

March 1991

**PROMOTING
DEMOCRACY**

**National Endowment
for Democracy's
Management of Grants
Needs Improvement**







United States
General Accounting Office
Washington, D.C. 20548

**Comptroller General
of the United States**

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March 14, 1991


The Honorable Claiborne Pell
Chairman, Committee on Foreign Relations
United States Senate

The Honorable Dante B. Fascell
Chairman, Committee on Foreign Affairs
House of Representatives

This report addresses the programs and operations of the National Endowment for Democracy and the effectiveness of the Endowment and its Board of Directors in providing oversight over program activities. We did our review in response to a provision of the Foreign Relations Authorization Act, Fiscal Years 1990 and 1991 (P.L. 101-246, sec. 212).

We are sending copies of this report to the National Endowment for Democracy; the Director, U.S. Information Agency; the Administrator, Agency for International Development; the Director, Office of Management and Budget; and other interested parties.

This report was prepared under the direction of Joseph E. Kelley, Director, Security and International Relations Issues, who may be reached on (202) 275-4128 if you or your staff have any questions. Other major contributors are listed in appendix VII.

for 
Charles A. Bowsher
Comptroller General
of the United States

Executive Summary

Purpose

Since 1984, the National Endowment for Democracy has provided about \$152 million in grants to support private sector initiatives aimed at strengthening democratic institutions around the world. As required by section 212 of the Foreign Relations Authorization Act for fiscal years 1990 and 1991, GAO reviewed the programs and operations of the Endowment. Specifically, GAO reviewed

- the Endowment's practices for evaluating and reporting on its operations and programs to address program effectiveness and results,
- the grantees' compliance with procedures for administering and monitoring the use of grant funds, and
- the effectiveness of the Endowment and its Board of Directors in providing oversight of and direction to program activities.

GAO did not independently evaluate the Endowment's success in promoting democracy.

Background

In 1983, the Congress created the National Endowment for Democracy to plan and administer a grants program to promote democracy around the world. From 1984-90, the Endowment received about \$152 million in funding, which it used to support 533 total grants provided to organizations worldwide. Endowment funding and its grant program increased substantially in 1990 as a result of increasing assistance to Eastern Europe.

The Endowment has a Board of Directors, currently comprised of 16 members representing organized labor, business, the two major political parties, the Congress, and other private organizations. About two-thirds of the Endowment's funds are provided to four "core" U.S. grantees representing labor, business, and the two political parties. The remaining Endowment funds are used to fund "discretionary" grants through other U.S. grantees.

In September 1986, GAO reported on Endowment management of grants and concluded that the Endowment did not regularly review and set program priorities, and had several problems in monitoring and verifying grantee activities and expenditures. In addition, grantees were not carrying out Endowment evaluation procedures. GAO recommended that the Endowment become more directly involved in program planning and project selection, verification of grantee information, and the evaluation of completed projects, particularly for core grantees.

Results in Brief

The Endowment has been successful in developing an expanding world-wide grants program but cannot determine the overall impact of its grant programs because it has not devoted sufficient attention toward evaluating program results. The Endowment does not have a system to determine whether goals and objectives are being met. Additionally, most of its grantees are not effectively evaluating project results.

The Endowment monitoring procedures have not been effective. Grantee noncompliance with the Endowment's key financial and internal controls has resulted in instances of funds being misused, mismanaged, or not effectively accounted for.

The Endowment's Board of Directors does not actively monitor the Endowment's evaluation and oversight of core and discretionary programs. In addition, the Board has not effectively reviewed program operations and accomplishments.

Principal Findings

Evaluations of Program Results Are Inadequate

Since GAO's last report in 1986, the Endowment has not significantly improved its capability to evaluate and report on the effectiveness of its total program. The Endowment has not given adequate attention to systematically planning program objectives and assessing program results. In addition, the Endowment has not developed an adequate evaluation capability to independently evaluate and report on the effectiveness of its total program. During GAO's recent review, planning and evaluation practices were not providing the Endowment with the information needed to make decisions about what programs are the most effective to fund. Specifically,

- the Endowment does not have a system to provide a sufficient basis to determine whether Endowment goals and priorities were being effectively met,
- most core grantees were not providing final evaluations of their overall annual grants and were not using evaluations to establish future plans,
- discretionary grantees were not successfully implementing Endowment evaluation procedures,
- Endowment staff had not increased their capability to evaluate and verify results of grant programs, and

- the Endowment's Board did not actively monitor Endowment evaluation and oversight of grantee programs.

Grants Are Not Adequately Controlled and Accounted for

The Endowment requires grantees to follow various financial control procedures designed to minimize the risk of Endowment funds being mismanaged and misused. In many cases, grantees and foreign subrecipients had not complied with key Endowment financial and internal controls such as maintaining Endowment funding in separate bank accounts, returning interest earned on funds, and timely reporting of expenditures. Noncompliance with these controls has resulted in some instances of misuse and mismanagement of Endowment funds. For example, of 16 foreign subrecipients GAO visited during its review, 10 had commingled Endowment funds with other sources of funding, and 5 had not returned interest earned on Endowment funds. In addition, three foreign subrecipients misused about \$28,000 for personal loans and other unauthorized purposes. In one case, a U.S. grantee used administrative funds to rent office space from a company owned by the grantee organization's Chairman, but the office space was rarely used.

These examples and other audits of Endowment grantees demonstrate that the Endowment's monitoring system has been ineffective in ensuring that grantees have complied with procedures. Quarterly progress reports, which are the primary means used to monitor grantees and foreign subrecipients, do not contain sufficient information to aid the Endowment in ensuring compliance with certain financial controls. In addition, internal audit coverage of core grantees and foreign subrecipients has been limited, and external audits have not consistently verified the extent to which grantees and foreign subrecipients have complied with grant provisions when making expenditures. New guidance from the Office of Management and Budget, Circular A-133, should improve Endowment audits.

Recommendations

Because the Endowment is responsible to USIA for compliance with procedures to ensure that grant funds are used for purposes intended by the enacting legislation, GAO recommends that USIA ensure that the Endowment's Board of Directors

- institutes measures to improve planning and evaluation procedures and enhance Endowment capabilities to independently evaluate and report on the effectiveness of their programs and

-
- strengthens measures to increase grantee and foreign subrecipient compliance with Endowment financial and internal controls, including obtaining more information in progress reports on fund management practices and expenditures and developing procedures for improving verification of compliance with grant terms.

GAO makes other recommendations in chapters 2 and 3.

Agency Comments

The Endowment's President provided preliminary written comments on a draft of the report. The Endowment plans to carefully study GAO recommendations and to take appropriate measures to implement them. A summary of the Endowment's comments and GAO's response can be found in chapters 2 and 3, and the Endowment's complete text is found in appendix VI.

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Abbreviations

AID	Agency for International Development
CIPE	Center for International Private Enterprise
FTUI	Free Trade Union Institute
GAO	General Accounting Office
IG	Inspector General
NDI	National Democratic Institute for International Affairs
NRI	National Republican Institute for International Affairs
OMB	Office of Management and Budget
USIA	United States Information Agency

Introduction

In November 1983, the Congress created the National Endowment for Democracy, a private, nonprofit organization, to encourage private sector support of democratic institutions in many areas of the world. Recent events, such as the demise of communism in Eastern Europe have created unprecedented opportunities to expand democracy worldwide. As a result, U.S. assistance to many emerging democracies is increasing significantly, and the Endowment is playing an increasing role in administering this assistance. Since its inception, the Endowment has assisted democracy-building efforts in 77 countries in Africa, Asia, Europe, and Latin America.

The Endowment plans and administers a worldwide grants program that is generally aimed at fostering a nongovernmental approach to (1) strengthening pluralism through institutions such as trade unions and business associations, (2) developing political parties and electoral processes, and (3) advancing democratic political institutions through civic education and the media.

Under the National Endowment for Democracy Act (Public Law 98-164), the Endowment cannot carry out grant programs on its own; it can only make grants to U.S. private sector organizations which then fund projects carried out by foreign recipients. The Endowment's grantees are separated into two categories—core and discretionary. Four grantees representing labor, business, and the two major political parties comprise the “core” category. These sectors played leading roles in establishing the Endowment and they receive the majority of Endowment funding. These four core grantees are the Free Trade Union Institute (FTUI), the Center for International Private Enterprise (CIPE), the National Democratic Institute for International Affairs (NDI), and the National Republican Institute for International Affairs (NRI). The “discretionary” category includes other U.S. grantees that help to build democratic institutions. Between fiscal years 1984-90, the Endowment awarded grants to 120 U.S. organizations other than its core grantees.

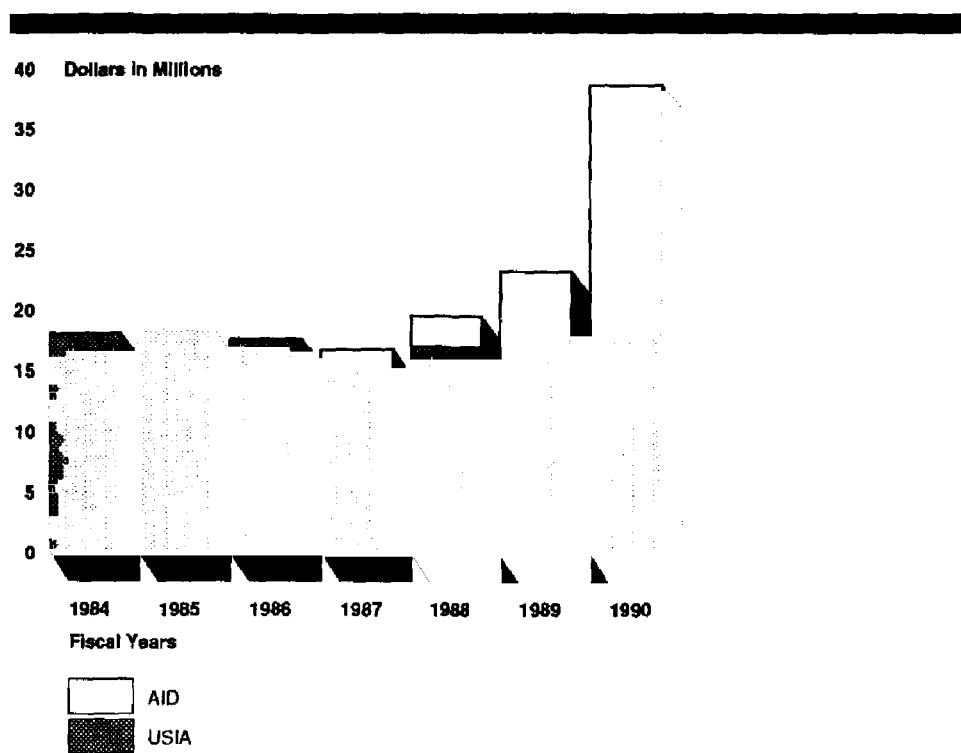
Overview of 1984-90 Funding

During fiscal years 1984-90, funding for Endowment programs increased substantially, more than doubling from \$18 million in fiscal year 1984 to \$38.6 million in fiscal year 1990. Endowment operations are funded through annual core grants from the United States Information Agency (USIA) and special grants from the Agency for International Development (AID). From fiscal years 1984-90, the Endowment received \$151.6 million in USIA and AID grants. Of this amount, about \$34 million covered administrative costs of the core and discretionary grantees and

the Endowment. (See app. I for a breakout of administrative costs.) USIA grants make up the majority of Endowment funding. Since 1984, the Endowment has received about \$119 million in USIA funds, averaging \$17 million a year. In fiscal year 1991, the Endowment will receive an increased USIA grant of \$25 million.

