OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID TRANSITION INITIATIVES IN IRAQ

AUDIT REPORT NO. E-267-06-004-P
August 16, 2006

BAGHDAD, IRAQ

Office of Inspector General

August 16, 2006

MEMORANDUM

TO: USAID/Iraq Mission Director, Hilda Arellano
                  USAID/OTI Acting Director, Rob Jenkins

FROM: Acting Regional Inspector General, Baghdad, Terry Youngblood /s/

SUBJECT: Audit of USAID Transition Initiatives in Iraq (Report No. E-267-06-004-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments on the draft and have included USAID/Iraq comments as Appendix II and USAID Office of Transition Initiatives comments as Appendix III. The report contains no recommendations.

I want to express my sincere appreciation for the cooperation and courtesies extended to my staff during this audit.

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SUMMARY OF RESULTS

We were not able to determine if USAID's Transition Initiatives in Iraq achieved their intended outputs because of security restrictions that limited the number of site visits we could make and because of insufficient documentation maintained by the Office of Transition Initiatives in Iraq and its implementing partner. The audit found that a projected $146 million in grants did not have supporting documentation to verify the achievement of intended outputs and a projected $294 million in grants did not have sufficient documentation of monitoring. However, for the site visits and interviews we were able to perform for 32 selected activities, intended outputs were met for 31 activities. (See pages 4 through 7.)

The audit also found a lack of coordination caused a duplication of efforts. Even though the Office of Transition Initiatives in Iraq coordinated with the U.S. military and had previously coordinated with USAID/Iraq offices, during the past year, coordination was insufficient with other offices in the USAID/Iraq Mission. (See pages 8 and 9.)

Nevertheless, as the Office of Transition Initiatives program in Iraq has ended, we are making no recommendations. (See pages 7 and 9.)

Management comments are included in their entirety in Appendix II and Appendix III. (See pages 13 through 24.)

BACKGROUND

Since early April 2003, the Office of Transition Initiatives (OTI) has been an active participant in reconstruction and governance activities in Iraq. OTI/Iraq was one of the first USAID units on the ground as soon as areas of Iraq were deemed permissible for relief and reconstruction efforts. It established an office in early May 2003 in Baghdad as well as regional offices in Basrah, Hillah, and Erbil.

OTI/Iraq played the role of "gap-filler" in Iraq by providing fast-paced assistance to meet critical needs that other U.S. government agencies could not provide. OTI/Iraq concentrated on meeting immediate needs that fell within its mandate, which included providing short-term employment, restoring basic government and community services, increasing Iraqi access to information and communication, preventing violence and protecting human rights, and increasing Iraqi participation in social, political, and economic life. OTI/Iraq was to support critical initiatives that would build Iraqi confidence in the transition to a participatory, stable, and democratic Iraq.

To support OTI/Iraq in achieving this goal, OTI awarded two contracts to Development Alternatives, Inc. (DAI). The first contract, valued at $41 million, was in effect from January 6, 2003 to April 5, 2004; the second contract, valued at $350 million, was in effect from February 5, 2004 to June 30, 2006.

OTI/Iraq and DAI developed and awarded grants that fit into one of four categories: investigations of crimes against humanity, democracy building, human rights, and civic programs. As of December 31, 2005, 4,798 grants had been awarded. The last of the OTI/Iraq grants was to be awarded in March 2006 with activities ending in April 2006.

Photos of handicrafts produced at a center that received an OTI/Iraq grant. (Northern Iraq, February 2006)

This audit covers the USAID transition initiatives implemented by DAI from January 2003 to December 31, 2005. As of December 31, 2005, combined cumulative obligations and disbursements under both DAI contracts totaled approximately $390 million and $338 million, respectively.

AUDIT OBJECTIVE

As part of its fiscal year 2006 annual audit plan, the Regional Inspector General in Baghdad conducted this audit to answer the following objective:

- Did USAID Transition Initiatives in Iraq achieve their intended outputs?

Appendix I contains a discussion of the audit's scope and methodology.

AUDIT FINDINGS

We could not determine if USAID's Transition Initiatives in Iraq achieved their intended outputs for all 4,798 activities funded by the Office of Transition Initiatives (OTI). To answer the audit objective, we attempted to verify outputs[1] by reviewing documentation and making site visits when possible. We found, though, that documentation was insufficient to verify that outputs were achieved, and we were only able to physically verify the achievement of outputs through site visits for 8 of the 81 activities.

For the 32 OTI/Iraq activities we were able to visit in our judgmental sample, grant outputs consisted of a wide range of activities such as repairing roads, providing equipment to schools, providing local employment opportunities, and providing equipment to ministries. Of the 32 activities visited, 31 had met the intended outputs of their respective grants. These activities were selected judgmentally based on their funding levels and our ability to visit the activity sites given the security situation. Additionally, OTI/Iraq management considered the process of Iraqis participating in the grant process to have been a positive effect and asserted that the grants created hope in the neighborhoods.

The audit found that controls relating to monitoring and documentation of grants could be improved, and that OTI/Iraq needed to better coordinate its efforts with other USAID/Iraq units to avoid duplication of efforts. However, the report does not contain recommendations because the OTI program in Iraq has ended.

Photo of a road repaired through an OTI/Iraq grant. (South Central Iraq, February 2006)

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[1] A statistically valid sample of 81 grants was randomly selected using an assumption of an error rate of less than 5 percent. Variations allowed were plus or minus 4 percent with a confidence level of 95 percent.

Documentation Insufficient to Support Outputs Achieved or Monitoring Performed

Summary: Pursuant to USAID's Automated Directives System (ADS), a major task of cognizant technical officers is to monitor the quality and timeliness of outputs. In addition, DAI's contracts required it to monitor grants. Even though OTI/Iraq and DAI engaged in some monitoring and relied upon self-monitoring by grantees, which OTI/Iraq management believed was sufficient, monitoring and documentation of the grants were not sufficient. OTI/Iraq's and DAI's monitoring activities were not documented in written reports for a projected $294 million in grants. Self-monitoring certifications from grantees were not translated into Arabic, and many grantees did not know what they were signing. As a result, there was not sufficient assurance that projects achieved intended outputs and that U.S. Government resources were not wasted.

ADS 202.3.6 states that cognizant technical officers (CTOs) are to monitor the quality and timeliness of outputs because outputs are critical to achieving results. While the CTO for the OTI/Iraq program was Washington-based, a number of U.S. Personal Services Contractors were deployed to the field to manage, oversee, and make day-to-day decisions regarding implementation of the OTI/Iraq program. In addition, OTI's contract with DAI required DAI to monitor and evaluate grants.

