

The background of the page features a large, faint, circular seal. The seal contains the text "INSPECTOR GENERAL" at the top and "RECONSTRUCTION" at the bottom in English. In the center of the seal is the Iraqi national emblem, which includes a sun with a crescent and stars, flanked by two olive branches and a sheaf of wheat. The emblem is surrounded by Arabic calligraphy.

**IMPROVED OVERSIGHT NEEDED FOR
STATE DEPARTMENT GRANTS TO THE
INTERNATIONAL REPUBLICAN
INSTITUTE**

**SIGIR 10-022
JULY 29, 2010**

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SIGIR

Special Inspector General for IRAQ Reconstruction

Summary of Report: SIGIR 10-022

Why SIGIR Did this Study

This report addresses the Department of State's (DoS) management of a \$50 million grant to the International Republican Institute (IRI) for democracy-building activities in Iraq. This is the largest grant awarded to IRI by Grants Officers from the Bureau of Administration, Office of Acquisitions Management (AQM) on behalf of the Bureau of Democracy, Human Rights, and Labor (DRL). Because DRL does not have dedicated Grants Officers, it relies on AQM to award and amend its grants. However, DRL does provide a Grants Officer Representative who assists the Grants Officer in overseeing the grant.

The grant is intended to support governance, political participation, and civil society programs in Iraq. In a prior audit, SIGIR found that grantee security costs were significant, and DRL did not have documentation on whether grants were meeting goals (SIGIR 10-012).

In this follow-up audit, SIGIR's objectives are to examine for grant 209, the reasonableness, allocability, and allowability of IRI's claimed security costs, and the extent to which the grantee documented its success in achieving governance, political participation, and civil society goals and objectives.

What SIGIR Recommends

SIGIR recommends that the U.S. Secretary of State take a number of actions to improve grant management to include ensuring that there are sufficient numbers of grant officers to manage DRL grants, adequate training for grant oversight officials, and clear lines of authority and responsibility.

Management Comments

In written comments on a draft of this report, DRL, with AQM input, concurred with five of our six recommendations. It did not concur with a recommendation that grants officers review IRI cost allocation methods, but stated it and AQM would request an audit by the DoS Office of the Inspector General. SIGIR believes the actions identified by management are responsive to this report's recommendations.

July 29, 2010

IMPROVED OVERSIGHT NEEDED FOR STATE DEPARTMENT GRANTS TO THE INTERNATIONAL REPUBLICAN INSTITUTE

What SIGIR Found

Weaknesses in DoS' oversight of IRI's compliance with federal and DoS grant requirements left DoS vulnerable to paying excessive charges and having insufficient information on exactly what was achieved. Existing DoS monitoring mechanisms did not detect questionable charges and allocations associated with certain security and indirect costs against the grant. DoS Grants Officers were not actively involved in overseeing the grant or grantee decision-making and required annual audits and progress reports provided only limited insight into grantee practices. Grants Officers were not consulted on the appropriateness of grantee practices though they were the only officials in the Department authorized to make such rulings. Grantee officials stated that they were operating in good faith and sought to ensure the appropriateness of their approach by maintaining regular communications with the DRL Grants Officer Representative about how they were spending the money. However, DRL officials were not authorized to approve such actions and did not consult the Grants Officer on these issues. This combination of lax oversight, incomplete knowledge of regulations, and confusion regarding the authority, roles, and responsibilities of DoS officials permitted a number of potentially erroneous decisions to continue unchecked. Specifically, our examination raises a number of questions about the reasonableness, allocability, and allowability of some security and indirect costs. We found certain IRI charges and allocations lacked:

- adequate procurement documentation which prevents us from determining the reasonableness of the security costs
- a methodology for allocating security costs that assures reasonable distribution of the costs among its various grants
- an appropriate accounting methodology to determine some indirect cost amounts
- prior approval from the Grants Officer to purchase approximately \$690,000 in vehicles

The grantee can readily document activities it sponsored to foster democratic goals and objectives in Iraq, but it has not uniformly assessed the extent to which it has succeeded in meeting the grant's goals and objectives as required by the grant agreement. To illustrate, the grantee surveyed candidates who attended training and found that trainees were twice as likely to be elected as those who had not participated. On the other hand, the grantee did not assess the extent to which its efforts helped women become more integrated into political party organizations as officers, candidates and volunteers. The grant's evaluation plan did not always include benchmarks and measurable indicators of progress which are essential criteria to measure impact. The Grants Officer Representative stated that IRI has not provided comprehensive impact assessments, but she has sufficient information from other sources to conclude that the grantee is meeting grant goals. DRL also noted it has recently taken steps to improve monitoring and evaluation of future grants. Without comprehensive assessments, it is difficult for decision makers to determine what changes are necessary to best ensure that activities are designed and implemented to achieve program objectives.



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

July 29, 2010

MEMORANDUM FOR U.S. SECRETARY OF STATE

SUBJECT: Improved Oversight Needed for State Department Grant to the International Republican Institute (SIGIR 10-022)

We are providing this report for your information and use. It primarily pertains to the Bureau of Democracy, Human Rights, and Labor (DRL), and Bureau of Administration, Office of Acquisitions Management oversight of DRL grants to the International Republican Institute. We performed this audit in accordance with our statutory responsibilities contained in Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. This law provides for independent and objective audits of programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Iraq, and for recommendations on related policies designed to promote economy, efficiency, and effectiveness and to prevent and detect fraud, waste, and abuse. This audit was conducted as SIGIR Project 1007a.

The Bureau of Democracy, Human Rights and Labor provided written responses to the recommendations in a draft of this report. Their responses incorporated input from the Bureau of Administration, Office of Acquisition Management. We have included their comments in Appendix E. We also obtained technical comments and addressed them in the report as appropriate.

We appreciate the courtesies extended to our staff. For additional information on the report, please contact David Warren, Assistant Inspector General for Audits, (703) 604-0982/ david.warren@sigir.mil or Glenn Furbish, Principal Deputy Assistant Inspector General for Audits, (703) 604-1388/ glenn.furbish@sigir.mil.

Stuart W. Bowen, Jr.
Inspector General

cc: Under Secretary of State for Democracy and Global Affairs
Under Secretary of State for Management
Assistant Secretary for Democracy, Human Rights, and Labor
Assistant Secretary for Administration
U.S. Ambassador to Iraq

Secretary of Defense
Commander, U.S. Central Command
Commanding General, U.S. Forces-Iraq

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Improved Oversight Needed for State Department Grant to the International Republican Institute

SIGIR 10-022

July 29, 2010

Introduction

On January 26, 2010, the Special Inspector General for Iraq Reconstruction (SIGIR) issued a report¹ on the Department of State's (DoS) Bureau of Democracy, Human Rights, and Labor's (DRL) management of 12 grants awarded between 2004 and 2009. Those grants, valued at approximately \$248 million, were awarded to the International Republican Institute (IRI) and the National Democratic Institute for democracy-building activities in Iraq. That audit found that the grants had significant security costs, and DRL did not have sufficient documentation on whether the grants were meeting their goals and whether the grant funds were being used in the most effective and efficient manner. However, IRI and the National Democratic Institute officials assured us they had assessments of their success and that the security costs were reasonable under the unique circumstances in Iraq.

This follow-up report examines DoS management of IRI's largest grant from DRL.² This report focuses on DoS oversight of the grantee's security costs and impact assessments for a grant, valued at \$50 million.³ The grant funds are to be used to support democracy, rule-of-law, and governance programs in Iraq.

Background

DRL's mission is to lead U.S. efforts to promote democracy, protect human rights and international religious freedom, and advance labor rights globally. DRL awards grants to conduct democracy-building activities in Iraq. Because DRL does not have dedicated Grants Officers (GO), it relies on the Bureau of Administration, Office of Acquisition Management to award and amend its grants.

Office of Management and Budget (OMB) circulars provide the standards, policies, requirements, and guidance that federal agencies and grant recipients must follow in administering grant programs. They reflect the relatively limited levels of federal involvement and place most of the grant management responsibilities on the recipient. Between August 2004 and April 2010, DRL awarded eight grants to IRI valued at approximately \$131 million.

¹ *Department of State Grant Management: Limited Oversight of Costs and Impact of International Republican Institute and National Democratic Institute Democracy Grants*, SIGIR 10-012, 1/26/2010.

