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Response to SIGIR Report on IRI's Iraq Work

Washington, DC – The Special Inspector General for Iraq Reconstruction's (SIGIR) recent report, ["Improved Oversight Needed for State Department Grants to the International Republican Institute,"](#) identifies certain deficiencies in how the U.S. Department of State administers International Republican Institute (IRI) grant programs and offers constructive observations regarding IRI's administrative procedures under a grant awarded by the U.S. State Department's Bureau of Democracy, Human Rights and Labor (DRL).

IRI takes the report seriously and has examined its findings. IRI has by all accounts done much to advance Iraq's democracy; however, IRI finds merit with the SIGIR report's finding that interim benchmarks that led to these accomplishments were not uniformly reported on a quarterly basis. While it is always appropriate to question or evaluate costs, including those associated with security, in the case of security services in Iraq it should also be recognized that the U.S. government has not set standards in this area and, most importantly, that no IRI personnel have been killed in the seven years the Institute has operated in Iraq.

IRI takes strong exception to the report's three findings regarding accounting practices. SIGIR may differ with IRI's interpretations of federal regulations, but in these instances the deliberate, transparent and high standards set by 25 years of IRI's accounting practices were maintained and communicated to the U.S. State Department. As a consequence of these practices, IRI increased the amount of funds directly available for programs by nearly \$2 million over the life of the grant.

In this response IRI will address the SIGIR report's critiques on: 1) what IRI is accomplishing in Iraq, 2) how IRI chose to keep its staff safe while carrying out their work, and 3) how IRI complied with federal regulations in its accounting practices, receiving appropriate approval as required.

IRI Accomplishments in Iraq

IRI Documents its Success in Meeting Grant Objectives

IRI has carried out work in Iraq since 2003 under multiple grants, including the one reviewed in the SIGIR report. This activity has a cumulative impact and, as with democracy promotion work in other countries, the accomplishments – as opposed to activities – do not always occur

according to a quarterly reporting schedule. Many of the accomplishments IRI can identify today are a result of efforts that began as early as 2003.

The report attempts to judge the impact of IRI's work even though the grant reviewed has not yet ended and a final report has not been written. And in the summarization of this report, featured in its July 30, 2010, Quarterly Report to Congress, SIGIR states, "inadequate DoS [Department of State] oversight and weak IRI compliance with federal and DoS grant requirements combined to leave the U.S. government with little insight as to what was actually achieved save for the holding of 271 training classes for about 5,000 Iraqis."¹

IRI takes strong exception to this statement, which is contradicted in the report itself by the Department of State.² The report in part relies on an internal unofficial IRI database created by IRI to evaluate the work of individual *trainers*. SIGIR staff were shown this database but apparently mistakenly believed it to be an inventory of *trainings*, which they then used to identify supposed discrepancies in IRI's work under this grant.³ SIGIR was informed by IRI and DRL staff that official records of IRI's work in Iraq consist of the quarterly reports sent to its funder and the evaluation made in the final report.

IRI's work has been widely praised by Iraqi and U.S. officials. In the last two years alone, IRI measurably increased voter participation over the course of multiple elections, quantified the impact training has had on the success of election campaigns, enhanced the political participation of women, improved the national parliament's ability to function as an independent institution, and helped civil society groups successfully advocate for the amending of the election law in the Kurdistan region. Significantly, many of these initiatives began long before the implementation of the one grant audited by SIGIR, highlighting the long-term view required for democracy building work.

Between 2008 and March 2010 IRI has supported three different elections in Iraq with voter education and candidate training, and has been able to measure its impact on each. For example, in the lead-up to the March 2010 parliamentary elections, IRI distributed 4.2 million mock ballots nationwide and aired 4.5 hours of prime time educational television productions per night. In the eight provinces receiving the greatest proportion of IRI materials, voter turnout was five percent higher than the national average; overall, two million more Iraqis voted in March 2010 than in January 2009. A survey, conducted by an independent U.S. firm hired by IRI to evaluate its work, showed that 87 percent of Iraqis nationwide had seen IRI television ads, and those who had were more likely to vote based on issues and platforms than those who had not.

