



OIG

Office of Inspector General

U.S. Department of State • Broadcasting Board of Governors

AUD-SI-15-34

Office of Audits

June 2015

Management Assistance Report: Oversight of Grants to the National Endowment for Democracy

MANAGEMENT ASSISTANCE REPORT

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Summary of Review

From FY 2006 to FY 2014, the Department of State (Department) awarded more than \$963 million to the National Endowment for Democracy (NED) from amounts authorized by Congress in its budget appropriations. During a recent Office of Inspector General (OIG) audit of NED financial transactions, we discovered that the Department had not conducted audits of NED financial transactions, as required. Further, the terms and conditions of the annual grant to NED did not include the language related to the audit requirement. OIG also found that the Department did not comply with other requirements for monitoring NED to include reconciling submitted financial reports with the grant award and sufficiently maintaining grant files. Although OIG's testing of NED financial transactions during our recent audit did not reveal significant deviations from Federal laws and regulations, the Department has awarded more than \$963 million to NED without conducting required audits of NED financial transactions. Therefore, OIG is recommending that the Department take actions to conduct required audits of NED financial transactions and amend its grant agreement with NED to include the terms of the audit requirement in order to decrease the risk that funds dedicated to promoting democracy could be misapplied.

In its June 8, 2015, response (see Appendix A) to a draft of this report, the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM) suggested alternatives to the two recommendations offered. OIG does not accept the alternative action suggested by A/LM/AQM for implementing a process to conduct required audits of NED financial transactions and therefore considers this recommendation unresolved. However, OIG does accept the alternative action suggested for updating the terms and conditions of the grant agreement to include an audit of NED financial transactions for each fiscal year. OIG considers this recommendation resolved, pending further action.

A/LM/AQM's responses and OIG's replies are presented in the body of this report following each recommendation. Even though no recommendations were addressed to the Bureau of Democracy, Human Rights, and Labor (DRL), a draft of this report and the opportunity to provide comments was given; however, DRL did not provide a written response.

BACKGROUND

About the National Endowment for Democracy

Congress established NED in 1983 through the National Endowment for Democracy Act (the Act).¹ NED receives funding each year from Congress through amounts authorized in the Department's annual budget appropriations to promote democracy around the world. From FY 2006 to FY 2014,² the Department awarded more than \$963 million in annual grants to NED.³ Table 1 shows the annual grant amounts for NED by fiscal year.

Table 1: Annual Grant Funding to NED from FY 2006 to FY 2014

Fiscal Year	Amount
2006	\$ 74,042,100
2007	\$ 74,042,100
2008	\$ 99,190,000
2009	\$115,000,000
2010	\$118,000,000
2011	\$118,199,163
2012	\$117,764,000
2013	\$112,171,805
2014	\$135,000,000
Total	\$963,409,168

Source: OIG generated from Department data.

NED Operations and Funding Mechanism

One purpose of NED is to encourage free and democratic institutions throughout the world through private sector initiatives, including activities that promote the individual rights and freedoms (including internationally recognized human rights) that are essential to the functioning of democratic institutions.⁴ NED is a private, nonprofit corporation that is not an agency or establishment of the United States Government. NED's operations and staff are

¹ National Endowment for Democracy Act, Pub. L. 98-164, 97 Stat. 1039 (1983) (codified as amended at 22 U.S.C. §§ 4411- 4416).

² This represents the timeframe since the previous OIG audit of NED financial transactions, which included transactions made through FY 2005, *Audit of the National Endowment for Democracy for Fiscal Years 2003-05* (AUD/CG-07-33, Sept. 2007, <http://www.oig.state.gov/reports/8058>).

