

June 2009

REBUILDING IRAQ

Improved Management Controls and Iraqi Commitment Needed for Key State and USAID Capacity- Building Programs



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Highlights of [GAO-09-526](#), a report to congressional committees

Why GAO Did This Study

Since 2003, the United States has provided \$49 billion to help rebuild Iraq. To build the capacity of Iraq's central and provincial governments to sustain this effort, the United States is implementing programs including Department of State's (State) Provincial Reconstruction Development Committee (PRDC) and the U.S. Agency for International Development's (USAID) National Capacity Development (NCD).

The use of key management controls, such as appropriate organizational structure and program monitoring, helps ensure programs achieve their objectives. Through field visits in Iraq, interviews with program officials, analyses of official reports, and examination of a sample of projects, we assessed whether the PRDC and NCD's management controls support the programs' objectives of building the capacity of Iraq's government. We also assessed Iraq's commitment to sustaining these U.S. programs.

What GAO Recommends

GAO recommends that State address management control weaknesses such as developing measures of effectiveness; that the U.S. Army Corps of Engineers (USACE) and USAID improve financial controls; and that State and USAID document that Iraq shares the cost of these efforts. State and the USACE agreed with our recommendations. USAID is considering our financial control recommendations; GAO considers these important to implement.

View [GAO-09-526](#) or [key components](#). For more information, contact Joseph A. Christoff at (202) 512-8979 or christoffj@gao.gov.

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Improved Management Controls and Iraqi Commitment Needed for Key State and USAID Capacity-Building Programs

What GAO Found

Through the PRDC program, State and USACE work with Iraqis in the provinces to develop proposals and undertake small-scale projects such as building schools, repairing roads, and developing water facilities. However, weaknesses in State's management controls hinder achieving the program objective to build provincial government capacity. First, the program involves multiple organizations and a complex process but had no clearly identified program manager until May 2009 when State designated one in response to GAO's findings. Second, State lacks a performance monitoring system that measures progress toward building provincial capacity to deliver essential services. Third, the program's guidelines and policies have changed frequently, but State did not adequately communicate or consult with the USACE, the program implementer, about these changes. Finally, USACE's financial controls for the timekeeping process did not ensure adequate documentation of time and attendance records for labor charges on projects.

USAID's management controls generally supported the NCD program's objective of building ministry capacity by training Iraqi employees in administrative skills such as planning and budgeting and supporting Iraqi training centers. First, USAID's organizational structure is clear, including who is responsible for overall program management. Second, in response to an audit report, USAID narrowed the NCD program objective to improving ministries' administrative capabilities and clearly linked them to measures of outcome. Some of these measures include Iraqi ministries' execution of their capital budgets, including the number of capital projects approved and the rate of spending on capital projects. USAID reported it was on track to meet or exceed its 2008 targeted results. However, as of March 2009, final data on results were not available. Third, USAID's guidelines and program expectations for NCD are documented, clear, and communicated throughout the organization. However, with regard to financial controls, GAO found that USAID officials did not confirm receipt of goods and services for invoices totaling about \$17 million of \$79 million, prior to payment. The officials did not always document reasons such as security risks, when confirmation was not possible.

Iraq has committed to sustaining U.S.-funded programs and sharing in their costs, but actual budget expenditures for such activities are unclear. For the PRDC program, 16 of the 40 projects in our sample had evidence that the Iraqi government agreed to sustain the project; however, the records did not specify actual financial or budget commitments. For the NCD program, the Iraqi government is supporting the program by providing trainers and allocating funds in their 2009 budgets for training center equipment and other NCD efforts. These funds are to be spent in 2009. We have previously reported that the Iraqi government includes funding in its budgets for investment activities such as operating and maintaining U.S.-funded reconstruction projects and training, but does not subsequently expend these funds.

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Abbreviations

ESF	Economic Support Fund
GRD	Gulf Regional Division
IRRF	Iraq Relief and Reconstruction Fund
ITAO	Iraq Transition Assistance Office
OPA	Office of Provincial Affairs
NCD	National Capacity Development
PPM	Provincial Program Manager
PRDC	Provincial Reconstruction Development Committee
PRT	Provisional Reconstruction Team
SIGIR	Office of Special Inspector General for Iraq Reconstruction
USACE	U.S. Army Corps of Engineers
USAID	U.S. Agency for International Development

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Congressional Committees

Since 2003, the United States has provided \$49 billion to rebuild and stabilize Iraq, including the reconstruction of large water and power plants. Since fiscal year 2008, U.S. agencies have stated that reconstruction has ended and the focus will be on helping Iraq build a sustainable, accountable, and responsive government that can maintain and continue U.S. efforts. Two programs intended to build the capacity of Iraq's government are the Department of State's (State) Provincial Reconstruction Development Committee (PRDC) program and the U.S. Agency for International Development's (USAID) National Capacity Development (NCD) program. The PRDC program funds and implements Iraqi proposals for small-scale projects such as schools, road repair, and water facilities in Iraq's provinces. By having Iraqi officials develop and agree on proposals, State intends to build provincial and local government capacity to identify, plan, and deliver essential services. The NCD program trains Iraqi government employees in administrative skills such as planning and budgeting and supports Iraq's national and regional training centers and individual ministry training programs. Finally, the NCD program advises Iraq's national ministries, including the electricity, oil, water, and planning ministries. The PRDC and NCD programs are funded through the Economic Support Fund (ESF) for Iraq. The PRDC program received \$700 million in ESF funds between November 2006 and February

2008.¹ The NCD program received \$209 million in ESF funds in July 2006, and another \$59.8 million in September 2008 and is scheduled to end in January 2011.²

A key factor in U.S. agencies' ability to achieve their missions and improve accountability is the implementation of appropriate management controls. Management controls help provide reasonable assurance that programs are focused on and can achieve their objectives. Key controls include (1) a clear organizational structure with adequate managerial and staff capacity that establish an effective control environment; (2) monitoring systems that track progress toward achieving desired outcomes; (3) policies and procedures that ensure management directives are carried out and the prompt communication of those policies and procedures; and (4) financial controls that accurately record and document financial transactions in a timely manner.³

This report uses management control elements as criteria to evaluate the PRDC and NCD programs. Specifically, we assessed whether (1) PRDC's management controls support the objective of building provincial government capacity, (2) NCD management controls support the objective of improving the capabilities of national ministries to develop budgets and

¹ESF funding data were obtained from three interagency agreements between State and the U.S. Army Corps of Engineers (USACE) for PRDC and Provincial Reconstruction Team projects. The first interagency agreement signed in November 2006 transferred \$315 million in fiscal year 2006 ESF to USACE. Two amendments were subsequently signed to transfer fiscal year 2007 ESF for the continuation of the PRDC program. The first amendment, signed in August 2007, transferred \$100 million. The second amendment, signed in February 2008, transferred \$285 million of which \$85 million was to be used for operations, maintenance, and planning activities in support of PRDC projects. Under the agreement, funds can be expended until specified performance is completed or terminated. Moreover, funds must be returned to State if they haven't been fully expended by a certain time. Also, the parties can terminate the agreement before completion of the project as long as they provide 30 days written notice to the other party. Funds provided for the 2008 PRDC program, according to State and USAID's Supplemental Appropriations Spending Plan Fiscal Year 2008, were for three programs to (1) implement short-term projects quickly through micro-purchases, grants, and direct procurements; (2) provide engineering experts to help define and assess potential projects funded by the Iraqi provincial governments; and (3) provide direct technical assistance through Provincial Reconstruction Team advisors to Iraqi provincial officials in governance, public finance, city planning and urban management, public works and infrastructure management, and agriculture.

²Data were obtained from USAID contract documents for the National Capacity Development program.

³GAO, *Internal Control and Management and Evaluation Tool*, [GAO-01-1008G](#) (Washington, D.C.: Aug. 2001).

programs, and (3) State and USAID ensure that the Iraqi government is committed to sustaining the PRDC and NCD program efforts. Due to broad congressional interest in issues related to Iraq, we completed this report under the Comptroller General's authority to conduct evaluations on his own initiative.

To assess the management controls, we analyzed project contracts, program files, agency reports, guidelines, financial and programmatic databases, and assessments for both the PRDC and NCD programs. We interviewed officials at State, USAID, and U.S. Army Corps of Engineers (USACE) in Washington, D.C.; Millington, Tennessee; and Winchester, Virginia. In Iraq, we interviewed officials in the Iraq Transition Assistance Office (ITAO), the Office of Provincial Affairs (OPA), the Gulf Regional Division (GRD) and its district offices, at USAID in Baghdad, and the NCD training compound in Karada. We also selected 40 PRDC construction projects that were initiated with fiscal years 2006 and 2007 funds to examine the project monitoring conducted, the process used to implement the projects, and challenges to implementing them. We visited several projects in Babil, Baghdad, Basra, Muthanna, and Thi Qar provinces to verify the information and observe project implementation. To evaluate U.S. efforts to ensure Iraqi government commitment to sustaining U.S. program efforts, we analyzed two elements of commitment—letters or other evidence that the Iraq government pledged to sustain or maintain the programs and projects and evidence that the Iraqi government is sharing the cost of U.S. efforts.

We conducted this performance audit from March 2008 to June 2009 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. A detailed description of our scope and methodology is included in appendix I.

Results in Brief

Through the PRDC program, State and USACE work with Iraqis in the provinces to develop proposals and undertake small-scale projects such as building schools, repairing roads, and developing water facilities. However, State's PRDC program has management control weaknesses that hinder the achievement of its program's objective of building Iraqi provincial government capacity. First, the program involves multiple organizations in a seven-step process; Iraqi officials develop proposals, the

State embassy team approves them, and USACE implements the projects. However, no single program manager was clearly responsible for the overall management of the program until May 2009, when State designated one in response to GAO's findings. Without a manager to oversee the entire program, it is difficult to identify systemic problems and solutions and ensure provincial government capacity is built. Second, State lacks a performance monitoring system that measures outcomes for the PRDC program. State measures PRDC program accomplishments by the number of projects completed and awarded and the amount of funds disbursed. However, this measure does not provide evidence of the program's effectiveness in building provincial government capacity to deliver services. Third, the program's guidelines and policies have changed frequently, as has the program's direction, but State did not adequately communicate or consult with USACE, the project implementer, about these changes. For example, in January 2008, State shifted the focus of the program from building infrastructure to maintaining and sustaining projects. However, according to USACE officials, State did not consult with the USACE until September 2008 about how to implement these changes. As a result, USACE developed over 100 projects that were no longer the focus of the program. Finally, USACE's financial controls for the PRDC timekeeping process did not ensure adequate documentation of time and attendance records used for labor charges on projects. We found 26 percent of the labor charges in our sample had inadequate documentation. As of May 2009, USACE was implementing initiatives to correct this and other deficiencies.

