



Office of Inspector General United States Department of State

AUD-MERO-19-20

Office of Audits

March 2019

Audit of Humanitarian Assistance Cooperative Agreements Supporting Internally Displaced Persons in Iraq

NOTICE:

OIG received additional information after this report was issued.
Please see the addendum on page 19.

MIDDLE EAST REGION OPERATIONS



HIGHLIGHTS

Office of Inspector General
United States Department of State

AUD-MERO-19-20

What OIG Audited

In August 2014, the United Nations declared a humanitarian emergency in Iraq. The Department of State (Department), Bureau of Population, Refugees, and Migration (PRM), obligated \$914 million between October 2013 and September 2017 to help internally displaced persons (IDP) in Iraq and Iraqi refugees in surrounding countries. Of this amount, PRM obligated more than \$98.6 million to non-governmental organizations through cooperative agreements.

The Office of Inspector General (OIG) conducted this audit to determine whether PRM monitored humanitarian assistance provided through cooperative agreements to non-governmental organizations to support IDPs in Iraq in accordance with Federal requirements, Department policies and guidance, and award terms and conditions. OIG selected five cooperative agreements, valued at \$9.4 million, for review. This report is the second of two audit reports that focus on funds supporting IDPs in Iraq. A previous report addressed humanitarian assistance funds provided through voluntary contributions to international organizations.

What OIG Recommends

OIG made three recommendations that are intended to help PRM ensure award recipients in Iraq are using funds awarded through cooperative agreements as intended. PRM concurred with the recommendations and a synopsis of PRM's comments follows each recommendation in the Audit Results section of this report. PRM's response to a draft of this report is reprinted in Appendix B.

March 2019

OFFICE OF AUDITS

MIDDLE EAST REGION OPERATIONS

Audit of Humanitarian Assistance Cooperative Agreements Supporting Internally Displaced Persons in Iraq

What OIG Found

PRM generally complied with Federal requirements, Department guidance, and award terms and conditions in monitoring cooperative agreements supporting IDPs in Iraq. Specifically, OIG found that PRM completed risk assessments, developed and implemented monitoring plans, reviewed quarterly performance progress reports, conducted programmatic desk reviews and site visits, when practicable, and used an existing contract to conduct site visits in locations that PRM staff could not reach because of security concerns.

OIG also confirmed that PRM generally established award budgets by cost categories and reviewed the five recipients' quarterly financial reports in accordance with Federal and Department regulations as well as the cooperative agreements' terms and conditions. OIG reviewed 621 expenditures, totaling \$2.2 million, and questioned 32 expenditures, valued at \$64,706 (3 percent), as unallowable or unsupported. Although the instances of questioned costs were limited and not a material deficiency, OIG notes that 23 of the 32 questioned expenditures (72 percent) came from awards provided to 2 organizations. In addition, although PRM conducts spot checks of some award expenditures to determine if the expenditures comply with requirements, its practice of asking the award recipient to select the expenditures for review is ineffective in identifying unallowable and unsupported costs.

Furthermore, OIG identified an area involving the monitoring of the award recipient's budget that needs improvement. OIG found that PRM was not aware that expenditures made by International Medical Corps were re-budgeted between cost categories. PRM did not detect the re-budgeting activities because it does not conduct spot checks of award recipients' expenditures to see if they are applied to the appropriate cost categories. Until PRM implements procedures to verify that award recipients are complying with approved budget plans, there is a greater risk of mismanagement and possible opportunities for fraud and waste.

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OBJECTIVE

The Office of Inspector General (OIG) conducted this audit to determine whether the Bureau of Population, Refugees, and Migration (PRM) monitored humanitarian assistance provided through cooperative agreements to non-governmental organizations to support internally displaced persons (IDP) in Iraq in accordance with Federal requirements, Department of State (Department) policies and guidance, and award terms and conditions. This is the second of two reports that focus on humanitarian assistance provided for IDPs in Iraq. The first report focused on humanitarian assistance provided to IDPs in Iraq through voluntary contributions.¹

BACKGROUND

In December 2013, heavy fighting between the Iraqi Security Forces and armed groups created instability in Iraq and the region. The instability contributed to the Islamic State of Iraq and Syria (ISIS) taking control of large parts of Iraq, resulting in widespread violence and significant internal population displacement. In August 2014, the United Nations declared a humanitarian emergency in Iraq that ended in early 2018. According to the International Organization for Migration, Iraq had 3.4 million IDPs as of June 2017. More than 680,000 IDPs lived in camps, more than 470,000 lived in temporary shelters (including at schools, religious facilities, and abandoned buildings), and many others lived with host families or in rented spaces.

PRM has primary responsibility for formulating U.S. policy on population-related issues and for providing protection and assistance for IDPs, refugees, and other populations of concern.² To support these goals, PRM outlined four program priorities in its FY 2015–2018 Functional Bureau Strategy:³

- To provide resources to help support rapid and coordinated humanitarian responses to emergencies.
- To advocate for the protection of vulnerable populations and exert leadership in the international community by engaging in humanitarian diplomacy to address, mitigate, and resolve humanitarian crises.
- To achieve lasting solutions to displacement by providing funding for programs assisting IDPs to return to their home communities.
- To foster programs designed to help and protect women and children and prevent and combat gender-based violence among IDPs, victims of conflict, and others.

For Iraq in particular, the U.S. Government's goals are to (1) defeat ISIS, (2) provide humanitarian assistance where needed, and (3) achieve political reconciliation in post-ISIS Iraq.

From October 2013 through September 2017, PRM obligated \$914 million to help IDPs in Iraq and Iraqi refugees in surrounding countries. Of this amount, PRM obligated more than \$98.6 million to non-

¹ *Audit of Foreign Assistance for Internally Displaced Persons in Iraq* (AUD-MERO-18-56, August 2018). Voluntary contributions are discretionary financial assistance to directly support an organization's activities or sustain its general budget and operations.

