



Office of Inspector General

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**United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General**

Office of Audits

**Review of Costs Charged to Iraq
Democracy-Building Grants Awarded to the
International Republican Institute
During FYs 2004-2010**

Report Number AUD-CG-12-35, June 2012

~~Important Notice~~

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PREFACE

This report is being transmitted pursuant to the Inspector General Act of 1978, as amended, and Section 209 of the Foreign Service Act of 1980, as amended. It is one of a series of audit, inspection, investigative, and special reports prepared as part of the Office of Inspector General's (OIG) responsibility to promote effective management, accountability, and positive change in the Department of State (Department) and the Broadcasting Board of Governors.

This report addresses costs claimed for eight grants awarded by the Department to the International Republican Institute (IRI) during FYs 2004–2010. The purpose of the eight grants, totaling \$130.7 million, was to provide democracy-building programs throughout Iraq. The report is based on interviews with employees and officials of relevant agencies and institutions, direct observation, and a review of applicable documents.

OIG contracted with the independent public accountant Clarke Leiper, PLLC to perform this agreed-upon procedures review. The contract required that Clarke Leiper perform its review in accordance with guidance contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Clarke Leiper's report is included.

Clarke Leiper found that the direct costs charged to the grants were reasonable for the purpose of conducting the programs, with appropriate support documentation. However, indirect costs were overcharged by \$260,648 as a result of excess security costs that were included in the overhead base. For the majority of the review period, the allocation of security contract costs between the grants was not supported by a method that could be verified. Consequently, four of the eight grants exceeded their respective award budgets by a total of \$4,589,952. Also, security costs remained high through 2009 when IRI did not compete the sole-source contract even though other qualified security firms were available for contract competition. The report identified areas to strengthen internal controls for procurement and property management.

OIG evaluated the nature, extent, and timing of Clarke Leiper's work; monitored progress throughout the audit; reviewed Clarke Leiper's supporting documentation; evaluated key judgments; and performed other procedures as appropriate. OIG concurs with Clarke Leiper's findings, and the recommendations contained in the report were developed on the basis of the best knowledge available and were discussed in draft form with those individuals responsible for implementation. OIG's analysis of management's response to the recommendations has been incorporated into the report. OIG trusts that this report will result in more effective, efficient, and/or economical operations.

I express my appreciation to all of the individuals who contributed to the preparation of this report.

A handwritten signature in black ink, appearing to read "H. Geisel", written in a cursive style.

Harold W. Geisel
Deputy Inspector General

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Clarke Leiper, PLLC (referred to as “we” in this letter), has performed the procedures enumerated in Appendix A, which were agreed to by the Office of Inspector General (OIG), solely to assist in evaluating the International Republican Institute’s (IRI) cost charges and allocation of costs related to eight democracy-building grants in Iraq awarded during the period of FYs 2004–2010 by the Department of State (Department). IRI’s management is responsible for its cost charges. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to and did not conduct an examination of the costs charged against the eight grants, the objective of which would be the expression of an opinion thereon. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We conducted this agreed-upon procedures engagement from November 2011–March 2012 in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. We communicated the results of our engagement and related findings and recommendations to the Department’s OIG.

Handwritten signature of Clarke Leiper PLLC in cursive script.

Clarke Leiper, PLLC
May 2012

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ACRONYMS

A/LM/AQM	Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management
Ardan	Ardan Energy Services
Blackwater	Blackwater Security Consultants
Department	Department of State
Diligence	Diligence Middle East, LLC
DRL	Bureau of Democracy, Human Rights and Labor
Global	Global Strategies Group
Greystone	Greystone, Limited
IRI	International Republican Institute
NICRA	Negotiated Indirect Cost Rate Agreement
OIG	Office of Inspector General
OMB	Office of Management and Budget
Pilgrims	Pilgrims Group, Limited
SF-269	OMB Standard Form 269, Financial Status Report
SIGIR	Special Inspector General for Iraq Reconstruction
USAID	U.S. Agency for International Development

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Executive Summary

At the request of the Department of State (Department), the Office of Inspector General (OIG) contracted with Clarke Leiper, PLLC (referred to as “we” in this report), to perform agreed-upon procedures for eight grants awarded by the Department to the International Republican Institute (IRI) during FYs 2004–2010. The purpose of the eight grants, totaling \$130.7 million, was to provide democracy-building programs throughout Iraq.

We found that the direct costs charged to the grants were reasonable for the purpose of conducting the programs. All costs were supported by invoices and other appropriate support documentation. However, for the majority of the stated period, the allocation of security contract costs between the grants was not supported by a method that could be verified.

Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*, requires that costs allocated to a Federal award be treated consistently with other costs incurred for the same purpose and be distributed in a reasonable proportion to the benefits received. Because IRI did not have a consistent and documented process for allocating the costs between the awards, we reallocated the claimed annual security costs to active grants based on a ratio of total direct costs exclusive of security contract costs. We determined that costs for four of the eight grants exceeded their respective award budgets by a total of \$4,589,952. We also noted that security costs of \$64,285,818 exceeded the \$49,472,461 in direct costs to carry out the Iraqi democracy-building programs. Security costs remained high through 2009, when IRI did not follow through on a November 2004 plan to evaluate the level of service and potentially compete the sole-source contract after the January 2005 Iraqi elections. We believe other qualified security firms were available for contract competition.

We found that indirect costs were overcharged as a result of excess security costs included within the overhead base. The resulting overcharges for overhead costs totaled \$260,648. Since January 2010, IRI discontinued the practice that led to the improper allocation of security costs, and we believe that IRI has now adopted a consistent basis for allocating security costs to future programs.

In addition to the conditions noted, we found several instances of noncompliance with the procurement and property standards established under OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*. Specifically, we found that IRI

- Could not provide proper award documentation related to contract competition for two of its security contracts.
- Did not obtain prior approval from the Grant Officer for the purchase and disposition of vehicles acquired at \$689,500 under one of IRI’s security contracts.
- Did not receive gym equipment totaling \$26,600, although IRI had recorded the equipment as a grant cost.
- Physical inventory reconciliations against property records did not identify the missing gym equipment.

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In this report, we are recommending that the Grant Officer for the eight IRI grants that provided democracy-building programs throughout Iraq reallocate claimed annual security costs that resulted in the costs of four of the eight grants exceeding their respective award budgets by a total of \$4,589,952; question as ineligible \$260,648 in overcharges for indirect costs; maintain procurement records and files that include the basis of contractor selection, justifications for lack of competition, and the basis for award cost or price; direct IRI to adopt an internal control policy relating to Grant Officer approval for the acquisition of capital equipment; question the \$26,600 cost for gym equipment that was never delivered; and improve property inventory reconciliation procedures.

