The seal of the Office of the Special Inspector General for Iraq Reconstruction is a large, circular watermark in the background. It features the text "SPECIAL INSPECTOR GENERAL" at the top and "OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION" at the bottom. In the center is the Iraqi national emblem, which consists of a sunburst with a crescent moon and a star, flanked by two olive branches and a palm branch. The Arabic text "مفتش العام" is written in the upper half of the seal, and "إعادة إعمار العراق" is written in the lower half.

**DEPARTMENT OF STATE GRANT
MANAGEMENT: LIMITED OVERSIGHT
OF COSTS AND IMPACT OF
INTERNATIONAL REPUBLICAN
INSTITUTE AND NATIONAL
DEMOCRATIC INSTITUTE DEMOCRACY
GRANTS**

**SIGIR 10-012
JANUARY 26, 2010**



SIGIR

Special Inspector General for IRAQ Reconstruction

Summary of Report: SIGIR 10-012

Why SIGIR Did this Study

This report addresses the Department of State's Bureau of Democracy, Human Rights, and Labor's (DRL) management of 12 grants issued between 2004 and 2009, valued at approximately \$248 million, to the International Republican Institute (IRI) and the National Democratic Institute (NDI) for democracy-building activities in Iraq. SIGIR's reporting objective is to examine the Department of State's oversight of the costs and outcomes of IRI and NDI democracy-building grants in Iraq.

What SIGIR Recommends

SIGIR recommends that the U.S. Secretary of State improve DRL oversight of grants by directing DRL to (1) review and document the reasonableness of grantee budgets for activities not directly associated with executing grant objectives, to include security and other indirect costs, and the costs versus benefits of awarding grants with significant non-direct program costs; (2) request for current grants and require for future grants that grantees report quarterly expenditures on major cost categories; and (3) assess the appropriateness of establishing a program manager position in Iraq versus maintaining democracy advisors as DRL representatives in Iraq.

SIGIR also recommends that the Deputy Secretary of State for Management and Resources direct an examination of DRL's personnel and operations to determine if the Bureau is structured and staffed to effectively and efficiently oversee the grants under its responsibility.

Management Comments and Audit Response

DRL concurred with three of the draft report recommendations but did not concur with a draft recommendation that it amend grant agreements to require grantees to report quarterly expenditures on major cost categories. DRL stated that formal amendments to current grants, as well as expired grants, may not be useful, but it will request this of grantees receiving future grants. SIGIR modified its final report recommendation related to cost category reporting to reflect the DRL comment.

January 26, 2010

DEPARTMENT OF STATE GRANT MANAGEMENT: LIMITED OVERSIGHT OF COSTS AND IMPACT OF INTERNATIONAL REPUBLICAN INSTITUTE AND NATIONAL DEMOCRATIC INSTITUTE DEMOCRACY GRANTS

What SIGIR Found

DRL does not have documentation on whether the IRI and NDI grants are meeting their goals and whether the grant money is being used in the most effective and efficient manner. While IRI and NDI stated they have assessed the impact their grants have had in achieving grant objectives, DRL has not required that IRI and NDI provide these assessments in progress reports, as required by the grant agreements. A DRL program official stated that DRL recently hired a specialist to improve the evaluation process and determine methods to measure impact of the grants.

During our review of the costs for seven grants, we found that only 41% of the grant funds were actually spent on direct program activities. More than 60% of IRI's expenditures and almost 50% of NDI's expenditures were for security and overhead costs; mostly security. NDI spent almost one third of its funds on security, and IRI spent more than one half of its funds on security. Thus, only approximately \$47 million of the approximately \$114 million was spent on direct program activities. SIGIR notes that the level of security expenditures for a grant is a case-by-case decision and should be based on a cost and benefits analysis. Absent such an analysis, there is no basis to assess the appropriateness of security costs.

Current DRL officials could not explain why the apparent risks associated with these grants, as evidenced by the significant security costs, were accepted because they were not assigned to manage these grants until after they had been awarded. They noted, however, that DRL received direction from Congress to ensure grant activities occurred. Nevertheless, the officials explained that DRL does not have a set formula to gauge an appropriate level for security costs per grant, and shifting circumstances may dictate security requirements.

SIGIR also found that DRL's oversight of IRI and NDI grants is limited. First, DRL manages the grant program from Washington, D.C. which limits face-to-face interaction with grantee personnel in Iraq and impacts insight into grantee activities. Second, DRL does not require that progress reports follow guidelines established by DRL in grant agreements. For example, grantees are encouraged to submit progress reports that identify the level and type of activities conducted for the period along with supporting documentation to provide evidence that activities occurred. NDI included supporting documentation in 22 of the 23 reports it submitted; IRI included supporting documents for only 3 of the 29 reports it submitted. Moreover, progress reports did not provide expenditure data by objective, as suggested in the grant. IRI and NDI submitted quarterly financial reports identifying total expenditures, but the reports do not break down expenditures into categories such as security or training. While relevant guidance does not require such detailed data, the information would benefit DRL's oversight of the program.



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

January 26, 2010

MEMORANDUM FOR U.S. SECRETARY OF STATE
U.S. AMBASSADOR TO IRAQ

SUBJECT: Department of State Grant Management: Limited Oversight of Costs and Impact of International Republican Institute and National Democratic Institute Democracy Grants (SIGIR 10-012)

We are providing this audit report for your information and use. The report discusses the U.S. Department of State's Bureau of Democracy, Human Rights, and Labor (DRL) grants awarded to the International Republican Institute and the National Democratic Institute for democracy-building activities in Iraq. 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 waste, fraud, and abuse. This audit was conducted as SIGIR project 9024.

We considered written comments from the Assistant Secretary, DRL, when preparing this report. The comments are addressed in the report where applicable, and the letter is included in Appendix F.

We appreciate the courtesies extended to the SIGIR staff. For additional information on the audit 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: U.S. Secretary of Defense
Commander, U.S. Central Command
Commanding General, U.S. Forces-Iraq
Administrator, U.S. Agency for International Development

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Department of State Grant Management: Limited Oversight of Costs and Impact of International Republican Institute and National Democratic Institute Democracy Grants

SIGIR 10-012

January 26, 2010

Introduction

On October 22, 2008, the Special Inspector General for Iraq Reconstruction (SIGIR) issued a report¹ on the U.S. Department of State's (DoS) and the U.S. Agency for International Development's (USAID) strategy for democracy-building in Iraq. This follow-up report focuses on DoS' Bureau of Democracy, Human Rights, and Labor (DRL) management of grants of approximately \$248 million to the International Republican Institute (IRI) and to the National Democratic Institute (NDI) for democracy-building activities in Iraq. IRI is a nonprofit, nonpartisan organization with a stated mission to advance freedom and democracy worldwide by developing political parties, civic institutions, open elections, good governance and the rule of law. NDI is also a nonprofit, nonpartisan organization with similar goals; NDI's stated goal is to work to support and strengthen democratic institutions worldwide through citizens' participation, openness, and accountability in government. NDI's mission in Iraq is to provide assistance and opportunities for participation to all Iraqis through programming focused on empowering civil society, strengthening political parties, developing better governance practices, encouraging the political participation of women and youths, and helping to ensure open and fair electoral processes. Both organizations report that they have been working in Iraq since 2003 to help promote the growth of democracy. Both IRI and NDI's operations in Iraq are headquartered in Erbil; IRI has local national staff and NDI has U.S. staff in Baghdad.

DRL's mission is to lead U.S. efforts to promote democracy, protect human rights and international religious freedom, and advance labor rights globally. The grant officer, who is an employee of the Department of State Office of Acquisitions Management, appoints a grant officer representative (GOR), who is a DRL employee and has primary responsibility for grant management. The GOR ensures that the grantee is making adequate progress in achieving the project goals and objectives and that the funds are being used responsibly. As of September 14, 2009, DRL was managing 44 democracy-building and governance-related grants in Iraq totaling approximately \$275 million. At that time, ongoing grants of approximately \$153 million, or about 56% of the total, were awarded to IRI and NDI.

Background

DoS awarded grants to NDI and IRI to conduct democracy-building activities in Iraq. Grants differ from contracts in purpose and level of anticipated government involvement. According to the Office of Management and Budget, contracts are to be used when the government intends to

¹ *Opportunities to Enhance U.S. Democracy-Building Strategy for Iraq* (SIGIR-09-001, 10/22/2008)

acquire property or services for the direct benefit or use of the Federal Government; grants may or may not directly benefit the government.² According to the DoS Foreign Affairs Handbook,³ grants are an assistance instrument that may be used when it is anticipated that the agency and the recipient will have no substantial involvement during performance of the grant, 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. Nevertheless, DoS' standard operating procedure for grant management states that the Department has a fiduciary responsibility to monitor the funds it allocates and administers.