² "Populations of concern" include internally displaced persons, refugees, stateless persons, vulnerable migrants, and victims of conflict. Internally displaced persons have been displaced from their homes but, in contrast to refugees, have not crossed an internationally recognized border.

³ The Functional Bureau Strategy is a PRM planning document completed as part of the Department's planning, budget, management, and performance cycle.

governmental organizations through 67 cooperative agreements. These cooperative agreements are assistance awards that provide funding to non-governmental organizations for the purpose of implementing specific projects or to support an existing program or activity in Iraq.

Requirements for Performance and Financial Monitoring of Federal Assistance Awards

Federal guidance for managing and overseeing cooperative agreements is contained in the Code of Federal Regulations (C.F.R.). Part 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards - requires agencies to conduct risk assessments and monitor activities associated with Federal awards.⁴ Department-specific requirements for managing assistance awards are included in Part 600.⁵

In January 2016, the Department issued the Federal Assistance Policy Directive (FAPD) that established “the internal guidance, policies, and requirements to be complied with by all domestic and foreign grant-making bureaus and posts within the Department of State when administering Federal Financial Assistance awards.”⁶ Therefore, the FAPD included the Department’s policies, procedures, and guidance for implementing Federal assistance awards consistent with C.F.R. Parts 200 and 600. Department guidance contained in the FAPD required bureaus awarding cooperative agreements to prepare monitoring plans and conduct monitoring throughout the period of performance of the award. The Department’s Procedural Guide for Grants and Cooperative Agreements to Non-Federal Entities not Recognized as Foreign Public Entities was a companion document to the FAPD and provided specific guidance and requirements for implementing grants and cooperative agreements to non-Federal organizations. The procedures were designed to be a guide for developing, issuing, monitoring, and closing out Federal assistance awards.

Before the FAPD was issued in 2016, the Department had in place Grants Policy Directive 42, which provided guidance on monitoring assistance awards.⁷ The FAPD incorporated Grants Policy Directive 42 and other grants policy directives into one document. In May 2017, the Department combined the FAPD with the Procedural Guide for Grants and Cooperative Agreements to Non-Federal Entities not Recognized as Foreign Public Entities into the Federal Assistance Directive. Because Grants Policy Directive 42 and the FAPD were in place when PRM awarded the cooperative agreements that OIG reviewed for this audit, both were used as criteria to assess compliance with Department policies and guidance.

Oversight of Cooperative Agreements

The Grants Officer, Grants Officer Representative (GOR), program officer, and refugee coordinators are typically charged with monitoring cooperative agreements for PRM. The Grants Officer is appointed and authorized by the Bureau of Administration’s Office of the Procurement Executive to award and amend Federal assistance awards, including cooperative agreements. The Grants Officer is also responsible for the overall execution of the award. The GOR helps the Grants Officer ensure that the Department exercises prudent management and oversight of the award by monitoring and evaluating the award

⁴ 2 C.F.R. Part 200.

⁵ 2 C.F.R. § 600.101.

⁶ FAPD, 1.01, “Introduction,” 6. The FAPD was effective for all awards issued on or after March 13, 2015.

⁷ Grants Policy Directive 42: Monitoring Assistance Awards, effective September 2010.

recipient's performance. For cooperative agreements awarded for Iraq, the program officer in PRM's Asia and Near East Office serves as the GOR. The Grants Officer and the GOR are both located in Washington, DC, although refugee coordinators, who assist the GOR and are assigned to coordinate and monitor humanitarian assistance operations in Iraq, are located at U.S. Embassy Baghdad and Consulate Erbil in the Iraq Kurdistan Region. In addition, Department bureaus, offices, and posts are charged with conducting risk assessments, developing strategies to mitigate risks, and establishing and maintaining monitoring plans for competitive and non-competitive assistance awards in accordance with the FAPD.

What OIG Reviewed

For this audit, OIG selected and reviewed five cooperative agreements awarded to non-governmental organizations supporting IDPs in Iraq. Appendix A provides details regarding the methodology used to select these awards. Table 1 lists the award number, the period of performance, the purpose, the award recipient, and the value of the award.

Table 1: Humanitarian Assistance for IDPs in Iraq Selected and Reviewed by OIG

Award Number, Period of Performance, and Purpose	Award Recipient	Value
S-PRMCO-14-CA-1214 (9/15/2014–9/14/2015) Sustaining community self-protection and empowerment for IDPs in Baghdad-based camps	International Rescue Committee	\$1,652,104
S-PRMCO-15-CA-1200 (9/15/2015–9/14/2016) Advancing futures for Iraqi displaced youth	Mercy Corps	\$1,991,547
S-PRMCO-16-CA-1127 (9/1/2016–8/31/2017) Creating market-driven livelihood opportunities for vulnerable IDPs by combining skill development with financial and market support	GOAL	\$1,182,600
S-PRMCO-16-CA-1128 (9/15/2016–9/14/2017) Providing information, counseling, legal assistance and gender-based violence programming among IDPs	Norwegian Refugee Council	\$3,000,000
S-PRMCO-16-CA-1162 (9/29/2016–9/28/2017) Improving community integration, reconciliation, and social cohesion for conflict-affected IDP communities	International Medical Corps	\$1,584,849
Total		\$9,411,100

Source: Prepared by OIG from cooperative agreement award documents obtained from PRM award files.

AUDIT RESULTS

Finding A: PRM Generally Complied With Federal and Department Requirements and Award Terms and Conditions in Monitoring Cooperative Agreements Supporting Internally Displaced Persons in Iraq

PRM generally complied with Federal requirements, Department guidance, and award terms and conditions in monitoring cooperative agreements supporting IDPs in Iraq. PRM also generally established award budgets by cost categories, and reviewed the five recipients' quarterly financial reports in accordance with Federal and Department regulations as well as the cooperative agreements' terms and conditions. However, PRM was not aware that expenditures made by International Medical Corps were re-budgeted to inappropriate cost categories.

