OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/IRAQ'S BROADENING PARTICIPATION THROUGH CIVIL SOCIETY PROJECT

AUDIT REPORT NO. 6-267-14-006-P
FEBRUARY 12, 2014

CAIRO, EGYPT

Office of Inspector General

February 12, 2014

MEMORANDUM

TO: USAID/Iraq Mission Director, Sarah-Ann Lynch

FROM: Acting Regional Inspector General, David Thomanek /s/

SUBJECT: Audit of USAID/Iraq's Broadening Participation through Civil Society Project (Report No. 6-267-14-006-P)

This memorandum transmits our final report on the subject audit. We have considered your comments on the draft report and included them, without attachments, in Appendix II.

The final report contains four recommendations to help USAID/Iraq improve its Broadening Participation through Civil Society Project. In its comments on the draft report, USAID/Iraq agreed with all four recommendations. Based on our evaluation of management comments, we acknowledge that the mission made a management decision on all four and has taken final action on Recommendations 1, 3, and 4. Please coordinate final action for Recommendation 2 with the Office of Audit Performance and Compliance Division.

Thank you for the cooperation and assistance extended to the audit team during this audit.

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Abbreviations

The following abbreviations appear in this report:

ADS	Automated Directives System
AOR	agreement officer's representative
CFR	Code of Federal Regulations
CSO	civil society organization
FY	fiscal year
HHS	U.S. Department of Health and Human Services
ICNL	International Center for Not-for-Profit Law
IRI	International Republican Institute
LOC	letter of credit
NGO	nongovernmental organization
OIG	Office of Inspector General
PAO	Public Aid Organization
PMP	performance management plan
RIG	Regional Inspector General

SUMMARY OF RESULTS

Since 2003, Iraq has made progress transitioning from an authoritarian government to a democratic one in which civil society can operate openly.[1] Consequently, international donors have poured millions of dollars into civil society organizations (CSOs), and their numbers have increased significantly since 2003. Many new CSOs were likely created to take advantage of those funds.[2]

With shifting priorities and a reduced budget, USAID/Iraq's challenge is to make sure the mission solidifies its achievements in civil society before the Agency leaves Iraq. According to a 2012 assessment of the civil society sector, several challenges remain for Iraq's CSOs, including an inadequate understanding of advocacy, weak organizational capacity, and weak financial viability.[3] According to the mission, addressing these challenges is important in developing an active, independent civil society that serves as a check on the government, represents citizens' interests, and brings citizens together to address common concerns.[4]

USAID/Iraq sought to strengthen the civil society sector to help Iraq become a more participatory democracy. To achieve that objective, on September 26, 2012, the mission awarded a 3-year cooperative agreement to Mercy Corps with a total budget of about $75 million to carry out the Broadening Participation through Civil Society Project. These funds included $15 million from the Marla Ruzicka Iraqi War Victims Fund, directed by Congress to help victims of conflict.[5] As of September 30, 2013, USAID/Iraq had obligated $44 million and disbursed $15 million.

Mercy Corps and a consortium of subpartners implemented activities under five components to (1) increase democratic engagement of citizens, (2) enhance CSOs' institutional capacity, (3) improve civil society's impact on public policy through advocacy, (4) improve the environment for CSOs, and (5) help civilian war victims through special projects.

The Regional Inspector General/Cairo (RIG/Cairo) conducted this audit as part of its fiscal year (FY) 2014 audit plan to determine whether USAID/Iraq's Broadening Participation through Civil Society Project has increased the ability of civil society to contribute to Iraq's democratic and community development.

The audit determined that the activities Mercy Corps implemented in its first year generally had positive results. For example:

- In consultation with the U.S. Embassy in Baghdad and USAID/Iraq, Mercy Corps awarded grants to three local nongovernmental organizations (NGOs) to monitor the Kurdistan elections in September 2013. Working with 56 grassroots organizations, these NGOs placed observers at polling stations, monitored the media, and estimated elections results. While election monitoring activities were not within Mercy Corps' core competencies, they helped

[1] "Concept Paper for USAID/Iraq – Civil Society Strengthening Project" (revised January 2012).
[2] "Iraq Civil Society Assessment," QED Group LLC (February 2012).
[3] Ibid., 2.
[4] Ibid., 1.
[5] The fund is named after Marla Ruzicka, a California native who advocated for civilians affected by U.S. military operations in Afghanistan and Iraq. She was killed in a bomb attack near Baghdad in 2005.

these NGOs estimate and announce the projected results before the official results were released. The estimated results were within a reported margin of error of 3.2 percent, thereby increasing the NGOs' profiles.

- The project helped build the organizational capacity for more than 80 local CSOs. Project staff helped the CSOs assess their strengths and weaknesses, develop work plans, and determine their training needs. Overall, CSOs were pleased with the assistance (page 4).

- The project helped civilian victims of conflict start small businesses and address community needs using the Marla Ruzicka funds (page 6).

However, the project as a whole was behind, and numerous activities were changed substantially or canceled. The audit found the following problems posed significant challenges.

- The International Republican Institute's (IRI's) departure from Iraq significantly affected the project's ability to achieve its intended results (page 7). This key subpartner was responsible for implementing numerous activities primarily under Components 1, 3, and 4, and was the technical lead for Component 3. IRI left the country 5 months after the project started without completing any activities.

- USAID/Iraq did not make appropriate changes to its cooperative agreement or performance management plan (PMP) (page 9). Mercy Corps was behind schedule significantly in most components and canceled some activities. Moreover, the mission reduced the project budget from $75 million to $55 million, and it asked Mercy Corps to adjust activities without modifying the cooperative agreement's project description, budget, or PMP accordingly.

- Mercy Corps' internal controls over its grant process and reported data were not operating as designed (page 12). Mercy Corps staff could not provide sufficient documentation for the audit team to validate how and why they made their grant selections. In addition, attendance sheets used to support reported data did not appear genuine.

- In addition to these problems, the audit identified another matter. USAID's financial system did not report spending on a Congressional directive correctly (page 16). As of September 30, 2013, USAID reported $59,640 in disbursements for Marla Ruzicka activities even though Mercy Corps officially had reported spending $2,410,992.

To address these problems, we recommend that USAID/Iraq:

1. Inform Mercy Corps in writing to ask the agreement officer for an allowability determination prior to seeking payment for costs IRI incurred (page 8).

2. Implement a written plan to align the project description, budget, work plan, and PMP to allow Mercy Corps to plan its activities strategically (page 12).

3. Ask Mercy Corps, in writing, to implement a plan to strengthen its internal controls for documenting the technical review process for grants and data reporting by key partners and grantees (page 15).

4. Ask Mercy Corps, in writing, to implement a plan to discuss data integrity and ethics in its compliance and reporting training for new and existing grantees (page 15).

Detailed findings appear in the following section. Appendix I contains information on the scope and methodology. Mission comments, without attachments, are included in Appendix II, and our evaluation of them is on page 18.

