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Report to the Speaker of the House of Representatives and the Chairman, Committee on Foreign Relations, U.S. Senate

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PROMOTING DEMOCRACY

National Endowment for Democracy Efforts to Improve Grant Management

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GAO

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The Honorable Thomas S. Foley
Speaker of the House
of Representatives

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

We evaluated the National Endowment for Democracy's actions to comply with the recommendations in our report entitled Promoting Democracy: National Endowment for Democracy's Management of Grants Needs Improvement (GAO/NSIAD-91-162, Mar. 14, 1991). Our evaluation was done in response to section 211 of the Foreign Relations Authorization Act, fiscal years 1992 and 1993 (P.L. 102-138, Oct. 28, 1991).

Background

The National Endowment for Democracy is a private, nonprofit organization created by Congress in 1983 to plan and administer a grants program to promote democracy around the world. From 1984 to 1990, the Endowment received about $152 million in U.S. government funding.

In our March 1991 report, we concluded that (1) the Endowment did not give sufficient attention to evaluating program results and systematically determining whether goals and objectives were being met; (2) the Endowment's monitoring procedures were not effective, and as a result, some grantees had failed to comply with key financial and internal controls and funds had been misused, mismanaged, or not effectively accounted for; and (3) the Endowment's Board of Directors did not actively monitor the Endowment's evaluation and oversight of programs. We recommended a number of actions for improving the Endowment's planning, evaluation, monitoring, and financial controls.

In July 1991, the Endowment responded to our recommendations in a detailed report entitled Improving the National Endowment for Democracy's Management of Grants: A Blueprint for Action. The response described the specific actions the Endowment had planned to take or had completed to address our recommendations. Subsequently, Congress required that we evaluate the Endowment's actions to comply with our March 1991 report.

Results in Brief

The Endowment has initiated a number of steps to implement our recommendations to improve planning, evaluation, monitoring, and financial controls. It also has plans to initiate others. These actions will take time to fully implement; therefore, it is too early to evaluate their impact on the management of grants at this time. However, we believe that if the Endowment effectively carries out the actions it has begun and plans to begin, Endowment planning, evaluation, monitoring, and financial control capabilities should be improved.

Actions to Make Planning More Systematic

In our March 1991 report, we recommended that the Endowment adopt a more systematic approach to planning program objectives and assessing program results by identifying more specific and measurable goals and priorities, including specific budget targets for individual regions and countries.

In its July 1991 report, the Endowment said that to meet our recommendation, it would develop (1) a strategic plan that would focus on long-term goals and objectives for individual countries and regions for the next 3 to 5 years and (2) a new annual priorities document identifying specific goals, priorities, and budget targets for individual regions and countries.

In August 1991, the Endowment's Board established a subcommittee to help develop a broad strategic plan and a new annual priorities document for 1992. Endowment officials told us that on several occasions the various drafts of the strategic plan covering its long-term goals and annual priorities documents were discussed and debated by the full Board and in subcommittee meetings.

To develop the 1992 priorities document, each of the four core grantees[1] developed a priorities document including regional and country-specific budget targets for fiscal year 1992. Endowment officials said that they reviewed these documents, along with priorities and budget targets established for its own discretionary grantees,[2] and integrated them into a single priorities document to guide the Endowment's decision-making process for awarding grants. The Endowment believes the priorities document will facilitate the preparation of its annual report to Congress.

[1]The Endowment's core grantees are the Free Trade Union Institute, the Center for International Private Enterprise, the National Republican Institute for International Affairs, and the National Democratic Institute for International Affairs.

[2]Discretionary grantees are primarily U.S. organizations that help to build democratic institutions.

The strategic plan and annual priorities document are to be considered for final approval by the Endowment's Board on January 17, 1992. According to the Endowment President, development of these documents, though time-consuming, has enhanced the Endowment's planning capability and has resulted in a more clearly defined strategy.

Actions to Increase Attention to Evaluation

In March 1991, we recommended that the Endowment (1) establish a capability to independently evaluate selected core and discretionary grantee programs, (2) assist grantees in developing more specific and measurable evaluation objectives, (3) review grantees' and foreign subrecipients' compliance with evaluation procedures, and (4) include in annual reports to the Congress an assessment of Endowment program results for the past year based on Endowment goals and priorities.