For the same March 2010 elections, IRI trained one in three individuals competing for office, and the candidates trained were twice as likely to win as the national average. In a post-election survey of IRI participants, a strong correlation between applying IRI lessons and electoral success was established: IRI-trained candidates who won seats were more likely to conduct door-to-door canvassing and were three times as likely to have a formal computerized database of voters than their peers who lost, techniques that were covered in IRI seminars. In the same survey, it was learned that women trained by IRI were 14 percent more likely to campaign door-

¹ SIGIR Quarterly Report and Semiannual Report to the United States Congress, July 30, 2010, introductory message from the SIGIR, Stuart W. Bowen, Jr.

² SIGIR report "*Improved Oversight Needed for State Department Grants to the International Republican Institute*," p. 14 and 17 (hereinafter SIGIR report).

³ SIGIR report, p. 15-16

to-door than their male counterparts, and 13 percent more likely to record the contact information of their supporters in a database.

The year before, in cooperation with its long-term Iraqi partner the Women's Leadership Institute, IRI trained 40 percent of all women winning seats in the provincial council elections of January 2009.

IRI has been conducting scientific opinion polls in Iraq since early 2004, many of which were featured in *The New York Times*, *The Washington Post*, *The Wall Street Journal*, *Financial Times*, *USA Today* and *Time*. In a December 2009 poll, IRI found that 65 percent of respondents from the troubled Ninewa province supported a compromise between the feuding Arab al Hadba and Kurdish Brotherhood political parties. One month later, IRI shared these findings with both sides in one of the first times the two estranged parties had met face to face. In multiple meetings since, both sides have come closer to accommodation and have expressed an appreciation for IRI's role. In early 2010 the leader of the Kurdish Brotherhood Party said, "IRI is reaching out to both parties in the conflict in Mosul. The Prime Minister has failed in this, the [U.S.] Embassy has failed in this, and we are hoping that IRI will have success in helping us reach an agreement."

A critical U.S. goal in Iraq's reconstruction is strengthening the country's governing institutions. In 2004, IRI first established the Research Directorate within the national Council of Representatives, which is analogous to the U.S. Congressional Research Service in providing research support for members of the Iraqi parliament in order to increase government effectiveness. For more than six years and multiple grants, IRI has steadily supported this organization's development; since the beginning of 2008, requests made by members of parliament to the Research Directorate have more than doubled.

As early as 2005, IRI began assisting youth groups to advocate for greater inclusion in democratic processes by lowering the age required to run for office. Over the next four years, and under multiple grants, IRI steadily increased its involvement with youth, one of the largest demographics in Iraq and the one most in danger of turning to the insurgency. Under the grant which was audited by SIGIR, the IRI youth project officially became known as "Campaign 25" in late 2007. After a year of advocacy work, the IRI-supported Kurdistan Youth Center succeeded in convincing the Kurdistan Regional Government to adopt its recommendations into the new election law. The age of candidacy was lowered to 25, and today four percent of the Kurdistan National Assembly is under the age of 30.

The SIGIR report states that IRI did not uniformly report on a quarterly basis all of the interim benchmarks that led to program accomplishments. Over the past three years, IRI has gone to great lengths to enhance its monitoring and evaluation practices across the board. U.S. government officials have acknowledged IRI's more comprehensive reporting since 2009.

The pre-March 2010 achievements noted above were, as required, reported to IRI's funder. The post-March 2010 achievements will be reported in IRI's next quarterly report. According to established reporting mechanisms, *overall* impact evaluation is reserved for grant final reports.

For a more thorough list of IRI accomplishments, see attachment A, [*"Impact of IRI's Democracy Promotion Programs in Iraq."*](#)

IRI's Security in Iraq

Selection and Costs of Security were Reasonable and Substantiated

The SIGIR report questions the reasonableness of IRI's decision to sole-source the services of Blackwater as its security provider in 2004,⁴ defining a reasonable cost as that "which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made."⁵ This is precisely what IRI did. It may be fair to question IRI's security costs, but the U.S. government has not set a "reasonable" cost for security in Iraq as a percentage of a grant (IRI spent between 48 and 52 percent of its operating budget on security; [the U.S. Embassy in Baghdad expects to spend 55 percent of its operating budget on security in fiscal year 2010](#)⁶). IRI believes that its prudent and reasonable approach on security is reflected in the fact that U.S. nongovernmental organizations that paid less for security suffered casualties and deaths, while IRI has not lost a single employee to violence in Iraq.