At the conclusion of our work, we briefed IRI officials, the Department's Grant Officer, and a program official from the Bureau of Democracy, Human Rights and Labor on findings and tentative recommendations. IRI stated that security costs had been properly allocated, that its methodology for including security costs in its overhead rate was allowable, and that it had complied with OMB circulars for contract competition regarding security contracts. IRI agreed that additional controls could be implemented to enhance property management policies and procedures.

We made six recommendations to the Grant Officer that focused on complying with grant terms and conditions and improving internal controls within IRI's current control system. The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM), agreed with all of the recommendations. (The response from A/LM/AQM is in Appendix D.)

Background

IRI is a nonprofit organization working to strengthen and expand democracy, with headquarters located in Washington, DC. IRI supports the growth of political and economic freedom, good governance, and human rights around the world by educating people, parties, and governments on the values and practices of democracy. IRI conducts a wide range of international programs to promote and strengthen democratic ideals and institutions. IRI programs are individually structured to meet the needs of the participants in the host country. These programs include training on such issues as civic responsibility, the legislative process for newly elected government officials, and the mechanics of organizing political parties and election campaigns.

The Special Inspector General for Iraq Reconstruction (SIGIR), in its July 29, 2010, report,¹ identified weaknesses in the Department's oversight of IRI's compliance with grant requirements, concluding that the Department was vulnerable to paying excess charges on grants awarded for work in Iraq. SIGIR's report identified eight grants awarded to IRI during FYs 2004–2010, as shown in Table 1. The SIGIR report focused on one \$50 million grant (No. S-LMAQM-07-GR-209), which SIGIR selected because it was the largest grant in relation

¹*Improved Oversight Needed for State Department Grant to the International Republican Institute* (Report No. 10-22, July 2010).

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to total awards of \$130.7 million. SIGIR reported that IRI's charges and allocations lacked the following information:

- A methodology of allocating security costs that ensures a reasonable distribution of costs among IRI's various grants.
- An appropriate accounting methodology to determine some indirect cost amounts charged.
- Adequate procurement documentation that prevented IRI from determining the reasonableness of the security costs; that is, IRI awarded Blackwater Security Consultants (Blackwater) a sole-source award to provide security services in Iraq from FYs 2004–2009.
- Prior approval from Grant Officers in A/LM/AQM to purchase vehicles at a cost of \$689,500.

Table 1. Grants Awarded to IRI During FYs 2004–2010

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

Source: IRI and Department of State data.

SIGIR recommended that the Department's Grant Officer, for the eight grants shown, conduct an in-depth assessment of IRI cost charges and accounting allocation methods to determine the level of questionable costs and to determine whether funds should be recovered. Based on the recommendation, AQM, in conjunction with the Bureau of Democracy, Human Rights and Labor (DRL), the responsible Department program bureau, requested that OIG provide audit services concerning IRI claimed security costs.

Objective

The primary purpose of this review was to apply agreed-upon procedures to review the direct and indirect costs charged to the eight grants awarded by the Department to IRI during FYs 2004–2010 to provide democracy-building programs throughout Iraq. The procedures were designed to assess the accounting methods used in allocating costs between the grants and to determine whether those costs and their treatment were in compliance with provisions of OMB Circulars A-110 and A-122.

Results

Finding A. Security Costs Were Not Properly Allocated

During FYs 2004–2010, IRI contracted with six firms to provide security services where IRI programs were conducted throughout Iraq. The six firms were Ardan Energy Services (Ardan); Blackwater; Diligence Middle East, LLC (Diligence); Global Strategies Group (Global); Greystone, Limited (Greystone); and Pilgrims Group, Limited (Pilgrims). We found that security costs allocated among IRI’s various security providers could not be substantiated by an appropriate and consistent methodology. OMB Circular A-122² requires that costs allocated to a Federal award be treated consistently with other costs incurred for the same purpose and be distributed in a reasonable proportion to the benefits received. The criteria used to determine the allocation of costs to a product, contract, or other cost objective should be the same for all similar objectives. Implementation of this standard and the requirements ensures that costs are treated in a fair and consistent manner to prevent overcharging as well as to prevent the shifting of other Federal awards to overcome funding deficiencies.

The allocation of security costs claimed by IRI between the eight grants reviewed, by grant and by security contractor, is detailed in Tables 2 and 3, respectively. The amounts represent direct costs and are exclusive of applied overhead.

Table 2. Security Costs by Grant and Security Contractor (FYs 2004-2010)

Grant Number	Ardan	Blackwater	Diligence	Global	Greystone	Pilgrims	Total
S-LMAQM-04-GR-133	-	-	\$155,538	-	-	-	\$155,538
S-LMAQM-06-GR-097	-	\$23,346,024	-	\$50,312	-	-	23,396,336
S-LMAQM-07-GR-209	\$3,206,369	17,229,416	-	-	\$2,484,667	\$1,834,238	24,754,690
S-LMAQM-08-GR-549	-	-	-	-	-	-	-
S-LMAQM-08-GR-601	1,940,570	3,704,579	-	-	2,484,667	1,037,972	9,167,788
S-LMAQM-09-GR-560	922,861	-	-	-	-	518,238	1,441,100
S-LMAQM-10-GR-504	1,209,091	-	-	-	-	702,843	1,911,935
S-LMAQM-10-GR-535	2,075,853	-	-	-	-	1,310,143	3,385,996
Total Costs Claimed	\$9,354,744	\$44,280,019	\$155,538	\$50,312	\$4,969,335	\$5,403,434	\$64,213,382

Notes: Greystone is a division of Blackwater. Totals may not add because of rounding.
Source: Analysis of IRI data.

² 2 C.F.R. § 230, app. A, para. A.4, “Allocable Costs.”

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Table 3. Security Costs by Security Contractor and Fiscal Year

Contractor	2005	2006	2007	2008	2009	2010	Total
Ardan	-	-	-	-	\$1,108,120	\$8,246,624	\$9,354,744
Blackwater	-	\$3,749,731	\$16,313,540	\$15,602,846	8,613,903	-	44,280,019
Diligence	\$155,538	-	-	-	-	-	155,538
Global	-	18,568	31,745	-	-	-	50,312
Greystone	-	-	-	-	4,995,761	(26,426)	4,969,335
Pilgrims	-	-	-	-	506,196	4,897,238	5,403,434
Total	\$155,538	\$3,768,298	\$16,345,284	\$15,602,846	\$15,223,980	\$13,117,436	\$64,213,382

Notes: Grant S-LMAQM-GR-04-133 was the only active grant awarded by the Department during FYs 2004 and 2005. It was awarded on August 10, 2004, and did not incur costs until September 2004. Totals may not add because of rounding.