Evaluation Plan

In May 1991, the Endowment hired an evaluation coordinator to develop an evaluation capability, and the Endowment's Board established a subcommittee to oversee evaluation issues. According to the Endowment, it intends to promote a "culture of evaluation" at the Endowment and make evaluation considerations an integral part of each stage of the grant process from the planning through the implementation of projects.

The coordinator is responsible for developing a comprehensive plan to introduce systematic procedures for program monitoring and evaluation into the Endowment's operations. According to the Endowment's July 1991 report, one important element of this plan is the development of written project-specific plans and questionnaires for Endowment program officers to use in monitoring and verifying project activities and compliance during on-site field visits. The Endowment also reported that it intended to increase on-site visits to grantees and foreign subrecipients.

The coordinator said that she had met with individual program officers prior to their on-site visits to discuss activities they planned to monitor and verify for specific projects. The coordinator showed us an informal written plan and two trip "verification write-ups" from one program officer that were being reviewed. Formal plans and verification write-ups from other trips have not been developed. The coordinator told us in January 1992 that this process is in the early stages of development and further improvements are needed. Our review found that additional steps remain to be taken; for example, questionnaires still need to be developed for

Endowment officers to use in monitoring and verifying project activities and compliance.

According to the Endowment report, another key element of the comprehensive evaluation plan includes the development of standards for conducting independent evaluations of individual projects and groups of projects by outside consultants. The Endowment reported that such standards will (1) identify the purpose of evaluating a project or group of projects, (2) develop criteria for determining which projects should be evaluated, (3) determine the scope of evaluation for each project, (4) describe expected evaluation procedures, and (5) create a format for the written evaluation report.

In October 1991, the coordinator developed a format that provides a framework to present a contractor's scope of work for independent evaluations. This format is for the Endowment's internal use for working with contractors who will perform independent evaluations. The coordinator is currently developing criteria for determining which projects should be evaluated. The Endowment must still address the formal standards for conducting independent evaluations for the other areas identified in its response. The coordinator acknowledged in January 1992 that much needed to be done and said that the Endowment planned to develop an annual independent evaluation plan by February 1992 and to begin carrying out its first independent evaluation shortly thereafter.

In March 1991, we reported that the Endowment's Board did not actively monitor the Endowment's performance in evaluating and overseeing core and discretionary grantee programs. The Board's new subcommittee on evaluation is broadly responsible for overseeing the development and implementation of plans for the Endowment's monitoring and evaluation of all its grants and to ensure results are taken into account when the Endowment considers future programs. This subcommittee is also expected to review Endowment documents designed to improve program monitoring and evaluation capabilities, strategies for conducting independent evaluations, and evaluation reports issued by independent evaluation teams. This subcommittee has had several meetings and is working with the coordinator. The subcommittee does not intend to review individual projects' self-evaluations under the new evaluation procedures. However, it does plan to review Endowment-prepared summaries of self-evaluations completed under the new procedures when they become available in September 1992.

Measurable Project Objectives

In July 1991, the Endowment reported that it would provide grantees written guidelines, accompanied by examples, explaining how to develop specific project objectives and indicators for measuring success in achieving them. Its report also included an appendix with an explanation on developing project objectives and other elements of a proposal relevant to evaluation. According to Endowment officials, the report was distributed to the four core grantees and over 50 other current U.S. grantees.

To assist the grantees in developing their proposals, the Endowment has created a new proposal preparation guideline document to provide both an organizational format for proposals submitted to the Endowment and guidance for developing measurable project objectives and evaluation plans with objective indicators for measuring success. This document has been distributed to potential grantees and subrecipients. The coordinator said she has supplemented this guidance with discussions with several grantees and subrecipients. Additionally, the coordinator said that she has assisted the core grantees with their proposal development procedures, and they have submitted their 1992 proposals using the new format. From our review of 52 proposals that were approved for fiscal year 1992, we determined that grantees had generally followed these new procedures for proposal development.