AUDIT FINDINGS

Project Contributed to Building Local Civil Society Organizations' Capacity

In developing the project description, USAID/Iraq and Mercy Corps recognized that because of the influx of donor support, the number of CSOs in Iraq has grown to absorb the new funding. However, as new CSOs have emerged, not all have had the prerequisite capacity to form and expand their operations because they bypassed the fundamental organizational development steps needed to sustain their operations. Therefore, this project includes an intermediate result to address this problem—to increase CSOs' institutional capacity. In doing so, Mercy Corps sought "to identify and support CSOs with the greatest potential to contribute to Iraq's development in the medium and long-term, working across the varied size, capacity, and focus of civil society groups."

During Year 1, Mercy Corps and its partners helped set the foundation for organizational development at 87 reported CSOs by assessing their training needs. To evaluate the beneficiaries' response to the implemented training, we conducted an online survey gauging their opinions on different aspects of it. Overall, responses were positive. For example, when asked whether the technical assistance was beneficial for the CSO's long-term survival, 72 percent answered favorably, as shown in Table 1.

Table 1. Results of CSOs' Opinions on Technical Assistance (Audited)

Response	Number of Responses	Percent of Total
Strongly agree	40	46
Agree	23	26
Neutral	10	12
Disagree	3	3
Strongly disagree	0	0
No response	11	13
Total	**87**	**100**

Grantees and CSOs that received technical assistance also were asked to say whether it duplicated assistance they got from other donors; 53 percent said they were receiving this type of assistance for the first time, as shown in Table 2.

Table 2. Results of CSOs' Opinions on Project Technical Assistance Compared to Other Donors (Audited)

Response	Number of Responses	Percent of Total
Yes	33	38
No	46	53
Do not know	1	1
No response	7	8
Total	**87**	**100**

Although the majority of those surveyed and interviewed had positive opinions of the assistance received, some provided specific examples of how it could be improved. These suggestions do not represent the population as a whole, but are worth noting. A list of examples follows.

- **Writing Grant Proposals.** As shown in Table 3, our survey showed that 64 (73 percent) CSOs receive funds from international donors. Therefore, having the knowledge and skills to present project proposals for funding is critical to the sustainability of their operations. Since so many organizations depend on grant funding from international donors like USAID or the United Nations, one CSO suggested that this project spend more time on developing their capacity to write proposals so they can apply for funding from the Iraqi Government or international donors in the future.

Table 3. Results of CSO's Funding From International Donors (Audited)

Response	Number of Responses	Percent of Total
No international funding	12	14
Less than 25 percent	7	8
More than 25 and less than 50 percent	7	8
More than 50 and less than 75 percent	13	15
More than 75 percent but not 100 percent	22	25
100 percent from international donors	15	17
No response	11	13
Total	**87**	**100**

- **Travel to Sulimaniyah.** Many trainings and workshops were held in Sulimaniyah, a city in the northern autonomous region of Kurdistan. Travel to this city can be burdensome for CSOs in Baghdad, Basrah, and Dohuk because it involves a lot of driving and time away from jobs and activities. One CSO employee said that because of security on roads from Basrah to Sulimaniyah, they would prefer to fly instead of drive.

- **Language of Training and Training Material.** Some CSOs in northern Iraq suggested that presenters give training and material in three languages: Arabic, English, and Kurdish. Arabic was the primary language used for most training, and while it is acceptable, some CSO employees consider Kurdish as their primary language. Not accounting for the needs of beneficiaries limits the project's success and sustainability in Kurdistan.

- **Advanced Training Opportunities.** Each CSO participating in the capacity building had varying levels of capacity within their organization. Some considered themselves at an advanced level, while others considered themselves to be operating at a low level. The advanced CSOs wanted more targeted trainings that go beyond the basics. Some of the training sessions during Year 1 were at the lower level and were not as beneficial to these organizations.

- **Access to USAID Grants.** Some CSOs expressed a desire to apply for grants from USAID, similar to opportunities that existed under the Community Action Plan III and Access to

Justice Programs implemented by USAID/Iraq; they provided grants directly to CSOs to carry out programs. Some CSOs said they believed the mission would offer more opportunities for grants if they participated in the capacity-building project.

The reason the project successfully carried out Intermediate Result 2 is a result of the implementation approach that Mercy Corps and its subpartners took. Before offering training, the CSOs said, the project staff performed capacity assessments to identify their strengths and weaknesses. CSOs then developed work plans that included their training needs to address the weaknesses. The project offered a set of standardized trainings to CSOs, like strategic planning and best management practices.

The CSOs said the assessment was beneficial and believed it accurately captured their organizational capacity status. Some also said the various types of training they received were beneficial and that this project was unique because previous USAID programs and international donors never gave this type of attention to each CSO.

Based on the CSOs' positive opinions, it appears the project is heading in the right direction to accomplishing the intermediate result of increasing CSOs' institutional capacity. If this continues for the next 2 years, it is possible that these CSOs will "contribute to Iraq's development through effective constituent-focused service delivery and policy impact, engaging organizations at all levels of capacity and scale." Because of the positive results, we are not making a recommendation. However, we suggest that USAID/Iraq, in coordination with Mercy Corps, review the concerns outlined in this report and take appropriate action to address them.

Project Helped Civilian Victims of Conflict Start Small Businesses and Address Community Needs

According to the Department of State, Foreign Operations, and Related Programs Appropriations Act for 2012 (Pub. L. No. 112-74), the Senate Committee on Appropriations included $5 million for continuing to "support the Marla Ruzicka Iraqi War Victims Fund to assist civilian victims of conflict, and the transition of this program to an Iraqi-run entity."

As part of this project, USAID/Iraq set a $15 million budget over 3 years for Mercy Corps to implement activities that met the intent and spirit of the directive with the assumption that future appropriations would keep the same level of funding (i.e., $5 million annually).

Through September 30, 2013, Mercy Corps had spent $2.4 million on eight Iraqi NGOs to identify victims of conflict, which included individuals and communities affected by the U.S. military, coalition forces, or terrorist acts. The NGOs implemented two types of activities: individual projects focused on one beneficiary or family to start a small business of their choosing; and community projects that renovated, procured, or supplied a facility in a community with a large population affected by conflict. Some examples of the facilities included hospitals that received medical equipment and schools that were refurbished.

We interviewed employees at four NGOs in Baghdad, Basrah, and Erbil. All identified victims of conflict, identified and implemented individual and/or community projects, and have seen positive results. For example, some projects consisted of small stores and markets. The grant helped them prepare business plans and obtain an initial supply of goods, as shown in the photo on the next page. Each grant amount varied, but was limited to a maximum of $10,000.

A Marla grantee delivers freezers and microwaves to facilities run by a family in Basrah. (Photo by Bahjat Al Fuad, September 2013)

Oversight by USAID/Iraq, Mercy Corps, and their subpartner ACDI/VOCA included monitoring and controlling the actual disbursement of money and supplies to the NGOs and beneficiaries. Each NGO appeared to have the capacity and experience after 1 year to continue helping these beneficiaries under the Marla fund, but it is still unclear whether the Iraqi Government will provide funding after the USAID/Iraq project ends.

The reason the congressional directive is succeeding is mostly a reflection of how dedicated the NGOs are to helping victims of conflict in their communities. According to the NGOs, they identified dozens and sometimes hundreds of potential beneficiaries who met the strict eligibility requirements. The NGOs chose community projects based on the greatest impact that could be made with the limited funding available. They implemented most of the projects with collaboration and approval from the Iraqi Government.