Documentation of Sole-Source Security Contract

The SIGIR report contends that IRI lacked "adequate procurement documentation which prevents us [SIGIR] from determining the reasonableness of the security costs."⁷ SIGIR quotes federal regulations as requiring "...at a minimum, the basis for selecting the contractor, justification for any lack of competition when competitive bids or offers are not obtained, and the basis for award cost or price."⁸ IRI's procurement of these services was reasonable and prudent, given IRI's desire to adequately protect its staff, and was furthermore carefully researched and well documented.

IRI provided SIGIR with two bids obtained from alternative security providers, Diligence LLC and Rubicon, earlier in 2004, and a spreadsheet cost comparison. As the security situation deteriorated, IRI held discussions with other private security companies, including Custer-Battles, Control Risk Group and Blackwater. By September 2004 IRI was deeply familiar with the private security industry operating in Iraq and the comparative costs.

Between March 2004, when IRI contracted Diligence LLC, and November 2004, when IRI signed its agreement with Blackwater, attacks against coalition forces and their Iraqi partners more than tripled. In April 2004, Nicholas Berg tragically became the first American to be kidnapped and beheaded on videotape in Iraq, in what would become a frighteningly regular occurrence throughout the year. On September 23, 2004, an employee of IRI's then-security provider Diligence was kidnapped along with two guards working on a separate contract.

By summer of 2004 the Department of State opened its Hostage Working Group in Iraq, the same month the Government Accounting Office reported to Congress that "the United Nations, numerous nongovernmental organizations, and a range of civilian contractors have reduced their presence or completely shut down operations." Upon his departure from the Hostage Working Group, a senior member stated in [Newsweek](#), "Anyone who doesn't think there's an X on his

⁴ SIGIR report, p. 7-9

⁵ SIGIR report, p. 3

⁶ "Is greater spending for diplomats' security at odds with State Department's mission," *The Washington Post*, December 15, 2009, available at <http://www.washingtonpost.com/wp-dyn/content/article/2009/12/14/AR2009121403457.html>.

⁷ SIGIR report, p. 7

⁸ SIGIR report, p. 7

chest when he comes here is just out of touch with reality—or deeply in denial. If you don't have the wherewithal within your organization to protect yourself, you shouldn't be here.”⁹

According to a [Congressional Research Service report](#), in 2004 the Department of State's Diplomatic Security signed Blackwater to a “sole-source contract” to “provide security services for the new Baghdad embassy and its staff. The State Department said it chose Blackwater because the company was already in-country, having operated there under a previous DOD [Department of Defense] contract to provide security for the Coalition Provisional Authority (CPA).”¹⁰