Source: Analysis of IRI data.

Based on our review of Tables 1–3, we determined that security costs charged to the grants were not allocated in an appropriate and equitable manner, as detailed in the following examples:

- Grant S-LMAQM-GR-04-133 – The \$2.2 million grant was awarded on August 10, 2004, and expired on July 31, 2008, but the grant was allocated only \$155,538 in security costs. Security services for the grant were provided by Diligence from October 2004–March 2005, when services with Diligence were terminated. During the grant’s approximate 4-year period of performance, security services totaling about \$36 million were provided by Blackwater and Global and were charged to three other grants under review. However, no other security costs from Diligence, Global, or Blackwater were claimed on the grant from April 2005–July 2008.
- Grant S-LMAQM-GR-06-097 – The total value of the Global contract was approximately \$1.35 million. However, only \$50,312 of the \$1.35 million was charged exclusively for Grant S-LMAQM-GR-06-097. Global’s contract was to provide IRI with supplemental security services in Southern Iraq from December 2005–December 2006. Grant S-LMAQM-GR-06-097 was awarded in June 2006 for \$37.7 million, and the total of all of Global’s invoices from July–December 2006 was charged to this grant. However, when the grant program began in June 2006, IRI began allocating Blackwater costs to the grant. In total, Blackwater was paid \$23,346,024 in security costs for the grant. Before July 2006, all costs related to Global and Blackwater security services were being allocated by IRI to other non-DRL programs in Iraq that ended around the same time that Grant S-LMAQM-GR-06-097 began in June 2006.
- Grant S-LMAQM-GR-08-549 – The \$1.8 million award had an 18-month period of performance, but no security costs were charged during the entire grant period of performance. Based on our review of grant documents, we determined that security costs were budgeted and approved under this award. Within the budget narrative, IRI officials stated that they would charge 0.5 percent of the security bills to the grant.

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- Grants S-LMAQM-07-GR-209, S-LMAQM-08-GR-601, and S-LMAQM-08-GR-549 – Greystone, a Blackwater subsidiary, provided security services under a contract whose service term was May–August 2009. During this 4-month period, all three of the grants were active. However, the Greystone charges were allocated only to Grants S-LMAQM-07-GR-209 and S-LMAQM-08-GR-601. IRI equally divided security costs at \$2,484,667 for each of the two grants.

The security contractors’ service terms and the areas they served in Iraq are shown in Table 4.

Table 4. Security Contractors’ Service Terms and Areas Served in Iraq

Contractor	Service Term		Service Coverage in Iraq		
	Begin	End	North	Central	Southern
Diligence	Jan 2004	Mar 2005		X	
Global	Dec 2005	Dec 2006			X
Blackwater	Nov 2004	Aug 2009	X	X	X
Greystone	May 2009	Aug 2009	X	X	X
Pilgrims	Aug 2009	-			X
Ardan	Aug 2009	-	X	X	

Source: Analysis of IRI data.

As SIGIR indicated in its July 2010 report, IRI lacked a consistent methodology for allocating security costs that ensured reasonable distribution of the costs among its various grants. During our fieldwork, IRI’s Chief Operations Officer stated that from 2004 to 2009, IRI received funding for programs in Iraq from other sources, such as the National Endowment for Democracy and the U.S. Agency for International Development (USAID). Throughout that period, IRI representatives stated that in apportioning security costs in Iraq to benefited grants, it was their general practice to consider some or all of the following factors: the anticipated level of effort under each grant as represented by the relative size of the funding for each grant in relation to IRI’s total funding for Iraq; monthly budgeted security costs approved in the grant awards from all funders; and, to a lesser extent, the activities undertaken for each grant at the time the cost was incurred and/or the expatriate staff hours billed to each grant in relation to the total hours billed to all Iraqi grants for that period. IRI representatives were unable to provide documentation to support any decisions regarding the allocation of security costs.

Through our review and evaluation of monthly contractor invoices, we determined that total claimed security costs were supported by appropriate documentation. However, the allocation of these costs among the various grants was not substantiated and could not be verified by the methods that IRI had stated were the basis of allocation. Beginning in August 2010, IRI formally changed its policy for allocating security costs in Iraq based on the proportion of expatriate staff hours billed to individual grants to the total expatriate staff hours billed for all Iraqi programs during that same period. Based on this revised policy, IRI

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retroactively adjusted security cost allocations beginning in January 2010. Although we attempted to perform an analysis to revise the costs allocated before January 2010 based on IRI's revised methodology, we were unable to do so because the proportions for expatriate hours to total hours on all Iraqi programs could not be determined with reasonable assurance.

Without a consistent and reliable methodology that was representative of the entire period under review, we were unable to assess whether the allocated costs were appropriate and reasonable. Therefore, we believe that the most measurable and equitable method for determining whether costs were allocated fairly is on the basis of total direct costs exclusive of security costs. We determined the total security costs charged, by contractor, for each year and allocated those costs based on the proportion of each award's direct costs to the total direct costs of all grants active during that year. While the allocation adjustment does not affect the total direct costs incurred across all of the grants amounting to \$64,285,818, the adjustment does result in the potential overcharging on four of the eight grants under review by \$4,589,952, as shown in Appendix B.

We consider IRI's revised allocation methodology to be a reasonable basis for allocating costs from January 2010 and beyond. IRI has adopted and implemented this procedure on a consistent basis for allocating security costs to all future programs. However, allocation for security costs for the grants in this review for FYs 2004–2009 will need to be adjusted to comply with the provisions of OMB Circular A-122.

Recommendation 1. We recommend that the Grant Officer, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, direct the International Republican Institute (IRI) to reallocate security costs claimed by IRI among the eight grants awarded for Iraqi Democracy-Building Programs (Nos. S-LMAQM-04-GR-133, S-LMAQM-06-GR-097, S-LMAQM-07-GR-209, S-LMAQM-08-GR-549, S-LMAQM-08-GR-601, S-LMAQM-09-GR-560, S-LMAQM-10-GR-504, and S-LMAQM-10-GR-535) and apply overhead costs as applicable.

A/LM/AQM Response: A/LM/AQM concurred with the recommendation, stating that it would "follow-up with IRI to assure security costs are correctly applied."

OIG Analysis: Based on the response, OIG considers the recommendation resolved, pending further action. The recommendation can be closed pending OIG's review and acceptance of documentation showing that IRI has correctly applied security costs for the eight grants that provided democracy-building programs in Iraq.