³ Congress authorized \$971,528,000 from FY 2006 to FY 2014 to NED; however, due to budgetary restrictions from the Office of Management and Budget, the Department grant award amount varied slightly. In addition, NED has received additional grants for specific projects identified by the Department. Funds from annual grants authorized by Congress (\$963 million from FY 2006 to FY 2014) are for activities that NED's Board of Directors, not the Department, determines are consistent with NED's purposes

⁴ 22 U.S.C. § 4411, "Findings; statement of purposes."

managed by a President⁵ that is selected by a bipartisan Board of Directors⁶ of not fewer than 13 and not more than 25 members reflecting the diversity of American society.⁷ The Board of Directors, as instructed by the Act,⁸ determines what projects to fund that are consistent with NED's purposes. All major policy and funding decisions are made by the Board of Directors.⁹ A significant portion of funds provided to NED are executed through projects by four nonprofit institutes, known as the "core institutes."¹⁰

From 1983 to 1999, NED received funding through an annual grant from the United States Information Agency (USIA).¹¹ In 1999, Congress abolished USIA¹² and transferred USIA functions to the Department.¹³ As noted in 22 U.S.C. § 6532 (a):

There are transferred to the Secretary of State all functions of the Director of the United States Information Agency and all functions of the United States Information Agency and any office or component of such agency, under any statute, reorganization plan, Executive order, or other provision of law, as of the day before the effective date of this subchapter.

Although USIA was abolished, the language in the Act that dedicates funds for the promotion of democracy through grant awards remains the same.¹⁴ Since taking over from USIA until 2005, various offices in the Department were responsible for grants to NED. However, from FY 2006 to FY 2014, funds authorized for NED have been awarded by an annual grant from the Department's Bureau of Administration, Office of Logistics Management, Office of Acquisitions, International Programs Division (A/LM/AQM/IP). A/LM/AQM/IP provides full administrative contract and grant support for NED.¹⁵ A representative of A/LM/AQM/IP has been appointed as the grants officer (GO)¹⁶

⁵ As of June 2015, Carl Gershman was the NED President.

⁶ For a list of NED's current Board of Directors, see: <http://www.ned.org/about/board>.

⁷ 22 C.F.R. § 67.2(a), "Board of Directors."

⁸ 22 U.S.C. § 4412 (a), "Authorization; funding; grant agreement."

⁹ 22 C.F.R. § 67.2(b).

¹⁰ The four core institutes are: (1) the American Center for International Labor Solidarity; (2) the Center for International Private Enterprise; (3) the International Republican Institute; and (4) the National Democratic Institute for International Affairs.

¹¹ 22 U.S.C. § 4412, "Grants to the Endowment."

¹² 22 U.S.C. § 6531, "Abolition of United States Information Agency."

¹³ 22 U.S.C. § 6532, "Transfer of functions"; Congress transferred USIA functions to the Department with the exception of functions performed by the Broadcasting Board of Governors (BBG) or the International Broadcasting Bureau (IBB).

¹⁴ Throughout this report, OIG acknowledges that the functions have transferred to the Department and the Department is the intended agency referenced in the Act, although the language remains "United States Information Agency."

¹⁵ 1 FAM 215.2-4 b, "International Programs Division (A/LM/AQM/IP)."

¹⁶ The GO is authorized to award, amend, or terminate a grant and is charged with exercising prudent management over grant funds; Department of State, Office of the Procurement Executive, Grants Policy Directive (GPD) 28, "Roles and Responsibilities for the Award and Administration of Federal Assistance."

for the NED grant and an official from DRL has been designated as the grants officer's representative (GOR).¹⁷

Previous OIG Findings Regarding Department Management of Grants

Since FY 2008, OIG has designated the management of grants, contracts, and cooperative and interagency agreements as one of the Department's major management challenges.¹⁸ In addition, OIG issued a Management Alert¹⁹ that highlighted issues the Department faces managing grants, to include insufficient oversight by GOs and GORs and documentation deficiencies.

RESULTS

During a recent OIG audit of NED financial transactions, OIG identified deficiencies in the oversight and monitoring of NED grants by Department officials.²⁰ Specifically, the Department did not perform audits of NED financial transactions for each fiscal year as required by the Act. Instead, the Department relied on periodic audits performed by OIG²¹ to identify needed improvements. In addition to the lack of required audits of NED financial transactions, OIG also found that the GO and GOR did not sufficiently monitor NED's activities as required by Department grants policies. One of the reasons that the lack of oversight occurred was that the GO and GOR were unaware that the requirement to conduct audits of NED financial transactions for each fiscal year applied to the Department. In addition, the Department grant agreement executed with NED did not include language related to the required audit of financial transactions or describe the Department's responsibility in conducting the audits. Despite Department policies that require oversight of grants, the GO and GOR stated that they believed that the Act limited their responsibility for oversight.