DRL Awarded Grants to IRI and NDI

Between August 2004 and June 2009, DRL awarded six grants to IRI for approximately \$113.7 million and six grants to NDI for approximately \$134.5 million. Tables 1 and 2 display the DRL democracy-building grants awarded to IRI and NDI.⁴ These grants include a \$50 million IRI grant to increase the capacity of the Iraqi legislature's Research Directorate to produce objective research reports concerning Iraqi legislation and a \$700,000 NDI grant to strengthen Iraqi women's capacity to participate effectively in the political process. To implement the grants, both organizations carry out activities such as training, conferences, and study visits to support development of political parties, women and youth outreach, and the use of media in political campaigns.

² OMB Circular A-110, revised 11/19/1993, as further amended 9/30/1999, issued under the authority of 31 U.S.C. 503 (the Chief Financial Officers Act), 31U.S.C. 1111, 41 U.S.C. 405 (the Office of Federal Procurement Policy Act), Reorganization Plan No. 2 of 1970, and E.O. 11541 ("Prescribing the Duties of the Office of Management and Budget and the Domestic Policy Council in the Executive Office of the President").

³ DoS Foreign Affairs Handbook Volume 4, Handbook 3-Financial Management Procedures Handbook, revised 9/06/2002.

⁴ The Iraq Relief and Reconstruction Fund, the Economic Support Fund and the Human Rights Democracy Fund have funded these grants.

Table 1—DRL Grants Awarded to IRI (\$ in millions)

Award Date	Grant Number	Project	Grant Amount	Expiration Date
8/10/2004	S-LMAQM-04-GR-133 ^a	Political Organization Training	\$2.2	7/31/2008
6/12/2006	S-LMAQM-06-GR-097 ^a	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	4/30/2010
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	1/31/2010
6/11/2009	S-LMAQM-09-GR-560	Election Assistance Program – Iraq	3.0	1/31/2010
Total			\$113.7	

Note:^a Grants reviewed by SIGIR.*Source: SIGIR analysis of DRL data, as of 8/31/2009.***Table 2—DRL Grants Awarded to NDI (\$ in millions)**

Award Date	Grant Number	Project	Grant Amount	Expiration Date
8/31/04	S-LMAQM-04-GR-140 ^a	Political Training	\$1.5	3/31/06
6/13/06	S-LMAQM-06-GR-098	Governance Civil Society	53.0	12/31/07
8/31/06	S-LMAQM-06-GR-149 ^a	Political Training	0.7	11/30/07
9/12/07	S-LMAQM-07-GR-210 ^a	Governance, Political Participation, and Civil Society	50.0	7/31/10
5/12/08	S-LMAQM-08-GR-550	Women's Political Participation	1.8	4/30/10
8/18/08	S-LMAQM-08-GR-602 ^a	Iraq: Preparing Domestic Monitoring Organizations and Political Parties	27.5	1/31/10
Total			\$134.5	

Note:^a Grants reviewed by SIGIR.*Source: SIGIR analysis of DRL data, as of 8/31/2009.*

According to DRL senior officials, the grants were a mix of full and open competition and other than full and open competition awards. DRL explained that S-LMAQM-04-GR-133, S-LMAQM-04-GR-140, and S-LMAQM-06-GR-149 resulted from fully open competitions. Grants S-LMAQM-07-GR-209 and S-LMAQM-07-GR-210 were limited source, meaning letters were sent to a limited number of qualified organizations who had to submit proposals for funding that was not guaranteed. In addition, S-LMAQM-06-GR-097 consisted of two separate sole source solicitations stemming from Congressional funding for \$10 million and \$27 million,

which were combined into one grant. Finally, S-LMAQM-08-GR-602 consisted of a combination of an initial limited source negotiation for \$2 million, a subsequent open competition award of \$20 million, and a final limited source negotiation resulting in a \$5.5 million addition. For detail on recent grant activities for these two grantees, see Appendix C.

Objectives

SIGIR's reporting objective is to examine the Department of State's oversight of the costs and outcomes of IRI and NDI democracy-building grants in Iraq. .

For a discussion of the audit scope and methodology, see Appendix A. For information on IRI and NDI expenditures for selected grants, see Appendix B. For information on IRI and NDI recent grant activity cited in progress reports, see Appendix C. For a list of acronyms used in this report, see Appendix D. For a list of the audit team members, see Appendix E. For a copy of Department of State – Bureau of Democracy, Human Rights, and Labor comments, see Appendix F. For the SIGIR mission and contact information, see Appendix G.

Impact of IRI and NDI Grants Not Documented and Most Grant Money Funds Security and Other Indirect Costs

DRL does not have documentation on how well IRI and NDI grants are meeting their goals and whether the grant money is being used in the most effective and efficient manner. While IRI and NDI stated they have assessed the impact their grants have had in achieving grant objectives, DRL has not required that IRI and NDI provide these assessments in progress reports, as required by the grant agreements. According to IRI and NDI officials, they receive feedback from grant participants on the impact of individual activities like trainings as well as larger overall impacts of the training provided within the community. According to a DRL official, DRL recently hired a specialist to improve the evaluation process and determine methods to measure impact of the grants.

For the three IRI grants we reviewed, 57.2% was spent on security and 6.4% was spent on other indirect costs (which are negotiated by each organization and are binding on the entire government). For the four NDI grants, 32.7% was spent on security and 16.9% was spent on other indirect costs. Thus, only \$47 million (41%) of the \$114 million in grant funds that we reviewed supported direct grant activities.

DRL officials could not explain why the risks associated with these grants were accepted because they were not assigned to manage these grants until after they had been awarded. They added that DRL received direction from the Congress to ensure that grant activities occurred. Moreover, they said that they do not have a set formula to gauge an appropriate level of funds spent for security per grant.

DRL Has Not Required that IRI and NDI Demonstrate Impact of Their Democracy Efforts

While IRI and NDI state that they assess the impact of their grant activities and submit quarterly progress reports, DRL has not required that the progress reports include assessments of the overall or incremental impact of their grants, as required by the grant agreements.⁵ DRL invited IRI and NDI to submit proposals for grants supporting various democracy-building initiatives in Iraq. Each of the seven grant solicitations we reviewed stated that proposals would be judged, in part, on the grantee's evaluation plans to assess impact. However, details regarding what DRL would consider a favorable plan differed. For example, solicitations for two grants (S-LMAQM-04-GR-133 and S-LMAQM-04-GR-140) in 2004 stated that plans may include qualitative and/or quantitative evaluation methods and should address both project outputs and outcomes. The solicitation provides no other guidance for a favorable plan and did not define outputs or outcomes. Conversely, solicitations for two grants awarded in 2007 (S-LMAQM-07-GR-209,

⁵ Grant agreements stated 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.

and S-LMAQM-07-GR-210) contained more detailed descriptions of suggested criteria for evaluation plans, including a distinction of outputs versus outcomes. Specifically, the solicitations stated:

“Programs should demonstrate the capacity for engaging in impact assessments and providing long and short-term goals with measurable outputs and outcomes. Output information is important to show the scope or size of project activities, but it cannot substitute for information about progress towards outcomes or the results achieved. Examples of outputs include the number of people trained or the number of seminars conducted. Outcomes, in contrast, represent specific results a project is intended to achieve and are usually measured as an extent of change. Findings on outputs and outcomes should both be reported, but the focus should be on outcomes. Projects that propose an independent evaluation with a clear plan are encouraged.”

IRI and NDI Assert That They Have Assessed Impact

Despite the lack of evaluation information provided to DRL, both IRI and NDI officials stated that they do assess the outcome of their work. An IRI official stated that IRI receives feedback from participants on all training events and discusses with the responsible staff ways that participants have benefited from the training and whether the participants have used the training in the community. Additionally, IRI stated that its local coordinators, who are positioned throughout the country, follow up with surveys on the training and also provide follow-up training. The official also stated that IRI has established an Office of Monitoring and Evaluation specifically for the purpose of developing ways to improve its grant reporting process.

An NDI official stated that it collects a large amount of data that would be difficult to include in quarterly reports. Regarding its evaluation efforts, the official explained that NDI conducts monthly opinion polls that address its democracy efforts, specifically on its \$50 million award on Governance, Political Participation, and Civil Society. Additionally, the official stated that NDI is conducting 36 focus groups per year in each province for each of the four groups—political parties, civil society, women’s groups and youth groups—that are receiving its training. According to NDI, the organization is also purchasing the results of polls conducted by an international firm that gathers Iraqis’ opinions on Iraq’s political parties. Additionally, NDI officials said that their local coordinators conduct follow-up surveys and training, and monitor the extent to which their participants are seen in the media.

Grantee Progress Reports Do Not Provide Impact Assessments

DRL did not enforce grant terms requiring grantees to submit impact assessments in progress reports. Both the IRI and NDI grants require evaluation plans that describe how the grantee will measure output and outcomes of their activities. In addition, DRL grant agreements required that grantees include assessments of overall impact and/or incremental impact, as appropriate, in quarterly progress reports to DRL. SIGIR reviewed seven grant agreements and found that all contained evaluation plans, but neither IRI nor NDI provided impact assessments in the progress reports they submitted. In addition, while evaluation plans included specific measurements that would demonstrate impact, DRL did not require that progress reports include these measurements. For example, NDI’s \$50 million grant S-LMAQM-07-GR-210 includes an evaluation plan and the following techniques that would be used to evaluate progress:

- Obtain evaluations and responses to questionnaires from participants and partners to gain direct feedback on program activities;
- Consult with partners and donors to allow programs to continue to be flexible and responsive to the needs of participants, partners, and donors; and
- Develop and use focus groups for research to gauge Iraqi citizens' opinions and attitudes.