OTI/Iraq's short-term, flexible transition assistance did not always lend itself to the more rigorous monitoring systems. Management of both OTI/Iraq and DAI stated that monitoring was very difficult in an unstable environment, and site visits to projects had been extremely limited. OTI/Iraq and DAI relied on the U.S. military, the grantees, and the sub-contractors to monitor the grants. However, site visits performed by the audit team and review of documentation provided by DAI demonstrated that the monitoring and documentation of the OTI/Iraq activities were not sufficient.

DAI Monitoring and Documentation – The Government Accountability Office's *Standards for Internal Control in the Federal Government* states that all transactions and other significant events need to be clearly documented and that the documentation should be readily available for examination. This documentation would include monitoring reports.

DAI staff in Erbil and Hillah stated that they made site visits, but, based on a statistical sample, there were no site visit or evaluation reports for a projected 4,383 grants totaling $294 million. DAI management stated that they do not have a formal process for documenting site visits. OTI/Iraq management stated that pictures are a means of explaining and demonstrating progress towards completion. However, the pictures provided for 51 of the selected 81 grants were determined to be insufficient as evidence; the picture files contained no explanation of the picture, the date, or the place. Furthermore, the pictures did not show projects before, during, and after. Thirty of the 51 grants with pictures provided were employment grants. For example, for one grant with an intended output to employ 250 local people to clean an area, two pictures show a major road with no explanation. Sufficient evidence to support the completion of this output would have included a payroll log for workers to sign when they were paid.

DAI did not keep documentation as required under Federal Acquisition Regulation 52.215-2 (f), which states that the contractor shall make available at its office at all reasonable times the records, materials, and other evidence for examination, audit, or reproduction, until three years after final payment under the contract. Under section (g) of this same regulation, the contractor must require the subcontractors to maintain documentation for three years as well. DAI's subcontracts contained a clause that documentation was required to be kept only for six months. DAI was to keep the documentation after that time, but DAI did not provide supporting documentation of outputs for a statistically projected 1,718 grants valued at $146 million.

In addition, DAI was not able to provide specific project location information in a timely manner. Specific project location information, such as grid coordinate information, must be provided to the security escorts to visit any site location. DAI management stated that DAI did not track the grid coordinates of its projects but requested grid coordinate information from the military based on location information included in the grant. Not having grid coordinate or specific grant location information became an issue during the audit when planned site visits had to be cancelled due to DAI not being able to provide the information within days of being requested to do so. While grid coordinates were not required by the contract, if DAI could not provide the specific location information of the grants, monitoring by USAID personnel was restricted.

OTI Monitoring and Documentation – As stated previously, the Government Accountability Office's *Standards for Internal Control in the Federal Government* states that all transactions need to be clearly documented. This documentation would include monitoring reports. Because of the precarious security conditions in Iraq, OTI/Iraq site visits were extremely limited. While certain members of the OTI/Iraq team reported making regular site visits to the grantees, OTI/Iraq was only able to provide a recent compilation of site visits, which OTI/Iraq management stated were from field notes.

Grantee Self-Monitoring and Documentation – USAID's *Strategic Planning & Program Performance* report, dated October 2005, states the minimum reporting required in a non-permissive environment is a note signed by the grantee certifying that all goods and services were delivered in satisfactory condition and that the activities took place. Because OTI/Iraq and DAI were unable to adequately monitor the projects in person due to security conditions, they relied to a significant extent upon self-monitoring by grantees.

Of the 81 randomly selected grants, 91 percent of final certification reports were signed and submitted by the grantees. However, during site visits when grantees were asked about the certification reports that they signed, 22 percent of grantees stated the documents they signed were in English and were not translated. Several grantees further stated that they signed a "thank you letter," not a final certification report regarding the completion or adequacy of the work. The grantees were not aware that they were actually signing a final certification report. In addition to the certification reports, grantees stated that the memorandum of understanding (MOU) documents were not translated either. Again, without understanding the MOU and the requirements of the MOU, one cannot certify completion in accordance with the grant. Two OTI/Iraq program managers stated that DAI had been requested to develop an Arabic translation of these documents but had never provided one. After the end of audit fieldwork, DAI management provided a copy of a translated MOU form. However, it was not given to

the OTI/Iraq program managers when they had requested it. OTI management stated that one reason for the documents not being translated for the grantees may be due to the fact that grantees would not sign the MOUs if they understood the legal implications of the document. Therefore, although 91 percent of final reports submitted were signed by the grantees, no reliance can be placed upon these reports. As a result, there is no assurance that goods and services were delivered in satisfactory condition and that activities were completed in accordance with terms of the grants.

The grantees were also not always aware of the amount of the grants. DAI's *Remote Location Grants Implementation Procedural Guide* stated that there would be an increased reliance on the grantee certifying that the goods and services have been provided. Sufficient detail was to be provided to the grantees regarding the goods and services to be provided so that the grantees could verify that they received goods and services that complied with the contract. However, five (16 percent) of the 32 grantees interviewed raised concerns that they were not told the award amount. Although the grantees said that the goods and services had been provided, they could not verify that the quality of the goods and services complied with the grant without knowing the grant amount. In fact, one grantee stated that he had been accused by the beneficiaries of keeping some of the grant proceeds himself because of the lack of full transparency on grant amounts and expenditures. OTI/Iraq management stated that the total amount of the grant is known by the grantees. However, two program managers acknowledged that grantees were not told grant amounts. One reason given for the lack of information provided to the grantees was that if grantees knew the amounts of the grants, they would want to perform the work at a cheaper rate, but only two subcontractors had been approved by DAI and OTI. One of OTI's special focus areas is transparency and good governance, and by failing to disclose the amounts of the grants to the grantees, OTI/Iraq missed an opportunity to promote transparency through its own actions.

OTI/Iraq management stated that monitoring and documentation was limited to protect the security of the projects and the participants. OTI/Iraq management believed the monitoring was adequate given the security situation in the country.

If projects are not monitored and documented, there is no assurance that they are being implemented and that the implementation is being done correctly. Without documentation of monitoring activities, there is no assurance that monitoring actually took place, and project details will be dependent on the memory of a person who may or may not continue in the job. Ultimately, OTI/Iraq cannot be assured that U.S. government resources are being used in the most effective manner.

Because the OTI/Iraq program has ended, we are not making any recommendations to address this issue.