² SIGIR is conducting a similar review of the largest DRL grant to the National Democratic Institute.

³ Grant S-LMAQM-07-GR-209, awarded 9/12/07.

Differences between Grants and Contracts

Grants differ from contracts in purpose and level of anticipated government involvement. According to OMB, contracts are to be used when the government intends to acquire property or services for the direct benefit or use of the Federal Government, but grants may not directly benefit the government. The DoS *Federal Assistance Policy Manual*⁴ describes the differences between assistance awards (grants or cooperative agreements), and acquisition awards. These differences are highlighted in Table 1.

Table 1—Distinction between Assistance (Grants and Cooperative Agreements) and Acquisition (Contract) Awards

Assistance Awards	Acquisition/Contracts
Advance payment allowed if appropriate	Pay for delivery after receipt
Technical/Program competed	Price must also be considered
Recipient can terminate	No contractor has right to terminate
Deliverable is a report or completion of project	Product or service required
Guidance from OMB Circulars	Guidance from Federal Acquisition Regulations

Source: DoS *Federal Assistance Policy Manual*, 3/2008.

The difference in the expected level of U.S. government involvement is addressed in the State Department's *Foreign Affairs Handbook*.⁵ The handbook defines grants as a type of assistance instrument that may be used when it is anticipated that there will be no substantial involvement between the agency and the recipient during performance, and the principal purpose is the transfer of money, property, or services to accomplish a public purpose of support or stimulation authorized by federal statute.

Regulatory Differences between Grant and Acquisition Instruments

Federal oversight requirements of grants are less stringent than those for contracts. To illustrate, the Federal Acquisition Regulation requires contractors that are awarded cost-reimbursable contracts to provide contracting officers detailed bills or invoices for every cost incurred and requires contracting officers to review the invoices to determine if they are appropriate expenditures in meeting the terms of the contract. On the other hand, Federal regulations do not require similar review for grantee expenditures. Regulations from OMB, specifically OMB Circular A-110,⁶ Subpart C, Post Award Requirements, places the day-to-day financial oversight responsibility on the grant recipient and limits the extent of financial reporting an agency can require to no more than four times a year. Grant recipients usually are required to submit a claim to the GO for reimbursement of their costs on a quarterly basis and may also obtain advanced payments.

⁴ DoS *Federal Assistance Policy Manual*, 3/2008.

⁵ DoS *Foreign Affairs Handbook*, Volume 4, Handbook 3, Financial Management Procedures Handbook, revised 9/06/02.

⁶ OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, revised 11/19/93, as further amended 9/30/99, 2 C.F.R. Part 215.

The awards process determines the appropriateness of the planned grant expenditures. Annual audits conducted by an external audit firm inform the awarding agency about the recipient's financial management.⁷ OMB guidance requires that when financial issues are brought to the attention of the awarding agency, either through an audit or other monitoring mechanism, the agency must exercise its funds management responsibilities. For example, OMB Circular A-133, Subpart D, Federal Agencies and Pass-Through Entities-Responsibilities, requires that the awarding agency review and resolve audit findings within six months after receipt of the audit report and ensure that the recipient takes appropriate and timely corrective action.

OMB Circular Cost Principles

In addition to Circulars A-110 and A-133, Circular A-122, *Cost Principles for Non-Profit Organizations*,⁸ establishes principles for determining reasonable, allocable, and allowable costs that a non-profit organization can claim against a grant award. We used these criteria in performing our work. The circular defines reasonable, allocable, and allowable costs as follows.

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

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

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

- is incurred specifically for the award
- benefits both the award and other work and can be distributed in reasonable proportion to the benefits received

⁷ OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, revised to show changes published in the *Federal Register*, June 27, 2003 and June 26, 2007.

⁸ OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, revised May 10, 2004.

- is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown

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

DoS Monitoring Policy Guidance Provides Flexibility in Oversight

DoS’s standard operating procedures note that the relatively limited levels of federal oversight requirements do not relieve the Department from its responsibility to monitor the funds it allocates and administers. The DoS *Federal Assistance Policy Manual*, states, for example, that its oversight must include continuous review of a grantee’s “programmatic and financial management performance.” Moreover, the policy states that the GO and the Grants Officer Representative (GOR) should ensure that a recipient is using the funds for the intended purpose, charges allowable costs at the appropriate times, and meets all goals. This can include reports, as well as interaction with the recipient through meetings, site visits, or correspondence.

DoS’s *Federal Assistance Policy Manual* implements the agency’s grant management and monitoring requirements.⁹ The policy manual describes four methods for GOs and their representatives to monitor the financial management aspects of assistance awards:

- monitoring by telephone or letter
- periodic financial status and progress reports with their content and frequency determined by specific bureau, program and award conditions
- site visits as warranted by the project/program need or as requested by the recipient to substantiate financial progress and compliance with laws, regulations, policies, and to provide technical assistance
- audits which include the annual audits conducted to examine financial and compliance matters, and follow-up on any identified material weakness which if not corrected by the recipient may be defined as program abuse and lead to suspension or termination

The manual provides GOs and GORs flexibility in determining the type of oversight mechanism to use, and the frequency of its monitoring activities, for each grant. Criteria to judge the extent of oversight required includes an assessment of whether the recipient is reliable, has developed a well-planned project, and if the expected requirements have been clearly communicated from both sides. The manual concludes that if such conditions exist the monitoring can be expected to be a simple, positive experience.

Grants Awarded to IRI

Between August 2004 and April 2010, DRL awarded eight grants to IRI valued at approximately \$131 million. Table 2 shows those eight democracy-building grants.¹⁰ Of those grants, we

⁹ *Federal Assistance Policy Manual*, U.S. Department of State Bureau of Administration, Office of the Procurement Executive, Federal Assistance Division (A/OPE/FA), Version 1.1, March 2008.

reviewed S-LMAQM-07-GR-209 (grant 209) to support governance, political participation, and civil society programs in Iraq, in accordance with the goal and strategic objectives of the *U.S. Strategy for Democracy in Iraq 2007-2010*. To implement the grants, IRI carries out activities such as trainings, conferences, and study visits to support development of political parties, women and youth outreach, and the use of media in political campaigns.

Table 2—DRL Grants Awarded to IRI (\$ in millions)

Award Date	Grant Number	Project	Grant Amount	Expiration Date
8/10/2004	S-LMAQM-04-GR-133	Political Organization Training	\$2.2	7/31/2008
6/12/2006	S-LMAQM-06-GR-097	Post-Elections Democratic Transitions	37.7	1/30/2008
9/12/2007	S-LMAQM-07-GR-209 ^a	Governance, Political Participation, and Civil Society	50.0	8/31/2010
5/12/2008	S-LMAQM-08-GR-549	Women's Democracy Initiative	1.8	11/12/2009
8/4/2008	S-LMAQM-08-GR-601	Pre-election Activities for Iraqi Provincial Elections	19.0	5/31/2010
6/11/2009	S-LMAQM-09-GR-560	Election Assistance Program – Iraq	3.0	4/30/2010
12/3/2009	S-LMAQM-10-GR-504	Iraq Elections Assistance and Accountability	5.0	5/31/2010
4/16/2010	S-LMAQM-10-GR-535	Post Elections Program	12.0	5/31/2011
Total			\$130.7	

Note:

^a Grant reviewed by SIGIR.

Source: SIGIR analysis of DRL data, as of 5/11/2010.

In this report, SIGIR identifies instances where the grantee potentially overbilled or could not support certain costs under grant 209. Only the GO has the authority to recover any improper payments.

Objectives

SIGIR's objectives are to examine for grant 209, the reasonableness, allocability, and allowability of IRI's claimed security costs, and the extent to which the grantee documented its success in achieving governance, political participation, and civil society goals and objectives.

For a discussion of the audit scope and methodology, see Appendix A. For a list of SIGIR's review of supporting documentation for IRI trainings, see Appendix B. For a list of acronyms used in this report, see Appendix C. For a list of the audit team members, see Appendix D. For

¹⁰ The Iraq Relief and Reconstruction Fund, the Economic Support Fund, and the Human Rights Democracy Fund have funded these grants.

a copy of Department of State – Bureau of Democracy, Human Rights, and Labor comments, see Appendix E. For the SIGIR mission and contact information, see Appendix F.