None of NDI's progress reports on the grant included this type of data. Similarly, NDI's \$1.5 million grant S-LMAQM-04-GR-140 states that NDI will measure progress toward meeting an objective for gender sensitization advocacy through pre- and post-program questionnaires. However, NDI's progress reports for the grant do not include any such data and the grant terminated in May 2006.

IRI grants also include evaluation requirements, but again such information has not been provided to DRL. IRI's approximately \$38 million grant S-LMAQM-060GR-097, which focuses on establishing a more open and transparent government in Iraq, contains an evaluation plan that identifies the following objectives and indicators from which IRI would measure impact:

- The level of interaction of Iraqi Council of Representatives members and staff with Iraqi and international media in accordance with the internationally observed rules;
- The extent to which the Iraqi Council of Representatives establishes standards and operating procedures to interact with the media;
- The ability of Iraqi citizens to communicate directly with the elected officials, and the extent to which Iraqi Council Representative members are reaching out to their constituents via public outreach mechanisms (offices, websites, etc.)

In this case, the IRI grant does not include a methodology for IRI's assessment of progress for each of the indicators. IRI quarterly progress reports discuss IRI activities in pursuit of the indicators, but IRI has no formal measurements or milestones for progress.

DRL officials stated that the GORs review progress reports and other information to evaluate the extent to which grantees are meeting objectives and may request additional information or clarification from grantees. This information, however, is not documented in grant files. DRL officials acknowledged the problem and stated that they were taking efforts to improve the quality of their assessments. Specifically, DRL informed SIGIR that they recently hired a Program Evaluation Specialist whose function would be to improve the evaluation process and determine methods to measure the impact of grant programs and assess the overall impact of DRL's work.

U.S. and International Development Organizations May Provide Potentially Useful Tools for Assessing Outcome

U.S. and international organizations may provide potentially useful tools for DRL to consider in future efforts to assess how well IRI and NDI grants are affecting the growth of democracy in Iraq. To illustrate, in 1998 USAID developed a handbook to enhance the ability of democracy and governance project managers to monitor progress in achieving planned results and use

performance information to guide program implementation.⁶ The handbook states that the promotion of democracy is a complex and dynamic process, but that performance monitoring is a necessary and integral part of good program management. The handbook includes a general process for developing a performance monitoring system, and provides specific measurable metrics to evaluate impact.

The U.S. anti-corruption program in Iraq provides an example of a way to assess impact. In July 2009, the U.S. Anti-Corruption Coordinator for U.S. assistance programs in Iraq proposed four metrics with baselines and targets for 2008-2011. These include an overall means of measuring Iraq's progress—compliance with the United Nations Anticorruption Convention—plus three basic elements of anti corruption elements: accountability (existence of laws against corrupt practices), enforcement (sanctioning violations of laws), and transparency (public's access to information regarding government's actions).

International organizations are also developing methods to assess the status of a representative democracy that may be useful in assessing program impact. For example, through country surveys and comparable statistical and economic data, the Organization for Economic Co-operation and Development (OECD), an international organization of 30 countries, including the United States, provides its member countries tools with which to analyze and monitor their economic, social and environmental policies. Moreover, the OECD, the United Nations, the European Commission, the World Bank, and the International Monetary Fund founded the Partnership in Statistics for Development in the 21st Century (PARIS21) in 1999. PARIS21's goal is to develop a culture of evidence-based policy making and implementation that serves to provide governance and government effectiveness in reducing poverty. PARIS21 pursues this goal by encouraging and assisting low income countries to design, implement, and monitor a national strategy for the development of statistics and has developed a pilot project named Metagora that focuses on methods, tools and frameworks for measuring democracy, human rights and governance.

IRI and NDI Grants Have Significant Security and Indirect Program Costs

Of the \$114 million in grant expenditures we reviewed, IRI and NDI spent approximately \$67 million (or 59%) on security and other indirect costs.⁷ Specifically, about 33% of NDI's expenditures from the four grants we reviewed, and about 57% of IRI's expenditures from the three grants SIGIR reviewed, were for security. When indirect program costs are added, almost 50% of NDI's expenditures and about 64% of IRI's expenditures were for expenses other than direct program expenses. Significant security and indirect program costs reduced the amount of resources available to support DRL programs. SIGIR notes that the level of security expenditures for a grant is a case-by-case decision and should be based on a cost and benefits analysis. Absent such an analysis, there is no basis to assess the appropriateness of security costs.

⁶ *Handbook of Democracy and Governance Program Indicators, U.S. Agency for International Development, 8/1998*

⁷ The total funding for the seven selected grants is approximately \$169.6 million, or 68.3%, of the total funding for all IRI and NDI grants. SIGIR identifies the selected grants in Appendix A.

SIGIR identified cost elements in the seven grants that are directly associated with the performance of the grants. These elements include:

- Salaries and benefits of grant personnel performing work on the grant,
- Expenses for office space and utilities,
- Travel and per diem of staff and grant participants,
- Workshops and conferences set up to support the mission of the grants,
- Office supplies and equipment consumed in performing grant activities,
- Communications and postage used by grant staff in performing grant activities, and
- Sub-grants and contractual services to accomplish the grant mission.

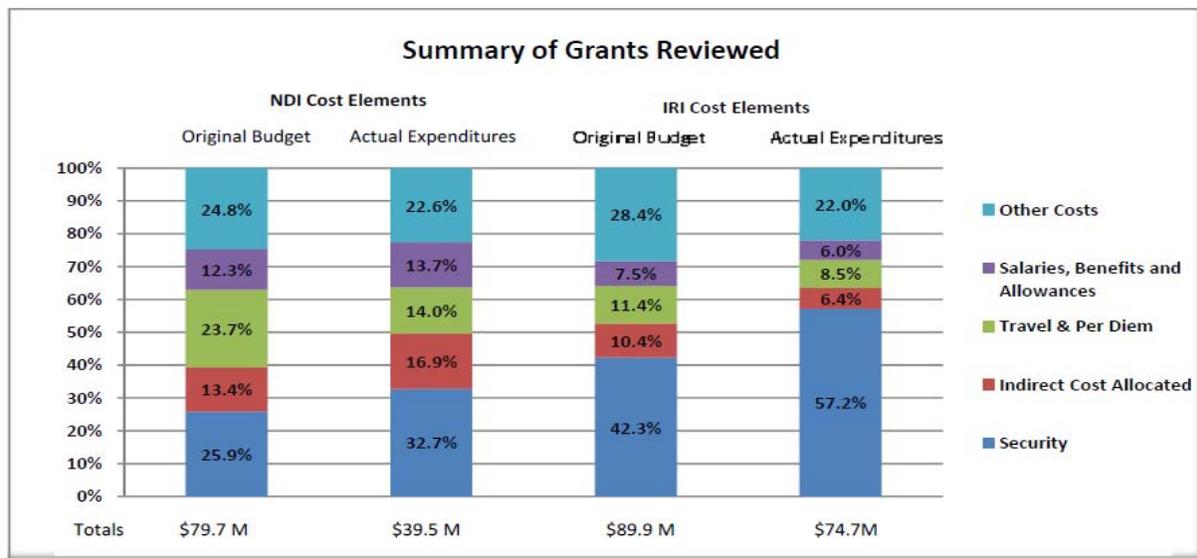
Conversely, SIGIR identified a variety of other costs associated with the cost of doing work in Iraq but not directly associated with performing its grant responsibilities. These costs include:

- Security costs for both IRI and NDI facilities and their personnel and training participants, and
- Indirect costs allocated by the grantee for support services such as human resources and financial management.⁸

While IRI and NDI budgets are not composed of exactly matching cost elements, their common underlying accounting systems and charts of accounts allowed us to analyze expenditures at a detailed level. Through this analysis of what each grant contained, we developed five major categories to compare both organizations' original grant budgets and actual expenditures. Because some of the grants were completed before our review and other grants were still ongoing, we used two different periods for our evaluation. For grants that had been completed, we used the date of the last or final cost report. For grants that were still active during our review, we used June 30, 2009 data which was the most recent data available during the review. Figure 1 shows NDI and IRI budgeted and actual costs by the major cost elements for the seven grants that we reviewed. Detailed expenditure data provided by IRI and NDI for each of the seven grants reviewed is in Appendix B.

⁸ Indirect costs are costs which cannot be directly identified with a single contract or grant. To the extent that indirect costs are reasonable, allowable and allocable they are a legitimate cost of doing business payable under a U.S. Government contract. Each organization negotiates its indirect cost rates with one government agency which has been assigned cognizance. Usually the cognizant government agency is that agency which has the largest dollar volume of contracts with the firm or organization. The resulting Negotiated Indirect Cost Rate Agreement is binding on the entire government.