Lack of Coordination Led to a
Duplication of Efforts

Summary: The Government Accountability Office recognizes the need for an organization's management to ensure effective and efficient operations. Even though OTI/Iraq coordinated with the U.S. military and had previously coordinated with the USAID/Iraq offices, within the past year OTI/Iraq did not coordinate sufficiently with other units in the USAID/Iraq Mission. The lack of sufficient coordination occurred because of security concerns for the grantees and implementing partners. This lack of coordinated programming led to a duplication of efforts and ultimately, to U.S. Government resources being wasted.

The Government Accountability Office's *Standards for Internal Control in the Federal Government* states that part of an organization's management should ensure the effectiveness and efficiency of operations. Duplication of efforts does not result in effective and efficient operations.

OTI/Iraq and the U.S. military had a close working relationship, and OTI/Iraq coordinated employment grants with the Multi-National Force-Iraq. In addition, OTI/Iraq coordinated with other USAID/Iraq offices[2] and programs in 2003 and 2004, but this coordination decreased and was limited in 2005; in fact, 11 of the 13 offices interviewed stated that there was either no or limited coordination. For example, one USAID Regional Representative, who is responsible for supervising, monitoring and directing all on-going and proposed USAID development assistance programs in the region, stated that he was told the lines of communication had already been established with the military and that he was not involved in the program. In another office, an employee stated that even though he shared office space with OTI/Iraq and projects were discussed, OTI/Iraq would not provide any written reports when requested. In a different USAID/Iraq office, one employee stated that even though OTI/Iraq had spent money in his program area, he was not aware of what projects were implemented. Sharing of reports and project information would facilitate coordination among USAID offices and result in more effective and efficient operations. It would also facilitate integration of projects, and it would facilitate subsequent projects building upon the foundations and achievements of earlier projects.

OTI/Iraq management stated that the limited coordination was due to security concerns of the grantees and the contractors. OTI/Iraq management thought that providing project lists would put people and projects at risk. In one case, OTI/Iraq would not allow USAID/Iraq personnel to perform site visits for OTI because it did not want the security presence of USAID escorts to compromise the security of the project site – a very real concern in Iraq. Whereas we agree that security is of paramount importance, we believe alternative methods could have been used to better coordinate efforts.

The lack of coordination between OTI/Iraq and USAID/Iraq offices ultimately resulted in wasted U.S. Government resources and a duplication of efforts. A duplication of efforts occurred in two (6 percent) of the 32 projects visited. One USAID/Iraq implementing partner provided a chamber of commerce with a grant for $44,000, including 10 computers.

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[2] The USAID/Iraq Mission includes a program office, strategic objective teams, regional offices, and other programmatic offices.

OTI/Iraq later provided the same chamber of commerce a grant worth $156,000, including 20 computers. After receipt of the OTI/Iraq computers, the chamber of commerce gave away the original 10 computers received from the USAID/Iraq implementing partner. The OTI/Iraq grant application stated OTI/Iraq was "working in partnership" with the other program's implementing partner, but the coordination was not adequate given the overlap of computers provided.

At another project, a training center received furniture and computers through a $210,000 grant funded by USAID/Iraq. The training center later received computers and furniture worth $47,000 through an OTI/Iraq grant; however, not all of the furniture or computers were being used.

Even though the duplicated efforts cannot be projected, given the high volume of grants, the risk of duplicated efforts exists in other grants. As stated previously, because OTI/Iraq program has ended, we are not making any recommendations to address this issue.

EVALUATION OF MANAGEMENT COMMENTS

In response to our draft report, USAID/Iraq and USAID Office of Transition Initiatives (USAID/OTI) provided separate comments, which are evaluated separately and included in their entirety in Appendix II and Appendix III, respectively.

Evaluation of USAID/Iraq Comments – USAID/Iraq did not concur on one point in the draft report; we adjusted the wording in the report to address their concerns.

Evaluation of USAID/OTI Comments – USAID/OTI did not concur with the findings included in the report. Based on USAID/OTI's comments, we made some changes to the draft report, but we primarily relied on documentation gathered during the audit. We are addressing USAID/OTI's main concerns below.

In its comments, USAID/OTI requested that we project results from our judgmental site visit sample. However, since it would not be statistically accurate, we did not do so.

With regards to monitoring, USAID/OTI maintains that the certification of completion documents are valid as all grantees were provided grant documents translated into Arabic and that the grantees were told the amounts of the grants. However, grantees we interviewed stated that they were neither given translated documents nor were they always told the amount of the grant. As such, we do not consider the certification of completion documents valid.

USAID/OTI comments state that DAI kept only documentation of intended outputs for six months. However, DAI staff told us during the audit that they kept supporting documentation for three years in accordance with Federal regulations. Nonetheless, supporting documentation requested by the auditors was never provided.

Certain locations and names have been covered in USAID/OTI's comments due to security precautions.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General in Baghdad audited USAID's Transition Initiatives in Iraq in accordance with generally accepted government auditing standards. The purpose of the audit was to determine whether USAID's Transition Initiatives in Iraq had achieved their intended outputs.

Projects were implemented by the Office of Transition Initiatives (OTI) in Iraq through Development Alternatives, Inc. (DAI) under two contracts. The first contract, including 10 modifications with a cumulative value of $40 million, was awarded on January 6, 2003 and ended on April 5, 2004. On February 5, 2004, OTI awarded a second contract to DAI. The contract's cumulative value, including its 14 modifications with a cumulative value of $350 million, was scheduled to end on June 30, 2006. The focus of the contracts was to enhance civil society development, good governance, human rights/transitional justice, conflict mitigation, and provide short term technical assistance. As of December 31, 2005, combined cumulative obligations and disbursements under both contracts totaled approximately $390 million and $338 million, respectively.

The audit focused on determining if OTI/Iraq projects implemented by DAI had achieved or were achieving their intended outputs as of the audit cut-off date, December 31, 2005. The audit universe consisted of 4,798 grants with a combined funding level of approximately $323 million. We statistically selected a sample of 81 grants amounting to $10 million for testing. Because of security conditions, we were not able to perform site visits to all 81 grants. We made an additional judgmental selection of grants in areas where site visits were permitted; a total of 32 site visits or interviews of grantees were performed.

In addition, the audit included an examination of management controls relating to the monitoring of activities performed under both contracts. Specifically, these controls included:

- Performing periodic field visits by OTI/Iraq and DAI to the project sites to observe work achieved.
- Communicating regularly with U.S. military officials to keep abreast of the conflict areas.
- Requiring the approval of the cognizant technical officer for grants over $100,000.
- Reviewing DAI's semi-annual performance reports.
- Completing the Mission's Federal Managers' Financial Integrity Act reports.