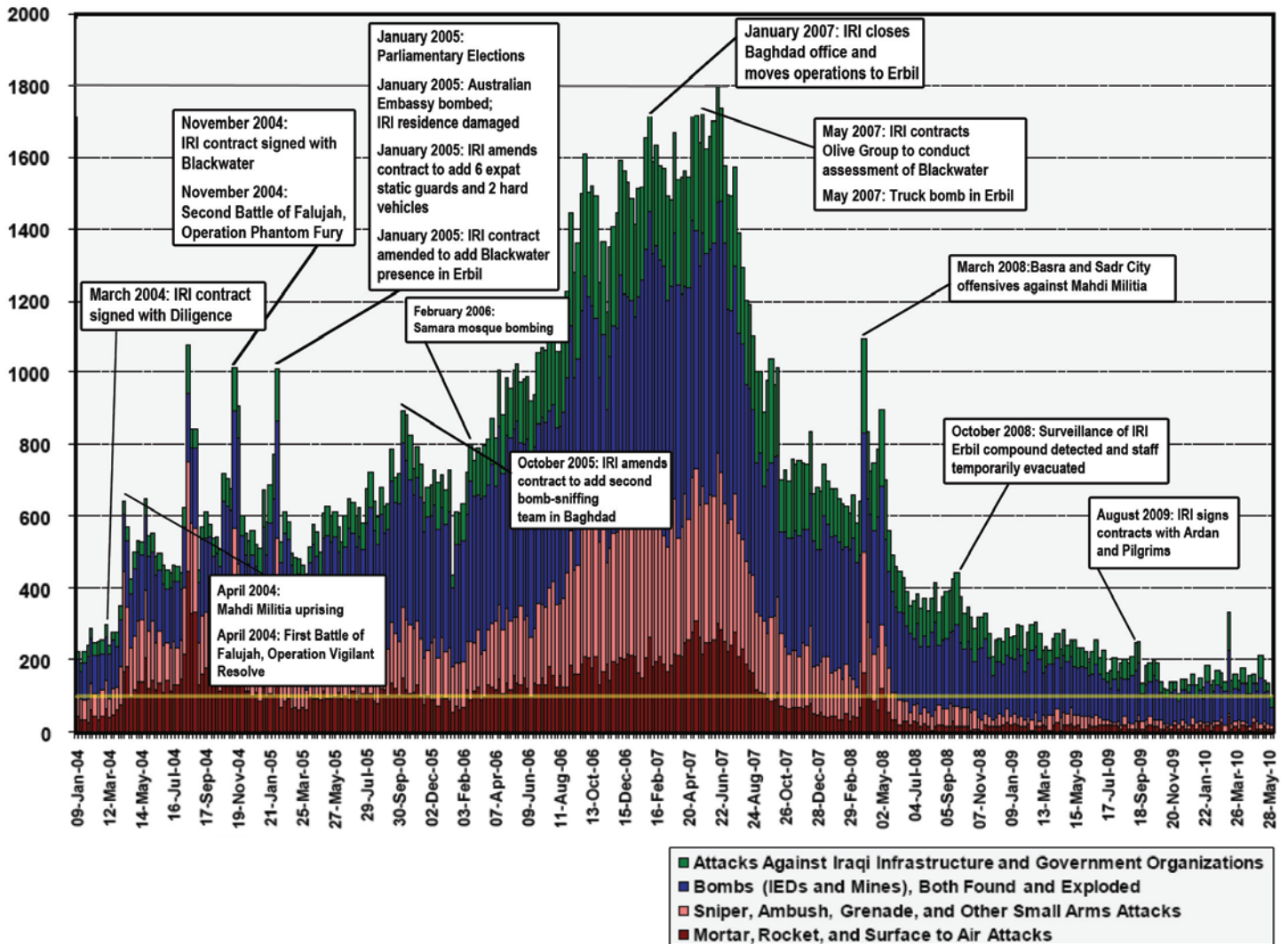
Given the spiraling violence, IRI made the determination that its current security provider, Diligence, was unable to adapt quickly enough. It became clear, after experience with Diligence, and hours of conversation with Control Risk Group, Diligence, Rubicon, Custer-Battles and Blackwater, that the only choice for IRI was to contract the same provider that was sole-sourced by the U.S. Department of State. A bid was received from Blackwater and a sole-source memo ([see attachment B](#)) was drafted to justify the selection. That memo listed both the justification for Blackwater as the only provider currently operating in Iraq capable of providing the level of security required by IRI, and a cost analysis conducted before this decision was made.

SIGIR was provided the above documentation, including the cost comparison and justification.

⁹ “Bartering Human Lives,” *Newsweek*, April 4, 2006, available at <http://www.newsweek.com/2006/04/03/bartering-human-lives.html>.

¹⁰ “*Private Security Contractors in Iraq: Background, Legal Status, and Other Issues*,” Congressional Research Service Report for Congress, August 25, 2008, p. 7, available at <http://www.fas.org/sgp/crs/natsec/RL32419.pdf>.

ENEMY-INITIATED ATTACKS AGAINST THE COALITION AND ITS PARTNERS, BY WEEK



Measuring Stability and Security in Iraq, U.S. Department of Defense Quarterly Report to Congress (notations on IRI decisions and events added by IRI)

Reevaluation of Need and Level of Security

The SIGIR report contends that IRI never conducted “...any reevaluation of the need and appropriate level of security services for the grant.”¹¹ As the graph above shows, the need for security in Iraq was self-evident. IRI records indicate a constant reevaluation of the appropriate level of that security: Between 2004 and 2009 IRI signed 10 amendments to the original contract with Blackwater, modifying the security services provided. Further reflecting IRI’s constant reevaluation of the security situation, in December 2005 IRI signed a separate contract with Global Strategies Group, LLC, to provide security for IRI operations in Basra. In 2007, to ensure adequate security was being provided IRI personnel amid continuing violence, IRI contracted another security firm, Olive Group, to conduct an independent evaluation of Blackwater’s security services. Its report stated:

¹¹ SIGIR report, p. 8

“IRI management has requested a peer review of their Current Security Provider (CSP); [sic] Blackwater Security Consulting, Moyock, North Carolina, USA, along with an evaluation of their contractual obligations. To that end Olive Group embarked upon the peer review with the aim of providing a wholly impartial review set against pre determined criteria as agreed with IRI before commencement of the task. These included assessments of the CSP against the Scope of Work, benchmarking performance against the Private Security Association of Iraq (PSCAI) Voluntary Standards, and the International Peace Operations Association (IPOA) standards. Additionally for Northern Iraq, the Kurdistan Regional Government guidelines for PSC’s [private security company] were referred to.”

“The Blackwater teams reviewed by Olive Group were on the whole professional in their operations and courteous throughout the review. Given the scope of work, it is felt Blackwater is matching the service delivery requirements made by their contract with IRI.”

SIGIR was provided copies of these documents.

Reasonable Costs

The SIGIR report states that “the cost of a non-competitively awarded security services contract may have been too high...”¹² and that “...the follow-on competitive contract for the same level and type of [security] services was significantly less costly.”¹³ However, the SIGIR report does not mention that the same services provided by a *single* firm, Blackwater, were only able to be replaced in 2009 by *two* separate security providers, one for Erbil in the north and one for Baghdad. Combined, the costs of these *two* providers are therefore comparable to that charged by Blackwater from 2004-2009.

To support its assertion, the SIGIR report provides an incomplete cost comparison between Blackwater and IRI’s subsequent security providers, Ardan and Pilgrims.¹⁴ The daily rates for Ardan local guards quoted by SIGIR are reflected in an early contract with Ardan that did not include ancillary costs, such as ammunition or accommodation, unlike comparable, comprehensive Blackwater daily rates. The more recent Ardan contract including these costs in an all-inclusive, and higher, daily rate was provided to SIGIR, but the later inclusive rate was not included in the SIGIR report’s calculations.

Other nongovernmental organizations working in Iraq selected cheaper firms or none at all, and some of their employees paid the price. IRI does not calculate the dollar value of an employee’s life and stands by its reasonable, prudent and well documented selection of security providers.

IRI Follows Federal Regulations in its Accounting Practices

IRI Allocation of Security Costs among State Department Grants is Reasonable and Substantiated

The SIGIR report states that IRI “did not allocate security costs for services that are shared among its grants in a manner that assures the costs are distributed in reasonable proportion to the benefits received from each grant.”¹⁵

¹² SIGIR report, p. 7

¹³ SIGIR report, p. 8

¹⁴ SIGIR report, p. 8-9

¹⁵ SIGIR report, p. 9

In meetings with SIGIR staff, IRI noted its differences of interpretation of federal regulations. IRI allocates its security costs in compliance with Office of Management and Budget (OMB) Circular A-122, Appendix A, A.4.a.3 and OMB Circular A-21 C.4.d.(3).

OMB Circular A-122, Appendix A, A.4.a.3 states:

“A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it: . . . (3) Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.”

OMB Circular A-21 C.4.d.(3) states:

“If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost should be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding subsection b, the costs may be allocated or transferred to benefited projects on any reasonable basis, consistent with subsections d.(1)¹⁶ and (2)¹⁷.”

Security is absolutely essential to IRI’s operations in Iraq. When the proportional benefit to each project cannot be specifically identified due to the interrelationship of the work involved, the above referenced A-21 interrelationship rule is applied to determine such benefit to each project.

Due to the nature of the program, some program costs are only reconciled months after they are incurred. Therefore, IRI applies an allocation methodology that requires periodic adjustments of security cost allocations across grants to better reflect each grant’s share of the work.

IRI seeks to allocate security costs across concurrently running grants according to the work conducted under each grant. These allocations are reviewed monthly, with allocations resulting from delayed security invoices or program costs periodically adjusted. Ultimately, this consistent review and reallocation results in a nearly uniform percentage (48 to 52 percent) of each grant applied to security by grant closeout.

