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AMERICAN SCHOOLS AND HOSPITALS ABROAD

PROGRAM CAN BE IMPROVED

Audit Report No. 9-000-86-2

December 13, 1985

Office of the
Assistant Inspector General
for Audit

December 13, 1985

MEMORANDUM FOR AA/FVA, Julia Chang Bloch

FROM: AIG/A, James B. Durnil

SUBJECT: Audit of American Schools and Hospitals
Abroad Program

This report presents the results of our review of the American Schools and Hospitals Abroad Program. Our objective was to evaluate the program's performance and accomplishments in achieving what we believe to be its primary goal of providing grants to institutions overseas that demonstrate American ideas and practices in education and medicine.

Our audit showed that a number of significant improvements were made to the program as a result of recommendations made by the Inspector General in audit reports issued during the period 1978-80. Our current review did, however, show that some problems identified in the earlier audits continued to exist and that more could be accomplished with ASHA's annual \$30 million budget by overcoming impediments that limit program effectiveness. In particular, we found that (i) systems for setting goals and objectives, selecting institutions and evaluating grant impacts needed improvements; (ii) certain critical points in the 11 point criteria were not met; (iii) even though some progress had been made, grant funds continued to be concentrated in one geographic area of the world; and (iv) overseas institutions' use of the local currency derived from the grants needed to be better controlled.

We initially made three recommendations to improve future operations of the ASHA program. I have added a fourth recommendation to the report requiring the Director of AHSA to instruct the review panel to closely review applications and award grants only to grantees that fully comply with the 11 point criteria.

After discussions with the auditors, ASHA officials made changes in the grant agreements that improved controls over matching grants by requiring certain recordkeeping and cost review procedures. Changes were also made in the recordkeeping

and approval process for the use of local currency by overseas institutions. An additional improvement for controlling local currency is recommended in our report.

The written comments provided by your office to the draft report did not address implementation of the recommendations. The comments primarily dealt with the approach or method used to conduct the audit. We have carefully considered your comments, made changes in some areas and attached the comments in total as Appendix VI to the final report. The IG's position relative to your comments is included and summarized in the report.

Please advise me within 30 days of actions taken or planned to clear the recommendations.

Thank you for the courtesies extended to my staff during the audit.

EXECUTIVE SUMMARY

The American Schools and Hospitals Abroad Program needs better management and direction to more fully attain the goals and objectives established by the Agency for International Development as well as those mandated by legislation. A number of significant improvements were made to the program as a result of recommendations made by the Inspector General in audit reports issued during the period 1978-1980. However, during this review we found certain prior audit recommendations--some requiring formal management procedures--were not fully implemented. As a result some Program grants continue to be awarded to institutions that do not comply with established criteria, legislation or the expressed desire of the Congress.

For example, the Program has not followed all the criteria established by AID and published in the Federal Register on November 26, 1979. We noted, from our review of the 19 institutions that received funds subsequent to 1979 (i.e., 1980-84), that the grants sometimes did not fully meet all the qualifying criteria. We found:

- 7 institutions did not have a strong United States grantee that could demonstrate a continuing supportive relationship such as financial and management support. Many of these sponsors were merely fund raisers with office space in New York City.
- 3 institutions clearly did not have a curriculum that reflected American ideas and practices. Others were also deficient in this area but to a less obvious extent.
- 5 institutions were not good demonstration centers in that they did not reflect favorably upon and increase the understanding of the United States. An additional 12 institutions met this criteria but significant questions existed about the extent of the benefits that resulted from the grants.
- 17 institutions would have received substantially less than the maximum score had the review panel known that the

institutions did not have United States citizens or United States trained faculty. At only 2 of the 19 institutions was as much as half the staff either United States citizens or United States trained.

Congressional Committees have repeatedly asked that the Program obtain a more balanced geographical distribution of grants. Although some improvements in distribution have occurred, Near East countries still receive about 40 percent of the program funds or \$12 million each year. In 1984 one Near East country--Israel--received \$4.1 million, whereas the entire continent of Africa with 46 countries receiving United States assistance got less than \$3 million. The desires of Congress for a geographically balanced program is reflected in one of the 11 criteria to be considered when evaluating grant applications.

In addition to awarding grants to institutions that did not meet or only marginally met program criteria, AID did not subsequently evaluate grants or monitor institution activities.

Other problems resulted from poorly designed grant agreements. Significant amounts of the Program's monies were given to institutions abroad without adequate grantee or AID oversight of certain financial program aspects. As a result, as much as \$7.5 million of program funds were converted to local currency and expended without AID having financial control and knowing what benefits, if any, were received.

Our current review disclosed that some of the problems identified in the earlier audits continued to exist. During the period 1978-1980 Regional Inspector General audit offices issued a total of 20 reports on various institutions and aspects of the Program. The Inspector General made recommendations to insulate the Program from outside influences and encouraged AID managers to take a more active role in program direction.

Program weaknesses identified in this audit, that were similar to those reported in prior Inspector General audits, included grants to educational institutions that (i) lacked adequate United States organizational backing and financial support, (ii) did not have an American studies program, (iii) did not serve as a demonstration center for American ideas and practices, and (iv) lacked an adequate number of United States faculty members (see Appendix I for a review of past audit reports).

While prior audit recommendations were directed towards correcting individual institution/grant deficiencies, all of the reports were addressed to the AID Washington management office. Corrective action on a program-wide basis has apparently not been adequate since similar problems still exist.

To assist in further improving this program we have made four recommendations that require:

- developing a policy paper which clearly defines program goals and objectives, preparation of impact statements to assess whether program goals and objectives will be achieved, preparation of a report by the grantee one year after final disbursement of grant funds to evaluate progress, and performing post-evaluations to determine success,
- reviewing the applications and grant awards more closely to assure that all grantees fully comply with the 11 point criteria.
- opening a dialogue with the Department of State and within the Agency to broaden the range of applicants and increase the geographic distribution of the program, and
- controlling grant related local currency expenditures.

In regard to the recommendation on local currency, AID has made changes in the recordkeeping and approval process for the use of local currency by overseas institutions. However, since corrective actions had not yet been fully implemented we have included this matter in one of the formal recommendations in this report. Once corrective actions are completed the recommendation can be closed following normal procedures.

Other improvements were made by Program managers during the audit. For example, Program management made changes in the grant agreements that improved controls over matching grants by requiring certain recordkeeping and cost review procedures.

Management stated it would give careful consideration to the report's recommendations. They stated, however, that implementation is problematical because the bases for the recommendations were wrong. Foremost among

seven areas of the report that management considered to be inadequate was that the fundamental distinction under the Agency's bilateral assistance programs and the Program's annual competitive grant program was not clearly stated. This as well as the other issues raised by management are summarized followed by auditor comments beginning on pages 16 and 29. Where appropriate we made changes to the report based upon the comments provided. However, for the most part the comments were similar to those obtained during the audit and were given full consideration. Our report findings and recommendations are designed to assist management in accomplishing the legislative intent and goals identified in the legislation by developing proper goals and objectives, devising long-term strategies, undertaking evaluations and establishing other programmatic measures normally used to achieve intended results. A copy of management comments is included as Appendix VI.

Office of the Inspector General

AMERICAN SCHOOLS AND HOSPITALS
ABROAD PROGRAM CAN
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<u>TABLE OF CONTENTS</u>	<u>Page</u>
PART I - INTRODUCTION	1
A. Background	1
B. Audit Objectives and Scope	4
PART II - RESULTS OF AUDIT	5
A. Findings and Recommendations	5
1. The ASHA Program Needed a Better Management System	5
2. Geographic Distribution	20
3. Grant Agreements	27
B. Compliance and Internal Control	30
PART III - APPENDICES	
I - Summary of Deficiencies from Earlier Inspector General Reports	
II - Geographic Area Distribution of ASHA Grants (1975-84)	
III - April 10, 1985 Letter to Director of ASHA	
IV - Assessment of ASHA Funded Institutions Visited by Inspector General Auditors	
V - Criteria for the American Schools and Hospitals Abroad Program	
VI - Management Comments	
VII - List of Recommendations	
VIII - Report Distribution	

AMERICAN SCHOOLS AND HOSPITALS
ABROAD PROGRAM CAN
BE IMPROVED

PART I - INTRODUCTION

A. Background

The American Schools and Hospitals Abroad Program (ASHA) was carried out under Section 214 of the Foreign Assistance Act (FAA) of 1961. Section 214 in part, stated:

"The President is authorized to furnish assistance . . . to schools and libraries . . . and to hospital centers for medical education and research . . . outside the United States founded or sponsored by United States citizens and serving as study and demonstration centers for ideas and practices of the United States."

Accordingly, there was a difference between the United States foreign policy demonstration goal of Section 214 and the purpose of Title II of the Foreign Assistance Act, which primarily addressed itself to the economic development of less developed countries.

In 1972 Congress requested that the ASHA director provide clarifications about the intent, purpose and goal of Section 214, the roles of Congress and AID, and guidelines concerning what constitutes an American school or hospital abroad.

The director provided significant testimony about the program. He testified, for example, that AID had never requested funds for institutions in Israel, because of the difficulty in distinguishing the American sponsored demonstration centers from native Israeli schools or hospitals. He also pointed out that ASHA's portfolio contained institutions that might not have been chosen as demonstration centers by AID, but that had been specifically identified in appropriations bills. Specifically, Congress had instructed AID to finance a considerable number of schools and hospitals in Israel and one hospital in Poland.

He also testified that ASHA had developed a criteria to screen grant applications that would help insure (i) the objectives of the law were well served and (ii) the

United States obtained the greatest possible benefits on the investments of public funds. Decisions as to grants would be based upon a system of qualitative and geographic priorities and upon United States foreign policy considerations of a broad nature. In this same time frame Congressionally selected line item appropriations were eliminated for ASHA grants.

In 1979 AID published revised program criteria in the Federal Register. Although similar to the criteria adopted in 1972, the revised criteria were considered mandatory rather than discretionary. Since 1979 ASHA has used a review panel selected from both within and outside AID to annually rank applicants using the criteria. This marked an important departure from ASHA's past operations. However, such actions did not result in the establishment of overall program goals and objectives. Program Managers continued to operate the program under an annual competitive selection process rather than considering long range program goals and objectives.