Finding B. Excess Security Costs Were Included in the Overhead Base

We found that excess security costs were included in the overhead base. As a result, when overhead rates were applied to the overhead base, indirect costs would be overcharged and this would reduce the amount of funds available for direct program costs. Within SIGIR's July 2010 report, SIGIR interpreted the language within IRI's Negotiated Indirect Cost Rate Agreement (NICRA) with USAID to include only the first \$25,000 of a subcontract's value within the overhead base. IRI's accounting policy included the first \$25,000 of each monthly invoice over \$250,000 within the overhead base. IRI's rationale was that the monthly invoices it received from the security contractor should be viewed as individual monthly contracts because services could be terminated at any time.

Based on our review of the security service contracts, we noted that the agreements did, in fact, indicate that the services could be terminated at any time.³ However, as with any contract, modifications or amendments to the contract were issued for extensions of services. We determined that the security contracts were granted without extended periods of performance because of the uncertainty and the volatility of the environment in Iraq at the time these grant programs were being implemented. The flexibility to renew services as needed and the ability to cancel the contracts with short notice also provided the Department an opportunity for cost savings in the event that security services (or the quantity of services) were suddenly deemed to no longer be required because the incidences of violence in Iraq had been reduced. Whether the contracts were specified for an extended period of time or were renewed on a monthly basis should not influence the treatment of the costs and the basis for allocating those costs.

Beginning with FY 2008, USAID was the cognizant audit agency; the Department approved IRI's indirect cost rates before that time. IRI obtained approval from the Department to implement a policy in which contracts awarded with grant funds greater than \$250,000, which do not require program oversight, were to be treated as subcontracts, and this policy carried forward to IRI's agreements with USAID. We reviewed IRI's NICRAs for FYs 2004–2010 and determined that IRI's indirect cost rate structure was consistent during those years. In each year, IRI's overhead costs were determined on the basis of a modified total direct cost base (overhead base) that included provisions that limited the costs on subcontracts to \$25,000 for inclusion within the overhead base.

According to the July 2010 SIGIR report, IRI's approach could result in the grantee's applying its indirect cost rate against a base of \$300,000 per year rather than only \$25,000 for each contract. In the report, IRI representatives stated that they had discussed their approach for charging indirect cost rates with a USAID official and that the USAID official had approved IRI's methodology. SIGIR officials reviewed IRI emails of the discussions and noted that USAID did not specifically address the treatment of each monthly invoice as a separate contract.

³The Blackwater and Greystone contracts specified that services were to be provided on a month-to-month basis and would renew automatically until notification of termination. The agreements with four other contractors were generally awarded without extended periods of performance (typically for a 2- to 5-month period), and extensions of services were executed through modification or amendments. All contracts required a 30- to 60-day advance notice for termination.

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SIGIR officials discussed the issue with the USAID official who had approved the rates, and the USAID official informed SIGIR that each monthly invoice was not a separate contract and that IRI's interpretation was incorrect and unallowable.

We reviewed correspondence between IRI and USAID related to IRI's FY 2008 indirect cost rate proposal that included schedules supporting an overhead base that followed IRI policies for subjecting the first \$25,000 of monthly security invoices to overhead. While USAID approved those rates, we believe that the basis of those rates, mainly the inclusion of the monthly \$25,000 from security invoices as opposed to a one-time \$25,000 inclusion, contradicts the language prescribed within the NICRA and does not comply with the principles of OMB Circular A-122. The underlying principles of Circular A-122 are designed to ensure that the Federal Government bears its fair share of costs on grants, contracts, and other agreements with nonprofit organizations. The Government's fair share of costs includes those costs that are both reasonable and allowable under Federal statutes. Circular A-122 states that unallowable costs that are significant should be excluded from the distribution base.⁴ Such types of cost are capital expenditures and major subgrants or subcontracts. Typically, these costs are significant in amount, and inclusion within the cost base would result in greater indirect costs that would not be representative of overhead costs incurred.

At the conclusion of our review, we contacted an official within USAID's Office of Acquisition, Special Costs, and Contract Close-out Branch, to obtain that office's interpretation of the exclusion limitation of subcontract costs within the overhead base. The USAID representative confirmed that overhead should be applied only once to the first \$25,000 of each subcontract regardless of the period covered under the contract. Accordingly, we adjusted the overhead bases to reflect a one-time inclusion of \$25,000 for each security contract rather than \$25,000 for each monthly invoice from each security contractor as IRI had stated (see Appendix C). This adjustment resulted in an overbilling of \$260,648 from FYs 2004–2010. It should be noted that the scope of our procedures would not allow us to adjust the overhead rates that were used to bill the Government on these grants. Making such an adjustment would require all costs incurred under all of IRI's Federal awards to be reviewed. A copy of this report will be sent to USAID to ensure that future indirect cost rate negotiations specifically address the treatment of security costs and the appropriate amount for inclusion within the overhead base.

Recommendation 2. We recommend that the Grant Officer, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, require the International Republican Institute (IRI) to adjust its overhead bases to include only the first \$25,000 of each security contract awarded between 2004 and 2010 and question as ineligible the \$260,648 in excess overhead costs related to the eight grants awarded for Iraqi Democracy-Building Programs Nos. S-LMAQM-04-GR-133, S-LMAQM-06-GR-097, S-LMAQM-07-GR-209, S-LMAQM-08-GR-549, S-LMAQM-08-GR-601, S-LMAQM-09-GR-560, S-LMAQM-10-GR-504, and S-LMAQM-10-GR-535.

⁴ While all of the security costs were not excluded from the distribution base, negotiations between IRI and USAID resulted in allowing a limited amount of the security costs for inclusion (up to \$25,000 of the total contract value). The exclusion of costs in excess of \$25,000 is intended to prevent distortion of the indirect costs and rates.

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A/LM/AQM Response: A/LM/AQM concurred with the recommendation, stating that it would “request IRI to reimburse the Department for \$260,648 in excess overhead costs.”

OIG Analysis: Based on the response, OIG considers the recommendation resolved, pending further action. The recommendation can be closed pending OIG’s review and acceptance of documentation showing that A/LM/AQM has received reimbursement from IRI for the \$260,648 in excess overhead costs.