Indirect Costs Were Not Overcharged

The SIGIR report further states IRI “appears to have charged more overhead costs for security contract administration than allowed in its grant 209 agreement,”¹⁸ and as a result, contends that this “is important as it reduces the amount of funds available for direct program costs.”¹⁹

IRI consistently used an appropriate accounting allocation methodology. IRI coordinated with the U.S. Agency for International Development (USAID) to develop a methodology that *excluded* the cost of all security bills more than \$25,000. This allocation method was included in IRI’s budget and budget notes and approved by the Department of State’s Bureau of Acquisitions Management (AQM) grants officer (GO). As a result of this modified allocation methodology, IRI thereby increased the amount of funds directly available for programs by \$1,900,352.

¹⁶ OMB Circular A-21 C.4.d.(1) “Cost principles. The recipient institution is responsible for ensuring that costs charged to a sponsored agreement are allowable, allocable, and reasonable under these cost principles.”

¹⁷ OMB Circular A-21 C.4.d.(2) “Internal controls. The institution’s financial management system shall ensure that no one person has complete control over all aspects of a financial transaction.”

¹⁸ SIGIR report, p. 10

¹⁹ SIGIR report, p. 10

The SIGIR report further states, “According to a signed agreement between the grantee and the U.S. Agency for International Development (USAID), the grantee is allowed to recover indirect costs associated with the administration of any contracts it awards under grants. ...Specifically, IRI must apply the negotiated indirect cost rate to only the first \$25,000 of a contract’s value in any given year.”²⁰

IRI’s allocation methodology was included in IRI’s budget and budget notes, which stated, “Equipment over \$5,000 and security bills over \$25,000 will be excluded from the base” and this language was approved by the AQM GO.

It appears that the basis of the report’s conclusion on overhead costs stems from an interpretation that IRI’s security provider was a “sub-recipient” under OMB guidelines. This phrasing was used by SIGIR auditors in their meetings regarding this issue with IRI staff.

Specifically, OMB Circular A-133, Subpart B, .210.b outlines the characteristics of a *sub-recipient* as follows:

- (1) Determines who is eligible to receive what federal financial assistance;
- (2) Has its performance measured against whether the objectives of the federal program are met;
- (3) Has responsibility for programmatic decision making;
- (4) Has responsibility for adherence to applicable federal program compliance requirements; and
- (5) Uses the federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity.

IRI’s security providers do not determine who is eligible to receive federal financial assistance; have their performance measured against whether the objectives of the federal program are met; have responsibility for programmatic decision making; have responsibility for adherence to applicable federal program compliance requirements; or use federal funds to carry out a program of the organization as compared to providing goods or services. IRI’s security providers met none of the above characteristics of a *sub-recipient*; therefore IRI does not treat its security providers as a *sub-recipient* but as a *vendor* under OMB guidelines.

OMB Circular A-133, Subpart B, .210.c outlines the characteristics of a *vendor* as:

- (1) Provides the goods and services within normal business operations;
- (2) Provides similar goods or services to many different purchasers;
- (3) Operates in a competitive environment;
- (4) Provides goods or services that are ancillary to the operation of the federal program; and
- (5) Is not subject to compliance requirements of the federal program.

IRI’s security providers meet all of the criteria of a *vendor*. They provide a service within normal business operations; provide similar goods or services to many different purchasers; operate in a competitive environment; provide goods or services that are ancillary to the operation of the federal program; and are not subject to compliance requirements of the federal program.

²⁰ SIGIR report, p. 10

IRI was reasonable in concluding that the Institute's security providers are *vendors* and therefore IRI's methodology for determining indirect costs for security in this grant was appropriate.

Since Blackwater was a *vendor*, IRI would have been authorized to charge 15.81 percent,²¹ or \$1,947,782 of the full amount of actual security costs (\$12,320,092 in fiscal year 2008) to the program to cover overhead costs. This would have been in compliance with long-standing and approved accounting practices and is considerably more money than the \$34,086.36 SIGIR is claiming IRI overcharged.

IRI's sister organization, the National Democratic Institute, used a similar allocation method and charged \$75,000 quarterly to their overhead base.

Over the past several years IRI's Iraq programs have been audited by multiple U.S. government agencies. These audits looked specifically at IRI's Iraq programs and were not merely annual audits. The SIGIR report does not mention these audits and instead focuses on audits by private Certified Public Accounting firms.²² In all prior audits of IRI's Iraq programs no questions were raised regarding IRI's overhead rates.