PRM Reviewed Risk Assessments and Progress Reports and Conducted Other Monitoring Activities

OIG found that PRM:

- Completed risk assessments and developed and implemented monitoring plans.
- Reviewed quarterly performance progress reports.
- Conducted programmatic desk reviews and site visits, when practicable.
- Used an existing contract to conduct site visits in locations that PRM staff could not reach because of security concerns.

For the five awards reviewed, OIG confirmed that PRM assessed programmatic and organizational risks and established monitoring plans for the cooperative agreements selected for review, in accordance with 2 C.F.R. § 200.205 and the FAPD. In addition, the risk assessments were generally documented in accordance with Department guidance and identified both institutional and terrorism risks for four of the five awards.⁸ OIG also noted that the memorandum approving the award to each recipient described PRM's plan for monitoring the award.

OIG also found evidence that the GOR for each cooperative agreement reviewed the quarterly progress reports⁹ submitted by each award recipient and documented the review in summary reports. Specifically, the summary reports documented the GOR's observations and conclusions related to the award recipients' progress. For example, in a summary report for the cooperative agreement with GOAL for creating market-driven livelihood opportunities for IDPs by combining skill development with financial and market support, the GOR wrote, "The program does not seem to have made significant progress toward meeting targets, but this is due at least in part to start-up time needed and seasonal issues ...there is also some confusion about indicator targets per year."

In addition, OIG found that PRM conducted programmatic desk reviews and visited the locations where the award recipient was implementing the humanitarian assistance program. OIG confirmed that PRM documented, where applicable, formal and informal communication with the award recipients, which included discussions between PRM officials, the award recipients' staff, and refugee coordinators in Iraq. Furthermore, to mitigate risks associated with monitoring assistance awards in Iraq, PRM contracted with All Native, Inc. (All Native) to provide monitoring and oversight services¹⁰ and closely reviewed All Native's work.¹¹ For example, in April 2015, PRM requested that All Native conduct site visits of International Rescue Committee's activities, using a PRM-prepared checklist. All Native conducted the site visits and submitted reports of its observations following the visits. In December 2016, PRM also requested that All Native conduct an office visit of Norwegian Refugee Council. On March 14, 2017, All

⁸ According to the GOR, the risk assessment template was not developed when PRM awarded SPRMCO-14-CA-1214 to International Rescue Committee. Therefore, a risk assessment for this particular award was not documented in the same manner as the other cooperative agreements reviewed for this audit.

⁹ 2 C.F.R. §§ 200.301 requires that award recipients periodically report on performance and financial management. The terms and conditions of each award reviewed by OIG required the award recipients to submit performance and financial reports on a quarterly basis.

¹⁰ In September 2011, the Department awarded an indefinite delivery, indefinite quantity contract to All Native to provide monitoring and oversight services on behalf of four bureaus. Work performed for PRM was executed under Task Order SAQMMA14F1970.

¹¹ In the *Audit of the Department of State's Contract To Monitor Foreign Assistance Programs in Iraq* (AUD-MERO-17-41, May 2017), OIG determined that All Native's monitoring support was performed in accordance with contract requirements and PRM staff were able "to assess and evaluate the effectiveness of the program and the quality of monitoring was good."

Native conducted such an office visit of Norwegian Refugee Council's office in Baghdad and submitted a report of its observations to PRM. Because of these monitoring activities, OIG concludes that PRM generally complied with Federal regulations, Department guidance, and the award terms and conditions for monitoring cooperative agreements.

PRM Generally Established Award Budgets and Reviewed Quarterly Financial Reports

OIG confirmed that PRM generally established award budgets—by cost categories—and reviewed the five recipients' quarterly financial reports in accordance with the C.F.R., the FAPD, and the cooperative agreements' terms and conditions. OIG reviewed 621 expenditures totaling \$2.2 million and questioned 32 expenditures, valued at \$64,706 (3 percent of the expenditure reviewed), as unallowable or unsupported.

PRM Established Award Budgets and Reviewed Required Quarterly Financial Reports

In accordance with 2 C.F.R. Part 200 and the Department's Procedural Guide for Grants and Cooperative Agreements, PRM established a budget by category for direct and indirect costs for each of the five awards it provided to the recipients. For example, PRM approved budgets for six or seven cost categories, including personnel, fringe benefits, travel, equipment, supplies, contractual and other direct costs. Also in accordance with the C.F.R. and the cooperative agreements' terms and conditions, each of the five recipients submitted quarterly Federal financial reports. In addition, the recipients generally submitted project expenditure summary reports showing expenditures by budget category.¹² Each of the cooperative agreements' terms and conditions require that the recipient submit quarterly financial reports reflecting expenditures for their offices "...1) in accordance with the Federal Financial Report (FFR SF-425) and submitted electronically in the Department of Health and Human Services' Payment Management System; and 2) in accordance with the items of expenditure categories set forth [in the award document] reflecting separately the costs being charged to this agreement...."¹³ OIG found that each award recipient's reported overall costs were equal to or lower than the total approved costs. Although each of the award recipient's reported costs for some cost categories exceeded the approved budgets for those categories, these overages were generally offset by lower spending in other categories.

OIG Questioned Costs Totaling 3 Percent of Expenditures Reviewed

To determine whether PRM paid recipients for unsupported or unallowable costs, OIG reviewed 621 expenditures, totaling \$2.2 million, selected from the award recipients' general ledgers. (Appendix A provides a detailed discussion on OIG's sampling methodology). Of that amount, OIG found that 32 expenditures, totaling \$64,706, contained questioned costs: 29 expenditures were not supported by proper documentation, 2 expenditures were unallowable because they included costs that should have been charged to another award, and 1 expenditure was unallowable because it was a duplicate expense. The amount of questioned costs represents about 3 percent of the \$2.2 million in expenditures reviewed. Examples of questioned costs¹⁴ include:

¹² The award file for the cooperative agreement with GOAL did not include the project expenditure summary report for one award quarter; however, the final project expenditure report indicates such a report was submitted.