The eleven point criteria, as published in the Federal Register on November 26, 1979, is attached as Appendix V. The five points we emphasized in the review are shown below:

- "Criterion 1. The applicant should be a nonprofit United States organization which either founded or sponsors the institution for which assistance is sought. Preferably, the applicant should be tax-exempt under Section 501(c)(3) of the Internal Revenue Code of 1954.
- "The applicant must demonstrate a continuing supportive relationship with the institution. Evidence of this would be the provision of financial and management support for the institution.
- "Criterion 2. An instruction program must serve the secondary or higher level and must reflect American educational ideas and practice (education at the elementary school level will not be supported).
- "A school offering a broad-based academic program must include instruction on the history, geography, political science, cultural institutions or economics of the United States. English should be used in instruction or taught as a second language. However, the foregoing subject matter and language requirements need not apply to a school offering a specialized course of study.

"Criterion 3. Institutions are expected to reflect favorably upon and to increase understanding of the United States.

"Criterion 5. The faculty and staff of a school or a hospital center should include a significant number of United States citizens or other persons trained in United States institutions who are in residence and teaching at the school or hospital center on either a full time or part time basis.

"Criterion 11. To help achieve the objectives of the Foreign Assistance Act and ensure that the American Schools and Hospitals Abroad program is as geographically balanced as possible, special consideration will be given to applications for institutions which increase the geographic distribution of the program and contribute to the economic and social progress of areas that are the focus of AID's development efforts."

B. Audit Objectives and Scope

Our audit objective was to evaluate the Program's performance and accomplishments in achieving its primary goal of providing grants to institutions overseas that best demonstrate ideas and practices of the United States in education and medicine.

We conducted audit work from December 1984 to April 1985 in AID/Washington. We also visited grantee offices in Washington, D.C. and New York City, and institutions in Liberia, Philippines, Haiti, Honduras, Guatemala, Greece, Israel and Italy. During our visits overseas we discussed the program with officials at Embassies, AID Missions and recipient institutions. This work included: (i) obtaining views on the accomplishments and problems of the program; (ii) reviewing AID/Washington files on the grantees and institutions and comparing that information with the information obtained overseas; (iii) discussing with Embassy and AID Mission personnel in the countries visited the program and whether goals were being achieved; and (iv) interviewing staff and students at 26 of 110 institutions that benefitted from the program. (19 of the institutions used for our audit received funds during the five year base period, 1980-84).

The amount of funds received during the base period was \$22.7 million for the grantees and \$38.7 million for the institutions. In 1984 the grantees received \$5.5 million and the institutions \$9.2 million. The total amount of money received by the grantees and institutions we visited received about 49 percent or nearly \$15 million of the \$30 million ASHA budget in 1984 and \$61 million or 53 percent of the budget during the last five years.

Our audit was made in accordance with the Comptroller General's Standards for Audit of Governmental Organizations, Programs, Activities and Functions.

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PART II - RESULTS OF AUDIT

A. Findings and Recommendations

1. The ASHA Program Needed a Better Management System

ASHA program managers evaluated grant applications from schools and hospitals, and made grants based on an annual competitive selection process. However, a formal system had not been established to accumulate information on program accomplishments and success in reaching goals and objectives. Accordingly, management did not have this information and was not in a good position to redirect grant funds away from institutions that did not meet or only marginally met the legislative goals of the program. Also, ASHA did not know the extent of success being achieved by the program. This occurred because ASHA's management systems did not (i) consider goals and objectives, including measures of progress, (ii) compare and consider alternative means for accomplishing program objectives and (iii) include methods for comparing actual with anticipated results. As a result grants were approved:

- without making adequate determinations as to whether the grants would further overall program goals and objectives, and
- that did not meet all of the requirements in the 11 point selection criteria.

Although worthwhile benefits have occurred since program inception, ASHA has not accumulated adequate information on results the legislation intended the program to achieve, i.e., demonstration of American ideas and practices. Accordingly management is not now able to fully demonstrate the extent of program success achieved by the expenditure to date of \$532 million.

Recommendation No. 1

We recommend that, in order to manage ASHA on a program rather than a grant selection basis, the Assistant Administrator for Food for Peace and Voluntary Assistance require the Director, ASHA to:

- a. prepare a policy paper that clearly sets forth program goals and objectives intended by the legislation and that the policy paper be made available to all prospective grantees;
- b. encourage applicants to more fully meet the eleven point criteria by requiring each grantee to include, as a part of the application, a statement that shows the extent and manner program goals and objectives will be achieved;
- c. determine the extent legislative goals are realized, in part, by requiring the grantee to report on the extent to which the goals have been achieved within one year following final disbursement of grant funds, and
- d. better assess and verify the accomplishments by supplementing the Agency's annual competitive evaluation of applications and grantee quarterly project reporting with selective post-evaluations.

Recommendation No. 2

We recommend the Director, ASHA, instruct the review panel to closely review applications and award grants only to grantees that fully comply with the 11 point criteria, specifically concentrating on the key criteria addressed in this report, i.e.,

- bonafide grantees that actively participate in managing the overseas institutions,
- institutions that reflect American educational ideas and practices,
- institutions that increase understanding of the United States, and
- institutions that have significant numbers of faculty that are United States trained.

Discussion

Goals and Objectives - AID Policy (Handbook 3, Chapter 12), provides for establishment of management systems to include:

- definitions of objectives and programs,
- development of quantitative indicators of progress,
- orderly consideration of alternative means for accomplishing objectives, and

-- adoption of methods for comparing actual results with those anticipated.

A management system with these features had not been implemented. Implementation of the management system proposed would give the ASHA staff a basis to select and direct the projects that best meet overall program goals.

Evidence of the need for a system existed as early as July 1978 when, in a response to the AID Administrator, the acting ASHA director stated there was not a formal statement of the objectives of the ASHA program. Other evidence of management system weaknesses was found by the Inspector General in 1980 when ASHA was criticized for not having formal management procedures. In response ASHA drafted material to add to the AID Handbook covering important program aspects, such as objectives, oversight and evaluations. However, they were not implemented due to a June 1982 decision by the Office of General Counsel exempting them from the management requirements in OMB Circular A-110 because the circular only applied to domestic non-profit institutions. This decision was not concurred in by the Inspector General. Regardless of the exemption, a system to manage the expenditure of these Government funds is needed and its absence contributed to the problems noted during our review.

We observed, for example, that ASHA generally did not establish demonstration goals, objectives and measures of progress for its grants. We concluded that this was a factor contributing to poor United States demonstration results obtained from the grants. This was especially evident in instances where an institution had received only one grant since there was no continuing financial relationship, with all the attendant interaction. Without goals, objectives and measures of progress clearly defined, ASHA could not provide effective oversight to assure program benefits were obtained.

Eleven Point Criteria - The eleven point criteria for the program was established in 1979 to provide assurances that ASHA would only fund the best demonstration projects. According to ASHA, the 11 point criteria should be applied to all grants funded subsequent to 1979. We reviewed 5 of the 11 points at 19 institutions that had received ASHA grants sometime during 1980 through 1984. These five points were selected because they appear to be very critical to the successful completion of a good demonstration project. Because a number of the institutions were deficient in meeting more than one criteria, we summarized the

results of our review in the following table. Each letter at the top of the table represents a different institution. The table indicates the criteria not met by each institution.

INSTITUTION CRITERIA

<u>CRITERIA NOT MET</u>	<u>INSTITUTIONS</u>											
	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>	<u>F</u>	<u>G</u>	<u>H</u>	<u>I</u>	<u>J</u>	<u>K</u>	<u>L</u>
1. Applicant was not a United States founding organization that demonstrated a continuing supportive relationship.	X		X	X		X	X	X				X
2. Institution did not reflect and include American educational ideas and practices.	X	X		X								
3. Institution did not reflect and increase understanding of the United States.	X	X	X	X	X							
5. Faculty were not United States citizens trained in the United States.	X	X					X		X		X	X

Overall, we identified serious problems at 12 of the 19 institutions that received grants from 1980 to 1984. The complete text of all 11 criteria can be found in Appendix V.^{1/}

- The applicant should be a United States non-profit founding organization of the overseas institution and MUST demonstrate a continuing supportive relationship, e.g., the provision of financial and management support.

Grantees we visited were often not involved in managing the grants, but acted as fund-raisers. Only 12 of the 19 institutions that received grants from 1980 to 1984 were fully involved in both management and financial support. The remaining 7 mainly acted as fund-raisers. These 7 grantees were not involved with the institutions--they simply leased office space from which to conduct their fund-raising activities. They received AID grants for about \$10.6 million over the past five years. Approval of these grants was in direct conflict with criteria 1.

^{1/} The 11th point of the criteria is addressed in the section on geographic distribution on page 20 of the report.

The Congress intended the United States grantee to have a key managerial role, however, ASHA's grant agreements did not include a statement of the role and how it would be carried out. Project description sections of the grant agreement were limited to the items being funded and some general reasons the grants had merit. The absence of guidance detailing the role Congress anticipated for the sponsor contributed to the lack of grantee involvement.

The following are examples where there was little grantee involvement.

- The grantee occupied an office in New York City that was primarily a fund-raiser for Near East institutions and accordingly provided little or no management oversight to insure the eleven point criteria was implemented. ASHA awarded two grants to this Near East institution totalling \$1.2 million to provide more space, due to increased enrollment. The assistance was given with the stipulation the school would use the name "American School of Vocational Training". Our audit disclosed:
 - the school was called the Public Religious School for Teachers,
 - the director considered the school to have an international character,
 - no United States citizens were on the faculty,
 - students contacted were not aware of United States assistance, and
 - enrollment had not increased.

Congress specified that American grantees must participate in the management of the institution as well as contribute substantially to its financial support. ASHA gave some consideration to the importance of grantee participation in the selection process, but they did not follow through after the grant had been approved. When considering an application for approval the members of the review board were to consider, among other things, the grantee's degree of involvement in setting policy and providing direction, hiring principal administrative officials, establishing and/or reviewing and approving annual budgets, advising on curricula and programs, organizing exchange of faculty and staff, and raising funds. Most of the grantees did not perform these roles.

