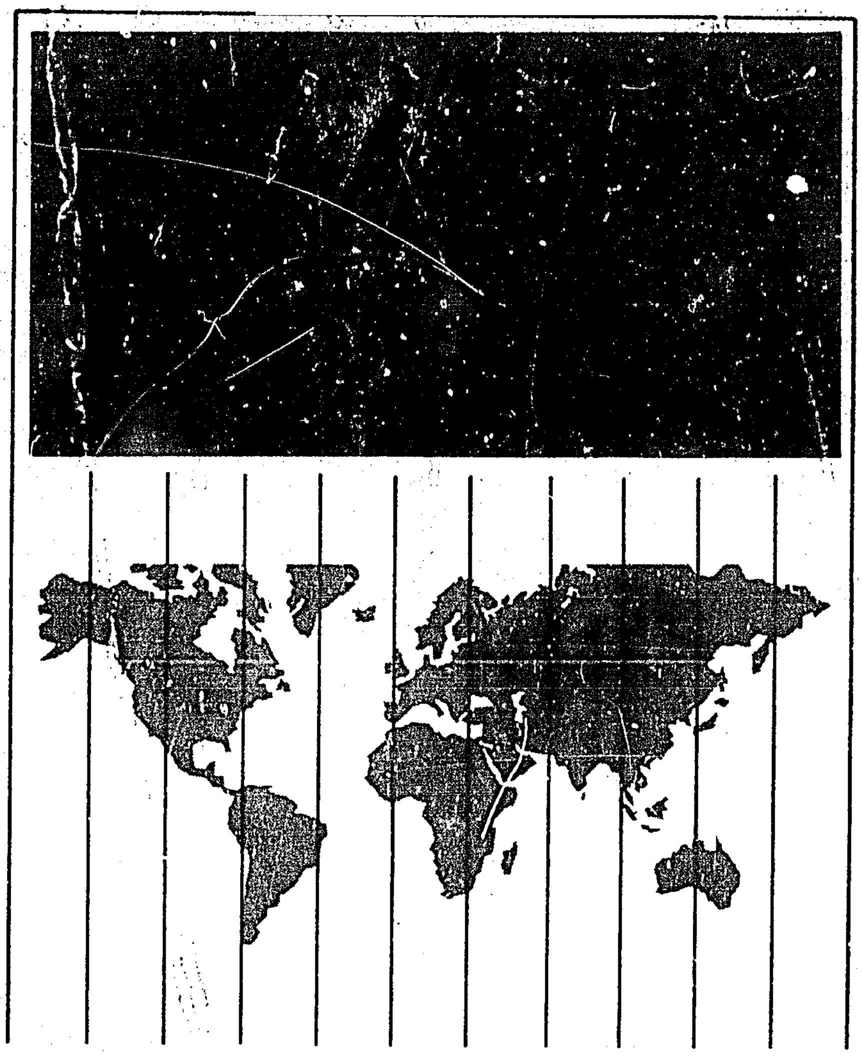
UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE INSPECTOR GENERAL



Office of

PROGRAMS AND SYSTEMS AUDITS

PDAAV-091

AUDIT OF
COST SHARING/MATCHING GRANTS WITH
PRIVATE AND VOLUNTARY ORGANIZATIONS

AUDIT REPORT NO. 9-000-87-3

MARCH 23, 1987

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

Deputy
Inspector General

March 23, 1987

MEMORANDUM FOR AA/FVA, Walter G. Bollinger

FROM: D/IG, James B. Durnil

SUBJECT: Audit of Cost Sharing/Matching Grants with Private Voluntary Organizations

This report presents the results of our audit of selected aspects of A.I.D.'s cost sharing and matching program with Private and Voluntary Organizations (PVOs). The objective of our review was to determine whether PVOs were complying with their agreed upon cost sharing responsibilities and whether A.I.D. management controls were sufficient to ensure such compliance.

The audit showed that grantees had not shared in program costs as agreed and program funds were expended for purposes not within the scope of their grants. To correct these deficiencies the report contains four recommendations requiring the establishment of an effective monitoring effort by the Office of Private and Voluntary Cooperation. This coupled with timely corrective initiatives on their part should preclude recurrence of the reported problems.

Written comments provided to the draft report were carefully considered. Changes were made to the report where appropriate. Comments addressing report content, conclusions, and recommendations are attached as Appendix 1 to the report.

Please advise me within 30 days of any additional action taken or planned to clear the recommendations. Thank you for the courtesies extended my staff during the audit.

EXECUTIVE SUMMARY

The developmental assistance goals of Private and Voluntary Organizations (PVOs) in many ways reflect those of A.I.D. These shared goals form a basis for A.I.D. to provide limited funding, when appropriate, to PVOs meeting A.I.D.'s registration criteria. The Office of Private and Voluntary Cooperation within the Bureau for Food and Voluntary Assistance (FVA/PVC) manages A.I.D.'s program for providing such funding to the PVO community. When a registered PVO submits a proposal showing that it will contribute private funds toward a program that furthers A.I.D. objectives, FVA/PVC, on a competitive basis, will grant them partial funding depending upon the availability of A.I.D. resources. In this process, referred to as a cost sharing grant or agreement, the PVO share represents a degree of commitment on its part towards the A.I.D./PVO program. At the time of our review, FVA/PVC was managing a grant portfolio valued at approximately $107 million.

The objective of the audit was to determine whether PVOs were appropriately sharing in the costs of the A.I.D./PVO program and whether management controls were sufficient to ensure such sharing. The Agency's cost sharing program has had a significant and positive developmental impact in the developing world. This impact might have been increased if grantees had shared in program costs as agreed. However, grantees were contributing significantly less than was expected under grant provisions and without A.I.D. management awareness.

Although grantees were contributing non-federal funds, these and A.I.D. funds were used, in some instances, for purposes not within the scope of the grant. For example, one grantee was to use program resources to provide, through their own volunteers, technical assistance and training to host organizations. However, at least $170,000 in program resources went directly to host organizations but not in the form of technical assistance. Program expenditures included 17 round trip airfares to Honduras for a project tour by the host organizations' board members and a truck purchase. Most of the $170,000 went directly back to the original host organization "contributor" as a direct transfer of funds to their projects--not the A.I.D./grantee intended program.

Other PVOs had received A.I.D. funding but were significantly behind in providing their non-Federal share of program funding. For instance, one grantee was required to have provided $380,000 in non-Federal cash contributions by the end of the grant's first year. After disallowing certain

grantee expenditures involving fund-raising (specifically disallowed by Office of Management and Budget Circular A-122) and involving the Peoples Republic of China, we estimated their first year cost sharing contribution to be approximately $280,000 short of the required contribution. Another PVO could not support approximately 80 percent of the cost sharing claims reviewed.

Still another PVO did not have a plan for spending A.I.D.-provided resources during the funding period for which they were provided. That PVO had a plan for merely committing these funds. Consequently, developmental assistance funds sat idle for periods of up to four years after obligation. Further, FVA/PVC authorized additional funding of this PVO even though approximately $1.4 million remained unspent. PVOs were also submitting late or inaccurate financial reports to A.I.D. One grantee had been submitting significantly inaccurate data for at least two years without questioning from A.I.D. The audit showed this grantee had improperly used $169,000 of A.I.D. funds for its own operating expenses.

These situations are related to the extent of FVA/PVC's monitoring efforts. FVA/PVC needed to establish procedures that will ensure effective PVO program management and monitoring and that will ensure appropriate corrective action when grant terms and conditions are not met. Guidance to grantees also needed to be strengthened.

Taking action with respect to the problems noted in this review would allow approximately $2.5 million to be put to better use or allow its return to the Treasury. An effective monitoring effort established by FVA/PVC will go a long way in correcting these problems and in providing increased impact in the developing world.

Office of the Inspector General

AUDIT OF
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PRIVATE AND VOLUNTARY ORGANIZATIONS

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PART I - INTRODUCTION

A. Background

Private and Voluntary Organizations (PVOs) perform an important and much needed function of assistance throughout the world. They are defined by A.I.D. as non-profit organizations which receive some portion of their annual revenue from the private sector (demonstrating their private nature) and which receive voluntary contributions of money, staff time or in-kind support from the general public (demonstrating their voluntary nature).

A.I.D. and the PVO community share fundamental objectives:

- helping people of less developed countries develop skills and abilities to solve their own problems and

- developing democratic institutions which help these people to achieve control over their lives and to take responsibility for their own development.

These shared objectives form a conceptual basis for A.I.D. to provide financial assistance, when possible, to PVOs meeting A.I.D. criteria. The Office of Private and Voluntary Cooperation within the Bureau for Food and Voluntary Assistance (FVA/PVC) facilitates and manages A.I.D.'s program for providing such assistance to a selected portion of the PVO community. Those PVOs registered with FVA/PVC may submit program/project proposals requesting partial A.I.D. funding through cost sharing/matching grants or cooperative agreements.

FVA/PVC had at the time of our review a portfolio of approximately 53 grants with "life of project" (LOP) A.I.D. contributions totaling over $95 million. Most grants were awarded for a three-year period with one-third of the LOP A.I.D. funding provided each year. The annual PVO cost sharing grant program centrally funded by FVA/PVC is approximately $30 million.

