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United States Department of State  
and the Broadcasting Board of Governors  
Office of Inspector General

# Office of Audits

## Audit of the National Endowment for Democracy for Fiscal Years 2003-05

Report Number AUD/CG-07-33, September 2007

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## SUMMARY

The National Endowment for Democracy Act, as amended, mandates that the Office of Inspector General (OIG) audit the annual financial transactions of the National Endowment for Democracy.<sup>1</sup> OIG reviewed the financial transactions of the Endowment and its four core institutes for FYs 2003-05 to determine whether they accounted for federal funds, had adequate internal controls, and complied with applicable laws, regulations, policies, and terms of grant agreements. The terms of the grant agreements require the core institutes to be aware of the names of individuals and organizations on terrorist databases and make the grant recipient legally responsible for ensuring compliance with the Executive Order 13224.<sup>2</sup>

Because of ongoing congressional interest, OIG focused its review of the core institutes' monitoring of subrecipient grantees on selected grants supported by special funding for democracy programs in Iraq. OIG also determined whether the Endowment fully implemented the recommendations OIG made in its July 2004 audit report.<sup>3</sup>

In general, OIG found that the Endowment adequately accounted for federal funds, complied with applicable criteria, and implemented recommendations made in the July 2004 report. However, the results of OIG's work indicated that the Endowment needs to increase its oversight of the core institutes. OIG found that they had not complied with applicable federal requirements for grant administration. Specifically, the core institutes did not always:

- close grants and return expired funds,
- maintain adequate documentation to support travel costs,
- practice good cash management procedures, and
- properly document the results of their search of the terrorist databases.

As a result, OIG classified \$215,885 as unallowable for expired grant funds not returned to the Endowment and \$208,069 as unsupported because of a lack of adequate documentation for travel costs.

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<sup>1</sup>This audit is mandated under 22 U.S.C. 4413(g).

<sup>2</sup>Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, or Support Terrorism (Sept. 23, 2001, as amended).

<sup>3</sup>*Audit of the National Endowment for Democracy* (AUD/CG-04-39, July 2004).

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OIG also found that one core institute did not comply with its own revised sub-recipient monitoring policies and procedures, which required the use of accounting questionnaires, numerical risk assessments, and invoice verification to determine the grantees' capabilities and to monitor grant performance.

OIG recommendations are intended to have the core institutes (1) return the \$215,885 in expired grant funds to the Endowment and comply with grant closure requirements, (2) provide additional information on the unsupported travel costs totaling \$208,069, (3) minimize cash on hand and limit requests for funds to immediate needs, (4) properly document the results of terrorist database research, and (5) comply with subrecipient policies and procedures. In addition, OIG recommended that the Endowment increase its oversight of the core institutes to ensure corrective action and monitor their compliance with laws and regulations.

OIG conducted an exit conference with Endowment and core institute officials on May 15, 2007, and with Department of State (Department) officials on May 18, 2007. OIG also submitted the draft report for comments to the Endowment and the four core institutes. On July 30, 2007, OIG received combined comments from the Endowment reaffirming its commitment to compliance with the grant terms and conditions and welcoming OIG's recommendations on how to strengthen its robust monitoring of annual grants to over 100 countries. In providing its comments, the Endowment specifically pointed out that corrective action was underway regarding recommendation 1 and that although some travel transactions were not adequately supported, the amount in question concerning recommendation 2 was overstated.

OIG considered the combined written comments of the Endowment and the core institutes on the draft report when preparing the final report and incorporated changes as appropriate and reprinted the comments in their entirety in Appendix E.

## BACKGROUND

The National Endowment for Democracy is a private, nonprofit organization established in 1983 to plan and administer grants that promote the development of democratic values and institutions around the world. The Endowment receives congressional funding through the Department's annual appropriation. The Endowment awards grants to private-sector nonprofit organizations to carry out projects that impact foreign countries. The annual appropriation provides funding for the Endowment's administrative costs and for grants to four core institutes – the American Center for International Labor Solidarity (ACILS), the Center for International Private Enterprise (CIPE), the International Republican Institute (IRI), and the National Democratic Institute for International Affairs (NDI) – as well as to discretionary or optional grantees.

The Endowment also receives special funding to support democratic activities and institutions in Africa, the Balkans, Belarus, Burma, China, Cuba, Iraq, Middle East, North Korea, Russia, Tibet, Ukraine, and Venezuela as well as other countries or regions. Other federal funding includes Department grants awarded primarily for the Endowment's International Forum, World Movement for Democracy program, and Reagan Fascell Fellowships.

During FYs 2003-05, the Endowment received approximately \$282 million in federal awards, including annual appropriations and special funding, and spent about \$246.6 million (87 percent) of the total awards. (See Table 1.)

**Table 1: Endowment Federal Financial Assistance and Expenditures for FYs 2003-05**

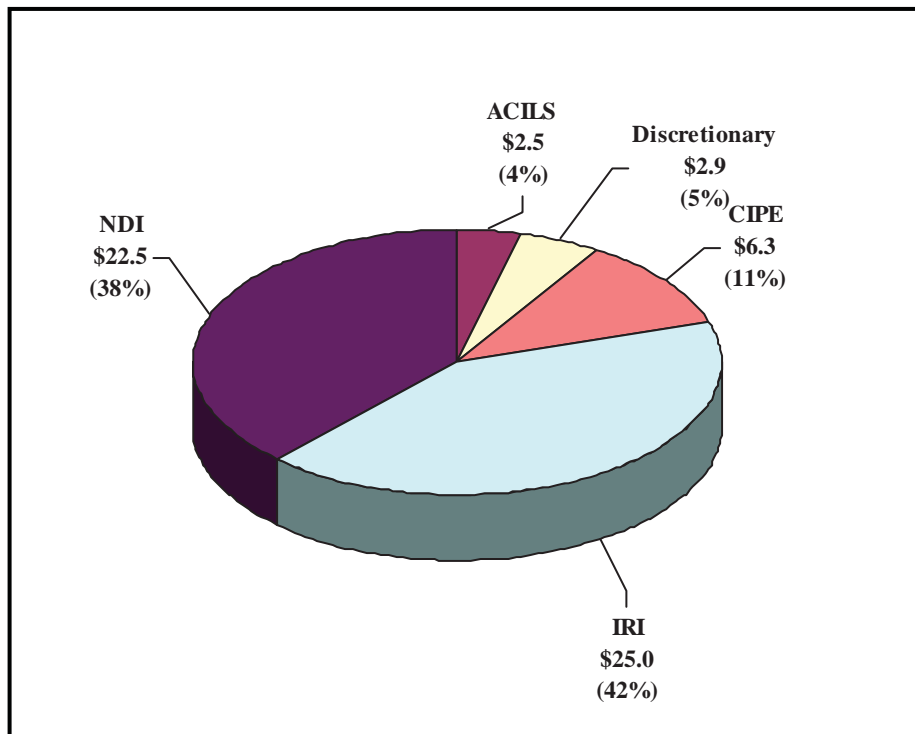
<b>Funding Type</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>Total</b>
Federal Appropriations	\$41,847,330	\$39,579,097	\$59,198,592	<b>\$140,625,019</b>
Special/Other Federal Funding	15,426,105	58,616,950	67,370,194	<b>141,413,249</b>
<b>Total Financial Assistance<sup>a</sup></b>	<b>\$57,273,435</b>	<b>\$98,196,047</b>	<b>\$126,568,786</b>	<b>\$282,038,268</b>
<b>Total Expenditures</b>	<b>\$54,336,315</b>	<b>\$79,253,788</b>	<b>\$113,026,546</b>	<b>\$246,616,649</b>
Expenditures as a Percentage of Revenues	95%	81%	89%	<b>87%</b>

<sup>a</sup> Federal financial assistance is defined in the law as assistance that nonfederal entities (a state, local government, or nonprofit organization) receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, or other assistance. (31 U.S.C. 7501(a)(5)). Source: Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations: Schedule of Expenditures of Federal Awards and Deferred Revenue – Federal Appropriation and Special Funding* for FYs 2003-05.

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Of the \$141.4 million in special funds, the Department awarded the Endowment \$79.5 million for democracy programs in Iraq and the Middle East. In turn, the Endowment awarded 70 grants, totaling \$59.3 million, to its core institutes and discretionary grantees, with IRI and NDI receiving approximately \$47.6 million (80 percent) to support their program operations in Iraq. (See Figure 1.)

**Figure 1: Distribution of Special Funding for Iraqi Programs, FYs 2003-05 (in millions)**



Note: Amounts may not sum owing to rounding.  
Source: Endowment listing of awards for Iraqi Programs for FYs 2003-05.

The Department is responsible for monitoring the Endowment’s annual appropriation and special funding. Effective January 31, 2005, the Under Secretary for Global Affairs assigned the Bureau of Democracy, Human Rights and Labor (DRL) responsibility for providing Endowment program information to other Department offices. The grants officer in the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM) provides financial oversight of Endowment federal funding.

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During this review, OIG contracted with independent certified public accountants (CPA) to perform agreed-upon procedures on indirect cost rates submitted by the Endowment, CIPE, and IRI for the years ended September 30, 2004, and 2005, and NDI for the year ended September 30, 2005. The cognizant agency for ACILS is the U.S. Agency for International Development (USAID); therefore, this core institute was not included in the indirect cost rate reviews.<sup>4</sup> The objective of the agreed-upon procedures was to provide recommended final rates for the stated years for the Department's use in reimbursing costs incurred under awards made to the Endowment and its core institutes. In OIG reports published in December 2006, the CPAs took no exception to the proposed indirect cost rates and recommended that the Department and the Endowment negotiate final rates.<sup>5</sup>

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<sup>4</sup>OMB Circular A-122, Cost Principles for Nonprofit Organizations, provides that the federal agency with the largest dollar value of awards to an organization will be designated as the cognizant agency for the negotiation and approval of the organization's indirect costs rates.

<sup>5</sup>Agreed-Upon Procedures on Indirect Cost Rates Proposed by National Endowment for Democracy (AUD/CG-07-02); . . . International Republican Institute (AUD/CG-07-03); . . . Center for International Private Enterprise, Inc. (AUD/CG-07-04); and . . . National Democratic Institute for International Affairs (AUD/CG-07-05).

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## OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objectives of this audit were to determine whether the Endowment and the core institutes had adequately accounted for federal funds and complied with applicable laws, regulations, policies, and terms of the grant agreements. In addition, OIG reviewed internal controls as part of its review of accounting policies and procedures. OIG also determined whether the Endowment had implemented recommendations contained in OIG's July 2004 report. To determine the adequacy of accounting and compliance with laws, regulations, and terms of the grant agreements, OIG examined Endowment and core institute financial management and subrecipient monitoring policies and procedures. Because of current congressional interest, OIG focused its review of subrecipient monitoring on selected grants supported by special funding for democracy programs in Iraq and awarded between October 1, 2002, and September 30, 2005.

Criteria for this audit included the Code of Federal Regulations, 22 CFR 145, *Grants and Agreements With Institutions of Higher Education, Hospitals and Other Non-Profit Organizations*; the Endowment's Grants Administration and Internal Audit Manuals; and the terms and conditions of the grant agreements.<sup>6</sup> Other guidance used for the audit included the Federal Deposit Insurance Corporation (FDIC) Regulation 2000, Part 330 on insured bank accounts, and Executive Order 13224.