¹³ See cooperative agreement awards S-PRMCO-14-CA-1214, 15; S-PRMCO-15-CA-1200, 6; S-PRMCO-16-CA-1127, 7; S-PRMCO-16-CA-1128, 7; and S-PRMCO-16-CA-1162.

¹⁴ The terms "questioned cost," "unsupported cost," and "disallowed cost" are defined in the Inspector General Act of 1978, as amended, 5 U.S.C. App. § 5(f).

- The same documentation was used to support two expenditures of \$12,801 at International Rescue Committee.
- Labor expenditures at International Rescue Committee were incorrectly allocated on the basis of the percentage of time included on the associated time sheets.
- Salary expenditures at Norwegian Refugee Council did not include adequate support for hardship allowances and danger pay.
- Airline expenditures at Norwegian Refugee Council were supported by internal documentation rather than documentation from a travel agency or a boarding pass.

Table 2 shows the total number of expenditures the five award recipients reported in their general ledgers at the time of OIG's sampling, the number of expenditures OIG reviewed, the number of expenditures with questioned costs, and the value of the questioned costs.

Table 2: Number of Expenditures With Questioned Costs by Award

Recipient and Award Number	Number of Expenditures	Number of Expenditures Reviewed	Number Reviewed with Questioned Costs	Questioned Costs
International Rescue Committee S-PRMCO-14-CA-1214	1,328	127	6	\$16,484
Mercy Corps S-PRMCO-15-CA-1200	1,975	139	3	\$323
GOAL S-PRMCO-16-CA-1127	240	85	7	\$12,398
Norwegian Refugee Council S-PRMCO-16-CA-1128	1,246	136	16	\$35,501
International Medical Corps S-PRMCO-16-CA-1162	1,166	134	0	\$0
Total	5,955	621	32	\$64,706

Source: OIG analysis of expenditures and supporting documentation received from award recipients.

Department guidance does not require that bureaus review every award recipient's expenditures. Rather, the Department encourages spot checks as a way to ensure "evidence of expenditures show that purchases are necessary, reasonable, allocable, and allowable."¹⁵ In addition, PRM's internal policies recommend desk reviews of reported information as an enhanced monitoring technique for awards that are implemented in insecure and high-risk locations such as Iraq.¹⁶ PRM conducts spot checks of expenditures incurred under cooperative agreements to ensure they are allowable and supported by documentation. During the first and third quarters of each fiscal year, the GOR randomly selects five awards from the portfolio of all ongoing awards. The GOR then requests that the award recipients submit supporting documentation for one expense from each approved budget category. The award recipient selects the expenditures and submits the supporting documentation to the GOR for review. The GOR reviews the expenditures and support provided to see if the expenditures are allowable and supportable.

¹⁵ Office of the Procurement Executive, Federal Assistance Division; *Federal Assistance Management* (PY260); February 2018, 191.

¹⁶ PRM's Policy and Program Review Committee FY 2016 for Monitoring and Evaluation, 1, 4, 7.

Although the instances of questioned costs OIG identified were limited and not a material deficiency, OIG notes that 16 questioned expenditures came from Norwegian Refugee Council and 7 questioned expenditures came from GOAL. Together, 23 of the 32 questioned expenditures (72 percent) came from awards provided to these 2 organizations. In addition, although PRM conducts spot checks of some award expenditures to determine if the expenditures comply with requirements, as noted above, it is PRM's practice to ask the award recipient to select the expenditures for PRM's review. PRM officials stated that this methodology "helps to prove [the award recipients] are able to locate the necessary documents for any and all samples." OIG notes, however, that it is unlikely an award recipient would select and submit expenditures that are unallowable and unsupported for review. Therefore, OIG concludes that PRM's approach is ineffective in identifying unallowable and unsupported costs. A more effective methodology would be for PRM to select the expenditures for review.¹⁷ Given the evidence described above, OIG is making the following recommendations that address what OIG found regarding the majority of questioned costs by two organizations and improved procedures for selecting expenditures for review.

Recommendation 1: OIG recommends that the Bureau of Population, Refugees, and Migration develop and implement a process to confirm that GOAL and Norwegian Refugee Council have put in place internal controls, per 2 C.F.R. Part 200, to prevent unsupported and unallowable expenditures on their respective cooperative agreements.

Management Response: PRM concurred with the recommendation, stating it would "address the recommendation directly with GOAL and Norwegian Refugee Council including through award provisions that require audits verify that each awardee has implemented the internal controls required by 2 C.F.R. Part 200 to prevent unsupported and unallowable expenditures for PRM funded cooperative agreements." PRM further stated it would address the recommendation within 90 days. PRM's official response to a draft of this report is reprinted in full in Appendix B.

OIG Reply: On the basis of PRM's concurrence and planned actions, OIG considers the recommendation resolved pending further actions. This recommendation will be closed when OIG receives and accepts documentation demonstrating that PRM has developed and implemented a process to confirm that GOAL and Norwegian Refugee Council have put in place internal controls, per 2 C.F.R. Part 200, to prevent unsupported and unallowable expenditures on their respective cooperative agreements.

Recommendation 2: OIG recommends that the Bureau of Population, Refugees, and Migration develop and implement procedures for Grants Officers and Grants Officer Representatives to randomly select specific expenditures for review and request that recipients submit documentation related to those specific expenditures.