Involved grantees were needed to provide management expertise which could not be provided by ASHA due to the limited number of personnel responsible for managing the program. An example of the type of problems that occur when the grantee is not involved with an overseas institution is illustrated below:

- ITRI Torah Research Institute, a grantee not involved and acting only as fund-raiser received an ASHA grant for \$500,000 for Hadera Institute to purchase a hotel complex of 12 buildings to use as a school campus. Shortly thereafter planning problems developed and: (1) a malfunctioning sewage system forced the students to relocate in June 1980; (2) title to the land involved was never transferred to Hadera; (3) Hadera rented the complex to another school for nine months in 1982, in violation of the grant agreement; and (4) after the rental period the complex was seldom used and eventually was abandoned. When we inspected the school in February 1985 the property was badly deteriorating.

Article II, Appendix A of the 1976 grant agreement required that the complex be used by the grantee institution only for classrooms and faculty and student living quarters. If the grantee did not comply with that requirement, the grant agreement stated AID may obtain a refund from the grantee of the grant expenditures. ASHA tried to contact the grantee a number of times and in January 1984 sent a letter but never received an answer. During our audit ASHA began necessary action to obtain a refund.

To comply with Congressional guidance for all its grants, ASHA must enforce the sponsors' involvement by defining their role through improved guidance in the grant agreements. Strong sponsor involvement is vital to the success of the grants.

2. The institution MUST reflect American educational ideas and practices and MUST include instruction on the history, geography, political science, cultural institutions or economics of the United States.

In most cases, some aspects of this requirement were met, but in very few cases could we establish that an institution was in significant compliance with this point. At least three institutions clearly did not have a curriculum that reflected American ideas and practices. These three institutions received AID grants for about \$2 million during the five year period, 1980-84.

Institutions, in order to comply with this criteria, should have English language as a medium of instruction or a second language, and must have instructional styles that reflect an American approach. Also schools offering a broad-based academic program must have instruction on the history, geography, political science, cultural institutions or economics of the United States.

We observed that all of the institutions that clearly did not meet this criteria were in Israel. All three of the schools were exempt from some parts of the requirement because they offered specialized (rather than broad based) courses of study. However, they were still required to reflect American ideas and practices. At one school, where Bachelor's degrees were offered in three disciplines, study of a religious course (Talmud) was mandatory and offered as the only humanistic course. Consequently, no opportunity existed to incorporate American oriented studies of any kind. The other two institutions primarily offered vocational courses combined with religious instruction and may have been in violation of the second criteria as well as number 8. At one of these institutions we estimated 40 percent of the class hours were in some way associated with religion. At neither of the institutions did we find an American approach reflected nor curriculum content that was United States oriented.

3. The institution is expected to reflect favorably upon and increase understanding of the United States.

The extent to which institutions favorably reflected upon and increased understanding of the United States was difficult to determine. However, we observed five of the institutions were clearly not good demonstration centers and 12 remaining institutions met the criteria, but significant questions existed about the extent of the benefits that resulted from the grants. These five grantees received AID grants for about \$7.7 million over the past five years.

In order to meet this criteria the institution should be known in the region, country or community as a United States institution or one having significant United States orientation and affiliation. Further, the institution should provide an effective alternative to local institutions. The institution should also have the capability to demonstrate, utilize and transfer the best American education or medical practices. Some of the institutions we visited did not favorably reflect upon and increase understanding of the United States because they projected a host country or international image, rather than the anticipated United States image.

We visited 4 schools in Israel that did not act as demonstration centers for United States ideas and practices. The operations of the schools were supported primarily by Israeli government payments to the schools or indirectly by scholarship payments to the students. The style of instruction and curriculum content was not identifiably American. In fact one school's information pamphlet quoted a former Israeli Minister of Education to the effect that the school was a fine example of the best in the Israeli comprehensive school concept.

At another school the students were not aware the school received United States assistance and the Director considered the school to have an international character as opposed to a United States orientation. These schools were connected to the United States through the history of their founding or by past and present fundraising efforts. At the time of our visit, however, we found the schools' character and reputations were predominantly and almost exclusively Israeli or religious in nature.

A school in Haiti did not meet the criteria, because it was located in an isolated area, and served an illiterate population. Our visit revealed that the local State Department Political Affairs Officer had never heard of the school, and even in the immediate vicinity of the school, the school was associated primarily with its director and the United States ties were not known.

Although the school may have been a sound developmental initiative, it did not comply with the criteria that it be known as oriented or affiliated with the United States. Accordingly, it could not act as a showcase for United States ideas and practices in education.

5. A significant number of the faculty or staff should be United States citizens or foreign nationals trained in the United States.

At most of the institutions some faculty or staff members had been trained in the United States. However, in no case did we find the numbers of United States citizens working at any of the institutions to be significant. The worst case was an institution in Israel where we found no United States citizens working at the school and evidence that only an insignificant number (4 of about 130) faculty had received any training in the United States.

ASHA's guidelines for evaluation of applications direct panel members to award the maximum score for this

criteria if 60 percent or more of the faculty or staff consists of United States citizens and United States-trained persons.

We observed that half the staff at only 2 of the 19 institutions were either United States citizens or United States trained. At the remaining 17 schools and hospitals the numbers were very limited. For example, at one hospital in Haiti none of the 11 physicians could be qualified according to the criteria and of the total staff of 115 only 2 volunteers qualified. At another hospital in Haiti only one of six physicians had the necessary United States connections. However, we did note that these Haitian hospitals had active visiting programs that brought United States physicians to the hospitals for one week visits to assist and train. The presence of United States visitors, for a very brief period of time, in our opinion, is not sufficient to provide the level of American influence that this criteria required.

Another example of an institution that had a large staff with little United States connection was found in the Philippines. Among 122 faculty members only one was a United States citizen and about 10 percent had received degrees from United States schools. Similar conditions were found at one of the four schools we visited in Greece where only 20 of 275 faculty or 7 percent were United States citizens or United States trained.

At the institutions discussed above we found some aspects that offset the absence of a United States oriented faculty, such as the school's reputation as American oriented or a distinctively United States style of instruction. Nevertheless, the institutions were among the weaker overall demonstration centers that we visited. This underscored the importance that should be placed on meeting this criteria.

Two schools in Israel did not meet the criteria. In these cases we did not find other aspects that would offset this weakness. In fact, we believed the institutions were not publicly associated with United States ideas in education and did not have distinctively United States styles of instruction. We concluded the grants should not have been made. Over the last 5 years the two schools received \$1.8 million in ASHA funds.

ASHA Did Not Evaluate Grants - The absence of a formal evaluation process made it difficult for ASHA to determine the effectiveness of the projects. For example, after we considered local conditions related to the grants we visited, we questioned the benefits of

further funding of 24 of the 26 institutions. Without a close assessment or, in some cases, a formal evaluation, we could not see how ASHA could determine the overall benefits of the funding (see Appendix IV). At 16 of the institutions, that received over \$14 million in grants, we questioned whether the grants should have been made, because the intended impact or any measurable impact did not appear to have been attained. Formal evaluations would have provided input to the grant award process for future grants and helped to determine if the grants were providing adequate program benefits.

The following illustrates some of the important information that may not be available to the ASHA annual review board because formal evaluations were not performed. For example:

- at an agriculture school in Greece information gained from an evaluation would have helped to determine if assistance was actually needed. This school received nearly \$4 million in ASHA funds over the last ten years. Town development in the vicinity was increasing land values, including land owned by the farm school. The school considered participating in the development through a \$50 million housing project and other commercial properties that could yield millions of dollars to the school. Other recent sources of income were \$2.3 million in cash and \$3.5 million in pledges from a fund raising campaign. In addition, a 200 acre farm was made available to extend the schools income generating operations. ASHA could not have considered all these financial factors without a formal evaluation.

- at a graduate school in Italy information could have been gained through an evaluation which would have helped to determine the best method of providing financial assistance. Foreign students at the school were not aware the United States government was providing money, even though the school had received \$3.5 million, primarily for operations. A formal evaluation would have disclosed the ineffective manner in which financial assistance was provided.

ASHA officials maintain that the program's ongoing process of evaluations was effective. They state that the process begins with the assessment of applications by reviewers and includes site visits and frequent meetings with grantee officials. This approach, according to ASHA, provides the opportunity to explore and discuss problems as well as to assess the

effectiveness of institutions and projects. Further, special evaluations are conducted as necessary to supplement the basic process.

We observed that ASHA's ongoing evaluations process was useful. Nevertheless, the process did not provide the careful analysis generated by formal evaluations and needed for effective ASHA decision making. Further, the process did not provide the analysis and documentation needed by ASHA's annual review board.

ASHA needed formal evaluations to determine if future funding was warranted and if so what type of grant would be most effective.

Monitoring of Institutions' Activities - ASHA was not requiring grantees to comply with the grant agreement on annual reporting. This report was the only formal means for the grantee to periodically report on institutional goals, programs, and plans for the future. Information from the report was important and was needed by ASHA to evaluate and monitor the institution's activities.

The report specifically required the grantee to provide information on: the goals of the institution, changes in academic or medical programs, developments affecting operations, as well as administration, staffing, and budget and finance.

The lack of this information limited ASHA's oversight. During the 12 months prior to April 1985 only 11 of 58 active grantees sent institutional reports and none of the 11 reports contained all the required information.

ASHA needed the information to determine whether the institution's activities remained compatible with ASHA's program goals, and if conditions at the institution had changed which would cause ASHA to reduce or increase its financial assistance. In the future ASHA should require the submission of the reports and carefully review them when received.

Conclusion

Significant portions of ASHA's grant program are going to institutions where ASHA does not know to what extent the program is successful in meeting program objectives. ASHA could more effectively direct the overall program and the purpose of each of the grants by establishing a better system to set objectives, monitor projects, and provide formal evaluation information. In addition, ASHA needs to make sure that grants are awarded for overseas institutions that clearly meet the

11 point criteria. An improved management system and greater emphasis on compliance with policies and procedures for applying the 11 point criteria would better assure that the intended program benefits are attained.

In summary, ASHA needs to more effectively follow the 11 point criteria and establish a management system that provides the information to select the projects that best meet overall program goals. Without doing this ASHA does not have a basis to effectively manage and direct the program.

Management Comments

Management stated that a comparison of periods before (1972-78) and after (1979-85) management improvements were made showed a large improvement in the distribution of funds. To illustrate the point management provided a table that showed the amount of funds for Africa had increased over 1,500 percent after management improvements.

Office of Inspector General Comments

While we acknowledge the improved distribution of funds in our report, the fact remains that Africa, a continent with 46 eligible countries and 484 million people received only 11 percent of the total ASHA grant funds (up from one percent or a 1,500 percent increase) during the 1979-85 period. Our concern was not that ASHA had not improved the geographic distribution of funds, but that the distribution was still vastly disproportionate and more needed to be done to place grants in other countries and regions throughout the world.