For financial accountability, OIG did not conduct a full financial review of awards to the Endowment and the core institutes. Rather, OIG reviewed and relied on the single audit reports prepared by the independent CPAs for FYs 2003-05. For each of the three years reviewed, the Endowment and its core institutes received an unqualified opinion and had no findings, reportable conditions, or questioned costs. OIG considered the analytical and compliance reviews conducted by the Endowment's internal audit staff and reviewed pertinent financial documents, such as grant agreements, desk reviews of single audit reports, and documentation supporting travel costs.

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<sup>6</sup>OMB Circular A-110, Uniform Administrative Requirements for Grants and Other Agreements With Institutions of Higher Education, Hospitals and Other Non-Profit Organizations (revised 11/19/1993 and further amended 09/30/1999) was relocated to 2 CFR 215 on January 1, 2006, and codified by the Department in 22 CFR 145 on April 1, 2006.

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To assess compliance, OIG reviewed Endowment and core institute policies and procedures and related documentation for monitoring subrecipients awarded federal funds for programs in Iraq. OIG compared revised policies with current procedures and assessed the adequacy and timeliness of required grant documentation. OIG also discussed accountability for federal funds and compliance policies and procedures with officials from the Endowment and the core institutes. Lastly, OIG obtained documentation specific to the prior OIG audit recommendations and discussed implementation of the recommendations with representatives of DRL and A/LM/AQM.

For FYs 2003-05, the Endowment awarded 70 grants, totaling \$59.3 million, to its core institutes and to discretionary grantees for programs in Iraq. Of this number, OIG selected 36 grants, totaling about \$57.5 million for review. To select the grants, OIG stratified the universe; selected all ten grants awarded to the core institutes, totaling about \$56.3 million; and used random sampling to select 26 of the 60 discretionary grants, totaling \$1,143,050.

Of the ten grants provided to the core institutes, 103 subgrants, totaling about \$2.5 million, were awarded to Iraqi organizations. OIG selected 51 subgrants, totaling about \$2.3 million, for review. OIG reviewed all the subgrants for ACILS, CIPE, and IRI (i.e., 4, 19, and 3, respectively) and randomly sampled and reviewed 25 of 77 subgrants for NDI. (The recipients selected for review are identified in Appendices A and B.)

OIG's Office of Audits, Contracts and Grants Division conducted the audit in accordance with government auditing standards. It performed onsite fieldwork at the Endowment and the core institutes in Washington, DC, from April to October 2006. OIG conducted an exit conference with Endowment and core institute officials on May 15, 2007, and with Department officials on May 18, 2007. OIG considered the combined written comments of the Endowment and the core institutes on the draft report when preparing the final report and incorporated changes as appropriate and reprinted the comments in their entirety in Appendix E.

## FINDINGS

In general, OIG found that the Endowment had adequately accounted for federal funds; complied with applicable laws, regulations, policies, and terms of grant agreements; and implemented recommendations contained in OIG's July 2004 report. However, it needs to improve its oversight and monitoring of the core institutes. OIG found that they did not comply in all cases with federal regulations and grant agreements for grant administration and subrecipient monitoring.

Specifically, the core institutes had not closed grants and returned expired funds within the timeframe allowed, had not maintained adequate documentation to support travel costs, had not limited requests for grant payments to the minimum amounts needed, and had not maintained adequate documentation to support their search of the terrorist databases as required by Executive Order 13224. As a result, OIG classified grant funds of \$215,885 as unallowable because the grants had expired and the funds had not been returned to the Endowment. Further, OIG classified funds of \$208,069 as unsupported because of inadequate travel documentation.

### COMPLIANCE WITH FEDERAL REQUIREMENTS FOR GRANTS ADMINISTRATION

OIG found that the core institutes did not comply with 22 CFR 145, Executive Order 13224, and the terms of grant agreements for closing grants and returning expired funds to the grantor; maintaining adequate documentation to support grant costs; limiting requests for cash advances to immediate needs; and researching terrorist databases before awarding grants to Iraqi subrecipients. OIG's review of the audit work performed by independent CPAs disclosed that the single audits of the core institutes for FYs 2003-05 had no material findings and these organizations were low-risk grantees.

#### Grant Closure

The four core institutes did not comply with federal regulations and the terms of the awards for closing grants. Subpart D of 22 CFR 145, After-the-Award Requirements, Section 71, Closeout Procedures, requires recipients to close grants

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within 90 days of the grant expiration date, liquidate all obligations incurred under the award not later than 90 days after the funding period or the date of completion as specified in the award and promptly refund any balances of unobligated cash that the federal awarding agency has advanced or paid that is not authorized to be retained for use in other projects.

OIG reviewed the Endowment's internal audit desk reviews of the core institutes' single audit reports for FYs 2003-05. In general, for desk reviews, the audit staff verifies the accuracy of the grant numbers and grant periods, verifies that the grant budget is accurately reported, and identifies significant discrepancies between audited costs, reported costs, and cash advances. Endowment information showed that for the core institutes there were 41 expired but open grants on the books. Of this total, the desk reviews showed that 27 had expired fund balances totaling \$302,039, and that these grants had remained open between six months and four years, nine months after the grant expiration dates. During the course of OIG's review, NDI and IRI refunded \$86,154 of the expired grant funds to the Endowment.

Based on further review of the expired core grants, OIG found that ACILS, NDI, and IRI had charged expenditures totaling \$75,971 against seven grants that had already expired. Although OIG requested accounting information to determine whether any of the expenditures were made within the 90-day timeframe, CIPE did not provide any documentation and IRI, ACILS, and NDI only provided a portion of the documentation. Also, OIG noted that the core institutes had not obtained approval from the Endowment to spend the funds and had not requested an extension of the grant agreement period. As a result, OIG included the expended amounts in the total due to be refunded to the Endowment, which is \$215,885. (Details on the expired grants and the amounts due are in Appendix C.)

Untimely grant closure delays the Endowment's ability to measure the success of its programs. Had the core institutes promptly returned the expired grant funds, the Endowment may have been able to put the funds to better use in other democracy programs. The Endowment needs to seek the return of expired grant funds from the core institutes and to instruct the core institutes to comply with grant closure requirements.

**Recommendation 1:** OIG recommends that (1) the boards of directors of ACILS, CIPE, NDI, and IRI require the core institutes to prepare an action plan to return expired grant funds totaling \$215,885 to the Endowment; comply with regulatory requirements to close grants within 90 days of the grant expiration date; charge incurred expenditures to grants within the 90-day period; return unobligated, unspent funds to the Endowment; and deobligate incurred but expired funds within 90 days of the grant expiration date; and (2) the board of directors of the Endowment instruct the Endowment to oversee corrective action by the core institutes and to monitor their future compliance with regulatory requirements concerning grant closure.

In general, the Endowment's combined comments indicated agreement with the recommendation, reporting that as of July 30, 2007, the core institutes had returned to the Endowment expired grant funds totaling \$206,885, with the remaining \$9,000 subject to review. Further, the Endowment reported that in FY 2007, it revised its closeout policy to require the core institutes to refund unspent grant funds within 90 days of the grant end date. In addition, the Endowment was requiring the core institutes to provide supporting documentation for any costs charged to the grant after the 90-day closeout period.

The above notwithstanding, NDI disagreed with the findings, stating that the funds in question were for costs incurred before the grant end date but processed to the general ledger after the end date of the grant. As noted in this report, and recognized by NDI in its comments, the federal requirement is that all obligations must be liquidated no later than 90 days after the grant end date. In this regard, NDI cited inherent challenges of getting information on expenditures from overseas entities to liquidate obligations within 90 days of the grant end date and expected this to continue. NDI did say, however, that it would work with the Endowment to address this situation.

## Documentation Supporting Travel Costs

IRI and CIPE did not comply with federal regulations and the terms and conditions of the grant agreements concerning the maintenance of adequate supporting documentation. Subpart C of 22 CFR 145, Post-Award Requirements, Financial and Program Management, section 21b-7, requires "recipients' financial management systems" to provide cost accounting records "supported by source documentation." The grant agreements state that the grantees' financial management system "must ensure effective control over and accountability for all funds" and that expenditures not adequately supported by "proper documentation" (such as by travel authorizations and reimbursement vouchers) "may be disallowed." Specifically, IRI omitted

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approval signatures and dates on its accounting documentation supporting travel costs, and some CIPE documentation did not include travel authorizations, supervisory signatures, and receipts for lodging and airfare. In general, travel costs are allowable expenses under the grant; however, because of inadequate documentation, OIG classified travel costs of \$208,069 as unsupported.

To review travel expenditures at the Endowment and the core institutes, OIG selected 204 travel transactions, totaling \$1,049,204. OIG found that the Endowment, ACILS, and NDI had more than adequate documentation and had detailed travel policies and procedures in place to track and account for travel costs. However, IRI and CIPE did not maintain required documentation for 36 transactions, totaling \$208,069, as follows. (Additional details on these transactions are included in Appendix D.)

- For IRI grants 2004-279 and 2004-232, OIG tested 104 travel transactions. IRI could not adequately support 26 travel transactions (25 percent), totaling \$138,073. Specifically, the required field director's approval signature was missing from the accounts payable and cash disbursement vouchers for 25 travel transactions, totaling \$120,951, and the approval date was omitted on one travel authorization, totaling \$17,122. IRI officials said that the Iraqi field office director's practice was to sign only the top copy of a stack of accounting transactions, which brought into question whether or not the remaining documents were approved.
- For CIPE grants 2004-030 and 2004-231, OIG tested 32 travel transactions. OIG found inadequate support for ten travel transactions (31 percent), totaling \$69,996 because of missing copies of required travel authorization forms. Three of the ten also did not have lodging or airfare receipts. CIPE outsourced its travel management and financial accounting functions to a contractor, but it did not obtain copies of documents for verification and reconciliation of travel costs charged to its grants and for financial reporting purposes.

Each year, the Endowment conducts onsite compliance reviews to evaluate the core institutes' procedures for monitoring their subrecipients. The Endowment needs to revise its review procedures of the core institutes to ensure that they adequately document and fully support costs incurred under the grants. Such action should increase the reliability of the financial reports submitted to the Endowment.

**Recommendation 2:** OIG recommends that (1) the boards of directors of IRI and CIPE require the core institutes to take steps to adequately document and fully support costs charged to the grants and provide additional information so that an appropriate determination can be made on the unsupported travel costs totaling \$208,069, and (2) the board of directors of the Endowment instruct the Endowment to oversee corrective action by the core institutes and to monitor their future compliance with regulatory requirements for documenting grant costs.

In its comments on the draft report, the Endowment took exception to OIG's classifying the questioned travel costs as unsupported. In its view, the transactions in question were not unsupported because, in most cases, there were no missing invoices or receipts. This may be true in the majority of cases; however, as detailed in Appendix D, OIG classified most of the transactions as unsupported because they lacked the proper approvals not because of missing documents. OIG did not determine that CIPE and IRI travel costs were unallowable; rather, that they were not fully documented and therefore unsupported.

The Endowment also reported that after receipt of the draft report, it reviewed the questioned costs with IRI and CIPE, which disagreed with the findings. Based on its review, the Endowment reported that it is working with IRI to review the supporting documentation for the unsupported travel costs, which needs to be pulled from storage. Regarding the CIPE questioned costs, the Endowment reported that, although the supervisor's signature was omitted from five travel authorizations totaling \$24,745, as OIG indicated, this signature was unnecessary because the traveler reported to the deputy director or the executive director, who signed in their capacity as both supervisor and senior management. CIPE's travel policy requires a signature on the supervisor's line. These lines were blank on five travel authorizations reviewed by OIG, and during the audit work CIPE did not provide support documenting the dual role of the supervisor and senior management. Nevertheless, based on the Endowment's review of the transactions and request to reduce CIPE's unsupported costs by \$24,745, OIG revised the report finding and the recommendation accordingly.