Cost sharing/matching grants support PVO field-oriented programs designed to be executed in a number of A.I.D. assisted countries (Exhibit 1). The cost sharing/matching grant will normally allow a PVO to expand its program to new places and initiate new projects. Such a grant demonstrates a degree of PVO commitment toward A.I.D.-shared goals by virtue of the PVO's contributions towards those goals.

Cost sharing/matching grants provide A.I.D. funds for up to 50 percent of the approved program's costs and are awarded to PVOs which:

- have proven experience in the sector and activities proposed for support (track record) and

- can raise the necessary private resources to meet or exceed A.I.D.'s cost sharing/matching requirement.

FVA/PVC stated their preference was for a cash cost sharing or matching 1/ grant. Generally, the level of A.I.D. support will not exceed 50 percent of the estimated total cash costs of the program. Cash was preferred because it is easier to value the grantee's contribution and it may be easier to estimate expected program outputs when cash inputs are known. In other words, A.I.D. could expect that, at a certain level of funding (cash from A.I.D. and the grantee), the grantee program/project will produce a certain level of results (developmental impact). Preference should be given to PVOs that propose programs in line with A.I.D.'s priorities and that can at least match each A.I.D. dollar with a dollar from a non-Federal source.

A cost sharing agreement must be clear about responsibilities and expected results, otherwise questions as to enforceability will arise. To increase the likelihood that expected results are achieved, it is important that agreed upon contributions are made. Grantee contributions should, therefore, be monitored by FVA/PVC program officers and corrective action taken when grantees fail to make required contributions or otherwise fail to live up to their agreed upon responsibilities.

B. Audit Objectives and Scope

The objective of this audit was to evaluate whether A.I.D. management controls were sufficient to ensure Private and Voluntary Organization (PVO) compliance with their agreed upon cost sharing responsibilities. The objective was accomplished by determining if:

1/ The distinction between a matching and cost sharing grant is minor. Therefore, throughout this report we will generally use "cash sharing" as a generic term describing any cost sharing arrangement to include "matching."

- Agency guidelines and regulations were adequate for monitoring and managing cost sharing/matching agreements,

- grantees were complying with the terms and conditions of their agreements,

- A.I.D. maintained sufficient documentation substantiating grantee contributions,

- A.I.D. demanded full value for in-kind contributions, and

- appropriate action was taken by A.I.D. when recipients failed to comply with cost sharing requirements.

Audit effort was limited to the centrally funded PVO grant program managed by the Office of Private and Voluntary Cooperation located in the Bureau for Food for Peace and Voluntary Assistance (FVA/PVC). FVA/PVC was managing approximately 53 grants it had funded for a total of over $95 million. Audit work concentrated on six grants (see Exhibit 2) initially valued at $31 million and included review of grant agreements and associated files. Also project officers, supervisors and management personnel were interviewed. Additionally, five PVOs were visited. The audit was conducted in accordance with generally accepted Government auditing standards.

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PART II - RESULTS OF AUDIT

Management controls within A.I.D.'s Office of Private and Voluntary Cooperation were not sufficient to ensure Private and Voluntary Organization (PVO) compliance with their agreed upon cost sharing responsibilities. Grantees were not making their required contributions and some in-kind contributions were overvalued or were not verifiable. Action was not taken by A.I.D. when recipients failed to fulfill their cost sharing obligations. Prior to the review, there were no written procedures for program officers regarding the monitoring of PVO cost sharing. Further, program officers did not have sufficient documentation available to substantiate grantee contributions.

To further the effectiveness of A.I.D.'s centrally funded PVO cost sharing programs and to assure A.I.D. of the developmental impact it expects from such programs, we are recommending that the Assistant Administrator of the Bureau for Food and Voluntary Assistance formalize or revise policy and procedures for the Office of Private and Voluntary Cooperation regarding management and monitoring of its cost sharing programs. Policy guidance should clarify program officer, PVO, and subrecipient responsibilities to ensure cost sharing compliance and to facilitate compliance monitoring via reporting, site visits, audits, and other appropriate means. We are also recommending that the Assistant Administrator of the Bureau for Management take specific action to facilitate monitoring by FVA/PVC program officers, as discussed in Section B of this report.

A. Finding and Recommendations

Cost Sharing, Monitoring, and Management

A.I.D. policy and grant provisions require certain Private and Voluntary Organizations (PVOs) to make specific contributions from non-federal sources towards the total cost of an A.I.D. approved PVO cost sharing program. Monitoring and management of PVO cost sharing and verification that PVOs are meeting their cost sharing requirements are the responsibilities of the cognizant program office; i.e., the Office of Private and Voluntary Cooperation within the Bureau for Food and Voluntary Assistance (FVA/PVC). However, FVA/PVC program officers were not adequately carrying out verification and monitoring responsibilities because FVA had not established appropriate procedures or management controls. Consequently, program officers were unaware that some grantees were (i) using program resources for purposes that were outside the scope of the grant, (ii) not meeting their cost sharing obligations, (iii) submitting inaccurate or late reports, (iv) not effectively monitoring utilization of program funds at the subrecipient level, (v) providing program resources to non-A.I.D. assisted countries, or (vi) overstating in-kind contributions. Without the required PVO contributions, developmental expectations may not be achieved. A.I.D. Handbook guidance allows program officers to recommend a reduction of subsequent funding to such PVOs by the amount of their shortfall or to otherwise recommend termination of the funding arrangement. Such action would permit approximately $2.5 million to be reprogrammed in furtherance of development.

Recommendation No. 1

We recommend that the Bureau for Food and Voluntary Assistance clarify program officer responsibilities by providing guidelines regarding the management and monitoring of grantee cost sharing. These guidelines should include requirements for (i) checking grant cost sharing compliance more frequently than annually, (ii) scheduling site visits to PVOs to include testing the integrity of PVO reporting to A.I.D. and that A.I.D. resources are being used as intended, and (iii) initiating corrective action regarding grantees that have not met their cost sharing obligations and/or have used program resources (A.I.D. funds or private funds that have been claimed as cost sharing contributions) for non-program purposes.

Recommendation No. 2

We recommend that the Bureau for Food and Voluntary Assistance request the Director of Procurement to amend and strengthen the current cooperative agreement with PACT. Specifically, FVA/PVC should withhold future funding of PACT subgrants when adequate cost sharing is not provided.

Recommendation No. 3

We recommend that the Bureau for Food and Voluntary Assistance enforce the requirements of Office of Management and Budget Circular A-110 provisions on accounting, audit and records. Specifically, grantee's OMB Circular A-110 audits should:

- determine that the institution has implemented and utilized appropriate financial and administrative systems and controls;

- determine that the institution is in compliance with the uniform administrative requirements of OMB Circular A-110 and OMB Circular A-122;

- determine whether the financial reports submitted to Federal agencies (including financial status reports, cash reports and claims for advances and reimbursements) contain accurate and reliable financial data and are presented in accordance with the terms of applicable agreements and Attachment G of Circular A-110, Financial Reporting Requirements; and

- request that grantee and subgrantee audits include tests of the integrity of the recipient's financial reporting submissions to A.I.D. These audits should be forwarded to FVA/PVC for review.

Recommendation No. 4

We recommend that the Bureau for Food and Voluntary Assistance enforce PVO compliance with the guidelines of Office of Management and Budget Circular A-110 for in-kind contributions and initiate corrective action against those PVOs not in compliance. Also, the Bureau should take action to more closely monitor PVO expenditure rates, and decrease future funding or take action to recover previously provided funds from grantees which accumulate a significant pipeline of unexpended A.I.D. funds.

Discussion

A.I.D. Policy Paper on Private and Voluntary Organizations dated September 1982, endorses the funding of certain PVO programs and sets general implementation guidelines for cost sharing arrangements. Cost sharing/matching is a required contribution by the grantee from non-Federal sources toward the total cost of the A.I.D. approved PVO program. It can be either cash or in-kind and is usually described as a percentage of total costs. In other words, cost sharing represents that portion of program costs not borne by the Federal Government. Program costs are all allowable costs [as set forth in Office of Management and Budget Circular (OMB) A-122 "Cost Principles For Nonprofit Organizations"], incurred by a recipient or subrecipient and the value of the in-kind contributions made by a recipient, subrecipient, or third parties in accomplishing the objectives of the grant or agreement during the program period.

A.I.D. Handbook 13 further defines cost sharing and matching agreements and sets out criteria for determining the allowability of cash and in-kind contributions made by recipients, subrecipients, or third parties in satisfying A.I.D. cost sharing and matching requirements. Cost sharing provisions give some degree of assurance of the grantee's commitment to, what should be, the mutual program objectives intended by A.I.D. and the PVO.

A.I.D. expects that, at a certain level of total funding, a program will produce a certain level of developmental impact. Without these required contributions, anticipated developmental results may not be achieved.

The determination as to the requirement for and the level of cost sharing is the responsibility of cognizant program office. The Office of Private and Voluntary Cooperation in the Bureau for Food and Voluntary Assistance (FVA/PVC) is the office responsible for most of A.I.D.'s centrally funded PVO programs.

Handbook 13 states that cost sharing contributions must be:

- verifiable from the grantee's records;

- not included as contributions for any other Federally assisted programs;

- necessary and reasonable for proper and efficient accomplishment of program objectives;

- charges that would be allowable under OMB Circular, A-122 "Cost Principles for Nonprofit Organizations";

- not paid by the Federal Government under another grant or agreement; and

- provided for in the PVO's approved budget when required by A.I.D.