Starting in fiscal year 1986, the Endowment received an additional source of funding through grants from AID. Most of these grants were specially authorized by the Congress to support democratic movements in regions and countries of special interest. For example, special AID grants have been provided for Endowment programs in Chile, Nicaragua, South Africa, Poland, and Eastern Europe. (See app. II for a complete list of AID grants to the Endowment.) Since 1986, the Endowment has received \$32.4 million in AID grants, representing 21.4 percent of total Endowment funding. As shown in figure 1.1, AID funds comprised the majority of total Endowment funding in fiscal year 1990. The Endowment received AID grants of about \$21 million, or 54 percent of fiscal year 1990 funding.

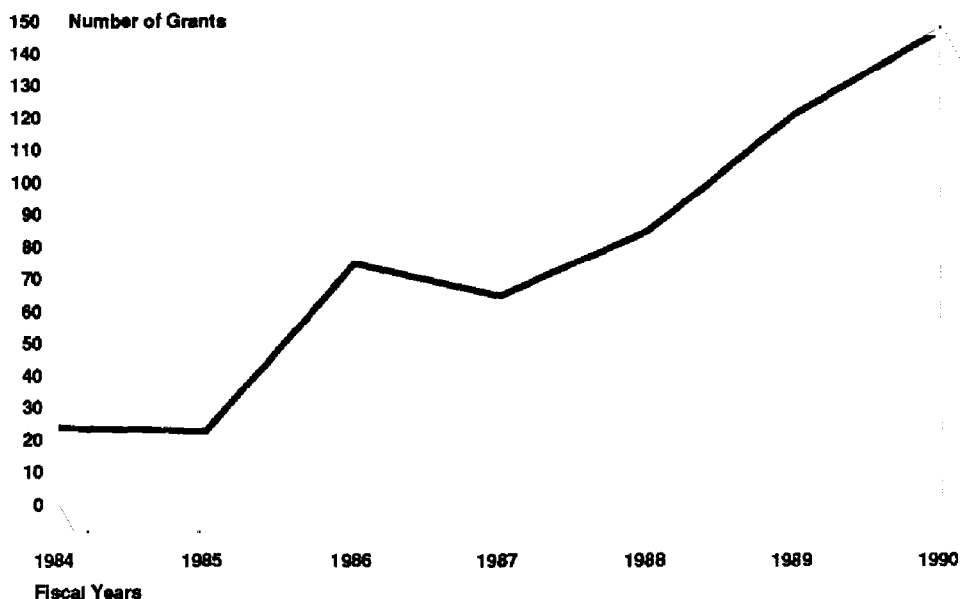
Figure 1.1: Total Endowment Funding
(Fiscal Years 1984-90)



Total = \$151,625,106

The substantial increase in Endowment program funding is best demonstrated by the growth in the number of grants made annually since 1984. Figure 1.2 shows the annual growth in grants awarded. The number of Endowment grants increased from 23 in fiscal year 1984 to 146 in fiscal year 1990. During the fiscal year 1984-90 period, the Endowment awarded a total of 533 grants.

Figure 1.2: Number of Endowment Grants (Fiscal Years 1984-90)



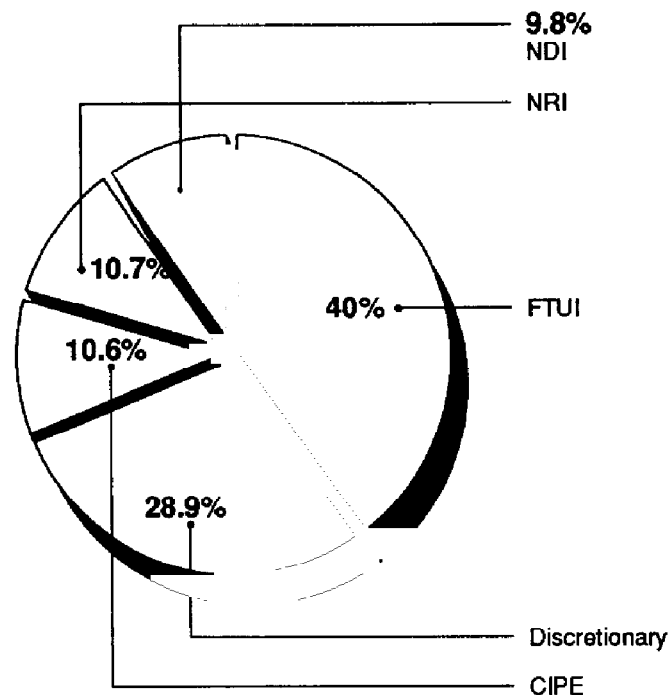
TOTAL = 533

Organizational and Regional Distribution of Funding

The Endowment has allocated the majority of its program funds to the core grantees. During fiscal years 1984-85, the core grantees received 87.5 percent of Endowment funding, while discretionary grantees received 8.5 percent.¹ FTUI and CIPE received the bulk of this funding because the Congress imposed earmarkings on Endowment funding. FTUI received about 68 percent of the core funds. However, in fiscal year 1986, there was a major shift in the way the Endowment allocated funds to the core grantees. Congress eliminated funding earmarks to FTUI and CIPE and directed in the conference report to the Endowment's fiscal year 1987 appropriation that not less than 25 percent of program funds be available for discretionary grants. As a result, more funds became available for discretionary grants. Figure 1.3 shows that during fiscal years 1984-90, core grantees received 71.1 percent of Endowment funds, while discretionary grantees received about 28.9 percent.

¹The remaining 4 percent supported the administrative costs of the Endowment.

Figure 1.3: Endowment Funding by Organization (Fiscal Years 1984-90)

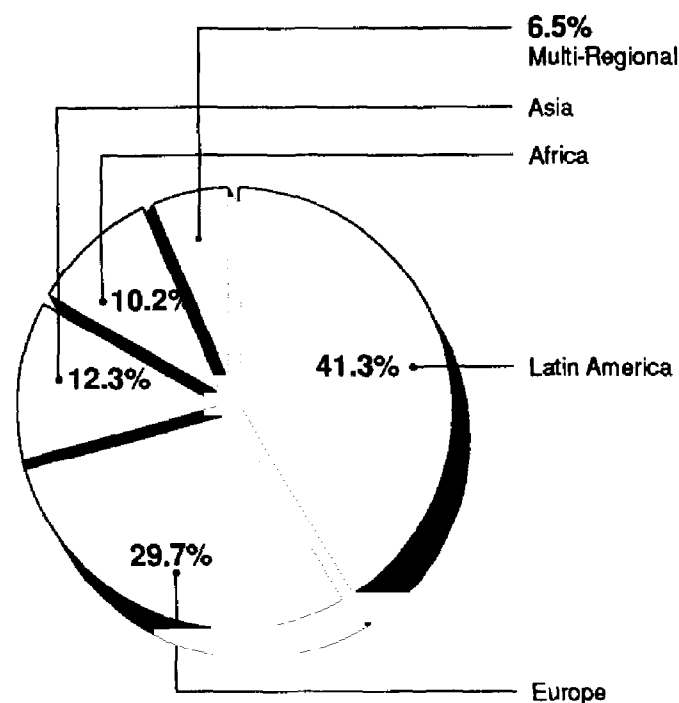


TOTAL = \$115,320,405

Note: Administrative costs are not included.

The Endowment spent the majority of its program funds in Latin America and Europe, as shown in figure 1.4. However, regional funding priorities have shifted notably from early Endowment programming in Europe, Asia, and Africa. During fiscal years 1984-85, European programs made up about 17 percent of Endowment funding compared, to about 30 percent during fiscal years 1984-90. This increase resulted from the infusion of AID funding to the Endowment to support democratic transitions occurring in Eastern Europe. Funding for Endowment programs in Asia and Africa, which comprised about 22 percent and 16 percent of program funding, respectively, during fiscal years 1984-85, made up 12 and 10 percent during the entire 1984-90 period. Funding for Latin America, which represented 40 percent of the total from fiscal years 1984-85 remained stable at 41 percent during the fiscal year 1984-90 period. (See app. III for the distribution of core and discretionary grantee funds in these regions.)

Figure 1.4: Endowment Funding by Geographic Region (Fiscal Years 1984-90)



TOTAL = \$115,320,405

Note: Administrative costs are not included.

Composition of Endowment Board and Organization Staffing

The Endowment's Board of Directors meets quarterly to set policy and approve the award of grants. The Board comprises 16 members representing organized labor, business, the two major political parties, Congress, and other private organizations. The Endowment's bylaws set the size of the Board between 13 and 21 members. Board members serve 3-year terms and may serve up to three consecutive terms.

The Endowment's bylaws require that the Board's membership reflect the same general membership of the initial Board, namely two representatives from each of the core groups. Since the inception of the Endowment, concerns have been raised about potential conflicts of interest that could result on the Board because of this requirement. One concern has been that some Board members are also board members of core grantee organizations seeking funding from the Endowment. The second concern has been that the core grantees have two representatives on the Endowment Board.

In recognition of potential conflicts of interest, Endowment bylaws require Board members who are associated with organizations seeking Endowment funding to abstain from the final vote. They may, however, participate in discussions of proposals to provide pertinent information. In addition, Endowment Board members representing NDI, NRI, and CIPE have given up memberships on their core grantees' boards.

The Board is currently undergoing transition in its membership as the terms of original members who have served with the Endowment Board since 1984 are expiring. The Endowment believes that the dual representation of core grantees on the Board will be eliminated as new Board members are elected to replace them. Over the next 3 years, original Board members will be leaving the Endowment Board as their terms expire. In 1990, for example, six new Board members with different areas of expertise were elected to the Board to replace five original Board members whose terms expired. (See app. IV for a list of Board changes during the 1984-90 period.)

The Endowment has a staff that implements Board policy, reviews grant proposals, and monitors grantees' program activities and spending. Endowment staff has grown from 11 people in 1984 to 31 in 1990. The staff is divided into three sections: the President's office, program, and finance. Of the three sections, the program section has experienced the largest growth, increasing from 5 staff in 1984 to 16 full- and part-time staff in 1990. Currently, the Endowment has program officers responsible for four geographic areas: Africa, Asia, Latin America, and the Soviet Union/Eastern Europe.

GAO Reporting on the Endowment

We have issued two reports on the Endowment. In 1984, we reported on the events leading up to the establishment of the Endowment. In September 1986, we issued a report on Endowment procedures for selecting, monitoring, and evaluating grantees.² We recommended that the Endowment become more involved in program planning and project selection, verification of grantee information, and the evaluation of completed projects, particularly for core grantees. In response to these recommendations, the Endowment revised its procedures for monitoring and evaluation, hired an internal auditor, and developed a process to identify priority countries for funding and programming.