In conclusion, the Endowment said that it would continue to perform annual onsite compliance reviews of the core institutes, and would meet with their internal auditors to ensure that they have consistent programs for reviewing grant costs.



## Cash Management Practices

The four core institutes were not complying with federal regulations and the terms and conditions of the grant agreements for drawing down grant funds and accumulating such funds in bank accounts. Subpart C, of 22 CFR 145, Post-Award Requirements, Financial and Program Management, section 22b, requires that cash advances “be limited to the minimum amounts needed and be timed in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project.” Also, grant agreements do not permit grant funds to be transferred to other bank accounts owned by the grantee that contain funds from other sources, and grantees must ensure that advances of grant funds in excess of anticipated expenditure requirements do not accumulate in bank accounts.

The four core institutes requested more funds than were needed to meet operational and administrative requirements, thereby having in their bank accounts federal funds that exceeded the FDIC-insured limit of \$100,000. Further, NDI transferred grant funds to accounts with funds from other sources.

To assess cash management practices at the Endowment and the core institutes, OIG reviewed bank statements and bank reconciliations from FY 2005, the most recent year in the scope of this audit. From the recommendations made by OIG in its July 2004 audit report, the Endowment implemented the use of a needs statement to limit payment requests to immediate cash requirements. However, as noted below, OIG found that the core institutes requested more grant funds than actually needed, contributing to high bank balances that exceeded FDIC-insured limits.

- IRI’s daily cash balance ranged from \$414,284 to \$2.9 million for nine of 12 months.
- NDI’s monthly ending cash balance in its investment and checking accounts ranged from \$736,048 to \$5.4 million over the entire year.
- CIPE’s average daily cash balance ranged from \$105,390 to \$537,016 for 11 of 12 months.
- ACILS’s average daily cash balance ranged from \$102,501 to \$278,630 for nine of 12 months.

Also, NDI transferred Endowment funds to an investment account that held other federal funds. This occurred, according to NDI officials, because they believed the investment account was safer from risk of loss than a regular bank account. The investment account included funds from Department, Endowment, and USAID grants. Funds were initially deposited in a regular checking account; a portion of the



funds were transferred to another checking account to pay for the day's administrative and operational expenses, and then the balance was transferred to the investment account holding the other federal funds. NDI retained a daily balance of about \$450,000 in the initial checking account. At a minimum, this daily balance was subject to the FDIC-insured limits, and the commingling of various federal funds in the investment account was not appropriate for complying with the terms of the grant agreements.

Funds in excess of current cash requirements place federal funds at an increased risk of loss. To minimize the risk, the Endowment should update its Grants Administration Manual to include additional oversight over the core institutes' payment requests and ensure that requested funds are for immediate needs and are segregated by account.

**Recommendation 3:** OIG recommends that (1) the boards of directors of ACILS, CIPE, NDI, and IRI require the core institutes to implement a process so that requests for grant funds are for the minimum amount needed to meet immediate cash requirements, and (2) the board of directors of the Endowment instruct the Endowment to oversee corrective action by the core institutes and to monitor more closely future funding requests by the core institutes to avoid accumulating federal funds in bank accounts.

In its response to the draft report, the Endowment said that because of the timing and volume of the core institutes' needs for funds, daily and monthly bank balances would continue to fluctuate and at times reach high levels. Also, it added that instituting and adhering to a policy that would maintain cash balances below the FDIC-insured limit would be impractical. However, the core institutes would continue to review and modify their procedures as necessary and monitor the timing of cash drawdowns to ensure that they are as close as administratively feasible to actual disbursements.

Notwithstanding the Endowment's comments that the core institutes would work to improve cash management practices, IRI and NDI generally did not agree with the finding. IRI said that the report's generalized statements concerning IRI's daily balance did not appear to be adequate justification for the recommendation. NDI commented that its cash management system is sufficient to ensure that requested grant funds are for the minimum amounts needed. It also questioned OIG's use of NDI's monthly ending cash balance, stating that its average daily bank balance for FY 2005 ranged from \$895,000 to \$3.5 million. OIG stands by its position because of the consistently high bank balances noted during the review. In addition, a review of daily transactions for selected bank statements showed that in many cases, deposits of funds substantially exceeded the amounts required to cover the payouts.

OIG agrees that in the normal course of business for the core institutes, there may be times when bank balances exceed the FDIC-insured limit. As noted in the report, above and in the Follow-up on Prior Audit Recommendations section, this finding is similar to one reported in OIG's 2004 audit report of the Endowment. In response to the recommendation in the earlier report, the Endowment implemented new procedures to ensure that it requests funds from the Department only when needed. OIG believes that it might be beneficial for the Endowment to work with the core institutes to determine whether the procedural changes made by the Endowment to address this issue could be adapted for use by the core institutes to reduce the large fund balances.

## Compliance With Executive Order 13224

Although the Endowment was in compliance with Executive Order 13224, OIG found that the four core institutes were not adequately documenting their searches of the terrorist databases before awarding grants to Iraqi subrecipients. The Executive Order prohibits federal funds from being used to support terrorists and terrorist-related activities. The order also identifies 27 known terrorists and authorizes appropriate government agencies to designate other foreign individuals who pose a significant risk of committing terrorist acts. Accordingly, in its Specially Designated Nationals database, the Department of the Treasury, Office of Foreign Assets Control designated about 350 individuals and organizations that are prohibited from receiving federal financial assistance. The terms of the grant agreements require the core institutes to be aware of the names of individuals and organizations on terrorist databases, and make the grant recipient legally responsible for ensuring compliance with the order. Also, the Department's Office of the Coordinator for Counterterrorism established guidance under the order, stating that any transaction by any U.S. person who evades or avoids the order is prohibited and that civil and criminal penalties may be assessed for violations.

To determine whether the Endowment and the core institutes complied with the order, OIG requested documentation showing that the organizations actually had searched the databases before awarding grants to subrecipients. The Endowment and core institutes provided listings of grant recipients, certifications, routing slips, and computer print screens.

OIG found that the Endowment had adequate policies and procedures in place for documenting the results of searches of terrorist databases it conducted. In fact, in addition to the federal guidance, OIG used the Endowment's process for documenting its search of terrorist databases as a model in reviewing the procedures being used by the core institutes to conduct similar searches of potential subrecipi-

ents of core institute funds. As detailed below, OIG's review of the core institutes showed that for one core institute, there was no way to determine from the records when the searches were conducted, and the other three conducted the searches after the grant period began.

- ACILS had eight computer print screen copies from the terrorist database that were not signed or dated, so there was no way to determine when the searches were conducted or by whom.
- CIPE had three of 19 certifications showing that it had conducted the searches after the grant period had begun, and 18 certifications were recorded on forms that did not exist on the date the search was conducted.
- NDI had four of five certifications showing that it had conducted the searches between two and 36 days after the grant period had begun.
- IRI had three of six certifications showing that it had conducted the research 11 to 14 months after the grant period had begun.

If grants are provided before the searches are conducted, the risk of funding terrorists increases. To minimize the risk that Endowment funds are improperly used to support terrorists, the core institutes should conduct searches of the databases before awarding grants and adequately document these searches. As one of the Endowment's primary objectives is to minimize the risk of misuse of its funds through its monitoring policies and procedures, it should share its best compliance practices with the core institutes and include additional procedures for monitoring compliance with the order in its Grants Administration and Internal Audit Manuals.

**Recommendation 4:** OIG recommends that (1) the boards of directors of ACILS, CIPE, NDI, and IRI require the core institutes to establish policies and procedures for searching terrorist databases before awarding grants to subrecipients and maintaining complete, accurate, and reliable documentation supporting such searches, and (2) the board of directors of the Endowment instruct the Endowment to oversee corrective action by the core institutes and to monitor their adherence to the executive order in the future.

In its comments on the draft report, the Endowment said that in FY 2006, which was outside the scope of this review, the core institutes revised and strengthened their policies and procedures for searching terrorist databases. The Endowment added that it would continue to monitor compliance with the order during its annual onsite review of the core institutes. All of the core institutes said they were complying with the order. Two of them, ACILS and NDI, reported that they had made changes during the audit period to strengthen their search procedures. CIPE attributed OIG's finding that search information was on forms that postdate the dates of

the searches to CIPE's transferring of information from an older spreadsheet approach to the new form cited by OIG. However, CIPE did not provide the spreadsheets with the search data when OIG was conducting its audit work.

## MONITORING GRANT SUBRECIPIENTS

Three of the four core institutes were in compliance with their subrecipient monitoring policies and procedures. However, in this regard, OIG found that CIPE had serious deficiencies related to missing accounting questionnaires, a lack of risk assessments, and incomplete invoice verifications. CIPE's monitoring policies and procedures require all new organizations seeking financial support to fill out a detailed accounting questionnaire. The policy also requires that CIPE use a numerical risk assessment score to determine the type, frequency, and amount of monitoring required for subrecipients and to use invoice verification to complete the monitoring process and ensure that recipients use funds as intended by the grant agreement. On February 11, 2005, CIPE revised its subrecipient monitoring policies and procedures in response to the recommendation made in OIG's July 2004 audit report (AUD/CG-04-39) that the Endowment and its core institutes should reexamine their monitoring policies and procedures and determine whether changes were merited.

For FYs 2004-05, OIG reviewed 19 CIPE grants, totaling \$630,466, awarded to subrecipients under Endowment grant 2004-231. OIG found deficiencies in the grant files as follows.

### Accounting Questionnaires

OIG found problems with subrecipient accounting questionnaires for all 19 grants reviewed. OIG did not find accounting questionnaires for 13 of 19 grants. Six grants had accounting questionnaires; however, they were not signed or dated and did not include the grant recipient's address. OIG also noted that there was no indication that CIPE had reviewed or approved the questionnaires. According to one CIPE official, Iraqi program partners were reluctant to provide pertinent information about their organizations for fear of retaliation and refused to sign the questionnaires and include their addresses. The official also said the missing questionnaires may have been in Amman, Jordan; however, it would take too much time to retrieve them.

## Risk Assessments

CIPE automatically classified all of its Iraqi grantees as high risk because of volatility in the area; therefore, it did not prepare risk assessments for its Iraqi subgrantees. However, this procedure was not in accordance with its established policy and did not provide an opportunity for program and financial officials to provide input.

## Invoice Verification

OIG found invoice verification problems for 18 of the 19 grants reviewed. For six of 18 grants, CIPE had invoices that could not be verified because they were in Arabic and four of 18 grants had receipts that were in Arabic. The remaining eight grants had no documentation or lacked sufficient documentation to support that an invoice review had been performed. OIG also noted that for five of the ten grants that had invoices or receipts in Arabic, the attached review forms were not signed and dated and did not contain the English translation of the expenses.

Because its grant officials did not comply with CIPE's policy, they made awards to Iraqi subrecipients without properly assessing the subrecipients' ability to account for and manage federal funds. The Endowment requires the core institutes to monitor subrecipients, and it conducts annual onsite compliance reviews to ensure that the core institutes are following established procedures. OIG noted in the Endowment compliance reviews for FYs 2004 and 2005 that CIPE was cited for noncompliance and that, as a result, in 2004 the Endowment withheld future grant payments until CIPE addressed internal audit report findings. Eventually, the issue was resolved, and CIPE received the funds it had requested.