Finding C. Security Contracts Were Awarded Without Competition

We found that for security services awarded during FYs 2004–2010, IRI did not adequately comply with provisions of OMB Circular A-110,⁵ which state, “All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition.” According to SIGIR’s July 2010 report, the reasonableness of security costs invoiced by Blackwater could not be assessed because the contract was awarded on a sole-source basis and a cost analysis was not performed. IRI contracted the services of Blackwater from November 2004–August 2009. IRI documented, in a justification memorandum dated November 12, 2004, that it believed at that time that Blackwater was the only firm with the necessary experience and skills to provide the level of service and protection for IRI staff working in Iraq and that IRI therefore did not request formal bids from other firms. According to the justification memorandum, IRI’s Program Director and executive management recognized the higher security costs associated with Blackwater and initially planned to award the contract for only 120 days, the time anticipated through the Iraqi elections in January 2005, and then to reevaluate the need and appropriate level for Blackwater’s services. However, SIGIR’s report noted that Blackwater’s security services were not reevaluated until 2009, when contracts with other security firms were awarded. SIGIR’s report also estimated that the monthly cost of approximately 30 security guards was \$81,350 higher than what Ardan would have charged.

While we acknowledge the volatile security circumstances in Iraq from 2004–2009, IRI should have periodically reassessed and documented the need to continue procurement of noncompetitive services from Blackwater. Overall, security costs of \$64,285,818 exceeded the \$49,472,461 in direct costs used to carry out the Iraqi democracy-building programs. Blackwater and Greystone were paid \$49,249,354, or 76.7 percent, of the total of \$64,285,818 in security costs. As shown in Table 4, IRI operated in three regions in Iraq (Northern, Central, and Southern). The Blackwater contract included services for all three regions, while the Ardan contract covered Northern and Central Iraq and the Pilgrims contract covered Southern Iraq. The Pilgrims and Ardan contracts were awarded in August 2009 at the same time to replace the Blackwater contract. Based on our review of award documentation, we determined that both Pilgrims and Ardan had substantial prior experience in those regions where they were awarded contracts to perform services. As shown in Table 5, the cost savings upon recompeting the Blackwater contract would have been approximately \$128,000 per month.

⁵2 C.F.R § 215.43, “Competition.”

Table 5. Average Monthly Security Costs: Blackwater Versus Ardan and Pilgrims

Contractor	Average Monthly Invoice
Blackwater	\$1,283,853
Ardan (\$727,501) and Pilgrims (\$428,537)	\$1,156,038
Difference	\$127,815

Source: Analysis of IRI data.

IRI could not provide documentation showing that its contract with Global was awarded on a competitive basis. Specifically, OMB Circular A-110⁶ requires recipients to maintain procurement records and files that include, at a minimum, the basis of contractor selection, justifications for lack of competition, and the basis for award cost or price. As previously stated, the Global contract was awarded on December 30, 2005, for supplemental security services in Southern Iraq. Services were renewed on a month-to-month basis, as needed, through the end of December 2006. According to IRI's Program Officer, several firms made presentations to IRI senior management prior to the award, and Global was the only company that followed up with a formal proposal. Additionally, the Program Officer stated that other firms had provided responses via e-mails and that an informal cost analysis had been performed. Although we requested documentation to support the Program Officer's comments, IRI could provide only the proposal submitted by Global and a schedule that compared Global's proposed rates with the rates under IRI's existing contract with Blackwater.

Recommendation 3. We recommend that the Grant Officer, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, direct the International Republican Institute to comply with Office of Management and Budget Circular A-110 to provide for full and open competition and maintain procurement records and files that include, at a minimum, the basis of contractor selection, justification for lack of competition, and the basis for award cost or price.

A/LM/AQM Response: A/LM/AQM concurred with the recommendation, stating that it would "follow-up with IRI to assure full compliance with [Circular] A-110."

OIG Analysis: Based on the response, OIG considers the recommendation resolved, pending further action. The recommendation can be closed pending OIG's review and acceptance of documentation showing that IRI has reinforced control procedures that provide for full and open competition and require procurement records and files that include, at a minimum, the basis of contractor selection, justification for lack of competition, and the basis for award cost or price.

⁶2 C.F.R § 215.46, "Procurement Records."

Finding D. Vehicles Were Acquired Without Prior Approval From Grant Officer

SIGIR's July 2010 report questioned \$689,500 for vehicle acquisitions because approval had not been obtained from the Department prior to the vehicles' purchase. The agreement between IRI and Ardan, dated August 17, 2009, required that Ardan, on behalf of IRI, purchase vehicles that would be needed for providing the services necessary under the service agreement. Ardan would then bill back the costs of the vehicles in five monthly installments—the initial term of the agreement. SIGIR officials stated that they believed that the nature of this transaction reflected that of a capital lease, in which IRI could benefit and profit from the sale of the vehicles at the end of the lease term. IRI's other security contracts used vehicles (already owned by the contractors), and IRI would be billed a monthly rate for its use in providing services.

Our further review of the Ardan agreement indicated that upon full recovery of the vehicle costs, Ardan would not charge a monthly rate for vehicle use no matter how long services would be needed. Also, the agreement stipulated that when vehicles were deemed to be no longer required, Ardan would sell the vehicles to a third party and IRI would be provided with the proceeds of the sale. However, if a third-party buyer could not be found, a guaranteed minimum 25 percent buyout option from Ardan would be provided to IRI on the original acquisition cost. While the terms of the agreement provided an opportunity for IRI to profit from the acquisition and sale of the vehicles, IRI explained that any proceeds from the sale of vehicles would be credited to the grants as supported by a formal memorandum, dated September 20, 2010. The memorandum documented that two vehicles were being released and that Ardan would provide a 75 percent credit on all prior rental charges related to those vehicles. The memorandum indicated that approval of the method for crediting the grants had been obtained from the Grant Officer, who recommended that the credit be applied across IRI's current active grants. We were provided with a copy of e-mail correspondence dated August 17, 2010, between IRI's Program Director and the Grant Officer to support the approval.

We agree with SIGIR that IRI should have informed the Grant Officer about the requirement to purchase vehicles under the security contract. While title never passed to IRI, we believe that the underlying substance of the transaction was one in which IRI had all the risks and rewards of ownership.⁷ Therefore, the vehicles should have been inventoried and tracked by IRI personnel and subjected to the property standards required by OMB Circular A-110.⁸ We found no documentation showing that IRI did not act in good faith or that it had any intention of benefiting from the proceeds of the sale of the vehicles. However, the Grant Officer should have been made aware of the contractual arrangement requiring the purchase of the vehicles. In addition, the decision to sell vehicles deemed to be no longer required should have been made by the Department and not the grantee.

⁷As noted, IRI was required to pay for the acquisition of the vehicles under its service agreement with Ardan. In addition to the requirement of acquiring the vehicles for use under the contract, the agreement also stated that should any vehicles be damaged or destroyed, IRI would be responsible for replacing those vehicles.

⁸2 C.F.R. § 215.34, "Equipment."