Management Comments

Management stated that the report did not take into account the distinction between the Agency's bilateral project assistance programs and ASHA's annual competitive grant program. As a result, according to management, many of the recommendations regarding defining of goals and objectives, devising long-term strategies and undertaking evaluations were inappropriate. Management also commented that Congress had defined the objectives of the ASHA program in Section 214 of the Foreign Assistance Act, and that ASHA's role was to identify where the objectives of applicant institutions were congruent with those of ASHA.

Office of Inspector General Comments

We believe the report adequately took into account the unique character of the ASHA program. Our concern was that some of the institutions' objectives and strategies were not consistent with the program and as a result the United States was not getting the intended benefits. ASHA had not adequately assumed responsibility for specifying the terms and conditions for its grants as required by Section 214 of the Foreign Assistance Act. As pointed out in the report, in 1972 Congress requested the ASHA director provide clarification about the intent, purpose and goal of Section 214, and in 1978 the Acting ASHA Director stated that there was not a formal statement of the objectives of the ASHA program. This history and other information in the report indicate that ASHA should not rely only on the broad language of the authorizing legislation for the definition of its objectives, and its implementing strategies.

Our recommendations are directed at assuring that ASHA utilize a management system that provides prudent assurance federal expenditures achieve the intended results. Well defined objectives, and effective methods for comparing actual results with those anticipated, are an inherent aspect of such a system.

Management Comments

Management stated that no applicant can be expected to meet every criterion perfectly and therefore the report was unduly critical where it criticizes ASHA for making grants to applicants that did not "fully meet all the qualifying criteria." Management stated that an applicant's overall ranking is based on the degree, relative to other applicants, to which it meets the criteria.

Office of Inspector General Comments

It is precisely this rationale, i.e., ranking based on the degree an applicant meets the criteria, that weakens the program. Such a rationale does not exclude poorly qualified applicants from receiving grants. It only assures that all funds available for grants will be awarded. Our concern was that poor grants were made because the applicants partly met the criteria, and that the grants did not further program goals and were therefore wasteful. Accordingly, we have recommended that ASHA require applicants to include, as part of the application, an impact statement that shows the extent and manner program goals and objectives will be achieved.

Management Comments

Management commented that although the audit stated its base period as 1980-84, in fact, it draws on events back to 1972. Management further stated that, since the program's management changed substantially in 1979, the auditor's practice of including pre-1979 data to draw conclusions about current circumstances is unwarranted.

To illustrate this, management pointed out that the ITRI Torah Research Institute grant, which the report cites, was last funded in 1976. Further, management stated that it brought the matter to the attention of the Office of Inspector General and suggested an investigation, but the Inspector General's Office took no action. Management stated that, in this context, it found it ironic for the grant to be used to discredit contemporary activities.

Office of Inspector General Comments

In recognition of the management changes in 1979, we focused on 19 of the 26 institutions we visited that received grants from 1980 to 1984. In reviewing ASHA's actions in determining the results of its grants, however, it was necessary to consider somewhat older grants. Grants typically were for construction which took place over a two or three year period, and full utilization of the new facility could take an additional year or two. Thus, an assessment of ASHA's grant follow-up mechanisms necessarily entailed grants made before 1980. For these older grants, we reviewed the results of the grants and ASHA's related actions during the period from 1980 to 1984.

The ITRI Torah Research Institute grant was awarded in 1972. It was included in the report because AID has yet to resolve issues involving the recovery of over \$500,000. It also underscores the importance of grantee participation in managing overseas grant activities--not to discredit contemporary activities. In the ITRI Torah instance, the lack of grantee involvement, as exemplified by ASHA's unanswered January 1984 letter, contributed to problems with the grant. Unless ASHA more closely involves the sponsors by assuring in the selection process that they have a key managerial role, and by defining their role through improved guidance in the grants, additional problems such as those mentioned in the report may reoccur.

Management is inaccurate when it states that the Office of Inspector General took no action on the ITRI Torah Research Institute matter. ASHA referred an embassy

site report in 1983 to the Inspector General for "review and possible investigation". In 1984 the Assistant Inspector General for Investigations forwarded for action to ASHA the results of a preliminary investigation. The report stated that no further investigation was warranted and that AID's Handbook sets forth the required actions and disposition to be made in cases of this nature. ASHA initiated action in 1985 to recover the \$500,000 at the specific urging of the auditors.

Management Comments

In regard to the report section, "ASHA Did Not Evaluate Grants," management stated that, in the two examples given, the report alleges that ASHA was unaware of certain facts which could have been known only through formal evaluations and that these facts would have affected the subsequent granting of funds. Management stated that ASHA actually was aware of these facts and more. Management then briefly discussed one of the examples to demonstrate its grasp of the circumstances and to show that in fact a formal evaluation would not have been necessary.

Office of Inspector General Comments

Our point was not that ASHA was unaware of certain facts. Our concern was that the complex nature of determining and assessing the various facts, as illustrated by the examples in the report, required detailed evaluation-type analysis and documentation for effective ASHA decision-making, and for assurance that the annual review board was adequately informed. We believe there is ample evidence throughout the report to demonstrate the need for improvement in ASHA's evaluation process.

2. Geographic Distribution

Congress preferred that ASHA make grants to institutions geographically disbursed throughout the world that present a good United States image. Improvements have been made in grant distributions in recent years, however, program funds continue to be concentrated in the Near East and particularly, Israel. This occurred primarily because ASHA had not (i) developed an adequate strategy for broadly distributing the grants, (ii) worked with the Department of State and within AID to identify new candidates in other locations and (iii) assigned adequate points to geographic distribution in the selection process. As a result, the expressed desires of the Congress have not been fully met and opportunities to expand American ideas and practices throughout the world have been missed.

Recommendation No. 3

We recommend the Director, ASHA:

- a. establish a dialogue with the Department of State and within AID identify opportunities for greater geographic distribution, and then prepare a formal long-term (3-5 years) strategy paper. This paper should specifically relate to goals and objectives for the program, including the distribution of funds and numbers of projects by area,
- b. solicit from the Department of State's Office of Overseas Schools, Embassies and AID Missions information on potential and ongoing demonstration institutions and consider such information during the selection process, and
- c. improve the selection process by placing more emphasis on geographical distribution (11th point of ASHA's selection criteria) and assigning this criteria a higher maximum score.

Discussion

Geographic Balance - ASHA grants need to be better geographically balanced throughout the world. This would increase the overall effectiveness of the program, by establishing effective demonstration centers for American ideas and practices in other parts of the world. The concentration of ASHA grants in the Near East and particularly Israel is not warranted. As early as July 1974 the AID Assistant Administrator for Legislative Affairs stated:

"Of course, in terms of United States influence in Israel, it is evident that we do not need 30 or more institutions acting as United States showcases in a country which has such close ties to the United States and does not need to be persuaded to think of us as a friendly country."

Some years later, in 1980, an AID Acting Administrator responded similarly when he stated:

"Over the past decade, the ASHA program has played a small but significant role in Israel by assisting 36 educational and medical institutions. In no other country have more than four institutions received support from ASHA."

During the period 1978-1980, a series of audit reports culminated in a letter from the Inspector General that recommended the program be placed under a structured control. ASHA subsequently strengthened the program by publishing program criteria in the Federal Register and establishing a review panel to rank applicants. This resulted in improvements, however, projects continued to be geographically concentrated.

During 1985 hearings Congress acknowledged an improved regional balance in the distribution of funds, but urged ASHA to continue its efforts to ensure an equitable distribution. Our analysis of the program showed that improvements had been made over the last ten years (see Appendix II), as in Latin America, where funding increased from one to nine percent. However in more recent years, the geographic distribution has stabilized with about the same amount of funds going to the Near East each year. Improvements were still needed so that grants were not concentrated primarily in one region. For example:

-- in 1975, the smallest geographic area, the Near East, received 53% of the ASHA funds . The next largest geographic area, Europe, received 24% followed by Latin America (16%), Asia (6%) and Africa, the largest geographic area, received only 1%. Nine years later, 1984, some progress had been made to better redistribute funds but the Near East continued to receive 41% of the ASHA funds, and the entire continent of Africa with a population of 484 million people (46 individual United States assistance countries) received only 10% (see Appendix II).

Israel, with a population of 4 million people and one of 6 small countries in the Near East, over the last ten years, received grants for 21 different institutions, usually private schools supported by religious groups. During recent years there has been a slight decline in the number of institutions supported by ASHA, but still far more ASHA grants are awarded to Israel institutions than warranted according to its size and population. For example, Korea, the next highest country received grants for seven institutions.

Our review of the most recent grants for fiscal year 1985 showed that projects continue to be geographically concentrated. For example, six low ranked projects (refer to Appendix III) were funded by ASHA in 1985. Four of the six were for institutions in Israel, where ASHA already had a large concentration of projects.

We reviewed comments made by the ASHA reviewers and found a sound basis for the low ratings. For example:

- Laniado Hospital was associated with a worldwide religious affiliated group rather than an American sponsor and in the past had been known to have restrictive religious admission policies.
- Feinberg Graduate School had become more recognized as an Israeli rather than an American institution.
- Gan Yavne Youth Village received 75 percent of its financial support from the Israel Ministry of Education and Culture, which would have normally disqualified a grant candidate. In addition, sufficient evidence was not available to show the school would be an effective United States demonstration center.
- American College of Belz did not provide sufficient information in the application to show that the proposed project could be established and effectively operated.

We discussed the low ratings of these four institutions with program management and tried to determine the rationale for funding these institutions over others with much higher panel ranking. AID program officials stated that considerations other than the panel ratings were considered in the final award process. The most significant factor was the strong Congressional interest and pressure by members of Congress to fund specific

institutions. AID management provided several Congressional letters requesting AID funding support to the lower ranking institutions. Although Congressional input can be an important consideration AID should not be overly influenced by these letters but should manage the program in accordance with the mandated legislation. Funding of these four grants caused a reduction of \$1.65 million in funding of highly ranked grants for institutions in Honduras, Liberia and India.

Reductions in Honduras at this time appear to be undesirable given the United States interest in supporting the Honduran government.