Without the accounting questionnaires, risk assessments, and invoice verification, CIPE limits its ability to support compliance with Endowment policies and procedures, to identify correctable weaknesses in the organization's financial management of grants before awards are made, and to make informed business decisions about grantees. The Endowment needs to take steps to ensure that CIPE is carrying out its subrecipient monitoring responsibilities and maintaining subgrant recipient documentation in its Washington office.

**Recommendation 5:** OIG recommends that (1) the board of directors of CIPE require the core institute to develop an action plan to comply with its subrecipient monitoring policies and procedures and maintain documentation in its Washington, DC, office, and (2) the board of directors of the Endowment instruct the Endowment to oversee corrective action and to monitor future compliance by CIPE of its established procedures for monitoring subrecipients.

The Endowment agreed with the draft report findings and commented that the issues identified by OIG were also identified by the Endowment in its annual sub-grant compliance reviews of CIPE. The Endowment added that it brought these issues to the attention of the CIPE president, and corrective action is being taken. Although CIPE disagreed with OIG's finding concerning risk assessments, overall, it said that it has strengthened its monitoring of Iraqi subrecipients by taking deliberate and responsible steps to adapt its standard monitoring procedures to the special conditions of Iraq.

## FOLLOW-UP ON PRIOR AUDIT RECOMMENDATIONS

OIG last reviewed the Endowment for FYs 2000-02, and the report, Audit of the National Endowment for Democracy (AUD/CG-04-39, July 2004), contained two recommendations to Department officials and three recommendations to Endowment officials. As part of its review for FYs 2003-05 of the Endowment's accountability for federal funds and subrecipient monitoring policies and procedures, OIG determined that these recommendations had in fact been implemented.

### Commingling Grant Funds

In its 2004 report, OIG found that the Endowment had commingled the accounts for two grants for programs in Belarus and did not have sufficient funds remaining to cover all administrative costs for the remaining open grants. OIG recommended that the Endowment board of directors ensure that the financial records adequately identified and segregated the sources and uses of the funds.

During its recent audit, OIG did not find any indication that the Endowment had not adequately identified and properly segregated the sources and uses of the funds.

## Establishing an Indirect Cost Rate

In its 2004 report, OIG recommended that A/LM/AQM make it a priority to complete negotiations and establish a final indirect cost rate agreement with the Endowment. To expedite implementation of the recommendation, OIG contracted with independent CPAs to perform agreed-upon procedures on indirect cost rates submitted by the Endowment, CIPE, and IRI for the years ended September 30, 2004, and 2005, and NDI for the year ended September 30, 2005.

Using the results, A/LM/AQM and the Endowment negotiated final indirect cost rates effective February 8, 2007.

## Providing Oversight and Administration of the Annual Appropriation Grant

In its 2004 report, OIG recommended that the Office of the Under Secretary for Global Affairs ensure that a specific bureau or office was assigned responsibility for providing financial oversight of the Endowment's annual appropriations. The Office reported to OIG on April 20, 2005, that it had designated the DRL Assistant Secretary as the main point of contact for the Endowment's appropriated and associated grants with the Department.

During this review, OIG discussed financial oversight with Department officials. According to DRL and A/LM/AQM officials, the designated program and grants officers responsible for financial oversight of the Endowment's annual appropriation are in DRL and A/LM/AQM, respectively.

## Complying With Laws, Regulations, Policies, and Agreements

In its 2004 report, OIG recommended that the Endowment determine whether revisions are needed to its grantee monitoring plan and the plans of the core institutes and that it

- stress the importance of timeliness in all phases of the grant awarding and subrecipient monitoring process, and
- ensure that a risk assessment matrix is included in the plan and that the plan is being implemented.



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In response to the recommendation, the Endowment and the core institutes revised their subrecipient monitoring policies and procedures, which were put in effect between February 11, 2005, and March 18, 2005.

During its recent audit, OIG found minimal differences between the original and the revised subrecipient monitoring policies and procedures. OIG also noted that only one core institute had encountered problems complying with those policies and procedures. (See the Monitoring Grant Subrecipients section of this report.)

### Minimizing Funds at Risk

In its 2004 report, OIG found that the Endowment was maintaining balances in excess of the FDIC-insured limits in a bank account that maintains federal funds. OIG recommended, as required by 22 CFR 145, that the board of directors ensure that the Endowment establish measures to limit cash advances to the minimum amount needed, thereby minimizing the amount of funds at risk.

In its recent audit, OIG found that the Endowment had established an internal cash requirements memo, the Smartlink Memo, which must be completed for funds to be drawn from the Payment Management System. The memo includes the specific obligation, grant recipient, grant number, and amount requested by the subrecipient to ensure that funds are requested from the Department only for items that need to be paid. The Smartlink Memo provides a mechanism for ensuring that funds are in the Endowment's account when needed. Also, because the Endowment has electronic access to its banking institution, it can monitor its bank account daily.



## RECOMMENDATIONS

**Recommendation 1:** OIG recommends that (1) the boards of directors of ACILS, CIPE, NDI, and IRI require the core institutes to prepare an action plan to return expired grant funds totaling \$215,885 to the Endowment; comply with regulatory requirements to close grants within 90 days of the grant expiration date; charge incurred expenditures to grants within the 90-day period; return unobligated, unspent funds to the Endowment; and deobligate incurred but expired funds within 90 days of the grant expiration date; and (2) the board of directors of the Endowment instruct the Endowment to oversee corrective action by the core institutes and to monitor their future compliance with regulatory requirements concerning grant closure.

**Recommendation 2:** OIG recommends that (1) the boards of directors of IRI and CIPE require the core institutes to take steps to adequately document and fully support costs charged to the grants and provide additional information so that an appropriate determination can be made on the unsupported travel costs totaling \$208,069, and (2) the board of directors of the Endowment instruct the Endowment to oversee corrective action by the core institutes and to monitor their future compliance with regulatory requirements for documenting grant costs.

**Recommendation 3:** OIG recommends that (1) the boards of directors of ACILS, CIPE, NDI, and IRI require the core institutes to implement a process so that requests for grant funds are for the minimum amount needed to meet immediate cash requirements, and (2) the board of directors of the Endowment instruct the Endowment to oversee corrective action by the core institutes and to monitor more closely future funding requests by the core institutes to avoid accumulating federal funds in bank accounts.

**Recommendation 4:** OIG recommends that (1) the boards of directors of ACILS, CIPE, NDI, and IRI require the core institutes to establish policies and procedures for searching terrorist databases before awarding grants to subrecipients and maintaining complete, accurate, and reliable documentation supporting such searches, and (2) the board of directors of the Endowment instruct the Endowment to oversee corrective action by the core institutes and to monitor their adherence to the executive order in the future.

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**Recommendation 5:** OIG recommends that (1) the board of directors of CIPE require the core institute to develop an action plan to comply with its subrecipient monitoring policies and procedures and maintain documentation in its Washington, DC, office, and (2) the board of directors of the Endowment instruct the Endowment to oversee corrective action and to monitor future compliance by CIPE of its established procedures for monitoring subrecipients.

## ABBREVIATIONS

ACILS	American Center for International Labor Solidarity
A/LM/AQM	Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management
CFR	Code of Federal Regulations
CIPE	Center for International Private Enterprise
CPA	Certified public accountant
DRL	Bureau of Democracy, Human Rights and Labor
FDIC	Federal Deposit Insurance Corporation
IRI	International Republican Institute
NDI	National Democratic Institute for International Affairs
OIG	Office of Inspector General
OMB	Office of Management and Budget
USAID	U. S. Agency for International Development

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**APPENDIX A**

**Grants Reviewed at the Endowment (FY 2003-05 Awards)**

**Core Grantee Awards: Department/Endowment Funded**

No.	Grantee	Grant Number	Award Amount	Grantee Location
1	American Center for International Labor Solidarity (ACILS)	2004-277	\$1,498,014	Washington, DC
		2005-440	1,000,007	Washington, DC
2	Center for International Private Enterprise (CIPE)	2003-555	145,713	Washington, DC
		2004-030	73,183	Washington, DC
		2004-231	6,048,027	Washington, DC
3	International Republican Institute (IRI)	2004-278	80,000	Washington, DC
		2004-279	1,285,005	Washington, DC
		2004-232	23,651,723	Washington, DC
4	National Democratic Institute (NDI)	2004-233	1,350,000	Washington, DC
		2004-234	21,193,386	Washington, DC
<b>Total</b>	<b>4 Grantees</b>	<b>10 Grants</b>	<b>\$56,325,058</b>	

**2003 Discretionary Grantee Awards: Department/Endowment Funded/Iraqi Program**

No.	Grantee	Grant Number	Award Amount	Grantee Location
1	ASUDA Organization for Combating Violence Against Women	2003-086	\$22,000	Iraq
2	Kurdish Institute for Elections	2003-087	24,000	Iraq
3	Badlisy Cultural Center	2003-309	45,000	Iraq
4	Women for Women International	2003-397	30,050	Washington, DC
5	American Society for Kurds	2003-453	50,000	Florida
<b>Total</b>	<b>5 Grantees</b>	<b>5 grants</b>	<b>\$171,050</b>	

**2004 Discretionary Grantee Awards: Department/Endowment Funded/Iraqi Program**

No.	Grantee	Grant Number	Award Amount	Grantee Location
1	Iraqi Organization for Human Rights	2004-031	\$45,000	Iraq
2	ASUDA Organization for Combating Violence Against Women	2004-114	33,000	Iraq
3	Freedom House	2004-115	150,000	Washington, DC
4	Babylon National Association for Human Rights	2004-116	28,000	Iraq
5	Kurdish Institute for Elections	2004-117	39,000	Iraq
6	Nahrain Electronic Encyclopedia	2004-118	31,000	Iraq
7	Organization for a Model Iraqi Society	2004-285	36,000	Iraq
<b>Total</b>	<b>7 Grantees</b>	<b>7 grants</b>	<b>\$362,000</b>	

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**2005 Discretionary Grantee Awards: Department/Endowment Funded/Iraqi Program**

No.	Grantee	Grant Number	Award Amount	Grantee Location
1	ASUDA Organization for Combating Violence Against Women	2005-126	\$50,000	Iraq
2	Center for Nongovernmental Organizations	2005-127	38,000	Iraq
3	Rafidain Civic Education Institute	2005-128	40,000	Iraq
4	Human Rights Information and Training Center	2005-130	60,000	Yemen
5	Babylon National Association for Human Rights	2005-132	28,000	Iraq
6	Al-Insaan Cultural Foundation for Human Rights Activists	2005-441	30,000	Iraq
7	Badlisy Cultural Center	2005-443	55,000	Iraq
8	Bent Alrafedain	2005-444	21,000	Iraq
9	Citizens Rights and Interests Protection Organization	2005-445	30,000	Iraq
10	Iraqi Prospect Organization Ltd	2005-447	45,000	United Kingdom
11	Love and Peace Society	2005-449	30,000	Iraq
12	Organization for a Model Iraqi Society	2005-450	53,000	Iraq
13	People in Need – Czech TV Public Benefit Organization	2005-451	100,000	Czech Republic
14	Civil Society Initiative	2005-573	30,000	Iraq
<b>Total</b>	<b>14 Grantees</b>	<b>14 grants</b>	<b>\$610,000</b>	

<b>Grand Total</b>	<b>Discretionary Grantees</b>	<b>26 grants</b>	<b>\$1,143,050</b>	
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**APPENDIX B**

**Grants OIG Reviewed at Core Institutes (FY 2003-05 Awards)**

**American Center for International Labor Solidarity (ACILS)**

No.	Subrecipient	Grant Number	Award Amount	Subrecipient Location
1	International Confederation of Trade Unions	2004-277	\$228,672	Belgium
2	International Federation of Journalists	2004-277	499,601	Belgium
3	American Federation of Teachers	2005-440	149,453	
4	International Confederation Free Trade Unions	2005-440	155,060	Belgium
<b>Total</b>	<b>4 Subrecipients</b>	<b>4 grants</b>	<b>\$1,032,786</b>	