USAID's management controls for the NDC program generally support the program's objective of building the capacity of Iraqi ministries, but there are weaknesses in some internal controls over contract payment. First, USAID's organizational structure clearly shows the units responsible for training Iraqis, developing Iraq's training centers, and consulting with the ministries. The reporting chain up to the USAID official responsible for the overall program is clear. As of February 2009, the program had 278 contract staff, about 70 percent of whom were Iraqi nationals who worked in Baghdad, in the provinces, and at the ministries. Second, to improve the NCD program and better link the objectives to actual program results, USAID responded to a 2008 USAID Inspector General review that found the program lacked indicators for improving the ministries' delivery of services. USAID realized that the objective of improving service delivery was beyond the scope of the program and narrowed the objective to improving the ministries' administrative capabilities. As of September 2008, some indicators of program impact are how Iraqi ministries execute their capital budgets, including the number of capital projects approved

and the rate of capital project expenditures. Third, USAID's guidelines and program expectations are documented and clear, and these are communicated throughout the organization. In contrast, there are weaknesses in some NCD financial controls for contract payment. For example, invoices of about \$17 million of a total \$79 million were not supported by a confirmation of receipt of goods and services prior to payment and there is no requirement to document reasons that preclude confirmation. Also, USAID did not adequately document that it reviewed the contractor's invoices prior to payment. In November 2008, USAID began implementing initiatives to document the review of contractor invoices.

Iraq has committed to sustaining U.S.-funded projects and programs and sharing in their costs, but actual Iraqi expenditures for this purpose are unclear. For the PRDC program, 16 of the 40 projects we reviewed had evidence that the Iraqi government agreed to sustain the project.⁴ However, the letters did not specify financial resources or other support that would be provided. In addition, State could not provide evidence that the Iraqi government followed through and budgeted or provided funds to sustain these projects. For the NCD program, two Iraqi ministries signed memorandums of understanding to support the program, eight other ministries drafted capacity-building strategies with NCD, and five ministries assumed the NCD training using their own instructors. In addition, several ministries committed to and allocated funds in their 2009 budgets to continue the NCD training, provide equipment for training centers, and share the cost of other NCD initiatives. However, we have previously reported that for 2005 to 2008 budget years Iraq did not spend all of its budgeted funds for investment activities, including maintenance and training.

To help these programs achieve their objectives of building the capacity of the provincial governments and central ministries,

- We recommend that, for the PRDC program (1) the Secretary of State ensure that management control weaknesses are addressed in the PRDC program by designating an overall program manager; developing outcome measures of effectiveness; and documenting actual Iraqi government budget allocations and expenditures for fiscal year 2007 PRDC projects;

⁴The United States did not require letters of sustainment for fiscal year 2006 PRDC projects, but State indicated in a memo that U.S. assistance would be matching in nature to ensure buy-in and investment from the local provincial government.

and (2) the Secretary of the Army ensure that USACE initiatives to improve the financial controls for the timekeeping process correct the deficiencies discussed in this report.

- We recommend that, for the NCD program, the USAID Administrator (1) revise USAID policy and procedures for confirming receipt of goods or services applicable to the NCD program in Iraq to include (a) clarifying that confirmation of receipt of goods/or services must be noted separately from the administrative approval or (b) documenting reasons precluding actual confirmation such as prohibitive personal danger or security protection costs; (2) ensure that USAID/Iraq initiatives to improve the documentation of the voucher examiner's required review of contractor invoices correct the deficiencies discussed in this report; and (3) document actual Iraqi government budget allocations and expenditures to ensure funds committed to support NCD activities are expended.

State, USACE, and USAID provided written comments on a draft of this report, which we have reprinted in appendixes II, III, and IV. The USACE also provided technical comments, which we have incorporated where appropriate.

State agreed with our recommendation to address management control weaknesses in the PRDC program. State commented that it had clarified and confirmed ITAO's overall responsibility for the PRDC program and that a program manager has now been designated. State also accepted our recommendation to develop outcome measures of effectiveness for PRDC and clarified that its reporting of projects approved and funds dispersed in the 2207 report to Congress was not intended to be a measure of PRDC's success. State further agreed to report on Iraqi government contributions to PRDC projects in its next cost matching report to Congress.

USACE agreed with our draft recommendation to strengthen its financial controls for payroll and provided additional information about its initiatives to improve its timekeeping process. We subsequently refined our recommendation to state that the Secretary of the Army ensure that USACE initiatives to improve the timekeeping process correct the deficiencies discussed in the report. USACE agreed to this recommendation. In technical comments, USACE noted substantial discrepancies—amounting to millions of dollars and over 100 projects—between its financial and project data and ITAO's data that we included in our draft report. In reconciling the conflicting data, ITAO agreed to revise its April 3, 2009, *Essential Indicators Report* to reflect the corrected data.

The U.S. Agency for International Development commented that it is taking under advisement our recommendation to require confirmation of receipt of goods and services and that it has already implemented our recommendation to document the voucher examiner's review of contract invoices. The agency agreed to implement our recommendation to document the government of Iraq's commitments and expenditures associated with the NCD program.

Background

To help Iraq assume responsibility for sustaining U.S. reconstruction efforts, U.S. agencies are implementing programs to build the capacity of Iraq's central and provincial governments, including State's PRDC program to strengthen the capacity of Iraqi provincial governments to deliver essential services such as water and electricity and USAID's NCD program to assist the Iraqi government in improving the administrative capacity of several ministries and executive offices through training.

Provincial Reconstruction Development Committee Program

In 2005, the United States created PRDCs to give the provinces a voice in deciding how to spend U.S. reconstruction funds for Iraq. The PRDCs comprise members of Iraq's Provincial Councils, representatives of the governor, and the Director Generals of Iraq's Central Ministries. The PRDC role is to identify needs within their province, prioritize the needs, and develop a list of projects to address those needs. The primary U.S. objective of the PRDC program is not reconstruction but strengthening the capacity of Iraqi provincial governments to develop and implement essential service projects, according to State.

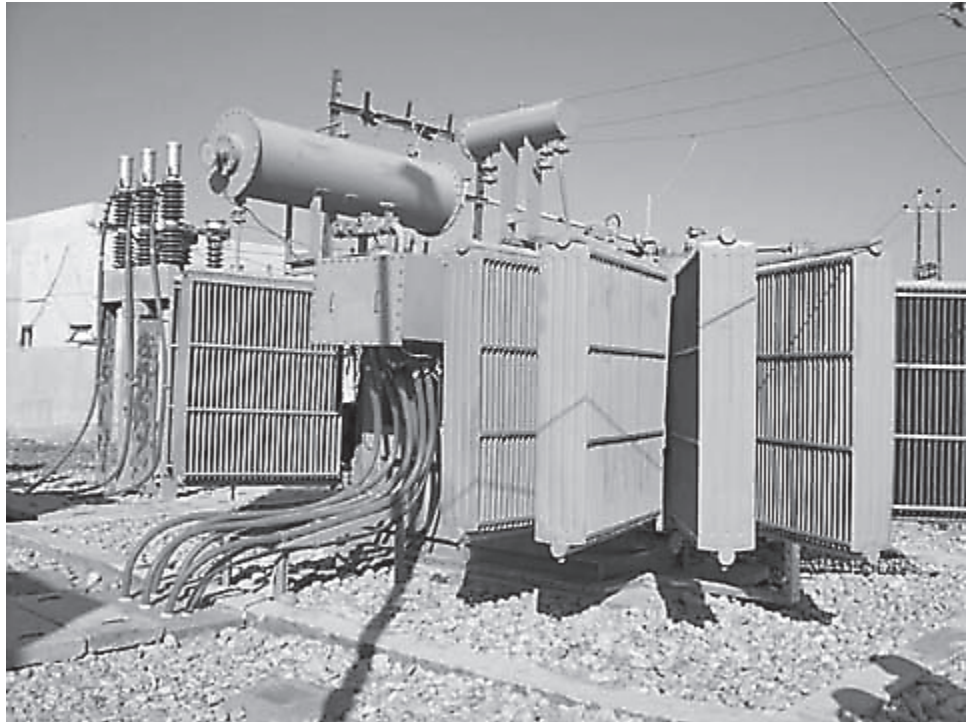
Congress appropriates funds to State, which are used, for the PRDC program to State, and the USACE's Gulf Regional Division (GRD) implements the program. ITAO coordinates and oversees the selection process for specific projects and according to State provides overall program management, and GRD provides project management.⁵ The Office of Provincial Affairs within the U.S. Embassy Baghdad provides policy guidance and support to the Provincial Reconstruction Teams (PRT) program. The PRTs serve as the coordinating body for this funding, assisting PRDCs with identifying, prioritizing, and developing project request packages. Each PRDC creates a prioritized list of reconstruction

⁵ITAO provides a programming and oversight role to executive departments and agencies in concluding the remaining large infrastructure projects in Iraq. In addition, ITAO coordinates Ministerial capacity training, as well as sustainment funds for operations and maintenance.

projects that address provincial needs; these are then discussed in a public forum. The project list is submitted to the Provincial Council for review and approval. Approved projects are forwarded to the PRT provincial program manager who reviews them to ensure they meet U.S. government policies and legal requirements. The PRT provincial program manager forwards the list to ITAO for review and approval. The National Embassy Team reviews and approves projects. The Gulf Region Division (GRD) scopes, estimates, bids, and awards project contracts. As the implementer, GRD assists ITAO by providing program and project oversight, which includes awarding contracts and providing quality assurance and quality control. The PRT engineer provides teaching, mentoring, training, guidance, and support for the PRDCs in preparing scopes of work, bills of quantities, estimates, and project nomination forms. The program funds small-scale projects proposed by the PRDCs, including water and electric plants, roads, bridges, schools, health clinics, airports, and fire stations. For fiscal year 2007 funds, the PRDC program shifted focus to provide funds to help provincial governments sustain and plan essential service projects. Figure 1 is an example of a PRDC project we visited in Iraq in November 2008.

Through three interagency agreements between State and USACE, State obligated \$700 million for fiscal years 2006 and 2007 to reimburse the USACE for costs incurred and awards made for the PRDC program. Specifically, State obligated \$315 million and \$385 million for fiscal years 2006 and 2007, respectively, under the agreements.

Figure 1: PRDC-Funded Electric Substation in Muthanna Province (U.S. provided \$1.2 million in funds for this project)



Source: GAO.

As table 1 shows, for fiscal year 2006, USACE had entered into contracts to implement the program totaling about \$259 million and about 135 out of 213 projects had been completed by April 2009, according to GRD. For fiscal year 2007, USACE had entered into contracts amounting to about \$207 million and about 40 out of 185 projects had been completed by April 2009, according to GRD.

Table 1: Status of \$700 Million PRDC Program Funds, Fiscal Years 2006 and 2007

Millions of U. S dollars

	Fiscal Year 2006		Fiscal Year 2007	
	Cost	Projects	Cost	Projects
Total funds obligated	\$315		\$385	
Projects approved by National Embassy Team	\$259.6	213	\$262.3	185
Projects entered into contracts	258.6	210	207	160
Projects started	256.9	208	167.2	145
Projects completed	129.1	135	25.4	40

Source: USACE GRD.

Notes: Data as of April 2009 and includes USACE labor costs. Planning and design funds obligated for fiscal year 2006 are \$3.0 million and for fiscal year 2007 are \$7.7million.

National Capacity Development Program

In July 2006, USAID created the National Capacity Development (NCD) program to build the capacity of Iraq’s central government. The program focuses on building the skills and capabilities of several Iraqi government executive offices, such as the Prime Minister’s Office, and 10 key Iraqi ministries, such as the Ministries of Electricity, Oil, and Water.⁶ Key tasks include (1) raising the skill levels of Iraqi public managers in project management, fiscal management, human resources, budgeting, and information technology; (2) advising key ministries in strategy development, program planning, and capacity building; and (3) expanding the Iraqi government’s training capacity at its national training center and in the provinces. Additional activities for the program included providing equipment, furniture, and support to develop Iraq’s training centers, and providing overseas scholarships to Iraqi civil servants. To help reform the Iraqi government’s procurement system, USAID purchased equipment for administrative tribunal courtrooms at the Ministry of Planning and Development Cooperation, which rules on disputes over Iraqi government contract awards (see figure 2).