In July 1991, the Endowment reported that it would consider having a workshop on proposal development for grantees. The coordinator told us in January 1992 that no special workshops or additional guidance on developing project objectives were being planned due in part to the large number of potential grantees. The coordinator also said that she may conduct workshops or provide additional guidance as needed. Our review of the new proposal preparation guidelines indicates that they provide a framework for the development of specific and measurable project objectives. The additional information in appendix I of the Endowment's report is also necessary to provide sufficient guidance for grantees and subrecipients to develop specific and measurable project objectives, planned activities, and evaluation plans.

In August 1991, the Endowment also implemented a uniform format for proposals that grantees are to submit to the Board for its review. This format includes brief instructions for developing project objectives and self-evaluation plans. At the September 1991 Endowment Board meeting, all proposals were presented in this format and included self-evaluation plans. Endowment officials stated in January 1992 that the coordinator plans to review grantees' self-evaluation reports for feedback on project

results and accomplishments. Endowment officials said that this feedback would serve as a basis for identifying future priorities and assessing the Endowment's overall grants program.

Compliance With Evaluation Procedures

In May 1991, the Endowment initiated a review of grantees' and foreign subrecipients' compliance with evaluation procedures. According to the coordinator, this review consisted of (1) meeting with the four core grantees and Endowment program officers to discuss the Endowment's plans for improving evaluations and (2) reviewing core grantees' written procedures for evaluation and program monitoring. The coordinator said she also reviewed past quarterly reports and final reports submitted by grantees.

As a result of this review, three core grantees have revised their evaluation and monitoring procedures, and one core grantee hired a project evaluator. In addition, the Endowment developed a document on its reporting requirements for programmatic self-monitoring and self-evaluation that will be sent to the grantees as needed.

Annual Reports to Congress

In March 1991, we recommended that the Endowment include in its annual reports to the Congress an assessment of program results for the past year based on Endowment goals and priorities. According to the July 1991 Endowment report, the Endowment will now provide an annual report to the Congress that will include (1) an assessment of its success in allocating resources as planned in its annual priorities document and (2) analyses of individual project accomplishments and multi-project evaluations of completed projects with similar characteristics. The Endowment intends to publish its 1991 annual report under this new format by February 1992.

Actions to Strengthen Monitoring and Financial Controls

To ensure a higher degree of grantees' and subrecipients' compliance with financial controls, we recommended in March 1991 that the Endowment

- develop a detailed plan and strategy for conducting reviews and audits of core and discretionary grantee administrative costs and develop monitoring procedures to ensure that grantees do a more effective job of monitoring and verifying compliance by foreign subrecipients;
- revise grant agreements to (1) explicitly require independent financial audits for foreign subrecipients, including tests of compliance with grant

terms and conditions, and (2) clarify foreign subrecipients' responsibilities for exercising financial controls; and

- require progress reports to include more detailed information that will enable the Endowment to better monitor compliance with financial controls.

Audits

In August 1991, the Endowment expanded the role of the Budget and Audit Committee of the Endowment's Board of Directors to review and make recommendations on an ongoing basis to the Board on financial monitoring. This Committee is responsible for reviewing all financial matters, including administration, financial policies and procedures, and arrangements for the Endowment-wide audit and internal control requirements. During August and September 1991, the Committee reviewed the Endowment's staffing in the financial area and determined that the number of financial staff was not sufficient to carry out our recommendations. On the basis of the Committee's review, the Endowment approved six new positions in the finance area for fiscal year 1992. These positions include two auditors and one audit support staff to coordinate and review audits conducted by external auditors and conduct audits of discretionary grantees; one senior accountant and one accounting support staff to improve the overall system for financial control; and one staff person in the grants administration area to ensure that existing monitoring procedures are effectively implemented. The Endowment advised us that as of mid-December 1991, position descriptions were being developed and they had started the recruiting process to fill these positions by mid-1992.

In our March 1991 report, we noted that Endowment internal audit coverage was not sufficiently comprehensive, particularly of foreign subrecipients and core grantee administrative costs. In addition, the external independent financial audits we examined showed that compliance testing of grantee and foreign subrecipients was rarely done.