The audit fieldwork was performed from January 26 to April 4, 2006 and consisted of interviews with key technical staff, including OTI/Iraq, USAID/Iraq, and DAI employees; review of relevant performance and financial documents; and site visits to selected grantees in Hillah and Erbil. Because of security conditions, grantees from the Baghdad area were interviewed in the International Zone in Baghdad, Iraq. The audit team was

not able to visit additional project sites due to security restrictions in place at the time of our fieldwork.

As part of our initial planning work, we examined related audits performed by other U.S. Government agencies, including the Special Inspector General for Iraq Reconstruction.

Methodology

To determine if the grantees met intended outputs, we first stratified the universe of grants and then randomly selected 81 grants using an assumption of an error rate of less than 5 percent. Variations allowed were plus or minus 4 percent, and the confidence level was 95 percent. A stratified sample was chosen in order to include grants of all funding levels. Based on the results of the sample testing, we projected the results to the population of grants for adequate supporting documentation and monitoring and evaluation reports of grants.

Of the 81 selected grants, 29 grants ($4.5 million) did not have supporting documentation to verify if intended outputs were met, and 74 grants ($9.1 million) did not have documentation to demonstrate sufficient monitoring. Based on these results, we projected that $146 million in grants did not have supporting documentation and a projected $294 million in grants did not have sufficient monitoring documentation. For each selected grant, we requested documentation for review, including the grant proposal, the Memorandum of Understanding and its amendments, monitoring reports, close-out reports, and any other pertinent documents. In conducting our fieldwork, we interviewed technical staff from the USAID/Iraq Mission, OTI/Iraq, its contractor (DAI), U.S. military officials, local government officials, and selected grantees. These interviews were conducted either in person or via e-mail correspondence. Site visits were made to 8 of the 81 selected grantees. Because the security situation precluded visits to many areas, additional grants were judgmentally selected for site visits based on funding levels and activities funded. In total, 32 site visits or interviews of grantees were performed. Because the site visits were not randomly chosen, the results were not projected onto the population. Vouchers were judgmentally selected for review based on dollar values.

Our materiality threshold for this audit was established at 10 percent. For example, if 90 percent or more of the 81 grants reviewed were determined to be achieving their intended outputs as of our audit cut-off date, we would conclude that OTI/Iraq's activities were achieving their intended outputs.

MANAGEMENT COMMENTS

MEMORANDUM

TO:	Nancy Lawton, Regional Inspector General (RIG), Iraq
FROM:	Don Brady, Acting Mission Director, USAID/Iraq /s/
SUBJECT:	Comments on RIG/Iraq's Draft Audit Report of USAID/Office of Transition Initiative (OTI) Iraq Program (Report No. E-267-06-00X-P)
DATE:	June 23, 2006

The Mission would like to thank to thank RIG/Iraq Audit Team for their excellent support and assistance during this audit of USAID's OTI Iraq Program.

While the draft audit report did not make any recommendations, the report did raise several issues which we would like to address:

1. As acknowledged in the draft report, OTI operated in a very difficult security environment. As is true with other USAID programs, the security situation presented unique challenges to OTI and its implementing partner in monitoring projects. We believe that this contributed to several of the findings noted in the draft report.

2. The draft report indicates that OTI's implementing partner did not provide the RIG audit team with grid coordinates for project site visits in a timely manner. Although the implementing partner should know the location of all projects, we wish to point out that neither OTI nor its implementing partner are responsible for providing grid coordinates for official USG private security detail (PSD) or other official movements of USAID staff. This responsibility normally rests with the RSO and/or other authorized persons. Further, even where the Mission or one of its implementing partners knows grid coordinates for a particular project, this information should always be confirmed with the RSO or other authorized persons, as appropriate, to confirm the accuracy of the information, which, in turn, helps to ensure the security of USAID personnel.

The Mission understands that DCHA, an independent office within USAID, plans to submit its response to the draft report directly to RIG.

Again, the Mission expresses its appreciation to the RIG/Iraq Audit Team for their work on OTI program draft audit.

MEMORANDUM

TO:	Nancy Lawton, Regional Inspector General, Iraq
FROM:	Rob Jenkins, Acting Director, USAID/OTI /s/
SUBJECT:	Comments on RIG/Iraq's Draft Audit of USAID/Transition Initiatives in Iraq (Report No. E-267-06-00X-P)
DATE:	June 27, 2006

The Office of Transition Initiatives thanks Nancy Lawton, Kendra Schoenholz, Terry Youngblood and Ramy Labib for their excellent support and assistance during this audit of USAID/OTI's Iraq Transition Initiative Program (ITI).

While the IG draft audit report does not make recommendations, it does raise several issues that we have addressed point-by-point in the attachment entitled "USAID/OTI Iraq - Comments to Inspector General Report." Rather than review these points in this cover memo, OTI would like to highlight its response to two findings regarding supporting documentation to demonstrate achievement of intended outputs and the lack of sufficient monitoring documentation.

OTI does not concur with the report's findings regarding supporting documentation. In the sample of 81 grants provided to the audit team, CTO concurrences on grants over $100,000 were inadvertently not provided when OTI's implementing partner DAI presented pertinent documentation on the selected grant sample. At the time the audit team did not mention this documentation problem to OTI. When the issue was brought to OTI's attention through the release of the initial IG draft audit report on April 2, 2006, OTI and DAI immediately provided the audit team with the requested concurrence documentation. At that point, OTI asked the audit team to specifically cite documentation that had been requested of OTI but remained missing – if any. No further description of missing documentation was relayed to either OTI or DAI.

The audit report also commented on OTI's monitoring process, specifically referencing site visit reports that the audit team felt had been recently written. The draft audit report makes no reference to OTI's explanation that the reports had been previously prepared after each

site visit but only recently compiled into a more standard format in an effort to better document monitoring work in an agreed-upon template. The report misconstrues OTI's efforts at standardization and efficiency as an attempt to cobble together documentation that did not exist prior to the audit team's request for it.

OTI asks that the IG comments throughout the audit report clearly describe the formal "*statistical*" calculation employed in concluding via "projection" that "$146 million of OTI grants did not have supporting documentation to demonstrate achievement of intended outputs" and that "$294 million did not have sufficient documentation of monitoring." On Page 1 of the audit report OTI requests that the initial reference to a *statistical* projection be either further explained or an additional projection is applied across the total time period covered by the audit (April 2003 to December 2005) to include all 4,798 grants as opposed to the much narrower sub-set of grants. Furthermore, in the interest of uniformity the same *statistical* projection should be applied to the audit team finding that intended outputs were met for 31 of 32 grants where site visits and interviews were possible.