²Events Leading to the Establishment of the National Endowment for Democracy, (NSIAD-84-121, July 1984) and Promoting Democracy: The National Endowment for Democracy's Management of Grants Overseas, (NSIAD-86-185, Sept. 1986).

Objectives, Scope, and Methodology

As mandated by section 212 of the Foreign Relations Authorization Act for fiscal years 1990 and 1991, we reviewed Endowment programs and operations. Our objectives were to determine whether (1) Endowment practices for evaluating and reporting on its operations and programs have adequately addressed program effectiveness and results and (2) grantees have complied with procedures for administering and monitoring the use of grant funds. We also reviewed the role of the Endowment's Board of Directors in providing oversight and direction over Endowment activities.

To determine the effectiveness of Endowment evaluation and reporting practices and grantees' compliance with Endowment procedures, we reviewed a judgmental sample of 36 projects. The sample covered 23 discretionary and 13 core grantee projects and represented about \$20 million in Endowment funding. (See app. V for a list of these projects.) Our selection of sample projects was based on the Endowment's highest funding priorities during fiscal years 1984-90. Specifically, we chose projects that represented (1) geographical areas that the Endowment identified as the highest priorities for funding, (2) an appropriate mix of core and discretionary grantee projects based on their geographical funding trends, (3) Endowment program funding priorities in areas such as strengthening labor unions, business associations, and improving the electoral process, (4) ongoing projects that the Endowment has approved for renewed funding, and (5) noteworthy projects based on Endowment and core grantee recommendations.

We obtained information from Endowment officials and core and discretionary grantee officials associated with our sample projects. We also reviewed Endowment operating procedures and guidelines, grant agreement requirements, program and financial grant files at the Endowment, reports from the Endowment's grant data base, audits performed by the Endowment's internal auditor, monitoring reports written by Endowment program staff, records maintained by U.S. grantees, and applicable congressional legislation. We verified the accuracy of the Endowment's data by comparing all signed grant agreements with reports generated by the Endowment's data base and found no discrepancies.

We also met with officials at the State Department, USIA, and AID to obtain their views on the effectiveness of the Endowment in achieving its goals and administering its program. We conducted our review in Washington, D.C.; New York; and Los Angeles, California.

In addition, we selected 16 of the 36 projects for a more detailed review of foreign subrecipients' compliance with Endowment procedures, their use of Endowment funds, and their implementation of project activities. We selected foreign subrecipients from countries that have been the Endowment's highest geographical priorities for funding. We also chose other countries to obtain a broader representative sample of the worldwide scope of Endowment assistance. We visited foreign subrecipients and U.S. Embassy officials in nine foreign countries: Argentina, Belgium, Bolivia, Chile, France, Israel, Poland, Portugal, and South Africa. For our examination of a project in Portugal, however, foreign subrecipient officials would not discuss their program activities and use of funds or would not provide us with access to their records.

We also selected a judgmental sample of 30 independent financial audits of 1986-89 grants to determine the extent to which tests of compliance were conducted.

We conducted our review between January 1990 and March 1991 in accordance with generally accepted government auditing standards.

Evaluations of Program Results Are Inadequate

The Endowment has successfully developed an expanding worldwide grants program but has not given adequate attention to systematically planning program objectives and assessing program results to adequately evaluate and report on the effectiveness of its total program. Planning and evaluation practices have not provided the Endowment with the information needed to make decisions regarding the most effective use of funds.

The Endowment's Planning Process Does Not Facilitate Evaluation

In our 1986 report, we noted that the Endowment did not regularly review and systematically set priorities for specific programs it expected to sponsor in a given year or period. We recommended that planning guidance on program priorities and geographical targets be provided to grantees for their use in developing projects. In 1987, the Endowment began to adopt an annual priorities document that would identify countries and regions being targeted for priority consideration for that year.

Endowment goals and priorities identified in priorities documents have had limited use, however, in determining whether Endowment projects are effective programs. Goals and priorities identified in these documents are broadly stated and have not been used as a basis for making funding decisions and for measuring the extent to which core and discretionary projects have achieved these goals. Additionally, the Endowment in reports to the Congress, has not addressed how effectively project results meet Endowment goals and priorities.

In our review of 1987-90 priority documents, we found that with the exception of Latin America, the annual priorities documents lacked specific long-term goals and strategies needed to develop and evaluate grantees' project funding in priority countries and regions. Goals were instead vaguely stated, saw little change from year to year, and lacked specific budget targets for regions and priority countries. Moreover, little comparison was done to measure progress in achieving goals from year to year. For example, Endowment program goals for Africa were stated the same in each annual priorities document from 1987-90 as continuing to "stress building such pluralist institutions as free trade unions, business associations, and independent women's and civic organizations as a basis for the eventual development of democratic political institutions."

All of the core grantees told us that the Endowment priorities statement had not been used as a basis for making core grantee funding decisions.

The Endowment has allowed the core institutes to define their own geographical priorities and goals. However, only CIPE has developed a formal annual plan that established goals and priorities for programs and funding targets. FTUI, NDI, and NRI officials told us that they have not developed formal plans for Endowment priorities but instead have based funding decisions primarily on current events. Endowment officials, told us, however, that Board members have expressed their desire to see the institutes operate on a more worldwide basis.

Endowment officials told us that the priorities document was primarily a descriptive document and was not intended to be used as a tool to evaluate Endowment programs or allocate resources. They said that lack of growth in Endowment resources provided limited flexibility for significant change of objectives. They contended that establishing budget targets for regions or countries would have diminished the Endowment's flexibility to respond to new opportunities.

Long-Term Goals and Strategies Help to Plan and Evaluate Programs

Planning and evaluation are complementary tools for achieving effective programs. Without specific and well-defined long-term goals and strategies, the Endowment has little basis for evaluating the effectiveness of grantee projects in a country or region. During our visits, AID and American Embassy officials in two countries told us that the Endowment needed to allocate its funding on the basis of strategies focusing on achieving goals that are specifically suited to the country or region. In South Africa, for example, AID mission officials told us that the Endowment needed to identify a long-term strategy for its assistance program in South Africa. They said that articulating the goals would assist them in overseeing the Endowment's program and also provide criteria for the Endowment to evaluate future project proposals. The U.S. Ambassador in Bolivia told us that the Endowment needed a strategy to develop more broad-based programs to increase the number of political institutions reaching all groups in Bolivia.

In its 1991 priorities document, the Endowment refined its approach to identifying priority regions and countries. The Endowment now allocates resources among four categories of countries corresponding to their state of democratic development as perceived by the Endowment Board and staff. For instance, one category addresses "those countries in which democratic breakthroughs have been achieved, but where democratic institutions have not yet been consolidated." While long-term

goals and priorities for individual countries and regions are more specifically stated, they continue to lack specific budget targets for geographical areas. Specific budget targets are now more necessary, because the Endowment is receiving increased funding to expand its programs.

Endowment's Annual Reports Do Not Assess Program Results

The Endowment's 1984-90 annual reports to Congress do not discuss the accomplishments and results of core grantee programs and discretionary projects and the grantees' effectiveness in assisting the Endowment in meeting program goals and priorities. Annual reports only describe core and discretionary grantee project activities by region and country. The successful development of long-term goals and funding strategies would facilitate the Endowment's reporting of "lessons learned" from project results and the projects' effectiveness in meeting Endowment goals.

Grantees Have Not Implemented Evaluation Procedures

For the most part, grantees have not complied with the Endowment's requirements for completing self-evaluations of their programs. According to Endowment procedures, grantees are required to submit a final report which includes their evaluation of individual projects. Core grantees must also submit an evaluation of their overall program for each grant.

Since 1986, none of the core grantees have submitted overall program evaluations. One core grantee, FTUI, has provided final program reports for 1986 and 1987 grants, but our review of these reports found that they do not provide overall program evaluations. Another core institute, CIPE, has been the only core grantee to conduct evaluations of past projects to justify its annual funding proposals to the Board of Directors. For example, at the January 1990 Board meeting, when funding requirements for 1990 core grantee programs were discussed, CIPE presented results from its internal evaluation of projects conducted for the past 5 years and the evaluation's effect on future CIPE funding strategies for the year. Other core institutes have not provided a similar analysis of "lessons learned" from past projects and have not conducted program evaluations.

An Endowment official told us that they have allowed the core grantees to determine how to meet this requirement and acknowledged that core grantees have not been diligent in submitting evaluations of their overall programs to the Endowment.

Some Foreign Recipients Have Not Complied With Endowment Evaluation Procedures

Foreign recipients of Endowment funding are expected to develop plans for self-evaluation appropriate to their own programs, goals, and organizational structure. According to Endowment procedures, adequate evaluations should address six major elements: program design, documentation of program activities and results, specification of evaluation focus, evaluation design, implementation, and use of evaluation results. Of 36 projects we examined, 13 contained self-evaluation plans in project proposals, but only 4 of the plans were adequate based on Endowment procedures for design and methodology, quantifiable indicators to measure success, and evaluation focus on the most important parts of the program. Other evaluation plans merely consisted of short statements of intent to do evaluations. The following are examples of such statements:

- In its evaluation plan for a program of election assistance for Nicaragua, NRI stated that: "on-site evaluations of the program will be conducted by NRI staff to determine the fulfillment of program objectives."
- An evaluation plan submitted by a discretionary grantee for support of radio broadcasting operations in Paraguay stated that "Radio Nanduti will be evaluated on the basis of its ability to survive during broadcast suspension and its success in implementing the originally proposed programming."

We found that in the final evaluations submitted after the completion of projects, grantees did not adequately address the effectiveness of projects in achieving objectives and using funds. Of the 36 projects we examined, 16 had final evaluations, but only one evaluation—a CIPE evaluation—adequately measured project results according to Endowment procedures. Evaluations tended to be broad descriptions of activities rather than assessments of how these activities met objectives, how funding was used, and how progress was measured. The following are examples of such descriptions:

- FTUI's final evaluation of support for a labor federation in Chile indicated the "overriding objective of the Chilean program was to strengthen the labor movement for the purpose of enabling it to continue to represent worker interests..." The evaluation, however, did not specify how funding had been used to increase membership or illustrate through quantitative data how much membership had grown during the grant period.
- A U.S. grantee's final evaluation of support for an organization in South Africa stated only that the organization's "grassroots approach in meeting the motivational, inspirational and developmental needs of the

communities it serves has proven effective in reaching the hearts and minds of South Africa's politically, socially and economically disadvantaged people." No additional information was indicated to support how the project achieved these results.

Project Objectives Are Vague

Endowment evaluation procedures do not spell out specific procedures for developing concrete and measurable objectives as a basis for evaluation. Endowment guidelines state only that "the purposes and goals of a proposed program must be translated into specific concrete objectives."