The Endowment said that it was taking steps to make its audits more comprehensive by implementing Office of Management and Budget (OMB) Circular A-133. Endowment officials told us that they were consulting with the Inspectors General of the U.S. Information Agency and the Agency for International Development to determine how to implement OMB A-133 with respect to foreign subrecipients. On November 7, 1991, the Endowment's internal auditor delineated OMB A-133 audit requirements in a memorandum to all grant recipients. The memorandum included a grantee audit and financial statement questionnaire. As of mid-December 1991, 46 of

120 questionnaires had been completed and returned. Endowment officials told us in January 1992 that they planned to use the results from this questionnaire to assist in planning their strategy to arrange and pay for required audit coverage. The Endowment expects to include detailed guidance in its Audit Policy and Procedures Guidelines Manual, which is scheduled to be completed by mid-1992. Additionally, the fiscal year 1992 budget includes $125,000 for independent audits.

Grant Agreements

The Endowment stated that it will revise grant agreements to make more explicit the requirement for independent financial audits and compliance testing of foreign subrecipients. The Endowment also plans to (1) revise its own grant agreements with core and discretionary grantees to clarify the compliance responsibilities of foreign subrecipients and (2) develop an improved model subgrantee agreement that core and other U.S. grantees can use with foreign subrecipients. According to the Endowment grants officer, a revised grant agreement and model subgrant agreement have been drafted and as of December 1991, these agreements were being reviewed prior to their scheduled use for initial fiscal year 1992 awards to be made in January 1992.

Monitoring

The July 1991 Endowment report stated that the Endowment planned to increase staff time for monitoring and follow-up and to increase the monitoring of core grantees, with emphasis on their administrative costs. The grants officer told us in January 1992 that the grants staff had been reorganized, work loads had been adjusted to facilitate better monitoring of all grants, and another grants administration position had been approved.

Progress Reports

The Endowment stated that it will require grantees and foreign subrecipients to provide more information on key financial controls in quarterly progress reports. For example, progress report formats are to be modified to include questions about whether separate accounts are being maintained or interest is being earned. For grant agreements signed since July 1991 the Endowment has required grantees and foreign subrecipients to provide verification that Endowment grant funds are being maintained in separate bank accounts.

According to the grants officer, this verification must be provided prior to the release of grant funds and must indicate the interest- bearing status of the bank account in which grant funds will be held. These measures are

intended to permit early review of compliance with these grant terms and conditions, which was not done in the past, and are expected to facilitate the collection of interest earned.

In our March 1991 report, we indicated that 5 of the 16 foreign subrecipients we had reviewed had not returned interest earned on Endowment funds. Three of these subrecipients have since returned about $13,000 of interest earned on Endowment funds. According to the Endowment's grants officer, a financial audit of the fourth foreign subrecipient was being done, and the amount of interest earnings to be returned was to be determined during the audit. Although the fifth foreign subrecipient was prepared to refund interest earned, it was having difficulty determining what portion of the interest was accrued on Endowment-funded balances. The Endowment's grants officer told us in December 1991 that the Endowment will likely not pursue the recovery of interest from this foreign subrecipient because it is a small organization that no longer receives Endowment funding and would be placed in financial jeopardy if it returned all interest earnings.

Scope and Methodology

Using the Endowment's July 1991 response to our report as a primary basis, we interviewed officials from the National Endowment for Democracy and reviewed grant proposals, plans, procedures, guidelines, memorandums, and other documents to identify the actions taken to correct the deficiencies identified in our March 1991 report. We conducted our work from October 1991 to January 1992 in accordance with generally accepted government auditing standards.

As requested, we did not ask for written comments from the Endowment. However, we shared a draft of this report with Endowment officials and have included their comments as appropriate.

We are sending copies of this report to the Chairman of the Board of Directors and the President of the National Endowment for Democracy; the Director, U.S. Information Agency; the Administrator, Agency for International Development; and the Director, Office of Management and Budget. We will also make copies available to others upon request.

This report was prepared under the direction of Joseph E. Kelley, Director, Security and International Relations Issues, who may be reached on

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