¹⁷ The GOR should have technical expertise related to program implementation, and is designated, in writing, by the GO to administer certain aspects of a specific grant, including monitoring and evaluation of performance and closeout; Department of State, Office of the Procurement Executive, Grants Policy Directive (GPD) 28, "Roles and Responsibilities for the Award and Administration of Federal Assistance."

¹⁸ The Inspector General's Assessment of the Department's Management and Performance Challenges is contained in the *United States Department of State Fiscal Year 2014 Agency Financial Report*, pp 118-120 <http://www.state.gov/documents/organization/234331.pdf>.

¹⁹ *Management Alert (Grants Management Deficiencies)*, MA-14-03, Sept. 26, 2014, <http://www.oig.state.gov/reports/9603>.

²⁰ The primary objectives of the audit, announced on October 24, 2014, were to (1) determine whether NED used annual grant funds provided by the Department of State in compliance with applicable laws and regulations and (2) to determine whether NED has achieved the desired results intended to strengthen democratic values and institutions around the world. The objectives of the audit did not specifically address Department oversight of NED grants. However, during the audit, OIG became aware of issues related to this topic, and elected to report these findings to management using a Management Assistance Report. The results of the audit of NED financial transactions will be reported in a separate audit report.

²¹ *Audit of the National Endowment for Democracy* (01-FMA-M-031, Mar. 2001); *Audit of the National Endowment for Democracy* (AUD/CG-04-39, Aug. 2004); and *Audit of the National Endowment for Democracy for Fiscal Years 2003-05* (AUD/CG-07-33, Sept. 2007, <http://www.oig.state.gov/reports/8058>).

Required Financial Audits Were Not Performed

The Act²² states, "financial transactions of the Endowment for each fiscal year shall be audited" by USIA. In 1998, USIA and NED established an agreement²³ titled, "Statement of Responsibilities for Financial Oversight of the National Endowment for Democracy," which asserted that USIA's Office of Contracts would rely, in part, on USIA OIG's audits of NED. However, USIA OIG was not a signatory to that agreement.

On October 1, 1999, less than 16 months after USIA and NED had established the financial oversight agreement, the Department became responsible to audit the financial transactions of NED when USIA was abolished and certain USIA functions transferred to the Department.²⁴ However, the Department did not conduct the audits required by the Act, and did not take steps to establish terms and conditions in the grant agreement for financial oversight of NED. In fact, when OIG asked the GO about the audit requirement in the Act, she was unaware of the requirement.

Despite not having a formal agreement to audit the financial transactions of NED, pursuant to its independent authority under the Inspector General Act of 1978, as amended,²⁵ OIG²⁶ periodically conducted audits of NED's financial transactions (including the audit that was announced in October 2014). Previously, the most recent NED audit covered NED's financial transactions for FYs 2003-2005.²⁷ However, these periodic OIG audits do not take the place of the audits to be conducted by the Department that are required by the Act.

OIG compared the history of the Act and its amendments to the terms and conditions of the annual grant agreement with NED and found key oversight language was missing. Specifically, the Department's requirement to audit NED's financial transactions for each fiscal year was not part of the grant terms and conditions. However, other sections of the Act, including language regarding the Government Accountability Office's (GAO) authority to audit NED, were included.

OIG further reviewed GAO's decisions on NED oversight and found that in a 1992 decision,²⁸ GAO determined that USIA was responsible not only for oversight of USIA-provided grant funds, but also private funds NED received to ensure compliance with purposes of the Act.

Subsequently, USIA requested further consideration of the decision regarding its responsibility

²² 22 U.S.C. § 4413 (g), "Audits by United States Information Agency."

²³ The cover letter from USIA that forwarded the agreement to NED for signature described the agreement as a "memorandum of understanding."

²⁴ 22 U.S.C. § 6531, "Abolition of United States Information Agency"; and 22 U.S.C. § 6532, "Transfer of functions."

²⁵ 5 U.S.C. Appendix.

²⁶ 22 U.S.C. § 6533, "Transfer of functions," transferred USIA OIG functions to the Department's OIG.