Existing DoS Oversight and Monitoring Mechanisms Did Not Detect Questionable Charges and Allocations

Existing DoS monitoring mechanisms did not detect questionable charges and allocations for certain security and indirect costs against the grant. The GOs were not actively involved in overseeing the grant or grantee decision making. Further, required annual audits and progress reports provided only limited insight into grantee financial management practices. The GOs were not consulted on the appropriateness of certain financial practices though they are the only officials authorized to make such rulings. Grantee officials stated that they were operating in good faith and sought to ensure the appropriateness of their approach by maintaining regular communications with DRL. However, DRL officials are not authorized to approve such actions. This combination of lax oversight, incomplete knowledge of regulations, and confusion regarding the authority, roles, and responsibilities of DoS officials permitted a number of potentially inappropriate actions to occur. Specifically, our examination raised the following questions about the reasonableness, allocability, and allowability of some security and indirect costs incurred for grant 209. We found certain IRI charges and allocations lacked:

- adequate procurement documentation which prevents us from determining the reasonableness of the security costs
- a methodology for allocating security costs that assures reasonable distribution of the costs among its various grants
- an appropriate accounting methodology to determine some indirect cost amounts
- prior approval from the Grants Officer to purchase approximately \$690,000 in vehicles

Reasonableness of High Cost, Non-competitive Security Contract May Be Questionable

The cost of a non-competitively awarded security services contract may have been too high, but incomplete procurement records prevented us from assessing the reasonableness of the costs. In our prior report, we noted that IRI spent more than one half of its grant funds on security.¹¹ The grantee awarded a sole-source contract that ran from 2004 through 2009 for private security services from Blackwater Security Consulting (Blackwater). However, it could not provide evidence that it assessed the appropriateness of the cost as required under federal regulation. According to OMB Circular A-110, procurement records and files for purchases above the small purchase threshold¹² are required to include at a minimum, the basis for selecting the contractor, justification for any lack of competition when competitive bids or offers are not obtained, and the basis for award cost or price.¹³ Assessing cost reasonableness is particularly important when a grantee elects to award a contract without full and open competition.

¹¹ *Department of State Grant Management: Limited Oversight of Costs and Impact of International Republican Institute and National Democratic Institute Democracy Grants*, SIGIR 10-012, 1/26/10.

¹² OMB defines the small purchase threshold as any purchase exceeding \$100,000, in accordance with 41 USC 403.

¹³ OMB Circular A-110, Subpart C, Paragraph 215.46.

The grantee has records describing the basis for selecting the contractor and a justification memo explaining why it used a sole-source contract. However, it did not maintain documentation of any price analyses it conducted in making the award. According to its records, the award was made to Blackwater in November 2004 after first contracting with Diligence, LLC. The grantee's November 2004 sole-source justification memo explained that its executive management determined the organization needed to contract with a company that had greater depth of resources and experience and that Blackwater was the only organization that could provide that service. The memo indicates the Blackwater contract would be more expensive than the Diligence contract and that the grantee recognized the impact that higher security costs have on overall program budgets. For this reason, the grantee planned for the contract to initially only last through the January 2005 elections (120 days), at which time it would re-evaluate the need and appropriate level for security services. However, the grantee continued its contract with Blackwater until 2009.

Nevertheless, there are no records to indicate that the grantee conducted any analysis of the reasonableness of costs that Blackwater was charging, nor any reevaluation of the need and appropriate level of security services for the grant. Grantee officials explained that they determined that the market research they conducted for their previous competitively awarded contract provided them sufficient information on which to assess the reasonableness of the Blackwater proposal. Moreover, the officials stated that given the severely deteriorating security conditions, they were willing to incur higher costs to obtain the best, largest, and most experienced security contractor available who would be able to offer a full range of services. The justification memo states that the grantee program director and executive management conducted an informal cost comparison of private security contractors' costs charged to similar non-profit organizations operating in Iraq. However, the grantee was unable to provide any written evidence that such analyses took place. According to an IRI official, it conducted regular, informal reviews of the contract and associated costs but did not document these assessments.

Because the cost analysis was not documented, we were unable to assess the reasonableness of the contract's costs. Our work showed that the follow-on competitive contract for the same level and type of services was significantly less costly. Specifically, in 2009, the grantee issued a Request for Proposal to replace the Blackwater contract after Blackwater lost its license to operate in Iraq. Grantee officials also informed us that one of their goals in awarding the new contracts would be to lower costs. After a competitive-award process, the grantee awarded two contracts: Pilgrims Group Limited was contracted to provide security services to support client operations based in Baghdad, and Ardan Energy Services (Ardan) was contracted to provide security services primarily in northern Iraq's Kurdistan region with some tasks in Mosul and Kirkuk. The new contracts essentially required the same type of personnel with the same skill levels but at much lower pay rates than Blackwater charged.

The primary factor in the difference between the Blackwater and the subsequent Pilgrims and Ardan security contract costs were the rates paid for local Iraqi security guards. To illustrate, we evaluated the cost of local Iraqi security guards in Erbil.

In the January 2008 billing, Blackwater charged a total of \$114,470 for 31 guards:

- \$120.11 per day each for 30 Iraqi static security guards
- \$212.36 per day for 1 local Iraqi static facilitator

In the February 2010 billing, Ardan charged a total of \$33,120 for 34 guards:

- \$50 per day each for 2 local Iraqi guard commanders
- \$50 per day each for 4 local Iraqi control room operators
- \$33 per day each for 8 local Iraqi access control guards
- \$27 per day each for 16 local Iraqi guards
- \$27 per day each for 4 local Iraqi patrol guards

This data shows that Blackwater charged almost \$81,350 more per month, for about the same number of guards performing similar duties. After the competition, for this example, IRI is paying substantially less to Ardan for what appears to be the same level of security as previously provided by Blackwater.

Grantee officials stated they informed DRL of its intent to non-competitively award the security contract to Blackwater and that DRL did not object. However, informing DRL of its intentions does not relieve the grantee from the OMB circular requirement to adequately document the basis for selecting the contractor, justify the lack of competition when competitive bids or offers are not obtained, and provide the basis for award cost or price.

Allocation of Security Costs among State Department Grants Does Not Appear Reasonable or Substantiated

The grantee did not allocate security costs for services that are shared among its grants in a manner that assures the costs are distributed in reasonable proportion to the benefits received from each grant. The grantee did not follow OMB Circular A-122 which requires that grantees allocate costs among grants according to actual usage.¹⁴ Rather, the grantee used its discretion to determine how security costs would be distributed among grants. In at least one instance, the allocation was based on the availability of funds in the grants—an allocation method not allowed by OMB. Such allocations distort the actual financial picture of grants, in some cases increasing and in other cases decreasing the amount of funding available for direct program costs. As a result, there is no way to determine how much of each grant was actually spent on direct program activities versus security.

During the period under review, the grantee had a number of concurrently-running DRL and other federal grants. All of the grants received services by the same private security contractors. As of March 2010, the grantee, over two-year period, allocated \$21.8 million in security costs to the grant 209. According to grantee officials, they arrived at this distribution by dividing

¹⁴ OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment A, Paragraph A.4.

security costs among grants in proportion to the amount of work conducted under the grant. However, the grantee did not have a written methodology to demonstrate that they objectively determined how to allocate costs. The approach used does not appear to comply with OMB cost-allocation guidance. That guidance requires that an objective methodology be developed that is based on direct costs, such as direct labor costs. For example, at given points in time some grants may have higher security costs than others because of high levels of travel, concentration of work in more dangerous areas, or working with more high-profile Iraqis.

Moreover, in one instance the grantee allocated the amount of security costs charged to a grant based upon the amount of funds available under the grant—a method not allowed under OMB regulations.¹⁵ Specifically, the grantee removed approximately \$500,000 in security costs it initially charged to grant 209 and then charged those costs to grant S-LMAQM-06-GR-097 (grant 097). In a written response to our question on why this occurred, the grantee stated that it initially charged the security cost to grant 209 because it was unaware of how much money remained under grant 097. Because grant 097 was nearing expiration, the grantee was concerned that if they charged security costs to the grant, total expenditures would have exceeded the grant's total value. Later, when the grantee confirmed that funds remained for grant 097, the grantee moved the security costs from grant 209 expenses and recorded them as grant 097 expenses. This activity appears to violate OMB regulations which state that costs allocable to one particular award cannot be shifted to another award to overcome funding deficiencies.