The Handbook further states that failure to meet the cost sharing requirements shall be considered sufficient cause for terminating the agreement.

Cost Sharing Contributions

We found that cost sharing contributions, when made, did not always satisfy the above Handbook 13 criteria.

Program Resources Used for Non-program Purposes - A.I.D. Handbook 13 requires that cost sharing contributions be "necessary and reasonable for proper and efficient accomplishment of program objectives."

The purpose of A.I.D.'s $2.4 million cost sharing program with International Voluntary Services (IVS) was to provide management and skills training, through IVS personnel to host organizations to improve their capabilities in assisting the rural poor. The grant began July 1, 1985 and A.I.D. provided IVS with $800,000 to fund the program's first year. To earn this money, IVS was required to take in and expend for program purposes non-Federal cash (cost sharing contributions) of approximately $700,000. However, IVS did not always use these resources for the A.I.D./grantee agreed upon program purposes as explained below.

For instance, during the first nine months of the grant one "donor," the La Buena Fe Association (LBFA), "contributed" $78,860 to IVS. After being recorded on the books of IVS, it was almost immediately given back to LBFA for use on LBFA projects in Honduras. At least two other organizations contributed to IVS funds in a similar manner. The total of these "contributions" was at least $170,000 and could possibly be more than $300,000 for the first nine months of this grant.

Additionally, LBFA provided approximately $8,500 which IVS used towards its cost sharing requirement. LBFA required that this be spent for 17 round-trip airfares from Canada and the U.S. to Honduras. We were also told the travelers were members of LBFA's Board of Directors and went to Honduras to observe their projects for ten days in

November 1985. At least four husband and wife pairs were among the seventeen. Another $3000 was provided so IVS could buy LBFA a truck from "Dave's Body Shop" in Missouri.

Notwithstanding the questions which could be raised concerning these expenditures and the "pass-through" funding situation, there is a more pressing issue--that of funding a program which was not contemplated by A.I.D. when it approved the award. Again, the program objective of the IVS grant was stated in terms of providing technical/training assistance through IVS volunteers to host organizations. Every document we reviewed from both IVS and A.I.D. supports this. In fact, the PIO/T "Statement of Work" described the program as one where "IVS contributes only technical assistance and training, and no funds or commodities." Actual practice just discussed clearly did not mirror these intentions.

The FVA/PVC program officer was not aware that funds made available to IVS were being directly distributed to host organizations for projects in Latin America and Africa. The fact that this was happening and that the funds were not being used for the intended program, however, could have been readily determined by a visit to IVS and some questions as to where they were "spending" their available resources.

Audit time constraints permitted review of only a portion of A.I.D./grantee program resource utilization and conditions may be worse than herein reported. However, for those contributions and expenditures reviewed, we estimated IVS would miss its cost sharing requirement at the end of its first year by over $260,000 and would, over the life of this project, miss their mark by over $860,000. We believe this $860,000 should be reprogrammed to better use. Beyond this, IVS received over $90,000 during the first nine months of the grant period from another PVO, "Private Agencies Collaborating Together" (PACT). PACT was virtually totally funded by A.I.D. and any money received from them must be considered as coming from A.I.D. This $90,000 was not matched by IVS. If PACT continues to fund IVS at that rate, an additional $360,000 should be reprogrammed from either the IVS or PACT agreements.

<u>Adequacy of Cost Sharing Contributions</u> - Cost sharing agreements generally specify the minimum cash contribution required of the grantee as its share toward the total cost of the A.I.D./PVO program. Grantees did not always meet these cost sharing requirements. A.I.D.'s grant with the PVO, Volunteers In Technical Assistance (VITA), provides an example.

The purpose of VITA's grant was to strengthen its appropriate technology information collection/dissemination system and related components of its headquarters operation. A.I.D. provided VITA $600,000 for the first year of that grant. For its part, VITA was to receive and expend from non-Federal sources a cash amount of $380,000. At the start of the audit, VITA was prepared to report a cash cost sharing contribution of approximately $50,000 in their first annual report to A.I.D. Later, VITA identified additional first year cost sharing contributions which brought their total share up to $115,000. This amount included $30,000 that VITA received and spent for fundraising efforts in connection with a communications satellite.

Paragraph 19 of Attachment B of OMB Circular A-122 states that fund-raising costs are unallowable; therefore, the costs cannot be counted towards VITA's cost sharing objectives. Also included in VITA's $115,000 figure was another $30,000 which involved seminars on how U.S. businesses could joint-venture with partners in China and which actually involved sending a "volunteer" to China. We believe these contributions should also be disallowed.

FVA/PVC officials, still not satisfied with the amount of VITA's contributions, suggested that VITA include income and losses from their publications operation. VITA obliged and added $110,731 to their cost sharing contribution which consisted of $58,081 publications income and $52,650 in losses. We do not agree that the total $110,731 should be counted as a cost sharing contribution because it was based on a commercial operational expense--a losing operation that VITA's own CPA firm recommended for suspension. We can agree to $52,650 of that amount, since this amount represents private contributions to VITA. However, VITA is still far short of the $380,000 requirement.

Documentation reviewed shows VITA has previously been less than successful at raising sufficient private funds and its dependency upon A.I.D. Effective monitoring includes taking action when indicators call for it. In the above situation the action needed (and supported by grant provisions) is to reduce second year funding by the amount of VITA's shortfall so that these funds can be reprogrammed elsewhere to generate achievable cost sharing results which in turn could generate added developmental impact, which is A.I.D.'s goal. Such action might also provide VITA and other marginal PVOs an incentive to intensify their fund-raising efforts.

Verification of Cost Sharing Contributions - A.I.D. Handbook 13 requires that cost sharing contributions "be verifiable from the recipient's or subrecipient's records." Such verification could not always be made at the PVO--Private Agencies Collaborating Together (PACT). Under its last two agreements A.I.D. would provide $12.5 and $7.5 million respectively to PACT. PACT in turn would act as A.I.D.'s intermediary and issue subgrants to PVO's on much the same basis as A.I.D. would issue direct grants. A.I.D. and PACT intended that cost sharing would be required not necessarily of PACT but of its subgrantees.

PACT's guidelines to prospective subrecipients require proposals to include a budget showing private (matching) cash which they would apply to the proposed program. However, the actual grant agreements between PACT and their subrecipients contain no such cost sharing requirement. Nevertheless, discussions with PACT personnel and documentation we have reviewed leave no doubt that cost sharing was intended and that pro forma cost sharing "certifications" were requested (although infrequently) from their grantees.

A PACT "certification" typically reads:

> The undersigned certifies in the name of (the subrecipient) that it will commit the sum of (US) $_______ during the time period _________ for expenses related to the (Project) described in PACT Grant No. ________.
>
> The undersigned further certifies that the entire amount of these funds comes from sources other than those of the Government of the United States or any of its agencies.

Some of PACT's grantees ignored the PACT request for certification while others would not certify because they had no available unencumbered non-Federal cash that could be claimed as a matching contribution. For example, on April 1, 1986 PACT asked IVS for a "certification" of cost sharing on five IVS projects which PACT had funded with $345,535 (of A.I.D. money) in consideration of the IVS pledge that it would match these funds with $311,460. There was no response from IVS, so on June 9, 1986 we requested PACT to follow-up with a call to IVS. PACT was then told that IVS had no contributions they could certify. This was true based on what we learned previously while at IVS, i.e., that all "contributions" were already being counted towards IVS's direct grant with A.I.D.

Still other of PACT's grantees sent back certifications which could not always be supported. In fact, PACT itself had reported to A.I.D. that, since its founding, it had ". . . successfully managed a Project Fund, which has channeled $35,000,000 of A.I.D. support matched by at least an equivalent amount of non-A.I.D. resources. . . . " When questioned about this figure PACT officials explained that they really only had support (mostly in the form of subrecipient certificates) for half of that amount or about $17.5 million. Of that amount we reviewed PACT matching claims of $8,777,590 and found that only $1,615,688 could adequately be supported as an allowable cost sharing contribution. Reasons for disallowing the other $7 million included the counting of Federal funds as non-Federal resources by subrecipients, and the results of a review we made of certain subrecipient audited statements. These showed that some subrecipients just did not have the non-Federal income to support their apparently exaggerated claims of private matching funds.

In the case of PACT it is too late to require repayment of amounts not matched, however, their current cooperative agreement for $7.5 million can be strengthened. A.I.D. should withhold approval of future funding of PACT subgrants when adequate cost sharing provisions are not made part of those grants or are not effectively monitored and enforced.

Program Monitoring

A.I.D. Handbook 3, Chapter 11, and Supplement A, "Management of Direct AID Contracts, Grants, and Cooperative Agreements," charge A.I.D. project officers with the responsibility for monitoring grantee compliance with grant terms and conditions by requiring the necessary oversight to assure attainment of grant purposes, as well as to safeguard A.I.D.'s interests and investments.

Procedures--At the beginning of our review, an FVA/PVC management official told us there were no written procedures for their program officers regarding monitoring and verification of cost sharing requirements. This was corroborated in our discussion with program officers. For example, one officer said they had ". . . no written guidelines and that if the auditor found out how to monitor the match he should let that person know." We believe there should be formalized procedures which clarify program officer responsibilities and which provide guidelines regarding the management and monitoring of grantee cost sharing requirements.