Precise identifiable objectives stating what the grantee intends to produce, when it will complete its actions, and who will benefit from what it does are critical to evaluating whether objectives are successfully met. In the project objectives we reviewed, expected results were vaguely stated, lacked quantifiable measures, and were more descriptive of project activities rather than goals to be achieved. Of the 36 projects, project objectives were unclear in 17 projects. The following project objectives, which we found in grant agreements, do not provide adequate bases for evaluation:

- "To support a regional office, national conference, and international conference."
- "To support the Haitian International Institute for Research and Development and its National Forums for Democracy and Development."

A means of addressing expectations for the different types of core and discretionary programs funded by the Endowment would be to use quantifiable measures. For instance, a project objective for an NDI conference in Argentina on civil-military relations was "to promote mechanisms and institutions which will allow for a fuller integration of the military into civilian society." We found that it was difficult to evaluate whether the conference was an effective mechanism for promoting integration, because the objectives lacked quantifiable measures to evaluate the project. For some of our sample projects, however, the development of concrete objectives was not always possible. For example, project objectives related to support of underground publishing activities in Poland were understandably vague because of political constraints in Poland at the time.

The Endowment Has Not Increased Its Own Evaluation Capability

In our 1986 report, we discussed the Endowment Board's approval of a policy statement clarifying the Endowment's relationship to its grantees and responsibility for evaluating projects. In the statement, the Endowment recognized that it had a unique relationship with the core grantees and that because of their expertise, core grantees would be expected to monitor and evaluate their own programs "in a manner that would minimize the need to devote Endowment resources for these purposes." However, the Board of Directors also recognized its ultimate responsibility for overseeing and supervising the work of the core and discretionary grantees. Current Endowment procedures state that "the Endowment must be in a position to evaluate the program and projects of its grantees as part of its total program, priorities and resources allocation."

Since 1986, however, the Endowment has not taken any concrete steps to increase its capability to evaluate its total program. The Endowment has not established a capability to independently evaluate core and discretionary projects but continues to rely heavily on grantees to monitor and evaluate their projects. In evaluating projects, Endowment program officers review quarterly reports, and other written materials and consult with grantees and other individuals and organizations knowledgeable about implementation of specific projects. Endowment program officers told us that they monitor and evaluate core grantee projects less closely than discretionary project activities.

An important evaluation tool is on-site visits of foreign subrecipients by Endowment program officers to verify information reported to the grantees and the Endowment on project results. The verification of project results is important because it ensures that project objectives are being achieved and funds properly used. Our 1986 report found that the Endowment did not have a consistent methodology or procedure to guide its staff's evaluation of discretionary project results.

We found the same results in our sample of 36 projects. Endowment staff visited 53 percent of the foreign subrecipients in our sample. Our review of their visits, however, showed that Endowment staff have not thoroughly verified foreign subrecipient activities and use of funds and do not follow consistent procedures or a standard format in conducting evaluations. During their visits, Endowment staff primarily observed and discussed program activities and rarely examined foreign subrecipients' use of funds or the extent to which project objectives were being realized.

For example, while Endowment staff have visited and reported on foreign subrecipient program activities for Endowment projects in South Africa, no formal evaluation of these projects has ever taken place. In one project that provides month-long workshops on community development in Israel for black South Africans, neither Endowment nor U.S. grantee staff have verified the extent to which participants satisfied the important requirement to design and implement a project in community development in South Africa. Subrecipient officials asserted that a high percentage of these projects have actually been implemented. From our discussions with 12 past participants in the program, we found that only 4 have implemented projects in South Africa.

AID and Embassy officials in two countries told us they would like to see more frequent on-site visits by Endowment staff or have a permanent on-site representative assigned to monitor and evaluate Endowment projects. In South Africa, AID officials said that they were concerned about the Endowment's lack of on-site management and reliance on U.S. grantees to monitor and evaluate projects. In Poland, the U.S. Ambassador told us that he believed that the Endowment needed to make more frequent visits to ensure that grantees understood and were complying with requirements.

Board Attention Over Evaluation and Oversight Is Limited

Our observations of 1990 Board meetings and review of written Board minutes since 1986 indicated that the Board does not actively monitor the Endowment's performance in evaluating and overseeing core and discretionary grantee programs. During its 1990 meetings, much of the Board's deliberations focused on the approval of funding for core grantee programs and discretionary proposals in Eastern Europe and South Africa and filling vacancies on the Board. The Board did not discuss what ongoing individual discretionary projects and core grantee programs were achieving or how funding was being spent. At informal board meetings, which were held 2 weeks before formal board meetings, Endowment staff presented a more detailed discussion and review of project proposals being considered for funding. However, evaluation and oversight of projects were not discussed, and these meetings were not well attended by Board members. In addition, specific problems found with grantees' administration of projects and the accountability and verification of foreign recipients' use of funding have not been discussed during Board meetings.

Conclusions

From fiscal years 1984-90, the Endowment received about \$152 million for grant programs. The increasing growth of the Endowment's program makes it critical that the Endowment be able to adequately plan and evaluate its programs so that only the most effective programs are funded. However, the Endowment does not know whether its programs are effective and efficient, because it lacks the capability to independently evaluate and report on the effectiveness of its total program. Specifically,

- the Endowment's planning and reporting process has not provided a sufficient basis to determine whether Endowment goals and priorities have been effectively met,
- most core grantees have not provided final evaluations of their overall annual grants and have not used evaluations to establish future plans,
- discretionary grantees have not successfully implemented Endowment evaluation procedures,
- Endowment staff have not increased their capability to evaluate and verify results of grant programs, and
- the Endowment's Board does not actively monitor Endowment evaluation and oversight over grantee programs.

Recommendations

The Endowment is responsible to USIA for compliance with procedures to ensure grant funds are used for purposes intended by the enacting legislation. We recommend that USIA ensure that the Endowment's Board of Directors improve its capability to evaluate and report on the effectiveness of the Endowment by

- identifying more specific and measurable goals and priorities, including specific budget targets for individual regions and countries;
- including in annual reports to the Congress an assessment of Endowment program results for the past year based on Endowment goals and priorities; and
- establishing a capability to (1) independently evaluate selected core and discretionary grantee programs, (2) assist grantees to develop more specific and measurable evaluation objectives, and (3) review grantees' and subrecipients' compliance with evaluation procedures.

Agency Comments

The Endowment commented that its Statement of Principles and Objectives, drafted in 1984, and its recent revised statement of strategic priorities provide a sound basis for establishing programs that best advance Endowment purposes. The Endowment said our report does not

mention that the Endowment continuously reviews and refines its priorities through its planning process. The Endowment also reiterated that the program planning process must take into account the responsibility of the four core institutes to develop their own initiatives and that budget targets are not established because the Endowment wants to preserve maximum capability to respond to rapidly changing events.

We found that program priorities saw little change between 1987 and 1990. Discussion of regional program goals in the priority documents showed little analysis and comparison with Endowment program results. Our basic point is that the Endowment has not used its planning process as a basis to evaluate program results and Endowment effectiveness. We also recognize in the report that the core institutes are allowed to define their own geographical program priorities. We found that only one core institute, CIPE, had a formal annual plan that established program goals and priorities. We also recognized the Endowment's view on having flexibility to respond to changing events. We believe this view was a reasonable approach to take when Endowment resources were limited but that the Endowment should now consider specific budget targets with the increased USIA funding it is now receiving.

The Endowment did not accept our view that it does not know whether its programs are effective and efficient, but acknowledged that a more systematic approach to evaluating the effectiveness of its programs was desirable. The Endowment agreed that greater attention and effort should be devoted to evaluation and stated that it is already taking steps toward this end. For example, the Endowment said its Board of Directors recently authorized a position for an evaluation officer position, who will address problems identified in our report. The Endowment also agreed that regular submission of overall program evaluations by core grantees was desirable and said that it would carefully consider how it could best respond to our recommendation to provide the Congress annual reports assessing program results for the past year based on Endowment goals and priorities.

Grants Are Not Adequately Controlled and Accounted For

In our 1986 report, we identified several problems and limitations with the Endowment's grant monitoring procedures. Since that time, the Endowment has not significantly improved its ability to monitor and verify grantees' and subrecipients' activities and use of funding. In some instances, grantees and subrecipients have not complied with financial controls, and have misused and mismanaged Endowment funds.

Endowment Financial Controls

In accordance with USIA's and AID's requirements for the Endowment's grants, the Endowment has developed various financial control procedures designed to minimize the risk of mismanagement and misuse of Endowment funds. These procedures are included in grant agreements executed between the Endowment and its grantees. Table 3.1 identifies the key financial controls contained in the Endowment's standard grant agreement.

Table 3.1: Key Financial Controls

Type of control	Detailed description
Fund management	<p>Grantees must keep Endowment funds in separate interest-bearing bank accounts and return interest earned over \$100 to the Endowment.</p> <p>Grantees must make cash flow projections to ensure that Endowment funds are disbursed only when needed.</p> <p>Grantees must develop program and administrative cost budgets to use in monitoring specific expenditures.</p> <p>Grantees must obtain written authorization prior to transferring funds between program and administrative budgets to ensure that administrative costs are controlled.</p>
Expense	<p>Grantees must not claim certain expenses that are not allowed by Endowment policy or guidance from the Office of Management and Budget.</p> <p>Grantees must claim only reasonable expenses, and ensure that travel costs and consultant fees are limited to stipulated maximum rates.</p>

Grant awards are generally awarded for 1 year and include both program and administrative funds. Program funds cover foreign subrecipients' costs to carry out authorized activities, and administrative funds cover grantees' costs to administer the grant. Prior to disbursing Endowment funds, the Endowment requires grantees to submit line item budgets for anticipated program and administrative costs. All program and administrative funds are disbursed to grantees, who then disburse program funds to their respective foreign subrecipients.

Foreign subrecipients are subject to many of the same financial controls and reporting requirements as grantees. Endowment procedures require grantees to ensure that subrecipients comply with these procedures. The Endowment relies heavily on core and discretionary grantees to develop adequate procedures to monitor and verify subrecipients' use of funding.

Compliance With Control Procedures Is a Persistent Management Problem

Our 1986 report and subsequent audits of the Endowment have revealed that core and discretionary grantees have continued their noncompliance with Endowment financial controls. In our 1986 report, we reported on problems with core grantees' compliance with financial reporting requirements. Subsequent USIA Inspector General (IG) audits and the Endowment's internal audits have identified continuing problems of core and discretionary grantees' noncompliance with the Endowment's financial controls. For example, in 1987 and 1988 reports on audits of the Endowment's administrative activities and selected grantees, USIA's IG

- disallowed over \$50,000 in expenditures claimed by FTUI, and two discretionary grantees,
- questioned over \$20,000 in unsupported expenses claimed by two discretionary grantees,
- questioned \$10,000 in administrative fees paid to a grantee because the grantee had not adequately fulfilled its responsibilities in assisting and monitoring the foreign subrecipient, and
- reported that some grantees had not submitted timely quarterly reports.

According to the Endowment, all disallowed costs have been repaid and questioned costs resolved.

The Endowment's internal audit results indicate that grantees' noncompliance continues to be a significant management problem. Up to January 1991, the internal auditor had issued 25 final reports since 1986 on audits of specific grantees. In our review of these audit reports, we found that half of the grantees involved were not complying with one or more of the Endowment's required financial controls and/or were not submitting timely quarterly expenditure reports. The following were included in these reports:

- five grantees had not placed Endowment funds into an interest-bearing account.