At the direction of the audit team OTI provided detail on 81 grants, a sample size that equates to just 1.68 percent of the pool of almost 4,800 grants OTI cleared during the time period covered by the audit. Furthermore, visits or interviews were conducted on only 32 of those grants or roughly .669 percent of the entire grant pool. No further review was performed on this sample or on additional grant samples to discover if consistent issues were existent across OTI grants as described by the audit report. In OTI's view the incredibly small sample size relative to the total number of grants implemented calls into question the audit team's use of extrapolation and the corresponding negative findings on both supporting documentation to demonstrate achievement of intended outputs and the lack of sufficient monitoring documentation.

OTI truly appreciates the opportunity to comment on the draft audit report and our more detailed responses are found in the attachment to this memo.

USAID/OTI IRAQ
COMMENTS TO INSPECTOR GENERAL [IG] AUDIT REPORT

The Office of Transition Initiatives thanks Nancy Lawton, Terry Youngblood, Kendra Schoenholz, Ramy Labib, Remy Blake and the rest of RIG-Baghdad for their assistance during the audit of OTI's activities in Iraq from April 2003 through December 2005. OTI appreciates the opportunity to comment on the draft audit report.

A. IG COMMENT: Results of intended outputs were not met – Page 4

1)   PROVISION OF MATERIALS REQUESTED BY IG DURING PERFORMANCE OF AUDIT

OTI and DAI worked with the IG auditing team to provide all requested materials. In the IG-identified sample of 81 grants, CTO concurrences on grants over $100,000 were inadvertently omitted by OTI's implementing partner DAI in response to the IG request for all pertinent documentation on the selected grants sample. The audit team did not mention the omission prior to release of the initial draft audit report on April 2, 2006. When the issue was brought to OTI's attention OTI immediately provided the requested concurrence documentation to the audit team.

2)   DESCRIPTION OF STATISTICAL CALCULATION

OTI asks that the IG comments in the report should clearly describe the formal "*statistical*" calculation utilized to conclude by "projection" that "$146 Million of OTI grants did not have supporting documentation to demonstrate achievement of intended outputs" and that "$294 million did not have sufficient documentation of monitoring." OTI also asks that the initial reference to a *statistical* projection (see Page 1) either be further explained or an additional projection be applied across the total time period covered by the audit to include 4,798 grants. Lastly, OTI requests that the same *statistical* projection be applied to the finding that intended outputs were met for 31 of 32 grants where site visits and interviews were possible.

Audit or the act of auditing implies that some sort of test or testing was performed – particularly when coupled with use of the term "statistic" or "statistical sample" as referenced in the report. Testing implies that problems were uncovered, and that more testing was done to ensure an accurate sample or that an anomaly was found. In this case the IG used a sample size of 81 grants (equating to 1.68 percent of OTI grants implemented during the period covered by the audit, with visits or interviews conducted on only 32 of those grants or .669 percent from a pool of just under 4,800 grants). No further review was performed on this sample or on additional grant samples to determine if consistent issues were existent across OTI grants as described in the audit report.

B.   CORRECTION to IG Report – See Page 2

IG COMMENT: "OTI/Iraq and DAI developed and awarded grants that fit into one of four categories . . ."

RESPONSE: OTI asks that this statement include note that the listed categories cited in the report are specific budget line items in the Section 2207 Report that tracks spending under the Iraq Relief and Reconstruction Fund (IRRF). Section 2207 is part of the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004 (Public Law 108-106). The law requires the Secretary of State to submit a quarterly report to Congress outlining the current conditions for programs and initiatives supported by the specific appropriations dedicated to IRRF. OTI asks that the IG cite the Congressional Notifications indicating how funds received

by OTI were to be expended, particularly in late 2004 and 2005 when programming shifted to focus on conflict mitigation and stabilization activities largely comprised of temporary employment grants involving community clean ups and coordinated with the military. These materials were provided to the audit team at the outset of the review.

C.   Grants viewed by the audit team as not achieving *results* – See Page 4. The report did not list grant number*s but were conveyed to OTI in separate email correspondence from a member of the audit team.*

1)   DAIARLX0013 - RECONSTRUCTION OF ███████████ PLAYGROUND

GRANT SUMMARY: *The grant will revitalize an area within the ████████████████ by turning it into a playground for neighborhood children. The area, which is currently full of trash, will be a healthy, safe area for children's activities.*

IG COMMENT: The audit team states that though the grant met the outputs (i.e. work was completed and equipment provided), the project did not achieve expected results: "*For example, one grant stated one of the planned results was to "establish a safe, healthy play area for the children of Erbil." However, children were not allowed to play in the playground. Although they were allowed into the playground to "sit quietly and study," the guards would require them to leave if they became rambunctious. Moreover, ruts were created in the playground to prevent the children from playing soccer. The security guard stated that the children would ruin the garden in the park.* "

RESPONSE: The target municipality appropriately managed the inputs provided by the grant. They hired a caretaker and planted seedlings and grass. At times younger children became "rambunctious" and trampled the plants. OTI asserts that the community (i.e. the recipient of the grant benefits) is the best arbiter to direct the use and upkeep of the facilities, as well as to define expected behavior for Iraqi children. Accordingly, OTI asserts that the above grant achieved its intended results.

2)   DAIARLX0195 - Provision of Furniture and Equipment to ███████ Business Center

GRANT SUMMARY: *This grant will provide furniture and equipment to the ███████ Business Center. In collaboration with RTI, ACDI/VOCA and the KRG, this assistance will enable this registered NGO to provide technical and financial assistance to entrepreneurs who are seeking to start a business or expand small or medium-sized businesses.*

IG COMMENT: *"Another example of results not being met is a business center that closed after being open for only two months because a USAID/Iraq implementing partner did not provide funding originally agreed upon due to budget issues even though OTI/Iraq had already provided equipment. Because the center was closed after just two months, the intended results were not met. The furniture and equipment provided were in storage, and a generator given to the business center had never been used. The director of the business center stated that he hoped to receive funding from other sources to restart the center, but at the time of the audit, no such funding was available."*

RESPONSE: The business center was a collaborative effort between the recipient NGO, ITI and RTI. ITI provided furniture and equipment to the center and RTI (via another USAID funded program) was to provide operating expenses and technical training. RTI did provide training funds and expertise for the first two months after ITI supplied the equipment and 25 business people were trained in the use of computers and software applications. Two months after project start and after training the businessmen, RTI

stopped supporting the center because of unexpected funding constraints. ***This was not OTI's fault and could not have been anticipated***. OTI feels that all reasonable assurance was acquired and coordination done during the project's life to insure success, and that the project was successful at the time the grant ended. As a result, OTI requests that the grant be removed from the category of grants deemed by the audit team as not achieving intended results.