USAID/Iraq, through Mercy Corps and ACDI/VOCA, has transitioned the Marla activities to Iraqi NGOs implementing the majority of the work to meet the demands of Congress. The sustainability of these efforts is now up to the Iraqi Government. Because of the project's positive results helping civilian victims of conflict, we are not making a recommendation.

Subpartner's Departure From Iraq Significantly Hurt Project's Ability to Achieve Intended Results

According to USAID/Iraq's cooperative agreement with Mercy Corps, the agreement officer authorized Mercy Corps to enter into a subaward worth $8.6 million with IRI for the length of the project. IRI was responsible for implementing numerous activities primarily under Components 1, 3, and 4, and for being the technical lead for Component 3. Component 1 activities included arranging ten primetime talk shows per year for Years 1 and 2 and working with CSOs on their media strategies. Component 3 activities included training 15 CSOs on how to research and advocate for changes in legislation; and recruit current and former government

officials at the community, provincial, governorate, and national levels to advise the CSOs regularly, share legislative updates, and help establish relationships with other government officials. Some of the Component 4 activities included assessing opportunities for government officials at the governorate level to coordinate with CSOs and the business community. Moreover, Mercy Corps and IRI were responsible for conducting a baseline survey for at least 7 of 27 PMP indicators.

IRI signed a preaward letter with Mercy Corps dated October 12, 2012, authorizing IRI to incur appropriate project-related expenses in advance of a signed award. This letter was conditional on IRI signing a subagreement with Mercy Corps.

However, IRI never signed the final negotiated subagreement. In February 2013, nearly 5 months after the project started, IRI ceased its operations in Iraq and terminated its partnership with Mercy Corps. The organization's deputy director in the Middle East and North Africa region said Iraq required considerable attention from senior staff and entailed security risks and costs. During those 5 months, the deputy director said, it retained staff, visited Iraq several times, developed contracts with Iraqi civil society partners, and prepared to conduct the baseline survey. The cost for implementing these activities, the deputy director said, was more than $78,100, and IRI plans to seek reimbursement for that amount from Mercy Corps.

The agreement officer's representative (AOR) said the mission was not notified about IRI's decision to leave until February 2013—the same time that IRI notified Mercy Corps. And because of the early departure by the end of Year 1, IRI did not complete any of the work plan activities. Eleven of 24 (46 percent) activities under Component 1, 13 of 16 (81 percent) under Component 3, and all IRI-related activities under Component 4 were canceled. Moreover, Mercy Corps took over the baseline survey and completed it in April 2013—7 months after the project started.

Mercy Corps spent much of the remaining part of the first year finding another partner to replace IRI. Mercy Corps ultimately negotiated a subagreement with Internews in August 2013 for $1.5 million, considerably less than IRI's $8.6 million planned award, reflecting anticipated changes in the project's scope. While Mercy Corps planned to implement some of IRI's activities, Mercy Corps and its subpartner no longer expect to conduct any of the primetime talk shows, engage government leaders to serve as liaisons between government and CSOs, help broker relationships with the media and government officials, or assess opportunities for local government officials to coordinate with CSOs and the business community as described in the cooperative agreement.

Per the terms of the preaward authorization letter, IRI agreed to proceed at its own risk in the event an award was not made. Mercy Corps agreed to reimburse IRI for allowable costs under the subgrant agreement, which was never entered into. Given that IRI unilaterally stopped work before signing an agreement with Mercy Corps, we are making the following recommendation.

> ***Recommendation 1.*** *We recommend that USAID/Iraq inform Mercy Corps in writing to ask the agreement officer for an allowability determination prior to seeking payment for costs incurred by the International Republican Institute prior to terminating its work in Iraq.*

USAID/Iraq Did Not Make Appropriate Changes to Cooperative Agreement or Performance Management Plan

USAID's Automated Directives System (ADS) 303.3.18 states that the agreement officer and the AORs are responsible for overseeing and administering grants and cooperative agreements effectively. The AOR also should exercise prudent management over awards by monitoring and evaluating the recipient's performance to ensure that program objectives are being achieved. If there are any developments that could have a significant impact on the recipient's performance, the AOR is responsible for promptly notifying the agreement officer.

ADS 303.3.13 also states that "if the [Agreement Officer] makes any substantive change to the program description or the budget . . . that were not addressed during negotiations . . . the [Agreement Officer] must obtain the applicant's agreement to the changes or additional terms before obligating funds."

According to 22 Code of Federal Regulations (CFR) 226.25(b), recipients are required to report deviations and request prior approvals for budget and program plan revisions. Moreover, 22 CFR 226.25(c)(1) states that the recipient should ask the agreement officer for prior approval for changes in the project's scope or objective even if there is no associated budget revision that requires prior written approval.

Although the mission was aware that Mercy Corps was significantly behind in most of its components and canceled some activities that would affect the project's ability to achieve the objective as designed, the mission did not realign the cooperative agreement's project description, budget, and PMP to reflect budget, project plan, and scope revisions.

Component 1 - Civic Education. According to the cooperative agreement, Mercy Corps was responsible for awarding civic education and service learning subgrants to work with community leaders and public figures in implementing service activities based on participants' interests, including community theaters for children and legal clinics for women. Mercy Corps clarified in its work plan that it planned to award subgrants with a duration of up to 8 months that may include election activities. Moreover, the agreement states that Mercy Corps' subpartner, IRI, was responsible for media-related activities.

During the first year, 13 of 24 (54 percent) activities were canceled or not met; 11 of those were canceled or not met because of IRI's departure.

In addition, during Year 1, the U.S. Embassy in Baghdad and USAID/Iraq directed Mercy Corps to spend resources on elections monitoring and voter education activities for provincial council and Kurdistan elections. The AOR said this project was the most logical choice for USAID/Iraq to accommodate the Embassy's interest in elections. Mercy Corps' chief of party said it used substantial resources—more than planned—to award and implement elections grants, and that election monitoring was not one of Mercy Corps' core competencies. Nevertheless, it completed these activities successfully and made tradeoffs affecting the timely completion of activities under this and other components. Mercy Corps plans to conduct elections monitoring activities in early 2014. However, to finance them, officials said they will use all resources originally intended for the civic education and service learning subgrants as well as any savings from the unsigned subaward that was allocated for IRI.

Even though USAID/Iraq was aware of these issues, it did not modify the cooperative agreement or budget to reflect them.

Component 2 - Organizational Development Capacity Building. During Year 1, Mercy Corps was to provide organizational development training and technical assistance to between 150 and 175 CSOs and establish 13 hubs to encourage interaction among CSOs. In its first year, Mercy Corps reported providing technical assistance to 89 CSOs and establishing 7 hubs. Furthermore, the chief of party said Mercy Corps would not likely reach its year-end target or establish additional hubs, but it would continue to help existing CSOs and any new subgrantees that needed assistance.

Mercy Corps and its partners decided to eliminate and reprioritize activities because of anticipated funding cuts discussed below. At the AOR's request, Mercy Corps revised a strategy document for Years 2 and 3 in July 2013. Even though the AOR said the changes were appropriate or fair given the anticipated reduced funding levels, as of November 2013, USAID/Iraq had not adjusted the cooperative agreement, the budget for this component, or PMP to reflect them.