Management Response: PRM concurred with the recommendation, stating it "will augment the procedures already in place by adding revised instructions to personnel conducting financial monitoring of specific expenditures." PRM added that the "instructions will provide procedures to ensure that the expenditures being reviewed are randomly selected." PRM also stated that it would implement this recommendation within 90 days.

OIG Reply: On the basis of PRM's concurrence and planned actions, OIG considers the recommendation resolved pending further action. However, OIG notes that "personnel responsible

¹⁷ U.S. Government Accountability Office, Financial Audit Manual, Volume 1 (GAO-18-601G), 470.08.

for conducting financial monitoring” could include an array of individuals not assigned as the Grants Officer or GOR for an award. Because Grants Officers and GORs are responsible for managing and monitoring assistance awards, the procedure should specifically identify their roles in these reviews. This recommendation will be closed when OIG receives and accepts documentation demonstrating that PRM has developed and implemented procedures for Grants Officers and GORs to randomly select specific expenditures for review and request that recipients submit documentation related to those specific expenditures.

PRM Was Unaware of Re-budgeting to Inappropriate Cost Categories

Although OIG found that PRM generally established award budgets—by cost categories—and generally reviewed quarterly financial reports in accordance with requirements,¹⁸ OIG identified an area involving the monitoring of the award recipients’ budgets that needs improvement. Specifically, OIG found that PRM was not aware that expenditures made by International Medical Corps were re-budgeted to inappropriate cost categories.

According to 2 C.F.R. § 200.308, award recipients must obtain an approved budget plan, report deviations from the project or budget scope or objectives, and request prior approval for budget plan revisions. In addition, the Department’s Standard Terms and Conditions, Provision XIII, Prior Approval Requirements states that “...non-Federal entities must request prior approvals from Federal awarding agencies for one or more of the following program or budget-related reasons:...(f) re-budgeting more than 10 [percent] of the total approved award between direct cost categories.”¹⁹ Non-Federal entities may re-budget direct costs between cost categories up to 10 percent of the total approved award without prior approval.²⁰

OIG reviewed the award recipients’ Federal financial reports, project expenditure summary reports, and general ledgers. OIG found that, although the reported expenditures for International Rescue Committee, Mercy Corps, and GOAL exceeded the approved budget plans for some categories, the reported costs reflected actual costs entered into the organizations’ respective general ledgers and the differences were less than 10 percent of the total approved award costs. Therefore, these organizations did not need PRM’s approval. Norwegian Refugee Council reported expenditures that also did not align with its approved budget plans. In addition, Norwegian Refugee Council’s actual expenditures recorded in the general ledger showed that the organization re-budgeted \$61,183 between cost categories, or approximately 2 percent of the \$2,667,374 in direct costs approved for the award. However, because the value of the deviation was less than 10 percent of the total approved award, the organization did not need PRM’s approval for the re-budgeting.

International Medical Corps also reported exceeding approved costs for some categories, but the cumulative value of the overages was less than 1 percent. In contrast to the other entities, OIG found in its review of the expenses International Medical Corps entered into its general ledger that the organization’s actual expenditures did not align with its reported expenditures and that it exceeded the 10-percent re-budgeting threshold. Specifically, International Medical Corps re-budgeted approximately 19 percent of the \$1,238,279 in direct costs (or approximately 15 percent of \$1,584,849 in total costs) approved for the award. OIG found that across five categories of direct costs, International Medical

¹⁸ The GOR stated that PRM reviews quarterly reports. However, OIG found no documentation in the award file for one of the five awards reviewed to support PRM’s statement.

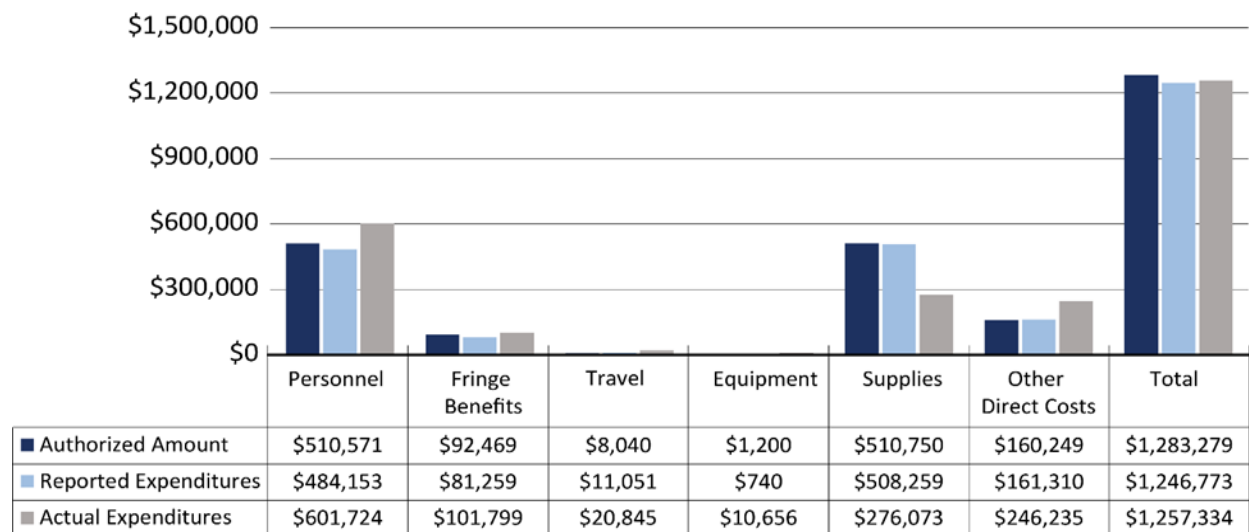
¹⁹ Standard Terms and Conditions, Section XIII Prior Approval Requirements, 8.

²⁰ Ibid.