- two grantees kept over \$1,900 in interest earned that should have been returned to the Endowment.
- eight grantees had commingled Endowment funds with other funds.
- five grantees had not filed timely quarterly expenditure reports.
- two grantees could not substantiate over \$38,000 in claimed expenditures. In one case, the Endowment could not recover over \$23,000 in unsupported claims from a grantee. The grantee commingled Endowment funds with other sources of funding, used funds for personal credit card payments, and transferred funds into a personal checking account, and claimed expenses to the Endowment grant that were actually paid from other contributions. The grantee has refused to repay the questioned funds and stated that the Endowment would have take legal action to recover the money. Endowment officials told us that USIA advised them not to pursue recovery through legal action because the costs would exceed the amount.

Foreign Subrecipients' Noncompliance With Financial Controls Has Resulted in Misuse of Funds

Because USIA and the Endowment's internal audits have not focused on subrecipients, we reviewed 16 foreign subrecipients' projects to determine whether they have complied with Endowment procedures. We found noncompliance with certain financial controls and instances of misuse of Endowment funding. Specifically,

- ten subrecipients had commingled Endowment funds with other funds,
- five subrecipients had not returned interest earned over \$100 to the Endowment, and
- three subrecipients misused about \$28,000 of Endowment funds for personal loans and other unauthorized purposes.

In addition, we questioned whether one grantee properly used administrative funds for monitoring and evaluation.

Commingling of Funds and Interest Not Returned

Maintaining Endowment funds in separate accounts is an integral part of financial controls designed to ensure that funds support only approved activities. Accountability over Endowment funds is lost when other sources of funding are commingled in a single account. While foreign subrecipients are not required to maintain Endowment funds in interest-bearing accounts, they must return any interest earned over \$100 on funds deposited in an interest-bearing account. Of 16 foreign subrecipients we reviewed, 10 subrecipients were commingling Endowment funds with other funds, and 5 were not returning interest earned on Endowment funds. For example, one foreign subrecipient in South

Africa earned almost \$4,500 in interest in 1989 on a \$200,000 grant but has not remitted the interest to the Endowment. Up until September 1990, FTUI has allowed a subrecipient, the Solidarity's Coordinating Office Abroad in Brussels, to commingle Endowment funds with other sources of funding in an interest-bearing account. Subrecipient officials told us they have not returned any of the interest earned on the \$6.5 million awarded to them over the last 5 years.

Misuse of Endowment Funds

Foreign subrecipients are required to submit to the Endowment for review any changes in activities and expenditures that are not originally authorized in approved grant objectives and program budgets. In some instances, subrecipients used Endowment funds for unauthorized purposes, such as making personal loans. A subrecipient in Bolivia, which has received Endowment funding through the NRI since 1985, misused and mismanaged funding during the early years of the grant. The subrecipient established false accounts to provide personal loans and camouflage other unauthorized expenditures. For example, the subrecipient established an account called accounts receivable and used it to mask payments from Endowment funds to the President of the subrecipient organization for a \$1,697 loan he made to the organization before Endowment support to the organization started. The recipient established another account called "trainer fellowships" and used it for a \$500 personal loan to one of its employees for house rental payments.

Although, the NRI visited the foreign subrecipient on several occasions, it did not investigate the recipient's use of funds until late 1988 when it was advised of several allegations about the recipient's mismanagement of Endowment funding. NRI officials told us that the subrecipient repaid NRI for the personal loans and the unallowable payments. We did not verify whether repayment had actually occurred.

We found that a South African project subrecipient had made several unauthorized personal loans of at least \$6,400 to employees and others, some of which have not been repaid. For example, the subrecipient

- loaned about \$1,700 to an employee for a down payment on a house, but the employee resigned before repaying about \$800 of the loan;
- loaned \$1,200 to another local organization to repair a vehicle and \$2,000 to another individual to start a car repair business; and
- signed for a rental car for a former workshop participant who was arrested for drug trafficking while using the car and subsequently paid about \$1,500 in car rental fees while the car was impounded.

Another South African subrecipient used Endowment funds to renovate some office space without prior approval from the Endowment. The subrecipient formally requested permission to use \$8,000 in funds originally earmarked for an international conference (which was cancelled) to make the office renovations. The subrecipient, however, did not make its request until after the renovations had begun and used \$18,000—instead of \$8,000—of Endowment funds without obtaining written approval.

Questionable Use of Administrative Funds

The Endowment allows core and discretionary grantees to allocate a portion of program funds for project administration to monitor and evaluate projects being implemented by foreign subrecipients. The portion of funding grantees devote for administration varies. Discretionary grantees normally use up to 10 percent of the grant, and core institutes use much more—in 1990, for instance, CIPE devoted about 24 percent of program funding to administration, followed by NDI at 22 percent, NRI at 20 percent, and FTUI at 16 percent.

The Endowment has not closely examined whether administrative funds grantees spent were properly directed towards monitoring and evaluation of projects. In one instance, a grantee could not substantiate that the funds spent for the administration of a project were needed for monitoring and evaluation of the project. A grantee for a South African project was paid over \$130,000 in program funds and from other private contributions to administer \$900,000 of grants received during the 1987-90 period. However, in a 1989 internal audit of the 1987 grant, the Endowment found that the grantee could not document large claims for administrative costs such as, \$11,040 for office space and secretarial services and \$18,900 in consulting fees, because consulting and lease agreements did not exist.

In our review of this project, we found that grantee spent more for administration of the project than was necessary for project monitoring and evaluation. Since 1987, a grantee official has been paid \$18,900 in consulting fees from each Endowment grant for administering the project. However, this official has not fulfilled responsibilities related to monitoring and evaluation of the project that would justify these fees. The official has not visited South African participants in the program to monitor or evaluate the project, nor has the official prepared quarterly financial and program reports for the Endowment. These reports are prepared by others who are paid additional sums from Endowment program and administrative funds. For example, a representative of the

grantee who resides in Israel, prepares program reports and is paid \$6,000 in program funds from each grant. Financial reports are prepared by an independent accountant, who currently charges \$8,000 from administrative funds for each grant.

We also could not substantiate administrative costs for office and secretarial services and consulting services, and the grantee could not produce consulting and lease agreements that delineated these charges. The grantee organization has used \$11,000 in administrative funds annually since 1987 to contract for office space and secretarial services with a company owned by the grantee organization's president. In visiting the office, we discovered that the office space was rarely used and use of secretarial services could not be documented. The grantee official administering the South African project told us he primarily administers the project from his home.

Endowment Procedures Do Not Ensure Grantee Compliance

The Endowment's system for ensuring that grantees and foreign subrecipients comply with Endowment financial and internal controls is not effectively increasing compliance. The Endowment needs to strengthen measures to ensure that grantees do a more effective job in monitoring and verifying compliance by foreign subrecipients.

Progress Reports Do Not Include Comprehensive Information

Having comprehensive and timely progress reports is important to the Endowment's capability to adequately monitor foreign subrecipients' projects. Quarterly progress reports cover program activities and financial expenditures. Financial expenditures are broken down into broad line item categories, such as salaries, supplies and equipment, administrative budgets, and travel, and are reported against approved program and administrative budgets. Foreign subrecipients must report their activities and expenses to grantees, who then add their administrative expenses and forward the completed report to the Endowment. Endowment staff review these reports to determine whether funds are being spent in accordance with the approved budgets. Progress reports are usually due 30 days after the end of each quarter and a final report is due 30 days after the end of the grant period.

Our earlier reports, IG audits, and Endowment internal audit reports have noted problems in obtaining sufficient information in progress reports in a timely manner. Of 36 projects in our sample, 29 had consistently been late with their progress reports. For example, one core

grantee's final report for a project's program activities was not received until 14 months after the end of the grant period, and the final financial report was received 23 months after the grant's end date. Also, program reports were incomplete in 20 projects, and incomplete financial reports were found in 7 projects.

Quarterly reports do not include all information needed to monitor the extent to which foreign subrecipients are complying with key financial controls. For example, the reports do not include information on how foreign recipients are maintaining Endowment funds. This information would enable Endowment staff to confirm that funds are being kept in separate interest-bearing accounts and that interest earned over \$100 is being returned on a quarterly basis.

In addition, more detailed reporting of some expenditures could make it easier to confirm that certain expenses are allowable and reasonable within Endowment guidelines. For example, daily travel expenses for food and lodging overseas cannot exceed specific per diem rates established by the U.S. Department of State. In our review, we found that foreign subrecipients were not using travel vouchers to document travel expenses, and, thus, travel expenses were not broken down into daily expenses which made it difficult to confirm that the expenses were within allowable per diem rates. By including information in progress reports on the number of people traveling, the number of days of travel claimed, and the travel destination, grantee staff could easily confirm that travel costs are within allowable limits.

In one example, we reviewed the use of Endowment funds in covering the expenses of a foreign subrecipient in South Africa to organize an international conference. Some costs, such as car rentals and airline travel, appeared to be costs incurred for other activities not related to the conference. Additionally, over \$2,000 of travel advances were given to one official, but the dates the official received the cash did not coincide with any travel done for the conference, and no explanation was given on what the money was spent on.

Several subrecipient officials told us that they have been unable to submit information in time for their grantees to compile progress reports within 30 days. For the Solidarity project in Poland, for example, quarterly financial reports were consistently late because Solidarity had to retrieve expenditure information from manual accounting records at each of its 40 regional offices before it could compile an overall report.

Endowment officials admitted that the 30 day requirement might be unrealistic in some cases, but they fear that allowing more time may make the situation worse. To improve timeliness, the Endowment has withheld drawdowns until past due progress reports had been received. While this has been an effective control mechanism, several subrecipient officials complained that this practice was unfair because they could not realistically meet the Endowment's 30-day requirement but needed timely drawdowns of funding to stay in business.

Audit Coverage Is Not
Sufficiently
Comprehensive

For grants exceeding \$50,000, the Endowment requires grantees to have financial related grant audits conducted to verify financial information they report to the Endowment. In addition, each grantee must establish procedures and perform (or require to be performed) selective, independent auditing or other forms of verification of information obtained from foreign subrecipients to ensure compliance with grant terms and objectives. In 1986, we reported that information provided by grantees was generally not being verified, particularly for core grantees, and that grantee reports to the Endowment were based on unverified information obtained from subrecipients. To improve its capability to verify grantee activities and expenditures, the Endowment hired an internal auditor to do administrative audits on selected grantees.

Endowment internal audit coverage has, however, been limited. Since 1986, for instance, the internal auditor has done only 25 internal audits covering 48 grants, primarily for 1986-87 grants to discretionary grantees. The Endowment has not developed a plan or strategy identifying projects requiring internal audits, interim audits have rarely been done, and only one audit examined expenditures at the foreign subrecipient level. In 1990, the Endowment issued only five internal audits, covering 12 grants.