Site Visits - We believe effective monitoring includes scheduled visits to the grantee to ensure that cost sharing objectives are being met and that cost sharing claims and program expenditures are both verifiable and allowable.

Such visits coupled with an active monitoring effort on the part of FVA/PVC would have disclosed some of the problems previously discussed in this report and would have had a mitigating effect on their extent. Volunteers In Technical Assistance (VITA) provides another example.

The first year of VITA's current grant was nearly over, however, as of April 22, 1986, VITA's controller of two years could not recall a single A.I.D. visit. Further, as of April 24, 1986, FVA/PVC files gave us no indication that a site visit had been made to VITA. (This lack of site visit oversight was also brought to our attention by personnel at one other PVO we visited. They mentioned that we were ". . . A.I.D.'s first representatives to take a close look at cost sharing numbers.")

Monitoring By Grantees - Monitoring responsibilities do not fall only on A.I.D.--grantees too must also constantly assess the technical as well as the financial progression of their projects. This would generally be accomplished through reports, audits and evaluations received from grantee field offices and those received for their subgrantees.

We found, however, that the monitoring performed by grantees could also be improved. For example, personnel at PACT provided us a listing showing they had 50 active subgrantee projects and that for 16 of these, the financial reports were overdue at the time of our visit. The listing also showed 23 subgrantee audits were overdue--some by as much as two and three years. At Lutheran World Relief (LWR), we checked for audits on ten projects valued at $1,016,505. According to a report prepared for us by LWR, audits were overdue for periods ranging up to two years for eight of the ten projects. Additionally, subgrant audits were not on file at IVS. The other two PVOs we reviewed did not have significant subgrant activity and, therefore, subgrant audits were not required.

Audits can be an important monitoring tool if they are performed by independent, certified public accountants, and the auditors are instructed to present an opinion not only on the financial statements of the grantee or subgrantee, but also on their receipt and use of

A.I.D./grantee project related funds. We found that some A.I.D. grantees realized this. For instance, PACT agreements with subgrantees include the following provision:

> "The grantee agrees to provide PACT with (1) annual certified statements covering the period of the grant or (2) a specific audit of the grant expenditures. Furthermore, the grantee agrees to represent clearly the receipt and disbursement of PACT funds in either their financial statements or footnotes thereto. Said footnote, if utilized, should indicate that PACT funds were used for the PACT intended purpose."

The intent here is clear; i.e., the grantor wants to know how its funds were used.

LWR guidelines were more specific:

> "The purpose of independent audits shall be to determine the propriety and necessity of expenditures reported in terms of the purposes for which the funds were made available and the adequacy of the financial management of those funds. . . (This) purpose would be shared with the auditors."

Although PACT and LWR seemed to realize the importance of such audit information, they did not take effective action when they did not get it. Only one of the nine subgrantee audits we reviewed contained information showing that the auditors actually reviewed the A.I.D./Grantee/Subgrantee project. IVS did not have its subgrantee audits on file. Save the Children Foundation and VITA had few if any subgrants and consequently subgrantee audits were not reviewed. For the most part subgrantee audits were not maintained in FVA/PVC files leaving program officers without a potentially valuable monitoring tool.

The only well done subgrantee audit was for an LWR project in Niger. This audit reported problems in financial management and accountability. For example, the auditors could not provide an audit opinion regarding the revolving fund, the warehouses that could not be found, the distribution of agricultural inputs, the accountability for cement and re-rod, etc. We believe more audits like this would lead to significant improvements in the use of grant resources.

<u>Grantee Audits</u>. We also believe the above holds true for audits of A.I.D.'s direct grantees. A.I.D. Handbook 13, paragraph 4 I, Grant Administration, states that:

"An audit may be performed either by the grantee or A.I.D. The purpose of the audit is to determine that the grantee has expended the grant funds in accordance with the terms and conditions of the grant . . . ." (Underscoring added)

We believe the wording of this paragraph could be strengthened by requiring independently certified audits in line with the above stated purpose but also with an added purpose of testing the accuracy and allowability of the grantees claims of cost sharing contributions. These purposes and requirements should be reflected in the grant Standard Provision for "Accounting, Audit, and Records" and that the independent auditor also provide an opinion on the accuracy of grantee's financial reports to A.I.D. in relation to his examination of the grantee's records and their audited statements.

Currently this is not done nor is it required by the Standard Provision. Without this, a grantee's reporting to A.I.D. may bear no relationship to reality. Making matters worse, there would be little chance of detecting the discrepancies by A.I.D. managers.

We discovered such a situation during our review at VITA. The audit of VITA's December 30, 1985, Cash Transaction Report, SF 272, and subsequent corrections thereto, disclosed a difference of over $200,000 between what would have effectively been reported to A.I.D. via the SF 272 and what was VITA's actual cash (i.e. A.I.D. cash) position. This situation had existed for at least 18 months and had not been surfaced by A.I.D. or by VITA's CPA firm during their annual audit and certification process.

Further review showed VITA was financially unsound and had been withdrawing A.I.D. funds on its letter of credit to cover its own non-Government operations. As of July 31, 1986, the amount of A.I.D. cash it should have had on-hand according to a report prepared for us by VITA's CPA was $328,000. However, $169,000 of that amount was not cash on-hand at VITA. It had been used by VITA to fund its non-government operations and, according to VITA, was in the form of "other assets and receivables."

After bringing this situation to the attention of A.I.D. management, action was initiated to recover these funds.

Other Indicators Of Monitoring Efforts - Other indications showing that FVA/PVC program officers were not aware of what was happening regarding their grants and were not effectively monitoring follow:

Evaluations--Two of the five grantees reviewed had evaluations which were overdue. PACT's last evaluation was June, 1982, while LWR's was September, 1982.

Annual Reports--FVA/PVC officials stated that they monitor grantee cost sharing contributions ". . . by reviewing the annual reports submitted by the grantee." At the time of our review, only one annual report of the five grantees reviewed contained sufficient information showing cost sharing requirements may have been met. The reports for three other grantees contained inaccurate and unsupported cost sharing information. For the final grantee, its first annual report was not in FVA/PVC files and had to be sent by the grantee at our request. Further, although that grantee's second annual report had been due in August 1985, it was not finished until May 16 or 17, 1986 when finally requested by the program officer.

Waiting a year or more for an annual report is not effective monitoring. By that time, the PVO generally has spent A.I.D.'s funds and may be significantly behind in their cost sharing. Also, it is not always in the Government's best interest to rely too heavily on statements submitted by a grantee or contractor. Other monitoring methods must also be in force.

Assistance To Non-A.I.D. Countries - Three of the five grantees we visited had expended A.I.D./PVO program resources in countries where such assistance had not been authorized (Exhibit 1 lists A.I.D. assisted countries). VITA, for example, sent a volunteer to the Peoples Republic of China to determine how they might modernize their factories and claimed the cost of the trip as a cost share for grant purposes. In addition, both PACT and Save the Children Foundation (SCF) spent program resources in Colombia and Mexico without A.I.D. approval. PACT also funded a project in the Bahamas without approval.

In-Kind Contributions - In-kind contributions represent the value of noncash contributions provided by the recipient, subrecipient, and non-Federal third parties. The criteria concerning the allowability of in-kind contribution values are the same as for monetary contributions. Briefly, they must be verifiable, necessary, reasonable, in accord with OMB cost principles, and provided for in an approved budget when required by A.I.D.

Two of the grants we reviewed allowed the recipient to fulfill a portion of its cost sharing requirements by counting the value of in-kind contributions.

IVS and VITA were the two grantees and they included their in-kind with cash contributions on line 10-f (non-Federal Share of Outlays) of their Financial Status Report, SF 269, to A.I.D. Unfortunately, because these amounts were not separately identified, FVA/PVC program officials had little basis to question in-kind claims while in their offices.

During our site-visits, however, we noted some problems. A.I.D.'s agreement with IVS permitted IVS to count towards its cost sharing an amount for host-government in-kind contributions. IVS after the first nine months of its grant claimed $62,000 of such contributions. Of this amount, however, over $20,000 was not supported by adequate documentation at IVS.

VITA's agreement allowed value of volunteer time to be counted as a portion of its cost share. After checking volunteer in-kind contributions, the following was noted:

- Volunteer time was being charged as cost sharing contributions to the A.I.D./VITA program grant at rates up to $1,250 per day. We spoke with a volunteer who had claimed this maximum rate and he explained that "When (he) works as a Government consultant (he is) paid something around $200 - $250 per day."

- VITA allowed high volunteer claims when it could be questioned whether the effort was commensurate with those rates, e.g. "Xerox article" at $475 per day rate, or "Literature survey" at $700 per day, or "Library work and thinking" at $400 per day.

- VITA also allowed volunteer claims at rates at least as high as $500 per day even when the volunteer did not comment on what he had done.

- A claim of $103,000 for volunteer time was allowed by VITA on the basis of a one page letter. The writer explained that six people each worked 346 hours and that each person's hourly rate was $50.

  These volunteers worked at the University of Surrey in England on the development of a communications satellite. No resumes for these individuals were on file at VITA.

- One volunteer went to Cameroon to teach a group of seven women how to silkscreen and the A.I.D./VITA program was charged with 47 days at $200 per day. Also claimed and allowed was $1,800 in supplies, dyes, materials, etc. for which the volunteer provided no receipts.