The institution in Liberia is the only four year private institution in West Africa serving at least a dozen countries. Reduced funding to the institution in India without assured subsequent grants will result in a complex that has marginal utility and will poorly represent a United States image.

For the program to have a broader impact in spreading American ideas and practices, ASHA should not concentrate the funding of projects in one part of the world. To accomplish this, the program must focus on developing a positive strategy to broadly distribute the grants.

Coordination - Input from other United States organizations in Washington and overseas was an important element needed to effectively direct the ASHA grant program. Such information was needed to make decisions on types of assistance and geographic distribution of the grants. Further, such information would have helped ASHA to monitor changing local conditions, to identify potential new applicants, and to better assess grant impacts.

ASHA could have done more to obtain the needed information. For example, important foreign policy input could have been obtained by better coordinating with the Department of State and AID's Bureau for Program and Policy Coordination. ASHA could have found an abundance of information, such as, Department of State guidance on important foreign policy considerations and the countries and regions throughout the world that are of the highest priority to the United States. Within AID, the Bureau for Program and Policy Coordination was preparing an AID strategic plan for foreign policy development, including the ASHA program.

Personnel in the Embassies and the Bureau said more coordination concerning foreign policy was needed.

Embassy personnel told us they would have provided, if asked, foreign policy comments on the benefits and drawbacks of prospective grants in their countries. They told us ASHA's past practice, of asking for comments by wire after preliminary selections were made, did not permit this. Their preference was for ASHA to call for nominations and comments annually prior to the review group meeting.

Embassy personnel in Greece and Israel had significant political concerns about ASHA's grants that should have been brought to ASHA's attention. In Greece, Embassy personnel believed ASHA funding of large ostentatious buildings was unwise, since the Greek government and the press had unfavorably viewed such an ASHA project in Athens.

Even though the Bureau for Program and Policy Coordination and the Embassies believed coordination was needed, they also thought that it should be done at the right time. We agreed with these observations and believe coordination should be limited to annual foreign policy comments and suggestions and not with the day-to-day process used to select individual institutions. Earlier involvement by personnel responsible for United States foreign policy might alleviate situations like those in Israel and Greece.

Creating Geographic Options - To correct the geographic imbalance in the program special effort was needed to find new institutions in countries important to the United States. Rather than make such efforts, ASHA had restricted funding to institutions that had submitted applications.

One source to assist in identifying new institutions, in addition to Embassies and AID Missions, was the Department of State's Office of Overseas Schools. Their program provided financial assistance to 169 schools in 97 countries. Although this program differed from ASHA's, both programs demonstrated United States education practices in other countries.

Program officials told us they could provide ASHA assistance in locating new candidates. For example, a regional education officer said as many as 10 schools in his region were worth investigating. To show the similarity of the programs, the director pointed out that two schools his office formerly funded had also been ASHA funded.

The director believed his office could be helpful primarily because his staff was usually familiar with the private schools in their regions. He said his

office would be happy to share information with ASHA through regularly scheduled meetings.

ASHA could increase the number of applicants from various parts of the world by more interaction with the Office of Overseas Schools and the United States officials overseas. By increasing the number of applicants, ASHA would broaden its options to correct the program imbalance.

Selection Process - ASHA's selection process relied heavily on the 11th criteria point to take into account the need to geographically distribute the grants. However, even though some progress has been made its use had not adequately served this purpose and no other program mechanism fully considers this important legislated aspect.

The 11th point of the selection process reads in part as follows:

"To help achieve the objectives of the Foreign Assistance Act and ensure that the American Schools and Hospitals Abroad program is as geographically balanced as possible, special consideration will be given to applications for institutions which increase the geographic distribution of the program . . ."

Adequate considerations could not have been given to geographic distribution because the 11th point was not given enough importance in comparison to the other 10 points. Out of a perfect score of 200 points, the 11th criteria was limited to a maximum of 10 points or 5 percent. Limiting the maximum score to 10 points was inconsistent with the importance Congress had given to geographic distribution. This was shown by the overall 1984 ratings when the same institutions were funded, after the score for the 11th criteria was taken into account, as would have been were it not even considered.

Conclusion

The ASHA program could do more to geographically distribute the grants as repeatedly requested by Congressional committees, thereby increasing the positive impact of the program. This can be accomplished in the future by coordinating long-term planning and strategies with the Department of State and AID's Bureau for Program and Policy Coordination to assure grants are geographically balanced.

Further improvements in the program can be made by obtaining foreign policy input from other United States organizations in Washington and overseas. Such information will help ASHA to monitor changes in local conditions, identify new applicants and assess grant impacts.

Improvements in the 11th point of the selection criteria should also increase program effectiveness. This will require ASHA to place emphasis on geographic distribution. These improvements should include substantially increasing the number of allowable points under this criteria to adequately reflect its importance.

3. Grant Agreements

Finding - Grant agreements did not address important financial controls over the use of local currency and grantee (United States sponsor) responsibilities in achieving objectives. Because of the absence of such provisions, ASHA disbursed as much as \$7.5 million in program funds for institutions in four countries that were converted to local currency, without having proper financial control and not knowing the benefits.

Recommendation No. 4

We recommend ASHA, in coordination with the Office of General Counsel, Office of Financial Management and Office of Contract Management, modify the grant agreements to provide for the use of local currency budgets to monitor and control grant related local currency expenditures.

Discussion

Conversion of United States Dollars to Host Country Currency - Local currency converted from ASHA dollar grants was not adequately controlled. Controls were needed because the strength of the dollar had generated additional local money for ASHA supported institutions. Dollars granted by ASHA were based on local currency exchange rates that later changed to favor the grantees because a greater amount of local currency was available than was originally anticipated.

ASHA became aware of the benefits of the strong dollar to institutions abroad as early as January 1983, when a school in the Philippines notified ASHA the total floor space built would be approximately 60,000 square feet rather than the original 50,000 square feet. The favorable exchange rate was one of the factors that had allowed local currency for the added space as well as the refurbishing of the existing buildings.

Institutions abroad in other countries were also getting unexpected gains from the strong dollar, but they did not always notify ASHA. A school in Greece decided to use the money to pave sidewalks next to the grant construction project on campus. This was done even though the school had other more pressing needs. The school chose that expenditure because it was loosely connected to the construction project and the school felt this would preclude criticism if the expenditure later became known.

According to the school's Director, this money could have been better used to renovate buildings or for other higher priority needs. Although this and other institutions used all the available funds, ASHA's practices did not insure the funds were used for the most important purposes. In this situation, the lack of a formal procedure on converting dollars to local foreign currency had not only resulted in a deviation from ASHA policy, but more importantly had resulted in the wasteful use of grant funds on lower priority institutional needs.

Of the countries we visited, local currency gains in Israel were the largest. The exchange rate there went from 107.77 shekels at the beginning of 1984 to 638.71 at year's end for an increase of 493 percent. Thus, institutions in Israel received about 368 million shekels more than they had anticipated and had been authorized by ASHA.

Increased local currency was monitored closely by an embassy official in Israel and the institutions were required to account for any excess money by providing supporting documentation. Program officials at ASHA, however, did not know how the additional local currencies were used because they did not ask for this information.

Constantly changing currency rates in each country with ASHA grants made it difficult to determine the total amount of unanticipated local currency gains for the program. Consequently, we limited computations to calendar year 1984 in four countries. After converting the local currency back to equivalent United States dollars, the gains for these countries were equal to \$7.5 million.

Inadequate control over the funds resulted in the money being spent for purposes where there was less benefit. Unless ASHA improves management over funds generated from a strong dollar by providing specific guidance, it is probable that funds will continue to be spent without the ASHA program knowing the extent of the benefits received.

After we pointed out these problems during our audit, ASHA adopted strengthened grant provisions. The new provisions required grantees to keep records of currency conversions and to seek approval for the use of excess local currency. The new provisions are a positive step in strengthening controls in this area. We recommend, as a further step in strengthening control, that ASHA require local currency budgets in the grant agreements.

Conclusion

ASHA's management control over local currency use could be improved by amending its grant agreements. In addition to the improvements made during our audit, the agreements need to be further strengthened by requiring local currency budgets. This improvement to the grant agreements would greatly increase ASHA's control of local currency expenditures related to the grants.

Management Comments

Management stated that the report alleged, without adequately considering all factors, the waste of \$7.5 million due to grantees' obtaining local currencies in excess of project requirements as a result of the strong dollar. Management also stated that the method used to estimate the \$7.5 million was faulty, and that existing grant provisions and ASHA procedures had adequately provided control.

Office of Inspector General Comments

We believe the report clearly established the need for improved control over the conversion of ASHA dollar grants to local currency, and that inadequate control had resulted in the money being spent where ASHA did not know the benefit. Further, the report adequately demonstrated that the monetary sums at issue were significant. We continue to believe ASHA should further strengthen its grant agreements by requiring local currency budgets, as well as continue with the new grant provisions adopted as a result of discussions with the auditors.

B. COMPLIANCE AND INTERNAL CONTROL

Compliance - ASHA has entered into matching grant agreements with the sponsors since 1981. Cost matching was defined in the AID Handbook as a required contribution by the grantee from private sources toward the total cost, either in cash or in kind and usually described as a percentage of total costs. AID Handbook 13 also stated:

- contributions will only be considered as matching if, among other criteria, the costs are verifiable from the grantees records and are allowable under the applicable Federal cost principles, and
- verification that the matching requirement has been met is made at the end of each funding period or on an annual basis as determined by the cognizant program office.

ASHA personnel informed us the grantees' records were not verified nor were costs reviewed to determine if they were allowable under applicable cost principles. In addition, most project agreements did not require grantees to provide evidence of matching funds until ninety days after final disbursement of grant funds.

ASHA was not required to strictly comply with AID Handbook 13. However, ASHA was required to comply with its charge to specify adequate terms and conditions for its grants. Thus, sound management practice made ASHA's adoption of provisions similar to those in Handbook 13 advisable. After discussions with the auditors, ASHA took appropriate action to include such terms and conditions in its grants. ASHA's management of matching grants was not included in the audit report, because it was not within the scope of this audit.

Internal Control - ASHA's inability to monitor the effect of host country revaluation of currencies had resulted in unanticipated gains in local currency by institutions abroad. Absence of specific guidance in the grant agreement on how ASHA management and the grantee should deal with the gains had resulted in potentially abusive situations. We estimated that, in four countries, the equivalent of \$7.5 million dollars were spent in FY 1984 by institutions abroad with inadequate management oversight or financial control.