In discussions regarding the methodology used to distribute funds, IRI officials insisted that they distributed the security costs based on the amount of work performed under the grants. However, we requested—and IRI could not provide—an objective methodology for distributing the funds that met OMB circular requirements.

Indirect Costs Appear To Have Been Overcharged

The grantee appears to have charged more overhead costs for security contract administration than allowed in its grant 209 agreement. This is important as it reduces the amount of funds available for direct program costs.

According to a signed agreement between the grantee and the U.S. Agency for International Development (USAID), the grantee is allowed to recover indirect costs associated with the administration of any contracts it awards under grants. Indirect costs in this case would include, for example, headquarters costs associated with administering the security contract. To ensure that the government is not overcharged for these costs, the agreement limits the amount of indirect costs that can be applied to contracts awarded using grant funds. Specifically, IRI must apply the negotiated indirect cost rate to only the first \$25,000 of a contract's value in any given year.

For grant 209, the grantee used an inappropriate methodology and applied the \$25,000 ceiling on a monthly rather than an annual basis. The grantee's reasoning was that the monthly invoices it received from the contractor should be viewed as individual contracts. This approach could result in the grantee charging its indirect cost rate against \$300,000 per year rather than \$25,000

¹⁵ OMB Circular A-122, Attachment A, Paragraph 4.b.

for the single contract. An example of the effect of this practice is the amount the grantee charged for the administration of its Blackwater contract in fiscal year 2008. According to the negotiated indirect cost agreement, the grantee should have charged 15.81% of the first \$25,000 or \$3,952.50 as an indirect cost for all federal grants participating in Blackwater Security. Instead, the grantee charged 15.81% of \$240,599.97, or \$38,038.86, against grant 209 alone—almost 10 times what it appears was allowed for all grants. In addition to grant 209, the grantee had four other grants during fiscal year 2008 that may have been charged similarly for overhead for the administration of the fiscal year 2008 Blackwater contract. However, because of the previously discussed approach used by the grantee to allocate its security costs and the scope of our audit, we did not determine the amount of potentially questionable costs associated with this practice.

Grantee officials said that they discussed their approach for charging indirect cost rates with the appropriate USAID official and that the USAID official approved their methodology. The grantee also provided us emails of these discussions. We reviewed these emails and found that they did not specifically state that the organization would treat each monthly invoice as a separate contract. Also, the USAID official who set the indirect cost rates informed us that a contract is for a specific period of performance, and each monthly invoice is not a separate contract and that in her view, the grantee's interpretation is incorrect and unallowable.

Vehicles Purchased Without Grants Officer Approval

The grantee did not follow OMB Circular A-122 requirements that it obtain agency approval before it purchased vehicles, valued at \$689,500, through a capital-lease arrangement with its security contractor. SIGIR is not questioning the need for vehicles but notes that stringent requirements are in place to ensure that grant recipients use money for intended purposes. Further, grantees should not profit from purchases as this arrangement has the potential to do; if the vehicles are eventually sold, the grantee could recoup money from the sale. Grantee officials said they acted in good faith after discussing their approach with DRL program officials. The grantee did not, however, obtain approval from the GO who is the only official authorized to approve such a purchase.

Specifically, the grantee purchased, through a capital lease with Ardan, six armored vehicles and four soft-skinned vehicles at a total cost of \$689,500, without obtaining prior approval from the GO.¹⁶ Of that amount, \$275,800 was charged to grant 209.

Grantee officials stated they did not believe the lease of the vehicles was a capital lease. However, our analysis of the arrangement made with Ardan indicates otherwise. The arrangement called for Ardan to procure the vehicles after which it would recover the cost of the purchases over the 5-month life of the original contract. This means that after five months the grantee would pay Ardan for the full cost of the vehicles and the grantee could then own the vehicles. Generally Accepted Accounting Principles, which are incorporated into OMB Circular A-122, defines this type of financing arrangement as a capital lease, and it is therefore unallowable under OMB regulations without prior approval by the GO. The grantee's full payment of 100% of the cost of the vehicles in the first five months of the lease meets the criteria

¹⁶ OMB Circular A-122, Attachment B, Paragraph 15 b.

for a capital lease. As a result, we are questioning the allowability of 40% of the \$689,500 of the costs IRI allocated to grant 209 or \$275,800. Given that the remaining vehicle costs were charged to the two other DRL grants, we are questioning \$275,800 charged to grant number S-LMAQM-08-GR-601 and \$137,900 charged to grant number S-LMAQM-09-GR-560.

Oversight and Monitoring Needs To Be Improved

Existing DoS oversight and monitoring mechanisms did not prevent, or ultimately detect, the grantee's potentially questionable costs. This situation occurred for a variety of reasons. First, the GOs were not sufficiently involved in grantee decision-making. They informed us, for example, that neither the grantee nor the GOR had contacted them about the issues raised in this report. Moreover, they told us they do not receive information from the GOR, such as GOR analyses of grantee quarterly reports. Severe staff shortages also inhibited their ability to actively engage with the grantee. They noted that in 2007 and 2008, while this grant was active, the number of GOs decreased from five to one. While the number of GOs has since increased, adequate staffing remains a problem with each officer responsible for approximately 250 open grants.

Financial information available to the Department was also insufficient to detect questionable costs. As discussed in our prior audit report, the periodic financial reports that OMB requires were not designed to achieve this purpose.¹⁷

A GO site visit did not identify the problems we noted. One GO, along with DoS Financial Management Resources and Grants Policies officials, visited IRI headquarters one time over the life of grant 209, in April 2010. The purpose of the visit was to determine for three DRL grants whether the grantee was in compliance with applicable OMB Uniform Administrative Practices and the Terms and Conditions of the federal assistance awards. The review committee wrote IRI that it was impressed with the grantee's grants management practices, including outstanding accounting procedures, up-to-date grants training for staff, and thorough vetting procedures for overseas sub-recipients. According to the GO, the review committee presented two minor issues to IRI: the grantee did not have adequate written policies and procedures for procurements, particularly for awarding non-competitive contracts, and the organization's grant files did not contain all needed documentation. According to the official, the grantee provided sole source justification and satisfactory explanation of why their paper files are limited to award and amendment documentation. Based on this information, the issues were not included in the review committee's letter to the grantee. In responding to our question as to why the visit had not detected any of the problems we noted, the GO responded that the visit was intended to be a broad review of policies.

Annual audits of the grantee also provided no insight to the problems that we identified. Conducted by private Certified Public Accounting firms, OMB Circular A-133 audits are primarily audits of an organization's financial statements and general compliance with OMB circular requirements. The audit is high level and organization-wide. In addition, the compliance aspect of the audit is done on a risk basis, selecting only major programs and

¹⁷ *Department of State Grant Management: Limited Oversight of Costs and Impact of International Republican Institute and National Democratic Institute Democracy Grants*, SIGIR 10-012, 1/26/10.

examining the highest-risk financial transactions within those programs. Unless specifically directed to do so by a funding agency, it is unlikely that an A-133 audit for a large, worldwide entity like IRI would cover a particular program or grant. Therefore, the annual audit reports, by their nature, would not necessarily provide DoS the detail it needs to monitor a particular grant.

Limited Assessments of Success in Meeting Grant Objectives

The grantee assessment data for meeting objectives is limited and makes it difficult to fully assess the grant's impact. The grantee can readily document what activities it led to foster democratic goals and objectives in Iraq. SIGIR confirmed that in most cases the grantee maintained comprehensive information on its training, number, and type of participants, though in some cases this data did not precisely match that contained in quarterly reports. The grantee has not, however, uniformly assessed the extent to which it has succeeded in meeting the grant's specific goals and objectives. Such analyses are required to be included in quarterly reports to DRL. Moreover, IRI's evaluation plan does not always include benchmarks and measurable indicators of progress which are essential criteria for measuring impact.

While the GOR stated that the grantee has not provided comprehensive impact assessments, she further noted that she has sufficient information from other sources to conclude that the grant's overall goals are being met. DRL also noted it has recently taken steps to improve monitoring and evaluation of future grants. Without comprehensive assessments, it is difficult for decision makers to determine what changes are necessary to best ensure that activities are designed and implemented to achieve program objectives.