- Another volunteer who already had other business in Costa Rica nevertheless charged his entire time (22 days at $250 per day--not to mention actual costs of $1,336 for per diem etc.) to the A.I.D./VITA program. His objective was to develop tourism projects for VITA. Actual output consisted of a three page paper titled "Tourism Development in Costa Rica." Review of the Country Development Strategy Statements for Costa Rica showed tourism development was not an A.I.D. priority. In addition, tourism development was not mentioned in VITA's proposal to A.I.D.

We believe PVOs, which count in-kind contributions, should be issued guidelines as to what A.I.D. expects regarding verifiability, necessity, reasonableness, and allowability of such contributions. Office of Management and Budget Circular A-110 already covers this issue and should be used by A.I.D. when preparing its own PVO guidelines.

Funding Activity - One additional example showing the need for improved program monitoring and management by FVA/PVC can be demonstrated by the funding activity associated with Lutheran World Relief (LWR).

A.I.D. had fully funded LWR's first grant for $3 million. Four years later, in December 1982 when that grant expired, $1,275,400 in A.I.D. funds were still available to them but had not yet been spent. A.I.D. program officials permitted LWR to continue to use those funds and even provided additional funding on a second grant. Further, in May 1984, FVA/PVC requested "early funding" on the second grant so that LWR, which was already behind by $1,442,700 in its spending (accounting for both grants), could receive its next year's funding of $800,000. The following was taken from FVA/PVC's justification for this early funding request:

"While last year's funding has not yet been fully expended (actually only $69,308 of the first $800,000 had been reported as spent by that date), all LWR funds have been committed so far . . . We feel that LWR merits the criteria for early funding; it is a serious and well administered PVO, its program is based on a solid track record, it is field oriented and has excellent financial and documentation systems, and there is no question of dependency."

LWR does have these attributes, however, these should not be considered criteria for additional, not to mention, early funding. PVO spending activity simply can not be disregarded.

LWR had fully explained to A.I.D. that it was a slow disbursing activity and that it might not spend A.I.D. funds for up to four years after receipt of their authority to spend. LWR even requested A.I.D. to modify its standard grant language to permit LWR's committing of A.I.D. funds rather than actual expenditure during the period for which the funds were made available. This was approved by A.I.D.

All PVOs should be required to have a well considered A.I.D.-approved plan that would effectively, efficiently and appropriately spend the A.I.D. funds during the particular funding period (i.e., that one year period) for which they were provided. To permit PVOs to spend A.I.D. funds two, three, or four years after funds were made available to them decreases A.I.D.'s developmental effectiveness. Development impact would be furthered if those funds, not able to be spent during the funding period, were immediately reprogrammed to other PVOs having viable developmental assistance plans ready now for funding.

The cause of this problem does not rest entirely with FVA/PVC. We found A.I.D. Handbook guidance regarding commitments and expenditures to be conflicting and vague. Handbook 13, Appendix 4 A, illustrates a sample grant cover letter as follows:

"This grant is effective and obligation is made as of the date of this letter and shall apply to <u>commitments</u> made by the Grantee in furtherance of program objectives during the period beginning with the effective date and ending __________. (Underscoring added)

Handbook 13, Appendix 4 B, provides a sample grant schedule and states that:

> "Funds obligated hereunder are available (to the grantee) for program <u>expenditures</u> for the period ______ to ______ (an annual funding period is customary) as shown in the financial plan." (Underscoring added)

These formats for the cover letter and its attached grant are used by FVA/PVC and may cause some degree of confusion to the grantee. The responsible grant officer stated that expenditures must be made by the grantee. Therefore, it must be clarified that expenditures, not merely commitments, must be made in accordance with an A.I.D. approved financial plan or budget <u>during</u> the funding period for which the funds were made available.

<u>Management Comments</u>

The current requirement for monitoring grantee cost sharing on an annual basis is an Agency policy which has been approved by OMB. To require information from the grantee more frequently would similarly require OMB approval. Rather than increasing the frequency of monitoring, we suggest that FVA/PVC monitor cost sharing more stringently.

<u>Office of Inspector General Comments</u>

We disagree with the AA/FVA position on annual monitoring of cost sharing. Grantees are required to report cost sharing quarterly and the information is subject to verification at any time. Further, A-110 states that any recipient who is not financially stable or has management problems, Federal agencies may impose additional standards. Periodically checking or monitoring a grantee to assure cost sharing compliance does not require OMB approval and is not restricted to once a year as stated.

We agree with FVA's proposal to monitor cost sharing more stringently and will request further detail from FVA on how their implementation policy will be carried out.

<u>Management Comments</u>

It is FVA/PVC's policy that project officers should visit PVO headquarters once a year. We adhere to this policy to the extent that travel funds and staff time allow. In FY 1986, at the time of this audit, FVA/PVC experienced significant personnel problems. As a result, there was a gap in assignment of responsibility for some projects in the portfolio because new officers were not yet on board (e.g., VITA).

Office of Inspector General Comments

We agree with FVA/PVC's policy, but found that policy and practice was not one in the same. We acknowledge their personnel difficulties and lack of travel funds, but feel these cannot be used as an excuse for not visiting, during a two-year period, PVOs like VITA, located approximately two blocks from the FVA/PVC office. Further, it is not prudent to continue to fund a portfolio of projects which cannot be managed for the reasons cited by FVA. That portfolio should, therefore, be reduced to a level manageable by FVA.

Management Comments

Analysis in the report reflects an incomplete understanding of the roles played by different A.I.D. officers in grant administration and management. The report assumes that many of the problems identified by the audit could have been prevented with changes in management practices. FVA/PVC management maintains that the problems identified reflect the value of the audit function itself but that this function should not be confused with the appropriate role of the technical office (FVA/PVC) in project management. FVA/PVC project officers cannot verify the integrity of PVO financial reporting to A.I.D. and were never expected to go below the surface to determine if the recipient has complied with the allowability of cost. This is the role of the IG.

Office of Inspector General Comments

We have never suggested that FVA/PVC perform the audit function or do in-depth reviews of PVO finances, however, we do not believe that it is unreasonable to expect tests of PVOs during site visits to determine compliance with agreement terms. If the technical office finds that the PVO is not in compliance or that the documentation is not in order or available during such tests, it is then appropriate to request audit assistance.

FVA/PVC should not limit its management responsibilities to the point where it relies on an annual report from a PVO which may be reluctant to report problems.

Management Comments

Contrary to the IG report's assumption; earlier visits would not have uncovered the problems described. Some of these problems could only have been discovered by a formal audit.

For example, the problem with VITA's cost sharing was not discovered earlier largely due to the grantee's inaccurate financial reports over the past two years. Identification of this issue required, and is a good example of the value of, the audit function performed by IG. FVA/PVC project officers are not trained as auditors; it would be unrealistic to expect them to technically examine all invoices submitted to grantees to determine if they have complied in each case with all provisions concerning availability of costs.

Office of Inspector General Comments

Project officer monitoring for grants is by no means a "hands off" operation. In the above example the technical office, instead of accepting and relying on inaccurate reports for two years, could have visited the PVO and asked one or two questions regarding the figures that were reported. For example, in one report the PVO shows its cash balance on-hand at the end of a period. The project officer could have asked the PVO for proof of the physical whereabouts of this outstanding cash balance of A.I.D. funds. The project officer would have found that the PVO did not have the A.I.D. funds and had spent them on non-Governmental projects.

Regarding allowability of costs, a project officer should be well acquainted with the terms, conditions, and program objectives of the cost sharing instrument. This being the case, the project officer can be expected to make reasonable, even if minimal, checks to determine if program resources are being spent in a manner directly related to the terms, condition and objectives of the grant or agreement.

Management Comments

The requirement for audits external to A.I.D. is derived from OMB Circular A-110. Circular A-110 specifically excludes subrecipients from performing self or external audits. The recipient may audit any subgrant over $10,000 but the subrecipient is not required to audit itself or have an external audit performed.

Office of Inspector General Comments

We disagree with the AA/FVA position that A-110 excludes audits of subrecipients. On the contrary A-110 requires subrecipients to meet the audit requirements of A-110. We did not suggest that subrecipients perform audits but that, when appropriate, independent audits should be requested for those subrecipients who are not financially stable or have management problems.

Management Comments

The requirement for a certification on external audits regarding the reasonableness, allowability, and verifiability of A.I.D./PVO project expenditures exceeds the conditions of OMB Circular A-110.

Office of Inspector General Comments

We agree that such a certification by external auditors is currently beyond the scope of this circular. However, it does state that audits should "... test the fiscal integrity of financial transactions, as well as compliance with the terms and conditions of (their) Federal grants and other agreements...." Requesting that external A-110 audits include testing of an appropriate sampling of grantees financial reporting submissions to A.I.D. does not exceed circular provisions. Such testing may also prevent the kind of inaccurate reporting that was encountered over a two-year period from VITA.

Management Comments

Other problems addressed by the IG report were identified during the course of FVA/PVC's regular monitoring process.

For example,

> "With respect to Lutheran World Relief (LWR), the need for corrective action was identified through the Annual Review of the LWR grant. As a direct result of this Review process, the portion of A.I.D. funds unexpended in their matching grant (PDC-0216-G-SS-3162) was deobligated in FY 1986."

Office of Inspector General Comments

Contrary to the above statement, no unexpended funds from LWR's PDC-0216-G-SS-3162 grant have been deobligated to date. However, we still recommend that any unexpended balance on this grant be reprogrammed to projects which can immediately utilize these funds to further A.I.D.'s developmental assistance goals.