⁶Other executive offices include the Civil Service Committee, Council of Ministers Secretariat, Presidency Council, and Deputy Prime Minister Office. Other ministries include Ministry of Agriculture, Ministry of Human Rights, Ministry of Health, Ministry of Displacement and Migration, Ministry of Planning and Development Coordination, and Ministry of Municipalities and Public Works.

Figure 2: NCD-Funded Equipment for Ministry of Planning and Development and Cooperation



Source: USAID.

USAID is responsible for the NCD program and has hired a contractor, Management Systems International, to implement the program.⁷ The initial contract was for \$165 million for a 3-year period. Various modifications increased the program funding, changed the scope of work, and extended the completion date to January 31, 2011. A modification made in September 2008 increased the total contract amount to \$339 million. According to the USAID's financial management system, as of April 2009, the program has obligated \$259 million, and of that amount about \$152 million has been disbursed.

⁷In Arabic, the program is also known as Tatweer, which means development.

State Cannot Ensure That the PRDC Program Is Achieving Its Objective to Build Capacity

State's PRDC program has management control weaknesses in organization, monitoring, and communication that hinder the achievement of its goal of building provincial government capacity. First, State's organization of the program does not clearly define who is responsible for the overall management of the program, and the multistep process for implementing the program adds to this ambiguity. Second, State lacks a performance monitoring system that measures progress toward building the capacity of provincial governments. Third, State's guidelines and policies have changed frequently, as has the direction of the program, but State did not fully communicate or consult with program implementers about these changes. Finally, USACE labor costs for the program are not always supported by adequate documentation, increasing the risk that USACE' requests to State for reimbursement of labor costs may be overstated or understated.

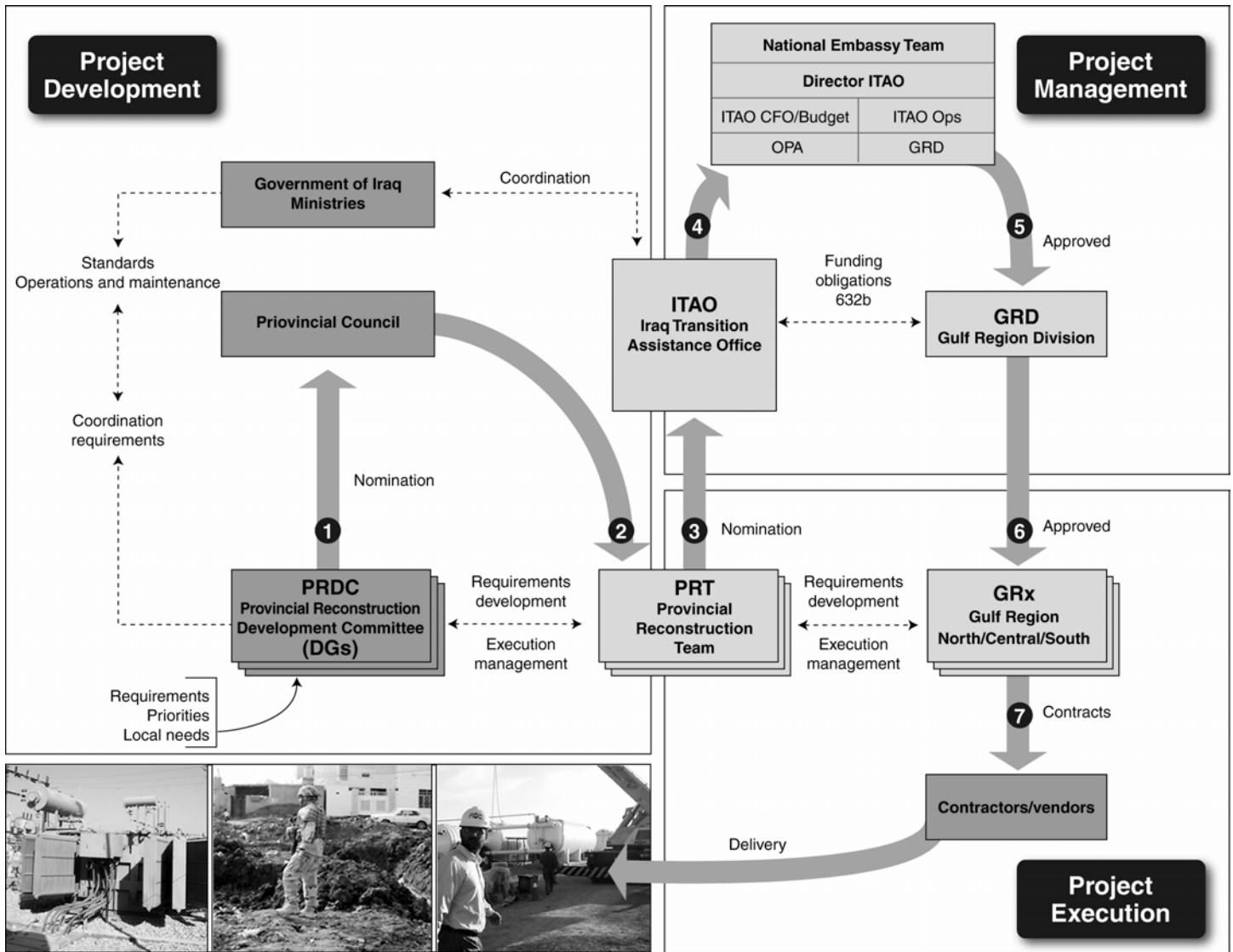
PRDC's Organization Does Not Clearly Delineate Responsibility, and the Program Has Experienced Staffing Challenges

Management control standards require a well-managed and properly structured organization that clearly delineates authority and responsibility. In addition, management control standards call for qualified staff in place without excessive personnel turnover in key functions, such as program management, to implement proper management controls.

State's PRDC Program Lacked a Manager to Oversee Program Challenges

State's PRDC program has multiple entities responsible for managing parts of its complicated, multistep process to approve and implement projects. However, no single program manager was clearly responsible for overall management of the program until May 2009, when State designated one in response to GAO's findings. The PRDC process for approving and implementing projects includes at least 7 entities and 7 steps involving project development, project management, and project execution. Figure 3 illustrates the PRDC's complex organizational structure and process as reported by State.

Figure 3: PRDC Program Organizational Structure and Process



Legend:
 U.S. entities (light gray box)
 Iraq and non U.S. entities (dark gray box)

Source: Chart-Department of State; photograph-GAO.

Note: According to the Gulf Regional Division, the organization has been excluded from both the National Embassy Team review and approval meetings.

Until May 2009, no single entity was accountable for the program in its entirety or responsible for ensuring that the program's objectives were met. For instance, although ITAO has a PRDC program manager, in response to an October 2008 report on ESF in Iraq, State indicated that ITAO coordinates and oversees project selection.⁸ The other entities also do not have responsibility for managing and ensuring that the overall program objectives are met. For instance, the Provincial Reconstruction Teams (PRT), through the PRT provincial program manager and PRT engineer, focus on helping the PRDC identify, prioritize, and develop project proposals. The PRDCs create prioritized lists of reconstruction projects that are submitted to the Provincial Council for review and approval. According to a State document, the PRT provincial program manager guides the process; however, a PRT provincial program manager is located at each PRT and therefore guides the process for that individual PRT and does not manage the entire process. ITAO and the National Embassy Team review and approve projects and then forward these to the program implementer, the USACE Gulf Regional Division (GRD). GRD focuses on scoping projects, estimating their costs, receiving bids, awarding projects, and providing quality assurance and quality control. As a result, no entity was responsible for managing the overall program and ensuring the program's goals are achieved.

Without an overall program manager, no one oversees the entire program process and has overall responsibility for addressing systemic problems such as coordination issues. For instance, although coordination between U.S. and Iraqi officials is essential to building provincial capacity, it remains one of the program's key challenges. In our sample of 40 PRDC projects, we found that about 16 projects had problems coordinating with local Iraqi authorities. For example, determining and verifying land ownership is a major challenge in Iraq and is one of the most common causes for delays in awarding project contracts. In another instance, a \$1.5 million potable water network to service Baghdad's Mansour district lost nearly 7 months waiting for the necessary building permits and test results. Other coordination challenges have also resulted in delays, cost increases, and project terminations. For example, on a \$1.4 million Baghdad water network project, a local government office did not follow established guidance in requiring certain technical tests to be performed

⁸Special Inspector General for Iraq Reconstruction, *Status of Department of State Economic Support Fund Interagency Agreements with the U.S. Army Corps of Engineers in Iraq*, SIGIR-09-006 (Oct. 28, 2008).

and rejected subsequent test results because they were conducted by an independent laboratory. The municipality suspended all work at the site and threatened to arrest personnel who continued to work. With about \$400,000 already spent, the project is in the process of being terminated. In May 2009, State designated ITAO as the program manager in response to one report finding.

PRDC Has Experienced Staffing Changes and Shortages

Both ITAO and GRD have staffing challenges. Our review of ITAO documents found that ITAO's PRDC point of contact, who coordinates and oversees the selection process for specific projects, changed six times since December 2006. Specifically, from January 2008 to September 2008, ITAO had three different PRDC managers. According to GRD, these frequent changes in ITAO's PRDC managers contributed to inconsistent information about program direction. For example, in January 2008, when the PRDC program shifted from building infrastructure to helping provincial governments in sustaining and planning essential services, ITAO failed to consult GRD about developing a new program management plan until September 2008.

Gulf Region South officials stated that they have had difficulty obtaining staff with the skills and training to manage reconstruction projects. To address staffing shortages, Gulf Region South hired Iraqi associates to inspect projects in the field. In addition, Iraqi associates have been hired to contribute to a trained local work force, build local infrastructure, and ensure continued project sustainability, according to USACE officials. During our site visits, we observed that the Iraqi engineers were able to visit the sites more frequently, and because they spoke Arabic, they could interact with the Iraqi contractors. Senior GRD management stated that Iraqi workers have been essential, particularly when security conditions deteriorated.

PRDC Program Lacks a Monitoring System to Track Performance Toward Building Provincial Capacity

Standards for management control require performance measures and indicators to monitor progress in achieving program objectives.

The PRDC program has no performance measurement system to assess whether the program is achieving its objective of helping build provincial government capacity to deliver essential services, according to State officials. According to an October 2008 State report, PRDC program accomplishments are measured by the number of projects completed and

awarded and amount of funds disbursed.⁹ However, this is a measure of State's ability to obtain and use U.S. funds. The indicator does not provide information about the extent to which U.S. efforts build the capacity of provincial governments to deliver essential services, particularly since only U.S. funds are involved in program funding. Further guidance for PRDC states that the program's capacity building will be demonstrated when operations and maintenance services and provincial planning projects are identified and programmed into the provincial budgets for 2008. However, at the time our review, ITAO and the Office of Provincial Affairs (OPA)¹⁰ could not provide us with this information.