Corps reported less than its actual expenditures for those categories. However, for the costs of supplies, International Medical Corps reported \$232,186 more than its actual expenditures. Specifically, in the project expenditure summary reports, International Medical Corps reported that it spent \$508,259 for supplies, although actual expenditures recorded in its general ledger showed \$276,073 for supplies. This meant that International Medical Corps re-budgeted \$232,186, which is an amount beyond the 10 percent allowed without prior approval, to other cost categories. In this instance, International Medical Corps should have sought and obtained PRM's approval for the re-budgeting, but PRM was unaware that the re-budgeting had occurred.

Figure 1 shows the International Medical Corps authorized direct cost amount, reported direct cost expenditures (recorded in the project expenditure summary reports), and actual direct cost expenditures (recorded in the general ledger) for the six categories of direct costs.

Figure 1: International Medical Corps Authorized Direct Cost Amount, Reported Direct Cost Expenditures, and Actual Direct Cost Expenditures by Cost Category*



* Row totals may not be exact due to rounding.

Source: OIG analysis of the International Medical Corps award budget, quarterly Federal financial reports, program expenditure summary reports, and general ledger.

PRM did not detect International Medical Corps re-budgeting activities because the organization did not report them, as required by 2 C.F.R. § 200.308(b). In addition, PRM does not conduct spot checks of award recipients' expenditures to see if they are applied to the appropriate cost categories. PRM stated its reviews of quarterly financial reports and the program summary are sufficient to determine whether actual award spending aligned with approved award budgets. However, as shown in the example of International Medical Corps, PRM did not detect the organization's re-budgeting, despite reviewing quarterly Federal financial reports and program expenditure summary reports.

In the *Audit of Humanitarian Assistance to South Sudan* (AUD-MERO-18-48, July 2018), OIG reported that an award recipient also re-budgeted more than 10 percent of its direct costs to incorrect cost categories but did not inform PRM officials. OIG concluded that the award recipient's re-budgeting of costs could increase the risk of mismanagement and instances of fraud and waste. OIG stated that periodic reviews of an award recipient's general ledgers could reduce those risks. Accordingly, OIG recommended that PRM develop and implement procedures for Grants Officers and GORs to verify that

award recipients comply with approved budget plans and obtain permission to deviate from approved budget plans.

In responding to the recommendation, PRM stated that it had instructed the award recipient to comply with the terms and conditions of the cooperative agreement and ensure that expenditures are consistently reported and supported. Although not a new requirement, PRM also instructed the award recipient to seek prior approval for re-budgeting more than 10 percent of the total approved award between direct cost categories, in accordance with the Department Standard Terms and Conditions, Provision XIII, Prior Approval Requirements. OIG closed the recommendation in October 2018 on the basis of PRM's actions, with the understanding that OIG would reissue the recommendation if it uncovered other instances of award recipients engaging in the same practices. Because this audit uncovered such a practice, OIG is reissuing the recommendation.

Recommendation 3: OIG recommends that the Bureau of Population, Refugees, and Migration develop and implement procedures for Grants Officers and Grants Officer Representatives to verify that all award recipients comply with approved budget plans and obtain permission to deviate from approved budget plans.

Management Response: PRM concurred with the recommendation, stating it "will augment the procedures already in place for Grants Officers and Grants Officer Representatives to ensure recipient compliance with approved budget plans and adherence to the requirement for prior approval of budget realignments." PRM added that "this will be accomplished by implementing new award provisions for applicable recipients." PRM also stated the recommendation will be implemented with awards issued after April 1, 2019.

OIG Reply: On the basis of PRM's concurrence and planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that PRM has developed and implemented procedures for Grants Officers and Grants Officer Representatives to verify that award recipients comply with approved budget plans and obtain permission to deviate from those approved plans.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of Population, Refugees, and Migration develop and implement a process to confirm that GOAL and Norwegian Refugee Council have put in place internal controls, per 2 C.F.R. Part 200, to prevent unsupported and unallowable expenditures on their respective cooperative agreements.

Recommendation 2: OIG recommends that the Bureau of Population, Refugees, and Migration develop and implement procedures for Grants Officers and Grants Officer Representatives to randomly select specific expenditures for review and request that recipients submit documentation related to those specific expenditures.

Recommendation 3: OIG recommends that the Bureau of Population, Refugees, and Migration develop and implement procedures for Grants Officers and Grants Officer Representatives to verify that all award recipients comply with approved budget plans and obtain permission to deviate from approved budget plans.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

The Office of Inspector General (OIG) conducted this audit to determine whether the Bureau of Population, Refugees, and Migration (PRM) monitored humanitarian assistance, provided through cooperative agreements to non-governmental organizations, to support Iraqi internally displaced persons (IDP) polices and guidance, and award terms and conditions.

To answer the audit's objective, OIG reviewed five cooperative agreements PRM awarded between FY 2014 and FY 2017. Those agreements are S-PRMCO-14-CA-1214 awarded to International Rescue Committee, S-PRMCO-15-CA-1200 awarded to Mercy Corps, S-PRMCO-16-CA-1127 awarded to GOAL, S-PRMCO-16-CA-1128 awarded to Norwegian Refugee Council, and S-PRMCO-16-CA-1162 awarded to International Medical Corps.

OIG reviewed documentation maintained in the award files, including award proposals, notices of award and subsequent modifications, risk assessments and monitoring plans, quarterly performance and financial reports, and reports documenting PRM monitoring activities. OIG also reviewed the recipients' general ledgers for the award to determine whether the expenditures were allowable under the terms and conditions of the awards and supported by documentation. To determine PRM's monitoring strategies and activities, OIG interviewed PRM officials.

OIG reviewed the Code of Federal Regulations and Office of Management and Budget policies. OIG also reviewed the Department's *Foreign Affairs Handbook*, *Foreign Affairs Manual*, Grants Policy Directive 42, and Federal Assistance Policy Directive.¹ In addition, OIG reviewed prior OIG reports related to PRM's administration and monitoring of Federal award recipients.