Conditions leading to this internal control weakness are described on pages 25 to 27 in the report. We made recommendations to correct this weakness.

SUMMARY OF DEFICIENCIES FROM
EARLIER INSPECTOR GENERAL REPORTS

1. Italy - Columbus Hospital - Audit Report No. 0-913-81-72, April 30, 1981.
 - o \$1.6 million to rent space for and furnish a Children's cancer clinic.
 - o Hospital did not meet the ASHA criteria - United States sponsor did not provide financial or managerial support, no United States presence on the staff, no discernible United States characteristics in the hospital.
2. Project Hope (a hospital ship) - Audit Report No. 80-88, July 29, 1980.
 - o \$2 million annual operating support,
 - o ASHA had inadequate formalized requirements and procedures for management and administration of its grants, including the review and evaluation of periodic institutional reports submitted by grantees.
3. Hong Kong - Lingman College - Audit Report No. 78-169, September 21, 1978.
 - o \$1.65 million primarily to construct auditorium,
 - o Grant was made to an institution that did not have a financial need and according to the American Consulate there were other educational institutions in Hong Kong more worthy of United States support.
4. Greece - Athens College - Audit Report No. 78-132, July 12, 1978
 - o \$600,000 for scholarships,
 - o School did not notify scholarship recipients of United States government's contribution,
 - o Funds used to pay the tuition for children of employees.

5. Korea - Sogong University - Audit Report No. 78-100, April 21, 1978
 - o \$1.36 million primarily to construct a library and a classroom facility,
 - o Improvements needed in school's internal controls, funds management, and competitive bidding procedures.
6. Korea - Seoul Children's Hospital - Audit Report No. 78-86, April 19, 1978
 - o \$50,000 for medical equipment,
 - o Hospital did not meet the ASHA criteria - hospital not private rather a government institution; United States sponsor provided no financial or managerial support; no United States citizens or United States trained local nationals on staff.
 - o "departure . . . so substantial as to warrant the conclusion that the Hospital failed to be an institution qualified for a grant under the ASHA program."
7. Korea - Induk Technical High School and Institute of Design - Audit Report No. 78-92, April 19, 1978
 - o \$1.15 million to instruct additional facilities,
 - o School did not meet the ASHA criteria - curricula controlled by government; only one of 35 faculty with a United States degree; no American Studies program.
8. Taiwan - Cheng Hsin Rehabilitation Center - Audit Report No. 78-91, April 18, 1978
 - o \$1.76 million to construct additional facilities,
 - o Institution did not meet the ASHA criteria - no medical education or research conducted; United States sponsor did not provide financial or managerial support.
9. Israel - Beth Bluma Vocational School - Audit Report No. 78-87, April 17, 1978
 - o \$1 million to construct dormitory facilities,

- o School did not meet the ASHA criteria - United States sponsor did not provide managerial or financial support, no United States citizens or United States trained local nationals on staff.
10. France - Clifford M. Strauss School - Audit Report No. 78-88, April 14, 1978
- o \$250,000 to construct classroom facilities
 - o School did not meet the ASHA criteria - United States sponsor contributed no financial support; only one of 16 staff was American and none of the remaining 15 were United States trained; the school was not identified locally with the United States.

GEOGRAPHIC AREA DISTRIBUTION
OF ASHA GRANTS (1975-84)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
<u>PERCENT OF ANNUAL FUNDS</u>										
Africa	1.0%	1.6%	0.7%	0.8%	12.9%	12.6%	14.2%	2.0%	13.1%	9.8%
Asia	6.5	13.6	12.6	22.8	13.3	19.5	11.6	19.0	13.0	13.8
Europe	23.7	9.2	19.7	9.7	8.9	8.1	6.1	6.3	5.2	8.2
Latin America	15.7	15.4	16.7	22.4	15.5	20.6	24.5	25.5	21.2	24.3
Near East	53.1	60.2	50.3	44.3	45.1	39.2	43.6	43.5	44.0	40.6
Other					4.3			3.7	3.5	3.3
TOTAL	100	100	100	100	100	100	100	100	100	100
<u>NUMBER OF RECIPIENT COUNTRIES</u>										
Africa (46)*	1	2	1	1	4	4	5	1	4	5
Asia (16)*	3	4	3	3	4	2	2	4	4	4
Europe (6)*	2	2	3	3	3	2	1	2	2	2
Latin America (18)*	3	3	4	4	4	5	5	5	3	5
Near East (9)*	6	6	5	5	6	5	6	6	5	7
TOTAL	15	17	16	16	21	18	19	18	18	23
<u>ASHA BUDGET (MILLIONS)</u>	17.5	22.2	19.8	23.75	24.0	25.0	20.0	20.0	20.0	30.0

* Number of countries in each region receiving U.S. Assistance.

22

April 10, 1985

MEMORANDUM FOR ASHA, DAVID A. SANTOS, Director

FROM: RIG/A/W, Reginald Howard (Acting) *RHW*

SUBJECT: Audit Survey of 1985 ASHA Grants Process

Our audit survey of the 1985 applications for grant funds showed that awards were being considered for six institutions even though the Review Panel found these six to be poor candidates and assigned them low scores. We would like to provide you with our survey results of this area, strictly in an advisory role, for your consideration in the award process.

Background

As you are aware, from 1984 to 1985, the number of applicants competing for ASHA's \$30 million budget increased from 59 to 67. The applicants' FY 1985 proposals are valued at \$87.3 million, an increase over 1984 of \$17 million.

Current Funding Options being Considered

We have reviewed the February 21, 1985, action memorandum prepared for the administrator and noted you prepared two funding options. Option one recommends funding all but five of the thirty-nine highest ranked institutions. Option two proposes funding for six additional lower ranked institutions and a reduced level of funding for some of the institutions ranked at the top of the overall listing. Applications for the six candidates are from four institutions in Israel, one in Mexico and one in Italy. The candidates in Israel are ranked 41, 45, 49 and 62 respectively; Mexico 43; and Italy 55. At the present time, the institution in Italy is the only ASHA demonstration project in the country and the applicant in Mexico, ~~is~~ one of two demonstration projects, ~~that~~ has been heavily supported by ASHA for many years.

The four grants for Israel, in addition to the three proposed under Option One will result in a rather large concentration of projects in one country. Also, these grants do not fall within the intent of the program or meet established criteria. In addition to detracting from the overall

effectiveness of the program, funding of these four grants will result in reducing levels of assistance to three highly ranked institutions in important parts of the world. We have reviewed the files for the three institutions that will lose funds under Option Two and the four Israeli institutions that will gain. You may wish to consider the following schedule and comments before final funding approval is made.

<u>Institution</u>	<u>Overall Rank</u>	<u>Option 1 Funding Level Added</u>	<u>Option 2 Change Reduced</u>
PanAmerican Agricultural School, Honduras	1	-	(\$955,000)
Cuttington University College, Liberia	3	-	(500,000)
Ludhiana Christian Medical College, India	11	-	(250,000)
Laniado Hospital, Israel	41	\$500,000	-
Feinberg Graduate School, Israel	45	500,000	-
Gan Yavne Youth Village, Israel	49	150,000	-
American College of Belz, Israel	62	<u>500,000</u>	<u>-</u>
TOTAL		<u>\$1,650,000</u>	<u>\$1,705,000</u>

OPTION 2 FUNDING REDUCTIONS

Escuela Agricola PanAmerican

Requested	\$4,010,000
Option 1	\$2,855,000
Option 2	\$1,900,000

The proposed \$955,000 grant reduction at the Escuela Agricola PanAmerican in Honduras will prevent construction of an Agricultural Development and Education Center which means the project will be delayed a year, and probably cost an additional 16 to 18 percent. Further, the \$225,000 already provided by ASHA for the design phase will be lost without some future funding. Reductions at this time appear to be undesirable given the geographical location of the school and the political situation in the area.

Cuttington University

Requested	\$1,340,000
Option 1	\$1,300,000
Option 2	\$ 800,000

Enrollment at the U.S. affiliated Cuttington University in Liberia has nearly doubled since 1979 creating pressures on classroom and dormitory space and overextending the power, water and sewage system. Reduced ASHA funding at this time will protract the situation. This is the only four year private institution in West Africa serving at least a dozen countries.

Ludhiana Christian Medical College

Requested	\$1,000,000
Option 1	\$ 750,000
Option 2	\$ 500,000

The 1985 grant application submitted by Ludhiana Christian Medical College in India is for construction of a complex of interlocking science buildings to be built in three phases at a total cost of \$1.5 million or \$500,000 per phase. Phase I has already been completed and the institution has requested funds to complete the remaining project consisting of classrooms and laboratories. Reduced funding to the institution at this time without assured subsequent grants will result in a complex that has marginal utility and poorly represents a U.S. image.

Option 2 Funding Increases (all in Israel)

Laniado Hospital

Requested	\$1,500,000
Option 1	\$ 0
Option 2	\$ 500,000

The Laniado Hospital received low scores from the review board because the institution appears to be closely associated with a worldwide religious affiliated group rather than an American sponsor and, consequently, is not a good demonstration model. Further, the hospital in the past has been known to have restrictive religious admission policies.

Feinberg Graduate School

Requested	\$3,000,000
Option 1	\$ 0
Option 2	\$ 500,000

In the past the school has received considerable U.S. assistance, however, with the development of the school, the review panel noted it has become more recognized as an Israeli rather than an American institution.

Gan Yavne Youth Village

Requested	\$ 300,000
Option 1	\$ 0
Option 2	\$ 150,000

The institution is controlled by the Israeli Ministry of Education and Culture where it received 75 percent of its financial support. Government control by the host country normally disqualifies ASHA candidates from receiving funds. Further, the reviewers could not find sufficient evidence in the application that the school would be an effective American demonstration center.

American College of Belz

Requested	\$1,250,000
Option 1	\$ 0
Option 2	\$ 500,000

A new Israel project proposed to expand an existing girls secondary school in a very orthodox area and establish a new two year teacher training institute. Reviewers could not find sufficient information in the application that the school could be established and effectively operated.