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Recommendation 4. We recommend that the Grant Officer, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, direct the International Republican Institute to adopt an internal control policy whereby the Grant Officer must approve acquisitions of capital equipment required for the execution of contracts in advance of the equipment's purchase.

A/LM/AQM Response: A/LM/AQM concurred with the recommendation, stating that it would "request [that] IRI establish internal control policy to have the Grant Officer approve in advance acquisitions of capital equipment."

OIG Analysis: Based on the response, OIG considers the recommendation resolved, pending further action. The recommendation can be closed pending OIG's review and acceptance of documentation showing that IRI has establish an internal control policy to have the Grant Officer provide advance approval for acquisition of capital equipment.

Finding E. Internal Controls Over Equipment Required Improvement

IRI purchased gym equipment totaling \$26,600 in June 2009 that was charged against Grant S-LMAQM-07-GR-209. However, the equipment was never delivered and remained as a claimed cost against the award. IRI requires its field offices to provide physical inventory reports to IRI headquarters on an annual basis. The gym equipment was to be delivered to IRI's Erbil compound for use by its expatriate staff. Based on our reconciliation of IRI's field office inventory reports to the equipment costs within the general ledger, we found that the gym equipment was not included in the field office reports but continued to be charged against the grant as of the end of FYs 2009, 2010, and 2011.

Based on our inquiries during fieldwork, IRI investigated the issue and stated that the supplier could not deliver the equipment into Iraq because the Iraqi Government had imposed a 100 percent customs tax on all imported goods and that the goods were being held at the border. Several attempts were made to negotiate a refund, but the attempts were unsuccessful. IRI officials stated that in February 2010, they informed the supplier that they would be arriving to witness the sale of the equipment to recover any remaining funds minus any legitimate storage fees. However, the supplier informed IRI that the equipment was "left at the border" and that the buyer had nothing else to do with the issue. IRI officials stated that they were unable to verify the claim or the location of the equipment but added that they were considering the equipment to be lost or stolen and were, as of March 19, 2012, consulting with their insurance representatives to assess possible recovery of the equipment's cost.

IRI officials stated that each field office is required to physically count and inventory all property in its possession or control and to submit an inventory list to IRI headquarters on an annual basis. With respect to inventory lists, in particular, it is IRI's practice for IRI headquarters staff to monitor field offices' compliance with IRI's property policies by sending Regional Accountants or Project Accountants to regularly visit field offices and to conduct on-site reviews of those field offices. As part of this financial review, these visits included testing the existence, completeness, and accuracy of equipment listed on inventory reports. Under the Iraqi program, the Regional Accountant responsible for performing the Iraq field office visits

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lived on the Erbil compound. IRI officials stated that because of security issues, travel restrictions prevented the Regional Accountant from traveling to the Baghdad and Basra offices and imposed limitations on IRI's practice of reconciling certain equipment on inventory reports. To compensate for the travel restrictions, IRI officials stated that staff from the field offices conducted physical inventories and that two or more staff would sign off on the inventory lists and submit the lists to IRI headquarters accounting staff.

Despite the limitations on travel, the Regional Accountant responsible for performing Iraq field office inventories lived on the Erbil compound, where the gym equipment was to be delivered. In addition, IRI officials stated that the field office inventories were submitted to accounting personnel to compensate for the Regional Accountant's limitations on travel. Regardless of whether the Regional Accountant was unable to perform inventory verification as part of IRI's annual field office visits, the inventory records that were submitted by the field offices should have been reconciled to the accounting records.

Property standards prescribed in OMB Circular A-110⁹ require recipients of Federal awards to provide adequate accountability over equipment purchased with grant funds. Specifically, grantees are required to perform physical inventories and reconcile the results to the equipment records at least once every 2 years. Program Officers at IRI headquarters were not aware of the missing equipment and therefore did not take adequate actions to remedy the situation in a timely manner. As a result of our reconciliation of field office inventory listings to the general ledger, IRI's Program Director sent an e-mail on March 27, 2012, to inform the Grant Officer that the equipment had not been delivered and that IRI had submitted an insurance claim for the recovery of funds for the lost equipment. We believe that if IRI had performed adequate reconciliation procedures on the inventory reports, it would have identified the discrepancy.

Recommendation 5. We recommend that the Grant Officer, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, question the \$26,600 cost for gym equipment in Grant S-LMAQM-07-209 that was never delivered.

A/LM/AQM Response: A/LM/AQM concurred with the recommendation, stating that it would "request IRI to reimburse the Department for \$26,600 for gym equipment that was never provided."

OIG Analysis: Based on the response, OIG considers the recommendation resolved, pending further action. The recommendation can be closed pending OIG's review and acceptance of documentation showing that IRI has reimbursed the Department for \$26,600 for gym equipment that was never provided.

Recommendation 6. We recommend that the Grant Officer, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, request that the International Republican Institute comply with Office of Management and Budget Circular A-110, 2 C.F.R. § 215.34(f)(3), to enhance controls over equipment purchased with grant funds so that field office inventories are reconciled to accounting records.

⁹OMB Circular A-110, pt. 215.34(f)(3).

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A/LM/AQM Response: A/LM/AQM concurred with the recommendation, stating that it would “follow-up with IRI to assure full compliance with [Circular] A-110.”

OIG Analysis: Based on the response, OIG considers the recommendation resolved, pending further action. The recommendation can be closed pending OIG’s review and acceptance of documentation showing that IRI has reinforced control procedures for equipment purchased with grant funds so that field office inventories are reconciled to accounting records.

List of Recommendations

Recommendation 1. We recommend that the Grant Officer, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, direct the International Republican Institute (IRI) to reallocate security costs claimed by IRI among the eight grants awarded for Iraqi Democracy-Building Programs (Nos. S-LMAQM-04-GR-133, S-LMAQM-06-GR-097, S-LMAQM-07-GR-209, S-LMAQM-08-GR-549, S-LMAQM-08-GR-601, S-LMAQM-09-GR-560, S-LMAQM-10-GR-504, and S-LMAQM-10-GR-535) and apply overhead costs as applicable.

Recommendation 2. We recommend that the Grant Officer, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, require the International Republican Institute (IRI) to adjust its overhead bases to include only the first \$25,000 of each security contract awarded between 2004 and 2010 and question as ineligible the \$260,648 in excess overhead costs related to the eight grants awarded for Iraqi Democracy-Building Programs Nos. S-LMAQM-04-GR-133, S-LMAQM-06-GR-097, S-LMAQM-07-GR-209, S-LMAQM-08-GR-549, S-LMAQM-08-GR-601, S-LMAQM-09-GR-560, S-LMAQM-10-GR-504, and S-LMAQM-10-GR-535.