OIG conducted fieldwork from September 2017 through December 2018. This is the second of two reports issued from the fieldwork that focus on humanitarian assistance provided to IDPs in Iraq. The first report focused on humanitarian assistance provided to IDPs in Iraq through voluntary contributions. This report relates to overseas contingency operation, Operation Inherent Resolve, and was completed in accordance with OIG's oversight responsibilities described in Section 8L of the Inspector General Act of 1978, as amended. OIG conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives. Issuance of this report was delayed because of the lapse in OIG's appropriations that occurred from 11:59 p.m. December 21, 2018, through January 25, 2019.

Work Related to Internal Controls

OIG performed steps to assess the adequacy of internal controls related to the monitoring of PRM awards, including reviewing policies, procedures, and processes applicable to the areas audited. Internal control deficiencies and weaknesses identified during the audit are presented in the Audit Results section of this report.

¹ Grants Policy Directive 42 was in place when PRM awarded S-PRMCO-14-CA-1214 and S-PRMCO-15-CA-1200. The FAPD was in place when PRM awarded S-PRMCO-16-CA-1127, S-PRMCO-16-CA-1128, and S-PRMCO-16-CA-1162. Accordingly, OIG used them as the basis to inform the audit's findings and conclusions.

Use of Computer-Processed Data

OIG obtained data from PRM on humanitarian assistance provided for IDPs from FY 2014 through FY 2016. OIG received 58 line items, of which 23 were cooperative agreements (CAs). To attest to its completeness, OIG compared PRM's data with data obtained from GrantSolutions and the State Assistance Management System (SAMS) Domestic.² To further attest to the data's accuracy, OIG selected five award files and compared PRM's data with the information from the five awards. OIG did not find any material discrepancies and concluded that the data were sufficiently reliable to meet the objectives of this audit.

OIG also analyzed data obtained from the award recipients' subsidiary ledgers for the five cooperative agreements. OIG compared the value of expenditures for each award budget category against the amounts approved under the award and the amounts reported in quarterly financial reports. OIG then reviewed 621 expenditures to determine whether the expenditures were allowable under the terms and conditions of the awards and supported by documentation. A summary of the methodology used for selecting the samples of expenditures is explained below. The results of these analyses are presented in the Audit Results section of this report.

Detailed Sampling Methodology

PRM awarded 23 cooperative agreements, totaling \$39.8 million, to recipients to assist IDPs in Iraq from FY 2014 through FY 2016. OIG selected five cooperative agreements to review using a criteria selection method based on (1) the dollar value of the award, (2) the number of awards provided to each recipient, and (3) the percentage of the award that had been liquidated. The value of the five selected cooperative agreements totaled more than \$9.4 million. OIG obtained general ledgers for the five cooperative agreements.³ OIG used a partially dollar-weighted⁴ statistical sample to select 620 out of 5,954 expenditures across the 5 awards and reviewed them to determine if they were supported and allowed expenses; one additional sample was selected from S-PRMCO-15-CA-1200, awarded to Mercy Corps, because it was valued at \$2,461,000. Table A.1 shows the number of expenditures OIG reviewed.

² GrantSolutions and SAMS are electronic award files that contain the award risk assessments, monitoring plans, awards, and award amendments. In 2016, SAMS Domestic replaced GrantSolutions, and in 2017, PRM began migrating its data into SAMS Domestic.

³ For International Medical Corps, OIG reviewed the expense descriptions in its general ledger to determine to which category the expenditures should have been applied. OIG then requested International Medical Corps provide the application of expenditures to cost categories and compared these data to the information International Medical Corps included in its Federal financial reports.

⁴ For a partially weighted sampling design, the weighted portion is combined with a random sampling design. This means that 50 percent of the sample design is weighted by a numeric value (or a dollar amount) and 50 percent is a simple random sampling design. This type of sampling promotes a projection to both the number of sampling units and the dollar total found in error within the sampling frame.

Table A.1: Expenditures Selected for OIG Review

Recipient and Award Number	Number of Expenditures	Number of Expenditures Reviewed
International Rescue Committee S-PRMCO-14-CA-1214	1,328	127
Mercy Corps S-PRMCO-15-CA-1200	1,975	139*
GOAL S-PRMCO-16-CA-1127	240	85
Norwegian Refugee Council S-PRMCO-16-CA-1128	1,246	136
International Medical Corps S-PRMCO-16-CA-1162	1,166	134
Total	5,955	621

* OIG selected 138 expenditure transactions for review using the established selection criteria. OIG also included one additional expenditure transaction because it was valued at \$2,461,000.

Source: OIG analysis of expenditures and documentation obtained from award recipients.

For each expenditure, OIG reviewed supporting documentation obtained from the award recipient to determine if it was allowable and supported. The results of OIG's analyses of award recipients' expenditures and cost categories are presented in the Audit Results section of this report.

APPENDIX B: BUREAU OF POPULATION, REFUGEES, AND MIGRATION RESPONSE



United States Department of State
Bureau of Population, Refugees, and Migration
Washington, D.C. 20520

March 7, 2019

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MEMORANDUM

TO: OIG/AUD – David Bernet

FROM: PRM – Carol T. O'Connell *CTO*

SUBJECT: Draft Report on Audit of Humanitarian Assistance Cooperative Agreements
Supporting Internally Displaced Persons in Iraq

Thank you for the opportunity to provide comments on the recommendations of the subject draft audit report. We appreciate that the report highlights the important humanitarian assistance provided to Iraqi Internally Displaced Persons (IDPs) that the Department funds through cooperative agreements with non-governmental organizations (NGOs) and PRM's processes to monitor this humanitarian assistance through policies and guidance and award terms and conditions.

This memorandum provides the management responses to the draft report for the subject audit. We have addressed each of the specific audit recommendations directed to PRM in the attachment to this letter.