Figure 1—Originally Budgeted Costs (Percent) and Actual Expenditures in Seven Grants



Note:

Numbers may not add to 100% due to rounding.

Source: SIGIR Analysis of Grant Agreements and Data (as of 9/30/2009) Provided by NDI and IRI.

IRI Spends Over One-Half of Its Funds on Security Costs

As shown in Figure 1, for the three IRI grants that SIGIR reviewed, the original IRI budget included 42.3% for security costs and 10.4% for indirect costs. Based on our analysis of the latest available cost data for these grants, IRI has spent 57.2% of its approximately \$75 million for security and another 6.4% for indirect costs. As such, at least 63% of the money IRI spent for these grants was used for expenses other than direct program expenses.

IRI officials noted that their security costs are significant because security is extremely important to them and they are willing to pay necessary costs. A senior IRI management official stated that IRI wanted security teams that had U.S. or British military training, and less expensive security contractors did not have teams with this training. Moreover, the IRI official noted that moving IRI headquarters to the safer area in Erbil in 2007 did not mean that their security costs would decrease. Rather, the official stated, the cost of a security contract is based on the number of security personnel and vehicles required, not on the security conditions at a specific location. Moreover, IRI stated that the extension of the time period for the grant increased the percentage of the grant spent on security costs. For example, DRL approved the extension of a \$50 million grant to promote Governance, Political Participation, and Civil Society from March 31, 2009, to October 31, 2009. As a result, IRI reprogrammed a number of line items to account for the increased time the grant would be used. IRI reduced the travel budget by increasing the number of in-country training sessions versus out-of-country training sessions and increased security costs to account for the longer grant period and the plans to open an office in Baghdad’s International Zone.

NDI Spends Almost a Third of Its Funds on Security Costs

For the four NDI grants we reviewed, NDI had originally budgeted 25.9% of the total funds for security and 13.4% for indirect costs. Based on our analysis of the latest available cost data for these grants, NDI spent 32.7% of its total expenditures of approximately \$39.5 million for security and another 16.9% for indirect costs. As such, no less than 49% of the money NDI spent from these grants was used for expenses other than direct program expenses.

A senior NDI official stated that moving NDI headquarters to Erbil in 2007 and closing offices in other areas of the country reduced some security costs but that the savings were somewhat offset by additional travel expenses to bring people to Erbil. However, this statement regarding savings in security costs is not supported by the expenditure information that we reviewed and summarized in Figure 1.

Documentation Lacking on DRL Budget Analysis and Approval of Security Costs

Current DRL officials could not provide documentation showing that DRL reviewed the reasonableness of IRI and NDI's proposed security budgets, nor could DRL explain why the apparent risks associated with these grants, as evidenced by the significant security costs, were accepted. The officials stated that they were not present when DRL approved budgets for grants we reviewed. However, a senior DRL official stated DRL accepted the apparent risks associated with these grants because DRL was fulfilling congressional direction to provide programmatic support for the electoral process in Iraq. According to another senior DRL official, DRL has a vigorous grant evaluation process that it must follow in evaluating grant proposals, and that a grant with significant security costs would definitely have received a budget review. The officials noted that this process requires in-depth assessments of grant proposals and budgets and documentation of all discussions and decisions. However this documentation was not always in the grant files. DRL program management officials further stated they believe that congressional direction to initiate the democracy-building program determined the timeline for the grants because the grants supported time specific events such as elections.⁹ The officials stated the security environment in Iraq was volatile when DRL awarded the grants, but DRL could not defer the program until security costs came down.

DRL officials explained that they do not have a set formula from which to gauge an appropriate level of security costs per grant and that shifting circumstances may dictate security requirements. A senior DRL official stated that DRL assesses each grant and grantee individually based on a grantee's in-country experience and the nature, scope, and location of grant activities. For example, the officials noted that some Iraqi staff working for nongovernment organizations often want to blend in with the population so they would likely want to have a smaller security footprint than would a U.S. or international nongovernment organization. A senior U.S. Embassy official said that budgeting 50% of a grant for security is excessive. Another senior Embassy official also stated that 30% would be considered

⁹ An example is the Conference Report for the fiscal year 2004 emergency supplemental appropriation, H.R. 108-337, which states that the conference agreement includes language similar to the Senate bill providing \$100 million for democracy-building activities in Iraq and that elections are essential to restoring Iraqi sovereignty. The Conference Report further endorses Senate report language on the use of funds. The Senate report, S. 108-160, states that sufficient funds should be provided to IRI and NDI for political party and other democracy-building activities.

appropriate. SIGIR previously reported that security costs for some capacity-building contracts and grants ranged from 24% to 53%.¹⁰ Both IRI and NDI's budgets for security costs were within this range, with NDI's budget on the low end; but IRI's actual expenditures exceeded that range.

We reviewed grant file documentation of DRL's review of the largest IRI grant proposal, specifically for grant S-LMAQM-07-GR-209. We found references to DRL's evaluation of budgeted administrative costs but found no discussion regarding budgeted security costs. Furthermore, DRL officials could not provide us any additional information regarding the budget review process for that the grant because they were not assigned to manage the grants until after they were awarded. Thus, we could not determine whether DRL had conducted any analyses of the proposed spending for security.

A DRL official further explained in an e-mail to us why the organization had not conducted a review of security budgets. The e-mail noted that in August/September 2007, when NDI and IRI's \$50 million grants were negotiated and awarded, the security situation in Iraq remained extremely volatile. As such, the unpredictable, unstable security environment made protecting grantee personnel a priority of the implementing organizations; made adequate security a pre-condition for IRI and NDI expatriate staff to conduct program activities and trainings; and complicated efforts to determine the amount implementing organizations should spend on security. Furthermore, DRL noted that the death of an NDI staff member in January 2007, when her convoy was ambushed in Baghdad, Iraq, underscored the need for extensive security to protect expatriate personnel and enable them to conduct crucial democracy-building activities in Iraq, despite the dangerous security environment. Given these factors, DRL concluded that it was very difficult for DRL to question proposed security costs by NDI and IRI to implement their \$50 million grants.

We understand that IRI and NDI must protect their respective staffs and that DRL is in the best position to determine whether its grants and their expected benefits warrant the risk. However, we found no DoS or DRL guidance on how grant managers are to factor security risks into their decision-making. Moreover, in our October 2008 report, we recommended that the Secretaries of Defense and State and the Administrator, USAID, direct that when program managers are making decisions to start new projects they consider the cost of security relative to these projects' planned benefits before funding the projects.¹¹ DoS did not, however, provide comments on the report or the recommendation. Without the type of analyses we previously recommended, DRL may approve unnecessarily significant security budgets.

¹⁰ *Agencies Need Improved Financial Reporting for Private Security Contractors*, SIGIR 09-005, 10/30/2008.

¹¹ SIGIR 09-005.

DRL Oversight of IRI and NDI Grants Can Be Improved

DRL management and oversight of IRI and NDI grants is limited. First, DRL manages the grant program directly from its Washington, D.C. headquarters, which limits face-to-face interaction with grantee personnel in Iraq and impacts insight into grantee activities. Second, DRL did not require that progress reports follow guidelines established in its grants, including the guidelines to submit progress reports that identify the level and type of activities conducted for the period along with supporting documentation to provide evidence that activities occurred. NDI included supporting documentation in 22 of the 23 reports it submitted, but IRI included supporting documents for only 3 of the 29 reports it submitted. Moreover, quarterly NDI and IRI progress reports did not address expenditures, and their required financial reports included only overall expenditures by quarter and not expenditures by category such as security or training.

DRL Does Not Have Program Managers in Iraq To Oversee Grants

DRL personnel charged with managing the IRI and NDI grants are based in Washington, D.C. rather than Iraq, thereby limiting oversight of grant activities. The limited number of trips DRL personnel make to Iraq, coupled with incomplete trip reports limits the amount of information available to assess grantee performance. Moreover, although DRL has stationed two democracy advisors in the U.S. Embassy in Iraq to assist GORs in overseeing the grantees, the advisors serve as liaisons with the grantees and do not serve as program managers or have the same authority as the GORs. A democracy advisor stated that the Provincial Reconstruction Team in Erbil also provides additional oversight of grantee activities. However, this oversight is not documented in grant files and NDI officials stated that NDI coordinates with the Provincial Reconstruction Team in Erbil as appropriate, but there is no formal relationship with them in either a programmatic or management capacity.