Component 3 - Advocacy. As discussed on page 7, Mercy Corps and IRI were responsible for numerous advocacy activities. However, in Year 1 only 3 of 16 (19 percent) were completed. In addition, Mercy Corps had yet to award any advocacy grants.

IRI's departure was the main reason why this component was affected. Mercy Corps' refocus on Component 1 election activities also diverted its resources from advocacy activities. In addition, Mercy Corps officials said they learned that many of the CSOs that applied for the advocacy grants had much weaker capacity than expected and needed additional training before they could receive a grant.

The AOR said Mercy Corps did not have sufficient staff for these additional responsibilities and informed the advocacy team that it needed to have sufficient staff to respond properly to challenges in Years 2 and 3. He said Mercy Corps' chief of party and deputy chief of party agreed, but to his knowledge, as of November 2013, Mercy Corps had yet to hire additional staff beyond the two advocacy team members it currently had.

Component 4 - Improved Enabling Environment for CSOs. Mercy Corps' agreement calls for its key partner, the International Center for Not-for-Profit Law (ICNL), to hold two trainings annually to develop young, emerging leaders in NGO law and civil society. ICNL also was supposed to work with employees within the federal and Kurdistan NGO directorates—departments within the government responsible for registering NGOs—and facilitate activities in Parliament focused on NGO laws and new regulations. IRI also was responsible for implementing a number of activities under Component 4.

During Year 1, only 2 of 14 (14 percent) planned activities were completed or partially completed. ICNL was significantly behind schedule, and IRI did not complete any activities. ICNL started work in July 2013, almost 10 months after the project started. By the end of Year 1, it completed one training for Kurdistan's NGO directorate staff, two open forums in Kurdistan, a youth conference, and one advocacy orientation session.

ICNL officials said they did not complete their activities as scheduled for three reasons. First, when USAID/Iraq approved Mercy Corps' branding strategy, the mission did not exempt ICNL from having to comply. In November 2012 ICNL asked for an exemption because officials there

felt that complying with the branding strategy would threaten the perceived neutrality of much of its work with the Iraqi Government. After discussions between Mercy Corps and ICNL, Mercy Corps asked for the exemption in February 2013, and USAID/Iraq approved it in April 2013, 2 months later, thereby delaying the signing of ICNL's subagreement with Mercy Corps. ICNL and Mercy Corps entered into their agreement on May 16, 2013, 8 months after Mercy Corps started the project.

Second, ICNL officials did not know until mid-May 2013 that subgrants had to be approved by USAID/Iraq and that Mercy Corps had to approve the form it issued to subgrantees. By then, ICNL had negotiated agreements with two partners, and, in anticipation of beginning work, it prepared subgrant agreements—not approved by Mercy Corps—and started circulating them to local partners in January 2013.

In the interest of expediency, Mercy Corps and ICNL agreed to submit ICNL's subagreement form to USAID/Iraq for approval. Therefore, ICNL was further delayed by about 5 weeks because it waited for USAID/Iraq to approve its subgrants and subagreement form.

Third, ICNL officials said Mercy Corps did not get USAID/Iraq's approval for ICNL's revised budget, which ICNL incorporated in its original May 16, 2013 subagreement. ICNL had revised its budget to reflect changes in its indirect cost rates. However, until USAID/Iraq approved it, Mercy Corps could not approve ICNL's budgets for its local partners. On July 15, 2013, ICNL and Mercy Corps submitted the revised budget to USAID/Iraq, and the mission approved it on July 31, 2013. But ICNL was not notified about this until October 10, 2013.

An overarching reason for Mercy Corps' struggles to plan and execute its activities was the uncertainty in the project funding levels. Mercy Corps initially was awarded a $75 million project, of which the mission obligated $4.7 million to start. Mercy Corps officials said the organization's partners were cautious, however, because that initial amount was not enough to start a "full and robust program." So Mercy Corps waited until January 2013 when it received more funds.

The AOR, however, said the main reason for the project's slow progress was because of Mercy Corps had problems managing the consortium.

To further compound the funding uncertainty, in early 2013 USAID/Iraq's senior management informed the mission's implementers of its decision to scale back programs and funding in response to a decision to scale back the Agency's operations in Iraq by 2015. The AOR communicated to Mercy Corps the decision to reduce the project funding from $75 million to approximately $55 million (27 percent reduction) around March or April 2013. At this time, the mission significantly reduced its staffing levels—potentially causing additional uncertainty among its employees and implementers about the future of all projects.

Even though the agreement officer had not modified this project's scope and approved a reduced budget, in July 2013 Mercy Corps revised its work plan for Years 2 and 3 at the AOR's request. The revised plan included rescoping components to focus more narrowly on integrating advocacy activities throughout the various components. Mercy Corps and USAID/Iraq agreed to focus on strengthening the CSOs' ability to mobilize citizens and advocate for policy reforms. In October 2013 Mercy Corps formally submitted the Year 2 work plan based on the revised scope.

The agreement officer responsible for overseeing the project at the time the budget cuts were decided said the mission's senior management decided to cut the funding level to $55 million,

but because there was no written record of the funding levels, he did not modify the agreement. As of September 30, 2013, the Embassy, in collaboration with USAID/Iraq, had not yet submitted a congressional notification to ask for the remaining FY 2013 funds that would bring the total up to approximately $55 million for this project. So the mission's current agreement officer was hesitant to amend the agreement with Mercy Corps.

To make sure the project's objective is achieved and complies with federal regulations and USAID policy, the mission should respond in writing to significant project plan and budget revisions that already have been communicated to Mercy Corps. Given the problems, delays, and departure of a key partner, without a clear direction that is reflected in a written project description modification, revised budget, and PMP, it will be difficult for Mercy Corps to implement its activities and achieve its results. Moreover, Mercy Corps has legal relationships with subpartners that make it increasingly more difficult for Mercy Corps to manage if the mission does not make these changes official. Therefore, we make the following recommendation.

> ***Recommendation 2.*** *We recommend that USAID/Iraq implement a written plan to align the project description, budget, work plan, and performance management plan to allow Mercy Corps to plan its activities and give this plan to Mercy Corps.*

Internal Controls Over Grant Process and Reported Data Were Not Operating as Designed

Internal control standards for federal, profit, and nonprofit entities state that management is responsible for setting an organizational tone that positively affects the integrity, ethical values, and competence of the staff. These internal controls and other significant events need to be documented clearly, and the documentation should be readily available for examination. All documentation and records should be managed and maintained properly.

Grants Award Process. Mercy Corps' subaward manual describes the procedures for awarding grants, particularly for reviewing technical applications and eligibility criteria.

Mercy Corps did not adhere to its grant award policies. During FY 2013, it awarded 23 subgrants worth $1.04 million to local CSOs, including 15 provincial council and Kurdistan election grants and 8 Marla grants. These do not include those that Mercy Corps awarded to its key consortium partners. While Mercy Corps and its partners had internal discussions about the grant applications and proposals, Mercy Corps officials did not provide sufficient documentation for the audit team to validate how and why they made their selections.