Recommendation 3. We recommend that the Grant Officer, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, direct the International Republican Institute to comply with Office of Management and Budget Circular A-110 to provide for full and open competition and maintain procurement records and files that include, at a minimum, the basis of contractor selection, justification for lack of competition, and the basis for award cost or price.

Recommendation 4. We recommend that the Grant Officer, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, direct the International Republican Institute to adopt an internal control policy whereby the Grant Officer must approve acquisitions of capital equipment required for the execution of contracts in advance of the equipment's purchase.

Recommendation 5. We recommend that the Grant Officer, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, question the \$26,600 cost for gym equipment in Grant S-LMAQM-07-209 that was never delivered.

Recommendation 6. We recommend that the Grant Officer, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, request that the International Republican Institute comply with Office of Management and Budget Circular A-110, 2 C.F.R. § 215.34(f)(3), to enhance controls over equipment purchased with grant funds so that field office inventories are reconciled to accounting records.

Scope and Methodology

Clarke Leiper, PLLC (referred to as “we” in this appendix), performed procedures enumerated, which were agreed to by the Office of Inspector General (OIG), solely to assist in evaluating the International Republican Institute’s (IRI) cost charges and allocation of costs related to eight democracy-building grants in Iraq awarded by the Department of State (Department) during FYs 2004–2010. The procedures we performed are as follows:

- We reviewed Special Inspector General for Iraq Reconstruction (SIGIR) reports to identify specific concerns apart from the normal audit focus.
- We obtained copies of the grant instruments and identified provisions relevant to the audit.
- We reviewed IRI’s Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, audit reports to discern any reported material weaknesses, significant deficiencies, and/or reportable instances of noncompliance.
- We reviewed reconciliations between the amounts presented on the Schedule of Federal Awards accompanying each of IRI’s audited financial statements to the amounts reported to the Department on OMB Standard Form (SF)-269, Financial Status Report, for each of IRI’s grant awards for each year.
- We obtained an understanding of the internal control processes related to each of the significant types of costs incurred under Department grants.
- We assessed whether IRI’s systems and procedures complied with the major requirements of OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, and Circular A-122, *Cost Principles for Non-Profit Organizations*.
- We determined what costs were allocated to individual grant programs, the bases of allocation, and whether the allocation of those costs was in compliance with the provisions of OMB Circular A-122.
- We assessed, by tests of transactions, whether claimed costs
 - were supported by related documents;
 - had obtained required approvals;
 - were reasonable for the performance of the award;
 - conformed to any limitations or exclusions, including those set forth in the terms and conditions of the grants and the principles set forth in OMB Circular A-122;
 - were consistent with applicable IRI policies and procedures;
 - were accorded consistent treatment;
 - were determined in accordance with generally accepted accounting principles; and
 - were not used to meet cost sharing or matching requirements of any other federally funded program.

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The results of applying these procedures are set forth in the accompanying appendices and schedules (see Appendices B and C and tables contained in the report). The procedures described do not constitute an audit conducted in accordance with generally accepted auditing standards or *Government Auditing Standards*. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported. We conducted the procedures specified between November 2011 and March 2012. The majority of our fieldwork was performed at IRI. To obtain additional information to support elements of our review, we also contacted SIGIR's Office of Audits and the U.S. Agency for International Development's Office of Acquisition, Special Costs, and Contract Close-out Branch. At the conclusion of our work, we briefed IRI officials, the Grant Officer for IRI grants, and a program official from the Bureau of Democracy, Human Rights and Labor on findings and tentative recommendations.

Work Related to Internal Controls

To assess the adequacy of internal controls related to IRI's costs charged to the grants under review, we performed the following actions:

- Obtained an understanding of IRI's processes and procedures related to
 - general transaction processing and approval,
 - recording costs against Federal awards, and
 - compliance with Federal regulations on financial reporting of grant expenditures.
- Reviewed IRI policy manuals and other appropriate supporting documents to assess the adequacy of stated controls.
- Reviewed independent auditors' working papers related to the financial statement audits for FYs 2004–2010 and noted any findings related to internal controls or noncompliance with Federal regulations.
- Assessed, by tests of activity, whether the following procedures were adequate to ensure compliance with the provisions of OMB Circular A-122:
 - Financial management
 - Property
 - Procurement
 - Reports and records

Based on these procedures, we found the following:

- IRI's OMB Circular A-133 audit reports did not report any relevant material weaknesses, significant deficiencies, and/or instances of noncompliance.
- For each of the grant awards under review, the amounts presented on the Schedule of Expenditures of Federal Awards accompanying each of IRI's audited financial statements FYs 2004– 2010 were reconciled to information on the SFs-269 reported to the Department.
- The amounts presented on the Schedule of Expenditures of Federal Awards and the SFs-269 were considered to be appropriate; however, based on our work and recommended actions in this report, they will need to be adjusted.

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- IRI could not provide adequate procurement-related documentation related to the award of two security contractors.
- Prior to January 2010, IRI did not consistently allocate security costs between benefiting grants.
- The acquisition, control, and reconciliation over controls related to equipment needed to be strengthened.

Data Reliability

For each grant reviewed, we obtained general ledger transaction details and performed the following actions:

- Selected stratified samples based on major cost categories.
- Reviewed appropriate supporting documentation related to sample items to verify that the direct costs charged to the grants were accurate and appropriately approved.
- Assessed whether those costs were allowable and proper for the purpose of the grant.
- Determined that the costs were recorded within the appropriate accounts.
- Verified that the indirect cost pools and allocation bases were reasonable.
- Verified that the indirect cost rates were applied to appropriate bases.
- Reconciled total cost data to the Schedule of Expenditures of Federal Awards and Quarterly Financial Status Reports.
- Reviewed monthly security invoices for FYs 2004–2010 and traced them to the IRI general ledger.
- Reviewed the allocations of security invoices to the benefiting grants and determined whether the method for allocation was reasonable, consistent, and measureable.

Use of Computer-Processed Data

We used computer-processed data from IRI's accounting system to select sample items for testing costs charged against the eight awards being reviewed. IRI utilizes Deltek for processing, recording, and aggregating costs against Federal awards. We determined that the IRI data and schedules were reliable based on our selected samples and our testing of internal controls involving financial reporting requirements under OMB Circular A-110.