GORs Site Visits to Iraq Uncertain

The DRL Iraq program consists of a seven-person team: five of the members are located in Washington D.C. and two democracy advisors, who are Foreign Service officers, are located in the U.S. Embassy in Baghdad. DRL's standard operating procedure encourages GORs to make site visits as a means to monitor projects and requires that GORs submit standardized trip reports following visits. Site visits provide GORs opportunities to meet with grantee personnel, observe activities, review documentary evidence of activities, and provide feedback to grantees on progress or adjustments that could improve execution. GORs assigned to IRI and NDI grants are based in Washington, D.C. and, according to DRL officials, have conducted periodic site visits to Iraq. However, limited DRL staffing, travel cost considerations, security, and country clearance restrictions have impacted the frequency and length of site visits.

According to a DRL official, DRL cannot identify how many site visits each GOR has made for grants assigned to them because trips are not made only to monitor grants. As such, while GORs and/or other DRL personnel travel to Iraq several times a year and trips may be up to 6 weeks long, site visits include meetings with multiple grantees, including grantees under the purview of

other GORs. Site visits may include visits to grantee performance locations and/or meetings with grantees in Baghdad. In addition, site visits made by personnel assigned to specific grants may differ from those by personnel not assigned to grants. For example, an IRI official told us GORs will review supporting documentation for activities during site visits, but other DRL officials will not. Without regular face-to-face interaction, GORs rely on e-mail and telephone calls to grantees for program monitoring and feedback. The DRL Manager of Global Programs stated that GORs communicate regularly with grantees in Washington, D.C., and that DRL's democracy advisors in Baghdad are in contact with grantees on the ground in Iraq. GORs and democracy advisors discuss the status of grant activities with each other at least weekly.

IRI and NDI relocated their Iraq operations headquarters from Baghdad to Erbil in 2007 after unidentified assailants ambushed a convoy and killed an NDI staff member returning from a training trip. An NDI senior official stated that NDI later learned it was the target of the attack. This event and other security threats prompted IRI and NDI's boards to move their respective Iraq operations headquarters to Erbil where conditions were safer. As of October 2009, IRI and NDI continued to conduct most training and meeting events in Erbil, even though DRL officials state they have encouraged both grantees to relocate their headquarters in Baghdad. The relocation has impacted DRL's oversight since the democracy advisors are located at the U.S. Embassy in Baghdad. Erbil is nearly 200 miles from Baghdad, and travel and billeting limitations affect the ability of the GORs and other DRL personnel to observe grantee activities there. However, GORs have visited the grantees' offices and facilities in Erbil. Officials from both IRI and NDI stated that they plan to move more operations to Baghdad, but did not provide any specific plans to do so.

Trip Reports Provide Limited Detail

DRL policy requires GORs to submit trip reports to the program office within five days of returning from site visits. Previously, DRL required GORs to ask grantees detailed questions and provide in-depth responses. For example, the GOR was expected to ask the grantee what had been accomplished to date and whether the grantee had recommendations to improve the program. However, the DRL 2009 guidance contains fewer questions, and the remaining questions can often be answered with a yes or no response. For example, the new form asks if the project appears to be meeting goals, whether there are any deliverables from the project, and whether there are any funding or management issues. Detailed information on how the GOR arrived at the yes or no conclusion is not required. In addition, even with the reduction in requirements, trip reports do not always follow the prescribed format. In a review of a judgmental sample of five trip reports, SIGIR found notes from meetings and some insightful observations, but only one report formally adhered to the template developed by DRL.

According to a DRL official, GOR observations on these broad questions are not made in haste and continued that it is up to the trained GOR to use his or her judgment to determine whether a program is on target by looking at grant agreements, grantee progress reports, and discussions with the grantee. However, as noted earlier, the grantee progress reports we reviewed contained little information on grant progress.

DRL Personnel in Iraq Lack Authority To Oversee Grants

In June 2007, DRL established two democracy advisor positions at the U.S. Embassy in Baghdad to serve as DRL's liaisons with the grantees, USAID, U.S. Embassy personnel, and Provincial Reconstruction Teams. According to a DRL official, the liaisons in Baghdad are responsible for approximately 50 DRL grants with approximately 22 grantees, at present. The advisors are to maintain close communication with IRI and NDI representatives through e-mails and telephone calls and through direct meetings when the representatives are in Baghdad. Additionally, the advisors sometimes travel to the grantees' headquarters in Erbil. However, the advisors do not formally evaluate the grantee programs or have the same authority as the GORs involving grant activities. Rather, DRL considers them to be liaisons that can act as intermediaries and provide feedback to the GOR when requested. DRL program management officials believe the democracy advisors play an important role and that DRL does not need personnel with decision-making authority in Iraq because of the regular communication between the GOR and the advisors via e-mail or telephone. Moreover, an advisor said that the number of grants does not distract from his ability to monitor IRI and NDI activities. Rather, he noted that he focuses 40-45% of his time on IRI and NDI because they receive the bulk of DRL's grant funding in Iraq. The advisor added that the Provincial Reconstruction Team in Erbil also provides additional oversight of grantee activities. However, this oversight is not documented in grant files.

DRL Records Are Incomplete

Because DRL's records are incomplete, it is unclear whether DRL properly assigned GORs and whether GORs have enforced grant agreement terms. Our review of IRI and NDI quarterly reports indicates that GORs have not required that IRI and NDI quarterly reports follow the format specified in grant awards, and GOR reviews are essentially rewrites of grantee reports. Moreover, DRL does not require comprehensive expenditure information by category, such as security or travel, or by grant objective to help DRL assess whether costs appear reasonable and on target with approved budgeted costs, and if funds support grant objectives.

DRL Records of GOR Appointments Are Incomplete

DRL does not have complete records to document whether oversight personnel for IRI and NDI grant management were properly assigned. Such documentation is important because the GOR has authority over the release of funds and the GOR has primary responsibility for oversight. For the seven grants that we reviewed, DRL was able to provide formal GOR appointment letters for only three individuals. Moreover, the dates of two of the appointment letters were in the middle of the grant performance period. According to a DRL official, the appointments were the result of turnover and assignment of a successor GOR. Another DRL official told us GOR appointment letters are maintained by the DoS Office of Acquisitions Management. The official said DRL requested the letters multiple times, but the Office of Acquisitions Management was not responsive.

Quarterly Reports Do Not Follow Established Format and Lack Detail

OMB guidance for grant administration states that grantees should submit performance reports at least annually, but not more frequently than quarterly. For each of the seven grants we reviewed,

DRL required in the grant award that grantees submit program progress reports and financial reports on a quarterly basis. DRL also suggested that reports be compiled according to the objectives of the projects and that for each objective/goals, reports include:

- significant activities of the period and how activities reflect progress toward achieving objectives/goals;
- evaluation of progress on objectives/goals with quantitative and qualitative data, as appropriate;
- any problems/challenges in implementing the program and a corrective action plan;
- an update of expenditures during the quarter; and
- supporting documentation or products related to project activities (such as articles, meeting lists and agendas, manuals, etc.).

DRL records contained 29 of 33 required quarterly reports from IRI and 23 of 25 from NDI. Five of the omitted reports were for the first reporting period of the grant. GORs generally excused this omission because the initial grant work includes start-up tasks that do not provide an opportunity for immediate reporting of impact, according to a DRL official. Although the grantees submitted progress reports for most periods, the reports did not provide all data and documentation encouraged by DRL in grant agreements. Specifically, reports did not always include supporting documentation and an update of expenditures for each objective.

Supporting documents in quarterly progress reports provide evidence that activities occurred and progress is being made, but those documents are not always included with reports. NDI included supporting documents in 22 of the 23 reports submitted to DRL, but IRI included supporting documents for only 3 of the 29 reports it submitted. Moreover, while some reports include support like a table identifying grant activities with the associated numbers of participants by gender, governorate, and participating organization, others included only calendars of training dates during the period. IRI and NDI officials said that they maintain supporting documentation for all their activities but do not always include the documentation in quarterly reports because they see it as a burden for DRL. In addition, some supporting documentation, such as attendance sheets were not included in reports as a security measure to protect Iraqis participating in their programs. The grantee officials said that information is always available and is sometimes reviewed by GORs during site visits. However, as noted earlier in this report, GOR trip reports lack detail, thereby limiting the ability to confirm that GORs actually review these documents.

Quarterly report narratives do not address expenditures during each quarter. According to a DRL official, Form 269 financial reports provided by IRI and NDI serve this function. DRL records contained 28 of 33 required quarterly reports from IRI and 23 of 25 from NDI. However, these Form 269 reports are overall summaries of total expenditures during the quarter. They do not show expenditure by objective, as encouraged by DRL in the grant awards. In addition, the reports do not show the expenditure of funds by cost type, or by the original approved budget categories such as security or indirect costs. According to a DRL official, the Form 269s provide a means of ensuring that the grantees are spending money at a reasonable rate and in accordance with the corresponding timeline of project work. If GORs see an unusual amount of money spent for reported work, they can seek an explanation, but the Form 269s alone

do not provide much detail. Without such information, DRL is unable to determine whether costs in a specific category, such as security, appear reasonable and on target with approved budgeted costs. While relevant guidance does not require such detailed data, the information would benefit DRL's oversight of the program.

A DRL official stated that even if grantees do not explicitly follow the suggested format, most adequately report significant activities of the period, evaluate how these activities reflect progress, and explain any challenges experienced during the period that contribute to hindering progress.