UPDATE: As of June 26, 2006 there is agreement from a German NGO to provide support for ongoing business training with the OTI-provided equipment. The German NGO will give financial and technical aid to the business center for the next two years. Also, it will assist graduates to develop businesses, or to enter the labor market.

D.   **Grant considered by the audit team to not have met *outputs***

1)   **DAIHLHX0399 - ██████████████████   Community Clean Up**

GRANT SUMMARY: *The* ██████████████ *Community Cleanup Initiative will employ about 60 local residents in labor-intensive cleanup, rubble and debris removal, as well as other urban sanitation work. This grant was developed in collaboration with the members of the provincial and local councils that represent the neighborhood of* ████████████ ████████*. Grant activities will help to mitigate conflict by providing labor and equipment for the cleanup of trash and debris in* ██████████████*. Moreover, grant activities will help increase confidence among citizens in the local government's ability to respond to constituent needs for basic public services - crucial to building the legitimacy of a new government in the aftermath of the first nationwide elections.*

IG COMMENT: Originally the IG stated that in all 32 sites visited intended outputs were met. Without explanation, the total was later reduced from 32 to 31 when this grant was removed from the list. A separate email sent by a member of the audit team offered the following reason: "*This number [*grants meeting intended outputs*] changed to 31. The one grant that did not meet intended outputs was DAIHLHX0399. You will note that the number of not meeting results decreased. The grantee stated that because the pay was higher than the municipal wage, many municipal workers left their jobs for the temporary employment. Some returned to the municipality, some no longer had jobs.* "

RESPONSE: OTI contacted the subject grantee. The 15 municipality workers to whom the IG refers were, according to the grantee, day laborers and not full-time staff. They were hired for the project as day laborers at the request of the grantee. The grantee further stated that the workers did not return because "no one prefers to work for the municipality as they are paid late and sometimes are not paid at all". In addition the grantee stated that they - the grantee - had since put out notices for day laborers but that no one responded as it was not considered an attractive opportunity. OTI requests further explanation on the determination that the grant did not meet intended outputs. OTI asserts that all the grant outputs were met, i.e. 63 people were employed for 30 days and equipment was provided. OTI contends that the capacity of the municipality to retain and attract workers is independent of the project.

2)   **DAIARLX0142 - Renovation of ██████████ City Hall**

GRANT SUMMARY: *This grant will provide materials and equipment necessary to renovate* ████████ *Hall in* ████████████████*. This support will provide community groups, political parties and government officials a venue in which to conduct seminars, debates and meetings.*

COMMENTS: There is no discussion in the audit report on this grant, just inclusion in the list of grants that did not meet results.

RESPONSE: The stated reasoning in the audit report is that this project did not meet results since the grantee, the Minister of Culture, as of July 2005, designated the hall to be used primarily for theater events.

The timeline on the grant is as follows:
- July 2004 – Grant agreement signed
- September 2004 – Hall renovation completed
- October to November 2004 – Hall is used for political meetings in preparation for first national elections in January 2005.
- November 11, 2004 – Grant is closed.
- December 2004 and January 2005 – Hall continues to be used for political meetings in preparation for the January 2005 national elections.
- July 2005 – Minister of Culture designates the hall as a venue for performing arts, the only such venue in Northern Iraq.
- October 2005 - Hall is used for political meetings and debates on the constitution referendum.
- November and December 2005 – Hall is again used for political meetings and debates for the elections for the first permanent government.

OTI disagrees with the finding that the grant did not meet intended results. The hall was a venue for political meetings and discussions during Iraq's critical transition to rule by an elected government. The hall continues to be used for political meetings. Also, the audit team should note that the grant category is community infrastructure and the subcategory is Community Cultural Center. Furthermore, the background section to the project clearly states intended uses of the building at the time of the rehabilitation: "*this building was used by community groups, political parties and government officials for meetings, seminars, debates, music concerts, national ceremonies and festivals.*" OTI believes the report assertion that the venue should be used *exclusively* for political meetings is not in keeping with the grant purpose.

E.   Failure to maintain location information – See Page 7

IG COMMENT: "DAI was not able to provide project location grid coordinates in a timely manner."

RESPONSE: DAI maintained specific location information on each grant. However, DAI did not always have access to military personnel able to transpose the site location into MGRS [military grid reference system] coordinates. **MGRS coordinates** were used by the RSO Baghdad and PSD for site visits. It is inaccurate to conclude that DAI could not locate project sites. DAI could not provide MGRS coordinates but could provide the specific location of each project or activity site – just not using the MGRS system. OTI was not notified of this issue and unfortunately was not able to seek assistance from the military or other sources to transpose the site location into the information needed by the PSD to set up the site visits for the audit team.

DAI is not contractually responsible for maintaining military grid reference system (MGRS) coordinates for each grant. DAI **is** responsible for maintaining location information for each project or activity. DAI has no capacity to generate grid coordinates, nor was DAI asked to acquire such capacity under the terms of the contract. DAI uses "P codes" as developed by the UN to establish common names for locations. To ensure better precision for its Iraqi staff, DAI also uses street addresses or other location information such as postal codes to ensure grant locations are identifiable and that a person with some familiarity with Iraqi cities can locate the grant sites.

F. <u>**Improper maintenance of grant documentation – See Page 9**</u>

<u>**IG COMMENT:**</u> "*DAI did not keep documentation as required under Federal Acquisition Regulation 52.215-2 (f), which states that the contractor shall make available at its office at all reasonable times the records, materials, and other evidence for examination, audit, or reproduction, until three years after final payment under the contract. Under section (g) of this same regulation, the contractor must require the subcontractors to maintain documentation for three years as well. DAI's subcontracts contained a clause that documentation was required to be kept only for six months. DAI was to keep the documentation after that time, but DAI did not provide supporting documentation of outputs for a statistically projected 1,718 grants valued at $146 million.*"

1) Failure to keep documentation

RESPONSE: OTI assumes this audit team comment is based partly on the issue of employment logs. On employment grants, DAI chose grantees having administrative responsibility for the work to be accomplished (such as public works departments or neighborhood political committees), as these grantees had access to the work sites and an interest to ensure work was carried out satisfactorily. The organizations managing worker payments were required to get worker signatures for each payment. Payment was done weekly because the grantees wanted to ensure that as many unemployed young men as possible in a given neighborhood had an opportunity to work. The grantees were involved in paying workers. Day laborer name lists were at a clear security risk in the neighborhoods where they were stored. After discussions with involved parties, DAI decided that after six months the lists were no longer needed to resolve potential disagreements related to worker pay. The lists themselves were not considered an part of the monitoring protocol Therefore, to reduce security risk, DAI recommended that after six months the lists of names be destroyed.
OTI would like to point out that in addition to submitting grantee certifications that the work was completed and the level of effort attained, DAI did provide the audit team with 15 employment logs for all 15 IG-selected grants that were six months old or less.