**Center for International Private Enterprise (CIPE)**

No.	Subrecipient	Grant Number	Award Amount	Subrecipient Location
1	IEDC 2004 (OLD)	2004-231	\$8,560	Iraq
2	YEBA (OLD)	2004-231	12,650	Iraq
3	IEJL (OLD)	2004-231	28,840	Iraq
4	IACCI (OLD)	2004-231	26,500	Iraq
5	Basra Chamber of Commerce	2004-231	40,000	Iraq
6	Baghdad Chamber of Commerce	2004-231	40,000	Iraq
7	Private Bankers of Iraq (PBI)	2004-231	40,000	Iraq
8	Youth Entrepreneur Business Association (YEBA)	2004-231	39,850	Iraq
9	Najaf Chamber of Commerce	2004-231	19,650	Iraq
10	Iraqi Businessmen Union (IBMU)	2004-231	40,000	Iraq
11	Iraqi Businesswomen Association (IBWA) 2005	2004-231	39,820	Iraq
12	Iraqi Economy Development Center (IEDC)/MAIN Branch	2004-231	39,800	Iraq
13	Iraqi Economic Journalist League (IEJL) NEW	2004-231	29,060	Iraq
14	National Association for the Protection of Investors (NAPI)	2004-231	40,000	Iraq
15	Sulimaniya Chamber of Commerce	2004-231	39,950	Iraq
16	ASK/PAO	2004-231	38,856	Florida
17	Iraqi Economy Development Center Al Basrah Branch	2004-231	36,780	Iraq
18	Baghdad University (Entrepreneurship and Roundtable and Book Program)	2004-231	40,000	Iraq
19	Iraqi Businessmen Union, Diwanieh Branch	2004-231	30,150	Iraq
<b>Total</b>	<b>19 Subrecipients</b>	<b>19 grants</b>	<b>\$630,466</b>	

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**International Republican Institute (IRI)**

<b>No.</b>	<b>Subrecipient</b>	<b>Grant Number</b>	<b>Award Amount</b>	<b>Subrecipient Location</b>
1	Institute for Public Affairs (IVO)	2004-279	\$94,310	Slovakia
2	Pontis Foundation	2004-279	351,352	Slovakia
3	Center for Democracy and Culture Studies	2004-279	150,361	Czech Republic
<b>Total</b>	<b>3 Subrecipients</b>	<b>3 grants</b>	<b>\$596,023</b>	

**National Democratic Institute (NDI)**

<b>No.</b>	<b>Subrecipient</b>	<b>Grant Number</b>	<b>Award Amount</b>	<b>Subrecipient Location</b>
1	Al-Salam Organization Ard Alnakla	2004-233	\$3,080	Iraq
2	Al-Tahrir Organization	2004-233	3,950	Iraq
3	Association for Human Rights in Iraq	2004-233	3,200	Iraq
4	Badlisy Culture Center	2004-233	4,450	Iraq
5	Democracy Students Organization	2004-233	3,920	Iraq
6	Democratic Dialogue Center	2004-233	1,988	Iraq
7	Eshab Al-Kessa Charity Association	2004-233	3,339	Iraq
8	Hawa'a Organization for Relief Development	2004-233	3,680	Iraq
9	Human Cooperation Organization	2004-233	3,484	Iraq
10	Human Rights Organizations in Babel	2004-233	3,025	Iraq
11	Humanitarian Woman/Human Rights Center	2004-233	2,660	Iraq
12	Iraqi Elite & Effectively Conference	2004-233	0	Iraq
13	Iraq Institute for Development Study	2004-233	2,805	Iraq
14	Iraqi Institute for Human Rights	2004-233	2,500	Iraq
15	Iraqi Model Society	2004-233	4,905	Iraq
16	Iraqi Organization for Human Rights Coordination	2004-233	4,880	Iraq
17	Iraqi Political Prisoners & Martyr Organization	2004-233	3,120	Iraq
18	Iraqi Society Organization (Babylon)	2004-233	3,650	Iraq
19	Journalists and Cultural Youth Board	2004-233	2,550	Iraq
20	National Iraqi Association for Human Right (in Babylon)	2004-233	2,925	Iraq
21	Relief & Development Thoughts Association	2004-233	2,860	Iraq
22	Ronahee	2004-233	3,800	Iraq
23	Women Rights Center/Samawa	2004-233	3,756	Iraq
24	Yazidyan Education/Culture Center	2004-233	2,740	Iraq
25	Zakho Small Village Projects	2004-233	3,000	Iraq
<b>Total</b>	<b>25 Subrecipients</b>	<b>25 grants</b>	<b>\$80,267</b>	



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**Total Grants Sampled and Awarded Amounts to Subrecipients**

<b>No.</b>	<b>Core Subrecipients</b>	<b>Number of Grants Sampled</b>	<b>Total Award Amount</b>
1	ACILS	4 grants	<b>\$1,032,786</b>
2	CIPE	19 grants	<b>630,466</b>
3	IRI	3 grants	<b>596,023</b>
4	NDI	25 grants	<b>80,267</b>
<b>Total</b>	<b>4 Core Subrecipients</b>	<b>51 grants</b>	<b>\$2,339,542</b>

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APPENDIX C

**Summary of Expired Grants With Amounts Due the Endowment  
FYs 2003-05**

Core	Number of Core Grants	Year of A-133 audit	Grant Number	Grant Period	Funds Remaining at Grant Expiration	Amount Spent in FY 2004 or later	Amount Returned to the Endowment	Amount to be returned to the Endowment	Age in years <sup>a</sup>
ACILS									
1	1	2003	1999-291	2/1/99-8/31/03	\$32,033	\$29,727	0	\$32,033	2.7
2	2	2003	2002-232	7/1/02-6/30/03	2,639	2,772	0	2,639	2.8
3	3	2003	2002-233	7/1/02-6/30/03	602	0	0	602	2.8
4	4	2004	2000-028	2/1/00-8/31/04	4,377	0	0	4,377	1.7
5	5	2004	2002-237	8/1/02-7/31/03	553	0	0	553	2.8
6	6	2004	2002-433	9/13/02-3/31/04	1,348	0	0	1,348	2.1
<b>ACILS</b>		<b>Subtotal</b>			<b>\$41,552</b>	<b>\$32,499</b>	<b>0</b>	<b>\$41,552</b>	
CIPE									
7	1	2003	2000-029	2/1/00-9/30/03	\$7,874	0	0	\$7,874	2.6
8	2	2005	2003-555	9/12/03-3/31/05	24,740	0	0	24,740	1.1
9	3	2005	2004-030	11/15/03-3/31/05	2,464	0	0	2,464	1.1
<b>CIPE</b>		<b>Subtotal</b>			<b>\$35,078</b>	<b>0</b>	<b>0</b>	<b>\$35,078</b>	
IRI									
10	1	2003	97-205	2/1/97-8/31/01 <sup>b</sup>	\$2,122	0	\$2,122	0	4.9
11	2	2003	98-102	2/1/98-8/31/02 <sup>b</sup>	28,420	0	28,420	0	3.9
12	3	2003	99-293	2/1/99-8/31/03	34,051	\$5,688	28,363	\$5,688	2.8
13	4	2003	2001-067	2/1/01-1/31/02	1,424	1,374	50	1,374	4.4
14	5	2003	2001-315 <sup>c</sup>	6/8/01-6/30/02	10,903	0	10,903	0	3.3
15	6	2003	2002-052	2/1/02-3/31/03	2,681	1,240	3,921	-1,240	3.3
16	7	2004	2000-030	2/1/00-8/31/04	1,155	0	1,155	0	1.7
17	8	2004	2003-179	2/1/03-1/31/04	14,379	7,226	0	14,379	2.2
18	9	2004	2004-126	1/23/04-7/31/04	10,644	0	0	10,644	1.7
19	10	2004	2004-278	4/2/04-9/30/04	16,518	0	0	16,518	1.6
20	11	2005	2003-027	1/24/03-9/30/05	48,321	0	0	48,321	0.6
21	12	2005	2003-070	1/19/03-6/30/04	750	0	0	750	1.8
<b>IRI</b>		<b>Subtotal</b>			<b>\$171,368</b>	<b>\$15,528</b>	<b>\$74,934</b>	<b>\$96,434</b>	
NDI									
22	1	2003	1999-294 <sup>c</sup>	1/21/99-3/31/03	\$5,566	0	\$5,566	0	3.0
23	2	2003	2000-031 <sup>c</sup>	1/21/99-9/30/03	28,907	\$27,944	963	\$27,944	2.5
24	3	2004	2001-048	1/1/01-9/30/04	8,323	0	0	8,323	1.6
25	4	2005	2002-023	1/1/02-9/30/05	5,535	0	3,390	2,145	0.6
26	5	2005	2004-081	2/1/04-3/31/05	1,351	0	1,295	56	1.1
27	6	2005	2004-233	1/1/04-6/30/05	4,359	0	6	4,353	0.8
<b>NDI</b>		<b>Subtotal</b>			<b>\$54,041</b>	<b>\$27,944</b>	<b>\$11,220</b>	<b>\$42,821</b>	
<b>27</b>	<b>Core</b>	<b>Total</b>			<b>\$302,039</b>	<b>\$75,971</b>	<b>\$86,154</b>	<b>\$215,885</b>	

<sup>a</sup> Age is the difference between the grant expiration date and the start of OIG field work or when funds were returned.

<sup>b</sup> Grants expired in 2001 and 2002 were included in the 2003 single audit reports.

<sup>c</sup> Grants identified as closed during the review.

Source: The core institutes single audit reports for FYs 2003-05.

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**APPENDIX D**

**Travel Transactions OIG Reviewed and Unsupported Travel Costs  
Endowment and Core Travel Transactions for FY 2003-05**

<b>Organization</b>	<b>Total Transactions</b>	<b>Value</b>	<b>Transactions Reviewed</b>	<b>Value</b>
Endowment	22	\$87,973	22	\$87,973
ACILS	142	81,913	14	22,669
CIPE	215	497,155	32	313,150
IRI	756	900,659	104	312,867
NDI	929	1,024,550	32	312,545
<b>Total</b>	<b>2,064</b>	<b>\$2,592,250</b>	<b>204</b>	<b>\$1,049,204</b>

**IRI Unsupported Travel Costs**

<b>Grant No.</b>	<b>No. of Transactions</b>	<b>Issue</b>	<b>Amount</b>
2004-279	4	No approval signature on accounts payable voucher	\$16,918
2004-232	17	No approval signature on accounts payable voucher	83,956
2004-232	4	No approval signature on cash disbursement vouchers	20,077
2004-232	1	No approval date on travel authorization	17,122
<b>Subtotal</b>	<b>26</b>		<b>\$138,073</b>

**CIPE Unsupported Travel Costs**

<b>Grant No.</b>	<b>No. of Transactions</b>	<b>Issue</b>	<b>Amount</b>
2004-030 (2003)	4	No travel authorization	\$9,808
2004-231 (2004)	3	No travel authorization	37,949
2004-231 (2005)	3	No travel authorizations or lodging or airfare receipts	22,239
<b>Subtotal</b>	<b>10</b>		<b>\$69,996</b>

<b>Total Unsupported</b>	<b>36</b>		<b>\$208,069</b>
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APPENDIX E



**National Endowment  
for Democracy**

*Supporting freedom around the world*

1025 F Street, NW | Suite 800 | Washington, DC 20004-1409  
(202) 378-9700 | (202) 378-9407 fax | E-mail: info@ned.org | www.ned.org

Mr. Howard J. Krongard  
Inspector General  
U.S. Department of State  
Office of Inspector General  
Washington, D.C. 20522-0308

July 30, 2007

Dear Mr. Krongard:

Enclosed are the combined comments from the National Endowment for Democracy and the core institutes (ACILS, CIPE, IRI and NDJ) in response to the Office of Inspector General's draft report of the Endowment for Fiscal Years 2003-05 (Report Number AUD/CG-07-33, June 2007). Be assured that we have always been committed to compliance with grant terms and conditions and we welcome your recommendations on how to further strengthened our already robust monitoring of over a thousand annual grants in 100 countries.