- **Technical Reviews.** According to Mercy Corps' subaward manual, it is required to prepare a written evaluation of each application, including a rating and a short explanation of each of the established criterion. If the request for applications did not assign numerical values to the evaluation criteria, then Mercy Corps is required to assess and describe the strengths and weaknesses of applications relative to the criteria. If numerical values are assigned to the criteria, the evaluation must include a discussion of the numerical scoring and an explanation of each application's strengths and weaknesses compared to the criteria.

  Mercy Corps provided a summary sheet of the technical committee members' final scores for five of six grant files reviewed. However, it could not provide sufficient documentation to

show what they based their final selection scores on. When asked for detailed support to validate the final scores, Mercy Corps provided detailed individual assessments for a couple of technical committee members, but these individual scores did not match what was recorded on the final score sheet.

For example, Mercy Corps had scored an applicant a "3" on a scale from 1 to 5. However, the detailed support showed a score of 71. Mercy Corps' chief of party explained that the possible total score was 100 and that the committee divided the total score by 20 to scale it down to a range of 1 to 5. Therefore, a score of 71 translates to "3.6." Similarly, Mercy Hands, another technical committee member, had scored one applicant with a "3," but the detailed support showed a score of 74, which translates to "3.7."

Moreover, the final score sheet showed that certain CSOs had higher scores than others but were not awarded a grant. For example, Al Mortaqa Foundation ranked highest in Baghdad and Bustan Association ranked highest in Diyala for the provincial election activity grants, but neither was selected. Mercy Corps' chief of party said the first organization was not selected because it had received an elections grant from the International Foundation for Electoral Systems, and Mercy Corps decided not to award grants to CSOs that had or were going to receive a grant from this organization. Mercy Corps did not select Bustan because it determined that the association would have a difficult time working in the proposed provinces, which were not located near the association's offices and would not be able to complete certain proposed activities within the grant time frame. Nevertheless, Mercy Corps did not have any written documentation in its files to explain why these organizations were not selected.

According to Mercy Corps, because technical reviewers were based in offices throughout Iraq, the scoring was done in a decentralized manner, and supporting documentation was not kept in a centralized file. Mercy Corps' chief of party said that was an oversight.

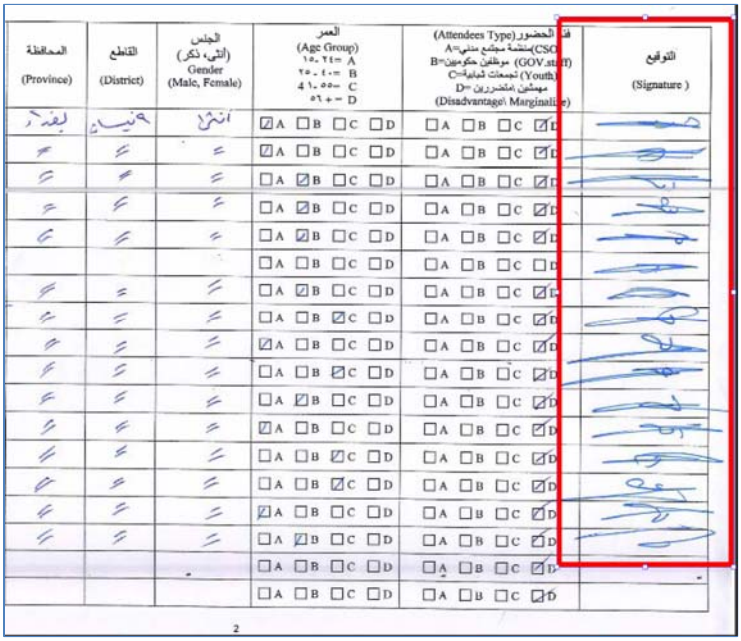
- **Eligibility Criteria.** According to Mercy Corps' subawards manual, for grants awarded competitively, Mercy Corps is required to determine whether (1) organizations are registered legally, (2) do not have political affiliations, and (3) have existing programs or previous work experience.

  For one of six grantees, an initial reviewer assessed the CSO as not eligible in part because it had not provided sufficient evidence to show that it did not have any political affiliations. However, a second reviewer reversed the decision, noting that the organization was eligible without any written justification. Mercy Corps officials said they could not find a specific explanation for why this organization's eligibility assessment was changed.

PMP Indicator Data. USAID's ADS 203.3.11.1, "Data Quality Standards," states that data should be valid, reliable, and meet data integrity standards. Data should clearly and adequately represent the intended results, reflect stable and consistent data collection processes, and have safeguards to minimize the risk of data manipulation.

For Indicator 1.1, *Number of individuals receiving voter and civic education through U.S.-Government-assisted programs*, Mercy Corps reported a total of 10,169 as of June 30, 2013. The audit selected a sample of 94 workshops, representing 2,986 individuals who participated in voter education trainings. The audit identified at least 30 attendance sheets on which the participants' signatures appeared to be signed by the same person, as shown in Figures 1 and 2 on the next page.

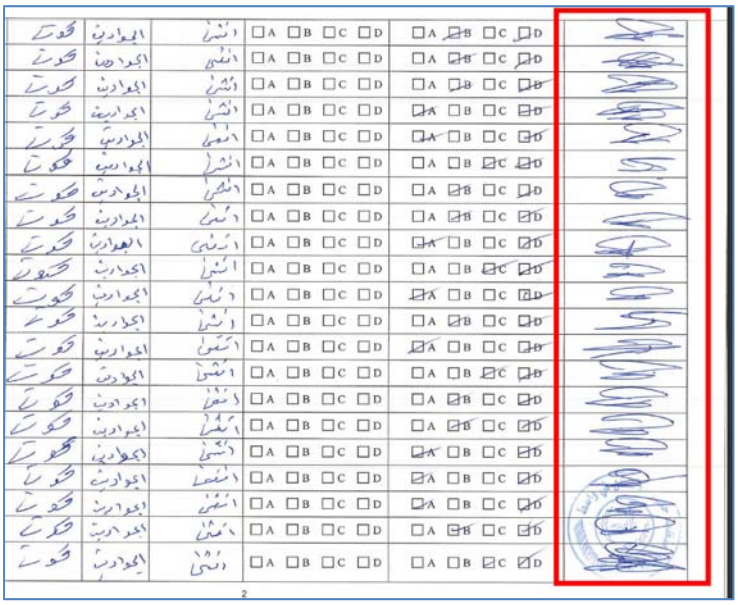
Figure 1. Signatures That Do Not Appear Genuine (Training No. 27)