PRT engineers are responsible for assisting PRDC officials by teaching, mentoring, training, guiding, and supporting the preparation of all project scopes of work, bills of quantities, estimates, and project nomination forms. During site visits, we found that PRT engineers conducted training through the local GRD district offices to help Iraqi contractors prepare technical contract proposals. Similarly, OPA provided anecdotal examples to show how PRT engineers are building capacity in two provinces. However, these examples cannot be reliably used to track progress and outcomes in building capacity.

Although there is no system to monitor program outcomes, GRD tracks project implementation through the Resident Management System. For example, based on a random sample of 40 projects, we found that 16 projects had missed their milestones; 9 projects were on or ahead of schedule; 6 projects had construction cancelled or terminated; and 6 projects had been completed and accepted by the U.S. government for transferring to the Iraqi government. The most common challenges cited in these projects were contractor inefficiency, poor security, and coordination with local Iraqi authorities. Over two-thirds of the 40 projects we analyzed described numerous problems with contractors' work. The challenges of conducting reconstruction work in a conflict environment hindered PRDC project execution in nearly half of the projects in our sample. For example, according to officials, dangerous security conditions in Maysan province prevented regional office U.S. personnel from visiting any projects in that province for an 18-month period ending in September 2008. In December 2008, a senior official at the U.S. embassy in Baghdad

⁹State, Section 2207 Report to Congress, October 2008.

¹⁰The Office of Provincial Affairs within the U.S. embassy in Baghdad provides policy guidance and support to the PRT program.

said the embassy was creating an official process for obtaining the status of all U.S.-funded reconstruction projects with problems that would include a review of the project schedule, budget, project status, and project quality. However, these indicators will not monitor or assess U.S. efforts to build the capacity of provincial government officials to deliver essential services.

In commenting on a draft of the report, State agreed with the need to develop outcome measures of effectiveness. State proposed measures to track the length of project development, procurement, contracting, execution, and oversight process to see if it improves over time, as well as the quality of the projects completed. Other possible measures included the degree of constituent input in the project selection process, the degree of transparency and anti-corruption measures in the contracting process, the separation of powers between the executive and legislative, and the rate of Ministries, to follow-through to budget for and sustain the projects.

Frequent Changes in PRDC Guidelines Were Not Adequately Communicated

Effective management controls call for the design and implementation of policies and procedures to ensure that management directives are carried out and that information is communicated clearly and in a timely fashion.

ITAO issued PRDC program guidelines through action memorandums that specified funding allocations, types of projects that would be approved, priorities, and the general process for project approval. However, the guidelines were revised or clarified six times between August 2006 and July 2008. The program implementer—GRD—expressed concern about these frequent changes, particularly the lack of communication and consultation. In addition, according to a senior GRD official, ITAO had not communicated adequately and consistently about the guidelines and changes. For example, in January 2008, State shifted the focus of the PRDC program from building infrastructure to maintaining and sustaining projects. According to ITAO officials, State emphasized sustaining local operations and maintenance services of U.S.-procured infrastructure, strategic planning for the infrastructure projects, and capacity building for provincial governments' professional staff. However, according to GRD officials, ITAO waited until September 2008 to consult with GRD on developing a new management plan to implement these changes. As a result, according to GRD documents, in 2008, the GRD district offices developed 109 project proposals with a value of \$158 million. According to a senior GRD official, staff wasted resources developing these infrastructure project proposals because these projects were no longer the focus of the program.

In commenting on a draft of this report, State indicated that GRD was involved in planning at an early date and that GRD received copies of all changes to the PRDC program via memos. However, according to GRD officials, in July 2008, ITAO directed the National Embassy Team to approve projects for award without any GRD involvement in the approval process. As of May 2009, GRD officials stated that the limited involvement of GRD in the strategic planning process for the PRDC program has hindered the ability of GRD to understand the shifts in program focus and realign resources in an efficient and effective manner to meet the needs of State Department and the program.

PRDC Labor Cost Could Be Overstated or Understated

Standards for internal control call for federal agencies to retain evidence that transactions and events are appropriately classified and promptly recorded throughout the life cycle of each transaction, including final classification in summary records from which reports are prepared.

Our tests of USACE's established controls to help ensure financial accountability for the PRDC program identified deficiencies in the maintenance of adequate documentation to support labor costs that USACE charged to PRDC projects. Inadequate documentation highlights a control weakness that may cause the USACE reported cost for specific PRDC projects to be inaccurate. Further, USACE's requests to State for reimbursement of labor costs may be overstated or understated. Our review of time and attendance records for 152 USACE employees, totaling about \$2.5 million in net labor charges to 36 PRDC projects, disclosed that about 26 percent of these charges did not have adequate supporting documentation.¹¹

Our review disclosed that APPO timekeepers' files did not contain complete time and attendance records. USACE procedures require timekeepers in Iraq to send time and attendance documentation to the Administrative Personnel Processing Office (APPO) in Winchester, Virginia, for data entry into the USACE financial management system and retention in APPO files. We also found instances where the hours on the time and attendance records that were located did not agree with the hours entered into the USACE financial management system. However,

¹¹USACE reported PRDC net disbursements of about \$137 million for about 270 PRDC projects between October 2005 and June 2008, of which about \$14.2 million was for USACE employee salaries.

neither we nor the APPO staff could readily determine the reason for these inconsistencies. Furthermore, a November 2008 APPO review of time and attendance practices in Iraq also identified problems regarding the accuracy of labor hour charges to PRDC projects.¹² For example, the review disclosed that employee supervisors did not routinely verify that hours entered into the financial management system agreed with hours on original time and attendance records. USACE officials also stated that, although certain managers were authorized to correct labor charges that were incorrectly charged to a project in a prior pay period, evidence of the correction was not required to be maintained in the APPO timekeepers' files because APPO timekeepers were not responsible for recording these corrections in the financial management system. Additionally, an APPO official stated that, in 2006 and 2007, APPO timekeepers sometimes discarded original time and attendance records when corrected time and attendance records were subsequently received to avoid having two or more time and attendance records for the same pay period. Although the official explained that the current procedure is to attach corrected copies of time and attendance documentation to the original documentation, these procedures have not been formally documented. Discarding original time and attendance records precludes the ability to determine why corrections were made to the original entry.

GRD program managers use financial reports derived, in part, from time and attendance records and adjustments to monitor a project's financial status and labor resources expended. In addition, USACE uses time and attendance data to bill State for reimbursement of PRDC labor costs in accordance with an interagency agreement between the USACE and State that provides funding to USACE to implement the PRDC program. The APPO November 2008 review noted that some steps were being initiated to help improve the documentation of time and attendance transactions, which, if successfully implemented, should help improve time and attendance internal controls.

However, as of January 2009, APPO informed us that time and attendance reporting problems continue to be identified. To help improve timekeeping, in April 2009, the GRD Finance and Accounting Officer

¹²USACE Transatlantic Program Center APPO, *After Action Review* (Winchester, VA: Nov. 16, 2008). Employees detailed to Iraq complete a time and attendance record, supervisors attest to the employee's time, and both the employee and supervisor sign a paper copy of the time and attendance. Timekeepers in Iraq scan and e-mail signed time and attendances to APPO for data entry.

informed us that the timekeeping function would be moved from APPO to the GRD office in Winchester, Virginia, by May 2009. According to the GRD Finance and Accounting Officer, the intent is to hire a team of three people to work exclusively on timekeeping matters with personnel in Iraq to increase timekeeping accuracy. APPO had been tasked with preparing personnel for deployment and travel in addition to timekeeping. We were also informed that the timekeepers are being trained on labor costing and the importance of proper labor charging. In addition, the GRD timekeepers will be responsible for documenting timekeeping problems and informing personnel in Iraq about needed improvements.

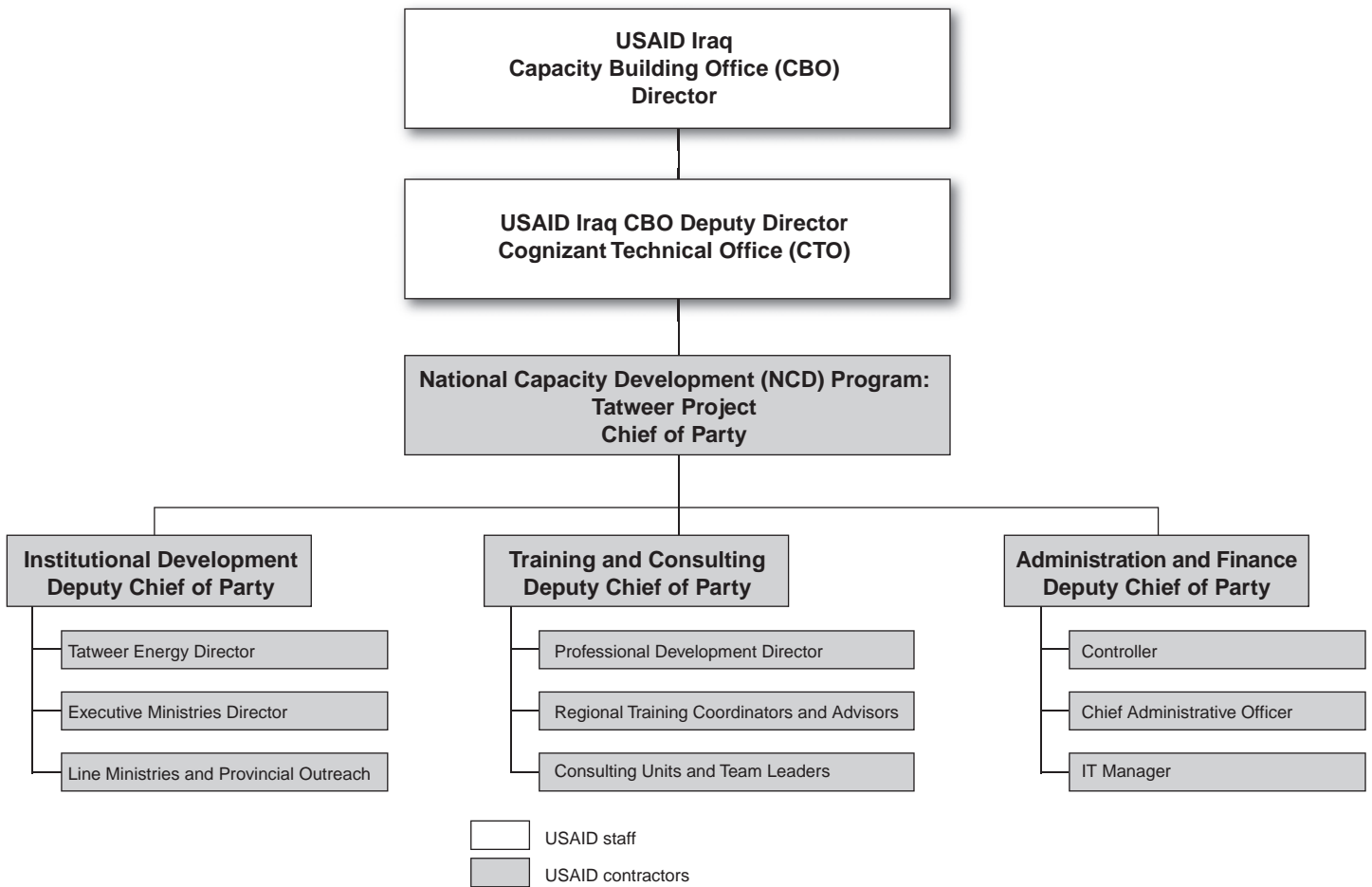
NCD Management Controls Support the Goal of Building the Capacity of Iraqi Ministries but Do Not Adequately Verify Expenditures

The goal of USAID's NCD program is to build the planning and administrative capacity of Iraqi ministers and officials. The organization of the program clearly lays out roles and responsibilities of key players in training and consulting with Iraqi ministries and identifies the reporting chain up to the individual responsible for the overall program. In response to a 2008 USAID Inspector General report, USAID scaled back the NCD program objective of improving ministry service delivery to more achievable objectives such as improving the ministries' administrative systems and budget execution. For 2008, NCD monitors and tracks both outputs and outcomes for its new objectives and provides regular reporting on the results. USAID's policies and procedures provide guidance for implementing the program by laying out explicit expectations for contract modifications and task orders in USAID's automated directive system. Nevertheless, we found that the controls for documenting program expenditures are weak; we found invoices totaling about \$17 million that did not have confirmation of receipt.