2) Failure to maintain translation of documents

RESPONSE: OTI asserts DAI did properly maintain a translation summary of grant documents given to grantees and provided this summary document to the audit team. OTI's Country Representative informed all OTI Program Managers on several occasions that grantees could be provided with this summary translation upon request.

One reference in the audit report to the translation of grant materials into Arabic mischaracterizes comments by OTI to the audit team. OTI requests that more context be given regarding this comment or that it be removed in its entirety from this report.

Regulation ADS E303.5.17 Governing Grants and Cooperative Agreements and entitled: "Official Language" States:' **If an award or any supporting documentation are provided in a foreign language it must be stated in each version that the English language version is the only official version.** It is DAI's contention that grantees, because of the nature of their education and responsibilities, had enough command of English or had access to someone with enough command of English to assure themselves of grant agreement content. English is the second language of educated Iraqis, and widely used for commercial purposes. Moreover, there is no legal and limited practical requirement to provide a translation.

3) Failure to disclose grant amounts to grantees – See Page 8

RESPONSE: OTI asserts that this comment is inaccurate. Grant amounts were always

disclosed to grantees on memorandum of understandings that were signed by grantees. Per comments made by OTI Program Managers: in speaking with Program Manager ▮▮▮▮▮▮ following the draft report's release, he indicated not giving a definite answer to this question because he had never reviewed grant documents provided to grantees (not an OTI Program Manager responsibility). Therefore he could not definitively provide information to the audit team that "grantees were never appraised of the grant amounts."

G.   Lack of coordination with other USAID program offices – See page 9-10

1)   Regional Representatives and lack of coordination

RESPONSE: OTI was never directed by USAID Regional Representatives based in Erbil or Basrah. OTI had staff present in Erbil until April 2005 and in Basrah until June 2005. In 2005 USAID representatives were starting to be posted in other areas of Iraq - including Fallujah, Ramadi and Mosel; however, at this time (September 2005), OTI did not have funding and was waiting for $35M for use by the end of December 2005. Accordingly, OTI had no funds to coordinate with USAID Regional Representatives even if that manner of operation had been mandated to OTI. The $35 million was not available until mid-November 2005 – this money was designated to support the military via short-term employment grants and was appropriately notified to Congress.

2)   Failure to provide program information to regional representatives

RESPONSE: Throughout the program, OTI provided weekly program data updates to the USAID Program Office in Baghdad. The USAID Regional Representatives in Fallujah, Ramadi and Mosel were regularly provided with a grants tracking list of all OTI activities taking place in their areas. These tracking sheets also were provided to the military. USAID staff could have requested the information on OTI from the USAID Program Office or IRMO's Information Management Unit had OTI not satisfied requests as alleged. People given information on OTI activities were asked to close hold tracking reports and to not divulge the information to outside sources without first checking with OTI and/or the USAID Iraq Program Office. This request was out of concern for the safety and security of OTI grantees. On several occasions there was inappropriate and dangerous release of program information containing grantee contact information.

Program Manager ▮▮▮▮▮▮ noted that USAID South Central staff were provided with complete lists of OTI projects in the area when he left Hillah in December 2005. ▮▮▮▮▮▮ also regularly provided USAID Hillah with project information.

OTI provided the USAID Information/Public Affairs Officers with lists of projects available for visits by people like the U.S. ambassador or other VIPs. OTI would ask DAI to liaise with grantees on whether they would welcome a site visit that might include up to 20 PSD/armed security guards, armored vehicles and escort helicopters. Many times grantees did not want such visits.

Given the security situation OTI was very cautious about sharing grant details. However, OTI made a point of providing information when possible. There were instances in which USAID staff made misrepresentations to the military or to other USG agencies about what assistance OTI could provide. At least once a USAID Representative inappropriately told the Fallujah Reconstruction Committee he would direct OTI projects to particular Iraqi contractors. OTI uses an implementing partner to program OTI work and does not direct the partner to particular Iraqi contractors. OTI's position on this issue was clearly articulated to both USAID Representatives in Fallujah in the fall of 2005.

There was a request from a USAID Representative in Al Anbar to be allowed to visit and/or monitor OTI project sites in the area. This request was refused because of on-going grant

activities. To have USAID staff traveling to project sites with military units while activities were underway would put projects at risk, plus risk the ability of the implementing partner to work in the sensitive province of Anbar. Monitoring of OTI projects by USAID staff was discussed in October 2005 at a meeting with all USAID Regional Representatives and the USAID Mission Director. OTI asserted there was not a role for USAID staff in monitoring OTI projects. Representatives could request a site visit and OTI always coordinated visits with grantees and the implementing partner – but ongoing activities were always sensitive, particularly when personnel traveled with the military. The Mission did not indicate that OTI actions were inappropriate or that OTI should re-think its approach on the site visit issue.

Of the 4,798 grants cleared through December 2005, more than 400 note coordination with RTI, and at least 36 grants refer to CAP partners Save the Children and ACDI/VOCA. Almost half of OTI's grants were developed in Erbil, Hillah and Basrah. While OTI did not have fulltime staff in all field offices, OTI did post program managers in Basrah until June 2005 and in Hillah through December 2005. The decrease in fieldbased staff was due to the program's close that was contractually designated for December 2005. The program was extended in November 2005 until June 2006. OTI requests the IG to note that OTI was implementing a large number of short term employment activities at the same time, more that 2,100 grants in total. These activities were more stand-alone, often developed in coordination with the military. This coordination included making sure that there was specifically not duplication of effort with either other US military (CERP) funded projects, or other reconstruction projects. Eliminating duplication of effort was so important to OTI that we requested the US military place a military liaison in our offices to be the point of coordination between military units, OTI and DAI. Eventually, OTI had Liaison Officers from several divisions sitting in Baghdad to assist with coordination work. One document, which may be of use, is the SIGIR Iraq CERP Audit prepared in January 2006, which offers some explanation of USAID and OTI's interaction and cooperation with the military.