المحافظة (Province)	القاطع (District)	الجنس (أنثى، ذكر) Gender (Male, Female)	العمر (Age Group) ١٥-٢٤= A ٢٥-٤٠= B ٤١-٥٥= C ٥٦+= D	فئة الحضور (Attendees Type) A=منظمة مجتمع مدني(CSO) B=موظفين حكوميين (GOV.staff) C=تجمعات شبابية (Youth) D= مهمشين /متضررين (Disadvantage\ Marginalize)	التواقيع (Signature)
لغدر	نيسان	انثى	☑A ☐B ☐C ☐D	☐A ☐B ☐C ☑D	
=	=	=	☑A ☐B ☐C ☐D	☐A ☐B ☐C ☑D	
=	=	=	☐A ☑B ☐C ☐D	☐A ☐B ☐C ☑D	
=	=	=	☐A ☑B ☐C ☐D	☐A ☐B ☐C ☑D	
=	=	=	☐A ☑B ☐C ☐D	☐A ☐B ☐C ☑D	
			☐A ☐B ☐C ☐D	☐A ☐B ☐C ☐D	
=	=	=	☐A ☑B ☐C ☐D	☐A ☐B ☐C ☑D	
=	=	=	☐A ☐B ☑C ☐D	☐A ☐B ☐C ☑D	
=	=	=	☑A ☐B ☐C ☐D	☐A ☐B ☐C ☑D	
=	=	=	☐A ☐B ☑C ☐D	☐A ☐B ☐C ☑D	
=	=	=	☐A ☑B ☐C ☐D	☐A ☐B ☐C ☑D	
=	=	=	☑A ☐B ☐C ☐D	☐A ☐B ☐C ☑D	
=	=	=	☐A ☐B ☑C ☐D	☐A ☐B ☐C ☑D	
=	=	=	☐A ☐B ☑C ☐D	☐A ☐B ☐C ☑D	
=	=	=	☑A ☐B ☐C ☐D	☐A ☐B ☐C ☑D	
=	=	=	☐A ☑B ☐C ☐D	☐A ☐B ☐C ☑D	
			☐A ☐B ☐C ☐D	☐A ☐B ☐C ☑D	
			☐A ☐B ☐C ☐D	☐A ☐B ☐C ☑D	

2

Figure 2. Signatures That Do Not Appear Genuine (Training No. 188)



2

Mercy Corps' monitoring and evaluation staff said they observed similar problems with one of their key local partners, Mercy Hands. They also said participants sometimes were unwilling to sign in or were illiterate, so facilitators signed in on their behalf. However, there was no notation on any of these sign-in sheets indicating that a facilitator was signing for the attendees.

A couple of grantees interviewed said they also faced the same challenges when obtaining signatures. One said they strongly encouraged or tried to motivate those who were illiterate to sign or scribble their name.

While the monitoring and evaluation staff in Baghdad knew about the problem, Mercy Corps' director in Basrah said she was not aware of it nor had she monitored this aspect of the project.

For Indicator 2.3, *Number of activities held at the hubs*, Mercy Corps reported 81 different activities. It adequately supported 40 of 50 hub activities that the audit team selected. But it did not have adequate support for activities managed by Public Aid Organization (PAO), its key local partner in Basrah. Mercy Corps officials explained that they faced some problems obtaining data from PAO such as receiving electronic data without original sign-in sheets. When Mercy Corps employees conducted a site visit to verify PAO's data, they found that it was not documenting activities properly and discussed the problems with PAO to resolve them.

While the design of the internal controls (e.g., grants manual, sign-in sheets) may have been acceptable, the actual implementation of the internal controls was weak. They will not be effective as long as Mercy Corps allows problematic supporting documentation to be submitted. While it has made some efforts to rectify the problems, particularly with PAO, Mercy Corps should use this opportunity to build the capacity of its staff, local partners, and grantees to document carefully and routinely all key decisions, data, and reporting. Mercy Corps budgeted $52.7 million for subgrants with current grants as high as $255,000.

By improving the effectiveness of Mercy Corps' internal controls throughout the project, stakeholders can be more assured that funds are being spent in an even more open manner. Therefore, we make the following recommendations.

Recommendation 3. *We recommend that USAID/Iraq ask Mercy Corps, in writing, to implement a plan to strengthen its internal controls for documenting the technical review process for grants and the reporting of data by key partners and grantees.*

Recommendation 4. *We recommend that USAID/Iraq ask Mercy Corps, in writing, to implement a plan to discuss data integrity and ethics in its compliance and reporting training for new and existing grantees.*

OTHER MATTER

USAID's Financial System Did Not Report Spending on Congressional Directive Correctly

Internal control activities include recording transactions accurately. In addition, the Government Accountability Office's *Standards for Internal Control in the Federal Government* notes that accurately recording transactions is a control activity common to all federal agencies to help management make decisions.

Contrary to this guidance, USAID's financial system did not accurately record funds spent on Marla fund activities.

Through September 30, 2013, Mercy Corps reported $2,410,992 spent on activities that were to be paid with Marla funds. USAID's accounting system tracks the obligation and disbursement of these funds under the program area for social and economic services and protection for vulnerable populations. According to what was recorded in USAID's accounting system, $5 million was obligated properly. However, as of September 30, 2013, USAID reported $59,640 disbursed against this obligation—far less than what Mercy Corps reported.

USAID authorized Mercy Corps to use a letter of credit (LOC) payment method that allows it to request electronic advances. The Agency relies on a cash management system operated by the Department of Health and Human Services (HHS) to provide payment to implementers that request electronic advances.

This method has limitations for recording disbursements in USAID's financial system when multiple obligations are established for different program areas under the same award. For example, the $5 million USAID obligated for the social and economic services and protection for vulnerable populations program area was to pay for Marla fund activities. All other funds obligated for the project were in the civil society program area, which is entirely different.

Under this LOC arrangement, USAID's accounting system matches the requested payment from the HHS system with the oldest available obligation assigned to the cooperative agreement regardless of the program area or source of funds. The system then charges a disbursement to that obligation.

Mercy Corps is required to submit a quarterly or annual report that shows the cumulative amount of payments it has asked for, and that includes a special remark section in which it self-reports how much money was spent on earmarks or directives during that period. However, USAID does not reconcile or correct the disbursements in the accounting system with this information. USAID/Iraq's chief accountant and acting controller noted that manual adjustments could be made. However, the mission does not make the adjustments based on the implementer's financial reports because it would impractical to do so.

As a result, USAID's financial system is not reporting disbursement transactions accurately for the different program areas established for this award. As of September 30, 2013, USAID is underreporting funds for Marla activities by $2,351,352. Because these funds were recorded

against the civil society program area, USAID is overreporting the same amount of funds spent in that area.

Manually adjusting disbursements at each mission for each project and each unique congressional directive or earmark is not an efficient use of a mission's resources. The Office of the Chief Financial Officer should develop an improved interface process between HHS's payment system and USAID's accounting system to accurately record disbursements by program area and congressional directives and earmarks. Therefore, we will elevate this issue to the Office of the Chief Financial Officer in a separate management letter.

EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report, USAID/Iraq did not agree in all respects with how we portrayed the findings, but it agreed with all four recommendations. Based on our evaluation of management comments, we acknowledge that the mission made a management decision on all four recommendations and has taken final action on Recommendations 1, 3, and 4. A detailed evaluation of management comments follows.

Recommendation 1. The mission sent a letter to Mercy Corps on January 21, 2014, instructing it to ask the agreement officer for an allowability determination before seeking payment for costs incurred by IRI before it terminated its work in Iraq. Based on mission comments and the supporting documentation provided, we acknowledge that the mission made a management decision, and final action has been taken on Recommendation 1.