NCD's Organization Provides Clear Lines of Accountability and Authority and Is Increasingly Relying on Iraqis to Execute the Program

The organization and structure of the NCD program is clearly laid out, and related guidance details the roles of the key players. The units responsible for training Iraqi officials and working with the ministries are clearly identified, and the chain of command is unambiguous. Figure 4 shows the organization of the NCD program.

Figure 4: NCD Organization Chart



Source: GAO analysis of USAID data.

As the figure shows, the director of the Capacity Building Office (CBO) in Iraq has overall responsibility for the program. The deputy director coordinates the program and acts as the liaison with the Iraqi government and the U.S. agencies in Iraq, according to NCD guidance. The deputy director directs and coordinates NCD activities through the contractor chief of party, who is responsible for training Iraqi civil servants, consulting at the ministries, developing Iraqi training centers, and completing progress reports as requested by USAID.

To carry out these activities, the program relies on Arabic-speaking employees for all aspects of its operations. As of February 2009, NCD program staff comprised 278 contract staff, of which about 70 percent are

Iraqi nationals and the rest are expatriates from the United States and third countries. These staff work within Iraqi ministries, including the Ministries of Planning, Health, Agriculture, Oil, and Electricity. The staff also conducts training at three U.S. compounds in Baghdad and assists in developing the training programs at Iraqi provincial training centers in Basra, Ramadi, and Hilla. According to USAID, early in its implementation, the program faced the challenge of recruiting qualified Arabic-speaking instructors and training advisors who would reside in Baghdad under the security conditions present in Iraq in early 2007. To address this challenge, the program emphasized hiring qualified Iraqis to teach these courses, such as at the Karada compound we visited in October 2008 (see figure 5). By the end of its second year, the NCD program trained more than 25,000 Iraqi civil servants in project management, accounting, and risk analysis, according to a USAID report.

Figure 5: Training Iraqis in Computer Skills at the National Center for Consultancy and Management Development



Source: USAID.

USAID Monitors NCD Program Impacts but Had to Revise Overall Objectives

USAID uses a results framework with indicators that measure program outputs and outcomes to monitor progress toward program objectives. Through this framework, USAID reviews program activities, makes corrections to identified problems, and responds to audit reports. During the second year of the NCD program, USAID revised its indicators in response to a November 2008 USAID Inspector General's report stating that the NCD program did not have indicators to measure the program's impact in improving key ministries' delivery of core services.¹³ For example, USAID measured many of its output goals such as training Iraqi employees, establishing regional training centers, and awarding scholarships. However, there were no outcome indicators to measure the achievement of USAID's goal to build the capacity of key Iraqi ministries to deliver core services. As a result, USAID narrowed its overall program indicators and stated it would begin to track the budget execution rates of Iraqi ministries such as the percentage of ministries' approved budget that is spent. For example, USAID will now monitor the value of capital projects approved, the number of capital projects approved by the Ministry of Planning, and the rate of capital projects implemented.

In 2007, 3 out of the 20 NCD program accomplishment indicators were output—or numeric—goals, such as number of civil servants trained or the number of scholarships awarded. However, in 2008, the NCD program emphasized the measurement of results and included additional outcome indicators in its accomplishment reporting. For instance, 14 out of the 24 indicators measured outcomes, or actual improvements. Some of the outcome indicators for 2008 included the extent to which trainees were using their new skills at work and saw related improvements at their office; whether the ministries were implementing improved fiscal information technology systems, based on USAID contractor's recommendations; and the extent to which ministries and the Iraqi government's public administration training center, the National Center for Consultation and Management Development, were initiating their own training. Table 2 provides examples of these indicators and our reason for considering these to be outcome indicators.

¹³USAID Office of the Inspector General, *Audit of USAID/Iraq's National Capacity Development Program*, Audit Report No. E-267-09-001-P (Nov. 25, 2008).

Table 2: Examples of NCD Outcome Result Indicators Fiscal Year 2008

Outcome Indicator	Comment
Proportion of training graduates that often use new training skills	Indicator goes beyond output on numbers trained to probe the extent training is utilized.
Proportion of training graduates reporting significant improvements in their unit or ministry	Indicator goes beyond output on numbers trained for respondent to judge the evidence around them for positive change.
Proportion of priority improvements in fiscal management implemented by ministries	Response measures improvements such as adopting modifications, amending procedures, and developing new systems based on joint assessments by the Ministry and NCD.
Proportion of priority improvements in information technology implemented by ministries	Response based on joint assessments by the Ministry and NCD.
Number of ministries establishing a public administration training program	While this is a numeric goal, this is an outcome indicating Iraqi government commitment to the development of the civil service and improvement in service delivery to beneficiaries

Source: GAO analysis of USAID data.

USAID has been compiling data on the 2008 overall results for (1) strengthening public management skills, (2) establishing more effective administrative systems, and (3) expanding the Iraqi government's training capacity. In October 2008, USAID reported that some target measures were exceeded, some were not achieved, and several were on track. For instance, the program did not achieve its target for significant improvement reported by graduates within their ministry or unit. We observed and participants told us during our site visits in October 2008 that many of the trainees were lower-level employees who lacked the authority to implement their new skills within the units to which they returned after training. USAID reported that ministries were either on track to meet or had exceeded other results to establish more effective administrative systems for 6 of 7 indicators. USAID stated it had achieved or exceeded targeted results for 8 out of 10 indicators to expand the Iraqi government's capacity to train its own officials. However, the results were not complete at the time of our review so we could not independently assess them.

NCD Policies and Guidance Provide Direction for Implementing the Program

Policies and procedures for the NCD program are documented and accessible. USAID programs are required to follow the mandatory guidance in the automated directives system (ADS), which includes USAID internal policy and required procedures as well as external regulations. Agency employees must adhere to these policy directives and required procedures. For example, ADS chapter 596 gives management responsibility for internal controls and provides the policy and required procedures to improve the accountability and effectiveness of USAID

programs by establishing, assessing, and reporting on internal controls. In addition, ADS chapter 253 provides guidance for designing and implementing training and capacity building programs. The chapter includes guidance on assigning primary responsibility for the program; host country responsibilities for the program; and requirements for data collection, reporting, and monitoring of the program and participants.

The NCD contract and its contract modifications provide specific guidance and expectations for implementing the program. For example, the first task order implementing the contract called for six major tasks, a list of responsibilities assigned to each major task and deadlines from within 30 days to 24 months for these assignments. The assignments included assisting the Iraqi government in developing its own capacity-building strategy, training government of Iraq employees at specific ministries, introducing standard training modules for regional training centers, and sending at least 50 Iraqis abroad to work on degrees or certificates related to public administration. Subsequent modifications added tasks based on the capacity-building needs of the ministries and Iraqi government. For example, a September 2007 modification expanded ministerial capacity development teams and placed project management units in key ministries and institutions.

Communication of the results occurred regularly and the contractor was required to provide weekly, monthly, quarterly, and annual reports on program implementation. We reviewed annual, quarterly, and monthly reports for 2006 through 2008 and some of the weekly reports. These reports documented program statistics on training, consulting with ministries, provision of equipment, and other activities. The reports also reported on challenges to implementing the program. For example, in 2007, the security situation in Iraq, including the inability to visit ministries and send Iraqis to training, was a major challenge to implementing the program. Other challenges included high staff turnover and the difficulties in acquiring skilled staff fluent in Arabic, which USAID has addressed by hiring local Iraqis. Longer-term challenges included dealing with extensive capacity needs at the ministries, while identifying ministries and individuals willing to implement reforms.

Weaknesses Identified in NCD Financial Controls Over Contract Payment Process

Under USAID policy, an approving officer, usually the cognizant technical officer, performs administrative approval, which provides written evidence that USAID received the services or goods specified on the contractor's invoice prior to payment, and fills out a checklist to support administrative approval.¹⁴ The checklist is on the USAID Administrative Approval Form and Checklist and includes six different options for supporting administrative approval. Between April 2007 and June 2008, USAID received 18 invoices from the NCD contractor totaling about \$79 million. We found that the cognizant technical officer did not check off the option indicating receipt of contractor services on the form for administrative approval for 6 of these 18 invoices, totaling about \$17 of the \$79 million. Instead, the cognizant technical officer indicated that acceptance of the contractor's services was based on meeting(s) between the officer and contractor personnel during which the contractor's performance was discussed. Thus, the cognizant technical officer appeared to rely on the contractor's statements that the billed services were provided to authorize payment of the bill. Although the Administrative Approval Form and Checklist provides an option for an officer to confirm the receipt of goods or services by marking the appropriate place, instructions do not require confirmation of receipt. For example, the instructions direct the officer to mark as many reasons on the form as possible to justify acceptance of the contractor's services, and that at least one reason on the checklist must be checked for administrative approval of the contractor's invoice. Not requiring the confirmation of receipt invalidates this internal control and could circumvent the regulatory and GAO internal control standards that require confirmation of receipt prior to payment.

The instructions for the form do not require an explanation if confirmation of receipt is not possible. According to USAID officials, there is a reasonable likelihood that security risks may arise that make confirming the receipt of services impossible due to prohibitive personal danger or security protection costs. If these conditions are not documented, USAID managers cannot readily monitor the extent to which invoices were paid without confirmation of receipt or take other measures to ensure that the government's interest is protected.

USAID policy also requires verification of the pricing and computations on a contractor's invoice and assigns this responsibility to the financial

¹⁴USAID, ADS Chapter 630, Payables Management (Washington, D.C.: Jun. 22, 2007).

voucher examiner. We found that USAID did not have reasonable assurance that the voucher examiner completed this function because many of the contractor's invoices showed no indication that the examiner had performed any verifications, causing a lapse in the internal control to detect any errors in contractor billings. Furthermore, USAID policy did not specifically address the documentation that voucher examiners should use to support their analysis of contractor invoices. However, the USAID Deputy Controller in Iraq stated that, as of November 2008, voucher examiners began using a form to document their analysis of contractor invoices. It is too early to determine whether this form has been an effective control to prevent improper payments to the contractor.