The purpose of this memorandum is not to single out any institutions as lacking merit, but to bring to your attention the fact that the review board did not rate these four Israeli institutions as high as some of the others. In spite of the low ratings, ASHA is recommending, under Option 2 that the institutions receive grant funds. While we have not reviewed in detail the basis of the review boards rankings, we believe that deviation as significant as proposed under Option 2 should be formally justified. Congressional guidelines state that not more than a few showcase institutions be established in each country, and the program strive for geographic diversity. Were grants to be awarded all seven Israeli institutions these guides would probably not be met.

We expect to provide you a draft report on this subject, as well as other parts of the program within the next month or two. Formal recommendations will be included in this draft report. Since fiscal year 1985 funding decisions may be concluded before our report is issued I believe you should be advised of the information in this paper. Specifically, I believe that (i) the four low priority applications submitted by the Israeli institutions under Option 2, be reviewed closely to ensure AID requirements are satisfied, (ii) the best applicants receive an appropriate level of funding, and (iii) significant deviation from the ranking panels recommendation be formally justified.

ASSESSMENT OF ASHA FUNDED INSTITUTIONS
VISITED BY
INSPECTOR GENERAL AUDITORS

Visits were made by the audit team to 26 ASHA grantee institutions in eight countries to determine if the goals established for the program were attained. The associated grantees and institution visited received about 49 percent or nearly \$15 million of the \$30 million ASHA budget in 1984 and \$64 million or 53 percent of the budget during the last five years.

The team, when visiting the countries, inspected the institution, and presented a series of questions to students, institution officials, Embassy and AID Mission personnel that were used as a basis for the assessment.

The attached schedule lists the names and countries where the 26 institutions are located and the amount of ASHA grants received between 1975 and 1984. The audit team questioned past benefits to the program, at 16 (see column 2) of the institutions that received over \$14 million (column 3 total) in grants because the intended impact did not appear to have been attained in the country or region. At some of the institutions, particularly in Israel and Greece, the team questioned the benefits to the program because program funds were concentrated in the region where there were already existing demonstration centers.

Column 4 identifies institutions that should be closely evaluated prior to further funding under the program because the benefits were not evident to the team members. We believe formal evaluations are needed at all but two of these institutions to help ASHA management to determine if future grants will provide anticipated program benefits.

Best Available Document

ASSESSMENT OF ASHA FUNDED INSTITUTIONS
VISITED BY INSPECTOR GENERAL AUDITORS

(\$000 OMITTED)

DESCRIPTION	TOTAL GRANTS 1975-1984 (1)	BENEFITS QUESTIONED			BASIS FOR ASSESSMENT (5)
		Past (2)	Amount (3)	Future (4)	
CHINA					
1. Chinese Agricultural University	\$7,380	No	\$ -0-	Yes	Clear past benefits to U.S. Continued large funding was questionable until an evaluation was made to determine future funding levels relative to benefits to U.S.
CUBA					
1. Havana Hotel del Valle	5,250	No	-0-	Yes	Clear past benefits to U.S. Because of terrorist activity, no plaques were posted. ASHA needed to evaluate whether benefits warranted continued funding.
3. Denver Hotel Francisco	1,000	Yes	1,000	Yes	Without a plan for a long-term commitment, the project was questionable and the benefits derived were minimal.
HAWAII					
1. Honolulu Hospital	635	No	-0-	Yes	To foster a more favorable image of the U.S. ASHA should have evaluated the total needs of the complex, including the adjacent clinic.
1. Honolulu St. Croix	150	Yes	150	Yes	Without a plan for a long-term commitment, the project was questionable and the benefits derived were minimal.
1. Honolulu Technical Institute	200	Yes	200	Yes	School was remote and viability depended on one individual. This appeared not to be a good demonstration showcase.

101

ASSESSMENT OF ASHA FUNDED INSTITUTIONS
VISITED BY INSPECTOR GENERAL AUDITORS, (Cont'd.)

(\$000 OMITTED)

<u>SCHOOL DESCRIPTION</u>	<u>TOTAL GRANTS 1975-1984</u> (1)	<u>BENEFITS QUESTIONED</u>			<u>BASIS FOR ASSESSMENT</u> (5)
		<u>Past</u> (2)	<u>Amount</u> (3)	<u>Future</u> (4)	
<u>UNITED STATES</u>					
7. Colington University	\$5,000	No	\$ -0-	No	Good showcase for entire region.
<u>UNITED KINGDOM</u>					
8. Bishop Center of Johns Hopkins	3,020	No	-0-	Yes	The school appeared to be unnecessarily dependent on ASHA for operating funds. An evaluation was needed.
<u>GREECE</u>					
9. American College of Greece	2,625	No	-0-	Yes	Clear past benefits to U.S. As largest American sponsored college in Europe, ASHA assistance may no longer have been needed. An evaluation was necessary.
10. American Farm School	3,820	No	-0-	Yes	Large property holdings and strong financial position required an evaluation to determine whether future ASHA grants would be cost effective.
11. Aristotle college	2,155	Yes	2,155	Yes	ASHA had not coordinated with State and others to identify the demonstrated benefits that would result from two projects in Thessalonica, Greece.
12. Athena college	2,335	Yes	2,335	Yes	The need for a second demonstration project in Athens was questionable. An evaluation was needed to determine the benefits of future grants.

42

ASSESSMENT OF ASHA FUNDED INSTITUTIONS
VISITED BY INSPECTOR GENERAL AUDITORS, (Cont'd.)

(\$000 OMITTED)

INSTITUTION	TOTAL GRANTS 1975-1984 (1)	BENEFITS QUESTIONED			BASIS FOR ASSESSMENT (5)
		Past (2)	Amount (3)	Future (4)	
1. Bar Ilan Graduate School	\$12,650	No	\$ -0-	Yes	Over the last ten years, eleven Israeli institutions received ASHA funding, causing a concentration of grants in that part of the world. This is contrary to Congressional guidance that required geographic distribution so that the program could reach more counties and/or regions. This guidance should have limited future considerations to a few established demonstration projects. Our visits disclosed many ASHA funded institutions were not acting as U.S. demonstration projects.
2. Hebrew Medical	9,150	No	-0-	No	
3. Yehuda Comprehensive School	750	Yes	750	Yes	
4. Herta and Paul Amiria School	150	Yes	150	Yes	
5. Herta and Paul Amiria Vocational High School	500	Yes	500	Yes	
6. Bar Ilan University	1,050	Yes	1,050	Yes	
7. Bar Ilan Institute	850	Yes	850	Yes	
8. Technion College of Technology	250	Yes	250	Yes	
9. Bar Ilan High School	1,150	Yes	1,150	Yes	
10. Bar Ilan University College	795	Yes	795	Yes	
11. Bar Ilan Vocational School	1,000	Yes	1,000	Yes	
12. Bar Ilan College for Women	-0-	No	-0-	Yes	

13

ASSESSMENT OF ASHA FUNDED INSTITUTIONS
VISITED BY INSPECTOR GENERAL AUDITORS, (Cont'd.)

(\$000 OMITTED)

NAME OF INSTITUTION	TOTAL GRANTS 1975-1984 (1)	BENEFITS QUESTIONED			BASIS FOR ASSESSMENT (5)
		Past (2)	Amount (3)	Future (4)	
St. Francis de Davao Univ.	\$ 1,190	Yes	\$1,190	Yes	Many buildings were unfinished or poorly constructed, portraying a bad U.S. image. ASHA needed to evaluate the project and undertake appropriate measures to improve the image.
Trinity College	900	Yes	900	Yes	
TOTAL	<u>\$63,955</u>		<u>\$14,425</u>		Unless ASHA had a plan for a long term commitment, the project was questionable and the benefits derived were minimal.

44

CRITERIA FOR THE AMERICAN SCHOOLS AND
HOSPITALS ABROAD PROGRAM

(From the Federal Register, November 26, 1979)

Preamble

Pursuant to Section 214 of the Foreign Assistance Act of 1961, as amended, grant assistance is made available to selected schools, libraries, and hospitals overseas founded or sponsored by United States citizens and serving as study and demonstration centers for ideas and practices of the United States and as centers for medical education and research. Grants made under this program help such institutions demonstrate to people overseas the achievements of the United States in education and medicine.

In evaluating requests for assistance AID will apply the following criteria:

Criterion 1. The applicant should be a nonprofit U.S. organization which either founded or sponsors the institution for which assistance is sought. Preferably, the applicant should be tax-exempt under Section 501(c)(301) of the Internal Revenue Code of 1954.

The applicant must demonstrate a continuing supportive relationship with the institution. Evidence of this would be the provision of financial and management support for the institution.

Criterion 2. An instruction program must serve the secondary or higher level and must reflect American educational ideas and practice (education at the elementary school level will not be supported).

A school offering a broad-based academic program must include instruction on the history, geography, political science, cultural institutions or economics of the United States. English should be used in instruction or taught as a second language. However, the foregoing subject matter and language requirements need not apply to a school offering a specialized course of study.

Criterion 3. Institutions are expected to reflect favorably upon and to increase understanding of the United States.

Criterion 4. A hospital center, in addition to being a treatment facility, must be involved in medical education and research.

Programs for post graduate training of staff in the United States and programs for the exchange of personnel with American institutions will be regarded as evidence of ability to demonstrate American ideas and practices in medicine.

Criterion 5. The faculty and staff of a school or a hospital center should include a significant number of U.S. citizens or other persons trained in U.S. institutions who are in residence and teaching at the school or hospital center on either a full time or part time basis.

Criterion 6. The majority of the users of any institution, e.g., students or patients, must be citizens other than the U.S.

Criterion 7. An existing institution must demonstrate competence in professional skills and must exhibit sound management and financial practices. An applicant for a new institution must demonstrate the ability to achieve professional competence and to operate in accordance with sound management and financial practices.

Criterion 8. The institution must be open to all persons regardless of race, religion, sex, color or national origin. (The above shall not be construed to require enrollment of students of both sexes at an educational institution enrolling boys or girls only.) Assistance may not be used to train persons for religious pursuits or to construct building or other facilities intended for worship or religious instruction.

Criterion 9. The institution must be located outside the U.S. and should not be under the control or management of a government or any of its agencies. The receipt of financial or other assistance from a government or government agency or the observance of national educational or medical standards required by the country where the institution is located does not in itself mean that the institution is "under the control or management" of such government.

Criterion 10. An applicant requesting capital construction assistance must provide information sufficient to permit a firm estimate of the total cost to the U.S. Government of the construction for which assistance is requested. Such an applicant must also provide information and assurances with respect to rights to the land on which construction is planned.

