve RTI vouchers and invoices as required by the contract. Also require the CTO to maintain documentation of the approvals in the contract file.
3. Direct that action be taken to recover the General and Administrative fee and the fixed fee paid to RTI on the USD \$185,000 in lost funds.

### Management Comments from USAID/Iraq

- 1 Recommendation #1: Direct USAID officials to establish a timeframe for completing the operations manual that provides guidance to activity managers overseeing contractor performance.

As noted in the draft report, over the last two years, USAID has increasingly relied on its PRT representatives to strengthen its program planning and monitoring functions at the provincial level. As an essential element of the Mission's composite management capacity in Iraq, PRT representatives contribute significantly to

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USAID's ability to manage for results and account for US taxpayer resources. Instead of the "manual" referenced in the Mission Director's December 2006 memorandum, USAID issued guidelines for our PRT representatives that clarified and supported their role. Additionally, other actions were taken to reinforce this Mission policy. For example, the Mission has implemented a comprehensive orientation program for new PRT representatives and holds PRT coordination meetings with all representatives several times a year. The agendas of both of these forums emphasize management responsibilities and intra-Mission roles/coordination. Additionally, for some individual programs, though not for LGP, the division of responsibilities between PRT representatives and Baghdad-based staff has been communicated in writing.

Notwithstanding, given the frequent turn-over of staff and the less than authoritative elaboration of activity manager and CTO functions in USAID's Agency-wide directives, we agree that it would be useful to establish in writing Mission-wide guidelines to clarify the roles and responsibilities of program management staff based in Baghdad and the provinces, to reflect the particular current circumstances in Iraq. Such documentation will be discussed and finalized at the next gathering of USAID's PRT representatives. [Note: As currently envisioned by Mission management, it would be more appropriate to describe the role of activity managers as assisting in the monitoring and execution of programs. CTOs play the primary "oversight" role for overall contractor performance.]

2. Recommendation #2: Direct CTO to review and approve RTI vouchers and invoices as required by the contract. Also require the CTO to maintain documentation of the approvals in the contract file.

The Mission concurs and has completed action to fully address this recommendation as follows: The CTO, Controller and Contracting Officer have discussed the contract requirement for administrative review of expenditures. As required by the contract, the contractor will continue to submit an SF1034 on a monthly basis with accompanying expenditure details which will be administratively reviewed by the CTO. Documentation of the CTO's review will consist of a completed and signed USAID form: "Administrative Approval Form and Checklist" along with additional notes or correspondence, if any, related to that review. That form is particularly used when the paying office is located with a Mission, but should also adequately serve to document the CTO's review for a contract with a letter of credit (LOC) payment mode. The SF1034 is submitted by the contractor on a monthly basis, and the CTO may review costs also on a monthly basis or at other times no less frequently than quarterly under normal circumstances. Questioned or suspended costs may at anytime be referred to the contracting officer for a formal allowability decision. Where a contract includes a LOC payment mechanism, expenditures are reviewed and may be questioned or disallowed, whether or not already paid, as for any cost reimbursement contract.

3. Direct that action be taken to recover the General and Administrative fee and the fixed fee paid to RTI on the USS185,000 in lost funds.

The Mission concurs that amounts billed for G&A and fixed fee associated with the allowed cash loss should not have been paid. Contract EDG-C-00-03-00010 has ended and USAID will immediately include this matter as part of the closeout process. We

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note that payment of the full fixed fee will depend on whether the contractor completed its performance requirements under this term-type cost reimbursement contract, rather than costs incurred and paid.

**Other Issues**

The Mission would like to comment on the following issues raised in the report apart from the recommendations:

**Value for the amount invested.** The underlying agreement is a level of effort contract as pointed out on page 3 of the report, making an assessment of value beyond the delivery of the level of effort more difficult. To remedy this, the Mission is directing RTI to include in its final report, due in March 2009, an assessment of the impact of its training activities-the single largest investment made in local governance. This is intended to address the shortcomings of performance measures that are more output rather than outcomes. As pointed out in the report, LGP II maintains extensive information on the impact of their training, based on participant feedback, PRT observations, and the experience of LGP II's own trainers and advisors. The final report is a deliverable that is intended to address lessons learned and can draw on LGP II's extensive documentary and institutional memory. This assessment will not only benefit the PRTs and USAID as we continue our work in support of local governance in Iraq, but be of direct relevance in formulating the project monitoring plans for LGP III.

**Cognizant Technical Officer.** Under USAID's worldwide operating procedures, the Contracting Officer designates one person as the Cognizant Technical Officer (CTO) for an agreement or contract. This limited delegation of authority for purposes of accountability and proper management must be to one person, regardless of the size of the agreement and activity. PRT-based activity managers support the role and function of the CTO.

**Oversight and role of PRTs.** While PRTs can help focus project activities in provinces and take advantage of local opportunities and resolve local problems, it would be inaccurate to characterize this as "moving oversight or management" to PRTs. Rather, the Mission is engaging PRTs in work planning, monitoring performance and reporting. Oversight and management responsibility vests with the USAID Mission technical office, where the expertise of the CTO ensures overall accountability of USAID resources.

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## Appendix F—Acronyms

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CTO	Cognizant Technical Officer
GIS	Geographical Information System
LGP	Local Governance Program
PDS	Provincial Development Strategy
PRT	Provincial Reconstruction Team
RIG	United States Agency for International Development Regional Inspector General
RTI	Research Triangle Institute
SIGIR	Special Inspector General for Iraq Reconstruction
USAID	United States Agency for International Development

## **Appendix G—Audit Team Members**

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This report was prepared and the review was conducted under the direction of David R. Warren, 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:

Kenneth Bowen

Ed Brooks

Walter Franzen

Frank Gulla

Walt Keys

William Shimp



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