We observed that the complexity of these invoices and the process of verifying pricing and computations against the terms of the contract are unwieldy. This increases the risk that the voucher examiner's review may not prevent improper payments. For example, two of the contractor's invoices were more than 100 pages and listed numerous labor-hour costs and other direct costs, including a variety of footnotes and adjustments. Invoices listed the number of hours that specific individuals worked on the NCD program and numerous labor hours for administration. In addition, the cost of equipment purchases was not easily identifiable, if at all. Furthermore, the Defense Contract Audit Agency identified problems with certain NCD contractor costs billed to USAID.¹⁵

¹⁵Defense Contract Audit Agency, *Audit of Public Vouchers Submitted from July 27, 2006 to September 30, 2007 Under Contract No. AEP-I-01-05-00221-00*, Report No. 6311-2008I17900003 (Aug. 28, 2008); and *Audit Report on Costs Incurred and Billed Under Contract No. AEP-I-00-00-00024-00, Task No. 08, for the Period of June 26, 2003 through May 31, 2005*, Report No. 6311-2007I17900004 (Jan. 15, 2008).

Iraq Has Agreed to Sustain the Programs and Is Providing Some Support for NCD, but Budget Expenditures Are Unclear

Iraq committed to sustaining U.S.-funded projects and programs and sharing in their costs in several official documents and the International Compact for Iraq.¹⁶ For example, we found that Iraqi government officials had signed letters agreeing to sustain many of the PRDC projects in our sample. The documents, however, do not specify dollar amounts or other resources to do this. For the NCD program, two Iraqi ministries signed memorandums of understanding for support of the program and eight other ministries developed capacity-building strategies that incorporated NCD materials. Iraq also demonstrated its commitment to U.S. efforts by expanding the NCD training program and starting its own training programs in some ministries. Several ministries also made 2009 budget commitments to continue the NCD training and provide equipment for training centers, among other efforts. These amounts are due to be expended during 2009. However, our past work has found that, although Iraq budgets for investment and sustainment activities, it may not spend the budgeted funds.

The Iraqi Government Has Committed to Operate and Maintain PRDC Projects and Is Supporting NCD Efforts

For the PRDC program, 16 of the 40 projects we reviewed had indications that the Iraqi government agreed to sustain the projects; however, none of the records we examined included specific funding or resource commitments that would allow a check against actual Iraqi budgets and expenditures. For fiscal year 2007 project funds, U.S. guidance required that all PRDC project proposals include a letter of sustainment from the appropriate Iraqi government office. However, in response to our request, ITAO provided only 10 of the 12 letters of sustainment for fiscal year 2007 projects in our sample. For fiscal year 2006, 6 of the 28 projects in our sample had evidence of Iraqi government commitment to sustain the projects.¹⁷ Letters of sustainment indicate Iraqi government approval for the design and construction of the project and an agreement to accept staff, operate, and maintain the project. For example, on a 2007 PRDC project to convert river water to drinking water, the Director General of the Wasit Water Directorate signed a letter agreeing to staff, operate, and maintain the water plant, once completed. For a 2007 PRDC project to

¹⁶The International Compact for Iraq is the Iraqi government's initiative to form a new partnership with the international community. The objective is to build a framework for Iraq's economic transformation and integration into the regional and global economy.

¹⁷The United States did not require letters of sustainment for fiscal year 2006 PRDC projects, but State indicated in a memo that U.S. assistance would be matching in nature to ensure commitment and investment from the local provincial government.

build four electrical feeders, the Director General of Electricity agreed to prepare and submit an annual budget to the Ministry of Electricity to operate and maintain the project.

The Iraqi government has agreed to support some NCD efforts. For example, the Ministry of Electricity pledged to provide ongoing support for NCD efforts; sustain projects funded in whole or part by NCD; and provide staff to NCD, including finance and accounting specialists, power generation engineers, maintenance engineers, and others. Commitments from other ministries have been demonstrated by their actions to develop capacity-building plans with NCD assistance. In October 2007, we reported that not all U.S. capacity development efforts were clearly linked to the needs and priorities identified by the Iraqis, which may reduce the sustainability of U.S.-funded efforts.¹⁸ USAID has attempted to identify Iraqi government needs and obtain official government commitments by helping the ministries develop their own capacity-building plans. As of January 2009, eight ministries, plus the Prime Minister's Office and the Council of Ministers' Secretariat, had developed capacity development plans with NCD assistance. Based on ministry self-assessments that identify Iraqi needs and priorities, the plans emphasized the Iraqi ministries partnering with the U.S. government on budget execution, training in project management, strategic planning, human resources, and fiscal management. For example, the Prime Minister's Office, as result of developing its capacity development plan in 2007, developed a new organization structure, job descriptions, and a strategy for the office.

Iraqi ministries have also demonstrated commitment to NCD's train-the-trainers program, and five ministries have started their own training programs. USAID stated that the Iraqi government is increasingly taking over USAID's training. For example, according to USAID's contractor, as of May 2008, Iraqi government staff who had graduated from USAID's courses and received additional train-the-trainer courses taught more than half of all monthly courses. Iraqi government staff trained by USAID contractors taught 14,720 (over 54 percent) of 27,127 course participants trained through September 2008. Moreover, as of September 2008, the Iraqi government's National Center for Consultancy and Management Development delivers all train-the-trainer and core public administration

¹⁸GAO, *Stabilizing and Rebuilding Iraq: U.S. Ministry Capacity Development Efforts Need an Overall Integrated Strategy to Guide Efforts and Manage Risk*, [GAO-08-117](#) (Washington, D.C.: Oct. 2007).

courses in project management, budgeting, procurement, and strategic planning. The center has developed a tool to assess trainers and established a monitoring and evaluation unit to assess the impact of its training programs.

Iraqi Budget Expenditures for PRDC and NCD Programs Are Unclear

State's PRDC 2006 guidance states that U.S. assistance will be matching in nature to ensure commitment and investment from the provincial government. PRDC program guidelines for fiscal year 2007 ESF funds further state that the development of capacity building would be demonstrated when projects are identified and programmed into Iraq's 2008 provincial budgets. In its 2007 International Compact, Iraq stated that any new development programs should be co-financed by Iraq to leverage Iraq's own resources and provide a framework for mutual accountability.

ITAO officials could not provide support that specific PRDC projects have been co-financed or that the Iraqi government budgets contained operating and maintenance funds for these projects. In August 2008, GRD officials stated that Iraq had not provided any cost-share funds for implementing fiscal year 2006 and fiscal year 2007 PRDC projects to date. Moreover, according to a GRD official, the Iraqis have been unable to meet their commitments to sustain PRDC projects because the central ministries have not budgeted sufficient funds to sustain projects. For example, according to this GRD official, the Director General for roads in the Ministry of Construction and Housing budgeted only \$100 million in fiscal year 2008 for building and maintaining all roads in Iraq—an inadequate amount for road construction and maintenance.

Iraq's past inability to spend its investment budget also raises concerns about whether Iraq is providing funds to sustain PRDC projects. In March 2009, we reported that Iraq's inability to spend its resources, particularly on investment activities, limits the government's efforts to further economic development and deliver essential services to the Iraqi people.¹⁹ Although Iraq's total expenditures grew from 2005 through 2007, Iraq was unable to spend all of its budgeted funds, especially for investment activities such as maintenance of roads, bridges, vehicles, buildings, water and electricity installations, and weapons. In 2007, Iraq spent 28 percent of its \$12 billion total investment budget. In 2008, it spent 39 percent of its

¹⁹GAO, *Iraq: Key Issues for Congressional Oversight*, [GAO-09-294SP](#) (Washington, D.C.: Mar. 2009). See also [GAO-08-153](#).

\$24 billion investment budget. In 2008, the Iraqi government spent \$949 million, or about 2 percent of its total 2008 expenditures, for the maintenance of Iraqi- and U.S.-funded investments. In 2008, the provinces spent \$2,054 million, or 22 percent of total investment expenditures of \$9,167 million. The 2008 investment budget for the provinces, including the supplemental budget, was \$6,470 million. The provinces spent 32 percent of their investment budget. There were sufficient unspent budget funds for the provinces to provide matching funds.

The spending limits imposed by the central ministries in Baghdad also limit the ability of Iraq's provincial governments to sustain projects. According to a PRT official, the Director General for water in Basra has a \$2,500 per item requisition limit. For items higher than that amount, he needs approval from the Ministry of Water in Baghdad. Most items cost more than \$2,500; a filter for the Garma water purification facility, for example, costs \$25,000. Obtaining approval from the central ministry in Baghdad takes time, and often that ministry will approve some parts but not others, which severely limits the Director General's ability to live up to his commitment to sustain U.S.-funded water projects in Basra.

For the NCD program, Iraq government ministries and executive offices have pledged about \$95 million in cost sharing for specific NCD-related activities and procurements, according to USAID. Some of these commitments are included in Iraqi government budgets, according to a USAID report.²⁰ For example, the Ministry of Agriculture budgeted \$5.8 million to construct a strategic planning center for training and capacity building and allocated \$5.1 million in its operating budget to run the center. The report also states that the Iraqi Ministry of Planning and Development Cooperation allocated \$6 million in its 2009 operational budget to fund postgraduate studies. Moreover, the Council of Ministers Secretariat allocated \$1 million to create an executive training department and dedicated office space to a full-time training center. USAID also reported that various ministries and executive offices have agreed to contribute about 41 percent (an estimated \$2.2 million) of the total cost of funding equipment, facilities, and training at four geographic information system centers and 16 training centers.

²⁰USAID, *Mid-Month Report on the GOI's Commitment to Sustain TATWEER Project Contributions* (Sept. 2008).

Conclusion

A successful U.S. transition from Iraq depends on the Iraqi government's commitments to programs that build government capacity, such as the PRDC and NCD programs. However, given the management weaknesses in State's PRDC program, including a lack of an overall program manager, measures of effectiveness, and a lack of a focus on capacity building, it is unclear if the program is achieving its objectives. Although the Iraqi government has agreed to maintain PRDC projects, based on prior experience, the Iraqi government's commitment to spend resources on U.S.-funded reconstruction projects may not be realized. Also, USACE financial controls for the timekeeping process did not ensure adequate documentation, although USACE introduced initiatives to correct this. The management controls of USAID's NCD program support the objective of capacity building, and the program, including its outcome indicators and guidance, is focused on this objective. However, the program has weaknesses in the financial controls for confirming the receipt of goods and services and review of contractor invoices. In addition, USAID will need to ensure that the Iraqi government follows through on commitments to sustain USAID NCD programs.

Recommendations for Executive Action

To help these programs achieve their objectives of building the capacity of the provincial governments and central ministries,

- We recommend that, for the PRDC program (1) the Secretary of State ensure that management control weaknesses are addressed in the PRDC program by designating an overall program manager; developing outcome measures of effectiveness; and documenting actual Iraqi government budget allocations and expenditures for fiscal year 2007 PRDC projects; and (2) the Secretary of the Army ensure that USACE initiatives to improve the financial controls for the timekeeping process correct the deficiencies discussed in this report.
- We recommend that, for the NCD program, the USAID Administrator (1) revise USAID policy and procedures for confirming receipt of goods or services applicable to the NCD program in Iraq to include (a) clarifying that confirmation of receipt of goods/or services must be noted separately from the administrative approval or (b) documenting reasons precluding actual confirmation such as prohibitive personal danger or security protection costs; (2) ensure that USAID/Iraq initiatives to improve the documentation of the voucher examiner's required review of contractor invoices correct the deficiencies discussed in this report; and (3) document actual Iraqi government budget allocations and expenditures to ensure funds committed to support NCD activities are expended.