Grant Activities

Under grant 209, the grantee conducts program activities such as trainings and study missions with Iraqi political parties, civil society groups, and members of the Iraqi government to support the development of democracy. Trainings included capacity-building efforts like instruction on writing project proposals and legislative drafting and monitoring for Iraqi civil society organizations. Study missions included a trip for members of the Council of Representative Research Directorate to attend a meeting of the International Federation of Library Associations in Ottawa, Canada. See Figure 1 for a photo of grantee training on conducting surveys.

Figure 1—IRI Training Session in Erbil



Source: IRI 5/2010.

Activities Documented but Records Inconsistent

The grantee documented activities associated with trainings for grant 209 with payment receipts, agendas, and sign-in sheets. For grant 209, DoS required that the grantee submit program progress reports and suggested that reports include supporting documentation or products related to project activities (such as articles, meeting lists and agendas, and manuals). However, DoS did not specify what documentation must be maintained as support that activities occurred. SIGIR previously reported DRL records contained most of the required reports from the grantee, but the grantee did not include supporting documentation for nearly all of their reports. According to grantee officials, the reports do not include supporting documentation in order to lessen the burden for DRL, but that information is always available and can be reviewed by GORs during site visits.

Records Contain Evidence of Activity

The grantee informed SIGIR that as of April 14, 2010, it had conducted 271 trainings for more than 5,000 Iraqi participants and 3 study missions in support of the objectives for grant 209. Further examination of grantee records showed 3 additional out-of-country trainings conducted by the grantee that were not recorded in its database of all grant trainings. The trainings included two trainings in Turkey on public opinion research and budgeting, as well as a training in

Lebanon on the use of information technology. According to a grantee official, these three trainings were conducted under grant 209, but due to an oversight, were not included in the list of trainings.

SIGIR judgmentally selected for review 28 of the 271 (approximately 10%) grantee-recorded trainings. Although the grantee provided some type of supporting documentation for each activity, SIGIR found some variation in the type of documentation provided as support. The grantee's field accounting manual requires receipts for all expenses over \$15¹⁸ as well as agendas for meetings, conferences, and seminars, but it does not require other documents such as sign-in sheets as evidence an activity occurred.

The grantee provided receipts for the 28 trainings SIGIR reviewed but did not always have agenda and sign-in sheets. One training file did not contain all receipts for the activity, but the grantee had documented unsuccessful attempts to obtain receipts from the trainer, as required by its policy. SIGIR found five trainings that did not have agendas or had agendas with a different title or date from grantee records. The grantee subsequently provided the three agendas as well as agendas for the other two trainings, but those agendas still did not match IRI's records.

In addition, SIGIR's initial review found that five grantee files were missing participant sign-in sheets for at least one day of training. The grantee provided explanations for the missing documentation: three of the trainings occurred outside Iraq, and IRI used hotel receipts as support of participation; one training that occurred over two days had only one sign-in sheet; and supporting documentation for one training had signatures for transportation per diem received by participants. The grantee explained that the instructor did not collect signatures for an official sign-in sheet. See Appendix B for the detailed results of SIGIR's document review.

Records Inconsistent with Quarterly Reports

SIGIR could not verify the information reported by the grantee in its quarterly reports to DRL. We compared the sample of grantee training records conducted with grantee quarterly reports submitted to DRL. Of the 28 trainings reviewed, SIGIR was unable to find mention of 5 in the quarterly reports to DRL. For example, grantee records indicate that in April 2008, IRI conducted training on fostering international relationships for women from the North Youth Center, but SIGIR did not find this training noted in the grantee's quarterly report. See Appendix B for a full list of the extent to which grantee quarterly reports included information on the trainings in SIGIR's sample.

Similarly, SIGIR found some instances where information presented in quarterly reports was not corroborated by grantee records. For example, the quarterly report for the period ending June 30, 2008 describes a training in Istanbul, Turkey for senior staff members of the Presidency Council. According to the report, a U.S.-based trainer taught management skills and leadership development, and staff members included advisors, financial administrators, and office managers. SIGIR was unable to find this training listed in grantee records of trainings for grant 209 or its list of out-of-country trainings.

¹⁸ Receipts are required for all expenses over \$15, except taxi-cab receipts, which are required for expenses over \$25.

State Has Not Reviewed Supporting Documentation

SIGIR previously reported that GORs communicate regularly with grantees, but the frequency and length of site visits has been affected by limited DRL staffing, travel cost considerations, security, and country clearance restrictions. As of April 30, 2010, the GOR had responsibility for 12 grants including grant 209, totaling approximately \$197.4 million. DRL gains additional insight to grantee activities through two democracy advisors who communicate with and visit grantees but do not conduct formal oversight of grantees. According to grantee officials, GOR site visits have been limited, but grantee officials in Iraq maintain regular communication with the democracy advisors who have also made visits to the grantee's office in Erbil.

These visits by the GOR and the democracy advisors have not included review of grantee documents which support quarterly reports to DRL and serve as evidence that activities occurred. In addition, even though the GO would be able to make site visits to grantee offices in Washington, D.C., the GO for IRI's grants has conducted only one visit to IRI, and the review was a high level review of policies. As noted earlier, GOs have approximately 250 active grants each, so they rely on GORs to identify issues.

Grant Impact Has Generally Not Been Assessed

The grantee generally has not assessed the extent to which progress has been made in meeting grant goals and objectives. While the grantee collected some information on impact, it did not always clearly demonstrate a change in condition or link reported impact to grantee activities.

According to the *Foreign Assistance Policy Manual*, impact is defined as the cumulative or net effect of the outcomes or results, and there is an abiding U.S. government interest in measuring the success of programs supported by federal funds. The grant agreement requires that such impact analyses be included in quarterly reports. Since our analysis for our previous report, the grantee has submitted three quarterly reports to DRL that contain detailed information, including photos, results from initiatives like polling, and additional output data.

Our review of those quarterly reports noted instances where the grantee reported a measured indication of change resulting from its activities; however, there were other instances where one would expect to see a measured impact, but the grantee did not provide evidence of any. For example, the grantee reported that after the March 7, 2010 election, it conducted a survey of candidates who attended election training and found that campaigns assisted by the grantee were twice as likely to succeed as those that did not. The grantee further found that successful candidates conducted more door-to-door voter outreach and maintained larger voter databases than losing candidates.

Conversely, the grantee indicated that success in meeting the outcome that women are increasingly integrated into party organizations as officers, candidates, and volunteers would in part be demonstrated when women effectively campaign in elections. While the grantee reported that hundreds of women trained before the March 7 elections conducted effective campaigns, it did not provide any other supporting information to indicate it measured a change in condition. Moreover, the grantee did not provide detail about the women's roles in parties or what made the campaigns effective. Without the grantee's demonstration of specific measurements for changes

in activity, it is difficult to determine if the grantee assessed the extent to which progress has been made toward goals and objectives.

SIGIR recognizes that collecting information and measurements in Iraq to show impact is challenging. According to the GOR, it can be difficult for grantees to demonstrate impact because progress toward goals and objectives is often subjective, some activities may not immediately effect change, and observation of change may be delayed even beyond the life of the grant. She further indicated that the lack of available data in Iraq has hindered grantees in establishing a baseline against which they can measure progress. According to a grantee official, some measures of progress overlap with multiple grants, so it can be difficult to identify the impact of one specific grant. While the GOR acknowledged that the grantee has not provided comprehensive impact assessments, she informed us that she has sufficient information from other sources to conclude that IRI is achieving the overall grant goals.

According to a grantee official, IRI will draw conclusions in its final report which it will submit within three months after the grant's expiration. The final report will compile the findings in the quarterly reports as well as include a final assessment of the grant's effectiveness and impact. According to the official, this report should be able to draw more definitive and broad conclusions than quarterly reports because it will look at the entire life of the grant.