GOR Feedback and Reviews of Progress Reports Have Not Effected Change

Despite communication between GORs and grantees via telephone and e-mail, IRI and NDI officials told us that DRL has not provided feedback that their quarterly progress reports generally do not follow DRL's suggested format. They said they may receive requests for clarification or additional detail on specific items in response to quarterly reports. According to a DRL official, GORs understand that they should judge progress on each objective based on the information provided in the report and follow-up where applicable. Follow-up or clarification is not required to be documented, however.

DRL's standard operating procedure requires that GORs read all quarterly reports and complete a GOR quarterly review. These reviews are to identify key accomplishments and challenges and to highlight success stories that can be shared within State, with Congress, or on State's Website. GOR reviews of IRI and NDI quarterly reports are generally restatements of the quarterly reports and do not effectively measure impact. For the two largest grants, the GOR indicated it was pleased with IRI and NDI performance; however, our review indicates that the evaluations are generally rewrites of project information provided in the grantee progress reports and that the assessment of progress is limited due to the lack of quantitative data to measure the progress.

Conclusions and Recommendations

Conclusions

DRL has awarded IRI and NDI approximately \$248 million in grants to promote democracy in Iraq. While the two grantees continue to execute and report grant activities, the indirect program costs and significant security costs, coupled with the lack of information on the impact these grants are having, raise questions about whether the costs of the grants are worth the benefits they may providing. Moreover, deficiencies in DoS oversight of the grants create additional risk that the grantees will not efficiently achieve grant goals, and that the funds will be vulnerable to fraud, waste and abuse. We recognize that efforts to promote democracy in Iraq are long term, and that assessing impact is not an easy task. This does not, however, relieve DoS from its fiduciary responsibility to ensure that U.S. assistance funds are being used in the most efficient and effective manner possible.

Recommendations

To improve DRL oversight of grants, we recommend the U.S. Secretary of State direct the Bureau of Democracy, Human Rights, and Labor take the following actions:

1. Review and document the reasonableness of grantee budget costs for activities not directly associated with executing grant objectives, to include security and other indirect costs, and the costs versus the benefits of awarding grants with significant non-direct program costs;
2. Request for current grants and require for future grants that grantees report quarterly on grant expenditures on major cost categories; and
3. Assess the appropriateness of establishing a program manager position in Iraq versus maintaining democracy advisors as DRL representatives in Iraq.

Because DRL's grant management and oversight practices leave the Bureau vulnerable to fraud and waste, SIGIR recommends that the Deputy Secretary of State for Management and Resources direct:

4. An examination of DRL's personnel and operations to determine whether the Bureau of DRL is structured and staffed in both headquarters and overseas to effectively and efficiently oversee the grants under its responsibility.

Management Comments and Audit Response

In written comments on a draft of this report, DRL generally agreed with the draft report recommendations. Specifically, DRL concurred with three and did not concur with one of the recommended actions.

Concerning recommendation 1, DRL concurred with our recommendation that it review and document the reasonableness of budget costs for activities not directly associated with executing grant objectives, to include security and other indirect costs, and the costs versus benefits of awarding grants with high non-direct program costs. In its comments, DRL stated that it currently reviews the budgets of every proposal considered for funding and assesses each proposal's cost effectiveness. DRL further stated they will modify grant review documents to ensure documentation of non-direct program cost levels and an associated cost-benefit analysis of awarding a proposal with federal funding. SIGIR notes that the level of security expenditures for a grant is a case-by-case decision and should be based on a cost and benefits analysis. Absent such an analysis, there is no basis to assess the appropriateness of security costs. As such, we modified our final recommendation to state that DRL's review and documentation of the reasonableness of grantee budget costs should include an analysis of the costs versus the benefits of awarding grants with significant non-direct program costs.

DRL also concurred with recommendation 2 that it assess the appropriateness of establishing a program manager position in Iraq versus maintaining democracy advisors as DRL representative in Iraq. DRL stated it plans to assess the appropriateness of creating such a position, in coordination with the U.S. Embassy, Baghdad. While DRL agreed with this recommendation, its response did not state when such an assessment would be conducted. Our review found that DRL's current structure of program management personnel based in Washington, D.C. contributed to limited oversight of grantee activities and leave programs vulnerable to fraud, waste, and abuse. Therefore we encourage DRL to conduct this assessment quickly, but thoroughly to determine if program management personnel in Iraq would improve oversight.

With regard to recommendation 4, DRL concurred with a recommendation that the Deputy Secretary of State for Management and Resources direct an examination of DRL's personnel and operations to determine whether the Bureau of DRL is structured and staffed in both headquarters and overseas to effectively and efficiently oversee the grants under its responsibility. In its comments, DRL stated it will continue to examine its personnel and operations structure as part of an overall review of bureau staffing. SIGIR encourages DRL to communicate its findings with the office of the Deputy Secretary of State for Management and Resources.

DRL did not concur with recommendation 3 that DRL amend grant agreements to require grantees to report quarterly grant expenditures on major cost categories. DRL agreed that receiving more detailed information on quarterly expenditures in major cost categories can provide an extra layer of oversight to help assess grant progress and prevent fraud and waste. However, DRL stated that formal amendments to current grants as well as expired grants may not be useful, but it will request this of grantees receiving future grants. We agree that amending grants nearing completion and expired grants may not yield significant improvements in

oversight. Nevertheless, such information could prove helpful in assessing future grant proposals. Based on the DRL comments, this final report recommends DRL request for current grants and require for future grants that grantees report quarterly on grant expenditures on major cost categories.

DRL's comments are reprinted in their entirety in Appendix F. DRL, NDI, and IRI provided oral and 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 June 2009, the Special Inspector General for Iraq Reconstruction (SIGIR) initiated Project 9024 to examine the Department of State Bureau of Democracy, Human Rights, and Labor's (DRL) management of grants awarded to International Republican Institute (IRI) and the National Democratic Institute (NDI). SIGIR's reporting objective is to examine the Department of State's oversight of the costs and outcomes of the IRI and NDI democracy-building grants in Iraq. Since this report was sent out in draft for comment, we revised the title and reporting objective to more accurately reflect that the purpose of this audit was to examine Department of State management of these grants. The grants were issued between 2004 and 2009.

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 June 2009 through January 2010 in Baghdad, Iraq and Arlington, Virginia.

To determine the outcome and costs of the IRI and NDI grants, we first obtained and reviewed all grant documents and interviewed DRL, U.S. Agency for International Development, U.S. Embassy-Baghdad, IRI, and NDI personnel in Washington, D.C., and in Iraq. We obtained and reviewed budget, cost, and funding data from DRL, NDI, and IRI. We also analyzed changes to budgets and expenditures resulting from the awarding of no-cost extensions to grants.

We selected a judgmental sample of seven IRI and NDI grants. The objective of our judgmental sample selection of the grants to review was to obtain a representative cross section for each grantee of open and closed grants and, to be somewhat consistent, the purpose and dollar amounts of the two in the event that we wanted to compare the results of the two grantees. We selected a \$50 million open grant from each grantee. Then we selected recently closed grants, the grants to assist Iraqi women, one grant to IRI and two grants to NDI. The two NDI grants were two separate grants, but the second grant was made simply to continue the same assistance as that provided under the first grant. The other grant to IRI was given with a funded extension. We later selected two additional high-dollar grants for our sample, one from each grantee, because the seven grants would comprise a more representative sample of the entire universe of grants, based on total funding.

For our review of the selected seven grants, we obtained and reviewed grant agreements, budgets, grantee quarterly progress reports, DRL grant officer representative (GOR) quarterly reviews, and grantee expenditures by cost type. The seven grants selected are:

- S-LMAQM-07-GR-209
- S-LMAQM-04-GR-133
- S-LMAQM-06-GR-097
- S-LMAQM-07-GR-210
- S-LMAQM-08-GR-602
- S-LMAQM-04-GR-140

- S-LMAQM-06-GR-149

We also obtained and reviewed systems for gathering and reporting performance metrics, including the *Handbook of Democracy and Governance Program Indicators*, U.S. Agency for International Development, August, 1998, and the Partnership in Statistics for Development in the 21st Century.

We also obtained and reviewed relevant criteria, including Office of Management and Budget Circular A-110, Office of Management and Budget Circular A-122, and Office of Management and Budget Circular A-133. In addition, we attended a meeting of the elections working group at the U.S. Embassy in Baghdad.

To determine DRL's management of the IRI and NDI grants, we interviewed DRL program management personnel in both Baghdad and Washington, DC. and democracy advisors in Baghdad. We obtained and reviewed documentation from the grant files and DRL's Website, including:

- documentation identifying the solicitation and grant award processes,
- grant agreements and extensions for the grants selected in the sample,
- grantees' quarterly progress reports,
- grantees' financial reports (Form 269),
- grant officer representative (GOR) reviews of the progress reports,
- grantees' documentation supporting grantee activities, and
- GOR trip reports.