Recommendation 2. The mission plans to write an internal memo to address decreased project funding, which it will communicate to Mercy Corps in writing. The target completion date is August 31, 2014. Therefore, we acknowledge that the mission made a management decision.

Recommendation 3. The mission sent a letter to Mercy Corps on January 21, 2014, instructing it to submit a plan to strengthen controls for documenting the technical review process for grants and data reporting by partners and grantees. Based on mission comments and the supporting documentation provided, we acknowledge that the mission made a management decision, and final action has been taken on Recommendation 3.

Recommendation 4. The mission sent a letter to Mercy Corps on January 21, 2014, instructing it to submit a plan to enhance data integrity and ethics in its compliance and reporting training for new and existing grantees. Based on mission comments and the supporting documentation provided, we acknowledge that the mission made a management decision, and final action has been taken on Recommendation 4.

In its general comments on the draft, USAID/Iraq disagreed with some statements included in the report. We acknowledge the mission's comments and have made some edits to the report. However, we take exception to some of the mission's assertions.

The mission said Mercy Corps implemented more than 350 of 373 activities. However, neither USAID/Iraq nor Mercy Corps provided evidence to substantiate these figures. During the audit, we obtained sufficient, appropriate evidence to provide a reasonable basis for our conclusions (e.g., 13 of 24 activities were completed under Component 1) that we reported. Therefore, we do not have any basis to conclude that the figures above are accurate or valid.

Regarding the mission's issue with our characterization of Internews' award, we acknowledge that Mercy Corps and its grantees are planning to implement activities that are similar to IRI's planned activities. Nevertheless, we believe the award reflects a change in the project scope. Our finding reflects Mercy Corps' decision to cancel key IRI activities with influential leaders. The proposed activities under the advocacy grants or Internews award may not have the same impact as the original activities planned. Mercy Corps proposed to cancel IRI activities to

identify influential leaders willing to support the CSO community who would also serve as liaisons and provide training on communicating effectively with the media, public, and other government officials. However, as mentioned in the mission's comments, Mercy Corps revised its approach by awarding grants to CSOs to conduct some of the advocacy activities themselves rather than use influential leaders to train the CSOs to advocate for policy changes as originally designed.

Moreover, USAID/Iraq describes advocacy grant activities that Mercy Corps awarded after the audit scope period ended on September 30, 2013. Therefore, we did not make any changes to the report.

Regarding the mission's disagreement with the title "USAID/Iraq Did Not Make Appropriate Changes to Cooperative Agreement or Performance Monitoring Plan," we acknowledge that the mission had informal discussions with Mercy Corps. However, those changes were not reflected in a modification to the cooperative agreement or PMP. We believe that without a formal, written modification, it will be difficult for Mercy Corps to achieve its results. Therefore, we did not change the title of the respective finding.

SCOPE AND METHODOLOGY

Scope

We conducted this performance audit in accordance with generally accepted government auditing standards. They require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis.

This audit's purpose was to determine whether USAID/Iraq's Broadening Participation through Civil Society Project increased the ability of civil society to contribute to Iraq's democratic and community development. On September 26, 2012, USAID/Iraq awarded a 3-year cooperative agreement with a total budget of $75 million to Mercy Corps. As of September 30, 2013, USAID/Iraq had obligated $44 million and disbursed $15 million. Because this audit focused on program performance instead of specific financial transactions, the team did not audit any disbursements. However, to make sure the Agency's financial system was recording transactions properly for the congressional directive, we compared Mercy Corps' financial report to the Agency's financial system.

The audit covered the period from September 26, 2012, to September 30, 2013. In planning and performing the audit, we assessed management controls: documentation and data verification; reporting; supervisory and management review of program processes and activities; review and approvals of the work plan and PMP; and establishment and review of performance measures.

We conducted fieldwork in Iraq from October 23 to November 13, 2013, at USAID/Iraq and Mercy Corps offices in Baghdad. We also conducted fieldwork at Mercy Corps and recipient offices located in Basrah, Dahuk, Erbil, and Sulaymaniyah. Our exit conference was on November 25, 2013.

Methodology

To answer the audit objective, we first identified the project's main goal and significant risks. We met key personnel with the mission, Mercy Corps, subimplementers, CSOs that received technical assistance, and grantees. We also reviewed relevant documentation provided throughout the audit and gained an understanding of the project design and how USAID/Iraq monitored and measured the results.

We interviewed 30 of 105 CSOs and grantees to validate work plan activities and results. We also traced reported results to the implementer's supporting documents. As part of our detailed testing, we also validated cumulative PMP results as of June 30, 2013. For our test work, we established an error rate of 5 percent to determine data reliability and then assessed whether the project was meeting its targets. If the data were reliable, the audit team considered a target achieved if reported actual amounts met at least 90 percent of the target.

During site visits, we interviewed beneficiaries to gain an understanding of whether the project met their expectations and the impact of the activities. We discussed the quality of trainings and

workshops. The audit team judgmentally selected site visit locations based on the U.S. Embassy's regional security officer's approval.

To further verify reported results, we also administered an online survey in Arabic, English, and Kurdish to 105 CSOs and grantees. We received responses from 87. Given the high response rate of 83 percent, we are confident that the results can be generalized to the population surveyed. We used a precision rate of 4 percent with 98 percent confidence level and an error rate of less than 5 percent.

We also judgmentally selected 6 of 23 grants to verify internal controls over the grant award process. We selected the grantees whom we had interviewed because of time limitations. Because of this sampling method, we cannot project these testing results to the intended population.

The results and overall conclusions related to this testing were limited to the items tested and cannot be projected to the entire audit universe unless otherwise disclosed. However, we believe that our work provides a reasonable basis for our conclusions.

MANAGEMENT COMMENTS

USAID | IRAQ
FROM THE AMERICAN PEOPLE

January 30, 2014

ACTION MEMORANDUM
UNCLASSIFIED

TO: Catherine Trujillo, Regional Inspector General/Cairo

THROUGH: A. J. Alonzo Wind, Deputy Mission Director

FROM: Sarah-Ann Lynch, Mission Director

SUBJECT: Management Response to Draft Audit of USAID/Iraq's Broadening Participation through Civil Society (BPCS) Project
Report No. 6-267-14-00X-P

We thank the Office of the Regional Inspector General/Cairo for the opportunity to comment on this audit report and appreciate the valuable input provided therein regarding USAID/Iraq's Broadening Participation through Civil Society (BPCS) Project. We appreciate the patience, flexibility and diligence exhibited by the auditors as they carried out the research of the report under difficult conditions.

In response to the audit findings and the recommendations contained in the report, USAID/Iraq provides the following comments:

Recommendations:

Recommendation #1. *We recommend that USAID/Iraq inform Mercy Corps in writing to ask the Agreement Officer for an allowability determination prior to seeking payment for costs incurred by the International Republican Institute prior to terminating its work in Iraq.*

The Mission agrees with this recommendation and final action has been taken. On January 21, 2014, the Agreement Officer (AO) sent a letter to Mercy Corps instructing them to ask the AO for an allowability determination prior to seeking payment for costs incurred by the International Republican Institute before its work in Iraq was terminated (Attachment 1).