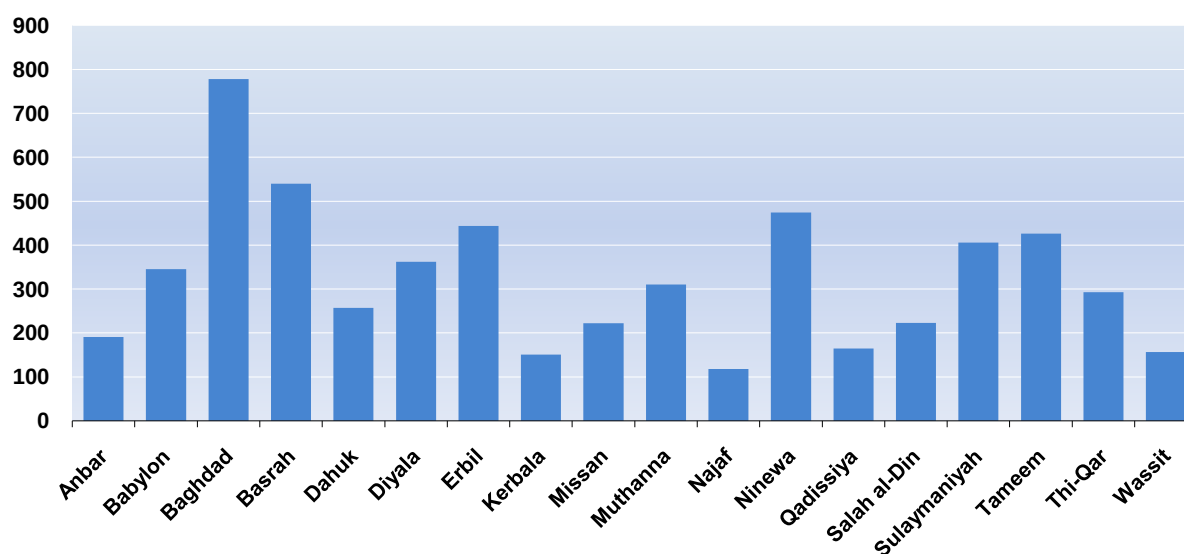
Other Information on Activities

The grantee collected information on voter sentiment and participants, but this data has not been used to assess progress toward meeting goals and objectives. In 2009, the grantee conducted 17 trainings for more than 450 Iraqi participants on polling and building local capacity. In November and December 2009, those participants conducted individual interviews in all 18 provinces, utilizing a 75-question survey for a total sample size of 7,600 people. Results from the survey have been used to inform the grantee's re-election voter education programs and political parties. For instance, the poll identified provinces with the lowest likely voter turnout which allowed the grantee to target voter education efforts, resulting in a higher-than-average turnout, according to the grantee.

The grantee also maintains a database of all people who have participated in trainings for grant 209 and a summary of their evaluations of trainings and trainers filled out after each training session. The grantee began collecting this information in February 2008, cumulating information from each of the activities under all IRI grants into one database. Grantee records show that between February 2008 and early May 2010,¹⁹ it conducted over 250 trainings for almost 6,000 participants. According to a grantee official, however, individuals are entered into the database each time they attend a training, so the total number of participants may count the same person multiple times. The grantee collects information on individuals' political parties, provinces, gender, and which trainings they attended. Figure 2 shows the number of participants in grant 209 trainings by province between February 2008 and May 2010.

¹⁹ Even though the grant was awarded in September 2007, the grantee and DRL agreed work would not begin until January 2008. The grantee did not begin collecting participant information for the grant until February 2008.

**Figure 2—Number of Grant 209 Training Participants by Province
(February 2008 – May 2010)**



Source: IRI, May 7, 2010.

Monitoring and Evaluation Plan Not Structured To Measure Impact

The request for proposals that resulted in the awarding of grant 209 to the grantee states that proposals would be judged in part on the merit of the proposed program evaluation plan. According to the request, proposals should demonstrate the capacity for engaging in impact assessments and providing long and short-term goals with measurable outputs and outcomes. The request defines outcomes as specific results a project is intended to achieve that are usually measured as an extent of change. In addition, the grant 209 agreement states that grantee quarterly progress reports should reflect the grantee's continued focus on measuring project impact on the overarching goals or problems the projects set out to address. Assessment of overall impact and/or incremental impact, as appropriate, should be included in each quarterly progress report. Moreover, the solicitation for the grant stated the potential grantee should demonstrate the capacity for engaging in impact assessments and providing long- and short-term goals with measurable outputs and outcomes. DRL defines impact as a change in social, economic, or civic condition.

In its application to receive grant 209, the grantee included 14 expected outcomes of their work toward meeting 6 objectives. The grantee also included 43 indicators under the outcomes that would show progress toward meeting the outcomes and eventually the objectives. However, not all of the outcomes and indicators were specifically measurable. For example, for meeting the objective of strengthening the organizational capacity, sustainability, and accountability of civil society to effectively engage in the democratic process, the grantee expected their work to result in civil society organizations beginning to experience healthy organizational growth while effectively engaging in the democratic process. However, the grantee did not describe any techniques for measuring progress for the indicators or determining when outcomes have been met. The grantee's previous country director stated the indicators were vague and were not

suited to day-to-day management of the grant, but that the grantee has some measurements to determine grant impact. Another grantee official stated the grantee uses the indicators established in the agreement, but some measurements of progress do not fit into an indicator. As of April 14, 2010, the grantee reports it completed 271 trainings under grant 209, including 223 trainings under objective 5 to encourage movement towards internally democratic, socially-integrated and issues-based political organizations. See Table 3 for information on the grant objectives and expected outcomes.

Table 3—Objectives, Outcomes, and Number of Trainings for Grant 209

Objective and Outcome	Number of trainings by Objective
Objective 1: Enhance government capacity to perform core functions of national institutions. Outcome: Foster development of the Iraqi Council of Representatives Research Directorate departments to ensure that the directorate continues to advance as a quality, objective information service for all Council of Representatives members, committees, and staff.	4
Outcome: Support greater transparency, a commitment to public dialogue and responsiveness in the public policy-making process on the part of legislature and government.	
Objective 2: Foster transparency, public dialog, and responsiveness in the legislative process. Outcome: Support development of non-governmental, non-partisan, non-sectarian public policy think tanks, particularly on economic policy and security issues, and facilitate their participation in the policy-making process.	2
Objective 3: Strengthen the organizational capacity, sustainability, and accountability of civil society to effectively engage in the democratic process. Outcome: Civil society organizations start to experience healthy organizational growth, while effectively engaging in the democratic process.	37
Outcome: Iraqi youth start participating in public life.	
Outcome: Iraqi women's groups actively engage in the political and legislative processes to protect their rights.	
Outcome: Ethnic and religious minority activists actively engage in the political and legislative processes to protect their rights and attain equal legal status with majority groups.	
Objective 4: Encourage and facilitate dialogue among Iraqi civil society, Iraq local and national government, and international actors. Outcome: Civil society organizations start to influence decision-makers from all levels of government and engage international actors to facilitate this process.	5
Outcome: Civil society organizations play key roles in reducing political violence through inter-sectarian and inter-ethnic dialogue.	
Objective 5: Encourage movement towards internally democratic, socially-integrated and issues-based political organizations. Outcome: Iraqi political parties regularly and effectively practice two way communications with voters as the way to retain their base, broaden it and keep the public informed both about their platforms and their agendas.	223
Outcome: Iraqi political parties and party leaders engage in party building and implement issues-based political outreach, including the use of public service announcements, to promote issues-based discourse through a variety of print and electronic media outlets.	
Outcome: Women are increasingly integrated into party organizations as officers, candidates, and volunteer activists.	

Outcome: Youth are increasingly integrated into party organizations as officers, candidates, and volunteer activists.	
Objective 6: Facilitate the development of institutions, laws, and procedures that promote free and fair elections.	0 ^a
Outcome: Political parties are able to effectively monitor elections and produce credible assessments of electoral procedures and outcomes.	
Total	271

Note:

^a IRI and DRL agreed that IRI would not conduct any trainings for objective 6 so as not to duplicate efforts of the National Democratic Institute.

Source: SIGIR analysis of IRI data, as of 4/14/2010.