The Endowment's internal audit coverage of core grantees has also been limited. In 1988, the internal auditor started to conduct audits of core grantee administrative costs for fiscal years 1986 and 1987. Administrative costs and procedures that were to be examined included accounting system inadequacies, use of travel funds, consultants, independent verification of subgrantee expenditures, and core grantee evaluation. However, only a draft audit report for one core grantee, FTUI, has been completed. The Endowment internal auditor told us that other priorities prevented issuing a final report and completing the audits of other core grantees. The draft report reviewed grants totaling over \$9 million provided to the FTUI in 1986 and 1987 and concluded that (1) FTUI did not

verify travel expenditures by its employees, (2) travel advances remained outstanding while an employee received additional advances for subsequent trips, and (3) FTUI did not require independent audits or other forms of verification of supporting documentation for European projects as required under the terms of the grant.

Compliance With Grant Terms Is Not Verified

Endowment grant agreements with core and discretionary grantees require that independent financial audits of grantees include tests of transactions to determine whether grantees have complied with grant terms and objectives. However, independent financial audits rarely determined compliance with grant provisions. We examined 30 independent financial audits of 1986-89 grants provided to core and discretionary grantees. Of the 30, only 6 audits indicated that any tests were conducted for grantee compliance, and such testing was done only on a limited basis. None of the audits determined whether foreign subrecipients had complied with grant terms.

We also found that one core grantee, FTUI, has not always given proper attention to verifying the use of funds by their foreign subrecipients. The draft internal audit report of FTUI's 1986-87 grant administrative practices noted that FTUI did not conduct independent audits or other forms of verification of supporting documentation for about \$1.7 million of grants provided to its European subrecipients. From our review of a FTUI labor project in Portugal, we determined that FTUI had not conducted an independent audit or verified by other means \$2.6 million of Endowment grants provided to a labor confederation in Portugal since 1984. We visited the foreign subrecipient in Portugal to verify program activities and the use of funds, but labor union officials would not talk with us or give us access to financial records. We requested FTUI officials to assist us in gaining access to records and union officials in Portugal, but they were not able to convince union officials to meet with us.

Grantees are required to execute grant agreements that delineate foreign subrecipient requirements. In our sample of foreign subrecipients, most grantees administering grants required some type of verification, such as a financial audit, but the verification did not include a determination of foreign subrecipients' compliance with grant provisions and key financial control procedures. All grant agreements in our sample lack clarity on control procedures that apply to foreign subrecipients. They do not clearly specify subrecipient responsibilities and do not explain how grantees and foreign subrecipients are expected to implement certain control procedures. For example, grant agreements require

that financial audits of grantees include testing of transactions to determine grantees' compliance with grant terms and conditions. However, grant agreements do not make this a requirement for grants with foreign subrecipients.

In addition, FTUI has not been executing grant agreements with all foreign subrecipients. In 1986, we reported that FTUI had not executed agreements with some of its foreign subrecipients. In our current review, we found that FTUI still does not execute agreements with all its foreign subrecipients. In our examination of a FTUI project supporting a labor union in Chile, we found that the Latin American regional institute administering the project had never executed grant agreements with the subrecipient. FTUI regional institute officials told us they believed that a written grant agreement was unnecessary and that they had never required their subrecipients to agree to one.

New guidance from the Office of Management and Budget (OMB) should make Endowment audits more comprehensive. OMB circular A-133, implemented in March 1990, requires more stringent audits of grantees and subrecipients that receive grants. Under the new OMB guidance, non-profit institutions receiving \$25,000 or more in federal awards will be required to obtain an independent audit, in accordance with the Government Auditing Standards developed by GAO, at least once every 2 years. These standards require independent auditors to conduct tests to determine whether grantees and subrecipients are complying with applicable laws and regulations related to grants. Additionally, the guidance requires agencies to levy appropriate sanctions on recipients that do not conduct proper audits. These sanctions include withholding a percentage of the grant or suspending the grant until the audit is satisfactorily completed.

Conclusions

The continuing noncompliance by grantees and foreign subrecipients with financial controls demonstrate that the Endowment's monitoring procedures have not been effective. Such noncompliance has resulted in cases where grantees and subrecipients had misused, mismanaged, or not effectively accounted for grant funds. The Endowment relies on core and discretionary grantees to evaluate and monitor their projects. However, grantees' project evaluation and monitoring has not significantly enhanced the Endowment's ability to keep track of how foreign subrecipients—who receive the bulk of Endowment funding—are using funds. Further, the Endowment does not receive sufficient information from grantee and subrecipient progress reports and audits to adequately

monitor foreign subrecipient compliance with financial controls and grant provisions.

Recommendations

The Endowment is responsible to USIA for compliance with procedures to ensure grant funds are used for purposes intended by the enacting legislation. We recommend USIA ensure that the Endowment's Board of Directors

- require progress reports to include more detailed information that will enable the Endowment to better monitor compliance with financial controls;
- develop a detailed plan and strategy for conducting reviews and audits of core and discretionary grantee administrative costs and monitoring procedures to ensure that grantees do a more effective job in monitoring and verifying compliance by foreign subrecipients; and
- revise grant agreements to (1) explicitly require independent financial audits of foreign subrecipients, including tests of compliance with grant terms and conditions and (2) clarify foreign subrecipients' responsibilities for complying with financial controls.

Agency Comments

The Endowment stated that our report exaggerates certain management deficiencies and ignores the fact that many foreign subgrantees are small organizations working under trying circumstances in which one might reasonably have expected difficulty in properly accounting for grant funds. The Endowment said that its existing monitoring and financial tracking procedures have facilitated early detection of potential problems, including many of the examples included in our report. The Endowment concluded that the overall level of financial accountability has been high.

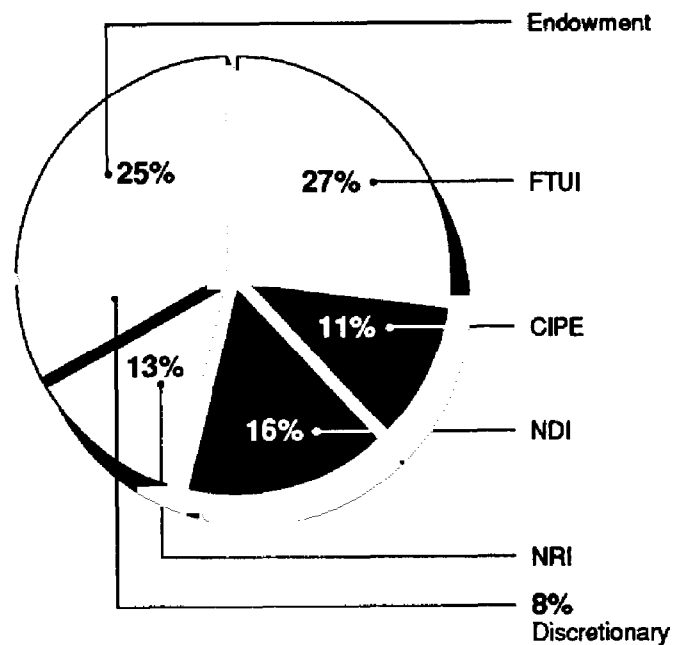
We acknowledge that some foreign recipients operate under circumstances that could hamper their ability to adhere to all Endowment financial accounting procedures. However, most foreign recipients agreed to follow Endowment procedures under terms of their grant agreements and therefore agreed to account for grant funds.

We continue to believe that the lack of compliance with financial controls, such as the commingling of funds (62 percent of our sample), inadequate audit coverage, lack of timely financial reporting, and inadequate compliance with grant agreements, suggests that financial accountability needs considerable improvement. The Endowment agreed that a

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Accounted For

higher degree of compliance with financial controls is needed and said that it planned to strengthen existing procedures and increase audit coverage.

Endowment Administrative Costs (Fiscal Years 1984-90)



TOTAL = \$34,076,527

Listing of AID Grants to the Endowment

Year	Country	Amount of Grant
1986	South Africa	\$211,866
1987	South Africa	605,000
1987	Poland	1,000,000
1988	Chile	1,000,000
1988	Poland	1,000,000
1988	South Africa	500,000
1989	Poland	2,000,000
1989	Poland	330,000
1989	South Africa	665,000
1989	Hungary	255,000
1989	Paraguay	500,000
1989	Nicaragua	3,500,000
1989	Nicaragua	7,435,000
1990	Nicaragua	235,000
1990	Poland	995,700
1990	Eastern Europe	269,534
1990	Eastern Europe	10,176,006
1990	South Africa	635,000
1990	Haiti	1,100,000
Total		\$32,413,106

Distribution of Core and Discretionary Grantees' Program Funding by Percentage (Fiscal Years 1984-90)

	Latin America	Europe	Asia	Africa	Multi-Regional
FTUI ^a	32.4	30.8	18.8	16.5	1.6
CIPE	44.2	9.1	8.9	7.7	30.1
NDI	56.3	20.7	6.1	6.8	10.1
NRI	75.5	16.7	1.6	0.2	6.0
Discretionary	35.0	43.5	10.6	7.3	3.6

^aDue to rounding, FTUI figures add up to over 100%.

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Kissinger and Associates

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The Honorable Walter F. Mondale²
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Chadbourne & Parke

Ms. Polly Baca³
Director, Colorado Hispanic Institute

The Honorable William E. Brock³
Managing Partner, The Brock Group

The Honorable Legree Daniels³
Former Assistant Secretary of Education for Civil Rights

Mr. Charles H. Smith³
Chairman of the Board, SIFCO Industries

Mr. Albert Shanker³
President, American Federation of Teachers

¹Added to Board in June 1990.

²Resigned.

³Final 3-year term expired in January 1991.

Projects GAO Reviewed

Grantee/subgrantee project	Year of grant reviewed
USIA-Funded	
Cuban American National Foundation/ International Coalition for Human Rights in Cuba	1987
China Perspective	1987
Freedom House/Radio Nanduti	1987
Freedom House/Libro Libre	1987
YMCA of the USA International Division/ YMCA of the Philippines	1988
Center for Democracy in the USSR/ Glasnost Magazine	1988
The Friends of Namfrel of America Foundation/Kabatid	1988
Joint Center for Political and Economic Studies, Inc. (JCPS)/ Uganda Human Rights Activists	1988
America's Development Foundation/ Haitian International Institute for Research and Development	1989
Delphi International/Nicaraguan Women	1989
National Republican Institute for International Affairs/ Bolivia-Fundemos ^a	1984, 1986-90
Free Trade Union Institute/ American Institute for Free Labor Development/Democratic Worker's Central ^a	1984-90
National Democratic Institute for International Affairs/ Argentine Civil-Military Conference ^a	1989
Center for International Private Enterprise/Mediterranean Foundation ^a	1988-90
Delphi International/Conciencia ^a	1984, 1986-90
Polish American Congress Charitable Foundation (PACCF)/Literary Notebooks ^a	1987-90
PACCF/Committees for Education, Culture, and Science ^a	1987-89
Institute for Democracy in Eastern Europe/Independent Polish Publishers ^a	1986-90
FTUI/Coordinating Office of Solidarnosc Abroad ^a	1984-90
FTUI/General Workers Union of Portugal ^a	1984-90
AID-Funded	
International Rescue Committee, Inc./ Solidarity Social Fund	1987
U.S. South Africa Leadership Exchange Program (USSALEP)/ National Black Consumers Union	1987
NDI/Chilean Election Assistance	1988
NRI/Chilean Election Assistance	1988
Delphi International/La Epoca, Neighborhood and Community Action Group, Center for Youth Development	1988
NDI/Nicaraguan Elections	1989
NRI/Nicaraguan Elections	1989
International Foundation for Electoral Systems/Via Civica	1989
CIPE/Association of Hungarian Entrepreneurs	1989
CIPE/Krakow Industrial Society	1989

(continued)

Appendix V
Projects GAO Reviewed

JCPS/Institute for a Democratic Alternative for South Africa ^a	1987-1988, 1990
USSALEP/Lamia ^a	1986-87, 1989
Center for Foreign Policy Options/ Afro-Asian Institute of Histadrut ^a	1987-90
FTUI/Special Assistance for Solidarity ^a	1988-90
PACCF/Polish Citizens' Committees ^a	1990
Rutgers University/Foundation in Support of Local Democracy ^a	1990

^aProjects visited by GAO in-country.