If you have any questions or would like to discuss this further, please contact Eric Hembree at (202) 453-9239 or Virginia Terhar at (202) 453-9292.

Attachment:

Recommendations and Responses

Response to the Report, *Audit of Humanitarian Assistance Cooperative Agreements Supporting Internally Displaced Persons in Iraq*

Recommendations and Responses

Recommendation 1: OIG recommends that the Bureau of Population, Refugees, and Migration develop and implement a process to confirm that GOAL and Norwegian Refugee Council have put in place internal controls per 2 C.F.R. Part 200 to prevent unsupported and unallowable expenditures on their respective cooperative agreements.

PRM Response: Concur. PRM will address this recommendation directly with GOAL and Norwegian Refugee Council including through award provisions that require that audits verify that each awardee has implemented the internal controls required by 2 C.F.R. Part 200 to prevent unsupported and unallowable expenditures for PRM funded cooperative agreements. This recommendation will be addressed within 90 days.

Recommendation 2: OIG recommends that the Bureau of Population, Refugees, and Migration develop and implement procedures for Grants Officers and Grants Officer Representatives to randomly select specific expenditures for review and request that recipients submit documentation related to those specific expenditures.

PRM Response: Concur. PRM will augment the procedures already in place by adding revised instructions to personnel conducting financial monitoring of specific expenditures. These instructions will provide procedures to ensure that the expenditures being reviewed are randomly selected. This recommendation will be implemented within 90 days.

Recommendation 3: OIG recommends that the Bureau of Population, Refugees, and Migration develop and implement procedures for Grants Officers and Grants Officer Representatives to verify that all award recipients comply with approved budget plans and obtain permission to deviate from approved budget plans.

PRM Response: Concur. PRM will augment the procedures already in place for Grants Officers and Grants Officer Representatives to ensure recipient compliance with approved budget plans and adherence to the requirement for prior approval of budget realignments. This will be accomplished by implementing new award provisions for applicable recipients. This recommendation will be implemented with awards issued after April 1, 2019.

ABBREVIATIONS

C.F.R.	Code of Federal Regulations
Department	Department of State
FAPD	Federal Assistance Policy Directive
GOR	Grants Officer Representative
IDP	Internally Displaced Persons
OIG	Office of Inspector General
PRM	Bureau of Population, Refugees, and Migration

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ADDENDUM



Office of Inspector General
United States Department of State

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April 12, 2019

MEMORANDUM

TO: PRM – Carol T. O’Connell

FROM: OIG/AUD – Norman P. Brown

SUBJECT: Addendum to Office of Inspector General Report *Audit of Humanitarian Assistance Cooperative Agreements Supporting Internally Displaced Persons in Iraq* (AUD-MERO-19-20)

On March 21, 2019, the Office of Inspector General (OIG) issued the report *Audit of Humanitarian Assistance Cooperative Agreements Supporting Internally Displaced Persons in Iraq* (AUD-MERO-19-20). The report found that the International Medical Corps, a non-governmental organization, had re-budgeted approximately 15 percent of the total value of one cooperative agreement, No. S-PRMCO-16-CA-1162, without seeking the required prior approval from the Bureau of Population, Refugees, and Migration (PRM). Accordingly, OIG recommended that PRM “develop and implement procedures for Grants Officers and Grants Officer Representatives to verify that all award recipients comply with approved budget plans and obtain permission to deviate from approved budget plans.” PRM concurred with the recommendation.

Subsequent to the report’s issuance, on April 1, 2019, the International Medical Corps informed OIG that it provided incorrect data to the auditors. Specifically, International Medical Corps stated it had inadvertently provided OIG the general ledger for another cooperative agreement also implemented in Iraq.

OIG analyzed the International Medical Corps’ newly provided data. The analysis shows minor differences between the actual costs, the budgeted costs, and the reported costs. Moreover, differences between actual and reported costs within some specific cost categories were significantly below the 10 percent threshold that would require the International Medical Corps to seek PRM’s approval to re-budget award funds.

As a result of the analysis of the newly provided data, OIG’s finding in its March 2019 report is no longer applicable. In addition, the recommendation that PRM should “develop and implement procedures for Grants Officers and Grants Officer Representatives to verify that all award recipients comply with approved budget plans and obtain permission to deviate from approved budget plans” is no longer applicable. OIG is therefore closing the recommendation,

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Recommendation 3, and no further action by PRM is required for this particular recommendation. Table 1 shows the results of OIG's analysis of the new data.

Table 1: OIG Analysis of International Medical Corps' Newly-Provided Data, Agreement No. S-PRMCO-16-CA-1162^a

Budget Category	Actual Costs	Authorized Budget	Difference Actual Costs v. Authorized Budget		Difference Actual Costs v. Reported Costs		Difference Actual Costs v. Authorized Budget (Percent)	Difference Actual Costs v. Reported Costs (Percent)
			Authorized Budget	Reported Costs	Reported Costs	Reported Costs	(Percent)	(Percent)
Personnel	\$ 484,153	\$ 510,571	\$ -26,418	\$ 484,154	\$ -1		-5.2%	0.0%
Fringe	81,368	92,469	-11,101	81,259	110		-12.0%	0.1%
Travel	11,051	8,040	3,011	11,051	0		37.4%	0.0%
Supplies	508,259	510,750	-2,491	508,259	0		-0.5%	0.0%
Contractual/Equipment	740	1,200	-460	740	0		-38.3%	0.0%
ODC	161,201	160,249	952	161,310	-109		0.6%	-0.1%
TOTAL	\$1,246,773	\$ 1,283,279	\$ -36,506	\$ 1,246,773	\$ -1		-2.8%	0.0%

^aCalculations and column totals may not be accurate because of rounding.

Source: OIG analysis of general ledger data for Agreement No. S-PRMCO-16-CA-1162.

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