H.   Insufficient monitoring and documentation section of IG report - Pages 6-8

IG COMMENT: *"OTI Monitoring and Documentation – As stated previously, the Government Accountability Office's Standards for Internal Control in the Federal Government states that all transactions need to be clearly documented. This documentation would include monitoring reports. Because of the precarious security conditions in Iraq, OTI/Iraq site visits were extremely limited. While certain members of the OTI/Iraq team reported making regular site visits to the grantees, OTI/Iraq was only able to provide a recent compilation of site visits, which OTI/Iraq management stated were from field notes."*

"Grantee Self-Monitoring and Documentation – USAID's Strategic Planning & Program Performance report, dated October 2005, states the minimum reporting required in a non-permissive environment is a note signed by the grantee certifying that all goods and services were delivered in satisfactory condition and that the activities took place. Because OTI/Iraq and DAI were unable to adequately monitor the projects in person due to security conditions, they relied to a significant extent upon self-monitoring by grantees."

1)   OTI Site Visits

RESPONSE: To comment on page 7 regarding site visits
OTI asks the audit team to remove or clarify the comment that OTI field visit notes were "recent compilations." The material provided to the IG was recently consolidated and put into a common template. The field notes (i.e. notes on site visits) were produced at the time of each visit to a particular site. A common format was later used to collate and compile the records in order to better standardize monitoring documentation.

2) Grant Procedures

RESPONSE: In-kind grants are made to government and non-government entities in Iraq in order to implement projects within the objectives of USAID/OTI and the grantee. For cash grants, USAID requires that the grantee have audited procedures and accounts in place, and a history of financial management. As Iraqi institutions are in a new and transitional environment, few if any grantees could meet the requirement. DAI therefore contracted out grant inputs and provided these directly to the grantee as "in-kind" grants. This procedure allowed for several things. It allowed for the development of "modular grants," i.e. the same type of grant with the same type of inputs to be replicated widely enough to help impact a targeted social and political situation. For example, it allowed OTI to implement over 2,000 grants to generate employment in strategically critical areas of Iraq. Over 593,000 one month jobs - more than the total of all other USAID programs combined - were created to help stabilize political and military priority areas such as Fallujah, Ramadi, Tal Afar and Sadr City. Similar procedures allowed government and technical staff to resume work in Iraq in the immediate post war period where government buildings were looted by providing quick rehabilitation and modular work stations sets to ministries, technical directorates and courts.

3) What kind of reporting may be required of grantees

RESPONSE: Per federal grant regulations, the most frequent type of reporting DAI may require from grantees is quarterly. On top of periodic reports, a final technical and financial report is required. **For in-kind grants, a grantee's reporting need only include procurement issues (stock of expendable items, list of non-expendable items procured and inventoried, etc).** In a final activity report, as per the Fixed Obligation Grant requirement, the grantee need only specify the activity was completed.

It is important that the grantee agree in writing that DAI personnel or authorized representatives have the right at all reasonable times to make site visits to review project accomplishments and management control systems, and to provide needed technical assistance. If DAI (or OTI) personnel make a visit to grantee premises, the grantee shall provide all reasonable facilities and assistance for the safety and convenience of these visitors in the performance of their duties. **All site visits and evaluations shall be performed in such a manner as to not unduly delay work in progress.** In Iraq, site visits during grant activities would have resulted in project termination.

Grants under implementation will have a customized monitoring plan when deemed necessary by program staff. This plan should be flexible and dictated internally by the amount, length and complexity of the grant, as well as accessibility of the grantee's location.

OTI asserts that grant documentation was sufficient to meet the requirements established and that the level of this documentation was necessarily a balance between cost and benefit in the specific environment of OTI's target areas.

4) Documentation required

RESPONSE:

1. USAID Grantee Self-Monitoring and Documentation – *USAID's Strategic Planning & Program Performance report, dated October 2005, states the minimum reporting required in a non-permissive environment is a note signed by the grantee certifying that all goods and services were delivered in satisfactory condition and that the activities took place.*

2. DAI's grant manual submitted under this contract states: *"For in-kind grants, the organization's reporting need only to include procurement issues (stock of expendable items, list of non-expendable items procured and inventoried, and so on). Grants under implementation will have a customized monitoring plan when deemed necessary by program staff. This plan should be flexible and dictated internally by the amount, length and complexity of the grant, as well as accessibility of the grantee's location".*

5)   Documentation available and provided

RESPONSE:

For the IG's selected 81 grants DAI provided:
- 78 final certifications signed by the grantee. This represents 96% of grants.
- 1 letter of thanks from the grantee who had also signed the grant agreement – as opposed to a certification.
- 1 memo to the files explaining DAI could not obtain the grantee certification as the grantee had been killed.
- No final report was provided to audit team for one grant. DAI has since retrieved a copy of this grantee's final report from master files in storage in the U.S.

OTI would like to note that the Grantee Self Monitoring Reports for ITI in-kind grants are more than required as delineated above. As per the audit reference to *USAID's Strategic Planning & Program Performance report, dated October 2005,* **the minimum reporting required in a non-permissive environment is a note signed by the grantee certifying that all goods and services were delivered in satisfactory condition and that the activities took place.**

I.   Additional comments regarding security situation and human cost of implementing the Iraq Transition Initiative

The security situation in Iraq deteriorated rapidly. This reality compelled ITI projects to adapt to meet objectives, using various means to work remotely and lower personal risk. Nevertheless, OTI's objective to support the transition required that programs occur in areas critical to that transition, i.e. the most volatile and dangerous areas in Iraq.

This situation came with high human cost. DAI lost 25% of its grant development staff to threats from insurgents. Most resigned, though two fled the country. Seven grantees were killed either during or after grant implementation because of their association with the grant activities. The highest toll was paid by the Iraqi resource organization that carried the grant agreements across Iraq. Of all individuals implementing ITI projects, nine were killed by insurgents in separate incidents, 17 were kidnapped, and 19 were threatened to such a degree that they fled the country.

OTI would like to note that many of the ITI program efforts were at the forefront of USAID's effort in Iraq aimed at post battle and recovery and stabilization initiatives. As such, it often operated in highly unstable and dangerous environments as opposed to many USAID projects that were able to operate from hardened facilities. As such, the nature of the ITI work was always exposed.