Comments From the National Endowment for Democracy



March 12, 1991

Mr. Joseph Kelley, Director
Security and International Relations Issues
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Kelley:

On behalf of the National Endowment for Democracy, I am pleased to respond to the Draft Report of the General Accounting Office entitled "Promoting Democracy." In so doing, I want to make it clear from the outset that the two working days we were allotted to respond are hardly sufficient to comment thoroughly on a report that took a year to prepare, and deals with a myriad of operational issues related to the Endowment's evaluation and monitoring of hundreds of grants. We intend the remarks that follow to be regarded as preliminary and look forward to the opportunity to respond more comprehensively in the weeks ahead.

We wish to reiterate what we have often said before: that we welcome constructive recommendations on improving the Endowment's ability to plan, monitor and evaluate grant activity, and to ensure compliance with all financial control procedures. We plan to study carefully the GAO recommendations and to take appropriate measures wherever necessary to implement them in a manner that strengthens the Endowment's overall grants program. As we note below, we have already taken steps along these lines, and we shall take still others in the near future.

Much as we welcome the GAO's recommendations and the opportunity they present to strengthen the Endowment's management capabilities, we are concerned that the report exaggerates certain management deficiencies and also ignores the broader context in which these issues appear. For example, as we discuss further below, the Endowment itself identified many of the instances of noncompliance cited in the report and had already taken action to correct them. Moreover, if one bears in mind the scope of the Endowment grants program and the fact that many foreign subgrantees are small activist organizations working under the most trying circumstances, one might reasonably have expected much greater difficulty in properly accounting for grant funds than has actually been experienced. In fact, as suggested by the small sums involved in the problems cited in the report, the overall level of financial accountability has been high.

1101 Fifteenth Street, N.W., Suite 203 Washington, D.C. 20005 Phone: (202) 293-9072 Fax: (202) 223-6042

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**Appendix VI
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Due to its limited scope, the report completely ignores the substance of the Endowment's work and the relationship between its mode of operation and the political events and movements with which it deals. During the past several years, and especially during the democratic revolution of 1989 and its immediate aftermath, the Endowment sought to respond to an unprecedented worldwide upsurge in democratic activity. Operating in a period of revolutionary change with a core budget that diminished every year in real value (and was lower in absolute dollars over each of the past five years than it was in FY1984, the year the NED got underway), the Endowment chose to apportion as much as possible of its scarce resources for program support and to restrain administrative costs. Moreover, it properly understood its mission as being responsive to the movements and individuals who were in the forefront of these momentous democratic changes. The Endowment would not have been nearly so effective in assisting these democratic forces if it had been responsive instead to some "strategic plan" developed in Washington.

Planning

This raises the much larger question of how best to reconcile the legitimate need to plan and prioritize, which the GAO rightly emphasizes, with the Endowment's desire to respond in a timely fashion to the needs of democratic activists abroad.

In this regard, the Statement of Principles and Objectives approved by the NED Board in December 1984 (and slightly amended in subsequent years) has been a durable document, one which has proven its value over time. This Statement indicated the types of programs that would receive priority consideration and, along with the grant selection criteria previously approved by the Board, established clear guidelines for deciding which programs best advanced Endowment purposes. At the same time it was flexible enough to enable the Endowment to be genuinely responsive to the varied concerns of foreign democratic organizations.

The Statement stipulated that programs had to be suited to the particular state of democratic development obtaining in different countries, although it did not target specific countries or regions. With respect to the allocation of resources, the Statement noted that the Endowment would concentrate the major part of its resources on situations that offer a realistic prospect for achieving progress toward democracy, but that it would not neglect those who keep alive the flame of freedom in closed societies. By making a conscious decision to support democratic activists in these societies, the Endowment positioned itself to respond effectively to the gathering momentum of events in Eastern Europe during the latter half of the 1980s.

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In discussing the Endowment's planning process, the report fails to mention that Endowment priorities are continuously reviewed and refined through consultations involving outside experts from the U.S. and abroad and government officials, as well as the Endowment staff, grantees and members of the NED Board.

The Endowment's program planning must take into account the responsibility of its four core institutes (The Center for International Private Enterprise, the Free Trade Union Institute, the National Democratic Institute, and the National Republican Institute for International Affairs) to develop their own initiatives, something they could not do effectively if the planning process were overly centralized. The extended discussion of strategic priorities conducted by the Endowment Board during a retreat last fall (with the participation of core grantee officials) was an attempt to establish meaningful strategic priorities without compromising the Endowment's flexibility or the institutes' autonomy. The result was a revised document in which the Board identified areas of highest priority for the Endowment in the coming year. It chose not to set budget targets for these areas, however, since it wanted to preserve maximum capability to respond to rapidly changing events and to adjust to the uncertain availability of special AID resources for particular regions.

Evaluation

The Endowment agrees that greater attention and effort should be devoted to evaluation, and it is already taking steps toward this end. Before detailing these specific measures, however, it is important to explain why conducting an appropriate evaluation program may be considerably more difficult than is suggested in the GAO report.

As the Endowment's existing guidelines state, use of quantifiable or other "concrete" indicators is desirable where they are relevant. The GAO concedes in the context of support of underground publishing activities in Poland (p.24) that political circumstances may on occasion make this impossible, but the problem is in fact a larger one. Such indicators are in many cases difficult to develop, if not indeed tangential to the purpose or context of the grant. In many cases, moreover, a short and succinct evaluation plan describing the essential criteria for success may well be more useful than an extensively elaborated one. For example, the GAO states that the plan to evaluate Radio Nanduti in Paraguay "on the basis of its ability to survive during broadcast suspension and its success in implementing the originally proposed programming," is merely an intent to do an evaluation, not an evaluation plan. In fact, however, the survival of Radio Nanduti when it was shut down by the Stroessner government and its ability to carry out an elaborate alternative program of publications and public meetings were the true measures of the grant's success. To have tried to reduce these measures to a

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detailed set of "indicators" would have trivialized the program and diminished Nanduti's ability to adapt creatively to the regime's tactics of repression. Cases of this nature are by no means unique for Endowment grants.

The fact that evaluation may be difficult, however, by no means decreases its importance. To ensure that evaluation is given more consistent and informed attention, the Board has recently authorized creation of an Evaluation Officer position. This officer's duties will center on expanding the Endowment's internal capacity to monitor and evaluate grantee activity and on ensuring the consistent application and enforcement of existing evaluation procedures. Among this officer's specific duties will be to develop and manage a program of independent evaluations of core and discretionary grantee projects, to review self-evaluation plans and final reports for consistency with existing standards, and to collect and assess information on the effectiveness of Endowment programs. The officer will also be responsible for working with grantees to develop more specific and measurable objectives that can be meaningfully evaluated.

The Endowment agrees with the GAO that regular submission of overall program evaluations by the core grantees is highly desirable, and will recommend that the Board request core grantees to comply more fully with existing requirements on submitting reports and evaluations. The Endowment will also carefully consider how it can best respond to the GAO's recommendation that annual reports to the Congress assess program results for the past year based on Endowment goals and priorities. To be meaningful, such an assessment might have to take account of activities over a more extended period, but the basic point of the recommendation is well taken.

While the Endowment is committed to strengthening its capability independently to evaluate and report on the effectiveness of its total program, we cannot accept the GAO's view that "the Endowment does not know whether its programs are effective and efficient." The Endowment possesses extensive information on all of its programs and, because they are frequently so highly visible, is constantly receiving feedback from a wide variety of observers and participants. The Endowment's understanding of the effectiveness of its programs might well be enhanced by taking a more systematic approach to evaluation. But this is far from the only means of acquiring reliable knowledge about program activities, and the Endowment must continue to seek information and insight from numerous independent and informed sources.

See comment 1.

FINANCIAL CONTROLS

While the GAO report focuses on a number of deficiencies in the important area of financial controls, it overlooks the fact that the Endowment's existing monitoring and financial tracking procedures have facilitated early detection of potential problems. The report cites several compliance and accountability difficulties identified in Endowment internal audits and GAO fieldwork with subrecipients. In most cases listed, the Endowment was aware of the situations cited in the report, and had taken steps to resolve them. For example, the report indicates that \$23,000 in unsupported claims could not be recovered from a grantee. The report does not note, however, that the internal audit resulting in the disallowance of these costs was initiated as a result of a program officer's alertness to problems identified in program reporting and her subsequent conversations with a participant in the activity--part of the Endowment's normal monitoring process. The question of recovery of disallowed costs has been referred to USIA (which was also considering providing direct support to the same grantee until becoming aware of the NED audit information), but no practical method for recovering the funds has been determined.

Where funds have not been properly accounted for, problems are usually attributable to the grantee's misunderstanding of the procedures and requirements rather than any intentional misuse of funds. The Endowment agrees that there must be a higher degree of compliance with financial controls and feels that this concern can be addressed by continuing to strengthen and refine existing procedures and by increasing audit coverage.

The report is inconsistent and in some cases mistaken in describing the actual controls and procedures used by the Endowment, perhaps because some of them have been modified. For example, as a result of language requiring "separate accounts" in the FY1988 NED authorizing legislation, grantees were required to keep advances of grant funds in separate bank accounts to avoid commingling NED grant funds with other monies. In 1990, following consultations with USIA, this procedure was modified. U.S. grantees and foreign subrecipients must now use separate accounts (but not necessarily separate bank accounts) to avoid commingling. This is a key financial control.

The requirement that grantees keep advances in interest-bearing bank accounts and return interest in excess of \$100 is not a key financial control mechanism (a point the GAO leaves unclear), but an OMB regulation that the Endowment must enforce. This is the requirement most often misunderstood by U.S. and by foreign grantees, especially since the latter are not now obligated to keep advances in interest-bearing accounts but must still return the excess interest if they do.

See comment 2.

See comment 3.