The audit focused its review of the cores exclusively on our programs in Iraq which is our most challenging region. Although we have effective procedures for monitoring grants, conducting programs in a war zone presents a tremendous challenge.

The Endowment and cores would like to emphasize our response to two report recommendations.

Recommendation 1 concerns the remittance of funds for completed core grants. The cores have returned all but approximately \$9,000 out of the \$215,885 due. The remaining balance is currently under review and will be resolved shortly.

Recommendation 2 concerns unsupported travel cost of \$232,814 out of \$57.5 million in grant awards (.004%). In the majority of transactions, there was adequate supporting documentation for travel expenditures. In reference to CIPE, the OIG report states that for five transactions, totaling \$24,745 "the required supervisor's signature was omitted from the travel authorizations." However, the supervisor's signature was unnecessary because the traveler reported to the deputy director or the executive director, who signed in their capacities as both supervisor and senior management. We respectfully request that \$24,745 in unsupported travel costs be removed from the final report.

Please feel free to contact either myself or Keith Burton, Director of Auditing, if you have any questions concerning this response.

Sincerely,  
  
Carl Gershman  
President

Encl.

- |                                   |                    |                     |                   |                                   |
|-----------------------------------|--------------------|---------------------|-------------------|-----------------------------------|
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**NED and Core Combined Comments to the  
Office of Inspector General's Draft Report of  
The Endowment for Fiscal Years 2003-05  
Report Number AUD/CG-07-33, June 2007**

**Overview**

The Endowment and core institutes have developed responses to the OIG recommendations contained in the draft audit report. Each recommendation is repeated verbatim and is followed by individual core comments and then NED's comments.

This response includes two sections. Section I is the NED and Core Combined Comments, and Section II is General Comments concerning the wording of the report.

**I. NED and Core Combined Comments**

**Grant Closure**

**Recommendation 1:** OIG recommends that (1) the boards of directors of ACILS, CIPE, NDI, and IRI require the cores to prepare an action plan to return expired grant funds totaling \$215,885 to the Endowment; comply with regulatory requirements to close grants within 90 days of the grant expiration date; charge incurred expenditures to grants within the 90-day period; return unobligated, unspent funds to the Endowment; and deobligate incurred but expired funds within 90 days of the grant expiration date; and (2) the board of directors of the Endowment instruct the Endowment to oversee corrective action by the core institutes and to monitor their future compliance with regulatory requirements concerning grant closure.

**ACILS Response**

ACILS has adopted a plan to address the matters referred to above. Following are comments on specific items:

- Regarding the return of expired funds: ACILS has already returned expired grant funds on at least 3 of the six grants listed, and will return any remainder of unused funds upon confirming the amounts. Our records indicate that the current total of unused funds on the three remaining grants is no more than \$ 6,550.
- Regarding closing out grants within 90 days: Requirements of the Endowment, which are the same as most funders, do not make it possible to literally comply with this particular item. During the OIG review period, the Endowment required that before a final financial report can be submitted as part of the Endowment close-out process, all indirect costs that have been charged to a particular grant during any of ACILS' fiscal years must be supported by written approval of the final indirect cost rates by the cognizant agency (USAID in the case of ACILS). USAID uses ACILS' A-133 audit reports as support for its approvals. The A-133



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reports are due nine months after the end of ACILS' fiscal year. Because of the foregoing circumstances, ACILS' policy is to request extensions of time from the Endowment to file final financial reports until the final indirect costs approval arrives from USAID. We will consult with the Endowment to determine how we can comply with this item to the maximum degree possible.

- Regarding charging expenses incurred during the grant period by the end of the 90-day period after the end of the grant: ACILS believes it is not possible to accomplish this in all cases. ACILS programs extend to some of the most remote and politically sensitive areas of the world, in line with the mission of the Endowment. Grant payments to final payees are often made by overseas intermediaries using funds advanced to them by ACILS field offices, which use funds advanced to them by ACILS-Washington. It is sometimes not possible to obtain detailed receipts and other documentation required by federal regulations from final payees through the same involved path that the money has taken in time to liquidate advances within 90 days of the end of the grant. For example, in politically sensitive areas, couriers carrying receipts may have to wait for a safe time to cross borders. ACILS will consult with the Endowment to determine how we can comply with this item to the maximum degree possible.
- Regarding return of unused funds: ACILS intends to discuss a revision of its current practice with the Endowment, such that, pending completion of necessary procedures such as cognizant agency rates approvals and final liquidations, ACILS will return the amount of unused funds showing in its books pending such final procedures. ACILS will also review all other procedures that affect the return of unused funds in a timely manner.

### CIPE Response

CIPE concurs with the report comment. It has confirmed that proper close-out procedures were not followed for the three grants identified in the OIG report. Closeout procedures for reconciling the amount of the grant with the amount of expenditures was not followed properly. As noted below, the closeout procedures are being modified.

### *CIPE's Corrective Action Plan*

1. Funds totaling \$26,917 have been returned to the NED. A request to transfer the remaining funds identified in the draft report has been submitted to the NED.
2. CIPE takes its role as caretaker of federal funds very seriously and thus many of the recommended actions have been implemented in the time since the audit was conducted. Additionally, CIPE is in the process of implementing a strategic re-engineering of its grants and finance divisions. The functions of federal and agency compliance and internal audit will become an integral part of the division.
3. CIPE's new grants management database will go live in August 2007. This tool will ensure the proper monitoring of all of grant and project deadlines and will provide automatic notification of upcoming deadlines to grants and program staff.
4. A copy of CIPE's updated procedures on award close-outs have been submitted to the Endowment.



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### IRI Response

Acting on behalf of IRI's Board of Directors, IRI refunded to NED all remaining funds from expired grants in the amount of \$71,044 during the OIG field work and IRI also implemented a policy that requires IRI to: 1) close grants within 90 days of the grant expiration date, 2) charge remaining expenditures to grants within the 90 day period, 3) return unobligated, unspent funds to the Endowment within 90 days of the grant expiration date. Since IRI had fully implemented the above actions prior to the completion of OIG's field work we do not understand why the above is written up as a recommendation since the issue has already been addressed.

### NDI Response

NDI would like to address the four major issues contained in Recommendation #1 and in the federal regulations cited in the draft audit report. These issues are: (1) all grant expenses must be incurred during the grant period, (2) all financial, performance, and other required reports must be submitted within 90 calendar days after the grant end date, (3) all obligations must be liquidated no later than 90 days after the grant end date, and (4) all unspent grant funds held by a recipient must be returned to the funder (the Endowment) in a timely manner. As stated in the draft audit report, NDI did not incur expenses outside of the grant period and there were no instances of financial or narrative reports cited for late submittal. We will therefore focus our response on the issues of liquidating obligations 90 days after the end date of the grant and the return of unspent grant funds to the Endowment.

#### *Liquidating Obligations Within 90 days*

NDI attempts to liquidate all obligations expeditiously, which is supported by the fact that of the grants reviewed in the draft audit report, only \$33,000 out of \$18.8 million in expenses (.18%) was paid beyond 90 days after the grant end date. However, the timely recording of costs is not always possible. Payments and the recording of transactions can only be made for expenses that are known and available. NDI operates grant funded programs in more than 60 countries worldwide where communication and the transmission of documents are often difficult at best. NDI has limited control over the timing of claims of payment by the various consultants, vendors, and local partners who assist NDI in implementing Endowment funded programs throughout the world.

All expenses reviewed as part of the audit were reasonable, necessary and allowable costs resulting from obligations incurred during the grant period. NDI believes the Endowment attempted to address the challenges of fully liquidating obligations within 90 days by including certain language in the award document. Specifically, as noted in the terms and conditions of the Endowment Core Grants for 2003, 2004, and 2005, payments made after the grant end date for expenses incurred prior to the end date are allowable. The grant agreements state:

“All expenditures from Grant funds must be either for authorized activities that take place or for authorized obligations that are incurred during the Grant Period, unless otherwise stated in the Grant. Expenditures for costs incurred prior to the effective date or

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after the expiration date will be disallowed. *Payments made after the expiration date for expenses incurred within the Grant Period are allowable*" (emphasis added).

Given the inherent challenges of working overseas, particularly in developing countries, NDI believes that despite best efforts to timely liquidate obligations, payments beyond 90 days of the award end date will continue. NDI will work with the Endowment to address this situation.

NDI also requests that any such transactions identified during the audit be considered by the Endowment as allowable costs under the respective grants. It would be a hardship to possibly disallow valid project expenses incurred during the funding period due to the late receipt of claims for payment; particularly when such delayed liquidations were mainly a result of where NDI performs its work.

### *Return of Unspent Grant Funds*

NDI recognizes that a delay in the payment and processing of grant expenses can cause a delay in returning unspent grant funds to the Endowment. Until recently, NDI's longstanding practice had been to return unspent grant funds to the Endowment once we had reasonable assurance that all claims for expenses incurred during the funding period had been received and processed, and upon receipt of a Negotiated Indirect Cost Rate Agreement (NICRA) containing final indirect and fringe benefit rates for the latest year of grant expenses. Beginning with fiscal year 2007 and in consultation with Endowment staff, NDI has begun to refund unspent grant funds to the Endowment prior to receiving the corresponding NICRA with the understanding that the Endowment would return funds to NDI, if necessary, due to a change in cumulative expenditures. We believe that this practice will result in the more timely return of funds to the Endowment.

NDI will continue our efforts to make payments and process all grant expenses to the general ledger as soon as possible after the grant end date. In addition, we will continue to refund unspent grant funds to the Endowment as soon as possible after the grant end date. In fact, according to NDI's records and information supplied to the audit team, with the exception of \$7 due under Grant #2001-048, NDI does not owe a refund to the Endowment for any of the awards included in the draft audit report. In addition, all expenses incurred under the grants reviewed were incurred prior to the end date of the grant. Following is an explanation for each grant:

Grant #1 1999-294 Core Grant: NDI agrees with the draft audit report. NDI has submitted the final financial report and has returned all unspent grant funds.

Grant #2 2000-031 Core Grant: NDI does not agree with the draft audit report. NDI received a total of \$4,244,900 from the Endowment and reported cumulative expenses incurred during the grant period of \$4,243,937. The difference of \$963 was returned to the Endowment on March 27, 2006. Referring to Appendix C of the draft audit report, NDI agrees that there was \$28,907 in unspent funds in the grant budget at the grant end date and confirms that the stated amount of \$27,944 paid after the grant end date was for



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valid expenses incurred prior to the grant end date. NDI did not receive any cash from the Endowment after the grant end date thus the refund previously made of \$963 was accurate ( $\$28,907 - \$27,944 = \$963$ ).