²⁷ *Audit of the National Endowment for Democracy for Fiscal Years 2003-05* (AUD/CG-07-33, Sept. 2007, <http://www.oig.state.gov/reports/8058>).

²⁸ Government Accountability Office, "Matter of: National Endowment for Democracy," File: B-248111, Sept. 9, 1992, <http://www.gao.gov/products/402160#mt=e-report>.

to oversee the private funds given to NED. In 1993,²⁹ GAO upheld its original decision that USIA has oversight responsibility for all funds provided to NED.

Department Oversight of Annual Grants to NED

In addition to the lack of required audits of NED financial transactions, OIG also found that the GO and GOR did not sufficiently monitor NED's activities. Department policy requires GOs and GORs to monitor grants to ensure programmatic and financial management performance for the intended purpose of the grant.³⁰ While the Act precludes the Department from providing direction to NED on what projects it should fund,³¹ it does not obviate the Department from its fiduciary responsibilities involving the grants provided to NED. Department policy requires that financial reports submitted by a grantee must be reconciled with the grant award.³² However, the GO stated that she conducts only a cursory review of NED quarterly financial reports. In addition, OIG found that the grant files maintained by the GO were incomplete and the GOR did not maintain files, other than the award documents, related to the grants. For example, the GO informed OIG that the FY 2010 grant file was missing in its entirety and multiple attempts to locate the file were unsuccessful.³³

However, during discussions with OIG, the GO and GOR articulated that the primary reason they did not provide sufficient oversight of the NED grant was because they believed the NED Act limited their oversight requirements for NED. For example, the GO stated that because of the Act, which states that the grant agreement may not require NED to comply with requirements other than those specified in the Act,³⁴ her role has been "more hands off" than with other grantees. Further, the GOR told OIG that "per the NED Act, DRL has no oversight of the NED [annual] grant." While OIG acknowledges that the Department cannot impose programmatic requirements beyond those specified in the Act,³⁵ as GAO stated,³⁶ USIA retained responsibility for ensuring NED's accountability regarding the use of grant funds. In its 1993 decision, GAO stated:

²⁹ Government Accountability Office, Comments on USIA Oversight of National Endowment for Democracy Grant Funds, B-248111.2, Apr. 15, 1993, <http://www.gao.gov/assets/670/666678.pdf>.

³⁰ Department of State, Office of the Procurement Executive, Grants Policy Directive (GPD) 42, "Monitoring Assistance Awards."

³¹ 22 U.S.C. § 4412(a) "Authorization; funding; grant agreement," states "...grants shall be made pursuant to a grant agreement which requires that grant funds will only be used for activities which the Board of Directors of the Endowment determines are consistent with the purposes described" in the Act.

³² Department of State, Office of the Procurement Executive, Grants Policy Directive (GPD) 42, "Monitoring Assistance Awards."

³³ The A/LM/AQM/IP GO that awarded the FY 2014 grant to NED was appointed as the GO near the end of FY 2013. The GO "inherited" the previous (FY 2006 to FY 2013) grant awards to NED, and was not the GO that signed the FY 2010 grant.

³⁴ 22 U.S.C. § 4412(a), "Authorization; funding; grant agreement."

³⁵ Ibid.

³⁶ Government Accountability Office, "Matter of: National Endowment for Democracy," File: B-248111, Sept. 9, 1992, <http://www.gao.gov/products/402160#mt=e-report>.

We view the broader terms of the National Endowment for Democracy Act as a clear indication that Congress intended USIA to oversee privately financed Endowment activities to the extent necessary to ensure that the Endowment complies with the Act.³⁷

Because Congress transferred USIA functions, except those performed by BBG or IBB, to the Department, the Department must undertake the oversight of NED activities that were previously assigned to USIA. A mandated oversight responsibility is the performance of audits of NED financial transactions for each fiscal year under 22 U.S.C. § 4413 (g).

CONCLUSION

To fully comply with the intent of the NED Act, the Department must audit NED's financial transactions for each fiscal year. In addition, the grant agreement between the Department and NED should be amended to include terms relating to the audit. Because OIG recently issued a Management Alert³⁸ that offered recommendations to the Department relating to improving grants management, including recommendations for improvements to grant oversight and grant file documentation, OIG is not making additional recommendations on that topic in this report.