FVA, in FY 1986, did deobligate unexpended funds from LWR's first matching grant (PDC-G-0124) which had expired in 1982.

Management Comment

The five PVOs and six agreements included in this audit are not representative of the FVA/PVC cost sharing portfolio.

As a result, the conclusions drawn from this audit significantly distort the reality of cost sharing in the PVA/PVC portfolio. We also question the accuracy of several statements in the audit.

Eighty-four percent of the agreements (31 of 37) in FVA/PVC's cost sharing portfolio are fully matched by recipients. Of the six agreements reviewed by the auditors, three, representing 70 percent of value audited ($21.8 million of $31 million) are drawn from the remaining six agreements which do not follow FVA/PVC's standard cost sharing guidelines).

Office of Inspector General Comments

At the time of the initial audit entrance conference, the FVA/PVC stated position was that there were problems with cost sharing in their grants. At the same time, the IG representative was provided a "Grant Portfolio" claimed to be a complete listing of FVA/PVC's cost sharing agreements.

Sample items selected for audit from this portfolio were mostly higher dollar grants. The first sample item selected was the single highest dollar amount, an $8 million award to Opportunities Industrialization Centers, Incorporated (OICI). We were immediately told that this item would not be suitable for our review because of its uniqueness. We were told it was a "cooperative agreement" with an accent on "institution building" and was not a standard cost sharing arrangement. We agreed not to include OICI in the audit, but concluded that because the "Grant Portfolio" might consist entirely of unique items, we would have to choose a sample, regardless of the uniqueness encountered. FVA states that the five PVO's we selected for the audit were not representative of the FVA/PVC cost sharing portfolio. Since a sixth PVO (OICI) was also not representative it appears that at least 36 percent of FVA/PVC's effort, at least in dollars, is not representative of their workload.

The audit may have included the only non-representative PVO's, however, because of the percentage of the FVA/PVC effort covered by the review, the audit results are not believed to be inconsistent with reality.

Management Comments

We question the accuracy of several statements in the audit report. FVA's FY 1986 cost-shared grant portfolio has a life-of-project value of $76.9 million, not $95 million as stated in several places in the audit. There are 37 agreements in the cost-shared portfolio, not 53 as stated in the audit. The FY 1986 annual cost-sharing program funded by FVA/PVC was $21.4 million, not $30 million as stated in the audit.

Office of Inspector General Comments

The grant portfolio dated September 1, 1985 and supplied to the IG representative by the Program Division of FVA/PVC contains 52 agreements valued at approximately $93 million. In April 1986, FVA/PVC personnel told us another agreement (IIRR) valued at $2.4 million should also have been included in their portfolio listing. A 54th agreement is the $12.5 million agreement with a PVO (PACT) that had not been fully expended at the time of the review and consequently was included as part of the grant inventory managed by FVA/PVC. Because most agreements were issued on a three year basis we estimated that the annual program managed by FVA/PVC would be approximately one-third of their original portfolio or $30 million.

Management Comments

The conclusion that "$2.5 million could be put to better use" is undocumented. It is not clear which specific costs are questioned in which agreements? Without this data, the accuracy of this statement cannot be determined.

Office of Inspector General Comments

The $2.5 million is a conservative figure relating to only three of the five PVO's reviewed. It represents the amounts by which FVA/PVC has a right to reduce funding to those PVO's. In the case of VITA and IVS a reduction is justified because neither organization met its cost sharing obligation as discussed in this report. The amount of reduction is at least $900,000 for VITA and $1,160,000 for IVS. Approximately $1.5 million of LWR's funding could have been reprogrammed to further A.I.D.'s developmental goal and should not be allowed to remain unspent for lengthy periods. FVA has deobligated about $0.5 million, the amount unspent on LWR's first cost sharing grant which expired in 1982. We recommend that more timely action be taken by FVA regarding the remainder of LWR's unexpended balance.

B. Compliance and Internal Control

Compliance

The audit showed that grantees had not always complied with grant terms regarding cost sharing requirements and did not provide the agreed upon level of non-Federal contributions for program purposes. Also, contrary to grant and A.I.D. Handbook requirements, grantees expended program resources for purposes which were outside the scope of the A.I.D./grantee program and one instance was noted where the grantee had used Federal resources to fund its own (non-Federal) operations. Nothing came to our attention that showed other grantee activity was not in compliance with applicable grant terms and A.I.D. guidance.

PVO Financial Status Reporting - Reporting criteria as detailed in OMB Circular A-110 and grant agreements require complete and timely submissions of the Financial Status Reports. The OMB Circular A-110 states:

> "Federal sponsoring agencies shall require recipients to submit the Financial Status Report . . . no later than 30 days after the end of each specified reporting period for quarterly and semi-annual reports, and 90 days for annual and final reports."

We reviewed 48 SF-269s from 10 PVOs at A.I.D.'s Office of Financial Management, Program Accounting and Finance Division (M/FM/PAD). Of these, 22 reports had been submitted up to three months late and involved 9 of the 10 PVOs. Additionally, one of these PVOs reported, four times, that it had made no contributions. Even though this grant had been in effect since July 1985, there was no indication that M/FM/PAD had taken any action regarding that PVO.

Financial Status Report Clarification - The grantee reports on line "10 f" of the Financial Status Report, SF-269, the non-federal portion of total program expenditures, i.e., his cost sharing contribution. If program officers could obtain added detail from the grantee showing how much of line "10 f" is cash (vs. in kind) they would then have the grantee's cost sharing claim for cash and a basis for reviewing grantee cost sharing data during site visits. To obtain this additional detail and to modify SF-269 reporting, OMB authorization must be requested.

Internal Control

The audit revealed that internal controls for providing effective monitoring of cost sharing within FVA/PVC were inadequate. Program officers in FVA/PVC did not have specific written procedures regarding their monitoring responsibilities.

AUDIT OF
COST SHARING/MATCHING GRANTS WITH
PRIVATE AND VOLUNTARY ORGANIZATIONS

PART III - EXHIBITS AND APPENDICES

18

EXHIBIT 1

A.I.D.-ASSISTED COUNTRIES

Antigua/Barbuda

Bangladesh
Belize
Bolivia
Botswana
Burkina Faso
Burma
Burundi

Cameroon
Cape Verde
Central African Republic
Chad
Cook Islands
Comoros Island
Congo
Costa Rica
Cyprus

Djibouti
Dominica
Dominican Republic

Ecuador
Egypt
El Salvador
Equatorial Guinea

Fiji

Gambia
Gaza
Ghana
Grenada
Guatemala
Guinea
Guinea-Bissau

Haiti
Honduras

India
Indonesia
Israel

Jamaica
Jordan
Jordan West Bank

Kenya
Kiribati

Lebanon
Lesotho
Liberia

Madagascar
Malawi
Mali
Mauritania
Mauritius
Morocco
Mozambique

Nepal
Niger

Oman

Pakistan
Panama
Papua New Guinea
Peru
Philippines
Portugal

Rwanda

Sao Tome & Principe
Senegal
Seychelles
Sierra Leone
Solomon Islands
Somalia
South Africa
(Disadvantaged South Africans)
Spain
St. Kitts/Nevis
St. Lucia
St. Vincent/Grenadines
Sri Lanka
Sudan
Swaziland

Thailand
Togo
Tonga
Tunisia
Turkey
Tuvalu

Uganda
Uruguay

Vanuatu

Western Samoa

Yemen (North)

Zaire
Zambia
Zimbabwe

AUDITED GRANTS AND AGREEMENTS

AID Grant Number	Private & Voluntary Organization Name	$(000) Amount Initially Approved
PDC-0216-G-SS-3162	Lutheran World Relief	$ 2,300
PDC-0260-G-SS-5069	International Voluntary Services	2,400
PDC-0235-G-GS-2150	Private Agencies Collaborating Together	12,500
PDC-0264-A-00-5057	Private Agencies Collaborating Together	7,500
PDC-0200-G-SS-3087	Save the Children Federation	4,500
PDC-272-G-SS-5109	Volunteers In Technical Assistance	1,800
	TOTAL	$31,000

11 FEB 1987

MEMORANDUM

TO : IG/PSA, William C. Montoney

FROM : AA/FVA, Julia Chang Bloch

SUBJECT: Draft Audit of Cost Sharing/Matching Grants with Private and Voluntary Organizations -- Audit Report No. 9-000-87-

We appreciate the opportunity to comment on the above draft audit report. It focuses on an important aspect of project management and contains recommendations we endorse. We seriously question, however, the report's analysis which significantly understates the magnitude of cost-sharing leveraged by the FVA/PVC portfolio, due in large part to the unrepresentative sample of the portfolio reviewed by the audit. We also are concerned that the analysis reflects an incomplete understanding of the roles played by different AID offices in grant administration and management.

The report assumes that many of the problems identified by the audit could have been prevented with changes in PVC management practices. We maintain that the problems identified reflect the value of the audit function itself but that this function should not be confused with the appropriate role of the technical office in project management.

I am confident that you will agree that the data and analysis presented in this memorandum should be incorporated into the final audit report in order to provide a more comprehensive and accurate discussion of cost-sharing agreements with Private Voluntary Organizations and the division of responsibilities relating thereto.