We also obtained and reviewed DRL's programming unit standard operating procedures. In addition, we visited IRI and NDI headquarters in Erbil, where we interviewed staff.

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

Use of Computer-processed Data

We did use computer processed data in this report. DRL provided grant funding data in Excel spreadsheets. The Department of Health and Human Services' Payment Management System originally processed the funding data. Both NDI and IRI use the Deltek accounting packaged software, and both stated that they had not modified the software. The budget and expenditure data we reviewed originated from their Deltek computer systems. We reviewed source documents and gathered other evidence to verify the data included in the accounting systems. 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 the grants. Specifically, SIGIR identified and assessed internal controls DRL used in evaluating and monitoring IRI and NDI grant proposals, activities and costs.

Prior Coverage

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

Special Inspector General for Iraq Reconstruction

Agencies Need Improved Financial Reporting for Private Security Contractors, SIGIR 09-005, 10/30/2008.

Opportunities to Enhance U.S. Democracy-Building-Strategy for Iraq, SIGIR 09-001, 10/22/2008.

Government Accountability Office

Grants Management: Enhancing Performance Accountability Provisions Could Lead to Better Results, GAO-06-1046, 9/29/2006.

Rebuilding Iraq: U.S. Assistance for January 2005 Elections, GAO-05-932R, 9/07/2005.

Appendix B—NDI and IRI Expenditures for Selected Grants

We selected four NDI grants and three IRI grants for in-depth analyses of costs and activities. The following summarizes the NDI grant cost data reflected in Table 3:

Grant: S-LMAQM-04-GR-140 “Iraq: Strengthening Women’s Political Participation”

Final Grant Period: September 1, 2004, to March 31, 2006

Final Grant Award Amount: \$1,500,000

Cost Data as of: November 7, 2008 (Final)

Grant: S-LMAQM-06-GR-149 “Iraq: Women’s Political Participation Program”

Final Grant Period: August 31, 2006, to November 30, 2007

Final Grant Award Amount: \$700,000

Cost Data as of: February 29, 2008 (Interim)

Grant: S-LMAQM-07-GR-210 “Iraq: Encouraging Constructive Political Dialogue and Participation”

Final Grant Period: September 12, 2007, to July 31, 2010

Final Grant Award Amount: \$50,000,000

Cost Data as of: June 30, 2009 (Interim)

Grant: S-LMAQM-08-GR-602 “Iraq: Preparing Domestic Monitoring Organizations and Political Parties for the 2008 Provincial Elections”

Final Grant Period: August 18, 2008, to January 31, 2010

Final Grant Award Amount: \$27,500,000

Cost Data as of: June 30, 2009 (Interim)

Table 3—NDI Grant Expenditures

Expenditure	S-LMAQM 04-GR-140	S-LMAQM 06-GR-149	S-LMAQM 07-GR-210	S-LMAQM 08-GR-602	Total
Salaries, Benefits and Allowances	\$ 420,108.86	\$ 49,312.96	\$ 4,695,430.23	\$ 258,509.86	\$ 5,423,361.91
Office Space & Utilities	19,033.50	15,823.97	839,712.32	84,474.07	959,043.86
Supplies & Equipment	69,872.81	15,000.30	886,156.70	80,661.92	1,051,691.73
Communications & Postage	24,820.97	2,062.92	509,473.02	73,717.09	610,074.00
Travel & Per Diem	242,198.49	113,065.45	4,800,827.79	398,797.51	5,554,889.24
Security	408,216.32	378,873.18	10,335,577.71	1,819,662.09	12,942,329.30
Other Contractual Services	49,423.67	29,047.99	3,470,570.63	226,773.18	3,775,815.47
Workshops and Conferences	42,812.84	34,767.18	492,449.93	42,776.00	612,805.95
Other Direct Costs	5,828.71	686.92	882,733.33	83,697.70	972,946.66
Sub-grants	56,821.00	-	774,486.00	125,592.00	956,899.00
Indirect Cost Allocated	157,438.40	53,453.50	5,725,415.72	746,098.48	6,682,406.10
Total	\$1,496,575.57	\$ 692,094.37	\$33,412,833.38	\$3,940,759.90	\$39,542,263.22

Source: NDI, as of September 30, 2009.

The following summarizes the IRI grant cost data reflected in Table 4

Grant: S-LMAQM-04-GR-133 “Women’s Leadership Institute”

Final Grant Period: August 10, 2004, to July 31, 2008

Final Grant Award Amount: \$2,200,000

Cost Data as of: December 31, 2008 (Final)

Grant: S-LMAQM-06-GR-097 “Post-Elections Democratic Transitions”

Final Grant Period: June 12, 2006, to January 30, 2008

Final Grant Award Amount: \$37,720,000

Cost Data as of: September 30, 2008 (Final)

Grant: S-LMAQM-07-GR-209 “Iraqi Governance, Civil Society, and Political Party Programs”

Final Grant Period: September 12, 2007, to April 30, 2010

Final Grant Award Amount: \$50,000,000

Cost Data as of: August 31, 2009 (Interim)

Table 4—IRI Grant Expenditures

Expenditures	S-LMAQM 04-GR-133	S-LMAQM 07-GR-209	S-LMAQM 06-GR-097	Total
Salaries, Benefits and Allowances	\$ 215,332.40	\$2,074,255.18	\$ 2,156,325.48	\$ 4,445,913.06
Office Space & Utilities	150,114.14	1,087,307.34	1,199,478.61	2,436,900.09
Supplies & Equipment	123,376.72	479,110.49	760,029.68	1,362,516.89
Communications & Postage	46,668.66	497,805.14	591,880.52	1,136,354.32
Travel & Per Diem	177,663.48	3,336,541.96	2,864,457.24	6,376,662.68
Security	128,781.71	19,101,666.83	23,463,379.72	42,693,828.26
Other Contractual Services	987,149.15	5,205,492.83	3,502,670.00	9,695,311.98
Workshops and Conferences	45,852.16	669,450.35	344,652.06	1,059,954.57
Other Direct Costs	5,272.13	111,105.95	136,594.11	252,972.19
Sub-grants	-	-	453,399.49	453,399.49
Indirect Cost Allocated	300,226.46	2,354,845.29	2,095,529.04	4,750,600.79
Total	\$2,180,437.01	\$34,917,581.36	\$37,568,395.95	\$74,666,414.32

Source: IRI, as of September 30, 2009.

Appendix C—IRI and NDI Recent Grant Activity Cited in Progress Reports

The following is information on grant activities that IRI and NDI included in progress reports they submitted to DRL. The information covers two ongoing grants: one \$50 million IRI and one \$50 million NDI grant, each of which is titled Governance, Political Participation, and Civil Society. We did not review this information for accuracy.

IRI’s Grant Provides Training in Governance, Civil Society, and Political Parties

IRI submitted seven quarterly progress reports on grant S-LMAQM-08-GR-209 covering the period October 1, 2007 through June 30, 2009. IRI’s progress reports identify the following objectives:

Governance

Foster transparency and commitment to public dialogue in the legislative process on the part of the new legislature and government.

Objective: Enhance government capacity to perform core functions of national institutions.

Objective: Foster transparency, public dialogue, and responsiveness in the legislative process.

Civil Society

Maintain Iraqi Civil Society Organization involvement in the political process and ensure that it continues to expand its base of participants throughout all regions of Iraq.

Objective: Strengthen the organizational capacity, sustainability, and accountability of civil society to effectively engage in the democratic process.

Objective: Encourage and facilitate dialogue among Iraqi civil society, Iraq local and national government, and international actors.

Political Parties

Objective: Encourage movement towards internally democratic, socially integrated, and issues-based political organizations.

Objective: Encourage movement towards internally democratic, socially integrated, and issues-based political organizations.

Objective: Facilitate the development of institutions, laws, and procedures that promote free and fair elections.

The following provides examples of the activity IRI reported in its progress report for the quarter ending June 30, 2009:

Governance. IRI provides specialized training workshops to staff of the Iraq Council of Representatives Research Directorate. In April 2009, IRI trained eight new staff members of the Directorate's legislative research department. The training focused on legislative writing and research support for Members of Parliament. IRI also sponsored a 5-day training session for the Directorate's new budget department. In May and June, IRI supported the Directorate's library by purchasing 396 volumes for the library's collection. The volumes purchased included topics such as budget analysis, agricultural policy, and human rights. The library now owns approximately 8,000 volumes.

During the quarter ending June 30, 2009, IRI expanded its public policy programs for think tanks. In May, the IRI-partner organization Iraqi Institute for Economic Reform conducted a seminar on the Iraqi banking industry. Numerous representatives from the government, the political community, and the banking community attended the seminar. IRI planned to sponsor six additional workshops in the following quarter. Planned topics include "Iraq's Accession to the World Trade Organization" and "Aspiration for an Iraq Stock Exchange," among others.