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Response to GAO Recommendations on Financial Controls

The report reviews the Endowment's reporting requirements that apply to U.S. grantees and their foreign subrecipients. Grants are usually for one-year periods, with quarterly progress and financial reports due 30 days after the end of the quarter. Although some grantees feel the 30 days is too restrictive, the Endowment as noted in the report will maintain this requirement; we feel that allowing more time after the end of the quarter (60 days for example) would not necessarily improve timely reporting, and it would render much information out-of-date before receipt, given the one-year grant period. The most effective method of ensuring reporting has been withholding further grant funds or further grants. One change in reporting requirements was made in 1990--for some smaller grants, the period was changed from a quarterly to a semiannual basis.

The GAO suggests that in program and financial reports the Endowment request additional information on (1) how foreign recipients avoid commingling Endowment funds with other sources, (2) whether or not funds are in interest bearing accounts, and (3) details about travel undertaken to determine whether per diem limits were observed. The Endowment will review these recommendations and determine the feasibility of incorporating the items into reporting requirements.

The report states (p. 45) that grantees are required to execute grant agreements with foreign subrecipients. The agreements between NED and U.S. grantees indicate that grantees should execute written agreements with foreign subrecipients, but they are not required to do so. There may be instances, especially in totalitarian countries, where it may not be prudent for a foreign organization to sign such an agreement. Nonetheless, the Endowment acknowledges that improvements are needed in the foreign subrecipients' understanding of grant requirements and procedures, and it will encourage the use of appropriate written agreements between U.S. grantees and foreign subrecipients wherever it is feasible to do so.

The Endowment also recognizes the need to improve audit coverage and to ensure that external audits are conducted in accordance with government auditing standards, including compliance testing to determine whether grantees and subrecipients are complying with applicable laws and regulations related to the grant. However, we wish to note that past audit coverage is not as limited as implied in the report: the 25 internal audit reports issued since FY1986 covered 48 grants; in FY1990, the 5 audit reports issued covered 12 grants.

See comment 4.

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Finally, we would like to note the following with respect to specific issues raised in the report:

-- With respect to the program of the Free Trade Union Institute in Portugal, the report states that "we visited the foreign subrecipient in Portugal to verify program activities and the use of funds, but labor union officials refused to talk with us or give us access to financial records." Unfortunately, there is no mention of the context in which the union (the UGT) asked for a postponement of the audit. (Our understanding is that one meeting between the union and the GAO did, in fact, take place.) As the GAO evaluators were aware, a careless remark by an inexperienced official in the U.S. Embassy was used by an opponent of the UGT to portray the scheduled GAO visit as a U.S. Government "investigation" of the union. After this matter gained the attention of the news media, the UGT asked that the GAO review be postponed until the publicity uproar subsided. The GAO did not agree to this request, but recommended that the grant not be renewed until FTUI had conducted a full evaluation of the program. FTUI and the Endowment are complying with this request.

See comment 5.

-- The report notes an incident in Bolivia where an NRIIA subrecipient allegedly misused and mismanaged funds. An NRIIA investigation of this matter had concluded that while there was a nonallowable use of funds in two instances, no evidence was found to suggest that the misuse was a case of calculated fraud. NRIIA did not find evidence to support the GAO contention that the subrecipient had "established false accounts to provide personal loans and camouflage other unauthorized expenditures."

See comment 6.

-- The report discusses audits conducted by the USIA Inspector General without noting that these audits have all been satisfactorily resolved. FTUI and NED have repaid the final disallowed amount of \$34,762, and questioned costs were resolved by submission of documentation or other means.

See comment 7.

-- The report questions the use of funds for administrative purposes in connection with a project under which community development workshops are conducted in Israel for black South Africans. In early 1989, the Endowment and the African American Labor Center conducted a joint internal audit of the 1987 grant for this project. The response to the audit report by the U.S. organization managing the grant indicated that appropriate consulting and lease agreements were in place. The level of administrative costs raised in the GAO audit will be one of the questions addressed by A.I.D./South Africa in a forthcoming evaluation of the program.

See comment 8.


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SUMMARY

This response should by no means be regarded as our final word on the subject of the GAO report. As stated previously, we welcome the useful recommendations contained in the report and will continue to study them carefully. During the weeks ahead, working closely with the Endowment Board (which has scheduled an extended discussion of the report at its next meeting), we will implement those changes which will improve the Endowment's overall management capability. As the scope and significance of its work expands, it becomes all the more essential to strengthen the Endowment's evaluation and monitoring procedures. The GAO report offers an opportunity for the Endowment to take this step and, in so doing, to become an even more effective instrument for the promotion of democracy abroad.

Sincerely,


Carl Gershman

The following are comments on the letter, dated March 12, 1991, from the National Endowment for Democracy.

GAO Comments

1. As the Endowment points out, we recognize the difficulty of evaluating projects such as Radio Nanduti and the underground publishing activities in Poland. However, most of the projects in our sample did not fit this category. The Endowment acknowledges that the difficulty of evaluation does not decrease its importance.
2. All of the subrecipients in our sample were required, in accordance with grant agreements, to maintain Endowment funds in a separate bank account. About 62 percent of our sample did not comply with this key financial control. We continue to believe the Endowment needs to strengthen its control to ensure grantees' and subrecipients' compliance with the requirement for a separate account for Endowment funds.
3. While the Endowment does not consider the interest requirement a key financial control mechanism, we believe they must do a better job in ensuring that interest earned by foreign subrecipients is being returned.
4. The number of grants audited has been added to our final report. However, limited audit coverage remains a weakness in the Endowment's ability to ensure compliance with its financial procedures and grant agreements.
5. We initially contacted the UGT in August 1990 about our visit to Portugal, but the UGT requested that the visit be postponed. We finalized arrangements to meet with UGT officials in October 1990. When we met with these officials in October, they informed us that they could not meet with us because of the allegations of misconduct and mismanagement being made against them, and then requested another postponement until January 1991. Because of our reporting time frame, we decided not to visit UGT but instead recommended that the Endowment and FTUI audit the program. We believe it is appropriate that the Endowment and FTUI are conducting a full evaluation of this \$2.6 million program, which has not been audited since 1984.
6. We do not know why NRI did not find evidence showing misuse of funds. In our review of NRI files, we found memorandums by the subrecipient accountant clearly showing Endowment funds were being used for unauthorized purposes. In one memorandum, he stated how accounts established with Endowment funds were used to "camouflage" the use

of funds for personal loans. The accountant confirmed this misuse of funds during our visit to Bolivia in May 1990. We discussed the accountant's handling of these accounts with NRI officials in August 1990.

7. We changed our report to reflect repaid amounts and resolved questioned costs.

8. We changed our report to reflect the lack of consulting and lease agreements before the Endowment's internal audit. We acknowledged in the report that the Endowment conducted an internal audit of the 1987 grant. When the audit was conducted, the grantee could not provide a consulting or a lease agreement to document these costs. The audit recommended that the grantee develop consulting and lease agreements, which the grantee submitted to the Endowment in 1989. We met with grantee officials in September 1990, at which time they could not provide agreements to substantiate consulting, office, and secretarial services for the 1988-90 grants. Subsequently, the grantee provided us a copy of a draft consulting agreement, which was later finalized and dated July 1990. No agreement on office and secretarial services was provided.

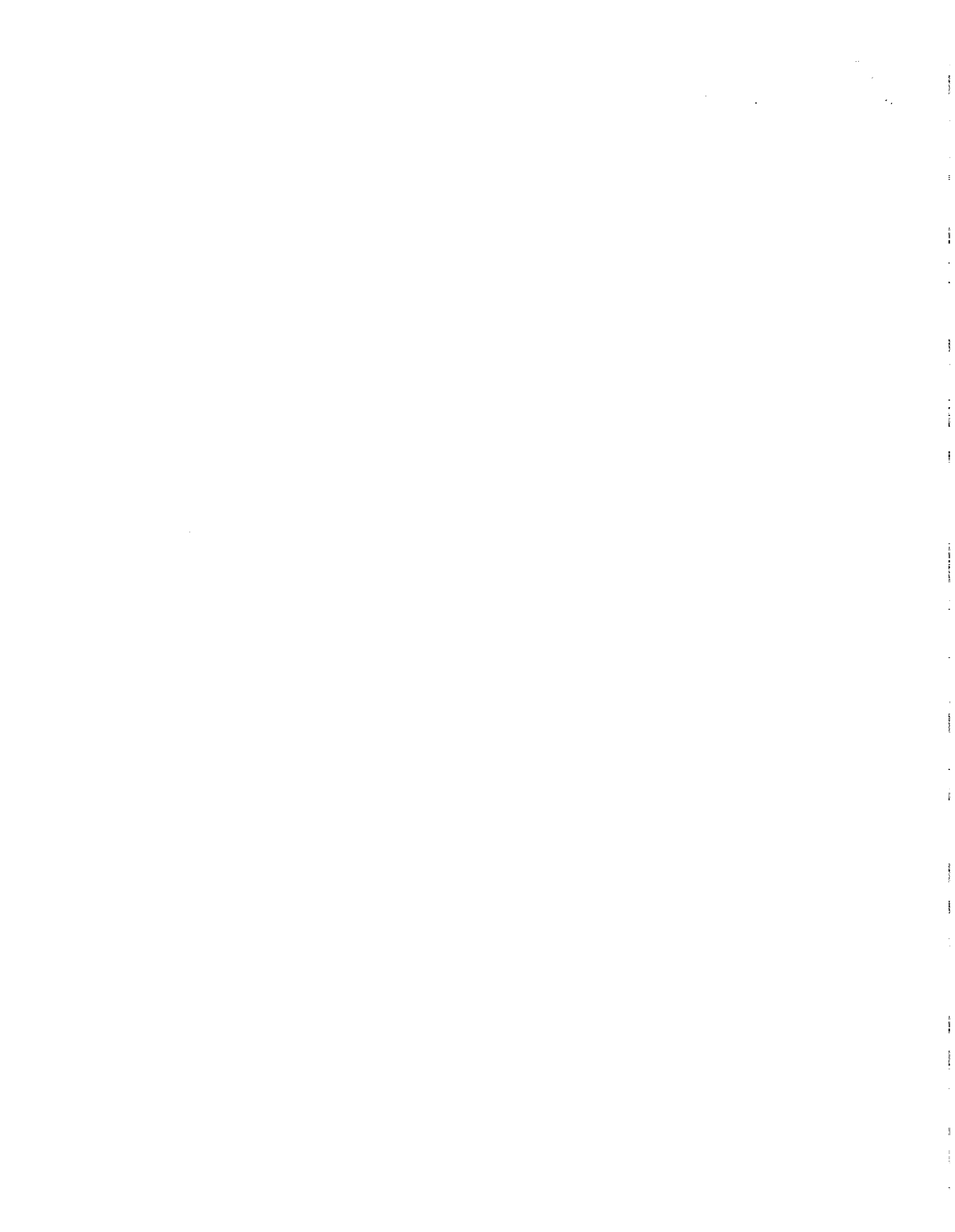
Major Contributors to This Report

**National Security and
International Affairs
Division, Washington,
D.C.**

Jess Ford, Assistant Director
Jason Fong, Evaluator-in-Charge
Daniel J. Tikvart, Evaluator

European Office

Donald R. Hunts, Site Senior
Michael J. Courts, Evaluator



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