This response was prepared in coordination with the Office of Procurement.

A. Response to Recommendations

1. Recommendation No. 1

"We recommend that the Bureau for Food and Voluntary Assistance clarify program officer responsibility by providing guidelines regarding the management and monitoring of grantee cost-sharing."

FVA Comment: While FVA/PVC does have general internal guidelines on monitoring cost sharing, as embodied in grant selection guidelines, annual report guidelines and headquarters visit guidelines, we agree that FVA/PVC should formalize these procedures into separate written guidelines on cost-sharing so that all project officers will monitor cost-sharing grants consistently. By the end of March 1987, we expect to issue Bureau program guidance on the general responsibilities associated with formal cost-sharing agreements. A copy of this guidance will be forwarded to the IG at that time. In addition, in providing guidance for FY 1987 obligations as part of the FY 1987 Implementation Plan, we will remind project officers that all PIO/Ts submitted to the Office of Procurement for negotiation of agreements with formal cost-sharing arrangements must reflect these cost-sharing provisions in their budgets and in their annual reporting requirements. We expect to complete our FY 1987 Implementation Plan guidance by the end of February 1987 and will furnish a copy to the IG at that time.

Recommendation No. 1 (i)

"These guidelines should include requirements for (i) checking grant cost sharing compliance more frequently than annually."

FVA Comment: The current requirement for monitoring grantee cost-sharing on an annual basis is an Agency policy which has been approved by OMB. To require information from the grantee more frequently would similarly require OMB approval. Rather than increasing the frequency of monitoring, we suggest that FVA/PVC monitor cost-sharing more stringently.

Currently, FVA/PVC requires grantees to submit cost-sharing information as part of their annual (or 18 month) report which is due 6 weeks prior to the end of the reporting period. The timing of this current requirement is not always coordinated with incremental funding decisions and thus may not provide sufficient lead time for corrective action. Therefore, rather than requesting cost-sharing information more frequently, we propose instead to adjust the timing of the information requirement so that cost-sharing data is available to management prior to refunding decisions. To accomplish this, FVA/PVC proposes to require grantees to submit cost-sharing information on an annual basis 2 months prior to the anniversary date for which incremental funding is requested. This will allow sufficient lead time for corrective action in the event the grantee does not meet its agreed goals.

In addition, since the audit, FVA/PVC has strengthened its capacity and procedures for cost-share monitoring. In the latter part of FY 1986, a contract was awarded to Automation Research Systems (ARS) to provide management information and program support services to FVA/PVC. This contract gives FVA/PVC significant additional capability to monitor PVO financial reporting. As a direct result of this new contract, FVA/PVC is now able to use the financial data submitted by PVOs to meet their annual registration requirements to also assist management in assessing a PVO's financial strength. For example, at the time the FY 1987 OYB was established, Technical Reports prepared by ARS were reviewed with each project officer and the Office Director to determine the PVO's capability to match. In three cases, incremental funding was reduced due to the poor financial condition of the PVO. (See Attachment 1, sample Technical Report.)

At the time guidance is issued for obligation of the FY 1987 portfolio, we will remind project officers to include the Technical Report as part of the standard PIO/T documentation. Thus, the Technical Reports also will assist the Office of Procurement in carrying out its role in assessing the financial accountability of potential recipients.

Recommendation No. 1 (ii)

"These guidelines should include requirements for (ii) scheduling site visits to PVOs to include testing the integrity of PVO reporting to AID and that AID resources are being used as intended."

FVA Comment: It is FVA/PVC's policy that project officers should visit PVO headquarters once a year, particularly when the officer's assignment to a PVO relationship is new, when that relationship is undergoing significant changes, or when the project officer is new to PVC. We adhere to this policy to the extent that travel funds and staff time have allowed.

In FY 1986, at the time of this audit, FVA/PVC experienced a significant staff reduction (30 to 22) as well as major turnover in project officer and supervisory staff (4 of 7 project officers and 1 of 3 supervisors were new to the Office). As a result, there was a gap in assignment of responsibility for some projects in the portfolio because the new officer was not yet on board (e.g., VITA); in addition, several of the new project officers had not been in PVC long enough at that time to have visited PVO headquarters. However, annual headquarters visits for all grantees reviewed by this audit were completed prior to the close of FY 1986.

We would add that contrary to the IG Report's assumptions, earlier visits would not have uncovered the problems described. Some of these problems could only have been discovered by a formal audit; others were identified during the course of FVA/PVC's regular monitoring processes.

For example, the problem with VITA's cost-sharing was not discovered earlier largely due to the grantee's inaccurate financial reports over the past 2 years. Identification of this issue required, and is a good example of the value of, the audit function performed by IG. FVA/PVC project officers are not trained as auditors; it would be unrealistic to expect them to technically examine all invoices submitted by grantees to determine if they have complied in each case with all provisions concerning allowability of costs. Once the problem was identified by IG, however, FVA/PVC, with the assistance of SER/FM and SER/OP, took prompt corrective action.

With respect to Lutheran World Relief (LWR), the need for corrective action was identified through the Annual Review of the LWR grant. As a direct result of this Review process, the portion of AID funds unexpended in their matching grant (PDC-0216-G-SS-3162) was deobligated in FY 1986.

To summarize, we are concerned that this recommendation reflects an incomplete understanding of the appropriate roles to be played by the several concerned AID offices in the administration of grant assistance, i.e., the project officer in the technical office (FVA/PVC); the grant officer in the procurement office (SER/OP); and the auditor in the Inspector General's Office (IG). FVA/PVC project officers cannot test the integrity of PVO <u>financial</u> reporting to AID. This is the role of the IG. Project Officers do test the integrity of PVO <u>program</u> reporting to AID, through headquarters and site visits and by reviewing Annual Reports and evaluations. (See FVA comment under Recommendation No. 3.)

<u>Recommendation No. 1 (iii)</u>

"These guidelines should include requirements for (iii) initiating corrective action regarding grantees that have not met their cost-sharing obligations and/or have used program resources for non-program purposes."

FVA Comment: We concur with this recommendation. On several occasions in the past FVA/PVC has reduced the Life of Project contribution to grantees when they were unable to meet their cost sharing commitment or used program resources for non-program purposes. In addition to the VITA and LWR cases mentioned above, other examples include Partnership for Productivity (PfP), World Education (WEI), Project Concern (PCI) and Goodwill Industries (GIA). (See Attachment 2 for examples of corrective action.)

2. Recommendation No. 2

"We recommend that the Bureau for Food and Voluntary Assistance request the Director of Procurement to amend and strengthen the current cooperative agreement with PACT. Specifically, FVA/PVC should be authorized to withhold future funding of PACT subgrants when adequate cost sharing is not provided for. Reprogram funds withheld or return them to the Treasury.

FVA Comment: We concur with this recommendation. We have begun discussions with PACT concerning cost-sharing requirements for PACT subgrants. We expect to forward our recommendations to the Office of Procurement at the end of May 1987 and will furnish a copy to IG at that time.

3. Recommendation No. 3

(i) "We recommend that the Bureau for Food and Voluntary Assistance enforce the requirements of Office of Management and Budget Circular A-110 provisions on accounting, audit and records. Specifically, grantee's OMB Circular A-110 audits should:

- determine that the institution has implemented and utilized appropriate financial and administrative systems and controls;
- determine that the institution is in compliance with the uniform administrative requirements of OMB Circular A-110 and OMB Circular A-122; and
- determine whether the financial reports submitted to Federal agencies (including financial status reports, cash reports and claims for advances and reimbursements) contain accurate and reliable financial data and are presented in accordance with the terms of applicable agreements and Attachment G of Circular A-110, Financial Reporting Requirements."

FVA Comment: We take strong exception to this recommendation. It reflects some confusion regarding the roles played by the various involved offices. Traditionally, the procurement, technical, and audit offices have maintained distinct roles in assistance administration. Handbook 13, Grants, which has been reviewed and approved throughout the Agency, outlines these respective roles and responsibilities as summarized below.

The technical office is responsible for ensuring that the programmatic requirements of the assistance instrument are met. The procurement office is responsible for taking appropriate action when the recipient does not comply with the terms of the assistance instrument. The audit office is responsible for reviewing the recipient's files and records to determine whether the recipient has in fact complied programmatically as well as administratively with the terms of the assistance instrument.

The technical office does review the recipient's invoices to certify that the recipient is complying programmatically with the assistance instrument and to ensure that the funds requested are covered by the assistance instrument. however, the technical office was never expected to perform an audit function in the sense of going below the surface of invoices to determine if the recipient has complied with the allowability of the different types of costs.

Auditing is a very specialized function; neither the technical nor the procurement office has the required expertise to perform on-site review of the recipient's accounts to determine if the recipient has complied with the cost sharing/matching requirements of the assistance instrument. In this regard, the procurement and the technical offices rely specifically upon the valued assistance and expertise of the auditors to verify that recipients are complying with the assistance instrument. The procurement and technical offices normally request the IG to review any recipient that appears not to be conforming to the requirements of the grant.

(ii) "Require grantee and subgrantee audits, if applicable". . .

FVA Comment: The requirement for audits external to AID is derived from OMB Circular A-110. Circular A-110 specifically excludes subrecipients from performing self or external audits. The recipient may audit any subgrant over $10,000 but the subrecipient is not required to audit itself or have an external audit performed.