Criterion 11. To help achieve the objectives of the Foreign Assistance Act and ensure that the American Schools and Hospitals Abroad program is as geographically balanced as possible, special consideration will be given to applications for institutions which increase the geographic distribution of the program and contribute to the economic and social progress of areas that are the focus of AID's development efforts.

ANNEX

MEMORANDUM

TO: B. Reginald Howard, RIG/A/W

FROM: AA/FVA, Walter G. Bollinger (Acting) *W.G.B.*

SUBJECT: Inspector General Report, "American Schools and
Hospitals Abroad Program Can Be Improved"

In accordance with the November 4, 1985 deadline in your memorandum of October 22, we offer the attached comments for inclusion in the final report on the Office of American Schools and Hospitals Abroad.

cc: IG, HBeckington
AIG/A, JDurnil
IG/PPP, JEckman

1985 NOV 14 11 48 57

MANAGEMENT COMMENTS

The Bureau for Food for Peace and Voluntary Assistance and its Office of American Schools and Hospitals Abroad will give careful consideration to the audit report's recommendations. However, implementation is problematical because these recommendations derive from false assumptions, incorrect or misinterpreted information or flawed understanding of the ASHA program, its mandate and the context in which it operates.

BACKGROUND ON THE PROGRAM

In 1979, a new management system for the American Schools and Hospitals Abroad (ASHA) program was put into effect. It was approved by the AID Administrator and the oversight committees of Congress. Among other features, it provides for assessment of grant applications against published criteria by a group of reviewers from within and outside the Agency.

Within the past few years, the management system has been strengthened by a) improving the guidelines used by reviewers in evaluating applications, b) revising the application form (approved by OMB) to elicit additional information from applicants, c) requiring more and larger cost-sharing and matching arrangements with grantees and d) increasing oversight of grantee activities to ensure proper execution of grant-financed activities.

The new management system has been a major agent of change for the ASHA program. It has made possible the identification and selection of the best qualified applicants and has resulted in a significant increase in the program's geographic diversity.

In FY 1985 -- and the situation is similar for prior years -- 60 percent of ASHA's budget assisted those applicants ranked among the top quarter and 30 percent those in the second quarter. Generally, the few additional applicants assisted had to meet more stringent cost-sharing and matching requirements.

Moreover, assistance to institutions in Africa, Asia and Latin America more than doubled. In the case of Africa, the increase has been over 1,500 percent. The following table compares the distribution of ASHA funds during the seven year periods before and after the new management system was put in place.

- 2 -

DISTRIBUTION OF ASHA FUNDS BY REGION
COMPARISON OF PERIODS BEFORE AND AFTER MANAGEMENT IMPROVEMENTS
(In Thousands)

REGION	GRANTED 1972-1978	% OF TOTAL	GRANTED 1979-1985	% OF TOTAL	INCREASE OR DECREASE
Africa	\$ 1,125	1%	\$18,925	11%	+ 1,582%
Asia	14,955	10	28,443	17	+ 92%
Latin America	26,139	18	37,574	22	+ 44%
SUBTOTAL	<u>42,119</u>	<u>29</u>	<u>84,942</u>	<u>50</u>	+ 102%
Europe	23,910	16	11,875	7	- 50%
Near East	79,622	55	72,183	43	- 9%
SUBTOTAL	<u>103,532</u>	<u>71</u>	<u>84,058</u>	<u>50</u>	- 19%
TOTAL	\$145,651	100%	\$169,000	100%	+ 16%

* Based on ASHA dollar appropriations excluding deobligations and funds allocated for program support in the 1970s.

Since 1979, scores of ASHA-financed projects have been undertaken in every region of the world. They are among the most cost-effective undertakings financed by the U.S. Government because they are carried out by officials of private institutions who must stretch resources as far as possible. These activities are strengthening U.S.-sponsored institutions which annually educate more than 135,000 students from over 100 countries and provide medical services each year to more than three million persons.

COMMENTS ON THE AUDIT

Because of the limitation of time and for the sake of brevity we have chosen not to make a point-by-point rebuttal. The following are among the serious inadequacies of this audit.

1. The audit report does not take into account the fundamental distinction between project assistance carried out under the Agency's bilateral assistance programs and ASHA's annual competitive grant program which responds to proposals from established institutions. As a result, many of the recommendations regarding defining of goals and objectives, devising long-term strategies and undertaking evaluations are inappropriate. Congress has defined the objectives of the ASHA program in Section 214 of the Foreign Assistance Act; applicant institutions define their own objectives and devise strategies for achieving them. It is the role of ASHA to determine where there is a congruence of objectives as well as feasible strategies.

2. The report criticizes ASHA for making grants to applicants that did not "fully meet all the qualifying criteria". Certainly, no applicant can be expected to meet every criterion perfectly. An applicant's overall ranking is based on the degree, relative to other applicants, to which it meets the criteria.

3. The audit states that its base period is 1980-1984. In fact, it draws on events back to 1972. Since the program's management changed substantially in 1979, the auditor's practice of including pre-1979 data to draw conclusions about current circumstances is unwarranted and misleading.

Five of the 26 institutions visited by the auditors received no grants after 1978. For example, the ITRI Torah Research Institute which the audit cites was last funded in 1976. The very problems cited in the report were brought to ASHA's attention by the American Embassy in Israel in the early 1980s. ASHA in turn brought the matter to the attention of the Office of the Inspector General and suggested an investigation. The Inspector General's office took no action. In this context, we find it ironic for this 1976 grant to be used to discredit contemporary activities.

4. The audit report states that 19 institutions visited by the auditors received \$61 million or 53 percent of ASHA's budget during the 1980-1984 base period. The correct figures are \$38.7 million and 34 percent of the budget for 20 institutions. The report also states that in 1984 these institutions received "about 49 percent or nearly \$15 million of the \$30 million of the ASHA budget". The correct figures are 31 percent and \$9.2 million.

5. The section of the audit report entitled "Eleven Point Criteria" is misleading. Since the institutions are not named, the reader is led to believe that different grants and amounts comprise the totals given for each of the four criteria discussed. However, discussions with the auditors indicate that the same four grantees and grant amounts have been incorporated 12 times in four totals. One grantee is incorporated twice, two thrice and one four times.

6. Under the heading "ASHA Did Not Evaluate Grants", in the two examples given, the report alleges that ASHA was unaware of certain facts which could have been known only through formal evaluations and that these facts would have affected the subsequent granting of funds. In reality, these facts and more were fully known to ASHA.

In the case of an agricultural school in Greece, the report claims that land owned by the school could have been sold for development, obviating further grants. In fact, the land had been declared a "green area" by Greek authorities, prohibiting its development. The audit also alleges that ASHA was unaware of income and pledges from a fund-raising campaign. That campaign was undertaken at the urging of ASHA to match ASHA funds for capital development and to enlarge the school's endowment. ASHA was well aware of its success.

The audit report does not adequately recognize ASHA's on-going process of evaluation. This process begins with the assessment of applications by reviewers and includes site visits and frequent meetings with grantee officials. This approach provides the opportunity to explore and discuss problems as well as to assess the effectiveness of institutions and projects. It is supplemented by special evaluations when necessary, for example, those recently financed by ASHA and an AID Mission to assess an ASHA recipient in Central America.

7. The section of the audit report dealing with conversion of dollars to local currencies alleges waste of \$7.5 million due to grantees' obtaining local currencies in excess of project requirements as a result of the strong dollar. However, the methodology used in arriving at the \$7.5 million is faulty. It does not take into account that currencies fluctuate frequently and that conversions are not made only at the beginning and end of a year as assumed by the auditors. It also does not take into consideration host-country inflation, that grant funds could only be used for stated purposes and that those purposes were carried out by grantee contractors under local-currency-denoted contracts approved by ASHA. In those cases when local currencies exceeded what was needed, grantees requested the use of the funds for project related purposes, as they are required to do under grant agreements.

52

List of Recommendations

	<u>Page</u>
<u>Recommendation No. 1</u>	5
<p>We recommend that, in order to manage ASHA on a program rather than a grant selection basis, the Assistant Administrator for Food for Peace and Voluntary Assistance require the Director, ASHA to:</p>	
<p>a. prepare a policy paper that clearly sets forth program goals and objectives as they relate to the intent of the legislation and that the paper be made available to all prospective grantees;</p>	
<p>b. further encourage applicants to more fully meet the eleven point criteria by requiring each grantee to include, as a part of the application, an impact statement that shows the extent and manner program goals and objectives will be achieved;</p>	
<p>c. determine the extent goals are realized, in part, by requiring the grantee to report on the extent to which the goals have been achieved within one year following final disbursement of grant funds, and</p>	
<p>d. better assess and verify the accomplishments of objectives by supplementing the Agency's annual competitive evaluation of applications and grantee quarterly project reporting with selective post-evaluations.</p>	
<u>Recommendation No. 2</u>	6
<p>We recommend the Director, ASHA, instruct the review panel to closely review applications and award grants only to grantees that fully comply with the 11 point criteria, specifically concentrating on the key criteria addressed in this report, i.e.,</p>	
<p>-- bonafide grantees that actively participate in managing the overseas institutions,</p>	

- institutions that reflect American educational ideas and practices,
- institutions that increase understanding of the United States, and
- institutions that have significant numbers of faculty that are United States trained.

Recommendation No. 3

20

We recommend the Director, ASHA:

- a. establish a dialogue with the Department of State and within AID identify opportunities for greater geographic distribution, and then prepare a formal long-term (3-5 years) strategy paper. This paper should specifically relate to goals and objectives for the program, including the distribution of funds and numbers of projects by area,
- b. solicit from the Department of State's Office of Overseas Schools, Embassies and AID Missions information on potential and ongoing demonstration institutions and consider such information during the selection process, and
- c. improve the selection process by placing more emphasis on geographical distribution (11th point of ASHA's selection criteria) and assigning this criteria a higher maximum score.

Recommendation No. 4

27

We recommend ASHA, in coordination with the Office of General Counsel, Office of Financial Management and Office of Contract Management, modify the grant agreements to provide for the use of local currency budgets to monitor and control grant related local currency expenditures.

Report Distribution

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RIG/A/Manila	1
RIG/A/Cairo	5
RIG/A/Dakar	1
RIG/A/Tegucigalpa	1
IG/PPP	1
IG/II	1
IG/EMS/C&R	16

55