Grant #3 2001-048 Core Grant: NDI does not agree with the draft audit report. NDI received a total of \$4,253,123 from the Endowment and reported cumulative expenses incurred during the grant period of \$4,253,116. The difference of \$7 has not been returned to the Endowment because NDI has not received a NICRA from the U.S. Department of State finalizing its indirect cost rate and fringe benefit rates for the last year of incurred expenses. NDI determined that a refund of \$7 prior to the receipt of the final rates would not be practical due the small amount involved. Referring to Appendix C of the draft audit report, NDI agrees there was \$8,323 in unspent funds in the grant budget at the grant end date. However, \$8,316 in expenses incurred prior to the grant end date were paid and processed to NDI's general ledger after the grant end date whereas Appendix C states the amount as \$0. The balance of \$7 will be refunded once NDI received a NICRA finalizing its rates for the latest year expenses were incurred. ( $\$8,323 - \$8,316 = \$7$ ).

Grant #4 2002-023 Core Grant: NDI does not agree with the draft audit report. NDI received a total of \$4,606,249 from the Endowment and reported cumulative expenses incurred during the grant period of \$4,602,859. The difference of \$3,390 was returned to the Endowment on December 22, 2006. In reference to Appendix C of the draft audit report, NDI agrees there was \$5,535 in unspent funds in the grant budget at the grant end date. However, \$2,145 in expenses incurred prior to the grant end date was processed to NDI's general ledger after the grant end date whereas Appendix C states the amount as \$0. NDI did not receive any cash from the Endowment after the grant end date thus the refund previously made of \$3,390 was accurate. ( $\$5,535 - \$2,145 = \$3,390$ ).

Grant #5 2004-081 Hong Kong: NDI does not agree with the draft audit report. NDI received a total of \$15,000 from the Endowment and reported cumulative expenses incurred during the grant period of \$13,704. The difference of \$1,296 was returned to the Endowment on December 22, 2006. In reference to Appendix C of the draft audit report, NDI agrees there was \$1,351 in unspent funds in the grant budget at the grant end date. However, \$55 in expenses incurred prior to the grant end date were processed to NDI's general ledger after the grant end date whereas Appendix C states this amount as \$0. NDI did not receive any cash from the Endowment after the grant end date thus the refund previously made is accurate ( $\$1,351 - \$55 = \$1,296$ ).

Grant #6 2004-233 Iraq: NDI does not agree with the draft audit report. NDI received a total of \$1,350,000 from the Endowment and reported cumulative expenses incurred during the grant period of \$1,349,994. A refund in the amount of \$6 was made on December 22, 2006. Referring to Appendix C of the draft audit report, NDI agrees there was \$4,359 in unspent funds in the grant budget at the grant end date. However, \$4,353 in expenses incurred prior to the grant end date were processed to NDI's general ledger after the grant end date whereas Appendix C states this amount as \$0. NDI did not



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receive any cash from the Endowment after the grant end date thus the refund previously made is accurate. (\$1,350,000 – \$1,349,994 = \$6).

It should be noted that in Appendix C to the draft audit report, the “Amount to be Returned to the Endowment” column is not entirely accurate. This is because the refund calculation assumes that NDI had cash on hand at each grant end date equal to the unspent amount of the grant budget which is not so. The figures in the “Amount Spent in FY 204 or Later” column are also not accurate, thus making the amount of the refund due to the Endowment also not accurate. The correct figures are cited above.

### NED Response

#### *Return expired grant funds*

During the period of the OIG audit, the Endowment’s close-out policy required core institutes to submit final financial reports after receiving their final Negotiated Indirect Cost Rate Agreement (NICRA) for the grant period. This process delayed the return of unspent grant funds to the Endowment. Beginning in FY 2006, the Endowment required the cores to refund all outstanding balances of unspent grant funds. In FY 2007, NED revised its close-out policy to require the institutes to refund unspent grant funds within 90 days of the grant end date. The cores will be required to refund, to the maximum extent possible, any excess funds on hand prior to receiving their final NICRA. Prior to accepting the final financial report and issuing an amendment to close out the grant, the Endowment will ensure that all discrepancies have been reconciled and final negotiated indirect cost rates were used in calculating final grant expenditures.

The cores have returned all but approximately \$9,000 out of the \$215,885 recommended by OIG. The balance is currently under review with the cores.

#### *Charge grant expenditures to grants within the 90-day period*

Recognizing that the institutes work in some of the most remote and politically sensitive areas of the world, the Endowment is aware of the difficulty in liquidating all obligations within the 90-day period. Any core costs charged to the grant after the 90-day close out period must be accompanied by supporting documentation and a written explanation for NED’s review.

### *Documentation Supporting Travel Costs*

**Recommendation 2:** OIG recommends that (1) the boards of directors of IRI and CIPE require the cores to take steps to adequately document and fully support costs charged to the grants and provide additional information so that an appropriate determination can be made on the unsupported travel costs totaling \$232,814, and (2) the board of directors of the Endowment instruct the Endowment to oversee corrective action by the core institutes and to monitor their future compliance with regulatory requirements for documenting grant costs.

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### CIPE Response

CIPE respectfully disagrees with this finding and requests the omission of the following sentence (from page 7 of the draft report) from the final report:

“For the remaining five transactions, totaling \$24,745, the required supervisor’s signature was omitted from the travel authorization.”

It should be noted that in these five transactions, the supervisor’s signature was unnecessary because the traveler reported to the deputy director or the executive director, who signed in their capacities as both supervisor and senior management.

This sentence implies that travel costs were not supported when in fact the travel authorization was properly approved.

CIPE has systems and procedures in place that provide full documentation and support of all travel costs. The OIG finding does not reflect the documented record. In response to the specific statements in the OIG report CIPE notes: 1) travel authorizations were properly prepared for all travel; 2) all transactions are properly documented by appropriate receipts; and 3) all travel authorizations have appropriate approval signatures. A comprehensive, detailed response to these findings supported by complete documentation has been submitted to the Endowment.

### *CIPE’s Corrective Action Plan*

CIPE continues its commitment to maintaining full and complete supporting documentation of travel expenses and authorizations and will update its travel policy to clarify appropriate levels of approval.

### IRI Response

IRI would like to emphasize that the above travel costs reviewed by OIG were fully and properly supported with the appropriate travel documentation. During the time period that was reviewed by OIG, IRI had a policy that required approver’s signature on the summary form and not on each individual voucher. Starting in FY 2006 IRI implemented a new policy requiring an authorizer’s signature on each travel voucher. Again, we question why this was written up as a recommendation.

### NED Response

The Endowment does not agree with the wording of this recommendation. To classify all travel costs as “unsupported” is misleading. The OIG summary in Appendix D identifies 41 transactions as unsupported travel costs. However, only three transactions are missing travel documentation which would fall into the category of unsupported costs. The other 38 transactions were not related to missing invoices or receipts. They concerned missing travel authorizations for CIPE, and for IRI, the Field Director signed a summary disbursement voucher but not each individual voucher.



The Endowment met with CIPE and reviewed its supporting documentation for each of the 15 transaction listed in Appendix D and has accepted \$92,972 of the unsupported travel costs of \$94,741. CIPE is securing the remaining documents from their field office.

The Endowment has scheduled a meeting with IRI to review their supporting documentation which needs to be pulled from storage. We will ensure that adequate support will be provided during that review.

Prospectively, the Endowment will continue to perform annual on-site compliance reviews of the cores and will meet with core internal auditors to ensure that they have consistent programs for reviewing grant costs.

### **Cash Management Practices**

**Recommendation 3:** OIG recommends that (1) the boards of directors of ACILS, CIPE, NDI, and IRI require the cores to implement a process so that requests of grant funds are for the minimum amount needed to meet immediate cash requirements, and (2) the board of directors of the Endowment instruct the Endowment to oversee corrective action by the core institutes and to monitor more closely future funding requests by the cores to avoid accumulating federal funds in bank accounts.

#### **ACILS Response**

ACILS procedures minimizing cash requests are already very stringent. Field offices and all other ACILS users of Endowment funds are required to provide grant-by-grant detailed estimates of immediate needs as well as current cash balances each time they require funds. ACILS will analyze its procedures to determine if additional measures can be adopted to further minimize cash requests, and will consult with the Endowment on the results.

#### **CIPE Response**

CIPE agrees with the OIG comment that it exceeded the Federally-insured amount of \$100,000 per bank account containing Federal funds.

#### **CIPE's Corrective Action Plan**

Revised Drawdown Policies and Procedures have been implemented to ensure that grant funds requested are for the minimum amount needed to meet immediate cash requirements. Full compliance with all federal regulations will be accomplished through these revised policies and procedures.

#### **IRI Response**

At the time of OIG's field work, IRI had a drawdown policy in place that requires IRI to submit cash requirements only for immediate needs to implement grant activities. The OIG report has a statement that IRI's daily balance for 9 of 12 months ranged from \$414,284 to \$2.9 million. A generalized statement such as this does not appear to be adequate justification for the recommendation.



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### NDI Response

NDI contends that the cash management system currently in place is sufficient to ensure that grant funds requested from the Endowment, and from all federal funders, are for the minimum amount needed to meet the immediate cash requirements of the organization. The draft audit report states that NDI's monthly ending cash balance in its investment and checking accounts ranged from \$736,048 to \$5.4 million over fiscal year 2005 (October 1, 2004 – September 30, 2005). It is important to note that these balances reflect funds received not only from the Endowment, but from all of NDI's federal funders. Also, the bank account figures cited reflect the ending bank balance on the last of the month and not an average daily balance as stated for the other core institutes. (NDI's average daily bank balance per month ranged from \$895,000 to \$3.5 million in fiscal year 2005 per NDI's bank statements.) Because the month end bank balances only represent cash on hand at a given point in time and do not reflect the timing of inflows and outflows, NDI believes that they do provide an accurate representation of the Institute's cash operations.

The section entitled "Payment" in 22 CFR 145.22 states:

The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs."

NDI usually submits requests for cash advances to the Endowment on a bi-weekly basis, and no less frequently than monthly. The requests for cash advances is based on an analysis of cumulative expenditures to date, cash on hand, and the estimated expenses for the drawdown period which considers both historical expenses and upcoming programming activity. Because the Endowment does not operate under a letter of credit system each request for funds must be manually processed by both NDI and the Endowment. Typically, it takes up to two weeks for NDI to receive payment ; therefore, NDI believes that a bi-weekly drawdown schedule based on analysis of expected cash needs is reasonable and meets the "administratively feasible" requirement of 22 CFR 145.

In fiscal year 2005, expenditures for NDI's federal grant funded programs was \$95.5 million, or approximately \$8 million per month (\$95.5 million/12 months = \$8 million). In FY 2005 NDI incurred unusually large expenses for security and armored vehicle procurement for its Iraq programs where the average advance request was \$800,000 and the largest advance request was \$3 million. Given the scale of NDI's federally grant funded programs, the unusually large payments made for Iraq related expenses, and program activities not being implemented evenly throughout any given month, a monthly ending bank balance of \$736,048 to \$5.4 million (or an average daily bank balance of up to \$3.5 million) is not unreasonable.

Concerning the FDIC insured limit of \$100,000, given the level of NDI's annual expenses under federal awards it would be close to impossible for NDI to maintain less than the insured limit even if funds were requested from the Endowment more frequently



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than bi-weekly. NDI's average daily expenses for Endowment grants in fiscal year 2005 was \$72,000 (\$18.8 million/260 working days) and \$367,000 for all federal programs (\$95.5 million/260 working days). Considering that expenses fluctuate according to program activities, even if NDI were to request funds on a daily basis NDI would have to maintain accounts in up to at least a half dozen banks in order to be within the FDIC limits. Since this is not administratively feasible, NDI has instead chosen to use Sun Trust, a reputable and stable bank, and to utilize nightly investment instruments. At the end of each business day, the ending bank balance in excess of \$450,000 is withdrawn and invested in overnight investments. This system not only generates more bank interest on grant funds that is used for program activities, but it also provides more security for the funds that would otherwise lay idle in numerous bank accounts.