Agency Comments and Our Evaluation

State, USACE, and USAID provided written comments on a draft of this report, which we have reprinted in appendixes II, III, and IV. The USACE also provided technical comments, which we have incorporated where appropriate.

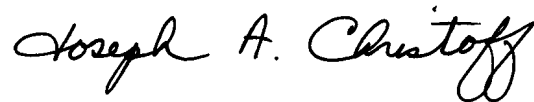
State agreed with our recommendation to address management control weaknesses in the PRDC program. State commented that it had clarified and confirmed ITAO's overall responsibility for the PRDC program and that a program manager has now been designated. State also accepted our recommendation to develop outcome measures of effectiveness for PRDC and clarified that its reporting of projects approved and funds dispersed in the 2207 report to Congress was not intended to be a measure of PRDC's success. State further agreed to report on Iraqi government contributions to PRDC projects in its next cost matching report to Congress.

USACE agreed with our draft recommendation to strengthen its financial controls for payroll and provided additional information about its initiatives to improve its timekeeping process. We subsequently refined our recommendation to state that the Secretary of the Army ensure that USACE initiatives improve the timekeeping process correct the deficiencies discussed in the report. USACE agreed to this recommendation. In technical comments, USACE noted substantial discrepancies—amounting to millions of dollars and over 100 projects—between its financial and project data and ITAO's data that we included in our draft report. In reconciling the conflicting data, ITAO agreed to revise its April 3, 2009, *Essential Indicators Report* to reflect the corrected data.

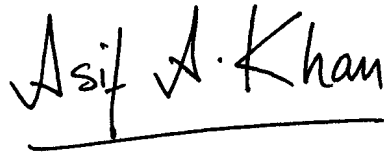
USAID commented that it is taking under advisement our recommendation to require confirmation of receipt of goods and services and that it has already implemented our recommendation to document the voucher examiner's review of contract invoices. The agency agreed to implement our recommendation to document the government of Iraq's commitments and expenditures associated with the NCD program.

We are sending copies of this report to interested congressional committees and the Secretary of State, the Secretary of Defense, the Secretary of the Army, and the Administrator for USAID. We will also make copies available at no charge on the GAO Web site at <http://www.gao.gov>. If you or your staff have any questions about this report, please contact me at (202) 512-8979 or christoffj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix V.

Sincerely yours,



Joseph A. Christoff
Director
International Affairs and Trade



Asif A Khan
Director
Financial Management and Assurance

List of Congressional Committees

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The Honorable John McCain
Ranking Member
Committee on Armed Services
United States Senate

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Chair
The Honorable Senator Judd Gregg
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Ranking Member
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House of Representatives

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The Honorable Howard L. Berman
Chair

The Honorable Ileana Ros-Lehtinen
Ranking Member
Committee on Foreign Affairs
House of Representatives

The Honorable Edolphus Towns
Chair

The Honorable Darrell E. Issa
Ranking Member
Committee on Oversight and Government Reform
House of Representatives

Appendix I: Scope and Methodology

To assess whether the management controls of the Provincial Reconstruction Development Committee (PRDC) program and the National Capacity Development (NCD) program support the achievement of the programs' objectives, we interviewed agency officials and analyzed project contracts, program files, agency reports, guidelines, financial and programmatic databases, and assessments for both the PRDC and NCD programs. We examined key management controls, including (1) a clear organizational structure with adequate managerial capacity and financial systems that establish an effective control environment; (2) policies and procedures that ensure management directives are carried out and communication of those policies and procedures; and (3) monitoring systems that track progress toward desired outcomes. We interviewed officials at the Department of State (State), U.S. Agency for International Development (USAID), and the U.S. Army Corps of Engineers (USACE) in Washington, D.C., and Iraq. In Iraq, we also met with officials at State's Iraq Transition Assistance Office (ITAO), which oversees and coordinates aspects of the PRDC program, the Office of Provincial Affairs, and Gulf Regional Division (GRD) and its district offices. We reviewed a sample of 40 PRDC construction projects using Economic Support Funds (ESF) from fiscal years 2006 and 2007 and examined all activities in the NCD program.¹ We conducted field visits to several PRDC projects and to a training center, where we observed Iraqi officials in NCD training activities. We used information from the USACE's Resident Management System database to identify the status of projects and specific challenges. We assessed the reliability of this system database by (1) interviewing agency officials and contractors about data quality control procedures, and (2) checking the data by visiting sites. We determined that the data were sufficiently reliable for the purposes of this report.

To develop the sample of 45 PRDC projects, we used the population of 290 PRDC projects as of June 30, 2008, that were initiated with fiscal year 2006 and 2007 ESF.² We selected a dollar unit sample to test financial controls over PRDC project data in the USACE's Financial Management System. We used a 90-percent confidence level, an expected error of 0, and

¹Although a sample of 45 projects was selected from 292 PRDC projects, the analysis using the USACE's Resident Management System involved only 40 construction projects. The other 5 projects were not construction projects and were not in the Resident Management System which tracks project status. We used the Resident Management System to analyze project challenges and select project sites to visit.

²In our testing, we included two other PRDC projects that were excluded from the sample selection population because the total net obligation for each project was \$0.

tolerable error of 5 percent, for the sample plan. Given the parameters of the sample test (e.g., sample size, expected errors) any control testing error would indicate the control is not operating as designed.

To review the financial management controls over the PRDC and NCD program, we reviewed documents supporting obligation and disbursement transactions for 40 PRDC construction and 5 nonconstruction projects, and all NCD obligation and disbursement transactions. We interviewed USAID officials in Washington, D.C., and Iraq; and USACE officials in Washington, D.C.; Millington, Tennessee; Winchester, Virginia; and Iraq. Our review of PRDC and NCD transactions covered the period October 1, 2005, through June 30, 2008. To determine whether the financial data provided to us were reliable, we interviewed agency officials and performed testing regarding the accuracy and completeness of information.

To evaluate U.S. efforts to ensure Iraqi government commitment to sustaining U.S. program efforts, we examined U.S. guidance in obtaining commitments from the Iraqi government and interviewed State and USAID officials and their program implementers, GRD and Tatweer. We then focused on two elements of commitment—letters or other evidence that the Iraqi government committed to sustain or maintain the programs and projects and evidence that the Iraqi government is sharing the cost of U.S. efforts. PRDC program guidelines for 2006 state that the projects will be matching in nature to ensure buy-in and investment from the government and the 2007 guidelines require an Iraqi government letter of sustainment for the projects. Moreover, Iraq has budget surpluses, and in the Annual Review of the International Compact with Iraq, the Iraqi government committed to co-finance any new development programs to leverage its resources and provide a framework for mutual accountability.

We conducted this performance audit from March 2008 to June 2009 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.

Appendix II: Comments from the Department of State



United States Department of State

Washington, D.C. 20520

MAY 19 2009

Ms. Jacquelyn Williams-Bridgers
Managing Director
International Affairs and Trade
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548-0001

Dear Ms. Williams-Bridgers:

We appreciate the opportunity to review your draft report, "REBUILDING IRAQ: Improved Management Controls and Iraqi Commitment Needed for Key State and USAID Capacity Building Programs," GAO Job Code 320587.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Kyle Peterson, Desk Officer, Bureau of Near Eastern Affairs at (202) 647-9837.

Sincerely,

A handwritten signature in cursive script, appearing to read "James L. Millette".

James L. Millette

cc: GAO – Tet Miyabara
NEA – Jeffrey Feltman (Acting)
State/OIG – Mark Duda

DEPARTMENT OF STATE COMMENTS ON GAO DRAFT REPORT

**REBUILDING IRAQ: Improved Management Controls and Iraqi
Commitment Needed for Key State and USAID Capacity Building
Programs**
(GAO-09-526, GAO Code 320587)

Thank you for the opportunity to review and comment on the May 2009 GAO draft report *Rebuilding Iraq: Improved Management Controls and Iraqi Commitment Needed for Key State and USAID Capacity-Building Programs*. The United States is committed to helping build the capacity of Iraq's central and provincial governments, and the Provincial Reconstruction Development Committee (PRDC) program is a critical part of that commitment. We welcome GAO's investigation into this important issue, and are working with our Embassy in Baghdad to explore options to improve our coordination and metrics to ensure that this program can better achieve its objectives.

Recommendation

The Secretary of State ensure that management control weaknesses are addressed in the PRDC program by designating an overall program manager; developing outcome measures of effectiveness; and documenting actual Iraqi government budget allocations and expenditures for fiscal year 2007 PRDC projects.

Designating an overall PRDC program manager

The Department agrees that clarification of overall program management for the PRDC is important, and has confirmed that the Iraq Transition and Assistance Office (ITAO) is the overall PRDC program manager. Nevertheless, in a war zone where command of civilian and military is vested in separate leaders, programs and activities that involve both civilian and military personnel face challenges in full coordination and cooperation. ITAO maintains overall management of the PRDC program and now has an officer clearly designated as the PRDC program manager. ITAO maintains accountability for funds, and for project review and selection. It does not direct, however, actual execution of the projects by the Gulf Region Division (GRD) of the U.S. Army Corps of Engineers (USACE), which is the responsibility of GRD under the 632(b) agreement.

See comment 1.

The PRDC process does have many steps, each of which is necessary. For example, the inclusion of the Iraqi-led PRDCs provides Iraqi buy-in and sustainability. Earlier efforts to fund projects in Iraq prior to the PRDC program that left out this step resulted in problems with asset transfer and sustainability in some cases because the Iraqis did not see these projects as meeting their needs or priorities. Rather than eliminate essential steps or essential partners, we believe the best mitigation is continued cooperation and coordination. We believe that ITAO has achieved that through supporting the PRTs (including their interactions with Iraqi Provincial Councils) and providing guidance to and oversight accountability of GRD.

ITAO is scheduled to close in May of 2010. Although most PRDC projects will be completed by that time, there will be several still in progress or under contract. State is already working with Embassy Baghdad to identify and transition to an office that will oversee the remaining PRDC program following ITAO's closeout. This office will continue to be responsible for working with the multiple U.S. and Iraqi entities involved to ensure a smooth transition of the PRDC program.

As a subset of this recommendation, we would also like to address GAO's findings in the draft report that "the [PRDC] program's guidelines and policies have changed frequently as has the program's direction, but State did not adequately communicate or consult with Corps of Engineers, the program implementer, about these changes" (page 5).

See comment 2.

There is always room for better coordination and we would like to provide some additional information to the GAO on this point of the draft report. There is considerable evidence to show that GRD was actively involved in planning at an early date. The clear purpose of the PRDC program, from the outset, included Iraqi involvement and participation in the development of the projects, as is shown by the 2006 Action Memo included as an attachment to the original 632(b) agreement. These priorities were further discussed and well integrated into the amendment to the 632(b) agreement, signed January 30, 2008 by both State and USACE. The 632(b) agreement, as amended, sets out the following:

\$85 million is also provided to the Servicing Agency, which shall provide personnel and services to implement and deliver operations, maintenance and planning activities in support of essential services at the provincial level. [632(b) agreement 2008 amendment; page 2]

Additionally, the Guidelines for FY2007 Supplemental Economic Support Funds (ESF) for PRDCs, set out in a June 23, 2007 memorandum from the ITAO budget office to ITAO Director Mark Tokola, which was shared with USACE officials, state that “this funding is not intended as principally a reconstruction effort, but as a means to stimulate engagement and capacity building at the provincial government level.” The guidelines for FY2007 funds were further clarified in an October 23, 2007 memorandum from the PRDC program manager to the ITAO Director. Thus, in July 2008, GRD notified ITAO that it wished to formalize informal management arrangements, and asked ITAO to concur with its draft, which ITAO did. State plans to continue to work closely with GRD to ensure that all parties continue to be involved in, and aware of, policy guidance regarding the PRDC program. We will also work to develop with GRD amendments or new program management plans, as needed or appropriate, to implement policy guidance.