Although OIG's testing of NED financial transactions during our recent audit did not reveal significant deviations from Federal laws and regulations, the Department has awarded more than \$963 million to NED without conducting required audits of NED financial transactions. Therefore, to decrease the risk that funds dedicated to promoting democracy could be misapplied and to fully comply with the Act, we offer the following recommendations:

Recommendation 1: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisition Management, in coordination with the Bureau of Democracy, Human Rights, and Labor, develop and implement a process to conduct audits of the National Endowment for Democracy financial transactions beginning with fiscal year 2015 and for each following fiscal year, as required by the National Endowment for Democracy Act.

Management Response: In its response to a draft of this report, A/LM/AQM requested that OIG re-establish the terms of the expired memorandum of understanding (between USIA and NED) to allow OIG to conduct the audit of NED financial transactions, and thereby fulfill the requirements of the NED Act.

³⁷ Government Accountability Office, Comments on USIA Oversight of National Endowment for Democracy Grant Funds, B-248111.2, Apr. 15, 1993, <http://www.gao.gov/assets/670/666678.pdf>.

³⁸ *Management Alert (Grants Management Deficiencies)*, MA-14-03, Sept. 26, 2014, <http://www.oig.state.gov/reports/9603>.

OIG Reply: OIG disagrees with AQM's proposed alternative action and finds it to be non-responsive to the recommendation. The USIA OIG was not a signatory on the memorandum of understanding referenced by A/LM/AQM; therefore, OIG is unable to "re-establish the terms" of that agreement. Further, the Act clearly states that it is A/LM/AQM's responsibility to ensure that audits of NED's financial transactions for each fiscal year are conducted.

While OIG may, for example, conduct periodic performance audits of NED, under the authority of the Inspector General Act of 1978, as amended,³⁹ these audits do not take the place of the required financial transaction audits that are to be conducted by the Department in accordance with the Act. If A/LM/AQM prefers that OIG perform the required audits on its behalf, a memorandum of understanding will need to be negotiated and executed directly with OIG.

OIG considers this recommendation unresolved. This recommendation can be resolved once A/LM/AQM accepts responsibility to establish a process to conduct the required audits of NED financial transactions and closed upon receipt of documentation that identifies the process.

Recommendation 2: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisition Management, include in the terms and conditions of the grant agreement with the National Endowment for Democracy that the Department of State will audit the financial transactions of the National Endowment for Democracy, beginning with fiscal year 2015 and for each following fiscal year, as stated in the National Endowment for Democracy Act.

Management Response: A/LM/AQM agreed to update the terms and conditions of the grant agreement. However, it requested to defer the update until the 2016 grant agreement due to the administrative and cost burden to update the 2015 agreement.

OIG Reply: Although OIG would prefer action to be taken in the 2015 grant agreement, we accept the alternative action proposed by A/LM/AQM to defer the update to be included in the 2016 grant agreement. OIG considers this recommendation resolved because A/LM/AQM agreed to implement it. This recommendation can be closed when OIG receives and accepts documentation demonstrating that the terms and conditions of the 2016 grant agreement include the required audit of NED financial transactions.

³⁹ 5 U.S.C. Appendix.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisition Management, in coordination with the Bureau of Democracy, Human Rights, and Labor, develop and implement a process to conduct audits of the National Endowment for Democracy financial transactions beginning with fiscal year 2015 and for each following fiscal year, as required by the National Endowment for Democracy Act.

Recommendation 2: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisition Management, include in the terms and conditions of the grant agreement with the National Endowment for Democracy that the Department of State will audit the financial transactions of the National Endowment for Democracy, beginning with fiscal year 2016 and for each following fiscal year, as stated in the National Endowment for Democracy Act.

APPENDIX A: BUREAU OF ADMINISTRATION RESPONSE TO DRAFT REPORT



United States Department of State

Washington, D.C. 20520

June 08, 2015

UNCLASSIFIED

MEMORANDUM

TO: OIG/AUD– Norman P. Brown

FROM: A/LM – Catherine I. Ebert-Gray *C. Gray*

SUBJECT: Draft Report – Management Assistance Report: Oversight of Grants to the National Endowment for Democracy

Below is the Office of Logistic Management’s response to the subject report. Mr. James Moore is the point of contact for this response and can be reached at 703-875-(b) (6)

Recommendation 1: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisition Management, in coordination with the Bureau of Democracy, Human Rights, and Labor, develop and implement a process to conduct audits of the National Endowment for Democracy financial transactions beginning with fiscal year 2015 and for each following fiscal year, as required by the National Endowment for Democracy Act.

