



OIG HIGHLIGHTS

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OFFICE OF AUDITS

Financial Management Division

Audit of the National Endowment for Democracy and Its Core Institutes' Use of Grant Funds During FYs 2015 and 2016

What Was Found

Kearney found that NED's financial transactions and operations generally complied with the NED Act, Federal regulations, and grant agreements. For example, Kearney tested 49 of NED's expenditures and found that NED complied with the key requirements that were tested. Selected transactions generally complied with key requirements because NED had an effective system of controls.

Kearney also found that NED generally had controls in place to ensure that its discretionary grantees complied with key requirements. For example, NED searched Federal databases to identify organizations that had been blocked from receiving Federal funds and performed required risk assessments on those organizations. However, NED did not always comply with its internal policy on reviewing invoices or daily transaction ledgers for discretionary grantees. In general, NED had implemented a strong internal control environment for the oversight of the discretionary grantees, but its policies should be updated to require NED officials to reassess the level of monitoring required when additional funds are added to an existing award.

In addition, Kearney found that expenditures made by NED's discretionary grantees complied with Federal regulations, grant agreements, and NED's internal guidance. For the 25 expenditures tested, Kearney found that discretionary grantees complied with the key requirements that were tested. This occurred because NED had developed and implemented a step-by-step guide for its discretionary grantees.

Kearney also found that, on the whole, expenditures made by NED's four core institutes complied with the NED Act, Federal regulations, and grant agreements. Specifically, Kearney tested 72 expenditures from the core institutes and found only 1 instance where the expenditure did not comply with requirements. This occurred because each core institute had generally implemented an effective system of internal controls over financial reporting and document retention.

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What Was Audited

The National Endowment for Democracy (NED) is a non-profit organization with the stated goal of promoting democracy abroad. Although Congress recognizes and authorizes NED's funding, NED is not an establishment of the U.S. Government. Each year, Congress authorizes funds that the Department of State (Department) distributes to NED through an annual grant agreement. In addition, the Department awards discretionary grants to NED. NED received \$148 million in grant awards from the Department in FY 2015 and \$185 million in FY 2016.

Acting on behalf of the Office of Inspector General (OIG), Kearney & Company, P.C. (Kearney), an independent public accounting firm, conducted this audit to determine whether NED's financial transactions and operations, as well as those of its four core institutes, complied with the National Endowment for Democracy Act (NED Act), applicable Federal regulations, and grant agreements for FYs 2015 and 2016.

What OIG Recommends

OIG made four recommendations to the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (AQM), to improve NED's operations or to address issues related to questioned costs. On the basis of AQM's response to a draft of this report, OIG considers all four recommendations resolved, pending further action. A synopsis of AQM's response to the recommendations and OIG's reply follow each recommendation in the Audit Results section of this report. AQM's and NED's comments are reprinted in Appendices B and C, respectively.