Developing outcome measures of effectiveness

We believe GAO may have misinterpreted our October 2008 2207 Report to Congress in its draft report: “According to an October 2008 State report, PRDC program success is measured by the number of projects completed and awarded and amount of funds disbursed” (page 15).

The 2207 report states that PRDC’s mission is to “identify and execute priority projects that strengthen the ability of provincial governments to deliver essential services and key development projects to their [Iraqi] communities.” (State, Section 2207 Report to Congress, October 2008) and lists the number of projects awarded and funds disbursed as “Accomplishments.” The intention of this section of the 2207 Report is not to claim that the success of the PRDC program hinges on the number of projects awarded and/or money dispersed. We fully agree with the GAO that a program focus on an expenditure rate would “not provide information about the extent to which U.S. efforts build the capacity of provincial governments to deliver essential services” (p. 15) and we have resisted that measure in every forum.

We agree with the importance of and accept the draft report’s recommendation to develop outcome measures of effectiveness. As this program is intended to build local capacity to identify, plan and deliver essential services, one possible measure would be to track the length of project development, procurement, contracting, execution, and oversight process to see if it improves over time, as well as the quality of the projects completed. Another possible

See comment 3.

measure would be the degree of constituent input in the project selection process and the degree of transparency and anti-corruption measures in the contracting process, the separation of powers between the executive and legislative, the post-completion longevity of projects, and the occurrence rate of Ministries following through and budgeting to sustain the projects. These additional metrics, along with others, would help to better quantify the impact of the PRDC program.

We would note that State already has a provincial-focused measurement system in place, which we are in the process of making more robust. The Office of Provincial Affairs (OPA) Maturity Model, reassessed quarterly in each province, measures progress in provinces' capacity to operate and govern effectively. Specifically, in the Governance section of the OPA Maturity Model, PRTs rate the progress made by Provincial Governments in their ability to deliver essential services. Nevertheless, we believe that, while the Maturity Model helps assess increasing provincial government capacity, some of which may be the result of PRDC projects, additional metrics to more fully quantify the impact of PRDC projects are important, and we are developing such metrics.

Documenting actual Iraqi government budget allocations and expenditures for fiscal year 2007 PRDC projects

We agree with the GAO draft report's focus on sustainability, and the PRDC program has made great efforts recently to help ensure the sustainability of its projects. As noted above, the participation of the Iraqi-led PRDCs and Provincial Councils is a vital component of ensuring sustainable projects. In addition, ITAO has hosted workshops in Baghdad for PRT members to discuss best practices for sustainable projects, and developed guidance to PRTs on this subject.

At several points, GAO states in its draft report that 16 of the 40 PRDC projects sampled "had evidence that the Iraqi government agreed to sustain the project; however the records did not specify actual financial or budget commitments" (Introduction, pages 6, 28). When the Government of Iraq (GOI) agrees to sustain projects, information on actual financial or budget commitments may not be available due to the budget creation calendar. Nevertheless, the GOI is recognizing the project as a future GOI asset, and its need to include sustainment for such a project in its own budget. Furthermore, we will be able to verify the inclusion of these budget commitments once the local budget is finalized.

5

See comment 4.

On page 28 of the GAO draft report, GAO correctly distinguishes between FY2006 projects, which did not require a letter of sustainability, and FY2007 projects, which did. Of the FY07 approved projects that required a letter of sustainment, two letters could not be located. But even six of the FY2006 projects that did not require sustainment documentation did have a letter, indicating the priority this has come to have for PRDC projects. In the last year, 100% of projects have had such letters.

See comment 4.

State has submitted two reports to Congress detailing 2008 Iraqi government funds and contributions to match some FY2008 Supplemental U.S. civilian foreign assistance programs and projects. These reports showed that the Iraqi government already matches or exceeds U.S. foreign assistance levels in many common areas of effort, including programs that support national and provincial capacity development, economic diversification, and rule of law institutions. Given the intent for the PRDC program to ensure O&M costs are picked up by the Iraqi local ministerial budgets, we intend to include, in our next matching report, a special section on Iraqi government contributions for PRDC projects, including those funded in FY2007.

We appreciate GAO's audit of the PRDC program, and the recommendations offered in the draft report. We will continue to explore how to implement these changes in order to ensure that the PRDC program is as effective as possible.

The following are GAO's comments on the U.S. Department of State's letter dated May 19, 2009.

GAO Comments

1. State implies that this GAO report calls for the elimination of steps or partners in the process. Instead, we believe the program's multistep complexity illustrates the importance of implementing our recommendation to designate a program manager.
2. We added State's additional information. However, in their technical comments, Gulf Region Division officials stated that communication and coordination remain problems as of May 2009.
3. We have changed program "success" to program "accomplishment" in the final report. However, the larger issue, as State acknowledges, is that the Provincial Reconstruction Development Committee program does not have outcome measures of effectiveness to assess how the program has enhanced the capacity of local Iraqi councils to identify, plan, and deliver essential services.
4. Our past work indicates that although the Iraqi government budgets for investment activities, its actual spending for these investments, including maintenance of projects, is limited. For instance, in 2008, the Iraqi government spent \$949 million, or about 2 percent of its total 2008 expenditures, for the maintenance of Iraqi- and U.S.-funded investments. In 2008, the provinces spent \$2.054 billion or 22 percent of budgeted investment expenditures of \$9.167 billion. The 2008 investment budget for the provinces, including the supplemental budget, was \$6.47 billion. The provinces spent 32 percent.

Appendix III: Comments from the U.S. Army Corps of Engineers



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
U.S. ARMY CORPS OF ENGINEERS
441 G STREET, NW
WASHINGTON, DC 20314-1000

MAY 22 2009

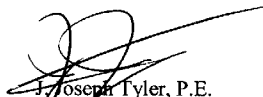
CEMP-GR

Mr. Joseph A. Christoff
Director, Internal Affairs & Trade
U.S. Accountability Office (GAO)
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Christoff

This is the Department of Defense (DOD) response to the GAO draft report GAO-09-526, REBUILDING IRAQ: Improved Management Controls and Iraqi Commitment Needed for Key State and USAID Capacity Building Programs, dated May 1, 2009 (GAO Code 320587).

The Department concurs with the findings in this report. Questions your staff may have concerning these responses may be addressed to Ms. Sheryl Lewis (202) 761-5750 and Mr. John Daley (202) 761-5844.


Joseph Tyler, P.E.
Director of Military Programs

Enclosure

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GAO DRAFT REPORT DATED MAY 1, 2009
GAO-09-526 (GAO CODES 320587)

REBUILDING IRAQ: IMPROVED MANAGEMENT CONTROLS AND IRAQI
COMMITMENT NEEDED FOR KEY STATE AND USAID CAPACITY
BUILDING PROGRAMS

DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATIONS

RECOMMENDATION: The GAO recommends that the Secretary of Army ensure that the U.S. Corps of Engineers' financial controls for payroll are strengthened. (page 32/GAO Draft Report).

DOD RESPONSE: Concur. Prior to the GAO review, the U.S. Army Corps of Engineers commenced implementing a number of changes to improve the accuracy of the timesheets and labor hours recorded by the Gulf Region Division (GRD). The GRD Rear Cell currently performing the function is now under the supervision of accountants who provide additional review and assistance to the timekeeping function. In addition, timesheets are being reviewed prior to certification, all timesheets are being kept including the original and any revised or corrected timesheets. Additional follow up is done when signed time and attendance reports are not received in timely manner.

The following are GAO's comments on the U.S. Army Corps of Engineers letter dated May 22, 2009.

GAO Comment

1. We modified our recommendation in response to the additional information USACE provided about its initiatives to strengthen the timekeeping process. In follow up discussions, USACE agreed to our recommendation that the Secretary of the Army ensure the initiatives to improve the financial controls for the timekeeping process correct the deficiencies discussed in the report.

Appendix IV: Comments from the U.S. Agency for International Development



USAID
FROM THE AMERICAN PEOPLE

MAY 22 2009

Joseph A. Christoff, Director
International Affairs and Trade
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Christoff:

I am pleased to provide the U.S. Agency for International Development's (USAID) formal response on the draft GAO report entitled "Rebuilding Iraq: Improved Management Controls and Iraqi Commitment Needed for Key State and USAID Capacity Building Programs." (GAO-09-526)

The GAO recommendation included in the report states, "*We recommend that, for the NCD program, the USAID Administrator:*

- (1) revise USAID policy and procedures for confirming receipt of goods or services applicable to the NCD program in Iraq to include (a) clarifying that confirmation of receipt of goods/or services must be noted separately from the administrative approval or (b) documenting reasons precluding actual confirmation such as prohibitive personal danger or security protection costs;*
- (2) ensure that USAID/Iraq initiatives to improve the documentation of the voucher examiner's required review of contractor invoices correct the deficiencies discussed in this report; and*
- (3) document actual Iraqi government budget allocations and expenditures to ensure funds committed to support NCD activities are expended."*

Regarding the first issue, revising the "USAID Administrative Approval Form and Checklist", USAID is taking this matter under advisement.

Regarding the second issue, ensuring initiatives to correct the deficiencies in the voucher examiner's documentation, the Iraq Mission's Financial Management Office (FMO) has since November 2008, implemented a reconciliation process to ensure that financial records of the implementer and USAID are in agreement. This process is mentioned in the report, although the GAO deems it too early to determine its effectiveness.

U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523
www.usaid.gov

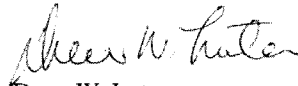
- 2 -

In regard to the third issue, documenting Iraqi government budget allocations and expenditures, our comments are as follows:

1. The GOI was not required to make a formal commitment of funds to support USAID's NCD Program. Therefore, for the purposes of retroactive documentation, USAID could only cite 2008 GOI budget allocations that were generally associated with the NCD Program, and
2. Prospectively, it is expected that the GOI will make formal and specific resource commitments associated with USG assistance to the Central Government beginning in FY 09. Accordingly, USAID will collect supporting documentation of the GOI's commitments/expenditures associated with the NCD Program.

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

Sincerely,



Drew W. Luten
Acting Assistant Administrator
Bureau for Management

Appendix V: GAO Contacts and Staff Acknowledgments

GAO Contacts

Joseph A. Christoff, (202) 512-8979 or christoffj@gao.gov

Asif A. Khan, (202) 512-9869 or khana@gao.gov

Staff Acknowledgments

Tetsuo Miyabara, Assistant Director; Mary Ellen Chervenik, Assistant Director; Jessica Butchko; Richard Cambosos; Lynn Cothorn; K. Eric Essig; Dennis Fauber; Wilfred Holloway; Rhonda Horried; Grace Lui; Jason Pogacnik; and Eddie Uyekawa made key contributions to this report.

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