Defense Contract Audit Agency, Audit Report NO. 6171-2006J17900007, September 6, 2006
"In our opinion, IRI's claimed costs are acceptable."

"We take no exceptions to the billed fringe benefits and overhead costs."

Department of State, Office of Inspector General (OIG), Report Number AUD/CG-07-03,
December 2006

State OIG "...contracted with Leonard G. Birnbaum and Company to perform agreed upon procedures on indirect cost rates submitted by the International Republican Institute (IRI) for the years ended September 30, 2004 and September 30, 2005. The objective was to provide recommended final rates for those two years for use in reimbursing costs incurred under awards made to IRI by the Department of State (Department). We took no exceptions to the proposed rates."

Defense Contract Audit Agency, Audit Report NO. 6171-2007J17900021, Cooperative Agreement REE-A-00-04-00050-00, Task No. IG-I-07-014-1, September 4, 2007

"We conducted our examination in accordance with generally accepted government auditing standards."

"Specific procedures included: Determining that the costs incurred under the subject agreement from July 9, 2004 through July 31, 2006 are allowable, allocable, and reasonable."

"In our opinion, IRI's claimed costs are Acceptable."

"Summary of Conclusions: We take no exceptions to the application of the fringe and overhead rates."

²¹ IRI's annual negotiated indirect (administrative costs of grants) cost rate, the basis that has set the percentage rate and allocation methodology for indirect costs for 15 years, was 15.81 percent in fiscal year 2008 and 14.21 percent in fiscal year 2009.

²² SIGIR report, p. 12-13

Vehicles Were Not Purchased and Service Agreement Was Approved

The SIGIR report states, IRI “did not follow OMB Circular A–122 requirements that it obtain agency approval before it purchased vehicles, valued at \$689,500, through a capital-lease arrangement with its security contractor.”²³

The SIGIR report goes on to characterize the arrangement by which IRI rented armored vehicles for transportation in Iraq as a “purchase.” IRI does not own any vehicles in Iraq. The vehicles cited in the report were purchased and imported by, are titled to, in the possession of, and operated and maintained by IRI’s security provider. During the period under review, IRI rented these vehicles at an agreed-upon daily rate as part of its accepted security services budget line item. This arrangement was communicated to and approved by the grants officer representative in accordance with the IRI grant agreement.

In the coming fiscal year, this arrangement will save U.S. taxpayers almost three quarters of a million dollars over the longer-term, daily rate such as that preferred by SIGIR. IRI pointed out the savings to SIGIR staff, who responded that the cost to the taxpayer was irrelevant.

Further, the SIGIR report contends that IRI did not get the appropriate approvals from the grants officer: “The grantee did not, however, obtain approval from the GO who is the only official authorized to approve such a purchase.”²⁴ However, the report does not cite a single statute, regulation or other federal guidance in support of its contention that the AQM grants officer is the only person with the authority to give approvals on the actions IRI was taking.

In the case of the grant SIGIR audited, the grant agreement specifically states that **“The GOR [grants officer representative] is responsible for the programmatic, technical, and/or scientific aspects of the award. Recipients should direct any correspondence related to programmatic and budgetary issues to the GOR.”** IRI communicated with the GOR in accordance with the grant agreement and received approval for its action.

Finally, if IRI were required to get the AQM GO’s approval, it would have been nearly impossible to continue the program. As the SIGIR report points out, “Severe staff shortages also inhibited their [AQM GOs] ability to actively engage with the grantee. They noted that in 2007 and 2008, while this grant was active, the number of GOs decreased from five to one. While the number of GOs has since increased, adequate staffing remains a problem with each officer responsible for approximately 250 open grants.”²⁵ The SIGIR report further states that since “GOs have approximately 250 active grants each...they rely on GORs to identify issues.”²⁶

Independent Oversight and Monitoring Mechanisms Found No Questionable Charges or Allocations

The SIGIR report dismisses the work of other auditors stating, “Annual audits of the grantee also provided no insight to the problems that we [SIGIR] identified. Conducted by private Certified Public Accounting firms, OMB Circular A–133 audits are primarily audits of an organization’s financial statements and general compliance with OMB circular requirements. The audit is high