Civil Society. During the quarter, four IRI-sponsored youth centers came together to host 29 workshops in support of Campaign 25, an initiative promoting the idea of decreasing the candidacy age from 30 to 25 years of age. The four youth centers also used various paid and earned media platforms to promote Campaign 25.

From April 19 to April 23, 2009 IRI's Women's Empowerment Program conducted two training-of-trainers workshops for 41 participants in Baghdad. The workshops prepare participants to organize and host their own workshops in support of women's rights.

Political Parties and Research. On April 12-13, 2009 IRI held a coalition-building training that included 40 representatives from Kurdistan political parties. The participants mutually understood the importance of a coalition for a successful election bid. The parties later used key components from the training to decide to officially coalesce before the July election. On April 16-17, IRI trained 23 members of a newly formed coalition, marking IRI's first interaction with the alliance. The training concluded with the participants creating a 2-month campaign plan that detailed all activities up to and including Election Day. On May 26-27, IRI held database training for 15 individuals that represent the several Iraqi political parties. Participants learned to create, maintain and effectively manage a political party database using Microsoft Office Excel.

On June 16-18, the IRI Media Center staff trained 17 members of a political party's media team. The training comprised three separate sessions that included graphic design, editing and camera operations. IRI's public opinion research program focused on recruiting and developing data collection and independent verification teams in various governorates. IRI has established these functions in Baghdad, Basra, Ninewa, Dahuk, Erbil, and Sulaymaniyah.

Figure 2 is an IRI training activity, Figure 3 is the IRI Media Center in Erbil.

Figure 2—IRI Conducting a Training Session in Erbil



Source: SIGIR 11/2009

Figure 3—IRI Media Center Control Panel.



Source: SIGIR 11/2009

NDI's Advisors Assist the Iraq Council of Representatives

NDI submitted seven quarterly progress reports for grant S-LMAQM-08-GR-210 covering the period October 1, 2007, through June 30, 2009. NDI's progress reports identify the following objectives:

- Objective 1: Strengthen democratic political institutions to facilitate effective pluralist governance;
- Objective 2: Provide neutral space for political opponents to engage in inclusive dialogue and decision-making;
- Objective 3: Promote increased participation of youth in political processes;
- Objective 4: Promote the increased participation of women in political processes;
- Objective 5: Support the monitoring of elections and strengthen party organizational skills.

The following provides examples of the activity NDI reported in its progress report for the quarter ending June 30, 2009.

Objective 1: Strengthen democratic political institutions to facilitate effective pluralist governance.

From April 25 to 26, NDI Governance Program advisors met with 13 members of the Iraq Council of Representatives Committee on Education and Higher Education to revisit the mission and objectives the committee identified in its initial consultation with NDI in April 2008, identify current priorities, assist with the development of a communications plan; and facilitate outreach to other members of the Council of Representatives and the public. Committee members identified the following issues as priorities for the remainder of their term in office: (1) ensuring that 2010 budget allocations prioritize education on the Iraqi agenda; (2) focusing government attention on the issue of "brain drain" and proposing ways to address the problem; and (3) increasing the likelihood that university graduates are able to find employment.

From May 8 to 10, NDI Governance Program advisors held an initial consultative session with 10 members of the Council of Representatives Committee on Labor and Services. The purpose of the session was to gather information regarding the Committee's structure, challenges, and priorities to assist it in developing an action plan for the remaining period of its current term. In the consultative session, committee members identified legislative, oversight, and communications challenges; respective objectives for each category; and a plan of action further each objective in the remainder of the term.

Objective 2: Provide a neutral space for political opponents to engage in inclusive dialogue and decision-making.

NDI did not report any activity under objective 2 for the quarter ending June 30, 2009. In the preceding quarter, NDI reported the parliamentary members of the Finance Committee engaged with the Council of Representatives Research Directorate to discuss and respond to the need for increased communication and information-sharing in a collaborative manner.

Objective 3: Promote increased participation of youth in political processes.

NDI's Civil Society Strengthening Program hosted four regional groups of Youth Empowerment Program participants for its new series on advocacy. The objectives of the training series are to (1) develop youth activists' basic understanding of advocacy (2) enhance their skills to work with governments to implement advocacy objectives; (3) build their experience in creating advocacy strategies and action plans; and (4) increase their knowledge of best practices in advocacy, including comparative perspectives of strategies used in other countries.

The youth activists' discussion of advocacy was supplemented with information on the various types of advocacy, including lobbying, accountability, justice, and public education; best practices, including situations in which advocacy is most and least effective; and documentary programs demonstrating examples of advocacy in the United States and Kosovo.

Objective 4: Promote the increased participation of women in political processes.

NDI's Women's Political Participation Program developed the Political Academy for Female Party Activists. This five-module capacity-building program comprises of targeted skills-building sessions on: membership recruitment and training of trainers; strategic planning and leadership building; field office organization and communication; media and public relations; and lobbying and advocacy campaign development. From May 20 to June 3, NDI advisors conducted module 1 of the Political Academy for female party activists through four mixed-party sessions for 236 activists from 11 political parties.

From July 7 to 11, NDI advisors led a study mission to Amman, Jordan for a group of women participating in the Women's Empowerment Program, a five-module capacity-building program that aims to empower female civic activists to play a more prominent role in non-government organizations and Iraqi public life. The study mission to Jordan aimed to facilitate information exchange and relationship-building between Iraqi activists and Jordanian female leaders working in various fields. The delegation met with women's right advocates, lawyers, government advisors, and a female senator to discuss the advancement of women's rights. Discussions focused on recent advances in the criminalization of honor killings and legislation to protect women from domestic violence.

Objective 5: Support the monitoring of elections and strengthen party organizational skills.

From June 29 to July 7, NDI Political Party Development Program advisors led a delegation of campaign committee members from nine Iraqi political parties to Bulgaria to complement the electoral support program implemented under DRL grant S-LMAQM-08-GR-602. The study mission aimed to expose campaign staff to an alternative electoral process to prepare them for their own political parties' mobilization and recruitment for the July 2009 Kurdish regional elections and January 2010 national elections. Planned activities included:

- a briefing on the Bulgarian political system and electoral process;
- a visit to the Central Electoral Commission in Bulgaria;
- analysis of televised political debates;
- attendance at public campaign rallies and debates; and
- observation of election day activities in Sofia and neighboring towns.

Figures 4 and 5 display examples of NDI activities.

Figure 4—Political Party Members Select Issues for Provincial Council Campaign in Erbil.



Source: NDI, 7/2008.

Figure 5—Civil Society Organizations Members at Training facilities in Erbil.



Source: NDI, 1/2009

Appendix D—Acronyms

Acronym	Description
DoS	United States Department of State
DRL	Bureau of Democracy, Human Rights, and Labor
GOR	grant officer representative
IRI	International Republican Institute
NDI	National Democratic Institute
OECD	Organization for Economic Co-operation and Development
PARIS21	Partnership for Statistics for Development in the 21 st Century
SIGIR	Special Inspector General for Iraq Reconstruction
USAID	United States Agency for International Development

Appendix E—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

Walter Franzen

Randy Gentry

Art Granger

Joan Hlinka

Whitney Miller

Nancee K. Needham

William Shimp

Robert Whitely

Appendix F—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

January 15, 2010

Dear Mr. Warren:

The Department of State’s Bureau of Democracy, Human Rights, and Labor submits the following response to the recommendations included in the audit report “Department of State Grants to International Republican Institute and National Democratic Institute Have High Security Costs, Unknown Impact, and Limited Oversight.”

- (1) Review and document the reasonableness of budget costs for activities not directly associated with executing grant objectives, to include security and other indirect costs, and the costs versus benefits of awarding grants with high non-direct program costs.
 - **Concur.** DRL currently reviews the budgets of every proposal considered for funding and assesses each proposal’s cost effectiveness at multiple levels during the review process. DRL will modify grant review documents with language designed to assure documentation of indirect cost levels and an associated cost-benefit analysis of awarding a proposal with federal funding.
- (2) Amend grant agreements to require grantees to report quarterly grant expenditures on major cost categories.
 - **Do not concur.** DRL agrees that receiving more detailed information on quarterly expenditures in major cost categories can provide an extra layer of oversight to help assess grant progress and prevent fraud and waste. We think it would not be useful at this time to add a formal amendment to the grants SIGIR reviewed—including some that have already expired. DRL will request that grantees receiving new grants provide this information to the Bureau on a quarterly basis.
- (3) Assess the appropriateness of establishing a program manager position in country versus maintaining democracy advisors as DRL representatives in Iraq.

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

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➤ **Concur.** DRL, in coordination with Embassy Baghdad, will assess the appropriateness of establishing a program manager position in Embassy Baghdad.

(4) An examination of DRL's personnel and operations to determine if the Bureau is structured and staffed in both headquarters and overseas to effectively and efficiently oversee the grants under its responsibility.

➤ **Concur.** DRL will continue to examine its personnel and operations structure as part of an overall review of bureau staffing.

I hope this information is useful. Please do not hesitate to contact me if you have additional questions.

Sincerely,


Deborah Graze, Acting

Appendix G—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

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