Management Response (06/08/2015): The Bureau of Administration, Office of Logistics Management, Office of Acquisition Management (AQM) requests the OIG re-establish the terms of the expired MOU (see Tab 1) to allow the OIG Office of Audits to conduct the annual audit of the NED to satisfy the audit requirements of the NED Act. This would maintain the spirit of the expired MOU.

Recommendation 2: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisition Management, include in the terms and conditions of the grant agreement with the National Endowment for Democracy that the Department of State will audit the financial transactions of the National Endowment for Democracy, beginning with fiscal year 2015 and for each following fiscal year, as stated in the National Endowment for Democracy Act.

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Management Response (06/08/2015): The Bureau of Administration, Office of Logistics Management, Office of Acquisition Management will ensure updated terms and conditions are included in the 2016 agreement. Due to the significant administrative and cost burden that would be incurred should AQM renegotiate the current agreement, AQM requests the OIG defer compliance with this recommendation until 2016 and subsequent fiscal years.

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Drafter: A/LM Jim Moore, 703-875-[Redacted]

Cleared: A/LM: [Redacted] (b) (6) (ok)
A/LM/AQM: [Redacted] (b) (6) (ok)
A/LM/AQM: [Redacted] (b) (6) (ok)
A/LM/AQM: [Redacted] (b) (6) (ok)
A FO: [Redacted] (b) (6) (info)
M [Redacted] (b) (6) (ok)
M/PRI [Redacted] (b) (6) (ok)
A/EX: [Redacted] (b) (6) (info)

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**United States
Information
Agency**

WASHINGTON DC 20547-0001



May 28, 1998

Mr. Carl Gershman
President
National Endowment for Democracy
1101 Fifteenth Street, N.W., Suite 700
Washington, DC 20005

Dear Mr. Gershman:

Enclosed for signature are four copies of the Memorandum of Understanding (MOU) between the United States Information Agency and the National Endowment for Democracy.

After discussions between this Office and the Office of the Inspector General we have agreed that the enclosed final document accurately reflects our mutual responsibilities for financial oversight of the National Endowment for Democracy Agreement.

Please sign and return three copies of the enclosed MOU to this office as soon as possible. No changes are to be made in the text without prior approval from the Office of Contracts. The fourth copy may be retained for your files. If you are unable to sign and return this Agreement, please contact Ms. Fannie L. Allen or Ms. Connie L. Stinson on (202) 205-(b) (6)

Sincerely,

Edward G. Müller
Acting Director
Office of Contracts, M/K

Enclosure:

As stated

STATEMENT OF RESPONSIBILITIES
FOR
FINANCIAL OVERSIGHT OF THE
NATIONAL ENDOWMENT FOR DEMOCRACY

I. OVERALL RESPONSIBILITY FOR FINANCIAL OVERSIGHT

The Associate Director for the Bureau of Management has primary responsibility within the United States Information Agency (USIA) for financial oversight of the Endowment. The Management Bureau will conduct its financial oversight through the Office of Contracts administration of the Endowment's annual grant, including its review of a Board approved administrative budget, quarterly financial reports (Federal Cash Transaction Report PMS - 272 and SF-269), and approval of indirect cost rates for the Endowment's core grantees. The Office of Contracts shall rely, in part, on the Office of Inspector General's (OIG) audits of the Endowment, including Congressionally mandated financial audits, and OIG's review of audits performed by independent public accountants.

II. AUDITS OF THE ENDOWMENT

A. Audits Conducted by OIG

Section 504(g) of The National Endowment for Democracy Act (22 U.S.C. 4413), as amended, states that the financial transactions of the Endowment for each fiscal year shall be audited by the United States Information Agency under the conditions set forth for audits of the Endowment by the General Accounting Office.