²³ SIGIR report, p. 11

²⁴ SIGIR report, p. 11

²⁵ SIGIR report, p. 12

²⁶ SIGIR report, p. 17

level and organization-wide. In addition, the compliance aspect of the audit is done on a risk basis, selecting only major programs and examining the highest-risk financial transactions within those programs. Unless specifically directed to do so by a funding agency, it is unlikely that an A-133 audit for a large, worldwide entity like IRI would cover a particular program or grant. Therefore, the annual audit reports, by their nature, would not necessarily provide DoS [Department of State] the detail it needs to monitor a particular grant.”²⁷

Independent auditors McGladrey & Pullen LLP refute the report’s characterizations of previous audits of IRI accounts:

“The compliance aspect of the audit is NOT based on risk nor only examining the highest risk financial transactions. For compliance, all transactions have the same probability of being selected for testing. In addition, the compliance audit is designed to test and report on all the applicable compliance requirements required by OMB (there are 14 compliance requirements in total). Our testing and opinion, reports on the applicable requirement of the major programs that covered Iraq under CFDA #19.xxx [Catalog of Federal Domestic Assistance]. Compliance requirements such as cash management, procurement, allowability, period of availability and reporting are tested for the major programs.

“The A-133 does not cover a particular grant in detail but as mentioned above, all major grant expenses and compliance requirements have equal probability of being selected for testing.”

Moreover, other audits by U.S. government agencies have also validated IRI’s accounting procedures:

USAID Inspector General, letter 0-000-08-004-Q, July 8, 2008

“As the Federal cognizant audit agency for International Republican Institute (IRI), we performed a quality control review of the Office of Management and Budget (OMB) Circular A-133 audit performed by McGladrey & Pullen, LLP for the fiscal year ended 2006.”

“In performing our review, we used the 1999 edition of the Uniform Quality Control Review Guide (The Guide) for OMB Circular A-133 Audits, Issued by the President’s Council on Integrity and Efficiency. The Guide focuses on the portions of an OMB Circular A-133 audit that are of most interest to Federal Officials. The Guide is designed to ensure that the scope of the quality control review is sufficient and consistent among Federal cognizant agencies for audit.”

“We have accepted your audit of IRI as generally meeting the requirements of OMB Circular A-133...”

USAID Inspector General, letter 0-000-08-017-T to IRI’s Board of Directors, September 15, 2008

“Based on our review of McGladrey & Pullen’s A-133 report for FY ending September 30, 2006, we have accepted it as meeting the reporting requirements of OMB Circular A-133.”

USAID Inspector General, letter 0-000-10-037-T to IRI’s Board of Directors, July 12, 2010

²⁷ SIGIR report, p. 12-13

“As the cognizant agency, we reviewed the audit report for International Republican Institute for the fiscal year ended September 30, 2007. Based on our review, we have accepted the report as meeting the reporting requirements of OMB Circular A-133.”

USAID Inspector General, letter 0-000-10-038-T to IRI’s Board of Directors, July 12, 2010

“As the cognizant agency, we reviewed the audit report for International Republican Institute for the fiscal year ended September 30, 2008. Based on our review, we have accepted the report as meeting the reporting requirements of OMB Circular A-133.”

In conclusion, IRI acknowledges the inherent responsibilities of administering a federal grant. This includes its fidelity to U.S. laws and regulations, including all applicable OMB circulars and federal grant policy directives; its fiduciary obligations to ensure the proper expenditure, allocation and accounting of funds, including the reasonableness and allowability of costs and through full transparency and cooperation with independent auditors; its commitment to ensure the professionalism and safety of our staff and those with whom we work; and its commitment to effective programs and demonstration of those program’s impact.

The SIGIR report reinforced IRI’s ongoing efforts to enhance monitoring and evaluation reporting. On other issues the SIGIR report findings did not reflect an appreciation of the long-term nature of IRI’s work and the dangerous security environment in which it can take place, including in this case in Iraq. Finally, the SIGIR report is in some instances an incomplete and in others an inaccurate portrayal of IRI’s stringent accounting practices and strict interpretation of regulations, which saved nearly \$2 million for programming over the life of the grant. A more accurate report would have been more helpful in assisting DRL and IRI in efforts to support programming.

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A nonprofit organization dedicated to advancing democracy worldwide