It should be noted that the description of how NDI's bank accounts operate is not entirely accurate in the draft audit report. The system works as follows. NDI maintains a separate Endowment bank account where Endowment advances are deposited. The funds in that account are then automatically transferred to NDI's federal bank account (or operating account) which is used for all federal grant funds. Consolidating funds into one bank operating account is allowable under 22 CFR 145 particularly since NDI's accounting system can accurately segregate all donor funds and this system has been used for the past four years with the concurrence of Endowment staff.

### NED Response

In May 2007, the Endowment revised its policy concerning separate bank accounts for U.S. based organizations. In FY 2008, the language in the core grant agreements will change to allow institutes to deposit Endowment funds in their federal bank accounts which they use for all federal grant funds.

It should be noted that unlike the federal government, the Endowment does not operate under a letter of credit system. Under that system, requests for reimbursement may be submitted at any time and as often as needed to meet cash needs. Payments are usually received within 24 to 48 hours. Typically it takes anywhere from 5 to 10 days for the cores to receive payments from NED. In FY 2006, the Endowment held discussions with all the institutes to ensure that their NED draw down procedures were for the minimum amounts needed to meet immediate cash requirements while adhering to the "administratively feasible" requirement of 22 CFR 145.22.

The OIG noted that the cores still maintain daily/monthly cash balances in excess of the FDIC insured limit of \$100,000. Due to the timing and volume of the institutes' requests/needs for funds, daily/monthly end balances will continue to fluctuate and at times reach high levels. However, it is the institutes' intent to maintain only sufficient federal cash to operate efficiently and not to have excess funds creating idle balances. The cores believe, and the Endowment concurs, that it would be impractical to institute and adhere to a policy that would maintain cash balances below the FDIC insured limit of \$100,000. The cores will continue to review and modify their procedures as necessary and monitor the timing of cash drawdowns to ensure that they are as close as administratively feasible to actual disbursements.



**Compliance with Executive Order 13224**

**Recommendation 4:** OIG recommends that (1) the boards of directors of ACILS, CIPE, NDI, and IRI require the cores to establish policies and procedures for searching terrorist databases before awarding grants to subrecipients and maintaining complete, accurate, and reliable documentation supporting such searches, and (2) the board of directors of the Endowment instruct the Endowment to oversee corrective action by the core institutes and to monitor their adherence to the executive order in the future.

**ACILS Response**

During the OIG visit, ACILS expanded the checklist it employs to ensure processing of subrecipient awards in accordance with federal regulations to include a search of all required terrorist databases, and to require attaching documentation to verify searches.

**CIPE Response**

CIPE strongly disagrees with the OIG comment that it was not adequately documenting its searches of the terrorist databases before awarding grants to Iraqi sub-recipients.

Best practice standards for searching and documenting checks of the terrorist databases have changed over time. At the time CIPE checked the terrorist databases for Iraqi partners included in this audit, a consolidated spreadsheet was used to record the dates of terrorist checks. In response to a recommendation in NED's review of CIPE in 2005, a signed form for each partner replaced the spreadsheet as documentation for searches of the terrorist databases. At that time information from the previously-used spreadsheet was transferred in whole to the new form. CIPE has continuously adjusted its policies and procedures to follow best practices and remain in compliance with NED requirements and recommendations concerning Executive Order 13224.

***CIPE's Corrective Action Plan***

Before the OIG audit and in response to recent NED recommendations, CIPE had again revised and strengthened its procedures for checking terrorist databases. This is a continuously evolving process and CIPE remains committed to keeping abreast of current best practices.

**IRI Response**

At the time of OIG's field work, IRI had a policy of searching terrorist databases before awarding grants to subrecipients. This policy, with its procedures of maintaining complete, accurate, and reliable documentation supporting such searches, continues to be successfully implemented at IRI. Again, at the time of the audit, IRI had in-place a functioning policy that was being implemented.

**NDI Response**

NDI has a policy in place to verify that the name of the subgrantee, as well as its President/Chairman and Executive Director, is not included in the terrorist lists issued by the U.S. Department of the Treasury and the United Nations list. Our policy is to do the verification prior to issuing the grant to the subgrantee. In addition, during the period



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under audit, we implemented a policy so that the person performing the verification signed a certification stating that he or she verified the names against the lists. Prior to this, NDI documented the results of its review through various notations, although this practice was not always consistent. Additionally, in September 2006, NDI began using a web-based service that verifies names against a number of lists and allows the user to print a report which shows the results. Therefore, NDI believes it is already in compliance with the Executive Order and OIG's recommendation #4.

As for the specific findings, NDI believes that the terrorist database searches were conducted for all selected subrecipients and that the verification was done prior to issuing the award, as is our policy. However, the subaward may have actually been issued after its effective date, in which case the verification may have been done after the effective date but prior to issuance of the award and the release of any funds. If during our verification process we had determined that the prospective subgrantee or its key personnel was a match to one or more of the lists, we would not have issued the grant, and NDI would not have been responsible for any activities the subgrantee started without the signed agreement in place.

### NED Response

In FY 2006, the cores revised and strengthened their policies and procedures for searching terrorist databases. These procedures meet the requirements of Executive Order 13224. During its annual on-site review of the cores, the Endowment will continue to monitor them for compliance with the Order.

NDI is currently using a web based service that verifies organizations and individual names against a larger number of databases than required by the Order. The system allows the user to print a report which shows search results. The Endowment is considering the same service and will encourage the other institutes to consider it as well.

### **Monitoring Grant Subrecipients**

**Recommendation 5:** OIG recommends that (1) the board of directors of CIPE require the core to develop an action plan to comply with its subrecipient monitoring policies and procedures and maintain documentation in its Washington, DC office, and (2) the board of directors of the Endowment instruct the Endowment to oversee corrective action by the core institute and to monitor future compliance by the core of its established procedures for monitoring subrecipients.

### CIPE Response

CIPE respectfully disagrees with portions of this finding.

CIPE has strengthened its monitoring of Iraq subrecipients by taking deliberate and responsible steps to adapt its standard monitoring procedures to the special conditions of Iraq. The result is more intensive monitoring than in any other CIPE project location throughout the world.



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CIPE disagrees with the following specific areas of compliance noted in the report:

Risk Assessments Given current conditions in Iraq, CIPE remains committed to its decision to designate all Iraq subgrants as high risk and accordingly prescribe intensive monitoring on all projects, as described in its monitoring policy.

Arabic Language Receipts CIPE employs a full-time, native Arabic speaker as Financial Officer to review Arabic language receipts and invoices. Additional reviews are conducted by other CIPE staff members, including the Project Officer, who speaks, reads and writes Arabic. Thus, full reviews are conducted and approved by officials who have complete understanding of the documents submitted.

Additional Assessment/Monitoring Procedures Given the high risk conditions in Iraq, CIPE enhanced its normal monitoring and organizational assessment procedures with additional activities. Such additional monitoring activities include: 1) comprehensive organizational diagnostic reviews of each subrecipient; 2) financial management training and a copy of the Arabic edition of CIPE's Financial Management Handbook is provided to subrecipient staff members; 3) disbursement of funds to subrecipients are made in installments explicitly tied to specific and tangible deliverables and fully documented invoices; and 4) CIPE's Iraq field office staff members conduct on-site visits to partners at least twice a month.

CIPE agrees with the following comment areas:

Accounting Questionnaires Some of CIPE's Iraqi partners are reluctant to provide fully executed Accounting Questionnaires on the grounds that such a record of association with a U.S. organization constitutes a real and serious threat to the safety and security of the Iraqi organization and staff. CIPE must continue to accept and accommodate its Iraqi partners' concerns for security. CIPE's has procedures in these limited cases to ensure completion of an accurate assessment of partner organizations. However, it does recognize that some questionnaires were not signed or did not provide full information.

Invoice Verifications In some cases noted by the OIG that CIPE does not have completed invoice reviews, this is the result of projects that were cancelled and thus invoices/receipts were not submitted by the subrecipient and all subsequent payments were suspended. However, it does recognize that while the majority of invoice verification documents were complete, some partner information was missing.

### *CIPE's Corrective Action Plan*

It is essential in an environment as challenging as Iraq to continuously seek more efficient methods of project management. CIPE has recently made staffing changes to simplify bank transfers. CIPE is committed to maintaining the highest possible standards

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of project oversight and monitoring. A comprehensive, detailed response to these findings supported by complete documentation has been submitted to NED.

As part of its strategic re-engineering of its grants and finance divisions, CIPE will identify weaknesses in the implementation of existing policies and procedures for the monitoring of subrecipient awards. CIPE will then take corrective action as necessary to ensure the full implementation of its compliance policies for all awards. The ongoing monitoring of implementation will be the functions of CIPE compliance and internal audit staff.

### NED Response

The issues identified by the OIG were also identified by the Endowment in its annual subgrant compliance reviews of CIPE. The Endowment has brought these concerns to CIPE's president and corrective action is being taken.

CIPE is in the process of restructuring its grants and finance departments. The new Business Manager is also the Chief Compliance Officer. CIPE anticipates hiring a staff member who will have internal audit and compliance responsibilities.

Core institutes are to be commended for expanding their monitoring procedures to include internal auditor positions. ACILS, IRI and NDI's internal auditors perform field office reviews, and ACILS and NDI augment this capacity with consultants.

In FY 08, IRI plans to hire an internal auditor to review headquarter costs. The Endowment encourages the other institutes to expand the scope of their internal audit function to also include reviews of headquarter expenditures.

Beginning with the FY 2007 on-site reviews of the cores, the Endowment will meet with their internal auditors to discuss the results of reviews and ensure that corrective action has been taken. The results of NED's assessments will be included in its written report which is made available to the cores, the Endowment's external auditors, and the OIG.

## II General Comments

### Page 2, Background, second paragraph

We suggest adding Cuba and Middle East to the first sentence and the Reagan Fascell Fellowships after "World Movement for Democracy" in the second sentence.

### Page 3, second paragraph, first sentence

The report states "The Department is responsible for program and financial oversight of the Endowment..." The Department is actually responsible for financial oversight, not program oversight. DRL is not assigned "program management," but rather liaison. However, later in the report, the language on this is correct.



**Page 6, Grant Closure, second paragraph, second sentence**

The report states "In general, for desk reviews, the audit staff verifies the accuracy of the grant numbers and grant periods, verifies that the grant budget is accurately reported, and identifies significant discrepancies." As stated, it appears that the Endowment merely identifies significant discrepancies in the categories previously stated. However, the Endowment identifies significant discrepancies between audited costs, reported costs and cash advances.

We suggest that the sentence read as follows (underlined portion is the suggested addition): "In general, for desk reviews, the audit staff verifies the accuracy of the grant numbers and grant periods, verifies that the grant budget is accurately reported, and identifies significant discrepancies between audited costs, reported costs, and cash advances."

**Page 7, Recommendation 1**

Per discussion with the OIG, the OIG agreed to insert the word committed in parenthesis to clarify the following phrase: "deobligate incurred (committed) but expired funds within 90 days of the grant expiration date."

**Page 23, Appendix D**

There needs to be a break between the last subtotal line and the Total Unsupported line at the bottom of the page.

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