At a minimum, OIG plans to conduct such audits biennially, covering all fiscal years since the previous OIG audit of the Endowment. OIG will rely heavily upon independent certified public accountant annual audits conducted of the Endowment and its grantees and will make every effort not to duplicate those audits. As part of its audit, OIG may test transactions of recipients receiving financial assistance provided through the Endowment, as authorized under Section 504(h) of the Act. OIG audit recommendations related to the Endowment will be directed to the Office of Contracts for resolution and closure. The Office of Contracts is responsible for reaching a management decision within 6 months of its receipt of the audit report. The Endowment will be responsible for resolving any OIG recommendations related to Endowment core and discretionary grantees, as discussed in III. A., **with the exception of OIG audits of cognizant grantee indirect cost rates, which will be resolved by the Office of Contracts, USIA, as part of its responsibility for negotiating indirect cost rates.**

B. Audits Conducted By Independent Public Accountants Pursuant to OMB Circular No. A-133

Office of Management and Budget (OMB) Circular No. A-133 requires that the Endowment receive an annual audit performed in accordance with the provisions of the Circular. OIG is

- (5) Identifying and obtaining prior approval of the Office of Contracts prior to the suspension of collection efforts deemed to be uneconomical.
- (6) Considering whether subrecipient audits necessitate adjustment of the Endowment's own records.
- (7) Requiring each subrecipient to permit auditors to have access to the records and financial statements as necessary for the Endowment to comply with the OMB Circular.

The Endowment has developed a risk-based audit strategy consistent with the provisions of the revised A-133 entitled "The National Endowment for Democracy's Subrecipient Monitoring Plan under the 1996 version of OMB Circular A-133," dated March 31, 1997.  OIG will review the Endowment's subrecipient monitoring policies and practices during its mandated audits of the Endowment.

IV. APPROVAL OF INDIRECT COST RATES

The Office of Contracts is responsible for negotiating the indirect cost rates for the Endowment's core grantees -- CIPE, NDI, and IRI. The Endowment should provide copies of the core grantees' A-133 audit reports and audited supplemental schedules to the Office of Contracts and OIG. The Office of Contracts will issue adjusted prior period rates and new provisional rates for the subsequent period within 2 months, if additional information is not required, of receipt of the core grantee audit report and supplemental information. In the event OIG conducts its own audits of grantee indirect cost rates, findings shall be resolved by the Office of Contracts, USIA.

V. DEBARMENT/SUSPENSION PROCEDURES

If the Endowment terminates a grant or ceases issuing grant awards to a subrecipient because of material financial deficiencies, fraud, abuse, or illegal acts, the Endowment should notify the Office of Contracts and OIG as soon as possible. The Office of Contracts will determine whether to initiate Federal debarment and/or suspension procedures of such grantees based on the record presented by the Endowment.

VI. NOTIFICATION OF FRAUD, ABUSE, OR ILLEGAL ACTS BY GRANTEEES

Should the Endowment identify through audits or other monitoring activities instances of fraud, abuse, or illegal acts on the part of its grantees, the Endowment should immediately notify OIG

VII. PROGRAM LIAISON

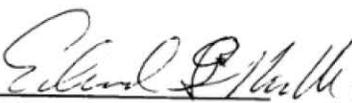
The Office of Strategic Communication (D/C) is the coordinating point for all other aspects (i.e., not financial oversight) of the Agency's relationship with the Endowment, including providing program information to appropriate offices. This relationship between the Endowment and the Agency in no way involves USIA program authority or oversight. The authority to approve and disapprove programs and grants reside solely with the Endowment Board of Directors.

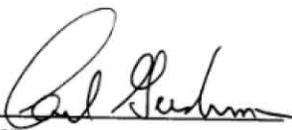
VII. AMENDMENT

This agreement may be reviewed or amended at any future date to accommodate changes in the Endowment Authorization Act or cognizant agency status.

VIII. EXPIRATION

This agreement will remain in effect indefinitely, or until amended by mutual consent.

Signature:  Date: Sept 30, 98
Edward G. Müller
Acting, Director
Office of Contracts, M/K
United States Information Agency
301 4th Street SW, Room M-22
Washington, DC 20547

Signature:  Date: August 13, 1998
Carl Gershman
President
National Endowment for Democracy
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