Based on the above, USAID deems that a management decision has been reached on Recommendation No. 1 and final action has been taken. Therefore, we request the closure of this recommendation upon issuance of this report.

Recommendation #2. *We recommend that USAID/Iraq implements a written plan to align the project description, budget, work plan, and performance management plan to allow Mercy Corps to plan its activities and give this plan to Mercy Corps.*

The Mission agrees with this recommendation. USAID Mission will prepare an internal memo to analyze next steps to address decreased funding for BPCS. This decision will be communicated in writing to Mercy Corps prior to June 30, 2014.

Final action target date by Audit, Performance, and Compliance Division is August 31, 2014.

Recommendation #3. *We recommend that USAID/Iraq asks Mercy Corps, in writing, to implement a plan to strengthen its internal controls for documenting the technical review process for grants and the reporting of data by key partners and grantees.*

Recommendation #4. *We recommend that USAID/Iraq asks Mercy Corps, in writing, to implement a plan to discuss data integrity and ethics in its compliance and reporting training for new and existing grantees.*

The Mission agrees with the Recommendations No. 3 and 4. On January 21, 2014, the AO sent a letter (Attachment 1) instructing Mercy Corps to submit to USAID by February 16, 2014 a plan to strengthen its internal controls for documenting the technical review process for grants and the reporting of data by key partners and grantees. The letter also requested that Mercy Corps submit to USAID by February 16, 2014 a plan to enhance data integrity and ethics in its compliance and reporting training for new and existing grantees.

Based on the above, USAID deems that a management decision has been reached on Recommendations No. 3 and 4 and final action has been taken. Therefore, we request the closure of these two recommendations upon issuance of this report.

Audit Summary Findings:

a) Overall findings

USAID/Iraq acknowledges that startup implementation of the BPCS project was slow and by the end of project year 1, Mercy Corps was behind schedule. One of the reasons for the delay was the departure of a key implementing partner, International Republican Institute (IRI), as well as the anticipated reduction in the project's budget by approximately 27%. In addition, during the course of the project's implementation, Mercy Corps and USAID decided to focus on the upcoming elections as a means to achieving overall project objectives.

However, even with unanticipated changes in funding, USAID/Iraq took the practical steps needed to ensure that the implementing partner adjusted its programming to remain on course to achieve project objectives. While there were delays, Mercy Corps and USAID found solutions during year 1 to improve the rate of implementation. Many significant activities were successfully completed and, as stated in the draft audit report, activities implemented in the first year generally achieved positive results. We note that during its first year, BPCS not only faced the normal challenges inherent to development work in Iraq but additionally, the project was carried out in the context of an extraordinarily high level of uncertainty due to the U.S. Embassy's "accelerated glide path." The accelerated glide path imposed an unexpected 70% reduction in USAID's expat staffing as well as programmatic budget cuts. Notwithstanding these significant challenges, USAID consistently kept Mercy Corps informed through regular meetings and communications. These discussions helped to plan for anticipated adjustments that Mercy Corps needed to make immediately, as well as those – such as indicator targets - that needed to wait until USAID knew the available funding levels.

b) Specific findings

(1) We disagree with the use of the word "few" in the statement that *"the audit determined that the few activities Mercy Corps implemented in its first year generally had positive results"* (page 1, paragraph 6, *italics added*) as it implies that the number of activities implemented by Mercy Corps was insufficient. BPCS planned 373 activities and implemented over 350. While the program did not implement some activities as originally planned, particularly those to be carried out by IRI, the program adjusted to the circumstances by carrying out additional activities in other areas. Even for IR 3, where IRI was primarily responsible, over one-third (6 of 17) of the activities were implemented. We therefore recommend that the word "few" be stricken from the sentence in order not to misrepresent the number of activities actually implemented.

(2) We disagree with the statement *"At the request of the U.S. Embassy in Baghdad and USAID/Iraq, Mercy Corps awarded grants to three local nongovernmental organizations (NGOs) to monitor the Kurdistan elections in September 2013."* (page 1, paragraph 7 and page 9, paragraph 7). Please note that the decision to provide grants to local NGOs to monitor both Iraqi Kurdistan Region (IKR) parliamentary elections and Iraqi provincial elections was made by Mercy Corps after consultations with the US Embassy and USAID. We respectfully recommend rephrasing the initial part of the sentence as follows: "In consultation with the U.S. Embassy in Baghdad and USAID/Iraq, Mercy Corps decided to award grants…."

(3) We disagree with the finding "*The audit identified the following problems that place the project at risk of not achieving its objective.*" While each of these problems had a different level of impact on the ability of the program to achieve targets, we do not believe that created significant risk of not achieving the program's broader objectives. We suggest using the following language: "The audit identified the following problems that posed significant challenges."

(4) We take issue with the statement that "*Mercy Corps ultimately negotiated a subagreement with Internews in August 2013 for $1.5 million, considerably less than IRI's $8.6 million planned award, reflecting anticipated changes in the project's scope*" (page 8, paragraph 4). While

factually correct, as phrased it gives a false impression that only approximately 17% of originally planned IRI activities will be implemented. In reality, a significant portion of IRI activities not carried out by Internews will be carried out in years 2 and 3 by Mercy Corps and by sub-recipients receiving grants under the advocacy grants program. Mercy Corps is now responsible for many of IRI's activities (for example, the baseline survey) and has integrated others into the revised approach (for example, the town halls, policy fora and TV shows will now be implemented through advocacy subgrants). These go beyond the more limited subset of activities transferred to the new partner, Internews, in August 2013. In addition, Internews will conduct media trainings for civil society organizations (CSOs) as part of IR 1, 2 and IR 3. Many activities originally to be carried out by IRI are now being implemented as part of the first round of advocacy grants awarded in November 2013. Moreover, nearly all of the $8.6 million originally intended for the IRI subcontract continues to be programmed for purposes similar to those that IRI was intending to implement.

(5) We disagree with the finding contained in the subtitle *"USAID/Iraq Did Not Make Appropriate Changes to Cooperative Agreement or Performance Management Plan*" (page 9) and we request this to be revised as: "USAID/Iraq did not formally notify the implementer about anticipated changes in the budget." As noted above, we did do so informally in meetings between Mercy Corps and USAID. As a result, Mercy Corps adjusted implementation for the reduced funding in its plans for Years 2 and 3. For example, as mentioned in the previous paragraph, most, but not all, of the activities originally intended for IRI were reprogrammed to be carried out by other organizations. Activities not considered of sufficient priority were not reprogrammed at the reduced funding level.

(6) We request an update to the finding (page 10, paragraph 4) *"In addition, Mercy Corps had yet to award any advocacy grants."* While no advocacy grants were made during the first year, as of November 2013 Mercy Corps awarded ten advocacy grants. The second round of the advocacy grants is scheduled for the beginning of February 2014.

Attachments:

I. AO letter to Mercy Corps dated January 21, 2014

cc:

USAID/IRAQ/DGO, S. Brager
USAID/IRAQ/DGO, V. Raznatovic
USAID/IRAQ/FMO, G. Villagran
USAID/IRAQ/OAA, B. Gelband
USAID/IRAQ/RLA, K. d'Aboville
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ME/IAPA, J. Meyer
USAID/APC. D. Travis

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