Plans To Assess Impact of Future Grants

SIGIR previously reported that DRL officials were taking steps to improve the quality of their evaluation process and determine methods to measure the impact of grant programs and assess the overall impact of DRL's work. In March 2010, DRL published on its website updated proposal submittal instructions and included a monitoring and evaluation plan primer with a sample monitoring and evaluation plan. The primer states that all proposals being considered for DRL funding must include a comprehensive monitoring and evaluation plan. Monitoring and evaluation plans consist of indicators with baselines and targets; means for tracking critical assumptions; plans for managing the data collection process; and regular collection of data. Grantees should schedule and carry out evaluations throughout the course of the program. Plans should include performance indicators linked to the program's strategic objectives with performance measures that are specific, measurable, attainable, realistic, and timely.

DRL also developed standard output-oriented indicators under the Foreign Assistance Framework.²⁰ The primer states that grantees are required to report on relevant DRL indicators in addition to their own program-specific indicators by each quarter and cumulative over the life of the grant. According to an IRI official, DRL's new monitoring and evaluation requirements will be incorporated into future grantee proposals for DRL grants.

²⁰ The Foreign Assistance Framework is part of the *Fiscal Year 2007-2012 Department of State and USAID Strategic Plan*, 5/7/2007.

Conclusion and Recommendations

Conclusion

Federal regulations require less day-to-day government oversight and accountability for grants than for contracts. Nevertheless, both IRI and the Department of State have distinct responsibilities to ensure that grant funds are used in accordance with the terms of the grant and OMB regulations. Funds should be spent efficiently and effectively to meet grant objectives. In the case of this grant, these responsibilities were not always met. DoS did not always fully oversee grantee efforts and thus could not assure that the grantee was making progress in meeting grant goals and objectives. DoS oversight of grant charges and cost allocations were particularly weak. This occurred for a variety of reasons. An insufficient number of Grants Officers, insufficient knowledge on the different roles and responsibilities among the various DoS oversight offices, and less-than-comprehensive audit and financial reporting were major contributing factors.

Similarly, the grantee could have done more to ensure the organization complied with OMB regulations by seeking approval for certain management and accounting decisions from the appropriate DoS officials before they were implemented. As a result of these lapses, significant potentially questionable cost charges and allocations were applied to this grant. Finally, it is incumbent on the grantee to clearly demonstrate how its activities are meeting the specific goals and objectives of the grant to foster democratic development in Iraq. Without such analyses, it is not possible to determine if the U.S. investment is having the desired impact.

Recommendations

To improve the management of grants for Iraq reconstruction, SIGIR recommends the U.S. Secretary of State direct offices as she determines appropriate to take the following actions:

1. Assess the adequacy of the number of Grants Officers assigned to manage DRL grants to in Iraq.
2. Require the Grants Officers to conduct in-depth assessments of the IRI cost charges accounting allocation methods highlighted in this report. The assessments should determine the level of questionable costs and whether funds should be recovered.
3. Require the Grants Officers to instruct IRI to follow OMB guidelines on reasonableness, allocability, and allowability of costs and non-competitive contracts.
4. Require the Grants Officers to instruct IRI to incorporate in its next A-133 audit a comprehensive audit of indirect costs and a compliance audit for at least one major DRL grant.
5. Require that Grants Officer Representatives are trained on OMB Circulars A-110, A-122, and A-133, as well as DoS grant policy directives to ensure they are fully aware of their responsibilities and limitations.
6. Require the Grants Officer Representatives to enforce the grant requirements that IRI provide measurable indicators of their success in meeting grant goals and objectives.

Management Comments and Audit Response

In written comments on a draft of this report, DRL incorporated input from AQM and generally agreed with the draft report recommendations. Specifically, DRL concurred with five of the six recommendations and identified specific actions it plans to take in addressing the recommendations. DRL stated that it did not concur with one of the recommendations, but its planned actions meet the intent of our recommendation.

DRL's comments are reprinted in their entirety in Appendix E. AQM also provided written technical comments, which we incorporated as appropriate. SIGIR believes that the actions identified by management, if properly implemented, are responsive to this report's recommendations.

Appendix A—Scope and Methodology

Scope and Methodology

In February 2010, the Special Inspector General for Iraq Reconstruction (SIGIR) initiated Project 1007a to examine the United States Department of State Bureau of Democracy, Human Rights, and Labor's (DRL) management and oversight of democracy-building grants to the International Republican Institute (IRI). SIGIR's objectives are to examine for grant 209, the reasonableness, allocability, and allowability of IRI's claimed security costs, and the extent to which the grantee documented its success in achieving governance, political participation, and civil society goals and objectives.

We performed this audit under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. SIGIR conducted its work during February through June 2010 in Baghdad, Iraq and Washington, D.C.

To determine the reasonableness, allocability, and allowability of IRI's claimed security costs charged against grant S-LMAQM-07-GR-209 (grant 209), we first obtained and assessed all grant documents, interviewed DRL, U.S. Agency for International Development, U.S. Embassy Baghdad, and IRI personnel in Washington and in Iraq.

We then obtained and reviewed relevant criteria, including Office of Management and Budget (OMB) Circular A-110, OMB Circular A-122, and OMB Circular A-133. We obtained and reviewed budget and cost data submitted by IRI. We then selected a judgmental sample of invoices submitted by IRI security contractors from a schedule of security costs provided by the grantee. We reviewed the files of the contracts issued by the grantee to the security firms to determine the grantee's compliance with federal regulations. We also examined applicable grantee policies and procedures. Additionally, we reviewed IRI's internal controls over contractor performance as well as invoice processing. To ensure the existence of vehicles included in reported costs, we performed a physical inventory of the vehicles in Iraq.

To determine the extent to which IRI assessed the impact of grant 209, we interviewed IRI and DRL personnel in both Iraq and Washington, D.C. and reviewed IRI's quarterly progress reports. To confirm the grantee's reporting of activities under grant 209, we judgmentally selected a sample of approximately 10% of IRI trainings conducted under the grant and reviewed supporting documentation, including receipts, agendas, and sign-in sheets. In addition, we visited grantee headquarters in Erbil, Iraq, where we reviewed documentation, interviewed staff, and attended one training session under the grant.

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

Use of Computer-processed Data

We used computer-processed data in this report. The grantee provided security cost data in a report from their accounting system, managed using Deltek, a packaged accounting software. In our previous audit, the grantee stated that they have not modified the software. We reviewed source documents and gathered other evidence to confirm that the data was accurate. We did not review these systems but consider the data sufficiently reliable for the purposes of the audit objectives.

Internal Controls

We reviewed DRL internal control procedures to oversee and manage these grants. In addition, SIGIR identified and assessed internal controls IRI used in managing grant costs and activities. The results of the review are presented in the report. We also reviewed selected financial management practices by IRI and in particular looked at compliance with certain aspects of OMB circulars, A-110, A-122, and A-133.

Prior Coverage

We reviewed the following reports by SIGIR and the Government Accountability Office:

Special Inspector General for Iraq Reconstruction

Department of State Grant Management: Limited Oversight of Costs and Impact of International Republican Institute and National Democratic Institute Democracy Grants, SIGIR 10-012, 1/26/10.

Opportunities To Enhance U.S. Democracy-Building Strategy for Iraq, SIGIR 09-001, 10/22/08.

Government Accountability Office

Grants Management: Enhancing Performance Accountability Provisions Could Lead to Better Results, GAO-06-1046, 9/06.

Rebuilding Iraq: U.S. Assistance for January 2005 Elections, GAO-05-932R, 9/7/05.