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Appendix B

Schedule of Total Claimed and Recommended Costs, by Grant

	Grant 133	Grant 097	Grant 209	Grant 549	Grant 601	Grant 560	Grant 504	Grant 535*	Total 2004-2010
Total Direct Cost (less Security)	1,690,234	11,374,209	21,187,182	1,534,330	8,336,794	985,081	2,550,411	1,814,220	49,472,461
Security Costs Claimed	159,061	23,463,380	24,754,690	-	9,167,788	1,442,970	1,911,935	3,385,996	64,285,818
Security Costs Recommended	2,496,445	22,016,147	23,657,640	1,755,877	9,459,836	933,560	2,317,660	1,648,654	64,285,818
Overhead Allocation Base, Claimed	1,751,437	12,039,922	19,640,931	1,503,708	7,872,607	927,207	1,850,824	2,014,447	47,601,082
Overhead Allocation Base, Recommended	1,787,108	11,583,114	19,061,127	1,510,604	7,642,601	869,321	1,768,654	1,851,182	46,073,710
Indirect									
Claimed	361,500	2,722,227	3,948,167	240,760	1,455,971	194,024	434,404	459,947	9,816,999
Recommended	367,947	2,641,841	3,854,124	241,742	1,419,844	183,013	418,833	429,008	9,556,351
Total Claimed	2,210,795	37,559,815	49,890,039	1,775,090	18,960,553	2,622,074	4,896,749	5,660,162	123,575,278
Total Recommended	4,554,626	36,032,197	48,698,946	3,531,948	19,216,474	2,101,654	5,286,904	3,891,882	123,314,630
Approved Budget	2,200,000	37,700,000	50,000,000	1,800,000	19,000,000	3,000,000	5,000,000	12,000,000	130,700,000
Under (Over) Budget	(2,354,626)	1,667,803	1,301,054	(1,731,948)	(216,474)	898,346	(286,904)	8,108,118*	7,385,370

* - Grant 535 continued operations after FY 2010.

Source: Analysis of IRI data.

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Appendix C

Allocation of Security Costs Subject to Overhead

Claimed and Recommended

	Ardan Energy Services	Blackwater Security	Diligence Middle East	Global Strategies	Greystone Limited	Pilgrim Group Limited	Misc Security	Total
Total Security Costs, Claimed	9,354,744	44,280,019	155,538	50,312	4,969,335	5,403,434	72,436	64,285,818
Overhead Allocation Base, Claimed	334,250	873,160	14,800	50,312	100,000	334,750	42,536	1,749,808
Overhead Allocation Base, Recommended	25,000	25,000	25,000	25,000	25,000	25,000	72,436	222,436
Indirect Overhead								
Claimed	60,970	143,811	2,457	9,100	12,957	61,065	7,818	298,179
Recommended	3,553	4,670	4,150	4,610	3,553	3,553	13,444	37,531
Total Claimed	9,415,714	44,423,830	157,995	59,412	4,982,292	5,464,500	80,254	64,583,997
Total Recommended	9,358,296	44,284,689	159,688	54,922	4,972,887	5,406,987	85,880	64,323,349
Difference	(57,418)	(139,141)	1,693	(4,490)	(9,405)	(57,513)	5,626	(260,648)

Source: Analysis of IRI data.



United States Department of State
Washington, D.C. 20520

June 7, 2012

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MEMORANDUM

TO: OIG/AUD – Richard Astor

FROM: A/LM – Catherine I. Ebert-Gray 

SUBJECT: Draft Report on Review of Costs Charged to Iraqi Democracy-Building Grants Awarded to the International Republican Institute, During FYs 2004-2010, May 2012

Below is the Bureau of Administration's response to the subject audit and the point of contact for these responses is Donald Hunter, Branch Chief in the International Programs Division, Grants Branch, who can be reached at 703-875-4655.

Recommendation 1: We recommend that the Grants Officer, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, direct the International Republican Institute (IRI) to reallocate security costs claimed by IRI among the eight grants awarded for Iraqi Democracy-Building Programs (Nos. S-LMAQM-04-GR-133, S-LMAQM-06-GR-097, S-LMAQM-07-GR-209, S-LMAQM-08-GR-549, S-LMAQM-08-GR-601, S-LMAQM-09-GR-560, S-LMAQM-10-GR-504, and S-LMAQM-10-GR-535) and apply overhead costs as applicable.

A/LM/AQM Response (5/31/2012): The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (A/LM/AQM) concurs. AQM will follow-up with IRI to assure security costs are applied correctly.

Recommendation 2: We recommend that the Grants Officer, Bureau of Administration, Office of Logistics Management, Office of Acquisitions

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Management, require the International Republican Institute (IRI) to adjust its overhead bases to include only the first \$25,000 of each security contract awarded between 2004 and 2010 and question as ineligible the \$260,648 in excess overhead costs related to the eight grants awarded for Iraqi Democracy-Building Programs: Nos. S-LMAQM-04-GR-133, S-LMAQM-06-GR-097, S-LMAQM-07-GR-209, S-LMAQM-08-GR-549, S-LMAQM-08-GR-601, S-LMAQM-09-GR-560, S-LMAQM-10-GR-504, and S-LMAQM-10-GR-535.

A/LM/AQM Response (5/31/12): The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (A/LM/AQM) concurs. AQM will request IRI to reimburse the Department for \$260,648 in excess overhead costs.

Recommendation 3: We recommend that the Grants Officer, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, direct the International Republican Institute (IRI) to comply with Office of Management and Budget Circular A-110 to provide for full and open competition and maintain procurement records and files that include, at a minimum, the basis of contractor selection, justification for lack of competition, and the basis for award cost or price.

A/LM/AQM Response (5/31/12): The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (A/LM/AQM) concurs. AQM will follow-up with IRI to assure full compliance with A-110.

Recommendation 4: We recommend that the Grants Officer, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, direct the International Republican Institute to adopt an internal control policy whereby the Grants Officer must approve acquisitions of capital equipment required for the execution of contracts in advance of the equipment's purchase.

A/LM/AQM Response (5/31/12): The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (A/LM/AQM) concurs. AQM will request IRI establish internal control policy to have the Grants Officer approve in advance acquisitions of capital equipment.

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Recommendation 5: We recommend that the Grants Officer, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, question the \$26,600 cost for gym equipment in Grant S-LMAQM-07-209 that was never delivered.

A/LM/AQM Response (5/31/12): The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (A/LM/AQM) concurs. AQM will request IRI to reimburse the Department for \$26,600 for gym equipment that was never provided.

Recommendation 6: We recommend that the Grants Officer, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, request that the International Republican Institute comply with Office of Management and Budget Circular A-110, 2 C.F.R. § 215.34(f)(3), to enhance controls over equipment purchased with grant funds so that field office inventories are reconciled to accounting records.

A/LM/AQM Response (5/31/12): The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (A/LM/AQM) concurs. AQM will follow-up with IRI to assure full compliance with A-110.

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