(iii) "Require grantees to provide a certification on audit report regarding reasonableness, allowability, and verifiability of AID/PVO project expenditures."

FVA Comment: The requirement for a certification on the external audits again exceeds the conditions of OMB Circular A-110. Since this is an audit issue, it should be handled between IG, M/SER/PPE, and OMB as a deviation to OMB Circular A-110.

(iv) "These audits should be forwarded to FVA/PVC for review."

FVA Comment: In 1985, the IG Policy Office and M/SER/PPE agreed that IG would receive a copy of the grantee's audit reports for its review. As stated above, this type of review is outside FVA's expertise. Moreover, the Agency has received only a limited number of these audits to date and therefore lacks experience as to their content and the issues they raise. We believe the Agency should acquire more experience before revising the 1985 decision regarding procedures for review of these audit reports. Therefore, we recommend that this part of the recommendation be deleted.

4. Recommendation No. 4

(i) "We recommend that the Bureau for Food and Voluntary Assistance require that all PVOs comply with the guidelines of Office of Management and Budget Circular A-110 for in-kind contributions". . .

FVA Comment: Currently, the Standard Provisions that are part of every grant contain OMB language on cost-sharing almost verbatim. In November 1985, the provisions on cost-sharing were revised to specifically incorporate the OMB requirements rather than incorporate them only by reference. This recommendation therefore appears superfluous and should be deleted. (See Attachment 3, Cost Sharing (Matching) Provisions from the Standard Provisions.)

(ii) . . ."that they prepare effective, efficient and appropriate plans for spending AID-provided resources during their authorized funding period". . .

FVA Comment: The current FVA/PVC Matching Grant guidelines require recipients to present a detailed description of the program they propose to undertake, a financial plan of the resources required to implement it and implementation plans showing the timeframe in which it will be undertaken. These documents, as modified by FVA/PVC technical review and SER/OP grant negotiations, are incorporated into the grant agreement. Matching Grant guidelines have been approved by OMB (see Attachment 4, Proposal Format). Since the recipients already are required to prepare detailed plans for spending AID resources during their authorized funding period and the guidance to them on this subject has been approved by OMB, this recommendation should be deleted.

(iii) . . ."and to decrease future funding or take action to recover previously provided funds from, grantees which accumulate a significant pipeline of unexpended AID funds."

<u>FVA Comment</u>: As a result of this audit, FVA/PVC is now monitoring recipient pipelines of unexpended AID funds more stringently. In the past, recipients were required to submit a pipeline analysis at the time incremental funding was requested. Two further steps have been added to FVA/PVC management procedures to better monitor recipient pipelines:

(1) A new Mortgage/Pipeline Report has been designed to assist with program monitoring. The Report contains a pipeline analysis of each grant in the FVA/PVC portfolio as reported by FM. It is made available to all staff at the beginning of each fiscal year and updated periodically. (See Attachment 5, Mortgage/Pipeline Worksheet.) This Report was used in establishing PVC's FY 1987 OYB; in two instances, data available from the pipeline analysis provided the basis for revision of earlier decisions to forward fund the grantee.

(2) Since data available from FM through the Agency's computerized tracking system is frequently 6-9 months late, FVA/PVC has initiated a separate expenditure tracking system for its portfolio to keep records more up-to-date. Each project officer is required to record in a central book (the "Red Book") the expenditures reported on PVC invoices forwarded by FM. A separate sheet is maintained in the Red Book on each agreement. (See Financial Status Report, Attachment 6.) At the time guidance is issued for obligations under the FY 1987 Implementation Plan, project officers will be reminded to check the Red Book to determine if any adjustments to planned obligation levels are needed as a result of slow expenditures. As a further safeguard, we also have added pipeline analysis to the overall duties of the officer responsible for checking all budget data prior to submission of PIO/Ts for negotiation.

As a final comment on this portion of the recommendation, we would like to point out that taking action to "recover previously provided funds from grantees which accumulate a significant pipeline of unexpended AID funds" is not always the appropriate first step to take with a grantee when such a problem arises. FVA/PVC, as the project management office, needs the flexibility to determine whether the agreed upon program can be achieved over a longer period of time than the agreement specified and, when this is the case, to request SER/OP to negotiate a no-cost extension to the agreement when this is appropriate.

B. General Comment on Sample Selection

The five PVOs and six agreements included in this audit are not representative of the FVA/PVC cost-sharing portfolio. As a result, the conclusions drawn from this audit significantly distort the reality of cost-sharing in the FVA/PVC portfolio. We also question the accuracy of several statements in the audit.

As the tables in Attachment 7 illustrate, 84 percent of the agreements (31 of 37) in FVA/PVC's cost sharing portfolio are fully matched by recipients. Of the six agreements reviewed by the auditors, three (representing 70 percent of value audited ($21.8 million of $31 million) are drawn from the remaining six agreements which do not follow FVA/PVC's standard cost-sharing guidelines. The sample is further distorted by the fact that of the six agreements audited, two (valued at $19 million) were awarded to a single PVO (PACT) and one of those agreements (valued at $12.5 million) is not part of our current portfolio since it has been fully obligated and expended.

FVA's FY 1986 cost-shared grant portfolio had a life-of-project value of $76.9 million, not $95 million as stated in several places in the audit (pp i, iv, 2, 5). There are 37 agreements in the cost-shared portfolio, not 53 as stated in the audit (pp 2 and 5). The FY 1986 annual cost-sharing program funded by FVA/PVC was $21.4 million, not $30 million as stated in the audit (p. 2).

Finally, the conclusion that "$2.5 million could be put to better use" (p. iv and p. 10) is undocumented. It is not clear which specific costs are questioned in which agreements? Without this data, the accuracy of this statement cannot be determined.

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D.C. 20523

January 21, 1987

MEMORANDUM

TO : IG/PSA, William C. Montoney

FROM : FM/C, Curtis W. Christensen

SUBJECT : Audit of Cost Sharing/Matching Grants With Private and Voluntary Organizations

REFERENCE: Your Memorandum to Mr. Rollis Dated December 24, 1986

Thank you for the opportunity to comment on the draft report of the subject audit. We have limited our comments to the matters discussed in Section C of the draft.

The report identifies a problem with timely submission of financial reports by letter of credit recipients. We have recognized this problem for some time and have taken corrective action to force compliance with reporting due dates. This action consist mainly of rejecting drawdown request when financial reports have not been received within a reasonable time period. We have found this procedure to be an effective method of enforcing reporting requirements. We have instructed our staff in FM/PAFD to tighten-up on this procedure to ensure that we are not advancing new funds to any recipient that is late submitting their reports.

We are also reviewing our voucher examination procedures to determine what action we should take to monitor grantee contributions. We will make the appropriate changes indicated by this review.

The report suggest that the FVA/PVC program officer be put on distribution for a copy of the SF-269. The program officer already receives a copy of the SF-269 for administrative approval of the grantee's expenditures. Therefore, there is no need to change the SF-269 distribution.

We agree with your suggested modification of line 10f of the SF-269. We will initiate action with the appropriate AID office to request OMB authorization.

Please call Sandy Owens on 632-0066 if you have any questions about our comments.

LIST OF RECOMMENDATIONS

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Recommendation No. 1 5

We recommend that the Bureau for Food and Voluntary Assistance clarify program officer responsibilities by providing guidelines regarding the management and monitoring of grantee cost sharing. These guidelines should include requirements for (i) checking grant cost sharing compliance more frequently than annually, (ii) scheduling site visits to PVOs to include testing the integrity of PVO reporting to A.I.D. and that A.I.D. resources are being used as intended, and (iii) initiating corrective action regarding grantees that have not met their cost sharing obligations and/or have used program resources (A.I.D. funds or private funds that have been claimed as cost sharing contributions) for non-program purposes.

Recommendation No. 2 6

We recommend that the Bureau for Food and Voluntary Assistance request the Director of Procurement to amend and strengthen the current cooperative agreement with PACT. Specifically, FVA/PVC should withhold future funding of PACT subgrants when adequate cost sharing is not provided.

Recommendation No. 3 6

We recommend that the Bureau for Food and Voluntary Assistance enforce the requirements of Office of Management and Budget Circular A-110 provisions on accounting, audit and records. Specifically, grantee's OMB Circular A-110 audits should:

- determine that the institution has implemented and utilized appropriate financial and administrative systems and controls;

- determine that the institution is in compliance with the uniform administrative requirements of OMB Circular A-110 and OMB Circular A-122; and

LIST OF RECOMMENDATIONS

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Recommendation No. 3 (Cont)

- determine whether the financial reports submitted to Federal agencies (including financial status reports, cash reports and claims for advances and reimbursements) contain accurate and reliable financial data and are presented in accordance with the terms of applicable agreements and Attachment G of Circular A-110, Financial Reporting Requirements, and

- request that grantee and subgrantee audits include tests of the integrity of the recipient's financial reporting submissions to A.I.D. These audits should be forwarded to FVA/PVC for review.

Recommendation No. 4 6

We recommend that the Bureau for Food and Voluntary Assistance enforce PVO compliance with the guidelines of Office of Management and Budget Circular A-110 for in-kind contributions and initiate corrective action against those PVO's not in compliance. Also, the Bureau should take action to more closely monitor PVO expenditure rates, and decrease future funding or take action to recover previously provided funds from grantees which accumulate a significant pipeline of unexpended A.I.D. funds.

APPENDIX 3

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