Appendix B—Supporting Documentation Review Results

Table 4—Grant 209 Supporting Documentation

Training Description	Objective	Noted in Quarterly Reports	Agenda in File	Sign-In Sheet in File	Receipts
Legislation drafting in Turkey for Iraqi Research Directorate	1	✓	✓	✓	✓
Marketing and public relations in Erbil for think-tank members	2		✓	✓	✓
Finance and reconciliation in Erbil for Anbar Youth coalition	3			✓	✓
Training of trainers in Turkey for Civic Coalition for Minorities	3	✓	✓	✓	✓
Monitoring and evaluation in Erbil for multiple groups	3	✓	✓	✓	✓
International relationships in Erbil for North Youth Center	4			✓	✓
Iraqi Women's Capacity Building session in Basrah for Communist Party members	5			✓	✓
Candidate and Provincial Council election in Erbil for Islamic Da'wa Party – Iraq Organization	5	✓	✓	✓	✓
Election training in Erbil for National Reform Current	5	✓	✓	✓	✓
Candidate and Provincial Council election training in Turkey	5	✓	✓	✓	✓
Messaging and campaigning in Erbil for multiple Kurdish parties	5	✓	✓	✓	✓
Candidate and Provincial Council election training in Erbil for multiple parties	5	✓	✓	✓	✓
Polling interviewer training in Basrah for multiple parties	5	✓	✓	✓	✓
Database training in Erbil for Islamic Supreme Council of Iraq	5	✓	✓	✓	✓
Coalition Building in Erbil for multiple parties	5		✓	✓	✓
Campaign Management in Erbil for Service list	5	✓	✓	✓	✓
Database training in Baghdad for multiple parties	5	✓	✓	✓	✓

Training Description	Objective	Noted in Quarterly Reports	Agenda in File	Sign-In Sheet in File	Receipts
Party building in Erbil for multiple Kurdish parties	5	✓	✓	✓	✓
T4 campaign training module in Kirkuk for Iraqi Turkman front ^a	5	✓	✓	✓	✓
T4 campaign training module in Najaf for Iraqi Constitutional Party ^a	5	✓	✓	✓	✓
Media relations in Erbil for Change List party members	5	✓	✓	✓	✓
T4 campaign training module in Erbil for Iraqi National Movement ^a	5	✓	✓	✓	✓
T4 campaign training module in Muthanna for Islamic Da'wa Party	5	✓	✓	✓	✓
T4 campaign training module in Anbar for Iraqi National Movement ^a	5	✓	✓	✓	✓
T4 campaign training module in Erbil for Iraqi National Accord ^a	5	✓	✓	✓	✓
T4 campaign training module in Ninewa for Supreme Iraqi Islamic Council ^a	5	✓	✓	✓	✓
T4 campaign training module in Salah al Din for Iraqi National Alliance ^a	5	✓		✓	✓
Youth conference in Erbil for multiple parties	5	✓	✓	✓	✓
Total		23	24	28	28

Note:

^a T4 training is one of IRI's election-related trainings. It emphasizes what the grantee calls the four "T's" of successful campaigning: targeting, touching, tracking, and turnout of voters.

Source: SIGIR analysis of IRI data, as of 4/14/2010.

Appendix C—Acronyms

Acronym	Description
DoS	United States Department of State
DRL	Bureau of Democracy, Human Rights, and Labor
GO	Grants Officer
GOR	Grants Officer Representative
IRI	International Republican Institute
OMB	Office of Management and Budget
SIGIR	Special Inspector General for Iraq Reconstruction
USAID	U.S. Agency for International Development

Appendix D—Audit Team Members

This report was prepared and the audit conducted under the direction of David R. Warren, Assistant Inspector General for Audits, Office of the Special Inspector General for Iraq Reconstruction.

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

Bill Bedwell

Daniel Chen

Joan Hlinka

Whitney Miller

Robert Whiteley

Appendix E—Department of State – Bureau of Democracy, Human Rights, and Labor Comments



United States Department of State
*Assistant Secretary for Democracy
Human Rights and Labor
Washington, D.C. 20520-7802*

July 26, 2010

Dear Mr. Warren:

The Department of State's Bureau of Democracy, Human Rights, and Labor (DRL) submits the following response to the recommendations included in the audit report "Improved Oversight Needed for State Department Grants to the International Republican Institute." DRL has included in its response input from the Bureau of Administration, Office of Acquisitions Management (AQM), which provides Grants Officers management for DRL programs.

(1) Assess the adequacy of the number of Grants Officers assigned to manage DRL grants in Iraq.

➤ **Concur.** The Department does not have a formal policy on the ratio of Grants Officers (GO) per open grants. However, A/OPE/FA, the Federal Assistance Policy Division, is currently working on guidance and recommendations to address the need to expand specific grants management and grants officer representatives' skills and staffing in areas of conflict and disaster. AQM is adjusting its GOs' work assignments to support the needs of DRL grants. Currently there are three GOs assigned to DRL portfolios and one GO with other responsibilities, who is also responsible for the DRL Iraq grants.

(2) Require the Grants Officers to conduct in-depth assessments of the IRI cost charges accounting allocation methods highlighted in this report. The assessments should determine the level of questionable costs and whether funds should be recovered.

➤ **Do not concur.** AQM, in conjunction with DRL, will request that the Office of Inspector General (OIG) conduct a financial audit of the IRI security costs for Iraq grants highlighted in the report. The Grants

Mr. David R. Warren,
Assistant Inspector General for Audit,
400 Army Navy Drive,
Arlington, VA 22202.

Officers will address all OIG recommendations regarding questionable and unallowable costs.

- AQM agrees that communication with grantees on selected accounting allocation methods is an important element of continuous improvement of grant oversight and program evaluation.

(3) Require the Grants Officers to instruct IRI to follow OMB guidelines on reasonableness, allocability, and allowability of costs and non-competitive contracts.

- **Concur.** By signing the Federal Assistance Award, DS-1909, IRI agreed to comply with the OMB Circulars, A-122, A-110 and the A-133 audit, as well as the State Department's Standard Terms and Conditions that require compliance with all applicable Federal requirements, terms and conditions, and prudent management of all expenditures and actions affecting the award. The Department will work with its grantees on adherence with OMB guidelines on reasonableness, allocability and allowability of costs and to document justifications for non-competitive contracts.

(4) Require the Grants Officers to instruct IRI to incorporate in its next A-133 audit a comprehensive audit of indirect costs and a compliance audit for at least one major DRL grant.

- **Concur.** The Grants Officer will issue a letter to IRI requiring that the next A-133 audit present supporting calculations for indirect costs and that one major DRL program have a compliance audit, as allowed under OMB circular A-133 Subpart B 200(c) Audit requirements.

(5) Require that Grants Officer Representatives are trained on OMB circulars A-110, A-122, and A-133, as well as DoS grant policy directives to ensure they are fully aware of their responsibilities and limitations.

- **Concur.** DRL currently requires that all Grants Officer Representatives successfully complete Foreign Service Institute courses PY220 (Introduction to Grants and Cooperative Agreements) and PY222 (Monitoring Grants and Cooperative Agreements), which include awareness of relevant OMB circulars. DRL and AQM will discuss streamlining communication lines so that both sides are more clearly aware of their responsibilities.

(6) Require the Grants Officer Representatives to enforce the grant requirements that IRI provide measurable indicators of their success in meeting grant goals and objectives.

➤ **Concur.** DRL will work with IRI to ensure that it identifies and reports upon measurable indicators for grant S-LMAQM-07-GR-209.

I hope this information is useful. Please do not hesitate to contact Patricia Davis on 202-647-8283 if you have additional questions.

Sincerely,

A handwritten signature in black ink that reads "Michael Posner". The signature is written in a cursive, slightly slanted style.

Michael H. Posner

Appendix F—SIGIR Mission and Contact Information

SIGIR's Mission	Regarding the U.S. reconstruction plans, programs, and operations in Iraq, the Special Inspector General for Iraq Reconstruction provides independent and objective: • oversight and review through comprehensive audits, inspections, and investigations • advice and recommendations on policies to promote economy, efficiency, and effectiveness • deterrence of malfeasance through the prevention and detection of fraud, waste, and abuse • information and analysis to the Secretary of State, the Secretary of Defense, the Congress, and the American people through Quarterly Reports
Obtaining Copies of SIGIR Reports and Testimonies	To obtain copies of SIGIR documents at no cost, go to SIGIR's Web site (www.sigir.mil).
To Report Fraud, Waste, and Abuse in Iraq Relief and Reconstruction Programs	Help prevent fraud, waste, and abuse by reporting suspicious or illegal activities to the SIGIR Hotline: • Web: www.sigir.mil/submit_fraud.html • Phone: 703-602-4063 • Toll Free: 866-301-2003
Congressional Affairs	Hillel Weinberg Assistant Inspector General for Congressional Affairs Mail: Office of the Special Inspector General for Iraq Reconstruction 400 Army Navy Drive Arlington, VA 22202-4704 Phone 703-428-1059 Email hillel.weinberg@sigir.mil
Public Affairs	Deborah Horan Director of Public Affairs Mail: Office of the Special Inspector General for Iraq Reconstruction 400 Army Navy Drive Arlington, VA 22202-4704 Phone: 703-428-1217 Fax: 703-428-0817 Email: PublicAffairs@sigir.mil